

**WTO and the Developing Countries:
An Indonesian Perspective**

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Distinguished Guests, Ladies and Gentlemen:

I urge you to read the writings of Uzodinna Iweala, the son of Ngozi Okonjo-Iweala, Minister of Finance, Nigeria. In an article called “On a Close Encounter” which appeared in the New York Times Magazine, after his mother becomes a minister, “on the rare occasion when she has time to chat” he asks her about the slowness of the trickle down effect of development. She doesn’t answer, but “winces when anyone speaks of the slow progress of economic reforms”.

This short article rings so true that it really touched me. My son is somewhat younger, and “on the rare occasion we have to chat” such as on one occasion passing the slums of Jakarta, he put it more simply: “Mom, now that you are a Minister, can’t you do something about all those poor people?” This is a question that keeps me awake at night and should keep all of us awake. Indonesia still has 30 million people out of its 220 million people living under the poverty line and many more near poor.

This is the question we have to ask ourselves – can trade as a means of development bring all those people out of poverty? Has the multilateral trading system contributed to development? Most importantly has it contributed to developing a global partnership for development as stated in Goal 8 of the MDGs: contributing to and upholding an open, equitable, rules-based, predictable and non-discriminatory multilateral trading system? How can the trading system be improved to support developing countries, especially the poorest? In the UN Millennium Report, it was emphasized that, as was stated in Monterey, an MDG-based international trade should focus on market access and improving terms of trade for poor countries, and improve supply-side competitiveness through investments in infrastructure and trade facilitation.

The multilateral trading system has been criticized heavily for not being balanced to reflect the interests to developing countries.

Let me try to look at four aspects of this question from a practical and real policy making perspective --- that is, policy making in an increasingly complex international setting, and an even more challenging domestic setting.

Trade and Development

Many of us are familiar with the role of trade and development. That is the key role of trade, as a means of development, so that we fully understand the main objectives of trade negotiations that are going on right now. Most studies of trade openness show that economies that open up their trade achieve higher growth and per capita income. In other words, trade is a means to development and growth.

There are many studies using CGE models that estimate these benefits for the global outcome as well as by groups of countries. The estimates however vary considerably. For instance in estimating the global real income gains from agriculture liberalization under the Doha Development Agenda (DDA), the World Bank comes up with \$17.7 billion, IFPRI with \$10.5 billion and Carnegie Peace Foundation with \$5.4 billion. Apart from different assumptions

leading to different results, these models of course cannot capture the variance in capacity to benefit from liberalization amongst the different developing countries. Indeed the Carnegie study also shows that there are larger gains for higher income developing countries compared with the middle income and least developed countries.

Thus touting the benefits of liberalization, whether because there are efficiency gains from opening up to a country or whether there are global gains from total increased efficiency, is unlikely to be very convincing argument for policy makers to use to get domestic constituency to support international commitments. Trade openness in itself is not going to generate benefits automatically. A lot depends on the way a country opens up, the sequence, the speed and the internal capacity to manage the process. This will determine whether there are net benefits of development from greater opening up, and whether it is more broadly shared within the country or not. It will also determine whether the benefits of development across economies are more evenly distributed.

Thus it is not up to trade policy alone, which on the one hand, depending on the timing of the schedule of commitments, determines the schedule of opening up of the different sectors, and on the other hand provides greater market access in the global market. Other than trade policy, so that trade leads to development, it must be inherently related to increased productivity and competitiveness which requires a comprehensive policy on infrastructure support, human resource development, education, technology, fair competition, an inclusive policy for SMEs, a way to raise productivity of subsistence farmers and so on.

Developing countries are not often in a position to have the complementary policies in place and the ability to readily remove the supply constraints in order to take advantage of greater market access opportunities. There must be capacity building or aid for trade, and longer time frames for adjustments that must be given to developing countries. This is the essence of the global compact. Developing countries, often also with capacity building, need to identify their needs to enable them to benefit from liberalization and then they need to figure out what kind of capacity building is needed, how much it will cost and who will fund it, internally and from donors. The EU has come up with an aid for trade initiative and the Japanese also have

come up with a similar initiative – now what is needed is clear amounts of funds available, and for there to be real delivery.

