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Fair Trade for All: How Trade Can Promote Development

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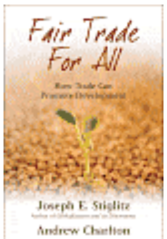

Fair Trade for All: How Trade Can Promote Development

Introduction

JOANNE MYERS: Good morning. I'm Joanne Myers, Director of Public Affairs Programs, and on behalf of the Carnegie Council I would like to welcome our members and guests, and thank you for joining us this morning.

We are enormously pleased to welcome back one of our most distinguished speakers, Joseph Stiglitz. Today he will be discussing his latest work, *Fair Trade for All: How Trade Can Promote Development*, in which he presents his bold new ideas on how to make the global trade regime work for developing countries.

Economists differ in their opinions about issues of concern. Yet on some propositions they are nearly unanimous in their views. One such area of consensus is the need to help poor countries to realize their development and economic growth. Yet exactly how to manage these relationships between the richest and the poorest countries, and to devise a system of freer, fairer trade which reflects the interests and the concerns of the developing countries while balancing the needs of the industrialized world is the salient question.

Beginning with the 1994 agreement which established the World Trade Organization and the subsequent Doha Round of world trade talks, there have been discussions, not always successful, about how to unlock a new round of trade liberalization that would improve peoples' lives. What is needed, says Professor Stiglitz, is a trading system which not only focuses on poverty reduction and on fairness, but also offers developing countries ways by which they can benefit from their participation in the world trading system.

In the aftermath of the failure of Cancun and at the behest of The Commonwealth countries to undertake a study of the development realm, Professor Stiglitz and his coauthor Andrew Charlton took on this challenge. In *Fair Trade for All* they asked the question: What would an agreement based on principles of economic analysis and social justice look like?

They begin with the assumption that trade can be a positive force for development. They then go on to spell out the reforms and principles upon which a successful agreement must be based. To this end, they say that the greatest gains to developing countries would come not from freeing up trade in agricultural goods, but from liberalizing labor markets, particularly for low-skilled contract labor, and from opening the markets of developing countries to receiving products from other developing countries. Because free trade by itself does not automatically lead to poverty eradication or environmental stability, their approach is to put forth ancillary ideas that are designed to open up markets in the interests of all and not just the most powerful economies. These ideas are also meant to ensure that trade promotes development and minimizes the cost of adjustments.

Ireland's Bono and England's Bob Geldof, together with their Live 8 concerts, have shone a bright light on trade justice. But when a Nobel Prize–winning economist who has made seminal and fundamental contributions to every subfield of economic theory—microeconomics, macroeconomics, industrial organization, international economics, labor economics, financial economies, and development economics—turns his attention to the subject of fair trade, I believe we should pay serious attention, as his proposals stem from what he learned at the bargaining table.

Most of us have read about the problems; I think now it's time to listen to the solutions. Please join me in welcoming our guest today, a man whose ideas are always important and interesting, Professor Joseph Stiglitz.

Remarks

JOSEPH STIGLITZ: Thank you very much, and thank you very much both for the advertising and for the good summary of the book, so I don't really have to say anything.

At the G8 meeting at Gleneagles last summer, the focus was on developing countries, as it had been at a number of previous G8 meetings. There is a strong recognition among the leaders of advanced industrial countries that it's important to do something about the less developed countries. They talked about debt relief. They talked about increasing development assistance. At Monterrey, they made a commitment to 0.7 percent of GDP.

But they also talked at Gleneagles about the importance of trade. To use a paraphrase from the discussion on welfare reform in the United States, they talked about "a hand up rather than a handout." That is what trade is supposed to be. It's an opportunity to earn income for yourself rather than just get temporary assistance to help you avert a problem.

The problem is that the global trade regime isn't really fair for the developing countries. What this book does is talk about how it can both be made fairer and help the developing countries develop.

In a way, it's interesting, because the issue of free trade, trade liberalization, has been at the top of economists' agendas for over 200 years. [David] Ricardo talked about the importance of free trade. The argument has always been that trade liberalization is supposed to make everyone happy. What is so remarkable about trade liberalization in recent years is that it seems to have made everybody unhappy. That is sort of a puzzle. Some of what I am going to say is going to try to explain that puzzle.

It's partly because of the way we have shaped trade liberalization. It hasn't really been free trade or fair trade. It has really been trade agreements that were highly dominated by particular special interests. I will illustrate with some examples.

