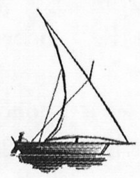

# Social Justice and Global Trade

*by Joseph Stiglitz*

THE HISTORY OF recent trade meetings—from Seattle to Doha to Cancun to Hong Kong—shows that something is wrong with the global trading system. Behind the discontent are some facts and theories.

The facts: Current economic arrangements disadvantage the poor. Tariff levels by the advanced industrial countries against the developing countries are four times higher than against the developed countries. The last round of trade negotiations, the Uruguay Round, actually left the poorest countries worse off. While the developing countries were forced to open up their markets and eliminate subsidies, the advanced developed countries continued to subsidize agriculture and kept trade barriers against those products which are central to the economies of the developing world.

Indeed, the tariff structures are designed to make it more difficult for developing countries to move up the value-added chain—to transition, for instance, from producing raw agricultural produce to processed foods. As tariffs have come down, America has increasingly resorted to the use of nontariff barriers as the new forms of protectionism. Trade agreements do not eliminate protectionist sentiments or the willingness of governments to attempt to protect producer and worker interests.

The theories: Trade liberalization leads to economic growth, benefiting all. This is the prevalent mantra. Political leaders champion liberalization. Those who oppose it are cast as behind the times, trying to roll back history.

Yet the fact that so many seem to have been hurt so much by globalization seems to belie their claims. Or more accurately,

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it has shown that the process of "liberalization"—the details of the trade agreements—make a great deal of difference.

That Mexico has done so poorly under NAFTA has not helped the case for liberalization. If there ever was a free trade agreement that should have promoted growth, that was it, for it opened up to Mexico the largest market of the world. But growth in the decade since has been slower than in the decades before 1980, and the poorest in the country, the corn farmers, have been particularly hurt by subsidized American corn.

The fact of the matter is that the economics of trade liberalization are far more complicated than political leaders have portrayed them. There are some circumstances in which trade liberalization brings enormous benefits—when there are good risk markets, when there is full employment, when an economy is mature. But none of these conditions are satisfied in developing countries. With full employment, a worker who loses his job to new imports quickly finds another; and the movement from low-productivity protected sectors to high-productivity export sectors leads to growth and increased wages. But if there is high unemployment, a worker who loses his job may remain unemployed. A move from a low-productivity, protected sector to the unemployment pool does not increase growth, but it does increase poverty. Liberalization can expose countries to enormous risks, and poor countries—and especially the poor people in those countries—are ill equipped to cope with those risks.

Perhaps most importantly, successful development means going stagnant traditional sectors with low productivity to more modern sectors with faster increases in productivity. But without protection, developing countries cannot compete in the modern sector. They are condemned to remain in the low growth part of the global economy. South Korea understood this. Thirty-five years ago, those who advocated free trade essentially told Korea to stick with rice farming. But Korea knew that even if it were successful in improving productivity in rice farming, it would be a poor country. It had to industrialize.

What are we to make of the oft-quoted studies that show that countries that have liberalized more have grown faster? Put aside the numerous statistical problems that plague almost all such "cross-country" studies. Most of the studies that claim that liberalization leads to growth do no such thing. They show that countries that have traded more have grown more. Studies that focus directly on liberalization—that is, what happens when countries take away trade barriers—present a less convincing picture that liberalization is good for growth.

But we know which countries around the world have grown the fastest: they are the countries of East Asia, and their growth was based on export-driven trade. They did not pursue policies of unfettered liberalization. Indeed, they actively intervened in markets to encourage exports, and only took away trade barriers as their exports grew. They avoided the pitfall described earlier of individuals moving from low-productivity sectors into zero productivity unemployment by maintaining their economies at close to full employment.

The point is that no country approaches liberalization as an abstract concept that it might or might not buy in to for the good of the world. Every country wants to know: For a country with its unemployment rate, with its characteristics, with its financial markets, will liberalization lead to faster growth?

If the economics are nuanced, the politics are simple. Trade negotiations provide a field day for special interests. Their agenda is also straightforward: Exporters want others' markets opened up; those threatened by competition do not. Trade negotiators pay little attention to principles (though they work hard to clothe their position under the guise of principle). They pay attention to campaign contributions and votes.

In the most recent trade talks, for example, enormous attention has been focused on developed countries' protection of their agricultural sectors—protections that exist because of the power of vested agricultural interests there. Such protectionism has become emblematic of the hypocrisy of the West in preaching free trade yet practicing something quite different. Some 25,000 rich American cotton farmers, reliant on government subsidies for cotton, divide among themselves some $3 billion to $4 billion a year, leading to higher production and lower prices. The damage that these subsidies wreak on some 10 million cotton farmers eking out a subsistence living in sub-Saharan Africa is enormous. Yet the United States seems willing to put the interests of 25,000 American cotton farmers above that of the global trading system and the well-being of millions in the developing world. It is understandable if those in the developing world respond with anger.

The anger is increased by America's almost cynical attitude in "marketing" its offers. For instance, at the Hong Kong meeting, U.S. trade officials reportedly offered to eliminate import restrictions on cotton but refused to do anything about subsidies. The cotton subsidies actually allow the U.S. to export cotton. When a country can export a particular commodity, it does little good to allow imports of that commodity. America, to great fanfare, has made an offer worth essentially zero to the developing countries and berated them for not taking it up on its "generous" offer.

