

Neary, Peter; Silesers, Ainars; Krubasik, Edward G.; Weekes, John M.

Article

Advancing Global Trade: Pro Liberalisation and Development

CESifo Forum

Provided in Cooperation with:

Ifo Institute – Leibniz Institute for Economic Research at the University of Munich

Suggested Citation: Neary, Peter; Silesers, Ainars; Krubasik, Edward G.; Weekes, John M. (2003) : Advancing Global Trade: Pro Liberalisation and Development, CESifo Forum, ISSN 2190-717X, ifo Institut für Wirtschaftsforschung an der Universität München, München, Vol. 04, Iss. 2, pp. 52-67

This Version is available at:

<https://hdl.handle.net/10419/166158>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.



Panel 3

ADVANCING GLOBAL TRADE: PRO LIBERALISATION AND DEVELOPMENT

J. PETER NEARY

University College Dublin and CEPR

EUROPE ON THE ROAD TO DOHA: TOWARDS A NEW GLOBAL TRADE ROUND

Introduction

The city of Doha in Qatar was much in the news during March and April 2003, but not in ways that augur well for global trade liberalisation. Daily bulletins from the coalition forces' Central Command in Doha underlined US military might and technological superiority, and the apparent impunity with which it could pursue a unilateralist agenda. Meanwhile, efforts to bring about a very different kind of regime change were faltering. The current round of multilateral trade negotiations, launched in Doha in November 2001, set to end-March 2003 as the date by which guidelines ("modalities") for detailed negotiations on agricultural support were to be agreed. But the deadline was missed, prompting increased pessimism about the prospects for a new trade agreement.

In this paper, I review progress to date towards a new trade agreement. Some of the key issues in contention are examined, including barriers to trade in agriculture and manufacturing, competition policy, and intellectual property rights. I speculate on which topics are likely to pose most difficulties, and try to give a European perspective on how the negotiations should progress.

The Doha Timetable

A major achievement of the Uruguay Round of global trade negotiations was the establishment of

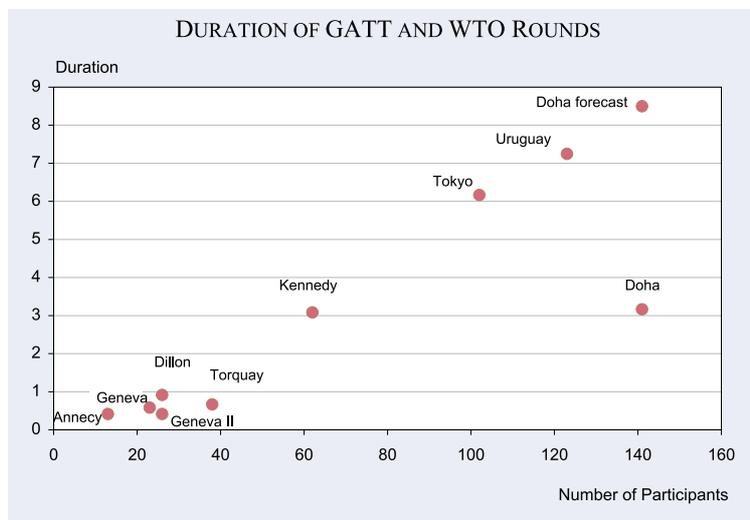
the World Trade Organisation (WTO) in 1995. This finally regularised the anomalous situation which had prevailed since 1948, whereby international negotiations on trade policy were governed by the General Agreement on Tariffs and Trade (GATT), which was both a multilateral treaty and also an international organisation in all but name and legal status. Under WTO auspices, ongoing negotiations take place all the time, and some progress can be made on uncontroversial items. Nevertheless, full-scale negotiations with a formal agenda seem required if the momentum towards multilateral trade liberalisation is to be maintained and if the many loose ends from the Uruguay Round are to be tidied up.

All these issues were to be addressed by a new "Millennium Round" of trade talks, but hopes for progress towards it were dashed by the debacle of Seattle in December 1999. Though the anti-globalization riots made the headlines, the meeting would probably have collapsed anyway even if the streets had been empty of protestors. Disagreements within the negotiating chamber, on issues such as environmental and labour standards, reflected the disillusionment of developing countries with the outcome of the Uruguay Round. Hence the emphasis on "Development" in the "Doha Development Agenda" which belatedly launched the new trade round at the Doha ministerial conference in November 2001. But is this just a fig-leaf, like the "Growth" which was tagged on at the last minute to the EU's "Stability and Growth Pact"? The voting strength of developing countries in the WTO will probably ensure that agreement will not be reached without some concessions by rich countries on market access for both agricultural and manufacturing products. Nevertheless, the economic and political importance of the EU and US, not to mention the wide range of issues on which they differ, make it inevitable that some accommodation between them is essential for the Round to end in agreement.

The ministerial declaration agreed at Doha in 2001 lays out a detailed work program for the Round, and

sets the goal of completing it by January 2005. An intermediate deadline is the next biennial ministerial meeting of the WTO, to be held in Cancun in September 2003, where progress under all headings is to be reviewed. Ominously, two preliminary deadlines, on agricultural support and pharmaceutical patents, have already passed without agreement. (See below.) Away from the negotiations, President Bush imposed swingeing tariffs on US steel imports in Spring 2002 and an 80 percent increase in agricultural subsidies in the May 2002 farm bill. On this side of the Atlantic, proposals by EU Agriculture Commissioner Fischler for modest reform of the Common Agricultural Policy (CAP) were stalemated by the bilateral agreement of October 2002 between President Chirac and Chancellor Schröder to freeze CAP spending until 2013.

However, there are grounds for guarded optimism that the Round may yet be completed, though probably not by January 2005. Consider first the history of earlier GATT rounds. Successive rounds have become longer as the number of participants and the range of topics covered have increased. The figure below illustrates the relationship between the duration of trade rounds and the number of participants, and adds a forecast for the Doha Round based on a crude extrapolation of the first eight trade rounds. If the close relationship between duration and number of participants were to repeat itself, then the Doha Round would last eight and a half years, ending in May 2010! Of course, there is no iron law of international negotiations which would lead us to expect such a relationship to hold even approximately, but the exercise may be an antidote to excessive pessimism about the snail's pace of progress.



