Two Principles for the Next Round or, How to Bring Developing Countries in from the Cold

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1. INTRODUCTION

THE November 1999 WTO Ministerial meeting in Seattle was expected to usher in a new Round of negotiations, the ninth in a series that began in Geneva in 1947. Although WTO members proved unable to launch a Round, efforts will continue in 2000 to develop a negotiating agenda. In this paper I want to reinforce the call of the WTO's Director-General, Mr. Moore, for the next set of negotiations to be a 'development round.' Basic notions of equity and a sense of fair play require that the next Round reflect developing country interests and concerns more than was the case in earlier Rounds. Seattle demonstrated that without greater balance the success of future negotiations will be imperiled. Dissatisfaction by developing countries regarding the extent to which their interests were reflected was a factor leading to the failure of the Ministerial meeting.

The stakes are high. There is a growing gap between the developed and the less developed countries, highlighted in this year's World Development Report (World Bank, 1999). The international community is doing too little to narrow this gap: aid per capita to the developing world has fallen by nearly a third in the 1990s.[1] Too often, cuts in aid budgets are accompanied by the slogan 'trade, not aid,' exhortations for the developing world to participate fully in the global marketplace, and lectures about how government subsidies and protectionism distort prices and impede growth. All too often there is a hollow ring to these exhortations. As developing countries take steps to open their economies and

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[1] The figure was US$32.27 in aid per developing-country resident in 1990, but only US$22.41 in 1997 (World Bank Statistical Information and Management Analysis database).

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expand their exports, in too many sectors they find themselves confronting significant trade barriers (anti-dumping, high tariffs in sectors of natural comparative advantage, like agriculture or clothing) – leaving them, in effect, with neither aid nor trade. In these circumstances, it is not surprising that critics of liberalisation within the developing world quickly raise cries of hypocrisy.

Trade liberalisation will undoubtedly be of benefit to developing countries and the world more generally. But trade liberalisation must be balanced in agenda, process, and outcomes, including not only sectors in which developed countries have a comparative advantage, like financial services, but also those in which developing countries have a special interest, like agriculture and construction services. Account must be taken of the marked disadvantage that developing countries have in participating meaningfully in negotiations. Fifteen Sub-Saharan African WTO members have no trade representative at WTO headquarters in Geneva, as opposed to the WTO average of five staff per mission (Blackhurst, Lyakurwa and Oyejide, 1999). Developing countries face greater volatility, and opening to trade contributes to that volatility; they have weak or non-existent safety nets; and often confront persistent problems of high unemployment. The playing field is not level. Thus, provisions that look fair on the surface may have very different and unequal consequences for developed and less developed countries. The power imbalances at the bargaining table are exacerbated by the imbalance of consequences.

2. TRADE LIBERALISATION: A DEVELOPING COUNTRY PERSPECTIVE

I have argued elsewhere that true development entails a transformation of society (Stiglitz, 1998). For poorer countries especially, excessive protection shields local residents from a key transformation mechanism. Poor countries simply cannot afford the costs of inefficient resource allocation and the reduction of outside flows of investment and ideas resulting from protection. Yet it is also true that in democratic developing countries, governments have to persuade their citizens of the virtues of liberalisation, and there are always demagogues ready to exploit worries about liberalisation – just as there are in more advanced countries. And more developed countries – through both their rhetoric and their actions – have too often failed to be helpful to those genuinely committed to the cause of liberalisation in developing countries. Although they preach the virtues of openness, strong protectionist measures are frequently imposed. What are developing countries to make of the rhetoric in favour of rapid liberalisation, when rich countries with full employment and strong safety nets argue that they need to impose protective measures to help those adversely affected by trade? Or when rich countries play down the political pressures within developing countries – insisting that their polities

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'face up to the hard choices' – while excusing their own trade barriers and agricultural subsidies by citing 'political pressures'?

Nowhere is this hypocrisy greater than in the invocation of anti-dumping and countervailing duties. I remember clearly the conversations I had in 1993 with the first deputy prime minister of Russia, as the United States was threatening to invoke dumping duties on Russia's exports of aluminium. He knew, and I knew, and he *knew* that I knew that Russia was not dumping – at least in the sense that any economist would use that term. We both knew that the dumping laws are not based on principles of fair competition; if that was their intention, there would be no problem with harmonising those laws with competition laws. The alleged objective of dumping laws is to prevent predatory pricing, which is already an offence under competition laws. But the criteria for predation under competition laws, which are based on sound economic principles, are far more stringent than those specified under anti-dumping laws. Indeed, according to one calculation made a few years ago, if the standards used under the dumping laws were applied domestically, 18 of the 20 top Fortune 500 firms in the United States could be accused of dumping (Thurow, 1985)! And the resolution of the 'problem' – what amounted to the establishment of an international aluminium cartel *under the auspices of the governments of the advanced market economies* – did little to convince sceptics of the market that anyone truly believed in the competitive marketplace.

