

Center for Global Development

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Trade ministers meet this week in Cancun in an effort to forge agreements that will lead to a successful conclusion of the Doha Round of multilateral trade talks---a complex negotiation involving 146 nations. People who want governments to do more to alleviate global poverty must care about the outcome of this Ministerial, for these trade negotiations constitute the best opportunity we have today to stimulate global growth and development.

History teaches that these negotiations will not succeed without strong US leadership. In the half century following World War II, it was the US that led the world in opening the global economy. Republicans and Democrats were agreed that economic interdependence encouraged economic growth and political stability. To that end, they worked to open markets and promote global trade.

The results were spectacular. World trade and global growth exploded and standards of living worldwide soared. Developing, as well as industrialized, countries, benefited. Poor countries that opened their markets to trade and investment on average grew five times faster than those that kept their markets closed.

The gains went beyond the strictly commercial, for as government liberalized their trade, they liberalized their political regimes.

Ironically, as the global benefits and opportunities have accumulated, public support for trade liberalization has waned, particularly in rich countries. Since the 1999 meeting of trade ministers in Seattle, organized protests---many violent---are now a regular feature at meetings of the World Bank, the IMF and the G-8.

We can agree that trade liberalization is not a panacea for the world's ills. International trade by itself does not educate nor provide health care. Governments must allocate some of the economic gains it creates to address social needs.

But it is indisputable that broad trade agreements that lock in existing liberalization and encourage future reform, help create resources necessary to reduce poverty and to raise living standards. And, trade, based on a set of agreed rules, reinforces Rule of Law so key to democratic government.

The country of Jordan illustrates the point. In 1998, it entered the WTO, and began a series of economic reforms. Last year it entered a free trade agreement with the US. In those 4 years, its exports to the US have shot from \$16 million to over \$400 million, creating some 40,000 jobs.

But anti-trade sentiment is strong and rising in this country. The loss of 2.6 million American manufacturing jobs over the past 3 years has become a hot political issue. To enable our government to move forward on our trade agenda, we need to persuade a far greater number of our citizens---and their elected representatives--- that trade is the best tool that we have to create economic growth, alleviate poverty, and encourage global peace and stability.

We will fail in that task unless we deal with Americans' growing anxiety about job security. To be credible, we need to admit up-front that the gains from trade do not make every citizen a

winner and pledge to help those left out---not by closing down trade, but rather by allocating some of the gains derived from trade to help those displaced because of change driven by trade and technology.

The effort to explain the merits of trade and to develop better mechanisms to deal with displacement is not something that government can, or should, be expected to do alone. Think tanks and universities must do more. That is why I applaud this conference.

Businesses too must invest far more time to explain to their employees how trade affects company revenues, making them aware that jobs connected to trade pay better wages, provide greater benefits, and offer more security than jobs in the overall economy.

We need to mobilize all sectors of society---lest we lose the consensus favoring open markets that has been the bedrock of our prosperity. It is not an exaggeration to say that the success or failure of the Doha Round could well determine the fate of the global economy and the world's political security for the first quarter of this century.

According to the WTO, a simple agreement among member states to cut barriers in agriculture, manufacturing and services by just one third could boost the global output by \$600 billion.

Studies by the US Department of Agriculture's Economic Research Service show that elimination of rich countries agricultural supports would result in the a 24 percent gain in the value of poor country farm exports, which account for one fourth of their total exports and employ half their population.

The issue of poverty is central to this Round, an emphasis was driven by two factors.

First, Trade Ministers met in Doha two months after September 11th, when there was widespread agreement that poverty creates conditions hostile to the maintenance of peace.

Second, by focusing on poverty the Ministers secured the support of a number of developing nations that had resisted the launch of a new Trade Round, convinced that they failed to achieve benefits from the last Round.

It is true that in the Uruguay Round poor countries did not achieve reductions of high tariffs in the areas of their interest. Even in the US where tariffs average less than 2 percent, tariffs on the products poor countries produce---footwear, vegetables, fruit juices, peanuts, sugar--- still range from 40 to 100 percent.

