FEELING FOR THE STONES: NEW THINKING ON TRADE AND DEVELOPMENT

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("Cross a river by feeling for the stones" - Deng Xiaoping)

1. Introduction

From the mid-1980s, the "Washington consensus" on trade led to the most important trade reforms across the developing world and transition economies in recent history – despite developments in trade theory which had challenged conventional wisdom, notably by Krugman (1980, 1986).[2] However, while there were some notable successes – not all attributable to the application of orthodox trade policies - there were also a number of failures, especially in Africa, and there has recently been some serious re-thinking in the Bretton Woods institutions about trade policy prescriptions. On the other hand, in the WTO many negotiators remain attached to a relatively undiluted version of orthodoxy on trade policy in particular – at least as to what their trading partners should be doing. A hard line on industrial policy and safeguards for agriculture challenges the development intentions of the Doha Round and suggests that the brief of some developed country negotiators is: "Do what I say, not what I do!" The failure of the July 2008 talks in the WTO show that negotiating hard ball has triumphed over the need for cooperation and understanding. Hopes that Aid for Trade might pave the way for a compromise have faded amid concerns about funding and possible new conditionalities.

2. Trade

The "autonomous" reforms among developing countries since the mid-1980s, carried out with varying degrees of enthusiasm under IMF/World Bank structural reform programmes, led to dramatic reductions in trade intervention among developing countries and increased openness of their economies towards foreign investment. Tariffs fell from some very high levels to moderate rates (Figure 1), there was substantial rationalisation of tariff structures (reducing the number of bands, in a few cases to a single level), and non-tariff barriers, such as quotas, were largely eliminated. This process has continued in countries like China and India so that their applied rates are now below 10 per cent. Moreover, under these reform programmes, the dispersion in rates across sectors has been substantially reduced, and tariff escalation is now more marked in developed than developing countries. However, developing countries have now also become major users of WTO consistent trade measures such as anti-dumping actions – often against each other.

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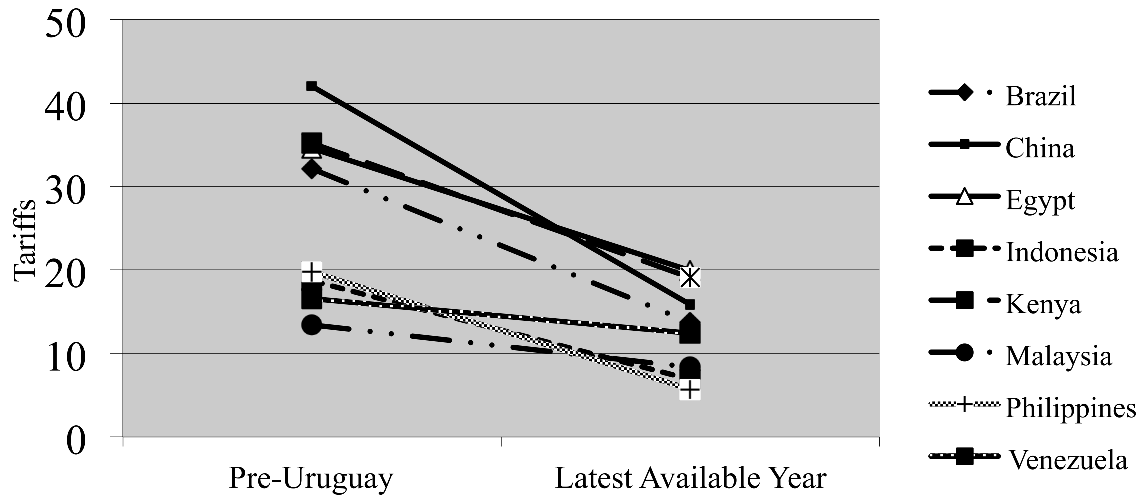
[2] Krugman (1992) expresses disappointment that the "fairly radical change in the way that economists explain international trade has so far at least had relatively little impact on their recommendations about trade policy."

Figure 1: Selected developing countries average applied MFN tariffs, pre-Uruguay Round and most recent year (in most cases 2004)



Source: UNCTAD/World Bank WITS/TRAINS database.

Apart from traditional trade theory, the reform process was justified by statistical evidence linking openness to growth (Dollar and Kraay, 2004; Sachs and Warner, 1995). However, as David Dollar emphasised on a number of occasions, these were statistical results with a number of countries falling above and below the central finding. Moreover, Rodrik and Rodriguez (2002) roundly criticised the robustness of the statistical results.

