# Notes

1 The importance of their doing so was even then becoming increasingly obvious, as their share of global GDP was increasing. Today, it is unimaginable for there to be a global trade regime without, for instance, China.
2 Sub-Saharan Africa was estimated to have lost US$1.2 billion as a result of the Uruguay Round (UNDP 1997).
3 In some cases, setting standards has positive effects on trade, as it provides assurances of the safety of imported products. On the other hand, there are numerous instances in which phytosanitary conditions have been used to effectively bar products that were safe. In any case, the imposition of these standards may impose large costs on developing countries, in order for them to meet the standards. One of the objectives of aid for trade should be to provide the requisite assistance.
4 As we show below, many African countries (and others among the least developed) were actually worse off as a result of the Uruguay Round.
5 As Stiglitz and Charlton (2004) explain, there was an understanding that in return for giving the developed countries what they wanted – a financial services agreement and an intellectual property rights agreement – the developing countries would get what they wanted – a marked reduction in agricultural subsidies and an end to the multi-fibre agreement. The developed countries got what they wanted; the developing countries did not. As we note, many were actually worse off as a result of the agreement.
6 The protestors also included those concerned about adverse effects of trade agreements on the environment and labour rights.
7 The spirit of global co-operation that pervaded after 9/11/2001 also probably played a role in the ability to reach an agreement.
8 He did not, however, consider the effects on development, or even growth. In later work, he noted that even if both countries were in a sense better off, there were distributive consequences. There were losers as well as winners. Even if the winners could in principle compensate the losers, they seldom did.
9 In particular, he made all the assumptions of what has since come to be called the neoclassical model – perfect competition, perfect markets, perfect information, no transactions costs, no frictions – which implied, in particular, that there was no unemployment. He also ignored risk. The neoclassical model underlies much of the neoliberal policy. It is increasingly realised that what separates developed from developing countries is a disparity in knowledge, and that an essential element in development is closing the knowledge/technology gap. Thus, the neoclassical model (and neoliberal policies based on that model) assume away a central issue in development (see Greenwald and Stiglitz [forthcoming]).
10 Latin America's lost decade, the 1980s, was often blamed on its pursuit of failed import substitution policies. More recent rethinking of the lost decade (and the subsequent lost half-decade under the influence of the Washington consensus policies), has shifted the emphasis away from failed import substitution policies towards excessive debt obligations undertaken in the 1970s, and the flaws in the handling of the resulting debt crisis, both by Western creditor governments and institutions and by the developing countries (Bértola and Ocampo 2012). The World Bank, especially in the

work of its chief economist, has in recent years been actively arguing for industrial policies, some of which involve trade interventions (Lin 2012).

11 The debates continue both in the interpretation of the cross-country data, as well as the experiences of individual countries. For instance, Rodrik and Subramanian (2004) argue that India's growth dates not to the period of trade liberalisation in the early 1990s, but much earlier, to the 1980s, when it engaged in internal liberalisation, taking on a more pro-business stance.

12 That trade liberalisation *by itself* would not ensure growth should have been obvious from the large disparities that exist within developed countries: there are no trade barriers between north and south Italy (no barriers even to the movement of capital), and yet there have been persistent large differences in income. So too for the United States, until the federal government undertook actions (including assistance) that led to the narrowing (but far from eliminating) the gap in income between the north and the south.

13 Stolper and Samuelson 1941. This theorem was based on the same assumptions that underlay Samuelson's earlier analysis of the welfare gains from free trade. At the extreme, Samuelson showed that if there was free trade, factor prices would be fully equalised between countries with the same technologies. That that has not happened should be obvious. Nonetheless, Samuelson and Stolper did identify an important force that was at play: trade in goods was a (partial) substitute for the movement of factors.

14 The political economy of this asymmetric liberalisation was understandable, especially given the impetus for liberalisation came from developed countries where capital was in abundance. However, this means that it may not be likely that future trade agreements will be associated with significant increases in symmetry. To the extent that labour market liberalisation is included, it focuses on skilled workers.

