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THE CARNEGIE ENDOWMENT FOR INTERNATIONAL PEACE

MAKING GLOBALIZATION WORK: EXPANDING THE BENEFITS OF GLOBALIZATION TO WORKING FAMILIES AND THE POOR

PANEL II: ARE THE TERMS OF GLOBALIZATION FAIR?

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KAREN TRAMONTANO: -- To begin, I want to thank some of the staff who worked to facilitate this conference; first and foremost, Alison Driscoll who is with Brookings, who worried about every detail of this conference, and then the folks who helped her. I'm looking around to see if Allison's here. There she is. Okay, Allison's right there. Maria Carlo, Vanessa Ulmer, who was taking pictures yesterday and last night as well and -- I don't know, I don't think Liam's here today, but Liam Murphy's with the ILO in the Washington office, and he was responsible for everybody getting the invitations and a number of other things. So I want to thank all of you for hanging in there with us and really organizing us to make sure that we did what we were supposed to do, because you did a great job putting this together.

(Applause.)

Before I introduce the panel, I just want to talk a couple of minutes about what we're trying to accomplish. For those of you who were here yesterday, and Lael pointed this out, I think the panelists that we had yesterday did a very good job of taking some very complicated facts and factors and putting them together and making them accessible and really sort of inspiring a very good dialogue. And for those of you who were at the dinner last night, I think Chris Dodd just did an excellent job of pulling a lot of aspects of globalization and integrating it quite well with the political situation, at least here in the United States.

I think the panelists this morning have a bit of a daunting task. We're asking them to speak to whether the rules of globalization are fair. And I think that, you know, there's a fair number of people out in the streets these days and for many, many years claiming that the situation is not fair. And I think in most cases they have better than anecdotal evidence, or at least people can come up with a fair number of anecdotes that establish pretty clearly that situations for the developing countries, the least developed countries, and the working poor are not fair. So I think the tide is somewhat against our panel, but I think they're all up to the task of laying it out for us. We're going to try to get to the central issues, and to that extent we asked them to think about a number of questions.

One was whether the system, including the trading system, favors or disadvantages particular groups or countries, workers and poor producers. We've also asked them to consider whether the current system that's attempting to integrate developing countries into the international capital market can be fair, and in particular to think about the rules that apply to migration, and whether poor workers who are trying to obtain some economic opportunity through their own mobility can do that in a fair way. We've also asked them to think about traditional multilateral and bilateral aid programs, and whether those programs can help address the historic disadvantages.

And we've asked them to do all of this in 10 minutes, so we'll see if they can accomplish the time limit, I know that they're very much up to the task substantively. Let me give a brief introduction. I think most of the panelists certainly don't need one. To my far right is Zanny Minton-Beddoes. Zanny is the economic correspondent for The

Economist. Prior to that she served as the emerging markets correspondent. She's written extensively about international financial issues, including the future of the IMF and economic reform generally, and she's also a regular commentator on national public radio and has appeared extensively on CNN and PBS and CNBC.

Gerry Rodgers, who's to my immediate right, is the director of the ILO's Policy Integration Department. He also is the main force behind the World Commission on the Social Dimension of Globalization, which he's going to speak a little bit to this morning, and he was formerly head of the Training Policies and Systems Branch, director of the multidisciplinary technical team in San Diego and director of Research Programs and Labor Markets and Labor Institutions. And he's also published widely on poverty and equality, labor market conditions, economic development, especially in south and southeast Asia.

Nancy Birdsall, who's to my left, is president for the Center for Global Development, which is a policy-oriented research institution that opened its doors in Washington in October of just last year. Prior to launching the center, Nancy served for three years as senior associate and director of the Economic Reform Project at the Carnegie Endowment for International Peace, so to a certain extent we're welcoming her home. And then from 1993 to 1998 Nancy was the executive vice-president of the Inter-American Development Bank. She also has authored and co-authored more than a dozen books and publications, the most recent of which is "Delivering on Debt Relief: From IMF Gold to New Aid Architecture."

So with that, I'd like to ask Nancy to start us off. And as we did yesterday, I'll give the panelists a 9 minute note, we'll go for 10 minutes and then we'll go to questions. Nancy.

NANCY BIRDSALL: Thank you very much, Karen, it's a pleasure to be here. I think it's great that the group sponsoring this event put it together as they did, and I like very much the boldness of a session called "Are the Terms of Globalization Fair?", because fair hasn't been sufficiently on the agenda as a word or as a concept in the last decade or even two decades. But despite that, what I want to do for this quick introduction is to change the terms of the terms a little, and ask the question: Are the terms of globalization reasonable given the asymmetries that exist between rich countries -- contrasting rich countries and poor countries, and contrasting the position in rich countries of rich people and poor people? So I want to describe these asymmetries and then say something in each category about what might be done, but obviously very briefly.

Now, I want to use the word asymmetry because -- well, for two reasons. One is it has a sense of neutrality, so it doesn't imply that everything that is going wrong about globalization, particularly for poor countries and poor people is because rich countries and rich people are imposing that wrongness. And the second reason is that among the problems of asymmetry are some that are harder to fix than they would be if it were just a matter of unfairness. So let me proceed to the three ways that the world seems asymmetric, and I hope you'll glean from what I'm saying, these introductory points that I've tried to make. So the first reason is that in the world we live in, there are lots of market failures and at the global level they're exacerbated. Market failures, when they're not dealt with properly, hurt everybody but they do tend to be asymmetric in that they create greater risks for the poor, certainly in welfare terms, and they create greater risk for poor countries.

And the second problem is that markets mostly work and at the global level when they mostly work, that can leave the poor behind. And the third reason is the one that's implied in the title of the session, namely that the global system has some rules that are rigged, to use the expression that Oxfam used in one of its reports, and the rules may reflect the interests of the rich countries and rich people more adequately than they reflect the interests of the poor. So let me say a word about each of those, well, noting that it's really only the third of the three where you would immediately think of unfairness as relevant, the other two are kind of more structural, and in that sense maybe more challenging and problematic to deal with.

Well, market failures we're familiar with, the most obvious example are those things we're familiar with at the domestic level such as pollution and in terms of the global level, the famous one, the famous example is global warming. And this is an example where the big polluters, including the U.S., if they don't sign on to a collective arrangement in effect are free riding on those countries that do sign on to a collective arrangement. And that's an example where there may be asymmetric effects, it may be that the poor countries are less able to cope with the problems and so on. An example that I'm sure will be discussed in a few minutes by Zanny or at least, if not both Zanny and Gerry, is global financial contagion.

The problem we're all familiar with of global financial shocks having particular pernicious effects on emerging market economies. They're much more badly hit, sometimes because of their own historic and current problems, shallow financial markets make it harder for them to borrow, they may have been running fiscal deficits, they can't run their own counter-cyclical policy et cetera, et cetera. Now what to do about all these things, there's many things on the agenda including Anne Kreuger's proposal for a sovereign debt restructuring. But rather than go into all that, I'd just say that there are lots of ideas out there which the global system hasn't really endorsed very strongly. Chili was actually criticized for its taxes on capital inflows, there was a lot of pooh-poohing when Malaysia temporarily closed its capital markets at the time of the Asian crisis.

The OECD countries have not really signed on, especially the U.S., to the idea of collective action clauses, they haven't been issuing -- they could take the lead in issuing in their own markets using collective action clauses. The U.S. is pressing Singapore in the bilateral trade discussions they're having to open its capital markets, so you know, you have to ask yourself the question. The multilaterals could be much more demanding on emerging markets about debt management but they could also be much more generous doing counter-cyclical financing when problems arise, so, you know, that's just quick thoughts on what to do.