It is therefore surprising that not enough attention was paid to why some countries did better and some worse than average. For example, while the reforms brought about some remarkable success, notably in India and China that achieved real growth rates of 9-10 per cent and export growth in the order of 20-30 per cent over a decade, these and other East Asian reforms were scarcely orthodox – indeed in their reliance on pro-active measures they are sometimes considered to be examples of the application of Krugman's strategic trade theory. In Africa, on the other hand, which swallowed the orthodox medicine "straight up", there have been cases of industries closing down with no signs of newly emerging activities. In the Philippines and Brazil, growth rates after the reforms were slower than prior to the reforms, although the situation seems to have improved in Brazil and indeed many other developing countries under the commodity price boom of recent years. (This is discussed further in the section on national trade policies,)

Of course, there are many explanations for growth and it would be wrong to attribute poor performance uniquely to changes in trade policy, but since trade policy was a key element in many structural adjustment programmes, there is a perception that the extent and pace of trade liberalisation has to take at least some of the blame for the negative results (and some of the credit for the positive outcomes!).

A reappraisal of the impact of trade reforms intensified following the global economic slowdown in the wake of the Asian, Russian and Brazil crises of 1997-98 – some two years after the conclusion of the Uruguay Round and establishment of the WTO (as has the role of the state during the 2008 crises). The long overdue revisiting of the orthodoxy represented by the Washington consensus was signalled in a number of ways. First, there was the intellectual challenge by Stiglitz and Rodrik, who queried the emphasis placed on openness and the lack of attention to institutional and governance issues. Second, problems in implementation of the WTO Agreements led to the breakdown of attempts to launch a new negotiating round in Seattle in 1999. Third, the 1990s saw a dramatic increase in number of regional trade agreements. And, finally, there was an emergence of growing evidence of the failure of the trade reforms, especially in Africa.

2.1 The WTO processes

After a series of failures to reach agreement, the WTO negotiations remain in a state of stagnation with minimal progress, despite the downscaling of the agenda by removal of contentious issues such as competition policy, investment and transparency in government procurement. After the major success in concluding the Uruguay Round in 1994 and establishing the WTO in 1995, followed by agreements in the areas of information technology (1996), basic telecommunications (1997) and financial services (1997), what has led to the stagnation in the WTO processes and some apparent disillusion with the WTO system in a number of developing countries?

While trade negotiators often seem mercantilistic, the fact is that today most are aware that multilateral liberalization is more valuable globally than unilateral liberalization or liberalization within a regional agreement, bringing about great synergy in economic activity, although of course that is not to say that all players will benefit equally. Obtaining greater access to foreign markets – valuable in itself – may also be presented at home in trying to "sell" domestic reforms. Thus, there are overall net economic and politico-economic gains from the multilateral processes.

In essence, the multilateral process is a cooperative game. In the film "A Beautiful Mind", John Nash – foreshadowing his Nobel-prize-winning work - explains to his male college friends in the bar why Adam Smith is wrong in arguing that competition always produces optimal results. Nash says that if the men all compete for the most beautiful girl, none may finish up with a girl. But if the men cooperate, then they may each get a girl, even if she is not the most beautiful. The difficulty facing trade negotiators is to resolve the conflict between the desire to obtain the maximum gains for one's own country, but in doing so perhaps postponing any gains or failing to achieve any outcome, and the need to cooperate by making greater concessions (offers to liberalize) in order to achieve a successful outcome.

While it is ironical that economists would generally advise making the maximum concessions because that would produce greater economic welfare than no liberalization, the trade negotiator tends to hold out for others to liberalize as well. But, if negotiators take a hard mercantilist line, the outcome is likely to be minimal liberalization - as we have seen in the Doha negotiations with the estimated gains being downgraded by economists as the Round plodded on. It would seem that often the mercantilist instinct dominates, and perhaps the fear of offending powerful special interest groups – such as farmers in some major economies – is greater than the desire to pursue welfare gains which are spread thinly across society.

