

# LOOKING BEYOND DOHA?

NEW THINKING ON TRADE POLICY AND DEVELOPMENT



**PSE**

Socialist Group in the  
European Parliament



The Socialist Group is continuing to examine the links between trade and development. This sixth brochure centres on the future of the World Trade Organisation (WTO) beyond the Doha Round, which we wish to see concluded as swiftly as possible, but which should not mark the end of any further reflection on how the multilateral trade system will need to change.

Following the breakdown of the WTO ministerial meeting held in late July 2008, the Doha Round negotiations are once again at a standstill. Despite the progress undoubtedly made, it proved impossible to reach a final agreement due to negotiations breaking down over certain technical points of a sensitive and highly political nature.

The disagreement between the United States and India over the special safeguard mechanism raised both the issue of protecting fragile agricultural sectors where many jobs are at risk in developing countries and the issue of their food security.

The vital interests of developing countries, and in particular the poorest of those countries, and the commitment to make this the 'development round' must be upheld throughout the negotiating process. Clearly, these negotiations must culminate in an agreement which is in the interests of all the member countries, but the principle of redressing the balance of the rules in favour of the poorest countries must be accepted. That was the whole purpose of this round, both to ensure more equitable trade relations and to strengthen confidence in the multilateral system. That is reason enough to require the greatest possible political effort on the part of both the United States, after the new administration has been installed, and of India. The European Union must help to achieve that aim and must not risk exacerbating the existing stalemate, particularly in the agricultural sector. It is the developing countries which have the most to lose and would be the most severely affected by failure to secure a deal, given that all the gains achieved in the course of negotiations so far would be lost. But, looking further afield, all those who wish to strengthen international trade regulation in future and to establish more balanced rules, not least in the social and environmental fields, would be the losers if the Doha Round collapsed. This would include, in particular, the European Union. We have already seen, in the financial domain, the high cost of non-existent global regulation.

The collapse of the Doha Round would accelerate the drift towards a proliferation of bilateral agreements which are even more unfairly tilted against poor countries and would increase the uncertainty into which the world economy has been plunged.

The Socialist Group reaffirms, therefore, its commitment to ensuring these negotiations culminate in a global, ambitious and balanced agreement which upholds the Millennium development objectives.

However, once the Doha Round has been concluded, the question of reforming the WTO should be regarded as a priority both with a view to making the organisation more effective, legitimate and transparent and with a view to ensuring greater coherence between its policies and those of other multilateral organisations.

The European Union must be capable of promoting a progressive multilateral trade system which prioritises development and whose rules accommodate non-commercial objectives such as environmental protection, health, the eradication of poverty, the recognition of international social standards and respect for decent working conditions. The Union must rise to the major challenge of concluding the Doha Round in such a way as to incorporate those principles as far as possible into the system right away and ensuring they are on the agenda of future negotiations, as part of its battle to regulate the globalised system.

The present brochure contains contributions to the emerging debate on post-Doha prospects by Javier Moreno Sanchez (Socialist Group Member of the European Parliament), Linda Sánchez (Democrat Member of the US House of Representatives, representing District 39, California), Romain Benicchio (of OXFAM International), Timothy Wise and Kevin Gallagher (Tufts University, United States).

We should be very glad if you would send your comments to the following address:

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# Doha is not just trade

Javier Moreno Sánchez

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The Doha Round began in 2001 and called on all the WTO members to negotiate a development round whose main aim was to promote a fairer trading system that was more favourable to development and based on multilateral rules. A deadline was also set for the conclusion of the negotiations: 1 January 2005. That deadline was not met and although longer and longer deadlines have been set, they have been systematically broken. The process is long and complicated although this is due to its very nature. The Uruguay Round was concluded after 8 years of negotiations (1994), at a time when the WTO had 123 members. As far as Doha is concerned, we have been negotiating since 2001, have a broader agenda (21 points) and have more countries than ever before, each with the same right to a voice and a vote (153). Perhaps the WTO is a victim of its own ambition, which is why we should not be surprised at the difficulties that exist.

