It takes more than free trade to end poverty

By Joseph Stiglitz

The Independent (London)
February 3, 2006

Last year was supposed to be the year to "make poverty history". But after a year of rock concerts, high-level summits and unprecedented public attention on the problems facing the world's poorest, 2005 ended with a whimper rather than a bang.

The meeting of trade ministers in Hong Kong in December was a chance to make major changes to the world trading system and give hundreds of millions of people the opportunity to trade their way out of poverty. At the end of the meeting, WTO director-general Pascal Lamy described the accord as a landmark document that managed to break the deadlock in global trade talks.

The so-called successes of the Hong Kong deal, however, are of little more than symbolic value to the developing countries, who are coming to realise that, despite the promises they have been given, this trade round will once again deliver them little of real value.

Take, for instance, the gesture of removing agriculture export subsidies. It is a move in the right direction, but export subsidies make up only a small fraction (roughly 4 per cent) of total subsidies given to farmers in rich countries. The bulk of agricultural support comes in the form of production subsidies, which operate to increase the amount of food on the world market and hence lower the prices received by producers in the poor countries. So while the removal of export subsidies is welcome, it is only a tiny part of the egregious distortion of world agricultural markets.

The other headline achievement of the Hong Kong meeting was to give goods from the poorest countries free access to the markets of the rich countries. Unfortunately, the fine print of the deal undermines much of its value. The United States and Japan slipped in a provision which would allow them to continue to tax a small number (3 per cent) of products. While this may appear to be a small compromise, it is in fact enough to diminish the value of the package significantly, because poor countries are only able to produce a very small range of goods competitively. Thus this exception gives the US scope to exclude the majority of the goods they can actually export.

The declaration at Hong Kong, of course, was not a deal, but an agreement about the way forward. The agreement was really just a shell, with much of the detail to be fleshed out in the coming months. What happens henceforth will determine the scope of the gains from the Doha round and whether, in the end, developing countries are better or worse off as a result.

Unfortunately, there are several reasons to be pessimistic One is the increasingly hard-line approach taken by the European Union. The EU Trade Commissioner, Peter Mandelson, continues to demand that the developing countries make reciprocal concessions in return for access to the EU's market. He said last week that "Anyone coming to the negotiating table empty handed must expect to leave empty handed." Mandelson treats the negotiations as a bargain between equals, but impoverished African countries can hardly be expected to negotiate on equal terms with the giant advanced economies.

The second threat to the Doha round is the increasing detachment of the US, which continues to plough ahead with special trade agreements with its friends and allies outside the WTO. These bilateral agreements threaten to create a spaghetti-bowl of trade deals which hamper multilateral progress and leave the poorest countries out in the cold.

The main problem with the round is that whenever the negotiators from the rich countries reach a stalemate, they respond by taking issues off the agenda. One after another, thorny issues have been jettisoned or pushed into the background, so that the agenda is now so narrow that there is very little for anyone to object to and, unfortunately, very few areas in which real progress can be made.

As Andrew Charlton of the LSE and I point out in our recently published book Fair Trade for All: How Trade Can Promote Development, there was in fact a broad agenda that could deliver benefits to the poorest countries, but which has been almost entirely ignored in the Doha round. For example, there is much that could be done to reduce tariffs on industrial goods. Rich countries collect tariffs four times higher on their imports from poor countries than imports from other rich countries. Similarly, some advances could quickly be made by liberalising labour-intensive service sectors in which developing countries have genuine export interests.

Opening the door to trade is one thing, but the real challenge is to help developing countries go through it. Without assistance to build decent roads, efficient ports, and to produce goods of sufficient quality, new trading opportunities are meaningless. Aid and trade must go hand in hand if poverty is to be reduced.

For now, what is clear is that more attention has been focused on the image of progress than on the reality of enhancing incomes and opportunity in the developing world.

Joseph E Stiglitz is a Nobel laureate in economics and Chair of the Brooks World Poverty Institute at the University of Manchester