

**Professor Deardorff (ADDITIONAL PRACTICE SECTION)**

(1) Yes, I've been here a couple of times before and in my previous visits, I have  
(2) talked about globalization which is a very, very broad topic. Uh but I thought  
(3) this time because of an event that's coming up an-and you may or may not  
(4) know about it uh in September, there's gonna be a big meeting of the World  
(5) Trade Organization uh in Cancun, Mexico. Uh and this meeting uh promises  
(6) to be quite a visible event when it does take place for reasons that I'll tell you  
(7) about in a minute. Uhh and so I thought I would focus much more on that. In  
(8) addition uh my colleagues and I drafted a paper uh a few weeks ago I guess  
(9) for a conference that I was attending in in Switzerland. Uhh on the uh on what  
(10) developing countries stand to gain uh from the negotiations that are  
(11) underway in the World Trade Organization. Those negotiations uh go under  
(12) the name of the Doha Round, uh which I'll also explain here in in just a  
(13) minute. But that's that's what's going on in Cancun and their meeting will be  
(14) a part of that negotiating process. Uh so having already assembled some  
(15) material on that, uh that's what these slides are for. I didn't prepare them I'm  
(16) sorry especially for you. Uhh but an-and I won't try to get through all of it by  
(17) any means, if you did get a chance by any chance to look at the uh paper  
(18) that we wrote on this subject with that title uh it is available on the web. Uh  
(19) the first part of it is the kind of thing that I'd like to talk about here. The  
(20) second part of it has a bunch of numbers that we have used our economic

(21) model to calculate and I don't think I will uh uh even even want uh to get to  
(22) that. There is another reason for talking about this from my point of view  
(23) here and it's might be relevant to you let me just ask uh, How many of you  
(24) are from China? Not as many as I had guessed there would be. Uhh well uh  
(25) none the less you may be interested in this. There is a big conference  
(26) happening this weekend uhh here on campus at the Business School. The  
(27) it's it's a conference held by something called the Chinese Economists  
(28) Society I think is the name of it but uh economists with a Chinese  
(29) background although I'm not of any sort, not just mainland China uhh from  
(30) all over the country will be here giving papers. Uh and the title of the  
(31) conference is "China after the WTO" uhh I-I think what that meant was China  
(32) after China joined the World Trade Organization which they did  
(33) comparatively recently. Um th-the way the title is is said after the WTO, one  
(34) might almost think it is China after the WTO is gone and uh it might could be  
(35) referring to to the end of the WTO, but as far as we know that isn't going to  
(36) happen. Uh and I'm going to have to talk there on Saturday morning and uh  
(37) talk more or less about this topic. Uh so I though okay well this will give me a  
(38) chance to uh to run through some of the things that I wanna say on Saturday  
(39) also. Uh and I'm thinking and hoping that many of you will find this uh  
(40) relevant and important to your own lives not necessarily to your professional  
(41) lives uh but if you are interested in developing countries, China or others, uh  
(42) then I would think you would certainly have an interest in uh whether the  
(43) trade negotiations that are underway are likely to be beneficial, have

(44) anything to offer that could be beneficial uh for developing countries. Uh and  
(45) even if your not from a developing country uh as of course I am not, uh it  
(46) seems to me that all of us should be very concerned about uh tilting the  
(47) international negotiations uh in favor of the developing world it just seems to  
(48) be a very important objective. I am a trade economist not a development  
(49) economist to the extent that I've specialized it has not been on developing  
(50) countries uh per say. Uh but I think uh in in spite of that I have a tremendous  
(51) interest in the process of economic development and and one certainly has  
(52) to. Uh the the world the success of of the world uh not just the economy, but  
(53) the world population I think depends upon improving living conditions. Uh  
(54) especially in the parts of the world where they are not all that good and that  
(55) means helping out as much as possible. Uh in I suppose the poorest areas  
(56) areas of developed countries too but but much more so in developing  
(57) countries. So that's what I hope to touch on here is what uh these trade  
(58) negotiations may offer for that purpose. Let me explain for those of you who  
(59) don't know uh a little bit about what the world trade organization is and why  
(60) it is doing this sort of a thing. The World Trade Organization was created uh  
(61) just a few well eight years ago. Beginning of 1995 it came into existence.  
(62) However, much of what it does uh had been going on for almost fifty years  
(63) prior to that in a sss- a different thing called that GATT. Uh that which G-A-  
(64) T-T stands for General Agreement on Tariffs and Trade. And this played the  
(65) role of much of what the WTO, the World Trade Organization, uh now does.  
(66) So it's actually not as new as it sounds. We've had it since uh the late