A different source of optimism is President Bush's success in obtaining fast-track authority, which commits Congress to voting on a negotiated trade agreement as a single package, rather than picking it apart item by item. Fast-track lapsed in 1994, but was restored (under the new title of "trade-promotion authority") in the July 2002 Trade Bill, albeit after a very narrow vote by the US House of Representatives. Given the separation of powers in the US constitution, it would not be credible for the US administration to sign up to an agreement without fast-track, and its granting makes the completion of the Round much more likely. It has even been suggested that the US steel tariffs and farm subsidy hikes were deliberate ploys to reduce opposition to granting fast-track, and so should not be seen as reflecting a protectionist bias in the current administration. Whatever the price paid to obtain it, fast-track enormously strengthens the hand of US trade representative Robert Zoellick in the negotiations, and gives the U.S. a role in the process much greater than its share in world GDP or trade warrants. EU Trade Commissioner Pascal Lamy can only look with envy at the plenipotentiary power which US negotiators enjoy. On trade policy, as on so much else, Europe speaks with more than one voice.

Barriers to Agricultural Trade

WTO negotiations now encompass a huge range of issues, at least one for every letter of the alphabet. But there is a danger that the negotiations may not get past "A". Disagreements over agricultural subsidies delayed the completion of the Uruguay Round by three years, and have already proved to be a central stumbling block in the Doha Round.

There are good reasons for this: agriculture really is different. Farmers are typically self-employed owner-managers with all their human and physical capital specific to agriculture. Hence, unlike owners and even workers in many other sectors, their incomes are more closely tied to the fortunes of their sector, often to those of a particular crop. Add to this the fact that voting systems in many developed countries give disproportional

tionate weight to rural areas, and it is not surprising that agreement on reducing agricultural protection remains elusive.

The deadlocked negotiations in March 2003 pitted the US and the Cairns Group of sixteen food exporters (including Australia and Argentina), on the one hand, against the EU, Japan and South Korea on the other. The US proposal was to reduce tariffs dramatically and across the board, to cut all distorting farm subsidies to a maximum of 5 percent of the value of production, and to abolish all export subsidies. The EU responded by offering much smaller cuts in both tariffs and subsidies, with cuts in average tariffs rather than uniform proportional cuts. (I return to this issue in the next section.) The huge gaps between the two positions reflect not just that US agriculture is more export-oriented, but also that the pattern of support in the two regions is very different. The EU uses export subsidies more than the U.S., whereas the U.S. uses export credits as well as food aid to dispose of its surpluses.

Yet the very difference between the two positions suggests that there may be scope for trade-offs, provided there is a political will on both sides for an agreement. As for developing countries, the debates over subsidies may be peripheral from their perspective. Hoekman, Ng and Olarreaga (2002) suggest that developing countries as a group are hurt more by rich-country agricultural tariffs than by their domestic support, while some middle-income food importers are actually helped by rich-country subsidies.

A final consideration is that the US proposal covers only “distorting” subsidies. In the colourful WTO jargon, this excludes subsidies in the so-called “Green Box” which are unrelated to production levels and so are deemed not to distort trade. However, such subsidies have income effects which affect whether farmers continue to grow a certain crop or not. This is a further consequence of the point made earlier that farmers are sector- and often even crop-specific in their physical and human capital. Hence a subsidy which is not directly linked to the level of production may allow them to continue in production and even to export. While the EU is moving in the direction of such subsidies, they are proportionally more important to the US. Developing countries might want to count them in the calculation of total public sup-

port to agriculture, and it might even suit the EU if such subsidies were put on the table as part of a comprehensive deal on agricultural support. At the very least, “Green Box” subsidies which accrue to exporters could be deemed trade-distorting.

Varieties of Trade Policy

After eight trade rounds, tariffs on non-agricultural imports into developed countries have been greatly reduced. But the devil is in the detail. Remaining tariffs tend to be concentrated on labour-intensive commodities of potential interest to developing-country exporters. Low average tariffs obscure tariff peaks (defined as tariffs greater than 15 percent) and tariff escalation (whereby tariffs are higher on finished goods than on raw materials). To a great extent these features arise from the precise ways in which tariffs were reduced in previous rounds.¹ In the Kennedy and Tokyo Rounds, a formula approach was used, typically applying a close-to-proportionate cut to a wide range of tariffs. By contrast, in the Uruguay Round, a commodity-by-commodity approach to tariff cuts was adopted, subject to the requirement of an overall reduction in the average level of tariffs. This approach is not guaranteed to raise the importing country’s welfare, nor is it likely to significantly increase market access. According to the basic theorems of trade policy reform, a welfare improvement is only assured if all tariffs are cut proportionally, or if the highest tariffs are cut (a so-called “concertina reform” of tariffs).² Hence it would be very desirable if the Doha Round were to revert to a formula approach. Failing that, some other procedure to eliminate tariff peaks is essential to ensure access to developed country markets for developing countries.

Tariffs are not the only form of trade protection of course. Indeed, the very success of earlier trade rounds in reducing average tariff levels led many developed countries to impose quantitative restrictions on imports instead. These were disallowed for many goods in the Tokyo Round, though they remained important in textiles and clothing trade,

¹ Because tariffs are non-uniform, tariff averages tend to underestimate the true extent of trade restrictiveness. See Anderson and Neary (2003). For details on the many varieties of trade policy further discussion of tariff reduction formulae, see Hoekman, Mattoo and English (2002).

² This holds, with appropriate qualifications, both for unilateral and multilateral reform. See Neary (1998).

under the Multifibre Arrangement. The response was a rash of “Voluntary Export Restraints” (VER’s), negotiated quantitative restrictions on exports. Unlike quotas imposed by importers, these ensured that exporters enjoyed some of the rents, and (because they were imposed by the exporting country), they were also consistent with the GATT. Of course, consumers in importing countries, and potential alternative suppliers from third countries, were the losers.

