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Spreading Prosperity & Resisting Economic Divergence: The Significance of Richard Snape's Academic Legacy

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The Productivity Commission

The Productivity Commission, an independent agency, is the Australian Government's principal review and advisory body on microeconomic policy and regulation. It conducts public inquiries and research into a broad range of economic and social issues affecting the welfare of Australians.

The Commission's independence is underpinned by an Act of Parliament. Its processes and outputs are open to public scrutiny and are driven by concern for the wellbeing of the community as a whole.

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Foreword

Richard Snape capped a long and distinguished career as Professor of Economics at Monash University with a new and accomplished career at the Industry Commission and then as Deputy Chairman of the Productivity Commission. In the eight years that he spent at the Commission before his untimely death in October 2002, he played a pivotal role in overseeing our research program, as well as participating in major public inquiries, including presiding on national reviews of broadcasting and of airport regulation.

This is the second in a series of lectures in memory of Richard Snape. With Richard's own interests and high standards in mind, the lecture series elicits contributions on important public policy issues from internationally recognised figures, in a form that is accessible to a wide audience.

Following Max Corden's auspicious beginning we are delighted that Anne Krueger agreed to present the 2004 lecture. Like Professor Corden, and Richard Snape himself, Anne Krueger has made major contributions to both theoretical and policy thinking in economics in a distinguished career spanning academia, government and international agencies.

I am grateful to Anne Krueger for committing the time in a busy year to prepare and present the Richard Snape Lecture 2004. The title Anne has chosen for her address clearly conveys its appropriateness for this series of lectures in Richard Snape's honour.

Gary Banks
Chairman

February 2005

RICHARD SNAPE 1936 – 2002

Richard Hal Snape was Deputy Chairman of the Productivity Commission and Emeritus Professor of Monash University. He was a Board Member of the Australian Research Council, Fellow of the Academy of the Social Sciences in Australia and a Distinguished Fellow of the Economic Society of Australia.

ANNE O. KRUEGER

Anne O. Krueger has been the First Deputy Managing Director of the International Monetary Fund since 1 September 2001.

Ms Krueger was the Herald L. and Caroline L. Ritch Professor in Humanities and Sciences in the Department of Economics at Stanford University and a Senior Fellow of the Hoover Institution.

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Spreading prosperity and resisting economic divergence: The significance of Richard Snape's academic legacy

Anne O. Krueger

Richard Snape was a close friend as well as a distinguished economist and I am pleased to be able to pay tribute to him — although greatly saddened that this should be necessary.

With Richard's untimely death, many of us lost a valued colleague and friend. But our loss is shared far more widely. Australia and the world were deprived of a true internationalist whose academic and policy contributions to the understanding of the world economy were enormous. In Australia, Richard is perhaps best known for his years of teaching and research at Monash University; his editorship of the Economic Record*; and for his role in, and contributions to, the Productivity Commission. But Richard's reputation as an academic and policy adviser was truly global. His research was known and respected in academic communities around the world. The time he spent at the World Bank, with the GATT and the World Trade Organisation (WTO), and in Stockholm and elsewhere was valued by his colleagues there; and by those of us who benefited from all that Richard produced.*

Richard's academic influence extended widely. He shaped both understanding and policy in many areas of Australia's international economic relations. His thinking on many global issues was also profound. Latterly, during his time at the Productivity Commission, he was also able to play an important part in the shaping of domestic economic policy.

Integration versus divergence

Given the breadth and depth of Richard's intellectual interests and his contributions, it is difficult to focus on any one single aspect of his work. Instead I want to focus on a question that was central to Richard's thinking: the competing pressures for integration and disintegration within the world economy. This is an issue of fundamental importance, as Richard rightly — and presciently — recognized. That it has become more pressing, with ever stronger opposing forces at work, underlines just how powerful Richard's reasoning and analytical foresight were.

Where do we stand today on this increasingly important and, to the internationally-minded among us, disturbing divide? I want first to examine the forces that promote continuing integration in the global economy in the 21st century. I want then to assess those forces that are pulling in the opposite direction, that press for economic divergence around the globe. I want specifically to look at the potentially dangerous impact of these forces on the Doha Round of trade negotiations. And finally, I will say something about what we in the International Monetary Fund (IMF) can do to help further integration to permit continuing economic growth, rising living standards and poverty reduction.