(67) 1940's. Uh but it changed it's name and expanded uh what it does with the  
(68) change to the World Trade Organization in uh the beginning of 1995. And  
(69) what it does mainly is to regulate the policies that governments use, the  
(70) governments of the countries that are themselves members of the WTO,  
(71) regulate the policies that they use uh to act upon their international trade.  
(72) Now the most obvious of those policies, the most pervasive of those policies  
(73) is that countries use tariffs. A tariff is a tax on imports. And if you go back 70  
(74) years now, uh you would find that the tariffs used by the United States and  
(75) almost all other countries of the world were very, very large. Uh very  
(76) certainly large in comparison today. Uh these taxes would in excess of fifty  
(77) sometimes a hundred percent uh on products imported into countries. And  
(78) they made it obviously very difficult for countries to trade. At the end of  
(79) World War II, uh the leaders of the uh winning world economies from World  
(80) War II uh wanted to avoid the the many of the problems that had arisen  
(81) because of these high tariffs in the 1930s. And so they sought an  
(82) organization that would prevent that. And this turned out to be the GATT and  
(83) now the World Trade Organization. Now membership in the World Trade  
(84) Organization, or the GATT before it, does not mean that you cannot use  
(85) tariffs. Uh not at all. What it means is that you cannot increase whatever  
(86) tariffs you have except for a narrow list of specified reasons that the WTO  
(87) permits. Uh and it means that as a member of the WTO, you will periodically  
(88) engage in negotiations with other countries. Where countries bargain with  
(89) each other to reduce those tariffs. So uh in these what are called rounds of

(90) negotiations that we've been having ever since the late 1940s in these  
(91) rounds of negotiations countries will bargain with other countries. These  
(92) days a big part of that is the United States bargaining with the European  
(93) Union uh and also Japan. But these countries also bargain with individual uh  
(94) developed and developing countries and the bargaining at least a lot of it  
(95) used to take the form of "I will lower these tariffs if you will lower those tariffs  
(96) that you have". And part of the promise that you make when you join the  
(97) World Trade Organization is that when you lower these tariffs for one trading  
(98) partner, you will lower 'em in exactly the same way for all the other  
(99) countries. It's called Most Favored Nation treatment uh that you will give  
(100) every member every country that's a member of the du-WTO the same  
(101) treatment that you give the Most Favored Nation. So if you lower your  
(102) tariffs in half uh if we did it for the European Union, we'd do it for everybody  
(103) else as well. Which means that not everybody has to be part of those  
(104) negotiations in order to benefit from what takes place in uh a bilateral  
(105) negotiation. And the result of that, and much more complicated  
(106) negotiations that they've also had, has been that these tariffs that were so  
(107) high in the 1930s now are tiny compared to what they were before. The  
(108) average tariff in the United States the average import tariff today uh is  
(109) somewhere around 4%. Less than the sales tax uh that you pay on things  
(110) you buy in a store here in Ann Arbor. Uh now 4% is not zero and it would  
(111) undoubtedly from at least an economic point of view be desirable to go all  
(112) the way to zero, uh but most of the costs of those high tariffs uh have been

(113) eliminated once they get down to that low a level. By that time the tariff  
(114) itself is probably smaller than the other costs associated with trade like  
(115) transportation and insurance and things of that nature. Yes (student  
(116) speaks). A tariff is a tax on imports, okay? And thank you for asking that  
(117) question and the rest of you, too. If I say something that you don't catch or  
(118) you don't understand uh please get my attention and ask me to explain. Uh  
(119) cause otherwise I won't, I won't know I need to do that. Yeah a tariff is a tax  
(120) on imports. Very much like the tax you do pay on what you buy in a store.  
(121) But a tariff is only paid when a good crosses a national border into a  
(122) country. The average tariff in the United States is 4%. That's actually  
(123) though a little misleading. Uh because averages of course are averages of  
(124) things higher and things lower. A great many tariffs in the United States are  
(125) zero in fact. There's a few tariffs well actually quite a few but tariffs on of-of  
(126) other small fraction of our trade are much, much larger than that. Twenty,  
(127) thirty percent. They're not like they were in the 1930s, but they're still much  
(128) larger than 4%. And unfortunately uhh and partly as a result of this  
(129) negotiating process that I've described, the highest tariffs on imports into  
(130) the United States, into Europe, into Japan, into developing into developed  
(131) countries generally are on the exports of developing countries because  
(132) there's a couple of reasons for this. Uh one is that developing countries at  
(133) in the best of all possible negotiating worlds, would not have a lot of  
(134) bargaining power. They are small, they are poor. Uh they don't have the  
(135) strength uh to bargain, so you remember as I said the tariffs got reduced by

