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From Seattle to Hong Kong: Are we Getting Anywhere?

By

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There were eight successful Rounds of Multilateral Trade Negotiations (MTN) under the auspices of the General Agreement on Tariffs and Trade (GATT). The first was at Geneva in 1947 and the last, the Uruguay Round (which, the witticism ran, was often mistaken to be a new Latin American dance), was launched in Montevideo in 1986 and finished in 1995 in Marrakesh, leading to the creation of the World Trade Organization (WTO).

It is important to recall that, in few of these MTN Rounds except at the outset, was the going smooth. Over time, the task faced by the negotiators has grown in complexity as the negotiators' ability to close trade deals has increasingly been impaired by the added visibility and participation in the process by a variety of lobbies, or stakeholders, and by the complexity of issues raised by non-trade barriers and by sectors such as agriculture that had been shunted aside by waivers. It is not surprising that the Uruguay Round, which went through mid-way breakdowns and cascading crises of confidence, took nearly eight years to conclude, whereas the preceding Tokyo Round took five and the previous ones took much less.

The Doha Round, technically the Doha Development Agenda, is the first WTO Round. Its history to date is in keeping with the way GATT Rounds have turned into rides on a roller coaster, with near breakthroughs followed by near breakdowns. The attempt at launching the WTO's MTN Round was first made at Seattle in the United States in November 1999 at the two-yearly WTO Ministerial. But it collapsed among the eruption of unruly demonstrators and the disruption of the WTO's scheduled business. By the time of the next Ministerial at Doha, Qatar, the twin towers in New York had been destroyed on 9/11; and the negotiators brilliantly used the tragedy to affirm that democracy and openness to the world economy were virtues to be affirmed under the terrorist threat and that the launch of the WTO Round would be part of that affirmation. The result was the launch of the Doha Round.

But by the time of the next meeting at Cancun in Mexico, the anti-globalizers who had crowded the streets of Seattle and vandalized its storefronts were back in business, but they were singing in a lower octave. This time, due to dissensions among the member nations themselves, rather than disorder courtesy of the NGOs, the end of Doha seemed close at hand when the Cancun Ministerial ended without an agreement. But everyone, 148 WTO members today, returned to the drawing board. And, after missing several deadlines to arrive at agreements on diverse issues at stake, the negotiators are now scheduled to reach Hong Kong in mid-December, with no agreement in sight but nonetheless hoping that a significant agreement will be reached in that bastion of free trade, which then would provide the final stepping stone to a successful conclusion before the expiry of the fast-track authority in the United States on June 30, 2007.

Is optimism justified? Why might the step to be taken turn into a stumble, the stride into a sprain? No one has a crystal bowl. But nonetheless, something can be said and cautious optimism seems to be in order for Doha.

Doha's History: Some Successes, Not Failures

Of course, all MTN Rounds have succeeded in the end. The roller coaster analogy therefore does not work fully: the roller coaster comes back to where the ride began whereas the Rounds go on to success! But success does not always breed success: there is always the first time for failure.

But if one only probes the short history of the Doha Round --- it will only be completing four years in Hong Kong after its launch ---, one can find progress in many directions, even at Cancun, that augurs well for the eventual success of the Doha Round.

Thus, leading up to Cancun, one major bone of contention was the EU's (and Japan's) insistence that the four so-called Singapore issues --- an investment agreement, competition policy, transparency and trade facilitation --- be part of the final accord. The then EU Trade Commissioner and present Director General of the WTO, Pascal Lamy, was deeply committed to them, having inherited the issues from his predecessor, Sir Leon Brittan. Aside from their intrinsic appeal to both, one reason for the EU's insistence was that they might provide an element of "reciprocity" when the EU, which has no comparative advantage in agriculture, made concessions on agriculture. Many tried to wean Lamy away on the ground, not as some in the European Parliament among others argued that these issues did not belong to the WTO but that the time was not ripe to bring them in; he remained adamant. But at Cancun, he yielded; and only the innocuous issue of trade facilitation, largely relates to rationalizing cumbersome and other administrative customs procedures handicapping trade, survived. This EU concession has doubtless increased the EU desire to match agricultural concessions with liberalization in manufactures and services where EU presumes it has comparative advantage (as argued below). The key point, however, is that one serious bone of contention was jettisoned, leaving the conclusion of the Doha Round less problematic.

