

Trade liberalisation and New Zealand

A resource base

Report to the Trade Liberalisation Network

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Preface

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- by the interaction of team members on individual projects;
- by exposure of the team's work to the critical review of a broader range of Institute staff members at internal seminars;
- by providing for peer review at various stages through a project by a senior staff member otherwise disinterested in the project;
- and sometimes by external peer reviewers at the request of a client, although this usually entails additional cost.

Authorship

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1. INTRODUCTION

1.1 Objective of the Trade Liberalisation Network

The goal of the Trade Liberalisation Network (TLN) is to "encourage appropriate New Zealand domestic policy settings and significant international trade liberalisation in order to accelerate economic growth and social development". To help achieve this objective, TLN seeks to promote understanding and support for the concept of trade liberalisation in the private sector and the community.

It is vital that like-minded businesses and organisations have a set of resources which they can use in speeches and presentations in order to present the public with information on the merits of trade liberalisation. This allows people to make informed judgements on such issues. Nixon (2001) suggests that "business has tended to free-ride on the benefits of freer trade. For a more efficient trade policy process to be realised, the attitudes of both business and government will have to provide more than lip service to a broader church approach to trade policy".

As stated by Counterattac (2000): "For a long time, the friends of the open society have had a tendency to underestimate the danger of the propaganda spread by the opponents of globalisation... This is why the apostles of fear have been allowed to preach practically undisturbed. They have been allowed to depict one fire-and-brimstone scenario after the other and to make the most absurd statements about the state of the world and the global breakthrough in progress, without being systematically contradicted... Let us accept the challenge; let us make this day the starting point of an important work of enlightenment about the values of openness and the dangers of a closed society".

"In the end, we are called to operate beyond narrow national self-interest and a sectorial defense of the prosperity of particular groups and individuals" (Pope John Paul II, 1989).

"Trade is often likened to a game or even a war. But unlike these arenas, where for every winner there is by definition a loser, trade has the potential to benefit both sides" (Helen Clark, in *The Dominion*, 27 November 2000).

"Free trade, one of the greatest blessings which a government can confer on people, is in almost every country unpopular" (Thomas Babington, 1824).

This report is in part a response to the large amount of media coverage gained by anti-trade reform lobbyists. "As technology, through resources such as the Internet, allows people more information, the range of opinions and opinion leaders has become more diverse. *This is despite the fact that the quality of information used in the debate is, at best, not always fact based, or at worst, is deliberate misinformation*", Nixon (2001), emphasis added. It could be said that the Internet has become a 'mythinformation highway'.

1.2 The resource base

This report aims to facilitate greater understanding of the many issues surrounding trade liberalisation. It provides a resource base identifying and reviewing the most relevant sources of the arguments for and against trade liberalisation, with a specific focus on how these issues apply to New Zealand.

This report lists a number of the arguments that are commonly used against trade liberalisation. Each argument is followed by supportive and contrary quotes. The whole presentation is made in non-technical language to make it accessible in public debate. This approach runs the risk of over-simplification. However, fuller references are made to material that provides comprehensive accounts of the issues.

The technical arguments made in this report are based on what is considered to be mainstream economic thinking on the costs and benefits of trade policy interventions. There are a number of arguments in economic theory which support trade policy interventions in principle. They include situations involving strong scale economies, external economies of scale, learning by doing and market power. However, in practice, trade policy interventions are usually second, third or fourth best policy alternatives. The tone of this report is designed to reflect this general fact. Furthermore, the report addresses general trade liberalisation issues and accordingly should not be interpreted as a prescriptive document in very specific cases.

1.3 What is trade liberalisation?

Trade liberalisation

Trade liberalisation is the process by which countries make decisions to reduce or remove existing barriers to trade in goods and services and investment. It also establishes rules for the conduct of international business. This can occur either multilaterally (via the WTO), on a regional basis (via APEC, for example), or bilaterally (via agreements with individual trading partners, such as the CER).

Instruments of trade intervention

Trade barriers come in many different forms. Barriers consist of a host of taxes and other restrictions, imposed by governments, which discriminate against foreign firms and reduce living standards by misallocating resources. That is to say, trade barriers result in a waste of the world's scarce resources by discouraging the production of goods and services in the most appropriate countries.

The harm done by trade barriers is not confined to the foreign firms and countries they discriminate against. They hurt the country applying them as well – bluntly, when a country applies trade barriers, it tends to 'shoot itself in the foot'.

Governments use a very wide range of techniques or instruments to discriminate against foreign firms:

- The simplest and perhaps most common instrument is a tariff. A **tariff** is a tax that must be paid by a firm wishing to import a product. The tariff (tax) is collected by the customs department of the country at the point of entry. The imported product is accordingly made less price-competitive relative to locally made products.
- Another common trade barrier is a **quota**; a restriction which limits imports to a maximum quantity or value of the product.
- **Tariff quotas** (also known as tariff-rate quotas) are a mixture of tariffs on particular quantities of imports designed to tax larger quantities of imports more highly than smaller quantities.
- **Export subsidies** act as a safety net to exporters. They ensure that the price received by the producers of exports is higher than the price charged in overseas markets.
- So-called '**non-tariff barriers to trade**' are by far the most prevalent and they come in many forms (over and above quotas and subsidies). Governments purchase large

quantities of products each year and **government purchasing arrangements** can be used to make it harder for foreign firms to compete against local firms. **Health and safety regulations** are frequently used to make it harder for foreign firms to obtain licenses to sell products than local firms, even where the safety level of the foreign product is higher than the local product – again creating a trade barrier. **Voluntary Export Restrictions** (VERs) are agreements by exporters or governments to limit the value or number of units exported to certain countries.

Differences between free trade, fair trade, open trade, etc.

Trade liberalisation involves reducing or removing the discriminatory aspects of international trade. People use a variety of phrases to characterise the trade liberalisation process they prefer, including:

- The Cairns Group, which promotes agricultural trade liberalisation, encourages 'fairer trade'.¹ By this they mean ensuring that agricultural products receive similar treatment to other goods, when traded internationally.
- Others, including APEC, promote 'open trade'.
- The standard term for removing trade barriers is 'free trade'. However, this phrase is now used less often by politicians and lobby groups, as it has picked up connotations of trade occurring without rules and standards.

People use numerous terms to signal trade liberalisation processes involving various degrees of liberalisation and different end-points. People also use a range of terms to mean the same thing but in language which provokes less political opposition.

Agreements on trade liberalisation

The multilateral trade liberalisation process has become very complex as the number of different types of trade barrier has increased and the international community has been prepared to address this wider array. This has led to a number of sub-agreements – all with their own acronyms:

- **WTO:** The organisation based in Geneva which organises multilateral trade liberalisation talks and the disputes settlements process for its 144 member countries is the World Trade Organization (WTO). The WTO was established in 1995 as a part of the Uruguay Round of multilateral trade negotiations. See Appendix A for more information on the WTO.
- **GATT:** GATT is the predecessor of the WTO.
- **GATS:** One sub-agreement is the General Agreement on Trade in Services. Trade liberalisation had previously been focused on reducing barriers to trade in goods. Since services now play a large role in international trade, the GATS was introduced to remove distortions to trade in services.
- **TRIPS** - Trade in ideas, knowledge, innovation, research and design are covered by the Trade Related Aspects of Intellectual Property Rights agreement. TRIPS aims to narrow the gaps in the way these rights are protected around the world, and to bring them under common international rules.

Walter Goode's *Dictionary of Trade Policy Terms* (1997) provides helpful references to trade policy acronyms and other technical terms.

¹ Many critics of trade liberalisation suggest that governments should aim for 'fair trade', but in a different context to the terminology used by the Cairns Group. For example, the Green Party promotes "fair, safe and environmentally sustainable" trade.

1.4 The importance of trade

International trade is important to a nation because it contributes in practical ways to a wide range of national objectives. It is a means to very important ends. The economic literature generally supports the role of open trade in expanding economic growth. This section of the report is a short review of some of the basic principles of international trade.

You can think of trade as a machine (with no running cost or depreciation): goods you can make cheaply go in one end, and goods that would cost you a lot more to make come out at the other. The logic of protectionism would demand that such a miraculous machine be dismantled and the blueprint destroyed, in order to save jobs (The Economist, 2001a, p.6)

Issues surrounding the contribution of international trade to economic growth have attracted attention from economists for centuries. Adam Smith in his 1776 masterpiece, *An Inquiry into the Nature and Causes of the Wealth of Nations*, developed the theory of absolute advantage, as an extension of his work on the importance of specialisation and the division of labour.

The theory of absolute advantage asserts that a nation should specialise in the goods which it can produce at a lower absolute cost than another nation. It should export these goods, and use the export receipts to import goods which it produces at a higher cost from another nation. Using his absolute advantage framework, Smith went on to show that "[I]n every country it always is and must be the interest of the great body of people to buy whatever they want of those who sells it cheapest" (Smith, 1776, WNIV iii.c10).

Smith also considered the gains that could be made from trade liberalisation. He attacked the mercantilist notion of increasing national wealth by accumulating precious metals, via an improvement of the Balance of Merchandise Trade. If this amelioration was achieved using export subsidies and heavy import restrictions, Smith suggested that this was a zero-sum game. Smith shows how import protection that created a monopoly for the domestic industry was utterly inefficient:

If the produce of domestick can be brought there as cheap as that of foreign industry, the regulation is evidently useless. If it cannot, it must generally be hurtful" (Smith, 1776, WNIV ii11).

Smith's analysis was useful, but simplistic. What if a country produces *all* goods more efficiently than another nation? Can it still gain from trade? David Ricardo considered this question and his theory of comparative advantage shows that the answer to the question is "yes". The law of comparative advantage states that a country should specialise in and export those goods that it produces at a lower *relative* cost than other countries. Ricardo showed that both countries would gain from trade by allowing (non-interference) the law of comparative advantage to operate.

A simple example of Ricardo's theory concerns a manager and a secretary. There are two people in an office, a manager and a secretary. The manager is a faster typist than the secretary. Question: who should do the typing in the office? Answer: the manager. WRONG! Typing a letter may take the secretary 10 minutes, and the manager 8 minutes. However, if the manager types the letter, the typist is unlikely to be very effectively employed making management decisions for those eight minutes. The opportunity cost (what is given up) of the eight minutes that the manager spends typing is high, relative to ten minutes of the secretary's time. In short, the office is more productive when the manager manages and the secretary types. People and firms use

this principle every day: to organise family affairs, to organise specialisation amongst firms in towns and cities and in regional development. If trade policy is liberal the law of comparative advantage can benefit nations.

"Why do policy wonks who will happily watch hundreds of hours of talking heads droning on about the global economy refuse to sit still for the ten minutes or so it takes to explain Ricardo?"²

Ricardo's analysis identifies 'win-win' situations for countries willing to trade. In the jargon these situations are called the gains from trade. Like any theory it has its limitations. Nevertheless, it has a powerful message for co-operating countries who wish to stimulate their growth rates in living standards.

The 19th century economist, journalist and satirist Frederic Bastiat was also a strong promoter of free trade, and a critic of protectionism. He presented a witty argument in his 1850 paper "What is seen and what is not seen" commenting on the French government's proposal to place an import ban on Belgian iron.

So Mr. Protectionist went to the law factory. (Another time, perhaps, I shall tell the story of his dark, underhanded dealings there; today I wish to speak only of the steps he took openly and for all to see.) He presented to their excellencies, the legislators, the following argument:

"Belgian iron is sold in France at ten francs, which forces me to sell mine at the same price. I should prefer to sell it at fifteen and cannot because of this confounded Belgian iron. Manufacture a law that says: 'Belgian iron shall no longer enter France.' Immediately I shall raise my price by five francs, with the following consequences:

"For each hundred kilograms of iron that I shall deliver to the public, instead of ten francs I shall get fifteen; I shall enrich myself more quickly; I shall extend the exploitation of my mines; I shall employ more men. My employees and I will spend more, to the great advantage of our suppliers for miles around...

Charmed by this discourse, enchanted to learn that it is so easy to increase the wealth of a people simply by legislation, the manufacturers of laws voted in favor of the restriction...

Bastiat goes on to explain that French consumers pay more for iron after the import ban is imposed:

You agree with this; you cannot fail to agree; you cannot fail to agree that when restraint of trade raises prices, the consumer loses the difference.

He also suggests that there is no gain to the domestic industry in the protecting country:

But it is said that domestic industry gains the difference. No, it does not gain it; for, since the decree, it is encouraged only as much as it was before, to the amount of fifteen francs.

Hence, what is not seen counterbalances what is seen; and the outcome of the whole operation is an injustice, all the more deplorable in having been perpetrated by the law.

² Paul Krugman, <http://web.mit.edu/krugman/www/ricardo.htm>

You may look at the question from any point of view you like, but if you examine it dispassionately, you will see that no good can come from legal or illegal plunder. We do not deny that it may bring for Mr. Protectionist or his industry, or if you wish for domestic industry, a profit of five francs. But we affirm that it will also give rise to two losses: one for James Goodfellow, who pays fifteen francs for what he used to get for ten; the other for domestic industry, which no longer receives the difference. Make your own choice of which of these two losses compensates for the profit that we admit. The one you do not choose constitutes no less a dead loss.

Bastiat concludes that no good can come from government intervention in international trade:

Moral: To use force is not to produce, but to destroy. Heavens! If to use force were to produce, France would be much richer than she is.

The contributions of Smith, Ricardo and Bastiat to the economic literature on trade liberalisation lie behind many of the arguments presented in this report.³

1.5 The importance of trade policy to New Zealand

Trade plays a pivotal role in promoting economic growth in modern economies, and is particularly vital for New Zealand.

- New Zealand is an efficient producer of (has comparative advantage in) a range of products that are subject to some of the world's highest barriers to trade.
- New Zealand is a very small economy where it is difficult to exploit economies of scale.
- New Zealand is rich in certain resources, including skilled workers, but poor in other resources.
- New Zealanders appreciate their higher income status and want to improve it in terms of goods and services consumption.
- New Zealand's ratio of trade to GDP has increased spectacularly in recent years. It is now very high for a geographically-isolated country.
- There has been a long history of interventionist trade policy in New Zealand. A return to those policy settings would not be appropriate in the current world environment.

In this open environment, trade benefits New Zealand in the following ways:

- Exports finance imports of goods, services, and technology.
- Exports finance imports of foreign savings.
- The export sector produces important consumption goods.

³ Even John Maynard Keynes, often viewed as being interventionist by nature, supported multilateral liberalisation via the use of fora such as the GATT. This is demonstrated by the following speech that he made in the House of Lords on 18 December 1945, regarding the Bretton-Woods institutions, including the forerunner to the WTO, the GATT:

"The bias of the policies before you is against bilateral barter and every kind of discriminatory practice. The separate economic blocs and all the friction and loss of friendship they must bring with them are expedients to which one may be driven in a hostile world, where trade has ceased over wide areas to be cooperative and peaceful and where are forgotten the healthy rules of mutual advantage and equal treatment. But it surely crazy to prefer that. Above all, this determination to make trade truly international and to avoid the establishment of economic blocs which limit and restrict commercial intercourse outside them, is plainly an essential condition of the world's best hope".

- The export sector creates jobs.
- Import-competing producers provide intermediate goods.
- Import-competing firms produce consumer goods.
- Import-competing firms create jobs.
- Imports supply new technology and consumer goods.
- Imports help promote competitive markets in New Zealand.

1.6 Trade policy and New Zealand - a brief history⁴

New Zealand's place in the world has changed dramatically over the last two centuries, from a trade perspective. Prior to the introduction of refrigeration into New Zealand in 1882, the country was developing a broad set of export products and a broad set of export markets to pay for the increasing development needs (imports and investment goods) of this colonial period of our history. Much of this export trade was based on unreformed natural resources ('exploitables' as Hawke [1985] calls them) but there were beginning efforts to increase value added, e.g. in the form of Tainui wheat exports from the Waikato to Australia.

The world economy was in a major globalisation phase and this aided our trade development efforts. New Zealand was turning outwards and looking beyond Australia, the United States and Britain to the world as a whole.

1.6.1 Trade policy 1882 – 1950s

This period comprises the end of a globalisation era in 1914 and a period of anti-globalisation from 1914 to 1945.

The period around the introduction of refrigeration into New Zealand in 1882 was one of a number of factors that changed our focus back to Britain in a major way. Historians like James Belich refer to this time as the period of re-colonisation.⁵

From a trade policy perspective, two important trends emerged. New Zealand's export orientation rapidly swung towards the middle class consumers of South Eastern England. New Zealand's comparative advantages became concentrated into animal products for a single market. Furthermore, the prices New Zealand received were often set by inter-governmental agreement at high levels as a result of the two world wars. Our living standards rose to the highest international levels (about third place amongst nations). They remained there for over 70 years, until the early 1950s.

The rich guaranteed export market in the UK enabled New Zealand to get away with high levels of import protection over this period though the country may have begun to pay the price for this inward looking strategy almost as soon as it reached its peak in 1938. Nevertheless, living standards held up at relatively high levels until the early 1950s (third in the world).

⁴ Much of the historical information in this section is taken from Lattimore and Wooding (1996). A fuller account of New Zealand economic history with some emphasis on trade and trade policy may be found in Hawke (1985), Condliffe (1959) and Rayner and Lattimore (1991).

⁵ Belich suggests that "from the 1880s, came the era of re-colonisation. It developed fully between the 1900s and 1920s and began petering out in the 1960s. During this era, New Zealand's relations with Britain became closer and more junior. We relinquished expectations of the steady development of independent nationalism". See <http://www.morst.govt.nz/foresight/info/folders/press/press4.html> for more information.

The other trend concerns import policy. Increasingly New Zealand stimulated the import competing sector of the economy through tight import controls and high tariffs. The objective was to broaden the base of jobs available in the economy which had become narrowly focused in the animal protein sector for export.

1.6.2 Trade policy from the 1950s

At the end of World War 2 New Zealand entered a new phase of economic development. These developments coincided with a new period of globalisation. New Zealand was slow to react to emerging world market opportunities outside Britain. The first signs appeared that export market development would have to begin in earnest for the first time since 1882.

British guaranteed export prices stopped in 1955 and Western Europe began to draw together under the very restrictive Common Market (now EU) from 1958. The final adjustment in this phase came in 1973 when Britain joined the EEC and New Zealand's exports prospects plummeted (Brownie and Dalziel, 1993).

New Zealand's relative living standards had begun slipping badly in the 1950s and 1960s as the export sector was less and less able to pay for increasing imports for consumption and investment. In 1966 even the World Bank advised the New Zealand government to revise its entire trade policy stance. It was not longer advisable to protect the import competing sector in the way, or to the extent, it had. New Zealand was losing its 'cash cow' for exports. Import protection was taxing export production, slowing down technological advances and impeding growth. It wasn't long before some of the highly protected sectors like clothing were actually shedding labour even though import protection had not been reduced. They had simply become very inefficient.

Import policy changes came slowly and sporadically over the next 30 years.⁶ This is perhaps not surprising given the conjunction of other bad luck that accompanied Britain's entry to the EEC – two major oil shocks (1974 and 1979) and slow world growth. By 1978 New Zealand's living standards had sunk to around twenty second place in the world rankings (from third in 1953).