The consensus is that the last round of trade was unfair to developing countries. In some ways, it builds upon a history of inequities, but, in fact, it made them worse. Here are some perspectives which help bring out that point.

The last round was asymmetric in a number of dimensions, with developing countries forced to open up their markets and eliminate their subsidies, but the developed countries not fully reciprocating, especially in agriculture. Agriculture is so important because 70 percent of the people in the developing world depend, directly or indirectly, on agriculture.

It was so asymmetric that the poorest countries were actually worse off, and the poorest region of the world, sub-Saharan Africa, was actually made worse off, as a result of the last round of trade negotiations. The magnitudes are large. For example, sub-Saharan Africa, where the average per-capita income is just over $500 (in many of the countries it's under $200), lost some $1.2 billion a year. Seventy percent of the gains from the last round of trade liberalization, some $350 billion, is estimated to have gone to the advanced developed countries.

Though the developing world has 85 percent of the world's population and almost half of total global income, the developing world received only 30 percent of the benefits. As I said before, within the developing world, these benefits went mostly to the middle-income countries, with the poorest countries actually worse off.

The asymmetries are highlighted by what was on the agenda. For instance, one of the things that the United States pushed very strongly was liberalization of capital flows, opening up markets for investment. That's important, but if you look at it from a global efficiency point of view, opening up markets for labor, even small opening up of migration, would have delivered far more benefits to global efficiency than capital market liberalization, and those benefits would have gone to the poor, whereas capital market liberalization was something only of benefit to the advanced industrial countries. The whole agenda was focused around, "What are the items of comparative advantage to the advanced industrial countries? Let's force other countries to open up their markets to those, but we won't reciprocate."

To give you another example, services was one of the other elements in liberalization in the Uruguay Round, the last round of trade negotiations. If you thought about it in a priori terms, you would have said, "Well, services are basically labor-intensive, and therefore liberalization of services will be of help to those countries that have more labor—that is, developing countries."

Then the question is, why was the United States pushing for labor-intensive liberalization? But it wasn't. It talked about service liberalization, but that's not what it had in mind. It had in mind service liberalization of high-skill services, not low-skill services. The reason it was focusing on services was that, for fifty years, all the focus of GATT negotiations (the precursor of WTO) had been on manufacturing. The reason it was on manufacturing was that manufacturing was, at that point, the comparative advantage of the advanced industrial countries. So, unwittingly, we were opening up the market, forty years ahead of time, for China. We did an enormous service for China and India, but that wasn't our intention.

Now manufacturing is only 11 percent of the American economy, in both employment and output. Services is two-thirds of our GDP, so if liberalization is important, it has to be in services. So we focused only on high-skill services, like financial market services, not on the services that are important to developing countries, like maritime services and construction services, services that could make a very big difference to the developing countries.

To give you a couple more examples, one of the things that was another innovation in the Uruguay Round was intellectual property. Most economists think it should never have been there. There was already an international organization dealing with intellectual property, WIPO, the World Intellectual Property Organization. The reason was that they wanted to have an enforcement mechanism. Of course, there are other international issues, like the International Labor Organization, where there is a core labor standard, where there are enforcement issues.

Why was it that enforcement was thought to be more important to intellectual property than labor? One can figure out the answer. You don't just ask the question; you know the answer. It was because America has become an exporter of intellectual property, and we wanted to make sure we got the return on that intellectual property.

But even in the area of intellectual property, it was unbalanced. The developing countries have a lot of intellectual property. There is traditional knowledge. The sources of a lot of drugs come from the biodiversity that is within these countries. But the agreement was focused totally on the intellectual property produced in the advanced industrial countries. So traditional knowledge was not protected. This gave rise to a phenomenon that no one had anticipated, which was called "biopiracy."

Many of you probably haven't heard of biopiracy. A couple of years ago, I was in the High Andes in Ecuador visiting a village, and the mayor of the village started talking to me about the importance of biopiracy and what the last round of trade negotiations had done. These are things that are affecting their lives. We may not know about it, but it is something that is very real.

An example is Basmati rice, which has been around for hundreds, maybe thousands, of years. A Texas company got a patent on Basmati rice. The point was that no one had written in an American journal about Basmati rice, so therefore it wasn't knowledge. If it wasn't published in an American journal, or an advanced industrial country journal, it wasn't knowledge.