To many in the developing world, trade policy in the more advanced countries seems to be more a matter of self-interest than of general principle. When good economic analysis works in favour of self-interest, it is invoked; but when it does not, so much the worse for economic principles. Several recent events have reinforced this impression. Consider the crisis in East Asia. The conditions imposed through the rescue packages included trade liberalisation measures that were unrelated to the crisis (Feldstein, 1998). To many, it seemed simply that those who wanted to force market-opening measures had seized on an opportune time to make use of their temporary power. Subsequent events strengthened the view that market-opening measures were not always advocated with the crisis countries' best interests at heart. As the crisis economies weakened further and excess capacity proliferated, natural market adjustments led to a decline in the prices of a number of commodities, including oil and steel. In capital-intensive industries where short-run marginal costs lie far below long-run marginal costs, this drop in prices can be quite large. This is part of the market-equilibrating forces; it is not dumping, and should not be interpreted as such. Yet, the dumping laws have been invoked in the case of steel.

Sometimes, as I look back at the years I spent at the White House, I think of how much time was spent managing trade issues – from Chinese honey, to Mexican tomatoes and avocados, to agricultural export subsidies provided under the 'Export Enhancement Programme'. Although these cases occupied much of

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our time and represented the most egregious cases of special-interest politics, they also represented but a small fraction of GDP. That we were able to turn back some protectionist appeals, that we discouraged others from even attempting to get special favours, that apart from aluminium, there was no major expansion of protectionism in a span of four years, gave me some comfort. Yet, I also knew that I should not take too much comfort from this: after all, throughout this period, the United States was enjoying a major economic expansion and unemployment was declining steadily. I worried that protectionist sentiment would soar, and the effectiveness of protectionist measures like anti-dumping appeals would increase, during the next recession – just as it had during the last major recession in the early 1980s. At that time, by one account, non-tariff measures covered two-fifths of all US imports (Nogués, Olechowski and Winters, 1986).

Standard economic analysis argues that trade liberalisation – even unilateral opening of markets – benefits a country: job loss in one sector will be offset by job creation in another, and the new jobs will be higher-productivity than the old. This economic logic requires markets to be working well, however, and in many countries, underdevelopment is an inherent reflection of poorly functioning markets. Thus new jobs are not created, or not created automatically. Moving workers from a low-productivity sector to unemployment does not – let me repeat, does not – increase output. A variety of factors contribute to the failure of jobs to be created, from government regulations, to rigidities in labour markets, to lack of access to capital. But whatever the causes, they have to be addressed simultaneously if we are to make a convincing case for trade liberalisation.

There are some sectors of the economy where the standard competitive paradigm does not work well even in developed countries, let alone developing countries. A stark lesson of the recent East Asia crisis is that weak financial institutions can wreak havoc on an economy, and that strong financial institutions require strong government regulation. But the increased frequency and depth of financial crises in recent years – with close to a hundred countries suffering through such crises over the past quarter-century[2] – shows how hard it is to establish strong financial institutions, even in developed countries. It also demonstrates that liberalisation – including financial sector liberalisation – without the requisite accompanying improvements in regulation and supervision can contribute to financial-sector instability. Such instability has exacted great costs in terms of growth, deepening poverty in the crisis countries.

[2] Sixty-nine countries faced severe banking crises between 1977 and 1995. See also World Bank (1999).

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3. THE TWO BASIC PRINCIPLES

There are two basic principles that should govern the next set of trade negotiations: ***fairness***, and especially fairness to the developing countries, and ***comprehensiveness*** (the need to include issues that are important to developing countries). Adherence to these principles could hold open the promise of a more liberal, and more equitable trading regime. While participants in previous Rounds have often paid lip service to these principles, they have been honoured mostly in the breach. Future adherence to these principles is, in my mind, absolutely essential for the success of the next Round, and in particular if the developing countries are to become full partners in the process of trade liberalisation.

