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**Issues and Options for
Multilateral, Regional, and Bilateral
Trade Liberalization**

Robert M. Stern
University of Michigan

April 12, 2007

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Issues and Options for Multilateral, Regional, and Bilateral Trade Liberalization

**Robert M. Stern
University of Michigan**

**Cornelson Distinguished Lecture
Davidson College
April 12, 2007**

Abstract

I first discuss the Doha Round impasse and how this impasse has been created. I next discuss the trade interests of the industrialized and developing countries and thereafter the structure of WTO negotiations. I conclude with a discussion of the policy options for the industrialized and developing countries and the implications for future WTO multilateral negotiations.

2007

Cornelson Distinguished Lecture

Robert M. Stern

**Introduction to
Cornelson Distinguished Lecture
April 12, 2007
Issues and Options for Multilateral, Regional, and Bilateral Trade Liberalization
Dr. Robert M. Stern
Professor of Economics and Public Policy (Emeritus) in the Department of
Economics and Gerald R. Ford School of Public Policy at the University of
Michigan**

Good evening. I am Dennis Appleyard, and I am the Chair of the Department of Economics at Davidson College. I extend a cordial welcome to all of you on this important occasion. The Cornelson Distinguished Lecture is an event to which we in the department eagerly look forward each year, as it is a time when we have the opportunity not only to host an outstanding economist but also a time when our community of students, faculty, staff, and friends can come together to learn more about important economic developments. As I noted last year, the evening of the Cornelson Distinguished Lecture is when Davidson economists maximize their utility.

The Cornelson Distinguished Lecture itself has a distinguished history. The first lecture was delivered in the 1986-87 academic year, and the lecture has taken place every year since then. We have indeed had outstanding speakers – the individuals who have given the previous lectures include two who had been U.S. Cabinet Secretaries, three who had been members of the President's Council of Economic Advisers (including two who served as Chairs of the Council), three winners of the Nobel prize, three American Economic Association presidents, and four Southern Economic Association presidents. Institutional affiliations of our speakers have included Harvard, Yale, Princeton, Northwestern, the University of Michigan, Duke, the University of North Carolina, the Federal Reserve Bank of Richmond, the Board of Governors of the Federal Reserve, and the World Trade Organization, among others.

The Cornelson Distinguished Lecture is a component of our capstone course in economics, known as Senior Session. Our students may have other (maybe more affectionate?) names for it. The 44 students in Senior Session this year have up to this point finished an Educational Testing Service exam, an oral exam by an outside examiner, departmental written microeconomics and macroeconomics exams, and two debates. They have also heard from six invited guest lecturers on a variety of topics. In addition, the Senior Session participants are engaged in group projects with topics ranging from a development plan for Ethiopia to trade policy of the European Union to Argentina's currency crisis to the poverty rate in the United States from the 1960s onward.

Our department is extremely grateful that Senior Session has been so generously endowed by the Cornelson family, and, without the Cornelson generosity, many of the activities just mentioned would not take place or would be seriously curtailed. The first

member of the Cornelson family to attend Davidson did so as far back as the end of the Nineteenth Century. The graduation of George Henry Cornelson II in 1892 was then followed by attendance at Davidson of members of four succeeding generations of Cornelsons. Mr. and Mrs. George Henry Cornelson IV and their four children are the donors of the endowment, and I take great pleasure in noting that George Cornelson IV is with us tonight. As always, George, thank you for being such a good friend of Davidson and of our department.

Needless to say, an additional thank you, as always, goes to Mrs. Barbara Carmack, our Department Assistant, for all of the work she has done in making the preparations for this evening's festivities. She of course does amazing work for us throughout the year, too, and we in the department are very spoiled.

