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Doha Round of Multilateral Negotiations and Development

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1. Introduction

The ministerial declaration of 20 November 2001 at Doha, Qatar, that launched a new round of multilateral negotiations in the World Trade Organization (WTO) noted that:

the majority of WTO members are developing countries. We seek to place their needs and interests at the heart of the Work Programme adopted in this declaration...we shall continue to make positive efforts designed to ensure that developing countries, and especially the least developed among them, secure a share in growth of world trade commensurate with the needs of their development. In this context, enhanced market access, balanced rules, and well-targeted, sustainably financed technical assistance and capacity-building programmes have important roles to play.

In a separate declaration on Trade Related Aspects of Intellectual Property Services (TRIPS) and Public Health, the ministers emphasized that the TRIPS agreement does not and should not prevent member governments from acting to protect public health and clarified the flexibility available in the agreement in this regard, in particular, compulsory licensing and parallel importing. The Work Programme explicitly included concerns of developing countries (DCs), such as: the problems they experienced in the implementation of their commitments in the agreement that concluded the Uruguay Round, the so-called Singapore issues of investment, competition and trade facilitation; Special and Differential Treatment and Technology Transfer. In the negotiations, the specific needs of DCs, including market access in agricultural and non-agricultural commodities, services, rules, trade and environment, and others are stressed. This concern for the particular needs of DCs may perhaps be the reason to call the Doha Round a

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Development Round. But doing so carries with it the danger that it may create inappropriate and unrealistic expectations that the successful completion of the Doha Round would also solve the problem of development. This would be extremely unfortunate. The problem of development lies at the center of economic, social and political processes of each developing country. These processes are not only deep rooted and complex but, importantly, vary immensely across the developing world, reflecting, in part, their diverse history. Certainly, greater integration of DCs with the global economy that is a goal of the Doha Round will contribute to their development to different degrees depending on their stage of development, and it is in their interests to pursue this goal vigorously. There is no doubt that greater and better access to global markets for goods, services and finance would open up significant opportunities for DCs and, if they are utilized, would accelerate their growth and development. However, whether in fact they are utilized, and if so, to what extent, depends largely on their domestic political and economic constraints. Put another way, the problem of development for many DCs is largely domestic and only marginally related to external constraints of market access and development assistance.¹

Another possible unfortunate consequence of characterizing the Doha Round as the Development Round is that it will inevitably lead to pressure being brought to bear on the WTO to become yet another international development agency. The Uruguay Round brought trade in services into the ambit of the WTO, thereby going beyond disciplines relating to policy measures at the border (about which the GATT was primarily concerned) to disciplining, in effect, domestic regulations. In addition, by calling them trade-related, intellectual property services (TRIPS) and Investment Measures (TRIMS) were included in the agenda of the Uruguay Round negotiations and also in the agreements that concluded the round. I do not want to get into the

¹The burgeoning aid-effectiveness literature, including a recent paper by Raghuram Rajan and Arvind Subramanian (2005) of the International Monetary Fund provides some evidence in support of this assertion, except that I am a skeptic of the methodology of cross-country regressions on which this literature relies.

question of whether these were wise, though I believe few of them, if any, were. They are in, and it is unlikely that the negotiators in the Doha Round would consider taking them out, even if doing so would be desirable.

It is evident that the WTO is already overloaded, though it is very small by the standards of international organizations. Bringing in aspects of development into the WTO without adding to its resources would add to its overload. It will inevitably erode its well-deserved reputation as the most efficient and cost-effective among international organizations. I have repeatedly drawn attention in this context to the celebrated Tinbergen rule of policy assignment: for achieving policy goals efficiently, there have to be at least as many policy instruments as there are independent policy goals. This rule applies to institutional mandates as well. It is more efficient to have a World Bank specializing in long-term development finance, an IMF specializing in global financial system stability and short-term macroeconomic management, an ILO specializing in labor issues, and the WTO specializing in trade than to have each of them involving themselves in the mandate of one or more of the others. Unfortunately, the overlapping of mandates is being seen increasingly between the World Bank and the IMF on poverty alleviation; there is no evidence that this overlap has produced better results on poverty alleviation. The ILO is also encroaching on trade issues. The WTO is not a resource-disbursing agency such as the World Bank and the IMF. Its primary role is to enable its members to achieve whatever they have agreed and abide by their own commitments. If it takes on a development role, it might be forced to mimic the IMF and the World Bank and consider conditioning market access to reforms of domestic policies unrelated to trade. Such a development would be extremely unfortunate.

Once the moniker “Development Round” gained ground, it is no surprise that it spawned a growing literature on what should be its goal, agenda, and processes. Unfortunately, some of this literature seems to be based on a misunderstanding of what trade negotiations and agreements are all about, and of the distribution of gains from past agreements between industrial and DCs. It also panders to those, particularly in developing countries, who habitually blame the industrial world for the appalling poverty stagnation in the DCs.