Early in the 1980s, the Muldoon Government began to take some major steps.⁷ A free trade agreement (CER) was signed with Australia in 1983 and a process of removing

⁶ As an example of the inefficiency of import controls, "the import substitution policy of the day [the 1960s] involved tossing high quality Bosch sparkplugs out of Volkswagen engines so they could be replaced with 'politically correct' New Zealand plugs. These New Zealand plugs *usually* fired when the distributor rotor went past - the key word is *usually*. Who did get their hands on the piles of Bosch spark plugs?" (Lattimore, 1993).

⁷ The following anecdote is from the New Zealand Herald, 3 November 2001.

Back in the 1980s, Morrinsville dairy farmer Lloyd Downing presented Jim Bolger, then Leader of the Opposition, with a shield resplendent with a roll of toilet paper. Roger Douglas, the Finance Minister in the Labour Government of the day, was busy tearing down the protections that had sheltered local industries against imports for half a century. Bolger was attacking Douglas. "He said he didn't want 250,000 people unemployed in New Zealand and a handful of wealthy farmers," Downing says. "I presented him with a roll of toilet paper and said, 'Mr Bolger, you know that the guy who made this has an import duty [against competing toilet paper from overseas] of 35 per cent, and he's New Zealand's wealthiest man!'"

As the world's trade ministers gather in the Gulf emirate of Qatar for their first meeting since anti-globalisation protesters scuttled their last talks in Seattle two years ago, Downing is still campaigning for free trade. You can see his point. Throughout New Zealand's 50 years of protection, our exporters - predominantly farmers - ultimately bore the cost of protecting the jobs of city workers and industrialists such as the "toilet paper king", John Spencer.

import licensing was introduced. The fourth Labour government accelerated the removal of import protection and tariff reductions after 1984. This gradual liberalisation of New Zealand's trade has continued to date.

These unilateral trade policy changes became incorporated into New Zealand's official position on Trade Policy as enunciated in the Four Track approach of the Ministry of Foreign Affairs and Trade.

- Track 1: unilateral trade policy changes to enhance domestic competitiveness.
- Track 2: multilateral trade liberalisation via the WTO (which was the GATT at the time).
- Track 3: regional trade liberalisation particularly through APEC in support of the multilateral approach.
- Track 4: bilateral trade liberalisation building on CER with Australia, with further agreements with New Zealand's trading partners where appropriate.

On the export side, bilateral, regional and multilateral efforts have been made to expand markets for New Zealand exports. The Uruguay Round included some agricultural trade liberalisation in 1994 - the first concerted effort at the multilateral liberalisation of agricultural trade. As part of the Uruguay Round's outcomes, the EU, Canada, the US and others have been persuaded to continue country specific tariff quotas for New Zealand.

In 2000, a Closer Economic Partnership (CEP) was concluded with Singapore. In 2001, FTA negotiations have taken place with Hong Kong, whilst FTA discussions have occurred with Chile, South Korea, the United States and the ASEAN Free Trade Area. APEC has brought tangible gains in a number of areas including playing an important coaxing role in other fora.

Unilateral export policy (TRADENZ and other programmes) has assisted export marketing thrusts by firms. Since the 1960s there has been a major diversification of export products and export markets building on the current globalisation era. In spite of all these efforts, export growth overall has been much slower than for other countries over the same time period.

Liberalisation continued on the import side. Import licensing was finally abolished in the early 1990s and tariffs have been reduced to about the OECD average with the highest tariff now 19 percent in the clothing sector.

In April 2000, the new Labour-Alliance coalition government announced that they would not automatically proceed with the former government's plan for tariff cuts, and that they would freeze tariffs (applied to clothing, footwear, textiles and related industries) for five years. However, the government remains committed to the APEC commitment to achieve free and open trade and investment in the Asia-Pacific no later than the year 2020, with the industrialised economies achieving the goal of free and open trade and investment by 2010 and developing economies by 2020. This is not a legal obligation for New Zealand, but demonstrates a political commitment to open trade in the Asia-Pacific.

1.7 Structure of the resource base

The remainder of this report consists of a series of issues or questions that are often raised in trade liberalisation debates. The report provides a simple explanation of the issue/answer to the question, and quotes for and against the issue, where available.

The report is split into four key sections:

- (i) Political/philosophical arguments.
- (ii) Social arguments.
- (iii) Environmental arguments.
- (iv) Economic arguments.

A subject and author index is presented at the front of the document to aid ease of access to specific issues of interest. A set of references for each section is provided at the end of the respective section. A full bibliography covering all of the sections is presented at the end of the document.

2. POLITICAL/PHILOSOPHICAL ISSUES

2.1 Trade barriers are a good way to help with political problems

Yes, trade barriers are often a good way to help with short term political problems, such as low employment, threatened plant closures, slow growth and disadvantaged regions. When faced with issues such as these, politicians often immediately suggest trade policy interventions. Reasons for this include the following:

- Trade barriers often have negative effects on foreigners who don't get a vote in the country imposing the barriers.
- There is a strong bias in trade policy actions to support producers (who benefit from import restrictions) rather than consumers (who benefit from trade liberalisation). It is usually much easier for producer lobbies to gather support than it is for consumer lobbies. The co-ordination of lobbying effort is simpler, the smaller the number of people who must be involved.

However, trade barriers do create longer term political problems (as well as creating net costs). Trade barriers reduce international co-operation which is usually our best way of securing market access (in the same way international co-operation is usually our best method of dealing with whaling issues and global environmental issues).

2.2 New Zealand is too small to influence trade liberalisation on the global stage

It has been argued that New Zealand is too small, economically and politically, to make a difference in reducing trade barriers. To a degree, this is true. As discussed by Nixon (2001), the view that countries listen to New Zealand because we set an example is a common myth. As well as being a price-taker in global markets, New Zealand is also a policy-taker on the multilateral stage. As a small nation, New Zealand has to operate in a trade policy environment set by others.

But this is not to say that New Zealand does not play an important role in multilateral trade liberalisation negotiations. It just means that New Zealand has to be innovative in the negotiation process. New Zealand needs to:

- Come up with constructive, innovative ways of breaking the deadlock in any particular negotiation.
- Avoid taking hard-line or unrealistic negotiating positions.
- Demonstrate a willingness to be impartial and useful, by looking at issues that do not directly concern New Zealand and trade this support.
- Support the 'system' or 'club' – New Zealand needs to join forces with other like-minded nations (such as the Cairns group) to maximise its influence in trade negotiations. Furthermore, as a small country, New Zealand needs a rules-based trading system or club to act as a referee in trade disputes between it and larger, more powerful nations.

A further method of New Zealand demonstrating its commitment to trade liberalisation is via bilateral or regional trade agreements. The WTO is the first-best option for promoting an open and equitable trade environment. Regional trade agreements are a second-best alternative to multilateral trade liberalisation. However, by entering into such agreements and reducing trade barriers in this way, New Zealand continues to show that it is committed to removing trade distortions, even when multilateral negotiations are slow in moving forward (also see 2.10).

Related to the issue of size is the fact that the world market is not a level playing field. It never was and there is little likelihood it will ever be completely neutral. However, if we don't keep trying to reduce discrimination in international trading there is a danger that trade rules will become less liberal. This happened on a significant scale over the period from 1914 to 1945 and over the last 30 years with non-tariff barriers, in particular. This is one of the major reasons New Zealand has found it difficult to keep its living standards at first world levels. Trade liberalisation on a regional and/or multilateral basis (via the WTO) will help to increase New Zealand's living standards.

It is often asked why should New Zealand reduce its trade barriers if no-one else does? New Zealand acting alone has little prospect of changing the slope of the world playing field. All we can do is to 'make the best of it', and try to influence more liberal trading through our membership of groups like WTO, APEC, OECD, the Cairns Group and other fora, and by taking steps at home to ensure our consumer and business costs are as low as possible.

An example of the level of inequity in world markets is provided in this anecdote from former Australian Trade Minister Tim Fischer (1997) concerning the use of agricultural production subsidies in the EU to misallocate production:

A couple of months ago I had occasion to speak with a UK farmer enjoying a holiday in Australia. He told me he operated 3000 acres of grain production outside Coventry. I asked him about his trip out, and he said no problems, he went British Airways first class. He went on to say that fortunately, his cheque from the EU had arrived just a few days before his trip, so the expense was manageable. I couldn't help myself - how much was the cheque for, I asked. The answer: about \$500,000.

Positive comments

- "It is sometimes argued that the trading practices of other nations should elicit some compensating response in terms of domestic policy... However it does not follow that in the absence of bilateral or multilateral liberalisation, that there is no benefit from unilateral liberalisation by New Zealand" (Ministry of Commerce, 1991, p. 12).
- Brian Chamberlin (pers. comm, 2001) suggests that New Zealand has attracted considerable interest from around the world due to the performance of its agricultural sector since the removal of subsidies and trade protection. New Zealand farming leaders continue to be asked to speak in many countries about their experiences. The fact that the agricultural sector has continued to grow in New Zealand without subsidies and protection shows that agricultural trade liberalisation is a viable prospect. This is likely to help New Zealand in its negotiations on freeing up agricultural trade on the world stage.

2.3 New Zealand can influence behaviour overseas using trade barriers

The use of trade barriers is sometimes advocated in order to persuade other governments into taking action to deal with perceived problems. There are powerful moral arguments against blunt interference in foreign communities as well as moral arguments supporting intervention. There are also powerful pragmatic arguments against doing so.

People have different priorities depending upon their circumstances and level of development. Every community has sovereign rights of self-determination without undue interference from outsiders.

Our own community is very complex and not easily understood – look at the mistakes we make through misdiagnosis of problems here at home. For us, understanding foreign communities is even more difficult and the chances of errors are much greater. As a result there has been a tendency for all sorts of myths to develop. For example, many people believe that the greatest incidence of poverty in LDCs occurs in the cities and the sweat shops. That is simply not true. Most of the world's poor are farmers and their families who live some distance from international airports that are the bases of foreign television crews – the source of much of our information.

When we apply a penalty tariff on imports from a developing country, it is usually the poorest and weakest workers in the developing industry who suffer. They will tend to lose their jobs, suffer lower wages or poorer working conditions. The firm owner we targeted is most unlikely to be affected (the capital assets he/she controls are very scarce in developing countries which gives owners more power than we are familiar with). The net result will usually be that (some) New Zealanders feel they have made a positive contribution to human rights or some other moral objective and the cost is to some of the more vulnerable people in the developing country.

There are occasions when the moral outrage is so great and public opinion at home and overseas can be mobilised to bring enough pressure on an issue that New Zealand action positively contributes to correcting an issue. Trade embargoes can work. However, it is a very risky business and we need to bear in mind that it is often the poor in the developing country who are bearing the risk – they do not have the safety nets we have.

2.4 Globalisation, the WTO, and trade liberalisation have caused New Zealand to lose its sovereignty

It is often alleged that by participating in the WTO's negotiations, and being part of the globalisation process, New Zealand has lost a degree of its sovereignty - the right to make its own decisions about the future direction of its trading patterns.

Countries are not forced to join the WTO. They do so out of choice, as they recognise the gains that stand to be made from trade liberalisation. Small countries such as New Zealand have a greater chance of being successful in trade disputes with a larger country under WTO rules than without such an organisation (over lamb tariffs in the United States, for example).

Negative comments

- "We believe that as a sovereign country New Zealand should retain as much control as possible over its own economic, social, environmental and cultural destiny. The proposed [Singapore-New Zealand free trade] agreement restricts the ability of a future government of New Zealand to make laws protecting New Zealand's economic sovereignty" (Alliance Party, 1999b).
- "The use of bilateral agreements designed to expand into regional agreements has gathered pace since the collapse of the Multilateral Agreement on Investment. One of the main reasons that the MAI foundered was that it threatened to reduce the ability of sovereign nations to regulate for their own economic, social, cultural and environmental protection" (Alliance Party, 1999b).
- Thomas Friedman (2000) addresses the issue that multinational companies are determining trade policy stances rather than governments. He talks of the Golden Straitjacket - policies necessary to establish the markets' confidence in any given economy (balanced budgets, moderate taxes, light regulation, trade liberalisation, etc). Once a country puts on the Golden Straitjacket, according to Friedman: "Two things tends to happen: your economy grows and your politics shrink... the Golden Straitjacket narrows the political and economic choices of those in power to relatively tight parameters".
- "According to sceptics, the WTO takes powers away from elected governments and grants them to faceless bureaucrats... [in some cases] the interests of multinational corporations happen to be in conflict with the democratically expressed wishes of the people. Whenever that occurs, the WTO rules against democracy" (The Economist, 2001c, p.26).
- "Ownership means political power. Foreign control means recolonisation, but by company this time, not country. Nearly everything that has been done to New Zealanders in the past decade has been done to "make the New Zealand economy attractive to foreign investment". This is what it all means to ordinary New Zealanders - we are involuntary competitors in the race to the bottom" (Campaign Against Foreign Control of Aotearoa [CAFCA], 2001).
- "Aotearoa's independence is rapidly disappearing and with its "free market" policies, including encouragement of foreign investment and unrestricted foreign capital flows, the New Zealand Government is actively promoting this process" (CAFCA, 2001).

Positive comments

- "The WTO is a government-to-government organisation. We don't tell governments what to do. They tell us. We operate by consensus, thus every member government has veto power" (Moore, 2001c).
- "The momentum of globalisation [and trade liberalisation] will not be held back by any one economy or group of economies resisting liberalisation and reform. More importantly, countries that resist will not derive the benefits that globalisation has to offer" (ADFAT, 2001).
- "What if the WTO did not exist?... Although the EU may be able to stand up for its interests in an economic fight with America, a small country in a dispute with a much bigger one would have a less good chance. That is why the governments of poor countries have been so eager in recent years to join first the GATT and then the WTO" (The Economist, 2001c, p.26).
- "Globalization does not make States unnecessary. On the contrary, for people to be successful in exploiting the opportunities afforded by economic integration, they need states at both ends of their transactions. Failed states, disorderly states, weak states and corrupt states are shunned as the black holes of the global economic system" (Wolf, 2001).
- "Despite its developing quasi-judicial role, the WTO remains an unambiguously intergovernmental, rather than a supra-governmental, entity. Changes to the organisation's rules are proposed by member governments and adopted 'by consensus'...No government ever has to accept a new WTO rule because it was outvoted...every one of the organisation's 142 members has a veto" (The Economist, 2001c, p.26).
- "Moreover, the idea that the WTO enforces obedience by punishing violators is itself a distortion. Its principal role, once a dispute is underway, is still to act as referee while two or more governments fight it out" (The Economist, 2001c, p.26).

2.5 Import restrictions help infant industries develop

A common argument behind imposing trade restrictions is that they provide a degree of protection to newly developing industries in a global marketplace where they would be uncompetitive without help in the start-up phase. Over the anti-globalisation period from 1914-45, many countries attempted to grow faster by using trade restrictions to stimulate industries. It would have been more efficient to use production subsidies for this purpose. Industries grow behind tariff walls but New Zealand has found that while some firms develop efficiently, most do not. Basically, many infant industries do not 'grow up' sufficiently because they are not exposed to the same competitive pressures that non-protected industries face.

The use of trade policy to protect infant industries brings two nasty side effects. First Parliament usually takes a long time to change trade policies so protective tariffs get left in place far longer than was originally intended, adding to the policy cost. Second, trade policies in one sector cause cost increases (lack of competitiveness) in all other industries and lower living standards for consumers.

We tried this approach, perhaps more than any other developed country, for 50 years with almost no success – at huge ongoing costs to consumers and taxpayers. From 1938 until the early 1990s, New Zealand prohibited imports of any product that could be made in New Zealand. How many firms protected in this way have turned into export competitive ones? Very few. Most of our successful firms have had no infant industry protection at all – in fact they grew up suffering the cost problems induced by the infant industry policy.

It is sometimes argued that foreign countries have had very successful infant industry policies. Asian economic success is often cited. However, a close look at the policies actually used in Japan, for example, shows a different picture. The successful Japanese car manufacturing and electronics industries had access to the cheapest possible sources of raw materials and components. The import barriers on these inputs were low. Secondly, these industries were strongly export oriented and gained little from trade barriers on the products themselves. In this sense the Japanese car industry would have grown even faster had trade policy been more liberal. That is especially true when it is appreciated that the most protected industries in Japan over the period 1945 to date have been some of their least efficient industries like farming. Parenthetically, it is opposition from some of these very inefficient industries that is slowing the urgently needed economic reforms in Japan, with the growth consequences that we are now seeing.

On the political economy side there is a tendency for the least efficient firms or firms with very low value added to strive for the most protection. Such firms have the least chance of success or they provide the fewest jobs per dollar of output. Alan Gibbs tells a story about taking over a television assembly plant which was totally protected from imports many years ago. New Zealand local content rules forced him to ask Japanese television manufacturers to disassemble TV sets and send him the components so they could be reassembled in New Zealand (even though the components cost much more than the assembled sets in Japan).

Negative comments

- How are new industries supposed to get a head-start in the global economy when they are exposed to international competition, which often provide the goods at a much lower cost than domestic producers?

Positive comments

- The key argument here is that trade protection for infant industries can lead to those industries failing to produce in the most efficient manner possible. Without the potential threat of international competition, there is little incentive for industries to adopt efficient production techniques.
- "One popular development strategy in the 1950s and 1960s was known as import substitution. Essentially this strategy is just an application of the infant industry argument. However, many of the countries who pursued these kinds of inward-looking strategies, most notably countries in Latin America and Africa, performed considerably less well economically than many countries in Asia. The Asian countries such as South Korea, Taiwan, Hong Kong and Japan pursued, what have been labelled, export-oriented strategies instead. Since many of these Southeast Asian countries performed so much better economically, it has lent some empirical evidence against the application of infant industry protection" (Suranovic, 2001).
- Proponents of the infant industry argument for protection "do not usually say how policy makers are supposed to decide which industries should qualify for this type of government support, or question whether this is an appropriate role for them to play" (Ministry of Commerce, 1991, p. 49).
- "Nor is removal of protection for sunset industries usually suggested as a quid pro quo for protection for infant industries" (Ministry of Commerce, 1991, p. 49).
- "The argument has become severely discredited because the experience in New Zealand and internationally is that most protected infants have never become internationally competitive (eg car assembly in New Zealand). Eventually the margin between prices paid for the products of such industries and world prices becomes so large that lowering of protection becomes inevitable. The larger the price and competitiveness gap, the more traumatic the eventual adjustment" (Ministry of Commerce, 1991, p. 49).
- "Lack of competition from overseas and fewer technological imports than would otherwise occur take pressure off local industry to run plants as best they can (managerial inefficiency) and to make the right investment and innovation decisions relating to technology and product (dynamic inefficiency)" (Ministry of Commerce, 1991, p. 49).
- "Officials see the infant industry argument as one that should be addressed by the process of economic reform generally, i.e. the intent to create a business climate with costs at levels that make it attractive to new investment" (Ministry of Commerce, 1991, p. 60).

