



CENTER FOR GLOBAL DEVELOPMENT

Presents

**BEYOND HONG KONG:
IS THE DOHA DEVELOPMENT ROUND DOOMED?**

PANEL DISCUSSION

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PARTICIPANTS:

C. Fred Bergsten

Director

Institute for International Economics

William Cline

Senior Fellow

Center for Global Development

Institute for International Economics

Kimberly Ann Elliott

Research Fellow

Center for Global Development

Institute for International Economics

L. Alan Winters

Director

Development Research Group

The World Bank

Nancy Birdsall

President

Center for Global Development

P R O C E E D I N G S

MS. BIRDSALL: I am Nancy Birdsall, President of the Center for Global Development, and I am pleased to welcome all of you to this discussion of Beyond Hong Kong. Our negotiators are still in Hong Kong, but we are already, in a sort of depressing way, titling this event "Beyond Hong Kong."

I do want to say, for any of you who hope to see Ernesto Zedillo, how sorry he is and we are that he couldn't be with us today. Our original plan was that he would do the keynote speech and would have been an effective voice, reflecting at least one point of view from the developing world.

He did speak at an event we had similar to this about a week before the Cancun meetings a couple of years ago and he told me, he has told me several times since that he got into trouble because of what he said at that luncheon keynote speech for us a couple of years ago, because among other things, he pointed out that, in his opinion, special and differential treatment had been and was a bad idea for developing countries.

In any event, I am sure that is not why he couldn't be here today. Let me go straightaway to introduce the first member of our panel. I will introduce the panelists one at a time. They will each speak for about five minutes, and then we will all come up to the table and have some discussion amongst the panelists, and then we will turn to all of you for your questions and comments.

I am very pleased to have, as our first panelist, Fred Bergsten. You have his bio. I think he is very well known to you.

Let me take this occasion to, as we always do, thank Fred and his colleagues here at here at the Institute for International Economics for the beautiful space they provide, and, more important, for the original push that the IIE gave to the Center for Global Development just about four years ago in providing a home, where we got started.

Fred has been the Director of the Institute for International Economics since its creation in 1981, and that means that he is approaching what will be the 25th anniversary of the IIE next year, and IIE is planning an excellent series of events, a big gala, for that very important occasion.

It is always a pleasure to have this Institute in this beautiful building here for us to share.

I am not going to say more about Fred, because I am sure he is known to so many of you in the room. You will know when he talks what a good representative he is of his point of view and of an important point of view for those of us concerned with development.

Fred?

[Applause.]

MR. BERGSTEN: Nancy, thank you very much. It is always a great pleasure to participate in Center events here in our building, as well as elsewhere, and particularly on this crucial topic of whether the world trading system.

As you said, expectations for the current Hong Kong meeting have already been sufficiently deflated that we should properly look beyond Hong Kong to ask the fundamental question, what is the prospect for the Doha round itself; can it fulfill anything like the promise, notably, for developing countries, that has been offered and about which you will hear so much in detail from the other speakers today.

We know from the history of global trade negotiations that they always resemble the Perils of Pauline. They always go down to the wire. The deals are not made finally until the very end deadline, which, in this case, is still about a year, or even a bit longer, from now.

So it would be too soon to despair and give up, even though the outcome in Hong Kong will, at best, be a kind of holding operation, an effort to at least preclude the negotiations from blowing up, as they, in fact, did at the last ministerial in Cancun two years ago.

So the really crucial question is how the last year of the effort, over the course of 2006, perhaps into the very early part of 2007, will proceed and whether a successful outcome can be maneuvered during that period.

The basic point I want to make today is that the crucial determinants in answering that question will not, repeat, not be provided by the trade negotiators. It is really not up to Rob Portman and Peter Mandelson and Celso Amorim and their colleagues who are meeting this week in Hong Kong and will continue to pursue the negotiations in Geneva and elsewhere, but it really will turn fundamentally, I believe, on some broader environmental forces within which context the negotiations will transpire over this next year or even more, if the deadline has to be postponed.

Under the best of circumstances, we, again, know from history that the multilateral trade negotiations are tough efforts. Each one of the big previous rounds, the Kennedy round, the Tokyo round, the Uruguay round, have all, as I said, gone down to the wire. They have been close calls. As recently as within a few hours of the conclusion of the Uruguay round, its outcome was literally in doubt and could have failed.

So under the best of external circumstances, global economic and political conditions, the global trade negotiations are tough.

This one is probably even tougher than its predecessors. There are many more countries involved. There are many more crucial players involved, at least 20 or so, including key developing countries.

The issues are tougher. By definition, those that have not been liberalized in the previous three rounds are the most resistant to liberalization, and now, quite properly, the agenda has gone behind the border to deal with internal subsidies, government procurement, technical barriers and standards,

which have never even been on the agenda in the past and make for a tougher negotiating agenda.

So even within the context of the talks themselves, it is going to be tough.

But my basic point is that it is even tougher than that, because the external conditions, the global environment within which the talks take place, is not only not benign, it is rather hostile, and I say that basically for two reasons; the widespread backlash against globalization and the huge trade in current account imbalances that are now such a dominant feature of the world economy.

Both of those factors affect virtually all of the countries in the negotiation, but I, in my couple of minutes, will simply stress the way they affect the two biggest players, the United States and the European Union.

No longer can those countries dictate the outcome of the negotiation, but their participation and active leadership is a necessary component of a successful Doha round and if they cannot bring themselves to make the major concessions that are necessarily, particularly for developing countries, then the whole thing will flop.

The backlash against globalization, I think, is a profound obstacle to bringing this negotiation to a conclusion. Indeed, it raises the specter that this could be the first global trade negotiation to fail since the 1930s.

When you look to internal trade politics in the United States, you will observe that every Congressional debate on a major trade issue for more than ten years has been a cliffhanger.

President Clinton tried to get continued negotiating authority four times after the conclusion of the Uruguay round and failed, meaning the Clinton Administration really could take no forward steps on trade policy after its first two years.

President Bush courageously fought for and got new negotiating authority in 2002, but only by a margin of two votes in the House of Representatives, only through extraordinary legislative tactics by Tom DeLay and his colleagues, and only, in truth, by bribing a number of members at the end of the day.

We saw just three months ago, when CAFTA finally passed the Congress, a similar outcome. It passed by two votes in the House. At least 20 or 30 members were literally bribed by deals in the transportation bill, the energy bill, et cetera.

The floor was kept open way beyond what the procedures called for. In short, it was a cliffhanger.

The problem is that the underlying politics of U.S. trade policy are now virtually evenly divided between the supporters and the foes of globalization. We have done lots of studies on it here at our Institute. Suffice it to say that there is a huge disconnect between the economics and the politics.

Our studies show that the U.S. economy is a trillion dollars a year richer as a result of the trade globalization of the last 50 years. The average American household is \$10,000 per year better off.

But there are adjustments costs; \$50 billion a year, 1/20th of the amount, but that does adversely affect a lot of people. Many others fear there, but for the grade of God go they. And the U.S. Government spends \$1 billion a year to provide assistance to trade dislocated workers and others adversely affected.

In short, we do a very poor and inadequate job of dealing with the costs and losers of globalization.

The remedies go to education for the population in whole over the longer run; better safety nets and retraining programs in the shorter run. But until that happens, there will continue to be, I am afraid, a divided body politic here, which means that any new trade negotiating effort, any request by even the most pro trade administration to get domestic support for liberalization will be very difficult to achieve.

And until those more fundamental steps are taken to deal with the costs of globalization, the U.S. will be an uncertain party and a dubious participant, in fact, in liberalization of this type.

That structural problem is deeply intensified now and for the next few years, at least, by the huge and growing deficit in the U.S. trade balance and current account.

Again, we know from history that the most accurate predictor of trade policy in the United States is not the unemployment rate, no domestic economic variable. It is the exchange rate of the dollar and the external balance of the U.S. international position.

In all previous periods, when the dollar has become hugely overvalued, the trade deficit has soared, those have been the periods when protectionist pressures have erupted and, in fact, forced previous Administrations, Nixon in '71, Jim Baker and the Reagan Administration in '85, to force big devaluations of the dollar to bring the trade deficit down and restore the basis through domestic trade politics for an open U.S. trade policy.

