



The Truth about Trade - the real impact of trade liberalisation

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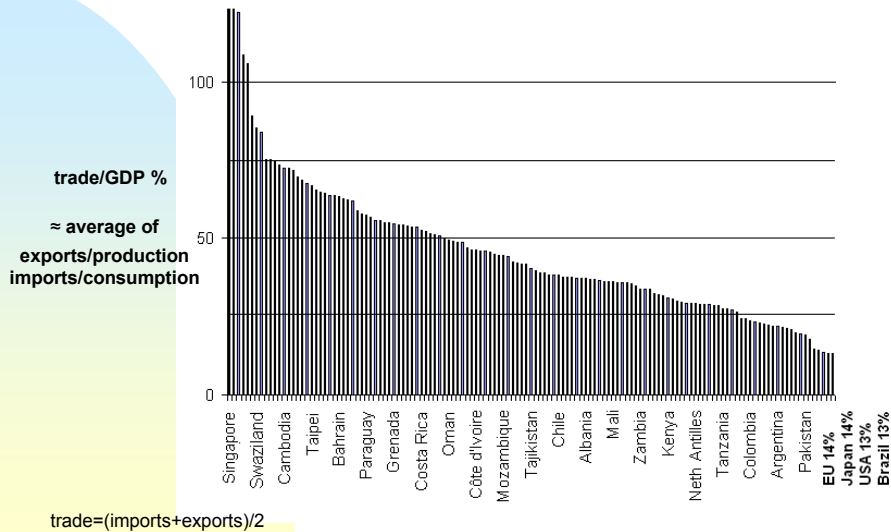
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Adam Smith

The man scarce lives who is not more credulous than he ought to be, and who does not, upon many occasions, give credit to tales which not only turn out to be perfectly false, but which a very moderate degree of reflection and attention might have taught him could not well be true.

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“Developing countries need to integrate more fully into the global economy”



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Adam Smith 2

The proposal of any new law or regulation of commerce which comes from this order [those who live by profit] ought always to be listened to with great precaution, and ought never to be adopted till after having been long and carefully examined, not only with the most scrupulous, but with the most suspicious attention.

It comes from an order of men whose interest is never exactly the same with that of the public, who have generally an interest to deceive and even to oppress the public, and who accordingly have, upon many occasions, both deceived and oppressed it.

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The European Commission's Sustainability Impact Assessment programme

- pre-Seattle, 1999 (WTO inter-Ministerial conference)
- WTO Doha agenda, 2001-2006 (sectoral assessments and global overview assessment)
- each of Europe's regional and bilateral trade agreements
- undertaken by independent organisations for the Civil Society Dialogue Unit of DG Trade (or EuropeAid)
- total expenditure > 10m Euro

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Core "indicators"

Economic

- Real income
- Fixed capital formation
- Employment

Social

- Poverty
- Health and education
- Equity

Environmental

- Biodiversity
- Environmental quality (land, water, air)
- Natural resource stocks

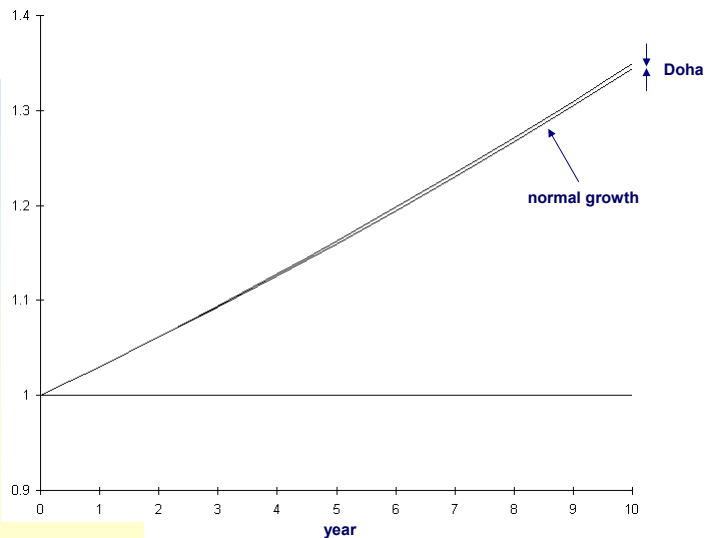
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Key components of assessing impacts

- stakeholder consultation (NGOs, private sector, academics, government officials)
- analysis of results of economic modelling studies (equilibrium effects)
- review of research literature (dynamic effects)
- causal chain analysis
- deduce economic, social and environmental impacts of economic effects
- empirical evidence from the literature
- assessment of significance of potential impacts

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“Huge” gains from a “successful” Doha round



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Why bother?