2.6 We should get rid of the WTO

Due to perceived failings of the WTO, some critics have suggested that the WTO should be abolished. If the WTO were to be disestablished we (New Zealanders and others) would clamour to have it replaced by WTO version 2 to enable orderly, rules-based market access negotiations with the major powers. For more detail on the WTO, see Appendix A.

Negative comments

- "According to the myth, the "ultra-secretive" WTO has become a sort of super-governmental body that forces nations to bow to the wishes of multinational corporations. It destroys local cultures, the headline on the ad read "Global Monoculture"; it despoils the environment; and it rides roughshod over democracy, forcing governments to remove laws that conflict with its sinister purposes" (Krugman, 1999a).
- "The WTO has become to leftist mythology what the United Nations is to the militia movement: the center of a global conspiracy against all that is good and decent" (Krugman, 1999a).
- For a summary of the arguments against globalisation and the WTO, see Lucas and Hines (2001).

Positive comments

- "Like most successful urban legends, this one is based on a sliver of truth. The gradual global progress toward free trade that began in the 1930s, when Franklin Roosevelt introduced the Trade Agreements Program, has always depended on international negotiations: I'll reduce my tariffs if you reduce yours. But there has always been the problem of governments that give with one hand and take away with the other, that dutifully remove tariffs and then use other excuses to keep imports out. (*Certainement*, there is free trade within the European Union, but those British cows, they are not safe.) To make agreements work there has to be some kind of quasi-judicial process that determines when ostensibly domestic measures are de facto a reimposition of trade barriers and hence a violation of treaty" (Krugman, 1999a).
- In response to the accusation that the WTO is secretive, the WTO (2001, p. 14) states that "over 90% of all WTO documents are now available from the WTO website". The WTO is ruled by its government members, who can release whatever documents they like. If there are concerns about secrecy, then this is a problem of individual governments, not of the WTO.

2.7 Globalisation has shifted income from workers to the owners of multinational enterprises

It has been argued that trade liberalisation and globalisation has resulted in the owners of MNEs being made richer at the expense of workers. Over the last 30 years there *has* been a shift in relative income from unskilled workers on the one hand to skilled workers and capital owners on the other, right across the world. While unskilled workers' incomes *have* increased, they have increased at a slower rate than those of skilled workers. This is mainly due to the fact that, in relative terms, employers have demanded more skilled workers than unskilled workers. Technical advances in production processes have left employers requiring workers with new and higher level skills.

Multinational enterprises are NOT particularly implicated in this phenomenon. It has occurred in local firms and government departments as well.

Negative comments

- "So, international trade, despite all the liberalisation of the last couple of decades, is neither free nor fair. An increasing amount of international trade now is trade between different units of transnational corporations (TNCs) located in different countries, but within the same company structure. Such trade again is not guided by considerations of national comparative advantages so much as by strategic advantages of large TNCs, and, sometimes, some historical factors. The benefits of globalisation in the production systems therefore have been very uneven because the patterns of trade resulting from it have had some inequalising side effects which the genuine practice of free trade might have avoided" (Chatterjee, 1999, p. 8).

Positive comments

- It is often argued that employing cheaper workers overseas, MNEs can reap huge profits through lower labour costs. "But no company can expect to hold onto this windfall for long, because it will be competed away as other companies do the same thing and cut their prices. That lowering of prices is crucial in understanding the broader benefits of the change. It is what makes consumers at large – including poor consumers – better off, raising real incomes in the aggregate" (The Economist, 2001a, p. 6).
- "So capitalism-globalisation is not mainly concerned with shifting income from workers to investors, as the sceptics maintain... in the aggregate it makes consumers (that is, people with or without a job) better off as well" (The Economist, 2001a, p. 6).

2.8 Globalisation encourages branch office development in New Zealand

Some critics of globalisation suggest that overseas firms will establish 'branch offices' in New Zealand to take advantage of its particular economic strengths, and then repatriate all of the profits back overseas.

Globalisation refers to a whole raft of influences of which trade liberalisation is only one. Globalisation can encourage foreign investment by creating a friendlier world environment for entrepreneurs. If the environment is especially friendly to investors, globalisation will tend to encourage the establishment of firms. Efficient investment will involve firms structured to take advantage of New Zealand's strengths – be that research and development, access to particular resources or whatever. If such investments involve branch offices and if there are problems associated with that then trade barriers will seldom be the answer. Tariffs or quotas will tend to make the problem worse. This is because trade protection offers a strong incentive for MNEs to 'jump over' tariff walls by establishing branch offices. Our experience with strong import substitution policies after 1938 shows this effect (and their exiting strategies when the tariffs were reduced). Import protection provides multi-nationals with an incentive to earn profits behind tariff walls. If import protection is low, a MNE can usually export to a country more cheaply from elsewhere.

The number of products available around the world continues to grow rapidly and New Zealand consumers do like new products. This can be seen by the rapid spread of VCRs, DVDs, e-mail, Internet, new orthopaedic technology, cars etc. As a small country with a very limited number of consumers, New Zealand can also expect to have increasing numbers of branch plants where firms around the world need a much larger home base than New Zealand can supply (economies of scale).

2.9 Trade liberalisation has hurt Maori more than non-Maori

It has been suggested that trade liberalisation has had a more negative impact on Maori than on non-Maori. There is evidence that the opposite is true. Trade liberalisation has tended to benefit the export sector of the New Zealand economy. The societal groups Maori, women and unskilled workers tend to work in this sector and accordingly have, on balance, benefited from trade liberalisation.

Research suggests that Maori assets and jobs depend more on exporting and face higher trade barriers (in foreign markets) than the rest of the economy. Thus they have more to gain than non-Maori from further trade liberalisation.

Other aspects of the economic reforms since 1984, like redundancies in the railways and the forestry service, may have adversely affected Maori more than non-Maori. That is a different issue. These redundancies were not caused by tariff reductions but by changes in the way unemployed workers were to be protected through social policy.

Negative comments

- "Inequalities continued to grow, and the gap between Maori and non Maori on key indicators such as health, education and income had widened" (Kelsey, 1999, p. 13).
- "The globalisation-cum-deregulation agenda posed a conundrum for Maori. On the one hand it weakened the grip of the colonial nation-state, opening up new political spaces, new ways of defining identity outside state-centred nationalism... on the other hand, it would transfer some of the colonial state's power to the more distant hands of international capital, reduce the leverage over the Crown provided by the Treaty of Waitangi, and remove the buffer that the welfare state provided for the Maori working classes and unemployed poor" (Kelsey, 1999, p. 20).

Positive comments

- A report by Infometrics (1999) makes the following conclusions:
 - Maori assets are twice as dependent on exporting as non-Maori assets, as Maori production tends to be based on primary commodities and processing.
 - 86% of Maori assets are concentrated within forestry, fishing and agriculture; all industries which are heavily reliant on selling overseas.
 - Maori workers are more likely than non-Maori to work in export oriented primary commodity production and processing.
 - Maori face a higher average tariff on their exports than the rest of the New Zealand economy.

These conclusions indicate that Maori have more to gain than non-Maori from trade liberalisation.

- "Direct consumer benefits have accrued to both Maori and non-Maori as a result of falls in the prices of tariff affected items. However, Maori in the lower income bands tend to have benefited less from price reductions following trade liberalisation than non-Maori in the equivalent income band... part of the explanation for this is that Maori have on average, larger household size. This means they may spend a larger proportion of their income on food and housing, leaving less for [tariff-affected] household durables and cars" (NZIER and Lattimore, 1999, p. iii).
- "Maori were disproportionately affected by liberalisation...most of this was due to policies other than trade liberalisation... Monetary and fiscal policy led to a rapid appreciation in the real exchange rate post liberalisation, which also eroded the

international competitiveness of both the export and import-competing sectors, also leading to job losses" (NZIER and Lattimore, 1999, p. 11).

- "Maori entered the [post liberalisation] period with a lower level of qualifications than non-Maori... This contributed to the relatively high cost of adjustment for Maori" (NZIER and Lattimore, 1999, p. ii).
- "Since 1991, Maori population has improved its level of qualification relatively more than the non-Maori population" (NZIER and Lattimore, 1999, p. 11).
- "Post trade liberalisation, New Zealand has increased its net trade in goods and services that embody unqualified labour. Estimates show that wage benefits are likely to have been positive for Maori employees who tend to have relatively low qualifications" (NZIER and Lattimore, 1999, p. iii).
- "Overall, it would appear that Maori have gone through more adjustment than non-Maori as a result of trade liberalisation. To some extent this was due to historical misfortune, which saw larger scale migration of Maori into urban employment, coinciding with a period of unsustainable protectionism in the New Zealand economy. This created an environment in which Maori were encouraged into unskilled jobs in protected sectors" (NZIER and Lattimore, 1999, p. iii).
- "Nothing in our research would suggest that Maori would benefit from [a return to protectionism]. The present generation of Maori are paying the price for an unfortunate juxtaposition of Maori urbanisation and the attempt to build 'fortress New Zealand'. The habits of thought - which do not fully perceive the value of education - built up during that period will not be eradicated overnight. Any attempts to retreat from trade liberalisation will entrench these incentives and habits, thus returning Maori, at least to some degree, to their starting position prior to the reforms" (NZIER and Lattimore, 1999, p. 64).

2.10 If multilateral liberalisation is best, why is the New Zealand government negotiating regional or bilateral free trade agreements?

Some commentators believe that New Zealand is too focused on negotiating regional agreements, such as the Closer Economic Partnership (CEP) with Singapore, rather than pushing for further multilateral liberalisation. In recent years, many nations have shifted their trade policy focus away from multilateral efforts to reduce trade barriers, and have instead moved towards regional trade arrangements (RTAs). New Zealand is one such nation. However, the move towards RTAs does not mean that New Zealand has given up hope on multilateral trade liberalisation. For the reasons outlined below, multilateral liberalisation is not a rapid process. Rather than wait for WTO rounds to reduce trade barriers with its main trading partners, New Zealand has looked at negotiating bilateral agreements in the interim. New Zealand remains committed to the WTO agenda as the first-best route to more open trade and investment.

Negative comments

- "The Singapore Free Trade Agreement will not benefit New Zealanders. It will open up the door to a sea of imports from sweat shop countries which we cannot compete with and should not try to" (Donald, quoted in The Timaru Herald, 3 October 2000).
- "Mr Donald said many of the products that came from Singapore would have been substantially made in other parts of Asia: (Timaru Herald, 3 October 2000, p. 3).
- In response to the suggested FTA with the United States: "Finally, we must remember the future options ruled out by such an agreement. We still have a limited right to raise tariffs, except on imports from Australia and Singapore - and now from the U.S. too? How many more tools that we need for our economic development can we afford to give away?" (Rosenberg, 2001a).

Positive comments

- "The WTO provides the broad framework of rules for international trade and a forum for pursuing trade liberalisation at a global level. But high quality CEPs deepen economic interaction. When they are based, as New Zealand's are, on the multilateral framework, they can also provide guidance on the direction in which the multilateral rules should evolve. They therefore complement the WTO system and will remain an important element of New Zealand's trade policy" (Sutton, 2001).
- "I do not see that these free trade areas and Closer Economic Partnerships as new defensive walls that divide regions because they exclude neighbours who don't belong. Rather, they signal a determination to head even faster towards the goals that all WTO members are committed to" (Sutton, 2001).
- If completely free, non-discriminatory global trade is the ultimate goal of trade negotiations, why have so many countries formed RTAs over the last twenty years? The following passage from Ballingall (2001, p. 54) provides a summary:
 "Two major motivations for such arrangements can be identified. First, with the GATT/WTO membership continually expanding, multilateral agreement on trade issues is becoming increasingly difficult. The Uruguay Round of GATT negotiations lasted over seven years (1986-1994), compared with six for the Tokyo Round (1973-1979) and three for the Kennedy Round (1964-1967). Whilst this longer time period also reflects the more ambitious nature of the Uruguay Round in tackling issues such as non-tariff barriers, intellectual property rights, trade in services, and the thorny area of agricultural trade, it also suggests that reaching an agreement that

was mutually acceptable to all the WTO members was very time-consuming. Frustration with the perceived slow progress of multilateral liberalisation has led nations to examine other alternatives in trade barrier reduction. For many WTO members, the most viable and attractive alternative was to turn their attention to regional agreements in the form of RTAs. This is very much the case for New Zealand

The second 'main driving force for regionalism today is the conversion of the United States, hitherto an abstaining party, to Article XXIV' (Bhagwati, 1993, p. 29). The world's largest trading nation had previously been a keen follower of multilateral trade liberalisation, but in recent times has first accepted, and then embraced participation in RTAs. Such a shift in paradigm by the United States has had a huge influence on other nations according to Bhagwati (1993, p. 29): 'its decision now to travel the regional route... tilts the balance of forces at the margin away from multilateralism to regionalism' ".

- Many concerns about New Zealand's FTA partners being used as 'backdoor entry points' for cheaply produced goods that could flood the New Zealand market, are addressed by the use of Rules of Origin (ROO). ROO are the criteria needed to determine the national origin of a product. ROO are necessary because goods may be subject to different discriminatory measures depending on their origin. Duties and restrictions connected to importation may vary according to the origin of the product imported.
- ROO vary between FTAs - the ROO conditions for the CER and the CEP with Singapore are different. For more information on New Zealand's rules of origin under preferential agreements, see <http://www.customs.govt.nz/commhome/fact8.htm>

2.11 The WTO, IMF and World Bank control too much of the developing world

It is frequently alleged by opponents of globalisation and trade liberalisation that the three organisations above play too important a role in the global economy, and especially in regard to LDCs. The three organisations are often lumped together as all being undemocratic, supra-governmental, etc. It is easy to criticise these organisations – they are very prominent on occasions and they are forced to get involved in some very difficult issues.

The WTO, IMF and World Bank all have different roles in the global economic environment :

- The WTO has been very successful at achieving its objectives (creating and sustaining rules-based international trade) since 1948. It is a highly democratic institution (one country-one vote) and arguably the most successful United Nations body.
- The World Bank is a co-operative attempt to support the capital requirements of LDCs. However, the World Bank only supplies a small fraction of LDC borrowing requirements (it would supply more if we, the developed countries, gave them more of course). If we did away with the Bank, we would still want to help LDCs with their borrowing requirements. Conclusion: fix the World Bank rather than disestablish it.
- The IMF was created to promote international monetary cooperation, to facilitate the expansion and balanced growth of international trade, to promote exchange stability, to assist in the establishment of a multilateral system of payments, and to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members.

Each of the three organisations thus has a different role, and is organised differently in terms of its decision-making process.

This criticism also has a large country bias to it. Large countries do not need these international institutions to the same degree as we do – but smaller countries need the larger countries involved in international organisations to balance power relationships to the greatest extent possible. It is important from New Zealand's perspective that agendas prepared by multinational lobby groups are modified to New Zealand conditions.

Negative comments

- "The IMF undermines democracy in the developing world, the charge goes, which is bad enough; the WTO does the same thing in America and Europe as well, which is worse. The IMF and the [World] Bank bring financial ruin to the poor countries that turn to them for help; but in the long term, the WTO inflicts even worse damage... its prohibitions undermine efforts to protect the environment and eviscerate safeguards developed over decades to protect the health and well-being of its workers" (The Economist, 2001c, p. 26).
- "What is unfortunate is that the Government is not critical of the World Trade Organization (free trade) agenda. It seems to have bought right into it. Whereas the debate in Green circles is whether to shrink or sink the WTO" (Donald, quoted in the Evening Post, 22 November 2000).
- Critics suggest that the WTO is a kind of embryonic world government, but with none of the checks and balances a democratic government requires.

Positive comments

- It is incorrect to suggest that the WTO is not democratic: "The WTO ... operates on a basis of consensus. This means that all members are equal under the rules. It means all members have the right to participate in decision-making. Consensus means all members have veto power. WTO agreements are negotiated by Ambassadors representing their respective countries. Before the agreements enter into force, they are referred back to Governments. Governments are in turn accountable to parliaments who are responsible for passing legislation because our agreements must be ratified by legislators" (Moore, 2001b).
- "But the much-feared power of the WTO to overrule local laws is strictly limited to enforcement of the spirit of existing agreements. It cannot in any important way force countries that are skeptical about the benefits of globalization to open themselves further to foreign trade and investment. If most countries nonetheless are eager or at least willing to participate in globalization, it is because they are convinced that it is in their own interests" (Krugman, 1999a).

2.12 Trade barriers protect our culture

It is argued that globalisation and trade liberalisation has led to a world where cultural difference are disappearing. Many of the arguments refer to societies becoming 'americanised'. There is a fear that the music we listen to, the sports we play, the pictures we watch, the language we use, etc, are all influenced by foreign culture. This is all true because healthy societies are dynamic and incorporate influences from outside as they develop their own trends. Given our size New Zealand has been very successful, not only in producing our own distinctive artistic outputs but also in exporting many of these ideas.

If New Zealanders want local artistic output to increase over and above what we have now then the most efficient way to do that is probably to provide increased art subsidies rather than impose inefficient trade barriers.⁸ However, there are complex interdependencies involved in artistic 'industries' just as there are in manufacturing. For example, the strength of our film industry might be intimately connected to Hollywood in ways that would deteriorate if Hollywood films were to be banned, for example.

Negative comments

- "Because social harmony and cohesion contribute to efficiency and growth, it is a legitimate goal of economic policy to preserve a particular way of life, set of values, community and culture" (Kelsey, 1999, p. 205).
- "The theoretical template on which it [free market ideology and trade liberalisation] was based treated the country's colonial history and the contemporary reality of its social and political life as irrelevant" (Kelsey, 1999, p. 8).

Positive comments

- "The Turning Point [anti-globalisation and anti-WTO movement] people appear to believe that globalized tastes are somehow imposed on a helpless world. Thanks to the WTO, "Disney can homogenize consciousness and McDonald's can homogenize tastes, globally." Presumably in a better world children would prefer Balinese dance and healthy vegetarian food. Not likely: Everything we know suggests that our emotional response to anthropomorphized animals and our craving for fatty foods are hard-wired inheritances from the ancestral adaptive environment. If Mickey Mouse and the Big Mac didn't exist, somebody would quickly invent something very similar" (Krugman, 1999a).
- "But what about the view that globalisation is a kind of cultural conquest? This too is plainly wrong. Under a market system, economic interaction is voluntary... McDonald's does not march people into its outlets at the point of a gun. Nike does not require people to wear its trainers on pain of imprisonment. If people buy those things, it is because they choose to, not because globalisation is forcing them to" (The Economist, 29 September 2001, p. 13).
- "A more open world has its dangers, but a closed world divided into tribal compartments has proved lethal in the past. The tribes of Europe are a good example. Where the tribes appreciate and respect each other's differences – culture, religion, music, food and commerce – we enjoy a united Europe. Human rights and

⁸ For example, the government recently announced a new Work and Income programme, called Pathways to Arts and Cultural Employment. This programme is for job seekers who want to work in the arts and creative industries. Like other job seekers, budding artists will get help from Work and Income with specialist training while receiving the dole.

living standards are high. Where tribalism flourishes, human progress and human dignity are imperilled" (Moore, 2001b).