The big trade negotiations of the past couldn't even get underway until the payments imbalances of those periods were resolved.

The reason that Jim Baker did the Plaza Agreement in 1985 and drove the dollar down by 50 percent in the next two years was not because of any collapse of foreign confidence in the dollar. It is because the Congress, to quote its leaders at the time, "would have passed the Smoot Hawley tariff itself had it come to the floor in the mid 1980s," let alone authorizing any further liberalization of U.S. trade barriers.

That payments correction had to be achieved before the Uruguay round could even be launched in the 1980s, despite four previous years of effort by the Reagan Administration.

At the moment, the U.S. current account deficit is hitting \$800 billion this year, seven percent of GDP. It is rising by a 100 billion or so a year, and there is no turnaround in sight.

So on top of the structural problem of globalization, we are going to need a turnaround in the external imbalances, which also have big financial risks, if we are to put U.S. trade politics back on track to support anything like the kind of contribution the U.S. has to make to a successful Doha package.

Now, I conclude by saying none of these problems that I stress, the backlash against globalization, the big current account imbalances, can be resolved in time to bring the Doha round to a successful conclusion, even if that deadline is extended for a year or so.

But they have to be seen to be en route to conclusion. There have to be seriously efforts domestically to deal with the losers from globalization. There has to be a turnaround in the external imbalance. The dollar exchange rate has got to come way down. The U.S. has to be restraining the growth of domestic demand, particularly through budget correction, and the other industrial countries have to be boosting their growth without relying on exports.

That is a tall order, but I am afraid that unless those big picture changes are made, the prospect for Doha, difficult as they already are internally, are going to be in super bowl and we could, in fact, face the first big trade negotiating failure since the second World War. That would be a disaster for the world economy as a whole. It would be a particular disaster for the poorer countries. But I think an agenda of this much broader type has got to be at the top of our thinking as we hope and push for a successful outcome to Doha.

Thank you.
[Applause.]

MS. BIRDSALL: Thank you very much, Fred. I am warning the other speakers that I couldn't stop Fred. He is a co-founder of the Center for Global Development and a board member. But none of the others is.

Thank you very much, Fred. He is also a good talker. So you probably didn't notice that it was more than five minutes.

We now turn to Bill Cline, who is a Joint Fellow of the Center for Global Development and the Institute for International Economics. He is the author of our joint publication, Trade Policy and Global Poverty. His task is to move from the setting that Fred has explained to us, that is, the setting particularly in the rich countries, toward the question of how does this work out with other parties, the developing countries, the middle income countries, and the poorest countries, the least developed countries in Hong Kong and beyond Hong Kong.

Let me also mention, actually, that Fred was speaking, in part, about a piece he has in the latest edition Foreign Affairs, and Bill Cline also has a piece in that latest edition of Foreign Affairs, which I recommend to all of you. Bill's piece is entitled "Dealing with Poverty."

Bill?
[Applause.]

MR. CLINE: In London they have a play called "The Reduced Shakespeare," which performs all of Shakespeare's works in an hour and a half, and this will be something like that.

First, I would like to reiterate the importance of Doha for global poverty reduction. Trade opportunities contribute to growth. Each one percent additional exports contributes to .15 percent GDP growth. Each one percent rise in trade relative to GDP raises the long-term productivity by half a percent.

So this is key, and there is still protection and Doha is a critical opportunity. My estimates last year were that global free trade could reduce global poverty at the \$2 level by 500 million. It could convey \$200 billion annual income gains to the developing countries. Half of that would be for liberalization and country protection, which would mean that the industrial countries are depriving developing countries through trade protection twice what they give them in aid.

So the stakes are big. Now, unfortunately, there is an elephant in the room right now, and that is the first major point here. The World Bank now has issued new numbers that have nanodecimated, in other words, cut by 90 percent, the headline number of poverty reduction from 320 million to 32 million.

So this is a windfall for the anti-globalists NGOs, because it says even the World Bank doesn't believe that global free trade would have much impact on poverty.

So I cannot ignore this elephant in the room. So the first part of my presentation, which is alluded to in a footnote in the brief, will be to deal with it.

The fact is that the 32 million figure is a non-comparator with the 320 million. It is a \$1 per day static estimate instead of a \$2 per day dynamic estimate. So the \$2 per day dynamic estimate is much higher. It is 95 million, .1. So all the press who have been talking about 32 should be talking about 95. Why the World Bank chose to emphasize 32 is totally beyond me.

Second, both the World Bank and my estimates, the World Bank of '02 amounted to about a 15 percent cut in global poverty at the \$2 level. So it's very similar results.

Why is my number bigger? It's an index number problem. Economists call this Les Pairs versus Posch. Posch is end period, Les Pairs is beginning period. World Bank chose to use the end period, I chose the beginning period, and so basically they are comparable to the 2002 estimates.

Now, what is this? Well, this tells us how to decompose what is going on in the poverty estimate, and it also tells us how you can get big poverty estimates out of seemingly small static welfare gains.

The number of poor that has changed, reduction of poor is going to equal the base number times the percent income change from static welfare, times the ratio of total dynamic and static to static, times what I call the

Stolper-Samuelson ratio, which is the ratio of the percent change in unskilled wages to the average percent change in income, times the poverty elasticity.

Now, we go from the World Bank '02, 320 million, World Bank '05, 95 million, there is a small change in the poverty base. The percent change in the static income gains has been cut in half, from 1.6 percent to .8 percent. The earlier figure is closer to what I have, 1.35 percent.

The ratio of total to static hasn't changed that much. The Stolper-Samuelson parameter hasn't changed that much.

The other thing that has changed in the collapse in the poverty elasticity, and the World Bank says that is because there is greater weight on Africa, where the poverty elasticity is lower.

Well, what should we think about these new estimates? Well, I'm somewhat suspicious of the estimates. I think the 32 million figure sends the wrong signal.

I think the 95 million figure probably will come up the next time the World Bank revisits estimates. The new estimates use GTAP-5, a new database, which I think lowballs protection. It says that agriculture protection is only 16 percent instead of 26 percent, even though we know there hasn't been much cut in agriculture protection from the earlier database.

The new database for agriculture protection imputes no out of quota tariff rate, if the quota is less than 90 percent filled. Well, we know that is not the way producers look at markets. They have to worry about that atom bomb above quota tariff even if the fill rate is 60 percent. So I think that is an understatement.

They cut the estimates because of specific attention to preferences. They cut it by 20 percent. My estimate is considerably less than that.

They cut it because of commitments that are in the pipeline, whether it's China or whether it's elimination of textile and apparel quotas. gain, my estimate is a much smaller adjustment for that than what they have.

They cut the poverty elasticity again. I think that that has been understated.

Anyway, this is all to say that despite this elephant which has moved into town, which is only 32 million and, therefore, you can forget about the impact of global free trade on poverty, I think is misleading and I'm not sure that when it is redone, it is going to stand up.

Now, I would emphasize, also, that all these estimates ignore the impact of services. If there is services liberalization, you could get quite a bit more contribution.

The second thing I would like to do is say a couple of very specific things about agriculture. That is will be the key. Kim Elliott is going to be talking more about it.

The first point I would make is I agree with the diagnosis of the World Bank that cutting the tariffs is more important than cutting the subsidies.

I do say that the subsidies are important in the United States. They are equal to about a ten percent tariff equivalent.

The key is to cut the coupled subsidies, the subsidies coupled output, the amber and the blue box, by something like 50 percent from the actual levels, not the much higher bound levels.

It is key, and I develop this in my brief, to redefine the amber box to exclude a fictitious concept called market price support. It is a clue to the fact that this is fictitious, that it is calculated based on the 1986 world price of food. Huh, 1986?

It is basically totally irrelevant and what it does is it balloons the base of the measured aggregate measure of support. So then you can cut it radically, like the Japanese did, by simply redefining that you no longer have administered prices and, voila, you have met your target without changing protections.

So that needs to be redefined. Once that is redefined, the narrow base should be cut, and so far, what has been offered by both the United States and the European Union does not really cut that narrow base.

What you should do is have that narrow base containing all the loopholes, the de minimis, the amber and the blue, to no more than five percent of agricultural output value. That would be the real cut.