Although the negative aspects of the legacy of a long colonial history of much of the developing world cannot be erased in the relatively short post-colonial period, its impact on post-colonial development should not be overestimated. First, the legacy was not completely negative in many, though not all, parts of the colonial world. Second, it is a sad fact that some of the positive, albeit not very deep, institutional legacies, such as administrative, educational, legal systems and economic infrastructure were not strengthened but, in fact, were allowed to deteriorate after independence. Third and most important, the colonial legacy did not foreclose all policy options. As such, some of the options actually chosen, in particular a deliberate insulation from the world economy and dominance of the state as essential features of the development strategy, did slow down development compared to what other available options, such as outward orientation and greater roles for the private sector and market mechanism, could have. I do not want to imply also that the relations between ex-colonies and former colonial powers in the post-colonial era were entirely benign from the perspective of the former. On the contrary, particularly in the Cold War era, foreign trade and aid were used as instruments to keep ex-colonies aligned with one or the other of the two antagonists. My point is simply that these factors ought to be put in a proper perspective, and it will be wrong to suggest that all DCs had no options but be pawns in the hands of industrialized and rich powers.

In what follows, I take a critical look at the literature on Doha as a development round. Both for the sake of concreteness and, more importantly, because the most articulate case for making the content of the agenda and the processes of negotiations consistent with the Doha Round as a Development Round has been made in several, mostly repetitive, papers by Joseph Stiglitz and Andrew Charlton (2004a, 2004b, 2004c, 2005a, 2005b, hereafter denoted as “SC”), I will focus my critique on their contributions. I will begin in Section 2 with an analysis of their argument that:

...previous trade rounds had benefited the advanced industrial countries at the expense of developing countries...there was recognition in some [unspecified] quarters that the previous [Uruguay] round had benefited the advanced industrial countries much more than the developing countries. The new round was seen as an opportunity to redress the imbalance. (SC 2005a, p. 32)

Then, in Section 3, I turn to what the two authors describe as the “Principles for a Development Round” (ibid, p. 37) and “Common Value for the Development Round” (SC 2004a, p. 495).

Section 4 is devoted to the two authors’ proposals for what the Doha Round ought to accomplish as a Development Round. Section 5 concludes with my assessment of where the negotiations start as of the July 2004 package and proposals of where to go from there.

2. Trade Agreements and the Distribution of Gains from Trade

SC display a fundamental misunderstanding of the General Agreement on Tariffs and Trade (GATT) and its successor, the WTO. They show no awareness of the history of several rounds of multilateral trade negotiations (MTN) under the auspices of GATT. Had the authors gone into this history, they would have found out that, first, GATT was the outcome of an initiative by the United States (US), and of its twenty-three original Contracting Parties, at least eleven were developing countries. Second, the GATT was to have been the commercial policy chapter of the charter for an International Trade Organization (ITO), which was adopted at the

United Nations Conference on Trade and Employment in Havana, Cuba, during 1947-48. The ITO was stillborn since its charter was not ratified, most notably by the United States (US), although it was the sponsor of the resolution of United Nations Economic Social Council that proposed the conference and the charter itself was largely based on a draft submitted by the US. The GATT was brought into force through a provisional protocol of application. In the words of John Jackson, the well-known scholar of international trade law, “[t]he GATT has limped along for nearly forty years with almost no “basic constitution” designed to regulate its organizational activities and procedures” (Jackson 1989, p. 89). The only substantial formal amendment to the GATT was the 1965 protocol and to add Part IV, dealing with trade and development.

Third, and most important, the debate on the charter² had already revealed the huge chasm between developing and industrialized countries in their concept of a rule-based system and of bargaining. Then, as now, developing countries wanted, “special and differential treatment,” though they did not use that phrase then. First, they demanded to be exempted from many of the rules. Second, they did not view MTN as a bargaining process, in which each country opened its markets for imports from other countries in exchange for other countries opening theirs for its exports, and such an exchange was mutually beneficial. Instead, they viewed it essentially as a one-way street—they wanted free access to markets of the rest of the world while retaining the freedom to restrict access to their own markets to any extent they chose. Above all, until the Tokyo Round of MTN, developing countries were largely spectators rather than active participants in the GATT.

I describe this state of affairs in my book (which the authors were kind enough to mention in footnote 4 of SC 2005a) as follows:

² See Wilcox (1949) for a fascinating account of the debate.

The experience of developing countries in the GATT up to the conclusion of the Tokyo Round could be interpreted in two diametrically opposed ways. On the one hand, it could be said that from the Havana conference on, the developing countries have been repeatedly frustrated in getting the GATT to reflect their concerns. Tariffs and other barriers in industrialized countries on their exports were reduced to a smaller extent than those on exports of developed countries in each round of the MTNs. Production in which they had a comparative advantage, such as textiles and apparel, were taken out of the GATT disciplines altogether. Agriculture, a sector of great interest to developing countries, largely remained outside the GATT framework. “Concessions” granted to developing countries, such as the inclusion of Part IV on trade and development and the Tokyo Round enabling clause on special and differential treatment were mostly rhetorical, and others, such as GSP [Generalized System of Preferences], were always heavily qualified and quantitatively small. In sum, the GATT was unfriendly, if not actively hostile, to the interests of developing countries.