At first blush, one might ask, how can one object to either principle? Yet closer examination raises doubts about the extent to which previous Rounds have embodied these principles. The Uruguay and previous Rounds focused heavily on liberalising tariffs on manufacturing. They did little to reduce protection in agriculture, a sector in which many developing countries have a comparative advantage.[3] The agricultural liberalisation that occurred was driven largely by the interests of developed exporters such as the United States and Australia, and developing country exporters in the Cairns group. Exporters of tropical products did not play an active role in the design of the agricultural liberalisation agenda. Tariffication of agricultural quotas during the Uruguay Round has left tariffs very high. In advanced industrial economies, the production-weighted average nominal rate of trade assistance to agriculture is 33 per cent – compared with a mere two per cent for other primary and manufacturing industries (Anderson, Hoekman and Strutt, 1999)! Protection to OECD agriculture actually rose, from 32 per cent in 1997 to 37 per cent in 1998 (OECD, 1999). It is understandable if agricultural exporters wonder whether previous Rounds had their best interests at heart.

Moving ahead on agriculture in the next Round would have big payoffs. Abolition of agricultural export subsidies and achievement of sharp cuts in import tariffs would benefit most developing countries. A 40 per cent reduction in agricultural support policies globally would contribute almost exactly the same amount to global welfare as a 40 per cent cut in manufacturing tariffs (Hertel and Martin, 1999). This reflects the huge size of distortions in agriculture relative to manufacturing, despite the fact that manufacturing value added is two-and-a-half times that of agriculture globally.

[3] While agricultural liberalisation was undermined by 'dirty tariffication', there was progress in some important cases, such as the reduction in protection in the Japanese markets for wheat, coarse grains and sugar. See Ingco (1996, pp. 444–45).

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a. Comprehensiveness, Fairness and Political Success

If trade liberalisation is to survive the political process, it must have clear advocates – those who see themselves as gaining from the multilateral Rounds. Only if there are significant gainers will liberalisation initiatives muster sufficient support. One can see this dynamic play out even in countries seemingly committed to market processes, like the United States. In the intense political battle to get NAFTA and the Uruguay Round ratified, the export industries that benefited from increased market access played a pivotal role. If, by contrast, the trade negotiations are viewed as unfair, then it is not just populist demagogues who will seize upon this unfairness as an excuse for resisting liberalisation, possibly setting back attempts to implement broader-based market reforms as well. The concepts of comprehensiveness and fairness are closely related. Only if the negotiations are sufficiently comprehensive to include the interests of developing countries, and their exporters, is there likely to be success. There are several important dimensions of comprehensiveness.

(i) Sectoral comprehensiveness

Comprehensive negotiations, as opposed to negotiations focusing on a limited number of sectors, provide much more scope for designing policies that will compensate at least countries, and potentially even groups within countries, by including additional items that provide compensation to those who would otherwise lose. Consider France in the Uruguay Round. While many French policy makers thought of themselves as losing from the restraints on farm subsidies included in the Round, they recognised the potential gains to their exporters of services from liberalising trade in services. For the new negotiations to be a success from a developing country perspective it is vital that developing countries be able to identify their objectives in areas such as services, and to pursue them actively.

Recent World Bank research highlights a surprising advantage of a comprehensive approach to future negotiations. Since the built-in agenda for the negotiations includes agriculture and services, one of the primary questions will be whether to include industrial products – an issue that would typically be assumed to be of primary interest to developed countries. However, this should no longer be the case. Manufactures exports now make up over 70 per cent of the exports of developing countries, and seem poised to rise close to 80 per cent by 2005 (Hertel and Martin, 1999). This raises the clear possibility that the developing countries will actually be the predominant beneficiaries of the inclusion of manufacturing in the negotiations – though of course, whether they are depends on the particular manufactured commodities that are included.

Many observers view with great concern the alternative to a new Round of trade negotiations – the sector-by-sector approach. It is not only that progress is

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likely to be slower under this approach, but also that any successful sectoral liberalisation may actually impede further success in the next multilateral Round. Those who succeed in getting the trade liberalisation measures that they need (like information technology) cease being as potent a force for trade liberalisation as they might otherwise be. With less 'money' on the table for potential exporters, making a deal in other sectors becomes all the more difficult. After they have already cherry-picked their favoured sectors, what can the United States or European governments hope to gain in compensation for the political costs of liberalising the agricultural sector?