The drive to economic integration

The process of globalization is clearly our starting point, as it was Richard's. Like most economists, Richard attached great importance to recognizing the major benefits derived from the integration of the international economy. His focus as an Australian economist and internationally always remained squarely on the gains that had been attained, and that could be further enhanced, through the process of increasing integration of the international economy, especially through the dismantling of trade barriers.

Globalization is, in a sense, the story of mankind's development. The early traders of the Mediterranean, the links developed by Marco Polo, the spice trade; then, later, the rapid growth of trade sparked by the Industrial Revolution of the 18th and 19th centuries: all these were stages in the integration of the world economy. The record is one of continuing economic growth resulting from — and accompanying — the expansion of trade. This brought both increased material well-being and a better quality of life for an increasing number of people.

Where the second half of the 20th century differed, though, was in the speed of change. The multilateral economic framework established towards the end of World War II prepared the way for a surge in global trade that, in turn, fuelled economic growth.

However we choose to measure progress in the second half of the 20th century, it is clear that the gains have been enormous — and widespread. Many countries, first in the industrial world and, later, in the developing world, experienced rates of growth that were inconceivable at the height of the Industrial Revolution in Europe. Take one example: Korea in the period from the early 1960s to the 1990s recorded per capita GDP growth *each decade* that matched what Britain achieved in the whole of the 19th century.

Sustained rapid growth brought prosperity for an increasing number of people around the globe. It brought large-scale poverty reduction. These improvements in material welfare made possible enormous improvements in the quality of life. Life expectancy rose, infant mortality fell and literacy standards improved. One particularly striking outcome has been the significant narrowing of the gap between life expectancy in the developed and most parts of the developing world — from around 30 years in 1950, to around 10 years today, even while developed country life expectancy has continued to grow.

These spectacular improvements in living standards could not have occurred without rapid, and sustained, rates of economic growth and were, in large part, a direct result of that growth. A key element of the multilateral framework established at the end of World War II was the progressive liberalization of trade. A virtuous circle was created: trade liberalization made possible more rapid growth, and more rapid growth in turn permitted more trade liberalization. Rising living standards have benefited citizens in both developed and developing countries: but it is important to remember that developing countries could not have grown anywhere nearly as rapidly without the spectacular growth in world trade that we saw after 1945.

For the most part, that virtuous circle has continued to drive global growth. World trade has continued to expand far more rapidly than global GDP. In 1950, world merchandise exports accounted for about 8 per cent of world GDP; today that figure is close to 26 per cent. The September 2004 edition of the IMF's *World Economic Outlook* estimated that in 2004 world trade would have increased by 8.8 per cent, while global GDP was projected to have grown by 5 per cent.

The forces that drive further integration include market forces and competition; technological progress, not least in transport and communications; and reduced trade barriers. And these forces remain strong.

Market forces continue to drive the search for ever cheaper sources of inputs and finished goods. Competition drives down prices and spurs the search for variety over an ever-wider area.

Just as it was in the 19th century, technological progress in transport and communications has been an important force for economic integration as it has driven down costs. In 1930, a three minute phone call from New York to London cost US$293 in 1998 prices. By the end of the last century — not that long ago — the cost had fallen to around US$1. It is now possible to make that call for a few cents, and the prospect of phone calls using Internet connections will push down costs still further. These comparisons, startling as they are, take no account of the significant improvements in the quality of telephone connections.

Transport costs have plummeted too. The cost of air freight (as measured by average revenue per ton-kilometer) fell by 78 per cent between 1955 and 1996. That fall, coupled with the increasing importance of products with high value-to-weight ratios such as pharmaceuticals, has encouraged a sharp rise in the importance of air shipments in global trade. Air freight accounted for about 28 per cent of the value of America's international trade in 1998 — four times its share in 1965 (and up from virtually zero in 1950).

Reduced communications and transport costs of themselves directly result in increased trade. They also help accelerate integration. Given the speed of communications and transport, the impact of any one change somewhere in the world is reflected far more quickly than it was even a short time ago. Integration therefore has both a time and a rate-of-adaptation dimension as well as a cost of transport and trade barrier dimension.

The signs are encouraging. Business and citizens have adapted with remarkable speed to the largely beneficial changes brought about by the Internet, for instance. Indeed, it can be argued that some of the latest technologies, such as the Internet and cellphones, have enabled some countries in effect to leapfrog over intermediate technologies such as landline telephones and faxes. This enables them rapidly to reap the economic benefits that major improvements in economic infrastructure can bring at lower cost.

