Wanted: Jubilee 2010 Against Protectionism

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That the rich countries have not fully dismantled their tariff barriers and that this hurts not only themselves but also, particularly in the case of labour-intensive industries, the poorer among the poor countries has been known, and the situation condemned by trade economists, for at least a quarter of a century.

Several Fallacies

The recent castigation in the media of rich-country protectionism is therefore little more than reiteration of the obvious. But judging by the reactions of anti-trade NGOs and the sentiments of several poor-country politicians at Davos and elsewhere, it has lent support to a number of fallacies that pose serious threats to the making of good trade policy in the poor countries.

Fallacy 1: Rich-country protection is higher than poor-country protection. Many poor-country politicians have exploited the focus on rich countries' protectionism to say that the world trading system is asymmetrical in trade barriers and hence "unfair" to them. This is meant to add poignancy to their frequent complaint that the Uruguay Round had also been "unfair" in having collected more concessions from the poor than from the rich countries.

But if one examines the tariff barriers in the rich and the poor countries today, it is still true that, on the average, the poor countries have higher protection than the rich countries. This is evident from Figure 1 drawing upon work by Michael Finger and Ludger Shuknecht which shows the tariff rates for both groups of countries, for different sectors and overall, to be still higher for the poor countries. Thus, in manufactures (excluding textiles and clothing), the rich-country tariffs are at 8% compared to 21% for the poor countries. Even in textiles and clothing, the poor-country tariffs at 21% exceed the rich-country tariffs at 8%.

What if one looks at the peaks in tariffs? Sure enough, they are concentrated against the exports of poor countries, applying with potency to products such as textiles and clothing, footwear and fisheries. But none of this is significant enough to reverse the force of the asymmetry of average tariff barriers in favor of the poor countries.

If we look at nontariff barriers, particularly anti-dumping actions, then again the developing countries have been setting up anti-dumping procedures and rapidly catching up to the rich-country practices and excesses to the point where the number of such protectionist actions has converged. Thus, economists Michael Finger, Francis Ng and Sonam Wanchuk have estimated [Figure 2] that, during 1995-99, the rich countries initiated 463 anti-dumping actions whereas the poor countries started 559. It is therefore simply wrong to say that the trade barriers are asymmetrically stacked against the poor countries; the truth is the other way around.

Fallacy 2: Trade barriers against the poor countries reflect wickedness or hypocrisy on the part of the rich countries. This is a sentiment voiced by many pro-poor-countries NGOs. It derives support from the virtually exclusive focus on rich-country protectionism as distinct from the protectionism of the poor countries themselves. But as soon as the latter is recognized, a more prosaic explanation of rich country protectionism than wickedness is at hand.

The persistent presence (despite the huge postwar liberalization of trade by the rich countries) of protection against the labour-intensive exports of the poor countries, chiefly in textiles, footwear and agriculture, is to be put down, in principal part, to the fact that trade liberalization has usually occurred in the context of reciprocal reductions of trade barriers. As long as the poor countries received MFN benefits at GATT Rounds of trade liberalization, and were exempted from having to make any trade concessions just because they were "underdeveloped", the rich countries proceeded to make tariff reductions in commodities that were of interest only to themselves. By refusing to play with concessions of their own, the poor countries also gained few concessions for their own exports. If you insist on having a free supper, you cannot expect to eat at a banquet.

Fallacy 3: <u>It is wrong to ask the poor countries to free their trade barriers when there are trade barriers in the rich countries.</u> This is an elementary economics error. As Joan Robinson famously said once, if your trading partner throws rocks into his harbor, that is no reason to throw rocks into your own. It may sound "fair" to do so; but it is downright silly to do it. And as many Western NGOs and some church groups that often argue this fail to understand, it also does the poor nations no good.

Fallacy 4: <u>Exports from poor countries fail to grow because of protection in the rich countries</u>. A small yes but a big no. Even as rich-country protection is properly condemned, it is necessary to tell the poor countries <u>simultaneously</u> that their own protectionism is often the chief culprit in their dismal export and economic performance.

Thus, the Far Eastern economies which offset the bias against exports of their protection by using export subsidies managed to register a huge export performance whereas protectionist countries like India hurt their own export, and hence economic, performance. But both sets of countries faced virtually the same trade protectionism abroad! The postwar experience underlines strongly the proposition that export pessimism is self-fulfilling whereas those who set their policies to exploit foreign markets have usually found it possible to do so despite protectionism abroad.

II: Tackling Protectionism: A New Round and Jubilee 2010

While these fallacies, fatal to the economic health of the poor countries, can be summarily refuted, the question remains: what can we do in place of endless exhortations to reduce rich-country protection?

Evidently, the Uruguay Round Agreement, under which the ever-elusive Multi-fibre Arrangement (MFA) was finally put under the axe, underlines the importance of multilateral trade negotiations towards this end. So, every effort must be made to finally launch the aborted Seattle Round at the next WTO Ministerial meeting in the desert of Qatar this November.

But we could also harness the energies and sentiments of church groups, in particular, to eliminate rather than support such protectionism. At Seattle and elsewhere, they have marched alongside protectionists, identifying themselves wholly with our workers seeking to shield them from international competition. But they forget that, as custodians of both this world and the next, they should also be custodians of not just the First but also the Third World.

Surely, one can expect them, of all activist groups, to favour policies that take the welfare of both domestic and (the far poorer) foreign workers into account. This requires that the church groups put their weight behind the dismantling of our protection but, at a pace and with institutional support for adjustment and retraining that are compatible with a humane concern for our workers.

Is it too much to expect that, just as the Jubilee 2000 movement achieved what many exhortations to give debt relief had not, we now have a church-led movement, a Jubilee 2010, to do the same for freeing us from rich-country protectionism?