(ii) Special interests

There is a certain irony in the way that trade negotiations have typically proceeded. One might have thought that each country would promote liberalisation in those sectors where it had the most to gain from a societal perspective; and similarly, that it would be most willing to give up protectionism in those sectors where protection was costing the most. But political logic prevails over economic logic: after all, if economic logic dominated, countries would engage in trade liberalisation on their own. High levels of protection in a sector are usually indicative of strong political forces, and so these higher barriers may be the last to give way. By the same token, market access initiatives are not determined primarily by considerations of the national interest, but by special interests. When I was at the Council of Economic Advisers, there was an attempt to do it the right way, to ask questions like 'What trade-opening measures would have the largest effect on US income, and which should be given the highest priority, taking also into account our concern with distribution?' But such a strategy based on economic logic would have pushed off the trade agenda many items that were of great interest to special-interest groups, but of little value (and, in some cases, from a broader perspective, arguably of negative value) to the country as a whole. In this context, it should not come as a surprise that this attempt to have economic logic drive the trade agenda was quickly suppressed.

This observation has an important implication. To the extent that major industrial countries have shaped multilateral trade negotiations in the past, then the agenda has presumably reflected not so much their *national* interests, but the interests of certain domestic political forces. Comprehensive multilateral negotiations offer a possibility of taming those forces: the multiplicity of gains across sectors increases the number of potential winners, so that the process can yield an outcome that is closer to a Pareto improvement – economists' jargon for a situation where everyone is better off after the negotiations.

(iii) Liberalisation of services

Services represent an increasing share of GDP in virtually all economies. In the United States, for instance, the share of manufacturing has declined from 28

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per cent in 1960 to 18 per cent today; in the UK, from 36 per cent to 21 per cent. In both countries, the share of services has risen by an even greater amount. Even developing countries also have an increasing interest in including services, as their economies shift into those sectors (Mattoo, 1999). But services are different from manufactured goods in several salient ways – ways that make achieving fairness, especially fairness in outcome, far more difficult, and far more difficult than is generally realised. Two examples, liberalisation of financial services, and liberalisation of construction services, illustrate the challenges.

Modern financial markets are clearly important for economic efficiency, and global financial institutions play an important role in promoting global economic integration, including trade expansion. But financial markets are different from ordinary markets, where our standard theorems about the gains from trade liberalisation in the presence of competitive markets apply. The central functions of financial markets are related to the provision of information, and markets for information function differently from markets for ordinary goods and services. This fundamental difference explains why all countries accept a need for financial regulation that all agree would be totally inappropriate for the typical manufacturing sector. Indeed, the global financial crisis of the last eighteen months should have sensitised us to the downside risks of rapid liberalisation of financial markets in countries that lack the appropriate regulatory structure. If domestic banks in the liberalising country are weak, then providing an easy avenue for depositors to switch funds to a safer foreign-owned bank could spark a run on the domestic banking system. Even short of that, the additional competition may erode the franchise value of the bank, and that itself may lead to more risk-taking, or more broadly less prudential behaviour, on the part of domestic banks. Thus, even countries with reasonably good systems of bank regulation will need to tighten up and improve their financial sector regulations even as they liberalise the market more broadly.

In actuality, countries liberalising their financial systems have failed to take these precautions. Typically, these countries have not only have failed to recognise the need to do so, but instead have moved in the opposite direction, loosening their regulatory frameworks in the euphoria of liberalisation. In retrospect, it should be clear to all that in many countries the objective should not have been deregulation, but the establishment of an appropriate regulatory framework. But even with the appropriate objectives, policy makers and regulators would have found the going tough. In country after country, the new foreign entrants into the financial system have recruited away the best and most talented individuals from the government regulating agencies. Unable to compete on salaries, regulatory agencies have found themselves much weaker just at the time that they need to be strengthened. Nor should we ignore the longer-run development problems that can arise when foreign banks displace domestic banks: these foreign banks may focus their lending efforts on providing finance to

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multinationals or large national firms, but may show little interest in small and medium enterprises, which are often the engines of growth. These fears seem to have been realised in practice.

To be sure, if countries manage to strengthen their financial sector regulation as they liberalise, and if they manage to ensure that funds reach small and medium-sized enterprises and other under-served groups,[4] then financial sector liberalisation has the potential for improving the performance of this vital sector of the economy. The induced competition can be an important spur to efficiency of the sector. But there are clearly examples (Kenya, for example) where foreign entry, even in the presence of financial-sector liberalisation, has failed not only in that objective, but also in the broader objective of reducing interest-rate spreads and bringing down the rates at which funds are available to borrowers. Thus, the liberalisation of financial services in developing countries should be approached with some caution.[5]