- economies of scale
- stop trade wars

but mainly:

- commercial advantage
- development dynamics

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The EU's Lisbon Strategy for growth and jobs

- aims to make Europe “the most dynamic and competitive knowledge-based economy in the world” ¹
- “Lisbon is about achieving Europe’s vision of what it wants to be and what it wants to keep - competitor countries and regions are moving on as well, threatening Europe’s position in the global economic league table” ²

¹ EC (2005) Working Together for Growth and Jobs: A new start for the Lisbon Strategy

² EC (2004) Facing the Challenge: The Lisbon Strategy for growth and employment (high level review chaired by Wim Kok)

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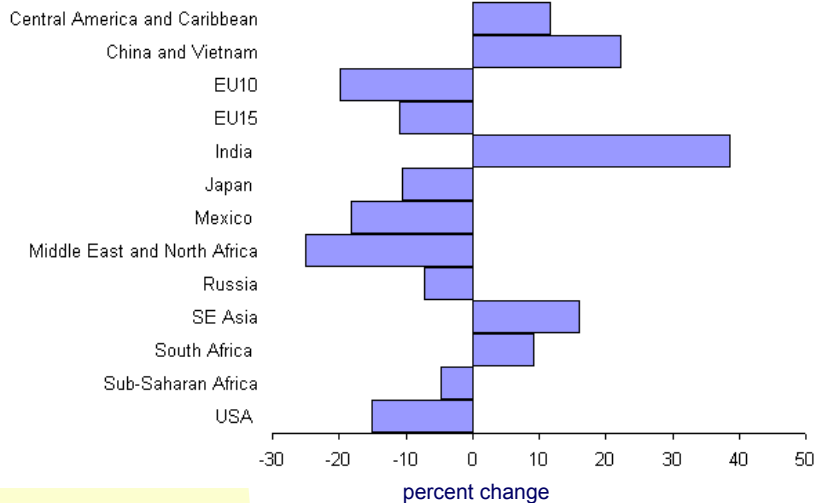
Impacts of trade liberalisation

- loss of tax revenue
- increased imports and exports (short-medium term equilibrium)
- long term dynamic effects

→ economic, social and environmental impacts of each

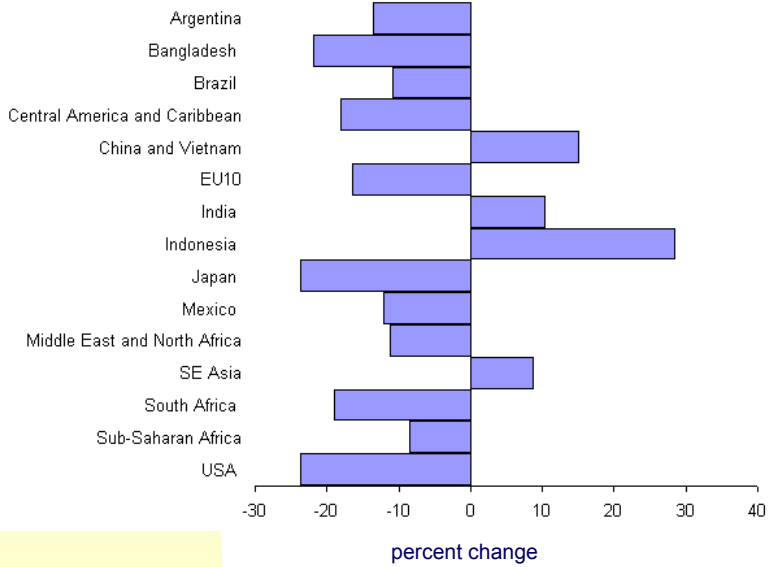
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Production changes - clothing