Another example: This is actually even more interesting, because it is an aspect of globalization. A Mississippi hospital got a patent on the use of turmeric for healing—again, something that has been known for a very long time in India. Of course, it was an Indian doctor working in Mississippi who got the patent. It wasn't even a question of somebody doing research to find out what was going on in India. It was just somebody coming from India and using the new international laws and telling these people, "Now you have to pay to use things that were always yours." You can imagine that that gives rise to some resentment.

There is a pattern here. The agenda was set reflecting the interests of the advanced industrial countries, and the outcomes reflected that agenda.

The second part of the new consensus is that trade only brings benefits if countries can take advantage of the new opportunities. So liberalization by itself has not led to stronger economic growth. There was a very good study by the UNDP a couple of years ago, where they looked at what happens as you liberalize and whether it led to more economic growth. The answer was no.

The most dramatic example of this was a very important initiative that Europe undertook, which was called the Everything But Arms Initiative. They unilaterally opened up their markets to the least developed countries. They recognized that these countries would have almost no effect on global trade. There was an asymmetry, that was unlike the asymmetries I talked about before. If you give some advantage to one of these small countries, it's not going to have any significant effect. If the United States gives a subsidy, it has a very big effect. So they opened up their markets unilaterally to the least developed countries.

But the striking thing was that as we looked at the data in the following years there was almost no growth of trade in those areas that had been opened up. The reason recognized is that if you have poor ports, if you don't have resources to produce goods, if you don't have roads to get your goods to the ports, liberalization only affects a small part of the cost of freight. The internal barriers are so much more important for developing countries than the artificial trade barriers, so eliminating those just doesn't do much good, whereas for developed countries, obviously, the artificial barriers are the most important barriers.

That is why there has been, beginning in the Hong Kong meeting, an important initiative called Aid for Trade. It's not aid versus trade, which is what I have been talking about. It's not aid or trade. It's really aid as a complement to trade; to take advantage of the opportunity, there need to be some important aspects of aid.

The third part of the emerging consensus is that even fair trade may lead to increased income inequality. There may be more losers than winners. Even though the winners could, in principle, compensate the losers, this seldom happens. So trade liberalization may lead to higher GDP, but it also may lead to more people in poverty. Even income in the middle may decrease.

Actually, this is a prediction that economic theory talked about fifty years ago. One of my teachers, Paul Samuelson—some of you may have used his textbooks—the greatest economist of the mid-20th century, explained how trade liberalization led to what was called equalization of factor prices. The idea is very simple: If you have full integration, if you have one global economy, wages would be the same everywhere; factor prices would be the same everywhere; unskilled wages would be the same everywhere. That means unskilled wages in the United States would be the same as India and China.

Trade liberalization moves you in that direction. That means that there is a downward pressure on unskilled wages, which is something that we have been seeing very strongly in the United States and in

Europe in the last twenty years.

So this was a theoretical prediction. The real quandary is why did it take so long to be fulfilled? That's because some of the assumptions about having the same technology were not satisfied. But technology knowledge has been flowing very freely, and so the assumptions that were part of Samuelson's analysis, which were not true at the time he wrote it, are true today, and his predictions are coming true as a result.

That, of course, means that trade liberalization is going to put enormous strains on our societies.

At Seattle, there was supposed to begin a new round of trade discussions. One of President Clinton's great successes had been in trade liberalization and NAFTA, in the Uruguay Round of the WTO. I think that he thought this would be a way of capping out his administration. I jokingly say that rounds of trade negotiations are sometimes named after the president when they begin. So there is a Kennedy Round. I'm sure he might have hoped that there would be a Clinton Round. But now all we remember are the Seattle riots.

There were many forces at play in Seattle, but one of them was that the developing countries recognized, quite objectively, that they had been made worse off—at least some of them—that they had gotten the short end of the stick in the last round, and they were afraid that if they entered into these trade negotiations, their arms would be twisted and they would lose again; there is a whole variety of ways in which economic power is exercised and political power is exercised, and they would wind up at the short end. So their view was, "Better not begin the discussion, because we know where that's going to lead."

After Seattle, the movement of the international community to do something about liberalization was so strong that they met in Doha, a place where there is a lot less free scope for protest movements. So they had a quiet meeting. They agreed that this time they would rectify the imbalances of the past and they would make this a development round.