Finally, in ag, you need WTO surveillance to be meaningful. You can't have the WTO reporting the subsidies for years later. That is what they do now. You need to have a clear commitment to decouple the subsidies. You need to hold people's feet to the fire that they are actually doing that by timely surveillance.

And, finally, the developing countries need to cut their own agricultural tariffs. India has bound tariffs of 100 percent on some of these agricultural goods. They will be shooting themselves in the foot if they ever applied those tariffs. So why no cut them in order to motivate the reciprocity.

Okay. The grand bargain. Final point. I think I would mainly refer you to Table 1 in my brief, that basically says who has to give what in order to get what.

The industrial countries need to have sharp cuts in their agricultural protection. They need to decouple subsidies from output. The developing countries need to cut their extreme agricultural tariffs, as I just suggested.

The developing countries need to cut their industrial protection. This is on the average of 12 to 15 percent versus only three percent, outside of textiles and apparel, in the industrial countries.

The developing countries should basically follow the general tariff-cutting formula, but they should have a special and differential parameter that means, for example, that they would only cut two-thirds as much as the industrial countries would for a given tariff level.

There is a lot of worry about preference erosion for the poor countries because they would no longer have as big an advantage. I would say that has been way overblown. There is a lot of worry about higher food prices

for least developed countries, because they are food importers. I say that is way overblown. I don't have time to go through that analysis.

But I do say that it still makes sense to give a special treatment to the least developed countries in Doha by granting complete free entry for the least developed countries, and the middle income countries, also, should grant either deep preferential entry or free entry to these countries.

I note that this is actually happening, something like it, although the question is how much the carve-outs will be now in Hong Kong. I also note that another proposal I have made, which is a ten percent ceiling on industrial tariffs, is in the proposals of the EU at Hong Kong.

Finally, the developing countries need to put services on the table, particularly in financial services, transport and infrastructure, in order to sweeten the deal so that the industrial countries can go along.

I think there is a little bit of validity in the EU position now to say, well, look, we have made our national offer in agriculture. Let's see what the developing countries will do on manufactures and services, and, hint-hint, maybe then we will sweeten our offer.

So I will stop there.

[Applause.]

MS. BIRDSALL: Thank you very much, Bill. I like that combination from our colleagues at the Center of rigor with passion. You can see that Bill is exercised about the new World Bank numbers, which is a good segue to introducing our next speaker, Alan Winters, who is Director of Research in the Development Economics Vice Presidency at the World Bank. He is also a Research Fellow at CEPR in London, the Center for Economic Policy Research, and, also, for those of you who are trade gurus, very well known to all of you.

I don't know if Alan is going to defend that new World Bank number or do something else, but we will see.

Alan, we are pleased to have you here.

[Applause.]

MR. WINTERS: Thank you very much, Nancy. Yes, this is the elephant speaking. I am happy to discuss the new numbers with Bill, but in his time and the question time, rather than in my time in the presentations.

I want to talk about something slightly different, and that is an attempt that we have been undertaking in the World Bank, I have been doing it with Tom Hertel, to really truly get down really to the level of detail at which we can start to talk about poverty.

Poverty is a phenomenon of households. Poor households are poor for a whole variety of different reasons. They live in different regions. They have different ways of earning their income.

While it is useful to have some summary notions, particularly so that the journalists have got something to write about, if you actually want to tackle poverty, you need to do something down at the very detailed level.

So I want to talk about a project that takes seriously the notion that what determines poverty is the prices that people get for the goods they produce, the wages they earn, the prices they pay for the food they consume and so on.

This is a big multi-author project. The basic idea was the following. We, first of all, want to establish a benchmark, what the world would look like had we not had Doha, and we include in all of that the post-Uruguay round liberalizations that have been negotiated, Chinese accession to the WTO EU enlargement.

So there is a lot of liberalization that we have now got already. It is in the benchmark, and, therefore, in a sense, we can't double count it as an advantage of liberalization. Over the broad course of history, of course, it is a success for liberalization.

On top of this, we then define an ambitious Doha agenda. I can give you some details of that, if you want, later, but up to 75 percent cuts in tariffs, in agricultural tariffs, no sensitive products; up to 50 percent cuts in domestic support; abolition of export subsidies; 50 percent cuts in agricultural tariffs.

As Bill implied, nothing on services. It is not something that is foreseeable, so we put it to one side.

So having defined the agenda, we then asked what are the implications for world markets. We then work out--we then take these implications to our national models. We push them through the national models to look at the implications in individual countries for poverty.

Sometimes this is done actually at the household level, where we have data on specific households. In every case, in the 12 case studies, we have blocks of households, so that we can identify the poor. In most country studies, we can identify different regions and the question is how does the trade shock implied in Doha work through to the poor households.

Some studies deal with the near term, some with the long term. There are a couple of global studies, of which I will mention one briefly. So this is case study work. It doesn't generate a single number, but it generates, I think, a lot of insight and I really want to make four messages.

The first thing is how the prices change. Just an illustration that the Doha agenda is primarily about agriculture, big price changes in things like cotton, oil seeds, cereal grains; very, very little in a couple of manufacturing sectors, apparel and autos. So Doha is going to raise agricultural prices.

The first point I want to make is it is one thing to change prices on the border through trade policy, quite another for them to affect individual households. You need a transmission mechanism. This is a map based on work in Mexico over the 1990s. Mexico basically trades with the U.S. The U.S. border is basically the world border. Prices get changed through NAFTA, through the Uruguay round on that border.

And what happens? The darker areas show larger price changes. Price changes in the north and in the center change quite significantly. But by the time you falter down to Chiapas, we find very little evidence of price changes at all.

Essentially, markets are not smooth enough. The infrastructure is not good enough, the market institutions aren't good enough to transmit five-eight percent changes on the border all the way down to Chiapas. So the poor people in Chiapas are more or less left untouched by globalization because the linkages aren't there.

So that is the first thing. We really need to think hard about those linkages, physical market linkages.

In the interest of time, I won't talk much about this, but this basically shows the difference between Doha with nothing added, Doha with some extra labor or productivity, and then Doha, finally, with also some improvement enhancing price transmission.

The block on the far right is the effect of real incomes in the south. You really get nothing until you put the price transmission in there.

The second area of complementary form, same sort of story, but a different phenomenon, from work in Zambia. How does cotton liberalization affect Zambia?

The basic story is Zambia is landlocked. It is not a huge cotton producer. It doesn't have a huge effect, but it has some effect. But what we do observe is that if we have policies which allow people to increase their productivity through extension services, they move into cotton with a higher cotton price in Uruguay round, there is a much bigger effect; but even more so if we put some effort into explaining and helping subsistence farmers move from subsistence into cotton production after the round, there is a bigger hit.

Another complementary policy, more or less necessary for Zambia, a landlocked country, basically to get any benefit out of the round.

Third story, no complementary policy is necessary. If you talk to Mr. Mandelson, he will say the EU will reduce its tariffs in agriculture and Brazil will gain, that is good for Brazil, but it all goes to the landowners. It will worsen income distribution. It will do nothing for the poor.

It turns out, from very detailed modeling, we have two studies of Brazil, that is not true. The one I want to talk about here suggests that, in fact, the increased demand and higher prices for agricultural in Brazil generate something like quarter of a million new jobs. Of these, about 56,000 come from people who are moved out of manufacturing, the Brazilian manufacturing sector gets squeezed a bit, but nearly 200,000 of them come from people who were previously unemployed.

So these 200,000 people are now earning an income, where they were basically hardly earning income at all.

Now, it turns out that has huge effects. These people are mostly located, obviously, in the rural areas where agriculture is done, in the poorest areas, and they are dragged down to poverty.

Here, a very simple little illustration of that. Five blocks. The middle one, the light blue one is Brazil as a whole. The two left-hand side ones--I'm not very good on color--the two on the left are Sao Paulo and Rio, the rich areas, industrial areas. The two on the right, Tocantins and Maranhao, these are poor areas in the north and the northeast.

Significant changes in the head count, poverty--I'm sorry. These are poor areas where we have significant poverty to start with, very large changes in employment, and, on the far right, very large changes in poverty, people coming out of poverty.

The story basically here, you don't need really to do anything with Brazil. They are all set up for agricultural marketing. Give them a market and they will employ poor people.