## The impasse

In July 2008 we received more bad news from Geneva: once again the trade negotiations of the Doha Development Agenda (DDA) were collapsing. What was new this time? On this occasion the fault did not lie with the European Union (EU) but with the United States and India. The apple of discord: the special safeguard mechanism (SSM). This is a crucial element for the developing countries as it will allow them to protect their markets from unforeseen import surges by imposing temporary tariff increases. It is important to note in this respect that in some circles it is felt that all of this has been merely a pretext for stalling the negotiations once again...

Of the 21 points on the agenda, 17 have been settled. In other words, there are just 4 left on the table. However, these thorny topics include, for example, cotton, which has not yet been dealt with by the main parties concerned, i.e. the United States and the so-called C4 countries: Benin, Burkina Faso, Chad and Mali. This topic pits thousands of producers in the developed countries against millions of people in the developing countries. What is the threat hanging over all the negotiating countries? The fact that nothing is agreed until everything is agreed: the so-called 'single undertaking'.

As Socialists we must try to find a balance between the two dominant paradigms in the negotiations: development and market access. Although an arduous task, we have to seek out the points on which we converge and encourage development in a broader sense because in the medium and long term it will generate better market access at global level. The objective is to conclude a round of negotiations with an ambitious, solidarity-based agenda that must bear fruit.

We must remember that the multilateral trading system has to help to promote the security, transparency, equity and stability of international trade. At the same time, it has to ensure fair and sustainable access to the system for all those involved. It also has to guarantee that globalisation is managed with multilateral rules and disciplines that are compatible with the United Nations rules on human rights, social and environmental rights, and conflict resolution.

## The priorities of the Socialist Group in the 'post-Doha' period

Attempting to deal with the post-Doha period when we do not yet know whether an agreement will actually be reached may appear a little presumptuous to some. In addition, it is clear that there is a series of questions that have to be analysed independently of the outcome of the Doha Round. They include: reform of the WTO, topics to be tackled in the future (such as energy – gas and oil – and the Singapore topics), coordination at global level of the various international bodies, links with civil society, etc.

It is for this reason that we need to re-examine the issue of the future of the WTO and its reform. The Sutherland Report presented in 2005 is still relevant today and it underlines the need to tackle a number of institutional challenges. As Socialists we support the establishment of a permanent committee on the reform of institutions and procedures.<sup>1</sup> Although this will not break the impasse in the negotiations – given the complexity of the topics involved – it will respond to the need to continue to reform the existing system.

At the same time, when talking about the DDA it is essential to ensure that a satisfactory conclusion of the Round entails stronger multilateral rules and a boost to global economic growth, development and employment, and, consequently, makes an effective contribution to the Millennium Development Goals and the integration of the developing countries into the global economy. This framework must comply with transparent rules based on the principle of social and sustainable development. From an environmental perspective it is important to support the fight against climate change, while from a social perspective it is crucial to promote social rights, such as the right to decent work, and the rules of the International Labour Organisation (ILO). These topics have been discussed in other publications by the Socialist Group, which I would advise you to consult.<sup>2</sup>

## International trade, a priority on the global political agenda

In the light of this situation, we must convey to the international community, especially the Social Democrat governments, that it is essential to make a final effort to try to conclude the Doha Round as soon as possible. The world needs a solid multilateral trading system because it is the most effective way of expanding and managing trade to the benefit of all, notably the less developed countries, and provides a single framework for conflict resolution.

Failure of the Doha Round would have grave consequences since the alternative to its success is not the current *status quo*, but a serious deterioration and loss of credibility of the international trading system. At the same time, this failure would give fresh impetus to bilateralism, in which the weakest would come off worst.

1 Proposal by Mr Stuart Harbinson, Principal Adviser to the Secretary-General of UNCTAD.

2 'New Thinking on Trade Policy and Development – Trade and Climate Change', 'Inclusion of Social and Environmental Standards in Free Trade Agreements. New Thinking on Trade and Development' and 'New Thinking on Trade Policy and Development – Trade and Employment'.

Until we close the DDA chapter, we are going to be unable to tackle other burning topics on the global agenda: the food crisis, the energy crisis and the economic crisis. For that reason, conclusion of the DDA is, if possible, even more pressing so as to enable us to turn the page and deal with the other issues that need to be tackled from a multilateral perspective.