(136) countries bargaining with other others. "I will lower my tariff so you will  
(137) lower yours". But the the when we negotiated with the European Union,  
(138) they didn't ask us to lower the tariffs on our imports of things that we get  
(139) from other countries like developing countries and vice versa for us. So  
(140) nobody was negotiating the reductions in those tariffs. Wh- the ones I'm  
(141) talking about are mainly on textiles and apparel. Clothing, in other words,  
(142) and the things that go into making clothing. The the textile and apparel  
(143) industry is one that I'm sure you know uh it is one that developing countries  
(144) generally speaking have a good chance of exporting in. But unfortunately  
(145) uh we have these highest tariffs in the developed world on exactly those  
(146) products because the negotiating process tended uh not to favor  
(147) developing countries. And it was actually worse than that. Um in an early  
(148) part of this whole process of the negotiations, the developing countries  
(149) requested and got from the developed countries what was called special  
(150) and differential treatment. Because they were poor they felt they needed a  
(151) special assistance. They did in fact. Unfortunately, the form of that  
(152) assistance that they requested and th-th and that they got was that they  
(153) would not have to lower their own tariffs. Now from an economic point of  
(154) view that was a terrible mistake. They would've been better off cause tariffs  
(155) actually hurt the countries that use them in in economic terms. It would've  
(156) been better off lowering their their tariffs. They didn't however because as a  
(157) sort of favor to them uh they were not required to do so. But because they  
(158) were not required to enter into those negotiations they even if they

(159) would've had power in negotiations, they didn't play the game. They didn't  
(160) offer anything to the developed world so they did not get anything in return.  
(161) So right now, the world trading system uhh in part of that reason is a bit  
(162) stacked against uh the countries of the developing world. Uh in that's true  
(163) in several ways but but the one I'm talking about here uh is the fact that we  
(164) still have all these tariffs on those products. It's stacked against them in  
(165) several other ways that I'm going to get into once I get into the outline of  
(166) my uh, paper if I ever do. Um anyhow the World Trade Organization has  
(167) had these rounds of negotiations in fact the last such round which was  
(168) called the Uruguay round you may have heard of that, is what created uh  
(169) the WTO. Uh and after it was created we didn't have another round of  
(170) negotiations for awhile. Uh the WTO as part of its rules agrees that it will  
(171) have a meeting every two years. Now they do lots of other things between  
(172) those times, but they have their biggest meeting every two years. It's called  
(173) a Ministerial meeting, a meeting of the ministers. The trade ministers. Uh  
(174) most countries call their government officials that handle things like this  
(175) ministers here in the United States we don't. Uh the person who would be  
(176) comparable to a trade minister in the United States is called the uh United  
(177) States trade representative. Uh but in any other country he'd be called a m-  
(178) called a minister. They have these meetings every two years called  
(179) ministerial meetings and that's where they can make the biggest decisions.  
(180) Well almost four years ago uhh they had one of these meetings. They they  
(181) always have them in different places and that particular one they held in

(182) Seattle in the state of Washington in the United States. And the plan had  
(183) been that at that meeting the countries gathered there all these there's over  
(184) a hundred countries in the WTO uh over 140 now. Uh they would agree on  
(185) a new round of negotiations to reduce tariffs further and do a whole bunch  
(186) of other things. That was the plan. Well you may have you may have been  
(187) there for all I know uh but you certainly may have heard in the news about  
(188) that Seattle meeting. Uhh it did not go as planned. Uh two things happened  
(189) that uh interrupted the plans. First of all, uh it was right about that time that  
(190) a lot of people in the world became uh unhappy with globalization and they  
(191) focused their unhappiness especially on the international institutions uh  
(192) that facilitated including the World Trade Organization. They're just as  
(193) unhappy with the International Monetary Fund, the IMF, and the World  
(194) Bank. Uhh but they are unhappy with the WTO and so a lot of these people  
(195) who were unhappy with it uh went to Seattle. In fact there was a concerted  
(196) effort made on the internet uhh to inform people about this meeting, to  
(197) encourage them if they wanted to protest against it to come to Seattle and  
(198) to do various things uhh to make their interests known to the negotiators uh  
(199) in in Seattle. So crowds showed up and demonstrations occurred in the  
(200) streets and unfortunately there was also some uh violence and some  
(201) destruction of property uhh in Seattle. There were no deaths or anything  
(202) like that but there was uh a good deal of destruction so it really made it into  
(203) the news. The destruction I believe uh was not due to the people who were  
(204) opponents of the WTO. Unfortunately uh this became such an event that it

(205) attracted people who just like to break things. Uh and so they came too for  
(206) the chance to break windows and so fourth. Uh and that that had an effect  
(207) certainly on the negotiators inside their meetings, inside their buildings  
(208) trying to come to an agreement. Uh but they were gonna have problems  
(209) anyway it turned out because the preparations for that meeting had not  
(210) gone well. Uh the United States which was hosting the meeting and which  
(211) always of course is a major player uh in these meetings had been  
(212) distracted by a number of other events that year. And so we had not done  
(213) our homework uh in preparing for this meeting uh nor had some of the  
(214) other participants. The man who was in charge of the World Trade  
(215) Organization was newly appointed so he had not had much experience.  
(216) And in any case the result was that they failed. At that meeting they tried to  
(217) agree on a on having a new round of negotiations but they failed. The  
(218) disagreements among the various countries and groups of countries were  
(219) so large that they could not agree on even what they would talk about in a  
(220) negotiation. And so they failed. Now the demonstrators outside took credit  
(221) for that failure. They said it was because of the demonstrations. Uh the  
(222) negotiators inside so no it wasn't the demonstrators, it was the difficulty of  
(223) the issues and the uh failure to to prepare and so fourth. I think it was  
(224) probably in fact a mixture of the two things. But that Seattle failure uh was  
(225) kind of a wake up call for people in the international trade community in the  
(226) World Trade Organization itself and for people like me, people who spent  
(227) our careers teaching our students about international trade, uh always