Protection has been lowered because of the progress achieved in successive rounds of multilateral trade negotiations, most recently the Uruguay Round; because of the growth of preferential trading arrangements (PTAs); and because of unilateral liberalization when countries have recognized the benefits to be had even when acting alone to lower trade barriers.

Both the European Union and the United States — so often portrayed as the bogeymen of international trade — have benefited from the very substantial lowering of their tariff levels and non-tariff barriers over the past decades. The higher growth rates that such large economic actors achieved as a result of their trade liberalization played a significant part in helping to generate more rapid global growth.

Trade liberalization more generally has further reduced the costs of international trade. The combined drop in costs has been a major contributor to growth and accounts, in part, for trade having been an engine of growth. The progressive lowering of tariffs, the reduction in, or removal of, quantitative restrictions have all reduced the costs of doing business across national borders. Freer, cheaper trade encourages competition, driving down prices to the consumer, improving the efficiency of resource allocation and pushing up productivity growth. Protection acts as a barrier to trade, raising prices to the consumer, encouraging inefficiency and penalizing competitive industries. That in turn has a dampening effect on growth.

Australia is a textbook example of the benefits of trade liberalization. Richard Snape was a frequent and valued contributor to Australian discussions of protection and its cost. Indeed his doctoral dissertation was on the distortions and costs introduced into the international economy by protection of sugar. His thinking was clearly influential in Australia's ambitious and successful trade liberalization of the late l970s and l980s. He took particular satisfaction from the way in which the benefits Australia obtained from liberalization were achieved with costs much lower than skeptics had thought likely.

Forces of disintegration

The forces driving further economic integration remain strong, then. But we cannot afford to be complacent: there are, and always have been, strong forces that resist further integration. What, or who, are these forces?

First, are the anti-globalists. The anti-globalization movement is a disturbing phenomenon. The groundswell of support for the protests seen in Seattle in 1999, Prague in 2000 and at most subsequent international meetings to some degree may be misguided and badly informed: but it is real and therefore a cause for concern. The pressure groups involved tend to be made up of differing interests and objectives. Many of them, though not all, are well-intentioned.

Perhaps the greatest tragedy of the anti-globalization movement is the fact that many protesters are opposing the very policies that would achieve their objectives, at least with respect to the reduction of poverty in low income countries.

The anti-globalists are often influential, especially in national political debates over issues such as trade liberalization, not least because the protest movement has been joined by groups with far different objectives. Those seeking poverty reduction are often hi-jacked by special interest groups whose opposition to free trade derives from narrow sectional interests.

The failure to appreciate the benefits that globalization has brought (and the potential additional gains still to come) is frustrating. There is a misguided belief that globalization hasn't helped the poor. We see this charge repeated at all anti-globalization protests across the globe. We saw commentators make the same charge in the aftermath of the Indian election in May 2004.

Yet the opposition to further trade liberalization simply flies in the face of the evidence. Economic integration, spurred by the rapid expansion of trade and the consequent high rates of economic growth, has brought benefits across countries and across the populations of those countries. Around 200 million people were lifted out of poverty in the 1990s alone — and most of those were in China and India, both countries having opened their economies and benefiting greatly from their integration into the growing world economy. The remaining poor in China and India, as well as the vast majority of their populations, will clearly benefit further from continuing economic growth.

Second, and closely related to the anti-globalization movement — and often overlapping with it — are the concerns of environmentalists and others who seek a vehicle to advance their cause, whether it be the need to respond to the threat of global warming or opposition to sweatshop labor. Yet here, too, the activists are misguided — not in their choice of cause so much as the proposed solution to their concerns. Higher per capita incomes bring with them greater awareness of these problems, and more demands for action to respond to them. The more rapidly per capita incomes rise, the sooner are governments likely to take action to clean up the environment. Likewise, as living standards rise, parents can afford to send their children to school, and sweatshop labor diminishes as a problem.

Many of the measures advocated by these groups would achieve the opposite of what they intend. They would result in slower growth — indeed, that is the explicit intention in some cases — and that in turn would reduce the pace at which environmental, labor standards and other improvements could be made.