# Looking beyond Doha: trade that works for working families

Linda Sánchez

U.S. Representative, Congresswoman, Democrat (California, 39th District)

Ever since the collapse of the World Trade Organization (WTO) Doha Round of talks, commentators have described the collapse as a failure, a missed opportunity, and a catastrophe for developing nations. In contrast, I think the collapse of the Doha Round provides some breathing room for the United States (US), the European Union (EU), and others to re-evaluate our approach to trade.

## Trade alone is not a development strategy

The tragedy of Doha, we often read, is that it failed to create greater market access that is said to be the key to economic development for the world's poorest nations. But the lowering of trade barriers and the widening of market access are not magic bullets. Just because El Salvador can sell more products to the US if tariffs are reduced, for example, does not mean it will. To begin with, the capital resources necessary to respond to new opportunities take time to develop. And a nation's government and infrastructure must support such investments and provide avenues for the resulting profits to be shared among the populace.

Even when industrial and agricultural capacity exists to take advantage of the opportunities, such capacity is still insufficient. Developing nations need more than just a new bottling plant to help raise their people out of poverty. They need a system to train and educate their populace not only to perform high-skill, high-paying work, but also to form a new entrepreneurial class, one that will start business ventures that will keep a substantial portion of the revenues in the developing nation, to help it continue economic growth.

Without such a home-grown entrepreneurial class, "foreign capital investment" risks becoming little more than imperialism by another name.

Developing nations also need to protect basic human and civil rights, and they need a system of justice that reliably prosecutes those who violate the rights of others. When workers cannot meet, organize, and engage in collective action to improve their pay, benefits, and conditions of employment, "access to foreign markets" is just another empty term.

## The case of Colombia

For example, Colombia already has wide access to American markets under the Andean Trade Preferences Act. But that has not solved Colombia's economic or political problems. In Colombia, the per capita GDP remains less than \$7,000. More than 49% of Colombians live below the national poverty threshold, and more than 11% are officially unemployed. In addition, forced labour still

exists. When I visited Colombia in 2006, I met with women who were victims of human trafficking and forced servitude.

President George W. Bush would have you believe that passing a bilateral free trade agreement will solve these problems and that Members of Congress, like me, who oppose the agreement are turning their backs on Colombia, leaving its people in poverty. But the case of Colombia demonstrates that simply granting access to American markets is not an effective development strategy. Colombia's economic development is hindered by the violence of militias and drug cartels, as well as by the government's failure to guarantee basic human rights, including labour rights.

Colombian unions are unable to effectively organize on behalf of workers due to the violence that plagues the country – the most dangerous place in the world to be a trade unionist. In the first eight months of this year alone, 41 trade unionists have been killed simply for trying to improve the lives of the workers they represent. An astonishing 96% of these murders go unsolved and unpunished. How can Colombians avail themselves of the benefits of trade if they are not free to act collectively to achieve a better life?

Simply approving the Bush-Colombia FTA will not make trade unionists safer, nor Colombia's law enforcement and justice system more reliable. To raise our neighbours out of poverty, the US, EU, and other wealthy nations must take a more comprehensive approach to development.

## The failure of the NAFTA model

I do believe that trade is a good thing, as long as it is *fair* trade. While I am often accused of being a “protectionist,” who would close US markets and end all foreign trade, nothing could be further from the truth. I have read my David Ricardo, and I understand the mutual benefits of trade. Although the ease with which capital now flows around the globe undercuts some of Ricardo's premises, I agree that lowering trade barriers can produce economic benefits for all.

Ever since George H. W. Bush was President (1989-1993), America has been committed to a single trade model embodied in the North American Free Trade Agreement (NAFTA). I, like the majority of Americans, oppose more trade agreements based on the NAFTA model. The collapse of the Doha Round and the resulting time-out will benefit the global community if it results in a rejection of the NAFTA model. Trade agreements must not solely benefit the “haves” at the expense of the “have-nots.” Yet that is exactly what NAFTA has done to the US, Canada, and Mexico.

NAFTA was supposed to create enough good jobs in Mexico to staunch the flow of undocumented migrants to the US. That did not happen.

NAFTA was *not* supposed to create a “race to the bottom” in which US-based manufacturers shifted operations to Mexico simply to access weaker labour and environmental laws. Instead, *both* the US and Mexico would gain jobs. This also did not happen.

NAFTA was supposed to benefit American businesses and workers. Another failure. Americans are more productive today than ever, and yet wages have stagnated while some corporations post record profits.