Let me go to the second problem of markets do mostly work, and I think of this as a problem of having a game out there. It's not a perfect analogy, and you'll all complain about it, but anyway give me a break for a minute because I only have 10 minutes. There's a game out there in which the teams that come to the game with better equipment, with the right equipment and the right training are much more likely to do well over, you know, over the season, anyway, than those teams that come with the wrong assets and the wrong equipment or insufficient training. And at the country level, the critical asset is to have political stability, good infrastructure, adequate human capital. These are country-based assets. And these are the assets that deeper, more global markets reward.

And if you come to this game with the wrong assets, with insufficient -- weak institutions and so on, then you're likely to have a problem. And this is an example of a structural problem which has little to do with unfairness in the sense of anybody imposing anything, it's just the way the world works. Well, what can be done about that? I think the basic idea that's been out there for 50 years or more is that there should be some transfers to poor countries to enable them to build up their institutions, to build up their human capital, and here we have what to do, and I think there are multiple problems with the way the donors have and do behave, problems of donor accountability, the insufficient amounts but also poorly used amounts. I think in this context that the U.S. Millennium Challenge Account is sort of maybe a little bit of a light at the end of the tunnel in terms of new thinking about how to make aid effective.

But we have a basic problem that our global institutions, like the World Bank and the IMF, are not really -- they are losing their legitimacy as mechanisms for doing those transfers, for a whole lot of reasons that have to do with their representation, who's running those institutions and so on. Now let me say a word about the third problem, the rules, and here I think there's a lot of discussion that's been very healthy in the last few years about the rules of trade. Nick Stern at the World Bank has done a particularly good job recently in bringing up these issues.

I think the whole issue about intellectual property rights is an important one because it demonstrates that even if you believe the rules are fair, and in a sense I think that the TRIPS, for those of you familiar with these issues, it's not that bad an arrangement. The problem has been that the implementation of TRIPS has been asymmetric or unfair in the extreme. And those of you don't -- if you're not familiar with the issue you don't know what I'm talking about, but I'd be happy to talk about it later.

Karen mentioned immigration regimes, and that is certainly the most illiberal of all the markets. We do protect capital, we do protect intellectual property, but we don't have any mechanisms at the global level for protecting people, and we obviously have a very illiberal migration regime. What to do about all of that, I wrote down the word fuss, which I think can work. You know, I think the fuss about the unfairness in the design and the implementation of rules is already working.

Let me end by saying that because there is this fundamental asymmetry between rich and poor countries in the way the increasingly global economy operates, to me what that suggests is that there has to be much more attention to managing the globalization process and that in turn means much more attention to strengthening and making legitimate the global institutions that we have. It's not so much about tearing those down as it is about fixing the way that they operate so they can play a greater role. Of course there's lots of controversy about what to do and how to do that, but I think that it's the idea of these kinds of sessions to put those specifics on the agenda.

Thank you, Karen.

KAREN TRAMONTANO: Thank you.

(Applause.)

ZANNY MINTON-BEDDOES: Thank you. Well, I intend to capitulate straight away and won't even pretend to answer all of your questions, which I couldn't possibly do in 10 minutes. I'm going to stick solely to the issues of trade and finance and ask whether the terms of globalization are fair there. .

I've just spent the last two weeks in Brazil and Argentina and I've heard questions about fairness from a number of people. In Brazil a lot of people said to me, "FTAA, why should we do this? This is an unfair arrangement that benefits the U.S. and not us." And in Argentina there were plenty of people saying, "What is it with this international financial system. You know, the IMF gives $30 billion to Brazil and it gives us no money. This is a completely inadequate system."

And I think that in both cases there is clearly a point to these arguments, but I think there's a difference. I think in trade -- to be overly simplistic, in trade the errors are of commission, whereas in the global financial system they're errors of omission. That is, I think you can argue quite successfully that in trade there is something to the fact that the rules of global trade are rigged or the liberalization that has taken place to date has benefited rich countries more than poor. I think in global finance it's simply that there are inadequacies in the system, there are failures in the system, and we need to think about how you improve the system.

So turning to trade first, what's the evidence of a systemic bias in the trading regime? Well, I'm sure you heard quite a lot of it yesterday. It is true that workers in poor countries systematically face higher barriers on the goods they produce than workers in rich countries. There was a World Bank report I guess just over a year ago that showed very compellingly that the average poor person selling into world markets in a poor country faces barriers that are on average about twice as high as the typical worker in rich countries.

And the main reason for this we all know about, it's rich country protectionism, particularly in the areas of agriculture and labor intensive textiles that are very important to the poorest of the poor countries. And in my view, agriculture is the most egregious case, and it's not just market barriers, as you all know, it's subsidies, it's domestic support for agriculture. There is this terrifying figure of how the rich world spends over $1 billion a day subsidizing its farmers to the detriment of many agricultural workers in poor countries. But it's not just that, it's also tariffs and protection on labor intensive imports, textiles, shoes, et cetera.

And it's not just tariffs. It's anti-dumping rules. It's the way that tariffs are set up. You have these things called peak tariffs, which means very, very high tariffs for particularly sensitive areas, and it's something called tariff escalation, which means that the rate of the tariff goes up the more processed the good is, which biases against poor countries producing any value-added goods.

So I think one can argue that given that evidence it is fair to say that the rules are stacked against the poorest countries. But I think there's an important caveat to that, which is that quite a large proportion of the protectionism faced by poor countries comes from other poor countries and that, on balance, tariffs in developing countries against goods from other developing countries are considerably higher than tariffs they face in rich countries. So it's not just a rich country bad, poor country issue. There's an enormous amount that could be achieved for the poorest producers of the world if other emerging economies opened up.

And India is a very famous example of this. India has been a member of the GATT and then the WTO since its founding the 1940s, and it still has some of the highest tariffs on manufactured goods of any country in the world. So I think I would agree wholeheartedly with those who say that the rules of trade are rigged against the poorest. And I would agree with anyone who said that particularly in agriculture the rules of the rich world were abhorrent, but I would also submit that it is not just a rich country problem and that there is a lot more that needs to be done in terms of opening up and encouraging South-South trade, for want of a better expression.

And the way to do this I think is through the multilateral system. That's what the multilateral trade regime is all about, it's there to encourage trade amongst all its members, and since it now has a virtually global membership, it seems to me to be potentially the best forum. It's the best forum for a number of reasons. It's the only way that you're going to get any progress on rich country agriculture. You're not going to get liberalization in agriculture through regional arrangements. There has to be some kind of grand deal between the EU, Japan and the U.S., and that will only happen in a multilateral forum. And it's also the best way to get poor countries to open up. It's much better quality liberalization than preferential agreements, the GSP and other preferential trade arrangements that are offered to poor countries.

The question is: will it ever happen, because if it's not ever going to happen, then we have to think about second best solutions. And maybe, for example, preferential trade arrangements will be the optimal solution if we can never get anywhere on a multilateral level. My view is that it's too early to give up on the multilateral system and that the Doha agenda at least is looking at the right areas and is intending to make progress in the right areas. It's not clear to me yet whether that progress will be achieved. If you look at what's on the agenda it's agriculture, it's anti-dumping, it's reduction of tariffs in textiles, it's all the things that matter for the very poorest. That's why it's called the Doha development agenda.