The other interpretation is that developing countries, in their relentless but misguided pursuit of the import-substitution strategy of development, in effect opted out of the GATT. Instead of demanding and receiving crumbs from the rich man’s table, such as GSP and a permanent status of inferiority under the “special and differential” treatment clause, had they participated fully, vigorously, and on equal terms with the developed countries in the GATT and had they adopted an outward-oriented development strategy, they could have achieved far faster and better growth. The success of East Asia [since the mid sixties, and China and India since the 1980s] suggests that the second interpretation is closer to the truth. (Srinivasan, 1998, p. 27)

Although the first interpretation (to which I do not subscribe) might seem close to the authors’ description of agreements emerging from past rounds of MTN, particularly the Uruguay Round, as reflecting the self interested agenda of the advanced industrialized countries, it is not. The reason is that I do not attribute the outcomes of MTN to conscious malevolence on the part of industrialized countries. Not only do I subscribe to the second, but I would go further and add, as I did in my book, that the formal incorporation at the Tokyo Round (in the so-called “enabling clause”) of their demands for differential and more favorable treatment (now called Special and Differential Treatment, or SDT)—including not being required to reciprocate tariff “concessions” by the developed countries—triple hurt them: once directly, through enabling

them to continue their costly import-substitution strategies; a second time by allowing the developed countries to retain their own GATT-inconsistent barriers (in agriculture, textiles and apparel) against imports from developing countries; and a third time by allowing the industrialized countries to keep higher-than-average MFN tariffs on goods of export interest to developing countries.

I am recounting this history to make two basic points completely missed by the authors: first, MTNs are voluntary and as such, there is a strong presumption that signatories to their agreements find, on balance, them to be worthwhile signing as compared to not signing. Second, any member of the GATT and the WTO can withdraw from it for whatever reason after giving a six-month notice. Thus, any signatory to an agreement concluding a round of MTN sponsored by GATT/WTO, if it later found it wanting, could always withdraw from the GATT/WTO if it thought that withdrawal a better option, rather than continuing to be a member and using the mechanisms available to members to correct any aspect of the agreement that it found wanting.

In saying all this, I do not want to imply that the rules of GATT/WTO or the terms of agreements from MTN are “balanced” and “equitable,” whatever is meant by these terms (see Section 3) when applied to voluntary negotiations and agreements among sovereign nations. In the trading world, “power” and economic disparities are wide³. Also, according to WTO (2004, Tables 1.5 and 1.7), of the world’s ten leading exporters and importers in merchandise trade in 2003, China was the only developing country. The nine, including the superpower US and a

³ In one conventional model of bargaining, disparities are captured by the “threat points” of bargainers, that is, the outcomes that they can achieve for themselves by not engaging in bargaining. Bargaining mechanisms can then be evaluated using the criterion of efficiency, that is, whether they lead to an outcome which is efficient in the sense that, compared to it, there is no other feasible outcome which would make at least one participant better off without making any other worse off at the same time. Needless to say that one cannot rule out the possibility that, even at an efficient outcome, one or more (though not all) participants may be at their threat point. Looking for a process that leads to an “equitable” outcome would presuppose the existence of an aggregate welfare function with welfare of individual bargainers as arguments. In my view, defining such an aggregate welfare function in the context of bargaining among nation states is conceptually difficult, if not altogether impossible. I come back to this problem in Section 3.

number of members of the European Union, accounted for 50% of global merchandise exports and 53% of global imports. The picture with exports and imports of commercial services is very similar: eight of the first ten exporters and nine of the importers were developed countries and accounted for 52% of global exports and 53% of global imports. This being the case, it would be extremely naïve to expect that global trade negotiations and their outcomes in terms of the distribution of gains from trade liberalization, would not reflect the interests of dominant traders.

3. Principles and Values of a Development Round

SC characterize the WTO (and GATT) as mercantilist in their process and structure and as institutions that work on a principle of self-interested bargaining. In their view,

The concept of a development round implies a fundamental departure from the system of mercantilism towards a collectively agreed global social welfare function. However, there has been almost no discussion, let alone agreement, on what that function should be. The lack of a commonly agreed objective function has deprived the WTO's members of any means to collectively choose optimal policies from among competing proposals. (SC 2004a, p. 496)

I am sure that it would be news to the negotiators in Geneva that the reason why they have not been able to prevent "The Development Round [from] faltering" (ibid) is that they have not thought of discussing and agreeing on a global social welfare function and that they are negotiating in blind pursuit of national self-interest! One cannot imagine a more breathtaking misunderstanding of what MTN are about than the authors', let alone their implicit neglect of the large literature that was triggered by Arrow's (1963) seminal work on social choice on the impossibility of defining a social welfare ranking except under very restrictive assumptions. It boggles the mind to think of negotiators collectively choosing optimal policies!

It is true that the GATT/WTO terminology, tariff reduction by a member is called a "concession," in offering which the member expects reciprocal "concessions" from its

negotiating partners. This has often been described as a mercantilist process in which each member offers “not to shoot itself in the foot” in exchange for others not to do so themselves! But this is a superficial characterization—in fact the principles of most favored nation, national treatment and reciprocity that are pillars of GATT/WTO can be given a sound economic rationale (Bagwell and Staiger 2002).