(228) before that comfortable in the uh understanding that our students really  
(229) didn't care. Nobody cared about trade very much except a few specialists.  
(230) Well all of the sudden in Seattle a lot of people cared and furthermore they  
(231) didn't like it. Uh so since then the attitudes of specialists and all have been  
(232) a lot different than they were before. Well uh the WTO is committed to  
(233) meeting, to having this ministerial meetings every two years. And so that  
(234) one was at the end of 1999 uh their next one was to be at the end of 2001  
(235) and they had it, they had a meeting. Uhh uh after what had happened in  
(236) Seattle when they asked for volunteers from the countries who were in the  
(237) WTO, Who would like to host a meeting like we had in Seattle? Seattle  
(238) having been pretty badly beatin' up uh by this meeting. They didn't get very  
(239) many volunteers. They ended up holding the meeting in Doha. That's why  
(240) this is called the Doha round. Doha is as you know the city of uh the major  
(241) city in the country of Qatar, I don't know exactly how to pronounce it. Uh in  
(242) the Middle East. And that put it very, very far away from the demonstrators,  
(243) put it very far away from most people uh who might have gone to that and  
(244) not too many people went. Th-So they they pu- the ministers really pretty  
(255) much had that meeting to themselves. Uhh furthermore this was just a few  
(256) months after September 11<sup>th</sup>, so that complicated things as well. Uh huge  
(257) amounts of security concerns and of course uh even if the demonstrators  
(258) had wanted to demonstrate at that point they were so stunned by  
(259) September 11<sup>th</sup> that for awhile anyway uh the antipathy toward  
(260) globalization had (shifted to just worrying about other aspects of the world.

(261) So that was a peaceful meeting. And it succeeded in where in what the  
(262) Seattle round had failed in doing. They did agree to start a new round. As  
(263) is the custom in these things, the round gets a name usually associated  
(264) with where the agreement was achieved to have the round and that's why  
(265) it's called the Doha Round. The Doha Round then is a negotiation taking  
(266) place amongst all of the countries of the World Trade Organization. Uh  
(267) ongoing it'll take probably four or five years at a minimum th-the Uruguay  
(268) round took 7 years. The timetable is to try to get it done sooner than that,  
(269) but I'll be surprised if they succeed with that. And the effort will be to to  
(270) negotiate on a lot of different things that countries and companies care  
(271) about in the international trading system. A part of that will be these tariffs  
(272) that I was talking about. But there's lots more to it that I'll be telling you a  
(273) little bit about it uh here in a few minutes. These negotiations actually most  
(274) of them take place at the home of the World Trade Organization which is  
(275) Geneva, Switzerland. They have a building there, the WTO. And that's  
(276) where the people are mostly doing the work of negotiating with each other  
(277) and and deciding on all of th-the texts that they might include in new  
(278) agreements, that sort of thing. Uh nothings happening in Doha since that  
(279) meeting. It's just the name for the round. But of course the plan was to  
(280) have meetings every two years and here it's two years again. They had  
(281) that one in Doha at the end of 2001, so it's time to have another one and  
(283) that one is scheduled for Cancun, Mexico in September. Uh so less then  
(284) two months from now they're gonna be having another meeting. Well the

(285) Doha round is underway. The Doha Round, if it succeeds, will lower  
(286) barriers to trade, international investment, to the enforcement  
(287) interintellectual property rights, to a lot of things. Uh even more than they  
(289) already were in previous rounds. And so opponents of globalization uh who  
(290) are now back on track in and objecting to these things, uh have plenty to  
(292) object to. Plenty to try to interfere with. Uh they would like very much to  
(293) interfere with these negotiations or alter their outcome. Uh a lot of the  
(204) interests that are arguing both for and against the WTO. Uh come through  
(205) what are called non-governmental organizations, N-G-Os is the uh  
(206) abbreviation or the acronym. N-G-O's, non-governmental organizations.  
(207) And these include many, many environmental organizations like the Sierra  
(288) Club for example. They include labor unions and other labor rights (208)  
(289) organizations. They include ri- organizations that are uh promoting human  
(290) right more broadly than just labor rights. Uh and then many other more  
(291) specialized interests and a lot of these either want the WTO not to do what  
(292) they do or in some cases to do more than what they do and to incorporate  
(293) their own particular interests into the negotiations. So the non-  
(294) governmental organizations are going to be in Cancun, uh making their  
(295) interests known. I don't know how. uh Carrying signs uh going into the  
(296) hallways an-and trying to talk to negotiators perhaps? I don't know. Well,  
(297) hua, sorry! I don't how they did it before and I don't know how they'll do it  
(298) now. Some of it may well be rioting in the streets. Uh I don know. Cancun  
(299) is not far away like Doha uh it's close by t-to the United States and Mexico.