For me, this was very important, because, before Seattle, I was chief economist at the World Bank and had given a talk at the WTO, in March before Seattle, in which I had explained the ways in which the previous round had been unfair to the developing countries, and I had called for development rounds. It seemed that this was a response, at least responding to these concerns.

But what happened after Cancun was a disappointment. Two of the things sort of encapsulate the problem. One was that part of the grand bargain that was part of the Uruguay Round was that services and intellectual property, which were things that the developed countries wanted, would be on the agenda, but so would reducing agricultural subsidies and doing something about textiles. The developed countries got what they wanted, but textiles got postponed for ten years, and in agriculture, there was just a vague promise, with some fine print.

No sooner had the development round commitment been made at Doha than the United States doubled its agricultural subsidies. For a free market economy, all of a sudden, as a gesture of goodwill, to double its subsidies is not exactly the best thing.

The second issue that reflected part of the anger in the developing countries had to do with intellectual property. Intellectual property is very important. It's part of the Constitution of the United States. It provides an important incentive for innovation. But you have to have balanced intellectual property. You have to take into account that it has an enormous cost. It creates a monopoly, and in general, we are against monopolies. There is a tradeoff between that monopoly, the inefficiency, and maybe some incentives for innovation, and you have to balance those.

There are other costs. Monopoly power can raise prices of medicines and make them unaffordable.

Interestingly, I was in the Clinton Administration at the time, at the Council of Economic Advisers, and we strongly opposed the intellectual property provision of the WTO, as did the Office of Science and Technology Policy. We thought it was giving excessively strong intellectual property [rights], it would make research more difficult, it would slow down American science, and it would have a very adverse effect on developing countries and their access to lifesaving medicines.

These concerns have played out. There is a group at the National Academy of Sciences that is worried about the impact on American science.

But the impact on access to health took a while to be realized. The basic thing you have to understand is that there are generic medicines—the same medicine that is just as good as the brand-name medicine—at a hundredth of the cost. AIDS is the one that has gotten a lot of people's attention. The AIDS cocktail costs $10,000 a year. It can be produced by South Africa or Brazil for about $300 or less a year, and sold at those prices. So when they said, "You can't produce these generic medicines because of intellectual property," when they signed that agreement in Marrakesh, they were effectively the death warrants for thousands of people in Africa.

Finally, around 1999, this issue came to the fore, and in Doha there was an agreement to do something about it. But, while there was a general consensus that something should be done, America dragged its feet. In December of 2002, for instance, there was an agreement among all the countries of the world on the following issue (which may seem arcane, but the problem with trade is that all the issues are very detailed but have very big effects): They had finally agreed that South Africa should be able to issue a compulsory license. A compulsory license says that you can produce the generic medicine. You pay a market royalty, usually around 3 percent.

The United States used a compulsory license in the anthrax scare after September 2001 for Cipro, because we wanted to be sure we had enough Cipro available, because that's the medicine used to fight anthrax.

So America finally conceded on the compulsory license issue. It took a lot of bargaining, and a lot of people felt very angry about that. Having made the agreement in Doha, why didn't America just go along?

But the real question was, what about Botswana? Botswana is a small country, the most successful country in Africa. It has been growing at 9 percent for forty years. It's a real success story... except 40 percent of the people are HIV-positive. So AIDS medicine is a really important issue. They have only 1 million people, a little over 1.5 million people, so they are too small to have their own company to produce the AIDS medicines.

The United States' position was, "They have to pay $10,000 to buy the drugs from us. They can't get the generic medicine from South Africa." All the other countries of the world said, "No, Botswana should be able to buy from South Africa." The United States was the only holdout on that.

Finally, right before Cancun, which was where the ministers were supposed to meet to appraise where progress was, the United States conceded. But meanwhile, of course, there was bad blood, the feeling that we had reneged on that issue and then we hadn't done anything on agriculture. It was going nowhere. But that didn't make us shy about putting enormous demands on the developing countries.

So their prediction in Seattle about what was going to happen was turning out right. We hadn't given any concessions, but we were using this to put all new demands on. They saw this as another round in which they would be worse off. So what happened in Cancun was that they walked. The meeting ended without agreement. Actually, democracy played a very important role, and the press played a very important role in this episode. One of the things that there were complaints about Seattle was that there had been enormous lack of transparency; everything was behind closed doors. They hadn't remedied it completely, but they had made it more transparent. They had more people come in to Cancun.