Here is a summary. You have a table in the handout and you can see the numbers in here. The basic story here, some countries have increases in poverty, some have decreases in poverty.

The countries typically in here, where we are predicting increases in poverty, are those that are losing preferences and those that perhaps are suffering from terms of trade effects as world food prices, and, also, world cotton prices rise.

The big ones where we have declines in poverty are essentially countries where agriculture is a dominant activity and where it is reasonably well linked to the markets that are liberalizing, Europe and East Asia.

In the long run, we have three stories that deal with the long run. We find declines in poverty all the way through. None of these have productivity benefits. These are all long run in the sense of the larger accumulation.

The final point I want to make is something that we get out of one of the cross-country studies. That is, Doha is less poverty-friendly than it could be. If we compare Doha with a full liberalization story, they deal with exactly the same sets of instruments, agricultural tariffs, export subsidies, domestic support and non-agricultural tariffs, but they mix them in different proportions.

In Doha, we are predicting, we reckon we will get complete abolition of export subsidies. Abolishing export subsidies actually doesn't help world poverty very much because there are a lot of people who are net importers or net consumers of food and the prices have gone up.

What we do find has very big poverty effects is developing countries' own trade liberalizations; partly the benefits you get from your own liberalization, but partly because for 2015, we predict that 40 percent of developing countries' trade will be with other developing countries, the market access that one developing country is giving to another.

The goods they trade with each other are very often rather labor-intensive goods. They have apparently big poverty effects.

So part of the problem with Doha is not only that, in fact, we are not looking as if we are squaring up particularly much, but also, for a variety of reasons, we actually turn out to be concentrating on the wrong parts.

The conclusions. Doha has to be ambitious. I can talk more about why that is the case. We almost certainly do need some complementary policies in many countries. We do really want a Doha round for cut tariffs in developing countries, as well as industrial countries. And then essentially the point that Bill has made, all of what I have talked about is essentially static analysis.

We really do need to think about how Doha enhances economic growth, investment, and productivity, and, also, think about services and investment.

Doha is helpful. There is plenty that we can achieve at Hong Kong and in Doha, but it is not, by a long way, all that needs to be done. Thank you very much.

[Applause.]

MS. BIRDSALL: Thank you very much, Alan. In case I forget to ask later, I want to know how much of those gains in Brazil in employment and reduction of poverty were because of Brazil's own liberalization and how much because of the--well, that is in the past. So I guess--well, anyway, you will address that question.

It reminded me of Ernesto Zedillo's point, the point you were making about own liberalization being so important, and it is also a very important piece of Bill Cline's grand bargain, of course.

Now, we turn to Kim Elliot. She is a Joint Research Fellow at the Center and at the Institute. She is in the last round of finishing what is going to be a very exciting book that brings together the very complicated discussion of agricultural liberalization, what is going on and what is needed, and I can recommend it to all of you in advance.

She has already taught me how to cut through the brambles and bushes of the amber boxes and the green boxes and so on.

So, Kim, we look forward to your taking us to agriculture.

[Applause.]

MS. ELLIOTT: Thank you, Nancy. I do want to focus in a little more detail on the agriculture, and I am going to skip some of the slides and try and go through this to get as close as possible to Nancy's five minutes.

As I recall, to the key question mark, agriculture is not that big a part of trade, but, basically, that is where the barriers are. These are the World Bank numbers, but the point here is not what the level is, but to point out the differences between agriculture at 16 or higher, by Bill's estimates, versus one percent for other manufacturers, three percent for all merchandise.

The point here is really that agriculture is at the center of this round, because in a reciprocal trade negotiation, this is what the rich countries have to contribute and if the rich countries, the U.S., the EU and Japan, are not willing to give significantly in terms of agricultural liberalization, a deal is probably not possible.

So that is one big reason. A second reason, of course, is that is where poor people are. However, as I think came through in some of Bill's comments and, also, in Alan's comments, agricultural liberalization in rich countries presents challenges, as well as opportunities for developing countries, and those can differ from country to country.

Just to skip over a few of these. To give you an idea of some of the opportunities, this shows, for middle income countries, as a group, four broad categories of what they export in terms of agriculture.

You can see that the blue line that is at the top, in the early period, traditional tropical products, middle income countries have done pretty well in terms of diversifying their agricultural exports. They have managed to compete in some of the temperate, protected temperate categories, which includes all of the grains, oil seeds, meat and dairy. Some of those they have managed to penetrate.

The red line, which has increased somewhat, although trailing off in recent years, but that is mainly fruits and vegetables, which, overall, globally, is one of the more dynamic growing agricultural sectors.

Then, finally, the beverages, tobacco, processed food products. Those bottom two lines are areas where lots of other policies, other than just protection in rich countries, are important; food safety standards, some of the infrastructure, the processing and so forth are very important there.

This shows a different picture here. This is the low income countries still pretty dependent on traditional tropical products. This is coffee, tea, cocoa, sugar, and, with the exception of sugar, those commodities are not highly protected in the rich countries. However, those commodities do suffer from, in low income countries, in terms of diversification, suffer from tariff escalation in the rich countries.

Most rich countries have a zero tariff on coffee, cocoa, tea, but will have 10, 15, 20 percent tariffs on cocoa powder, on chocolate, on roasted coffee.

Tariff escalation hasn't been talked a lot about so far in the Doha round, but that is an issue that is crucial for the low income countries and that needs to be addressed.

You can see that they have had some success with some of the protected temperate, although the protected temperate is a little bit misleading, because a lot of that is in terms of oil seeds, it is palm and coconut oil from Indonesia that, in fact, are not heavily protected. Some of it is in some of the meat categories. Beef is the most highly protected category in the rich countries. This tends to be more pork and poultry, which are somewhat less protected.

On the challenges for developing countries, I tend to agree with Bill that the preference erosion and net food importing problems are actually exaggerated, and maybe we can go into that in discussion, why that is.

I think this I would emphasize more, and there is a lot of discussion right now in Hong Kong on so-called aid for trade, but really especially in the low income countries, it's the supply constraints that are the real challenges, getting products to markets.

Being able to do business internationally requires phones and communications and roads and so forth. So that is where I think it is good that Hong Kong is focusing on the aid for trade, although as the developing

countries and others have said, that is complementary to and should go along with, but has to go along with liberalization in the Doha round.

Hopefully you can read these numbers. This is to give you the numbers, sort of to give you a better idea of what Bill was talking about, about the so-called water, the great amount of extra ceiling. This just shows the EU and U.S. As Bill mentioned, Japan largely eliminated its subsidies category by just getting rid of this administered price for rice.

So in the first two lines, what you see is how much water there is in these subsidy ceilings. The first line is the current ceiling for the so-called aggregate measurement of support. The next one is the actual level of spending, when last reported to the WTO, which, as Bill pointed out, was 2001.

The EU numbers don't change a whole lot. The U.S. numbers tend to change more because they are linked to current prices. They fluctuate a lot more. They are higher this year. They were lower in 2002-2003, but it gives you an idea, as Bill said, of how large the cuts have to be to actually cut into real spending.

The EU proposal for the proposed level for the AMS would be more in the 20 to 25 billion Euro range, which strikes me as more likely where things likely to come out, which shows as a cut, but as Bill mentioned, most of that cut is in the so-called aggregate measure of support and having that translated into real market access means lowering the tariffs and the tariff rate quotas that protect those things.

That cut that you see there for the EU is largely on paper, unless we get significant liberalization in the market access.

Let me come back to the U.S. AMS in just a second. Just to go to the de minimis that Bill mentioned, the actual spending, the proposed level that I show here for so-called non-product specific only, because no country uses the product specific de minimis, which allows you to exempt from your amber box limit so-called de minimis up to five percent of production.

Well, no country uses the product specific. That just gives fudge factor. My recommendation is just eliminate that box. It is just there for--it is just an invitation to fudging around the numbers.

So this is on the non-product specific. The U.S. would appear to be proposing a cut by going to two and a half percent versus the 6.8 that was reported in 2001. In fact, at least four billion of that 6.8 billion from 2001 are what are now called the so-called counter-cyclical payments that the U.S. wants to move from this amber box into the blue box, meaning you would only have about two billion or less in non-product specific actual spending over the last few years.

If the new ceiling is almost five billion, again, you've got a lot of fudge factor in that category under the U.S. proposal.

