Fair Trade For All

HOW TRADE CAN PROMOTE DEVELOPMENT

Joseph E. Stiglitz and Andrew Charlton

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Foreword

By the end of the twentieth century trade liberalization had become part of the mantra of political leadership of both the left and the right in the advanced industrial countries. President Clinton had hoped that a new round of trade negotiations, which was to have been launched at the Seattle meeting of the WTO in December 1999, would be his final achievement in helping create a new world of trade liberalization, capping the successful creation of NAFTA and the completion of the Uruguay Round. Perhaps the new round would be remembered as the Seattle Round, or even better, as the Clinton Round, as previous rounds had been named after the city where they were started (e.g. the Torquay Round of 1951 and the Tokyo Round of 1973–9) or the official who came to be identified with the talks (e.g. the Dillon Round of 1960–1 and the Kennedy Round of 1964–7).

As Chief Economist of the World Bank, I was greatly worried about the imbalances of the Uruguay Round, and sensitive to the fact that it had not delivered on the promises that had been made to the developing countries. In an address to the WTO in Geneva, I documented those imbalances and called for a Development Round to redress them.[1] Just days before the WTO meeting convened in Seattle (in an address at Harvard University) I predicted that unless redressing those imbalances was at the top of the agenda, the developing countries would reject another round of trade negotiations. As it turned out, Seattle was a watershed. The riots and protests on the streets during the conference were the most public manifestation of a shift in the debate about trade and trade liberalization—and of a more significant shift in the relationship between the developed and the developing world.

[1] See Stiglitz (1999*b*, *c*).

At the turn of the millennium, there was a new sense of collective responsibility for the challenges faced by poor countries, and also a recognition of the inequities created by previous rounds of trade negotiations. The advanced industrial countries responded to the events at Seattle and the broader public support for a new approach to international issues. At Doha, in November 2001, they agreed to an agenda that they *claimed* reflected the concerns of the developing countries.

But a year and a half later it was clear that the developed countries were, by and large, reneging on the promises they had made at Doha. It appeared that even if progress were made in agriculture, it would be slow—it might even be years before subsidies were cut back to the 1994 levels. Until just before the meeting in Cancún, in September 2003, the United States was the only country still holding out on an agreement to make life-saving medicines available, but even after it caved in to pressure it appeared as if it were demanding severe restrictions on the availability of such medicines. The terms it was forcing on developing countries—and even on Australia—in bilateral agreements made clear that there was no intent to make it easy for countries to have, say, generic drugs at affordable prices.

Not one of the trade ministers of the developed countries will defend the inequities of, say, the agricultural provisions. When an earlier version of this report was presented at the UN, at the invitation of the President of the General Assembly, and when it was presented at the WTO in Geneva, no one, not even the representatives of the United States, challenged the charges that we made against the gross inequities of the previous rounds, or even the inequities of some of the proposals then under discussion. But the trade ministers say in private, 'What are we to do? Our congresses and parliaments have tied our hands. We cannot tame the special interests. We live in democracies, and that is part of the price one has to pay for democracy. We are doing the best we can.'

At Cancún, for perhaps the first time, there was sufficient transparency that journalists could cover what was going on. There were quick reports back to national capitals about daily developments in the negotiations. In effect, the democracies of the developing countries replied: 'We too live in democracies. Our democracies are demanding that we sign a fair agreement. If we return with another agreement as unfair as the last, we will be voted out of office. We too have no choice.' So the choice for the world was between a fair agreement reflecting the sentiments of a broad majority of the populations in both developed and less developed countries, or another unfair agreement, reflecting the special interests in developed countries. It was clear that the developing countries were on far higher moral ground than were the developed countries.

In the aftermath of the failure of Cancún, the Commonwealth countries—a group of nations with a historical association to the United Kingdom—asked us to undertake a study of the Development Round. The 52 Commonwealth countries consist of developed countries (the UK, Canada, Australia, South Africa, and New Zealand), and large developing countries (India, Pakistan, Nigeria, Malaysia) and many small countries (including Saint Kitts, Fiji, Cyprus). Thus the Commonwealth provides a unique forum in which the vital issues affecting the relationship between developing and developed countries can be discussed in a spirit of openness and understanding.

