

The Doha Round: Objectives, Problems & Prospects*

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What I will do today is raise a few questions and talk about the problems and challenges facing the implementation of the Doha Round of trade agreements. Those of us who were in Seattle came away devastated. Doha was a much more invigorating event, though it too was touch-and-go until the very last moment. But it went through. Now, we are speculating and wondering, trying to remain optimistic about its conclusion in some form.

Many of these rounds, when started, cause shivers and goose pimples. As you go through them, the negotiations are always complex. It is very easy to see all kind of danger points. So when I talk about the problems here, remember that it has to be put into historical perspective. No round has ever finished that easily. There are always problems. Particularly when you have so many issues and so many countries, the problems become more complex.

Failures with the Seattle Round

First, let me go back to Seattle. In Seattle, the intention to launch the first WTO round failed. Every failure, like success, has many fathers and many mothers. But I would pick three in particular where I think Doha managed to override and then surmount these failures.

Non-Governmental Organizations (NGOs)

One was, of course, the opposition by the non-governmental organizations, the NGOs or civil society, which is sometimes cynically called the *un-civil* society, particularly out in the streets. In Seattle, that opposition was very strong. Some people anticipated a few demonstrations, but not to the same degree in which it materialized. The host country had not anticipated this.

I have visited Seattle many times since then, and I have gotten a feeling for the place. I used to live in Massachusetts, which is a very liberal state as most of you know. Quite possibly *the* most liberal state. But the city of Seattle is actually to the left of Massachusetts. The city itself, though not the state of Washington, is ultra-liberal. Surely the president's advisors should

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have known that this would likely have been the case. The advisors should have known that they would not get the support from the city government that they needed. There was also a bit of incompetence in handling the NGOs, not anticipating their behavior, not being fully informed, and being complacent. It was certainly badly managed.

The European Union

The other one was the European Union's unwillingness to agree to agricultural liberalization concessions on the subsidies. I do not know how much importance to attach to that because we were so overwhelmed by the other factors. But I was told by people who were actually negotiating in Seattle that it would have been a "breaker", though I do not think that it was actually *the* "breaker".

Presidential Remarks

Thirdly, I think President Clinton actually clinched the incompetence by mentioning trade sanctions half way through, before he even came to Seattle. Trade sanctions are associated with labor standards. Whether he was just throwing a bone, or if he really meant to impose sanctions for other things, I do not know. But he did goof up.

That raises another issue—which I will come back to in relation to Doha—that a lot of developing countries were concerned about labor standards. Their sensibilities had been enhanced by the fact that you also had a number of trade unions marching in the streets, particularly Teamsters. You had these overfed, unhealthy workers—the Teamsters—with their big bellies and hard hats, marching, and claiming that they were representing the malnourished and underfed workers of poor countries. This was a little upsetting and jarring. Many people feel that, maybe, the NGOs represent certain broad interests which cut across countries. But at the same time, these demonstrators were selecting their own culture, their own politics. Nobody is truly a Martian watching from above at the whole planet. Everybody is grounded, whether they like it or not. I am making a *lebensraum* kind of point. But everybody is grounded in their own cultures and in their own interests to some extent. So Clinton having made that remark about labor standards made many people unhappy.

Why did Doha Work?

Sept. 11 Shock

At Doha, all those elements were fewer. It is not that we learned by the undoing of Seattle, but it was just the natural evolution of all parties involved. Both the U.S. and EU ,managed to capitalize on the Sept. 11 event. That was the “breaker”, as it were. People wanted to reemphasize their commitment to democracy, open markets, and so on. This is what is now called the “Washington Consensus”, which clearly reached Washington eventually but was not intellectually invented there. This consensus includes markets, democracy, and economic and political freedom. Attendants at Doha managed to utilize this good will, one of the more creative outcomes of the Sept. 11 event. So in Doha, you had the leadership, America's Robert Zoellick and Europe's Pascal Lamy, behind that consensus.

Civil Society Developed

Of course NGOs could not make it in the same degree to Doha, which in Qatar, in which they were able to make it to Seattle. They were not present in the same way. But the differences between the two rounds go deeper than that. Civil society itself has now changed character. It has bifurcated into those who want to be simply heard from the streets, and those who want to be listened to, who want to sit down with us and bring their own perspectives to bear. Those two very different societies, or types of groups, have really bifurcated now, whereas in Seattle everything was all mixed together.

You saw the get together in Porto Alegre, in Brazil, where this year's World Social Forum, an anti-establishment counterpoint to the World Economic Forum in New York, was held. That is where the crazies go. They have their own playing field. They do hold up their alternative view, but if you look at it in terms of policy, besides the Tobin Tax, there is not much they have to offer. Mostly it is demonstrations in the streets of Brazil. As you know the Tobin tax is a small levy on foreign-currency trades, with the aim of shielding poor countries from the whims of financial markets. My teacher Paul Samuelson used to say that we should thank heaven that—as you who are familiar with Marxist literature know—there is a translation problem with Marx's writings, because it keeps all Marxist theorists tied up and out of our hair trying to figure out what he said, letting us continue doing what we want to do.

The people who want to sit down and talk, people like Oxfam or Amnesty International, are fully in the game. They are not in the game of demonstrating or making “anti-globalization”, or anti-free trade noises. That is part of the new setup we saw at Doha. It does not mean that

there are not going to be any problems. I will come back to them. These people also have a voice, but usually they are not informed, contrary to what colleagues of mine like Joe Stiglitz say. I think words like that are just comfortable things to say. When you meet them, you think that people like that are very well informed, even better informed than I am. But from my experience, frequently when you meet them, they are not. Certainly at Doha, that was not a factor. One could negotiate without difficulty.

Labor Standards Off the Table

I think that labor standards work when they are off the agenda. Everyone was careful not to raise the matter. It is not again clear, like in Singapore, how many standards exactly there are, but they are certainly not “on”, in any serious sense.

