# VIEWS FROM THE SOUTH

## THE EFFECTS OF GLOBALIZATION AND THE WTO ON THIRD WORLD COUNTRIES

EDITED BY SARAH ANDERSON

FOREWORD BY JERRY MANDER

AFTERWORD BY ANURADHA MITTAL

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# BUILDING AN IRON CAGE: THE BRETTON WOODS INSTITUTIONS, THE WTO, AND THE SOUTH

Walden Bello

*Walden Bello is co-director of Focus on the Global South, a Bangkok-based research, analysis, and advocacy program on North-South issues connected with the Chulalongkorn University Social Research Institute. A professor of sociology and public administration at the University of the Philippines, he is author or co-author of ten books, including* Siamese Tragedy: Development and Disintegration in Modern Thailand *(London: Zed Press, 1998);* Dark Victory: The United States, Structural Adjustment, and Global Poverty *(London: Pluto Press, 1994); and* Dragons in Distress: Asia's Miracle Economies in Crisis *(London: Penguin Books, 1991).*

*In this paper, Walden Bello places the WTO in a historical context saying that this institution represents the culmination of a long campaign by northern countries to contain the development aspirations of the South. He describes the North's tactics over the past five decades to obstruct the efforts of developing nations to pursue their interests through the United Nations system or by other means. Bello also dissects current WTO agreements that are likely to have a devastating impact on the Third World, such as those on intellectual property and agriculture, and he concludes with a strategy for change. This involves preserving the legitimacy of the UN system, while demanding profound alternatives in the policies and processes of the WTO and the International Monetary Fund, if they are to be preserved at all.*



Supporters of the World Trade Organization (WTO) often claim that this multilateral institution protects weaker and poorer countries from unilateral actions by the stronger ones by providing a set of uniform rules and dispute settlement mechanisms for global trade. Nevertheless, the WTO elicits fear, anger, and exasperation throughout the global South, where it is widely believed that this institution, rather than helping to level the playing field, is deeply biased against the development of the South. This bias was recently epitomized for many by the resistance of key northern countries, led by the United States, to the appointment of Thai Deputy Prime Minister Supachai Panitchpakdi as WTO director general.

This southern attitude toward the WTO can best be appreciated if the emergence of the institution is placed in the context of the South's struggle for development over the last 50 years. Situated in this broad historical canvas, the Uruguay Round Agreement of 1994 emerges not so much as the triumph of enlightened free trade over benighted protectionism but, more importantly, as the culminating point of a campaign of global economic containment of the legitimate aspirations to development on the part of Third World countries.

Earlier milestones in this process were:

- the reorientation of the World Bank toward managing development in the South in the late 1950s
- the IMF's new role as the watchdog of the Third World countries' external economic relations in the 1970s
- the universalization of structural adjustment in the 1980s
- and the unilateralist trade campaign waged against the Asian "tiger economies" by Washington beginning in the early 1980s.

This is not to say that the struggle between advanced industrial countries around the issue of free trade or protection was not a central driving force for the establishment of the WTO. It definitely was. It is to assert, however, that containing the South was an equally key dynamic that intersected crucially with the fight for markets among the developed countries.

## THE 1950S THROUGH THE 1970S: EMERGENCE OF THE SOUTHERN AGENDA

THE PLACE TO BEGIN this analysis is the period of decolonization in the 1950s and 1960s. The emergence of scores of newly independent states took place in the politically charged atmosphere of the Cold War, but although they were often split between East and West in their political alliances, Third World countries gravitated toward an economic agenda that had two underlying thrusts: rapid development and a global redistribution of wealth.

While the more radical expression of this agenda in the form of the Leninist theory of imperialism drew much attention and, needless to say, condemnation in some quarters, it was the more moderate version that was most influential in drawing otherwise politically diverse Third World governments into a common front. This was the vision, analysis, and program of action forged by Raul Prebisch, an Argentine economist who, from his base at the United Economic Commission for Latin America (CEPAL), won a global following with his numerous writings. Developed in the late 1950s and early 1960s, Prebisch's theory centered on the worsening terms of trade between industrialized and non-industrialized countries, which resulted in the South needing to use more and more of its raw materials and agricultural products to purchase fewer and fewer of the North's manufactured products. Moreover, the trading relationship was likely to get worse because northern producers were developing substitutes for raw materials from the South, and northern consumers, according to Engels' Law, would spend a decreasing proportion of their income on agricultural products from the South.





Known in development circles as "structuralism," Prebisch's theory of what one writer described as "bloodless but inexorable exploitation" served as the inspiration for Third World organizations, formations, and programs that sprang up in the 1960s and 1970s. These included the Non-Aligned Movement, the Group of 77, Organization of Petroleum Exporting Countries (OPEC), and the New International Economic Order (NIEO). The structuralist critique was also central to the establishment of the UN Conference on Trade and Development (UNCTAD) in 1964, which became over the next decade the principal vehicle used by the Third World countries in their effort to restructure the world economy.

With Prebisch as its first secretary general, UNCTAD advanced a global reform strategy with three main prongs. The first was commodity price stabilization, through the negotiation of floors below which commodity prices would not be allowed to fall. The second was a scheme of preferential tariffs allowing Third World exports of manufactures, in the name of development, to enter First World markets at lower tariff rates than those applied to exports from other industrialized countries. The third was an expansion and acceleration of foreign assistance, which, in UNCTAD's view, was not charity but "compensation, a rebate to the Third World for the years of declining commodity purchasing power." UNCTAD also sought to gain legitimacy for the southern countries' use of protectionist trade policy as a mechanism for industrialization and demanded accelerated transfer of technology to the South.

To varying degrees, the structuralist critique came to be reflected in the approaches of other key economic agencies of the United Nations secretariat, such as the Economic and Social Council (ECOSOC) and the United Nations Development Program (UNDP), and it became the dominant viewpoint among the majority at the General Assembly.

### A. *The Bretton Woods Institutions Focus on the South*

THE RESPONSE OF THE LEADING countries of the North to the emerging countries' challenge of economic decolonization was conditioned by several developments. Most important of these was the Cold War. The priority of the political enterprise of containing the Soviet Union and Communism pushed the North, particularly the U.S. government, to a less hardline stance when it came to the question of whether the economic structures of its client countries conformed to free-market principles. While the United States upheld private enterprise and demanded access for its corporations, it was more tolerant when it came to protectionism, investment controls, and a strong role for government in managing the economy. It also veered away from a classic exploitative stance to promote at least the image of supporting limited global redistribution of wealth, mainly through foreign aid.