(iv) Trade in factors of production

Another type of comprehensiveness that is important to developing countries concerns factors of production. Many developing countries today are raising a key question, perhaps somewhat rhetorically, about the scope of liberalisation: Why is it that there has been so much interest in liberalising movements in goods and in capital – issues of concern to industrial countries – but so little interest in liberalising movements of people, especially unskilled labour, the factor that is of particular interest to developing countries? The issue becomes of central importance once one starts to focus on services. If industrial-country companies are to deliver effectively services like insurance, they must be allowed to have at least some of their key personnel working in the country. Allowing some individuals to enter is thus a corollary to liberalisation of services. But developing countries have an interest in industries like construction; success in these areas may require larger numbers of somewhat less skilled workers. In both cases, the discussion is about temporary work permits, not long-term migration. What is at stake is partly a matter of equity, but there are also issues of efficiency: services and goods, flows of investment and people, are all inter-linked. Barriers in one area limit possibilities in others. That is why it would be desirable to make progress towards an investment agreement – though the agreement needs to be attentive to the concerns of the developing countries as well as the developed.

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[4] Perhaps by following and broadening the US example of lending obligations to such groups, as under the Community Reinvestment Act.

[5] The same is true in the case of liberalisation of capital flows. I would hate to see openness equated with full liberalisation of capital flows, given that premature liberalisation can have severely anti-developmental effects.

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(v) Beyond tariffs

There are many forms of non-tariff barriers to trade (NTBs), and these have multiplied in recent decades as tariff barriers have come down. This is not surprising; after all, the political forces that give rise to high tariffs do not disappear once tariffs are brought down. Rather, they must seek protection through other channels.[6] Unfortunately, these NTBs are far more pernicious than tariffs, precisely because they are so much harder to assess and quantify, and they can exact even higher costs in efficiency terms. And while previous Rounds have addressed some of these issues – through tariffication of agricultural trade barriers, for example – the problem has not gone away.

One notorious form of GATT/WTO-legal NTBs is anti-dumping (AD) duties and countervailing duties. The provisions of dumping laws do not conform to economic principles concerning fair trade, yet developing countries have learned from their more developed trading partners how to use dumping laws to protect themselves. Even as the number of anti-dumping actions initiated in developed economies fell sharply after 1993, the number of actions in developing countries tripled. Even worse, developing countries have trained the weapon of AD against each other: in 1996–97, for example, Argentina, Brazil, India, Indonesia, Korea and Peru all initiated anti-dumping actions against China (Finger, 1998). Although the US has led the way in this form of protection – so that even in 1996–97, it initiated twice as many AD cases as any other jurisdiction – in the long run, competitive and innovative countries like the United States have the most to lose from anti-dumping. Their low profit margins make them particularly vulnerable to charges of selling below 'reasonable costs,' which are assumed to include an arbitrary and sometimes very large profit margin;[7] and falling prices from innovation make it more plausible that charges of injury will be sustained.

The use of countervailing duties has raised similar concerns about non-tariff protectionism. Most economists would agree that if privatisation is carried out via a competitive auction of assets, then the purchaser has not been subsidised. That is, he has paid full market price for the assets that he has purchased, even if the seller, the government, has lost money in the deal. Imagine that one claimed, conversely, that there was a subsidy involved simply because the government had made a mistake in the past and was now being forced to sell the asset below cost. To be consistent, one would have to hold also that a company that purchased assets from a bankrupt firm was being subsidised by the bankrupt firm, if the price it paid for assets was less than the price originally paid by the bankrupt firm. This logic, untenable though it may be, has been used to justify countervailing duties imposed against exports from the transition economies.[8]

[6] Finger (1998) refers to this phenomenon as the 'fungibility' of protection across different trade-policy instruments.

[7] Some recent cases have assumed a profit margin as high as 30 per cent.

[8] And developed economies as well: a case in point was British Steel post-privatisation.

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But problems arise not only in the anti-dumping and countervailing duty laws, but also in their implementation process, which puts developing countries at a disadvantage. The information requirements imposed on firms charged with dumping are particularly onerous for developing countries, and the default, the reliance on 'best information available' – typically meaning the information supplied by the party alleging dumping – puts developing countries at a further disadvantage. A comprehensive trade negotiation thus must deal not only with the principles underlying the laws, but also with details of their implementation.

There is a simple principle that should underlie our thinking in this area. 'Fair trade' – or as economists put it, fair competition – is important, but the principles that should guide us in assessing whether a firm is engaged in an unfair practice should be the same whether the practice occurs within a country or across borders. Recent cases have made it abundantly clear that price-fixing can occur, for instance, at the international level, just as it can occur within the borders of a country. Anti-dumping is, or should be, concerned with predatory pricing, which is a practice that can undermine the effectiveness of competition. Anti-trust laws have developed relatively clear and implementable standards for whether a given pricing structure is predatory. These are the standards that should be used for transactions that move across borders – that is, for trade. What would happen if these standards were applied? According to one recent analysis of US anti-dumping cases, in more than 90 per cent no intervention was needed to prevent predation, or to protect competition at all (Willig, 1998).