(400) It's a place where I guess an awful lot of Americans have gone before,  
(401) young Americans for that matter often go there for for vacation if they can  
(402) afford it. I've never been there. Uh so I think we can expect lots of people  
(403) that show up in Cancun. Uh and to uh protest an-and do various things. Uh  
(404) it could in that sense be a repeat of what happened in Seattle. So you may  
(405) be reading in September about lots of maybe violence. I don know.  
(406) Certainly uh protests and demonstrations, I'm sure those will be going on  
(407) (uh in Cancun. Uh now the fact that Cancun has a beach of lots of sun  
(408) whereas Seattle has mostly rain, uh has to make some sort of difference,  
(409) but I haven't figured out how. Uh it'll attract more people, but maybe it'll  
(410) keep them on the beach and they won't be protesting, I don't know.  
(411) Unfortunately there's another thing about Seattle that will probably be  
(412) repeated in September and that is what was going on inside the meetings  
(413) in Seattle. You remember I said the the failure to get agreement was  
(414) because the negotiators themselves had not prepared well enough and  
(416) were in such deep disagreement about what to do uh that they just never  
(417) could come to an agreement to have a round. Well the same may be true  
(418) this time, we've already go the round so it's gonna continue. But the plan  
(419) had been for them to come up with a number of stepping stones towards  
(420) the final agreement and agree upon those in Cancun. But right now, the  
(421) countries of the WTO are nowhere close to an agreement on as far as I  
(422) know any of the major issues uh that divide them. And so it may well be  
(423) that that meeting will also end uh in a failure. That doesn't actually worry

(424) me too much uh me as a as a pro pretty much pro-trade uh and pro-WTO  
(425) person. Uh past negotiations including the Uruguay Round which was the  
(426) most recent one, always had times when it fi- appeared that they had fallen  
(427) apart completely and would never finish. Uh and then something would  
(428) happen, they'd get it back together and they would try again. They were  
(429) always missing deadlines and then creating a new deadline and eventually  
(430) managing to get agreement. So the fact that that's going to happen again  
(431) uh that's just normal really. Even though they will make a big fuss about it  
(432) and say "Oh, isn't this terrible". Uh in fact I don't think it is necessarily all  
(433) that terrible. It's only terrible if the negotiations fall apart and don't get  
(434) started again. Uh then then we lose because then the countries that have  
(435) been restraining their use of trade policies against each other because of  
(436) their membership in the WTO, will decide that the WTO has lost its  
(437) credibility and they will start fighting each other with their trade policies as  
(438) they have in the past. The losers from that will not be the United States.  
(439) We're big. We can if necessary uh get along I mean we benefit from trade,  
(440) but we're big enough to survive without it. Though the losers will be small  
(441) countries and poor countries, in my opinion uh if that happens. So because  
(442) of that I think we all should be hoping uh that the WTO does not fall apart  
(443) uh and th- if their negotiations uh do temporarily fall apart that they'll get it  
(444) back together. That does not mean that you can't also be hoping for and if  
(445) you want to go to Cancun an- and and demonstrate in favor of changes  
(446) that you would like to see in what the negoti- what the WTO does and what

(447) the negotiations include. Well let lemme hit on some of these topics that  
(448) they will be talking about. Uh in Cancun. A very big one that I haven't  
(449) mentioned so far at all uh is agriculture and this doesn't exactly get at  
(450) what's going on although it touches on some of it. Agriculture obviously is a  
(451) very big important industry in the world economy and it's a very important  
(452) industry for developing countries in two ways. Many developing countries in  
(453) addition to having a good chance of exporting in textiles and apparel, also  
(454) have agricultural products that they are good at exporting. Sometimes  
(455) they're for the textile and apparel industry, like cotton. Uh in other cases  
(456) they are food. Um the other interests that developing countries have in  
(457) agriculture of course is getting cheap food. Uh and in some countries that's  
(458) the main interest, they are net importers of food and would like to get it  
(459) cheaper. Uh so that their starving populations don't starve. Uh so it's a very  
(460) important industry. And until fairly recently uh agriculture was pretty much  
(461) excluded from this whole international trading system of the GATT and the  
(462) WTO. Ironically back in the 1940s or early 50s, the United States asked  
(463) that agriculture be taken out of the disciplines of the GATT. And so it was.  
(464) I'm not sure why we did that because more recently we're a big agricultural  
(465) exporter of some products anyway. Uh and so we would like to see, we the  
(466) United States, would like to see trade barriers come down on agriculture.  
(467) But anyway not been part of that an- and the result in part of that and and  
(468) also in part of just a lot of other forces that seem to be peculiar to  
(469) agriculture is that the developed countries, Europe, the United States,