The Commonwealth posed the question: 'What would a true development round—one reflecting the interests and concerns of the developing world, one which would promote their development—look like?' Our answer was that it would look very different from that embodied in the agenda that was set forth in Doha, and even more different from how matters had evolved subsequently. We came to the conclusion that the so-called 'Development Round' did not deserve its epithet. This book puts the recommendations of that report within the broader context of trade policy, development, and the WTO.

There are some people that will criticize the content and motivation of this book. There is certainly a concern that by pointing out the unfairness of global trade rules, this book will cause governments and vested interests in developing countries to blame outsiders for their problems rather than engage in difficult internal reform. But like the result of any analysis, information can be misused, and the only protection is to be as clear as one can about the assumptions underlying the analysis. While it is true that developing countries could do more for themselves, and that many of their problems are only marginally related to constraints on external market access, that is no excuse for an international trade regime that makes life more difficult for the developing countries. The fact that the truth might lead individuals to unhappiness as they realize how poorly they have been treated can hardly be an argument for *not* engaging in analysis and disseminating results. There is, of course, the risk that recalcitrance in the North and unrealistic expectations in the South could lead to a stalemate. But this book, by showing that there is in fact a rich agenda ahead, provides a variety of channels through which progress can occur.

Most of the book is an incidence analysis. It describes the policies that would do the most to integrate the developing countries into the world trading system, to give them new trading opportunities, and to help them to capitalize on those opportunities. It is premised on the hope that a better understanding of the effects of trade agreements will help mobilize public opinion in both developed and less developed countries; that it will strengthen the case for negotiators in the hard bargaining that marks any round of trade negotiations; and that it will help bring about reforms in the procedures and in the institutions of the WTO which will enhance transparency and more equitable outcomes. As the old aphorism has it, *knowledge is power*. It is our hope that the information provided by this book might play a small role in shaping the outcome of trade negotiations.

We should clarify what this book is, and what it is not. It is a review of the theoretical and empirical evidence—much of the detail of which is located in the Appendices—concerning the impact of provisions of previous trade agreements and proposed new agreements on the well-being and development of the developing countries. On the basis of that review we delineate a set of priorities for a 'true' Development Round. The book itself does not undertake any original analyses of these impacts, though we comment on the assumptions, strengths, and weaknesses of studies already in the literature.

If there is a successful conclusion to the Doha Round—or to any subsequent round of trade discussions—developing countries will need substantial assistance to enable them to adapt to the resulting changes, and to take advantage of any resulting new opportunities. Thus, the second question we address is: 'What kind of assistance

should be provided by the advanced industrial countries?' But before addressing that question, we needed to ask prior ones: 'Why is such assistance so important? Why are the costs of adjustment for developing countries higher, and their ability to bear those costs so much lower, than for developed countries?' It is our hope that by making it clear why assistance is so important if trade liberalization is to bring its potential benefits to developing countries, we can further increase the resolve of developed countries to live up to the commitments they have already made to provide additional assistance to the developing countries. Just as the developed countries appear to have fallen markedly short of their commitments to the developing countries and to each other that they made at Doha in November 2001, to make the current round of trade negotiations a Development Round, at least some of the developed countries appear to have fallen markedly short of the commitments in financial assistance that they made at Monterrey in March 2003. These were commitments based on the noblest of ambitions, to create a fairer globalization and to increase the well-being of the world's poorest. It is our hope that this book may, in some small way, contribute to the achievement of these ambitions.

Joseph Stiglitz
2005

Preface

This book goes to press as the world moves towards the WTO's 6th Ministerial Meeting in Hong Kong in December 2005. This is the first Ministerial Meeting since the 5th Ministerial in Cancun, Mexico, collapsed in failure and recriminations in 2003. Progress since Cancun on the central issues in dispute, including agriculture, has been slow, and there has been growing pessimism about the potential outcomes of the Hong Kong negotiations. The optimists hope not only for an agreement, but one which is more than just a face-saving gesture, such as a pro-forma commitment to continue discussions and a reiteration of the lofty goals set at Doha.

The document which launched this round of talks—The Doha Declaration—was full of noble ambition. It promised to rectify the imbalances of previous rounds of trade agreements, that had left, for instance, developed country tariffs against developing country products far higher than those against developed countries. The world has come to recognize the imperative of reducing poverty in the Third World. It has agreed upon a set of targets—the Millennium Development Goals. And it has increasingly come to recognize the importance of opening up trade opportunities for the developing countries—and providing them assistance to grasp these opportunities—if these targets are to be met. It was accordingly totally appropriate that at Doha the trade ministers agreed to make the Round of trade negotiations they were then launching a *development round*, one which would help, not hinder, the developing countries in achieving those aspirations. The rest of the world cannot solve the problems facing developing countries—their success will depend largely on their own efforts—but it should not tilt the playing field against them, which, as we have shown, in many respects, it has been doing.