It is with great pleasure indeed that I now turn to the introduction of our 2007 Cornelson Distinguished Lecturer, Professor Robert M. Stern of the University of Michigan. It is a special pleasure for me because I am privileged to have been a student of Dr. Stern's a number of years ago at the University of Michigan. His care for students and his attention to detail, his thoroughly-prepared courses, his exceedingly careful work on dissertation committees, and the fact that he mixed with students socially and even athletically on the tennis court, made him legendary among graduate students.

Professor Stern indeed has a distinguished background and record of professional achievement. He received his bachelor's degree from the University of California at Berkeley, an M.B.A. from the University of Chicago, and his Ph.D. from Columbia. He taught at the Michigan for over 35 years and retired in 1999 as Professor in the Department of Economics and as Professor of Economics and Public Policy in the Gerald R. Ford School of Public Policy. But I should say "supposedly" retired because, in fact, he still teaches two courses at the Ford School. During his career, he also did visiting stints at Brandeis, the University of California at Santa Cruz, and the University of Hawaii. In addition, he received Fulbright awards to do work in Belgium, France, and the Netherlands. Further, he has done consulting and contract work for, among others, The World Bank, the Organization for Economic Cooperation and Development, the United States Agency for International Development, the United Nations Development Program, the United Nations Conference on Trade and Development, and the U.S. Departments of Labor, State, and Treasury. He is still doing such work, as is evidenced by a current project in Ethiopia, from where he has recently returned and will be going to again next week.

With respect to professional activity, Professor Stern has been extraordinarily prolific. He has authored or co-authored nine books and monographs. A tenth book is forthcoming. Bob has also edited or co-edited 21 books, including two that are forthcoming. Besides the book output, Professor Stern has published almost 200 articles and book chapters, and this doesn't include his many "Comments" in various books, his published testimony before the Joint Economic Committee of Congress, and his 25 book reviews in journals. An astonishing fact is that, of the almost 200 articles, about 50 of them appeared from 2000 to 2006 or are forthcoming – and he supposedly retired in

1999! His articles have been published in journals such as the *American Economic Review*, the *Quarterly Journal of Economics*, the *Economic Journal*, the *Journal of International Economics*, the *Journal of Political Economy*, *World Development*, and *The World Economy*.

Published output of this magnitude obviously covers many different topics in economics. But the most noteworthy, outstanding feature of Professor Stern's work is his careful quantification of the effects of real-world actual and proposed international trade policies. While many theory pieces speak in general terms of the trade and welfare effects of tariff reductions or export subsidies or other policy choices, Bob Stern's work puts flesh on the bones of these somewhat sterile theoretical contributions. He and Alan Deardorff developed the Michigan Model of World Production and Trade to try to answer the empirical questions regarding the effects on trade, production, employment, and welfare of various trade policies and trade policy changes. Article titles such as "Computational Analysis of the Free Trade Area of the Americas (FTAA)" or "An Econometric Analysis of Trade Diversion under NAFTA" give an indication of the practicality of this work.

Beyond the quantitative analysis of policy impacts, Bob has also written extensively on the issues of labor standards and trade. Further, he has carried out work on whether factor endowments are useful in predicting international trade patterns – a subject that should ring a bell with my Economics 337 students. He also did early seminal work on the applicability of David Ricardo's comparative advantage model to trade of the United States and the United Kingdom, and he found that Ricardo was indeed applicable. He has been concerned recently with issues and strategies regarding barriers to trade in services.

In overview, what we have in Professor Stern is an economist who is seeking to put on the table the conceptual issues and the empirical backdrop necessary for formulating and analyzing policies with respect to international trade. In this age of globalization, along with increasing resistance to globalization in many quarters, it is important that we learn more about the issues, the effects, and the approaches to take with regard to this phenomenon. And tonight we can. It gives me great pleasure to introduce to you the 2007 Cornelson Distinguished Lecturer, Dr. Robert M. Stern. The title of his talk tonight is "Issues and Options for Multilateral, Regional, and Bilateral Trade Liberalization."