The Uruguay Round attempted to regularise these types of trade restriction. Remaining quantitative restrictions on agricultural imports were converted to tariffs; VER’s were outlawed; and the Multifibre Arrangement was replaced by an Agreement on Textiles and Clothing under which quantitative restrictions were to be gradually eliminated over a ten-year period. However, the application of this Agreement was “back-loaded”, so that the main concessions are not due until the end of the transition period in 2005. Naturally, fears have been expressed that the promised liberalisation will not materialise.

Just as limiting the use of tariffs led to increased reliance on quantitative restrictions, so prohibiting the latter has spawned a huge increase in the use of safeguard measures, and especially of anti-dumping tariffs. These are supposed to be imposed only in response to specific injury caused to domestic producers by imports sold below cost. A case can be made that this kind of flexibility to provide temporary protection in response to rapid changes in market conditions is essential to ensure political acceptance of reductions in trade barriers.³ But governments are always prone to favour domestic producers who take anti-dumping suits, and temporary protection can too easily become semi-permanent. The US in particular has made extensive use of anti-dumping in recent years, and developing countries want its use restricted. (Though some developing countries have also begun to use anti-dumping measures.) The difficulty of reaching agreement on this issue is that it would require importing countries to commit to restrictions on their freedom of action in response to unanticipated import surges. For the US in particular, such ongoing extra-territorial restrictions on its discretionary power may be too much to accept.

Widening the WTO Mandate

As if the infinite varieties of trade policy were not enough, there are pressures on the WTO to expand liberalisation to include various “behind-the-border” policies that indirectly affect trade. Robert Zoellick (2002) has characterised the EU’s approach as seeking to widen the scope of trade liberalisation, in contrast to the US which wants to deepen it. It is true that the EU has pushed hard for a more “comprehensive” trade round, covering competition policy, as well as environmental and labour standards. However, the US too has been to the fore in defending the extension of “Trade-Related Aspects of Intellectual Property Rights” (TRIPS). This was agreed in the Uruguay Round but its implications for trade in pharmaceuticals subsequently raised concerns about public health.

Developing countries see environmental and labour standards as disguised protectionism, and they may be right, notwithstanding the good intentions which motivate many of their advocates. The question remains whether the WTO is the appropriate forum for addressing these concerns. It would make more sense to leave the responsibility for taking action to other international organisations (though given that the US has repudiated the Kyoto Agreement and has always been suspicious of the ILO, this might not be easy to implement in practice). At the same time, the WTO could agree to exempt non-mandatory eco-labelling or similar practices from trade sanctions.

As for competition policy, openness itself may be the best guarantee against monopolisation. Indeed, measured concentration ratios may rise following trade liberalisation as domestic firms consolidate, even though prices are reduced and consumers gain. A possible role for multilateral competition policy arises in connection with cross-border mergers and acquisitions. But economic theory gives no clear-cut guidelines on international merger policy. A likely gain in aggregate efficiency as high-cost firms are taken over must be traded off against an increase in market concentration.⁴ The effects on trade flows and welfare of a domestic competition authority prohibiting a foreign takeover of a home firm are ambiguous *a priori*. The only case where intervention is clearly justified is that of international cartels. But, notwithstanding the EU’s

³ See Ethier (2002).

⁴ See Neary (2003) for a formalisation of this argument.

enthusiasm for it, it is hard to see the WTO in its present form taking on responsibility for policing such cartels. It would make more sense for competition authorities in developed countries to provide technical assistance to their opposite numbers in developing countries, and for authorities in all countries to pool the information they possess on anti-competitive practices.

The issues that arise in connection with TRIPS are very different. Developing countries balked at implementing the Uruguay Round agreement on TRIPS since it prevents them using low-cost generic drugs to combat infectious diseases. In response to these concerns, the Doha Declaration stressed the need to promote both access to existing medicines and research and development into new medicines. But the hard question is deciding where exactly the trade-off between these two conflicting goals should be made. A separate declaration on TRIPS in Doha set end-2002 as the deadline for agreeing on pharmaceutical patent waivers for developing countries, but this was missed because agreement was blocked by the US.

There are two separate problems here. First is the question of which drugs should be exempt from the TRIPS agreement. The US fears that a waiver clause could be interpreted to include not just drugs to combat infectious diseases but also "lifestyle" drugs such as Viagra or slimming drugs. This seems to be a problem for the lawyers: how to word the exemption so it benefits only drugs targeted at specific infectious diseases. Second is how agreed exemptions would be implemented, since they would effectively impose a global regime of two-tier pricing. The economic objections to this are many. First, even assuming that smuggling could be policed, is the problem of where in the group of middle-income countries to draw the line. Second, any such regime would discriminate against poor patients in developed countries. Third, by drawing attention to the temporary monopoly rents earned on existing drugs, would the upper tier prices prove politically sustainable? Finally, selective waivers could bias incentives in drug research towards "lifestyle" drugs and away from new therapies for tropical diseases. Nevertheless, despite all these objections, world public opinion is firmly on the side of the developing countries on this issue. It seems unlikely that any trade agreement will be acceptable to developing countries unless it makes concessions to them. Perhaps

developed countries could agree to increase their support for research into infectious tropical diseases and designate such support as foreign aid.

Thinking the Unthinkable

Is Doha the only show in town? Are there alternatives to extending the multilateral trading system? And what would happen to world trade and the prospects for development if a new agreement proved unattainable? The questions are not just academic. Bill Thomas, Chairman of the US House of Representatives Ways and Means Committee, has raised the possibility of the US leaving the WTO if the EU fails to reform its agriculture policy: Congress is due to vote on the issue in 2005. Especially since September 11, U.S. foreign policy has exhibited a newly determined unilateralism, which may yet be applied to trade issues.

A failure to agree on a new trade round would not mean a collapse of world trade. The alternative to multilateralism is not autarky but regionalism. Indeed, many regional agreements are currently under discussion. The US has embarked on a slew of such "mini-coalitions of the willing". Not to be outdone, the EU is also engaged in negotiating a range of "Economic Partnership Agreements" with selected groups of countries.

Such regional agreements pose a number of problems. Negotiating them in parallel with the multilateral trade talks risks diverting attention and negotiating skills away from the big picture. More serious is that they risk diverting trade itself. An example is the EU's "Everything But Arms" initiative. While it has eliminated tariffs on imports from very poor developing countries, there is concern that it may also have diverted trade from middle-income countries. Finally, regional agreements are rarely comprehensive, and typically do not cover subsidies and other "behind-the-border" policies that affect trade. Hence they are proving less attractive to poorer countries than the EU and US had hoped.

