KEYNOTE ADDRESS: WHAT WOULD WE BARGAIN FOR IF DEVELOPMENT MATTERED?

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I. INTRODUCTION

I want to thank the organizers of the conference for giving me the opportunity to be with you today. I particularly want to thank Tim Reif. As some of you may know, Tim and I have taught a course in the graduate program here at Georgetown for several years on the litigation of trade and investment disputes. And, of course, Tim was a colleague when I was Chief Trade Counsel on the Finance Committee.

Over that time, I've found that often times the most stimulating intellectual discussion I would have in any given week was here with Tim in the classroom. Part of it was the extraordinary opportunity to be among students with real energy and insight from a dozen countries in any given year. But, most of it was simply the opportunity to get together with a good friend and have the chance to engage in the intellectual give and take that is essential to any endeavor.

Along the way, those conversations, combined with what I was seeing every day on the job, generated a different way of thinking about trade, its power to change economies and societies for the better, and about how rare it is to have the opportunity to have before us, in the form of the Doha Development Agenda, a major opportunity to have a positive effect on people's lives around the world.

Those conversations also reinforced for me what a crime it would be to reach for something less than a true development round. The statistics Stephen Smith, who teaches development economics at George Washington University, cites in his just-published book entitled *Ending Global Poverty: A Guide to What Works*, underscore that point.

Today, 2.8 billion people on the planet live on $2 a day; 1.25 billion of them live on less than $1 each day. Worse still, the gap between rich and poor in the world is widening. The richest billion people on the planet—which certainly includes every one of us lucky enough to be in the room today—have an average income sixteen times higher than the poorest 2.5 billion.

Ironically, those numbers hide as much as they reveal. The comparison between truly rich and truly poor is unbelievably stark. Median income levels in the United States average fifty times higher than incomes in Sub-Saharan Africa. Real living standards in much of Africa are lower today than they were in the United States 200 years ago. The World Bank estimates that the number of people in the region living in extreme poverty has increased from 217 million in 1987 to 291 million roughly a decade later.

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And, of course, poverty is about more than just incomes. It means 17% of the world's population goes hungry every day. It means that 11 million children die each year in the developing world from what we in the United States would think of as preventable causes. It means an average life expectancy in Sub-Saharan Africa of forty-six years and falling. Poverty also means 180 million child laborers under the age of fourteen working in conditions that endanger their health. Over 73 million of those children are under the age of ten.

What's more, addressing the root causes of poverty in the world is not just a case of morality; it is ultimately a case of self-interest. That is true in both economic and security terms.

In economic terms, alleviating poverty translates into a growing and prosperous middle class. That means stronger demand, growing markets, and new opportunities for trade and investment.

In security terms, alleviating poverty translates into healthier societies and greater stability. Economic opportunity translates into nations in which there is less chance that a generation is marginalized and sees no opportunity other than a resort to violence. Stronger societies and greater stability also eliminates the havens of violence that failed states so often become.

II. CURRENT STATUS OF THE NEGOTIATIONS IN DEVELOPMENT TERMS

Now, consider that the principal stated objective of both the General Agreement on Tariffs and Trade [GATT] and the World Trade Organization [WTO] is to "raise standards of living" and ensure "full employment and a large and steadily growing volume of real income." And, recall that the declaration launching the Doha Development Agenda emphasized the "major role" international trade can play "in the promotion of economic development and the alleviation of poverty."

In Doha, WTO Members committed themselves to "ensure that developing countries, and especially the least-developed among them, secure a share in the growth of world trade commensurate with the needs of their economic development" and to end the "marginalization of least-developed countries in international trade."

I mention those words to underscore a basic point that has gotten lost in the traditional process of bargaining. While there is little doubt that the GATT and the WTO have made huge contributions to the expansion of world trade, it is equally important to emphasize that simply lowering trade barriers was never the point. The objective, as defined by the Members themselves, was to raise living standards and contribute to economic development, particularly among the least-developed countries in the world.

Fine words and I believe in them, which is precisely why I think it is fair to judge both the current negotiations and the negotiators by that standard—the standard they set for themselves. By that standard, however, the negotiations have failed thus far.

Ministers in Doha agreed to conclude the negotiations by the first of this year. Sadly, we are nowhere near the end of the talks. In fact, we have yet to set out the basic negotiating parameters. And, in my view, if they stay on their current course, they will fail in the end to deliver on the promise of the Doha Declaration.