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Issues and Options for Multilateral, Regional, and Bilateral Trade Liberalization
Dr. Robert M. Stern
Cornelson Distinguished Lecture
Davidson College
Davidson, North Carolina
April 12, 2007

Thank you very much, Dennis. It is really a great pleasure for me to be at Davidson. As Dennis indicated, we go back a long way, and I can always recall with great fondness the times that I had occasion to interact with Dennis, both inside and outside the classroom, and I have very fond memories of that. I can also attest to the fact that Dennis has turned into a great driver of one of the local golf carts, and we spent a good part of this morning with him chauffeuring my wife and I around the campus which is absolutely gorgeous, and for students, I think you're really lucky to be in such a marvelous institution and I envy you for that.

What I want to talk to you about tonight has to do with the impasse that has occurred in the multilateral trade negotiations since they were launched several years ago. The round of trade negotiations that was started under the World Trade Organization is known as the Doha Round. It was launched in November 2001 in Doha in Qatar. And you might ask, why would they choose to meet in Doha, of all places. And, the answer to that is two years prior to that - the WTO usually meets every couple of years or so - and prior to 2001, they met in Seattle and some of you may recall that that turned out to be a really tumultuous kind of meeting of the WTO and it ended without any kind of agreement on the starting of a new trade round. So, they chose Doha before 9/11, obviously, because they thought it would be hard for protestors to make it to the Middle East and, of course, they were right, but that was really due to other reasons. In any event, the Doha Round was launched in November 2001 and has been named officially the Doha Development Agenda. It was intended, at that time, to continue the periodic rounds of multilateral trade negotiations that had been started fifty years prior to that with the General Agreement on Tariffs and Trade, and the point of the meeting that was organized in Doha, was to try to work out a series of negotiations that would benefit the developing countries. So the official name then was given to it as the Doha Development Agenda.

Once it was started then, efforts were made to try to develop the agenda for the negotiations, and the next round of meetings of the WTO was held in Cancun, Mexico in September 2003. That meeting also broke down as the earlier Seattle meeting had broken down, mainly because of the difficulties between the European Union and the United States on the one hand, with respect to their agricultural policies, and the increasing demands of many developing countries to try to get the trade negotiations to work to their benefit. It turned out that in Cancun they couldn't get agreement on the agenda and so what they did was to say, well we'll meet again in another couple of years, which they did. The next meeting took place in Hong Kong in December 2005 and the same thing happened, that is, the main parties, the U.S. and the E.U. on the one hand, and the major

developing countries on the other hand, were still so far apart, especially on agricultural issues, that the Hong Kong ministerial also, in effect, failed. Nothing then happened until the summer of 2006. They tried to get the negotiations started again, but here they ran into the same problems. So what has happened now is that the negotiations have, in effect, been put on hold. There are efforts going on right now, especially in Geneva, to try to get the Doha Round negotiations restarted, but as far as one can tell, there doesn't seem to be a lot of momentum going, and so what I want to do tonight is to talk a little bit about why this impasse has occurred, what some of the issues are, and what some of the other options are that the major industrialized and developing countries might have as far as trade policy is concerned.

I will talk first about how we reached the impasse; secondly, I'll talk about some of the different trade interests of the industrialized and developing countries; I'll then talk about the structure of the WTO negotiations and then, finally, I'll talk about the policy options that are available to the industrialized and developing countries and offer some suggestions about how possibly future negotiations might be organized to avoid the problems that we've been seeing for the past several years.

There were high hopes for the Doha Round in 2001 on the part of the developing countries especially. What they hoped for was to get a trade round that they felt would work in their favor. Meaning by that, if you were to look at the structure of the trade protection that exists in the United States, European Union, Japan and other major countries, there's a distinct bias against the imports from developing countries, and so the feeling was that maybe it's about time that the negotiations could be reoriented to try to do something more explicitly that would help the developing countries. At the same time, developing countries themselves, having become full-fledged members of the World Trade Organization, that is taking on both the rights and the obligations of the Organization, were in the position where they would have to themselves offer some reciprocal kinds of concessions in the negotiating process.

