FAIR TRADE FOR ALL: HOW TRADE CAN PROMOTE DEVELOPMENT

Joseph E. Stiglitz and Andrew Charlton,

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International trade has evoked a great deal of interest amongst political leaders and economists. Started with the notion that it would benefit all participants equally, it is, however, always poised in favour of developed countries. The interest and concern of developing countries are overlooked. This has affected the participation of developing countries. Efforts to reframe the policies of the international trade in two major conferences organized in Doha, Qatar, in 2001 and in Cacun, Mexico, in 2003 collapsed in failure. The reason for the failure was the attitude of developed countries towards developing countries. They are not willing to share the benefits of trade with developing countries.

This book has described the policies that would increase the participation of developing countries in the international trade. The authors, Joseph E. Stiglitz, professor of Economics at Columbia University, and Andrew Charlton, research officer at the London School of Economics, try to draw an ideal picture of the Development Round of trade negotiations that reflects the interests and concerns of developing countries. According to them, trade policies should be based on principles of economic analysis and social justice and not on economic power and special interest. Considering that one of the authors, Joseph E. Stiglitz, is a Nobel Prize winner in Economics in 2001, the ideas illustrated by the book carry immense value.

The first part of the book talks about the theoretical proposition that trade liberalization can be good for the development of any country. The authors have quoted the experiences of Britain and Japan to show that trade liberalization can play a major role in the development of any country. But developing countries should not rush for trade liberalization. They should move towards free trade gradually and according to their own circumstances. The authors have shown how standard economic assumptions turned wrong when it comes to developing countries. According to the authors, the pace at which developing countries open up their markets for trade should match with the development of new institutions that make such transition easier and generate real opportunities.

Subsequently, the authors have examined the history of previous trade negotiations and the experiences of developing countries. They have described the potential benefits from further trade liberalization to developing countries. They have also analysed the current situation by reviewing the developments of the Doha Round. The Doha Round negotiations were disappointing for developing countries as the pivotal issues of agricultural reforms and non-tariff barriers were left unsolved. In addition, the proposed agenda of capital market liberalization as part of an investment agreement could have made life miserable for developing countries.

In the second part of the book, the authors have proposed the principles on which trade policies should be formed. These policies should be in the interest of developing countries. The impact of each policy on developing countries should be measured by WTO. Policies which do not provide a degree of equity among nations should be viewed as unfair and against the spirit of the Development Round. The WTO dispute system should also be revised as it is in favour of developed countries.

The economic and social development of developing countries is a major challenge for the countries themselves and for the international community too. The authors have proposed the Doha Market Access Proposal (MAP), which differentiates between developed and developing countries. This proposal will provide the flexibility to deal with development problems; it will also minimize the adjustment and implementation costs.

In the third part of the book, the authors have discussed the issues that should be given priorities in the Development Round. The issue of market access for goods produced by developing countries should be of primary concern. Protection on labour intensive manufacturers and unskilled services should be reduced urgently and priority should be given to development of schemes to increase labour mobility. These proposals are based on the empirical analysis of benefits and costs of liberalization. These proposals are followed by a brief review of institutional reforms. According to the authors, greater transparency and openness are required to create a more inclusive bargaining process.

In the process of reforms, trade liberalization creates adjustment costs as resources move from one sector to another. The adjustment costs can be high in developing countries because of limited access to credit, high unemployment rate, institutional weaknesses including the absence of safety nets, high implementation cost, loss of preference margins, and loss of revenue from trade taxes. Because of these adjustment costs, the Doha trade regime will be disproportionately costly and difficult for developing countries. As a result, even a development oriented round of trade liberalization may fail to pass the benefits to developing countries. So, the Doha Round agreements should offer equitable market access rules and address the problem of adjustment costs to give a fair deal to developing countries.

This book conveys the important idea that developed countries must make a stronger commitment than they have made in the past to give assistance to developing countries. It is a good attempt to make the current trade policies fairer and unbiased. But the book is not meant for a general audience. However, the ideas are very powerful and thought provoking.

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