If we stay on our current course, I fear that the talks will fail to deliver an agreement that raises living standards and real income, reduces poverty and disease, and improves the ability of individuals throughout the developing world to act on their own behalf in both the economic sphere and in the political arena that defines economic opportunity in any society.

The problem in my view is the approach that has served us so well over the past fifty years. One of the great ironies of the international trading system is that it is really a question of grappling with domestic politics. That reality filters through to the basic way in which we bargain.

Although we know that trade is a two-way street, we bargain as if it is a one-way thoroughfare. Negotiators attempt to gain as much as possible for their export interests, while defending politically sensitive industries from imports. In short, we take a non-zero-sum world and turn it into a zero-sum game.

We have already seen that play out in the negotiating strategies of the major players in the Round today. Before Cancun, Europe pushed the Singapore issues for what appear now to have been largely tactical reasons. As is often the case, the effort was designed to achieve a certain stalemate by putting a series of items on the table that they knew in advance were likely to be non-negotiable from the perspective of the developing world. The idea was to back the developing world off its demands for reform of the Common Agricultural Policy.

That is not to say that there wouldn’t have been real value in opening investment markets and setting out the need for sound competition policy in order to ensure, consistent with the basic outlines of Article III of the GATT, that goods really did receive national treatment once in the export market.

Of course, I know from my own experience negotiating the Singapore issues in Cancun, the EU negotiators never actually articulated their case even that clearly and never could explain what, other than protecting their defensive interests, they actually sought to achieve in the way of an agreement on investment and competition policy.

That is not just a tactic employed by the developed-country Members of the WTO. The leaders of the G-20 are effectively engaged in the same tactic. When Brazil says that it wants the elimination of subsidies and other barriers to their agricultural exports in the United States and Europe, but is unwilling to eliminate the barriers to imports of agricultural products in Brazil, it has fallen into the trap of bargaining—not for a development round—but for the entrenched economic interests in their own political system.

Or consider China's stance, which asserts that it should not have to concede anything in the way of market access because they recently acceded to the WTO. Essentially, when the rest of the developing world comes calling, China is telling them that they already gave at the office.

Yet, the fact is that much of China's manufacturing prowess lies in making goods that are sold into the bottom of the pyramid precisely because that is what much of the Chinese domestic market represents. China, as a consequence, has much to gain from liberalizing trade with its developing-country trading partners and would, at the same time, be reinforcing its role as a leader within Asia and the rest of the world economy. It can achieve that through liberalizing its own market in return for greater access to markets throughout the rest of the developing world.

Now, having pointed a finger at other major players, I don't mean to let the United States off the hook. With the notable exception of the President himself, we have not approached these negotiations as a means to encourage development any more than any other player. In retrospect, making common cause with Europe on agriculture in advance of Cancun would not strike you as a tactic designed to convince the developing world that we are interested in expanding their share of world trade and raising their living standards.

The same holds true of the current effort to encourage U.S. companies to diminish their expectations and settle for less as part of the current negotiations. It is extraordinarily bad politics as well. Here in the United States, we are not in post-CAFTA [Central America Free Trade Agreement] politics; we are deep into post-Katrina politics. In that setting you need a big deal out of the Doha Round to persuade Congress to support the outcome. If it is not a deal that holds enough promise for American interests and you haven't built other political constituencies in support of the deal, the next best option politically may well be failure.

The very worst outcome politically is one that does little for U.S. export interests and even less for the developing world. In that setting, you will be asking Congress to support an agreement that will not have the broad and deep support of the American business community or the support of that part of civil society that would earnestly support a true development round.

In short, the questions we need to ask ourselves are whether reaching an agreement that represents the lowest common denominator that negotiators can achieve with a mercantilist approach will have any impact at all on the world's poorest countries, much less substantially reduce poverty, and whether such an agreement would hold enough in it to command support from the agriculture and business communities in the United States and elsewhere in the developed world to make the political sacrifices on agriculture worth making.

III. WHAT WOULD WE BARGAIN FOR IF DEVELOPMENT MATTERED?

To answer those questions, I want us to look at the problem from the opposite angle and then see if we can reason our way back to a deal that works politically as well. I want us to ask ourselves—what kind of agreement would we negotiate if development really mattered?

A first step would be defining what we mean by development. This is a debate that has been going on for several decades, and, if you look at the literature, what strikes you right away is the inadequacy of most of what the economics profession has given us to measure whether or not the policy choices governments make are actually having an impact on poverty.