The touching naïveté of the authors is evident when they point to the UN Millennium Declaration, adopted by the General Assembly in 2000, and its enunciation of Millennium Development Goals (MDGs) as well as the Monterrey Consensus, adopted in 2002, as expressions “of global values across areas of international policy.” Jeffrey Sachs (2005), Stiglitz’s colleague at Columbia University, has gone even further in characterizing the declaration and consensus as a “global compact.” It is hyperbole to call the Millennium Declaration and the Monterrey Consensus as compacts, which means contracts. A contract commits the signatories to commonly agreed actions on the part of each signatory. Even more important, since there is no third party enforcement mechanism for agreements among sovereign entities, the contract has to be self-enforcing, which in turn means that it has to specify both the consequences that would follow if any party violated the terms of the contract and a mechanism for settling disputes. By no stretch of imagination could the Millennium Declaration and the Consensus be deemed such contracts. At best, the two have rhetorical and hortatory values.

The authors pose the three questions as central to the debate “about values, how these values apply to trade, and how they should be implemented in the [Doha] Round of negotiation” (ibid, p. 496). These, which they view as fundamental, are: What are the appropriate boundaries of the WTO agenda? What would constitute a “fair” agreement? What are the characteristics of a “fair” negotiating process? (ibid, p. 497).

The Agenda: The authors rightly point out that if the only test for inclusion of a policy measure to be subject of WTO discipline is that it must affect trade flows, the boundaries of WTO's ambit would become hard to define because almost all international economic policies can be linked to trade flows in some way. I have already alluded to the problems associated with the use of "trade relatedness" in bringing in TRIPS and TRIMS to the Uruguay Round. The authors are right again in pointing out that the limited negotiating capacity and capital of DCs will be stretched too much were too many issues were to be in the agenda. The authors propose that only those issues which score highly on their relevance to trade flows, their development friendliness and their involving some cross-border externalities that need addressing should be included in a development round of MTN. There will be undoubtedly wide agreement on the necessity of a high score on link to trade flows and externalities for an issue to be included in the WTO. Indeed, a terms-of-trade externality or spillover of one country's trade policy on others is central to Bagwell and Staiger's (2002) economic theory of GATT. Of course, other externalities of unilateral exercise of trade policy can be imagined. However, the tendency of characterizing as "global public goods" anything (not just goods and services, but also Dispute Settlement Mechanism) that barely shares the features of a public good, namely, non-rivalry and non-excludability in use and to call for "collective action" for their provision is unhelpful, besides being analytically muddled.

"Development friendliness" is an extremely vague phrase. It was noted in Section 1, that development is a complex process rooted in the social-economic-political process. For this reason, friendliness to development is hard to define and, hence, is not a useful criterion for delimiting the jurisdiction of the WTO or the negotiating agenda of a round, whether or not it is deemed a Development Round.

Fairness of Trade Agreements: In every one of the contributions of the authors listed in the bibliography, the assertion that “previous rounds of multilateral trade negotiations did not contain a principle of fairness” (SC 2005a, p. 38; SC 2004a, p. 498) appears in one form or another. The authors define an agreement to have been fair if it is “progressive, that is, that a larger share of the benefits accrue to the poorer countries. Thus, any agreement that differentially hurts developing countries more or benefits the developed countries more, measured by net gains as a percentage of GDP, should be presumptively viewed as unfair” (SC 2005a, p. 39, emphasis added).

This notion of fairness, first of all, not only anthropomorphizes nation states but also aggregates diverse nations into “poor countries” and “developed countries.” The concepts of social justice, fairness and solidarity among individual citizens within any single nation state raise deep philosophical and measurement issues. The authors do not provide any foundation for meaningfully extending these difficult concepts to collections of nation states. One could, of course, attempt to define social justice and equity among all human beings, but such a concept has no apparent connections to equity among nation states, whatever it might mean. One could interpret the authors’ alternative notion of fairness of an agreement, namely, that the distribution of welfare [across all human beings] under the agreement stochastically dominates the distribution prior to the agreement as incorporating justice and equity among all humans. However, the authors do not pursue this concept further. Leaving aside the conceptual weakness of the authors’ notion of fairness, it is not obvious why the share of benefits from an agreement that accrues to poorer countries necessarily has to rise for it to be fair. Why is an agreement, which delivers a Pareto improvement over the status quo in the sense of benefiting every member of the WTO but in which a large share of the benefits accrue to richer countries, unfair?

What is the rationale of normalizing net gains by GDP (valued at domestic prices, world prices, purchasing power parities or what)?

