Initiative *for* **Policy Dialogue**

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Introduction: The Story so Far

In November of 2001, trade ministers from 140 nations gathered in Doha, Qatar, to seek to give the World Trade Organization (WTO) a historic new mandate. The WTO's previous ministerial meeting in Seattle, USA, in 1999 had ended in failure and brought protests and violence to the city. Now they were meeting in the midst of a global recession, just two months after the shocking attacks on the United States of 11 September 2001. On the evening of 14 November, after several days of negotiations, and more than 18 hours after their original deadline, the ministers announced that they had reached a landmark agreement to launch a new round of trade talks. The agreement—the Doha Declaration—outlined a framework for a wide-ranging new round of multilateral negotiations. The top US trade negotiator, Robert Zoellick, was jubilant. 'We have sent a powerful signal to the world,' he said, adding that a new trade round would deliver 'growth, development and prosperity'.[1] Zoellick's claim that a new round of trade liberalization would deliver prosperity to the world was plausible, but he was perhaps too optimistic about the ensuing negotiations.

The purpose of this book is to describe how trade policies can be designed in developed and developing countries with a view to integrating developing countries into the world trading system and to help them to benefit from their participation. This book starts from the presumption that trade can be a positive force for development.

[1] Quoted in 'Seeds Sown for Future Growth', *The Economist*, 15 Nov. 2001.

In the right circumstances, policies which reduce tariffs and other barriers to the movement of goods and services can facilitate trade between nations and deliver welfare gains. However, we also point out that while increased trading opportunities are good for developing countries, liberalization needs to be managed carefully—the task is much more complex than the simple prescriptions of the Washington Consensus, which blithely exhorts developing countries to liberalize their markets rapidly and indiscriminately.[2]

In the run-up to the Doha meeting, the expectations of the developing country members of the WTO had been tempered by negative experiences from previous rounds of trade negotiations. Many developing countries had feared that the large industrialized countries would use their superior bargaining power to force through agreements which would disadvantage the developing countries. These fears seemed to be realized in the Uruguay Round. After the round was completed and an agreement had been signed, developing countries felt that they had not been fully aware of the cost of the obligations they had agreed to, and they felt that the liberalization in developed countries had fallen short of their expectations. Developing countries gained less than they had hoped on such issues as the speed with which textile protection would be reduced and the extent of tariff and subsidy reduction on agricultural goods in developed countries. The developed countries walked away from Uruguay with a large share of the gains, and many developed countries were predicted to be left worse off as a result of the round. After the Uruguay Round, many developing countries were reluctant to embark upon a new round of trade negotiations which might lead to another imbalanced agreement.

However, at the turn of the millennium there was renewed optimism. A new global consensus seemed to be developing to confront the economic challenges faced by the poorest nations which gained prominence in international affairs through a series of new initiatives. In trade, the Cotonou Agreement, led by the European Union, and

[2] The Washington Consensus is a set of policies believed by some economists to be the formula for promoting economic growth in developing countries. These policies include privatization, fiscal discipline, trade liberalization, and deregulation. In the 1990s these policies were vigorously advocated by several powerful economic institutions located in Washington, including the International Monetary Fund, the World Bank, and the US Treasury.

the US African Growth and Opportunity Act (AGOA) granted exporters from the poorest countries in the world free access to the richest markets in the world. At the same time, grassroots movements—including the worldwide Jubilee 2000 campaign devoted to debt cancellation for the poorest countries and the World Social Forum—gained unprecedented publicity and momentum for their causes. In addition, world leaders signed landmark treaties which placed the plight of poor countries at the heart of the global agenda. At the United Nations Millennium Summit in New York in September 2000, world leaders adopted the Millennium Development Goals (MDGs);[3] at the International Conference on Financing for Development, held in Monterrey, Mexico in March 2002, the advanced industrial countries committed themselves to helping provide the finance for development priorities of poor countries; and the Johannesburg Summit on Sustainable Development in September 2002 established an action plan to ensure sustainable global development.

The WTO conference at Doha reflected the new determination to address development problems collectively in multilateral forums. It was a hopeful milestone for developing nations and they emerged from it with some optimism. Several of their concerns were incorporated into the agreement made at Doha, which explicitly focused on the promotion of economic development and the alleviation of poverty in poor countries. This 'Doha Round'—the ninth of a series of such negotiations, and the first since the formalization of trade negotiations under the WTO[4]—came to be commonly referred to as the 'Development Round'.