A rising GDP is not enough because it fails to tell you much about who is benefiting from that growth. The same holds true for measures of median income because, while they are better than GDP as a measure of who is benefiting, they still are nothing more than averages that do not speak to the gap between rich and poor within developing countries.

The figure that comes closest is labor productivity per hour. Rising productivity is useful because, when multiplied across all workers, it guarantees a rising standard of living and, in most instances, the ability of a worker to command more in the way of wages.

Yet, even that figure does not capture what development means. That is what has led the Nobel Laureate Amartya Sen to define development as freedom and define freedom in terms of an individual's capacity to succeed both in economic terms and to engage in the political life of his country and community precisely because the political system defines the economic opportunities available to each individual, particularly on the lowest rung of the economic ladder.

How can trade contribute in that context? How would we bargain for greater individual freedom?

In conventional trade terms, you can see right off the bat that we would be bargaining not only for lower barriers to trade at the border, but lower barriers to trade within countries as well. We would be bargaining for stronger government institutions within the developing world that could ensure that markets functioned and that everyone had the opportunity to participate fully within that marketplace. And, we would be bargaining for removing governments from markets to eliminate opportunities for corruption precisely because of the price that both developed and developing countries pay for that depredation.

Beyond conventional economic matters, we would also be bargaining for rights—both political and economic. And here, we who have grown up in the Western tradition of political thought are going to have to give up on the artificial distinction we have drawn between political and economic rights.

That division has run throughout Western history from the days when the political and religious elites lived on the higher hill of Palatine in Rome and looked down both physically and morally on the merchant class that occupied the lower hill of Aventine. Now, the political elite in Rome knew something that we have forgotten. They understood that economic growth and power was inextricably linked to political power and that when we encourage economic freedom we are sowing the seeds of political pluralism as well.

That is why the political and religious elites periodically went after the merchant class with a sword. They understood that economic freedom could represent their own political fall.

For the same reason, we ought to bargain for property rights and the freedom to contract for every individual in both the developed and the developing world. And, we ought to bargain for markets that are largely free of intervention by governments because those markets represent the basic human freedom of exchange—which is what allows an individual at a personal level to assert their own comparative advantage.

The goal should be the international equivalent of the Commerce Clause in the U.S. Constitution or those provisions of the Treaty of Rome on which the European Union's single market has gradually been built, combined with a series of rules that liberalize economies internally as much as externally.

IV. HOW DO WE TAKE A STEP IN THE RIGHT DIRECTION?

All of which is too much to ask in practical and political terms from the Doha Round. But, we could take a considerable step in that direction simply by identifying those areas where trade liberalization could reduce the transactional costs that keep so many people trapped in poverty.

For example, why not liberalize the entire health care supply chain, both goods and services, as a means of bringing the lowest cost health care to the developing and the developed world? There is little in the way of benefit to developing countries from tariffs or other barriers to such goods and services and much to be gained that would help address AIDS and the falling life expectancy in much of the developing world.

Why not adopt the same approach to agriculture? Much of the discussion of agriculture in the Doha debates (it would be stretching the truth to call them negotiations up to this point) focuses on the removal of European and U.S. subsidy programs. The reality is that removing our subsidy programs will be a great deal for U.S. taxpayers and will make our own economy more efficient by shifting the capital that is currently tied up in agriculture to more efficient uses elsewhere in the economy, but it is not likely to yield much in the way of measurable change in either the market access or living standard of a cotton farmer in Mali.

The reason is that a Malian cotton farmer faces far more practical obstacles to getting his or her goods to market than our subsidy programs.

Moreover, his or her living standard depends heavily on whether or not he can reduce the amount that middlemen take out of every sale.

If that is the case, what would make the most difference to his capacity and freedom to fend for himself or herself? That answer may well lie, not in the reduction of farm programs in far away places like Europe or the United States, but in his or her ability to gain access to a cell phone.

What the cell phone would give the farmer is access to real time information regarding world market prices and the ability to find alternative buyers. In practical terms, what the farmer would have is bargaining power that he or she lacked previously.

This is not an argument for weakening the effort to reform and, indeed, to eliminate the effects of food subsidies in the developed world. The world would do well to respond to President Bush's call, made at the U.N. General Assembly this year, to end all subsidies and remove all tariff and non-tariff barriers to trade.