In the blue box, the last time reported, right now the U.S. is not reporting anything in this blue box. The blue box is sort of in between. You've got the amber box are the most trade distorting subsidies. The green box are so-called minimally distorting. Those are okay. They are not capped. The

blue box are moderately distorting. They are somewhere in between. They are moving in the direction of decoupling, but they haven't gotten there yet.

So they are still distorting, still need to be disciplined. The U.S., as I mentioned, is proposing to move these counter-cyclical payments, which pay farmers when prices don't meet a target, but do not require them to actually be producing that commodity. So that is the partially decoupling part, but because they are linked to prices, they probably do distort production decisions.

Those are running in the range of three to \$6 billion under the 2002 farm bill. What that suggests is that the U.S. proposal to cut those to roughly \$5 billion would be binding in bad years; that is, in low price years, when those payments have run to as high as \$6 billion, but would not be binding in average years, where those have only been \$3 billion. So, again, the U.S. cuts don't look that huge.

On the amber box, as Bill mentioned, about five and a half billion of that 14.4 is in this so-called phony market price support that is not really subsidies. If you take that five and a half billion out, again, then the required cut to all other subsidies would not be that large and depends on whether you are talking about bad years or average years.

Just rally quickly on the market access. This is where the agreement is least, where the divergences are greatest. The issue here is, I think, not so much what the average cut will be. It is how much flexibility, how much divergence from that average will be allowed. The EU is asking for eight percent of tariff lines to be designated as sensitive, where they can take minimal cuts versus the U.S. and G-20 group of developing countries calling for one percent, and the World Bank analysis suggests that that has got to be at the low end of that or it wipes out virtually all of the potential gains from the average cut.

The World Bank analysis also shows, though, that having a tariff cap can help to pull back some of those gains. So a cap of 75 to a 100 percent has been proposed. The key here is having that cap apply to everything and not be waived for the sensitive products.

Just because I know I have already run over, just the final point I will make is that the EU keeps saying they can't do more than what they have done because it has got to be consistent with the cap reform that they have already done.

Well, they haven't yet done fruits and vegetables and, as I pointed out before, fruits and vegetables are a dynamic growing sector, with assistance for complying with food safety standards, could be a potentially important product for some developing countries.

I think that it would be really important to ensure that that number of sensitive lines get paired back enough that the EU cannot try and cover fruits and vegetables under that heading.

These numbers are pretty small, you probably can't read them. This is showing you what the likely sensitive product candidates are. Sugar

and dairy are the most obvious. Meat in the EU, rice almost certainly in Japan and Korea.

Then towards the bottom, if you can read it, the tariffs, average tariffs in the EU on fruits and vegetables are not that high, only about 19 percent, on average, but they have 33 tariff rate quotas on fruits and vegetables, and that, to me, is a signal that they are looking to try and minimize the liberalization in that area, as well.

So let me stop there and we can go to discussion. Sorry, Nancy.
[Applause.]

MS. BIRDSALL: Let me start by thanking all of the panelists. I think it has been, I hope it has been, for all of you, as for me, a terrific briefing on where we are.

I am going to start by summarizing, crudely, what I heard or at least some of what I heard and then pose some questions to our panelists. We will have to be short, because they were all so good, I let them run over. They all followed in the tradition Fred set or the tone Fred set.

What I heard is that anti-globalization and the global imbalance at the moment in the currency regime, for example, are threatening the round. That is what Fred said.

Then we heard a little bit about a debate about the short run effect, at least, on reductions in poverty and particularly about reductions in poverty in the poorest countries, where the transmission mechanism might not be operating very well, by which benefits could be transferred internally, although Mexico, oddly enough, seemed to be in the category along with Bangladesh and Cameroon.

It does seem as though development economists, in some contrast to trade economists, are increasingly focusing on the differential effects that greater liberalization would bring in different settings. Then we heard something that I would summarize a little bit as Joe Stiglitz did in a column, in an op-ed recently the FT, something along the lines of the call for the rich countries to liberalize agriculture in return for the middle income countries liberalizing industry and services is wrongheaded. It is a wrongheaded way to frame the negotiations.

I think we heard a little bit of that today, because, among other things, for the poorest countries, liberalizing agriculture may not be particularly transformative.

Kim raised the point about escalating tariffs on coffee and, I suppose, cotton, and I forget what else; and, also, because the middle income countries may be let off the hook in that call too much in terms of their gains.

Now, I find myself, and I suspect this is true for many of you in the room, in what I would call the awkward middle on this, what we have learned today and what we have heard today. The awkward middle would be the place where those who believe there are benefits from globalization which could be shared and want to see those benefits shared in a more fair way, particularly see those benefits reach the poor, we are in some sort of an

awkward middle between Fred's anti-globalization forces and the traditional forces of liberalized trade straightaway, without any concerns about complementary inputs and complementary efforts.

It reminds me a little bit of Bono, who has asked that we give him, you know, the four or five or three points that could be made to pro globalization, pro poor advocates around the world.

What is the simple package? I don't think we heard an answer. I think what we heard is that the devil is in the details and it is critical to be rigorous in analysis and to be clear on what those details mean, all the way down to the amber box and the green box.

Maybe some of you disagree and we will hear from you, but let me go, first, with that very quick summary, to some questions for our panelists.

The first one I want to ask if of Fred. He set a tone which, in the end, he said, "I don't want to be too pessimistic," he said, "don't despair," but, in fact, it is not a pretty picture that Fred painted in terms of the setting in the rich countries right now for movement.

I want to ask Fred a little bit of his view of what I would call the backlash on NAFTA, whether that has been important, and the extent to which the divided body politic here in the U.S. is, in part--well, another way to think of it is that we don't have the pro business lobby that we had in the past; that because we have many of our export industries in the U.S. already have benefitted from past liberalizations, we don't have the same passion, let's say, and political effort behind the one part of this divided body politic that, in the past, pushed us forward on getting to agreements.

MR. BERGSTEN: As I said in my remarks, the backlash against globalization has really erupted here in the U.S. over the last decade plus, and I think the NAFTA debate was its trigger. That was the first big manifestation of going to, quote, free trade between the U.S. and a developing country, in that case, Mexico. It raised the specter of transfer of location, the production.

Ross Perot and the famous sucking sound, which our studies have shown was a myth, nevertheless, there had been some adverse effects on some sectors and the effect in Mexico has, of course, been to increase income maldistribution there, the same way that globalization increases income maldistribution here.

I hasten to say that in Mexico, as in the U.S., all income levels have improved, and, to me, that is the crucial thing, all income levels have improved as a result of NAFTA, but the higher income levels, obviously, have improved more and that has raised alarms in lots of quarters.

But the political fact is that since the NAFTA debate, as I mentioned, the U.S. body politic has been virtually evenly divided over globalization.

What our studies show is that there is one variable that explains the difference in view, and it is the level of education of the workforce. Everybody who has got a college degree or even some college is a supporter of globalization, on balance, believing that they have the skills to take advantage of the opportunities.

Anybody who is a high school graduate or less, and that is still almost half the workforce, is terrified of globalization because they feel, and probably correctly, that they do not have the skills to take advantage. Indeed, they feel victimized by it.

So, yes, NAFTA started it. It has continued since that time and, as I suggested, we are going to have to make some big changes in domestic policies in order to overcome that.

On the pro business support for liberalization, I think there are a couple of factors. One is what you mentioned, that a lot of the gains they sought have already been achieved. However, there is still lots more out there.

The big sleeping element, I would say, in the Doha round is the lack of any kind of concrete progress at all on services trade. It is fine for Stiglitz or people who are concerned mainly with development to say that the poorer countries should not offer liberalization on services, but I can tell you, as surely as I sit here, if they don't, there will be no successful outcome to the Doha round, because there is no quid pro quo for the rich countries; not just the U.S., incidentally, but the European Union, Japan, Canada and others, and they won't be able to overcome their domestic resistance to liberalization unless they have something to offer.

One reason our business community has not been much more stalwart in standing up and pushing for Doha is they don't see the gains, and that is, in part, because so little has been put on the table in the areas of interest to them, particularly in services liberalization, but even non-agricultural market access.