The result of it was that the reporters were reporting back every night about what was happening. They would go back to the capitals. The reporters would ask the prime minister of the country, "Are you going to sign this kind of agreement?" The prime minister would say, "No, obviously, I can't do that," because he was going to lose his office; the political pressure was too great.

When I was at the Council of Economic Advisers, I raised a lot of these issues about unfair trade agreements. The trade representatives, in the United States and other countries, would always say, "Yes, we understand that these are unfair, but what can we do? Our hands are tied by Congress. We're doing the best we can. We live in a democracy."

What the developing countries were suddenly saying was, "We live in a democracy too. Our hands are tied. We have to have a fair trade agreement. Your hands may be tied to having special interests dominate yours, but that's not a compelling argument for an unfair trade agreement."

So the media actually played a very important role, in terms of transparency, in the breakup of the talks.

In the aftermath of that I was asked by The Commonwealth, which is this very interesting group of mostly former British colonies—and it's interesting because it is large and small countries, developed and less developed countries, and so it's sort of a cross-section of the world—to do what might be called a blue-sky analysis of what a true development round would look like, not to begin with what would be politically feasible. What politicians often do is repackage old initiatives with a new name and say, "We're going to call this the development round," and make everybody feel better. But if you really asked a development economist what would make the most difference for promoting the development of the least developed countries, what would that look like?

Fair Trade for All is an expanded version of that report. The bottom-line summary I can probably say in two sentences. The first is that what began as the development round really didn't deserve the name; and what has emerged since then clearly doesn't deserve the epithet "development round."

The real danger is at the end there is an agreement, and people will say, "Okay, now we've done development. Let's go on to some other things. Let's make another unfair agreement." So the real danger here, I think, is that people will think it was a development round.

The second point is that, in fact, there is a wide agenda for trade being used to promote development that goes well beyond agriculture. In some sense, a lot of opportunities have been lost because so much focus has been on agriculture. There are two reasons for that. One is that it is such an obvious example of hypocrisy that it's really easy to understand. Secondly, Brazil is one of the most articulate of the developing countries, and most forceful, and Brazil really cares about agriculture, and it has pushed the issue to the fore.

But agriculture is a complex issue for developing countries, because more than half of them are food importers, and higher agricultural prices will hurt them, or at least hurt some people within those countries.

The main thrust of the book is to try to highlight what this broad agenda is—not that we expect it to happen in the next year or two as part of this development round, but, really, it is a blueprint. There will be continuing discussions at the end of this round. There will be continuing discussions of a new trade regime, of reforming the trade regime. I think of this as a broader blueprint for where we ought to be going, sort of a broader agenda that hopefully will begin to sink into the minds of politicians as they think about these issues.

Let me illustrate that by talking about a couple of the issues. I will talk about agriculture, because it's so salient and has gotten so much attention. But I want to talk about a couple of other issues as well.

I passed out a table from the book that summarizes ten or eleven major initiatives that represent what we think should be done; the old issues, the new issues. It summarizes where they were in Doha, what has happened since then. It's a tabular form of a summary of a lot of the book.

Don't look at it now. Listen to me. [Laughter] When you go home, you can take a look at it.

Let me just begin with agriculture, because, again, it reflects not only the hypocrisy in our rhetoric, in our posture about free trade, but it also has an enormous effect on the developing countries.

Two examples: Many of you have heard them; I have mentioned them on other occasions. They illustrate so well what is at issue.

Europe subsidizes its cows to the tune of $2.00 a day. The reason why that is a relevant number is that $2.00 is the World Bank measure of poverty. It's better to be a cow in Europe than to be a person in the Third World.

In the developed countries as a whole, just under half of the income of farmers comes from the government. So farmers may be described more as farming Washington than farming land. The way we give subsidies actually leads to large farms, not small farms. In the United States now, the average farmer's income is above the average income of the typical American. So it's not a subsidy going from the rich to the poor; it's going from the poor to the rich.

There are 25,000 very well-off cotton farmers who share between them every year $3 billion to $4 billion for cotton subsidies. It's bad for the environment and often grows in places where we have to use subsidized water. It leads to more fertilizer. In many ways, it's bad for the economy, bad for the environment.

But the result of it is that, because you only get the subsidy by producing more, it leads to more production, which drives down the price, and 10 million people in sub-Saharan Africa suffer as a result, are pushed below subsistence.

The U.S. Trade Representative, in one of his more callous moments, said, "Oh, they should find something else to do. They should stop complaining." They were living in semiarid land, where there is really no alternative, whereas our rich farmers have an alternative.