At a minimum, any good trade negotiator should have the instinct to call the United States' bluff, if that's what it is. But, what if it is not? What if the President is serious in his pursuit of free trade? Wouldn't this be the ideal time to embrace the challenge that President Bush has laid down?

Equally important, it would also allow the trade negotiators to put trade in agricultural commodities in some perspective. For example, Peter Mandelson, the EU's top negotiator, talks in terms of a tradeoff between what Europe is willing to "give up" (only in the world of trade would removing the economic equivalent of cancer be viewed as a concession!) on agriculture and what it wants on non-agricultural goods and services. But, that is really the wrong way to pursue the argument for greater liberalization within the developing world.

Recall here that Mandelson's predecessor and now head of the WTO, Pascal Lamy, already promised the developing world a "round for free" (i.e., one in which only the developed world would make trade concessions). Whether or not that was particularly shrewd on Lamy's part, the important thing is how difficult it has proven for Mandelson to walk away from Lamy's commitment and now ask for real concessions, knowing the political pain it will take to go further with agricultural reforms in Europe.

That is where the power of putting development at the center of the negotiations would really pay dividends. What our example about the cotton farmer in Mali tells us is that liberalizing trade in industrial goods or services is not a tradeoff for getting rid of rich-country subsidies. Rather, liberalizing trade in areas like telecommunications, transportation, finance, and a variety of industrial goods is actually essential to take advantage of any reforms that are offered!

In other words, the better argument is not "do this for us; it's a political necessity to get the deal you want." Instead, the argument should run along the lines of "do this for yourself so that you can take advantage of the concessions you have wrung from us at the bargaining table."

A. Identifying Areas in Which Trade Liberalization Would Contribute to Development

I have already foreshadowed what I think is the best approach we can find at this point in development terms. We ought to focus on four or five areas of trade where liberalization—true free trade—would have the most profound multiplier effect on developing economies and then bargain as we otherwise would for the rest of the framework.

The World Bank's research arm (which the Bank's operation arm rarely listens to, incidentally) has already plowed this furrow. They have examined a number of developing countries from the point of view of what it would take for them to gain access to world markets.

What is critical for our purposes is that they did not just focus on the traditional items of tariffs and subsidies that are the common fodder of trade negotiations. The Bank actually looked at the practical obstacles to accessing world markets, whether they were imposed by rich-country barriers or by institutional weaknesses, lack of physical infrastructure, or policy choices by the developing country itself. It would not be that difficult to extrapolate from those studies to define those areas where liberalization would contribute to the ability of producers in the developing countries to create their own future and raise their own standard of living through gaining access to the world.

For my money, the five areas I would focus on are two that I have already mentioned in some detail and three that I have not. Agriculture is essential to the Doha Development Agenda both economically (because the agricultural sector is where most of the producers in the developing world live and work) and symbolically because imposing disciplines on agricultural trade would help redress an imbalance that has existed at the core of the current trading system since its inception.

The health sector is another area that I view as absolutely essential precisely because that is where much of the developing world faces its most daunting challenges. In the face of the current AIDS crisis enveloping Africa and much of Asia, there is an absolute moral need to lower the cost of delivering quality health care.

Significantly, lowering the cost of health care is not synonymous with stripping drug companies of their intellectual property rights. Indeed, any trade negotiator in Africa ought to be wary of the efforts—purely mercantilist in their own right—of Indian and Brazilian negotiators who are fronting for the generic industry in their own countries, not the health care interests of Africa.

Lowering the cost of health care and improving its delivery means eliminating all trade obstacles to providing care. That would imply liberalization on both goods and services and it would imply reaching beyond what we normally think of as "medicine" to things that fall in the category of "prevention" as well (e.g., dropping all tariffs and other restraints on things like mosquito netting).

But, reaching beyond agriculture and health, my top three choices would be complete liberalization of trade restraints in the areas of telecommunications (both goods and services), finance, and transportation. Why do I choose those three? I choose them because of the power they hold to transform economies internally as well as facilitate their participation in the global economy.

What has created the global economy we live in today are three fundamental changes that have taken place in the last several decades. One is the success of the GATT and now the WTO in reducing barriers to trade. Another is the end of the Cold War, which actually signaled the end of political divisions that have parted the world economy in half since the onset of World War I.

The third, and absolutely the most powerful, in my view, is the revolution in computing and communications, transportation, and finance. Those changes have made a global supply chain possible, and, as with all things in business, it also made a global supply chain a competitive necessity.

