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Priorities for a Development Round
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Trade

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7

Priorities for a Development Round



The natural question to be asked by each developing country as it enters trade negotiations is ‘What agreement would make the most difference for us?’ There is a corresponding question for the developed countries: ‘What is it that we could *give*, which is of most benefit to the developing countries, and which has the least cost (or perhaps even benefit) to US at the same time?’ The developed countries’ natural response may be to demand a *quid pro quo*. But such a demand would be to look at the current negotiation outside of its historical context. The developed countries have to date received the lion’s share of the benefits from previous trade negotiations. Accordingly, they *ought* to be willing to do more for the developing countries in this round.¹

With little progress on the issues of concern to developing countries—non-tariff barriers, intellectual property, migration, unskilled intensive services, and agriculture—and new demands in areas of dubious benefit to the developing countries, it has been hard to see how the developing countries can benefit significantly.² Actually,

¹ The problem, of course, is that political globalization has not kept pace with economic globalization: issues of international trade agreements are seldom looked at through which the same kind of lens through which we look at domestic legislation. In national economic debates, we do not demand that the poor give up an amount commensurate with what they get. Rather, we talk about social justice and equity.

² Anderson (2001) compares the benefits of developed country liberalization on developing countries with the benefits of developing country liberalization on developed countries. As a proportion of GDP in each group the benefits to developing countries of the former exceed the benefits to developed countries from the latter by a factor of 6. Given this imbalance in payoffs it is not surprising that developed countries are in such a strong bargaining position.

in several areas, there is significant scope for gains to the developing countries. In market access what matters is not just the *average* tariff rate,³ but also the structure of tariffs. Escalating tariffs, where there are higher tariffs on more-processed goods than on those less-processed, inhibit the ability of developing countries to increase their manufacturing capacities, especially in areas which might represent a natural comparative advantage, such as food processing or textiles.

For some goods, particularly skilled labor-intensive industrial goods, the fact is that average developed country tariffs are already much lower than those in developing countries.⁴ In these areas, the large reductions in tariffs by developing countries would have put large strains on these same countries. Were they at full employment, a strong argument could be made that they would nonetheless benefit, if they are given enough time and resources to adjust. But the speed of adjustment that is likely to be demanded, and the absence of adequate resources to facilitate the adjustment, mean that developing countries may be significantly worse off.

There is an important asymmetry of power in the negotiations: what developing countries do in opening up their markets to developed countries has a much smaller impact on the developed countries than the converse—what the developed countries do in opening up their markets to the developing world. In short, the developed countries themselves gain from liberalizing their own markets, because they are able to adjust, and the disturbances posed to them by the developing countries are small. The developing countries are in a far more disadvantageous position—they will need assistance in making the required adjustments, and they should be given a longer time within which to adjust.

Accordingly, in this book we propose that:

1. all WTO members commit themselves to providing free market access in all goods to all developing countries poorer and smaller

³ Average tariff rates—when weighted by the amount of trade—may be particularly misleading, since high tariffs lead to little trade, and accordingly such high tariffs may be given little weight in the computation of the average, even though they have a very distortive effect.

⁴ Average tariff rates on industrial goods imported into the OECD countries fell from around 40% in 1950 to 1.5% in 1998 (Hertel 2000). In spite of these low average rates, there are tariff peaks, many of which adversely hurt developing countries, so that, provided these are addressed, developing countries *do* have something to gain.

PRIORITIES FOR A DEVELOPMENT ROUND

109

than themselves. Thus all developing countries could expect free access to all markets with (a) a larger GDP and (b) a larger GDP per capita.

2. developed countries commit themselves to the elimination of agricultural subsidies.
3. the promise of market opening not be undermined by technical provisions like rules of origin.⁵

In short, reciprocity should *not* be the central feature of these negotiations, as they have been in the past.

There is one other aspect of the context in which trade negotiations are currently occurring. What distinguishes developed from less developed countries is not only the extent and nature of market imperfections, but also labor and physical resources. Developing countries are intensive in unskilled labor; their greatest shortage is probably in the ownership of physical capital. Developing countries are disproportionately in the tropics⁶ and, currently, are more engaged in the export of *commodities*, including natural resources.⁷ Thus, they differ from the developed countries in the products that they export and import, which is why decisions about which goods and services to liberalize, and which should be subject to restrictions on subsidies, can make a great deal of difference for the general equilibrium incidence.

