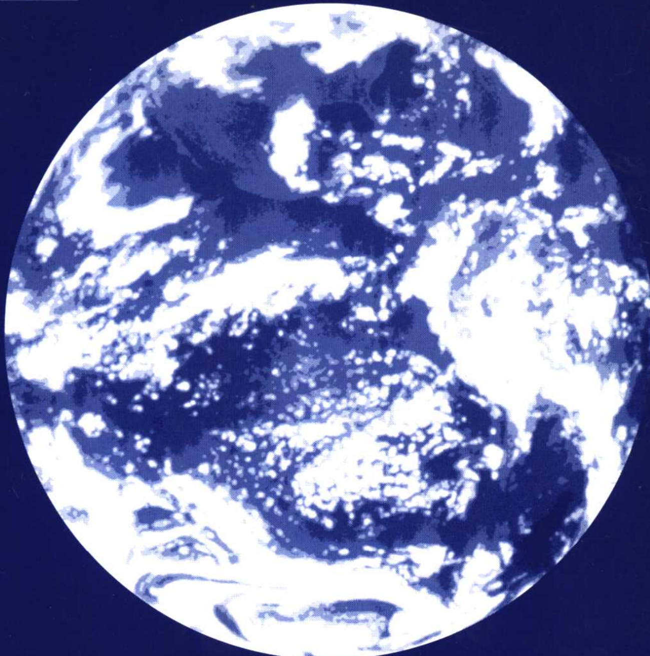
Rethinking Bretton Woods



EDITED BY
Jo Marie Griesgraber & Bernhard G. Gunter

World Trade

Toward Fair and Free Trade in the Twenty-first Century

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Preface

To explore a broad range of proposals for achieving more equitable, sustainable and participatory development, particularly through the international financial institutions, the Center of Concern convened a conference in Washington, DC, from 12–17 June, 1994. The conference was a part of the Rethinking Bretton Woods project, which marked the fiftieth anniversary of the Bretton Woods, New Hampshire, meeting that created the World Bank and the International Monetary Fund (IMF) and laid the groundwork for the General Agreement on Tariffs and Trade (GATT), succeeded by the World Trade Organization (WTO) in 1995.

Conference participants came from 27 countries in Africa, Asia, Australia, Europe, and North and South America, and included economists, historians, sociologists, lawyers, businesspeople, political scientists, theologians and representatives of the Bretton Woods institutions (BWIs). Their papers and discussions focused on roles for the BWIs – the World Bank, the IMF and the soon-to-be-established WTO – in initiating, assisting and sustaining such development. This series of books originated as the preparatory papers for that conference.

The project's 23 sponsors include people from academic and non-governmental institutions in 18 countries; an advisory group has members from nine countries. The lead organization, the Center of Concern, is a Washington DC-based social justice center founded in 1971 to analyze, educate and advocate on issues of international development. Louis Goodman, Dean of the School of International Service at The American University, a project adviser and co-sponsor, hosted the conference.

This book is the result of the hard work and generosity of many: the advisers and sponsors of Rethinking Bretton Woods; the funders, the John D. and Catherine T. MacArthur Foundation, the Ford Foundation, the C.S. Mott Foundation, the World Council of Churches, CEBEMO, Trocaire and CAFOD, and their very competent staffs; the staff and interns of the Center of

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Jo Marie Griesgraber
Bernhard G. Gunter
Washington, DC
October 1995

List of Acronyms

AFL-CIO	American Federation of Labor and Congress of Industrial Organizations
BIS	Bank for International Settlement
BWI	Bretton Woods institution
DSB	Dispute Settlement Body
DSU	Dispute Settlement Understanding
EBRD	European Bank for Reconstruction and Development
ECOSOC	Economic and Social Council
EC	European Community
ERP	effective rates of protection
FAO	Food and Agriculture Organization
FDI	foreign direct investment
Fed	US Federal Reserve Board
G-7	Group of Seven
G-24	Group of Twenty-Four
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GNP	Gross National Product
GSP	Generalized System of Preferences
HDI	Human Development Index
IBRD	International Bank for Reconstruction and Development
ICCR	Interfaith Center for Corporate Responsibility
ICFTU	International Confederation of Free Trade Unions
IDA	International Development Association
IDB	Inter-American Development Bank
IFC	International Finance Corporation
IFI	international financial institution
IMF	International Monetary Fund
ILO	International Labour Organisation
IPA	Indian Patents Act
ITC	International Trade Commission