All this has been so subsumed by the debate over agriculture that the people who want to resist liberalization in services, in manufacturers and on other issues, have been able to hide behind the agriculture impasse and even if agriculture were miraculously resolved at Hong Kong or in the next six months, it is still going to be a herculean task to bring the round to success, because other key components have hardly been started here four years after the fact.

Business is also undercut in its support for trade liberalization by the big trade deficits that I mentioned.

MS. BIRDSALL: Okay. Let me stop you there, because I think you made that point very nicely in your opening remarks.

Let me ask Bill. In the grand bargain, Bill, what would you say Brazil should put on the table to satisfy Peter Mandelson on industry and services?

MR. CLINE: The manufactured tariffs in Brazil are on the order of 12 to 15 percent. So Brazil should be--if the general Swiss tariff-cutting formula would say that a tariff of that level should be cut by 60 percent, then Brazil ought to at least offer to cut that tariff by 40 percent.

That would mean cutting it, say, from 15 percent to nine percent.

MS. BIRDSALL: Using your parameter.

MR. CLINE: Using a special and differential parameter. Point one.

So they have to cut their manufactured tariffs.

Point two. To the extent that they are services areas, where the regulation keeps out industrial countries, then that should be on the table, although Brazil has moved pretty far in financial services.

But I think perhaps equally important, number three, is Brazil should grant, I would say, immediate free entry to imports of all goods from least developed countries.

Least developed countries amount to just the thumb on the giant. It is just such a tiny base, with the possible exception of Bangladesh. It would be so simple for all of the middle income countries to give free access to their markets to the least developed countries to do exactly the same thing the industrial countries should be doing, but, at the very least, to give them a 50 percent preferential entry.

That then takes care of all of these fears about the preference erosion and fears about higher food import costs, which is a red herring, because they have even larger deficits in manufacturers. So they will make up in lower manufacturer prices from greater global efficiency and what they lose in higher agricultural prices.

But those three things: cut the manufactured tariffs, extend the services opportunities, and grant free entry to the LDCs.

MS. BIRDSALL: Now, that would have to be matched by truly free entry to the LDCs on the part of Europe and the U.S.

MR. CLINE: Oh, yes. Yes.

MS. BIRDSALL: Which have now lots of--

MR. CLINE: De facto restrictions, yes.

MS. BIRDSALL: De facto restrictions.

Alan, why don't you say a word about Mexico? Do you think that Mexico should go along with Brazil on those same offers that Bill described?

In that context, there is, no doubt, some backlash in Mexico that is reflecting the problems of unequal gains in the last ten years, plus the nervousness about China.

Given your concern about transmission mechanisms, what should Mexico do?

MR. WINTERS: I'm not an expert on Mexico, per se, so I can only speak from a rather general perspective.

First, the reason that Mexico has shown up as a loser in our calculations is very clearly preference erosion. Mexico has this wonderful

access to this huge market. It has been booming and it has now eroded. There is no way around that.

What should Mexico do? My own view is that Mexico certainly should be making offers half of what Bill has suggested, and I would very certainly go along with.

Mexico has still got some things to gain by reducing its own industrial tariffs and liberalizing its services. NAFTA helps Mexico, in a sense, defining regulations and thinking about some of the non-trade aspects or, I should say, non-goods trade aspects, but I think there is clearly more that Mexico can do.

For myself, I'm not particularly enthusiastic about the idea of middle income countries giving preferences to least developed countries. The history of preferences, frankly, has not been overwhelming.

The idea that the Brazilian Customs Service will be able to administer that in an effective way that gives least developed countries confidence to start producing for the Brazilian market seems to be implausible, and it creates yet another lobby for the next time you go around the mulberry bush for why we shouldn't cut MFN tariffs.

So I would not, frankly, want to advocate a strong extension of preferences and certainly wouldn't make NAFTA a central part of the round.

MS. BIRDSALL: Thank you, Alan. Let me ask Kim something.

Bill mentioned, I think, the really important idea of rigorous surveillance through the WTO mechanism of any changes in the rules that govern what goes into the different boxes and what kinds of cuts are required, and you mentioned the idea of aid for trade.

Alan may want to comment on this, too, because the World Bank is heavily involved in this integrated framework idea.

Were there a deal--could there be a deal on aid for trade that would actually be locked in in some manner for some of the middle income and certainly the poorest developing countries that would enable them to exploit the benefits of liberalization?

Could it be that this is something that ought to be locked in in more of a treaty sense through the WTO than what has been the talk for the last 10 or 15 years; namely, oh, well, the World Bank and the donors will do more aid for trade, which, of course, for those of us who follow the aid literature and the aid world, know that that alone is problematic, since it may not be additional.

But is there any way in the world of WTO legalisms for some combination of aid for trade that is a little bit more subject to surveillance through a WTO mechanism?

Since Bill probably doesn't like this, I will see if he wants to say something about that, too. I don't know. Kim, Bill, and then Alan.

MS. ELLIOTT: I think, in theory, it certainly makes sense to say that if aid is essential to sort of delivering on the promised benefits, that binding it would be a good idea, and I think the history of the promises in Uruguay round, for example, to provide technical and financial assistance to developing countries to

implement the intellectual property agreement have largely not been delivered on and then it is pretty clear that those kind of unbound promises have not been effective.

In the real world, I don't think it is going to happen. I don't think that the developing countries are going to be willing to bind financial commitments in the treaty context, A. B, I'm not sure the U.S. could do it, given how its budget process works. I'm not sure that legally there is a mechanism by which U.S. negotiators could commit the U.S. to a certain amount of money over a long period of time, and that would be problematic.

I think that is the reason that the idea of a separate fund for aid for trade has come up and presumably, again, you have the same problem of commitments, but I think the idea is that a separate fund would be more transparent, would be easier to track and to monitor in terms of whether the promises are really delivered.

The problem there, of course, as you mentioned, is that it may not be additional. We don't know. Maybe it comes out of other priorities. Secondly, I do think, and maybe this is what Alan will comment on, that the aid for trade, while you want it to be available, that does need to be integrated into the broader development agenda.

It may not be what every country under every circumstance has the most need for, and so it does somehow need to be integrated, and so that is one problem of the separate fund.

MS. BIRDSALL: Let me stop you there, because we want to leave some time for questions.

Bill, 30 seconds on this.

MR. CLINE: Yes. There are two issues. One is what nature of the bribe do you want to keep the LDCs from blocking Doha. I think that giving them free access to lots more markets is a more persuasive bribe than aid for trade, because aid for trade probably won't be additional.

The second question is the conceptual framework. There is all this talk about how you need complementary stuff because, by itself, trade liberalization would help this countries.

I think that is largely a red herring. The models or estimates that I have seen do not show synergy. They get A for the trade liberalization, they get B for better education or for better ports or whatever, and the result is A plus B. It is not A plus B plus a huge interaction term.

So, rigorously, I'm not sure that is valid. The base of these exports is very small. So the comparable elasticity that is in all these models is plausible because it is a high increase from a small base.

So aside from the impracticality and the conceptual dubiousness, I guess I would be in favor of it, because if you can get more aid out of it, they would be better.

MS. BIRDSALL: Alan.

MR. WINTERS: To respond to Bill, first of all, I think it is better to try and buy the developing countries with some non-distortionary process that we think will do some good than introducing a further distortion into the system.

MS. BIRDSALL: So you like the aid for trade better.

MR. WINTERS: Aid for trade. I mean, I think a lot of our results suggest--the analysis that we have done has brought aid for trade much more prominently into our minds; not necessarily as a bribe, but to look at the sorts of things that are blocking trade from having an effect on poverty.

This is not the same as on average incomes. There are example in our book where average incomes go up and poverty goes up at the same time, just because of the structure of income earned.

But we think there are very clearly identified issues in areas of logistics and perhaps market transmissions and possibly, also, things like training that mean there clearly is a useful role for aid for trade.

I don't like it. I don't see how you can actually do it in the WTO. I think the important thing, however, is to establish it in some way on a parallel track, in a way that basically can't be undone. You can't get commitments of aid forever and ever and ever, but we could look to some satisfactory program whereby grants, not loans, that is a big difference from World Bank programs in general, grants could be lodged in some alternative venue.

MS. BIRDSALL: Yes. It would be good to lodge it in some venue where it could be monitored by independent third parties.

MR. WINTERS: It is a job for CGD.