Now, what the United States, the European Union, and other major industrialized countries wanted was to try to work out some kind of bargain that would reduce trade barriers affecting trade in manufactured goods, affecting international transactions in services, and try to reduce agricultural protectionism. That was the object and the point that I mentioned was that the major industrialized countries wanted something in return from the developing countries, that is, they wanted a greater market access for their various kinds of goods and services.

In Cancun, the meeting broke down, as I said, because of the failure to agree on a negotiating text involving especially the reduction of import tariffs in the industrialized countries on agricultural products, and also involving reductions in domestic subsidies to agriculture. What was remarkable about Cancun was that this was the first time that the developing countries really gathered as a group to speak in a sense with one voice. There was a group that was formed called the Group of Twenty, which was led by countries like Brazil, India, and South Africa, and then some other smaller developing countries, and they then represented the rest of the developing world and they tried to work out some

kind of arrangements, some kind of negotiating text with the industrialized countries; but the industrialized countries themselves, in particular the European Union and the United States, could not reach an agreement on the types of agricultural policy changes that they could effectively bring about. So, Cancun broke down. They tried to get it - get the negotiations - going then again in summer 2004, then in Hong Kong, then in 2006, and all the time, the effort was really focused on agricultural liberalization as the key to unlocking the negotiating process.

Now, the efforts so far, as I said, have really not borne fruit. They are meeting all the time as far as one can tell and trying to get the Doha Round restarted. It doesn't really look like much is going to be accomplished, and as I say, I'll try to explain what some of the options are in this respect.

Let me talk about why the developing countries have such a great interest in the trade negotiations. It was probably somewhat of a mistake or misnomer to call a Doha Round a "development round" in the sense that trade negotiations are really not designed as such to promote economic development. And what I mean by that is that trade negotiations have a lot more to do with providing market access both to developed and developing countries. It may, of course, have important development results as a consequence of negotiations, but the WTO as an organization is not really designed to promote economic development. Development rather is something that is more the concern for the World Bank especially, and to some extent also for the International Monetary Fund and other types of international organizations.

The issue then is what the developing countries may think that is in their interest to try to obtain. As I should point out, I think there's little doubt that the trade policies of the major industrialized countries do have a kind of built-in bias that was developed over the decades. The reason for this was that beginning in the 1970's especially, the developing countries were given an exemption in the negotiating process; that is, they were not required to reciprocate in terms of reducing their own trade barriers. In a sense, they were freeriders in the negotiating process. The question then, as I mentioned, is that under the WTO arrangements, the developing countries had to take on the full obligations as well as getting the full rights in trade policy. This meant then that they have to face up to the idea of reciprocity in the negotiating process.

What the United States, E. U. and Japan and others want is greater access to the markets for their manufactured exports, their services, and for agricultural products in developing country markets, and from that standpoint, then, the issue is what the United States and E.U., especially, are willing to make in terms of offers and what kinds of reciprocity possibly will come from the developing side.

Now, to talk a little bit about the interests of the developing countries in the negotiations. Developing countries, as I think you all know, specialize either or both in labor-intensive manufactured products - textiles, clothing, and other kinds of labor-intensive products - and also in various kinds of agricultural products, many of which compete with the same kinds of products that are produced in the industrialized countries,

in particular, the United States. For example, many developing countries are large producers of cotton and sugar and citrus fruits and things of that sort, products that are also produced and traded in large measure in the United States and some other industrialized countries. The developing countries then have certain well-defined interests and you would think that there's maybe some common interest that they would have as I've mentioned, that is through working in organizations like the Group of Twenty, but at the same time, there's a lot of diversity in the interest that many developing countries have; that is, countries like Thailand, which is a big rice exporter, might have different interests than say a country like Argentina, which is a big exporter of beef and wheat. There's some difference then in the kinds of interests that countries have in the negotiating process. There are also cases in which the developing countries trade a lot with each other and that might then help to define their interests.