(vi) Promoting competition

Ironically, while 'fair trade' laws have encouraged protectionism under the guise of protecting competition, there has been insufficient progress in attacking competition barriers in areas where they really are important. For instance, some countries have monopoly importers. Reducing tariffs simply gives those importers scope for increasing their profits, rather than facilitating trade; so it should be clear that competition is necessary to realise the full gains from trade. Effective competition policy may also improve the workings of political processes. When competition is muffled, firms and government officials will tend to divide up economic rents – that is, the monopoly profits – in secret. But with vibrant competition, companies have an incentive to make sure rules are clearly defined and that their rivals get no unfair advantages. Competition allows the emergence of multiple important actors, promoting pluralism and ultimately also efficiency. In the international arena, lack of competition may be an important barrier to trade. It may be especially important to new entrants – and many economies in transition and developing countries are new entrants into a market. Thus, they have a strong interest in seeing these barriers broken down. Earlier, I referred to how the existing aluminium producers in the West worked together, under the umbrella of the anti-dumping duty, to limit Russia's entry into this market.

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These considerations suggest that countries should consider initiating multilateral negotiations on competition policy. I know that developing countries are far from unanimous on support of such a competition accord. This ambivalence is perfectly consistent with my earlier discussion about the political economy of trade liberalisation. Competition policy has few supporters within any country, other than economists who realise the central role it plays in making markets work perfectly. (Businesses typically believe in the virtues of competition in *other* sectors, arguing that in their own sectors, competition tends to be disruptive.) Given the lack of interest on the part of the vested interests, I am not sanguine about whether there will be any progress in this direction. Yet those of us who believe that trade liberalisation can be an effective tool for development and welfare improvement – but especially if, and in some cases only if, it is accompanied by competition – cannot let this item slip off the agenda without raising our voices.

Some observers have also raised concerns that if competition policy is treated through the WTO, it will be the market-access concerns of developed-country exporters and not those of developing-country consumers that drive competition policy in developing countries (Hoekman and Holmes, 1999). In this view, developing countries would be better off improving their competition policy frameworks unilaterally. Although these are important concerns, promotion of competition policy brings such important benefits that I believe it warrants serious consideration as part of the next Round. A further advantage, of course, is that a competition accord could reduce tolerance for the use of anti-dumping actions as a remedy for alleged predation.

(vii) New trade barriers

Developed countries have shown enormous creativity in *creating* barriers to trade – well beyond the anti-dumping laws and the ways that they are implemented. The most difficult to deal with are those that align protectionist interests with the interests of other pressure groups. Agricultural interests, for example, foment *Jurassic Park* worries about genetic engineering to keep out genetically engineered plants and animals. Of course, where agricultural subsidies are sufficiently high, any technological advance is, perversely, of doubtful value because it increases the demand for agricultural subsidies. Little wonder that opposition to genetic engineering is stronger in those countries with high agricultural protection than in agricultural exporters. The current broad-based opposition to genetically engineered products may provide another means for developed countries to restrict access for unsubsidised exports from developing countries. This is an issue, of course, that currently may be of second-order interest to developing countries. Their immediate concern is simply to gain access to markets and to level the playing field by getting the advanced industrial countries to stop subsidising agriculture. But in the longer run, this

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issue cannot be ignored. For increases in productivity in the developing countries will depend in part on the improvement in their seeds, and genetic engineering holds open the promise of the most rapid improvement in that productivity. (Interestingly, the charges of anti-competitive practices recently brought against the industry underline the key role of competition policy, if the benefits of these advances are to be shared meaningfully with those in the developing world.)

Other protectionists try to enlist environmental and labour groups for other types of protection. While it is imperative that the international community continue to pursue good environmental policies and core labour standards, it should resist this unholy alliance of interests. Take the example of the environment. Once international agreements are concluded on global environmental issues, like HFCs and greenhouse gases, and if it becomes clear that other enforcement measures have failed, then it may become appropriate to ask whether trade sanctions should be used. But interestingly, there have not been major enforcement problems with the one major international agreement that included binding commitments, the Montreal Convention. If there is a decision eventually to proceed with the use of trade sanctions, it is important that the imposition of the sanctions be delegated to an international body. It should not be left up to individual countries to decide for themselves whether they like or do not like the environmental policy of a trading partner. That would simply be an invitation to new forms of protectionism.

