

COMMENT

Unfinished Doha Round

THE DOHA ROUND OF THE WTO HAS collapsed-unofficially at least. The Industrial countries are unwilling to lower their barriers to agricultural imports and, in retaliation; the Developing countries are unwilling to lower barriers on imports of manufactured goods from the Industrial countries. At the time of forming the WTO, the industrial countries had agreed in principle to reduce their domestic agricultural subsidies at some future unspecified time. The main demand of the developing countries in the Doha Round was that the Industrial countries deliver on that commitment. But the Industrial countries demanded steep cut in import duties on manufactured goods and services by the developing countries in return. The developing countries, however, did not agree to this because the livelihoods of millions would be adversely impacted by indiscriminate opening of these sectors on which millions of their people depended for survival. Some farmers from the developing countries who are growing export-oriented high-value crops will surely gain from open access to Industrial countries but much larger numbers will be hit by cheap imports. Hence the developing countries wanted special provisions to impose higher tariffs where livelihood of large number of persons was likely to be affected, the talks have broken down because the two groups could not agree on these issues. Crux of the matter is this: Both sides acknowledge that gains are to be made from free trade but are afraid that particular sectors, countries or people can be adversely affected. In other words, free trade is not a win-win situation for all the stakeholders.

First problem with free trade is that of movement of natural persons. True, free movement of goods and capital will lead to each country specializing in what it does best. Global competition would lead to better products being available to the consumers. The problem, however, is that the consumer may not have the purchasing power to buy the excellent things lying on the shelf. The solution lies in protectionism.

The difficulty with protectionism is that protection is often used by corrupt governments to extract rents. For example, high import duties on imported TV can be a smokescreen behind which the government can impose high taxes on domestic producers. That was exactly the situation in India before the reforms. The total taxes were as high as 60 to 70 percent of the sale price of many commodities. These monies were being used by Ministers and bureaucrats to stash away ill-gotten wealth abroad. The collapse of Soviet Russia and Communist China owes itself substantially to such rent seeking by the party bureaucracies. Free trade prevents such rent extraction. But it also deprives people of livelihood.

The solution to this predicament is protectionist economic policy with domestic good governance. Protection will ensure that people are protected from cheap imports and can earn their livelihood from inefficient production behind closed borders. Good governance will ensure that the high tariffs are used to raise wages and not to extract bureaucratic rents. So there is reason to cheer about the impending collapse of the Doha Round, particularly in third world countries. □□□ *[contributed]*