A final point is that for a number of years many developing countries have had preferential trading arrangements with the major industrialized countries, and one of the problems that some of these countries face is that the successful conclusion of the Doha Round, which would reduce trade barriers for them, would at the same time would help to erode some of the preferential arrangements that they have benefited from over the years. So they have kind of mixed feelings then about the whole process. Further, if you look at the protection that exists among developing countries themselves, they have, I think it's fair to say, the highest trade barriers of all the countries in the trading system - barriers that have been in existence for some considerable period of time, put in place for the same kinds of protectionist reasons that you find in the advanced industrialized countries.

It may be, therefore, that trade liberalization is in the interests of the developing countries themselves and it's not so much only a question then of having the industrialized countries reduce the trade barriers towards them.

The way the negotiations are structured then, is in the previous trade rounds that occurred, the developing countries played really only a very marginal role and this was mainly because of the special and differential and preferential treatment that they had been given that goes back twenty, thirty, forty years. From this standpoint, the way negotiations used to run is that the United States and the European Union ran the whole process; that is, they set up the agenda, they worked out the negotiating details, and then when everything was almost in place, they would invite the developing countries in to try to get them to go along with the negotiations and try to offer them some kinds of incentives to do that. What this means is that the way the world trade system operated was that before the WTO came into existence, under the former General Agreement on Tariffs and Trade, this was a system that was dominated by the most powerful of the industrialized countries. With the WTO now, that has changed. The developing world has, for the first time, developed its own voice and its own pressures in the negotiating process. What remains to be worked out is some change possibly in the governing system. What is going on now, for example, as I've mentioned, is very intensive discussions to try to get the Doha Round restarted. As far as one can tell, the main participants here are the U.S., the European Union, Japan and a couple of other

industrialized countries, and then Brazil and India are representing the developing world. The question is, how representative these countries are going to be for the mass literally of the other members of the WTO that total these days 150 countries, so about maybe 120 of these countries you could say are developing countries and the rest are the higher-income countries.

Some people have argued, as I've mentioned, that because of the built-in bias that exists in the structure of protection, that the Doha Round should be focused mainly to try to remove the barriers to imports from developing countries into the U.S. and other advanced countries. As I said, that's really only half of the issue. That is, there's a lot to be gained from the developing countries themselves reducing their own trade barriers in some kind of reciprocal relationship.

As far as one can tell, the reason why the negotiations have become bogged down has to do with the difficulty that the U.S. and the E.U. have had in coming up with an acceptable set of agricultural liberalization policies. There are three forms of agricultural protection that exist. The most important are the import tariffs that apply imports of agricultural products. Secondly, the U.S., the E.U. and others have significant domestic subsidy programs that provide direct support to their farmers; and then a third type of policy has to do with export subsidies, but that's actually not all that important. What's important then is the import tariffs and the domestic production subsidies.

You might ask, "Why is it that the negotiations have broken down over agriculture?" If you look at American agriculture, for example, only maybe two or three percent of gross national product comes from the agricultural sector, and it's somewhat larger in the E.U. and Japan but it's still in single digits, so you have to ask yourself, "What's going on here when negotiations, globally, can be held up by a relatively unimportant sector economically speaking?" Well, the answer, I think you all know is that economic importance is one thing, but rather, what's more important, is that the agricultural interests in the major industrialized countries are really very powerful politically. The way the American political system is structured, you have a lot of power in the farm states, you have a similar kind of thing in Western Europe, in countries like France and some others. In Japan, again, the political system is very much under control, so to speak, by agriculture interests. Despite the relative economic unimportance of agriculture, it's really the politics of agriculture that have prevented agreement from being reached.