EU/U.S. Acquiescence

The EU finally agreed on a formula to finally go ahead and discuss the big steps toward the elimination of export subsidies. Additionally, the Americans managed to come around on the big issue of anti-dumping.

Intellectual Property Rights Agreement

On intellectual property protection, you had a declaration which I think was actually good for the pharmaceutical companies. Seeing the way that AIDS or anthrax is working out, the companies would have had a far worse outcome in the public policy space. Bob Zoellick actually played well for them. What they got in that agreement is actually better than what they would have gotten in the public policy space, outside. To me, it seems rather paradoxical that the pharmaceutical companies did better by having an agreement while creating the impression that they were really making a lot of concessions to the NGOs.

So on the whole, if you look at the way in which it worked out, these are the reasons why Doha did work out. Everybody went out, except for the very fringe elements, thinking this was really a greater start. We are really off to a good start. But now we are in the game. And now there are problems. And that is what I want to talk about.

What are Doha's Problems?

Deadline too Short

First, it is not clear that starting out with a three year deadline is a very smart idea. If I was Mike Moore, I could not say that. But the point is, the three year implementation schedule came because of Mike Moore's three year term and the fact that Supachai is coming in. As successive rounds increase in complexity and number of players, it now takes years to close a round. The last one took seven and a half. The one before, the Tokyo Round, took four and a half years. Each time it has gotten worse. Suddenly, now we say three years. I think it can only be because of the three year terms.

It does not really make much sense to have such a short deadline. It may create problems. The minute you start running into problems in negotiations, as you well might, you introduce too early the notion that it is going to fail. Almost every round has that trough, and This is unnecessarily buying into it. I hope I am wrong on that.

Lapse in World Economic Growth

The three year deadline also runs into the problem that the world economy, which was quite robust in both Seattle and in Doha, is now not doing quite as well. There is a lot of uncertainty as to which way things will work out for the world economy. I will not go into the details here. You read about it all the time. But, there are sources of weakness in Japan. In the U.S. economy itself there are serious doubts whether its fundamentals will remain strong.

Given all that, it seems to me that we have to worry about an old problem: that it is very difficult for people to liberalize when economies are not doing too well. Politicians quite naturally find it easier to move forward in terms of trade liberalization when the economies are strong. So if we had this launch during Seattle, we would be well on our way. But as it turns out, I am not so sure because I think that everything is up for grabs. That accentuates the problem of having an excessively Stakhanovite¹ sort of deadline.

¹ Stakhanovite, *n.*, one who is exceptionally hard-working and productive. The term was first applied to a worker in the USSR during the 1930s and 1940s whose productivity exceeded the norms and who thus earned special privileges and rewards.

—A. G. Stakhanov, was a Russian coal miner (d. 1977) who in 1935 produced a phenomenal amount of coal by a combination of new methods and great energy, an achievement publicized by the Soviet authorities in their campaign to increase industrial output.

No Standstill

The other problem, which is well known, is that the U.S. itself is a leader in this, along with Mr. Lamy and the European Commission of course, and when it behaves in an anti-free trade manner, the world gets upset. In the Uruguay Round you had a standstill as part of the formal agreement. But you do not have that now. The legal status of these agreements at Doha is not a strong legal status. They are more political statements of intentions to launch the round and actually launching it. There was no formal standstill signed.

Anti-Free Trade

The United States wrongly claims that it is okay to pass the farm bill and the steel action, increase subsidies and block the entry of Canadian lumber. Those are probably WTO legal and WTO consistent. In some cases they will be taken to court and the anti-trust action will be disputed, as has been done with steel. But it does not matter if they are legal. It is not okay to pass those bills.

Let us pretend that there is no dispute and that the US actions are completely legal. In principle, you are allowed to raise tariffs up to the level proscribed in trade agreement. But you do not want to do so. That conveys the wrong message. Then you begin using every WTO action to raise your trade barriers. That is inconsistent. This is what I call in my old book on protectionism the distinction between *first difference* reciprocity—meaning reciprocity at the margin—and *full* reciprocity. America generally says that, “We are basically open. You guys have higher tariffs, or higher subsidies,” like in the EU case, “and therefore you have no right to talk to me about it.” That is the underlying argument of the American negotiations.

The Americans are confusing concessions on the margin with whether you are on average more open. Americans are convinced—probably rightly—that they are more open than the rest of the world. They feel free to ask for concessions or to raise barriers. You see this in some of the explanations Mr Zoellick gives in the US’ defence.

But what he misses completely is that it is inconsistent with the spirit of free trade and of new negotiations. This is not in their interests. They are fouling up the atmosphere. Developing countries today are now major players. They have been told consistently—and this is the theme of my *The Economist* article of last week—that the world is unfairly stacked against them, that rich countries are protectionist, and that everything is unfair. In that context you then

see the United States, actually raising certain barriers. That comes in very handy to some people because they are conditioned to think that all the problems are in the rich countries. The World Bank leadership and everybody joins in with this business of attacking rich country protectionism without putting it into context and getting into why it is this last residual form of protectionism in the West. The West has opened up in a big way, a very big way. It is not true that they are closed, on the average, with a lot of protectionism.

We must ask why they are still hanging on to those labor intensive manufacturing industries. That brings deep political, ethical and other problems. You cannot just say this is hypocritical. That is the wrong word to use. It is a political problem for these countries. You have a huge amount of openness in these countries, after the post-war rounds of opening.

Let's try to identify what are the obstacles and push them. Instead, Wolfensohn and all these people just go around saying, "Rich country protection. Rich country protection." In that context, it does not help in the least to have the U.S. actually increase protection, even though they might turn out to be WTO-allowed. That is simply adding fuel to the fire, making everybody think that rich countries are just a bunch of good-for-nothing hypocrites. It is very incendiary. Countries like my original country, India, and so on might take advantage of this. NGOs are also very much into this now, creating this kind of issue without understanding.