Finally, we should note the dramatic transformation of the global economy. In the nineteenth century, the (now) advanced industrial economies transformed themselves from agriculture into manufacturing. Today only 14 per cent of employment and output in the United States is in manufacturing, and the proportion in Europe is not much higher.⁸ Now, they are transforming themselves from manufacturing economies into service and knowledge economies. Meanwhile, the developing world itself is divided into several groups: subsistence agriculture (much of Africa); export agriculture (Brazil and Argentina); and those breaking out of agriculture and becoming increasingly

⁵ In the discussion in future chapters we address the concerns that preferential liberalization is inhibited by strict or complicated rules.

⁶ See Gallup, Sachs, and Mellinger (1998).

⁷ See FAO (2003).

⁸ Developed countries' share of world trade in manufactures has fallen from 90% in 1970 to 72% in 2000 (World Bank 2002a).

centered on manufacturing. For the agricultural exporters, of course, the failure to liberalize trade in agriculture and to remove subsidies has been particularly costly.⁹

There is, as a result, a fundamental tension in current trade negotiations. The developed countries want to protect their declining industries and to gain market access for their expanding industries. But their declining industries are declining largely because of competitive pressures from the developing countries. Hence, the sectors that they are most interested in protecting are precisely the sectors that are of the greatest concern to the developing world. It is not as if America is mostly concerned with protecting itself against Europe, or vice versa (though there is some element of that). And the sectors that are declining are, by the same token, those with the lowest-wage workers. Hence protection elicits concerns about equity and social justice *within* the developed countries—but the failure to extend these concerns to developing countries shows a particularly narrow vision which is out of step with economic globalization.

At the same time, by demanding market access for the sectors which are growing, the developed countries hope to catapult the advantage that they already have—the first-mover advantage—into a longer-term advantage. For that very reason, were such a strategy accepted, it would inhibit the development transformation of the poorer countries, making it all the more difficult for them to move from traditional products to become effective competitors with the more developed countries.

The chapters which follow present pro-development priorities that should form the core of the Doha Round agreements. Much of the recent discussion has focused on agriculture, but there is much more to a true Development Round. Primary attention should be given to market access for goods produced by developing countries. There is an urgent need to reduce protection on labor-intensive

⁹ But note that most of the progress in trade negotiations during the past half century has focused around liberalization of manufacturing (other than textiles)—the goods that are of diminishing importance to the advanced industrial countries but of increasing importance to middle-income developing countries. There is a certain irony: while the United States and Europe may have thought that they were negotiating trade agreements that were of most benefit to themselves, in fact they negotiated a global trading regime that, if it is fairly implemented (and setting the non-tariff barriers aside), is likely in the future to be of most benefit to China and other middle-income developing countries.

PRIORITIES FOR A DEVELOPMENT ROUND

111

manufactures (textiles and food processing), and on unskilled services (maritime and construction services). Priority should also be given to the development of schemes to increase labor mobility—particularly the facilitation of temporary migration for unskilled workers. As tariff barriers have come down, developed countries have increasingly resorted to non-tariff barriers as one remaining protectionist instrument. These need to be circumscribed. The proposals are motivated by empirical analysis of the gains and costs of liberalization. For ease of exposition the analysis of this evidence is presented separately in Appendices 1 and 2 and a summary of some of our conclusions is briefly set forth in Table 7.1.

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Table 7.1. Development Issues in the Doha Round

Issues	Context for developing Countries	Doha: commitments made and subsequent progress	Agenda for a true Development Round
Labor migration and unskilled labor-intensive services	<p>More important than capital flows, especially for developing countries.</p> <p>Liberalization of services has hitherto focused on skilled intensive services.</p> <p>Migration discussion has focused on the movement of high-skill rather than low-skill workers.</p>	<p>Largely ignored at Doha and little progress since. WTO members are currently submitting proposals regarding both the structure and the contents of the new negotiations—the vast majority of proposals concern the liberalization of skilled labor-intensive services.</p>	<p>Development of provisions for temporary movement of unskilled workers and the facilitation of remittance flows.</p> <p>Priority to the liberalization of unskilled labor-intensive services.</p>
Agriculture	<p>Huge developed-country subsidies and protection.</p> <p>Since Uruguay Round, subsidies increased rather than reduced.</p> <p>Uruguay Round created a distinction between trade-distorting and non-trade-distorting subsidies; allegedly non-trade-distorting subsidies still hurt developing countries.</p>	<p>Clear expectation at Doha that protection would be reduced.</p> <p>Since Doha, EU and US have offered to reduce export subsidies, but little progress in eliminating production subsidies.</p> <p>Preliminary ruling against US cotton subsidies weakens US bargaining position.</p>	<p>Eliminate production as well as export subsidies, focusing first on commodities whose benefits to producers far exceed costs to consumers.</p> <p>Provide assistance to consuming nations.</p> <p>In interim allow countervailing duties.</p>
Industrial goods	<p>Existing tariff structures (including tariff peaks) discriminate against the goods of interest to developing countries.</p> <p>Tariff escalation (higher tariffs on processed and semi-processed goods) restricts industrial diversification in developing countries.</p>	<p>Doha committed nations to reducing tariffs 'in particular on products of export interest to developing countries'.</p> <p>Recommitment to same principles in 2004, but little concrete progress on modalities.</p>	<p>Eliminate all tariffs against least developed countries.</p> <p>Eliminate tariff peaks and tariff escalation.</p> <p>Reduce tariffs on industries where developing countries have natural comparative advantage: labor-intensive goods and agricultural processing.</p>
Non-tariff barriers	<p>As tariffs have been reduced, developed countries have put increasing reliance on non-tariff protectionist measures; implementation</p>	<p>Doha referred to competition issues of interest to developed countries, but made little reference to concerns of developing countries.</p>	<p>Eliminate dumping duties—establish a single fair competition regime for domestic and foreign producers.</p>