Even though a country may benefit overall from liberalization, it goes without saying that there will be losers and gainers, sectors which will decline and sectors which will go up, and segments of society losing and gaining. Take the sensitive sector of agriculture. There is only 2-3 percent of the population of the developed countries employed in agriculture. Surely there can be mechanisms of compensation there. Some middle-income developing countries also can afford to come up with compensation schemes so that they can begin to open up their agriculture sector, for instance Korea with a \$10 billion agriculture sector adjustment package. But for many developing countries like Indonesia, it is more complex. With 50 percent of the population employed in agriculture and with a still significant percentage being subsistence farmers who rely on their livelihood from this sector, Indonesia would not be in a position to compensate the losers in this sector.

Therefore developing countries need to have a means to deal with this. They must be able to designate certain subgroups of their products, Special Products, which are sub sectors in their agriculture sector which are crucial for rural livelihood, poverty alleviation and food security. These products cannot be subjected to the normal track of liberalization commitments.

The Process of WTO Negotiations and the Role of Developing Countries

In the last few years there has been a major change in the role of developing countries in WTO negotiations where major developing countries and some smaller ones are aware of their negotiating power and formed coalitions to ensure that the concerns and needs of developing countries are met. Let us review the evolution of this role.

The failed WTO Ministerial meetings of Seattle in 1999 unleashed anti globalization sentiment. One of the main reasons for the failure of Seattle was that it was “business as usual” whereby a number of the large developed countries converged to the so-called Green Room process to decide on the elements of a new round of trade negotiations. This did not

work at all because developing countries, now a large part and active part of WTO membership, were unable to accept this outcome. Seattle saw the last of the Green Room process whereby the fate of so many were decided by the major developed countries.

In 2001, in Doha, developing countries were very much included in the dialogue that produced the Doha Development Agenda and they added their long list of demands. Developing countries for the first time negotiated a difficult and tough compromise, and in the aftermath of the September 11, 2001 terrorist attacks, there was a strong sense of not wanting a failure of the WTO Ministerial Meeting. There had to be an outcome for development. At the time 2005 was set as an end date for negotiations, and even then there was already a sense of this deadline being too optimistic.

In 2003, members attending the WTO ministerial in Cancun tried to describe the end game of negotiations that is the main elements of negotiations. Cancun was yet another failure without any agreement being reached and the talks collapsed. This was a case of little consultation pre-Cancun and producing a draft text, which included the four controversial, so-called Singapore issues (i.e. investment, competition policy, government procurement and trade facilitation), which developing countries absolutely did not want to accept.

There was a so-called Green Room process whereby there were very tough negotiations, conducted in a way which failed to reach compromises, and by the time developed countries were ready to make compromises, it was too late and the talks collapsed. During the course of Cancun a number of groups emerged around different issues. The G20 group led by Brazil focused on agriculture trade reform of developed countries; the G33 group led by Indonesia focused on special products (SP) and special safeguard mechanism (SSM) for a subgroup of agriculture products based on food security, rural livelihood and employment; and the G90 group of mainly African and Caribbean developing countries rallied around least developed country issues and other development issues.

Cancun provided an important lesson with regard to ensuring that the WTO processes continue to be participatory and democratic so that the outcome of negotiations will be most beneficial to the lives of the billions of people represented by the majority of Members.

Post-Cancun, no agreement could be reached until July 2004 when, under the umbrella of the General Council, starting with a draft text, a number of key Ministers met to discuss the way forward and reached several compromises such as dropping all but one of the Singapore issues, that is trade facilitation and accommodating the specific issues raised by different groups such as Special Products (SP) and Special Safeguard Mechanism (SSM) by G33.

Prior to the Hong Kong meeting, it was decided that a draft Ministerial Text should be prepared. The process in Geneva, especially beginning with the new Director-General, Pascal Lamy, was also as much as possible made open and inclusive. The DG, who was then the EU Trade Commissioner during the failed Cancun talks, had learned about the importance of inclusion of all parties to ensure acceptance of the outcome by all.

What was different about Hong Kong? The main difference is that the groups of developing countries that formed around issues since Cancun had done their homework and preparation. G20 had submitted a well-researched proposal of agriculture trade reforms and G33 similarly had come up with proposals justifying the need for SP and SSM. Most importantly the developing country groups supported each other and the coalition lasted throughout the meetings, between G20, G33, G90, the Caribbean countries, and the Least Developed Countries. Furthermore, the process in Hong Kong was deemed transparent, democratic and inclusive since those in the Green Room or CCG (Chairman Coordinating Group) process comprising of 26 key ministers, which met intensively during the night, and coordinated with their groups on positions during the day, worked well to ensure that as much as possible all interests were represented. This is still not a perfect participatory process to include all 149 WTO members, but it is still a very workable process.