For the U.S., being the biggest dog on the block and always talking in geopolitical free trade terms, to do something like this really makes the life of people who want to push forward the leaders of poor countries and say, "Let's strike a deal," much, much harder. I am a little worried about the ethos which will develop around this U.S. action, however much they may be justified. When the Americans say, also, "Look, there are domestic politics that require these moves," people are bound to say, "Well, what about our politics. We also have our own politics."

This has always been a problem with Americans. In general, the Americans negotiating approach has been, "Our politics requires us not to make certain concessions," and then to go a little easy on other people's politics. This negative feeling always gets reinforced. The U.S. actions have been unfortunate. They came at entirely the wrong time. The reasons for them are several, but, of course, I have no time.

No Trade Promotion Authority (TPA)

Then of course the trade promotion authority of the United States is also a big problem.

We will know soon which way it is going to work out, but it was a big fight. The Congress vote was just by a majority of one, and then the Senators, though they have been more agreeable, now have problems of their own. We do not know what is going to come out of it, but let's be optimistic.

There are certain aspects of it which bother me also, but I will mention just three. One is well known, the Dayton-Craig Amendment, which proposes we take anti-dumping out after the trade promotion authority (TPA). That is a big issue for many countries, but here I would just like to mention one thing, which may be treated as a plus or minus. If you take anti-dumping action, you see that it is spreading across the world, and in my *The Economist* article I point out that if you take some of the big developing countries, like India or South Africa, the number of actions initiated on anti-dumping by them already exceeds the number of actions done by the traditional countries like the European Union and the U.S. Now, these are not of course important by weight. I am just trying to say that the number of actions have increased.

Some people say that anti-dumping will simply disappear and that we will be able to constrain it all because the United States and European Union will understand that what they do to others can be done back to them. But I think that this is a little too simplistic. We may wind up with a whole lot of anti-dumping authorities around the world, as well as the lobbies around them that support them, because it will pay for each lobby to do its own anti-dumping. It may be more like an epidemic, the way multilateral free trade agreements (MFAs) spread.

You know my views on preferential trading areas, and bilaterals in particular. Bilaterals have spread in exactly the same way. Unfortunately, the Europeans were doing quite a bit of those. I do not mean the European core, with Eastern Europe as an extended core, but I mean the spokes in the wheel, each with their own FTA. It all started basically in European countries in the EU. Then, instead of going to the WTO, or the GATT at the time, and saying, "Let us put a stop to Article 24. We should not have bilaterals like this continuing," the Americans broke ranks. They could have provided the leadership role. Instead they followed the EU, or at least tried. TPA builds in authority for bilaterals equally with multilaterals as if they were symmetric.

Now, East Asia is really holding out. In APEC you have essentially what is most favored nation (MFN) status. It amounts to unilateral trade liberalization, though I cannot remember what the exact phrasing was. This is old history now, but anyone who liberalized in concert along with everybody else, would be on an MFN basis. That is all gone now. When you see the European Union doing it, and now America doing it, and when you see everyone

breaking out, it is very hard for anyone to go to their prime ministers and say, "We should not do it." It is partly about developing bargaining power vis-à-vis the others. So you now have dozens and dozens of possible plans here. You have a case almost like the expansion of MFN.

My fear is anti-dumping will spread and become just a moot issue. It will just be a matter of putting in a few details here and there, changes in the anti-dumping regulations. Many of us economists have wanted to constrain anti-dumping for a long time and remove it. But that is not going to be on the cards. This will probably be a non-issue down the road, although it is made much of. If everybody is sitting, who is going to throw a stone? Nobody is. That is another unfortunate outcome, rather than role reversal or the fact that I am going to hit you back, which would make you reduce it. That is my view.

Intellectual Property Rights (IPR)

I heard in Washington that these intellectual property (IP) agreements have no binding status. The IP agreements have no legally binding status from the Doha declaration. This might unravel. The Agreement on Trade-Related Investment Measures (the TRIMs Agreement) might unravel. This could be a big problem with NGOs in particular, and I think it could be a blow to the WTO. I do not know how it is going to play out. I was a bit worried about Merck disclosing yesterday, or was it the day before, that it had US\$ 14 billion worth of misrepresented profits which did not exist. That is a lot of money. And Merck is a big player in Africa, initiating a number of projects. In Botswana for example they have done a number of works with NGOs. If they suddenly go into trouble and are unable to spend the kind of money they are promising, that again could create some problems. If all the companies are in financial trouble, who knows? I do not know about Pfizer, but certainly Merck has come out with this.

If the pharmaceutical industry runs into financial problems, like energy and telecoms have done, that could also mean that in the end they would get a lot tougher in holding on to what they have as opposed to making compromises of the type they agreed to at Doha. Because of the way in which politics ran in Doha, I am a little worried that, given the fact that people said Washington was under serious pressure even before the Merck disclosure, they will tighten what was already given away and become a little more stingy. That will create reactions. In my own view, the IPR agreement should not have been part of the WTO. It should have been a self-standing treaty, with trade sanctions if you like, but not part of the WTO because that creates problems for the WTO. It is better to put it somewhere else.

In fact in my view, all the aid and other problems that arose later have given the WTO unnecessarily a bad name. The WTO should not have been involved in that in the first place. It is a trade institution. It is not a royalty collection institution. It should not be part of that. But in the Uruguay Round we had to close the round, and the pharmaceutical and the software firms insisted that without that, there was no round, no closure. There is a little weakness there.