As the emerging countries gravitated toward the UN system, the leading governments increasingly relied on the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD) to push their agenda. These Bretton Woods institutions, founded in 1944, began with missions quite distinct from those that let to their latter-day involvement with North-South relations. The IMF was conceived by John Maynard Keynes and Harry Dexter White, the two pillars of the Bretton Woods meeting, as the guardian of global liquidity. It was to fulfill this function by monitoring member countries' maintenance of stable exchange rates and





providing facilities on which they could periodically draw to overcome cyclical balance of payments difficulties. The IBRD, on the other hand, was, as its name implied, set up to assist in the reconstruction of war-torn economies, particularly those of Western Europe, by lending to them at manageable rates of interest.

By the early 1970s, however, President Nixon's decision to take the dollar off the gold standard had inaugurated a new era of floating exchange rates that made the IMF's original mission superfluous. Instead, the Fund became deeply involved in stabilizing Third World economies with balance of payments difficulties. As for the IBRD (now one component of the World Bank Group), it had evolved into the prime multilateral development agency for aid and development. For this agency, a turning point of sorts was the debate triggered by the 1951 report of a group of experts entitled "Measures for the Economic Development of Under-Developed Countries," which proposed making grant aid available to Third World countries. Using this as a springboard, Third World countries at the General Assembly tried to push for the establishment of a Special UN Fund for Economic Development (Sunfed), which would have been controlled not by the North but by the UN and whose criterion for providing loans would not be narrow banking rules but development need.

The North, led by the United States, strenuously resisted these efforts, resorting at first to delay and diversion, such as proposing the creation of a $100 million fund to be used to finance an investment survey that the IBRD or some other Western agency would undertake. But when these tactics failed to derail the South's drive to set up Sunfed, the North came out with an alternative: an institution for making soft loans for development from capital subscribed by the North but one controlled by the North rather than the Third World majority at the United Nations. Thus came into being the International Development

Association (IDA), which was attached to the World Bank as the latter's soft-loan window. As one analyst of this period has pointed out, much of the impetus for the IDA came from the Bank itself, increasingly worried over southern demands for a competing UN fund. Eugene R. Black, the bank's shrewd president, said bluntly that "the International Development Association was really an idea to offset the urge for Sunfed." Black, like any other banker, had little use for soft loans. But if anybody was going to be making them, he reasoned, it had better be the Bank.

The IDA was part of a compromise package that also included the establishment of the UN Special Fund, later renamed the UN Development Program (UNDP), which served as the channel of much smaller quantities of mainly technical aid to Third World countries.

The IDA-UNDP compromise derailed the demand for a UN-controlled funding agency, but it did not stop the escalation of Third World demands for a redistribution of global economic power. These demands resulted in the establishment of UNCTAD in 1964, the OPEC countries seizing control of the pricing of oil in the early- and mid-1970s, and the adoption by the UN General Assembly Special Session of 1974 of the program of the "New International Economic Order."

The thrust of these moves was clearly reformist rather than revolutionary, expressing the demands of Third World elites rather than Third World masses. Nevertheless, their prominence in the context of successful struggles waged by revolutionary movements in Vietnam and other Third World countries lent a note of urgency to Washington's search for an effective counter-strategy of managed reform.

### B. The Southern Challenge in the 1970s

In the 1970s, the World Bank was to be the centerpiece of liberal Washington's policy toward the global South. Robert





McNamara, appointed World Bank President in 1968 (after a troubled stint at the U.S. Defense Department), developed a three-pronged approach. First was a massive escalation in the World Bank's resources, with McNamara raising World Bank lending from an average of $2.7 billion a year when he took office in 1968, to $8.7 billion in 1978, to $12 billion by the time he left office in 1981. Second was a global program aimed at ending poverty, not by tackling the difficult problems associated with social reform, but by focusing aid on improving the "productivity of the poor." Third was an effort to split the South by picking a few countries as "countries of concentration," to which the flow of bank assistance would be higher than average for countries of similar size and income.

The rise of OPEC, however, made World Bank aid and foreign aid in general less critical to many of the leading countries in UNCTAD and the Group of 77 in the mid-1970s. Suddenly, they had access to massive quantities of loans that the commercial banks were only too happy to make available in their effort to turn a profit on the billions of dollars of deposits made to them by the OPEC countries.

Instead of aid, UNCTAD focused on changing the rules of international trade, and in this enterprise it registered some successes. During the fourth conference of UNCTAD in Nairobi in 1976, agreement was reached, without dissent from the developed countries, on the Integrated Program for Commodities (IPC). The IPC stipulated that agreements for 18 specified commodities would be negotiated or renegotiated with the principal aim of avoiding excessive price fluctuations and keeping prices at levels that would be fair to both producers and consumers. It was also agreed that a Common Fund would be set up that would regulate prices when they either fell below or climbed too far above the negotiated price targets. UNCTAD and Group of 77 pressure was also central to the IMF's establishing a new window, the

Compensatory Financing Facility (CFF), which was meant to assist Third World countries in managing foreign exchange crises created by sharp falls in the prices of the primary commodities they exported. Another UNCTAD achievement was getting the industrialized countries to accept the principle of preferential tariffs for developing countries. Some 26 developed countries were involved in sixteen separate "General System of Preferences" schemes by the early 1980s.

These concessions were, of course, limited. In the case of commodity price stabilization, it soon became apparent that the rich countries had replaced a strategy of confrontation with a Fabian, or evasive, strategy of frustrating concrete agreements. A decade after UNCTAD IV, only one new commodity stabilization agreement, for natural rubber, had been negotiated; an existing agreement on cocoa was not operative; and agreements on tin and sugar had collapsed.

### C. *Right-Wing Reaction and the Demonization of the South*

By the late 1970s, even such small concessions were viewed with alarm by increasingly influential sectors of the U.S. establishment. Such concessions within the UN system were seen in the context of other developments in North-South relations, which appeared to show that the strategy of liberal containment spearheaded by the Bank in the area of economic relations had not produced what it had promised to deliver: security for Western interests in the South through the co-optation of Third World elites.

While professing anticommunism, governing elites throughout the Third World nevertheless angered U.S. business interests by giving in to popular pressure, abetted by local industrial interests, to tighten up on foreign investment. Nowhere did this trend spark more apprehension among American business than in two





countries that were considered enormously strategic by U.S. multinational firms—Brazil and Mexico. In Brazil, where foreign-owned firms accounted for half of the total manufacturing sales, the military-technocrat regime, invoking national security considerations, moved in the late 1970s to reserve the strategic information sector to local industries, provoking bitter denunciation from IBM and other U.S. computer firms. In Mexico, where foreign firms accounted for nearly 30 percent of the manufacturing output, U.S. pharmaceutical firms threatened legal actions and divestment when the Mexican government announced proposals for no-patent policies, promotion of generic medicines, local development of raw materials, price controls, discriminatory incentives for local firms, and controls on foreign investment.