<p>Development box</p>	<p>discriminates especially against developing countries.</p> <p>Increasing use by both developed and less developed countries represents threat to liberalized trade regime.</p> <p>Developing countries' attempts to use domestic policies to promote development should not be circumscribed by the WTO.</p>	<p>US has used safeguard measures on steel, but rejected by adverse WTO ruling.</p> <p>The Doha Declaration recognized the need for 'Special and Differential' treatment (STD) of developing countries.</p> <p>However, STD as currently envisaged amounts to little more than longer implementation periods and some broader exemptions for the poorest nations.</p>	<p>Ensure that developing countries can subsidize infant industries and offset high interest rates without countervailing duties.</p> <p>Developing countries to use measures that are in their development interests even if proscribed for developed countries—particularly actions to protect poor farmers.</p> <p>Ensure food security.</p>
<p>Intellectual property</p>	<p>Access to advanced technology important for development.</p> <p>Lack of access to life-saving drugs, jeopardizing lives.</p> <p>Biopiracy—western companies patenting traditional foods and medicines.</p>	<p>Doha promised a more balanced intellectual property regime, with special attention to health issues.</p> <p>Some progress on compulsory licensing, but problems remain.</p> <p>Little progress on biodiversity and other issues.</p> <p>Bilateral agreements restrict access to generic drugs, showing lack of concern for welfare of developing countries.</p>	<p>Pro-generic-drug policy.</p> <p>Compulsory licensing for any life-saving medicine.</p> <p>Higher novelty standards and more restrictions on scope, especially in relationship to threatened bio-piracy.</p>
<p>Restrictions on tax concessions</p>	<p>Developing countries compete with tax concessions to attract foreign businesses; net beneficiary is international businesses.</p>	<p>Not addressed.</p>	<p>Increased transparency of subsidies to foreign firms.</p> <p>Restriction of tax concessions.</p>
<p>Arms sales and corruption</p>	<p>Have major deleterious effect on development.</p>	<p>Not addressed.</p>	<p>Prohibition of arms sales.</p> <p>Criminalization of bribery; allowing tax deduction only for royalty payments that are 'published'.</p>

Table 7.1. *continued*

Issues	Context for developing Countries	Doha: commitments made and subsequent progress	Agenda for a true Development Round
Dispute resolution and fairer mechanisms for enforcement	Dispute system favors rich countries and is under-utilized by developing countries. Asymmetries in enforcement: trade sanctions by small developing country unlikely to have major effect.	Not on agenda.	Elimination of secret bank accounts. Commitment to repatriate corrupt funds. Multilateral enforcement. Monetization of sanctions (auctioning off right to sanction). Expansion of technical assistance to ensure that developing countries have access to equal protection under the WTO's dispute settlement system.
Extension of unilateral disarmament	Cost to developed countries of opening markets would be small; benefits to developing countries would be large.	Doha recognized principle of special and differential treatment recognized. Europe has already adopted Everything but Arms initiative, although rules of origin limit benefit. US has adopted AGOA for poorest African countries.	Extend to more countries and eliminate restrictions which limit its impact.
Institutional reforms	Bargaining process lacks fairness, disadvantages the poor, and is undemocratic. Impacts on developing countries are never assessed before adoption.	Doha hinted at reforms to processes. Since then there has been slight progress in transparency.	Replacement of 'green room' procedures by 'principle of representativeness'. More openness and transparency. Creation of evaluation/research unit to assess impacts of proposals, as well as bilateral and regional agreements to determine whether they 'create' or 'divert' trade.