MS. BIRDSALL: Right. A job for CGD. Exactly. I must say that something about the combination of remarks here on anti-globalization and on effects on poverty makes me think that we probably ought to be focusing also on effects of trade liberalization in developing countries on the distribution of income, not just on the numbers in poverty, because some of the backlash has to do not with the fact that there were not aggregate gains for the poorest or that there were aggregate losses, but the increasing sense that there is something totally unreasonable and unfair about the extent to which some, the highly educated, as Fred pointed out, in this country, are gaining so much more that it is raising problems that are captured by the idea of positional goods.

Now, we took far too much time and I apologize to all of you. What I would like to suggest is that we go to your comments and questions and we hear as much of those, as many of those as there are out there before we decide whether to comment on them up here or just to end with some nice summary statement.

So it is to you, please. If you could go to the mic and identify yourself, please.

MR. GUADAGNI: My name is Alieto Guadagni. I am Executive Director, World Bank, I represent Argentina.

Let's go to the legal question. The peace clause which was imposed by Uruguay round is dead now. Do you foresee an increase in legal complaints presented by developing countries to the relief of attacking the legal agricultural subsidies?

MS. BIRDSALL: Peter?

MR. TIMMER: Peter Timmer, Senior Fellow at CGD. It is really a question for Kim and Fred combined.

I was struck by Fred's note that there is not much political support in the business community for this round. I was wondering, do we see what historically had been support for trade reform, trade liberalization in the agricultural community?

Historically, we had seen the world market as the future of U.S. agriculture, at least large scale agriculture, and there had been support, at least within Congress, from Congressional committees and representatives.

My sense in Washington now is that U.S., at least in the United States, that programs, subsidies, tariff protection, now are such a big part of U.S. agricultural income, that there is dwindling support for reform.

I just wonder whether that is your own sense, as well, because if we lose agriculture as a support for reform, then it is going to be very difficult to get through.

MR. DU PONTE: Felipe du Ponte, Eurasia Group.

We didn't hear much about China in these discussions. In fact, China has been fairly quiet all together. How will China tip the scales at the negotiations, or will it? It would seem to have a lot to gain from a robust round.

Secondly, on the issue of food aid, and, specifically, whether U.S. food assistance really qualifies as a distorting agricultural subsidy, how do we think that debate will be resolved and with what impact on U.S. food assistance?

The Bush Administration recently tried to take steps towards reform and was thwarted by Congress.

MR. WHITNEY: Peter Whitney. I teach at American University in the spring and Duke in the fall.

My question is about trade facilitation. I understand that is one of the four Singapore issues that is still on the table, and I would be interested in any comments that you might have on how that might--we might actually make some progress on the Doha round, if, in fact, the Doha round make some progress, because in the countries that I have lived in and worked in, customs and the administration of it is a serious issue, both for blocking imports and

actually discouraging exports because of the cheating and just outright blatant corruption.

I can give you lots of examples. But Alan Winters touched on it with the case of Brazil and I thought that was an excellent example. So I would be interested in your comments on ending red tape at the border and all of that that goes under that rubric.

Thank you.

MS. BIRDSALL: Yes. Go ahead. Sorry, John.

MR. SEWELL: Not a problem. I'm John Sewell, from the Wilson Center. I was glad that the issue of aid for trade finally arose, because I thought it was being neglected, at least in the handouts.

It is an important issue, for several reasons, one of which is in a negotiating sense, it is low hanging fruit. I cannot think of a more easy issue to reach agreement on we want on the Doha agenda than aid for trade, both because it has intrinsic importance and, two, if done right, it could be very valuable.

There are a set of proposals on the table and on the Hong Kong agenda to move toward some form of dedicated mechanism. I don't want to describe it as a fund, because that seems an allergic reaction in certain quarters in Washington. A dedicated mechanism for aid for trade.

It essentially is a good idea, because it will take this issue off the table and the rest of the Doha negotiations, all of--

[End of Disk No. 1, begin Disk No. 2.]

MR. : [In progress] policy-making is a pretty rough old business and there are swings and roundabouts, and if we got ourselves into a situation where we believed any policy that ever made one poor person poorer or one person poor who had previously not been poor, it should be stopped, we actually wouldn't do anything at all.

So I think it is really important to do the detail work, one, to understand, but, secondly, so we have some appreciation of where aid for trade should be applied, what complementary measures we should be doing, where governments should be devoting their attention.

It does, also, seem to me that in the sort of broad business of making policy within the global market, one does need to find some way to aggregate these things up into summary measures.

So I think there is still a role for the models, but as, clearly, my discussion suggested, you need to look at these models pretty carefully. What you put in determines what you get out, and we clearly can't let the world be run by models anymore than we should dispense with them all together.

MS. BIRDSALL: Now, I have just been told that I made a mistake and we actually have a few more minutes, because the event was scheduled to run longer than I realized.

So I am going to go back to Bill, who wanted to say a few more things.

I actually have a question for Fred, and I am going to ask Kim to address the trade facilitation issue. Then for those of you who are still interested, we will see if there is another round of questions or comments.

So, first, back to Bill, who wanted to add points on other questions.

MR. CLINE: On the question that the gentleman from Argentina raised. I'm not sure that the developing countries should agree to a total peace clause after negotiation.

It does seem to me that the use of the legal mechanism is very important, as we have seen with Brazil's efforts on cotton, and the U.S. and sugar in the EU.

We need to step back for a second and ask what the subsidy is. The subsidy should be commitment to decouple from production. It seems to me that the rest of the WTO allows remedy when there has been a failure to deliver on the commitment, and I don't see why that should not be part of the agricultural part of the WTO.

On the question from the back that, well, this round may not do that much for the poor, I think it is very important to remember that the bulk of the poor are not in the least developed countries. There are three billion poor at the two dollar level and less than a third of that is in the least developed countries, sub-Saharan Africa, and HIPC's. That is one point.

The second point, related to it, is that we know from basic trade theory that the greatest beneficiaries of global free trade should be unskilled workers in those countries where there are a lot of unskilled workers, not much capital, not much skilled workers.

Well, those are precisely these people. So I think it is wrong to somehow get the impression that, you know, the global free trade really wouldn't help the poor much.

MS. BIRDSALL: That is the 196,000 or whatever it was, 297,000 newly employed workers from the bottom three deciles or something in Brazil.

Peter Timmer, would you be willing to address the big question about food aid? We had a standing room only event last week on food aid that Peter knows all about, has thought about, and he has on our website a blog, an essay on this issue, for those of you who want to go visit and hear more than what he says right now.

Thanks, Peter.

MR. TIMMER: Thanks. I did wonder whether food aid would come up in this session. It is such a tiny piece of the story, and yet it is now front and center in the politics.

The Europeans are using it brazenly to beat up on the U.S. If the U.S. had any sense at all, it would adopt the Natsios proposal and get this off our back, but it doesn't look like that is going to happen.

I can't imagine food aid scuttling Doha, because there are a 150 other reasons to scuttle Doha, but it may turn out to be the reason that sticks if we can't resolve the European-U.S. differences on this.

You had shown me the article this morning by Robert Samuelson. The point he is making on agriculture and Doha is if a visitor from Mars came down and looked at this round of negotiations, they would be really puzzled why agriculture is such a big deal in the negotiations, when it just doesn't matter that much any longer in income generation, in trade, at a global level.

It is very important to the poor in developing countries, but it is no longer--it shouldn't be driving what the rich countries are saying in this round.

If that is true for agriculture, I agreed with the Samuelson article this morning, if that is true for agriculture, it is true in spades for food aid.

MS. BIRDSALL: Thanks, Peter. Fred, I wanted to ask you. You were a high official at Treasury.

Go ahead, Bill. You wanted to say something on that?

MR. CLINE: I am sure Peter didn't mean to imply this, but all of the analyses do show that at least half of the gains from moving where we are to global free trade would arise from agricultural liberalization.

MR. TIMMER: Absolutely.

MR. CLINE: So from that standpoint, it is critical.

MS. BIRDSALL: It shouldn't be blocking the negotiation. That was the point.

MR. BERGSTEN: You, therefore, suspect that it may be a cover for other things, like I was saying before.

MS. BIRDSALL: Right. That switches.