Even more disturbing to the United States was OPEC's second "oil shock" in 1979. To many Americans, OPEC became the symbol of the South: an irresponsible gang that was bent on using its near monopoly over a key resource to bring the West to its knees. The "oil weapon" evoked more apprehension than the nuclear arms of the Soviet Union, even though OPEC was dominated by U.S. allies such as Saudi Arabia, Kuwait, and Venezuela. Moreover, American hostility remained focused on the OPEC nations, even though they had as much reason to blame the international oil companies, which maintained high profits throughout the oil shock by passing on the price increase to consumers.

Indeed, the oil cartel was feared as the precursor of a unified southern bloc controlling most strategic commodities. Right-wing propagandists pointed to the Algiers Declaration of the Non-Aligned Movement in 1973 in their efforts to fan fear and loathing in the North. This declaration recommended "the establishment of effective solidarity organizations for the defense of the raw materials producing countries such as the

Organization of Petroleum Export Countries...to recover natural resources and ensure increasingly substantial export earnings."

*D. Targeting the UN System*

The UN system was a central feature of the demonology of the South that right-wing circles articulated in the late 1970s and early 1980s. In their view, the UN had become the main vehicle for the South's strategy to bring about the New International Economic Order. As the right-wing think tank Heritage Foundation saw it, the governments of the South devoted "enormous time and resources to spreading the NIEO ideology throughout the UN system and beyond. Virtually no UN agencies and bureaus have been spared." Heritage described what it saw as a concerted effort to redistribute global economic power via UN mechanisms: "Private business data flows are under attack internationally and by individual Third World countries; proposals for strict controls of the international pharmaceutical trade are pending before more than one UN body; other international agencies are drafting restrictive codes of conduct for multinational corporations; and UNESCO has proposed international restraints on the press."

Especially threatening to the Foundation was the effort by the Third World to "redistribute natural resources" by bringing the seabed, space, and Antarctica under their control through the Law of the Sea Treaty, the Agreement Governing Activities of States on the Moon and Other Celestial Bodies (called the "Moon Treaty"), and an ongoing UN study and debate over Antarctica. Malaysian Prime Minister Mahathir Bin Mohamad, the principal architect of the effort to get the UN to claim Antarctica, told the General Assembly "all the unclaimed wealth of this earth" is the "common heritage of mankind" and therefore subject to the political control of the Third World.





## THE 1980S AND EARLY 1990S: RESUBORDINATION OF THE SOUTH

*A. Structural Adjustment*

When the Reagan Administration came to power in 1981, it was riding on what it considered a mandate not only to roll back communism but also to discipline the Third World. What unfolded over the next four years was a two-pronged strategy aimed, on the one hand, at dismantling the system of "state-assisted capitalism" that was seen as the domestic base for southern national capitalist elites and, on the other, at drastically weakening the UN system as a forum and instrument for the South's economic agenda. The opportunity came none too soon in the form of the global debt crisis that erupted in the summer of 1982, which drastically weakened the capabilities of Southern governments in dealing with northern states and corporations and northern-dominated multilateral agencies.

The instruments chosen for rolling back the South were the World Bank and the IMF. This was an interesting transformation for the World Bank, which had previously been vilified by the *Wall Street Journal* and the right wing as one of the villains behind the weakening of the North's global position by "promoting socialism" in the Third World via its loans to southern governments. But the liberal McNamara, by that time faulted by the right for losing Vietnam and failing to contain the southern challenge, was replaced by a more pliable successor, and ideological right-wingers seeking the closure of the Bank were restrained by pragmatic conservatives who wished to use the Bank instead as a disciplinary mechanism.

"Structural adjustment" referred to a new lending approach that had been formulated during McNamara's last years at the Bank. Unlike the traditional World Bank project loan, a structural adjustment loan was intended to push a program of "reform" that would cut across the whole economy or a whole sector of the economy. In the mid-1980s, IMF– and World Bank–imposed structural adjustment became the vehicle for a program of free-market liberalization that was applied across the board to Third World economies suffering major debt problems. Almost invariably, structural adjustment programs (SAPs) had the following elements:

- radically reducing government spending, ostensibly to control inflation and reduce the demand for capital inflows from abroad, a measure that in practice translated into cutting spending on health, education, and welfare
- liberalizing imports and removing restrictions on foreign investment, ostensibly to make local industry more efficient by exposing them to foreign competition
- privatizing state enterprises and embarking on radical deregulation in order to promote more efficient allocation and use of productive resources by relying on market mechanisms instead of government decree
- devaluing the currency in order to make exports more competitive, thus resulting in more dollars to service the foreign debt and
- cutting or constraining wages and eliminating or weakening mechanisms like the minimum wage that protected labor, to remove what were seen as artificial barriers to the mobility of local and foreign capital.

By the late 1980s, more than seventy Third World countries had submitted to IMF and World Bank programs, making stabilization, structural adjustment, and shock therapy from distant Washington the common conditions of the South. The main justification for structural adjustment was to enable Third World countries to repay their debts to northern banks. There was also a more strategic objective, and that was to dismantle the system of state-assisted capitalism that served as the domestic base for





the national capitalist elites. In 1988, a survey of SAPs carried out by the UN Commission for Africa concluded that the essence of SAPs was the "reduction/removal of direct state intervention in the productive and redistributive sectors of the economy." As for Latin America, one analyst noted that the United States took advantage of "this period of financial strain to insist that debtor countries remove the government from the economy as the price of getting credit." Similarly, a retrospective of the decade of adjustment published by the Inter-American Development Bank in 1992 identified the removal of the state from economic activity as the centerpiece of the ideological perspective that guided the structural reforms of the 1980s. The book describes the post-war period in Latin America as "the history of a collective error in terms of the economic course chosen, and of the design of the accompanying institutions" and proposed the following remedy: "the withdrawal of the producer state and state-assisted capitalism, the limiting of the state's responsibilities to its constitutional commitments, a return to the market for the supply of goods and services, and the removal of the obstacles to the emergence of an independent entrepreneurial class."

By the end of the twelve-year-long Reagan-Bush era in 1992, the South had been transformed. From Argentina to Ghana, state participation in the economy had been drastically curtailed; government enterprises were passing into private hands in the name of efficiency; protectionist barriers to northern imports were being radically reduced; and, through export-first policies, the internal economy was more tightly integrated into the North-dominated capitalist world markets.

### B. Bringing the NICs to Heel

There was one area of the South that was relatively untouched by the first phase of the northern economic counterrevolution.