Another example of an item on the agenda, though, that goes beyond agriculture: Not surprisingly, as tariff barriers have come down, non-tariff barriers have increased. There are a whole variety of very sophisticated non-tariff barriers, very complicated, that we use. One of them is called "dumping duties." If a company sells something below cost, we impose a duty of the difference between the cost and the price, to discourage people from selling below cost. You don't have to be an economist to figure out the following. How much money do you make if you sell things below cost? Can you make up for the loss on each item by selling more? No.

Why would anybody ever sell below cost? There is an argument, which is, if you can sell below cost, you can drive out your rivals, get monopoly power, raise the price, and get the profit and recoup the loss. It's an investment in monopoly.

We have in the United States laws against this. They are called "anti-predation." But it's very hard to find examples of that kind of behavior, and the examples where we impose predatory pricing are examples where monopoly is inconceivable. We had dumping duties against tomatoes from Mexico, flowers from Colombia. There is a long list—fish from Vietnam—all areas where it is inconceivable that they are doing it to establish a monopoly power.

Here there is a simple solution that has not been talked about by any of the trade negotiators. Have a uniform law. Don't discriminate between domestic and foreign producers. If you treat domestic predation the same as foreign predation, the world would look completely different.

There was a study done that showed that if we used the dumping standards on American firms, about 80 percent of them would be guilty. On the other hand, if we used American standards in the international context, no one would be found guilty.

So it is very clear that this is an example where, by a very clever provision, we create a non-tariff barrier, a protectionist device, within a rule of law, but a double standard, to discriminate. And we use it very effectively.

One of the dangers is that one of the things that we have been exporting is bad trade policy, so that other countries have now adopted some of these dumping duty laws. We work very carefully on how you define costs. There is enormous complexity, so that the way you define terms makes sure that you can always find dumping. There is no patent on these ideas, so other people can imitate them. It's an important impediment to trade.

The most important initiative that we argue for is an expanded Everything But Arms Initiative that has been the hallmark of Europe, the unilateral opening up of our markets to the least developed countries. It would not hurt us at all. In fact, our consumers would be better off. They would be getting products at lower prices. But it could have an enormous effect on developing countries. It needs to be accompanied by aid. As I said before, one of the problems with the EBA Initiative is that it hasn't led to the hoped-for increase in trade. But here again is an example where subtle hypocrisy has been used by the United States to try to make sure we don't have a more liberal trade regime. This kind of hypocrisy is what gives rise to such anger.

We have offered to open up our markets to 97 percent of the products. Ninety-seven percent—who can complain? It's like Ivory Soap was 99.44 percent pure. Ninety-seven percent pure, in this imperfect world, that's pretty good. That was the image that the United States was trying to convey by this 97 percent number.

But when you look at the details, 97 percent was really more like 30 percent. It's an initiative that I have labeled—the EBA is Everything But Arms—I have labeled it the EBP, Everything But What You Produce. We will allow Bangladesh to export to the United States jet airplanes, jet engines, lasers, supercomputers. Everything they don't produce we will allow into our market without duties. We welcome it as a spur to competition. But a huge percent, about 75 percent, of Bangladesh's exports can be excluded under the 97 percent opening, and 100 percent of Cambodia's exports can be excluded under the 97 percent.

You ask the question, what is going on here? The first answer you will get is, it's the influence of the American apparel industry. They don't want competition. It was what we had to give to the American apparel industry. I think there is a certain amount of truth in that, but it only goes so far, because it actually doesn't give them much protection. Keeping out Bangladeshi cloth doesn't stop cloth from other countries coming in. Eventually, China—we said we only had ten years to prepare for this opening, and when that happened, we said we needed another three years from China. But that three years is going to come up. Europe did the same thing. So it's simply a shift from Bangladesh and these countries to some other countries—some of it to the African countries and some of it to China. The net effect on our apparel industry is going to be minimal.

One hypothesis is that what is really going on is that by using 97 percent, we split the developing countries. We get them to fight, each for itself, to make sure that their products are not on the line. So it is an attempt to break up the unity of the developing countries—a very clever bargaining ploy. The problem was, in Cancun, the developing countries stuck together, and that's why it broke down. This is an attempt to counter that, but in a way that will lead to a more unfair globalization, a more unfair trade regime.