Another factor that is now being more widely recognized is that not all countries gain equally from multilateral negotiations, and there may indeed be losers. To some extent, the international institutions had been reluctant to acknowledge this reality and there had been a tacit accord over the years to talk up the benefits of trade and the multilateral system, based on earlier research and basic economic theory. It has always been accepted by economists that there would be a contraction and expansion of individual sectors of national economies as their trade interventions and other supports were liberalized, but this was part of the accepted political economy whereby losses in one sector would be offset by gains in others, and this kind of national restructuring would produce overall gains. However, recent research by Fernandez de Cordoba, Laird and Vanzetti (2005) and others shows quite clearly that, on the one hand, the structural shifts are not a seamless, smooth process, and, on the other hand, there may indeed be winners and losers from multilateral liberalization between, as well as within, individual countries. Apart from structural change, these authors also highlight potentially important tariff revenue losses in a number of small countries that are dependent on trade taxes. In addition, World Bank (2006) findings suggest uneven effect on poverty. Again, Bouët, Fontagné and Jean (2006) in a study for the World Bank suggest that preference erosion may be a problem for some very poor countries.

Most recently, the Commission on Growth and Development (2008) (hereafter the Growth Commission) noted that relying on markets to allocate resources efficiently is clearly necessary but "that is not the same thing as letting some combination of markets and a menu of reforms determine outcomes". The Commission goes on: "Wedded to the goal of high growth, governments should be pragmatic in their pursuit of it. Orthodoxies apply only so far...if there were just one valid growth doctrine, we are confident we would have found it." The Commission notes that economists can say with some confidence how a mature market economy will respond to policy prescriptions, "but mature markets rely on deep institutional underpinnings, institutions that define property rights, enforce contracts, convey prices, and bridge informational gaps between buyers and sellers" which, it says, are often lacking in developing countries.

Noting that an important part of development is precisely the creation of these institutionalized capabilities, the Growth Commission states that: "We do not know in detail how these institutions can be engineered, and policy makers cannot always know how a market will function without them. The impact of policy shifts and reforms is therefore harder to predict accurately in a developing economy. At this stage, our models or predictive devices are, in important respects, incomplete. It is, therefore, prudent for governments to pursue an experimental approach to the implementation of economic policy." In this respect, the Commission quotes Deng Xiaoping's oft-quoted dictum to "cross the river by feeling for the stones," and it argues that governments should sometimes proceed step by step, avoiding sudden shifts in policy where the potential risks outweigh the benefits. This will limit the potential damage of any policy misstep, making it easier for the government and the economy to right itself. It also notes that making policy is only part of the battle: policies must also be faithfully implemented and tolerably administered.

While the Growth Commission remarkably says almost nothing about trade policy it touches on a number of closely related areas, including briefly what it calls the "great symbolic importance" of the Doha Round, apparently accepting the downgrading by many economists of the economic significance. In the areas of export promotion (including explicit or implicit subsidies but not trade fairs, etc) and industrial policy (in particular targeting, rather than cluster group formation, etc), the Growth Commission indicates the various sides of the debate that were heard during its work.

While orthodoxy suggests that neither export promotion nor industrial policies work, then the Commission – in a clear break with orthodoxy – suggests that: "If an economy is failing to diversify its exports and failing to generate productive jobs in new industries, governments do look for ways to try to jump-start the process, and they should." [3] However, the Commission hedges its bets by arguing that these efforts should bow to certain disciplines. "First, they should be temporary, because the problems they are designed to overcome are not permanent. Second, they should be evaluated critically and abandoned quickly if they are not producing the desired results. Subsidies may be justified if an export industry cannot get started without them. But if it cannot keep going without them, the original policy was a mistake and the subsidies should be abandoned. Third, although such policies will discriminate in favour of exports, they should remain as neutral as possible about which exports. As far as possible, they should be agnostic about particular industries, leaving the remainder of the choice to private investors. Finally and importantly, export promotion is not a good substitute for other key supportive ingredients: education, infrastructure, responsive regulation, and the like."

Thus, it seems that, at least among professional economists, science is pointing to some serious re-examination of orthodoxy – albeit more than 20 years after the publication of Krugman's work.[4]

[3] This was an argument heard in the World Bank while the author worked there in the late 1980s.

[4] Of course, second best argument are not new – look at Pigou's work on Wealth and Welfare published in 1912 – later heavily criticised (although criticism of Pigou's role for the state looks weaker in the light of the

This reflection looks more and more like scepticism about the benefits of trade liberalisation or at the least the path as well as timing and sequencing, as well as overdue recognition of welfare economics. No doubt many in the developing world are thinking “about time, too” or “we told you so” .