## To seek a better way

We should take advantage of the failure of Doha to make inroads into the official trade policies of the US and EU with a new trade model that works for working families.

What if, during the next round of WTO talks, our trade representatives considered the good of the people and not just the good of the high-powered business interests hanging around the meeting hall and hosting post-discussion cocktail parties? What if, when a WTO arbitration panel considered a trade dispute between two nations, it gave as much weight to a nation's attempt to protect its people's health and environment as it did to a nation's right to export goods and services?

I believe that we can do better than NAFTA and, frankly, better than the current WTO. Trade can work for working families in all nations. We can negotiate deals that create new markets and bring new jobs and new prosperity to our nations and to our neighbours. It is because I know we can do better that I continue to be an outspoken opponent of current trade policy.



# The WTO post Doha: a thorough overhaul of the rules of international trade is still needed

Romain Benicchio

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'We think that there is some substance in the feeling of disquiet among primary producing countries that the present rules and conventions about commercial policies are relatively unfavourable to them.'

Haberler Report, GATT, 1958.

Oxfam believes in a trading system which is based on fair rules that can promote development and the fight against poverty. Unfortunately the Doha Round, that commercial farce shot through with pretence, congratulatory speeches and doors slamming in faces, seems once again to have reached a dead end after the failure of yet another last ditch meeting in July 2008. Moreover, the bare minimum agreement which was taking shape not only failed by a long way to overhaul the rules, for example on agriculture. More than ever before, the stalled negotiations can be explained by the dichotomy between the hopes of developing countries that they might get solutions appropriate to their particular problems and the wish of the OECD countries to maintain their agricultural policies whilst opening new markets in developing countries in the agricultural, industrial or services sectors.

## The WTO and development: another missed opportunity

It should not be forgotten that the 'development' cycle, which was launched in Doha in 2001 in spite of the reservations of many developing countries which had not yet implemented the Uruguay Round agreements, has gradually been replaced by an approach to trade negotiations based on short term political realism and aimed at defending certain interests. In spite of the promises made to the developing countries, the OECD countries are, in fact, still refusing to accept the reforms which would lead to fairer trade and, in turn, finally constitute a real opportunity for all the WTO members, particularly the poorest.

It becomes even more difficult to give the industrialised countries the benefit of the doubt in these matters when the United States not only continues to refuse to implement the decisions of the Dispute Settlement Body and reform its cotton subsidies but even goes so far as to boost these subsidy programmes under their most recent agricultural law. Similarly, can the European Union be considered to be acting in good faith in the framework of the WTO when it pressures ACP countries into negotiating on investment, competition or public procurement in the

framework of the Economic Partnership Agreements, even though these same countries have clearly signalled their refusal to negotiate on these issues in the framework of the WTO?

This crisis of confidence between the members is a result partly of differing approaches to the relationship between trade and development. Although the negotiations have recently foundered upon the question of the special safeguards clause, this failure is in fact a reflection of more far reaching political differences over the objectives of the system. So far, a small number of countries have assumed the right to decide on behalf of everyone on what constitutes the common good where global trade rules are concerned, and any country venturing to question the imperative of trade liberalisation or drawing historical parallels on the role of the state in the development process of developing or emerging countries has at once been seen as dangerously idealistic or backward looking.

## A model in need of reinvention

The recent food crisis has highlighted the limitations of this model. In the past 30 years the production capacity and regulatory institutions of poor countries have been seriously weakened by the dumping of agricultural products from rich countries, the impossibility of accessing markets in the North and the unilateral opening and deregulation of agricultural markets in the developing countries.

The most vulnerable countries in the current crisis are those which have prematurely reduced their customs tariffs, decreased their agricultural funding and become more and more dependent on food imports. Countries which have maintained a higher level of state involvement and customs tariff protection have been better able to absorb the impact of the food price crisis.

In this context it should be remembered that implementing WTO agreements takes place over a number of years and that the rules operate over the long term and are mostly irreversible. They must, therefore, allow governments to use the necessary tools to protect the poor, whether or not we are in a period of high prices. With prices and other factors undergoing change, it is vital that developing countries should be able to implement flexible policies to protect the most vulnerable, whether they be producers or consumers.