Whilst Hong Kong did not yield the full negotiating modalities that were targeted, it provided a sufficient foundation to build on. Deadlines were set; negotiating modalities must be

completed by April 2006, draft commitments submitted by July 2006 and negotiations completed by end of 2006.

In Davos at the end of January, 20 out of the 26 Ministers met again to discuss ways to ensure that these deadlines can be met. The key factor, of course, was that there must be movement across a number of fronts, namely that further agriculture trade reform in the developed countries, mainly Europe, provide greater market access in their proposal; the US reduce further their subsidies, which must also be matched by reduction in industrial tariffs, especially by the large developing countries such as India and Brazil; and developing countries improve their offer of services. That is, there should be agreement to move together, and not wait for one to move before the other moves. Furthermore, there was agreement to come up with clear time schedules in the different areas of negotiations (there are some 48 technical issues to be solved in agriculture and NAMA negotiations alone and only around 60 working days left before the end of April). Other than Agriculture and NAMA, the other areas of negotiations are services, trade facilitation, rules, trade and environment, special and differential treatment.

Given the large task and the lack of convergence to date, it is not surprising that the April deadline will need to be extended again, and doubts linger as to whether the negotiations will be completed by year end. Whatever the outcome, and the slowness of the process because one has to take into account the diversity of members and interests, the participatory nature of the process must be maintained. If developing countries are to make sure their interests are safeguarded in the benefits from DDA and the rules and disciplines that will be set in this Round, then the only way to influence the process is if developing countries are proactive, have well informed negotiating positions and can articulate to ensure their concerns are met. This must be maintained.

The Main Elements of a DDA which will benefit developing countries

What does it mean for Development to be at the heart of the Doha Development Round? For Indonesia, and many other developing countries it means a number of things.

First it means that whilst we subscribe fully to the notion that trade is a means for development and that fundamental trade reforms will deliver development benefits, as already mentioned we also need to be very cognizant and realistic to the challenges faced by developing countries in this process. The focus cannot just be about trade reforms *per se*, it is about how we manage the process of opening up that does not cause severe adjustment costs; the sequencing of the process within a sector as well as between sectors; and that the development dividend from trade reforms is not automatic, it must be complemented by a program of capacity building that addresses other policy and institutional changes that must accompany trade reforms.

Second, given this basic premise, it means that placing development in the center of the Round as far as agriculture is concerned, implies real fundamental reform in agricultural trade, while addressing the concerns of developing countries. Let me remind you that for a large number of developing countries, the majority of our population is still engaged in the rural sector. Therefore, it is imperative that for sectors which are critical for food security, rural livelihood and development, that is Special Products, to be treated differently. It is also important for us to have recourse to Special Safeguard Mechanisms when we face import price and volume shocks which can have an adverse effect on a large part of our population.

Thirdly, while we support the Least Developed Countries package, we must also ensure that Special and Differential treatment continues to be at the heart of the negotiations. In the Uruguay Round, the issue of S&D was dealt with in an ad hoc way. This time we must all work hard to ensure that S&D is an integral part of negotiations, and be made operational and effective as mandated in the Doha Development Agenda. In this context in agriculture this means a minimum package on S&D must include guaranteeing the different higher threshold for tariff reduction and adequate proportionality in the level of reduction commitment. Developing countries must also be exempted from making commitments to reduce *de minimis* support, either on a stand-alone basis or as part of reducing overall trade distorting support.

As for market access for non-agricultural products (NAMA), the Doha Mandate has clearly prescribed that negotiations on market access should address tariff peaks, high tariffs and tariff escalation. We fully agree on this and a lengthy amount of time has been spent discussing these issues. However, major differences still remain.

What is actually at stake? For developing countries such as Indonesia, the improved, secured and greater access to markets is a prerequisite for export oriented development strategies. Promoting the exports of non-oil and gas products is a top priority programme of our government in order to achieve sustainable growth and create jobs. However, we must also recognize, given the importance of sequencing trade reforms, that developing countries still need a longer time frame to maintain a certain level of tariffs for policy space until such time that their program of trade policy reforms combined with other complementary policies and institutional changes have been able to work. Remember it is about the sequencing of the trade reforms and thus, it is in line with the trade and development agenda as well as the S&D principle. Seen in this context, the idea mooted by developed members to drastically cut tariff levels is therefore not acceptable.