But then there was also the question of the TRIPs agreements on intellectual property protection. This issue does not belong to the WTO simply because it is a matter of royalty collection. In bringing the matter forcibly into the WTO, by "capturing" the

USTR and then holding the Uruguay Round by the jugular, the pharmaceutical industry was turning the WTO into a royalty collection agency. To use an analogy, as always somewhat imperfect, it was as if a loan shark had taken control of a legitimate enforcement agency to collect on its predatory demands. By putting the issue into the WTO, the pharmaceutical industry (and also the software producers) were essentially creating multilateral legitimacy for the use of trade sanctions so as to replace the increasing reliance on unilateral threats and sanctions under the Special 301 provisions of the 1988 Omnibus Trade and Competitiveness legislation to extract royalty payments from users in the developing countries. . Tough restrictions were put down on the manufacture of generic drugs and the poor-country access to them.

Interestingly, while virtually everything that has been negotiated in the past is re-negotiated in the future, with each Round seeing re-negotiations on multiple issues (e.g. anti-dumping rules and the subsidy regime), the pharmaceutical industry had taken the position that the TRIPs agreement of the Uruguay Round was a done deal and was to be reopened only to make intellectual property protection tighter, not less demanding. This game plan backfired when the spread of the AIDS crisis in Africa created a huge pressure for the pharmaceutical industry to back down. The US firms resisted for long but were finally bribed or threatened by the Bush administration, and doubtless by public opprobrium no matter how meritorious, into accepting a scaling down of the obligations by generic producers and by user developing countries that they had worked into the TRIPs agreement in the Uruguay Round. Thus, Ambassador Zoellick could go to Cancun with key US objections to TRIPs effectively behind him. Along with the Singapore issues, the contentious TRIPs agreement was also not a matter of fractious disputes any more, though currently some key details of a revised agreement (e.g. the question of maintaining an International Register for Wines and Spirits and the issue of Geographical Indicators where the EU insists on maintaining exclusive access to historical use of geographical "brand" names such as Burgundy wine, Parma ham and Roquefort cheese, and is joined by India which worries about "Darjeeling" tea and by Kenya which wants exclusive use of "safari") are being worked out for the Doha Round in a relatively low-key fashion.

But the central breakthrough at Cancun was the emergence of the G-20 group, whose principals were Brazil, India and South Africa. Seen at first as "spoilers", these were the larger developing countries whose political presence in earlier Rounds was relatively negligible. Even the world's media typically confined their major stories on the MTNs to the interplay between the EU Trade Representative and the US Trade Representative. They wrote ceaselessly about Commissioner Andriessen and Ambassador Carla Hills, about Commissioner Sir Leon Brittan and Ambassador Mickey Kantor --- both incidentally Lithuanian Jews with roots in the same shtetl, but one a suave Englishman and the other a Los Angeles lawyer ---, and about Commissioner Pascal Lamy and Ambassador Zoellick. These were the stars; the rest were, at best, extras in the melodrama of trade negotiations.

At Cancun, this finally changed. Brazil's Minister Celso Amorim crashed through this duopoly of adulation and planted the flag of the developing world on the MTN map, finally fixing the media's attention deficit disorder regarding the developing countries. Cancun saw the emergence of the developed countries on to center stage: Amorim could no longer be ignored. The change was even more dramatic as, later, the Quad which consisted of the US, EU, Japan and Canada, and had conventionally set the terms of the negotiations, gave way to a Group of 5 which consisted of the US, EU, Brazil, India and Australia (as member of the Cairns group).