ITO	International Trade Organization
KRRS	Karnataka Rajya Rayat Sangh
MDB	multilateral development bank
MFA	Multi-Fibre Arrangement
MFN	most favored nation
MIGA	Multilateral Investment Guarantee Agency
MTN	Multilateral Trade Negotiation
NAFTA	North American Free Trade Agreement
NGO	non-governmental organization
NIC	newly industrialized country
OECD	Organization for Economic Cooperation and Development
PMP	Phased Manufacturing Program
PUDR	People's Union for Democratic Rights (India)
R&D	research and development
SAP	structural adjustment program
SDR	special drawing right
TNC	transnational corporation
TRIMs	Trade-Related Investment Measures
TRIPs	Trade-Related Intellectual Property Rights
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNICEF	United Nations International Children's Emergency Fund
VER	voluntary export restraint
WFP	World Food Programme
WHO	World Health Organization
WIPO	World Intellectual Property Organization
WTO	World Trade Organization

Introduction

A brief historical overview of trade theories and of the General Agreement for Tariffs and Trade (GATT) provides the context for the wide-ranging and profound discussions of trade which constitute the chapters in this volume. Earlier volumes in this series considered practical reforms of the World Bank and the International Monetary Fund (IMF) toward effective global institutions (Volume I); alternative principles and paradigms for development (Volume II); and in-depth explorations of the history and potential roles for the World Bank and the IMF (Volumes III and IV, respectively). It is appropriate that the newest global financial institution, the World Trade Organization (WTO), which was conceived at Bretton Woods, should be the focus of this fifth and final volume of the Rethinking Bretton Woods Series.

A BRIEF HISTORY OF TRADE THEORIES

Although trade theory has gone through distinct periods, economic theory generally suggests there are gains from international trade even for developing countries. In theory, increased trade fosters rapid growth of employment and a more equitable distribution of income. The practice of international trade often contradicted that theory. While free trade certainly enforced efficiency, the gains from trade and higher efficiency have generally not been distributed equally. This has been true not only within countries but also among countries. Dependence on international trade with its unequal distribution of benefits led the so-called dependency theorists of the 1960s and 1970s (like Paul Baran and Andre Gunder Frank) to conclude that international trade led to exploitation and neocolonialism: 'According to Frank, a developing country can develop only by withdrawing from the world capitalist system.'[1] Frank's prescriptions are now rejected even by former populist economists as being unrealistic for developing countries.

Trade theory has evolved considerably since the mercantilists (1500–1750) saw international trade as a zero-sum game. That is, one country's gain was automatically another country's loss. According to mercantilist theory, countries with a trade surplus gained at the expense of countries with a trade deficit. Adam Smith (1723–1790) substituted the mercantilists' zero-sum approach to trade with the concept of absolute advantage, showing that it was possible to gain from international trade even in the case of a trade deficit.[2]

David Ricardo (1772–1823) substantially corrected the concept of absolute advantage by introducing the concept of comparative advantage.[3] Contemporary economists Eli Heckscher and Bertil Ohlin modified the concept of comparative advantage by basing it on different factor endowments among countries. They demonstrated that the more different countries were in their endowments, the higher would be the gains of trade between the countries. Based on comparative advantages, free trade was the 'first-best' policy from a theoretical point of view. However, there were practical problems with free trade. Within any country, some groups gain while other groups lose. Although the overall gains were supposed to be larger than the losses, the problem of a fair distribution of benefits endures.

Only in 1979 did trade theory begin to catch up with the practice of protectionism. That year Paul Krugman[4] demonstrated that free trade was not necessarily the first-best solution due either to increasing returns to scale[5] or to externalities (or 'spillovers'), which are the main elements of the so-called 'new trade theories'. Based on increasing returns to scale or positive externalities, the models of the new trade theories illustrate that a country could gain either by protectionist measures or by export promotion policies. However, these gains are not mutual – one country's gain is another country's loss. Although free trade may still be the overall optimal solution, free trade is no longer the first-best solution from the individual country's point of view. Protectionism and unfair trade practices, long practiced widely, could finally be justified theoretically. The possibility that one country could gain at the cost of another intensified the call for extending the international economic order to the international trading system. This was the state of theory and practice when the latest round of GATT negotiations began in earnest. To understand the hopes and misgivings surrounding the establishment of the WTO, it is useful to review some of the history leading up to its creation.