Part of the problem has been that discussions on reforming the global trading system have been approached as a pure matter of bargaining—and in the bargaining, the poor and the weak, the developing countries, almost inevitably come out short. Even had the agenda that had been set out in Doha been more fully accomplished, it would have been a far cry from a *true* development agenda. But what has been emerging since then clearly does not deserve that epithet. The irony is that both the North and the South as a whole could benefit from a *fair* and *development-oriented* agenda.

This book has made it clear that, regardless of the outcome of Hong Kong, we have a long way to go if we are to establish a global trading regime which represents *fair trade for all*. We should, however, be content with nothing less.

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Joseph Stiglitz and Andrew Charlton
2005

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Glossary

African, Caribbean, and Pacific (ACP) countries Group of African, Caribbean, and Pacific countries which have received special treatment from the European Union through a series of agreements, including the Lomé Convention and the Cotonou Agreement.

Agreement on Agriculture WTO agreement which focuses on improving market access and reducing trade-distorting domestic support payments and export subsidies in agriculture.

anti-dumping duties Specific import duties imposed by importing countries on goods which are dumped by foreign exporters and cause injury to producers of competing products.

anti-globalization A political stance of opposition to the perceived negative aspects of globalization.

Appellate Body The WTO's judicial body that hears appeals to the findings of dispute settlement panels.

Cairns Group A group of countries which lobby together for agricultural liberalization, including Argentina, Australia, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Fiji, Guatemala, Indonesia, Malaysia, New Zealand, Paraguay, the Philippines, South Africa, Thailand, and Uruguay.

competition policy Policies designed to protect and stimulate competition in markets by outlawing anti-competitive business practices such as cartels, market sharing, or price fixing, the body of laws of a state which encourage competition by restricting practices which remove competition from the market, such as monopoly and cartels.

compulsory license Authorization for a government or company to make and sell a product (such as a life-saving drug) without the permission of the patent holder on the grounds of public interest.

Cotonou Agreement A treaty signed in Cotonou, Benin, in June 2000 which sets out the relationship between the European Union and the ACP

countries on foreign aid, trade, investment, human rights, and governance; Replaces the Lomé Convention.

countervailing duty A means to restrict international trade in cases where imports are subsidized by a foreign country and harm domestic producers.

development box Measures proposed to give developing countries special flexibility within WTO rules for the purpose of ensuring food security, protecting farmer livelihoods, and reducing poverty.

Dispute Settlement Body The General Council of the WTO, composed of representatives of all member countries, convened to administer rules and procedures established in various agreements. It has the authority to establish panels, oversee implementation of rulings and recommendations, and authorize suspension of concessions or other obligations under various agreements.

Doha Declaration Statement made at the fourth WTO ministerial conference in Doha, Qatar, launching the Doha Round.

dumping The export of goods at a price less than their normal value, generally at less than in the domestic market or third-country markets, or at less than production cost.

enabling clause The 1979 decision of the GATT to give developing countries 'differential and more favorable treatment, reciprocity and fuller participation'. One of the so-called framework agreements, it enables WTO members to accord such treatment to developing countries without giving it to other contracting parties.

Everything but Arms (EBA) The name given by the EU to the package it offered to the least developed countries in 2001, which is expected to eliminate quotas and tariffs on all of their exports—except arms.

externality A side-effect or consequence (of an industrial or commercial activity) which affects other parties without this being reflected in the cost of the goods or services involved; a social cost or benefit.

G33 A group actually consisting of 42 developing countries of the WTO. They are: Antigua and Barbuda, Barbados, Belize, Benin, Botswana, China, Republic of the Congo, Côte d'Ivoire, Cuba, Dominican Republic, Grenada, Guyana, Haiti, Honduras, India, Indonesia, Jamaica, Kenya, Korea, Mauritius, Mongolia, Montserrat, Mozambique, Nicaragua, Nigeria, Pakistan, South Panama, Peru, the Philippines, Saint Kitts, Saint Lucia, Saint Vincent and the Grenadines, Senegal, Sri Lanka, Suriname, Tanzania, Trinidad and Tobago, Turkey, Uganda, Venezuela, Zambia, and Zimbabwe.

