

Free Trade and Freedom

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Speech Delivered to

Frankfurt European Banking Congress

Frankfurt, 17 November 2006

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The topic of free trade and freedom seems, in my opinion, a very relevant issue taking into consideration the current status of the multilateral trade negotiations, as well as the possible world economic slowdown. Apparently we are facing serious challenges that could undermine world economic growth and the well-being of many people around the world.

We have been privileged, since the beginning of this decade, to enjoy favourable economic growth, improvement of the standard of living in many developing countries, relatively low inflation rates and more world economic integration. Globalization of economic activities, and particularly free trade have been behind this positive development. More countries have been involved in

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the multilateral trading system, substantial economic restrictions have been reduced, if not removed, and economic, financial and trade reforms have been widely implemented. The advantage of such a development is that it has created not only a more integrated world, but also a more coherent and vested interest community.

The Doha Development Round, initiated in November 2001 in Qatar, has greatly contributed to this effect despite the current difficulties facing trade negotiations. This should not undermine the achievements the Doha Round has made so far. Since the initiative of the Doha Round, world trade has expanded significantly. During the past five years, trade growth was 3-4 times the world output. Many developing countries have accessed WTO and are now actively participating in the world trading system.

Globalization and free trade have no doubt benefited emerging countries, therefore, we should not be surprised to see strong economic growth associated with economic openness in many developing countries. Trade in different developing countries

represents today a much higher percentage of their GDP than just a decade ago. But this is not all what developing countries have gained from free trade and globalization. The Benefits are not in fact limited to having more opportunities to export their goods. More importantly, developing countries through international economic relations have been encouraged, endorsed and supported to reform their economies, improve their investment climate and upgrade their economic and financial infrastructure. Such a process has helped many emerging economies to achieve impressive economic growth, attract increasing capital flows and acquire expertise, know-how and transfer of technology.

Developing countries today, particularly those in Asia and Latin America, have reached a stage of economic health that they do not seem any more in need of financial aid. On the contrary, the financial situation of many of them has improved to the extent that they voluntarily opted for prepayment of their debt. Millions of people in developing countries as in China and India have found in globalization and free trade opportunities to improve their lives, create new jobs for their growing population and consequently being able to educate their children and enjoy

much better health care services. In many other poor countries in Asia, Latin America and even in Africa, free trade opportunities have given hope for many people to earn a living and to avoid being trapped in desperate poverty. As a development round, the Doha trade momentum has indeed, and to a great extent, created co-operation for economic development and poverty reduction in different parts of the developing countries.

In emerging countries, many people started to enjoy an improved living standard, higher life expectancy, better education and more jobs opportunities. Economic freedom has accordingly been enhanced and more keen interest in international business has gradually become an irresistible engagement. The increasing active involvement of emerging countries in the world economic affairs has not only permitted millions of people in those countries to improve their living standard, but it has also constituted a big boost for the whole world economy. Economic growth in developing countries today is exceptionally high, approaching in some cases like China and India double digit levels. With young and growing population associated with more and more open economic policies and continuous keen interest in

free trade, developing countries will have an increasing role in the world economy. Contrary to the situation of some mature economies, developing countries will continuously offer growing and expanded markets, business dynamism and promising investment opportunities.

It is, therefore, in the interest of everybody to keep developing countries consistently motivated and fully engaged in the world economic arrangement. Based on past experiences, it seems to be more effective to help poor and developing countries through fair trade opportunities than only relying on development financial aid. Gain from free trade turned to be in the case of many developing countries much more beneficial than what these countries received in term of financial aid. Many poor countries have great potential to prosper and liberate themselves from poverty not necessarily through conditional and politicized charity, but rather through giving them fair and adequate opportunities to participate and accordingly share the world economic prosperity. People in developing countries deserve to be seen as a great asset for the world community and definitely they should not be considered as a liability.

The world economic order, therefore, should capitalize on the potential the developing countries represent and ensure their participation, involvement and integration. International financial institutions' current reforms to allow more say for developing countries in the decision making process related to the world economy is a step in the right direction.

WTO members should do the same by facilitating the accession of more developing countries into the multilateral trading system. Shared prosperity and responsibility is the most viable approach to manage reasonably our future destiny. Otherwise we are condemned to face the risk of intolerable disparity, disordered economic instability, undesirable protective policies and ultimately possible retaliation and confrontation.

Observing the current world economic situation, particularly the likely economic slowdown and the persisting global financial imbalances together with the Doha Round deadlock, will certainly justify our fear and concern about the risk of losing the spirit of international economic co-operation and the momentum

so far successfully created by the Doha Round and the multilateral trade negotiations.