A BRIEF HISTORY OF THE GATT

Efforts to include trade issues within the rules of the international economic order have abounded at least since the 1944 Bretton Woods conference, which envisaged the International Trade Organization (ITO) as the third pillar of the international order (the other two being the World Bank and the International Monetary Fund, created at that same conference). As Hans Singer pointed out in Volume I of this series, 'Keynes, like the other participants, left Bretton Woods in the firm belief that the ITO would be established.'[6] The negotiations on the ITO were completed on 24 March 1948 with the signing of the Final Act (also called the Havana Charter) of the United Nations Conference on Trade and Employment (November 1947–March 1948) in Havana, Cuba. Months earlier, 23 countries of the Geneva Trade Conference of October 1947 had already adopted a single document called the General Agreement on Tariffs and Trade (GATT). The GATT entered into effect January 1, 1948 as an interim agreement, pending the creation of the ITO as the permanent UN trade agency. Since the Havana Charter – and thus the ITO – was never ratified, the GATT became *de facto* the multilateral organization for trade-related issues.

The GATT lacked the jurisdiction and continuity of a permanent institution, being little more than a framework for successive multilateral trade negotiations. Following the Geneva Trade Conference of October 1947 there have been seven major GATT conferences or negotiation sessions:

- the Conference of Annecy, France (1949),
- the Conference of Torquay, United Kingdom (1950),
- the Conference of Geneva (1956),
- the Dillon Round (1962),
- the Kennedy Round (1964–67),
- the Tokyo Round (1973–79), and finally
- the Uruguay Round (1986–94).

The GATT has generally been considered a success in reducing tariffs and increasing trade volumes around the world:

> The value of world merchandise trade reached an all-time high of over $3.7 trillion in 1992 [... whereby ...] the industrialized countries dominate world trade, accounting for about 70 percent of world trade in recent years. ... [T]rade in manufacturers accounts for over 70 percent of international trade, with the remaining amount consisting of primary products.[7]

The Uruguay Round was launched in September 1986 in Punta del Este, Uruguay and concluded on April 15, 1994 at Marrakesh, Morocco. Although the WTO that emerged at Marrakesh lacks the ITO's essential functions in the area of commodity price stabilization, it is the widest-ranging multilateral trade agreement ever negotiated. The following 28 agreements, taken together, constitute the establishment of the WTO:[8]

I. Multilateral Agreement on Trade in Goods

1. GATT 1994 (a total of 8 agreements with modifications of the original GATT)
2. Agreement on Agriculture
3. Agreement on the Application of Sanitary and Phytosanitary Measures
4. Agreement on Textiles and Clothing
5. Agreement on Technical Barriers to Trade
6. Agreement on Trade-Related Investment Measures (TRIMs)
7. Agreement on the Implementation of Article VI of the GATT 1994 (anti-dumping)
8. Agreement on the Implementation of Article VII of the GATT 1994 (customs valuation)
9. Agreement on Preshipment Inspection
10. Agreement on Rules of Origin
11. Agreement on Import Licensing Procedures
12. Agreement on Subsidies and Countervailing Measures
13. Agreement on Safeguards

II. General Agreement on Trade in Services (GATS)

III. Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs)

IV. Understanding on Rules and Procedures Governing the Settlement of Disputes (DSU)

V. Trade Policy Review Mechanism (TPRM)

VI. Plurilateral Trade Agreements

1. Agreement on Trade in Civil Aircraft
2. Agreement on Government Procurement
3. International Dairy Agreement
4. International Bovine Meat Agreement

It is not yet clear whether the results of the Uruguay Round represent, on balance, a positive or negative set of trade arrangements for the developing countries. While extensive studies by World Bank economists draw a generally positive picture of the impact of the Uruguay Round on developing countries,[9] Agosin, Tussie and Crespi[10] argue that the results of the Uruguay Round will harm the trade prospects for developing countries. Dani Rodrik of Columbia University is slightly more optimistic and identifies important ways in which the Uruguay Round agreements promise to strengthen multilateral discipline in world trade, which, in itself, could be beneficial for developing countries.[11] He argues that the real threats to developing countries reside in the post-Uruguay agenda, particularly in the demands for upward harmonization in the areas of labor and environment. Ann Weston, Program Director for Trade and Adjustment at the North–South Institute, Ottawa, Canada, reviewed the results of the Uruguay Round from the viewpoint of the least developed and low-income countries. She concludes that gains from the Uruguay Round will be unevenly distributed between developed and developing countries. She also stresses that '[d]eveloping countries need to take advantage of the opportunities in the ongoing post-Uruguay Round negotiations to press for changes of particular interest to them':[12]