(470) Japan, and some others, have just a monstrous set of policies in their  
(471) agricultural sectors. These policies include uh very often very high barriers  
(472) to imports taxes, tariffs on imports, but they also include subsidies to their  
(473) producers. They include include explicit price supports trying to keep the  
(474) prices high for their own producers which often means that their producers  
(475) produce too much, more then can be sold at home and so the government  
(476) ends up buying up the surplus and unloading it on world markets, which  
(477) push down world prices. So the effect of all these policies that the rich  
(478) world has in agriculture uh is to really depress, push down the prices of  
(479) agricultural products on world markets. Now in some respects that's good.  
(480) To the extent that that means that there is cheaper food then otherwise  
(481) available to starving populations, that's you'd think gotta be good.  
(482) Unfortunately most of that cheap food doesn't get to the starving  
(483) populations. They don't even have enough money to buy the cheap food.  
(484) Uh so it doesn't actually help very much and the main effect that this has is  
(485) to make it difficult for uh countries that could export agricultural products  
(486) makes it difficult for them to do that. Now these are not only developing  
(487) countries, but many of them are. And so this has become one of the very,  
(488) very biggest issues that will be discussed in Cancun. How do we change  
(489) these policies? How do we lower the trade barriers, lower the subsidies,  
(490) rationalize all these policies so that they do not make it hard for countries  
(491) that have a natural advantage in agriculture to produce and compete on  
(492) world markets as is the case right now. That may mean eliminating the

(493) subsidies, but do be honest it's very unlikely that that's gonna happen. Uh  
(494) the European Union has a commitment to their farmers that I don't entirely  
(495) understand, but they uh don't look likely to back off from it. Uh an- they are  
(496) not gonna reduce the amount of money that they give in one way or  
(497) another to their farmers. So the only hope can be that they change the way  
(498) that they do it. Instead of giving the money to the farmers in order for them  
(499) to produce and thus expanding the output of these agricultural products  
(500) and subsidizing the price at which they can sell those products on world  
(501) markets, the hope would be that they give them the money for not  
(502) producing or for something that's independent of whether they produce or  
(503) not and in fact they are making some moves in that direction as have we in  
(504) the United States to some extent. Uh using our farm support to pay farmers  
(505) uh to improve the environment for example rather than to produce the  
(506) products uh is one thing that they are doing more and more of in Europe.  
(507) They haven't done near enough, but maybe that's what they will be able to  
(508) negotiate in Cancun will be to change the way they subsidize their farmers  
(509) so that it won't uh mess up world markets as much as it now does. Uh  
(510) that's agriculture and that's the one your likely to hear the most about I  
(511) think uh because it's proving to be the most difficult issue of for the  
(512) developed countries the US and Europe to negotiate with each other. Yes!  
(513) Where was? Oh, yeah! (student speaks). I'm sorry I can't hear ya. (student  
(514) speaks). Yeah, why are they pushing down the price of agriculture?  
(515) (student speaks). Eh well what they're trying to is raise the price to their

(516) own farmers. They're trying to raise the incomes of of their own farmers in  
(517) the rich world. And so th- by t- helping them out they give them th-their their  
(518) trying to give them more money one way or another. Uh the effect of that is  
(519) to cause them to produce more. So places in Europe that uh especially,  
(520) there's some in the US but not quite so much, uh where the cost of of  
(521) growing crops on the land is very high uh they rationally they probably  
(522) should not be producing anything. Uh but they are so they're getting much  
(523) much more of the stuff produced and then to get that bought on the world  
(524) market, it pushes down the price. In economics, everything is supply and  
(525) demand. And if you increase supply, then the price goes down. Uh they do  
(526) nothing to increase demand, they just do things to increase supply and the  
(527) result is that the price goes down. That's not their intent their intent is to  
(528) ink- increase the incomes of their farmers, which they do as well. Now they  
(529) would love it actually if the price didn't go down on the world market cause  
(530) then their farmers would do even better. The falling prices actually make  
(531) this policy harder, but all that means is they spend even more money on  
(532) the policy to try to keep the farmers' incomes up. Europeans have been  
(533) doing this for years, it's it's an official part of the Europeans Union's uh it's  
(534) called their Common Agricultural Policy. The United States has been doing  
(535) it for years as well, although back in the 90s at some point uh we passed a  
(536) law that de- that reduced how much we did it by a large amount. Then last  
(537) year in 2002, uh our Congress raised our subsidies again uh rather  
(538) perversely from my point of view and and I think making it harder in these