- "Economic integration does not militate against diversity, least of all religious diversity. In the West, globalisation has been running at full power for years. Has it mashed the United States, France, Italy, Germany, Sweden and Japan into a homogenous cultural putty? It has not, and there is no reason why it ever should" (The Economist, 29 September 2001, p. 13).
- "Another contradiction [in anti-globalisation protesters' arguments] resides in the fact that you strongly urge tolerance toward lifestyle diversity. Surely we owe the fact that we live in a multicultural and tolerant society to the process of globalisation?" (Verhofstadt, 2001, p. 22).
- "The same goes for cultural choices: Boston residents who indulge their taste for Canadian divas *do* undermine the prospects of local singer-songwriters and might be collectively better off if local radio stations had some kind of cultural content rule. But there is a very fine line between such arguments for collective action and supercilious paternalism, especially when cultural matters are concerned; are we warning societies about unintended consequences or are we simply disagreeing with individual tastes?" (Krugman, 1999a).

2.13 People have no choice

Some critics of globalisation, the WTO and trade liberalisation suggest that everyone is being taken along for the ride, but can't do anything about the processes if they don't agree with them.

The world community as a whole (or at least the 144 countries that belong to the WTO) creates the conditions to enable trade liberalisation globally to occur through attitudes harnessed by our politicians and agreed to in international democratic fora. To say that people have no choice about these issues cannot be true: economic integration has not been forced upon countries, they have partaken of their own free will. Under New Zealand's democratic political system, if there is sufficient opposition to globalisation and trade liberalisation, this will be reflected in changes in government after elections are held. New Zealand can choose to be part of the liberalisation effort and reap the benefits or it can withdraw and pay the price.

"The word globalisation has become a slogan and a rallying call for everyone that thinks there's something wrong with the world" (Mike Moore, in New Zealand Herald, 11 August 2001).

Positive comments

- Helen Clark has argued that like it or loathe it, globalisation is here to stay: "Standing still is not an option. New Zealand has done that for too long and seen its living standards slide from the top of the OECD ladder to near the bottom... Trade is our lifeblood and we will do whatever we can to secure more access for our goods and services" (in The Dominion, 27 November 2000).
- "International economic integration, on the liberal view, is what happens when technology allows people to pursue their own goals and they are given the liberty to do so. If technology advances to the point where it supports trade across borders, then, and if people then choose to trade across borders, you have integration, and because people have freely chosen it this is a good thing. Also, again because people have freely chosen this course, you would expect there to be economic benefits as well" (Crook, 2001, p. 4).
- "The challenge that we are faced with today is not how to thwart globalisation but instead how to give it an ethical foundation" (Verhofstadt, 2001, p. 22).
- "Although they [anti-WTO protestors] talk of freedom and democracy, their key demand is that individuals be prevented from getting what they want - that governments be free, nay encouraged, to deny individuals the right to drive cars, work in offices, eat cheeseburgers, and watch satellite TV" (Krugman, 1999a).

2.14 The GATS rules will force foreign competition on New Zealand

There are concerns that under the General Agreement on Trade in Services (GATS), all of New Zealand's service providers will be faced with competition from overseas, including those services sectors which have traditionally been provided by government and which have a strong 'public good' element, such as education, health and social services. This is not true. Under the GATS there is no obligation on any WTO member to allow foreign supply of any particular service - nor even to guarantee domestic competition, since it is possible to maintain a monopoly supplier, whether public or private, of any service (WTO, 2001a).⁹ Each member must make a national schedule of commitments, but there is no rule as to how extensive it must be.

Nor is it true that domestic services (such as water distribution services) be regulated or privatised: "The GATS does not require the privatisation or deregulation of any service. In respect of water distribution and all other public services, the following policy options, all perfectly legitimate, are open to all WTO Members:

- To maintain the service as a monopoly, public or private;
- To open the service to competing suppliers, but to restrict access to national companies;
- To open the service to national and foreign suppliers, but to make no GATS commitments on it;
- To make GATS commitments covering the right of foreign companies to supply the service, in addition to national suppliers" (WTO, 2001a).

Public services that are not provided on a commercial or competitive basis are not covered by the GATS - the GATS excludes from its coverage all services provided in the exercise of governmental authority.

In terms of health and education services, a Government that undertakes a commitment to allow foreign suppliers to provide education or health services in their country are not undertaking to privatise public education or healthcare systems. Nor are they compromising standards - they can enforce the same standards for the protection of the public on foreign suppliers as on nationals, and can indeed impose additional requirements on foreigners if they so choose (WTO, 2001a).

In New Zealand's case, its GATS commitments on education do not entitle foreign providers to compete against all types of education services. For more information, see http://www.mfat.govt.nz/foreign/tndtead/wto/services_prop2.html

⁹ For an explanation of what the GATS is, see section 1.3.

2.15 The WTO is a plaything of the economic superpowers

This argument suggests that the EU, the US, Japan, etc use the WTO to their advantage, at the expense of LDCs, or that LDCs cannot influence trade negotiations under the WTO. Larger countries *do* indeed have more political and economic power than LDCs and New Zealand. Hillman (1995) suggested after the Uruguay Round that "The European Union and the United States will attempt to dominate WTO proceedings".

However, the rules-based system of trade which the WTO promotes does not apply differently to developed countries according to their size or political power and LDCs do receive some preferential treatment. The influence/dominance that the economic superpowers would have in the absence of the WTO would be far greater than it is currently.

Over three-quarters of the WTO's members are developing countries.

An example of the influence of the superpowers was the EU's initial rejection of the inclusion of eliminating/phasing out agricultural subsidies in the WTO draft declaration at Doha, Qatar. The EU stated that it would not accept any text that referred to "elimination" or "phasing out" of agricultural subsidies. Without their acceptance of the WTO draft, a new round of negotiations could not have proceeded. However, the EU's position was modified under pressure from developing countries and the Cairns Group which refused to allow a Trade Round to begin without that objective. This shows that LDCs, especially when acting as a group, do influence WTO outcomes, such as trade negotiations.

The WTO does work for the smaller countries, including New Zealand. Referring to the WTO's ruling that the United States illegally imposed higher tariffs on New Zealand lamb, Te Akau farmer David Bull said "This is a timely reminder that globalisation has benefits. If we could not trade, we would really go down the tubes" (in the New Zealand Herald, 3 May 2001).

Referring to the same issue, Meat New Zealand chairman Jeff Grant commented "It is virtually impossible for New Zealand to prevail against a powerful protectionist lobby in one of our large trading partners. But in the WTO we are equal partners" (in the New Zealand Herald, 3 May 2001).

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3. SOCIAL ISSUES

3.1 Trade barriers are a good way to help with social issues

The use of trade barriers is often promoted to deal with social issues. Social issues that may prompt policy-makers into considering implementing trade barriers include high youth or regional unemployment, threatened firm closures and low growth in living standards. As in other areas, trade barriers are usually one of the worst ways to solve a social issue.

Trade barriers are inefficient policy instruments because they have nastier side effects than most other policy interventions - they are doubled-edged swords. For example, a tariff on imports will create jobs in the protected industry but the tariff will destroy even more jobs in the rest of the economy and it will raise the cost of living to all local consumers.

The double-edged nature of trade barriers also increases the chances that attempts to improve the situation for one vulnerable group comes at a cost to an even more vulnerable group. This is particularly true in New Zealand (but not for many other countries) because the export sector and its affiliates employ relatively more Maori, women and people without qualifications. Import restrictions in New Zealand will hurt the export sector. Accordingly, if the social issue is amongst these specific groups the only useful trade policy is an export subsidy, say on forestry or tourism.

This last conclusion is the result of the particular structure of the New Zealand economy. It will not be true of other countries with different structures. One moral to this story is that trade liberalisation agendas ought to be tailored to local conditions. The agenda for another country may not be applicable to New Zealand.

As before, there are better ways to deal with social issues. The poor suffer in the job market because they have fewer marketable skills and less opportunity to sell the services they do have. Policies which are directed at improving these characteristics are more efficient at reducing poverty than trade policies, which have harmful consequences.

It is important to remember in this context that as a practical matter, governments usually do not choose tariffs to help the poor (perhaps because poorer people have less political clout than others). For example, take tariffs in developed countries (including New Zealand) at present. The high tariffs are on products purchased mainly by poorer people - low priced clothing, footwear and the like. Accordingly, the tariffs have the maximum nasty side effects.

Positive comments

- "Indeed, economic advancement achieves its proper end precisely to the degree that it advances the whole good and destiny of human beings" (Pope John Paul II, 1991).
- Trade is more valuable to developing countries than aid money. "What is the point of putting money in the collection plate for the poor on Sunday, and protecting your markets against their goods on Monday?" (Mike Moore, in New Zealand Herald, 11 August 2001).
- "The poorest households in the United States spend 49% of after-tax income on just two things: food and clothing (including footwear). Yet these necessities are the most highly-taxed items imported into the United States, accounting for 48% of all

United States import taxes collected last year [2000]" (United States Trade Representative, 2001).

- "The poor spend half of their after-tax income on the highly-taxed basic necessities. The wealthiest 20% of households spend about 12% of income on these items" (USTR, 2001).
- "The annual cost to consumers of hidden United States import taxes is \$1,100 for the average family of four" (USTR, 2001).
- "Just 2 weeks after the tragic events of 11 September, United States Trade Representative, Robert Zoellick, made a simple but profound statement about the importance of continued openness. It bears repeating:
'Let me be clear where I stand: Erecting new barriers and closing old borders will not help the impoverished. It will not feed hundreds of millions struggling for subsistence. It will not liberate the persecuted. It will not improve the environment in developing countries or reverse the spread of AIDS. It will not help the railway orphans I visited in India. It will not improve the livelihoods of the union members I met in Latin America. It will not aid the committed Indonesians I visited who are trying to build a functioning, tolerant democracy in the largest Muslim nation in the world....' " (Moore, 2001a).
- "OECD agricultural subsidies in dollar terms are two thirds of Africa's total's GDP. Abolition of these subsidies would return three times all the Official Development Assistance put together to developing countries. Kofi Annan wants \$10 billion to fight Aids; that is just 12 days of subsidies in dollar terms" (Moore, 2001b).
- "The struggle against hunger and malnutrition requires that all countries should come together and adopt new and binding regulations responding to the changed demands of trade and international exchange and not to the interests of a small number of countries. In this way it will be possible to avoid clear symptoms of protectionism in its various forms, which constitute the principal obstacle to trade and create actual barriers to markets for the developing countries.
Thus the movement towards a new world order of trade which does not penalize agricultural progress in developing countries should be put into operation as quickly as possible, thus fostering the integration of their potential into the economies of the rich countries" (Pope John Paul II, 1993).

There is nothing new in refuting the argument that trade barriers can be used to help the poor. Frederic Bastiat, the French Leftist politician said it all 150 years ago.

You may look at the question from any point of view you like, but if you examine it dispassionately, you will see that no good can come from legal or illegal plunder. We do not deny that it may bring for Mr. Protectionist or his industry, or if you wish for domestic industry, a profit of five francs. But we affirm that it will also give rise to two losses: one for James Goodfellow, who pays fifteen francs for what he used to get for ten; the other for domestic industry, which no longer receives the difference. Make your own choice of which of these two losses compensates for the profit that we admit. The one you do not choose constitutes no less a dead loss.

Bastiat concludes that no good can come from government intervention in international trade.

Moral: To use force is not to produce, but to destroy. Heavens! If to use force were to produce, France would be much richer than she is.

3.2 Trade liberalisation leads to a 'race to the bottom'

Those concerned about trade liberalisation causing a race to the bottom believe that in order to remain competitive, LDCs will let labour standards slip.

We need to bear in mind that the greatest resource LDCs have available is unskilled labour. We need to ensure that our policies do not prevent them from employing those people productively (and rich country tariffs currently do that in spades).

LDCs have a strong need for foreign exchange earnings to help finance their economic and social development. Trade expansion is many times more effective than aid for LDCs. The trade policies of the rich countries has been biased against them. For example, New Zealand tends to have high tariffs on products in which LDCs have a comparative advantage. Trade liberalisation can help LDCs if we, the rich, are prepared to allow it. After all, overall, we the rich gain too, though we have to spend taxpayers' money on adjustment problems at home.

If LDCs get increased market access for their exports they will try to remain as competitive as ever: to keep reducing their costs. LDCs will raise standards of all types (labour, environmental etc) according to their education levels and sovereign priorities. They will do it 'their way', not our way. Their standards, like ours, are very dependant on their income. As their incomes rise with trade boosted, their standards will rise.

As noted by Lim (2000), "as one worker said to me in Vietnam, 'I am used to working 16 hours in our rice paddy, so 14 hours in the factory is not hard for me. It's just boring. But I don't mind. I always ask for overtime'".

Negative comments

- "Today's global economy lets corporations pit workers and communities against each other to see who will provide the lowest wages, most abusable workers, cheapest environmental costs, and biggest subsidies for corporations. The result: a 'race to the bottom' in which conditions for all tend to fall toward the poorest and most desperate. But that gives people around the world a common interest in opposing the race to the bottom"
(<http://store.globalexchange.org/globvilorglo1.html>)

Positive comments

- Wages are low and working conditions poor in developing countries *in general* because:
 - (i) The demand for labour is weak, as productivity is low due to a lack of complementary inputs such as capital and skills.
 - (ii) The supply of unskilled labour is abundant, as large families are essential for survival but education is scarce.

Thus workers are prepared to accept so-called 'sweatshop' jobs because they are better paid, and conditions are no worse than available local alternatives such as subsistence farming, casual manual labour, domestic services, prostitution, etc.

- As shown in Table 1, the wages paid by foreign affiliates (i.e. Multinational Enterprises) to workers in poor countries are about double the local manufacturing wage.

Table 1 Average wages paid by MNEs and domestic producers

1994 data, US\$000s

	All countries	High income	Middle income	Low income
Average wage paid by MNEs	15.1	32.4	9.5	3.4
Average domestic manufacturing wage	9.9	22.6	5.4	1.5
Ratio	1.5	1.4	1.8	1.5

Source: Graham (2001). Also see The Economist, 'A survey of Globalisation', 29 September 2001, p. 13.

- "OECD studies have concluded that low standards [of labour] are not generally a significant competitive factor in trade with the countries concerned; and there tends to be a positive association over time between sustained trade liberalisation and improvements in core labour standards" (OECD, 1998a).
- "Suppose that...multinationals pay sweatshop wages to their workers in developing countries. Regulation forcing them to pay higher wages is demanded. The biggest Western firms decide there might be merit in the idea. But justice and efficiency require a level playing field. The NGOs, the reformed multinationals and enlightened rich-country governments propose tough rules on third world factory wages, backed up by trade barriers to keep out imports from countries that do not comply. Shoppers in the West pay more – but willingly because they know it is in a good cause... and the third world workers displaced from locally owned factories explain to their children why the West's new deal for the victims of capitalism requires them to starve" (Crook, 2001, p. 5)
- "One of the many lasting images I recall from a trip to India was 12 people filling a dump truck with shovels and pans – no front-end loader in sight. Despite their obvious lower physical productivity the cost of the labour was miniscule compared with the cost of a tractor" (Morgan, 2001).
- The following points come from Paul Krugman:

"The real complaint against developing countries is not that their exports are based on low wages and sweatshops. The complaint is that they export at all. And so the supposed friends of poor workers abroad are no friends at all. If they got their way the result for the poor Freedonian would not just be no sweatshop-it would be no job. And manufactured exports, initially based on low wages, are the only route we know for rapid economic development" (Krugman, 2000).
- "Imagine that the United States imported a lot of clothing from the nation of Freedonia. Without question, the growth of these imports had cost some jobs in the United States, and possibly exerted some downward pressure on American wages. Economists might point out, in their tiresome way, that the jobs lost in the clothing industry were more than matched by jobs gained elsewhere. They might point out that trade, by allowing each country to specialize in doing what it does relatively well, normally raises productivity and incomes in both countries. But these arguments would not be much consolation to the displaced workers, or to the owners of the affected clothing factories, and we would surely see a campaign

against Freedomian products—a campaign that would make the most of stories about the low wages and terrible working conditions in Freedomian factories.

Now suppose that an investigative journalist visited Freedomia and discovered that it was all a sham. In reality, Freedomia was a high-tech, high-wage economy: The Freedomian government had been faking poverty in order to avoid paying U.N. dues. And Freedomian clothing manufacturers were able to undersell their U.S. competitors not because of low wages but because robots and computers made them highly efficient

Here's the question: Would the people demanding limits on Freedomian exports say, "Oh well, I guess that's OK, then"? Whom are we kidding? The demands for protection would not abate because for the U.S. industry competing against imports, it doesn't matter how the clothing was produced. When the U.S. consumer is offered cheaper shirts from abroad, the United States loses the same number of shirt-making jobs regardless of whether the shirts were produced by workers making 30 cents an hour or \$30 an hour" (Krugman, 2000).

- "Employers do, of course, sometimes close domestic plants and open foreign ones. However, a great many factors go into such decisions, and the outcome is rarely determined by labor standards. Most significant are wage and productivity differentials, transportation and communication costs, proximity either to fast growing markets or materials used in production, natural advantages such as nearness to a harbor, and conditions of governance" (CED, 2001).
- "Developing countries understandably are adamantly opposed to efforts to tie labor and environmental standards to trade agreements or to use trade sanctions as a means of enforcing non-trade agreements. They regard these efforts as a unilateral attempt by the advanced nations to take back or undermine market-access provisions they bargained for and won in the Uruguay Round.

If developed-world labor standards were applied to much poorer developing countries, it could create a significant economic disadvantage for them because it would substantially add to their costs of production, making their exports less competitive. In addition, raising the cost of employing low-productivity workers will increase unemployment if employers substitute capital for more expensive labor or if export sales decline. Similarly, imposing developed-world environmental standards can lead to higher costs, reduced exports, and higher unemployment" (CED, 2001, p. 11).

- "My factory visits confirm the results of all the available research with which I am familiar on foreign-owned export factories in Asia i.e. they pay above-average wages for the countries concerned—especially if the comparison is made only with other young females (18-24 years) who are in the labor force. According to the World Bank, the average annual minimum wage for 1995-99 in Vietnam was US\$134 and the workers at Nike's supplier factory earned \$670; in Indonesia the minimum wage was \$241 and the workers at the Nike supplier factory earned \$720 (at the time of my visit)" (Lim, 2000).
- "These findings are consistent with other recent surveys for these countries. Analyzing detailed data from 6,000 households covered in the 1997-98 Vietnam Living Standards Survey, Prof. Paul Glewwe at the University of Minnesota found that *per capita* consumption expenditure for the general population was \$205, while it was \$420 for those working in foreign-owned enterprises, \$303 for those working in foreign-owned textile enterprises, and \$371 for those working in foreign-owned leather goods enterprises (which would include footwear)" (Lim, 2000).