> What is especially notable [in respect to the commodity composition of world trade] is the current importance of trade in manufactures and the declining importance of primary products. This is of particular relevance to the developing countries, whose trade has traditionally been concentrated in primary goods. ... The demand for primary products not only tends to be less responsive to income growth, but is also more likely to demonstrate greater price fluctuations. ... The lagging growth in primary goods coupled with the relative decline in primary goods prices through the middle 1980s contributed to developing countries' trade and debt problems.[13]

DISCUSSIONS OF CONTEMPORARY TRADE ISSUES AND SOLUTIONS

With this as background let us turn now to the trade discussions here, with the emphasis on key trade issues for post-Uruguay negotiations. Chapter 1 provides in-depth information on the negotiation processes leading up to the conclusion of the GATT Uruguay Round. Specifically, it provides unique and close-up insights into the negotiations preceding the creation of the WTO. The author, Chakravarthi Raghavan, a noted journalist based in Geneva, has produced a daily newsletter, *South-North Development Monitor SUNS*, documenting trade negotiations since 1980. Raghavan interprets the significance of several of these negotiated points for the South. He analyzes the implications of the WTO for the perpetuation of an already asymmetric international trading system. Along with many analysts from the South, he expresses concern about new forms of protectionism from the North, under a guise of concern for the environment or labor rights. Raghavan concludes with issues discussed in Volume IV of this series, *The World's Monetary System: Toward Stability and Sustainability in the Twenty-first Century*, namely, the complementary changes in monetary and exchange-rate policies which are necessary to create a stable world order.

In Chapter 2, Stephen Sleigh, currently Director of Strategic Resources for the International Association of Machinists and Aerospace Workers, analyzes trade by looking at the impact of the North American Free Trade Agreement (NAFTA) and the WTO on workers in industrialized countries. In contrast with Raghavan, he suggests attaching labor rights and standards to trade agreements and offers the economic and social rationale for doing so, to the benefit of workers in both industrialized and developing countries. Sleigh first examines the employment and distributional effects of NAFTA. He goes on to explore the example of the European Community's response to the social dimensions of creating the European Union. Sleigh concludes his study with a proposal for a new approach to deal with the social dimensions of North American integration.

Chapter 3 focuses on India, where Professor Bernard D'Mello of the Management Development Institute in Gurgaon, India, outlines how India has adjusted structurally since 1973. D'Mello interprets what he finds as 'neo-imperialism', which has reproduced mass poverty and inequality. D'Mello seeks to interpret recent social and economic phenomena by looking at the rules and priorities common to the Uruguay Round, the World Bank and the IMF. He analyzes how the WTO works in concert with the Bank and the Fund in managing the international trade and payments mechanism. D'Mello argues that India is basically in transition from degenerated national capitalism to neoliberal, peripheral capitalism, which is leading to deepening underdevelopment.

Chapter 4 reflects the experiences of Tissa Balasuriya, OMI, a Catholic priest working with Sri Lanka's poor and advocating for them among the country's intellectual and political elite. Balasuriya describes Sri Lanka's experiences with what he calls 'neoliberal policies' and trade liberalizations. His analysis shows not only that Sri Lanka's economic situation has deteriorated in many aspects, especially for the poor, but also carries a forceful critique of the World Bank's structural adjustment programs (SAPs) and the growing power of transnational corporations (TNCs). He concludes not with a call for isolation or withdrawal from the market, but with a call for an informed national dialogue in which affected people have a voice in deciding their future, while economic and political leaders are challenged to bring social and moral consciousness to their policy work. Balasuriya's critique of the TNCs provides a useful introduction to the final chapter.

John Cavanagh, a senior fellow at the Institute for Policy Studies in Washington, DC, and at the Transnational Institute in Amsterdam, is the rare person able to straddle the debate laid out in Chapters 1 and 2, that is, whether labor, environmental and human rights conditions are appropriate to the WTO and other trade instruments (being among the few international instruments that have enforcement powers), or whether such 'social conditions' are merely the most recent incarnation of protectionism in the North against imports from the developing countries of the South. In Chapter 5, Cavanagh brings his expertise on transnational corporations to the debate. Having just co-authored *Global Dreams: Imperial Corporations and the New World Order*[14] with Richard Barnet, Cavanagh's broad yet detailed knowledge of TNCs is evident as he explores their role in the global economy. This contribution is essential to any discussion of global trade, for the TNCs are the most numerous and powerful actors in global trade, frequently dwarfing the nation states that negotiated the trade framework for the WTO. Cavanagh offers proposals for regulating TNCs to make them socially accountable. First, he describes the need for and concept of accountability. He then assesses the possibility of corporate accountability through trade agreements. He closes the chapter, the book and the series by proposing steps to move forward with corporate accountability.

