GLOBAL LINKS

Trade, investment, foreign aid, migration, and tourism are all evidence of the many ties between nations that have come to be termed "globalization." This section documents the flow of goods, resources, and people through the global economy. But the forces of globalization appear throughout the book: population growth and changing patterns of employment (section 2), the pressure that economic and demographic change has placed on the world's resources (section 3), the expansion of service industries and the growing trade in services (section 4), and the growth of telecommunications and the spread of new technologies (section 5).

In the past year the preparation for another round of negotiations on global trade rules became the focus of an international debate on the effects of globalization. What is at stake, and why has trade come to be seen as the cause of both the goods and the ills of globalization? Can global trade rules be revised to improve lives in poor nations as well as rich? Can this be accomplished while protecting the environment?

The rapid growth of world trade in the past five decades owes much to cuts in trade barriers through eight rounds of negotiations under the General Agreement on Tariffs and Trade, now the World Trade Organization (WTO). A ministerial meeting of the WTO in Seattle last November was expected to launch a new Millennium Round. It failed for many reasons, but three stand out. First, the United States and the European Union could not agree on liberalizing agricultural trade. Second, developing countries feared that industrial countries would force labor and environmental standards onto the agenda. Third, procedural problems arose from the fact that WTO membership is up from fewer than 80 in the 1980s to 135 today, and the developing countries are no longer willing to accept the traditional "green room" procedure, in which a small group of key countries negotiate a package while others have only limited opportunities to revise it.

A development round

After Seattle a new agenda is needed to relaunch the Millennium Round. This, finally, should be the "development round," in which the world's poor win large gains. At least three key issues should be on the agenda—agriculture, services, and industrial tariffs. Also needing to be addressed are the concerns of developing countries about Uruguay Round commitments and the interactions between trade and environmental rules. Labor standards, it has been agreed, are primarily the responsibility of the International Labour Organization.

Agriculture

In developing countries in the past decade 62 percent of the female workforce—and 54 percent of the male—were in agriculture (figure 6a). So making agriculture more dynamic is essential to reduce poverty, especially in poor countries that depend on agricultural exports. But trade barriers and subsidies in rich countries reduce incomes in developing countries by $20 billion a year, four times the global grant aid of $5.4 billion. Such protectionism is part of the reason that world trade in agriculture grew only 1.8 percent a year in 1985–94, less than a third of the 5.8 percent for manufactured goods. The share of manufactures in developing country exports to the high-income OECD countries has increased from 40 to 66 percent since 1990, while agricultural exports dropped from 19 to 14 percent (figure 6b; Binswanger and Lutz 2000).

Resistance to change is substantial in both poor and rich countries. OECD countries suffer welfare losses of almost $63 billion a year from agricultural protection, but farmers there are sufficiently well organized to gain at the expense of consumers. The Uruguay Round sought to liberalize agriculture, yet the average rate of agricultural protection in the European Union actually increased—from 32 percent in 1997 to 37 percent in 1998. Agricultural tariff reforms in OECD countries could increase incomes by $6 per person in Sub-Saharan Africa and $30 in Latin America (Binswanger and Lutz 2000).

Some developing countries are food importers, and worry that liberalization will increase world food prices. But projections suggest that the increase will be no more than 4–6 percent (Valdes and Zietz 1995). Real food prices are falling. And technical assistance to developing countries can help to increase agricultural productivity and thus the incomes of the poor.

Services

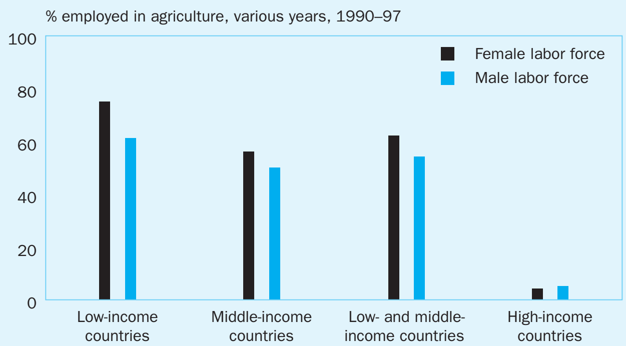
Negotiations to liberalize services have so far focused on areas of OECD interest, notably telecommunications and financial services. Developing countries have much to gain by integrating themselves into the fast-growing global communications network (tables 5.10 and 5.11), which can greatly aid efficiency, export competitiveness, and the spread of knowledge. But the East Asian crisis shows that opening financial services can lead to disaster if the ground has not been carefully prepared. Where financial systems are weak and poorly supervised, where corporate governance is of questionable quality, opening to international financial flows can lead to booms and busts. So financial liberalization needs to be approached cautiously and sequenced properly (Stiglitz 1999).