Third, we have those whose opposition to globalization is not quite so disinterested. Much of the pressure to resist further integration comes from actors within the industrial economies who see their interests threatened. Organized labor groups fear that trade liberalization puts jobs at risk. Inefficient or protected firms fear the impact of greater competition on their ability to survive or prosper. Yet such fears are greatly overstated. Jobs in one sector are replaced by new ones elsewhere in the economy. And firms that respond to greater competition by becoming more efficient themselves will benefit from increased opportunities at home and overseas.

One problem is that while fear of change, and what it might mean, motivates opposition to globalization, those who will benefit from further integration do not know it ahead of time. Those at risk can easily identify themselves. But we have no way of knowing who will benefit from the new jobs that will be created and which firms will thrive in response to greater competition.

Part of the solution has to be an appropriate social safety net: one that provides reassurance to those with exaggerated fears and one that provides support for those who do lose out in the short term.

And, finally, we see opposition also coming from those in developing countries who fear closer integration with the rest of the world. This is partly a reflection of sectional interests at work. But it also betrays a lack of understanding about the importance of a healthy global economy for their prospects. Countries must be more closely integrated into the world economy and they must lower trade barriers if they are to achieve the more rapid growth and poverty reduction they so badly need.

The Doha Round

The forces pushing against integration would be a cause for concern at any time. They are particularly worrying in the context of the Doha Round of trade negotiations.

I mentioned Richard Snape's contribution to ending Australia's protectionist trade regime. Richard also recognized the extent to which Australia, as a small open economy, was dependent on a well-functioning international economic system. I know that Richard would be concerned at the slow progress made thus far in the Doha Round. At best, the delays in the negotiations have delayed the benefits that could be obtained — in many cases by the countries that need those benefits most — from further trade liberalization. At worst, the setbacks risk undermining the international trading system and thus hampering global growth prospects.

Delay increases the risk that large countries, in particular, will become more unilateral in their behavior if they perceive that other participants in the Round are reluctant. This is especially important given that it is the small and poorer countries that stand to gain most from further liberalization. This is, after all, the Doha Development Round.

One particularly disturbing trend in the current context is the extent to which the arguments against free trade are being rehearsed again — fuelled by the opposition to globalization that I mentioned earlier. More and more countries, or groups of countries, seem to have forgotten that the benefits of an open and growing international economy are large and that these have always exceeded any benefit to be had from special treatment on specific items. The risk they run is that refusal to sign up to a Doha deal would result in a less vibrant international economy and thus impose large direct and indirect losses associated with stagnation of global trade.

The increasing focus on obtaining special treatment for a relatively narrow range of goods or services at the expense of broader liberalization is also a potentially serious obstacle to a deal. The refusal of cotton-exporting countries in West Africa to agree to a deal until cotton subsidies in industrial countries are ended is understandable: and they are right to press for subsidy reductions. But they would be ill-advised to seek so much that their stand undermines the entire Round and in so doing lose the benefits that flow from a more open trading system.

Sector-specific free trade agreements, such as that for electronic goods, can also pose problems. Firms in such sectors also believe they have little or nothing more to gain by wider liberalization and this removes an important source of support for negotiations on a broader front. Yet in both cases, there are more gains to be had: the tangible but less easily quantifiable benefits associated with more rapid global economic growth.

Protectionist pressures have recently abated somewhat (as they usually do when growth is strong). But they are still there. They can be expected to intensify as soon as the economic cycle turns or if Doha hasn’t been finalized — or worse, fails altogether.

Looking ahead: the key issues

Several key issues are impeding the substantial progress needed if Doha is to succeed.

These are:

- the threat to the most favoured nation system that the proliferation of preferential trading arrangements represents;
- antidumping and safeguards;
- trade in services; and
- agricultural trade.

It is no coincidence that these were all areas in which Richard Snape made a significant contribution. As I said, he was a far-sighted economist.

MFN and Preferential Trading Areas

An open multilateral trading system is probably more important now than at any time since the postwar settlement established the current framework. It is arguable that the need to include all countries as full participants in the international economy is more urgent than ever. For the millions who live in abject poverty, economic growth is vital if they are to see any significant improvement in their fortunes.

One of the key aspects of the political economy of both the GATT and its successor, the WTO, was, and still is, the extent to which exporters have a clear incentive to provide a political counterweight to the protectionist pressures of others. That is why the gradualist approach of opening up trade in one sector at a time is, in my view, misguided. It might seem attractive in theory. But an exporting sector whose importing customers are already at zero tariffs has no incentive to support multilateral opening further.

