



World Systems Analysis and Challenges to the Core: Brazil, West Africa and the WTO



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Interpretive Frameworks

Brazil's motives can be explained more or less rational within the framework of economic liberalism, the so-called free market framework. Perhaps the WTO is simply working as it was intended to work, by mediating trade disputes according to market logic and the rules and norms that support it – the reduction of barriers to free trade and non-discrimination in trade relations. But this account would miss several important points. Brazil's challenge to the U.S. – and its success – may be best explained by a move from periphery to semi-periphery, in the language of world-systems analysis, a trend that, may indeed bring Brazil even closer to the core. Additionally, the perspective of an emerging LIEO does not account for the policies of the U.S. that are at the center of these challenges in the first place. Why would an advanced industrial state enact protectionist policies to artificially shield or promote its agricultural producers in the first place? An LIEO perspective also does not provide a way of evaluating the different approaches taken by Brazil and West African states, not because it wrongly theorizes how and why challenges are brought forward, but because it overlooks such questions in the first place. Politics is still about power, about how it is constituted, how it is used, and how it waxes and wanes or shifts across historical time and social space. In our view, it refers to change, to the emergence and spread of a particular kind of economic system, and so it ought to be able to take into account how that change occurs, how change affects politics and vice-versa, and what the likely or possible consequences of it are.

There are three questions raised by the cotton cases: 1) how does the structure and processes of the WTO allow for contradictions to the logic of LIEO? How do powerful core states derive more benefit from WTO framework, even though doing so produces inconsistencies from the standpoint of liberalism? 2) how and why was Brazil able to mount an apparently successful challenge to the U.S. within the framework of the WTO? And 3) finally, what accounts for the different strategies employed in the two cases – Brazil and West Africa? More critical approaches to international political economy offered by world-systems analysis, *dependencia*, and policies aimed at creating and sustaining underdevelopment in peripheral and semi-peripheral states offer more insight into these questions, mostly because they take into account the structure and use of power and social change. They posit that core production processes and trade policies will reflect and serve more monopolistic market structures within core states and are also reflected in the efforts of the core to dominate (or maintain dominance in) the world-system. Furthermore, critical perspectives suggest that one way of accomplishing both of these objectives is to foster competition among peripheral and semi-peripheral by sustaining surplus capacity in the semi-periphery and periphery. Monopolization in and by the core, meanwhile, generates surplus value in the core, leading to a bifurcation and polarization of wealth and poverty (or underdevelopment) on a global scale. Viewed in this light, Brazil's move seems aimed at establishing a shift from semi-periphery to core for Brazil, a refusal to be disciplined as the West African states apparently are.

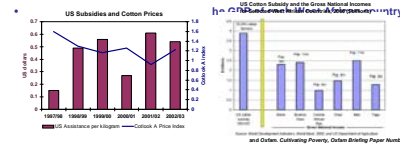


The Research Question

The West African cotton exporting countries of Benin, Burkina Faso, Chad and Mali stand to gain from the outcome of the cotton complaint pressed by Brazil in the WTO. In these four countries 12 million people make their living from cotton production, and are greatly impoverished. The elimination of US cotton subsidies would increase net farm income by around 20 percent. Yet, the four West African states did not join Brazil as complainants in the case. Instead, they chose to present to the WTO a proposal scheduling the elimination of US, EU and Chinese cotton subsidies, and requesting compensation for anticipated damages suffered by their producers during the three year proposed transition period for the elimination of cotton subsidies. The West Africans have been singularly unsuccessful in achieving their goals. In this research, we investigate why Brazil chose litigation, and the West African countries chose the less assertive and ultimately less successful strategy of negotiating through the WTO. Do these developments, along with the failure of the Cancun WTO ministerial meeting and the formation of the G-20 bloc signal a growing polarization or bifurcation in the economy (and politics) of the world-system or is Brazil just acting as a core country, in competition with, but politically and economically equal to the U.S.? Which theory or theories of international political economy provide the best framework for understanding and extrapolating from these developments – theories predicting the emergence of a liberal international economic order (LIEO), or do more powerful explanations emerge from frameworks more critical of liberalism and Neoliberalism, specifically, world-systems theory and theories that have contributed to it, like *dependencia* and the "development of underdevelopment" as Andre Gundar Frank called it?