Questions and Answers

QUESTION: I want to get some clarification on the subject. You started with the fact that, in general, everyone is dissatisfied, and the workers in the developed world haven't really benefited. Yet 70 percent of the benefit has gone to the developed world. So who has gotten the money? Is it the corporations?

JOSEPH STIGLITZ: Yes.

QUESTIONER: Where did it all go?

JOSEPH STIGLITZ: The shorthand of a very complex answer is, yes, the corporations, and some people with the high skills that are in greater demand. But people in the middle and the people at the bottom have not done it. That's why you have this very curious phenomenon. In Europe you see it very clearly in, for instance, the discussions in France, where people are being told, "In order to be better off, you have to lower your wages and eliminate your job protections." They're scratching their heads and saying, "If globalization is going to make us better off, why do we have to be worse off?" It's a very hard question.

The answer is that, as I say, the gains are large enough that, in fact, if you redistributed income in the right way, you could make everybody better off. But that's not what has been happening. In fact, in the United States, redistributions are going in the other direction.

QUESTION: Thank you for a very understandable speech on economics that even I could understand. I want to criticize one point of it, and that is the tomato-Mexico thing is a little bit difficult. Tomatoes grown in Mexico have been a genuine disaster—exporting tomato production from the United States to Mexico —because it has used water and land that should have been used to grow food for Mexico. The economics has been all in favor of U.S. corporations. So I think that is a bad experience.

But my question is, many of these things have been talked about before, starting with the speech by President Allende at the United Nations in 1972, leading to the Charter of Economic Rights and Duties of States, the new international economic order, to the UNCTAD rounds (which always took place when the presidential election was happening, in the speech), to concepts like common fund and buffer stocks to keep commodities separate, to TCDC to keep corporations—these things haven't gone. Why do you expect that they might now?

JOSEPH STIGLITZ: That's a good question. Why do I have any optimism? I think the answer is that there are some things that are better today—the kind of resolution that was done by the G8. There are a number of leaders of the developed world who are very committed to these issues. They really are. It's not just political rhetoric. I have talked to them and many of you have talked to them. I think it's genuinely felt. That is one of the reasons.

In a way, the war on terrorism, the problem of terrorism, has brought home some of the consequences of despair. We have some self-interest in making sure that there is less of that.

Finally, the forces of migration are enormous, when you have huge disparities in wages. One of the hopes is that if you have a fairer trade regime, wage disparities get reduced, and that reduces the pressures from migration. Governments are finding it very hard to stop illegal migration. One of the ways of doing it is to do something about the underlying economic forces.

QUESTION: Thank you, Professor Stiglitz. As always, you have been wonderful in presenting these issues in very simple terms.

I'm from the United Nations, where advocating for the LDCs [least developed countries] is my daily job.

I am very happy that in your presentation you have highlighted the cause of these countries. There are two points that I would like to find out what you think about.

One is, you mentioned that the opening of the markets did not help boost the exports of the least developed countries. You said that Everything But Arms really did not result in opening of the markets in the real sense.

What we see is that the LDCs are not in a position to produce sophisticated quality goods for the industrialized countries' markets, but they can produce things for the neighboring countries, for the other developing countries. We believe that there is a tremendous opportunity for the least developed countries to boost their exports if the market is opened in the developing countries.

What do you think about it? Where do you think this issue needs to be addressed?

The second, if I may, is, you raised very briefly the issue of migration and the issue of remittances. That is an issue which is attracting my office in recent months. Last year, the World Bank said $167 billion of remittances were sent to the developing countries, three times the size of ODA, more than FDI. What do you think are the opportunities or forums where this issue needs to be highlighted?

JOSEPH STIGLITZ: The first question I just will make a comment about. One of the other reasons why the Everything But Arms Initiative ran into problems in generating trade is an example of the details that plague these fields. There are things called rules-of-origin regulations, which say that if you are going to get the preferential treatment, a certain fraction of the good has to be produced in the country from which it's exported. So if you have, for instance, a fishing boat, where the crew is from one country, the boat is owned by another country, and the captain is from a third country, no one can satisfy the rules of origin, because there is too small a percentage. If you use textiles from one country to make apparel in another country, the rules of origin won't be satisfied. So there are these details.

There are two interpretations. Were these mistakes, or were these deliberate attempts to keep out—some people think it was the bureaucracy at the Commission, which was so ingrained to protectionism that they didn't get into the spirit of what Pascal Lamy wanted, which was opening it up. Their job had always been to keep markets closed, and they just did their usual thing.