Unfortunately, in the years since it was launched, the Doha Round has not delivered on its development mandate in several important respects. First, there has been little progress on the issues of interest to developing countries. In particular, developing countries are interested in agreements to reduce tariffs on the goods that they can

[3] The Millennium Development Goals are the United Nations targets for reducing poverty, hunger, disease, illiteracy, environmental degradation, and discrimination against women by 2015. The targets address extreme poverty in its many dimensions—income poverty, hunger, disease, lack of adequate shelter, and exclusion—while promoting gender equality, education, and environmental sustainability. They are also basic human rights—the rights of each person on the planet to health, education, shelter, and security.

[4] The first round, held in Geneva in 1947, resulted in the General Agreement on Tariffs and Trade (GATT), which was formally replaced by the WTO in 1995.

export competitively. These are mainly labor-intensive goods, i.e. goods that are produced cheaply in countries with low wage rates and abundant unskilled labor.

A second problem with the so-called 'Development Round' is that the new issues that were initially put on the agenda primarily reflect the interests of the advanced industrial countries and have been strongly opposed by many developing countries. The most prominent new issues in the Doha Round emerged from the decision by WTO member countries at the 1996 Singapore Ministerial Conference to establish three new working groups: on trade and investment, on competition policy, and on transparency in government procurement. They also instructed the WTO Goods Council to consider ways of simplifying trade procedures, an issue sometimes known as 'trade facilitation'. Because these four issues were introduced to the agenda at the Singapore ministerial meeting, they are often called the 'Singapore Issues'. These issues have been opposed by developing countries, who are skeptical of new multilateral obligations which could restrict existing developmental domestic policy options and which might require large implementation costs.

Less than two years after the Doha Declaration, it had become clear that the Round was seriously off track. In September 2003, the WTO convened another ministerial meeting in Cancún, Mexico, with the special task to 'take stock of progress in the [Doha Development Agenda] negotiations, provide any necessary political guidance and take decisions as necessary'.[5] After four days the meeting ended abruptly without agreement on any of the main issues. The apparently irreconcilable conflict between developed and developing countries which produced failure at Cancún led to calls for a reassessment of the direction of global trade negotiations. Many of the participants in the Cancún meeting felt that Europe and the United States had reneged on the promises that had been made at Doha, emblematized by the lack of progress on agriculture.

There were mutual recriminations about who was to blame for the failure at Cancún. There was even disagreement about who would

[5] This is spelt out in para. 45 of the declaration that ministers issued at the previous ministerial conference in Doha in November 2001.

suffer the most. The United States and Europe were quick to assert that it was the developing countries who were the ultimate losers.[6] But many developing countries had taken the view that no agreement was better than a bad agreement, and that the Doha Round was rushing headlong (if any trade agreement can be described as 'rushing') into one which, rather than redressing the imbalances of the past, would actually make them worse. Though *some* progress had been made in addressing the concerns about the manner in which the negotiations were conducted, the failure to address these concerns fully[7] generated the further worry that the developing countries would, somehow, be strong-armed in the end into an agreement that was disadvantageous to them. There were also threats, especially by the United States, that it would effectively abandon the multilateral approach, taking up a bilateral approach. It differentiated between the 'can do' countries and others, and suggested that the 'can do' countries would benefit from a series of bilateral agreements. The smaller developing countries recognized that in these bilateral discussions their bargaining position was even weaker than it was in the multilateral setting. Several of the bilateral trade agreements made since Cancún have shown that these worries were justified. On the other hand, the United States has not succeeded in establishing a bilateral trade agreement with any major developing country.

This book takes a step back from these disputes. It attempts to support progress in the current round by asking what a true Development Round of trade negotiations would look like, one that reflects the interests and concerns of the developing countries and is designed to promote their development. What would an agreement based on principles of economic analysis and social justice—not on economic power and special interests—look like? Our analysis concludes that the agenda would look markedly different from that which has been at the center of discussions for the past

[6] See the op-eds in *The Financial Times* and the *New York Times* e.g. Robert B. Zoellick, 'America Will Not Wait for the Won't-Do Countries', *The Financial Times*, 22, Sept. 2003, 23.

[7] Most notable in this regard was the request by a number of developing countries that the Cancún draft be prepared on the basis of views and inputs at open-ended consultations, and where there was no consensus, to indicate clearly the differing positions or views. The proposal was rejected by a coalition of developed countries.

two years, and that the fears of the developing countries that the Doha Round of trade negotiations would disadvantage them (were the demands of the developed countries acceded to) were in fact justified.