- "The Nike managers and the factory managers in both countries said that the main problem posed for them by the various codes was the limitation on overtime work (which it was noted the U.S. does not have). Nike insisted on factories meeting its limitation, but the factories themselves found it difficult to meet delivery targets-especially during the Christmas sewing season-without working more overtime-they then fell afoul of Nike's delivery targets. It was also mentioned that workers like to work overtime and often choose factories with worse conditions over the Nike subcontractors because they will allow them to do so. This is because workers prefer to maximize income" (Lim, 2000).
- According to Jeanette Fitzsimons, Hong Kong apparently has "sweatshops with no environmental standards" (in the National Business Review, 1 December 2000). Yet according to MFAT (in New Zealand Herald, 26 April 2001), the average wage in the manufacturing sector in Hong Kong is \$33,000, and for garment workers, \$27,000.
- Not all of those in the TCF sector in New Zealand are despondent: "I've seen the industry grow and I'm proud of that. I've seen it shrug off old ways. I think there are so many opportunities for jobs and growth" (Paul Bloomfield of the Apparel and Textile Federation of New Zealand, in Sunday Star Times, 21 October 2001).

3.3 Trade liberalisation makes the rich richer and the poor poorer

There are concerns that trade liberalisation and globalisation increase the inequality of income, both nationally and internationally. But as discussed in 3.2, liberal trade policies enable the poor to get richer. This applies to people individually and to countries as a whole. One of the problems with WTO/GATT agreements in the past is that they have discriminated against poor countries. The Doha Round is explicitly aimed at helping developing country members.

New Zealand can help improve this situation by taking unilateral action and supporting multilateral trade agreements to target poor countries and trade liberalisation measures which benefit them.

The other aspect of this issue is that developed countries have (relative) poverty problems as well. Trade liberalisation can widen the gaps (skew the income distribution against the poor) if the import-competing sector employs relatively more unskilled workers than the export sector. In New Zealand, the evidence is that this is not the case. The New Zealand economy is not structured this way. Unskilled workers in New Zealand tend to benefit more than highly skilled workers from trade liberalisation. But you may ask 'what has caused the widening of the gaps' in New Zealand? Most likely it is new production techniques which favour skilled people (biased technological change). A study by Cline (1997) shows that between 1973 and 1993, technological change was perhaps five times more powerful in widening inequality in the United States than trade liberalisation.

Negative comments

- "Several recent studies have shown that freer trade has contributed to both increased unemployment of unskilled labour and a consequential increase in income inequality in developed countries as the demand for skilled labour relative to unskilled has increased causing a larger share of labour earnings to accrue to those with skills. A similar trend in New Zealand income distributional patterns has been noted in Podder and Chatterjee 98. Although causal links with trade liberalisation was not the focus of this investigation, given New Zealand's recent sweeping unilateral trade liberalisation, the observed trend is quite likely to have some links with the changing trade and employment patterns of New Zealand" (Chatterjee, 1999, p. 8).

Positive comments

- "For every 1 percentage point in the ratio of trade to GDP, income per person is 2 - 3% higher" (Frankel and Romer, 1999, in Stoeckel and Borrell, 2001).
- "New Zealand is still a better place for most than a decade ago. Poverty now is not having a television set" (Mike Moore, in New Zealand Herald, 11 August 2001).
- After trade liberalisation or foreign direct investment, jobs will be lost in import-competing industries, but will be created in export industries, which tend to be higher-paying jobs: "On balance, then, you could say that the economy has gained: it now has more higher-paying jobs and fewer lower-paying jobs... unfortunately though, the people getting the higher-paying jobs are not necessarily the ones who have lost the lower-paying jobs" (The Economist, 2001a, p. 9).
- "Another implication of the shift in demand for labour in the rich, FDI-sending countries is a possible widening of income inequality... the combined action of trade and capital flows is likely to raise the demand for relatively skilled labour and

lower the demand for relatively unskilled labour... You would expect to see a similar pattern in an economy that was undergoing technological change" (The Economist, 2001a, p. 9).

- Paul Krugman suggests that "while wages and working conditions in the new export industries of the Third World are appalling, they are a big improvement over the previous, less visible rural poverty" (Krugman, 1997).
- A study by William Cline (1997) shows that between 1973 and 1993, technological change was perhaps five times more powerful in widening inequality in the United States than trade. As shown below in Table 2, trade liberalisation accounted for a very low percentage of the forces that have caused greater inequality of income.

Table 2 Sources of income inequality in the United States 1973 – 1993

Percentage contributions to the increase in the ratio of skilled to unskilled workers.

1. Equalising forces

Increase in stock of skilled relative to unskilled labour	-40
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2. Unequalising forces

Trade:	7
<i>Lower transport and communication costs</i>	3
<i>Trade liberalisation</i>	3
<i>Outsourcing</i>	1
Immigration	2
Falling minimum wage	5
Deunionisation	3
Skill-based technological change	29
Other unexplained	29
TOTAL	97

3. Net effect	18
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Notes: (1) Percentages for unequalising forces must be chained, rather than added to equal total unequalising effect. Similarly, **1** and **2** must be chained to calculate **3**.

Sources: Cline (1997), The Economist (2001a).

- This table shows that not only has trade been relatively unimportant in widening income inequality, but also that this effect has been hugely outweighed by the main force operating to equalise incomes - education and training.
- "This means that globalisation sceptics are missing the point if they are worried about the effect of integration of rich-country losers: trade is a much smaller factor than technology. The remedy lies with education and training, and with help in changing jobs" (The Economist, 2001a, p. 9).
- "The lofty moral tone of the opponents of globalization is possible only because they have chosen not to think their position through. While fat-cat capitalists might benefit from globalization, the biggest beneficiaries are, yes, Third World workers.

After all, global poverty is not something recently invented for the benefit of multinational corporations. Let's turn the clock back to the Third World as it was only two decades ago (and still is, in many countries). In those days, although the rapid economic growth of a handful of small Asian nations had started to attract attention, developing countries like Indonesia or Bangladesh were still mainly what they had always been: exporters of raw materials, importers of manufactures. Inefficient manufacturing sectors served their domestic markets, sheltered behind import quotas, but generated few jobs. Meanwhile, population pressure pushed desperate peasants into cultivating ever more marginal land or seeking a livelihood in any way possible-such as homesteading on a mountain of garbage" (Krugman, 1997).

- "In East Asia and the Pacific between 1987 and 1998 the number of people living on less than US\$1 a day fell from 418 million to 278 million. This was paralleled by a four fold increase in the ratio of exports of goods and services to GDP" (WTO, 2001, p. 9).
- Statistics on poverty measures are often very selective in the information that they provide: "One way that poverty and inequality are often explored is through comparisons of average incomes across countries. But when such comparisons are made, we need to take account of what goods and services the incomes can purchase because the cost of living varies from one country to another. What matters is how much it costs to meet basic needs such as food and shelter. The income needed in one country is an inadequate guide to what is required to meet these needs in other countries. Many goods and services in developing countries are cheaper than they are in developed countries.

So it doesn't make sense to compare living standards on the basis of income per person that has been converted using exchange rates into a common currency such as the US dollar without taking account of these cost differences. As agreed by the world 's statisticians who developed the United Nations System of National Accounts, we need to take account of differences in the purchasing power of incomes using 'purchasing power parities ', not exchange rates" (Centre for International Economics, 2001).

- When world income data is converted using PPP, "The ratio of the average income in countries accounting for the richest 20 per cent of people to the average income of the poorest 20 per cent fell from 15 to 1 in 1970 to 13 to 1 in 1997" (Centre for International Economics, 2001).
- According to the World Bank (2001a), the proportion of people living on less than US\$1 a day has fallen from around 28% in the late 1980s, to 24% in 1998. The largest declines in poverty have taken place in East Asia and the Pacific (see Table 3 overleaf).

Table 3 Proportion of people living on less than US\$1 a day

At 1993 purchasing power parity rates

<i>Region</i>	<i>1987</i>	<i>1998</i>
East Asia & the Pacific	26.6	15.3
Europe & Central Asia	23.9	11.3
Latin America & the Caribbean	0.2	5.1
Middle East and North Africa	4.3	1.9
South Asia	44.9	40.0
Sub-Saharan Africa	46.6	46.3

Notes: (1) 1998 is a preliminary estimate.

Source: World Bank, 2001a

3.4 Tariff removal throws unskilled workers onto the 'economic scrap heap'

One of the most common arguments about the removal of tariffs is that it adversely affects workers in the previously protected industry. Tariff removal does lead to job losses in the protected sector but this is more than offset by the number of jobs created in the rest of the economy. (Bear in mind, however, that many protected industries in New Zealand were already in trouble before tariffs were reduced in NZ, Rayner and Lattimore [1991].)

Usually, redundant workers can find alternative employment quickly because most have skills which are valuable elsewhere. Where this adjustment is slow, individuals, families, and communities are adversely affected in the short term.

However, workers can retrain and programmes are available to facilitate this. These programmes are very extensive to cope with jobs losses that occur all the time in a mixed capitalistic economy like New Zealand – with most job losses not related to tariff changes but to unexpected changes in consumer tastes for products or a loss of a firm's competitiveness.

Negative comments

- In reference to the closure of the Porirua car assembly plant, Rod Donald suggested that "[the National Party led coalition] government's zero tariff policy is cruel in human terms... at least 5400 workers in the car assembly, component and support industries are being thrown on the economic scrap heap by this government with little prospect of alternative work" (Donald, 1998a).
- After the closure of the Coats Spencer Crafts yarn manufacturing mill in Mosgiel in 2000, 141 jobs were lost. Jim Anderton (cited in NZPA, 2000a) said that "This closure is a stark reminder of the desperate need to apply tariff policies that will protect jobs and communities such as in Mosgiel".

Positive comments

- The closure of manufacturing firms cannot be attributed solely to the removal of tariffs. Other factors also need to be considered. The CEO of the Mosgiel mill, Peter Manns, suggested that he had been surprised at the rapid deterioration of the yarn market since March 1999. The company had seen a 20% fall in its sales of knitting yarn, mainly because fewer people knitted (cited in NZPA, 4 February 2000).
- In a similar vein, the closure of the car assembly plant in Thames was not due to the removal of tariffs alone: "The car assembly industry... has been on borrowed time for the past decade. Used imports sounded its death knell. When they started to pour in a decade ago, it... made what was a marginal operation clearly unsustainable" (Waikato Times, 29 October 1998).
- After the Mosgiel mill was closed, its capital was sold, and nine industrial yarn machines were sold to Feilding's Little Wool Company. As a result, the company was expanded and new jobs were created (Evening Standard, 26 June 2000).
- Growth in other industries will require additional workers. Workers with low skill levels can retrain.
- "To summarize, then, we have three simultaneous developments. The US economy has become increasingly globalized, wages of most workers have dropped or stagnated, and most workers laid off in import-competing industries cannot find

jobs at their previous pay level. Now here's a big question: Have developments two and three been caused by development one? Is globalization the culprit?

The answer is a qualified no. Most economic research indicates that technological change favoring skilled workers has been the main cause of wage and job loss in the US economy. Unskilled workers are less needed as production processes become more efficient, and therefore their relative wages drop. This is not to say that imports, production outsourcing, and immigration have had no effect, only that the influence of these globalization factors is substantially less than that of technological change" (Stewart, 2001).

- "Rather than inhibiting international competition to assist those displaced by 'creative destruction', we should be directing our efforts at enhancing job skills and retraining workers - a process in which the private market is already engaged... Protectionism will only slow the inevitable transition of our workforce to more productive endeavours" (Greenspan, 2001).

3.5 Trade liberalisation and globalisation hurts unskilled workers, women and Maori

An argument against trade liberalisation internationally is that it adversely affects the unskilled portion of the labour force. This is not such a large issue in New Zealand. Studies show that trade liberalisation actually benefits unskilled workers, women and Maori in New Zealand. This is because all three groups are heavily represented in the export sector of the economy which includes forestry, tourism, farming, food processing and some textiles.

When trade is liberalised at home or abroad, the New Zealand export sector tends to grow. This creates more jobs for:

- Workers with no or few school qualifications ('unskilled')
- Women
- Maori

By contrast, trade protectionism will hurt these groups compared to others in society.

Globalisation has been accompanied by trade liberalisation. At the same time (1970-2001), women's participation in the workforce (outside the home) has increased. Women have tended to get jobs in the export sector where trade liberalisation has benefited them, on balance. We're not quite sure why women have tended to move into export sector jobs but this trend has occurred in a large number of high income countries.

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4. ENVIRONMENTAL

4.1 Trade barriers are a good way to help with environmental issues

The use of trade barriers to protect the environment is often promoted by environmentalists. In this context, environmental issues include the unsustainable logging of tropical hardwoods, non-specific fishing technology and industrial air and water pollution generation.

However, trade barriers are usually one of the worst ways to address an environmental issue. Trade policies do not go to the core of environmental concerns. They attempt to treat symptoms. This is inefficient and it creates nastier side effects than most other policy interventions, as previously discussed. These side effects include higher prices to consumers and the creation of inefficient industries.

For a summary of the objections and recommendations to the WTO from an environmental standpoint, see Greenpeace (2001), Friends of the Earth (2001), or World Wide Fund for Nature (2001).

- "Given the importance of trade to development, it is vital that environment standards are not misused for protectionist reasons. *Genuine environment objectives are never served by discriminating between products on the basis of their respective national origins*" (MFAT, 2001, emphasis added).
- "Some have suggested using trade rules to achieve goals with respect to labour, the environment and human rights. I believe instead that full use should be made of the United Nations system to pursue such goals. To attempt to use the multilateral trading system to solve problems in these and other areas would place it under great strain, and would be much less effective than adopting policy solutions in the sectors themselves" (Kofi Annan, Secretary-General of the UN, in WTO, 2001).
- "The WTO simply has no competence in many of the global issues brought to its doorstep. Each global issue has to find its own policy path. Otherwise, problems are transferred from one forum to another. It is not optimal to solve all non-trade issues through the WTO" (WTO, 2001).

4.2 Trade leads to the exploitation of the environment

Economic growth requires more use of resources. As it is widely accepted that trade liberalisation leads to higher economic growth rates, it is argued that the removal of trade protection measures contributes to higher pollution levels, more exploitation of natural resources, etc.

However, there is no necessary link between trade and the state of the environment - no more than there is a link between growth and the environment. The quality of the environment in any country depends on the quality of the environmental policy. If environmental policy is bad, trade liberalisation can make it better or worse. For example, increased imports reduce the need to use local resources. Exports will be based on the most plentiful local resources. If the environmental policy is poor this will create resource pressure.

Improvements to the environment are best obtained by better environmental policy. Furthermore, the source of the environmental problem is usually very obvious. Resources are sometimes too cheap, resource ownership may be unclear, people are often too poor to afford environment-friendly technology or the government may be too weak to design and enforce better environmental policies.

"This myth provides a prime example of a conceit that underlies a great deal of antiglobal thinking. Take one self-evident truth that all sensible people can agree on - business of all sorts tend to despoil the environment. Then repeat that observation in highly emotive language, ignoring all mitigating factors. Then heap all the blame on global companies, global regulators, and indeed globalization itself, when the bulk of the damage is done by local governments, local companies, and even local voters" Micklethwait and Wooldridge (2000).

Negative comments

- If the only way a nation can gain an advantage is by imposing exploitative wages and employment conditions, or by destroying the natural environment, then the gains from trade can be wiped out" (Alliance Party, 1999b).
- "Positive outcomes are usually claimed by the supporters of free trade. The Alliance believes that positive outcomes can be ensured by stipulating them as conditions of agreements, rather than leaving them to chance, or the market, lest they become merely the results of failed experiments. In practice this would mean building in to both bilateral and multilateral agreements provision for improvement in minimum standards - for example, the development of a minimum wage standard and its steady improvement; or the use of environmental measurements and a commitment to improve environmental outcomes" (Alliance Party, 1999b).

Positive comments

- A recent study by Antweiler, Copeland and Taylor (2001) suggests that free trade appears to be good for the environment. They divide the impact of more open trade on sulfur dioxide pollution into three effects:
 - Scale effect - the negative environmental impact of higher levels of economic activity.
 - Technique effect - the positive environmental impact that occurs when incomes rise in a country, and cleaner production techniques are demanded.
 - Composition effect - the environmental impact of trade-induced changes in the composition, and thus pollution intensity, of national output. This effect

may be either positive or negative, depending on the country's production characteristics.

Empirical investigation for 40 countries shows that - at an aggregate level - international trade creates relatively small changes in sulfur dioxide concentrations when it alters the composition of national output. When this result is added to the trade-induced changes to scale and technique, the result is as follows: if trade liberalisation raises GDP per capita by 1%, then pollution levels fall by about 1%.

- "Trade can produce some short-run environmental benefits. Increased trade allows the transfer of environmentally friendly goods and technologies from advanced economies to the developing countries and induces developing countries to produce exports that meet the more stringent environmental standards of the economically advanced countries. Imported industrial equipment and processes can help control the creation of industrial by-products, including waste, water and air pollution, and toxins and hazardous materials. Smokestack "scrubbers" can minimize sulfur dioxide and nitrogen oxide emissions, and fuel cells and solar power equipment can reduce the use of oil, natural gas, and coal. Trade also makes it easier for developing countries to adopt policies and programs that have been successful in minimizing environmental problems elsewhere" (CED, 2001, p. 8).
- "What about the environment? Certainly some forests have been cut down to feed global markets. But nations that are heedless of the environment are quite capable of doing immense damage without the help of multinational corporations-just ask the Eastern Europeans.

For what it is worth, the most conspicuous examples of environmental pillage in the Third World today have nothing to do with the WTO. The forest fires that envelop Southeast Asia in an annual smoke cloud are set by land-hungry locals; the subsidized destruction of Amazonian rain forests began as part of a Brazilian strategy of inward-looking development. On the whole, integration of the world economy, which puts national actions under international scrutiny, is probably on balance a force toward better, not worse, environmental policies" (Krugman, 1999a).

- "Surely the most striking thing about the [alleged] horrors of globalization illustrated in those photos is that for most of the world's people they represent aspirations, things they wish they had, rather than ominous threats. Traffic jams and ugly interchanges are annoying, but most people would gladly accept that annoyance in exchange for the freedom that comes with owning a car (and more to the point, being wealthy enough to afford one). Tract housing and apartment buildings may be ugly, but they are paradise compared with village huts or urban shanties. Wearing a suit and working at a computer in an office tower are, believe it or not, preferable to backbreaking work in a rice paddy. And nobody forces you to eat at McDonald's" (Krugman, 1999a).
- "Article XX of the WTO allows restrictions on trade based on 'measures to protect human, animal or plant life or health, and 'relating to the conservation of exhaustible natural resources'" (CED, 2001, p.8).
- Trade liberalisation and environmental concerns are not mutually exclusive. This fact is recognised by the current New Zealand government, who recently released a trade and environment framework, whereby environmental issues are to be considered alongside economic objectives when trade agreements - both multilateral and bilateral - are negotiated.
- As stated in the aforementioned framework, designing the correct liberalisation and domestic environmental policies is a key issue:

" The linkages between trade and environment policy are complex and important. Complex, because trade liberalisation, and the greater economic activity which comes from it, may increase the strain on the environment and the earth's resources while, at the same time, increasing the wealth which enables societies to meet their economic needs. Trade liberalisation, therefore, may in itself be neither necessarily beneficial nor necessarily harmful to the environment. The impact on the environment will depend on how liberalisation and environment policies are designed and implemented" (MFAT, 2001).