NOTES

1. W. Wayne Nafziger, *The Economics of Developing Countries*, 2nd ed. (Englewood Cliffs, NJ: Prentice Hall, 1990) p. 93.
2. Adam Smith, *An Inquiry Into the Nature and Causes of the Wealth of Nations* (London: W. Strahn and T. Cadwell, 1776; reprinted London: J.M. Dent and Sons, 1977).
3. David Ricardo, 'On the Principles of Political Economy, and Taxation' (London: John Murray, 1817) as reprinted in Piero Sraffa (ed.) with the collaboration of M.H. Dobb, *The Works and Correspondence of David Ricardo*, Vol. I (Cambridge, England: University Press for the Royal Economic Society, 1951).
4. Paul R. Krugman, 'Increasing Returns, Monopolistic Competition and International Trade' *Journal of International Economics*, vol. 9/4 (November 1979) pp. 467–79; and Paul R. Krugman, 'A Model of Innovation, Technological Transfer, and the World Distribution of Income', *Journal of Political Economy*, vol. 87/2 (April 1979) pp. 253–66.
5. Returns to scale is 'the rate at which output changes as the quantities of all inputs are varied ... This should be carefully distinguished from the situation in which only one input is varied in which case the law of diminishing returns will eventually come into play': David W. Pearce (ed.), *The MIT Dictionary of Modern Economics*, 4th ed. (Cambridge, Mass.: The MIT Press, 1992) p. 376.
6. Hans W. Singer, 'Rethinking Bretton Woods: From an Historical Perspective' in Jo Marie Griesgraber and Bernhard G. Gunter (eds) *Promoting Development: Effective Global Institutions for the Twenty-first Century* (London: Pluto Press with Center of Concern, 1995) p. 8.
7. Dennis R. Appleyard and Alfred J. Field, *International Economics*, 2nd ed. (Chicago et al: Irwin, 1995) pp. 4–7.
8. See Box 1 of Dani Rodrik, 'Developing Countries after the Uruguay Round', in United Nations Conference on Trade and Development (UNCTAD), *International Monetary and Financial Issues for the 1990s*, Research Papers for the Group of Twenty-Four (New York and Geneva: United Nations, 1995) p. 40.
9. See for example, Bernard M. Hoekman, 'Trade Laws and Institutions: Good Practices and the World Trade Organization', *World Bank Discussion Papers*, no. 282 (Washington, DC: World Bank, 1995); and Will Martin and L. Alan Winters (eds), 'The Uruguay Round and the Developing Economies', *World Bank Discussion Papers*, no. 307 (Washington, DC: World Bank, 1995).

10. Manuel R. Agosin, Diana Tussie and Gustavo Crespi, 'Developing Countries and the Uruguay Round: An Evaluation and Issues for the Future' in United Nations Conference on Trade and Development (UNCTAD), *International Monetary and Financial Issues for the 1990s*, Research Papers for the Group of Twenty-Four (New York and Geneva: United Nations, 1995) pp. 1–34.
11. Dani Rodrik, 'Developing Countries after the Uruguay Round', in United Nations Conference on Trade and Development (UNCTAD), *International Monetary and Financial Issues for the 1990s*, Research Papers for the Group of Twenty-Four (New York and Geneva: United Nations, 1995) pp. 35–60.
12. Ann Weston, 'The Uruguay Round: Unravelling the Implications for the Least Developed and Low-Income Countries' in United Nations Conference on Trade and Development (UNCTAD), *International Monetary and Financial Issues for the 1990s*, Research Papers for the Group of Twenty-Four (New York and Geneva: United Nations, 1995) p. 95.
13. Dennis R. Appleyard and Alfred J. Field, *International Economics*, 2nd ed. (Chicago: Irwin, 1995) p. 7.
14. Richard J. Barnet and John Cavanagh, *Global Dreams: Imperial Corporations and the New World Order* (New York: Simon & Schuster, 1994).

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