That was East and Southeast Asia. Here, practically all the economic systems displayed the same features of state-assisted capitalism found elsewhere in the South: an activist government intervening in key areas of the economy, a focus on industrialization in order to escape the fate of being simply agricultural or raw material producers, protection of the domestic market from foreign competition, and tight controls on foreign investment. Where the key East and Southeast Asian economies appeared to differ from other economies in the South was mainly in the presence of a fairly strong state that was able to discipline local elites, the greater internalization of a developmentalist direction by the state elite, and the pursuit of aggressive mercantilist policies aimed at gaining markets in First World countries, particularly the United States.

The frontline status in Asia of many of these so-called "Newly Industrializing Countries" (NICs) during the Cold War ensured that Washington would turn a blind eye to many of their deviations from the free-market ideal. But as the Cold War wound down, the United States began to redefine its economic policy toward East Asia as the creation of a "level playing field" for its corporations via liberalization, deregulation, and more extensive privatization of Asian economies.

It was a goal that Washington pursued by various means in the late 1980s and early 1990s. However, countries like South Korea, Thailand, and Indonesia were able to avoid accepting formal SAPs during the debt crisis because of increased access to Japanese capital. At that time, Japan was relocating many of its industrial operations to East and Southeast Asia to offset the loss of competitiveness in Japan after the 1985 Plaza Accord triggered a rapid appreciation of the yen. This left unilateralism in trade and financial diplomacy as the principal U.S. mechanisms for dealing with the increasingly successful Asian "tigers." Washington's aggressive mood was aptly captured by a senior





U.S. official who told a capital markets conference in San Francisco, "Although the NICs may be regarded as tigers because they are strong, ferocious traders, the analogy has a darker side. Tigers live in the jungle, and by the law of the jungle. They are a shrinking population."

Indeed, unilateral pressure, with some assistance from the IMF and the World Bank, succeeded in getting key Asian countries to liberalize their capital accounts and to move to greater liberalization of their financial sectors. But when it came to trade liberalization, the results were meager, except perhaps in the case of Korea, whose trade surplus with the United States had been turned into a trade deficit by the early 1980s. But even this development did not change the assessment of Korea by the U.S. Trade Representative (USTR) as "one of the toughest places in the world to do business." As for the Southeast Asian countries, Washington's assessment was that while they might have liberalized their capital accounts and financial sectors, they remained highly protected when it came to trade. Some were dangerously flirting with "trade-distorting" exercises in industrial policy, among which were Malaysia's national car project, the Proton Saga, and Indonesia's drive to set up a passenger aircraft industry.

The indiscriminate financial liberalization demanded by Washington and the Bretton Woods institutions, coupled with the high interest rate and fixed currency regime favored by local financial authorities, brought massive amounts of foreign capital into the region. But it also served as the wide highway through which $100 billion exited in 1997 in a massive stampede in response to dislocations caused by overinvestment and unrestricted capital inflows like the collapse of the real estate market and widening current account deficits. A golden opportunity to push the U.S. agenda opened up with the financial crisis, and Washington did not hesitate to exploit it to the hilt, advancing its interests behind the banner of free-market reform. The rollback of protectionism and activist state intervention was incorporated into stabilization programs imposed by the IMF on the key crisis countries of Indonesia, Thailand, and South Korea.

In Thailand, local authorities agreed to remove all limitations on foreign ownership of Thai financial firms, accelerate the privatization of state enterprises, and revise bankruptcy laws along lines demanded by the country's foreign creditors. As the USTR proudly told Congress, the Thai government's "commitments to restructure public enterprises and accelerate privatization of certain key sectors, including energy, transportation, utilities, and communications—which will enhance market-driven competition and deregulation—[are expected] to create new business opportunities for U.S. firms."

In Indonesia, the USTR emphasized that the IMF's conditions for granting a massive stabilization package addressed "practices that have long been the subject of this [Clinton] Administration's bilateral trade policy...Most notable in this respect is the commitment by Indonesia to eliminate the tax, tariff, and credit privileges provided to the national car project. Additionally, the IMF program seeks broad reform of Indonesian trade and investment policy, like the aircraft project, monopolies and domestic trade restrictive practices that stifle competition by limiting access for foreign goods and services."

The national car project and the plan to set up a passenger jet aircraft industry were efforts at industrial policy that had elicited the strong disapproval of Detroit and Boeing, respectively.

In the case of Korea, the U.S. Treasury and the IMF did not conceal their close working relationship, with the Fund clearly in a subordinate position. Not surprisingly, the concessions made by the Koreans were identical to the goals of U.S. bilateral policy toward the country before the crisis. These included raising the limit on foreign ownership of corporate stocks to 55 percent, permitting the establishment of foreign financial institutions, full





liberalization of the financial and capital market, abolition of the car classification system, and an end to government-directed lending for industrial policy goals.

As the USTR candidly told members of the U.S. Congress: "Policy-driven rather than market-driven economic activity meant that U.S. industry encountered many specific structural barriers to trade, investment, and competition in Korea. For example, Korea maintained restrictions on foreign ownership and operations, and had a list of market access impediments...The Korea stabilization package, negotiated with the IMF in December 1997, should help open and expand competition in Korea by creating a more market-driven economy...[I]f it continues on the path to reform there will be important benefits not only for Korea but also the United States."

Summing up Washington's strategic goal, Jeff Garten, undersecretary of Commerce during President Clinton's first term, said, "Most of these countries are going through a dark and deep tunnel...But on the other end there is going to be a significantly different Asia in which American firms have achieved a much deeper market penetration, much greater access." By 1998, U.S. financial firms and corporations were buying up Asian assets from Seoul to Bangkok at fire-sale prices.

### C. *Dismantling the UN Development System*

THE ASSAULT ON THE NICs via the IMF stabilization programs and on the broader South via Bretton Woods–imposed structural adjustment was accompanied by a major effort to emasculate the UN as a vehicle for the southern agenda. Wielding the power of the purse, the United States, which funds some 20 to 25 percent of the UN budget, moved to silence NIEO rhetoric in all the key UN institutions dealing with the North-South divide: the Economic and Social Council (ECOSOC), the UNDP, and the General Assembly. U.S. pressure resulted as well in the effective dismantling of the UN Center on Transnational Corporations, whose high-quality work in tracking the activities of global firms in the South had earned the ire of the corporate community. Also abolished was the post of director general for International Economic Cooperation and Development, which had been among the few concrete outcomes, and certainly the most noteworthy, of the efforts of the developing countries to secure a stronger UN presence in support of international economic cooperation and development.