General Agreement on Tariffs and Trade (GATT) An organization established in 1947 to agree on common rules for tariffs and to reduce trade restrictions through a series of negotiating rounds. The Uruguay Round, completed in 1994, created the World Trade Organization, which superseded the GATT in 1995.

General Agreement on Trade in Services (GATS) WTO agreement concluded at the end of the Uruguay Round. It provides a legal framework for trade in services, and the negotiated, progressive liberalization of regulations that impede this. It covers areas such as transport, investment, education, communications, financial services, energy and water services, and the movement of persons.

Generalized System of Preferences (GSP) A program to grant trade advantages (such as reduced tariff levels) to particular developing countries.

government procurement Purchase of goods and services by governments and state-owned enterprises.

green box Income support and subsidies that are expected to cause little or no trade distortion. The subsidies have to be funded by governments but must not involve price support. Environmental protection subsidies are included. No limits or reductions are required for such income support or subsidies.

Green Room Closed meetings during which developed countries negotiated with selected countries as part of non-transparent bargaining tactics during the GATT and WTO proceedings.

import quota A form of protectionism used to restrict the import of goods by limiting the legal quantity of imports.

import substitution A trade and economic policy based on the premise that a developing country should attempt to substitute locally produced substitutes for products which it imports (mostly finished goods). This usually involves government subsidies and high tariff barriers to protect local industries and hence import substitution policies are not favored by advocates of absolute free trade. In addition import substitution typically advocates an overvalued currency, to allow easier purchase of foreign goods, and capital controls.

infant industry protection Protection of a newly established domestic industry.

Jubilee 2000 An international coalition which called for cancellation of unpayable third world debt by the year 2000.

market access The extent to which a country permits imports. A variety of tariff and non-tariff trade barriers can be used to limit the entry of products from other countries.

market failure A case in which a market fails efficiently to provide or allocate goods and services, therefore requiring state intervention.

Mercosur A trading zone consisting of Brazil, Argentina, Uruguay, and Paraguay, founded in 1995. Its purpose is to promote free trade and movement of goods, peoples, skills, and money between these countries.

Millennium Development Goals (MDGs) Goals which governments committed themselves at the UN General Assembles in 2000 to achieving by 2015: namely, eradicating extreme poverty and hunger; achieving universal primary education; promoting gender equality and empowering women; reducing child mortality; improving maternal health; combating HIV/AIDS; malaria, and other diseases; ensuring environmental sustainability; and developing a global partnership for development.

mode of supply WTO term to identify how a service is provided by a supplier to a buyer.

most-favored-nation (MFN) treatment A country extending to another country the lowest tariff rates it applies to any other country. All WTO contracting parties undertake to apply such treatment to one another under Art. I of the GATT. When a country agrees to cut tariffs on a particular product imported from one country, the tariff reduction automatically applies to imports of that product from any other country eligible for most-favored-nation treatment.

national treatment Treating foreign producers and sellers the same as domestic firms.

necessity test Procedure to determine whether a policy restricting trade is necessary to achieve its intended objective.

non-tariff barriers (NTBs) A catch-all phrase describing barriers to international trade other than tariffs.

Organization for Economic Co-operation and Development (OECD) Group of industrial countries that 'provides governments a setting in which to discuss, develop and perfect economic and social policy'.

parallel imports Products made and marketed by the patent owner (or trade-mark or copyright owner) in one country and imported into another country without the approval of the patent owner.

Pareto efficiency The criterion which stipulates that for change in an economy to be viewed as socially benéficial, it should make no one worse off while making at least one person better off.

patent A grant from a government to a firm conferring the exclusive privilege of making or selling some new invention.

Poverty Reduction Strategy Paper (PRSP) A document describing a country's macroeconomic, structural and social policies and programmes to promote growth and reduce poverty, as well as associated external financing needs. Initiated by the boards of the World Bank and International Monetary Fund (IMF), PRSPs are expected to be prepared by governments through a participatory process involving civil society and development partners, including the World Bank and IMF, and are required for countries seeking to obtain concessional lending and debt relief under the enhanced Heavily Indebted Poor Countries (HIPC) initiative.

predatory pricing Action by a firm to lower prices so much that rival firms are driven out of business, after which the firm raises prices to exploit its resulting monopoly power.

production subsidy A payment perhaps implicit, by government, to producers encouraging and assisting their activities and allowing them to produce at lower cost or to sell at a price lower than the market price.

protocol of accession Legal document recording the conditions and obligations under which a country accedes to an international agreement or organization.