And there have been lots of nice sounding proposals put on the table, particularly by the U.S., a proposal to eliminate virtually all market barriers in agriculture, last week a proposal to eliminate market barriers on manufacturing goods, bring tariffs to zero. That all sounds great. The reality is that as yet I don't see very much political will in any of the rich countries to really push through. The US, after all, passed the Farm Bill this year, which I keep mentioning in every article I write as being a sort of egregious example of do as I say and not as I do. And maybe its only a temporary increase in subsidies, , but it seems to me that if you increase subsidies to American farmers they're not likely to want to give them up in five years time. So, it certainly makes the idea of multilateral liberalization harder.

Secondly, I think there's no real commercial pressure for trade liberalisation in the rich world. Unlike previous rounds, there's not that much in this for many U.S. companies. In some areas, such as services, there's potentially an enormous amount to be gained. But the issues that matter to the poorest countries are not of that much commercial interest to the people who lobby in Washington. There's just not such a big lobbying force in favor of more free trade.

And thirdly, I hark back to the responsibilities of the poor countries: the poorer countries have enough power now in the WTO to stymie the agenda. They don't have enough power to push through what they want. So it's a dangerous situation where you have the potential to wreck but not really the power to shape an outcome.

Those three factors make me worried about the prospects for Doha, but not worried enough yet to give up on the multilateral route. So my bottom line on trade is, certainly the rules could be improved, but we have a system for doing that and really what we need is political will to push that through.

On finance, very briefly/ There's less evidence of any systemic bias in the rules of global finance simply because there isn't a systemic rule making in the sense that we have it in the WTO. Having said that, there are clearly outcomes in global capital markets that are odd, to say the least. One would expect other things equal that capital should flow from the capital rich economies of the rich world to the capital scarce economies of the poor world in search of higher returns. In fact quite the opposite is happening. As you know, capital has been flowing for the last decade into the richest country in the world faster and more furiously than anywhere else. Many of the poorest countries of the world have become net capital exporters.

Secondly, capital markets are more volatile than anybody expected them to be. Now I think if you have a kind of longer historical perspective and you go back to the Argentine crises of the 1880s you might not be quite so surprised. But certainly in terms of what we expect in the modern world, they're much, much more volatile than we expected.

And thirdly. the way crises have unfolded, countries' emerging economies, when they hit a crisis, have been forced, to adopt pro-cyclical policies. As Nancy said, when times are tough, the IMF comes in and tells you to cut your budget deficits. Now to some, notably to Joe Stiglitz, that's another sign of how broke the system is. I think certainly those three criteria are sub-optimal outcomes of the global financial system. And it has led some, an increasing number of people, to question the whole wisdom of capital mobility and to say that actually this is a frightfully dangerous thing and we should put the genie back in the bottle and go back to a world of limited capital mobility, and we could have trade integration and not financial integration.

My view is somewhat more nuanced than that. I think it's important to remember that, firstly, not all capital is bad. And most people who believe in globalization think that foreign direct investment is generally a good thing. It's stable, it's there for the long term. The bad thing is short-term portfolio money. I would submit that actually portfolio equity finance, investing in the shares of developing countries, is also a good thing. There's not that much of it, but it's a good thing. What's really dangerous is short-term borrowing, or indeed borrowing of any sort in foreign currency by the firms, banks and governments of emerging economies. And the failure that we've had in the system, in my view, has been an excessive reliance by banks, by firms, by governments in developing countries that have had access to foreign funds on that foreign debt finance.

And the reason it's been dangerous is that we don't have a multilateral financial system that's consistent with that. We neither have a lender of last resort that we have in domestic economies in the form of the central bank. Nor do we have effective international bankruptcy procedures which we have in a domestic setting. So we have neither of the two mechanisms that are used to deal with financial crises at a national level, at the international level. But we do have this debt-based financial integration, and the combination of those two, in my view, is what's dangerous. So what do we do to improve that?

Well, the first and the easiest and most necessary thing to do, which the international system has been trying to do since the Mexico crisis, is to try and persuade firms, banks and governments to be more prudent, to have prudential standards, to encourage people not to borrow so much, to have tougher regulations surrounding banks, to make financial systems stronger, all of which is like motherhood and apple pie. It's great. And there should be more of it.

It seems to me relatively limited how much you can achieve by that, because the truth is when investment bankers are falling over themselves to lend to you, it's very hard to say no, no, we're not going to borrow. And so you need, I think, to think about stronger ways of enforcing prudence, much stronger ones than we've thought about so far. Secondly, there's been a huge emphasis on foreign currency borrowing by default, because a lot of these -- in a lot of these economies it's impossible to borrow in domestic currency.

And it seems to me that that is an area where there is a market failure of sorts and that it would be useful to start thinking about ways in which the international financial system can foster the evolution of domestic capital markets in domestic currency so that you don't have these external currency-based financial crises. And thirdly, and perhaps most importantly -- and I realize I'm nearly at my 10 minutes -- we need to remove this asymmetry where we have a quasi-integrated financial system, but no lender of last resort nor any bankruptcy mechanism. And we need to decide which of those two directions we're going in. We're slightly in an unfortunate halfway house at the moment, and as Nancy mentioned earlier, Anne Krueger at the IMF is pushing very much to go towards a system of having some kind of international bankruptcy rules, that may indeed be the way forward.

My own view is that if you go that way forward you will have a much smaller international debt market, which may actually not be a bad thing, but I don't think that that system is very consistent with lots of debt finance floating around. But the problem is, how do we get from where we are now, where we have lots and lots of indebted countries, notably the two that I've just been to, to a world where you have a bankruptcy system and you don't have bailouts. And I think getting from here to there is going to be a very painful process. I think we are quite possibly in for another lost decade of defaults, particularly in Latin America. Defaults not just on private creditors but increasingly defaults on multilateral institutions.

And we have to figure out a way to get from here to this new world where you have bankruptcy rules and fewer bailouts, without throwing out the rest of the Washington consensus, for want of a better word, that actually have, I think, been very helpful. Because the risk is that as we go through the adjustment in the area of global finance, which is necessary and painful, that there is a disenchantment with the whole package of reforms that took place in the 1990s. And I think that if that happened, it would be a very great pity.

Thank you.

(Applause)

KAREN TRAMONTANO: Gerry.

GERRY RODGERS: Well, yesterday's session showed us that the relationship between globalization and inequality and poverty is not at all easy to pick out, it's very complex. And I guess nobody is really saying that globalization is responsible for the historical legacy of poverty and underdevelopment, but the problem is that people expect globalization to be part of the solution, even if it isn't part of the problem. And there's a lot of concern out there which is reflected in the views of different people, different groups and different countries. And that's my starting point, is what's a people-sensitive view of globalization, which is my route into the question of fairness.

That's some results of polling [referring to PowerPoint presentation], and I'm afraid you can't see there, but that's polling in seven countries on the perceptions of the benefits of globalization, and one has to take these polling things with a pinch of salt. They're small samples, and it's not clear how the word globalization gets translated into different people's situations. But there's some interesting things here. First, the blue line then is responses of people with respect to non-job-related issues, which is questions of the size of the market, living standards, culture, and the green line is job-related issues, which is number of jobs, working conditions, workers' rights.

And the question is, basically, will it be better with globalization? I think there are at least three interesting things from this sample of seven countries. First, that there's a lot of divergence of views. The 50 percent line is around there. So you've got a lot of difference in views and you've got a lot of difference across countries, some of which is, I suppose, not surprising. It's not surprising that China comes out more favorable than Russia, but some of it is a bit less obvious. Why is Spain down at the bottom?

