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Economics

It's better all round if everyone opens up

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Fair Trade for All

This is a challenging and interesting book. Unlike some of Joseph Stiglitz's more recent work aimed at the mass market, this book is aimed at the well-informed reader with a particular interest in trade.

There are no equations, and the text will be comprehensible to the economically literate who do not necessarily have an economics degree.

The book starts by arguing that trade can be good for development. One of the oldest ideas in economics is that voluntary and well-informed transactions between two individuals will improve welfare.

When countries open up to trade, individuals in those countries have more possibilities: they can trade not only with those within their nation, but also with individuals in other countries. Trade can make everyone better off.

In recent history, trade has played a key part in the development of many successful countries - Japan, Singapore, Korea, Malaysia and, more recently, China and India. The failure of many countries, such as those in Latin America, can be linked to the fact that they did not open up and instead pursued import-substitution policies. But Stiglitz and his co-author argue that the story is not so simple. There are many market imperfections: in developing countries, market institutions are weak, and sometimes markets function badly or not at all. For example, when risk and capital markets are imperfect, opening up to trade can create more risk for domestic producers that cannot be dealt with as it is in developed economies with well-functioning markets. The book's message is that "even if one accepts the desirability of free trade, rushed liberalisation may be harmful". Policies must be based on the way markets work in practice rather than on idealised competitive full-information models.

The history of postwar trade agreements began in Geneva in 1947 with the formation of the General Agreement on Tariffs and Trade (Gatt). This was a meeting between mainly developed nations that were interested in securing access to each other's markets and focused primarily on tariffs and barriers to trade in manufactures. The Uruguay Round of 1986-93 was the first to really bring in the issues associated with development, and it led to the creation of the World Trade Organisation to replace the Gatt. The current Doha Round, which started in 2001, is the first to have an explicit focus on development issues. Progress has been slow: the European Union and US have not tackled their huge farming subsidies, and members of the Organisation for Economic Co-operation and Development has failed to open up their markets to developing countries even to the extent agreed in the Uruguay Round.

Stiglitz and Andrew Charlton have developed a framework for formulating trade policy in this context. Its keystone is the concept of fair trade.

These are "self-evident" conditions: any agreement should be assessed for its effects on development, and items with a negative effect not allowed; agreements should be fair and arrived at fairly; and no items other than trade and development issues should be discussed. The starting point is for an impact assessment of each proposal. Any proposal that hurts developing countries or disproportionately benefits developed countries should be viewed as unfair. The mechanism for arriving at trade agreements should be transparent and should allow equal access to developing countries.

The current WTO system is legalistic and adversarial: developing countries have limited resources to put into disputes. Stiglitz and Charlton also argue for the principle that any developing country should expect free access to markets with a larger gross domestic product and larger per capita GDP. These are clear objective criteria that are simpler than the special treatment rules and would open markets across the world for developing countries.

The book goes into some of the detailed issues of how to open up specific markets: how to deal with transitional unemployment, agriculture and non-tariff barriers. It also covers issues such as corruption, avoiding civil strife and the environment. This is an excellent contribution to the debate on trade policy. It is knowledgeable and authoritative, as one would expect from Stiglitz, who is a Nobel prizewinner and who was top economist at the World Bank.

It is very practical in outlining general principles and giving detailed examples. Trade policies enforcing these on developing countries are clearly unfair by the proposed criteria. The costs fall disproportionately on the developing countries and the benefits on the rich ones. The WTO's focus on this issue reflects the rich-country bias. Likewise, the failure to address agricultural subsidies is unfair: it benefits US cotton farmers and Bavarian dairy herders and harms their African equivalents.

The beauty of this book is that it adopts the sensible approach to markets to which most economists subscribe. Markets work, of course. Historically, they have been shown to be the best way of organising things across a wide range of human activity. But they are not perfect: in some cases, markets do not work well and need some regulation and can be improved by government intervention. The laissez-faire free traders (such as present-day neoconservatives) believe that markets are best, period. The anti-globalisation movement believes markets should be kept limited and controlled. Both of these two extremes have been shown to be wrong.

The main issue for the world now is the altering balance of power. The US and Europe are in relative economic decline in a world with growing economic power in new regions. This is now translating into political power. The coming-together of developing countries, including India, China and Brazil in the Doha Round, to oppose the European and American agendas has caused a stalemate. The EU and the US still need trade reform less than the developing countries. But the possible evolution of regional multilateral trade groupings in Latin America and East Asia may start to change that. Also, the internal political focus in the West may change.

These forces are slow, but sometimes one can but hope for a better world with a trading system to reflect that. This book makes a timely and valuable contribution to that process.

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Fair Trade for All: How Trade Can Promote Development

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