(viii) Trade facilitation

My hope is that the trade negotiations will go beyond stripping down government-created barriers to trade and will work more actively to facilitate trade. We should ask what the barriers to trade are, and how they can be removed. I have already provided one illustration of such barriers: anti-competitive practices. Promoting competition is one area for facilitating trade, if we interpret that concept broadly. But there are also important steps to take in the area of trade facilitation more narrowly. In many developing countries, corruption by customs officials acts as another important barrier to trade. Considerable thought should go into the question of how the international regime can help address this problem – from pre-clearing, to technical assistance, to simplification of classification schemes that leaves less discretion to customs officials.

(ix) Other dimensions of fairness

I have focused so far mainly on the issue of comprehensiveness, arguing that comprehensiveness is in fact necessary for an equitable agreement. But there are other elements of perceived fairness. Over the years, many developing countries have unilaterally (though often under strong pressure) engaged in a wide variety of trade liberalisation measures. As we approach the new Round, those countries need to be given credit for their concessions, in return for making them binding.

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Another aspect of fairness entails *sensitivity* to the special needs of developing countries. There are at least three dimensions to this sensitivity. First, developed countries should recognise the higher costs of liberalisation in developing countries, which I discussed earlier. Allowing longer transition times for liberalisation measures, as was done during the Uruguay Round, lowers the cost of adjustment; but in addition to this concession, the more developed countries should consider establishing a formal programme of trade adjustment assistance. And the costs of implementation can be very high. Finger and Schuler, in their paper presented to this conference, argue that implementation of just a few of the Uruguay Round agreements can swallow up a year's worth of development assistance for a country.[9] The World Bank has played an important role in the provision of such support for implementation, and will continue to do so in the future. Nevertheless, more assistance is clearly needed.

The second point has to do with the special problems posed by human needs, like health. It has been alleged that some developed-country drug companies, for instance, sell their drugs to developing countries at prices that exceed their prices in developed-country markets. That they might be able to do so is not surprising: intellectual property rights give drug firms scope for price discrimination; in particular, the larger developed countries with national health systems can win more favourable pricing from pharmaceutical firms.[10] Yet as reasonable and rational as price discrimination might seem for profit-maximising enterprises, to those in less developed countries it appears exploitative. Within the United States and other countries, such exercises of monopoly power – that is, price discrimination not justified by differences in costs of serving different customers – is illegal. It might be appropriate to consider a similar provision in the next round of trade negotiations.[11] We need to explore various ways to achieve the goal of ensuring that developing countries achieve 'most favoured pricing' status.

Third, the negotiations need to pay special attention to the long-term growth aspirations of the less developed countries. This has several dimensions. I have already referred to one – how poorly designed financial services liberalisation can lead to greater instability and perhaps even starve small and medium enterprises of needed capital. Similarly, definitions of intellectual property rights need to

[9] Finger and Schuler (1999). These estimates cover only the budgetary outlays required of the government – for example, for new computer systems and training of personnel – and thus do not encompass any adjustment costs to private-sector firms or workers.

[10] The issue is a complicated once, since standard models of the discriminating monopolist do not adequately describe those markets in which there is a single buyer of prescription drugs (the national health service), for then the appropriate model is that of bilateral monopoly.

[11] In fact, there have been moves by drug manufacturers to try to write restrictions on parallel imports into the WTO, *increasing* the scope for price discrimination. In my view, this would be a risky move in the absence of good recent evidence that shows that price discrimination benefits, rather than harms, developing country consumers.

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take into account the interests of users of knowledge as well as producers of knowledge. If they do not, then enforcement of those rights may constrain development. (Interestingly, some members of the academic community, which is both a producer and user of knowledge, share the developing-country concern that the international community has yet to strike the right balance between users and producers.)

More problematic in this vein are issues related to *promotion of infant industries*, which has justified so much protectionism in the past. Certain types of technology subsidies were given the 'green light' under the Uruguay Round, but it is clear that developed countries make use of a whole variety of other, hidden subsidies under the rubric of 'defence'. This point was illustrated by the recent debates about dual-use technologies and subsidies to aircraft manufacturers. The technology issues facing developing countries are different, but no less important. These countries must absorb new technologies; and to do so, they must have the space to engage in a process of learning-by-doing, during which costs fall. With imperfect capital markets, firms cannot simply borrow against future profits, and governments may need to step in. We must find some way of accommodating these very real concerns of developing countries.[12]