Poor countries also failed to achieve relief from tariff escalation that places higher tariffs on value added products than on their inputs---which discourages foreign and domestic investment up the value chain.

The results are perverse. In 2001, Norway and Mongolia each paid the US the same amount of duties---about \$23 million. But Mongolia's bill covered a mere \$143 million in exports, whereas Norway's covered \$5.2 billion.

Something is very wrong with the trading system when the US extracts more duties from Bangladesh on its \$2.3 billion in exports than it does from France on its exports of \$30 billion. The sad fact is that the U.S. is not unique.

Making matters worse are the huge subsidies of nearly \$1 billion a day that wealthy governments pay their farmers that force even efficient producers in poor countries out of the market for agricultural products.

According to the World Bank, African farmers are the low cost cotton producers in the world. Yet they cannot compete with their competitors who receive \$4.8 billion annually in subsidies.

It is true that more than half the burden on poor countries exports result from restrictions imposed by other poor countries, which underscores the importance of opening markets globally. It is also true that because most countries seek reciprocity in trade negotiations, the emphasis that poor countries put on obtaining preferential, rather than reciprocal, treatment for their exports, has resulted in their products not being covered by trade agreements.

While these facts explain why we are where we are, they do not excuse rich countries from making the concessions necessary to achieve the development they subscribed to in the Doha Development Agenda.

The U.N. has made universal primary education for poor countries its core Millennium Development Goal, the cost of which is said to be \$10 billion per year. Yet, a successful Doha Round could give those countries 15 times that amount.

The Doha Development Agenda constitutes a recognition by the 146 member-nations of the WTO that trade can help poor nations grow their way out of poverty and that integration into the World Trade Organization, a rules based system, can encourage the development of the rule of law, transparency, and respect for property rights, basic ingredients of stability and democracy.

The good news is that Trade Ministers are meeting in Cancun in a sincere effort to move this Round forward. The bad news is that if the Doha Development pledge is broken, the Round will fail.

The big question is whether governments can muster the political will to take the steps necessary to lead the world to a successful conclusion of the Doha Round. The present signs are not good. WTO members are sharply divided in how to proceed with the negotiations to open agriculture, industrial, and services markets

The divisions are not only North-South but also North-North and South-South. Europe's ambition with respect to agriculture is woefully low. Developing countries like Brazil, India and China, huge net exporters of agriculture, refuse to reduce their farm tariffs more than other developing countries, like Bolivia, Bangladesh, and Benin, which would greatly limit market opportunities for their poorer neighbors.

And, many wonder whether our President with elections one year away can deliver on his stated ambitions for open trade and deal at the same time with powerful farm, steel, and textile lobbies.

To enhance political support for this Round here at home, I believe we need to wrap our arguments for it in Bigger And More Universal Goals like poverty alleviation, enhanced security and worldwide prosperity. Such goals resonate with a different and broader domestic constituency than those who support agreements that let us export more.

I like the line from Norman Cousins: History is a vast early warning system.

Remember that we enjoyed a remarkable period of sustained global growth from 1850 to 1914 that was cut off by World War I. With the end of that War, came a decade of stock market exuberance, followed by deflation and a crash, which combined with a global recession to fuel fear of foreign competition. In response to domestic calls to protect local workers, the US and Europe raised their trade barriers. Then the US Congress passed the now infamous Smoot-Halley bill and a half decade later the world was again at war.

Fast forward: since the end of World War II, we have benefited from a remarkable period of sustained global growth. Following the collapse of the Soviet Union, we saw a decade of exuberance in our stock market, after which it sharply retreated. We are now experiencing an economic slowdown worldwide and we worry about deflation. “Buy American” legislations and bills to penalize offshore investment are being discussed as means to protect domestic workers.

The practical policy challenge we face as a nation is whether we can marshal the political will to avoid the policy mistakes that cost us so dearly in the last century. And that is what this conference is all about.