But the focus of the northern counteroffensive was the defanging, if not dismantling, of UNCTAD. After giving in to the South during the UNCTAD IV negotiations in Nairobi in 1976 by agreeing to the creation of the commodity stabilization scheme known as the Integrated Program for Commodities, the North, during UNCTAD V in Belgrade, refused the South's program of debt forgiveness and other measures intended to revive Third World economies and thus contribute to global recovery at a time of worldwide recession. The northern offensive escalated during UNCTAD VIII, held in Cartagena in 1992. At this watershed meeting, the North successfully opposed all linkages of UNCTAD discussions with the Uruguay Round negotiations of the General Agreement on Tariffs and Trade (GATT) and managed to erode UNCTAD's negotiation functions, thus calling its existence into question. UNCTAD's main function would henceforth be limited to "analysis, consensus building on some trade-related issues, and technical assistance."

This drastic curtailing of UNCTAD's scope was apparently not enough for certain northern interests. For instance, the Geneva-based Independent Commission on Global Governance identified UNCTAD as one of the agencies that could be abolished in order to streamline the UN system. The commission's views apparently coincided with that of Karl Theodor Paschke, head of the newly created UN Office of Internal Oversight





Services, who was quoted by *Stern* magazine as saying that UNCTAD had been made obsolete by the creation of the World Trade Organization (WTO). The truth of the matter is that although UNCTAD continues to survive, it has indeed been rendered impotent by the WTO, which replaced the less-powerful GATT following the conclusion of the eight-year Uruguay Round in 1994.

## THE WORLD TRADE ORGANIZATION: SEALING THE DEFEAT OF THE SOUTH

THE WTO WAS NOT the first attempt at a global trading organization. Forty-six years previous, liberal internationalists had worked to create such an institution as a third pillar of the Bretton Woods system, but the threat of nonratification by unilateralist forces in the U.S. Senate led to its being shelved in favor of the much weaker GATT by the defensive Truman Administration.

By the mid-1980s, the United States became the lead advocate of a much-expanded GATT with real coercive teeth. U.S. officials were motivated by trade rivalries with Europe and Japan, the rising import penetration of the U.S. market by Third World countries, frustration at the inability of U.S. goods to enter southern markets, and the rise of new competitors in East Asia. Central to the founding of the WTO were the twin drives of managing the trade rivalry among the leading industrial countries and containing the threat posed by the South to the prevailing global economic structure. In this sense, the WTO must be seen as a continuation or extension of the same northern reaction that drove structural adjustment.

Indeed, the WTO, by enshrining the principle of free trade as the organizing principle of the global trading system, represents the defeat of everything that the South fought for in UNCTAD: fair prices via commodity price agreements; trade preferences to facilitate economic development in the South; preferential treatment for local investors; the use of trade policy as a legitimate instrument for industrialization; and a more concerted technology transfer to the South.

Instead, the WTO institutionalizes free trade, the most-favored nation principle, and national treatment as the pillars of the new world trading order. National treatment, established through the General Agreement on Trade in Services (GATS) of the Uruguay Round, is perhaps the most revolutionary and the most threatening to the South. This principle gives foreign service providers, from telecommunications companies to lawyers to educational agencies, the same rights and privileges as their domestic counterparts. Although the GATT-WTO Accord does recognize the "special and differential status" of the developing countries, it does not see this as a case of structurally determined differences but as one of gaps that can be surmounted by giving developing countries a longer adjustment period than the developed countries. While northern environmental organizations are critical of the WTO for subordinating northern environmental standards to the principle that Lori Wallach of Public Citizen describes as "free trade, uber alles," the southern countries have articulated their concerns about the GATT-WTO's antidevelopmental thrust. In their view, GATT-WTO is inherently unsympathetic to industrialization at the same time that it erodes the agricultural base of the developing societies.

### A. *The WTO and Industrialization in the South*

In signing on to GATT, Third World countries have agreed to ban all quantitative restrictions on imports, to reduce tariffs on many industrial imports, and not to raise tariffs on all other imports. In so doing, they have effectively given up the use of trade pol-





icy to pursue industrialization objectives. The way that the NICs made it to industrial status, via the policy of import substitution, is now effectively removed as a route to industrialization.

The anti-industrialization thrust of the GATT-WTO Accord is made even more manifest in the Agreement on Trade-Related Investment Measures (TRIMs) and the Agreement on Trade-Related Intellectual Property Rights (TRIPs). These agreements deny countries the right to pursue some of the policies that the NICs used successfully in their drive to industrialize. For example, countries like South Korea and Malaysia used trade-balancing requirements, which tied the value of a foreign investor's imports of raw materials and components to the value of his or her exports of the finished commodity, and "local content" regulations, which mandated that a certain percentage of the components that went into the making of a product be sourced locally.

These rules enabled the NICs to raise income from capital-intensive exports, develop support industries, and bring in technology, while still protecting local entrepreneurs' preferential access to the domestic market. In Malaysia, for instance, the strategic use of local content policy enabled them to build a "national car," in cooperation with Mitsubishi, that has now achieved about 80 percent local content and controls 70 percent of the Malaysian market. Thanks to the TRIMs accord, these mechanisms are now illegal.

Like TRIMs, the TRIPs regime is seen as an obstacle to the industrialization efforts of Third World countries. TRIPs provides a generalized minimum patent protection of 20 years; increases the duration of the protection for semiconductors or computer chips; institutes draconian border regulations against products judged to be violating intellectual property rights; and places the burden of proof on the presumed violator of process patents.

These requirements make it more difficult for developing countries to have the level of access to cutting-edge technologies that was enjoyed by the NICs and almost all late-industrializing countries. The United States industrialized, to a great extent, by using but paying very little for British manufacturing innovations, as did the Germans. Japan industrialized by liberally borrowing U.S. technological innovations, but barely compensating the Americans for this. And the Koreans industrialized by quite liberally copying U.S. and Japanese product and process technologies.

But what is "technological diffusion" from the perspective of the late industrializer is "piracy" from that of the industrial leader. The TRIPs regime takes the side of the latter and will make the process of industrialization by imitation much more difficult from now on. It represents what UNCTAD describes as "a premature strengthening of the intellectual property system...that favors monopolistically controlled innovation over broad-based diffusion."

Southern countries perceive TRIPs as a victory for the U.S. high-tech industry, which has long been lobbying for stronger controls over the diffusion of innovations. Innovation in the knowledge-intensive high-tech sector—in electronic software and hardware, biotechnology, lasers, optoelectronics, and liquid crystal technology, to name a few—has become the central determinant of economic power in our time. And when any company in the NICs and Third World wishes to innovate, say in chip design, software programming, or computer assembly, it necessarily has to integrate several patented designs and processes, most of them from U.S. electronic hardware and software giants like Microsoft, Intel, and Texas Instruments. As the Koreans have bitterly learned, exorbitant multiple royalty payments to what has been called the American "high-tech mafia" keeps one's profit margins very low while reducing incentives for local innovation. The likely outcome is for a southern manufacturer simply to pay royalties for a technology rather than to innovate, thus perpetuating the technological dependence on northern firms.