A different consequence of a breakdown of the trade talks is that the dispute settlement mechanism of the WTO might no longer command legitimacy, or would lapse altogether towards countries which withdrew from the WTO. This quasi-judicial role for the WTO was one of the achievements of the Uruguay Round, but its operation in practice is

still being tested. It remains to be seen, for example, how the US will respond to the recent WTO ruling that the 2002 steel tariffs are illegal. If the trade talks stall all countries would be tempted to ignore such rulings. Other bilateral disputes which are currently on hold (such as the EU's ban on imports of genetically modified food, and the EU's claim that US tax treatment of the foreign subsidiaries of US firms amounts to an export subsidy) could revive. At the very least, progress towards a rule-based system of international trade would be delayed.

The most serious consequence of a failure to conclude a new trade round would be to risk permanently depriving poor countries of the benefits of openness. We need to be careful not to claim too much for openness. Some of the more optimistic claims for the effects of openness on growth have rightly been criticised.⁵ Nevertheless, on average and over relatively long periods of time, the correlation between openness and improved economic performance is too strong to be dismissed. For example, a World Bank study has shown that developing countries which increased their ratio of trade to GDP over the last twenty years enjoyed relatively fast growth and reductions in poverty; whereas those (including much of Africa) with falling trade-to-GDP ratios had negative growth and increased poverty during the 1990s. The difficulty for countries trying to use trade liberalisation as a route to breaking out of this vicious circle is to face down mercantilist objections both at home and abroad. Mercantilism – the fallacy that exports are desirable in themselves and imports not – is alive and well and probably always will be. The great achievement of the GATT and the WTO has been, by imposing reciprocity, to enlist mercantilist instincts on the side of multilateral liberalisation. The mercantilist rallying cry “Let's increase our exports” became the multilateralist slogan “Let's increase everyone's exports”, so generating pressure to reduce import barriers. In principle, nations do not need a multilateral framework to justify trade liberalisation: unilateral liberalisation is almost always welfare-improving. But multilateral liberalisation is much more likely to command political support. It serves as a commitment device for domestic governments, enabling them to resist pressures for protection from domestic lobbies.⁶

⁵ See Rodriguez and Rodrik (2001).

⁶ See Maggi and Rodriguez-Clare (1997).

By removing this commitment device, a breakdown of the Doha Round would risk imposing anarchy in international markets and would hold back the integration of developing countries into the world economy. It would be a tragedy for Europe, a disaster for the developing world.

Conclusion

In this paper I have taken it as given that progress towards an open rule-based system of international trade is desirable, and have not tried to address the diverse concerns of anti-globalization activists. I have also been unavoidably selective in the topics I have discussed. Even with this limited scope, it is clear that there are daunting obstacles to be overcome if the Doha Round is to reach a successful conclusion.

Yet there may be guarded grounds for optimism. The deadline of January 2005 seems unlikely to be met. Too little progress has been made towards the intermediate deadlines set in Doha. And, nervous of suffering his father's fate – relative success abroad but perceived failure at home – President George W. Bush's energies are likely to be taken up with domestic issues until November 2004. But a new or reelected President could have time and energy to pursue a diplomatic triumph, before fast-track authority lapses in 2007.

As for the form which a deal might take, there is little basis for making predictions. However, as I have noted already, the very distance between the different sides, especially the EU and US, on so many issues, suggests that there is scope for making trade-offs. This is even true of agricultural subsidies, where the concerns of EU members who are net contributors to the CAP, coupled with the desire to agree reforms before the land-abundant accession countries join, may yet force some movement towards the position of the US and the Cairns Group. A more likely sticking point is US reluctance to commit to restraints on its discretionary action, which will be required if it is to accept a quasi-judicial role for the WTO and constraints on its use of anti-dumping policy.

What can Europe do? In an ideal world, European governments would offer generous proportional cuts in all tariffs; seek some compromise on agricultural tariffs and subsidies, while calling the US

bluff on Green Box subsidies; continue to push for labour and environmental standards and for an extension of competition policy, but not as explicit components of a trade deal; and, finally, grant fast-track authority to Pascal Lamy in the hope of deflecting the wrath of their domestic lobbies. In the real world we live in, none of this seems likely. But faced with an increasingly unilateralist US and a justifiably indignant Third World, European governments need to decide how badly they want to complete a new trade agreement. Assuming they want to avoid the doomsday scenario of a breakdown in the negotiations, then they should start preparing their constituents for compromise, especially on agricultural support, if an agreement is to be reached.

References

Anderson, J.E. and J.P. Neary (2003): "The mercantilist index of trade policy," *International Economic Review*, 44, 627–649.

Ethier, W.J. (2002): "Unilateralism in a multilateral world," *Economic Journal*, 112, 266–292.

Hoekman, B., A. Mattoo and P. English (eds.) (2002): *Development, Trade and the WTO: A Handbook*, Washington, D.C.: The World Bank.

Hoekman, B., F. Ng and M. Olarreaga (2002b): "Reducing agricultural tariffs versus domestic support: What's more important for developing countries?", World Bank Policy Research Working Paper 2918, October.

Maggi, G. and A. Rodriguez-Clare (1997): "The value of trade agreements in the presence of political pressures," *Journal of Political Economy*, 106, 574–601.

Neary, J.P. (1998): "Pitfalls in the theory of international trade policy: Concertina reforms of tariffs, and subsidies to high-technology industries," *Scandinavian Journal of Economics*, 100, 187–206.

Neary, J.P. (2003): "Cross-border mergers as instruments of comparative advantage," mimeo., University College Dublin.

Rodriguez, F. and D. Rodrik (2001): "Trade policy and economic growth: A skeptic's guide to the crossnational evidence," in B. Bernanke and K.S. Rogoff (eds.): *NBER Macroeconomics Annual 2000*, Cambridge, MA: MIT Press.

Zoellick, R. (2002): "Unleashing the trade winds," *The Economist*, December 7th.