For efficiency reasons any would-be importer should have incentives to choose the lowest-cost source. Systems that ignore this fundamental precept simply store up trouble for the future — even if the arrangements are meant to be temporary. Countries that enjoy some kind of preference, however fleetingly bestowed, quickly come to take such advantages for granted and guard them jealously. In essence, the provision of such temporary preferences can provide countries with a strong incentive to resist further and more multilateral trade liberalization.

There are numerous examples of this. The Caribbean countries, beneficiaries of the US-Caribbean Basin Initiative, opposed Mexican entry into the North American Free Trade Agreement, on the ground that they would lose some of their margin of preference. In 2004, the African, Caribbean and Pacific (ACP) group of countries reacted with outrage to modest proposals from the European Union to reform the sugar system that gives preferential treatment to the ACP. The group described the European proposals as ‘totally unacceptable’. And there were repeated attempts to postpone the phase-out of textile quotas at the end of 2004, one of the most recent being the ‘Istanbul Declaration’ (regarding fair trade in textiles and clothing) signed in March 2004 and advocating a postponement of the phase-out until January 2007.

An open multilateral trading system is so important — and so beneficial, especially for poor countries — that trade preferences for poor countries are, at best, a questionable diversion, unless they are clearly transitory with specified time limits.

There are manifold reasons for this. Preferences may induce investments which are simply not economic unless the time horizon is clear. They may also give some countries a temporary advantage over others and thus hurt those left out. There is clear evidence that preferences bring far fewer economic benefits than do further multilateral and even unilateral tariff reductions. And preferences can, of course, provide countries with a strong incentive to resist multilateral trade opening. We are seeing this now in Africa, for example.

Richard Snape was among the first to see that PTAs could be beneficial if they led to further multilateral opening, and detrimental if they moved in the opposite direction. He was fully cognizant of the risks involved. Let me mention some of the most important.

How do PTAs work when several countries all have PTAs with one ‘central’ country? What happens to the multilateralism, so important (as I said earlier when I talked about the MFN principle), when a particular country, say Canada, has a PTA with another, say the United States, and thus has an advantage in exporting wheat relative to Australia? What will be the reaction of the partner countries to efforts to open up multilateral trade in wheat?

And to what extent is there a danger that preferences will lead to resistance for further multilateral opening? As we witness a proliferation of PTAs in the world today, these are real issues.

Richard Snape saw a way to harness PTAs so that they were, in effect, an intermediate step, a sort of halfway house towards the infinitely more desirable goal of multilateral trade liberalization. He proposed that rules of origin should be uniform across all goods and services at a specified percentage of value added, and that any other country wishing to join a PTA on the negotiated terms should be able to do so automatically.

This still strikes me as an eminently pragmatic solution to a genuinely difficult problem. If adopted as a general rule when PTAs are negotiated, it would mean that such arrangements were much more likely to act as stepping stones towards a full multilateral approach. In the current climate, unfortunately, even this not-quite-halfway-house would be a challenging goal.

So PTAs can be a stepping stone towards multilateral liberalization or a distraction from it. But my concern is that as the Doha negotiations drag on even while preferential trading arrangements proliferate there is a rising danger that trade ministers will focus their attention on those arrangements. If such arrangements are seen as an alternative to multilateral negotiations, or even if they simply divert attention from global issues, their cumulative impact may be negative. They will not necessarily lead, and indeed are quite likely not to lead, to further multilateral opening.

Recall the context in which the European Economic Community (EEC) was founded in the 1950s. The original members of the EEC as it then was experienced rapid growth over a long period and experienced a considerable degree of economic integration. They did so in large part because the EEC was established at a time of rapid multilateral liberalization. Intra-European trade barriers fell rapidly to zero from in excess of 40 per cent; but the EEC's external tariff was also reduced from the same 40 per cent plus level to a weighted average of just over 3 per cent now (or 6.5 per cent, if estimated *ad valorem* equivalents of specific tariffs are included). Quantitative restrictions were also eliminated. PTAs are most effective when they are a complement to, and not a substitute for, multilateral liberalization. It is the EU's trade liberalization with the rest of the world that helps explain its economic success over a long period of time.