On the issue of services, we wish to emphasize that such an agreement should not erode developing countries' flexibilities or negate the policy space as carefully negotiated in the Uruguay Round. The framework on services should allow developing countries to open up the sector that is at the pace that address their levels of development. As with the other sectors, sequencing is important. Services liberalization must be undertaken in the context of requisite changes in domestic institutions and regulations.

As for having reached agreement on a permanent solution on the issue of TRIPS and public health: This agreement is not only of crucial importance to ensuring greater access to affordable medicine for the many poor people in the developing world but also pertinent to help us deal with the recent outbreaks of various communicable diseases. Having said this, we must, however, ensure that the agreed procedures do not hamper the effectiveness of this agreement in delivering the medicines to so many poor people in need.

Proliferation of Regional and Bilateral Agreements

Since 1999, the trend of international trade negotiations has changed permanently with the advent of regional and bilateral trade agreements. The failure of the WTO meeting in Seattle in 1999, lack of progress in APEC and ASEAN at the time, and uncertainties in the post Asian crisis environment, all contributed to the phenomenon of economies in Asia which had previously not supported such preferential agreements to begin considering regional and bilateral trade agreements. This included Japan which began considering a Free Trade Area (FTA) with Korea, Singapore and then later followed by Thailand and Malaysia, Australia and New Zealand, who signed on to a number of what is now termed as “new age” Comprehensive Economic Partnership Agreements of which a Free Trade Area in goods is a component. China also became ASEAN’s first dialogue partner to launch and ASEAN Plus One type of agreement, starting with an FTA in goods and an early harvest component whereby a subset of goods are subject to immediate tariff reduction.

The trend of preferential agreements was of course not confined to Asia, but also occurred in other parts of the world and across the Pacific, such as between Singapore and Australia with the US. Other Asian countries are also now entering into negotiations with the US (i.e. Korea, Malaysia and Thailand). Furthermore, other regional agreements that have proliferated in Latin America, including the Free Trade Area of Americas, and in Europe there is the enlargement of the European Union.

Almost all of the 149 WTO Members are a party to an FTA.

These trends clearly indicate that FTAs are a reality and are now well entrenched in the global trading system landscape, and with slow progress or lack of achieved ambition in the Doha Round, could lead to increased activity on the bilateral and regional agreements front.

The phenomena of proliferation of FTAs has been much discussed in the last few years, with all the consequences of potential inconsistencies in rules and schedule of liberalization (“spaghetti bowl”), trade diversion, more unequal bargaining power and stretching of negotiating resources for developing countries. The challenge remains out there, if the

proliferation continues – and it looks like it will --- how these FTAs can truly be building blocks to the multilateral trading system.

Conclusions: Implications of the Current Context of Negotiations to Developing Countries like Indonesia

Given the context of negotiations that Indonesia faces, what should Indonesia's strategy be in facing international trade negotiations which will maximize the potential benefits for national welfare and achieve the development objectives of the Round?

First is that given the current circumstances, it is clear that as other countries have done in the last few years, Indonesia must pursue a triple track strategy of international trade negotiations. That is the multilateral track under the auspices of the World Trade Organization, the regional track which centers on the ASEAN Plus One regional agreement, and for the first time since last year, we are also pursuing a bilateral trade agreement with Japan. We are also beginning to study the potential benefits and costs of a Free Trade Area with some other potential partners, including the US. A multi-track strategy has become a necessity, although for small open economies such as Indonesia the multilateral trading system is ultimately still optimal.

Why is a multilateral trading system still optimal? The answer is still the traditional answer. It is because our bargaining position is best defended and we are able to enjoy market access and opening up to the whole world rather than just one country or region, and thus reap much greater benefits.

Other than that, it is still the best system to ensure “fair trade”, that is if Indonesia faces any unfair trade practices, we can go to the dispute settlement under the WTO. It also allows Indonesia to use trade remedies to guard against “unfair trade” practices in our domestic market, such as anti dumping duties in the face of dumping of imports and safeguards in the case of import surges, of course through a due process of investigation and proving of cause and effect. A “fair trading system” is more guaranteed under a multilateral trading system, rather than in a bilateral or regional context where mechanisms are less established and where

Indonesia could be pitted against more developed and larger countries so that the bargaining position is not even.