The developing countries now have a political stake and recognition: without this, no real progress is possible. Cancun achieved this indisputably: the G-20 not merely achieved political recognition but successfully asked EU and the US to go back and come with a better agricultural offer. Negotiations can only occur among equals; finally the negotiators of EU and the US were facing negotiators their own size. This could only be good for Doha and for the WTO.

But Cancun's failure to close the Doha Round also has to be seen in historic context. After all, the time lapsed between Doha and Cancun was only two years! Both Tokyo and Uruguay Round had taken much longer to close. It would have been a miracle if the Doha negotiators had closed the Round at Cancun; unfortunately, miracles do not happen in trade. And when you see Hong Kong in that same perspective that will also have been only four years from the Doha Ministerial!

Reasons for Pessimism

But there are reasons for pessimism also. The most difficult issue is agriculture, of course, where we have had the US and EU playing ping pong with offers and counter offers, with Commissioner Peter Mandelson playing for maneuver between France and its allies, who want to make no serious accommodation, and principally the Nordic countries and Britain who do.

Unfortunately, the French position is animated by the popular and populist conviction that agricultural trade liberalization is an attack on both French agriculture and

French culture, by the conviction that endorsing globalization is a surrender to Anglo-Saxon, US-inspired "neo-liberalism" that stands in contrast to the more just French views of how society and economy must be managed, and by the fact that French unemployment has been running almost at 2-digit levels --- at nearly 10 percent in 2003 and 2004 when adjusted to a US-comparable estimate--- that are mistakenly attributed to globalization by the populace rather than to French structural and macroeconomic policies. In fact, there is a long-standing association between high unemployment rates and low enthusiasm for opening markets to foreign competition. In that regard, former Chancellor Schroeder's endorsement of globalization has also been handicapped by Germany's high unemployment rate --- increasing to almost 11 percent during 2005 so far from a high of 9.3 percent in 2004 ---- whereas the razor-thin electoral victory of the Chancellor-in-waiting Angela Merkel, and the resulting unstable coalition with Schroeder's SPD, have left German reforms and pro-liberalization, pro-globalization forces without a clear mandate, and agricultural reforms hostage to support from CSU's pro-agriculture leadership from Bavaria.

By contrast, the US administration has been clearly for the Doha Round, with President Bush unambiguously declaring himself in favor of it. But this conceals a serious erosion in political support for trade liberalization. The Trade Promotion Authority legislation HR3005 attracted only a majority of one (215-214) in December 2001 while passing (as part of the omnibus trade bill HR 3009) with an almost equally slender margin of three (215-212) on July 27, 2002. . The Central American Free Trade Agreement (HR 3045) also passed with a majority of two. A frivolous pro-trade inference may be made in jest. recalling that the President must pass out pork to all whose votes must be bought, the razor-thin majorities can be regarded as suggesting optimal corruption rather than lack of support for free trade: you want to hand out just enough pork to get the legislation enacted, so that larger majority margins would imply merely that pork in excess of the amount necessary to pass the legislation was handed out!

In truth, these wafer-thin majorities imply that trade legislation has become more difficult to pass in the US Congress. A principal cause is the steady erosion of support by the Democratic leadership for trade liberalization. This owes in large measure to the fact that the AFL-CIO has become terrified by trade with the poor countries, and wants to raise the cost of production in these low-wage countries by raising their labour (and environmental) standards to those in the United States, so as to reduce the force of competition and what organized labor and indeed many other workers fear to be the downward pressure on their wages and on their standards in a "race to the bottom". As it happens (as demonstrated in my book, <u>In Defense of Globalization</u>), there is little empirical basis to argue that the stagnation of wages in the United States is significantly attributable to trade rather than unskilled-labor-saving technical change; and the evidence for decline in standards due to trade or outward flow of investment is also hard to find. But evidence does not always matter: a Russian proverb says that fear has big eyes, but one should add that it also has deaf ears.