Initial Conditions: The authors (ibid, p. 39) claim that “the other side of ‘fairness’ is the initial conditions,” meaning that since the relative bargaining weakness of DCs in a negotiation “may be partly due to a colonial heritage or, more pertinently, to earlier unfair trade agreements, . . . fairness and equity demand the current agreements reflect these past injustices.” I noted (Footnote 3) already that the “threat point,” that is the benefit that every participant can assure itself without participating in a bargaining process, would influence the benefit it can get in the outcome or agreement of the bargaining were it to participate. In this sense, current agreements would reflect “past injustices.” This is certainly not what the authors mean by current agreements reflecting past injustices. Perhaps they are implicitly referring to the oft-asserted claim that “equal treatment of unequals is inherently unfair” and, as such, they would suggest some analogue of affirmative action in favor of countries deemed victims of past injustices, or to use another cliché, level the playing field. Unfairness of equal treatment is what they perhaps have in mind when they suggest that, just because currently tariffs are higher in DCs than in rich countries, it is not fair to ask DCs to cut their tariffs by the same proportion as the rich countries. In their view, such a proportional reduction would “entail greater [absolute] tariff reductions by—and therefore higher costs to—the developing countries” (ibid, p39). Presumably, by “costs,” the authors mean adjustment costs associated with reallocating resources after tariff reductions. It is not evident either from theory or from empirics that a greater amount of absolute tariff reduction necessarily means greater adjustment cost. It is true that tariffs in developed countries on some goods they import from developing countries are considerably higher than average and, indeed, this should be addressed. At the same time, developing

countries also have high tariffs against imports from other developing countries. The authors do not take note of this fact, let alone of the significant gains to developing countries from the reduction of such tariffs.

WTO already has affirmative action in the form of the enabling clause of the Tokyo Round for differential and more favorable treatment of DCs and the subgroup of least developed countries. These features have been repeatedly emphasized in the Doha Declaration and the July 2004 Package. Although I have noted earlier the unfortunate consequences of SDT as it has been implemented thus far, the DCs as a group continue to advocate them. I will come back to this issue in the concluding section.

Procedural Fairness: The authors argue that procedural fairness in the sense of openness and transparency of the negotiation process and the manner in which the discussions are conducted is an important complement to fairness in terms of outcomes unless there is some ambiguity about what is meant by “outcome fairness.” They suggest that “a fair agreement is unlikely to result from an unfair process” (ibid, p. 30).

Leaving aside the philosophical questions of consequentialist versus deontological reasoning, and the issue of extending procedural and outcome fairness concepts to bargaining among nation states, there is a practical issue. Trade liberalization commitments are enabling policies-whether the opportunities they open up are effectively used so that they result in anticipated outcomes depends on many other things besides “fairness” of the commitments. The authors claim that the WTO’s Dispute Settlement System is procedurally unfair, in part because it is costlier for the developing countries to use the system. I would have thought that this might be an example of unfairness of outcomes rather than procedures: although under the procedure

all countries have access, the expected benefit (taking into account the probability of winning) net of costs of using the system might be negative for developing countries.

The authors argue that “transparency is essential because it enables more voices to be heard in the negotiating process and limits abuses by the powerful. This is particularly important for developing countries, because of the limited size of their negotiating teams of particular concern is lack of transparency of the ‘Green Room’ negotiations” (SC 2005a, p.40).

Apparently, the authors are unaware that the “Green Room” process no longer exists! The last time it was used was at the Seattle Ministerial. At Doha, the chairman structured the discussion around six topics with a “friend of the chair” leading informal discussions on each, with all delegations welcome to participate. The “friend” reported regularly to the full heads of the delegation. At Cancun, the chairman appointed five “facilitators” who played the same role as the “friends” played at Doha. As I noted in Footnote 3, differential bargaining strengths of the parties would be reflected in the outcomes. The interesting issue is whether the bargaining process leads to an efficient outcome. In what sense asymmetry of power and/or information among participants can be addressed by procedural fairness (as it is commonly understood) as the authors seem to believe is unclear.

The authors find in the WTO’s dispute settlement mechanism (DSM) it is more costly for a poor country to litigate, and even if it wins its case against a rich country, it has virtually no means to ensure the latter abides by the judgment. The retaliatory countermeasures that the poor country can use against the rich country that fails to abide will hurt it more than it would hurt the rich country. These findings are indeed correct. Whether this should be viewed as procedural unfairness of the DSM, as the authors claim, is not evident. In any case, whether the “legalistic” DSM of the WTO as a rule-based system protects the weak as compared to the “diplomatic”

DSM of the GATT is a complex issue. I have elsewhere attempted to look at the DSM from contractarian, economic and legal perspectives (Srinivasan 2005). Briefly, I concluded that a return to the GATT system would be desirable.

To conclude this section, let me emphasize that an overwhelming majority of the WTO's 148 members are developing countries, and their participation in the Doha Round of bargaining and negotiating is voluntary. As I noted earlier, any member can withdraw from the WTO if it finds the agreement resulting from the negotiations to be unattractive from its perspective. In any bargaining process, the outcome would reflect what the parties bring to the bargaining table, as well as what they can achieve themselves by not participating. An excessive focus on SDT and on non-reciprocity in effect means that DCs (barring a few with large domestic markets) are not bringing much to the bargaining table that the industrialized countries would find attractive. The notions of equity and fairness in the context of bargaining among nation states are largely irrelevant.

