The Wreck of Cancún and the End of the 'Washington Consensus'

by Lothar Komp

The Finance Ministers and central bank chiefs from the seven "leading industrial nations" met once again on Sept. 20, in Dubai, in the United Arab Emirates, and consulted on the fate of the world economy. Immediately thereafter, the same characters got together at the semi-annual meeting of the International Monetary Fund (IMF) and World Bank, and occupied themselves, among other things, with the possible threats to the global financial system. "Business as usual," one might say. But that would be quite mistaken. This time, everything was a bit different; the self-inflicted shrinkage of the economies of the once-leading industrial countries has gone so far, that the Group of Seven (G7) is no longer so terribly important.

A group of nations of the Southern Hemisphere, led by Brazil, India, and China, had just managed to take apart the free-trade agenda of the G7 countries. After five days of negotiations over the mutual elimination of protective mechanisms for agriculture, industry, and services, the world trade conference in Cancún, Mexico had to be broken off without results on Sept. 14. What the IMF and World Bank call the "Washington consensus," according to which all happiness in the world depends solely on the consequences of liberalization of trade and privatization of all economic activity, is overthrown. The Cancún shambles offers the possibility of beginning a new debate on the foundations of a just economic order in the world. Ironically, an impetus to growth could come out of this which could free the G7 national economies—not least, the German economy—from their recent woes.

A 'Cold War' of Trade

The agenda for the fifth ministerial meeting of the 146 member-nations of the World Trade Organization (WTO) had already been set by the November 2001 WTO summit in Doha, Qatar. Each "success" in regard to any one of the numerous points of the Doha Declaration would have arguably allowed the volume of world trade to rise temporarily, but at the cost of threatening critical sectors of the national economies of countries either of the North or the South.

The central theme on which the underdeveloped countries aimed to make progress, was the agricultural subsidies of the United States and Europe. On Aug. 20, a Group of 16 underdeveloped countries (Argentina, Brazil, China, Chile, Costa Rica, Equador, Guatemala, India, Columbia, Mexico, Paraguay, Peru, Philippines, South Africa, Thailand, and Venezuela) with Brazil's WTO representative as its spokesman, had put forward a radical catalogue of demands at the WTO preparatory meeting. The industrial countries were accused of supporting their agricultural sectors to the tune of about $1 billion a day, enabling them to bring the prices of agricultural products on the world market below the costs of production of those products in many underdeveloped countries. By this means, domestic agriculture in these countries was being destroyed, the Group of 16 said, and their dependence on imports thus cast in stone. So, this group, grown into the "Group of 21" by the beginning of the Cancún meeting, demanded the abandonment of general export subsidies as well as existing import limitations on agricultural products.

According to official statistics, the United States spends $80 billion a year for the support of agriculture; the European Union is slated to spend around $43 billion euros during each of the next ten years. Notwithstanding this subsidy, the greater part of U.S. and European agriculture is in fact operating at or below the minimum [income] level for its continued existence. Because the food cartels controlling world trade have managed to drive the market prices for agricultural products down so low, these prices now lie significantly below the (cost-of- production) parity prices requisite to sustain the long-term solvency and survival of farm enterprises, within both the developed and underdeveloped nations.

Concerning the rest of the themes of the Cancún Summit, it was the reverse, with the United States and the European Union demanding far-reaching "liberalization"—elimination of protection or support—by the developing countries. Because these points had already been formulated at the Singapore WTO meeting of 1995, one can succinctly refer to them as the "Singapore Themes." Included therein was the demand for the WTO-enforced dismantling of restrictions on direct foreign investment. A "multilateral investment treaty" (MIT) amonag the industrialized nations, under the canopy of the OECD, was only finally derailed in 1998, not least on account of the resistance of the French population. With the MIT, the economic sovereignty of the nation-states would have been curtailed to the benefit of the rights of the major transnational corporations. Under the canopy of the WTO, a kind of global MIT was now being pushed for.