Competition in the global economy now takes place between supply chains rather than individual companies. The ability to incorporate the best partners in your supply chain and then deliver your goods or services to the consumer with the highest quality at the lowest cost now drives management thinking.

The irony is that, in the current trade negotiations, we are still bargaining about tariff line items as if the world of trade that existed at the end of World War II when the GATT was created still exists today. It's as if all trade today was still conducted between enterprises operating wholly in a single country, selling at arm's length to unrelated buyers in foreign countries.

Nothing, of course, could be farther from the truth. Over 85% of all trade across borders takes place within corporations and their affiliates. The only arm's length sale involved is often the final sale of the finished product to the consumer.

What that means in practical terms for the developing world is that, unless they acquire the basic tools of the global economy, including the latest innovations in computing, telecommunications, transportation, and finance, their local producers will not be able to gain access to the global supply chains that drive trade and growth around the world.

I can't stress enough that the conventional model of export-led growth is not enough. Simply lowering trade barriers to a developing country's exports will not alter the ability of their local producers to enter world markets.

The economic calculus for developing countries, particularly the lesser developed among them, is fundamentally different than that facing either developed economies or more advanced developing countries. Because they lie outside the global supply chain, the classic mercantilist approach to trade negotiations (bargaining for market access and limiting the access of imports to your home market) will not work. They must, instead, think in terms of lowering the cost to their local producers of going global (i.e., setting the conditions that will allow local producers to participate on a cost-competitive basis in the global supply chains that drive international competition).

Starting from that perspective would radically alter the positions their governments would take at the bargaining table at the WTO. Instead of holding fast to their current trade barriers, the developing world would begin seeing their own trade barriers, particularly in the areas of telecommunications, transportation, and finance, for what they are—a burden on the ability of local producers to compete globally.

B. Financing Access to the Global Economy

Let me close with one final thought. For anyone who has visited the developing world, you immediately realize that trade reform and institutional reform is not enough. It is going to take money. That does not have to mean a return to the days, in development terms, of the "big push."

But, it does mean that we should not ignore the critical role that development assistance can play in financing the developing country's access to the global economy. It suggests that, wholly apart from that which we bargain for in terms of trade liberalization, we should put development assistance on the table as well.

I recognize that my suggestion would break down the careful separation we have observed between trade and the world of finance since 1945—a division that trade and finance bureaucracies defend to the death in an eternal turf war in the developed and developing world alike. But, what our respective bureaucracies seem to have overlooked is that the fixed exchange rates system established at Bretton Woods, for which the still-born International Trade Organization (which became the GATT) was to serve as a counterpart on the trade policy front, never actually came into existence and has been definitively declared dead at least since 1973.

Could it be time that we rethink the bureaucratic division of the world, given that every other political, economic, and technological barrier to the free flow of goods, services, and capital have fallen in the meantime?

Now, what would that mean in practical terms? Consider this—countries that have depended more on trade than on World Bank assistance have done demonstrably better in their efforts to raise living standards and encourage broad-based development than those that kept their markets closed and relied heavily on the Bank and bilateral assistance as the core of their development strategy.

What that should suggest to us is that we would be better served by a world in which the Bank did two things well, rather than a number of things poorly or with no discernable effect. The first of those would be to finance the creation of the infrastructure needed to participate in the world economy.

Here's where lowering the costs of participating in the global economy (i.e., lowering the cost of acquiring the tools of global trade) becomes relevant to the Bank and the donor community as well. Every dollar of assistance would go further and would be put to much more effective use than would be the case in which we left high tariffs and other barriers in place. In *that* case, high barriers to trade and investment would substantially erode the beneficial impact of the financial assistance offered in the first place.

The second step would be to shift from lending to governments to lending to or investing in local entrepreneurs—basically financing their ability to compete in the global economy. What we would be doing in the process is financing the growth in market demand for a wide range of goods and services that those entrepreneurs will need as they build their businesses and go global.

And, here is the real secret. For those of us in the developed world, a profoundly pro-development result that added finance to trade in the effort to conclude the Doha Development Agenda would, I guarantee, achieve far more in terms of the both stimulating demand and encouraging market access than the latter day equivalent of the Torquay Round in the WTO. It would, for that reason, also make any final deal politically marketable in a way that the current approach to the Doha talks will not.

Thank you.