4. Proposals for the Doha Round

SC make several proposals, ranging from unexceptionable to bizarre. On agriculture, a vital sector for the poor in many developing countries, the authors are wary of seeking blanket reforms (i.e., elimination of all export taxes, subsidies, quotas and domestic support measures).

Instead, they suggest focusing:

on liberalizing those commodities that have the largest positive effect on producers and the smallest adverse consumption effects . . . another important determinant of welfare effects of liberalization is agricultural trade balance across countries—there is a division between temperate products (program crops and livestock) in which developing countries are largely not importers , and tropical . . . the most important subsidies to eliminate would be those for which the consumption benefits are small relative to production costs...developing countries should focus their attention on eliminating tariffs and quotas on tropical products, and other commodities they export or for which they have high export elasticities with respect to price.(SC, 2005a, 45)

These proposals have a ring of plausibility, but even to treat them as rules of thumb without a careful country-specific empirical analysis would be inappropriate. For example, to go from a reduction in bound levels of tariffs, which, after all, are the commitments that signatories undertake in a trade agreement, to their effects on domestic prices, which the producers and consumers face so as to evaluate production and consumption of effects, is not at all straightforward. First of all, applied tariff levels often differ from bound levels so that a reduction in the latter need not translate into reductions in the former. Second, to go from world or border prices to domestic prices involves exchange rate conversions, and any change in border price because of terms-of-trade change brought about by a trade agreement could be offset by exchange rate changes. Third, there often are domestic taxes, subsidies, transport and transaction costs that could mitigate or magnify the domestic price effects of border price changes. Fourth and last, the diversity across countries and commodities in all the above has to be allowed for before making any recommendations as to which commodities a country ought to focus on in the negotiations.

The authors' reference to "agricultural trade balance across countries" is puzzling. Conventional wisdom would suggest that a focus on sectoral bilateral and regional trade balance is unsound and only aggregate (over sectors and trading partners) trade and current account balances are relevant from an economic perspective. Are the authors challenging this wisdom?

SC (2004c, pp. 39-40) list a number of issues and suggest proposals to address them for an "Agenda for a True Development Round." These include the proposals on agricultural commodities discussed in the previous paragraphs as well as proposals to provide assistance to consuming nations and allowing countervailing duties (CVDs) presumably to offset the effects of

“unfair” subsidies. I would argue that assistance, if it is meant to ease the cost of adjustment to trade reform, should be more broad-based than on consumption of agricultural commodities. Also, GATT/WTO already has provision for the imposition of CVDs—the problem is that unless a subsidy can be shown as actionable under WTO rules, it cannot be countervailed. It is unclear what the authors are asking for.

On non-agricultural commodities, the authors’ proposals to eliminate tariff peaks and tariff escalation (that has been a scandal since the early days of GATT) and reducing tariffs in which DCs have a natural comparative advantage are unexceptionable. However, the proposal to eliminate tariffs against least developed countries, though *prima facie* appealing, could be used to divide the developing countries. Why not eliminate tariffs against all DCs?

On services, the authors rightly emphasize the need to give priority to liberalization of unskilled labor-intensive services and also for progress on negotiations in Mode 4 service trade (i.e., temporary movement of natural persons). It is unclear what they mean by facilitation of worker remittance flows, unless they have in mind some unspecified aspect of the negotiations on financial services.

Interestingly, the authors recognize that both DCs and the developed countries are resorting to antidumping measures (ADMs). In fact, India now has the dubious distinction of the single most frequent user of ADMs instead of the US and EU in the last couple of years. The authors’ call for the elimination of ADMs is sensible, but it is very unlikely to find support among negotiators. The authors’ suggestion that DCs should be allowed to subsidize infant industries and to offset high interest rates (it is unclear whether they mean domestic or foreign interest rates, and what offsetting implies) without invoking retaliation in the form of CVDs flies in the face of the disastrous experience in the DCs with import substitution as a development

strategy. Their apparent faith in industrial policy is based on a not widely accepted interpretation of the success of industrial policies in East Asia's rapid growth. For example, in a recent study, Marcus Noland and Howard Pack (2003) find little evidence that industrial policies contributed significantly to the successful growth of East Asia.

The proposal to create a development box, which some DCs have made and which the authors endorse, is once again SDT in another form. The authors want DCs to be allowed to “use measures that are in their development interests even if proscribed for developed countries; particularly actions to protect poor farmers; ensure food security” (ibid, p. 39). The authors ought to know better: trade policy measures are unlikely even to be the second best for either poverty alleviation or for insurance against shocks to food consumption.

On TRIPS reform, the authors' proposals are surprisingly standard—such as enabling the adoption of a pro-generic policy, compulsory licensing for any lifesaving medicine, and higher standards for novelty, etc. I had hoped that they would make a sensible though unrealistic call for taking TRIPS out of the WTO and putting it in the World Intellectual Property Organization. On DSM also, the authors' proposals to multilateralize and monetize sanctions and to expand technical assistance to DCs for enabling them to access the DSM are standard. But they do not address the deeper issues of whether the legalistic DSM of the WTO is in the interests of DCs as compared to the diplomatic DSM of GATT and, given that a return to GATT's DSM is unlikely, whether a public prosecutor should be appointed in the WTO whose mandate would be to initiate and litigate violation of WTO commitments by any member.