Quad countries Canada, the EU, Japan, and the US.

quota Measure restricting the quantity of a good imported or exported. Quantitative restrictions include quotas, non-automatic licensing, mixing regulations, voluntary export restraints, and prohibitions or embargos.

Rules of Origin Criteria for establishing the country of origin of a product. Often based on whether production (processing) leads to a change in tariff heading (classification) or in the level of value added in the country where the good was last processed.

safeguard action or measure Emergency protection to safeguard domestic producers of a specific good from an unforeseen surge in imports.

sanitary and phytosanitary measures Border control measures necessary to protect human, animal, or plant life or health.

second-best argument for protection An argument for protection to partially correct an existing distortion in the economy when the first-best policy for that purpose is not available.

Singapore Issues The topics discussed by four working groups set up during the WTO Ministerial Conference of 1996 in Singapore, namely investment protection, competition policy, transparency in government procurement, and trade facilitation. Disagreements, largely between largely developed and developing economies, prevented a resolution of these issues, despite repeated attempts to revisit them, notably during the 2003 Ministerial Conference in Cancún, Mexico, where no progress was made.

single undertaking Provision that requires countries to accept all the agreements reached during the Uruguay Round negotiations as a single package, rather than on a case-by-case basis.

special and differential treatment The principle in the WTO that developing countries be accorded special privileges, either exempting them from some WTO rules or granting them preferential treatment in the application of WTO rules.

tariff A government-imposed tax on imports.

tariff binding Commitment not to increase a rate of duty beyond an agreed level. Once a rate of duty is bound, it may not be raised without compensating the affected parties.

tariff equivalent The level of tariff that would be the same, in terms of its effect, as a given non-tariff barrier.

tariff escalation An increase in tariffs as a good becomes more processed, with lower tariffs on raw materials and less processed goods than on more processed versions of the same or derivative goods: for example, low duties on fresh tomatoes, higher duties on canned tomatoes, and higher yet on tomato ketchup.

tariffication Conversion of non-tariff barriers to their tariff equivalents.

tariff peak A single, particularly high, tariff on a good.

tariff rate quotas (TRQs) The quantitative level of imports of agricultural products (quotas) above which higher tariffs are applied.

terms of trade Ratio of the price of a country's export commodities to the price of its import commodities. An improvement in a nation's terms of trade is good for that country in the sense that it has to pay less for the products it imports, that is, it has to give up fewer exports for the imports it receives.

trade diversion Trade displacement, as a result of trade policies that discriminate among trading partners, of more efficient (lower-cost) sources by less efficient (higher-cost) sources. Can arise when some preferred suppliers are freed from barriers but others are not.

trade liberalization Reduction of tariffs and removal or relaxation of non-tariff barriers.

Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement WTO agreement which sets down minimum standards for most forms of intellectual property regulation within all member countries of the WTO.

Trade-Related Investment Measures (TRIMS) Agreement WTO agreement aimed at eliminating the trade-distorting effects of investment measures taken by members. It does not introduce any new obligations, but merely prohibits TRIMS considered inconsistent with the provisions of GATT 1994 for both agricultural and industrial goods.

Uruguay Round The last round under the GATT, which began in Uruguay in 1986 and was completed in 1994 after nearly eight years of negotiations. It created the World Trade Organization.

value added Additional value created at a particular stage of production, i.e. the value of output minus the value of all inputs used in production.

voluntary export restraint An agreement between importing and exporting countries in which the exporting country restrains exports of a certain product to an agreed maximum within a certain period.

World Trade Organization An International organization which administers multilateral agreements defining the rules of international trade between

its member states. The WTO replaced the General Agreement on Tariffs and Trade; its primary mission is to reduce international trade barriers.

WTO-plus Trade agreements that go beyond what the WTO multilateral trade regime requires. Regional trade agreements sometimes contain WTO-plus elements.