Labor Standards

On labor standards, it is not clear to me. TPA has language which says that the president will have to make a good faith effort to get labor standards into the final agreement. It is emasculated. It is language very similar to a number of other trade bills going back to 1974. But today, the climate is very different in the sense that, with the Democrats being quite important in this game. In the olden days, if the president came back and said, "I tried in Doha to get something on labor standards as the TPA requires, but I couldn't get anything," that was it. He tried. And the other countries did not agree. But today, it is not clear to me that the same language can be read in the same way. Today, the fact that he does not come back with something may be much more problematic, given the status of the U.S. Here, it is not clear. You can say that this is a way to buy off opponents with some language that is not going to amount to anything very much. Or it could be a real problem. Only time will tell. But it is there. There is also a clause in the house and senate drafts that it will be enforced in the same way as everything else in the system. This means they are some enforcement possibilities that they have in mind which are pretty strict. That means sanctions, because other WTO measures also call for sanctions. It is not clear what the interpretation will be. *The Economist* and *FT* editors I have discussed this with say that it just introduces flexibility, and that the Republicans will be able to get away with it. I am not so sure at all. I just do not think the political context can be treated as being so manageable by Republicans without any kind of consequence.

So if so, what will be the outcome? I think it would weaken the multi-lateral. I do not see at the moment—and there are many people here who are more knowledgeable on the actual negotiations than I am—developing nations, when signing up to multilateral negotiations like Doha, letting labor standards to come on board. Whereas in the bilaterals, it is very easy. The U.S. is a big country and when you are signing with, say, Chile, you sign on or you do not get it. They will sign on in some form. Take Jordan for example. Jordan would have probably signed on to anything. It was looking for a political affirmation of its security ties. They simply asked Charlene Barshefsky, "What do you want? Draft it. We will sign it." As I testified in the Senate, at that time it was clear on the Jordan bill. The Jordanians had no independent view on

these matters at all. So Charlene Barshefsky put in whatever she wanted from the Democratic side, including poor labor standards—right in there—and enforcement. They were trying to turn this into a mold, or template, because once having it established there, they wanted to use it elsewhere saying that this is the way it has to be done. That is the way that that game is played.

My worry is only that if this really means something, as against the alternative opposite view that it only introduces flexibility by way of cheating, then we in the United States would be moving more rapidly on bilaterals where it is possible to satisfy this constraint on labor standards, and not at all on multilateral, which may become a big issue. I just have a slight worry there. I do not have a definite answer, but this is something where Zoellick may be too optimistic. One of the things, while he has been director so far, that have been really good is that in Washington, Bob Zoellick is supposed to be Baker's boy. Baker was supposed to provide the politics, and he was supposed to provide the economics. But now he is on his own. This is Baker of Florida fame, Secretary Baker. They say, though, that now Zoellick does not have much political savvy. But so far he has done pretty well. So I do not agree with that. But that is the prevailing argument.

Bilaterals & Business Interest

What about the business lobbies? Will they be playing for it? Well, that is one of the problems which you get when you have too many bilaterals going on. You have generals, people like trade ministers and so on, who want the round. But where are the troops? If the troops, like business lobbies, are getting their kicks through the bilaterals, they are not going to be spending money or time on multilateral agreements. The US-Mexico agreement is one example, where Mexico manages to get into the US under NAFTA, and so US businesses that do business with Mexico are not pushing for a larger multilateral agreement. A Chile-US agreement would be similar.

There is also a free rider problem. If I spend \$100 trying to open up a market with a bilateral, I get all the returns. But if I go into business on an MFN basis, then every other country gets the same benefits. My return is diluted. This is what we call in economics a "free rider problem". The return to me is less good if the free riders can move in. There is already a problem when you open up trade with bilateral agreements, particularly when existing trade volumes are already large. Under a multilateral agreement, the "natural allies" hypothesis, or the "natural trading partner" hypothesis, starts to work and takes players out of the political arena. No one business group is lobbying heavily anymore. So people will not naturally push for a

multilateral. They are more likely to spend money on promoting bilaterals with the major trading partners in which they are interested.

If bilateral agreements multiply, there will be more troops (ie, businesses) active on another front, or another set of fronts. It is then hard to bring them together and say, "Let's go to Geneva and negotiate a multilateral." You have to look at the politics and the economics. This is one thing that, again, bothers me. In the Doha Round you already have some 150 bilaterals notified and agreed to, because everything is automatically agreed to under the Article 24 enabling clause. By one estimate there are about 400 agreements being plotted by trade ministers with somebody or other on a bilateral basis. I once wrote an article in jest in which I made up two countries. I said that they were forming imaginary trade agreements with their neighbor by oceans, then rivers, then bays. Then, by the time the article was published, it was already a reality. Everyone is looking for something to do with their neighbors, including across the oceans, rivers, etc.

That is taking up a great deal of business interest. I am not worried about the diversion of bureaucratic interest. Bureaucrats are like Marx's reserve army of labor. They are in elastic supply. You create more as necessary. Only the first rate bureaucrats could get diverted, because many of these issues are so complex they need absolutely superb talent to negotiate and so on. So that could be a problem, if you have too much going on.

Poor Countries' View of Doha

But what about the poor countries? This is where there is a lack clarity that could create a lot of problems. At the moment, we have tension between the principals, which we learned about special and differential (S&D) trade agreements. An S&D agreement is not a great idea. The Generalized System of Preferences (GSP) did not really work out too well, in terms of giving genuine benefits to people. Two, the S&Ds essentially presume that you cannot hack it in world markets if you are somehow behind the curve in terms of per capita income and so on. That violates the basic idea of the ladders of comparative advantage, which we teach in economics.

I often tell my African friends, "Why are you so pessimistic that without special and differential agreements you cannot compete in world markets, because you will find something to do?" I refer to Korea. "Korea did not have any special and differential agreement. The Far Eastern countries did not use such agreements in the '50s and '60s, and they did it." Today in

African countries you have an entrepreneurial class. It is a mistake to believe that they do not. They have political problems, internal infrastructure problems, political infrastructure problems, a lot of civil wars, and so on. But if they can surmount those, which are problems of traction essentially, then they can actually export without having special preferences. All kinds of free riders and limitations imposed on them. In my *The Economist* article, I point out several of them. But everybody who has studied the problem knows that special and differentials are a kind of self-limiting, often exploitive way of handing out access to markets. That being the case, most developed countries now understand this.