The Insane 'Singapore Themes'

This bears on, for example, China's successful years-long practice of a constant requirement for direct foreign investment—to build a steel works, or a chemical factory, etc.—that a certain percentage, frequently 50%, must remain with domestic local workers' groups or entrepreneurs. In this way, foreign direct investment can broaden economic activity to the mutual advantage of the investors and the host country. By contrast, in Hungary, where the government has removed such requirements and rather promised investors several years free of taxes, more than 70% of all industrial production is in the hands of foreigners, and the domestic *Mittelstand,* which has no entrepreneurial mission, has almost completely disappeared.

The "Singapore Themes" further include the demand for free competitive contracting of public investments. This means that a country must always award a contract for construction of a road or building of a power plant to the most favorable bidder whether domestic or foreign, and lose the capability to crank up targetted domestic construction sectors with public projects.

Also on the wish-list of the G7 countries was a massive broadening of international protection of patents. According to the existing trade rules, poor countries may, under certain circumstances, produce indigenous generic medications, more affordable for their people, without paying patent-licensing fees to the big pharmaceutical companies. But they may do this only when necessary to prevent or fight a catastrophic threat to health. The G7 countries now insist that this patent exception be limited to a few particular cases, such as AIDS and malaria. For all other diseases, they demand, indigenous production of medications would be banned. This poses the question whether Germany or the young United States at the beginning of the 19th Century, for example, would have made the leap to become leading industrial nations, had such strict international patent protections existed then. Japan and South Korea can also credit their industrial growth after World War II, in part, to copies of technological innovations developed in other nations.

Finally, there was the renegotiation of an agreement on services, GATS. Here, the demand was for privatization and the free entry of foreign capital into electricity, water, telecommunications, education as well as health and annuity insurance services. So far, water-management projects have been partly excepted from the free-trade conditionalities. But now the European Union (EU), which has its own world-leading companies in this field (Vivendi, Suez, RWE, Eon) has been pushing strongly in the recent past for a far-reaching "liberalization" of water management in the WTO's member states.

The "Group of 21" made it clear at Cancún from the outset, that it would only negotiate at all, on all these "themes," if first the U.S.A. and Europe made concessions in the agricultural sector. This was unacceptable to the EU representative. When the United States then pressed for protection of capital investments, several African countries walked out of the meeting in protest. Finally the Mexican chief negotiator was left with no other choice than to declare the WTO summit ended, without result.

Two Reactions Possible

Is world trade thereby threatened? Not at all. The only thing that actually broke down in Cancún was the myth, that complete free-trade "liberalization" of the world economy is the panacea for all economic problems, and an unalterable law. Two distinct reactions are now possible. Several representatives for the U.S. economy have already announced the first: what hasn't been attainable multilaterally, should now be aggressively pushed through in bilateral trade negotiations. Nations that in any way refuse foreign investment or patent protections should be punished with countermeasures such as import limitations. The consequence of proceeding that way would be a kind of Cold War in world trade, and possibly the breaking up of the world economy into regional blocs.

The only alternative to this is, as a first necessity, to conclude bilateral or regional trade agreements which put up front not the free-trade dogma, but the long-term development of all participating national economies. Already only a few decades after Adam Smith had designated the "inclination to trade" as the essential distinction between men and beasts, and declared the unbridled activation of this inclination as the real source of the welfare of nations, Friedrich List was teaching the absurdity and mendacity of the Smithians. For England had itself openly given the free-trade doctrine short shrift. The free trade carried through with great expenditure on propaganda in other countries, not least on the European Continent, was much more a means of making economic war, to throttle the development of nascent industries there, and ensure the predominance of the Empire.

Who is to prevent the current German government from concluding long-term economic agreements with such nations as Russia, China, India, or Brazil, whose subject is not global free trade, but the intended infrastructural buildup of entire regions, or specific branches of economy? What potential lies in the know-how of the Russian air and space industries alone, which with investment and long-term credits from Germany, could be transformed into an essential productive strength for the Russian economy? Instead of this, Germany is being directed to think only of providing long-term insurance for Russian energy pipelines.

The wreck of Cancún can lead to the beginning of a new kind of trade relations among nations.