To illustrate this a little bit more, think back to the recent American elections. I dare say that the Bush Administration was counting votes very carefully in the last election hoping that the rather generous subsidies, especially, that they had given to farmers in the Middle West, especially, and elsewhere, would get them to vote Republican. That actually didn't happen and so from that standpoint, then they really overestimated the importance of the program. But what's interesting is that it doesn't seem, despite the failure of that kind of policy, that anything has changed significantly. The Bush Administration still seems to be reluctant to make major changes in the domestic support program.

In the European Union, the situation has become more complicated because now there are twenty-seven member countries in the European Union, a number of which are very important agricultural producing interest countries, countries like France and Poland and some of the smaller ones. Trade policy, then, in Europe is very difficult to organize because you've got to get consensus among this very large group of countries that have rather different interests.

A similar sort of thing in Japan is that the ruling party in Japan again finds it hard to cope with the protectionism for its rice farmers. It's true of Korea, it's true in some of the other major industrializing countries as well. Agriculture then represents, if you will, the key to unlocking the impasse in the Doha Round, and what's going on now, then, is the Europeans are trying to get the Americans to reduce their domestic production subsidies. The Americans are saying that the European tariffs are very restrictive of imports into the E.U., and the E.U.'s got to come up with better offers to reduce their agricultural import tariffs. So, they're kind of at loggerheads here, and at the same time, what's happening, then, is that the U.S. and E.U. are saying to Brazil and India and other developing countries, "Well, we're waiting for you to tell us what kind of reciprocal tariff reductions that you the developing countries, are willing to make and maybe once we find out what you're willing to offer, we'll get our offers to you;" so, both sides are kind of holding back, not willing themselves to step up, really, and provide the kind of leadership that is important in this respect.

If the Doha Round fails, and as I say, there's a really significant likelihood that it may, it's been dragging on now for about six years, and that's a long time; actually, though it's not any longer than the previous negotiating round, the so-called Uruguay Round, that lasted for eight years. These negotiations typically are very complicated and they can take years and years to finish, but if it turns out that the Doha Round fails, then what are some of the options that are available?

As far as the United States and the E.U. are concerned, there's been a great deal of attention given recently to negotiating bilateral free-trade arrangements with a variety of smaller countries. The United States, for example, has in the past few years, negotiated, I think, something like eighteen free-trade agreements, the most recent of which is the agreement that was signed recently between the United States and South Korea. The Europeans have also been negotiating free-trade agreements, bilaterally, and there's some indication that they are trying to step up the process as well and this is true, in addition, of the Japanese.

There's been literally an upsurge in these bilateral trade arrangements in the past ten years or so. The most recent number, I think, is that something like three hundred of these bilateral free-trade agreements have been notified to the WTO. Well, you might ask, "What's so bad about that?" But as if they can succeed in negotiating with other individual countries, maybe that's not so bad. The problem, though, is that it would be much more beneficial to the countries themselves and also to the global system to negotiate multilaterally. What happens when you negotiate a free-trade agreement is that

that agreement holds only between those countries involved. It's bilateral, say between, U.S. and Korea, then all the other countries on the outside are really left out, if you will. And so, there may from that standpoint be some diversion of trade towards the bilateral members and away from other countries that may be much more efficient in producing the particular goods involved.

Moreover, these bilateral trading arrangements have undesirable features to them known as rules of origin. What I mean by that, for example, is that let's say you have two or three countries that get together to form a free-trade agreement, that will mean that they will take off all of their tariffs with respect to each other, but they will keep them with respect to the rest of the world. What might happen is that that might create incentive for the country with the lowest external tariffs to import goods from abroad and then sell them in a member country that might have higher tariff rates. To avoid that, these agreements come literally with hundreds of pages describing the rules of origin, meaning that the products that are subject to the free-trade agreements have to meet certain requirements of being produced among the member countries in the free-trade arrangements. These rules of origin can sometimes be so complex that exporters find it's just not worth the trouble trying to meet all of the requirements involved, they will simply accept whatever the external tariffs are that they might have to face. So, there's no big advantage, as far as I can see, that can be gained by choosing the free-trade option if the Doha Rounds breaks down.