The authors are concerned that competition among DCs to attract foreign direct investment (FDI) through tax concessions in fact results in the concessions not changing to locational decisions of investors but only in enriching them. They suggest that subsidies to

foreign firms be made transparent and tax concessions be restricted. First of all, investment is a Singapore Issue that is not in the current Doha agenda. Second, in large federal developing countries, such as Brazil or India, competition to attract private investment by sub-national units has the same features as that of the competition between nations to attract FDI. Whether describing such competition as a non-cooperative game with an individually rational equilibrium in the nature of a prisoner's dilemma, so that a federal (or international) intervention is needed shift the equilibrium to a better cooperative one may be analytically appealing, its realism is debatable. In any case, very few DCs attract significant FDI anyway and this is not because of their unwillingness to offer tax concessions. Also, empirical evidence suggests that in investors' locational decisions, tax concessions, lax environment or labour laws play very little role. This being the case, there is no urgency to bring investment issues into the Doha agenda.

The authors endorse SDT and preferential market access such as those in African Growth and Opportunity Act of the US and the European All But Arms initiative. Recognizing that their impact has been very limited because of other restrictions, they want these restrictions to be eliminated and such preferential access to be extended to more countries. These are not sensible proposals: after all, Doha round is about multilateral liberalization of trade and pushing preferential and regional liberalization into the Doha agenda is not only inappropriate but would be counterproductive.

They suggest some institutional reforms including the elimination of green room procedures, which no longer exist anyway by adopting the "principle of representativeness". This would involve forming a small group consisting of large trading countries, representatives of middle income and least developed countries and representation of agricultural exporters and so on. The members of this group are expected to consult with those whom they are supposed to

represent. The so called “green room process” when it existed, operated during bi-annual ministerial meetings, and not during the process of negotiations during a round. It is unclear whether its replacement is meant only for the ministerial meetings. In any case, the decision-making process of the WTO, given the consensus convention for most decisions is unwieldy with the membership being close to 150. A permanent executive body for the WTO along the lines suggested by the authors, but representatives selected by the relevant group by a transparent process, is worth considering. The body should also be empowered to make proposals to amend or repeal Articles of WTO/GATT, for approval by the ministers during their bi-annual meetings.

The authors want to establish a research/evaluation unit within the WTO to assess impacts of proposals, as well as bilateral and regional trade agreements to determine whether they create or divert trade. They go so far as to suggest a methodology of evaluation, such as a general equilibrium incidence analysis. Having been a practitioner of applied general equilibrium analysis (Narayana et al. 1991) and recently co-edited a volume on the state-of-art on the methodology (Kehoe et al. 2005), I am naturally sympathetic to applied general equilibrium analysis. Yet, I am equally aware of the significant limits and considerable limitations of the methodology. While there is no doubt that research and policy evaluation are extremely important, it would be a mistake to locate such research within the WTO Secretariat and also to restrict its methodology. Instead, I would suggest, that once “modalities” of negotiations are agreed, and alternative packages are on the table, the WTO could invite researchers across the world, both academic and non-academic, to submit proposals to evaluate the packages for their impact on countries, country groups and also socioeconomic groups within countries. Some of the proposals received would be selected by a group of experts in a transparent manner for funding. To be useful, such research has to be completed within a short

period of time. However, research on relevant issues could be funded on an ongoing basis whether or not they emerge as part of the packages being considered in a round of trade negotiation.

5. Conclusions

The interest in addressing the concerns and needs of DCs in the Doha Round is certainly welcome and appropriate. However, to deem the Doha Round as a Development Round would create inappropriate and unrealistic expectations that its success would solve the complex and diverse problem of development among DCs. However, addressing the concerns of DCs, whether or not the Doha Round is called a Development Round is urgent. Is the July 2004 Package on the state of the Round encouraging from this perspective?

The July 2004 package itself was agreed to after several deadlines that were to have been met before the ministerial meeting in Cancun in September 2003 had not been kept and the Cancun ministerial had ended in a spectacular failure. The package was more in the nature of declaring that “Doha is not yet dead” than a ringing proclamation of progress. The WTO’s procedures of first agreeing on a framework of modalities for negotiations, then on modalities and finally the substance of negotiations, is ponderous and time consuming. The July 2004 package merely includes frameworks for establishing modalities in agriculture and in market access for non-agricultural products, recommendations on services and modalities for negotiations on trade facilitation. On other matters, there are reaffirmations of aspects of the Doha declaration and instructions to the Trade Negotiations Committee to redouble its efforts to find appropriate solutions as a priority such as for implementation problems. This is not exactly movement along a fast track. On the other hand, the Uruguay Round took seven years to complete and Doha has been on only for four. The process of globalization will go on whether

or not the negotiations in Geneva accelerate their pace. Unfortunately, the current backlash against globalization, based on fears of loss of jobs due to offshoring in rich countries and because of perceptions of rising disparities within countries in DCs, might slow down the pace or even reverse the process of globalization, thus precluding its benefits spreading across the developing world. Resumption of the Doha negotiations and bringing them to a successful conclusion soon are necessary to blunt this backlash. However, they are not sufficient: they have to be driven by a vision for the global trading system. Let me conclude with my vision.⁴