In addition, it is now accepted that climate change will lead to profound changes in the structure of global agricultural production in the coming decades, with the poorest countries – such as those in Sub-Saharan Africa – generally suffering a negative impact. It is vital, therefore, to ensure that trade rules enable these countries to respond to the challenge. To consider just one example, the question of technology transfer as an aid to adapting to climate change will play a key role here. One lesson learnt from Oxfam's work on access to medicines is that policies based on market instruments are unable to provide access to technology in the poorest countries. Over and above the problem of financing, it will therefore be essential for multilateral rules on intellectual property – especially the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) – to facilitate responses to the challenge of climate change.

In addition to the need for fairer multilateral trade rules for developing countries, other fundamental reforms are also necessary if the credibility of the multilateral trade system is to be maintained. A number of issues and recurring obstacles will have to be addressed. For example,

there is the question of the organisation and transparency of negotiations, access for developing countries to the Dispute Settlement Body, the rules surrounding the WTO membership procedure and the need for serious studies on the impact of implementing the agreements under discussion. The issue at stake is not only the legitimacy of the WTO but also the chance of productive multilateral cooperation between countries in the North and the South on even more burning questions such as the fight against climate change.



# Putting development back in the WTO

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Global trade talks collapsed in July for the third time in seven years. Heroic efforts since to revive the moribund negotiations have succeeded in keeping the process alive, giving hope for new life for talks that came surprisingly close to agreement. Still, the patient remains in stable but critical condition awaiting new leadership in the EU, US, and India. Just as well. The so-called Doha development round should be maintained on life support until the world's most powerful nations can remember why they agreed to dedicate the negotiations to improving the prospects of developing countries.

Such a respite is not a crisis. It's an opportunity to bring development back into the negotiations. Nor does the breakdown demonstrate the failure of the WTO. Just the opposite. In a system of one country, one vote, developing countries were, for the first time in global trade talks, able to defend their economic interests.

The elements of a deal have been in place for a while: modest cuts in agricultural tariffs and subsidies by developed countries in return for modest cuts in manufacturing and services barriers in the developing world.<sup>1</sup> The developed world's refusal to grant poorer nations sufficient exceptions to such cuts so they have the "policy space" to build competitive national industries and protect their economies from unfair or unequal competition is ultimately what doomed the negotiations.

Indeed, one of the deal breakers when the talks collapsed in July was a developing country demand for a "special safeguard mechanism" – the right for developing country governments to raise tariffs in the event of sudden or large increases in imports that threaten to undermine domestic producers. The measure is exactly the kind of policy space that the poorest countries have sought from this so-called development round. The US refused, and India, backed by a large number of developing countries, walked away.<sup>2</sup>

The other reason the Doha Round has lost momentum is that developing countries now realize that most of them have little to gain and potentially a great deal to lose. With projected gains of less than 0.2%, poverty reduction of just 2.5 million people (less than 1%), tariff losses of at least \$63 billion, and projected declines in the relative value of exports, developing countries have little to gain from rushing to conclude Doha.

<sup>1</sup> Specifically, the US and other developed nations would have cut applied agricultural tariffs from 15% on average to 11%. On agriculture, the US offered to cut its trade-distorting subsidies to \$14.5 billion (well above current levels). Regarding manufacturing tariff reductions, developed country members agreed to apply an across-the-board "Swiss formula" coefficient (the lower the coefficient the deeper the cut) of 7 to 9 and developing countries agreed to three different ranges between 19 and 26 (the lower the coefficient the more exceptions each country can enjoy). Finally, many developing countries agreed in principle to liberalize their financial service sectors.

<sup>2</sup> India proposed that if imports rise above 115% over a base period, developing nations should be allowed to impose safeguards that are 25-30% over its bound duties on products taking zero cut. The Bush Administration, however, refused to come down below a 140% trigger, a level India and other countries argued would make the mechanism virtually useless in most circumstances.

According to studies by the World Bank and other institutions, the benefits for the developing world were paltry. Under the World Bank's "likely Doha" modelling projections, global gains for 2015 are just \$96 billion, with only \$16 billion going to the developing world. The developing country benefits are 0.16 percent of GDP. In per capita terms, that amounts to \$3.13 per year, or less than a penny per day per person for those living in developing countries.<sup>3</sup> Not surprisingly, such an agreement promised only a negligible reduction in global poverty, with just 2.5 million of the world's 622 million poor lifted above the \$1-a-day poverty line (see table).