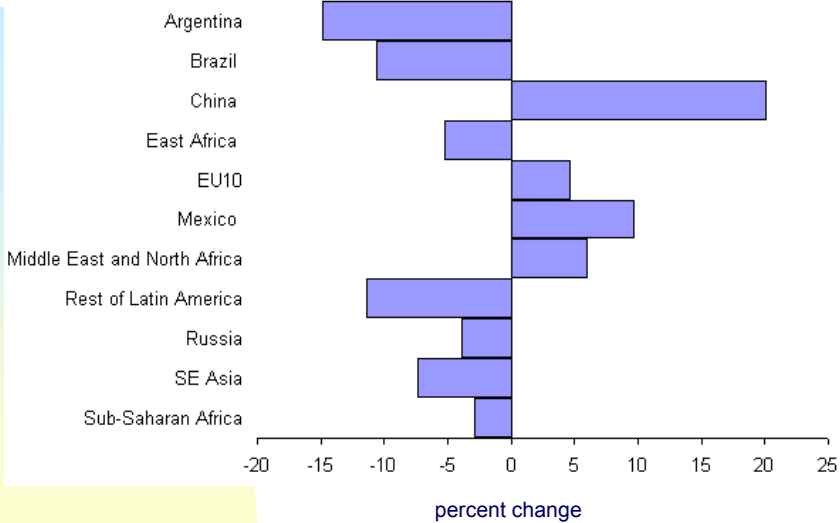
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Production changes – leather goods and footwear



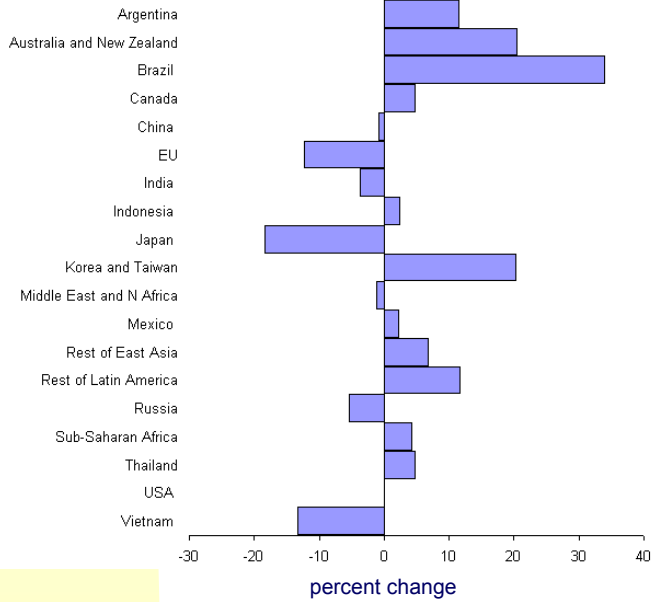
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Production changes – electronics



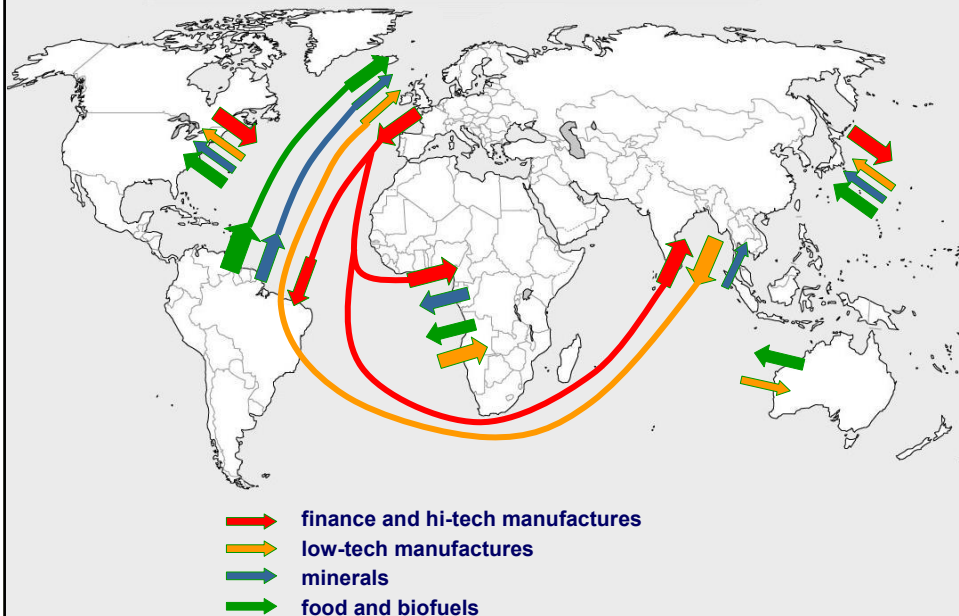
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Production changes – total agriculture



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Increases in exports and imports