At home, the Bush administration might be working harder to provide greater access to low-cost drugs. In trade negotiations, though, it takes the side of drug companies, arguing for stronger intellectual property protection, even if the protection of pharmaceutical-company patents means unnecessary deaths for hundreds of thousands of people who cannot afford the monopoly prices but could be treated if generic medicines were made available.

The international community has announced its commitment to helping the developing countries reduce poverty by half by 2015. There have been enormous efforts at increasing aid and debt relief. But developing countries do not want just a hand out; they want a hand up. They need and want enhanced opportunities for earning a living. That is what a true development round would provide.

In short, trade liberalization should be "asymmetric," but it needs to be asymmetric in a precisely opposite way to its present configuration. Today, liberalization discriminates against developing countries. It needs to discriminate in their favor. Europe has shown the way by opening up its economy to the poorest countries of the world in an initiative called Everything But Arms. Partly because of complicated regulations ("rules of origin"), however, the amount of increased trade that this policy has led to has been very disappointing thus far. Because agriculture is still highly subsidized and restricted, some call the policy "Everything But Farms." There is a need for this initiative to be broadened. Doing this would help the poor enormously and cost the rich little. In fact, the advanced industrial countries as a whole would be better off, and special interests in these countries would suffer.

There is, in fact, a broad agenda of trade liberalization (going well beyond agriculture) that would help the developing countries. But trade is too important to be left to trade ministers. If the global trade regime is to reflect common shared values, then negotiations over the terms of that trade regime cannot be left to ministers who, at least in most countries, are more beholden to corporate and special interests than almost any other ministry. In the last round, trade ministers negotiated over the terms of the intellectual property agreement. This is a subject of enormous concern to almost everyone in today's society. With excessively strong intellectual property rights, one can have monopolies raising prices and stifling innovation. Poor countries will not have access to life-saving medicines. That was why both the Office of Science and Technology Policy and the Council of Economic Advisers opposed the TRIPS (intellectual property) provisions of the Uruguay Round. It reflected the interests of America's drug and entertainment industries, not the most important producers of knowledge, those in academia. And it certainly did not reflect the interests of users, either in the developed or less-developed countries. But the negotiations were conducted in secret, in Geneva. The U.S. trade representative (like most other trade ministers) was not an expert in intellectual property; he received his short course from the drug companies, and he quickly learned how to espouse their views. The agreement reflected this one-sided perspective.

Several reforms in the structure of trade talks are likely to lead to better outcomes. The first is that the basic way in which trade talks are approached should be changed. Now, it is a clear negotiation. Each country seeks to get the best deal for its firms. This stands in marked contrast to how legislation in all other arenas of public policy is approached. Typically, we ask what our objectives are, and how we can best achieve them. Around those themes, of course, there are negotiations. There are often large differences in views both about what should be the objectives and how best to achieve them. If we began trade talks from this position of debate and inquiry, we could arrive at a picture of what a true development round look like.

Thinking of the task of the WTO as creating a legal framework reflecting principles of fairness, social justice and efficiency—akin to how we think about domestic rules and regulations governing economic behavior—helps us think about what other reforms are needed. We simply need to think about how we attempt to improve the quality of domestic democratic processes and legislation by increasing, for instance, transparency and other governance reforms.

Transparency is essential so there can be more open debate about the merits of various proposals and a chance to put a check on the abuses special interests. Clearly, had there been more transparency and open debate, the excesses in intellectual property protection of the Uruguay Round might have been avoided.

As more and more countries have demanded a voice in trade negotiations, there is often nostalgia for the old system in which four partners (the U.S., EU, Canada and Japan) could hammer out a deal. There are complaints that the current system with so many members is simply unworkable. We have learned how to deal with this problem in other contexts, however, using the principles of representation. We must form a governing council with representatives of various "groups"—a group of the least developed countries, of the agricultural exporting countries, etc. Each representative makes sure that the concerns of his or her constituency are heard. Such a system would be far better than the current "green room" procedures wherein certain countries are put together (in the green room) to negotiate a whole or part of the deal.

Finally, trade talks need to have more focus. Issues like intellectual property should never heven have been part of the Uruguay Round. There already was an international institution dealing with matters of intellectual property. It is not only that trade ministers are ill-equipped to understand what is at issue, and they are therefore subject to undue influence from the special interests that have long held sway over trade ministries. Broadening the agenda also puts developing countries at a particular disadvantage, because they do not have the resources to engage on a broad front of issues.

The most important changes are, however, not institutional changes, but changes in mindset. There should be an effort on the part of each of the countries to think about what kind of international rules and regulations would contribute to a global trading system that would be fair and efficient, and that would promote development.

Fifteen years ago, there was a great deal of optimism about the benefits which globalization and trade would bring to all countries. It has brought enormous benefits to some countries; but not to all. Some have even been made worse off. Development is hard enough. An unfair trade regime makes it even more difficult. Reforming the WTO would not guarantee that we would get a fair and efficient global trade regime, but it would enhance the chances that trade and globalization come closer to living up to their potential for enhancing the welfare of everyone.