

La’o Hamutuk

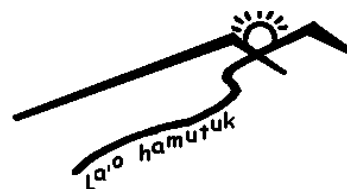
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Position Paper

from

La’o Hamutuk

on

Timor-Leste’s accession to the WTO

11th January 2017

La’o Hamutuk would like to express our appreciation to Sr. Estanislau da Silva, Minister of State for Coordinating Economic Issues, and Sra. Fernanda Borges, President of the technical team for supporting Timor-Leste’s accession to the World Trade Organization (WTO), for providing this opportunity to contribute our thoughts on Timor-Leste’s application to become a member of the WTO. In this submission, we have presented facts and analysis which we hope will help the State make better decisions that protect and promote the interests of Timor-Leste’s people.

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Joining the WTO harms our sovereignty

The WTO, established in 1995, replaced the Global Agreement on Tariffs and Trade (GATT), the international treaty which had governed global trade since the end of the Second World War. The WTO agreement came about largely as a part of the increasing drive for trade and investment liberalization on the part of the OECD countries and the two most powerful international financial institutions, the World Bank and IMF. Its principal objective is to regulate and facilitate international trade between its member states by reducing barriers to exports and imports. In order to achieve this, all WTO member states must adapt their internal policies which are deemed to contradict free trade principles.

An important difference between the GATT and the WTO is that under the GATT, member states could choose which agreements to sign up to and which to opt out of, for example, the agreement on restricting the use of subsidies, whereas the principle of 'single undertaking' in the WTO means that all members have to sign up to all of the provisions contained in the agreements. In practice this means that while the GATT allowed countries to design their own policies to protect and nurture strategic industries, the WTO aims to fully eliminate 'trade barriers' within its members (while allowing the poorest countries some temporary exceptions).

In November 2016, the Government of Timor-Leste received a delegation from the World Trade Organization to discuss Timor-Leste's application to join the organization. Government officials described how accession to the WTO would help to "strengthen and grow the economy through strategic investments in potential sectors," and said that joining the WTO is "critical to ensuring that Timor-Leste can diversify its economy in commerce, industry and agriculture for exports and access to markets." On 16th December, the Government announced that Timor-Leste had been granted observer status by the WTO, which allows us to attend meetings during the accession process.

However, La'o Hamutuk disagrees that joining this organization is necessary to "cement our sovereignty", or improve our economy. In reality, joining the WTO will damage Timor-Leste's sovereignty, as we will have less control over our own economic policies. This is because all WTO member states have to agree to its rules on trade and investment, and our domestic laws will have to be adapted to conform to these rules.

In addition, the WTO, while claiming to promote 'free trade' for the benefit of all, is dominated by the world's wealthiest and most powerful countries and companies, who work hard to shape global trade and investment rules in order to maintain and strengthen their political and economic power. This frequently harms the interests of people, businesses and governments in the Global South by exposing small businesses to competition from much larger companies from wealthier countries, limiting the ability of poorer countries to develop stronger industries.

'Free trade' for the poor, protectionism for the rich

Despite 'free market' orthodoxy which says that the most efficient and effective path to economic growth and 'development' is to eliminate barriers to trade and investment, all of today's wealthiest countries used subsidies, import quotas, tariffs and other protectionist measures in order to protect their domestic industries from outside competition until they were strong enough, and most only implemented free trade later in their development when their

industries were already advanced.¹ As a result of the WTO rules which ban these policies (and through the advice and aid given by the World Bank and IMF), developing countries are effectively prevented from using the same policies to develop their own industries.

In addition, even though the WTO bans protectionist policies, many developed countries continue to protect and promote domestic industries – particularly agriculture² – through subsidies, funding for research and development, and other methods. For example, while the US plays a powerful role in promoting the liberalisation of international trade, commerce and investment through its influence on the World Bank, IMF, WTO and UN, it also gives \$25 billion in subsidies every year to domestic agricultural producers. This means that Mexican corn farmers – who receive little government assistance as a result of the rules set down in the WTO and the North American Free Trade Agreement (NAFTA) – are forced to compete with large American agri-business corporations who produce cheap corn on an industrial scale, which has devastated Mexican corn production.³

There are various reasons why the WTO has not succeeded in forcing the US, EU and other wealthy countries from ending protectionism. Probably the most important is that, despite the fact that the WTO claims to be ‘ultra-democratic’ because it rules by consensus (all members have to agree to a measure for it to be approved), wealthy countries have much greater capacity to influence WTO discussions because they send large delegations of experienced negotiating teams to conferences, whereas smaller countries can usually only send small groups with much less experience. Also, weak industries and civil society groups in developing countries cannot advocate for their interests as powerfully as large corporations from wealthy countries, and their influence over governments is reflected in WTO decisions.