Apart from the concern about the failure of reforms in a number of countries, it is also fairly clear that many developing countries felt that they were cheated in the Uruguay Round, where it had been promised by various international organizations that there would be trade gains of $300-500 billion. They asked the question "Where is the cheque?" This is a reference to predictions by, the World Bank and the OECD that the Uruguay Round would lead to these huge gains. In fact, it seems likely that these gains were overstated, as the simulations used to make the predictions were based on applying the negotiated MFN tariff cuts to applied rates stored in modelling databases such as GTAP, whereas in the case of developing countries in particular applied rates were already well below legally bound rates. Other concerns related to the back-loading of liberalisation in the textiles and clothing sector to the end of the implementation period in 2005, and, since then, concerns that the gains are mainly being captured by China at the expense of other developing countries which had previously guaranteed market shares under their quotas. Similarly, there were other concerns about the application of special and differential treatment for developing countries that often were expressed in the form of "best endeavours" rather than firm legal commitments.

Inevitably, this kind of oversell of the gains from the Uruguay Round leads to the kind of situation envisaged by Akerloff in his theory of "lemons" (a dud car in U.S. usage). Nobel economics laureate George Akerloff focused on the impact that asymmetric information between buyers and sellers has on the market for used cars. The lemons have hidden defects known only to the seller. Since buyers cannot easily distinguish lemons from other cars, they assume that all cars are lemons, and will only be willing to offer a discounted price, with the effect of driving down the prices of all used cars. Analogously, the developing countries feel that they were sold a lemon in the Uruguay Round and it is become correspondingly difficult to persuade them of the benefits of the Doha negotiations and of trade liberalisation, especially when key parts of the Doha Declaration seem to be blithely ignored or reinterpreted.

Other problems facing the WTO that have affected the current multilateral negotiations include the extended scope of the WTO into areas such as farming, services and intellectual property. The new unified, binding dispute settlement mechanism provides protection for smaller players but the process is expensive and large players have dragged their feet on implementing unfavourable decisions. In addition, there have been controversial decisions in the shrimp/turtle, tuna/dolphin, and beef hormone case and more is expected to follow on the use of GMOs. Recent decisions on sugar and bananas have been welcomed by some developing exporters (e.g., Brazil, India, Latin American countries), but others that previously benefited from preferences claim that large sections of their economies will be destroyed (Mauritius, Caribbean countries, etc.). NGOs have also attacked the WTO practice of holding non-public meetings, while some of the smaller WTO Members have attacked the use of small group meetings ("green rooms") of key players to resolve issues. Overall, these factors have contributed to an image of the WTO as a powerful, intrusive, non-transparent and non-democratic organisation that is insensitive to the environment and social issues.

In this situation it is not surprising that attempts to broaden the scope of the WTO to include labour standards, investment, environment, and competition policy failed, while the inclusion of trade facilitation has been treated with suspicion. Delays in allowing developing countries without their own manufacturing capabilities to allow imports of generic drugs to treat AIDS have only served to deepen distrust.

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financial crisis of 2008) - or James Meade’s Trade and Welfare published in the 1960s, but it often seems that policy makers prefer to focus on a naive, simplistic version of theory that appeals to their vision.

After the failure of the WTO Ministerial Conference in Seattle towards the end of 1999, there was a collective sigh of relief among Members when the WTO was able to launch the Doha Work Programme in Qatar in 2001, perhaps due to the conjuncture of the economic slowdown of that year and concerns about the economic impact of the 11th September attack on the World Trade Center in New York. However, the post-Doha work programme has continued to suffer from delays, up to the failure in July 2008 - despite yet another "July package" that attempts to paint the Ministerial meeting as progress.

Much of the work of the last four years has taken place under the framework agreement of 1 August 2004 (also a "July package"). That package set out general frameworks for negotiations in five core areas: agriculture, market access on non-agricultural products, services, development issues and trade facilitation. Negotiations were expected to produce a package of detailed and specific negotiating modalities (an "end-game document") as the basis for negotiating outcomes to be adopted at the Hong Kong Ministerial ??? in December 2005 with the Round to be completed by the end of 2006.