### Doha's limited poverty impact

Projected drop in \$1/day poverty from "likely Doha" deal

|                           | Baseline<br>(millions) | Decrease<br>(millions) | Decrease<br>(%) |
|---------------------------|------------------------|------------------------|-----------------|
| East Asia & Pacific       | 19                     | 0,3                    | 1,6             |
| Latin America & Caribbean | 43                     | 0,4                    | 0,9             |
| South Asia                | 216                    | 1,4                    | 0,6             |
| Sub-Saharan Africa        | 340                    | 0,5                    | 0,1             |
| All Developing Countries  | 622                    | 2,5                    | 0,4             |

Source: World Bank, Agricultural Trade Reform and the Doha Development Agenda, chapter 12, Table 12.19, p. 382, column 5, Doha scenario 7 for 2015.

Of the benefits that will flow to developing countries, only a few countries will receive those benefits. Half are expected to flow to just eight countries: Argentina, Brazil (which stands to receive 23 percent of the developing country benefit), China, India, Mexico, Thailand, Turkey, and Vietnam.<sup>4</sup>

<sup>3</sup> New research by the Carnegie Endowment for International Peace using similar modelling exercises puts the potential gains to developing countries at \$21.5 billion. See Sandra Polaski, "Winners and Losers: Impact of the Doha Round on Developing Countries" (Washington, DC: Carnegie Endowment for International Peace, 2006), Figures 3.1-3.8.

<sup>4</sup> Kym Anderson, William Martin, and Dominique van der Mensbrugghe, "Global Impacts of the Doha Scenarios on Poverty," in T. W. Hertel and L. A. Winters, eds., *Putting Development Back into the Doha Agenda: Poverty Impacts of a WTO Agreement* (Washington DC: World Bank, 2005), Chapter 17.

Hidden in the World Bank's modelling were significant costs to developing countries. According to UNCTAD, the deal on the table would cost the poor up to \$63 billion in lost tax revenue just on manufacturing imports. Add to that projected terms of trade losses – a decline in the relative value of their exports compared to their imports (see table).

**Doha's hidden price tag**  
**Doha benefits vs. NAMA tariff losses, terms of trade losses**  
**(billions of 2001 US dollars)**

|  | <b>World Bank<br/>"likely" scenario*</b> | <b>NAMA tariff<br/>losses **</b> | <b>Terms of<br/>trade (%)***</b> |
|--|--|----------------------------------|----------------------------------|
| <b>Developed Countries</b>   | <b>79,9</b>                              | <b>- 38,0</b>                    | <b>- 0,12</b>                    |
| <b>Developing Countries</b>  | <b>16,1</b>                              | <b>- 63,4</b>                    | <b>- 0,74</b>                    |
| <b>Selected developing regions</b>   |  |                                  |                                  |
| Middle East<br>and North Africa  | - 0,6                                    | - 7,0                            | - 1,32                           |
| Sub-Saharan Africa   | 0,4                                      | -1,7                             | - 0,83                           |
| Latin America<br>and the Caribbean   | 7,9                                      | - 10,7                           | - 1,12                           |
| <b>Selected countries</b>  |  |                                  |                                  |
| Brazil   | 3,6                                      | - 3,1                            | - 0,18                           |
| India  | 2,2                                      | - 7,9                            | - 1,62                           |
| Mexico   | - 0,9                                    | - 0,4                            | - 0,48                           |
| Bangladesh   | - 0,1                                    | - 0,04                           | - 0,58                           |
| <p>* Anderson and Martin (2005), <i>Agricultural Trade Reform and the Doha Development Agenda</i>, Table 12.14, Scénario 7.<br/> ** De Cordoba and Vanzetti (2005), <i>Coping with Trade Reforms</i>, UNCTAD, Table 11.<br/> *** Polaski, Sandra (2006), <i>Winners and Losers: Impact of the Doha Round on Developing Countries</i>, Carnegie Endowment, Table 3.4.</p> |  |                                  |                                  |

Ultimately, poorer countries walked away from the negotiations because they saw rich-country demands as hypocritical, tantamount to a prescription to “do as we say, not as we did.” The US and Europe, and more recently, South Korea and China, all built their economies by moving into the world marketplace slowly, protecting their major exporting industries with tariff shields while they gained global competitiveness. Strong agricultural sectors were also critical to those earlier development processes.