The biggest benefit from the WTO therefore goes to exporter nations and those with economies which are already advanced, as the WTO attempts to guarantee a stable international market for trade. Poorer countries which also export large quantities of goods or raw materials can also benefit if their products can compete in the international market. However, countries whose products cannot compete will not benefit from more open trade, and instead often suffer as their markets are opened to outside competition from cheaper, higher quality imports which destroy local production.

Timor-Leste needs to develop domestic productive sectors

Despite the Government’s public relations which say that Timor-Leste’s non-oil economy is growing, the reality is that the majority of the growth in ‘non-oil’ GDP since independence has been due to state spending on construction and public administration. Other sectors – such as telecommunications, retail, hospitality, real estate and transport – have barely grown or have fallen, while productive sectors like manufacturing and agriculture have been stagnant since 2002.⁴

¹ <http://www.independent.co.uk/news/business/comment/ha-joon-chang-protectionism-the-truth-is-on-a-10-bill-5334137.html>

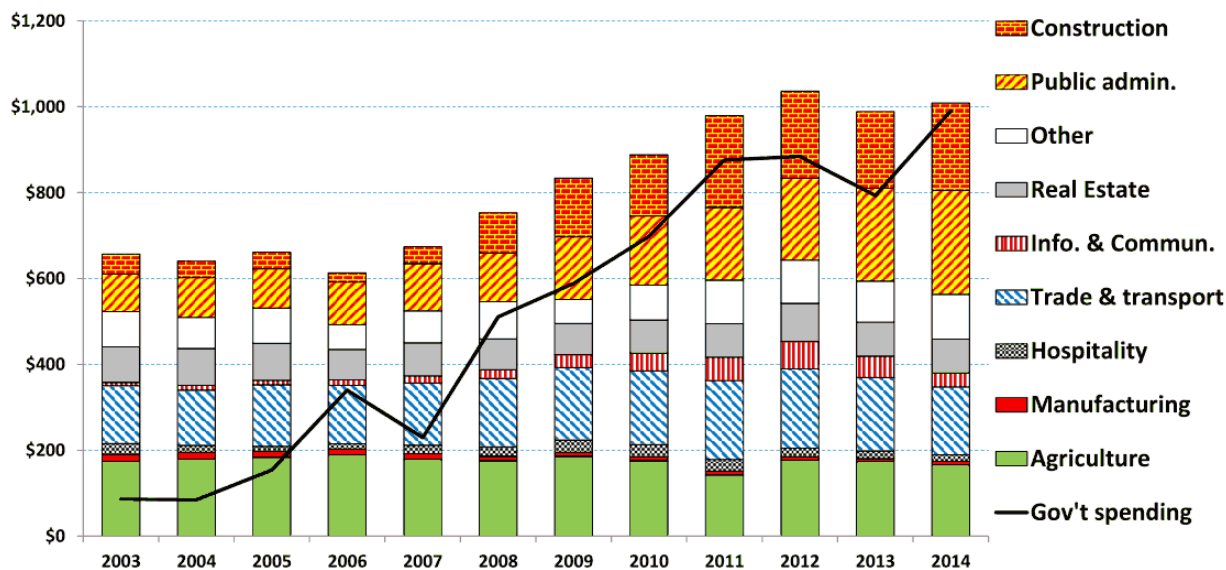
² https://www.actionaid.org.uk/sites/default/files/doc_lib/51_1_agreement_agriculture.pdf