In some of the modeling work that Dennis referred to that I've done, we show continually that the potential benefits from a global trade round are many times larger than any of these free-trade agreements might possibly bring about. As far as the developing countries are concerned, the most important thing, I think, for them is to try to act collectively to get the negotiations restarted. As I say, it's really in their own interest to do so. It may help, I think, to make it clear to them that their trade barriers are literally among the highest in the current global trading arrangements, and so they have a lot to gain; that is, if the Doha Round breaks down, that's not going to affect us, the United States, or Europe or Japan that much, but potentially, it's developing countries that may be the biggest losers, by far.

One of the ways it's been suggested that this might be encouraged is through policies known as "Aid for Trade." That is, if you consider asking developing countries to reduce their trade barriers, then what you might want to do is to offer them some kind of financial or technical assistance, particularly if they find the adjustment difficult to bring about, as if workers get displaced or if they have other problems in meeting their export objectives and that sort of thing, then that's a way to try to help the whole process. What you need then, for this kind of Aid for Trade to work is some kind of firm commitments from the United States, the European Union, Japan and others.

The developing countries, secondly, also have options as far as free-trade agreements are concerned, and many of the agreements that I've mentioned that the United States and Europe and Japan have been entering into, have been with respect to other small developing countries. For example, if you look at the list of free-trade

agreements that the United States has negotiated, Korea is the biggest one since NAFTA was negotiated in the early 90's. The other agreements are with the Central American countries, with Panama, with Peru, with Bahrain, with Oman, and another set of countries whose importance really leaves your mind boggling as to why they go to such trouble to negotiate these arrangements that don't have very much to show as far as the benefits are concerned. What the problem with many of these free-trade agreements is from the standpoint of developing countries is that they work asymmetrically. When the United States say negotiates a free-trade agreement with the Central American countries or with Peru or Panama or whatever, then what they do is they put a lot of stress on these small countries adopting the same kinds of rules governing investment, competition, intellectual property rights, dealing with pharmaceuticals and things of that sort, rules that really may not be in the interest of the developing countries themselves, and indeed, we've seen some instances in which the developing countries that were engaged in negotiations, decided not to pursue them. For example, the negotiations that were started between the United States and the countries in the Southern African Customs Union broke down because South Africa and some of the smaller countries there objected to the intellectual property restrictions that the United States wanted to introduce. The arrangements that were being negotiated with Malaysia also have broken down recently over some disagreements about Malaysian domestic automobile policies and the like. When the U.S. negotiates with small and much less powerful countries, this asymmetry really makes these countries enter into agreements that may not really be in their interest. You might ask why do they do it. I think there's a lot of pressure, clearly, coming from the interest groups in the United States as known in the manufacturing companies but a lot of the international banks and insurance companies and pharmaceutical firms and other similar kinds of companies, that feel that it's to their advantage to try to do this.

And so, free-trade agreements, then, might look like a reasonable option and they will bring about marginal benefits, but it's probably in the end really not anywhere near what would be accomplished if the Doha Round could be revived.

Free-trade agreements are, unfortunately, not part of the Doha Round but, I think, that one can say that we know from experience how the negative aspects of free-trade agreements might possibly be minimized and what that would involve is to make the membership in these free-trade agreements more open; that is, not have them bilateral, but make them open to any other country or groups of countries that wanted to join. What that might do, then, is to remove some of the difficult rules of origin that otherwise might exist.