Developing countries have now suddenly lapsed into thinking, like in the early Prebisch² days when we were thinking about these things, that this is the only way that poor countries can compete, by having special crutches. I think that is a mistake. Given another five years or so, when the same obligations kick in regarding trade obligations or whatever it is you agreed to, that is a different matter. That is going to be an issue. I do not know which way it is going to work out. It is something we need to address clearly as we go in because this is a “development” round. What are we going to mean? What do developing countries expect from a “development” round? Do they expect a whole lot of exceptions to be built into the next one? Because if you do, that is going to create problems.

It goes contrary to what we learned over the last thirty years about S&D, meaning that there is a different development theory, a different trade theory, which applies to poor countries. That is the regress of knowledge and know-how. That will come up as an issue. Otherwise, if we cannot build in huge concessions of that kind which do not make any sense, developing countries will come out thinking they are not getting what they thought they would be getting because it is supposed to be a “development” round. So if they feel cheated, that they are not getting a whole lot of preferential concessions of one kind or another, then it is going to be a problem. That is my worry. We have to address that issue right away and say, “All right. We will give you preferential aid, preferential technical assistance, but you have to learn how to compete. And you can compete. There is no problem with that. You will find something to do. Economists will not be able to tell you what to export.” One of the lessons of post-war development experience is that when economists like us sit down and say, “What will Korea export,” or, “What will India export,” you become pessimists. No economist knows how to export

² Raúl Prebisch (1901-1985) was an Argentine economist at the United Nations, and secretary general of UNCTAD, credited with having developed the “dependency” thesis of economic development theory. Essentially, he argued that the colonial enterprise and international trade had not been necessarily useful for economic development. Rather, by changing and gearing institutional, production and socio-economic structures of a country towards the First World War, colonialism had created a rather unique set of structural problems in these countries—namely, export-orientation and unbalanced growth. Developing nations were not as much “underdeveloped” as they were “badly developed”.

anything. And typically when exchange rates are right, whether the IMF brought it about or the EU brought it about, or whether you did it unilaterally, there are a lot of ways it happens. Somehow people learn to. All kinds of things crawl out under incentives. Usually, it is that miscellaneous item in the export categories. That is what takes off. Nobody could foresee that. So I say, let the markets work here. We cannot do it. Even the existing econometric estimates tend to produce what we call elasticity pessimism. The technology of forecasting itself creates a pessimism.

That being the case, we need to tell these countries to let the market work. Instead of being patronizing toward an industry that you cannot export unless you have all kinds of special privileges, which are normally self limiting, governments form export banks and put in place rules of origin. Then, trading partners get upset. Trade regulators intercede, and say to the poor country that you have to “graduate” now because you are already exporting too much. That means that investors will arrive, and the market will get cut off. We get all kinds of complaints like that during trade negotiations. These non-trade barriers—like banks and rules of origin—are real problems that we have to address.

This is where many developing countries are now worried on environmental issues like shrimp turtle and so on. These issues have to be addressed because some of these have to come into the WTO. Many countries do have good labor standards. The legislation is also quite strict in many poor countries. But they oppose this. Why? Because when you say something like “poor labor standards”, and I am just illustrating with one non-trade issue, and you say “the right to unionize must be there”—that is like MFN for the ILO—what MFN is to us in trade, this is the super core of labor, the right to unionize, and quite correctly done. But then you look at the details of it. You have to look at the right to strike. You have to look at the case of “essential” industries. And there are all kinds of details that a thorough legal training will tell you how to deal with. So it is hard for us to even imagine it. There are large books, tomes, on the right to unionize and how to regulate it, so on and so forth.

The human rights watchers have brought out a report on the right to unionize in the United States. That says that millions of workers, and I am quoting, are denied the right to unionize. They simply mean the Taft-Hartly Act of over fifty years ago. The right to strike is crippled. So the union, in their sense, is a paper tiger. A union without the right to strike is not particularly a union which is able to exercise any real rights. They are allowed to hire replacement workers freely, which means that it is easy to break a strike. Many strikes are not allowed, so on and so forth.

So what happens when you put something like core labor standards into an agreement, which sounds very good? How could you be against that? How could you be against sisterhood, liberty, and everything that is good in life? Right away, the large countries do not have anything to worry about right away because they can kick you in some other dimension if you try to bring a suit against them. But the little countries could be taken to dispute settlement on this, and they do not even know what they are being taken in for. This is the sort of thing that worries me.

Take shrimp turtle. They overturned the dolphin tuna case of ten years ago and said, essentially, that the U.S. or any country could unilaterally require turtle excluding devices to be used. But the smart thing for the United States to do would have been to say, "Look, lets extend CITES," which is the treaty overseeing the international trade in endangered species. We have already excluded trade in turtle and turtle parts. But because if you do not use TEDs, or turtle excluding devices, narrower nets so that the turtles do not get in, as you are shrimp farming, then we should be able to proscribe that. Then like in Kyoto and elsewhere if those nets have to be bought, we could use some of the aid funds. If you are willing to do it for Kyoto and spend hundreds of millions of dollars, why not here? This is a tiny sum, about two million dollars worth of nets. Then we could buy them and distribute them to poor countries that are asking for this. There are better solutions than the ones out there.

We are not looking at the problem directly in its own context and saying how do we best achieve this. Instead, the approach is to use legislation to make it stick at the WTO, which is exactly the wrong approach. What was interesting was that this decision was overturned on dolphin tuna, so you could not do this for shrimp turtle, by citing eventually the preamble in Marrakech which calls for sustained development. That was used to say that we now are going to interpret Article 20 so as to include something like requiring the use of turtle excluding devices.