MR. BERGSTEN: I mean, one reason our Administration may have put such a big focus on social security reform was it didn't want to talk about medical reform and the budget.

One of the reasons the Doha negotiators talk so much about agriculture is they don't have any offers to make on services or non-ag manufactured access, and you do have to believe that there is serious attention diversion, maybe deliberately so.

MS. BIRDSALL: I mean, I think the point about food aid, in quantitative terms, it is a small part of the discussion. So Peter is right.

On the other hand, it is becoming a symbol or it is a symbol of the power of the farm lobby and the lock hold, the sort of gridlock that the U.S. has gotten itself into on the combination of how we do aid ineffectively and inefficiently and how we do farm support.

Fred, you were a high official in the Treasury Department. I believe, from other work we have done on other issues, that it ain't so, that there is no way for the U.S. to make forward commitments.

I am here going to the issue of an aid for trade commitment going forward, a fund-like mechanism.

Can't you be creative? Can't your successors in Treasury be creative as we are in many other realms where we do make, as a nation state, forward commitments?

MR. BERGSTEN: Well, when I was a high official at Treasury, I had to go to the Congress every year with this hugely popular requests for funding for the World Bank, IDA, the IMF, all the international financial institutions, and it is even less popular today than when I was doing it a long time ago. So I sympathize with my successors on that count.

On the legal point, the answer is really yes and no. Obviously, the U.S. does take on long term commitments. Every time there is an IDA replenishment, the U.S. takes on a long term commitment.

At the same time, it cannot legally commit the appropriation of the funds. So you have to go every year to get that appropriation, and, as we know, the Congress frequently does not provide the full appropriation. The U.S. goes into arrears, has to make it up subsequently.

To my knowledge, the U.S. has always made it up, I believe, over time, but there have often been long lags and there has been trimming at the corners, et cetera, et cetera.

So you can certainly make multi-year commitments, but as far as I know, whether you call it a fund or something else, you cannot commit the actual appropriation of the supporting funds, which is subject to the annual process.

The only way, therefore, to get around it is to do, which is certainly legal, a multi-year appropriation. If you want to create an endowment or a capital fund, obviously, you can do that, put all the money up front and live off the income, or you could make a three-year appropriation in year one. It would count against budget authority in that first year, but would only count against outlays as it was drawn down in the subsequent years. So it depends which version of the budget you were looking at.

As always, if there is a will, there is a way. If an Administration and Congress can get together and decide they want to do some program, like trade for aid, and the amounts are not huge, a few billion dollars, a few hundred million dollars, you could do an appropriation in year one, though spending it out in subsequent years.

But unless you did that and actually voted on budget authority for the full amount, I don't see how you get around the annual appropriation requirement.

MS. BIRDSALL: How is the trade adjustment assistance, as paltry as it is? Is that done with--

MR. BERGSTEN: That is an annual appropriation. That is further complicated, because it is supposed to be an entitlement.

In theory, trade adjustment assistance, like unemployment insurance, social security benefits, represents an entitlement, which means that total demand is supposed to be met, but it is still subject to the appropriation process, and, as a result, many applicants don't get the money.

MS. BIRDSALL: That's right. One way to think of it in the context of aid for trade would be not as an entitlement, which could never happen, obviously, in quite the same way, but as a monitorable number.

MR. BERGSTEN: Yes, but the monitoring doesn't help you with the Congress here. That is a different process.

MS. BIRDSALL: Well, that is probably true. That is probably true.

MR. BERGSTEN: Even if they believed it a 100 percent, it wouldn't help you with them.

MS. BIRDSALL: For you stalwarts, are there others who wish to make a comment or pose a question?

MR. NEAL: My name is Chris Neal. I'm from the World Bank. I would like to ask a question to Fred Bergsten and Alan Winters.

In your article in Foreign Affairs, Fred, you indicated that the APAC, revival of the APAC could be a deus ex machina that could save Doha. You clearly indicate by saying that that you see some regional trade agreements, at any rate, as stepping stones rather than millstones.

I know that Alan Winters has studied regional trade agreements and multilateral liberalization one against the other, as well, and I wonder if you could both comment, Fred, on your proposal, and, Alan, more generally on perhaps the--is it true that the diminished enthusiasm for Doha is partly because so many regional trade agreements have been concluded in the last few years?

MS. BIRDSALL: Alan, why don't you go first?

MR. WINTERS: All right. This is a call from the past.

MS. BIRDSALL: I know what Fred is going to say.

MR. WINTERS: Fred and I have sat on many debating regions. I think the definitive answer is it is actually just not possible, to me.

My own view is that if we had a much more rigorous approach to controlling regional blocs, make sure that they--even just enforcing, say, the WTO, the GATS Article 24, so that, in fact, enforcing that, there, therefore, would be fewer regional blocs, I do believe countries would devote more attention and be more serious about multilateral liberalization.

Can I prove it? I can't. I have always worried about the assertion that regionalism shook loose the multilateral system. The idea that trade liberalization multilaterally would have stopped at the Kennedy round had we not had the creation of the European Union has always seemed, to me, to be an extreme view.

Similarly, I always felt that the Uruguay round, clearly, APAC and NAFTA did cause some ripples in Europe, but on the other hand, the real key to unlocking the Uruguay round was that the Europeans, in 1990, set about reforming their agricultural policy, to give themselves enough space in the domestic legislation to be able to make a deal.

So I can't really prove it, but my instinct is that a world with many fewer and less far reaching regional blocs actually would pay more attention to multilateralism.

MS. BIRDSALL: Fred, before you answer, let me add to the question about regional trade agreements. My view, and Kim and I, I think, have a joint note about this somewhere on our website, is that recently, in particular, the U.S. has been a bit of a bully in the bilateral and plurilateral trade agreements it has made, and that is inherent in the fact of the bigger market and it is an asymmetric negotiation.

So in addition to whatever problems arise from what you call competitive--what do you call it --competitive liberalization, the stepping stone theory, which may not be a stepping stone, but millstone, there is this additional factor of the asymmetry particularly for the poorer and for the developing countries when it is an agreement between a very big, rich market and smaller, poor markets.

MR. BERGSTEN: No. See, I disagree sharply with what you just said, because in every deal between a big, rich country and a small, poor country, the biggest beneficiary by far in every case is the small, poor country.

It gets access to a big market, which is hugely more important to it.

MS. BIRDSALL: But the counterfactual is not whether it gains and gains more than its partner in the agreement, but whether it would have gained even more in a multilateral, if there were multilateral agreement in the rural setting, from which, for example, Brazil has benefitted in the case of cotton.

Isn't that the right counterfactual?

MR. BERGSTEN: Well, another counterfactual I thought you were going to say was a better bilateral agreement from the standpoint of the poor, small country, which you and I and all of us here could design and surely could be better.

But in the real world, I would assert that every agreement of the type you mentioned was a winner, in both absolute and relative terms, for the small, poor country.

Now, compared with a multilateral deal, I'm not so sure. It depends on the trade pattern of the small, poor country.

If Mexico is viewed as a small, poor country for these purposes, then going to free trade, free trade, with the country that takes 80 percent of its exports and big chunk of its GDP, is worth a lot more than the maximum possible reduction of barriers in a multilateral deal, and Alan's numbers showed it.

Alan's numbers showed dispositively that Mexico not only gained more from NAFTA than it could gain from Doha, but it would lose back some of what it gained under NAFTA with Doha.

So from a Mexican standpoint, there is no choice. NAFTA was clearly better.

MS. BIRDSALL: It is great to end with a little debate. I think there is a big issue here that has to do with the long run dynamic; namely, that Mexico may have been constrained by market forces in more earlier, more competitive diversification because of its easy access in the last decade to the U.S. market, and it is now going to suffer as there is progress on the multilateral front.

These are, in short, complicated questions. Let us end there.
I will always get in trouble if I--

MR. BERGSTEN: Do you want me to answer this question? Do you want me to answer the basic question?

MS. BIRDSALL: --get into a conversation with Fred.

Thank you all for joining us, and especially those of you who stayed.

MR. BERGSTEN: We'll answer your question later.

[Applause.]

MS. BIRDSALL: Yes. We'll answer the question, if you'll come up. Our World Bank colleague, Fred can answer the question.

Thank you all.

[Whereupon, the conference was concluded.]

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