15 The problems just described arising from trade liberalisation were often exacerbated by other liberalisation measures that often accompanied them. Capital and financial market liberalisation and banking deregulation often led to an increase in instability, with adverse effects on inequality and growth (see Stiglitz 2008, 2010, 2011, 2012).

16 While the Doha 2001 agreement clearly put development at the centre of trade negotiations, the link between development and trade liberalisation was even more ambiguous than that between growth and trade liberalisation. And trade ministers, especially from the developed countries, were ill-prepared to analyse the implications of alternative proposals for development. Under GATT, developing countries were somewhat protected by the commitment towards Special and Differential Treatment. The obligations undertaken by the developing countries as part of the Uruguay Round significantly reduced the policy space for developing countries. It made, for instance, the imposition of infant industry/economy protection more difficult, even though many developed countries had used such instruments in earlier stages of their own development, and even though advances in economic theory had shown the desirability of such policies, e.g. in the context of 'learning by doing' (see, for instance, Greenwald and Stiglitz 2006 and Stiglitz forthcoming). Development, it was increasingly recognised, required a transformation of the economy (see, e.g. Stiglitz 1998), a structural transformation that market forces were unlikely to accomplish on their own, and which could be facilitated by well-designed trade interventions. Developing countries began to demand greater flexibility for policy space, including greater freedom to pursue

industrial policies and to address supply-side constraints via government interventions, preferential market access and support for institution and capacity building.

17 The Gleneagles 'Africa' Communiqué.

18 G8 Finance Ministers, 'Final Communiqué'.

19 Doha Work Programme, Ministerial Declaration, WTO, adopted on 18 December 2005.

20 See International Lawyers and Economists Against Poverty 2006.

21 See the final text of agreements and commitments adopted at the International Conference on Financing for Development, Monterrey, Mexico, 18–22 March 2002.

22 ODA from development assistance countries was US$79.9bn in 2004, and it rose to US$133.5bn in 2012, around 0.31 per cent of GNI (and an average country effort of 0.46 per cent). If it had increased to 0.7 per cent for all Development Assistance Committee countries, net ODA would have been US$430.7bn. The shortfall between promised and delivered is some US$297bn.

23 Easterly 2006. He has since been joined by a host of critics (cited below) making similar observations.

24 In the last decade, significant resources have been devoted to understanding and improving the effectiveness of aid. In an early study, for instance, Burnside and Dollar (2000) showed that aid has no impact in countries with 'poor' institutions and policies, but can support GDP growth in developing countries with 'sound' institutions and economic policies. More recently, Rajan and Subramanian (2008) found that aid flows have very little impact on economic growth.

25 This was partly because, at the time, the prevalent belief in the development community was that increasing trade would lead to more growth, and more growth would lead to less poverty (both directly and indirectly because the increased growth resulted in more resources for poverty alleviation.) We have explained why those presumptions may not necessarily be correct. Aid for trade may still, however, promote growth and development (and poverty reduction) if it, for instance, offsets the loss of tax revenues from trade liberalisation or increases the pace of job creation through supply-side measures.

26 Though developed country exporters were more interested in expanding imports into developing countries; firms in developed countries that competed with developing country exports were not so interested in increasing the capacity of developing countries to compete.

27 At the same time, it should be recognised that much of the broader 'trade' agenda has for the past two decades consisted of cramming issues like investment and intellectual property into trade negotiations. TRIPS actually embraced virtually all of intellectual property rights.

28 Yet ironically many trade agreements have included provisions (such as those relating to financial market liberalisation), which have systemically resulted in a diminution in credit flows to small and medium enterprises (SMEs). See Detragiache et al. 2008.

29 And, indeed, doing so in ways that are consistent with poverty alleviation, through positive impacts on employment. Note that trade liberalisation by developing countries was often associated with increased imports and job destruction, while the aid for trade is associated with increased exports and job creation.

30 Thus the critique is far more fundamental than that there have not been appropriately designed 'random trials'.

31 That is, in this case the 'counterfactual' is that there would have been the same amount of aid in the absence of the aid for trade movement, but the aid for trade movement has imposed an additional constraint, diverting money that was more targeted at poverty reduction to other uses.

