Fair Trade For None

Joseph Stiglitz, December 09, 2005

Joseph E. Stiglitz, professor at Columbia University, was the recipient of the 2001 Nobel Prize in economics. His best-selling Globalization and its Discontents *has been translated into more than 30 languages. His new book* Fair Trade for All: How Trade can Promote Development*, written with Andrew Charlton, is being published this month by Oxford University Press .*

Whatever face-saving measures are taken, the meeting in Hong Kong in mid-December to wrap up the current development round of world trade talks will almost surely fail the only test that matters: whether such an agreement promotes the poorest countries' development. Cynics will say that the advanced countries, in the tradition of previous trade deals, intended to provide only the bare minimum in the way of concessions, while generating the full maximum in the way of "spin," to get the developing countries on board.

What has happened since the beginning of the development round at Doha in November 2001 has been a huge disappointment for me. As chief economist of the World Bank, I reviewed the Uruguay round of 1994 and concluded that both its agenda and outcomes discriminated against developing countries. In March 1999, I went to the headquarters of the World Trade Organization in Geneva to call for a development round to redress these imbalances. For a moment, I thought my call had been heeded.

Two years ago, I was asked by the Commonwealth, a diverse group of mostly ex-British colonies—countries from both the North and the South—to prepare a study of what a true development round would look like. This month, Oxford University Press is publishing an expanded version of that report, called *Fair Trade for All: How Trade can Promote Development.*

Both as it was conceived, and even more as it has evolved, today's development round does not deserve its name. Many of the issues that it has addressed should never have been on the agenda of a genuine development round, and many issues that should have been on the agenda are not.

Agriculture is not the only—or even the most important—trade issue, though it is understandable why it has become pivotal. When the Uruguay round began, there was a "Grand Bargain" to expand the trade agenda to include services and intellectual property rights—two issues of particular concern to developed countries. In return, developed countries were to make major concessions on agriculture—the livelihood of the vast majority of people in developing countries—and textile quotas, the only trade area (besides sugar) in which quantitative restrictions persist.

In the end, developed countries got what they wanted, and developing countries were told to be patient: Eventually, the developed countries would fulfill their part of the deal. Even as the rich countries urged developing countries to make quick adjustments, they claimed that they needed a decade to make the transition to a quota-free textile regime. In truth, they were just buying

time; they did nothing for a decade, and when the quotas finally ended last January, they pleaded that they were still not prepared, and thus negotiated a three-year extension with China.

What happened in agriculture was even worse. While the understanding was that rich countries' enormous subsidies and restrictions would be reduced, the United States almost doubled its subsidies. But, like any sharp negotiator, the U.S. claimed that at worst it had violated the spirit, not the letter, of the agreement.

To be sure, the U.S. had inserted fine print that created a category of allowed agricultural subsidies—those that didn't distort trade—and all of its increases were of this kind. But America evidently believed that virtually anything it did was non-trade distorting. (By contrast, everything Europe did was trade-distorting. Indeed, one of America 's great achievements in trade during the past decade was to portray Europe as the culprit.)

America 's claims were not based on economic analysis—as the WTO concluded when it ruled on America 's cotton subsidies. A subsidy distorts trade if it increases production (unless magically, it raises consumption by the same amount.) America 's agricultural subsidies do just that. Those in the developing world who believe that there has been a history of bargaining in bad faith have a strong case.

That leaves developing countries facing a hard choice: Will they be better off accepting the crumbs being offered to them? Indeed, this may be harder today than ever before: with so many developing countries becoming vibrant democracies, electorates may punish governments that accept what is widely viewed as another unfair trade agreement.

Unsurprisingly, the rich countries' negotiators throw around big numbers when describing the gains from even an imperfect agreement. But they did the same thing last time, too. Developing countries soon discovered that their gains were far less than advertised, and the poorest countries found, to their dismay, that they were actually worse off. Simply put, the advanced countries have lost their credibility.

To be sure, the great achievement of the 1994 Uruguay round was the establishment of a basic rule of law in intern ational trade. Even the most powerful country, the U.S., has reluctantly yielded to its finding, for instance, that its steel tariffs violated intern ational trade law. Presumably, the same will eventually happen with America 's cotton subsidies, illegal dumping provisions and tax subsidies to exporters. A rule of law, even if unfair, is better than no rule of law.

But with that goal reached, developing countries today need to take a hard look at the details of what is being offered. Will the benefits—increased access to intern ational markets—be greater than the costs of meeting rich countries' demands? Many developing countries are likely to come to the conclusion that no agreement is better than a bad agreement, particularly one as unfair as the last.

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