US Cotton Subsidies

- Due to subsidies, US production increased in times of low prices, and
- US world market share increased from 28 to 40 percent
- Without cotton subsidies, US farmers would have lost \$872 per acre of \$13 billion over 6 years
- US assistance in 1999/2000 totaled US\$3.4 billion
- Estimates indicate that elimination of US subsidies would increase world market prices by 12-15 percent



West Africa Negotiates

In sharp contrast to Brazil, Benin, Burkina Faso, Chad and Mali (WA4) attempted to use the WTO to negotiate the removal of subsidies given to cotton producers by the US, European Union and China. In April of 2003 they submitted a proposal to WTO calling for the elimination of government subsidies to cotton production over a three year transition period, during which the three subsidizing countries would compensate least developed country producers for damages due to the suppression of the world cotton price. The WA4 have been disappointed at every juncture with the WTO's treatment of their proposal. The controversy caused by its submission to the Ministerial at Cancun in September 2003 was a significant factor in the breakdown of the negotiations. The US asserted that its subsidies have a minor impact on world trade, releasing the United States from the responsibility of considering the WA4 proposal. The outcome of the Ministerial was widely reported to have angered and disappointed developing country members who felt that the legitimacy of the "Development Round" had been called into question. After the breakdown, the next significant step was the July Framework Agreement of 2004, which specified that cotton will be addressed "ambitiously, expeditiously and specifically" in the agricultural negotiations. It mandated that a cotton subcommittee be formed to work on all trade distorting policies affecting the sector within all three pillars of the negotiations - market access, domestic support and export competition. The work of the Cotton Subcommittee has been slow, and at times focused on development and aid issues rather than the trade-distorting impact of developed country cotton subsidies. The Ministerial Declaration from Hong Kong continues the lack of progress made in eliminating cotton subsidies, as it does little beyond reaffirming the mandate of the July Framework and the elimination of export subsidies on cotton by the close of 2006. While the declaration states that trade distorting subsidies will be eliminated for cotton more ambitiously than for other domestic subsidies, both details and US support continue to be lacking.

Brazil Litigates

In Brazil, Pedro Camargo Neto, the former Secretary of Production and Commercialization in the Brazilian Ministry of Agriculture, pressed the government to initiate the case against the United States. The Cardoso government was initially reluctant to do so, reflecting fear on the part of governments as an obstacle to challenging a superpower in the WTO. In September 2002 the two countries met in consultation, the first stage of the Dispute Settlement Understanding of the WTO, and ultimately leading to the formation of a panel in March 2003. Argentina, Australia, Benin, Canada, Chad, China, Chinese Taipei, European Communities, India, New Zealand, Pakistan, Paraguay and Venezuela joined in the complaint as third parties. Brazil complained that some US cotton subsidies were in violation of US commitments in the Uruguay Round Agreement on Agriculture, either by exceeding the levels of subsidies the US agreed to abide by or by violating the rules governing their operation. Even more significant, Brazil claimed that US subsidies under a number of programs resulted in a significant suppression of the world price, causing serious prejudice to Brazil's trade interests, under the Subsidies and Countervailing Measures Agreement. Cotton is challenge to agricultural subsidies with a finding of "serious prejudice" case under Articles 5(c) and 6.3 of the SCM Agreement. In making their determination the panel found that, without U.S. cotton subsidies, world market prices would be "significantly" higher due to the combination of the order of magnitude of the U.S. cotton subsidies; the nature of the subsidies in terms of their "structure, design and operation"; and "genuine and substantive relationship of cause and effect."

Explaining Their Choices

Brazil's past role as a leader in international trade negotiations may have given it both the confidence and the motivation to undertake the challenge. Brazil has been a leader in international trade governance and negotiations since WWII, and played a role in the development of both the GATT and the WTO. Brazil's on-going role in Mercosur, and its unexpected success in both commercial and diplomatic terms, prepared Brazil for a leadership role in the negotiation of the Free Trade of the Americas (FTAA) with the United States. This posture is in line with a tradition of Brazil seeking collaboration with the United States, not of automatic concurrence or subservience. Brazil and many other countries are frustrated with the outcome of the URAA. Critics of the URAA argue that while the mode of support has changed the level of US subsidies has increased since the URAA. Dissatisfaction with the outcome and implementation of the URAA has placed additional stress on Doha Round negotiations, in which all deadlines have been missed, and disagreement continues to characterize every aspect of the negotiations. Additionally, Brazil continues to be frustrated with its bilateral trade relationship with the United States and is sensitive about US bilateral free trade agreements reducing its imports from Brazil.

Brazil made a shrewd choice in pressing the cotton case, providing evidence that it has the human and financial capital to press a suit. While it was costly for Brazil to under take the case, winning has enhanced Brazil's stature and ability to negotiate "in the shadow of litigation" as WTO members recognize that the outcome of the Doha Round cannot contradict the findings of the panel. Brazil was able to use the WTO institution for dispute settlement – a legal framework developed in the core countries, in an effective manner against a core state.

