It Is Time for a True Development Trade Round

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Following the failure of the World Trade Organisation talks in Canc�n last September, there were mutual recriminations: the developing countries blamed the developed for reneging on the promises made at Doha that this would be a development round, aimed at redressing the inequities of earlier rounds of trade negotiations. The US blamed Europe and the countries which believed that a new trade agreement between the developed and less developed nations could be forged.

The Commonwealth decided to take a more constructive tack: rather than finger pointing, it would attempt to assess what a true development round would look like, one in which the agenda was set reflecting the development priorities of the less developed countries, and what kind of assistance would be required if these countries were to avail themselves of the new opportunities. They called upon me and the Initiative for Policy Dialogue, a global network of economists committed to promoting development based at Columbia University.

The report, issued on Monday by the Commonwealth in London and co-authored with Andrew Charlton of Oxford, comes down soundly on the side of the developing countries. It is wrong to characterise the Doha agenda, especially as it has evolved over the past two years, as a development round. Recent negotiations have not only failed to push an agenda that would promote development; they have included a host of issues that are of tangential interest, or even detrimental, to developing countries.

To take one example: as services have comprised an increasing share of developed economies' gross domestic product (in the US they exceed 60 per cent), it was inevitable that service-sector liberalisation would become a focus of attention. But with the advanced industrial countries setting the agenda, it was also inevitable that those service sectors that are their strength, such as the financial services sector, would be liberalised first. The US, sometimes joined by other advanced industrial countries, has discussed capital market liberalisation extensively, but global efficiency would be increased far more by even a modest liberalisation of migration of unskilled labour services - and the developing countries would benefit far more. This is still not on the agenda.

One of the new so-called Singapore issues was competition. Unless there are competitive markets, there is the risk that lower tariffs will simply be converted into higher profits for monopolists. Thus, initially, I welcomed the effort to discuss competition. But the main issue for developing countries is the double standard of the north (as the advanced industrial countries are sometimes called). For instance, the standards the US uses against foreign companies for unfair trade and dumping (selling goods below cost) would never be accepted by its own antitrust authorities.

Much attention has been focused on agriculture; the north has demanded the south open up its markets and eliminate subsidies on its products, while itself maintaining huge subsidies and closing markets. The developing countries understood the advanced industrial countries to have promised to cut their agricultural subsidies; the US has doubled its subsidies.

But as this report makes clear, agriculture is just the tip of the iceberg. There is an urgent need also to reduce protection on labour-intensive manufacturing and unskilled services such as maritime and construction services. Priority should also be given to developing increased labour mobility - particularly the facilitation of temporary migration for unskilled workers.

Significant change in the outcomes of multilateral trade agreements must be supported by institutional reforms. Greater transparency and openness is required to create a more inclusive bargaining process and end secretive talks among cliques chosen by the US or other advanced countries in the "green room" at the General Agreement on Tariffs and Trade's headquarters.

A successful development round will be defined partly by how it is implemented. Trade reform can be costly, especially for developing countries with scarce funds and weak institutional structures. The adjustment costs can be thought of as the price to be paid for the benefits of multilateral trade liberalisation. It is these costs and the trade benefits that determine the net effect of trade reform for each country. If the development round is to bring widespread benefits the developed world must make a stronger commitment than it has in the past to help the developing world not only to bear the costs, but also to avail itself of the opportunities provided by a more integrated global economy.

The disparity between a true development agenda and what has evolved since Doha is glaring. There is a growing consensus that "no agreement is better than a bad agreement"; this report puts economic weight behind developing countries' scepticism.

It is not too late. The world has much to gain from a true development round. But this will require major changes in the negotiating positions of the north. The report lays out a framework of priorities for how this may be done.