³ <http://www.globalexchange.org/resources/wto/agriculture>

⁴ <http://laohamutuk.blogspot.com/2016/11/spinning-straw-into-gold.html>

Fig. 1: Sectoral contributions to 'non-oil' per capita GDP

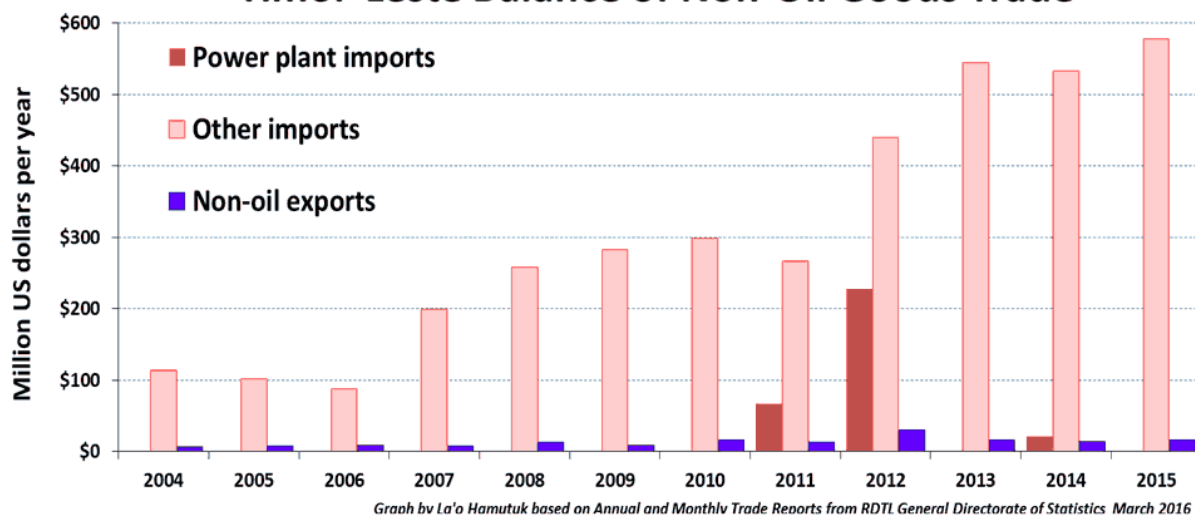
Constant US dollars



Graphic by La'o Hamutuk based on RDTL General Directorate for Statistics 'TL National Accounts 2000-2014' June 2016

As a result of our lack of domestic productivity, Timor-Leste depends heavily on imported goods – from 2013 to 2015, we imported over \$500 million worth of goods, while non-oil exports were less than \$20 million, 95% of which were coffee. The services trade deficit is even larger – more than \$1.5 billion in 2014.

Timor-Leste Balance of Non-Oil Goods Trade

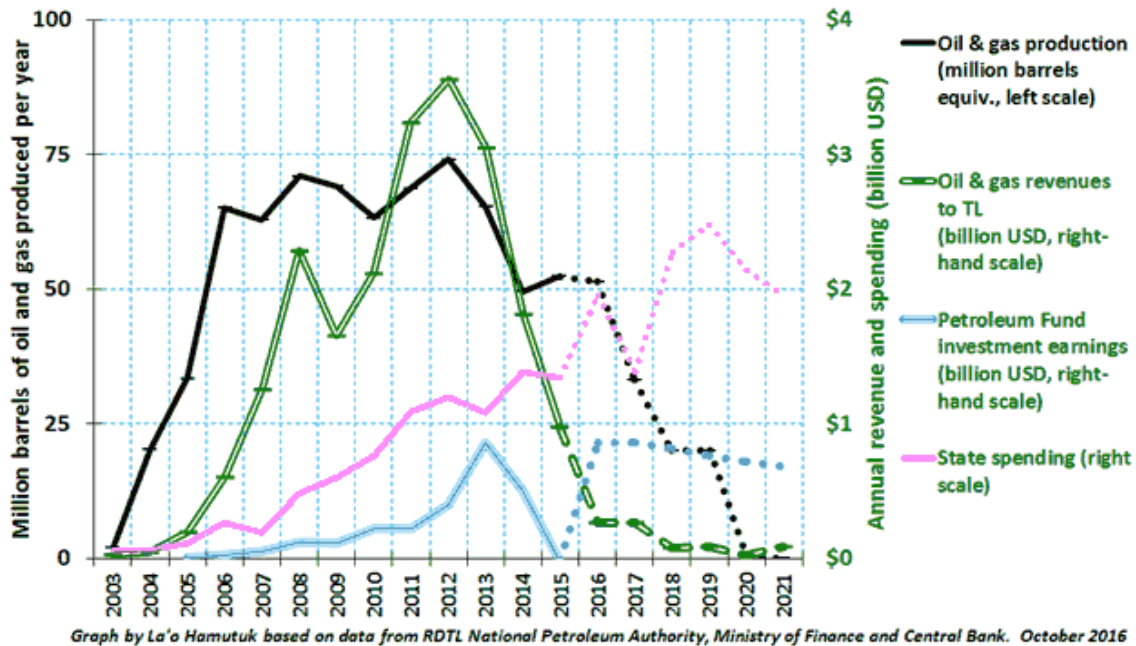


Graph by La'o Hamutuk based on Annual and Monthly Trade Reports from RDTL General Directorate of Statistics March 2016

However, the current trade deficit is unsustainable, because Timor-Leste's economy is overwhelmingly dependent on state-spending of the money earned from oil and gas, but petroleum revenues will end by 2021 (falling to negligible amounts in 2019), and our Petroleum Fund balance will fall by billions of dollars over the next decade due to excess withdrawals.⁵ This means that the Government will be forced to drastically cut spending in the next few years, and then there will much less money circulating in the economy to continue paying for imports.

⁵ <http://www.laohamutuk.org/econ/OGE17/LHSubPNOJE2017-7Nov16en.pdf>

Timor-Leste's oil and gas income peaked in 2012 and will continue to fall.