The new development round must pay attention to four service areas of special interest to developing countries:

- *Movement of professionals.* Visa requirements and other curbs prevent poor countries from sending more professionals to perform services in OECD countries (table 6.13). These curbs need to be reduced in the next round. Although 54 countries have committed themselves in negotiations to providing transparent, nondiscretionary criteria for the entry of foreign service providers, only 3 have actually done so (Michalopoulos 1999).
- *Construction.* Many poor countries have a comparative advantage in construction, but they can harness it only if they are allowed to move workers to sites in rich countries for the duration of a construction contract.
- *Maritime services.* Cheap maritime skills will enable many developing countries to gain a larger share of global and coastal shipping services, if these are opened.
- *Teleworking.* Modern communications and the Internet have made possible the shift of many clerical and professional services to low-wage countries. GE Capital, for example, has hired 5,000 people in India to support its global operations. The shift of jobs could give rise to protectionist pres-

Figure 6a

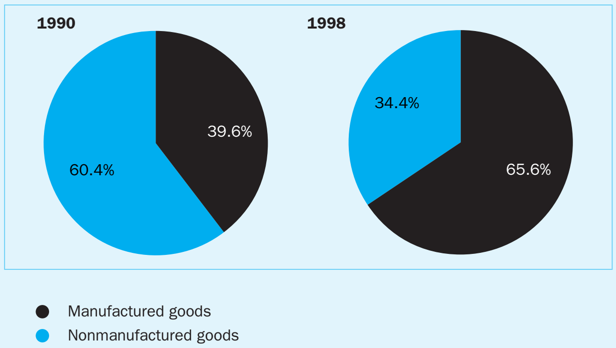
Agriculture employs the majority of workers in developing countries



Source: World Bank, *World Development Indicators 1999.*

Figure 6b

Developing countries are exporting more and more manufactures to high-income OECD countries



Source: United Nations Statistics Division, COMTRADE database.

sures, so the Millennium Round needs to ensure that services delivered electronically are not subject to tariff and nontariff barriers.

Industrial tariffs

The Uruguay Round reduced the trade-weighted import duty on manufactures in rich countries to 3.4 percent (table 6.6). But duties on labor-intensive goods are disproportionately high, so the average rate actually paid by developing countries is four times the average paid by high-income countries. Peak tariffs exceed 12 percent in a wide range of goods of interest to developing countries.

The share of manufactures in exports of developing countries—up from 16 percent in 1964 to 68 percent in 1998 (table 4.5)—is expected to approach 80 percent by 2005 (Hertel and Martin 1999). The boom owes much to lower protection in developing countries, which spurred south-south trade—now 39 percent of manufactured exports of developing countries and projected to rise to 45 percent by 2005.

That is why reducing tariffs on industrial products should be part of the WTO's agenda. Hertel and Martin (1999) estimate that a 40 percent cut in industrial tariffs would increase world trade in manufactures by $380 billion, and south-south trade by 11 percent. The largest welfare gains would accrue to countries with high tariffs today, notably China and India.

Antidumping

Antidumping rules should in theory be concerned only with predatory pricing, but this is not so under current WTO rules. They are being used as protectionist devices—and need reform as soon as possible. One study estimates that there is no predatory intent—and no government intervention required—in more than 90 percent of antidumping suits (Willig 1998). An earlier study says that by the WTO's criteria for dumping, 18 of the top 20 Fortune 500 firms in the United States are dumping their output in the domestic market (Thurow 1985).

Labor standards

Governments in some high-income countries want the future agenda to consider trade sanctions against countries that do not meet core labor standards. Developing countries fear this could degenerate into pure protectionism and shut out developing country workers. Their critics claim that low labor standards lead to "social dumping" by developing countries—and enable multinationals to impose low wages on poor countries desperate for exports.

But empirical evidence shows no link between low labor standards and either exports or foreign direct investment (OECD 1996; Rodrik 1996). Indeed, the OECD study shows that handmade carpets from developing countries are exported at much higher prices than machine-made ones from Belgium and the Netherlands: no social dumping is in evidence. In developing countries workers in firms with high export ratios typically receive much higher wages on average than those in firms that export little or nothing (Aggarwal 1995).

The use of trade sanctions for perceived violations of labor standards would raise troubling issues. Quantifying social dumping margins for the purpose of imposing sanctions is simply not feasible. Because suppressing workers' rights typically reduces competitiveness, the most likely effect of social dumping sanctions would be to create additional barriers to exports produced by workers in poor countries (Martin and Maskus 1999). Advocates of high labor standards claim that their aim is not to deny developing countries the comparative advantage of their poverty—lower wages. But developing countries believe that labor standards, once introduced in the WTO, will become the thin end of the wedge for protectionism.