Benin, Burkina Faso, Chad and Mali had motivation to press such a case, but they lacked the necessary political and economic independence. All four West African countries, and in particular their cotton sectors, have had a long and complex relationship with France, who mandated and controlled the development of market-based cotton production in the colonial era, and whose involvement continues to this day. While Brazil's WTO complaint was directed to the United States, the finding of serious prejudice could apply to aspects of the Common Agricultural Policy of the European Union, of which France is a staunch defender. In many years West African producers receive substantially less than the world price for their cotton, due to the management of internal prices by the government, a part of the operation of the *filière* system. The *filière* system is an integrated supply chain, introduced by the French, which controls the provision of inputs and credit to the producers, the purchase of cotton from producers, its transport, milling and ginning, and finally its sale on world markets. The EU has subsidized payments to producers when needed through the Stabex system under the Lomé Convention. The French *Compagnie Française pour le Développement des Fibres Textiles (CFDT)* has been involved in the West African cotton sectors since 1949, and continues to own significant shares of the industry in Chad and Mali, and to be involved in the global marketing of their cotton under the new name of DAGRIS. The French have played a key role in conducting and financing agronomic research essential to the success of the cotton sector. The World Bank has pressured all four countries to reform the *filière* system, in consultation with their governments and Agence Française de Développement, resulting in mixed success. All four West African countries depend heavily on European and US aid, and are involved in structural adjustment programs with the World Bank and IMF, allowing them scant independence or resources with which to pursue legal actions against developed country agricultural subsidies.

Conclusions

Reconsidering our earlier questions in light of the cases studies here, we see a free trade regime that is, at best, a "free-er" trade regime, and one that is dominated (or subverted) by the national interests of the most powerful states. The LIEO does not provide a satisfactory explanation for the distortions and deviations revealed in these cases. For markets to work in the long term – when we rely on them solely as the mechanism of choice in allocating capital and labor to the production of goods and the exploitation of resources to produce goods – there are political costs to be paid in the short run. Labor, for example, is less mobile than capital, creating unemployment in rich countries. Agricultural production will become more costly in richer countries who are unwilling either to allow their producers to suffer the effects of globalizing agriculture or to give up their relative agricultural self-sufficiency. To avoid short-term political costs, rich countries monopolize, at worst, and manipulate, at least, agricultural markets. Mature post-industrial economies who, by the logic of LIEO, should have neither an incentive to engage in nor should be granted concessions to enjoy protectionism in their agricultural markets. Yet they do, and they do so at the expense of developing countries where the logic of the market would otherwise indicate agricultural production should be expanding. Politics matters, and provides a justification for market distortions that contradict the logic of LIEO. This would not surprise Wallerstein. Additionally, these impediments to economic development put in place by rich countries are further underscored by the creation and maintenance of a more or less dependent relationship that keeps the balance of power tipped in favor of rich countries and against the progress of developing countries. If the logic of LIEO works, it leads to underdevelopment not the entrenchment of dependence. Critical perspectives on international political economy bear this out.

See text enlargement on following pages.

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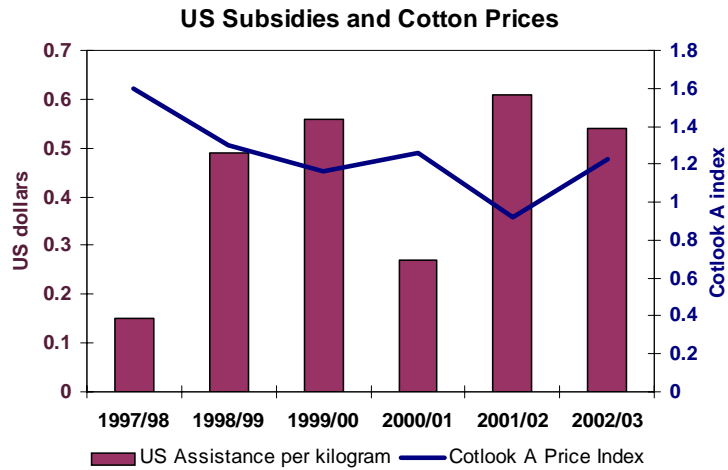
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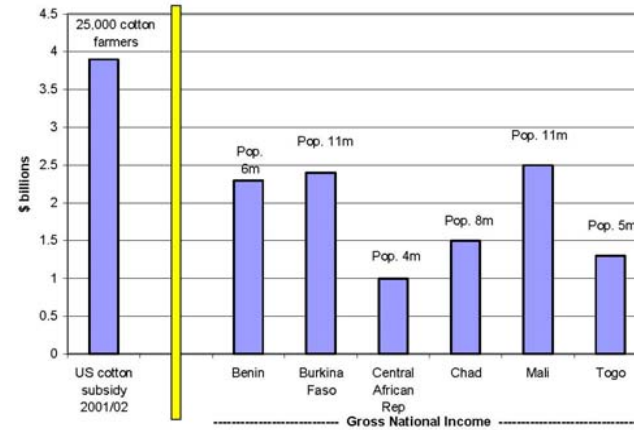
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- US cotton subsidies are larger than the GDP of each West African country



US Cotton Subsidy and the Gross National Incomes for Selected West African Countries, 2000 (\$billions)



Source: World Development Indicators, World Bank, 2002, and US Department of Agriculture

West Africa Negotiates

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