(539) negotiations, but I'm not sure. Uh anyway we did that so right now Europe  
(540) and the U.S. are by far uh well Japan, too, although Japan just can't be that  
(541) big a producer so I don't think what they've done uh has mattered that  
(542) much for world prices. They have huge subsidies uh for rice especially.  
(543) Okay. Le- let me turn to intellectual property because that's another issue  
(544) that is rather surprisingly part of the WTO and uh is of great importance uh  
(545) to the developing world. It's also another issue where the interests of  
(546) developed countries and developing countries are very opposite. And so  
(547) it's likely to be a source of friction uh between them. Uh and unlike  
(548) agriculture, there really isn't anybody else on the developing country side.  
(549) In the case of agriculture uh whether countries are exporters or importers  
(550) of agricultural products doesn't line up that well with whether you're  
(551) developed or not. Uh so Australia and New Zealand for example are big  
(552) agricultural exporters uh and are on the side of the developing countries on  
(553) that issue. Uh but in intellectual property that's very much a sort of North  
(554) South uh division. And what is this about. Well first of all the term.  
(555) Intellectual property means patents or the British would say paytents. Uh  
(556) copyrights and trademarks. A patent of course is the legal right that an  
(557) inventor has uh to produce and market their product and not have any  
(558) competition. Uh nobody else could produce something if I have invented it  
(559) and I patent it, alright. Uh you get you file for these rights with your  
(560) government and if you get it then you have a patent for a limited number of  
(561) years. That's what patents are. Uh copyrights are the same thing if you

(562) write something. Uh I've never invented anything so I have a different view  
(563) than I do uh a little bit on copyrights, I have written some things. Uh and so  
(564) I tend to think "Well yes, of course copyrights uh we wouldn't want to  
(565) interfere with the rights of of me to make money on these best selling  
(566) books that I write". Uh unfortunately I don't so uh and and trademarks are  
(567) just the symbols that companies attach to their businesses uh and the  
(568) trademarks are rules or laws are to prevent other companies from copying  
(569) them. Well as I'm sure you know uh these rights do get one could say  
(570) abused in world markets. If governments don't pretty actively get involved  
(571) in protecting intellectual property rights then those rights don't exist. So if I  
(572) invent uh somethin', a pen, uh and I patent it at the U.S. Patent Office, but  
(573) nothing else happened and it was a wonderful pen, somebody could make  
(574) a copy of it and start selling it and there's really nothing I could do. Uh I  
(575) need a whole legal system and the government to help back me up on that  
(576) uh in order to defend my patent. The same is true for those other rights. It  
(577) hasn't always been true that any countries defended these rights. It's fairly  
(578) recent thing uh in in countries that they have patents and copyrights and  
(579) trademarks, but we do have them now uh in the developed countries. And  
(580) eh-eh a pretty good system of defending them so you don't see copies very  
(581) much of things on the markets in the United States. But in other countries  
(582) that's not so true. Uh copies are made all the time in fact, every summer  
(583) I've been getting these just lately, I get emails from students who are in  
(584) Asia saying "What book are you using in your fall course? I wanna buy it

(585) while I'm here, it's a lot cheaper". Uh well it may be that it's a lot cheaper  
(586) because my publisher just decided to sell it cheaper there, but I think in  
(587) most cases what they're gonna buy if anything will be an illegal copy of the  
(588) good. That doesn't matter to me, I didn't write the book. Uh and in fact I  
(589) happen to have my own kind of intellectual uh reasons for thinking that  
(590) although we need to have these intellectual pop-property protection laws  
(591) uh, we should not extend them to everybody in the world. Uh so I'm I'm  
(592) much more skeptical about this stuff than uh than a lot of people are. Well  
(593) anyway un-until the WTO itself was created, this was not an issue that was  
(594) dealt with uh in the context of trade negotiations. There is something called  
(595) the World Intellectual Property Organization uh also in Geneva,  
(596) Switzerland, the job of which is to kind of oversee these intellectual  
(597) property laws and standards of different countries, but in no way is its job to  
(598) try to get countries to enforce these rights. Uh it's just to try to make things  
(599) reasonably well organized. Uh but in the creation of the World Trade  
(600) Organization, a bunch of companies, corporations that had an interest in  
(601) this issue decided "Gee, wouldn't it be nice if we could get the world trade  
(602) organization to help us out here?". And so they argued successfully and I  
(603) thought kind of surprisingly successfully that if people in, say China since  
(604) I've mentioned China and it is a big part of this story, uh make copies of  
(605) some product that a rich country's um multi-national corporation has  
(606) produced be it a a music CD or a pharmaceutical product or whatever and  
(607) sell it on their market then the World Trade Organization should jump on

(608) them and stop them from doing that and they succeeded in getting that into  
(609) the rules of the WTO. The WTO, right along with all of its rules involving  
(610) tariffs, has a whole set of rules its called , if you care, TRIPS. Uh  
(611) that's an acronym TR T-R-I-P and then we always say it in plural, T-R-I-P  
(612) stands for trade related intellectual property. And we call it the TRIPS  
(614) agreement cause it's the agreement about these trade related intellectual  
(615) property rights. What that agreement essentially says or at least what it  
(616) said when they first negotiated it, was that every member of the WTO , rich  
(617) or poor, must by a certain date uh enact laws protecting intellectual  
(618) property, patents, trademarks, copy rights, in more or less the same way  
(619) that we've always or have for a long time done in the United States, in  
(620) Europe, Japan and so forth. Uh and then we must enforce these countries  
(621) must enforce those laws. So what's that's supposed to accomplish is that if  
(622) after doing that there are still people making uh copies of products fake uh  
(623) ya know designer jeans that aren't real and so forth uh then other countries  
(624) can go after them in the World Trade Organization uh and punish them  
(625) there. So thus force countries into doing that and that is part of the WTO.  
(626) Now as I say even before they put it in there, I was doing some some  
(627) research on this and had concluded that this was probably uh it wasn't  
(628) obviously a good idea let me put it that way. I wasn't so sure it was a bad  
(629) idea that I was ready to go out and demonstrate against it, but I was  
(630) suspicious of it because there's nothing in economics in economic theory  
(631) that says that intellectual property rights ought to exist uh or certainly to be