But perhaps the most interesting thing here is that those green bars are systematically shorter than the blue bars. That is, when people start talking about their jobs and their work and the things which are closer to their everyday environment, they're more worried. They're more concerned. They're less sure that globalization is going to deliver the deal that they're looking for.

I think that's the most important starting point because work is where the social and economic issues come together in peoples' lives. And that, I think, is a very important way of interpreting what are people saying. Perhaps they're saying the social dimension of globalization isn't getting enough attention.

Karen said a word about the World Commission on the Social Dimension of Globalization. I won't say a lot. It's a high level group which is aiming to look at exactly that. It's looking at the social dimension in terms of how can globalization be made more inclusive, looking at how to make globalization part of the solution, thinking of globalization as a lot of unrealized potential as well as a source of problems.

And it's trying to look for policy instruments and ways of approaching globalization which can turn the debate around. I don't speak for the commission. I speak for myself. But many of the issues which we're talking about in these two days are the main concern of the commission and the things that the commission is debating on a systematic basis.

The second point I wanted to come to was this word 'fairness' because we toss it around. It's an everyday word and maybe we all have an idea of what we mean but in fact, when you start to dig into fairness, it's actually an extremely complex idea. First, it's something to do with acceptability and equity. It's what is normal. There are limits to inequality which are linked to the notion of fairness. The different societies have different degrees of tolerance for inequality. So what is seen as fair in one society may well look unfair in another. And these notions are the basis for theories of social justice in which fairness is the essential idea on which societies are built.

And that's linked to legitimacy. And part of the legitimacy or illegitimacy of globalization for many commentators and actors is linked to the notion of whether it's fair. Fair is respected. Unfair is not respected. Unfair destabilizes. It's linked to the debate on security because an unfair world is a very fertile breeding ground for extremism. So there is a very important dimension of legitimacy which needs to be thought of.

And fairness is about shared values because, you know, if I think it's fair and you think it's unfair, we're not much further advanced. And so if we want to think about making the terms of globalization fairer, then we have to think about what would be the common values on which the concept of fairness will be built. What might they be? Well, I think there are two levels. There's one level which is a question of common core values which might be considered the basis for an integrated world in which everybody has a place: democratic choice, fundamental rights, respect for diversity. And then since we're talking of a global economy, we also need to consider the basic principles functioning in the market economy and that's respect for the law, enforceable contracts, honesty, transparency, accountability.

So one needs to put into the package a cluster of those different ideas before you can actually start to really address what fairness means and then think about how these different values embedded in the way different actors behave, whether it be government or business or workers or whoever. Now, that's really prefacing a thought about -- I use the word 'asymmetries' as well. It's interesting both Nancy and Zanny took fairness and came to asymmetries because asymmetries does sound more neutral.

Here are some of the asymmetries. Zanny talked about the distribution of FDI. Here we can see over a long period of time, over 30 years, the distribution of FDI has hardly changed. It's highly concentrated in the high-income countries. The low-income countries get very little. That's one of the asymmetries of the global economy. Here's another element, commodity prices. Rural commodity prices over a 20-year period. What's happened? Well, they've gone down rather systematically and in the countries which can afford it least, they've gone down more. Now is that unfair?

That's a question of what's the perception. How do different actors interpret this? Well, when the Tanzanian president talks about the fact that prices of coffee are devastatingly low for Tanzanian coffee producers but the price of a cup of coffee in New York hasn't changed, he's basically saying that's unfair. He's talking about the mechanism of market economy, but he's saying that it works in an unfair way because the value added up to that particular production chain is distributed in ways which are considered by people to be unfair.

Here are some other ideas, some other areas where there are influential actors who think that the outcome is unfair. The first one which you find in a lot of work, in writings of Danny Rodrick, Alice Amiston (ph), UNCTAD, Ocampo (ph), et cetera, the notion that the newcomers to globalization can no longer apply the policies which were successful in the past. In other words, that the protective mechanisms that countries had to be able to develop their own capabilities, whether in terms of tariffs, whether in terms of intellectual property, whatever it might be, under the new trading rules, those are increasingly hard to apply. And so it's been described as pulling up the ladder. The newcomers can't -- have to find new policies.

The second, which was already mentioned, flows of capital and goods much freer than flows of labor, so that those -- in a Hecksher-Ohlin world, that would not matter so much, but we obviously don't live in a Hecksher-Ohlin world. And that means that labor abundant countries whose resource is mainly in terms of labor abundance are disadvantaged.

The third, which Zanny talked about very clearly on barriers to market entry, I don't need to say any more.

Competition with unequal standards. You see, this is not just a north-south issue. This is a global question. Workers in the United States feel that it's unfair to have to compete with low-cost, cheap, exploited labor. Enterprises that respect the rules feel it is unfair to have to compete with enterprises that don't. So behind that of course is a massive agenda in terms of on the one hand labor standards, and on the other hand corporate regulation. But behind it are notions of fairness.

Equal rules don't generate equal outcomes. That's the point which was already made about not only is it a question of one team having better equipment but sometimes one team only has one player and the other team has 21. The differences in capabilities mean that you need differential opportunities, differential rules. It's integrated into the WTO, but it doesn't go very far. You have special and differential treatment, but the notion that you need different rules in order to accommodate the different situations, the different groups and different countries, it's not really part of the global order.

Contagion effects in global financial systems, yes. It's all ready been mentioned. It goes beyond global financial systems. Security. Insecurity and terrorism, there are contagion effects there. I read in the paper the other day something which struck me. Somebody from the Kenyan tourism authority said it isn't fair, and he was talking about -- not about the deaths of the people in the attack in the hotel in Kenya, but about how the contagion effect of terrorism was undermining Kenya's attempt to build its tourist industry. There are lots of contagion effects.

And finally, and very generally, I'm running out of time Karen. Finally and very generally, policies for adjustment are weak. The point is that there are winners and losers. Now, when I first started doing welfare economics we looked at ways in which winners could over-compensate losers as a basis for defining welfare increases.

The point is that whereas at the national level, to a greater or lesser extent policies are put in place to compensate losers --there are redistributions and protective policies and restructuring policies-- the global mechanisms for that are extremely weak. So if the Bangladesh textile industry goes under because of competition from China, there's no mechanism by which there can be any flow of resources to compensate for that. That's between two developing countries. But between north and south it's just as -- it's extremely widespread that the globalization process generates adjustments and restructurings where there are losers who have no resources, no mechanism whereby they can be compensated for their losses.

Since I've run out of time I'm going to stop at that point. There is a policy agenda that we might come back to.

(Applause)

KAREN TRAMONTANO: Okay, while Gerry makes his way up here, let's open it up to --

(TAPE CHANGE.)

KAREN TRAMONTANO: -- on the floor and try to do what we did yesterday, if people don't mind. We've got mikes ready so if you raise your hand, we'll get the mike to you. Give me your name and affiliation.

BILL DOUGLAS: I'm Bill Douglas from the SAIS International Development Program, and the panel has noted that the developing countries are concerned that they have trouble getting access to their exports in the markets of the developed countries. And I asked this question at another conference last week, but it came up again, so I'll ask it again. I was up at an auto workers' plant in Wilmington talking about globalization, and I mentioned this, the concern of the LDCs that they don't have access to the U.S. market. And the workers there burst out laughing. They found that a ludicrous assertion. And they said, when we go to the store trying to buy American, there's nothing there that's made in America. What should I tell them?