Thus, TRIPs enables the technological leader, in this case the United States, to greatly influence the pace of technological and industrial development in rival industrialized countries, the NICs, and the Third World.

### *B. TRIPs and Agriculture*

TRIPs is also of concern because of the threat it poses to the very existence of agrarian communities. Because it strengthens considerably the system of private patenting of intellectual property, TRIPs has opened the way for the privatization of products developed from genetic processes or communal technological innovation in the South. As one analyst puts it, "Once modified, no matter how slightly, such genetic material can be patented by corporations or individuals who thus appropriate all financial benefits. As it stands now, an individual or company can collect a plant from a developing country, modify it or isolate a useful gene, and patent a new plant variety or product that contains it, without having to make any payment whatever to the communities whose traditional knowledge enabled the plant to be identified in the first place."

The GATT-WTO Accord does mention the possibility of a sui generis system for patenting agricultural products and process technologies, which could apply to those developed collectively by agrarian communities and indigenous peoples in the South. However, the emphasis of TRIPs is on the privatization of the nexus between natural processes and human intervention.

The threat posed by TRIPs to Third World agrarian communities is no longer one that is simply looming on the horizon. A U.S. firm has patented a new variety of seed produced from genetic material from jasmine rice developed in Thailand and basmati rice developed in India. Monsanto is now enforcing its proprietary rights to the use of seeds from harvests produced by "Monsanto-improved" seeds purchased by farmers. W.R. Grace has applied for and received a U.S. patent for the process extracting an active ingredient of the Neem tree, which is known for its wide variety of medical and other uses in India.

There are other, lesser known examples of what some scholars from the South have labeled "biopiracy" in the guise of intellectual property rights. One U.S. pharmaceutical company stands to make millions of dollars from two drugs, an anti-carcinogenic and antileukemia agent, whose source is Madagascar. Merck, a leading Western pharmaceutical firm, is also likely to profit from the anticoagulant it is developing from the tikluba plant, which has long been used by indigenous peoples in the Amazon. Some eleven patents have already been filed in the United States and Japan covering the extraction and use of nata de coco from coconut, a major cottage industry in the Philippines, and patents by foreign entities and individuals are reported to have been filed on lagundi and banaba, two Philippine plants with medicinal qualities.

### C. *The Agreement on Agriculture*

THE TRIPs ACCORD is an example of the double standards in the GATT-WTO. While it pushes free trade on the South in some of its subsidiary agreements, it actually promotes monopoly for the North in others. This is true as well of the Agreement on Agriculture (AOA), which will be opened up for new negotiations after the Third Ministerial in Seattle in late November 1999.

A close examination of the development and impact of the AOA would be useful for it illustrates how the trade superpowers' rivalry, which is one of the driving forces of the GATT-WTO, intersects with the equally dominant dynamic of subordinating the South to the North.





Prior to the Uruguay Round, agriculture was de facto outside GATT discipline, mainly because in the 1950s the United States had sought from GATT a waiver of Article XI, which prohibited quantitative restrictions on imports. With the United States threatening to leave GATT unless it was allowed to maintain protective mechanisms for sugar, dairy products, and other agricultural commodities, Washington was given a "non-time-limited waiver" on agricultural products. This led to the GATT's lax enforcement of Article XI on other agricultural producers for fear of being accused of having double standards.

The United States and the other agricultural powers not only ignored Article XI but they also exploited Article XVI, which exempted agricultural products from the GATT's ban on subsidies. One effect of these moves was the transformation of the European Union (EU) from being a net food importer into a net food exporter in the 1970s. By the beginning of the Uruguay Round in the mid-1980s, the EU's Common Agricultural Policy (CAP) had developed into what was described as "a complex web of price and sales guarantees, subsidies, and other support measures that largely insulated farmers' incomes from market forces."

With domestic prices set considerably above world prices and no controls on production, European farmers expanded production. The mounting surpluses could only be disposed of through exports, sparking competition with the previously dominant subsidized U.S. farmers for third-country markets. The competition between the agricultural superpowers turned fierce, but it was not so much their subsidized farmers who suffered. The victims were largely farmers in the South, such as the small-scale cattle growers of West Africa and South Africa, who were driven to ruin by low-priced EU exports of subsidized beef.

With state subsidies mounting to support the bitter competition for third-country markets, the EU and the United States gradually came to realize that continuing along the same path could only lead to a no-win situation for both. By the late 1980s, for instance, close to 80 percent of the EU's budget was going to support agricultural programs, and the United States had inaugurated a whole new set of expensive programs, such as the Export Enhancement Program, to win back markets, such as the North African wheat market, from the EU.

This mutual realization of the need for rules in the struggle for third-country markets is what led the EU and the United States to press for the inclusion of agriculture in the Uruguay Round. Rather than seriously promoting a mechanism to advance free trade, the two superpowers resorted to the rhetoric of free trade to regulate a condition of monopolistic competition, with each seeking advantage at the margins. The manner in which the AOA came into being lends support to this interpretation. The final agreement was essentially the Blair House Accord, which was only negotiated between the United States and the EU in 1992 and 1993. The Accord was then promptly relabeled the GATT Agreement on Agriculture and tossed to other GATT members by the two superpowers in 1994 on a take-it-or-leave-it basis. Understandably, many of the other GATT members, and not only those from the South, felt that they were practically coerced into signing the agreement.

The key provisions of the AOA are the following:

- Domestic support, quantified into a common measure called the "Aggregate Measure of Support," would be reduced by 20 percent over a six-year period; that is, AMS would be 20 percent lower in 2001 than AMS was in 1986–88. However, certain domestic subsidies, including direct income payments for farmers (the so-called "Green Box" and "Blue Box" measures) were exempted from cuts.
- Export subsidies would be reduced over a six-year period by 21 percent in volume and by 36 percent in terms of total cash value, and members would agree not to expand subsidies beyond the level reached at the end of the six-year period.
- Import quotas would be transformed into tariffs (tariffication), and these tariffs would be reduced over a period of six years by an average of 31 percent, with a 15 percent minimum tariff line, again with the base being the "tariff equivalents" of these quotas in 1986–88.
- Countries would pledge to allow a certain level of agricultural imports (minimum access volumes) that would start at three percent of 1986–88 consumption and rise to five percent in 1999.
- Under the so-called "special differential status" treatment accorded to them under GATT, developing countries would be subject to only two-thirds of the cuts in tariffs, domestic support, and export subsidies applied to developed countries, and they would be given a grace period of ten years, instead of six, to put these into effect.