This is just a general phrase. To me, a preamble—and I think this is true in Anglo-Saxon law, though I am told that in European law preambles mean more—is like an overture in an opera. That is time you are still talking to your friends, getting settled, reading through the libretto and making a little noise. It is all allowed until the curtain rises. But now you do not only have to think about that fine print, but about the preamble as well. The shrimp decision, which cited the Marrakech preamble, is now cited itself in the Doha preamble. I do not think anyone is watching. This is how it goes on. Like something closing in. And the poor countries have neither the lawyers nor the bureaucrats to handle all of this. If it was going on in Rio de Janeiro or

somewhere, outside of trade negotiations, then fine. You have time. You are more relaxed, and so on. But this is high power negotiations with everything closing in on you ultimately. And you do not know what you are buying into. And trade sanctions follow. That is all the fear behind the WTO, the trade sanctions. This is creating a whole series of problems for the poor countries. They feel they are perfectly able to handle, in my opinion, trade barrier reduction and so on, but when it comes to intellectual property protection—which has a whole lot of things also going with it—and with labor standards and some environmental problems, though not all of them, then they are beginning to worry. They wonder what they are buying into. For most of these things really had very little input themselves because it is beyond them. It is too complicated. Then when they see all of this being included, whether it is under NGOs or some lobby pressure, they begin to worry that they are signing onto things that are going to cause problems for them down the road. This is a worry that we are really going to have to address.

The World Order & Conclusion

We tend to see a conflict between lobbies, or NGOs, versus governments, or versus corporate lobbies. That is the way this is all set up. But I think there is also the problem that when you put in things like this, it creates problems for poor countries. They begin to see the WTO as an assault on the poor countries through these things, even if they are not being intended as such, rather than in the defense of the weak, which in terms of trade issues they are supposed to be. We have managed to get them away from UNCTAD and into the GATT/WTO system because they felt that multilateralism is the defence of the weak, we always teach that. But on this one, when they see more and more issues coming into this, they begin to worry.

Things like competition policy do belong. I have no problem with the European Commissioner on that one. But I do have a little worry again—and this is the last point I will make—on the multilateral agreements on investments (MAI), or the version of MAI concerning investment policy. I think it is a bit imprudent to have it now largely because my understanding of most NGOs is that, to them, many of them, even if they resent my saying it when I do say it, are basically anti-capitalism, anti-globalism—which is an extension of capitalism if you have read your Lenin and Bukharin and so on and so forth, or Wallerstein today. This is outward expansion of capitalism. To them, corporations are the B52s of capitalism and globalization. MAI collapsed in France in the OECD largely because of this kind of feeling. The kids go around continuously agitating against corporations. Ralph Nader is popular because he is a big symbol of anti-corporate. If you look at all the movies, “Erin Brokovich” with Julia Roberts or “The

Insider” with Russell Crowe, these are little guys taking on big corporations. All of this is very popular because there is this great anti-corporate feeling.

Given that, I believe that there has been some move towards order and a common set of rules. Most countries are opening up and, if anything, competing for investment. There are very few countries that do not want foreign investment. There are still a few, but they are going to fall behind. So the doors are opening. They are opening in different ways and at different speeds. There is no uniformity or set of rules. If they are opening and if the people who are passionately against trade and globalization are so focused on multi-nationals, is it wise for Mr. Lamy to be pushing openness? It is not even his position. He inherited it from Leon Brittan, to be fair.

Why Leon Brittan wanted it, I do not really understand. At first, I thought Pascal Lamy, being French, was both Cartesian and Utopian and therefore wanted to order the world. But like all good theories, that does not work. So it goes back to Leon Brittan. But he is the only one who is pushing for openness. The Americans gave in to him on the investment side because Americans themselves have had problems with so-called Chapter 11 bankruptcy in NAFTA. This is a really big political hot potato. Hardly anybody wants to touch it. But they agreed to it because Lamy said otherwise there would be no deal.

There is no lobbying pressure in the European Union on the part of businesses saying that some sort of bankruptcy rules must be included. I think this is an easy position to take. I also think it is a mistaken one. I think including bankruptcy procedures could be a problem. It is not on the first track, as we all know. It is on the second track. But I would put it on the fourth or fifth track, until things settle down and we get back to normal. I wish we had focused on the EU side only on competition policy, which I think does belong to trade liberalization. It relates to what I call the distinction between opening a market and its penetrability. You may open a market, but if there are all kind of obstacles to actually getting in, then effective market access is impeded, like Tarzan’s jungle in the movies. The jungle is open, but there is all this grass, and you have to use natives to cut it down, and there might be traps laid for animals and you might go right into them.

All of those relate to what I call competition policy issues, because they are ways of cutting off market access even though the door is open. So I think those things belong. I think Lamy and Brittan are absolutely right in saying competition counts. But on grounds of prudence, I would not touch investment now, and I hope we will go slow on that. That is the last little worry

I have. That we might reactivate all the crazy NGOs into massive opposition if we just do something about investment. That is a red rag to the bulls. Thank you.

Questions & Answers

Question #1: I would like to ask a question related to the theory of international trade. As a most ardent supporter of free trade, if Country 'A' restricts their trade, what is the optimal policy for Country 'B'? Is it optimum to open or to counteract by retaliating.

My second question, you have been a very active critic of FTA, or PTA. As you pointed out, multinational agreements are very difficult. In view of that, do you believe that NAFTA, for example, has had some contribution or that it has been entirely negative?

Answer #1: On the first one, my old teacher Joan Robinson used to say that if you have rocks in your harbor, that is no reason to throw rocks into my own, because then everyone is hurt twice over. If you have actually thrown rocks into your own harbor, or are doing so, then you should not do it. That was her basic argument. Now, this does not apply, as you know, in oligopolistic competition necessarily because you can have a tit-for-tat strategy. But that does not really apply particularly with several markets, fairly wide open. It has sort of gone behind us. That was an '80s and '90s issue, with trilateral powers. Today, manufacturer protectionism is really down. Rather than to go into that issue, I will simply say that the Joan Robinson argument does hold.