- The WTO is often accused of working against the environment. The 'shrimp-turtle' case is one example where the WTO has actually entitled the United States to use protectionism as a means to safeguard the environment. In fact the Dispute Settlement Panel, and now the Appellate Body, have upheld the right to take steps to protect the environment provided this is done in a way which does not unfairly discriminate against trading partners. The following text is from a USTR (2001) press release:

The World Trade Organization (WTO) Appellate Body today released a report finding that the United States' implementation of its sea turtle protection law is fully consistent with WTO rules and complies with earlier recommendations of the Appellate Body..."Today's Appellate Body report confirms that our sea turtle conservation law is consistent with WTO rules, and more generally, shows that the WTO as an institution recognizes the legitimate environmental concerns of its Members," said U.S. Trade Representative Robert B. Zoellick. The preamble to the WTO Agreement recognizes the importance of sustainable development and environmental protection.

The U.S. law restricts imports of shrimp caught in a way that harms endangered sea turtles. In a 1998 report, the Appellate Body agreed with the United States that the law does not violate WTO obligations because it is covered by an exception to WTO rules for measures relating to the conservation of exhaustible natural resources. However, the Appellate Body found that the United States had unjustifiably discriminated among exporting countries in applying the law. The United States complied with the Appellate Body findings by modifying implementation of its law in a manner that both enhanced sea turtle conservation and addressed the unfair discrimination identified by the Appellate Body. Researchers have developed special equipment, known as the Turtle Excluder Device, or TED, that virtually eliminates accidental deaths of sea turtles in shrimp trawl nets. For more than a decade, the United States has required that U.S. shrimp fishermen employ TEDs. Over a dozen countries around the globe also require that their shrimp trawlers employ TEDs. Experience has shown that the use of TEDs, combined with other elements of an integrated sea turtle conservation program, can stop the decline in sea turtle populations and will, over time, lead to their recovery.

The U.S. law at issue - Section 609 of Public Law 101-162 - restricts imports of shrimp harvested with fishing equipment, such as shrimp trawl nets not equipped with TEDs, that results in incidental sea turtle mortality. It thereby avoids further endangerment of sea turtles.

In October 1996, India, Malaysia, Thailand and Pakistan challenged the U.S. law under WTO dispute settlement procedures, claiming that it was inappropriate for the United States to prescribe their national conservation policies. In April 1998, a panel found that the U.S. measure was inconsistent with Article XI of the General Agreement on Tariffs and Trade (GATT), which provides that WTO Members shall not maintain import restrictions. The United States had maintained that Section 609 fell within the exception under Article XX(g) of the GATT that permits import restrictions relating to the conservation of an exhaustible natural resource. The United States appealed the panel findings to the WTO Appellate Body.

The Appellate Body also agreed with the United States that the GATT and all other WTO agreements must be read in light of the preamble to the WTO Agreement, which endorses sustainable development and environmental protection. The Appellate Body confirmed that WTO members may adopt environmental conservation measures such as the U.S. law, so long as they are administered in an even-handed manner and do not amount to disguised protectionism.

The United States has also offered technical training in the design, construction, installation and operation of TEDs to any government that requests it.

4.3 Multifunctionality is a valid reason for trade protection

In the jargon, multifunctionality in agriculture refers to "any unpriced spillover benefits that are additional to the provision of food and fibre. Claimed benefits range from environmental values, rural amenities, cultural values, rural employment, and rural development. In some countries, food security is also emphasised" (ABARE, 1999). Governments in some countries (especially the EU and Japan) are promoting the concept of multifunctionality to justify maintained high levels of subsidies and protection of agricultural producers.¹⁰

Since the mid 19th century, at least, the political systems of much of the old world has been biased in favour of rural voters. This has led to a succession of policies right up to the present day involving income transfers to rural towns but especially farmers. One example of these policies is the common agricultural policy of the EU. This policy of income support for farming is in the process of being unhooked from agricultural production. That is to say, EU policies are being changed to reduce the subsidies designed to produce more output. Multifunctionality is one approach to giving farmers income subsidies in place of production subsidies. From a New Zealand or Cairns Group perspective, however, there is a danger that multifunctionality will not unhook production subsidies and simply continue to harm competitive producers and exporters like ourselves.

Multifunctionality is not a valid reason for trade protection. It is often high cost, ineffective, inefficient and can cause great damage to the environment - it is just a thinly-veiled justification for imposing trade barriers on agriculture.

Points to consider (ABARE, 1999):

- The standard arguments about the side effects of trade subsidies apply: supporting multifunctionality stops resources moving to non-agricultural activities where better returns could be made, consumers pay higher prices for goods in these other industries, cost to taxpayers of subsidies, etc.
- There are also negative spillovers from agriculture - chemical and animal effluent leaching into water supplies, increased salinity and loss of vegetation, etc.
- So the very things that promoters of agricultural support for multifunctionality reasons try to maintain (pleasant countryside, hedgerows, etc) are at risk from subsidies, as they encourage over-use of inputs.
- Providing agricultural support is a very indirect, high cost and often ineffective way of achieving spillover benefits from agriculture. A more direct way of enhancing benefits is to explicitly pay for specific spillovers to be supplied. For example, if society places high value on preserving Norman churches in rural areas, it should pay directly for the churches to be maintained and upgraded, rather than trying to do it indirectly by preserving the rural lifestyle via subsidies.
- Supporting paddy rice production in Japan at six times the world price is not the only way to mitigate flood damage. The most efficient means of preventing soil erosion and preventing flood damage is a matter to be determined by research.
- To put things slightly differently: "In the next round of multilateral trade negotiations, some countries have indicated that they would like to create exemptions for certain production-related support. These countries argue that

¹⁰ For example, the Japanese government's justification for continued support for rice production is that it provides flood mitigation benefits. The EU also provides large subsidies for its farmers, with some of the justification behind the payouts being multifunctionality arguments.

agricultural production creates additional joint or spillover benefits, such as open space, wildlife habitat, biodiversity, an assured supply of food, and viable rural communities. They maintain that supporting agricultural production using production-linked payments enhances the *multifunctional character* of their agriculture. Thus, they say, production-linked payments are necessary to obtain socially desired nonfood outputs.

However, a wide range of private actions and public policies can provide these nonfood outputs. Following the principle of targeting policies to their specific objectives, many nonfood products can be produced, probably with greater efficiency, without subsidized agricultural production. In addition, distorting domestic agricultural production imposes costs on other countries by distorting trade" (Bohman *et al*, 1999).

- "They have got into the way of treating their farming industry as a living museum and keeping their farmers as pets" (Sutton, in *The Dominion*, 13 November 2001, in response to the EU's opposition to phasing out subsidies).
- As stated by Sutton (2001, emphasis added), "these things [multifunctionality reasons behind agricultural subsidies] are legitimate areas for public policy. Cairns Group members are also concerned about the environment, the need to maintain rural employment, and to keep the countryside attractive. But if you want your rural areas' fences painted white or your hedgerows trimmed, then pay farmers subsidies to do those things [directly]. Don't pay them production subsidies in the hope that some of the money will be spent on paint" .
- The following quote is especially relevant for New Zealand: "The WTO gives every member the right to trade into international markets on the basis of its comparative advantage. The failure to allow WTO rules to apply fully to trade in agriculture has denied this right to countries which trade in agriculture" (Oxley, 2001).

4.4 Why can't New Zealand be self-sufficient or self-reliant?

It is sometimes argued that New Zealand is too dependant on trade, leaving ourselves open to fluctuations in world economic conditions. The argument runs that we should be more self-reliant - we should produce more goods for domestic consumption rather than importing them.

New Zealand (as a whole, and communities within that) has an incentive to be as self-sufficient (self-reliant) as possible on a sustainable basis while we have a relatively liberal trade policy regime. Innovators are always looking for such opportunities because the local market is the easiest to develop. Accordingly, these concepts of self-sufficiency and self-reliance are not a problem until markets are regulated inappropriately.

Trade policies to promote self-sufficiency disregard the theory of comparative advantage and the gains from trade that result from it. As a policy, self-sufficiency comes at a cost in terms of lower living standards.

Our high living standards are the result of exploiting very high levels of international specialisation. This results in complex inter-relationships between firms. For example, we produce ten times the dairy products we need for self-sufficiency yet we import all the tractors required on dairy farms and much of the dairy processing equipment required in dairy factories. The strength of our dairy industry in producing jobs and wealth is highly dependant on being able to buy this equipment as cheaply as possible. If a local firm can produce tractors as well and as cheaply as other countries can then there is a ready market waiting here in New Zealand. Were that to occur the New Zealand dairy industry would be more self-sufficient in inputs.

However, if the production of New Zealand tractors is dependant on an import tariff, our self-sufficiency goes up at the expense of lower dairy sector competitiveness.

An issue related to self-sufficiency and self-reliance is that of 'food miles'. Critics (such as the farming and environmental group *Sustain* - suggest that more energy (in calorie terms) is used transporting food around the world than people get from the food when they eat it.¹¹ It is claimed that this is unsustainable and could have impacts on climate change, food security and spread of disease. They promote a system where consumers buy as much local produce as possible - thereby reducing the transport costs of food consumption. These costs are known as 'food miles'. Arguments against this standpoint run along both supply and demand lines. On the supply side, certain countries have a comparative advantage in producing certain types of food, due to their specific endowment of natural resources. In New Zealand's case, soil and meteorological conditions dictate that a fairly narrow range of foodstuffs is produced. On the demand side, consumers want to have a varied diet and like to indulge in foodstuffs that aren't produced domestically. So in order that consumer demands be satisfied, New Zealand has to import food that is not produced here. Due to New Zealand's geographic isolation, high transport costs in importing food (and most other goods) are unavoidable.

¹¹ See <http://www.sustainweb.org/foodmiles> for more information.

4.5 The WTO should help prevent 'race to the bottom/regulatory chill' problems with environmental standards

One of the most often heard criticisms of the WTO is that it doesn't pay enough attention to environmental issues. It is argued that the WTO promotes trade liberalisation, but does not consider enough the environmental issues that sometimes arise from enhanced competition in global markets. The environmental issues underlying such arguments may be global commons issues such as a perceived lowering of environmental standards, global warming, whale preservation and migratory fish issues.

Regulatory chill is the loss of competitiveness a country experiences when it unilaterally raises standards. The trade danger here is that the country might raise tariffs to compensate affected industries and so pass some of the cost of the so-called 'regulatory chill' onto other countries, which might be New Zealand.

The WTO *could* address environmental issues of this type, if we want it to be used in this way. The question is 'would another specific international agreement be better?' The answer is usually yes. Issues of this type are very complex and quite specific. It is usually better to have a specific arrangement to deal with them. New Zealand has supported discussions over the Kyoto Protocol outside of the WTO for just these reasons.

Supporters of environmental issues are often drawn towards a WTO-based solution because it has a disputes settlements procedure and because it is very democratic (one country-one vote). However, if the already over-burdened agenda for trade liberalisation within the WTO is stretched to try to cope with further issues, it is likely to become very ineffective (in dealing with the environmental issue and trade liberalisation). For this reason, many WTO supporters want it to maintain its important but narrower focus.

Positive comments

- A good summary of the role of the WTO in addressing human rights and environmental concerns is the following quote from the WTO's former director general, Renato Ruggiero: "We cannot-and should not-ask the WTO to also become a development agency, an environmental policeman, or a watchdog for labor and human rights. This organization cannot be allowed to gradually drift away from its trade vocation. It would serve neither the WTO nor any other cause if it were to pretend it could offer solutions to every non-trade issue" (in CED, 2001, p. 11).
- "Poor countries do not have the popular demands from residents to care for the environment or the technologies, institutional arrangements and resources to enact environmental protection to the standards of industrialised countries. These come later once incomes rise" (Stoeckel and Borrell, 2001, p. 58).
- The WTO has fewer resources than many environmental NGOs. The WTO budget for 2001 was around US\$91 million. Greenpeace International's budget was US\$123 million. The World Wildlife Fund's budget was US\$305 million (WTO, 2001, p. 15).
- "Good people are puzzled. Why, they ask, can we have a binding system for trade but not for environment, labour, children and gender rights, human rights, animal rights, indigenous rights? Why can we not settle differences that drive nations and tribes to war in a similar way? Good point. I am sure that Kofi Annan would relish such a system. Critics, who are not all mad or bad, frequently say we have too much power. Some of them want to give us more powers and responsibilities. It is also about jurisdiction. In which international institution should these powers and

responsibilities reside? We need to recognise the gaps in the international architecture" (Moore, 2001b).

- "General exceptions, such as Article XX of the GATT 1994, allow governments to do what is necessary to achieve certain policy goals to safeguard health, the environment and public morals" (WTO, 2001, p. 18).
- "Most trade economists have now concluded that trade with poor countries is not the main driver of the downward pressure on wages in rich countries; in fact, it may well have moderated the fall that would have ensued from technological change, which reduces the need for unskilled workers.

As for the "race to the bottom", it has become a matter of faith that corporations will force lower standards at home by threatening to move production to poor countries with lower labour standards. But there is little evidence other than occasional anecdotes. Indeed, even in the highly competitive clothing industry, where many companies have gone abroad to the poor countries, sweatshops have not broken out in the rich countries in response. Sweatshops in the US are, rather, the result of domestic factors such as reliance on illegal immigrants and the abysmal level of law enforcement" (Bhagwati, 2001).

- "But what about the altruistic argument for linkage? Making market access conditional on satisfaction of labour standards at the WTO creates two problems: first, it makes the use of trade sanctions the way to advance standards; second, it lays the responsibility squarely with the WTO.

Trade sanctions can flag complex problems such as child labour but they cannot solve them. That requires working with local pressure groups, governments, parents and schools. The International Labour Organisation's Programme for the Eradication of Child Labour does just what is necessary.

In any event, the WTO is a cash-starved organisation - its annual budget is less than US\$100m. Do the rich countries that continue to deny it additional funds seriously expect that these complex social issues can be handled by a secretariat that can barely and bravely manage conventional trade analysis? Do they really mean to advance labour standards or are they simply surrendering to the demands of their union constituencies?

The bottom line is that, with freer trade and labour issues linked by neither legitimate fears nor legitimate aspirations, it is simply wrong to insist that the WTO must address labour issues in any form" (Bhagwati, 2001, emphasis added).

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5. ECONOMIC

5.1 Trade barriers are a good way to help with economic issues

The use of trade barriers is sometimes promoted when certain economic issues arise. Economic issues would include trying to stimulate investment in a particular industry, region or innovative activity. It would include stimulating employment for a group of skilled employees or helping to create a business-friendly environment and the like.

As in other areas trade barriers are usually one of the worst ways to address an economic issue. There are usually much better ways. For example, if it is really important to support a firm financially so that jobs are maintained in that firm, a job subsidy to that firm is much more efficient:

- The firm can be made accountable for the jobs retained
- Consumers of the firm's products are not affected
- Other firms (buying inputs from *the* firm) do not lose competitiveness

The following anecdote from a do-it-your-selfer is a simple way of explaining the effects of a tariff:

"I have been known to build houses as a hobby and they need kitchen cabinets. I have built three sets of the rotten things and have never been satisfied with the results. Next time I will buy them, unless the government moves the goal posts. When a tariff is placed on imports the effect is equivalent to the government placing pressure on me to build my own kitchen cabinets. I can be self-sufficient in kitchen cabinets by building them myself but the quality of the end product is lower and a social deficit is created. My living standard drops and so does that of the cabinet maker" Lattimore (1993).

Waipawa sausages

Modern economies have extremely fragmented markets on the supply side and the demand side. In other words, modern markets are characterised by large numbers of niches. For example, where there was once a uniform sausage market, there is now a host of sub-markets reflecting different tastes and different production technologies. Unless there is a very good reason to interfere, policies aimed at regulating markets make buyers and sellers worse off.

The following anecdote, from David Haynes, the Managing Director of Exicom Technologies in Porirua makes the point.

Mr Haynes' mother-in-law lives in Waipukurau in the Hawkes' Bay, and is fond of nice sausages. The next town along the road (SH3) is Waipawa, home of Mr Stephens the butcher, who produces very high quality, award winning sausages - the best sausages in the world according to some. Just across the road from Mr Haynes' mother-in-law in Waipukurau is the Richmond outlet store, and a Woolworths supermarket, both of which produce sausages. The mother-in-law chooses to drive straight past these stores, as do many others from Waipukurau, in order to buy her sausages from Mr Stephens the butcher. The extra cost of driving to Waipawa is offset by the pleasure of eating Mr Stephens' superior sausages. So the question is: should Waipukurau put a trade barrier on sausages from Mr Stephens in Waipawa?

This would restrict consumer choice and would harm Mr Stephens. Surely it would be better for Waipukurau sausage producers to make better sausages, and trade on quality.

Mr Haynes suggested that his (Poirua) company's radios were the same as Mr Stephens' sausages, but were faced with trade barriers in Brazil.

5.2 Trade liberalisation has not aided New Zealand's economic growth

Critics of trade liberalisation point to New Zealand's relatively poor growth performance over the last 15 years as evidence that trade liberalisation has not been beneficial to the New Zealand economy.

The structure of New Zealand is such that growth in our living standards is strongly influenced by trade. That's the way we have built up the economy, given the basic resources that were available. Furthermore, we now have a growth problem. New Zealand is really part of the 'second world' now, rather than the 'first world'.

You can see the importance of trade to New Zealand by looking at what happens when trade falters in New Zealand: growth also falters. When Britain joined the European Union in 1973 and the Asian crisis struck in 1997 growth slowed down in New Zealand. In an important sense we are still trying to replace the markets we lost in Britain and that's where the WTO comes in (Dalziel and Lattimore, 2001).

Negative comments

- "We continue to reject the free market vision that demands that the community should pull out of everything, sell everything, and let the market rule" (Lee, 2001).

Positive comments

- A great deal of economic growth is due to technological advances. A great deal of new technology does not come in manuals by itself. The technology is embedded in products we import. Some of our largest import items are in machine tools, vehicles and equipment with new technology built into them. Growth in our living standards is closely related to getting this technology into the hands of employees. Before 1984, we used to have a 40 percent tariff on computers and we didn't produce any. The effects this had on retarding industrial development and producing our own technical change is clear.
- "Our return to export-led growth in recent times has bedded in our economic security. Unemployment stands at its lowest level since 1988. The current account deficit has been shrinking steadily, and our economy has maintained modest levels of growth. As well as improving balance of payments and employment levels, we also enjoy low inflation, low government debt, and a strong government fiscal position" (Lee, 2001).
- "Modern economics also emphasises the importance of dynamic gains, arising especially from the economies of scale that freer trade makes possible. The aggregate long-term gain for rich and poor countries alike is likely to be far bigger than the simple arithmetic would suggest" (The Economist, 2001a, p. 6).
- "In thinking through the economic theory of liberal trade, it is helpful to draw a parallel with technological progress. Trade allows a country to shift its pattern of production in such a way that, after exporting those goods it does not want, and importing those it does, it can consume more without there having been any increase in its available resources. Advancing technology allows a country to do something very similar: to make more with less" (The Economist, 2001a, p. 6).
- "Sceptics can expect to win popular support for the view that freer trade is harmful, but could never hope to gain broad backing for the idea that, so far as is possible, technological progress should be brought to a halt" (The Economist, 2001a, p. 6).