Social and environmental impacts of equilibrium production changes

- employment
- poverty
- food prices
- gender effects
- pollution
- water resources



biggest effects are in developing countries

global

- biodiversity
- climate change

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Dynamic effects - the trade negotiation agenda

- manufactured goods
- agriculture
- services (financial, environmental, other)
- the wider agenda
 - government procurement *
 - freedom of investment *
 - competition policy *
 - trade facilitation
 - intellectual property rights (TRIPs)
- trade rules
 - trade and environment
 - regional trade agreements
 - special and differential treatment



the “single undertaking”

- * removed from the WTO agenda in 2003 (Cancun) but still pursued in regional/bilateral agreements

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The dynamics of successful development

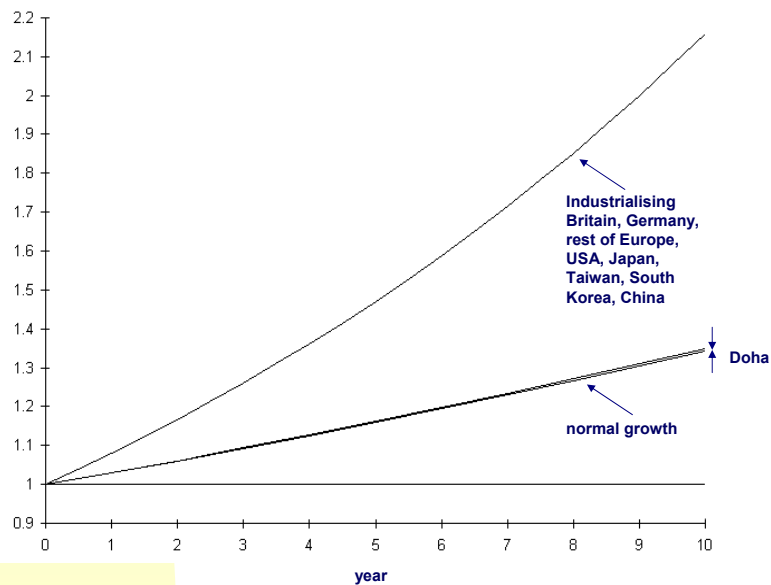
policies adopted by Britain, Germany, the rest of Europe, USA, Japan, Taiwan, South Korea and China during their periods of rapid development:

- infant industry protection (export oriented)
- spread and uptake of knowledge and ideas
 - NOT granting foreign rights for intellectual “property”
- other interventions – investment policy, competition policy, procurement policy
- protection and support for small-scale farming
- integrated rural-urban development strategies

➔ all banned or severely hindered by the “free trade” agenda

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Dynamic effects – “kicking away the ladder”



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Main impacts of the trade liberalisation agenda

- maintains global imbalances in the consumption of natural resources
- accelerates biodiversity loss and climate change
- constrains rural development and poverty reduction
- constrains industrial development and poverty reduction

the EC's reponse?

- no change to negotiating positions
- Aid for Trade – yet another reinforcement of the *status quo* (i.e. the Lisbon strategy)

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A world in transition

- declining influence of the WTO
- a world in crisis
 - financial and economic crisis
 - crisis of neo-liberalism
 - parallel global crises (climate, biodiversity, energy, food, poverty)
- the rise of the East
- ➔
- a new Bretton Woods?
- a new Bretton-Rio?

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A “Bretton-Rio” trade agenda

- reinforce the WTO core principles - non-regional preferential trade agreements banned for all WTO members
- WTO subject to binding rules developed under the UN conventions on biodiversity and climate change
- no single undertaking – manufacturing trade, agricultural trade and services trade all managed separately
- manufacturing
 - full implementation of GATT for its members (zero tariffs and subsidies for all industrial products)
 - GATT reverts to a voluntary association of industrial and newly industrialised countries (including TRIPs)
 - no constraints on other countries
- agriculture
 - export subsidies banned
 - no constraint on import tariffs
 - no constraint on domestic subsidies
BUT must be accompanied by an export tax
- financial services, environmental services, government procurement, competition, investment
 - all removed from the liberalisation agenda
- new agenda item – oil and other minerals (the “resource curse”)

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Conclusions – international trade and global governance

The principle of subsidiarity

- what can be managed locally should be
- anything that can be managed only at a higher level must be

what needs to be managed globally?

- global political and security issues
(nuclear weapons and terrorism)
- global economic issues
(energy supply, financial stability, poverty)
- global environmental issues
(climate change, biodiversity)

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plus:

- mineral resources of global importance
- a few specific aspects of international trade

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