AINARS ŠLESERS,
Deputy Prime Minister of the Republic of Latvia

GLOBALISATION, LIBERALISATION AND DEVELOPMENT

Excellencies,
ladies and gentlemen,

On behalf of the Latvian government, it is a great honour to address this prominent audience and to present you our opinion about globalisation, liberalisation and development.

If we look briefly at the relationship between trade and development and analyse the experience of the past years, it seems that neither development assistance nor the conventional approach to trade policy has really worked well for many countries. Several important questions could be asked in this respect, for example, why have certain countries done better in their development than others? Or, what conclusions should we draw from that?

Certain countries have benefited substantially from both development assistance and “conventional” trade liberalisation. Their prize has been integration into the world economy, with all the upside and downside effects that this increased exposure to globalisation has brought. For these countries, trade has contributed to economic growth. However, one cannot say that trade automatically leads to development, or that trade automatically leads to growth. The process is much more complex and too many-sided.

Let me just mention a few elements that are needed for success:

- sound macro-economic and fiscal policies,
- a transparent regulatory environment,
- a performing legal and institutional framework that guarantees transparency and consistency,
- good governance,
- an effective and efficient transport and telecommunications infrastructure,
- a competent and honest public service, a well trained and dedicated work force,

- and last but not least, a carefully defined and designed trade policy for the individual country or region.

In that context, of course, market access for goods produced by developing countries is vital, notably for those products where they have a natural edge in world markets. Latvia has followed the EU’s initiative “Everything But Arms”, by which all quotas and tariffs were abolished on all exports (except weapons) from the least developed countries imported into Latvia. And when it comes to multi-lateral negotiations on market access, we will be looking to ensure that developing countries’ interests are taken into account.

However, much more importantly we need to look at the specific role that new and improved rules can play in development. Competition is the classic example. Without functioning competition rules it is all too easy for developing countries to be victimised by hard-core cartels, for example. Therefore, that is why we strongly believe that the new Doha Round of negotiations has to be about both, improved market access and new rules.

In the short term, our focus is heavily on the Doha Development Round. To come back to my starting point: If we want to improve our chances of creating peace and a road out of poverty and oppression for people across the world, a proven road is economic co-operation and integration. Doha has given us an important and unique opportunity to advance development in concrete terms, and we have to deliver on that.

Ladies and gentlemen,

I would like to inform you briefly about Latvia’s position in some sectors of the EU accession negotiations, which are relevant to the subject of today’s discussion.

Firstly, Latvia supports further liberalisation of trade of agricultural products that involves reduction or complete abolition of all forms of export



subsidies; continued reduction of the domestic support for the agricultural sector that distorts trade; as well as considerable improvement of market access.

At the same time, Latvia believes that further liberalisation of agricultural trade must be balanced and issues of rural development, employment, preservation of the traditional rural life-style and other non-trade concerns must be taken into consideration.

Latvia is interested in the reform of the EU Common Agricultural Policy that will take place as a result of this round of negotiations. We are convinced that at the end of this reform the EU will be better equipped to complete the enlargement, having equal regulations in the agricultural sector for all Member States, including the new Members.

Latvia, same as the other candidate countries, has recently carried out the transition of the economy, including the agricultural sector, to a market economy. Our regime of external trade is already liberal, but the deficit in the trade of agricultural products, unfortunately, is considerable.

Therefore, we believe that the possibility to abstain from reducing the already low import duties for agricultural products must be maintained. Latvia would like to utilise the special measures for market protection that the WTO provides for agricultural products. The mechanisms of agricultural support must imply flexibility that would allow taking into account the difficulties faced by economies in transition.

Latvia also supports further liberalisation of trade of industrial products that would imply reduction of tariff peaks and high tariffs, as well as supports further reduction or complete abolition of non-tariff barriers.

As for services, Latvia supports comprehensive negotiations within the framework of the new round of negotiations that would cover all types of services and methods of supply in order to eliminate disproportion in the liberalisation of the market of services in different countries. And thus to ensure that all Member States deepen and broaden their obligations with respect to market access and national regime.

Talking about the-so-called new issues, such as investment, competition, transparency in govern-

ment procurement, and trade facilitation, I would like to mention that Latvia, same as the EU and other EU candidate countries, supported the start of negotiations without any delay. Nevertheless, the inclusion of these issues in the Doha Declaration as an irretrievable element of the new round of negotiations is a significant achievement that was won despite firm resistance of the developing countries.

Latvia advocates negotiations on clarification and improvement of anti-dumping regulations. The issue of new WTO regulations is important for us because Latvia has faced situations when anti-dumping measures had been used as a weapon of protectionism (for example, regarding the export of steel and chip-board from Latvia, etc.). We support the negotiations on clarification of the regulations on industrial subsidies and negotiations on clarification of WTO provisions regarding regional trade agreements.

Latvia also supports negotiations in the field of trade and environment, setting as priority negotiations on clarification of conformity between multilateral environmental agreements and WTO provisions. The elaboration of eco-labelling regulations is also an important issue.

At the end of my presentation, I would like to underline that Latvia – as a World Trade Organisation member since 1999 and a new potential Member State of the European Union – is interested in integration of more countries into the WTO, particularly of countries from our region. Latvia's trade relationship with Russia, Ukraine and other CIS countries has deep historical and geographical roots. Their participation in the WTO will help the establishment of a more stable, transparent and liberal foreign trade policy, as well as ensure irreversibility of economic reforms undertaken in these countries. All this fits in well with the long-term economic and commercial interests of my country; therefore, Latvia is ready to provide necessary assistance for more effective facilitation of the accession negotiations.

Thank you for your attention.

EDWARD G. KRUBASIK
Member, Executive Board, Siemens AG

TRADE AND DEVELOPMENT: THE ROLE OF INDUSTRY

Global companies contribute to the improvement of national economies and the wealth of less developed countries

The globalisation of the world economy is taking place in three phases

Phase I:

Developing countries establish an indigenous industry by obliging global contractors to produce locally.

- Infrastructure projects with local content only;
- Captive markets for local producers.

Phase II:

Open markets are a precondition for globalisation. Trade flows and local content are massively reorganised.