## The way forward

The organizing principle for revived global trade negotiations needs to be a recognition that the world economy consists of nations at widely differing levels of development. Developing countries need the policy space to retain, adapt and evolve the kinds of government measures that have been proven to work for development in the west and in other developing countries.

Any negotiation that claims to take development seriously must recognize these fundamental asymmetries and address them. One size does not fit all in an unequal world. To paraphrase Nobel economist Amartya Sen, equal rules with unequal partners constitute unequal rules. The Doha Round has floundered over just this issue, as rich-country negotiators demand that India and other developing countries open their markets to more Northern goods and services, failing to recognize that at India's stage of development its economy will not grow dynamically if its government cannot protect some markets.

To restart negotiations on a pro-development foundation, policy space should be guaranteed in five areas:

First, in agriculture, the US and Europe should agree to honour WTO rulings that have found their subsidies for cotton and sugar to be in violation of existing trade rules that forbid exporting products at subsidized prices. This would give a tangible boost to farmers in West Africa and Latin America and send a strong signal to developing countries that developed nations are willing to honour existing WTO rules.

What's more, the WTO should take seriously the proposals by many African nations to tame highly concentrated global commodities markets, dominated by agribusinesses that suck most of the value out of these value chains. Rich nations should also grant poorer countries extensive rights to exempt staples of their local economy such as corn, rice and wheat – so-called “special products” – from tariff cuts, and allow them to raise duties when imports surge – the “special safeguard mechanism” the US would not agree to in July.

Second, for manufacturing, the longstanding WTO principle of “special and differentiated treatment” should be re-enshrined for poorer nations. Developed nations should roll back patent laws that impede poorer nations from manufacturing cheaper generic drugs and allow selective industrial policy so governments can diversify their economies. What worked for the US, China and South Korea must not be prohibited by the WTO.

Third, the WTO needs to wake up to the climate crisis by leaving ample room for the transfer of clean technology to developing countries. Otherwise the diffusion of new technologies and mitigation strategies will get bogged down in global rules over intellectual property, investment and goods trade.

Fourth, for the measures that are agreed upon, developed country governments and international institutions should step in and help developing nations cover the costs of adjustment such as tariff losses and job retraining until the proper policies can be put in place on the ground. Current “aid for trade” schemes are woefully inadequate. The IMF's Trade Integration Mechanism is already in place for such a task but is not ambitious enough and should not come with additional conditionality. The IMF plan also leaves little room for incorporating costs of adjustment and the Fund is often criticized for tying further reforms to their policies.<sup>5</sup>

No less than free-trade advocate Jagdish Bhagwati commented on this problem, saying, "If poor countries that are dependent on tariff revenues for social spending risk losing those revenues by cutting tariffs, international agencies such as the World Bank should stand ready to make up the difference until their tax systems can be fixed to raise revenues in other, more appropriate, ways."<sup>6</sup> Economists have shown that tariffs may be preferable to consumption taxes for raising revenues in developing countries with large informal sectors that cannot be taxed efficiently.<sup>7</sup>

Finally, there should be a moratorium on North-South preferential trade agreements. These deals exploit the asymmetric nature of bargaining power between developed and developing nations, divert trade away from nations with true comparative advantages, and curtail the ability of developing countries to deploy effective policies for development.

Such organizing principles for reviving world trade talks would not solely be an act of charity. On the contrary, policy space, when seized by the countries that bargain for it, brings growth to developing countries, and such growth brings rising demand for Northern products. According to UN trade statistics, in 2006 58% of all trade from the EU, Japan, and the US was destined from or destined to the developing world. Not allowing the developing world to grow thus obviously hurts Northern economies too.

For now, though, keep the Doha Round on life support. Its condition is critical but stable. And let's hope that elections in the US, Europe and elsewhere bring a new commitment to equitable development.

<sup>6</sup> See Jagdish Bhagwati, *From Seattle to Hong Kong*, Foreign Affairs (December 2005).

<sup>7</sup> Emram, M.S., and J. Stiglitz (2004), *On Selective Indirect Tax Reform in Developing Countries*. Journal of Public Economics, 89, 599-623.









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