Child labor, widespread in many developing countries, is concentrated overwhelmingly in agriculture, not in export industries, and it signals poverty, not exploitation. Children's labor force participation drops rapidly as GNP per capita rises (figure 6c; table 2.3; San Martin 1996). So the best way to reduce child labor is to raise incomes and schooling opportunities.

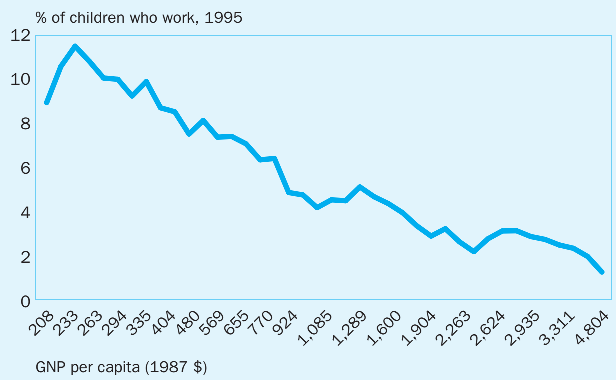
This will not be accomplished by trade sanctions. In Bangladesh and Pakistan western boycotts led to children losing jobs making soccer balls and garments. But contrary to the boycott's aims, parents sent their children not to school but to industries with worse working conditions. Unless better school facilities are available and policies are targeted specifically at the problem, children and their families will not be better off.

Environment and trade

Fears that polluting industries will migrate from rich countries to poor to take advantage of low environmental standards have proved largely unfounded. Rich countries are net exporters of goods produced by the six most polluting industries, and developing countries are net importers (figure 6d). Trade liberalization in 1986–95 did not change this pattern: high-income countries became even bigger net exporters (their export-import ratio rose from 1.02 to 1.32). The ratio fell in middle-income countries. In the same period it rose in low-income countries, but only to

Figure 6c

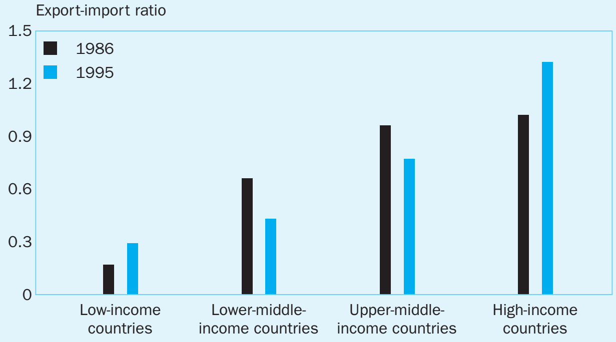
Children work less as incomes rise



Source: World Bank, *World Development Indicators 1999.*

Figure 6d

High-income countries are net exporters of goods from the six most polluting industries—and low- and middle-income countries net importers



Source: World Bank, *World Development Indicators 1998*.

0.29, still the lowest among all income groups.

Political economy

WTO rules require consensus on most issues, and this would seem to give substantial power to smaller developing countries. In practice, however, a country's influence at the WTO depends heavily on its ability to contribute to debates, and OECD countries have enjoyed the major say.

Developing countries complain that developed ones are trying to expand the WTO beyond trade to other issues. Developing countries also fear that new issues will mean obligations without compensation: they fear that trade sanctions on labor and environmental grounds will hit them alone. Sanctions are not proposed against rich countries that emit greenhouse gases—only against poor countries whose fishermen say they cannot afford turtle excluders. This threatens to change the WTO's character from a forum for exchanging mutual concessions to a one-way street—and so raises political hackles.

The Montreal Protocol, Kyoto Protocol, and Convention on Biological Diversity suggest that forums other than the WTO can also deal with many environmental issues. As in the Montreal Protocol, solutions can include compensation for poor countries, a way of making the next WTO round a development round.

Beyond the World Trade Organization

Reducing trade barriers is important but not enough. Developing countries must establish better institutional structures for trade. These include systems to reduce corruption, speed up trade documentation, improve trade-related infrastructure, and gain access to insurance and credit.

Many countries need technical assistance to meet global standards and Uruguay Round commitments on customs valuation, intellectual property, and agriculture. And having refused to accept the green room procedure at Seattle, developing countries now need help in establishing better research capacity to formulate negotiating positions for the Millennium Round. Today 19 of 42 African WTO members have no representative at WTO headquarters in Geneva, while OECD countries have on average seven representatives each (World Bank 1999d).

Developing countries must also create better economic environments to enable entrepreneurs and farmers to take advantage of open markets. And they must construct safety nets for the people dislocated by liberalization, for the WTO mainly helps those that help themselves.