By the time of the Seattle Ministerial in late 1999, the agreement will have been in effect for nearly five years, but, so far, it appears to have had little effect in terms of reducing the protection and subsidization enjoyed by agriculture in developed countries. Several mechanisms have worked to produce these results.

First, for the aggregate measure of support, export subsidies, and tariffs, the 1986–88 levels at which the items were bound were quite high relative to the levels in 1995 when the AOA took effect, resulting in minimal actual reductions in subsidies and tariffs. In fact, the United States was able under these guidelines to raise its simple average tariffs significantly between 1992 and 1996 (from 5.7 percent to 8.5 percent for agriculture and livestock production; from 6.6 percent to 10.0 percent for food products, and from 14.6 to 104.4 percent for tobacco products). Also, the Uruguay Round's requirements that import quotas be transformed into tariffs has been abused by the EU and the United States, with the latter, for instance, levying an ad valorem duty of 350 percent for above-minimum-access imports of tobacco products.

Second, the rules for achieving the 36 percent average tariff reduction were quite loose. Countries could meet them through a combination of minimal tariff cuts on sensitive or valued product lines and deep cuts on nonsensitive products, and by "backloading" their already minimal tariff cuts on the valued products toward the end of the six-year period.

Third, subsidies such as direct income payments to make up for the vagaries of the market have been exempted from cuts. Such payments were excluded on the specious grounds that they were "decoupled from production" and thus "nontrade distorting." This loophole primarily benefits farmers in rich countries, which can afford to make such direct payments. This exemption was a major blow to the hopes of many countries that the AOA would serve as a mechanism for leveling the playing field between farmers in the North and South.

In the EU, these direct income payments are mainly based on output, the bulk of them via a "land set-aside program" that entitles each farmer to a subsidy when she or he withdraws 15 percent of his/her land from cultivation. The idea behind the set-aside program is to restrict output, thus raising prices. In the U.S. Farm Bill, farmers get the same level of direct income subsidy in good and bad crop years. Deficiency payments are projected to average US$5.1 billion a year between 1996 and 2002.

But the truth is that direct payments to European and U.S. farmers are anything but decoupled from production, since without them agriculture would scarcely remain profitable. Deficiency payments, for instance, make up between one-fifth and one-third of U.S. farm incomes. In other words, in enshrining the notion of decoupled payments as untouchable subsidies





in Green Box, the United States and the EU were, as one analyst put it, "taking away direct support of markets and replacing it with direct subsidization of [northern] farmers." The combination of minimal cuts in tariffs, export subsidies, and AMS, and the maintenance of direct income payments has had the predictable result of raising the total amount of agricultural subsidies in the OECD countries since the Agreement came into force: from US$182 billion in 1995 to an astounding $280 billion in 1997, with the major share of this figure accounted for by the EU and the United States. More than 40 percent of the total value of production in the OECD countries is now accounted for by different forms of producer subsidies.

In contrast to this massive subsidization in the OECD countries, farmers in many developing countries have experienced low and declining government financial support. Where subsidization does exist, it often does not even reach the level allowed by the AOA, set at 10 percent of the value of production. In fact, developing countries have been penalized by policies that have brought about the "negative subsidization" of their agricultural sector. Yet it is the farmers of these countries of the South that will be forced to bear the burden of adjustment to the new agricultural regime, because their lack of subsidies is paralleled by their clear commitment to give greater market access to northern farming interests, whose runaway subsidization continues to push them to create mountains of commodities seeking export outlets.

A 1997 report to the EU farm ministers projected the surplus of wheat to rise from 2.7 million metric tons to 45 million tons by 2005 and the total cereal surplus to shoot up to 58 million metric tons. The solution to this condition of subsidized overproduction, said EU Agriculture Minster Franz Fischler, was intensified efforts to export grain. Continuing subsidization has also deepened U.S. agriculture's dependence on massive exporting. Admitting that "one out of every three farm acres in America is dedicated to exports," USTR Charlene Barshefky has concluded that "given the limitations inherent in U.S. demand-led growth, we must find new markets for American agriculture. We must open new markets to support the increasingly productive U.S. agricultural sector."

So the story continues: subsidized Northern producers that make a mockery of global free trade in agriculture fight for developing country markets, squeezing the nonsubsidized farmers in the latter.

Undoubtedly, the AOA does offer some concessions to the South in the form of the lifting of quotas and some reduction in tariffs on developing country exports of commercial crops like palm oil and coconut oil. But these are concessions that benefit mainly organized lobbies of cash-crop exporters and processors, such as Malaysian palm-oil plantations, big cocoa and coffee planters in Africa and Asia, and big sugar interests in the Caribbean. The vast majority of unorganized small farmers specializing in corn, rice, and other food crops are hurt by this trade-off, for the quid pro quo is precisely the liberalization of their markets for staples and other basic foods.

In the case of Southeast Asia, for instance, limited gains for palm-oil interests in Malaysia and coconut-oil exporters in Manila stemming from the Uruguay Round have been outbalanced by the tremendous damage imposed by liberalization on rice farmers in Malaysia, Indonesia, and the Philippines. Thai rice farmers are hardly benefiting; it's the Bangkok-based middlemen who are profiting from increased Thai rice exports. Further liberalization in a new round of negotiations will simply drive the region's small farmers over the edge, as it will the small farmers in other parts of the South.

Perhaps the profound inequality institutionalized in the AOA was best summed up by the Philippines' Secretary of Trade





and Industry in his speech at the Second Ministerial of the WTO in May 1998: "The Agriculture Agreement as it now stands ...has perpetuated the unevenness of the playing field which the multilateral trading system has been seeking to correct. Moreover, this has placed the burden of adjustment on developing countries relative to countries who can afford to maintain high levels of domestic support and export subsidies."

### *D. Oligarchic Decision Making*

There are other inequalities structured into the WTO system. The system of decision making is perhaps among the most blatant of these. Pro-WTO propaganda has projected the agency as a "one nation/one vote" organization, where the United States has no more votes than Rwanda or the Dominican Republic. In fact, it is quite undemocratic and is actually run by an oligarchy of countries, much like the World Bank and the IMF. Were majority rule to prevail, then the WTO would, like the UN General Assembly, be structurally more responsive to the needs of the South. But, as it did at the World Bank and the IMF, the North evolved other mechanisms of control. While at the Bank and the Fund the prime mechanism of control is the size of rich countries' financial contributions, which gives them enormous voting power vis-a-vis the mass of developing countries, at the WTO, northern domination is achieved via what is euphemistically referred to as "consensus."