- The more severe competition leads to local rationalisation (e.g. Siemens India and Brazil in the 1990s);
- The international production structure is re-designed to capture economies of scale.

Phase III:

Economies of scale and skills lead to consolidation of entire industries.

- Acquisition of companies accelerates the expansion into international markets for global players.
- Competitive companies in each region: prices fall, highest quality is offered globally.
- Companies in protected markets suffer from a lack of incentive to increase productivity or to be innovative.

Globalisation creates wealth in developing and industrialised nations

- Adding value in foreign markets supports national economies, generates wealth/purchasing power and jobs.

- Most local companies have local management.
- Local factories provide the basis for local partnerships and supplier relations.

Manufacturing and R&D are localised and help to develop national economies in LDCs

- Main criteria for the selection of a location are proximity to market, technical innovation, labour market and infrastructure.
- In 30 countries outside of Germany, 22,500 Siemens R&D specialists work in 66 R&D centres with a budget of €5.8 billion (6.7% of sales) in FY 2002.
- High quality software is developed in India by more than 1,600 Siemens IT developers.
- Joint ventures for manufacturing and R&D in China open access to low-end/low-price segments.

Industry supports less developed countries in the Doha WTO Round

In case of failure there will be substantial loss of trust between rich and poor countries

- Important deadlines missed, notably for agriculture, special and differential treatment, TRIPS and health.
- Reduce tactical behaviour of major players:
- U.S. and EU demand market access concessions.
- Asia (except India and Singapore) and Brazil are reluctant to grant further market access concessions, rest is primarily concerned with agriculture.
- Industrialised countries must provide better market access to developing countries for agriculture, goods and services.

EU agricultural policy is highly protectionist (price regulation, transfers to farmers and export subsidies)

- Agriculture is in the spotlight of the WTO ministerial meeting in Cancun.



- If there is no change, we will harm our own industries and, on the other hand, foster opposition to globalisation.
- If EU, Japan and others do not move in agriculture, the Cairns Group and other developing countries are likely to block progress in goods and services talks.
- Pressure for agricultural reform in Europe comes also from within the EU. With EU enlargement, new members with less efficient agriculture will be entitled to huge transfers.

Agricultural barriers/subsidies hit manufacturing and service industries twofold

- They take away purchasing power from consumers in industrialised countries.
- They take away purchasing power from governments and industries in LDCs.
- Total removal of agricultural subsidies worldwide would result in €132 billion in profits:
 - €100 billion (75%) in industrialised countries due to lower prices and more efficient allocation of resources;
 - €32 billion (25%) in LDCs through gains in agricultural exports.

EU agricultural reform plan (January 2003)

- Make farm payments independent of production (decoupling).
- Five measures to be eligible for full subsidy (cross compliance): improve environment, food safety, animal welfare, health and occupational safety standards, maintain farmland.
- Reduction of direct payments (degression) to bigger farms to strengthen rural development.
- Revision of market policy for primary commodities.

Industry supports expansion and protection of transatlantic trade

Partners must co-operate in trade disputes in order to avoid damage and stick to WTO procedures

- Trade embargoes basically hit domestic industry.
- Early warning system on potential trade disputes (established in 1999) with potential best practice case (ongoing amendment process for EU White Paper on chemicals).

- EU and U.S. must seek to avoid transatlantic political and economic conflicts:
 - Trade dispute on US Foreign Sales Corporations: US side makes efforts to comply with WTO rule. EU will not inflict tariffs worth \$4 billion.
 - Steel conflict: EU refrained from immediate sanctions in reaction to concessions from U.S.
 - U.S. might start WTO dispute settlement on genetically modified organisms (GMO). To avoid escalation, EU must critically review its policy on GMO.
 - Reduce barriers to trade in agriculture, manufacturing and services by one third.

Most European countries are at home in the U.S. – the largest and most important market after Europe – and vice versa

- The U.S. and the EU together produce 43% of world GDP and have a share of 37.7% in world trade.
- Over ten million jobs are dependent on transatlantic trade relations – 4 million US jobs in the EU and 4.6 million EU jobs in the U.S.
- Over 3000 German companies have subsidiaries in the U.S.
- 45% of US foreign direct investment is in the EU (appr. \$1,000 billion), whereas 60% of foreign direct investment in the U.S. originates in the EU.
- In 2000, US companies shipped goods valued €196 billion to the EU, representing 22.7% of US exports.

Service trade will be a key area for business in the Doha Round of trade negotiations

- Opportunities for manufacturing business in the global service market.
- Securing better access to key markets abroad by supporting financial service providers:
 - Protect existing investments;
 - Improve rules for temporary movement of key business personnel abroad;
 - Secure a non-discriminatory regulatory environment.

JOHN M. WEEKES,
Chairman, Global Trade Practice,
APCO Worldwide, Geneva;
former Canadian Ambassador to WTO

ADVANCING GLOBAL TRADE: PRO LIBERALIZATION AND DEVELOPMENT

Four months away from the WTO's Fifth Ministerial Conference in Cancún in September is an excellent time to consider progress in what is formally known as the Doha Development Agenda – the current Round of multilateral trade negotiations in the WTO. I would like to congratulate the organizers for putting this subject on the agenda of the Munich Economic Summit. The prospects for the success of the Ministerial Conference appear uncertain at the moment. Bold political leadership is necessary to chart a course towards the ultimate success of these negotiations.

Post-Seattle Environment

The global environment in which trade policy is made by governments and in which trade negotiations are conducted has changed dramatically in the last decade.

We are witnessing a technological revolution which has shrunk the planet, reduced the significance of national borders, and empowered ordinary citizens and groups of citizens. The internet has itself fostered a political revolution. Groups are using it to take on larger rivals and mobilize support for various causes in ways not thought possible ten years ago.

Economics are becoming truly global. One quarter of the total production of goods and services in the world is now exported. International investment in various forms is bringing new technologies and competition to all countries and industries. Borders do not stop ideas and technologies.

The dramatic change of approach in developing countries in approaching their own economic

development has greatly increased their importance in the system. They have largely rejected development based on import substitution in favour of encouraging the integration of their economies into the global economy on the basis of market-oriented reforms. The developed countries, which increasingly value improved access to the rapidly expanding markets of the third world, must respond much more positively to this historic opportunity. We need to open our markets more effectively to their competitive exports and we need to help them achieve a more important role in the management of the international system. This involves accepting their competition in domestic markets and offering greatly enhanced technical assistance.