5.3 Lower trade tariffs just encourages exports from LDCs which hurts their workers.

It is often argued that by entering trade liberalisation programmes, LDCs open themselves up to international competition, and in striving to maintain a competitive advantage, workers' wages are reduced.

The reverse is true. Encouraging exports from LDCs creates jobs and pushes wages up in those countries. LDCs have very labour intensive industries – that is their forté. When production is stimulated in LDCs, the most intensive factor (used the most) gains – in their case it is their workers.

Positive comments

- Labour-intensive export manufacturing improves wages and working conditions in developing countries by
 - (i) Increasing the demand for labour, creating more jobs which are better paid as they cater for rich foreign consumers rather than for small, poor, local markets.
 - (ii) Reducing the supply of labour, eventually, by increasing incentives for women to increase education, delay age of marriage, increase labour force participation and have fewer children.

This transition from low skilled, low wage jobs to higher skilled, higher wage jobs has taken place in the Asian 'tigers' such as China, Malaysia, Thailand and Indonesia.

- "To claim that they have been impoverished by globalization, you have to carefully ignore comparisons across time and space—namely, you have to forget that those workers were even poorer before the new exporting jobs became available and ignore the fact that those who do not have access to the global market are far worse off than those who do" (Krugman, 1999a).
- "The advantages of established First World industries are still formidable. The only reason developing countries have been able to compete with those industries is their ability to offer employers cheap labor. Deny them that ability, and you might well deny them the prospect of continuing industrial growth, even reverse the growth that has been achieved. And since export-oriented growth, for all its injustice, has been a huge boon for the workers in those nations, anything that curtails that growth is very much against their interests. *A policy of good jobs in principle, but no jobs in practice, might assuage our consciences, but it is no favor to its alleged beneficiaries*" (Krugman, 1997, emphasis added).
- "Free trade is the only proven path out of poverty for developing nations. When nations are shut off from the world, their people pay a steep price... Those who condemn free trade condemn the poor to permanent poverty" (George Bush, cited in Larson, 2001).
- "Poverty, at root, is the absence of human freedom. Development, in contrast, is the fruit of human freedom. Free trade can be a powerful means to empower the poor and foster development and prosperity" (Larson, 2001).
- "The benefits of export-led economic growth to the mass of people in the newly industrializing economies are not a matter of conjecture. A country like Indonesia is still so poor that progress can be measured in terms of how much the average person gets to eat; since 1970, per capita intake has risen from less than 2,100 to more than 2,800 calories a day. A shocking one-third of young children are still

malnourished-but in 1975, the fraction was more than half. Similar improvements can be seen throughout the Pacific Rim, and even in places like Bangladesh.

These improvements have not taken place because well-meaning people in the West have done anything to help-foreign aid, never large, has lately shrunk to virtually nothing. Nor is it the result of the benign policies of national governments, which are as callous and corrupt as ever. It is the indirect and unintended result of the actions of soulless multinationals and rapacious local entrepreneurs, whose only concern was to take advantage of the profit opportunities offered by cheap labor. It is not an edifying spectacle; but no matter how base the motives of those involved, the result has been to move hundreds of millions of people from abject poverty to something still awful but nonetheless significantly better"(Krugman, 1997).

- "Why does the image of an Indonesian sewing sneakers for 60 cents an hour evoke so much more feeling than the image of another Indonesian earning the equivalent of 30 cents an hour trying to feed his family on a tiny plot of land-or of a Filipino scavenging on a garbage heap? The main answer, I think, is a sort of fastidiousness. Unlike the starving subsistence farmer, the women and children in the sneaker factory are working at slave wages for our benefit-and this makes us feel unclean" (Krugman, 1997).
- "You may say that the wretched of the earth should not be forced to serve as hewers of wood, drawers of water, and sewers of sneakers for the affluent. But what is the alternative? Should they be helped with foreign aid? Maybe-although the historical record of regions like southern Italy suggests that such aid has a tendency to promote perpetual dependence. Anyway, there isn't the slightest prospect of significant aid materializing. Should their own governments provide more social justice? Of course-but they won't, or at least not because we tell them to.

And as long as you have no realistic alternative to industrialization based on low wages, to oppose it means that you are willing to deny desperately poor people the best chance they have of progress for the sake of what amounts to an aesthetic standard-that is, the fact that you don't like the idea of workers being paid a pittance to supply rich Westerners with fashion items" (Krugman, 1997, emphasis added).

- "The struggle against hunger involves, in a way that is becoming ever more evident, the requirement that the nations of the entire world be subject to generally recognized and workable norms in the business sector. This is particularly important for the less developed countries, in order to safeguard their ability to export their products, especially agricultural ones. *What must be avoided are all those recurring forms of protectionism which end in creating increasing obstacles to trade or, in some cases, actually barring developing countries from access to markets" (Pope John Paul II, 1989, emphasis added).*

5.4 The focus of trade liberalisation is on the already rich, developed countries

Those who criticise multilateral liberalisation processes sometimes suggest that not enough attention is paid to the fortunes of LDCs. There is some truth in this argument given the patterns of trade liberalisation over the last 50 years (see question 3.3). In spite of that, LDCs have only recently begun to avail themselves of the benefits of unilateral liberalisation.

Trade liberalisation through the WTO/GATT has been trying to address this issue and has made some progress. Furthermore, as Mike Moore has pointed out, the new Doha Round will address this issue more explicitly.

- "A recent study... found that developing countries with open [liberal trade regimes] economies grew by 4.5% a year in the 1970s and 1980s, while those with closed economies grew by 0.7% a year. At that rate, open economies double in size every 16 years, while closed ones must wait a hundred" (WTO, 2001, p. 4)
- "Trade alone will not be enough to solve the problems of the least developed nations. Even with more trade, there is still a need for increased development co-operation to build harbours and roads, schools and hospitals, and to construct a stable legal system" (Verhofstadt, 2001, p. 22).
- "If all world markets were fully opened up to competition, the total income of developing countries would be boosted by \$700 billion per year, or 14 times the total development aid they currently receive" (Verhofstadt, 2001, p. 22).
- "Even when we are driven by the very best intentions, it is only natural for us to be more concerned with the interests of a multinational oil company or of the European sugar beet farmers than with the fate of the Ogoni people of the Niger Delta or the meagre incomes of workers on sugar cane plantations in Costa Rica" (Verhofstadt, 2001, p. 22).

5.5 Lower tariffs cause job losses

Some of the strongest opposition to the removal of tariffs occurs when workers in the previously protected industry are rendered unemployed. This is an obvious short term negative side-effect which attracts a great deal of political attention. Furthermore, the more labour intensive is the protected import-competing industry, the more jobs will be lost. What you don't see, however, are the more productive jobs not created because the tariff remains. There is no free lunch.

Adjustment to the removal of tariffs is not costless. That is why it is important to have good 'safety net' programmes in place when structural adjustment of this type occurs.

Positive comments

- "Between 1994 and 1998, 1.3 million new jobs supported by exports were created in the United States... Jobs supported by exports pay 13% to 16% above the average wage" (WTO, 2001, p. 8).
- "Is it true that globalisation harms the poor? In a narrow sense, the answer is yes: it does harm some of the poor. Free trade and foreign direct investment may take jobs from workers... in the advanced industrial economies and give them to cheaper workers in poor countries... The rich country workers, who were probably on low wages by local standards to begin with, are out of work... Meanwhile, the poor-country workers are drawn into jobs that exploit them... but whereas the displaced rich-country workers are plainly worse off than before, the newly employed poor-country workers are plainly better off. They must be, because they have chosen to take those jobs" (The Economist, 2001a, p. 5).
- Import-competing industries (other than the textiles industry) are relatively capital-intensive. Hence across manufacturing as a whole, a tariff will tend to lower employment and real wages, rather than raise them (Deardorff *et al*, 1997).
- "There is a need to respond to concerns about distributional issues and transitional costs arising from that adjustment... properly designed labour market and social policies that provide adequate income security, while facilitating the redeployment of displaced workers into expanding firms and sectors, produce important equity and efficiency gains" (OECD, 1998a).
- "Trade liberalisation creates jobs, but these tend to be scattered widely among unprotected sectors and often go unnoticed. Instead the public usually sees the factory closures and is made aware of some costs that nearly always accompany change of any type. Trade liberalisation tends to be a scapegoat for any adverse effects of a range of changes in the way we work and live. Tariffs can protect jobs in the short term but cannot provide job security in the long term" (ADFAT, 2001).
- "Moreover, few displaced rich-country workers are likely to be permanently out of work. Most will move onto other jobs. Also new jobs will be created by the economic opportunities that trade opens up" (The Economist, 2001a, p. 6).
- On the possibility of a Hong Kong - New Zealand FTA leading to a flood of imported clothing, Bill Rosenberg stated that "It is easy to say this [the TCF sector in New Zealand] is a 'sunset' industry, but with sufficient investment, inspiration and critical mass, it can produce quality, higher value-added goods that will sell" (in The Independent Business Weekly, 7 November 2001). High quality, value-added goods are not the New Zealand-produced goods that are under significant threat from Hong Kong and China, who derive their comparative advantage from making mass-produced, cheap, relatively low quality garments for export. The high quality value-added garments produced in New Zealand (Canterbury sports and leisure

apparel, for example) *are* internationally competitive - witness the number of UK rugby teams using Canterbury jerseys.

- Leading New Zealand fashion designer Karen Walker sums things up well, suggesting that New Zealand's apparel industry could not compete on price, particularly because of high labour costs here. Instead it should try to compete on 'brains' - with top ideas, design and quality justifying a higher price (in NZPA, 19 April 2001).

5.6 Trade liberalisation leads to large adjustment costs

Following on from the argument in the previous section, those who advocate the use of tariffs highlight the negative impact of the extra costs of adjustment that must be borne by workers and firms when a tariff is removed. It is true that the removal of tariffs leads to additional economic, social and personal costs to firms and their workers. However, these are generally much smaller than people anticipate and are almost always outweighed by the gains that occur once resources are switched into more productive sectors.

In short, there is a strong tendency for people to exaggerate the adjustment costs and job losses before a tariff is removed, and to underestimate the benefits. They forget that the economy and people are very flexible.

Here are some points to bear in mind in assessing the impact of a proposed tariff reduction:

- Tariffs are usually very specific and do not give protection to whole sectors.
- For example, the textile, clothing and footwear sector in New Zealand employs 19,000 people and produces thousands of products.
- Only a few of these products are protected by tariff.
- Part of the textiles, clothing and footwear (TCF) sector is an export sub-sector (world competitive).
- Another part of the sector produces niche New Zealand products (like McKendry's shoes in Dunedin) which have natural protection from Indonesia, China and elsewhere, by virtue of their style, design, and other non-price characteristics.
- Another part of the sector is protected by tariffs but is internationally competitive.
- It is only what remains of the TCF sector that would have to adjust if, hypothetically, the tariff was reduced.
- Countries have many tariffs. This means that any particular protected firm does not get the full effect of *its* tariff because tariffs protecting other firms are raising its costs and partially nullifying its effect.
- All trade policies are like this – they get shifted around the markets. Export subsidies are the same. Farmers did not get all the farm subsidies paid in New Zealand in the past, a fair chunk accrued to upstream industries and workers.
- Tariffs are only one determinant of consumer choice. They affect prices, but do so only partially. Other factors that influence prices and choice are quality, design, branding, technology, etc.

Negative comments

- Kelsey (1999, p. 210) suggests that the analysis promoting the removal of tariffs on the automobile industry in 1998 did not consider "the loss to local communities of production, jobs, incomes, skills training, regional development, and a home market from which to launch exports. The \$300 million in lost tariff revenue, plus taxes on wages and profits from the car industry, would have to be compensated by other taxes or spending cuts. Workers who were made redundant, and their families, would also need government support".

Positive comments

- Trade liberalisation leads to efficiency gains. "Allocative efficiency gains are achieved from the removal of trade barriers as resources will be removed from the previously protected sectors in the importing region, and switched into more

efficient sectors. Efficiency gains are also made in the exporting region, as more resources are transferred to the sector which has been liberalised" (Chatterjee *et al*, 2001).

- These efficiency gains offset - and may outweigh - adjustment losses from trade liberalisation. As summarised in Ministry of Commerce (1994), "In the long term, the losses from reducing production in previously protected sectors can be expected to be outweighed by the increased value of output from using the resources in alternative sectors".
- As suggested by NZIER and Lattimore (1998a, p. 32), production factors, such as capital and labour, are rarely immobile. Plant can be depreciated or it can be dismantled and moved - even sold abroad if locally uneconomic - and labour is mobile, with training, between locations and activities.

5.7 A slower rate of tariff removal will be more beneficial to workers in the affected industries

When it is announced that tariffs are to be reduced or removed, the argument often surfaces that by gradually reducing the tariff, rather than cutting it rapidly, workers likely to be under threat from the tariff reduction will have more time to adapt and start looking for alternative employment.

It is possible that the negative impacts on workers in tariff-protected industries may be reduced when tariffs are removed gradually. New Zealand tariffs were reduced to their current level over a 16 year period from 1984 on this basis.

However, the benefits to the wider economy from tariff reduction are also delayed in this case (lower prices, increased efficiency, etc). Since these benefits generally outweigh the costs, a gradual removal of tariffs can do more harm than good.

It is also important that consumers, investors, workers and managers have certainty. They will make the best decisions, and benefit society the most, in this environment. There is an old saying, 'an old tax (read policy) is a good tax'.

Positive comments

- A slower rate of barrier reduction "will raise doubts as to whether the changes will be implemented and that this in turn delays adjustment and growth in the more competitive sectors...[and] will also delay the benefits of lower prices to other sectors and to consumers, and may mean that the overall costs to the economy are higher" (Ministry of Commerce, 1994, p. 8).
- Adjustment costs for firms which arise from tariff reductions are a function of three factors: (a) the size of the proposed reductions in tariffs; (b) the rate at which the tariffs are reduced; (c) the extent of notice given for impending changes (NZIER and Lattimore, 1998a, p. 8) Given that further tariff cuts will be announced with plenty of warning before they are implemented, the scope for "surprise" has considerably diminished, and adjustment costs will be lower than in previous rounds of tariff reduction.
- The economic benefits of tariff reduction reduces in proportion to the length of the period over which tariffs are reduced. NZIER and Lattimore (1998a, p. 3) estimated that, relative to a one-step removal of all tariffs, a three-year phase out of tariffs would reduce the benefits to New Zealand by at least \$56 million.

5.8 We must put on tariffs to protect the Balance of Payments

It has been suggested that by embracing trade liberalisation, New Zealand has been subject to a flood of imports, and that the additional export receipts gained as a result of trade liberalisation have not been sufficient to pay for these imports. By employing tariffs, it is argued, New Zealand can reduce its imports and improve its balance of payments situation.

Again, this is an issue where New Zealand has plenty of evidence – the statement is wrong. We were one of the most highly protected high income countries from 1938. We had tight barriers to imports. Yet we still had regular balance of payments difficulties – in 1957, in 1966, in 1974 and many years thereafter (Dalziel and Lattimore, 2001).

Balance of Payments difficulties are now mainly about New Zealanders spending too much and saving too little at one stage of the business cycle. These days (ie while the world has floating exchange rates) when we have a current account (balance of payments) deficit we borrow foreign savings. The government doesn't have to borrow, we do or our banks do on our behalf, or foreign investors do. That may not be desirable to some but the best remedy does not lie in applying import controls.

Negative comments

- "New Zealand's international trade [did not] provide sufficient foreign exchange earnings to bridge the current account deficit. The free traders assumed that unilateral trade liberalisation and domestic deregulation would increase efficiency and make the country's exporters more competitive in a deregulated global trading environment" (Kelsey, 1999, p. 361).
- It has been suggested, often by Rod Donald, that the CER has been a disaster, resulting in New Zealand having a trade deficit of \$50 billion over the last 5 years.

Positive comments

- New Zealand's net trade position with any particular country is not a major concern. Look at it this way. New Zealand did not run out of foreign exchange over the last five years. New Zealand consumers and firms were happy to import a large quantity of Australian goods. We exported relatively more of our products to markets other than Australia. Overall, our merchandise trade balance has been positive, so where is the problem?
- A counter example might help understand why country trade surpluses or deficits are not very important. For more than a century New Zealand has run a trade deficit with Germany because we have needed their high quality machine tools and equipment. This machinery provided huge benefits to the quality of New Zealand work, to labour productivity, to real wages and wealth creation.
- The US has a current account deficit of over \$100 billion. Yet their economic health has been excellent throughout the last decade.

5.9 The benefits of trade liberalisation are always overstated

Studies on the potential gains from trade liberalisation are often subject to the criticism that due to the specific assumptions employed in the model, the calculated benefits are unrealistically high. This is simply not the case. Many analytical techniques tend to *understate* the benefits. This is because it is difficult to fully appreciate all the opportunities - at the outset - to create jobs and wealth and to benefit consumers. Economic analysis is far from being an exact science. It usually gets the direction right but the precise magnitudes are more problematic. After a few years the benefits of trade liberalisation are more obvious.

Many economic studies of the gains from trade liberalisation use static modelling techniques. These models treat trade liberalisation as a one-off policy shock, and provide a snap shot of the economy after the policy change. As such, they cannot capture all of the costs and benefits from trade liberalisation.

Dynamic models aim to identify the effects of trade liberalisation over time, as an economy experiences changes in its capital stock, population, etc. Dynamic models often show larger gains from trade liberalisation, but are far more expensive to commission!

5.10 New Zealand has not benefited much from the Uruguay GATT round

Some critics of the WTO, and of New Zealand's participation in it, suggest that New Zealand never really gained a great deal from the Uruguay round of the GATT.

Perhaps the most important aspects of the Uruguay GATT agreement were the breakthroughs achieved to begin freeing up market access for agriculture, services and government procurement. The agreement also advanced international treaties on dispute resolution and a range of other aids to inter-governmental bargaining, so essential for smaller nations like New Zealand.

Agriculture was a big advance. For the first time since 1948, agricultural market access was a major part of the overall deal. As discussed by Rae and Nixon (1994), the agreement on agriculture consisted of three main pillars:

- *Market access*: all non-tariff barriers were to be converted to tariff and reduced by an average of 36% and by a minimum of 15% from 1986-1988 base levels.
- *Reduction in subsidised exports*: the volume of subsidies exports was to be cut by 21%, and budgetary expenditures on them cut by 36%, from 1986 - 1990 base levels.
- *Domestic support*: support was to be reduced by 20% from 1986 - 1988 base levels, averaged over all commodities.

Chamberlin (2001) notes that market access issues specific to New Zealand included:

- Sheep meat to Europe - the quota was increased from 205,000 tonnes per year in 1995 to 225,000, and limits that were previously placed on chilled exports were removed.
- Butter to Britain - the quota was lifted by 25,000 tonnes to 76,667 tonnes, although the levy of 868.8 ecus per tonne was higher than before.
- Beef to the USA - the quota was increased by 30,000 tonnes to 213,000.

In addition, some general arrangements were put in place that were likely to benefit New Zealand:

- Increased access for beef into Japan and Korea, for dairy products into Europe and the US.
- All sanitary and phytosanitary decisions were required to be made on scientific evidence only.