If I can get you to go with me, we get double advantages, rather than getting me to go by myself. There is now, though, one additional strand. This is part of a recent book of mine called *Going Alone*. I said in the book that you might have sequential reciprocity as opposed to simultaneous reciprocity. That maybe I cannot persuade the European commission to do it right away, but then I may, by lowering my own tariffs ahead without insisting on not doing it just because the EU does not do it, I might be able to convince the EU that it is a good idea. This goes back to Prime Minister Robert Peel and France in 1848. Peel said that he was sick and tired of trying to convince the French to go with him on all these bilateral trade reciprocal treaties. He believed in free trade, as he had been convinced by Adam Smith and David Ricardo and so on, and he wanted to go alone. So he unilaterally abolished the Corn Laws. He actually made some very interesting speeches at the time saying that England is going to prosper so much because of free trade that the French will follow suit because they will see the advantage that we have gotten just by learning by our own doing. In that case, the French government itself may supply less protection. They may actually do it.

There is also an additional argument that the actual demand for protection in France may fall off too because in a political system where you have import competing and export

promoting interests, if I liberalize I am going to expand your export sector. Therefore, its importance in domestic politics may be greater. And that may then lead to the demand for protection in your country also falling off. So we have lots of arguments about what is sequential reciprocity. It may be advantageous to go it alone because you are not going to be alone for long. You are going to get reciprocity through these mechanisms. There are a lot of examples like that one could produce.

Now your second question on FTA and preferential trading agreements—let's call them bilaterals—the problem is partly that you are actually sidetracking and undermining the support for multilaterals. That is my view. Business lobbies do get sidetracked into these other ways of doing it. In terms of assessing the overall view, the reason why we started on this in America is not just the European example, but it was also because the multilateral system was not working at that time. We did not have the Uruguay round. When the Americans tried to start in 1992, as you remember, the Europeans and some developing countries said no. At that stage, the American government—James Baker, as secretary of the treasury, and William Brock, as secretary of labor, both under Reagan—decided to move into the regional route. Of course they found Canada a willing partner. Then much later on, they moved to Mexico. Essentially it was because the multilateral system at that point was blocked.

But I do not think it is blocked now. It is difficult. It is not blocked. Even bilaterals take a long time to negotiate. The Uruguay Round took seven and a half years. NAFTA took almost as much, with Mexico, from the initial beginning of discussion of it. So it is not so clear that bilaterals go like a snap and multilaterals are stuck in the mud. There is a negative, malign interaction.

The thing that really bothers me is what I call the spaghetti bowl problem. There are so many of these crisscrossing rules of origin, and so on, I mean almost every country in the world, except five of them, has some special treatment on its treatment of tariffs. Of course those five include Japan and the United States, but I once told Pascal Lamy that if only five countries are on MFN, you should really call it “LFN”, or least favored nation, because everybody else gets special deal. That is chaotic. Each deal has a different structure and different rules of origin. It is not uniform.

This is a particular concern for the poor countries. As Alec Erwin, the minister for trade and industry in South Africa, once told me that for a small country, or a small corporation, to handle so many different rules and tariffs rates and so on, is very chaotic. Some of the big firms also tell me that for them it is also getting quite chaotic. They want some order. They are for this order. I call that the spaghetti bowl because I cannot handle spaghetti when I come to a country that handles noodles so well.

Those systemic issues are also beginning to worry. When Professor Weiner wrote

about it, he had in mind one or two PTAs. When Article 24 was written, we never thought they would be all over the world. There is a problem there. It is hard to assess the totality. Maybe it is balanced not so bad. But I would rather not see it go on like that because the more chaos you get, the more difficult it is to extract yourself from that.

Question #2: In that connection, do you see any possibility of strengthening Article 24?

Answer #2: Perhaps. Similar to the PTAs being contemplated here, it allows for exceptions like agriculture. Japan going in with Singapore does not have to leave out agriculture, but in effect Singapore is not an agricultural power house. In some other cases, I am told agriculture will be left out. The original Article 24 stated that you should go like a Roman legion, all lock in step, taking everything down. But nobody has ever taken everything down at the same pace because of the politics. We do not even do it for the multilateral trade negotiations (MTNs). But here, it gets bogged down in bargains and some very special things are always put in. Then you go to another country, and you have another special set of things put in. That is what multilaterals avoid.

We could tighten some rules. Some people recommend that after some time, say five or ten years, all agreements become MFN, wherever you are at. But I do not think those will happen. But we have to try. There is no other possibility. One answer is to go faster on MFN and multilateral trade negotiations. If you can. Where are the troops, as I said? But if you move faster, it becomes a ratio. Preferences are relative to MFN. But if MFN goes to zero, meaning we really liberalize world wide trade on an MFN basis, then the preferences go to zero. If you want to work on a ratio, you can work on the numerator or the denominator. I do not think anybody expects to stop bilaterals from multiplying all over the world. There are so many for political reasons that will always go on. Two, since you are not going to be able to affect that, move faster on MFN status. Reduce that to zero.

Many of us have written on that. Maybe now, to take down the downside of the preferences, it is important now to be really pro-Doha, pro-negotiations, until we get what might be called a borderless world in that sense. But you know the old story of Beryl Sprinkel who was chief economic advisor to President Reagan. Once he was exacerbad by the Europeans and he said, "Let the Europeans look after their exchange rates and we'll look after ours." That is a good exam question. He did not understand what a ratio meant.

Question #3: I have two questions. In your presentation this morning, you detailed a full list of problems plaguing the Doha round. But you did not give us any bright spots in the clouds. Where is the sunshine? I am wondering if you could balance your presentation with some reasons to be positive. What opportunities could we utilize to bring this round to a successful

conclusion?

My second question relates to FTA in this particular region. You know, East Asia is one region where FTAs have not proliferated. But in recent years, there have been very active talks about bilateral trade between Korea and Japan, and some others have talked about a trilateral agreement with China, and so on. In today's world environment, with FTAs and TPAs and spaghetti all over, does it make sense for East Asians to still say that we do not want to go along that route?