Democratic leaders have therefore found it increasingly difficult to negotiate trade liberalization without surrendering to <u>de facto</u> protectionism. Assertions of "unfair trade" are continually cited, and often masked under the cloak of altruism and concern for the poor countries' workers, to make sure that trade liberalization with the poor countries is ruled out unless their costs of production are brought closer to those in the United States through incorporation of higher standards. So, each trade liberalization effort is accompanied by a chorus of demands for making “trade free and (even more) fair”, while the name of the game really is to handicap free trade by effectively targeting the competitiveness of the poor countries.

The Democratic leadership has increasingly surrendered to these tactics, flirting with not just the “fair trade” variety of protectionism but even going so far as to embrace other forms of near-xenophobia. Thus, even famously free- trade-oriented leaders like the former Presidential candidate John Kerry stooped during the campaign to describing firms that buy from abroad or invest abroad as Benedict Arnolds: Mr. Arnold being, not an obscure English poet, a distant cousin of Matthew Arnold, but in fact America’s most notorious traitor! What Secretary of Defense Donald Rumsfeld infelicitously called the “old Europe” can match this, as when Franz Muntefering, the vice-chancellor-in-waiting and former chairman of SPD, graphically condemned hedge funds as “locusts” during the last German election.

The result has been drastic for freeing trade in two ways. First, the number of Democrats voting for each trade legislation has steadily fallen in recent years, the latest being fifteen for the CAFTA vote. The reaction to their pro-trade vote has also grown increasingly shrill within the Democratic Party: the House Minority leader, Representative Nancy Pelosi, in fact vowed to work to deny them a Democratic ticket in the next election, an anti-reform agenda of political retribution that did not even have the humor of the pro-reform Prime Minister Koizumi who, after the defection of some of his LDP members from support for the Post Office reforms, fielded against them an impressive slate of accomplished women candidates whom the Japanese press immediately christened the “assassins”!

Second, these “fair trade” agendas have no support in the multilateral trade negotiations from their intended targets, the developing countries. Especially, the bigger developing countries such as Brazil and India, who will not accept being taken for a ride, resist such intrusion of non-trade agendas into the WTO. In fact, that is also the position of Brazil on the FTAA, that it be focused on reducing trade barriers, not on inserting trade-unrelated agendas such as labor standards: and remember that President Lula is a far more impressive, and representative, labor union leader than the head of any rich-country union.

But when the United States takes the developing countries, one by one, in a bilateral Free Trade Agreement negotiation, it can exercise hegemonic pressure to get the immensely less powerful partner country to accept almost any “fair trade” agenda in exchange for a preferential access to its gigantic market. So, the various lobbies in the United States have now shifted from multilateral trade negotiations to bilateral FTAs because they expect a much richer harvest for their own agendas. Thus, every FTA by the US in recent years, while trivial in trade terms, is a milestone for the lobbies who force what are euphemistically called “WTO plus” obligations as if they represented progress relative to a deficient WTO. And former USTR Robert Zoellick, a passionate enthusiast of FTAs, has even called the Brazil-proposed FTAA, which discards these non-trade obligations, the FTAA-lite version, not in the welcoming spirit of an obese consumer but rather as a guest having to put up with a soup minus the cream at a banquet! George Orwell would have admired the US newspeak.

These bilateral and less-than-multilateral FTAs are therefore dangerous, not merely in thus constituting a threat to the support for multilateralism which will not indulge the rich-country lobbies' demands for inserting trade-unrelated demands into trade negotiations, but also because they multiply preferences worldwide and creating a "spaghetti bowl" of multiple tariffs depending on source of a product and, in turn, a flood of rules of origin to determine which source is to be assigned to a product. With over 300 such preferential trade agreements in place already, and more coming down the road, nearly all first-rate economists have now begun to tire of them and consider them to be a pox on the trading system. While the disease began in Europe, as the EU Commissioners fanned out to negotiate FTAs with all and sundry (outside of the European core, now 25 nations), the United States could have used its immense status at the GATT to stop their spread by providing leadership. Instead, under Secretary Baker and his deputy Robert Zoellick at the time, the US joined in, and now Asia is following suit. We now have a pandemic.