KAREN TRAMONTANO: Okay, let's take a couple of questions and then we'll turn it over to the panel. We've got one up here.

STEVE CHARNOVITZ: Hi, I'm Steve Charnovitz. I have a question for Zanny. I'm not sure that you've specified right what the problem is in the WTO. You're suggesting that the rules are rigged against developing countries. It seems to me that the examples that you gave are not manifestations of the rules, the problems with agriculture or textiles or tariffs generally, escalation. These are problems with national policies that are not sufficiently liberal. It's not the WTO that's requiring those policies, it's the WTO that's establishing a mechanism to undo those self-defeating policies. And if there is any rigged rules really, it's that the WTO is too tolerant of developing country protectionism. The whole special and differential idea, which I perhaps contrary to Gerry think is perhaps a part of emerging international law, because we also see the common but differentiated responsibilities in the climate change regime.

But this notion that developing countries don't -- aren't even expected to make reciprocal obligations, which is part of the original GATT, or the GATT as amended, is I think a real rules problem that leads to some of the things that he talked about, the developing country protectionism against each other. So I would submit perhaps an opposite thesis for you to consider: that if there's a problem in WTO rules, it's that the WTO doesn't do enough to encourage countries to have more liberal trade policies and encourage people to understand the benefits of trade and to deal with problems of economic adjustment and have a more open trading system where the civil society and private sector can participate.

KAREN TRAMONTANO: Sandra.

SANDRA POLASKI: Sandra Polaski, Carnegie Endowment. This is a question to Nancy and Gerry who faithfully stayed within their time limits talking about the general question, and therefore didn't have time to get into policy prescriptions. I'd like to ask if both of them could suggest two or three of what they think would be the most significant policies to improve the fairness of the outcomes of globalization. Zanny did take some time to address it, at least on the financial side, but if you want to add a point that would be welcome, too.

KAREN TRAMONTANO: Okay, let's go back to the first question, and I'll put it to the panel, I guess. Bill Douglas from SAIS, what does he say to the UAW?

ZANNY MINTON-BEDDOES: Can I also just address the second one, since it was --

KAREN TRAMONTANO: Sure.

ZANNY MINTON-BEDDOES: You're right, Steve. I was using the word "rules" too loosely What I meant was the existing arrangements of tariffs, non-trade barriers et cetera, the existing trade arrangements was what I was including in that rather loose use of rules. I don't mean the rules of the game, so to speak, and you're absolutely right. The rules of the game are too weak in some sense in that they don't force greater liberalization by developing countries. But I think, and maybe I should think of a different phrase, but if you look at the whole gamut of trade protection as it is now, there are products that are of great interest to the poorest countries where there is insufficient access in rich countries. And in that sense, the game is rigged.

Now, it's not that the WTO rules per se forced that outcome, but it's the current game. I mean, I agree with you wholly. I guess that leads to what I would say to the UAW worker. When you go to Wal-Mart it's hard to find stuff that's made in the U.S., there's a lot of stuff from China. That's because it's manufactured goods that have very low tariffs in the U.S. What you tend not to -- you won't find many agricultural products that have come from outside the U.S., and you will find relatively fewer textile products than you ought to, and shoes than you ought to. Most shoes are now made outside the U.S., but there would be even more imports if the playing field were -- if you had lower barriers than you do on textile goods.

So what I would say to the UAW man is that for the very poorest countries, 70 percent of their exports are in farm products and agricultural products or labor intensive textiles. And those products can't get into major markets like the U.S. and that's what they're complaining about.

KAREN TRAMONTANO: Nancy, do you want to start out first with Sandra's question?

NANCY BIRDSALL: Yes, I think it's an important question where we present the -- I think you're saying, Sandra, where the impact is greatest changes in policy, which it's interesting, it's not necessarily -- it's not necessarily the same question as what are the most -- what are the areas of greatest perceived unfairness? I think in terms of impact, the big issues are trade and aid and we've talked already a lot, various people here, about agriculture. And I would add to what Sandy said. You could imagine a country like the U.S. doing a major report even, being more transparent about the range of policies that are affecting developing countries.

The list is the subsidies in agriculture, the high tariffs, the peaked tariffs. I just have here, the rich countries, the average figure is 40 in terms of the ratio of the highest tariff to the average. Among poor countries which, of course, have somewhat higher tariffs, that peak is about seven times the average tariff. So there are hidden peak tariffs, and the escalating tariffs are another problem. So trade is the area where the impact could be tremendous, especially in agriculture and where the perception and the reality of unfairness is greatest. And the irony about improving trade policy is that ultimately it would be better for consumers and workers in the U.S. so that it is not a win-loss situation. And the U.S. is one example.

If you think of even programs like AGOA, the African Growth and Opportunity Act, which seems to create more access for the poorest African producers, when you actually look at the content of the AGOA setup at the moment, it is so restrictive, it is so discretionary in terms of the president's or Congress's ability to turn it on and off for each country. It has rules of origin that are so complicated that it basically amounts to very little at the moment because it's so -- the administrative barriers for particular countries in Africa to get on the list, in a sense exclude those that are weakest from an institutional point of view.

Then on the aid side, we really have a system now that is almost in complete disarray in terms of donor coordination, a kind of hopeless, ongoing effort to coordinate in which there's a lot of tied aid. The donors really, in a sense, are not accountable to anybody. They're not accountable to their own country legislators for a lot of structural reasons and they're certainly not accountable to the people that they're affecting most. So I would say trade and aid are the big ones.

Now, unfairness is much more -- is very noticeable, obviously, in areas like the immigration regime but I'm not sure that those are areas where, at least in the next decade, the kinds of incremental changes that are very possible in trade and aid, are likely politically -- or would make that much difference.

GERRY RODGERS: The way to approach the policy issue, if we're talking fairness, is to try and look at what are the sets of concerns that need to be addressed simultaneously for individuals, for households, for families and how can those packages be put together. Packages which actually ensure that if there's an adjustment problem there's a reassurance and a sense of confidence that people's objectives can be maintained. That is a general principle that I think gives rise to implications, not only at the global level, because I mean, I agree with Nancy at the global level but it also gives rise to policy implications at both national and cross border levels. National in the sense of how our social objectives maintains in under globalization and contrary to the general impression that the space for public action is reduced by globalization.

There are many examples of countries which have managed to effectively maintain social policy. The Finlands of the world who maintain a space for social policy which permits them to participate more effectively in globalization on the basis of trust and participation in a democratic process. And I think that that's a critical element which often doesn't get into the debate.

Obviously there's a question of national capabilities which are part of the national policy agenda too. But then they hit a brick wall if there isn't a friendly international environment which is where you have to hook in the international agenda. But the international agenda isn't only a question of sort of global governance and global institutions. It's a question of those economic activities which cross borders, the way in which global enterprises operate and the rules under which they operate and the extent to which they can embed in their every day behavior, some of these key social objectives.

There's a corporate social responsibility agenda which, I think, is also part of the policy agenda which needs to be brought in. It's a question of how local impact on the things which are important to people in terms of employment and incomes can be generated from international production systems. How do international production networks hook up with local production capabilities? There's a policy agenda there too.