1

Introduction: The Story so Far

In November of 2001, trade ministers from 140 nations gathered in Doha, Qatar, to seek to give the World Trade Organization (WTO) a historic new mandate. The WTO's previous ministerial meeting in Seattle, USA, in 1999 had ended in failure and brought protests and violence to the city. Now they were meeting in the midst of a global recession, just two months after the shocking attacks on the United States of 11 September 2001. On the evening of 14 November, after several days of negotiations, and more than 18 hours after their original deadline, the ministers announced that they had reached a landmark agreement to launch a new round of trade talks. The agreement—the Doha Declaration—outlined a framework for a wide-ranging new round of multilateral negotiations. The top US trade negotiator, Robert Zoellick, was jubilant. 'We have sent a powerful signal to the world,' he said, adding that a new trade round would deliver 'growth, development and prosperity'.[1] Zoellick's claim that a new round of trade liberalization would deliver prosperity to the world was plausible, but he was perhaps too optimistic about the ensuing negotiations.

The purpose of this book is to describe how trade policies can be designed in developed and developing countries with a view to integrating developing countries into the world trading system and to help them to benefit from their participation. This book starts from the presumption that trade can be a positive force for development.

[1] Quoted in 'Seeds Sown for Future Growth', *The Economist*, 15 Nov. 2001.

In the right circumstances, policies which reduce tariffs and other barriers to the movement of goods and services can facilitate trade between nations and deliver welfare gains. However, we also point out that while increased trading opportunities are good for developing countries, liberalization needs to be managed carefully—the task is much more complex than the simple prescriptions of the Washington Consensus, which blithely exhorts developing countries to liberalize their markets rapidly and indiscriminately.[2]

In the run-up to the Doha meeting, the expectations of the developing country members of the WTO had been tempered by negative experiences from previous rounds of trade negotiations. Many developing countries had feared that the large industrialized countries would use their superior bargaining power to force through agreements which would disadvantage the developing countries. These fears seemed to be realized in the Uruguay Round. After the round was completed and an agreement had been signed, developing countries felt that they had not been fully aware of the cost of the obligations they had agreed to, and they felt that the liberalization in developed countries had fallen short of their expectations. Developing countries gained less than they had hoped on such issues as the speed with which textile protection would be reduced and the extent of tariff and subsidy reduction on agricultural goods in developed countries. The developed countries walked away from Uruguay with a large share of the gains, and many developed countries were predicted to be left worse off as a result of the round. After the Uruguay Round, many developing countries were reluctant to embark upon a new round of trade negotiations which might lead to another imbalanced agreement.

However, at the turn of the millennium there was renewed optimism. A new global consensus seemed to be developing to confront the economic challenges faced by the poorest nations which gained prominence in international affairs through a series of new initiatives. In trade, the Cotonou Agreement, led by the European Union, and

[2] The Washington Consensus is a set of policies believed by some economists to be the formula for promoting economic growth in developing countries. These policies include privatization, fiscal discipline, trade liberalization, and deregulation. In the 1990s these policies were vigorously advocated by several powerful economic institutions located in Washington, including the International Monetary Fund, the World Bank, and the US Treasury.

the US African Growth and Opportunity Act (AGOA) granted exporters from the poorest countries in the world free access to the richest markets in the world. At the same time, grassroots movements—including the worldwide Jubilee 2000 campaign devoted to debt cancellation for the poorest countries and the World Social Forum—gained unprecedented publicity and momentum for their causes. In addition, world leaders signed landmark treaties which placed the plight of poor countries at the heart of the global agenda. At the United Nations Millennium Summit in New York in September 2000, world leaders adopted the Millennium Development Goals (MDGs);[3] at the International Conference on Financing for Development, held in Monterrey, Mexico in March 2002, the advanced industrial countries committed themselves to helping provide the finance for development priorities of poor countries; and the Johannesburg Summit on Sustainable Development in September 2002 established an action plan to ensure sustainable global development.

The WTO conference at Doha reflected the new determination to address development problems collectively in multilateral forums. It was a hopeful milestone for developing nations and they emerged from it with some optimism. Several of their concerns were incorporated into the agreement made at Doha, which explicitly focused on the promotion of economic development and the alleviation of poverty in poor countries. This 'Doha Round'—the ninth of a series of such negotiations, and the first since the formalization of trade negotiations under the WTO[4]—came to be commonly referred to as the 'Development Round'.