The jurisdiction of the WTO has already been enlarged to cover intellectual property, aspects of investment, and trade in services, and, depending on how the Singapore issues are resolved, others will be added. Some characterize the emerging WTO as a World Bargaining Organization on everything and argue that there is no reason to restrict it to bargaining only on trade policies, and that too with no side payments. There is the further danger, noted earlier, that expecting trade regimes to solve development problems might place undue pressure on the WTO to become yet another development institution. If this happens, it would be unfortunate. It would dilute the WTO mandate on matters of trade and erode its effectiveness.

I noted above to Tinbergen's theorem that in general there must be at least as many instruments of policy as there are objectives and that in achieving any objective, the policy instrument that has the most direct impact on the objective will most likely, though not always, do so at the least social cost (Tinbergen 1952, 1956). Following Tinbergen, the vision for the WTO must start from the presumption that its mandate would be the governance of a rule-based global system of world trade in goods and services. This mandate for the WTO, and an overarching goal for it—namely, removing policy-created barriers to trade in goods and services as the organizing principle for its constitution and rules—has several implications.

⁴ This is from Srinivasan (2004).

First, issues that are not explicitly and directly trade-related would be outside the mandate of the WTO, and within the domain of other institutions specifically designed to deal with them. Of course, as is very likely, the membership of the WTO and of these institutions would largely overlap. It should in principle be simple, therefore, to avoid conflict among the rules and decisions of the various institutions and to bring about coordination, as long as the members of each, as national governments, have a coherent view on the issues in the mandate of each, taken together.

Second, since any decisions in the WTO are implemented by means of national and international policies of governments, WTO must remain an inter-governmental organization. Clearly, civil society—national and multi-national—should be heard, but the arena for the debate must be primarily the national political arena. By influencing the positions of national governments through a participatory process, civil society organizations will indirectly influence decisions at the WTO. Giving these organizations direct representation in some form, such as observer status, would be counterproductive. The deeper problem of the undemocratic and non-participatory character of some national polities, and hence their denial of hearing to their civil societies, does indeed arise—but a sustainable solution to the lack of democracy does not lie in giving representation to civil society in an inter-governmental organization. The notion of democracy in its decision-making process has no meaning, but transparency certainly has.

Third, while any rule-based system must have a means for settling disputes⁵, it is arguable whether the ultra-legalistic system for the WTO, devised in the Uruguay Round at the insistence of the US, improves upon the basically political system of the GATT that it replaced. Effective access to the system depends on being able to hire expensive legal expertise, which

⁵ There is a danger that if the Doha Round collapses, the WTO would largely become a de facto dispute resolution body.

poor members may be unable to afford without assistance. Also, the quality of the jurisprudence of the system will suffer if it is overloaded with too many disputes, as seems likely to happen. One unfortunate consequence—based on the successful inclusion of TRIPS—has been the clamor to bring within the ambit of WTO other issues such as labor standards and environmental issues, not because of their trade relatedness but only because of the availability of WTO's dispute settlement system to enforce disciplines through trade sanctions.

Fourth, a fundamental premise of the vision for WTO, and its overarching goal, is that the trading system would be global in coverage and governed by multilateral disciplines and rules. To make the system truly global, the process of accession of new members such as Russia needs to be streamlined and accelerated. Multilateralism is incompatible with preferential trading arrangements, including the so-called regional free trade agreements (FTAs). As is well known, such agreements have little to do with free trade, and their complex rules of origin (ROOs) for obtaining access to preferential treatment boggle the mind. For example, the FTA between the US and Singapore apparently includes 203 pages of text on ROOs! ROOs provide great scope for manipulation by trade lawyers to create non-transparent and opaque protectionist measures. This being the case, it is essential to repeal Article XXIV of GATT/WTO on Customs Unions and FTAs, and replace it with one that ensures that trade preferences of any regional or other agreements are extended to all members of the WTO on a Most Favored Nation basis within a specified (say, five-year) period after the conclusion of such agreements. The rationale for this is that the primary driving force behind most regional agreements (for example the European Union) is political. The political benefits of such agreements ought to be adequate to prevent defection even if the benefits of trade preference are limited to a specified period so as to minimize the damage they inflict on non-members.

Fifth, the WTO articles on Anti-Dumping Measures (ADMs) need to be repealed. As is well known, the only economic rationale for dumping, namely predation, is no longer plausible, if it ever was. ADMs have become de facto preferred instruments of protection—the US and EU are frequent users of ADMs—and developing countries such as India have begun to use them extensively. ADMs are the most distortionary and discriminatory among protectionist instruments. Since WTO Articles allow the use of other less distortionary means, such as safeguard measures, ADMs are neither necessary nor desirable.

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