Chamberlin summarises that despite the difficulty in implementing some of these measures, the Uruguay Round "saved the [New Zealand farming] industry from a very serious decline and has allowed it to develop substantially":

- Greater access was secured to New Zealand's key markets, when these entitlements were previously being reduced.
- The expansion of the heavily-subsidised European dairy industry was curbed.
- The amount of export subsidies in international agriculture was reduced.
- A framework was put in place to reduce the unfair use of tariff and non-tariff barriers.

Perhaps the key issue was that agriculture was firmly back on the negotiating table. Its importance to many countries, and in particular to New Zealand, has been demonstrated by the negotiations in Doha.

Rae and Nixon estimated that the Uruguay Round would increase the world price of our key commodity exports:

Table 4 Impact of the Uruguay Round on world prices

Estimated percent change

Commodity	Estimated world price rise (%)
Beef	10
Sheepmeat	4
Butter	6
Cheese	30
Skim milk powder	40
Grains	2 - 7

Source: Rae and Nixon (1994)

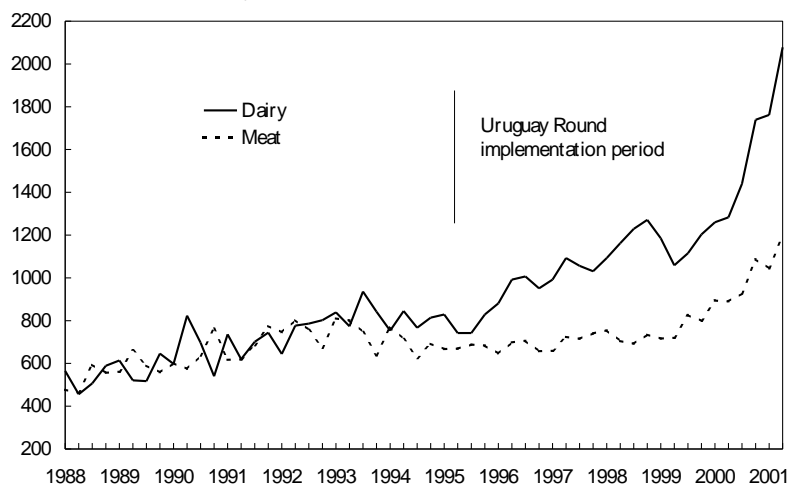
They also estimated that by the year 2000:

- The value of New Zealand's production of dairy products would increase by 26%, beef by 15%, grains by 8% and sheepmeat by 3%.
- New Zealand's exports would increase in value by over \$700 million, mainly due to increased dairy earnings.

The estimates for export earnings certainly seem realistic. Figure 1 below shows the export earnings of New Zealand's dairy and meat producers.

Figure 1 New Zealand's dairy export earnings

Dollar millions, quarterly



Source: Statistics New Zealand

Table 5 shows the levels of support given to agricultural producers in the OECD. New Zealand's level of PSEs are the lowest in the OECD. The reduction of agricultural assistance that has occurred in most developed nations since the Uruguay Round allows New Zealand producers to compete more effectively in world markets.

Table 5 Assistance to Agriculture

Producer Support Estimates (% All Products)

Calendar Year	Average 1979-81	Average 1986-1988	Average 1990-92	Average 1992-1994	1994	1995	1996	1997p	1998p
Australia	8	7	11	10	10	10	6	7	7
Canada	20	34	42	31	26	22	15	14	16
European Union	36	46	47	48	49	49	39	38	45
Japan	60	65	68	74	75	76	63	61	63
New Zealand	18	11	4	3	3	3	1	2	1
United States	14	26	22	21	19	13	17	14	22
OECD Average	29	41	42	42	42	40	33	32	38

Note: p = provisional figure.

Source: OECD, in MAF (1999).

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6. A FRAMEWORK FOR THINKING ABOUT PROTECTIONIST ARGUMENTS

- Many of the arguments that are raised in favour of protectionism can be looked at using a framework based on elements of risk management and cost-benefit analysis theory.
- It can be asked of protectionists: What is the premium that we as a country are willing to pay (to impose on ourselves) in order to avoid the perceived risks of trade liberalisation?
- Many of the *goals* of the anti-free trade lobbies are valid - the vast majority of people believe that the environment should be cared for, for example. But the *mechanism* by which anti-liberalisation lobbyists believe such goals should be achieved - protectionism - is usually not the best approach.
- The arguments often suffer from issues surrounding cause and effect. For example, increasing pollution in a LDC is not solely due to them opening up their economies to international trade. Rather, it is also caused by weak domestic environmental policy, poorly defined property rights, etc.
- Many of the arguments from those opposing open trade suffer from the fallacy of composition. This fallacy refers to the mistaken belief that what is true for the part is also true for the whole. An example of this is believing that 20,000 jobs are at risk in the textiles, clothing and footwear industry if tariffs are reduced. Yes, some jobs will be lost, but as explained in section 5.6, the entire industry is *not* at risk.
- It may be interesting to ask those opposed to open trade:
 - (i) What is their worst-case scenario from trade liberalisation?
 - (ii) What would they recommend to remedy the risk?
 - (iii) How much would these policies cost society?
 - (iv) Who would bear the cost of the policy? The poor or the rich?

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APPENDIX A: THE WTO - A BEGINNER'S GUIDE

The WTO website contains a wealth of information about the WTO's history, its purposes, how it works, etc. Much of the following information is sourced from the website, available at <http://www.wto.org>.

Further useful and simple references for information on the WTO are Hoeckman and Kostecki (2001) and Sodersten and Reed (1994).

A.1 What is the WTO?

The World Trade Organization (WTO) is the only international body dealing with the rules of trade between nations. At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations. These documents provide the legal ground-rules for international commerce. Although negotiated and signed by governments, the goal is to help producers of goods and services, exporters, and importers conduct their business.

A.2 Why was the GATT formed?

The WTO's creation on 1 January 1995 marked the biggest reform of international trade since after the Second World War. Up to 1994, the trading system came under the General Agreement on Tariffs and Trade (GATT). GATT helped establish a strong multilateral trading system that became more and more liberal through rounds of trade negotiations. But by the 1980s the system needed a thorough overhaul. This led to the Uruguay Round, and ultimately to the WTO.

The WTO's predecessor, the GATT, was established on a provisional basis after the Second World War in the wake of other new multilateral institutions dedicated to international economic co-operation - notably the 'Bretton Woods' institutions, now known as the World Bank and the International Monetary Fund. The complete plan, as envisaged by over 50 countries, was to create an International Trade Organization (ITO) as a specialised agency of the United Nations.¹²

In an effort to give an early boost to trade liberalisation after the Second World War - and to begin to correct the large overhang of protectionist measures which remained in place from the early 1930s - tariff negotiations were opened among the 23 founding GATT 'contracting parties' in 1946. It was agreed that the value of concessions should be protected by early - and largely provisional - acceptance of some of the trade rules in the draft ITO Charter. The tariff concessions and rules together became known as the General Agreement on Tariffs and Trade and entered into force in January 1948.

A.3 Was the GATT successful?

GATT was provisional with a limited field of action, but its success over 47 years (to 1994) in promoting and securing the liberalisation of much of world trade is incontestable. Continual reductions in tariffs alone helped spur very high rates of world trade growth during the 1950s and 1960s - around 8% a year on average. And

¹² Although the ITO Charter was finally agreed at a UN Conference on Trade and Employment in Havana in March 1948 ratification in national legislatures proved impossible in some cases. When the United States' government announced, in 1950, that it would not seek Congressional ratification of the Havana Charter, the ITO was effectively dead.

the momentum of trade liberalisation helped ensure that trade growth consistently out-paced production growth throughout the GATT era, a measure of countries' increasing ability to trade with each other and to reap the benefits of trade. The rush of new members during the Uruguay Round demonstrated that the multilateral trading system was recognised as an anchor for development and an instrument of economic and trade reform.

A.4 So why did the WTO eventuate?

GATT's success in reducing tariffs to such a low level, combined with a series of economic recessions in the 1970s and early 1980s, drove governments to devise other forms of protection for sectors facing increased foreign competition. High rates of unemployment and constant factory closures led governments in Western Europe and North America to seek bilateral market-sharing arrangements with competitors and to embark on a subsidies race to maintain their holds on agricultural trade. Both these changes undermined GATT's credibility and effectiveness.

By the early 1980s the GATT was clearly no longer as relevant to the realities of world trade as it had been in the 1940s. World trade had become far more complex and important than 40 years before:

- The globalisation of the world economy was underway.
- Trade in services - not covered by GATT rules - was of major interest to more and more countries, and international investment had expanded.
- The expansion of services trade was also closely tied to further increases in world merchandise trade.
- In agriculture, loopholes in the multilateral system were heavily exploited, and efforts at liberalising agricultural trade met with little success.
- In the textiles and clothing sector, an exception to GATT's normal disciplines was negotiated in the 1960s and early 1970s, leading to the Multifibre Arrangement.
- Even GATT's institutional structure and its dispute settlement system were giving cause for concern.

These and other factors convinced GATT members that a new effort to reinforce and extend the multilateral system should be attempted. That effort resulted in the Uruguay Round, the Marrakesh Declaration, and the creation of the WTO.

A.5 How is the WTO different from the GATT?

- GATT, the international agency, no longer exists. It has now been replaced by the World Trade Organization.
- GATT, the agreement setting rules for open international trade, *does* still exist, but has been updated. It has been amended and incorporated into the new WTO agreements. The updated GATT lives alongside the new General Agreement on Trade in Services (GATS) and Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). The WTO brings the three together within a single organisation, a single set of rules and a single system for resolving disputes.
- GATT's key principles have been adopted by the agreements on services and intellectual property. These include non-discrimination, transparency and predictability

- GATT was ad hoc and provisional. The General Agreement was never ratified in members' parliaments, and it contained no provisions for the creation of an organisation.
- The WTO and its agreements are permanent. As an international organisation, the WTO has a sound legal basis because members have ratified the WTO agreements, and the agreements themselves describe how the WTO is to function.
- The WTO has 'members'. GATT had 'contracting parties', underscoring the fact that officially GATT was a legal text.
- GATT dealt with trade in goods. The WTO covers services and intellectual property as well.
- The WTO dispute settlement system is faster and more automatic than the old GATT system.

A.6 What are the WTO's goals?

The functions of the WTO are as follows:

- Administering WTO trade agreements.
- Forum for trade negotiations.
- Handling trade disputes.
- Monitoring national trade policies.
- Technical assistance and training for developing countries.
- Co-operation with other international organisations.
- Enabling the optimal use of the world's resources, with the objective of sustainable development.

The overarching goal is to improve the welfare of the people of the member countries.

A.7 How does it try to achieve these goals?

The WTO is run by its member governments. All major decisions are made by the membership as a whole, either by ministers (who meet every two years) or by officials (who meet regularly in Geneva). Decisions are normally taken by consensus - this means every member has the right to veto a decision.¹³

The highest authority is the ministerial conference, which meets at least once every two years. More routine work is supervised by the General Council. Numerous other councils, committees, working parties and negotiating groups cover the wide range of WTO issues.

Through agreements including the GATT, the GATS, and TRIPS, WTO members operate a non-discriminatory trading system that spells out their rights and their obligations. Each country receives guarantees that its exports will be treated fairly and consistently in other countries' markets. Each promises to do the same for imports into its own market. The system also gives developing countries some flexibility in implementing their commitments.

¹³ A majority vote is also possible but it has never been used in the WTO, and was extremely rare under the WTO's predecessor, GATT.

Trade in goods

Since 1995, the updated GATT has become the WTO's umbrella agreement for trade in goods. It has annexes dealing with specific sectors such as agriculture and textiles, and with specific issues such as state trading, product standards, subsidies and actions taken against dumping.

Trade in services

Banks, insurance firms, telecommunications companies, tour operators, hotel chains and transport companies looking to do business abroad can now enjoy the same principles of freer and fairer trade that originally only applied to trade in goods. These principles appear in the new General Agreement on Trade in Services (GATS). WTO members have also made individual commitments under GATS stating which of their services sectors they are willing to open to foreign competition, and how open those markets are.

Intellectual property

The WTO's intellectual property agreement amounts to rules for trade and investment in ideas and creativity. The rules state how intellectual property (copyrights, trademarks, geographical names, industrial designs, undisclosed information such as trade secrets, etc) should be protected when trade is involved.

Developing countries

Over three-quarters of WTO members are developing or least-developed countries. Special provisions for these members are included in all the WTO agreements. The special provisions include:

- Longer time periods for implementing agreements and commitments.
- Measures to increase trading opportunities for these countries.
- Provisions requiring all WTO members to safeguard the trade interests of developing countries.
- Support to help developing countries build the infrastructure for WTO work, handle disputes, and implement technical standards.

A.8 What happens when members don't agree on an issue?

The WTO's procedure for resolving trade quarrels under the Dispute Settlement Understanding is vital for enforcing the rules and therefore for ensuring that trade flows smoothly. Countries bring disputes to the WTO if they think their rights under the agreements are being infringed. Judgements by specially-appointed independent experts are based on interpretations of the agreements and individual countries' commitments.

The system encourages countries to settle their differences through consultation. Failing that, they can follow a stage-by-stage procedure that includes the possibility of a ruling by a panel of experts, and the chance to appeal the ruling on legal grounds.

A.9 Ten common misunderstandings about the WTO¹⁴

A.9.1 The WTO dictates governments' policies.

Not true: The WTO does not tell governments how to conduct their trade policies. Rather, it's a "member-driven" organisation. That means:

- The rules of the WTO system are agreements resulting from negotiations among member governments.
- The rules are ratified by all members' parliaments.
- Decisions taken in the WTO are generally made by consensus among all members.

In other words, decisions taken in the WTO are negotiated, accountable and democratic.

The only occasion when a WTO body can have a direct impact on a government's policies is when a dispute is brought to the WTO and if that leads to a ruling by the Dispute Settlement Body (which consists of all members). Normally the Dispute Settlement Body makes a ruling by adopting the findings of a panel of experts or an appeal report.

A.9.2 The WTO is blindly for free trade at any cost

Not true: It's really a question of what countries are willing to bargain with each other.

Yes, one of the principles of the WTO system is for countries to lower their trade barriers and to allow trade to flow more freely. After all, countries benefit from the increased trade that results from lower trade barriers. But just how low those barriers should go is something member countries bargain with each other. The WTO's role is to provide the forum for negotiating liberalisation. It also provides the rules for how liberalisation can take place.

A.9.3 The WTO is only concerned about commercial interests. This takes priority over development.

Not true: The WTO agreements are full of provisions taking the interests of development into account.

Underlying the WTO's trading system is the fact that freer trade boosts economic growth and supports development. In that sense, commerce and development are good for each other. The WTO's agreements include many important provisions that specifically take developing countries' interests into account. Developing countries are allowed more time to apply numerous provisions of the WTO agreements. Least developed countries receive special treatment, including exemption from many provisions. The needs of development can also be used to justify actions that might not normally be allowed under the agreements, for example governments giving certain subsidies.

A.9.4 In the WTO, commercial interests take priority over environmental protection

Not true: Many provisions take environmental concerns specifically into account.

¹⁴ An expanded version of this section can be found at http://www.wto.org/english/thewto_e/whatis_e/10mis_e/10m00_e.htm

The preamble of the Marrakesh Agreement Establishing the World Trade Organization includes among its objectives, optimal use of the world's resources, sustainable development and environmental protection.

This is backed up in concrete terms by a range of provisions in the WTO's rules. Among the most important are umbrella clauses (such as Article XX of the GATT) which allow countries to take actions to protect human, animal or plant life or health, and to conserve exhaustible natural resources.

What's important in the WTO's rules is that measures taken to protect the environment must not be unfair. For example, they must not discriminate between domestic and foreign producers. Nor can you discriminate between different trading partners.

Also important is the fact that it's not the WTO's job to set the international rules for environmental protection. That's the task of the environmental agencies and conventions.

A.9.5 The WTO dictates to governments on issues such as food safety, and human health and safety

Not true: The agreements were negotiated by WTO member governments, and therefore the agreements reflect their concerns.

As noted above, key clauses in the agreements specifically allow governments to take actions to protect human, animal or plant life or health. At the same time, the agreements are also designed to prevent governments setting regulations arbitrarily in a way that discriminates against foreign goods and services. Safety regulations must not be protectionism in disguise.

Governments are free to set their own standards provided they are consistent, are not arbitrary, and do not discriminate.

A.9.6 The WTO destroys jobs, widens the gap between rich and poor

Not true: The accusation is inaccurate and simplistic (see sections 3.3 and 5.5 of this resource base).

Trade can be a powerful force for creating jobs and reducing poverty. Often it does just that. Sometimes adjustments are necessary to deal with job losses, and here the picture is complicated. In any case, the alternative of protectionism is not the solution.

However, producers and their workers who were previously protected clearly face new competition when trade barriers are lowered. Some survive by becoming more competitive. Others don't. Some adapt quickly (for example by finding new employment), others take longer. In particular, some countries are better at making the adjustments than others. This is partly because they have more effective adjustment policies. Those without effective policies are missing an opportunity because the boost that trade gives to the economy creates the resources that help adjustments to be made more easily.

A.9.7 Small countries are powerless in the WTO

Not true: Small countries would be weaker without the WTO. The WTO increases their bargaining power.

In the WTO trading system, everyone has to follow the same rules, although special dispensations are made for developing countries. As a result, in the WTO's dispute settlement procedure, developing countries have successfully challenged some actions

taken by developed countries. Without the WTO, these smaller countries would have been powerless to act against their more powerful trading partners.

The most recent negotiation, the Uruguay Round (1986–94), was only possible because developed countries agreed to reform trade in textiles and agriculture - both issues were important for developing countries.

A.9.8 The WTO is the tool of powerful lobbies

Not true: The WTO system offers governments a means to reduce the influence of narrow vested interests.

The WTO is an organisation of governments. The private sector, non-governmental organisations and other lobbying groups do not participate in WTO activities except in special events such as seminars and symposiums. They can only exert their influence on WTO decisions through their governments.

A.9.9 Weaker countries have no choice, they're forced to join the WTO

Not true: Most countries do feel that it's better to be in the WTO system than to be outside it. That's why the list of countries negotiating membership includes both large and small trading nations.

The reasons are positive rather than negative. They lie in the WTO's key principles, such as non-discrimination and transparency. By joining the WTO, even a small country automatically enjoys the benefits that all WTO members grant to each other.

By joining the WTO, small countries can also increase their bargaining power by forming alliances with other countries that have common interests.

A.9.10 The WTO is undemocratic

Not true: Decisions in the WTO are generally by consensus. In principle, that's even more democratic than majority rule because everyone has to concur.

It would be wrong to suggest that every country has the same bargaining power. Nevertheless, the consensus rule means every country has a voice, and every country has to be persuaded before it joins a consensus.

Quite often reluctant countries are persuaded by being offered something in return. Consensus also means every country accepts the decisions. There are no dissenters.

What is more, the WTO's trade rules, resulting from the Uruguay Round trade talks, were negotiated by member-governments and ratified in members' parliaments.