(632) extended to everybody. Uh there's nothing in economic theory to do that,  
(633) we don't have time to go into why that is uh but but that's true. And so it  
(634) seemed to me that the optimal thing to do with intellectual property rights  
(635) was to have them in the countries that can afford them, the rich countries.  
(636) Uh but not so much in the countries that cannot. What's happened since  
(637) the WTO put this these rules into place although before we've gotten to the  
(638) point where all countries have been required to follow them we did at least  
(639) allow the least developed countries a longer time period before they had to  
(640) enact these rules. Uh so during this process of transition eh the cost of this  
(641) agreement became more and more clear to developing countries and they  
(642) realized th-they resisted this in the first place but they came around to it uh  
(643) reluctantly and then afterwards regretted it. And began to ask that there  
(644) should be some sort of re-negotiation of this agreement. And what they  
(645) accomplished is so far fairly small, but important. Uh in the Doha meeting  
(646) when they agreed on having this round of negotiations, the rich countries  
(647) also agreed that in one very narrow area of intellectual property on the  
(648) rights to uh prescription drugs, pharmaceuticals, that and sp- s- specific  
(649) ones, the ones that could help to cure AIDS, uh tuberculosis, and a third  
(650) that I'm forgetting. Uhh anyway three diseases that are of most serious  
(651) difficulty uh for developing countries that for those things uh things would  
(652) be arranged in such a way that the countries could in fact copy the drugs.  
(653) Uh if they had the ability to do so. And the compulsory licensing I'm not  
(654) sure that they got into this yet in Doha, but but I think there was a move

(655) towards allowing countries to require the licensing of such copies uh for a  
(656) low price. The hope being that we can get these desperately needed drugs  
(657) at an affordable price to those who need them worst in or most uh in the  
(658) developing world. A small step anyway was taken at Doha in that direction.  
(659) Uh I presume I hope that that will uh a big issue again in Cancun. That  
(660) developing countries will be in there pushing hard to try and get the rules  
(661) changed or interpreted or something so that they can make at least the  
(662) most essential uh patented products from the rich world available to those  
(663) who need them. I guess it doesn't matter to me too much whether we  
(664) continue to try and stop developing countries making copies of music CD's  
(665) from uh European and American music performers. Uhh that I don't think  
(666) that the developing countries need those really cheap, I doubt if we'll  
(667) succeed in stopping them. But in pharmaceuticals it seems awfully  
(668) important because we're talking about uh human lives. And the question  
(669) will be whether the developing countries can push this point of view  
(670) successfully in Cancun because uh the rich countries don't have any direct  
(671) interest in doing this except maybe for public relations value. And they  
(672) have the rich pharmaceutical companies pushing them not to do it. Uh the  
(673) big pharmaceutical companies obviously they wanna get their their profits  
(674) on their products. And I don't begrudge them that. I have no objection to  
(675) inventors of valuable pharmaceuticals charging very, very high prices so as  
(676) to recover what is in fact a huge cost that they incur in discovering and  
(677) inventing these drugs. Uh if they didn't have that that very high payment in

(678) the future available to them, they wouldn't do it and we wouldn't have the  
(679) things that are making our lives better in the rich world. That's fine uh but  
(670) we need to have a system that uh-is more workable for developing  
(671) countries, in my opinion. Yes (student speaks). About what? Computer  
(672) software. Computer software. Uh well the the TRIPS agreement certainly  
(673) covers computer software as much as it does anything else and so if uh  
(674) Microsoft Windows is being copied and sold illegally uh in other parts of the  
(675) world, the TRIPS agreement would stop that. That's a good question  
(676) though because that's somewhere in in between. I don't see computer  
(677) software as saving lives, but I don't see it as being as frivolous as an  
(678) Eminem CD. Uhh being able to use computers is important for uh  
(679) businesses and private individuals uh getting up to speed in the world's  
(680) economy. So I would hope that something could be done to make them  
(681) available at a more reasonable price there as well but I I don't know what I  
(682) doubt anything will be done there but we'll see. I had there's a whole bunch  
(683) of other issues that that I could talk about, but I think I'm not going to do  
(684) that uh because we we've already hit I think one way or another on the  
(685) biggest ones that matter for developing countries. So let me just allow a a  
(686) few minutes for I hope more questions. Uhh should have warned you I was  
(687) going to do that so that you could be thinking of some questions but uh on  
(688) any of this stuff or n- especially if there's things related to this that I did not  
(689) talk about.