Of course, I do not intend to elaborate at this occasion about another important subject such as global financial imbalances, but I would rather like and within the remaining available time to comment on the status of the Doha Development Round. It is, certainly, regrettable that the progress so far made by the Doha Round at the level of multilateral trading system has apparently become now questionable. Minority and narrow interests seem to overrule the benefits and interests of millions of people around the world.

Although this trade round has been originally conceived as a development round, intended basically to help poor and developing countries, the disappointing results recently revealed out of the multilateral trade negotiation, unfortunately do not confirm the good intention previously expressed and the political propaganda repetitively announced. It is true that trade negotiation is not an easy process. It covers a wide range of complicated issues from trade liberalization to matters not

necessarily directly trade related such as environmental and labor standards. While nobody is expecting that the Doha Round will be able to resolve all these issues, there was, nevertheless a legitimate hope that this trade round will deliver at least what was considered as an indispensable progress to allow poor and developing countries to feel the benefit of being part of the world trading system.

In this respect, the multilateral trade negotiations have apparently reached great disappointment particularly because they have stopped short of agreeing on satisfactory arrangements to liberalize trade and specifically in agricultural products. While it does not represent more than 20 percent of the world trade, agricultural products constitute the main source of income for more than 70 percent of the poor and developing countries' population. Progress to liberate trade in agricultural products looks, therefore, a must if there is a genuine intention to help developing countries and if we are serious about reaching a successful conclusion to the Doha Development Round. Positions taken by the developed countries, specifically, the US and the European Union do not appear compatible with their

economic ideology of free market policy. It can't be consistent to advocate trade liberalization, free competition and economic reform while insisting on protection, distorting subsidies and continuous inefficient and unviable business.

The concept of trade specialization based on comparative advantage has not been clearly and fairly respected and the poor countries have therefore been deprived of any chance or advantage to compete, while artificial barriers and trade distorting measures insistently continue to be imposed. Agricultural products which are vital for developing countries are suffering the most from such practice.

Protection of agriculture in OCED countries is four to seven times higher than those applied to protect industry. Distorting subsidies to agriculture products are even more harmful for many developing countries where artificially depressed prices are hurting poor farmers. The combined effects of protection and subsidies have promoted overproduction in high-cost rich countries and discouraged more competitive products from poor countries. The example of cotton and sugar is very

representative, whereby farmers in developing countries are losing a great deal from developed countries practices in this respect.

In the case of sugar, OECD governments provide producers with generous support of approximately \$ 6.4 billion annually. In combination with quotas and tariffs such generous subsidies allow local sugar producers to get more than double the world market price. In fact, prices are becoming so high that it is not any more surprising to see sugar beets grown in cold climates. The European Union which used to be a net importer of sugar in the early 1980's became a net exporter today. The case of cotton is even more illustrative. America provides a subsidy of around \$ 4 billion a year to cotton farmers, about twice the US foreign aid to Africa

This magnitude of subsidy depresses world cotton prices, hurting the income of thousands of poor farmers specially in African countries such as Benin, Burkina Faso, Mali & Chad where cotton represents around 30 percent of their exports and where more than 10 million people live based on cotton production.

Annual losses for cotton growers in these countries exceed \$ 150 million a year. Cotton prices today are almost 50 percent of what they used to be in the mid 1990's, while America's subsidies to cotton farmers have nearly doubled during this period of time. Few rich American farmers are benefiting from such a situation at the expense of many poor producers in developing countries. Subsidies seem therefore to make the rich richer and the poor poorer. such a situation doesn't seem sustainable and there is certainly the need and the justification for questioning the current practice.

We should not, therefore, be very surprised why the multilateral trade negotiations have stopped short of reaching the desirable results. Developing countries still do not feel fairly treated and the current trade arrangement does not yet represent a conducive environment for many developing countries to prosper and to compete internationally on equal basis. While a slight cosmetic alteration might, temporarily, hide the distortion the current system is suffering from. The major problems, nevertheless, will continue to exist and ultimately once again spoil international economic relations. So, unless we are able to agree on a major

and a serious reconsideration of current trade practices, the hope of achieving meaningful progress out of the Doha Development Round could regrettably be disappointing.

To conclude, I would say that Doha Trade and Development Round is still an open opportunity that should not be missed. It had a very good start and it had achieved important progress which should not be ignored or undermined. Being a development round, it has created great hope for many poor and developing countries to be able through the multilateral trading system to liberate themselves from poverty. Trade negotiations through the Doha Round has reached now a crossroad where positions of major players will determine sooner rather than later whether this round is capable to fulfill its promises and successfully deliver its highly expected outcomes. The stakes are, of course, very high but the mutual interest and the responsibility of different parties should never be underestimated.