The process of how public policy is made has become much more inclusive. Nowhere is this more evident than in the field of trade policy. A much broader range of interests is weighing in and demanding that governments take into account factors which they consider to be important, such as labour standards, the environment, and human rights. NGOs and civil society have become partners with business and labor in advising governments on the making of trade policy. Furthermore trade negotiations and disputes have become front-page news; 30 years ago such stories were a rarity.

The issues being addressed internationally are increasingly domestic. Whether it is climate change, treatment of genetically modified organisms, or the WTO agreement on agriculture, the traditional distinction between foreign policy and domestic policy is becoming more and more irrelevant.

One thing, however, has not changed: governments still exist at the national level and that is where political power is concentrated. Increasingly the issues which affect people's lives are global, but political actors are national. This misfit creates an enormous challenge and underlines the necessity of international co-operation. No isolationist, no protectionist, no nationalist can escape from the



fact that the major problems of the 21st century cannot be tackled successfully in isolation at the national level.

Indeed, the emergence of these new realities poses enormous challenges for political leaders, the business community, and citizens. This is a world in which borders are less and less relevant and the notion of national sovereignty, and even the nation state, needs to be rethought. It is also a world in which the main issue facing governments in the WTO is no longer a classic free trade versus protectionism debate. It is now about managing economic interdependence in a very complex world.

Liberalization, Development, and Global Security

Contrary to a lot of comment, I believe that liberalism and development go hand in hand. Frankly, we have become too complacent, I might even say defensive, about the significance and value of the multilateral trading system embodied in the WTO. World exports of goods and services in 2001 accounted for 24.6 percent of world GDP. (The value of world exports of goods and services in 2001 was US\$7.7 trillion while world GDP was US\$31.3 trillion.)

Let me begin by emphasizing the role of the WTO system in underpinning global security. In a speech on April 15, Peter Sutherland, Chairman, BP plc, and the first Director-General of the WTO, made the following observations:

"I believe we can make some startling claims for the multilateral trading system as it is. First and foremost, it provides an alternative to war. When Cordell Hull, later to become US Secretary of State, told Woodrow Wilson, "If goods do not pass frontiers, armies will", he had thousands of years of history on his side. He went on, in the 1930s, to design the US trade laws that helped recovery from the Great Depression and ultimately became the foundation of the GATT.

The GATT and, now, the WTO have largely eliminated commercial ambition as a cause of war. Governments have neither the need nor the opportunity to raise armies and navies solely to secure access to land, raw materials and labour. Of course, Friendship, Commerce and Navigation Treaties existed for hundreds of years. But most were born

precisely from military adventurism and empire building for commercial gain and influence. For centuries armed might determined or defended trade advantage."

An important component of the Doha Development Agenda addresses the objective of developing countries to obtain special dispositions which give them better treatment than developed countries, or which allow them to make concessions at a lesser level than required by developed countries. Some 85 such proposals have been made so far in the WTO's Special Session of the Committee on Trade and Development alone. Additionally, many of the proposals on the agenda of 'implementation' issues also deal with special treatment, not to mention those made in various negotiating groups.

The emphasis on special and differential treatment is not new. In this negotiation, the developed countries are also giving attention to the need for some form of graduation for the more advanced developing countries. Some developing countries accept the need for graduation in practical terms, but are not prepared (yet) to accept that they will renounce recourse to such benefits for all time as part of an agreement.

However the real 'development' element of this negotiation is about making fundamental changes in improving access to markets and in the trade rules so that developing countries can export the products which they can produce efficiently. To make the WTO more conducive to development, it is not just the developed countries that need to act. The rapid growth of trade among developing countries shows that liberalization by developing countries will benefit other developing countries. This fact represents an important shift in the global economy. The World Bank has documented that as of 1995, nearly 40 percent of developing country exports went to other developing countries, a figure expected to reach 50 percent by 2005. By contrast, in 1965 the percentage was only 21 percent. Already developing country exports are taxed more by other developing countries than by developed countries.

Nevertheless, significant barriers remain in developed countries. Ed Gresser, in a recent paper, offers some dramatic examples of how US tariff policy is often skewed against the products which many of the poorer countries produce. Let me give you two of his examples:

- In 2001 Mongolia exported US\$0.143 billion worth of goods to the United States and paid duties of US\$23 million whereas in the same year, Norway exported US\$5.173 billion worth of goods, but paid only US\$24 million in duties.
- The same year, Bangladesh exported US\$2.353 billion worth of goods to the United States and paid US\$331 million in duties while France exported US\$30.023 billion worth of goods and paid only US\$330 million in duties. It is obvious that more trade liberalization by developed countries will benefit some of the poorest countries.

These examples demonstrate that there is a lot of work to do to make the world trading system more responsive to the interests of developing countries. That work should be a key part of the WTO negotiations. There is a risk of becoming mesmerized by the attention being given to special and differential treatment and forgetting the need to address developing country interests in the main substantive work of the Round.

Challenges for the Doha Round

In the program of negotiations, nearly every deadline set to encourage progress has been missed. However, despite this, much good work has been accomplished and the picture is much clearer now about what is needed than it was when WTO Ministers launched the Round in Doha in late 2001. The biggest challenge is to get a level of ambition sufficiently high to allow the negotiations to be successfully concluded.

The agriculture negotiations are the key to success overall. Progress here is more important for developing countries than moving forward on frequently cited issues of implementation or special and differential treatment. New forces are increasing the pressure on those resisting major change, but there remain strong interests against reform in all the major industrialized countries. NGOs are arguing that developed country agricultural protection is a "major injustice to developing countries". OECD estimates of support to agriculture in OECD countries show the level of support to be consistently in excess of US\$300 billion per year and over US\$350 billion in 1999. Imagine what such resources could do if used to promote international development! There is virtually unanimous agreement among developing countries that this situation should

come to an end although there are serious differences over how far developing countries should go in reducing their own protection.