Still another option for developing countries is what economists often refer to as "unilateral liberalization." What I mean by that is that rather than engaging in this global multilateral process, countries can, on their own, decide to lower their own trade barriers. If you look around the world in the last twenty, thirty, or forty years, a number of the most highly successful developing countries have embarked on unilateral liberalization. Many of the countries in East and Southeast Asia, for example, have done this. In the Western Hemisphere, probably the most prominent example of unilateral liberalization is Chile, which over a period of twenty or thirty years, has reduced its tariffs on its own

without any serious side effects. When you have very high trade barriers, there's a lot that countries could gain on their own unilaterally to reduce them without going through the multilateral process. Developing countries do have some options in this respect, but as I say, I think the more beneficial option to everyone is to try to get the Doha Round going again.

In conclusion, what I would like to stress is the importance of that process to get it going again, and that would involve reciprocal reductions in the trade barriers that exist with meaningful reductions in import tariffs and production subsidies in agriculture, especially in the United States and the European Union, and in exchange for that, try to induce the developing countries to reduce some of their own trade barriers. The best outcome, I think, would be to get the round going and the question then is whether this is going to be possible.

With the new Congress that has come in in the United States in the last election, the Democrats are now in control. I think as most of you know, the Democrats have been very skeptical of the WTO negotiations and, especially, of some of the free-trade agreements that have been reached. In particular, on the free-trade agreements, they have been expressing the views that these agreements are unlikely to be approved by the new Democratic Congress, mainly because they lack effective policies regarding labor and environmental standards, and the argument is that only if these agreements can be renegotiated to improve these standards, are they likely to get through.

This whole process further hinges on the fact that the President's negotiating authority will expire as of June 30th of this year; that is, the way negotiations work in the United States is that the President is given authority to negotiate trade barrier reductions for a long period of time, several years usually, and the process works so that once the negotiations are complete and sent to the Congress under this authority, the so-called "fast track" procedure comes into play; namely, that when negotiations are complete and signed and sent to the Congress, the Congress does not have the authority to make any changes whatever in the negotiations. Under fast track, Congress then will either vote yes or no, as the case might be, and we've seen in some of the recent free-trade agreements in the CAFTA, for example, that the Congress almost said no, I think, we were talking before, as one of the representatives from North Carolina that played the swing vote in the CAFTA vote of Congress that got that through.

The issue is, what the Democrats are willing to concede to the remaining years in the Bush Administration as far as negotiating authority is concerned because unless the negotiating authority is extended beyond June 30th, it will not be possible to carry out any kinds of negotiations under the Doha Round because the Congress then would not be willing to accept any of the negotiating changes involved. One can hope that there will be some kind of political agreement to extend the President's authority, but that remains to be seen.

What about future negotiations; that is, imagine we get past the present impasse, are there any ways or any things that could be done to avoid the impasse that we've seen

now from reoccurring? One of the possible ways to do this is to have shorter time horizons and less complicated negotiations that would take place. As I indicated before, when you have elections coming up all the time, the parties involved are not willing to undertake trade policy changes that may be disruptive to the voters involved. One of the ways to get around this is to maybe have negotiations that would last only a year or two. To do that, what you would have to do is to narrow down the scope of the negotiations to cover mostly issues of tariff reductions and reductions in subsidies of various kinds that are related to market access; that is, what the WTO is designed to do is to promote greater market access. What has happened is that the negotiations have become so complex because they've been loaded down with a whole lot of other kinds of rule-making provisions that it makes it very difficult to get agreement on what the final concessions might be here.

I'm talking, for example, about things connected with intellectual property rights with investment competition policy, and things of that sort. Many of these issues are important, but some of them can be decided outside of the World Trade Organization. In some cases, it may also be possible to have what's known as a plurilateral agreement; meaning, that rather than as the WTO is set up, having all of the 150 countries agree to a certain policy change, say in government procurement, or investment regulation, maybe the thing to do is to have an arrangement where only those countries that feel they can accept the policies will sign on, so that you may then get a plurilateral agreement. There will be a whole lot of other countries that may in their own interest decide not to sign on at least for now. Having shorter time horizons, less complicated negotiating provisions, and having, maybe, more options of a plurilateral nature, would, I think, be a long way to improving the whole climate for future negotiations.