However, moving the negotiations forward has been blocked by a series of clashes between developed and developing country groups on a wide range of issues as well as the clashes between exporters and, principally, the EU on agriculture. The expiry of the US Fast Track negotiations authority in March 2007 further complicated matters, and it has been obvious for some time that the deadlines were unrealistic and that there has been repeated failures to recognize the extent of the divide. It is fair to say that developed countries substantially underestimated the determination of the developing countries to stick together and hold them to the Doha promises.

Assuming that the Round is resumed seriously – presumably in 2009 after the US and Indian elections – any advances are still subject to full agreement on negotiating modalities, and much depends on the formulae to be used in agriculture and non-agricultural products as well as issues such as special safeguards for sensitive products and other flexibilities in agriculture and NAMA. The World Bank has estimated that if sensitive products are sufficiently widely defined the gains in agriculture will be negligible. However, World Bank and UNCTAD estimates suggest that the welfare gains from the negotiations could be in the order of $80-130 billion both in agricultural and non-agricultural products while welfare gains from liberalisation of the temporary movement of labour (Mode 4) in services could produce gains up to $300 billion. Impressive as this may seem, these amounts are less than 0.5 per cent of global income. However, as noted earlier, some studies note that these modest aggregate results conceal important sectoral movement – with losses in employment up to some 40 per cent in South Asian auto industry, but gains of 30 per cent in Indonesian leather, as two key examples. China would be expected to make further gains in textiles and clothing, provided it is not further restrained by anti-dumping or safeguard measures.

These estimates have led some commentators to suggest that it would not be a disaster if the negotiations were to fail, and there may have been some quiet satisfaction in some quarters after the failure of the July 2008 mini-Ministerial?? However, it is important to recall that the WTO fills an important role in a number of areas other than negotiations on the reduction of tariffs and other interventions. These are the areas of monitoring trade and policy developments, providing a framework for discussions and dispute settlement. Recent decisions on sugar, cotton, bananas and trade preferences have also shown the power of the dispute settlement mechanism to pry open markets. It is also a fact that the WTO was perceived as a forum where there could be continuous improvement of rules irrespective of any negotiations "round", and some substantive negotiations, such as the Information Technology Agreement, were concluded after the end of the Uruguay Round. Nevertheless there are some key areas such as agriculture, textiles and clothing and some service areas where a successful outcome to the multilateral negotiations would eliminate decades of discrimination against developing countries and could provide useful benefits for developing countries and some of the poorer segments of their populations, but inevitably this will entail some tough and political painful decisions.

Development was intended to be central to the Doha negotiations, which will largely be judged on that criterion. There are certainly many references to development and to special and differential treatment in the Doha Ministerial Decision. But it is difficult to predict the extent to which these will be implemented and what will be the development impact. With the constant downscaling of estimates, perhaps not much will be lost, although there have been concerns that liberalisation forced on developing countries as well as the tightening of WTO rules could limit the ability of developing countries to adopt certain trade and industrial policy measures. Another factor to be taken into account is the significance of the multilateral trade negotiations vis-à-vis other issues such as the development of supply capacity, which may be much more important, especially for the least developed countries. In this context, an Aid for Trade Package, suggested by the UN Millennium Development Project Task Force under Jeffrey Sachs,[5] would go a long way in enabling developing countries, especially LDCs, to meet adjustment costs, build trade-related infrastructure and supply capacity in order to benefit from opportunities opened up by the current negotiations.