In Chapter 2 we describe the conceptual foundations for the policy proposals in this book, starting with the theoretical proposition that trade liberalization is, in general, welfare-enhancing. We then show that for some countries, particularly the least developed countries, the assumptions on which this proposition is based are not entirely applicable. The problems of poverty, inequality, and incomplete risk and capital markets lead the experience of these countries to diverge from the predictions of the simple neo-classical models. These problems cause the experience of liberalization to vary across countries depending on their individual characteristics. There is a difference between trade openness (the state of having low barriers to imports) and trade liberalization (the process of reducing those barriers). Trade liberalization is supposed to deliver gains as resources are transferred from protected sectors, in which a country does not have comparative advantage, to those sectors where it is more efficient and where it can export more successfully. But in developing countries the lack of resources (labor and other production inputs) available to new industries is not usually the constraint which prevents the growth of new export sectors.[8] Developing countries have vast reserves of resources, particularly labor, which are already unemployed or underemployed. Thus trade liberalization is not required to 'free up' these resources for use in new industries. Unless complementary policies are used to ease the other constraints which prevent the advancement of export sectors, liberalization, by removing the protection given to domestic industries, may just leave the workers and other resources used in formerly protected industries idle in the short run.

Chapter 3 addresses the need for a Development Round. It examines some elements of the experience of developing countries in previous trade negotiations and briefly reviews some of the potential gains available from further liberalization. Chapter 4 is a brief review

[8] Other constraints on the ability of developing countries to develop successful export industries might include technological backwardness, workforces too small to generate economies of scale, high trade and transport costs, poor infrastructure, weak government institutions, and a lack of skilled labor.

of the Doha Round so far, and the extent to which it has lived up to the expectations of developing countries. It makes clear that there is a huge discrepancy between the Development Round trade agenda, both as it was formulated at Doha and as it has evolved since, and a *true* Development Round agenda that would do much more to integrate the developing countries into the world trading system and to remove the barriers which curtail the benefits they receive from their participation. Such an agenda would promote growth in developing countries and work to reduce the huge disparity that separates them from the more advanced industrial countries.

Chapter 5 outlines our proposals for the principles that should be adopted in a Development Round of trade negotiations. The primary principle of the Doha Round must be to ensure that the agreements promote development in poor countries. To make this principle operational the WTO needs to foster a culture of robust economic analysis to identify pro-development proposals and promote them to the top of the agenda. In practice this means establishing a source of impartial and publicly available analysis of the effects of different initiatives on different countries and groups within countries. This should be a core responsibility of an expanded WTO Secretariat. On the basis of this analysis, any agreement that differentially hurts developing countries or provides disproportionate benefits to developed countries should be presumptively viewed as unfair and as being against the spirit of the Development Round.

The agreements must enshrine both *de jure* and *de facto* fairness. This means ensuring that developing countries are not prevented from unlocking the benefits of free trade because of a lack of institutional capacity. In this regard, developing countries will require special assistance to enable them to participate equally in the WTO.

The principle of fairness should also be sensitive to countries' initial conditions. Chapter 6 discusses special treatment for developing countries which is needed to recognize that adjustment to new trading rules involves particularly high costs for those developing countries whose institutions are weakest and whose populations are most vulnerable. Prescriptive multilateral agreements must not be allowed to run roughshod over national strategies to deal with idiosyncratic development problems.

Chapters 7–10 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 manufactures (textiles and food processing) and 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; these need to be circumscribed. The proposals in these chapters 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. Chapter 11 considers the terms on which non-members are able to accede to the WTO.

Chapter 12 takes a brief look at some institutional reforms that might facilitate a more transparent and democratic negotiating process, and ones which might more likely result in agreements that are both fair and in the general interests of the world. A fair agreement is unlikely to be produced through an unfair process. In particular, greater transparency and openness are required to create a more inclusive bargaining process.

Chapter 13 considers the potentially costly process of adjustment to the kind of new trading regime envisioned in this book. In one sense, adjustment costs can be thought of as the price to be paid for the benefits of multilateral trade liberalization. It is these adjustment costs together with the trade benefits that determine the net effect of trade reform for each country. The Doha Round has placed renewed emphasis on the importance of sharing the *benefits* of trade reform fairly among developed and developing countries. However, there has been less attention to the distribution of adjustment costs among countries. The fact that implementation and adjustment costs are likely to be larger in developing countries, unemployment rates are likely to be higher, safety nets weaker, and risk markets poorer, are all facts that have to be taken into account in trade negotiations.

For some of the smallest and poorest states, the adjustment costs of trade liberalization may significantly outweigh the benefits available.

If the Development Round is to bring widespread benefits to people living in developing countries—and if there is to be widespread support for the continuing agenda for trade reform and liberalization—the developed world must make a stronger commitment than it has in the past to giving assistance to the developing world. Assistance is required not only to help bear the often large costs associated with trade reform, but also to enable developing countries to avail themselves of the new opportunities provided by a more integrated global economy.