There are two added reasons why this outbreak of ever more FTAs poses particular danger to Doha. First, the largely reactive Asian FTAs will not necessarily include the US; this will fuel resentment in the US public against trade because few will know that the blame does not belong in Tokyo or Beijing but in Washington with its trade leadership. This danger is particularly acute since the FTAs between China and other developing countries do not carry any discipline whatsoever. Where a developed country like Japan is involved, Article 24 of the GATT provides some discipline such as that nearly all tariffs must go to zero within the FTA, so one cannot pick and choose the levels of preferential tariff reduction and the sectors where they will apply for trade partners in the FTA. But if an FTA is among developing countries only, as the Chinese one will be in much of Asia, and then it comes under the Enabling Clause of GATT which entitles the member countries literally to liberalize preferentially among themselves in whatever manner they wish, with no other WTO members being able to assert any non-discriminatory MFN rights! If one wants to predict what will happen then, one only needs to recall how the otherwise-benign US Congressmen marched down the steps of the Capitol Hill with a Toshiba radio and smashed it. Maybe they will wear a Chinese shirt and tear it off on the steps like the Incredible Hulk!

But even more damaging to the US ability to liberalize trade is the fact that, given the widespread fear of freer trade in the population, it is almost insane to present the Congress with a string of piffling FTAs and ask Congressmen to go to the well, and to bat for trade liberalization, again and again. Each time, they must use up some political goodwill. Increasing resistance is surely the most likely prediction; and if pork was not used liberally, the result would be catastrophic, not just disturbing. Is this a sensible way to run trade policy in the United States?

It is against this backdrop that one must assess the argument that Doha is in real trouble because the US fast-track authority (now called the Trade Promotion Authority) expires in July 2007. If we go over that date, as we will if Hong Kong is not show "two-thirds" success (a statement whose import is clear but whose full meaning is elusive) , in Lamy's words, and the deal is not essentially done by the end of 2006 next year, then the renewal of US fast track authority becomes a real problem. Of course, Doha was declared when there was none. But for all the reasons just stated, a renewal is truly problematic;

and the failure to have reached conclusion of Doha might just add to the difficulties in maintaining momentum and progress.

Should we ring the alarm bell by saying that if Doha is not successful by mid-2007, we will have abandoned the multilateral trading system to a cruel fate of neglect and role shrinkage? There is a widespread view that preferential trade agreements, the bilateral and regional, will break out. But frankly, this is an absurd view. Can anyone seriously hold that, thanks to a blinkered trade leadership in the US and the EU and now much of Asia, these are not already multiplying at full speed? If the multiplication of FTAs is truly admitted to be an evil, as by now it is in many circles, why are politicians and bureaucrats allowed to get away with their game of enacting bilaterals while pretending to be virtuous in light of all evidence and argumentation? Why are these unnuanced, misguided and destructive trade leaders not roundly condemned, in the elite media?