Timor-Leste's import duties are already some of the lowest in the world, so joining the WTO and reducing tariffs is unlikely to give much benefit to local consumers by making goods and services cheaper. Some argue that joining the WTO will help Timor-Leste to increase our exports, as one of the biggest supposed benefits of the WTO is that it makes it easier for developing countries to export their goods and services to large consumer markets in the Global North by reducing trade barriers. However, as Timor-Leste currently produces negligible amounts of goods and services, increased access to foreign markets will be of little value unless domestic productivity increases rapidly.

Therefore, instead of joining the WTO in the hope of exporting products which don't exist yet, Timor-Leste urgently needs to develop local productive capabilities and decrease our reliance on imports by producing more of the goods we use in everyday life. Agriculture is especially vital for rural livelihoods, food sovereignty, incomes and nutrition, while light manufacturing could be developed with key investments in strategic sectors using imported technology and state assistance if necessary to protect and strengthen the industry. This would increase skills, provide jobs, reduce our trade deficit and lead us to a more sustainable future.

WTO rules will make it harder to develop local industries

Unfortunately, joining the WTO could make developing our industrial capabilities more difficult, as the 'most-favoured nation' principle requires all companies from WTO member-states to be treated equally by national trade and investment policies. This means that Timor-Leste will not be able to design economic policies which favour local producers or communities, such as requiring or incentivizing foreign companies to use local materials, hire local labour, train Timorese staff for high-skilled positions, or requiring a certain percentage of local ownership of industrial projects.

Timor-Leste is designated as one of the Least-Developed Countries (LDCs), which are temporarily exempt from some of the conditions in WTO rules, particularly those regarding agricultural subsidies. However, due to our oil and gas income, Timor-Leste may 'graduate' from

LDC status before we join the WTO, even though our economy is still fragile and human development indicators in areas like poverty, health and education are still very poor.

If Timor-Leste's LDC status changes, we will have to abide by WTO rules such as the WTO Agreement on Agriculture (AoA) which bans government interventions in the agriculture sector which can 'disturb' the market, such as subsidies to increase production through distributing seeds, fertilizer and machinery which reduce farmers' costs and help them to sell their produce more cheaply.⁶ Timor-Leste will thus have to adapt our domestic laws and regulations to fit with WTO rules, and small, local businesses from Maubisse and Ermera will then have to compete 'equally' with Australian, Japanese or Indonesian companies which can produce large quantities of high quality goods much more cheaply. The AoA also allows wealthier countries to continue subsidizing their own agricultural producers indirectly by funding research, development and training, meaning that while local producers in developing countries are allowed to receive some government protection, their exports still have to compete with advanced producers which also receive protection.

Public consultations are needed before a decision is made

La'o Hamutuk believes that Timor-Leste has the necessary financial resources to develop a self-sufficient, sustainable economy that works for the benefit of all our citizens, without having to rely exclusively on international trade, foreign investment and imported goods. However, in order to achieve this, the Government must not be limited in its ability to make sovereign, independent decisions about how best to develop our economy to meet the needs of our people. As a result of the WTO's requirement that all members accept all provisions in its agreements, and through our lack of experience and power in international trade and investment negotiations, joining the WTO will limit our sovereignty and prevent us from implementing the best possible trade and investment policies for the benefit of our local producers, businesses and consumers.

In addition, although we have already been granted observer status, joining the WTO is a long process that will involve complex negotiations, and it will be very difficult for Timor-Leste to reverse our decision once we have gone much further down the path of joining. As this decision will have major implications for all of Timor-Leste's people far into the future, La'o Hamutuk believes that it should not be left up to a few politicians and international advisors to decide the future of all of our people in secret negotiations far from this land. We therefore ask the Government to hold extensive public consultations on joining the WTO, in order to allow local labour, agricultural, environmental and human rights groups to contribute their ideas and express their concerns.

We also recommend that the decision on whether or not to join should be based on thorough and realistic evaluations of how WTO rules will affect our domestic economy, workers and environment, rather than just assuming that 'free trade' and foreign investment will save us. Many countries and millions of small producers have suffered as a result of WTO policies, and the many protests by farmers' groups, environmental activists and human rights organizations around the world at WTO events have demonstrated the anger and frustration that people feel. The voices and concerns of these groups should be considered when making the decision to join the WTO, and policy makers should not just follow the advice of the international agencies and advisors who recommend 'free trade' policies to developing countries, even though their own

⁶ https://www.wto.org/english/docs_e/legal_e/14-ag_01_e.htm

countries used different policies when they were developing themselves, and continue to ignore international rules whenever it suits them.

La'o Hamutuk hopes that the information contained in this submission is useful and can help our Government to make wise decisions for the benefit of all Timor-Leste's people, and we are ready to provide further information if needed.

Thank you for your attention.

Sincerely,



Maxi Tahu



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La'o Hamutuk researchers on Natural Resources, Economy and Agriculture