This process was described in the following manner before the U.S. Congress by an influential WTO advocate: after noting that there had not been a vote taken in GATT, the WTO's predecessor, since 1959, economist C. Fred Bergsten underlined that the WTO "does not work by voting. It works by a consensus arrangement which, to tell the truth, is managed by four—the Quads: the United States, Japan, European Union, and Canada." He continued: "Those countries have to agree if any major steps are going to be made, that is true. But no votes. I do not anticipate votes in the new institution."

The way that the consensus rule assures the hegemony of the North was recently on display in the selection of the successor to Renato Ruggiero as director general. The U.S.-led bloc that successfully supported New Zealander Mike Moore refused a head count, as proposed by backers of Thailand's Supachai, on grounds that this would violate the WTO's consensus tradition.

Indeed, so undemocratic is the WTO that decisions are arrived at informally, via caucuses convoked in the corridors of the ministerials by the big trading powers. The formal sessions are reserved for speeches. The key agreements to come out of the first and second ministerials of the WTO—the decision to liberalize information technology trade taken in Singapore in 1996 and the agreement to liberalize trade in electronic commerce arrived at in Geneva in 1998—were decided on in informal backroom sessions and simply presented to the full assembly as faits accomplis. It is against this dismal background that we now move to the question of reform.

## STRATEGY FOR CHANGE

AFTER INDICTING the Bretton Woods institutions, some people turn around and appeal to these same institutions (and the WTO) to become answerable to the UN and to reorient their policies to serve the interests of the world's poor majority, arguing that this would be "truly in the enlightened self-interest of people in the rich, industrialized countries, their children, and their children's children."

This is utopian thinking, especially at a time that the North has just completed a campaign of global rollback that has delivered the coup de grace to the southern project of reform. For





reform, not revolution, was what the NIEO, the Non-Aligned Movement, and UNCTAD were all about...and look where this already very limited enterprise—what one northern observer described as "the present order, with extra helpings for the flag bearers of the South"—got the Third World. Change at this time means not wasting time trying to enlarge areas of reform within the World Bank, IMF, and WTO. These are, to borrow a metaphor from Max Weber, an iron cage of three overlapping bureaucracies and mandates where southern aspirations and interests are structurally constrained.

One prong of a possible counter-strategy for defending the interests of the South must be directed at preserving the legitimacy of the UN system, at a time when its effectiveness as an instrument of development is hobbled by northern hostility and a lack of money. That a little money can go a long way, when funneled into the right instrument, is shown by the example of the UNDP Human Development Report, which is now seen as the magisterial authority in both the North and the South on the social and economic state of the world, no matter what the whole arsenal of World Bank publications says. A good candidate for doing in trade what the Human Development Report does for development is the UNCTAD Trade and Development Report, whose focus on global structures impeding the ascent of the South is a good antidote to the WTO publications' doctrinal assertions on the benefits of free trade.

Beyond this, however, the project of making the UN agencies the pillars of an alternative global order is not going to result in success for a long, long time. What, then, should southern movements for global reform focus their energies on? The main thrust, in our view, is to overload the system, to make it nonfunctional by constantly pushing demands that cannot be met by the system. For instance, in the case of the IMF, governments of the South and NGO's can press for the following demands:

- more transparency in IMF decision making
- more accountability of IMF staff
- one country/one vote decision making arrangements
- an end to structural adjustment programs
- no new funding for extended structural adjustment programs (ESAF)
- no extension of IMF authority to governance issues and
- subordination of structural adjustment programs to global environmental agreements

When it comes to the WTO, among the key tactics that could be deployed to overload the system might be:

- pressing for the replacement of consensus decision making with majority voting
- the creative use of antidumping mechanisms against import penetration and
- exploiting loopholes in the Sanitary and Phyto-sanitary Agreement to restrict agricultural imports

Developing country governments must approach WTO rules in the same way that a good defense lawyer approaches criminal law, which is to exploit the ambiguities of the system for the sake of the client—in this case for Third World farmers, manufacturers, and other producers.

Of course, the success of a strategy of overloading the system depends greatly on creating global political alliances, including coalitions with antiglobalization social and political forces in the North. There are examples to draw from: A global pressure campaign by NGOs from both the North and the South on OECD governments prevented the adoption of the Multilateral Agreement on Investment (MAI) by that body. NGO pressure on the U.S. Congress killed the granting of "fast-track" authority to negotiate free-trade agreements to the U.S. president, weakening the ability of the United States to demand greater trade liberalization at the Seattle WTO Ministerial.





Where structures are hopeless, the next best solution is to have nonfunctioning structures or no operative structures at all. It was, for instance, during a period where no bodies supervised aid and development—the World War II era and immediate postwar era—that the countries of Latin America were able to successfully engage in import substitution to build up industrial structures. And it was during the period from the 1960s up to the late 1980s, before the establishment of the WTO, that the NICs of East and Southeast Asia were able to marry domestic protectionism to mercantilism to move from underdevelopment to industrial status in one generation.

Multilateral structures entrench the power of the northern superpowers under the guise of creating a set of global rules for all. This is the reason why, in promoting the WTO in the U.S. Congress, former USTR Mickey Kantor characterized the WTO as a "sword" that can be used to pry open economies. This is the reason Washington's academic point man on trade, C. Fred Bergsten, could tell the U.S. Senate that ratification of the Uruguay Round would serve the interests of the United States because in addition to unilateral action, "we can now use the full weight of the international machinery to go after those trade barriers, reduce them, get them eliminated."

Though the threat of unilateral action by the powerful is ever present, on balance a global system where there are either no multilateral structures or ineffective ones works to the benefit of the South.

Of course, the ideologues of the North will shout that this is tantamount to "anarchy." But then it has always been the powerful that have stoked this fear. The image of international relations in a world marked by few international arrangements as "nasty" and "brutish" has always been a Hobbesian fallacy that has not corresponded to reality. For the principal objective of most multilateral or international arrangements in history has never been to assure law and order to protect the weak. These structures have been pushed by the strong, mainly to reduce the tremendous cost of policing the system to ensure that the less powerful will not cease to respect the rules set by the more powerful or break away completely.

In short, a fluid international system, where there are multiple zones of ambiguity that the less powerful can exploit in order to protect their interests, may be the only realistic alternative to the current global multilateral order that would weaken the hold of the North. The main beneficiaries of clearly articulated structures are always the powerful and the rich. The fewer structures and the less clear the rules, the better for the South.