And then there's the global policy agenda where a concern with integrating the rights and the employment and the protection and the participation of the democratic agendas in a coherent way and not breaking them down and having a separate trade agenda, a separate finance agenda. These things are interrelated. They need to be considered as a whole and that's -- there are attempts to do that which -- but they're partial. There are attempts to integrate labor standards into trade agendas and that's only part of the story because one is also concerned with stabilizing incomes and generating employment. So the international system needs to bring together these different elements in a more coherent package if it's to be able to respond to the concern for unfairness. Unfairness isn't just one element, it's all these elements together.

KAREN TRAMONTANO: Do you want to go over here?

JOHN LANGMORE: Thanks. John Langmore from the ILO. I thought those were all excellent presentations, but I just wanted to suggest some additional asymmetries that I think are very important. And one is obviously just the power of corporate concentration. The fact that the framework of the international market is largely provided by enormous corporations almost all of which are based in developed countries and which are therefore able to organize their production and pricing and taxing and sales and so on, in ways that are in their own interests to a significant extent and those interests are basically the shared interests of developed countries and not the interests of developing countries.

And particular examples of that are taxation. The OECD has a policy of expecting that taxes will be paid in the headquarters country of corporations not at the place where the income is earned. So the developing countries lose an enormous amount of tax revenue through that kind of policy.

It's also true that industrial concentration, I think, allows markets to be manipulated in ways that are generally to the advantage of developed countries and several speakers spoke about that. There's also the political factor which was mentioned but I think could be emphasized even more. The WTO is a relatively -- has a relatively equitable political structure, but of course the Bank and Fund do not. And that does make a very big difference to the -- or potential difference to the structure of policy within those organizations. But then, as well, the developed countries have the wonderfully effective OECD, which is a lobby for them. But there isn't a developing country organization of nearly equivalent intellectual or political power, at least intellectual power.

And then finally, there's just the enormity of the difference in the base of income, wealth and correlated with that, power, from which the two groups start. And that has enormous implications in numerable ways which have all ready been spelled out to some extent. It's important, I think, to be very clear about the extent of the asymmetries so that we can, as Gerry suggested, give more attention to ways of compensating for them.

JERRY LEVINSON: Jerry Levinson, Washington College of Law, the American University. I didn't find Miss Beddoes very convincing with respect to the UAW. The fact of the matter is that for Mexico electronic parts, auto parts are flowing into this country and putting enormous pressure on plants to move to Mexico. The Mexicans are now finding out that they have a problem vis-à-vis China. So they're losing foreign direct investment to them as well. So I don't think that your commentary about tell the UAW that agricultural exports are the main problem for the developing countries is very convincing. But what I wanted to address to you and ask you to address specifically, since you were just down in Brazil and Argentina, for the last 20 years for the most part the IMF and World Bank have been dealing with like-minded center-right governments which have, particularly in Latin America, embraced the Washington Consensus which really derives from Baker's 1985 speech at Seoul, the joint meeting in Seoul in 1985.

Now we have center-left governments, first in Argentina and now elected in Brazil. Now, Nancy Birdsall has referred to the Cardoza government's policies as brilliant, but 60 percent of the Brazilian electorate voted against continuity of those policies, and those policies have left Brazil with this large external indebtedness, a problem, and this perception that the equity issue was not significantly addressed during that period.

My question to you is, do you think that the IMF, the World Bank and the international financial system in general is supple enough now to accommodate a change of priorities of center-left governments which seem to be emerging, which appear to want to elevate the income distribution equity issue to the same plane of importance as the protection of corporate property rights? Just to conclude, just to finish. In this town once it became apparent that Lula was going to be elected, the question has been, would he adhere to the IMF 3.75 percent primary budget surplus target and pay the external indebtedness?

I would put the question the other way round. Can the international financial community and the IMF adjust to the fact of center-left governments with a different order of priorities, or are we on the way to a train wreck, six months to a year from now, a train wreck called Brazil, between the aspiration for equity or addressing those equity issues and the demands of the financial community that you would assign so much resources to repay the external indebtedness that you really don't have anything left over for the social agenda.

KAREN TRAMONTANO: Okay, let's take one more question.

KIMBERLY ELLIOTT: Thanks. We saw Gerry's figure on the terms of trade, commodity prices. We all, I think, now about the situation with coffee exporters, and I don't think there are any trade barriers in that sector. So what I'm wondering is, is anyone on the panel concerned that agricultural trade might be Bill Easterly's next development panacea? Are we putting too much focus on this one issue, and do we really -- it's going to take incredible political capital to get significant agricultural liberalization in Europe, Japan, Korea, elsewhere, the U.S. even.

And I'm just wondering, at the end of the day, is what we're going to get out of that really going to be worth the effort, especially for the poorest, smallest LDCs who, you know, are not going to be in grains and the big exporting sectors, and I just wondered whether we're maybe putting a little bit too much in this one basket?

KAREN TRAMONTANO: Okay, thank you. Let me ask the panel with respect to John Langmore's comment, both in terms of corporate concentration and the interesting statement that the WTO is a relatively equitable structure, which some of my former colleagues may have a little problem with, but that an equitable structure is lacking within the IMF and the Bank. Anybody on the panel want to cover that-- Nancy?

NANCY BIRDSALL: I thought that was a really interesting question. You know, I haven't really thought of this problem, although there are lots of people constantly raising the issue of corporate concentration. I don't think of it as an area where you can address the problem by somehow pushing for global policies that would lead to de-concentration. I think that's part of a global economic system that's more integrated. And as long as there's some competition it doesn't worry me too much that there are big multinationals. I think you get to the core of the problem when you start raising issues about taxation policies of different countries in the OECD community and in developing countries.

And I think it's very important and very worrying that, for example, the Sadio report that was done at Kofi Annan's suggestion -- it was really prepared by a group including John Williamson at the IIE -- raised the possibility of having some kind of global institution that would not have tax authority but that would at least look at issues of tax harmonization. I believe the U.S., among others, just really would not let that rise to the agenda at the Monterey conference last March on financing for development. That is an example of, I think, short-sightedness, in that we do need some kind of sense of at least common information, potential for using some national tax systems as a mechanism for compensating or for transfers in the sense of a social contract that would assist the poor countries develop the assets they need in order to compete in a world of multinational corporations.

The interesting example that's been raised by Devesh Kapur, who is doing a monograph for us at the Center, it's been raised before. It has to do with the problem of the brain drain which sometimes results in returned investment and so on, but sometimes not, the fact that there are higher returns for people in settings where there's all ready a lot of human capital, contrary to the usual assumption of economists that human capital might also go to where it's most scarce. No, we all know that it's much better if you have a university degree from Malawi to work in New York or London than to stay in Blantyre. But anyway, Devesh has raised the point that it is the U.S. and no other country in the world that is able to tax all of its citizens and all of its residents. All of its citizens, even if they're abroad.

And no other country can do that because no other country has the same enforcement mechanism. A Malawian doesn't feel the need, in the U.S. to pay taxes to the government of Malawi. But in the case of some countries it might be possible to have bilateral tax agreements that would provide for transfers back to an immigrant's country of origin. It's just one example of many. I think the other related example comes up in -- well, I won't go there. That's too complicated.

I want to say something about Gerry's question. I think it's a great question. Will the international community be supple enough to adjust to some changes? And I think the answer is definitely yes for the multilateral banks. I have much more concern about whether the IMF, as an institution, will make that adjustment. I think, we don't see yet the signs that it can and it will.

The IMF is looking a lot like the European Central Bank in a way. You know, it's just got one set of ideas that it's been working on for the last 30 years and like the European Central Bank, seems obsessed with that one idea which in some vague way has to do with austerity and reducing inflation and so on and without enough attention to the trade-offs. In the case of the Central Bank, it's inflation and employment. In the case of the IMF, it's a much more complicated set of trade-offs.