Antidumping and other safeguards

The issue of antidumping is next on my list. Once again, Richard Snape's work is relevant to my concerns in the context of the Doha Round. Richard recognized that there *could* be instances in which there was predatory pricing, and contributed one of the very few theoretical articles laying out the case where that could happen. But, as he was first to point out, the circumstances under which this might happen were highly circumscribed. He was fully aware that, in practice, few so-called antidumping cases are really about predatory pricing. The need for a better global system, with more stringent rules to prevent the abuse of antidumping, remains a top concern of the international community.

Between 1995 and 2003, there had been 168 countervailing duties initiations under the WTO, the great majority from the United States and the European Union. And there had been 2416 antidumping initiations over the same period. The trend of antidumping initiations was strongly upward during the 1990s, and reached a plateau between 1999 and 2003. The small decline since then is not yet sustained enough to be confident of a downward trend.

Not all such measures lead to permanent protection. But antidumping investigations put at risk the predictability and nondiscriminatory application of trade policies**.** Recent enforcement practices have raised serious concerns about the influence of special interests on public policy, and may impose large costs on consumers and downstream industries in importing countries.

Moreover, the deterrent effect of an investigation typically reaches well beyond the targeted exporter, and impedes incentives to pass on efficiency gains. In many cases, the prospect of antidumping measures simply discourages would-be exporters from even trying. The more frequent use of antidumping measures during economic downturns also has a pro-cyclical effect on the global economy. Small firms and countries face greater uncertainty as they often lack the resources to challenge antidumping actions. Several reform proposals suggest that the introduction of competition law principles and of public interest clauses, giving affected importers and users legal standing to argue against protection, would reduce the protectionist bias of antidumping.

Trade in services

Let me now turn to the question of trade in services — another issue on which progress is vital if Doha is to succeed.

Services trade is increasingly important. World trade in commercial services grew by 13 per cent in 2003, to $1.8 trillion, representing 20 per cent of global trade in goods and services. Developing countries in particular are experiencing large growth in their share of world services exports, from 14 per cent in 1985–89 to 20 per cent in 1998–02.

As manufacturing locales get split into more and more segments in the value added chain and commercial services (as contrasted with household services) become increasingly significant, so the inclusion of services in the WTO framework becomes ever more important. A potential exporter confronted with costly or slow financial or communications services, or with over-regulated and inefficient ports, freight forwarding and so on, is increasingly at a disadvantage.

Yet services remain largely a matter of national regulation. For many services (such as banking and insurance), regulations are made domestically. As manufactures trade continues to diminish as a fraction of the total, and services trade becomes ever more important, the need for a WTO services regime becomes ever more urgent. Let me note at this point that the Productivity Commission, both during Richard Snape's time and since, has been a leader in work on trade in services.

So it is all the more disappointing that progress on a services agreement in the context of the Doha Round has been so slow.

On 1 August 2004, the WTO negotiators succeeded in rescuing the Doha Round from collapse by signing the framework agreements that paved the way for the next stage of the negotiations. But the framework agreements contain no substantive provisions on services, although they include recommendations for members to table offers with meaningful commitments across service sectors by a given date.

Many developing countries are concerned about the level of commitment and ambition shown by the developed countries in this area. The Chairman of the WTO Council for Trade in Services noted recently that the lack of services offers was having an increasingly negative impact on the overall negotiations.

Agriculture

No discussion of Doha can be complete without reference to agriculture. Over successive trade rounds the GATT was remarkably successful in lowering trade barriers on manufactured goods. Agriculture was left out of the GATT negotiations, but for many years was relatively freely traded.

As tariffs on manufactured goods continued to fall, however, agricultural trade became increasingly distorted. The European Union's Common Agricultural Policy was certainly a major factor; but protection in Japan, Korea, the United States and Switzerland also hampered agricultural trade. The need to bring agriculture fully within the WTO framework is now increasingly recognized by all concerned and some first steps were taken in the Uruguay Round.

There is a great deal of sympathy for developing countries on agriculture. Governments in the developing world complain bitterly about agricultural protectionism in the industrial world. They are right to do so. The numbers leave no room for doubt. Industrial country protectionism in the agricultural sector inflicts considerable hardship on the citizens of developing countries — and of, course, the citizens of Australia and other agricultural-exporting developed countries.

The August 2004 framework agreements represented a step back from the brink. And there was some progress on agriculture in two areas. First, in an important step, the European Union made a commitment to the eventual elimination of export subsidies. This is welcome. And second, there was also some progress on domestic subsidies. The United States has shown a willingness to negotiate product-specific caps. The offer is still vague, but again, it is welcome.