Despite this situation, a lot more support from stakeholders in developed countries outside agriculture is needed to create the countervailing forces for change. That is why a high level of ambition in other areas of the Round is so important.

U.S. and Europe

Europe and the U.S. must provide the leadership needed to make the negotiations succeed. Together they account for over 40 percent of global merchandise imports – a major part of what the negotiations are about. Furthermore Europe and the U.S. need the WTO to manage their own relationship and, perhaps even more importantly, to promote international cooperation and the rule of law more broadly. It is easy to overestimate the significance of the trade disputes between the U.S. and the EU. Disputes always get the attention in the news media, but they constitute a relatively small portion of the overall economic relationship. It is interesting to note that these differences seem to loom larger than they did during the Cold War when major strategic and ideological differences divided the world. It is time for Europe and the United States to begin projecting a sense of common purpose to address the economic challenges of this century. The efforts of Ambassador Zoellick and Commissioner Lamy to try to work together deserve your support.

The fate of the WTO negotiations is the subject of considerable high level attention. On April 12, Finance Ministers and Central Bank Governors of the G-7 countries issued a statement in which they said, "We underscore the importance to global growth and poverty reduction of successful trade liberalization through the timely implementation of the Doha Development Agenda, notably in financial services."

This week's OECD Ministerial meeting in Paris will have reaffirmed the commitment of those governments to moving the negotiations forward. However, what is needed is not just statements, but real decisions to move down the road to reform and further liberalization.

The G-8 Summit in Evian at the beginning of June offers an opportunity for the Heads of Govern-

ment of the world's most economically powerful countries to show leadership. The issues blocking the negotiations are not ones that can be resolved at a technical level in Geneva. They require decisions at the political level, decisions which will need to be made in the changed environment I described at the outset. The key stumbling block is agriculture. Why not start there? Progress in Evian would send a positive signal not only to negotiators in Geneva, but also to markets – a signal that the G-8 was providing leadership to move the global economy forward. It would also be a signal that multilateral co-operation to address global problems was back in vogue.

Yet in case you think that I am saying that it is only leaders who need to act, let me go back to another point made by Peter Sutherland two weeks ago. After accepting that businesses had recently received some not undeserved criticism, he had this to say:

“... business is the number one stakeholder in the global trading system. For the most part, it is businesses that trade, not governments, not consumers and not NGOs. If companies do not support and, largely, drive the processes that open markets and generate rules, then those processes become no more than barren diplomatic manoeuvres. That may not be a politically correct view of the WTO at present, but it is one we need to get back to if we are ever to reap a worthwhile harvest from the Doha Development Agenda.”

Business has a responsibility and a stake in trying to promote a successful outcome to the work of the WTO.

Europe and Agriculture

Participants in this session are asked to address the question ‘Can Europe really advocate liberalization without reforming its own agricultural policy?’ My answer to this is “No”, but I would note that the European Union is already in the process of reforming its agriculture policy. The real question is how much change in the EU's agriculture policy will be required to secure a successful outcome in the Doha negotiations. I certainly believe that without substantial movement from Europe on agriculture, the Round will not succeed.

The fact of the matter is that a number of participants will need to make important changes in exist-

ing policies or practices to create the dynamics for success. I think that it is clear that the difficulties can only be overcome if other interests in the country concerned see something of benefit that is worth fighting for. Reforming the global economy is not easy, but it is necessary.

Risks of Failure

I was recently asked by a businessman what would happen if the Round failed. This is a good question. While I am an optimist about the eventual outcome of the Round, the possibility of failure cannot be excluded. It is worth asking the question in any event.

In the first instance, nothing much would happen; all the existing rules and the system for resolving disputes would remain in place. However many WTO Members regard the results of the Uruguay Round of negotiations, which ended in 1994 and which led to the creation of the WTO in 1995, as unfinished business. That is where a lot of the energy for the push for change in the ‘implementation’ agenda has come from in the last few years. Even more so in agriculture – many exporters view the Uruguay Round commitment to resume negotiations to continue the program of reform in agriculture as a clear recognition that a balance of benefits was not achieved for them. Failure would test the credibility of the WTO, and its relevance for carrying forward the program of trade liberalization would be seriously eroded. This loss of credibility would quickly translate into loss of support at the political level in Member Governments. This would make it less likely that governments would resist calls for protectionist actions from domestic interests. It would also make compliance with the findings of dispute panels less likely; even now there are some signs that governments are finding compliance more difficult. It does not take a lot of imagination to appreciate that such a scenario could be very damaging and the consequences would probably not stop in the area of trade co-operation. Indeed, history has previously taught us that protectionism can contribute to heightened international tension and even war. Certainly, far-sighted leaders would not allow matters to deteriorate dramatically before mounting a new effort to support international trade co-operation.

Other Matters

The main focus of the Doha negotiations is on market access for goods, services, and agriculture and on related trade rules. Nevertheless, there are other issues which are also on the agenda and which can contribute to a successful outcome and to strengthening the system. The agreements in Doha to begin negotiations after the next Ministerial Conference on new multilateral frameworks for investment and for competition policy are valuable initiatives in their own right, but will also help contribute to the sort of large package which can secure real benefits for all participants.

Since the Doha meeting, much effort has been expended to reach agreement on how to address the problem identified in Paragraph 6 of the Doha Declaration on TRIPS and Public Health – how to make effective use of compulsory licensing for pharmaceutical products in countries with insufficient or no manufacturing capacity. Some useful progress was made, but agreement could not be reached. This issue is highly charged politically and is certain to be important in the context of the Ministerial Conference. On this file, the United States was the only WTO Member not prepared to agree to a compromise text in December.

Conclusion

The system faces major challenges, but success is essential. That success will only occur if governments give the enterprise the necessary support and leadership. It will require an all-out effort and in the modern environment, it will require making the case publicly as to why success is in the interests of entire populations. Clearly business has a large role to play in this effort just as it does in advising governments on the changes it would like to see negotiated.

Going forward to Cancún, Ministers and their advisers need to begin to focus on what they must do to instil the momentum required to move the Round forward towards its successful conclusion. Cancún must clarify the real level of ambition of these negotiations and the real scope of what is to be negotiated. If it can achieve that, history will judge it a success