Unfortunately, in the years since it was launched, the Doha Round has not delivered on its development mandate in several important respects. First, there has been little progress on the issues of interest to developing countries. In particular, developing countries are interested in agreements to reduce tariffs on the goods that they can

[3] The Millennium Development Goals are the United Nations targets for reducing poverty, hunger, disease, illiteracy, environmental degradation, and discrimination against women by 2015. The targets address extreme poverty in its many dimensions—income poverty, hunger, disease, lack of adequate shelter, and exclusion—while promoting gender equality, education, and environmental sustainability. They are also basic human rights—the rights of each person on the planet to health, education, shelter, and security.

[4] The first round, held in Geneva in 1947, resulted in the General Agreement on Tariffs and Trade (GATT), which was formally replaced by the WTO in 1995.

export competitively. These are mainly labor-intensive goods, i.e. goods that are produced cheaply in countries with low wage rates and abundant unskilled labor.

A second problem with the so-called 'Development Round' is that the new issues that were initially put on the agenda primarily reflect the interests of the advanced industrial countries and have been strongly opposed by many developing countries. The most prominent new issues in the Doha Round emerged from the decision by WTO member countries at the 1996 Singapore Ministerial Conference to establish three new working groups: on trade and investment, on competition policy, and on transparency in government procurement. They also instructed the WTO Goods Council to consider ways of simplifying trade procedures, an issue sometimes known as 'trade facilitation'. Because these four issues were introduced to the agenda at the Singapore ministerial meeting, they are often called the 'Singapore Issues'. These issues have been opposed by developing countries, who are skeptical of new multilateral obligations which could restrict existing developmental domestic policy options and which might require large implementation costs.

Less than two years after the Doha Declaration, it had become clear that the Round was seriously off track. In September 2003, the WTO convened another ministerial meeting in Cancún, Mexico, with the special task to 'take stock of progress in the [Doha Development Agenda] negotiations, provide any necessary political guidance and take decisions as necessary'.[5] After four days the meeting ended abruptly without agreement on any of the main issues. The apparently irreconcilable conflict between developed and developing countries which produced failure at Cancún led to calls for a reassessment of the direction of global trade negotiations. Many of the participants in the Cancún meeting felt that Europe and the United States had reneged on the promises that had been made at Doha, emblematized by the lack of progress on agriculture.

There were mutual recriminations about who was to blame for the failure at Cancún. There was even disagreement about who would

[5] This is spelt out in para. 45 of the declaration that ministers issued at the previous ministerial conference in Doha in November 2001.

suffer the most. The United States and Europe were quick to assert that it was the developing countries who were the ultimate losers.[6] But many developing countries had taken the view that no agreement was better than a bad agreement, and that the Doha Round was rushing headlong (if any trade agreement can be described as 'rushing') into one which, rather than redressing the imbalances of the past, would actually make them worse. Though *some* progress had been made in addressing the concerns about the manner in which the negotiations were conducted, the failure to address these concerns fully[7] generated the further worry that the developing countries would, somehow, be strong-armed in the end into an agreement that was disadvantageous to them. There were also threats, especially by the United States, that it would effectively abandon the multilateral approach, taking up a bilateral approach. It differentiated between the 'can do' countries and others, and suggested that the 'can do' countries would benefit from a series of bilateral agreements. The smaller developing countries recognized that in these bilateral discussions their bargaining position was even weaker than it was in the multilateral setting. Several of the bilateral trade agreements made since Cancún have shown that these worries were justified. On the other hand, the United States has not succeeded in establishing a bilateral trade agreement with any major developing country.

This book takes a step back from these disputes. It attempts to support progress in the current round by asking what a true Development Round of trade negotiations would look like, one that reflects the interests and concerns of the developing countries and is designed to promote their development. What would an agreement based on principles of economic analysis and social justice—not on economic power and special interests—look like? Our analysis concludes that the agenda would look markedly different from that which has been at the center of discussions for the past

[6] See the op-eds in *The Financial Times* and the *New York Times* e.g. Robert B. Zoellick, 'America Will Not Wait for the Won't-Do Countries', *The Financial Times*, 22, Sept. 2003, 23.

[7] Most notable in this regard was the request by a number of developing countries that the Cancún draft be prepared on the basis of views and inputs at open-ended consultations, and where there was no consensus, to indicate clearly the differing positions or views. The proposal was rejected by a coalition of developed countries.