Then again, will the failure of Doha mean that massive gains from trade will be lost to one and all? That depends, of course, on what Doha can reasonably be expected to achieve. As with the Uruguay Round, when different computable models of trade were used to indicate great gains, there is a danger that the estimates of enormous gains from trade are currently being bandied about from substantial liberalization under the Doha Round. There will certainly be loss of some gains from trade; and any gain is welcome. But no one benefits from exaggeration and ballooning up of numbers in huge models that few understand and which obscure a slew of assumptions about matters such as the responses of farmers in Botswana and Uganda to estimated price change in response to removal of a price support in the EU that must be made in the teeth of little empirical knowledge. The economist John Whalley, who is arguably the best practitioner of such large models, had this to say about the models that had been produced to examine the effects of the prospective Uruguay Round tariff cuts on the developing countries: "…there are substantial, and at times hard to explain inconsistencies across model results. One model shows most of the gains come from agricultural liberalization, another from textiles, and yet another from tariff cuts. One model shows developing countries losing from the elimination of the MFA, another shows them as large gainers. .. These differences occur even where similar data sets, and benchmark years are used." A little restraint in citing the estimates of the massive gains from trade liberalization under Doha is in order. Yes, we will lose possibly substantial gains from trade if it fails; but we will survive.

Removing the Current Obstacles to an Agreement

But we can succeed. The obstacles that remain are within what economists call the "policy zone": they can be reached by appropriate policy decisions.

First, agriculture is more manageable than is generally assumed. The magnitudes of the subsidy support by the EU, in particular, are always reported as amounting to $1 billion a day, but these include both subsidies that are "decoupled" from production and trade and those that are not. In trade negotiations, only the latter matter. The former are a matter of internal politics and while those in the EU who pay (e.g. the UK) and those who receive (e.g. France) would fight over the matter, there is no reason for the rest of the world to worry about the same. The coupled subsidies that impact on other countries' trade are, as Arvind Panagariya notes in his illuminating essay in this issue, are less than a third of the $ 1 billion a day estimate. And the export subsidies are only a very small fraction of that, reaching not even two digits; they surely can be removed with the least difficulty.

But this refocus in the public domain would mean having to debunk influential NGOs such as Oxfam (a British charity whose muddled campaign perhaps reflects the British concern about having to pay net on the decoupled subsidies), the intellectually disappointing World Bank leadership under James Wolfensohn, and the Cairns Group exporters who have made a big deal of the $ 1 billion a day estimate as a propaganda coup.

In fact, these groups have long been fond of the remark that a cow in the EU gets a subsidy of $2.20 a day, more than what 1.2 billion poorest people subsist on daily. But this bovine analogy is in fact asinine. The total EU subsidy is not all going to the cows but helps buy fertilizer, pesticides, irrigation and other inputs that lead to increased production when the subsidy is coupled to production; and to whatever the farmer decides to spend it on when the subsidy is decoupled from production. Next, what sense does it make to imply that what is generally a <u>domestic</u> transfer payment could have been given by way of aid to poor farmers <u>abroad</u> instead? A half-decent economist would instead calculate the deleterious effect of the producer subsidy on the income of the poorest farmers abroad; this effect can be beneficial if the subsidy lowers world prices and the poorest farmers are consuming imported food. And then she might compare it with what economists call the grant-equivalent flows of aid from the EU to the poor countries where these poor people reside. These groups dumb down the debate; and they lead to ill-informed policy prescriptions.

But if the subsidy problem has been grossly mis-stated and hence considered to be beyond the pale and beyond the realm of the negotiable, Panagariya also notes that the tariffs (defining what WTO negotiators call “market access”) are very high, but not only in the EU and US but also in the Cairns Group countries (some of which are even higher).

Now, the EU has no substantive interest in agricultural reciprocity because it has no comparative advantage in agriculture. So, it does not really seek what economists call “sectoral reciprocity”, i.e. it has no real interest in getting the Cairns group countries to make concessions in agricultural tariffs. But that is not true of the United States which expects to be a net exporter. So, Ambassador Portman must seek reciprocal tariff cuts from the Cairns Group countries as well.

Besides, all studies show that the Cairns group concessions would help not merely themselves --- yes, contrary to Oxfam, Joseph Stiglitz and Dani Rodrik --- but also other developing countries. In fact, even if one concentrates on market access, cuts in other countries’ tariffs open the doors to their markets; but if your own tariffs create a bias in favour of the home market and against exportation, your potential exporters will not have an incentive to get past your own door.