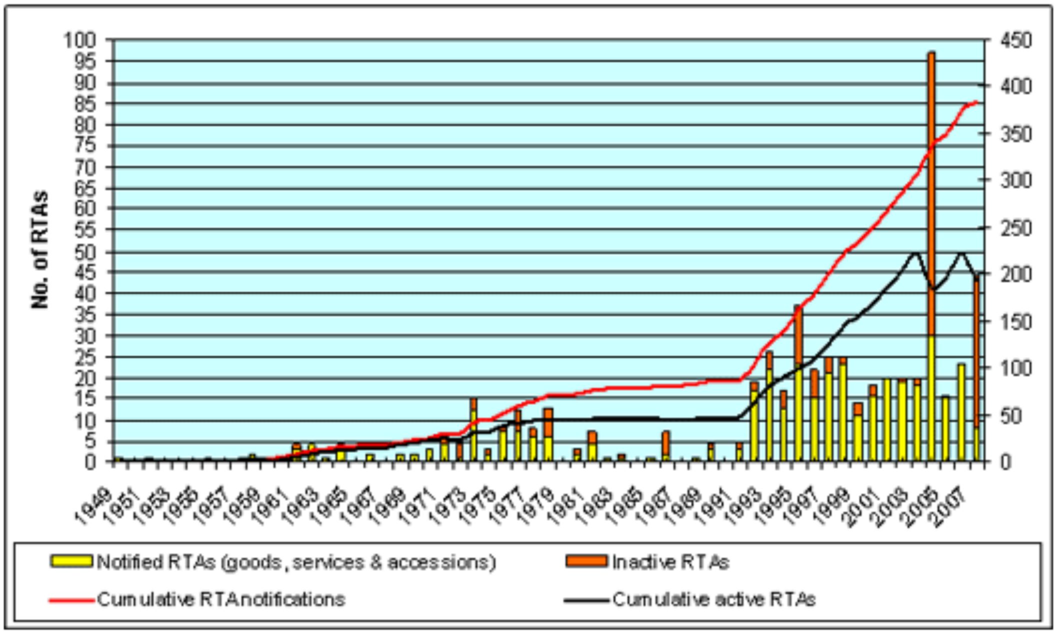
The Hong Kong Ministerial Declaration that Aid for Trade should aim to help developing countries, particularly LDCs, to build the supply-side capacity and trade-related infrastructure that they need to assist them to implement and benefit from WTO Agreements and more broadly to expand their trade. Aid for Trade was seen as a valuable complement to the outcome of the negotiations. Subsequently, the Director-General of WTO created a Task Force to make recommendations on how to operationalize Aid for Trade, consulting WTO Members, the IMF, the World Bank, other relevant international organisations and regional development banks on appropriate mechanisms to secure additional financial resources for Aid for Trade. However, while a great deal of information has been collected and reviewed, the bottom line seems to be that no new money will be forthcoming, and developing countries are concerned that any funds that are made available would be subject to the kind of conditionalities that were part of the Bretton Woods institutions' structural reform packages (Laird, 2007).

2.2 Trends in the formation of regional trade agreements

Another challenge to orthodoxy arises from the proliferation of bilateral and regional agreements (RTAs) since the beginning of the 1990s, leading to a number of concerns as to their compatibility with the multilateral system and to the distributions of the welfare effects (Bhagwati, 1992). Figure 2 shows the proliferation of RTAs on a chronological basis by differentiating between two time periods, the GATT and the WTO years; the latter is the period we tend to associate with the current wave of RTAs. Notably Figure 2 shows that of the total number of RTAs notified to the GATT/WTO up to December 2006, 124 were notified during the GATT years and 243 during the WTO years; this amounts to an annual average RTA notification of 20 for the WTO years compared to less than three during the four and half decades of the GATT. Also significant is the fact that of the GATT notified RTAs, only 36 remain in force today, reflecting in most cases the evolution over time of the agreements themselves, as they were superseded by new ones between the same signatories (most often going deeper in integration), or by their consolidation into wider groupings.

[5] UN Millennium Project 2005, "Investing in Development: A Practical Plan to Achieve the Millennium Development Goals. Overview, UNDP New York 2005

Figure 2: RTAs notified to the GATT/WTO (1948-2006), currently in force, by year of entry into force



Source: WTO Secretariat.

The new wave of RTAs bears some distinct features.[6] Breaking with the past, when RTAs were often signed between countries of the same geographic region, there has been a noticeable rise in the number of overlapping and inter-regional RTAs, with North-South RTAs, under which developing countries offer reciprocal treatment, becoming more common. A substantial number of developing countries have already entered into or signed RTAs with a developed country partner. In addition, these agreements now have substantially enlarged scope, covering services, government procurement, intellectual property, competition policy, labour standards, and so on, although the agricultural sector is often subject to fewer commitments. A few RTAs (e.g. Canada-Chile, Australia-New Zealand, the European Economic Area) take a radical approach in traditional areas, for example, by abolishing contingency protection measures such as anti-dumping.

While these agreements all represent liberalization beyond the status quo, and seem to offer benefits for participants, a number of different approaches have been followed, especially in the treatment of issues that are not (yet) covered by the WTO, and this could well pose a number of problems for multilateralism. Moreover, third countries may well suffer from negative trade diversion.[7] Bhagwati (2002) also worries about the effects on the multilateral trading system itself, which he believes can be weakened by RTAs. Another concern refers to imbalances in bargaining power when such agreements are negotiated between partners having different levels of development.