I think South-South trade opportunities are important, and what we propose here is that the South be allowed to open up its markets to other South countries without reciprocating to the North. You allow a limited amount of discrimination. The most important principle in the multilateral trade system was the "Most Favored Nation" principle, that you are opening yourself up to everybody with the same terms. We are completely destroying that principle, in effect, by this string of bilateral trade agreements, which is really threatening to destroy the multilateral trade system.

There is just a very modest proposal in our book, which is that middle-income countries should be allowed to open themselves to other middle-income countries, and the least developed to other least developed countries, without having to fully reciprocate to the more advanced industrial countries. A limited amount of discrimination to encourage trade within these countries, without being deluged with goods from the advanced industrial countries, seems reasonable.

On migration, there is a lot of discussion about creating a new international organization dealing with migration. I think, with the movement of people across borders, there are so many dimensions to that, and there is a recent commission that came to that conclusion. The magnitudes of the remittances are huge—greater, in many of the Latin American countries, than foreign direct investment. There needs to be created a new institution, I think, to look at these issues.

QUESTION: I am from UNDP's Human Development Report Office.

First, just a quick comment on this whole issue of distribution of trade benefits. I'm glad you raised the issue of agricultural subsidies and the inequalities. One of the calculations we have done in our office is just looking at the inequality of subsidy distribution. To give you an example, no one would disagree that Brazil is one of the world's most unequal countries in terms of income inequality. When we looked at subsidy distribution in the United States or in the European Union, the coefficients were far larger in that parameter than Brazil's income distribution.

As Professor Stiglitz pointed out, the measures we are adopting even within developed countries are not helping the poor in the developed countries.

My question is this. As you mentioned in your last answer, there is a slew of bilateral agreements or regional trade agreements that are coming up. With the stalemates that are occurring in the global trade regime, in the multilateral negotiations, if you were advising, say, the countries negotiating CAFTA, despite the increasing terms at which they have to accede to this kind of arrangement, what would you advise the trade ministers? "Even if this opens up the market partially to you, don't negotiate this because it's better to hold out for a multilateral agreement, or try to get some short-term gains?" It's a difficult political dilemma.

JOSEPH STIGLITZ: The main point, I would say, is that we should be focusing on multilateral trade agreements. But at the concrete level, what I would say is, don't base your views of a bilateral agreement on dreams. Don't think, just because you sign an agreement, that you are going to get a lot of investment, that you are going to be better off. Having a Good Housekeeping Seal of Approval on a trade agreement is not going to make the difference. Look at the detailed provisions of what you get and what it's going to cost you.

NAFTA, ten years later, did not, I think, produce the benefits that Mexico had hoped for. A fairer agreement could have, but that's not what they got.

One of the key aspects of this was agriculture. The price of corn fell by half. The poorest people in Mexico are corn farmers. So you increased the poverty among the poorest groups in the country. It helps their urban workers, who buy food, but it hurts the some of the poorest. So you have seen this change in the pattern of inequality within Mexico.

I was in Morocco as it was negotiating a free trade agreement. This was interesting. The question is, why were we negotiating a free trade agreement with Morocco? We wanted to build better friendship with a moderate Arab country. But we made a mistake. We turned it over to the U.S. Trade Representative, who didn't understand that. By the time it ended, there were protests on the street. The reason was that the drug companies wanted to make generic medicines less accessible in Morocco than in the United States. They wanted to extend the effective protection from twenty years to—one study, in *Lancet*, talked about extending it to thirty years—by putting lots of restrictions on what you could do.

QUESTIONER: The same with CAFTA.

JOSEPH STIGLITZ: Yes, CAFTA.

The question was, what was Morocco getting out of it? I have been asking people. Morocco's main export is phosphorus. There are no duties on phosphorus. So the main benefit may be to the shoe industry of Morocco—one industry. That could be worth a lot. You have to ask, how many shoes can you sell? Is it worth how many people dying? That's the kind of tradeoff you have to ask; a painful tradeoff.

But don't think that, after Morocco signed it, that there was a flood of investment coming into Morocco, as they had hoped.

One other thing. I talked to the negotiators, and they said, "This is not a negotiation. The United States demands, and we either accept or we don't." They said, "We call it a negotiation, but it's not."

JOANNE MYERS: Once again, you have made the most complex issues very accessible. Thank you very much.