Second, the EU is right to insist that the Doha Round negotiation now requires that the huge focus on agriculture be accompanied immediately by focus on manufactures where the EU finds its own balance of reciprocity. These are the so-called NAMA (non-agricultural market access) negotiations where Brazil and India can provide immediate lead. The extent of concessions is a matter for negotiation; whether some concessions must be made is inevitable if the Round is to make progress. It cannot be doubted again that their own trade liberalization in manufactures will achieve efficiency gains in the larger developed countries such as Brazil and India that have come of age.

Third, services need to make progress. Little has been accomplished to date as many have been preoccupied with agriculture while others have stayed in an idle mode on the sidelines. Greater commitments in insurance and banking can be made fairly quickly and would help improve efficiency in the developing countries, and would even enhance their export performance, since these sectors provide essential inputs in the chain of production and trade. Some of the developing countries have made much of Mode 4 delivery of services where they want greater concessions to be made on temporary inflow of providers of services from the developing countries. It is not entirely clear, however, that this is a sensible project for the WTO negotiations because immigration policy in the rich countries, owing largely to demographic changes which the former UN demographer Joseph Chamie has highlighted brilliantly, is increasingly going to be shifting towards temporary immigration programs much as the postwar *gastarbeiter* programs provided workers to support the European recovery and expansion after the Second World War had decimated their populations. Concessions are therefore inevitable; but they are more likely to be handled with the necessary nuances and political accord if they are dealt with as immigration, rather than as trade, issues (though admittedly they are on the interface of the two).

In conclusion, as the Expert Group Report on the Future of the WTO, submitted in January of this year, emphasized, there is need to have the poor countries overcome their fear of trade liberalization by providing the institutional support for the potential downside that may arise. Two issues need to be addressed, in particular. If poor countries which are dependent on tariff revues as a large fraction of their budget for socials spending were to lose revenues if they cut their tariffs --- Art Laffer and Milton Friedman would remind us that the revenues may actually rise, and there is empirical evidence that in some cases it did ---, then international agencies such as the World Bank should stand ready to provide offsetting aid until as long as it takes to fix the tax system to raise revenues in other, more appropriate ways. Then again, the developing countries need adjustment assistance to cope economically and politically with the effect of import competition in specific industries. Western nations have such Adjustment Assistance programs, the US since 1962 when one was started to provide support for the Kennedy Round. Again, the World Bank is an ideal source for such support, both to design and to finance such programs in the developing countries that liberalize their economies. In the absence of such safety nets, these countries cannot be expected to walk out on the high wire of globalization. Fortunately, the Bank has finally listened to such appeals by trade economists; so progress can be made quickly.

Finally, there is hesitation by many of the smaller developing countries enjoying one-way preferences under the Generalized Schemes of Preferences (GSP) and the Anything but Arms initiative of the EU. These preferences are relative to MFN tariffs, of course. Many economists earlier told the recipients of these preferences that these were wasting assets and that pushing for MFN trade liberalization with coverage of products of interest to them would be a better approach. But neither the donors nor the recipients of the one-way preferences listened. Now, they complain and many want MFN trade liberalization in products where they enjoy preferences to be reduced or eliminated! It is surely a better alternative to compensate them instead for the reduction of their preferences, by allocating aid funds for the purpose to a multilateral agency such as the World Bank.

Lamy has expressed support for these and other uses of “aid for trade”. What is needed is action to advance this agenda forthwith with the establishment of a high-powered group, under WTO auspices, with membership of the informed senior staff of the World Bank and the IMF and world-class trade economists, to suggest concrete steps by mid-2006 over how the “aid for trade” agenda must be designed and implemented.

A multi-pronged approach along these lines would help surmount the few obstacles that remain in the path of success. There is little here that is not doable. Hong Kong helps us concentrate our minds. All it needs now is good vision and fine traction in our legs.