However, it seems likely that, in the wake of the various unilateral reforms starting in the mid-1980s, many developing countries wanted to cement their reforms by entering into RTAs that would make policy reversals less likely.[8] The establishment of the new North-South and East West agreements

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[6] See for example, Cernat and Laird (2005) and Abuggatas (2004)

[7] However, Laird (1999) notes that third countries could well benefit if the creation of the new RTA attracts investment, growth faster than before and draws in trade from third countries, as in the first 6-7 years of MERCOSUR. Similarly Hartler and Laird (1999) note that the EU-Turkey Custom Union was beneficial to third countries as Turkey substantially liberalised its trade and adopted more transparent practice,

[8] Laird (1999) cites this as a reason for Mexico's enthusiasm for participation in NAFTA.

has also been for political and security reasons, as well as economic factors. More generally, it is also likely the most recent mushrooming of RTAs is due to frustration with the slowness of the WTO multilateral processes. It is likely too that there is some kind of knock-on or demonstration effect, with no country wanting to be left out while others are forming such agreements.

Overall, the trends in the establishment of RTAs is perhaps the single most important challenge to orthodoxy in trade, as mainstream economic thinking continues to favour the multilateral route to trade liberalisation, while nations forge ahead with the establishment of new arrangements almost on a day by day basis. The recent failures in the WTO might well give further impetus to RTA formation.

2.3 Re-visiting autonomous reforms

The Operations Evaluation Department of the World Bank has recently undertaken an evaluation of the effectiveness of trade-related lending operations. In a sense this is long overdue, but the fact that the exercise is being carried out at all suggests that there are some concerns about trade policy reforms. Indeed it is remarkable that after some 15 years of experience with national trade reforms, there is still no magic formula that guarantees monotonically increasing level of welfare under reform. The very existence of "structural adjustment" lending suggests that there was awareness of potential problems, but in practice the focus of such lending was on the design of liberalisation packages and relatively little attention was paid to the design of the adjustment process itself. The funding was essentially seen as the buffer to cope with potential balance of payments problems as countries liberalise and imports expand ahead of the build-up of export supply capacity.

However, apart from some notable examples of success, it is clear that there is still an issue as to how to generate a supply response in the wake of a reform programme. The idea of some kind of proactive support, such as export subsidies, promoted by some Bank staff, largely ran foul of ideological stances (e.g., "if there is a problem, not enough has been done" - and not that the programme has design flaws). Moreover, the possibility of using policy tools, such as subsidies, to overcome market failures are increasingly running up against limitations imposed by expanding WTO rules. Recent work by Laird and Fernandez de Córdoba (2006) also suggests that there is need for caution in asking countries to embark on ambitious reform programmes, since reform-minded governments could risk being replaced by others that take a more protectionist stance, which would result in reforms being stalled, if not reversed.

Laird and Fernandez de Córdoba (op.cit.) reach a number of conclusions on the lessons to be learned from the reform experience, based on eight country studies commissioned under a UK DFID project.[9] A number of the findings do not depart from orthodoxy, at least in its narrowly defined focus on market reforms. However, the studies do confirm commentary from the "non-orthodox" positions as to the importance of institutions, good governance, and so on. Perhaps less well understood are the significance of the greater capacity of large economies to absorb reforms, the importance of investment liberalisation ahead of trade reforms, the importance of substantial targeted funding to facilitate reforms, the tremendous importance of expenditure on transport-related physical infrastructure, and the need to address the high cost of capital that seems to be endemic in many developing countries.

What is also clear from the studies is the almost total lack of attention given to the need for social safety nets to offset the negative effect of reform as labour markets shake out during structural changes. This may be the single most important social issue that has been given scant attention in

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[9] The countries were Bangladesh, Brazil, Bulgaria, India, Jamaica, Malawi, the Philippines and Zambia. The full report is available at http://192.91.247.38/tab/events/namastudy/coping.asp

reform programmes, but one which can make or break governments as public support for reforms are implemented. Martin Rama at the World Bank has been one of the few economists who has focussed extensively on the design of adjustment programmes to address the labour market issue and it is clear that much more work is needed along these lines.[10]

The international financial institutions, with their considerable technical expertise in a wide range of projects, can play an important role in helping developing countries to implement or extend programmes to address the wider adjustment issues, fostering supply-side programmes and addressing social safety nets. The WTO process can also help by providing for anticipated liberalization in areas where the developing countries have comparative advantage. This would help create jobs ahead of job losses in sectors that are likely to suffer from increased competition as their own barriers are lowered. The WTO could also usefully address systemic and rules-related issues with the aim of allowing policy space for development purposes. This was partly envisaged in the original GATT, but it seems that such options, including the use of support policies in the presence of externalities, are being closed off to developing countries.