32 The existence of these impediments, which lowers exports from LDCs to developed countries, heightens the imbalances in tariffs: if they had been able to export more, the tariff revenues collected from developing countries would have been even larger.

33 WTO dispute cases numbers 58 and 61, for more information see: www.wto.org/english/tratop_e/dispu_e/dispu_status_e.htm

34 The right to development has emerged in a number of different contexts. It was first recognised in 1981 in Article 22 of the African Charter on Human and Peoples' Rights which states, 'All peoples shall have the right to their economic, social and cultural development with due regard to their freedom and identity and in the equal enjoyment of the common heritage of mankind'. The United Nations subsequently recognised the right to development in 1986 in the 'Declaration on the Right to Development', which was adopted by the United Nations General Assembly Resolution 41/128. Article 3.3 states: 'States have the duty to co-operate with each other in ensuring development and eliminating obstacles to development. States should realize their rights and fulfil their duties in such a manner as to promote a new international economic order based on sovereign equality, interdependence, mutual interest and co-operation among all States, as well as to encourage the observance and realization of human rights'. See, for example, Fukuda-Parr 2012.

35 One of the details which should, however, probably be pre-specified is the 'breadth' of the set of actions that might fall within the scope of the provision, i.e. the trade rules *as a whole* might be pro-development, even if a specific set of rules (e.g. relating to access to knowledge) impaired development. There should, however, be a presumption against actions that impair exports from least developed countries to either emerging markets or developed countries, or from emerging markets to developed countries.

36 Additionally, they should be able to freely agree among themselves on the allocation of sanction rights (some countries within the group may be better able to impose effective sanctions). Note that such collective action is akin to class action suits, which have proved to be one way that countries like the United States have responded to the asymmetries between large corporations and the many individuals with limited economic resources that may be affected adversely by the actions of those large corporations.

37 Some of America's recent economic problems have been attributed to its rules-based accounting systems, where corporations complied with the rules, to provide a grossly distorted picture of the firm's financial position (see, e.g. Stiglitz 2003). However, there are numerous other examples (cf. transfer pricing; the shadow banking system).

38 In the *Grootboom* case, the South African Constitutional Court, 'made it plain that the right of access to housing could not be separated from the right to human dignity' (Sachs 2005: 147). Such issues are largely a matter of degree: within the current WTO framework, there are agricultural subsidies that are described as 'trade distorting' and forbidden, while others are permitted. The US claims that its subsidies are not trade-distorting; most economists say that they are. Whether they are, or the extent to which they are, depends heavily on the 'model' of the economy. The WTO, in effect, left such matters to be resolved by the dispute resolution process.

39 A notorious example is the US offer to open its markets to 97 per cent of the products of the least developed countries. However, the 3 per cent 'carve out' embraced essentially all of the exports from some of the least developed countries. Still, there may need to be some specificity, such as discussed in footnote 35 above.

40 The reason for choosing UNCTAD is explained more fully in Stiglitz and Charlton 2006. One wants an institution in which the developing countries have more voice than say the World Bank, and one wants an institution that is less committed to the neoclassical model (in which there is no unemployment) and more committed to development.

41 The adjudication of the magnitude of the aid required to compensate might of course be a complex matter, but no more complex than the assessment of the value of compensation associated with any other trade violation. The GTF could also compensate developing countries in the case of other trade violations (including for already existing rights) where it is determined existing enforcement mechanisms are inadequate, e.g. because the implementation of such sanctions would impose significant costs on the developing country.

42 The tax could be thought of in part as a 'benefit tax' – exporters to developing countries are among those benefitting most from changes in the global trading regime that results in enhanced trade. The gains in 'equity' from such targeted taxation have to be balanced against the resulting distortions, which given the proposed rates are likely to be very small.

43 Even strong advocates of trade liberalisation have been highly critical of these bilateral and regional trade agreements. See Bhagwati (1995) who coined the term 'spaghetti bowl'.

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