Answer #3: Let me take the second question first. It is very hard not to join the rest of the world in linking these things. One argument says that if everyone else is making FTAs, your markets are being strained. As long as the number of MFN-status countries is not zero, there will be some trade diversion away from you. In that sense, bargaining becomes important. If Asia says that they want to get rid of the external tariffs of, say, the NAFTA countries or the trade area that will soon come about in the Americas, it is not possible for Japan, Korea or China to do anything by themselves. The argument becomes political in terms of being able to bargain for mutual reductions. That is important.

The other point is from an economic point of view. For a country like Singapore, for example, it will not be hurt by trade diversion by joining any agreement. What is it getting by signing an FTA? It is simply buying market access. But its own market is already completely open. By going in with Japan, it is not going to divert trade from the United States, which is cheaper. Everyone gets in to Singapore for free. So for small countries—and Korea should take note—it is only a great success when external barriers are low, like in Chile, Singapore, and so on.

I often visit to my own country, India, where external trade and tariff barriers are about 35% on average. If they enter into a bilateral agreement, as they are trying to do with Bangladesh and Pakistan, the external barriers of each country in the region are currently so high that there would be an enormous trade diversion from one to another. So a basic precondition for entering into bilateral agreements without hurting yourself is that your external barriers be low.

I was advising the Singapore government, when I lectured them some four years ago, that they were not big enough to set an example for anybody. I am not talking to Lamy or Zoellick. The US sets an example. The EU sets an example. But Singapore is just maximizing its own wealth. Since its trade barriers are already virtually zero, I told them to go ahead and sign as many agreements as they could. Be promiscuous. But to India, I said to not do it. They would end up in an agreement with somebody they should really not be in an agreement with. This is the main lesson.

The overall bargaining power, of course, is a different point. But this is something that

politicians are bound to think about. Like the Brazilians in MERCOSUR. MERCOSUR is essentially a balance to NAFTA, and of course Brazilian economics is run mostly by foreign service people. They are all foreign service people. So it is very much a foreign service oriented, diplomatic oriented, politics oriented economic policy.

On the bright side, the generals around the world are interested. The bright story would be simply that the U.S. TPA does actually pass, because they are working hard at it. And that the politics will ease up after the election at the end of the year. But if it goes the other way, who knows? Maybe we just have to wait another two years or something. If you take a three year perspective, it is very hard. But I think it is a freak thing, the three year perspective. I think we will go far. At the negotiating level, you have very good people. Especially with Supachai coming in with Harbinson, that is also good. They can stand on Mike Moore's shoulders now and push it forward. There is enough leadership interest, in my judgment, and that is half the game. All of these will have to be surmounted in one form or another. I was just pointing out what the downsides might be as we push ahead.

Ultimately, for the final outcome, I am optimistic, but whether it will be five years, or seven, as long as it does not exceed seven and half you should be happy.

Question #4: So would it be fair to characterize your view as cautiously optimistic or cautiously pessimistic?

Answer #4: I would say cautiously optimistic because you can only be reasonably optimistic if you recognize what the problems are. If you are just optimistic without knowing what the problems are, you will not be able to address the problems. The first secret of success is to know who your enemies are and try to cork them in some way.

Question #5: About China's accession to the WTO, considering all these difficulties you mentioned with regard to the Doha round, what are the implications for the Chinese accession and to the WTO operations as well as the Doha round negotiations.

Answer #5: About China in the WTO, I think it will wind up playing fairly responsibly. There is nothing on record of China wanting to join an institution like this to wreck anything. They are very practical people. They want to belong. And they have other interests in international events, like sports, Olympics and so on. I do not see them as basically having any revolutionary fervor. If anything they are conservative right now. Also, the Party wants to continue. If it is radical, it will not be able to continue. So I see no evidence right now that they will do it.

I know that Dr. Supachai as said that there are some 20 committees in the WTO dealing with different aspects of post-Chinese accession problems, but I do not think that that is either here or there. There is a fear that they will clog up the dispute settlement system, but in

that case simply expand it. Add three more judges. Or six more judges. Or add more benches, as they do. So I personally feel that that cannot really be the defining point at all.

The other way, that the WTO obligations will not be met at all by the Chinese system, of course they need to set up a legal system and so on. I know people who throw their hands up saying that China will never do it. But how have they absorbed so much investment in the past few years? You set up your own arbitration system, if the regulatory system does not work. Make up your own little courts where you refer your problems. They will not necessarily take all of them to the WTO, but they will apply WTO rules and maybe not use a dispute settlement system to clog it all up. Just have arbitration systems as you already have.

There are so many ways in which you can handle it. This also used to be said about Japan. If Japan starts using the system, they will start clogging it up because they do not have enough lawyers, and so on and so forth. But nothing like that has even happened with Japan either. There are a lot of people who know a whole lot about China who feel that this will not be a major problem, that they will make a lot of changes as they go along. We are not going to create either impossible obligations on China or the other way around, that it will be a smoother process.

I am on the optimistic side and I know that Supachai is also on the optimistic side. I think there are people who look at the legal systems much too deeply, and they do not understand that it is an evolving system. I am on the board of a Shanghai WTO institution, and they are turning out, I think somebody said, 100 people per year, bureaucratic experts dealing with this. Probably in 5 years you will have 500 Chinese experts per year. They might even be able to loan them to the developing countries to handle their problems. The WTO itself is training lawyers as well. This is an evolving system which China is now really part of, along with other countries.

The main fear is on the part of unions, I know. I was talking to John Sweeney, a U.S. member of Congress, and he really feels that on things like social clauses, labor standards, that the Chinese will be the final block, though India might come around. In my opinion China will just be another vote. I do not see the other developing countries automatically looking to China. It may want to be a leader, but it has no followers. It has a different political system, and I do not think many people admire that one. People are also fearful of competition. So China will not become a leader. China will not play that role until it becomes democratic. Right now, China is seriously handicapped in terms of public perception because of its politics in both developing and developed countries.