The GATT/WTO has traditionally been silent on the issue of adjustment, leaving this entirely up to national policies to address, with or without the support of the Bretton Woods institutions in the case of the developing countries. Unfortunately, while attention has been given to the importance of "aid for trade", as discussed earlier it is not evident that new funding will be found and there are concerns that such funding as becomes available may be tied to the same kind of programmes that caused some of the adjustment problems in the past. The challenge is – still – to design efficient adjustment mechanisms, as well as to ensure their funding and find ways to effectively integrate them into the negotiating outcomes.

3. Conclusion

The substantial re-think now being seen about trade policy prescriptions for developing countries is based on a revaluation of effects - empirical results - rather than any revision of theory, although Krugman certainly deserves credit for his early challenge to conventional wisdom. Of course, much of the economics profession and the international lending agencies still consider free trade as the optimal policy in the longer term. However, this has always been subject to some qualifications - for example, the theory of the second best has been an important qualifier for many decades (see Meade's Trade and Welfare written in the 1960s), and the carefully crafted comments by the Growth Commission are a welcome reminder of theory and the limits of economic science.[11] Moreover, for at least 20 years there have been concerns about the timing and sequencing of reforms, with widespread if not universal agreement on the need for macro-economic stability before launching into more far-reaching trade reforms. The fine-tuning of the Washington consensus to include attention to the quality of institutions and building supply-side capacities is also welcome, but in practice that these have also been part of World Bank programmes for many years (although Mr Wolfenson certainly gave them greater prominence in public statements).

The unfortunate experience of some developing countries, especially in Africa, did not go unnoticed by the anti-globalisation movement, which has been effective in inhibiting the reach of the WTO and the progress in the current negotiations. This reaction has some justification, although equating the WTO system with free trade really misses the point that, beyond the basic GATT articles on MFN and national treatment, many of the WTO rules are less about free trade than about setting a framework for trade intervention, e.g. for health and safety reasons, for national security, to stop dumping or unfair subsidisation (not always very effectively) and so on. On the other hand, the

[10] See, for example, Rama (2003).

[11] The cautious case for industrial policy interventions by such a respected body would certainly have taken much of the heat out of the debate raging in Geneva about "policy space" in the last few years.

pressure placed on developing countries by developed country negotiators to open their markets – despite the emphasis in Doha on development, including “less than full reciprocity” – shows a sad lack of awareness of recent experiences in Africa and elsewhere and the consequent re-thinking of policy, as well as scant regard for the letter and spirit of the Doha Ministerial Declaration. Equally serious is the failure of delegates to appreciate that international negotiations are not a football match with each side trying to score a goal at the other’s expense, but a cooperative game in which the participants are trying to strive towards a solution that is of general benefit and takes full account of each other’s concerns.

It is clear that some of the criticisms of the liberal trade orthodoxy are valid, and, in trade, there have often been programmes that were implemented too quickly, based on a standardised approach, and again the Growth Commission highlights the need for caution, commending Deng Xiaoping’s dictum to “cross the river by feeling for the stones.” In effect the Commission is confessing our ignorance and emphasising the need for constant monitoring of the implementation of policy reforms. While there have been some highly positive results - and we need to learn better how to emulate those cases - trade reforms have been implemented without adequate attention to supporting polices and measures in a number of cases. If we have learned anything from the experience of the last 10-15 years, it is that one size does not fit all, and greater attention needs to be paid to the specificity of cases in tailoring effective reform programmes. In this context, proposals to provide "aid for trade" in support of future reforms are a welcome recognition of the need to address the development challenges in trade reforms, but the debate gives rise to concerns about the adequacy of funding for this initiative as well as concerns that aid for trade does not become an excuse for ideologues to press forward with conditionalities that repeat the mistakes of the past

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