But I think that the multilateral banks will come along and in particular, Gerry's old home of the Inter-American Development Bank. The constraint there is whether at the international level, the shareholders of those institutions will try to sustain or -- a system now in which, if the IMF doesn't say okay, it's very difficult for the multilateral banks to move. There's this kind of this quiet shadow arrangement that the IMF always has to be first with the okay nod and which, of course, is in a way eliminating what might be some healthy competition at least in the intellectual thinking about dealing the downside of globalization. So we have to look to -- now, I want to say something if I can, because I was the shortest maybe on the --

(Laughter.)

Kim Elliott's excellent question. I think it's the right one to ask. You know, will freer trade in agriculture be the next panacea that Bill Easterly undoes. You know, I think it's not -- my view is it has to be fixed. The unfairness of the current system has to be fixed, in part, because it is the poor and the least skilled within developing countries that are suffering the most from the lack of job creation in agriculture. Zanny made the important point that a lot of the barriers are in the south too and that's true in the textile and apparel market as well. But somehow it seems to me that if the rich countries don't take some leadership, as they are, you could say, at least on paper, trying to do now in the Doha development round, they don't take some leadership in that area, it will be very hard to see, very surprising to see a lot more unilateral reduction of tariffs in the south in those two sectors.

The question is whether, if you don't get dynamism in rural areas because agriculture starts to thrive, do you ever start to climb up the ladder? And a lot of development economists are quite convinced that the answer is no. You need to start by having a raw market where you have consumption and you have production and things are moving along and people start to save and you start to develop from the ground up in the poorest rural areas. And it's probably the same with textiles. You know, the East Asian countries got a leg up in the manufacturing area, starting with areas that require the least skilled labor and then they were able to move up a ladder.

At the same time, it's absolutely true that if we condemn countries forever to primary commodity exports without -- and keep escalating and peak tariffs, the kinds of things that say, okay, Brazil can export oranges but not orange juice, Kenya -- or West African countries can export cocoa but not chocolate. Then opening up the agriculture market all by itself without allowing for that dynamism and that stepping up the ladder to agro-industrial products is not in itself going to work.

KAREN TRAMONTANO: Zanny.

ZANNY MINTON-BEDDOES: I've got three that I would quite like to comment on briefly. The first one was the very interesting comment you made about corporate concentration. You mentioned that the WTO had a relatively equitable structure whereas the IMF and the World Bank did not. I think at the risk of being the free market ideologue around here, I would submit that that is true but I would also argue that potentially the WTO will become increasingly ineffective as a result and that the Bank and Fund don't have one country, one vote structures, but arguably since they are essentially mechanisms for lending money from rich countries to poor countries, it's not actually feasible to suggest that they ought to have one country, one vote.

And I would also argue that there are actually very effective mechanisms of doing that whereas other international organizations that are based on one country, one vote, notably most of the U.N. system is considerably less effective. And the risk with the WTO is that the equitable structure it has, if it's not reformed in some way, will make it an unworkable place because, right now, one country has veto power. And I would suggest that if the WTO is to become an effective rule maker of globalization going forward, we have to have a more streamlined way for it to function because you can't have an international system functioning where Bhutan -- actually I don't know if Bhutan is a member -- but some small country can hold up the entire system.

So I think you're right but I would challenge that actually that will end up being a hindrance to the effectiveness of the WTO.

INAUDIBLE QUESTION

ZANNY MINTON-BEDDOES: Well, the U.S. is also the largest contributor to the IMF. So I would submit that in the real world, the country that gives the most should have a relatively larger say in what happens to that money.

Turning again to the IMF one -- I'm clearly rapidly becoming the IMF's apologist--- I think I disagree with Nancy. I think it's just too simplistic to say is the IMF now going to be supple enough to deal with a new political reality? Firstly, the IMF has dealt with a large number of center-left governments in its history. There have been bouts of center-leftism in Latin America notably in the mid-1980s. It's dealt with a number of center-left governments in central and eastern Europe in the 1990s. So it's just simply not true to say that the IMF has a history of dealing with center-rights and not with center-left.

What is true is that throughout the 1990s, there was, among the elites in many Latin American countries, an acceptance by U.S. trained economists of the kind of overall model -- let's call it the Washington Consensus -- I would submit that Lula's team buys into that consensus too and that they are very sensible people who have every desire to weigh the aspirations, as you put it, of greater equity but they do not want to do so at the expense of short term populism.

They are not the center-left governments of the 1980s. They do not think that the answer to Brazil's problems is to print money and run large deficits. What they are trying to do is within the real constraints that financial reality imposes, which is not IMF-imposed reality. It's the reality of the current situation that Brazil finds itself in with its debt, which is a Brazilian situation it's not an IMF-imposed situation, that they want to create room to maneuver for themselves but not to do so at the expense of pulling the whole country down into some debt default morass. Where I think one will need leadership from the international institutions, particularly from the IMF, is in assisting them in doing that. My own perspective is that I think that Brazil will default, will have to at some point but doing so in the least painful way possible is the challenge for both the Lula government and for the IMF.

I simply don't think it's helpful to suggest that it is something that requires a huge turnaround by the IMF to deal with some kind of new political reality. I think it's much more that both sides have to accept the current painful financial reality that Brazil finds itself in and find a way out of that. And only frankly, when Brazil has macroeconomic stability and financial stability is there any hope for any serious improvement in equity over the long tem. I think that's the lesson that we often in these discussions of what's wrong with the Washington Consensus and the inequities of the current system, we forget that basic populism has been tried in Latin America a lot over the past quarter century and has failed.

And so what we have to do is try and find a way forward where we don't lose the good of what we've learnt in the 1990s, which is that macroeconomic stability matters, but find a way to make -- within that framework make policies more effectively equitable.

INAUDIBLE QUESTION

KAREN TRAMONTANO: The prerogative of the chair is going to move to the next two questions because we're over time. I'll go to my colleague Lael Brainard first, and then whoever wants the last word after Lael, please raise your hand.

LAEL BRAINARD: I just wanted to ask maybe Nancy and Zanny to comment on the fairness question, distinguishing between trade through the WTO and the increasing proclivity we've seen on the part of the U.S. to negotiate bilateral trade agreements, whether the terms of those agreements, if you look at them, are more or less positive for the developing country partners because of the -- , whether it's because of the relative bargaining power, whether that system of moving towards bilateral free trade deals may in some way leave out sets of countries, or -- maybe you think it actually works in the reverse direction, I don't know.

KAREN TRAMONTANO: And John Audley has got a question right there.

JOHN AUDLEY: Thanks. John Audley, Carnegie Endowment. A slightly finer point to Lael's question: Would you recommend to the countries to undertake the more ambitious agenda articulated in Doha as they meet in Cancun? And then a second question --

NANCY BIRDSALL: Did you say industrial?

JOHN AUDLEY: No, the developing countries. So, in essence, what advice would you give these developing countries that are about to engage the United States in Central American negotiations, conclude the FTAA and perhaps expand the WTO negotiations to include the Singapore issues?

The second question I had relates to the discussion about technical assistance. Adding to the morass with regard to technical assistance is a more focused attention on technical assistance to make developing countries better negotiators. I'd like to hear comments on that particular narrowness with regard to technical assistance, especially since many of the issues of concern have to do with the more structural problems of education, healthcare and others that create the foundation for effective entry into a global trading system. Thanks.