Therefore for developing countries a successful outcome of the DDA is not important for the benefits alone, but also because the Multilateral Trading System is still the best option for developing countries. Thus, while pursuing the multi-track strategy, it is still crucial that the multilateral trading system continues to be upheld because it serves as an important disciplining force to the other tracks.

The continuation of the multi-track strategy by many WTO members is inevitable, and what must now take place is to ensure that our negotiations on all tracks are consistent with each other and do not lead to a proliferation of agreements that are different in structure and schedules of commitments, and complex or different rules and standards for the same goods depending on the agreement. This would increase the costs of doing business tremendously and erode the benefits of the trade agreements.

The only way to ensure this is to first ensure that we adopt similar frameworks, schedules of commitments, link one to the other in a clear manner, and adopt similar rules of origin as well as other aspects of rules and standards. ASEAN economic integration and the ASEAN Plus One agreements that ASEAN has entered into of late attempts to adopt a similar “best practices structure”. ASEAN already has an agreement with China and has completed negotiations with Korea, whereas negotiations are still ongoing for India, Japan and Australia and New Zealand.

The model is one of starting with an umbrella comprehensive partnership agreement which by definition is “comprehensive” in that it covers goods, services, investment, rules, competition policy, customs and trade facilitation, standards and also most importantly economic and technical cooperation. This is the “new age” agreement, and is based on recent experience and one could say on the three pillars of APEC.

Other important features of the ASEAN Plus One agreement worth noting are incorporating an early harvest component which provides quick benefits to ensure continued support; comprehensive coverage of goods (90 percent normal track, 10 percent sensitive track); clear target of elimination of tariffs; standardized rules; simple rules of origin based on 40 percent ASEAN cumulative content; and timelines converging around 2010.

Given the costs to business of operating in a world of complex set of bilateral and regional agreements and scarce negotiating resources of developing countries, it is crucial to ensure best practices in regional agreements. Most of these principles are neatly captured in the 2004 'APEC Best Practices on RTAs/FTAs' guidelines. These guidelines are a mechanism through which well-designed FTAs can support the multilateral trading system. The Best Practice guidelines suggest a design of FTAs that facilitate market driven forces and 'help' the movement towards the Bogor goals. They include principles such as comprehensive coverage, minimizing the differences between preferences between members and non-members, providing a timeline for when preferences will be multilateral, and simple rules of origin.

Second developing countries such as Indonesia must be sure that they prepare the negotiations with a clear national vision of where each sector, goods and services and other areas, should be within a certain time frame. This will determine the negotiations position and also the time line that we will negotiate, the flexibility requested for Special and Differential Treatment, the exemptions possible because they affect a large part of our agriculture population such as through Special Products, and the type and amount of assistance that we need to request to ensure removal of supply constraints so that we can benefit from greater market access and for us to manage the costs and capacity of adjustments. Adjustments are needed for meeting the commitments (financial, technical and human resource development capacity) and also to compensate or manage sectors or segments of the population who will be affected by adverse adjustments.

There are gains and losses which must be balanced, and any adverse effects from opening up must be managed. This is clearly the importance of Special Products and Special Safeguard

Mechanism. This is not just important for Indonesia but also for most of the other members. Whereas to gain real market access we see potential benefits such as reducing peak tariffs in textiles, tariff escalation such as in wood and agriculture products, and other agriculture products in developed and other developing country markets. It could also be in services, especially in mode 4 or the movement of natural persons of semi-skilled qualification, which is not linked to commercial presence.

There also needs to be a process of dialogue and inputs from all stakeholders in society ranging from the private sector, NGOs, Parliamentary members and society at large. There is a dialogue process, there is an input process and there is a public education process. These are all important and unfortunately the capacity and resources are not always there to undertake this exercise successfully. In developing countries such as Indonesia, which is now the third largest democracy in the world, commitments made on opening up sectors can no longer be made top down – there has to be a participatory process bottom up, and this is certainly not easy, and thus can explain the slowness of the processes and the level of commitments we can make.

Finally in closing I hope that we can all reflect on the complexities of trade and development, and just how hard it is to really realize the benefits of trade liberalization if one does not take sufficient account of the capacity to liberalize, the need for capacity building and aid for trade, and the flexibility that will be needed by developing countries to prepare themselves. I hope that we can all work hard, cooperatively and in partnership to reach the MDG-based international trade policy goals --- so that I will be able to answer my son's question for the millions of poor in Indonesia, and billions in the developing world, and let us all sleep better at night.