(x) Trade and the development agenda

Trade liberalisation is necessary but not sufficient for developing countries to reap the full benefits from integration with the world economy. Much of the trade agenda now goes beyond the border into areas of domestic regulation. The ability of a country, and particularly of the more isolated communities within a country, to participate in trade depends importantly upon the quality of the transport and communications infrastructure that allows them to access the world trading system. The new, broader trade agenda involves many issues that are much more difficult to implement than trade liberalisation, which can be implemented at the stroke of a pen. Efficient infrastructure requires years of investment both in the regulatory framework under which it is supplied, and in the infrastructure itself. Improving the efficiency of customs requires strengthening of the Customs Administration in many countries. Establishing a strong financial regulatory structure – so that opening up markets for financial services strengthens economic

[12] Article XVIII, Section A, of the GATT does provide an explicit mechanism for infant industry protection, but that provision has been little used, presumably because of the requirement for compensation of trading partners, as well as the backlash in recent years against abuse of infant-industry arguments. But going forward, it will be important to ensure that the legitimate development concerns of poorer countries are reflected in the international trade rules – even while guarding against the development-impeding types of protectionism that have so often been justified using infant-industry arguments. Part of the task will be to preserve and raise awareness of provisions *already* available within the trade rules that may serve some development needs. One example is the Article XIX safeguard provisions, which permit transparent protection of limited duration without requiring compensation.

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performance rather than contributing to economic instability – is no easy task, even for more advanced countries.

The broader agenda opens up the prospect that trade liberalisation may yield even more benefits than it has in the past. But from the perspective of the developing country, what is crucial for growth is access to markets abroad, especially in the developed countries. The East Asia miracle was based on export-oriented policies that took advantage of increasing access. Such policies play a critical role in raising quality within the developing countries, in promoting the transfer of technology, and in enforcing the discipline of competition. The development process entails a transformation of society, and openness to the outside in general, and trade in particular, can play a central role in that transformation (Stiglitz, 1998). Retreat from openness would unacceptably delay the development transformation that developing countries sorely need. More is at stake than simply the exploitation of the gains from comparative advantages. Trade is vital to the dynamics of successful development.

The convergence of the trade and development agendas requires greater cooperation between the agencies involved in development policy, and those focused on trade. Such cooperation is one of the key features of the Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries. Clearly, however, the same needs exist in a much broader group of developing countries, and we and our WTO colleagues will need to work closely if we are to achieve our shared objectives in this new era.

4. CONCLUDING REMARKS

The principles of fairness and comprehensiveness are strongly linked. A comprehensive approach to trade will not only be more effective in attaining the objectives of trade liberalisation, but it will also be perceived as fairer. This perception will not only enhance the chances of trade liberalisation within developing countries, but also increase their enthusiasm for a broader range of market reforms. A comprehensive Round that adequately represents the interests of developing countries will deflate the sentiment that market economics is a theory invoked only in the pursuit of developed-country interests, and it will increase awareness that vigorous market competition brings benefits to any economy.

Both the political and economic stakes are high. If we fail – if the developed countries allow their special interests to prevail over their national interests, both in terms of their offers of market access and their demands on the developing world for market access – this will undermine confidence in democratic processes everywhere. Clearly, the developed countries have much to gain from a more integrated global economy, and they have much to gain from reducing their

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distortionary policies. But they can afford the luxury of the inefficiencies of the existing distortions, and they have demonstrated an impressive capacity to dismiss or overlook the intellectual inconsistencies – to use a mild term – in some of their positions. The developing countries cannot afford such economic distortions; the evidence of the last three decades strongly supports the conclusion that market-oriented policies, including outward-oriented policies, provide their best hope for sustained growth. Such growth is absolutely necessary if poverty within these countries is to be eradicated.

A new Round provides a great opportunity. It can reinforce the movement toward true market economies, enhancing competition and promoting economic and societal transformation. At the same time, by reducing trade barriers, and thereby eliminating some of the major sources of corruption and lack of transparency, it can strengthen democratic processes. But a Round also poses great risks. If negotiations follow historical patterns – hard bargaining motivated by special interests within developed countries, with too little attention paid to the interests of the developing countries – they could strengthen the hand of those in the developing world who resist market reforms and an outward orientation. It could give confirmation and ammunition to those who see relations between the Third World and the developed countries through the prism of conflict and exploitation, rather than recognising the potential for cooperation and mutual gain. Outward-oriented policies will succeed only to the extent that there are markets in which developing countries can sell their products, as well as international rules that allow developing countries to make good use of their areas of comparative advantage.

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