KAREN TRAMONTANO: Nancy, do you want to start off?

NANCY BIRDSALL: Well, in terms of Lael's question about bilateral agreements, I did mention that it made me uncomfortable to see that the U.S. was pressuring Singapore on its capital -- open capital account arrangement and not so open capital account arrangements. And I think the other example in a bilateral arrangement that's worrying is that under the NAFTA agreement it's not clear at all that the U.S. has played ball, you know, stuck with the game as it's supposed to be played, on the trucking issues and the tomato issues and so on.

And so that does seem to be an example -- those are both examples maybe of how we are in a world in which the bigger market can be more powerful. And in general on any bilateral, even multilateral enforcement arrangement where the enforcer who say in a dispute resolution wins, if it's a tiny country the penalties that it can impose on a big market are relatively small. Now, luckily I had a discussion about exactly this point with Kim Elliott the other day, who raised the question earlier, and she pointed out to me that there ought to be a warning light on how the U.S. and the other OECD countries handle a series of bilateral negotiations, because they may be able in a bilateral setting to get deals that are not as good for the weaker or poorer or smaller market.

And that illustrates the larger point that Zanny made and that others have made, that the multilateral trade arrangement is a kind of public good, from which, if it works well, the poorer, weaker countries can benefit. So, I think it's a good question that Lael raised, and I hope Kim is going to help us think more about it and create some warning lights. On John's question, I'll ignore the first part, what advice to developing countries because he and many others know better how to answer that question directly.

But I would like to say on the question of technical assistance for negotiating, I think it would be much better to frame this issue not as technical assistance, which gets us into the big mess with donors and donor coordination and kind of the idea that there's an assistance strategy. What I'd like to see is that the rich countries, through the WTO or through other mechanisms make grants available to poor countries and let the poor countries use the money to buy the best lawyers if they want in New York or Washington or London in dispute resolution.

Give them the flexibility to use those resources and forget about this idea that somehow there's going to be a lot of emphasis on training. Just, you know, step up to the plate and make the world less asymmetric. That's the way I would see it. Thank you.

KAREN TRAMONTANO: Zanny on either question, both questions, and then we'll end with Gerry.

ZANNY MINTON-BEDDOES: I think my answer, Lael, is that I think a world of large numbers of bilateral trade deals --which would not just be from the U.S., but we're seeing them sprouting up all over the place, China's doing lots, the Asian countries are doing lots -- to me is a very much a sub-optimal world. I think a web of bilateral trade deals makes for a complete nightmare in terms of global trading, because you'd have all sorts of rules of origin, all sorts of distortions, quite apart from the idea that big countries can impose their terms more easily on single poor countries in bilateral deals.

I don't like that idea at all. I much prefer the notion of pushing ahead on the multilateral system. There is, in the eyes of some, notably Ambassador Zoellick, a linkage between the two. And this administration makes much of the notion of competitive liberalization and pushing forward on all fronts of bilateral trade agreements, regional and multilateral.

My own view is that that is -- there may be some political logic to that, but I think it's a very risky strategy and I think that you end up with the bilateral deals because those are the ones you can push through and they're relatively easy to get through Congress here, and you end up not doing the really heavy lifting which is the multilateral deals. So I would hold out like a true purist for progress at the multilateral level.

What would I say to the developing countries in Cancun? My own sense is that there are many areas where the developing countries in the WTO negotiations are their own worst enemies: they're organized into groups that are pushing for quite narrow interests and also quite retrograde. Retrograde has a tone to it which I don't like, but basically they are trying to slow down the process on areas that they worry about. India is a classic case in point. India is basically trying to slow the whole process down on every single possible area it can. My own view is that the developing countries would do much better to band together and acknowledge that they also need to offer things on the table, but to push as a block much more for the things that they want from the rich countries.

And I think at the moment the strategy has been a realization amongst the developing countries that they are powerful enough to stop things, but they haven't gone beyond that to recognize that they actually are powerful enough to push things if they work together. And that may sound Pollyannaish, and it may be -- you know this much better than I do, and it may be much harder to do in practice. But I just get a sense every time in Geneva, people just roll their eyes when you talk about the Indians and they roll their eyes when you talk about various other developing countries and say , "you know, these guys just never want to do anything". And I think that's a very unfortunate perception, and if you could turn that round and say, the developing countries say we want this, we really want this, but this is what we want in return from you, it would be a much more positive dynamic.

KAREN TRAMONTANO: Gerry.

GERRY RODGERS: I just want to pick up on a couple of points, the process of trade liberalization and its legitimation in people's minds. I think this is related to Kim's point about liberalization of trade and agriculture, but it's also related to the UAW point.

The national policy agenda is not necessarily trade liberalization. It is a national policy agenda in which trade liberalization is an instrument, and it's a powerful instrument. But the notion that national policy agendas which respond to the needs and priorities and preoccupations of different groups are illegitimate if they don't coincide with the trade liberalization agenda needs to be considered very carefully. And moves towards trade liberalization which don't take that into account run into social problems.

And so I think the notion that you can consider trade liberalization as sort of a technocratic process without understanding the social underpinnings of it and the needs of different groups within that process, I think that needs to be questioned. And on --

(TAPE CHANGE.)

GERRY RODGERS: -- change patterns of gains and losses. There are going to be people who will win and people who will lose, countries that will win and countries that will lose. It's a process which needs to be understood and managed very carefully. A big bang approach to trade liberalization and agriculture would probably have substantial negative fallout.

So I think the point is, and it's related to the UAW point, the concerns of different groups are legitimate and have to be part of the political agenda. I think that's an important point to take into account, especially of legitimacy. And there's a question of legitimacy on the other issue of the role of the IMF or the Bretton Woods Institutions more generally. Not only center left -- I heard an ex-president -- a center right ex-president in South America describing the IMF as the firefighter which destroys the house while putting out the fire. And I think that some -- it's once again a question of the way in which the basic objectives of societies and economies are integrated into this broader political process.

But when the financial process is considered the ultimate goal, if you don't get the financial environment right, the rest is impossible, that's the argument, that's a recipe which over the last 10 or 15 years has shown relatively little progress. Countries which have attempted to play by the rules and get their financial systems in order have actually made relatively little progress on the social goals. There's a problem of integrating these social goals into the agenda alongside the financial ones, and that's where the existing international system falls down. We don't have a way of treating the financial and social goals simultaneously and thinking of employment and protection and rights as part of an integrated agenda, which also clearly includes the financial objectives which have to be part of the story because they're part of the story. And that's the route to greater inclusion in globalization.

I think thinking of it as a social process, one also has to think of the social actors. Once again, it isn't a technocratic issue. It's a question of policies which are designed by constellations of social actors in dialogue and hopefully in a democratic process. The role of business and labor and of different groups in society, and of governments in construction of this agenda, is the foundation of legitimacy. And if one starts by treating trade liberalization or financial stabilization as prior to that agenda, I think you run into a brick wall.

KAREN TRAMONTANO: Well, I have successfully run us over time, and I apologize. My sense is there are still a lot more questions in the room, so we're going to take a break. I want to take this time to thank our panelists. Please, let's give them a round of applause.

(Applause)

I know a little bit about what their days are like and how busy they are, and I know taking this amount of time to be here this morning is a huge, huge commitment on their part. So thank you very much. Let's take a couple of minutes and perhaps you can chat further with the panelists and then we'll start promptly at 11:00.

(END OF PANEL.)