But agricultural trade remains heavily distorted. Producer subsidies in the industrial countries distort competition. So do high tariff barriers between developing countries. Restrictions on industrial country markets — through, for example, quantitative restrictions, tariffs or obstructive regulations — severely limit market access for developing country agricultural producers. There is a long way to go if sufficient progress is to be made to ensure the success of the Doha Round.

Yet progress on giving developing countries access to the domestic markets of the rich countries is vital. Analyses of the likely benefits of a successful Doha Round show that it is market access that will deliver much the largest share of benefits from a deal on agriculture.

Sugar makes a fitting example of the damage inflicted by agricultural subsidies — partly because sugar is, of course, one of the most policy-distorted of all commodities; and partly because it was an important focus of some of Richard Snape's work.

OECD support for domestic sugar producers is, roughly, the same as the total value of developing country sugar exports. It is estimated that a move to free trade in sugar would raise world prices by something close to 40 per cent, and increase the world trade in sugar by 20 per cent. It would generate around $4.7 billion in welfare gains for the poor in developing countries alone, not to mention gains for countries such as Australia and other sugar producers with comparative advantage. Yet neither the European Union, nor the developing country beneficiaries of its sugar regime, seem willing to contemplate the sort of wholesale reform that would move towards liberalizing the market in sugar. Nor is there any sign of movement in the United States. There the strongest advocates of continuing domestic protection are the high-fructose corn syrup producers whose industry relies on high sugar prices: lowering sugar prices would make high-fructose corn syrup a less attractive and less competitive alternative to sugar.

Sugar is only one example of the extent of distortions in agricultural trade. The same is true of cotton, for example — a particular bone of contention in the Doha discussions because of the way support for US cotton producers has inflicted high costs on West African cotton producers, as I mentioned earlier.

The problem of agriculture is confounded by the use of non-border measures (subsidies to farmers, input subsidies, and so on) that make achieving effective WTO discipline more difficult. The complexity made it well-nigh impossible to make reliable cross-country comparisons about the level of support provided for farmers until the OECD's work on producer subsidy equivalents.

It seems clear that without significant progress on agriculture, the Doha Round will fail. The case for reform is strong and, I believe, indisputable. But resistance to change in the industrial countries is also strong — and powerful. It is equally strong, and equally misguided in some developing countries. There is a pressing need for all governments to recognize that giving in to sectoral interests harms the majority — consumers in the rich countries as well as consumers and producers in developing countries.

The benefits of further trade liberalization

The issues I have outlined are important because unless they are addressed there is a risk that the process of globalization will, at best, be slowed. At worst, if the momentum towards further economic integration is not maintained, it could grind to a halt or even go into reverse.

Liberalization brings benefits for everybody — those in rich countries as well as those in poor ones. It is beneficial for the global economy as a whole, and we have plenty of evidence to show this. One important factor holding back growth in some of the very poorest countries is the very walls of protection (often quantitative restrictions more than tariffs) that they themselves have constructed.

One consequence of this, of course, is that the scope for developing export-oriented sectors is stifled, because the cost of intermediate inputs is much too high for the end-product to be internationally competitive. But protection acts as a disincentive to export because the domestic market is more profitable, because there is little or no competition.

As a result, poor countries with high protection have had little available for export except for primary commodities in which there are sizeable resource rents. They have a great deal to gain if they alter their trade policies in the context of a rapidly growing and healthy international economy. That would enable growth to accelerate with appropriate macroeconomic policies in place.

But there is also an urgent need to address some of the difficult issues still before us, and which I have outlined. How can we establish effective rules for making PTAs more compatible with multilateral opening? How can we develop regimes for opening services trade? It is not just a matter of solving the technical problems, although they can be challenging. We need solutions that are politically feasible.

It is perhaps in this context, more than any of the other areas I have addressed, that we feel Richard Snape's loss. These were issues about which Richard had thought deeply — indeed about which Richard cared deeply. I am quite sure his further contributions would have been as influential as his earlier work in this area.

The role of the Fund

The International Monetary Fund has a major role to play in supporting the process of globalization. Our primary responsibility is the maintenance of international financial stability, and has been since the Fund's creation 60 years ago. International financial stability is, in large part, a means to an end. The founders of the Bretton Woods institutions recognized that global economic growth depended on the rapid expansion of global trade — and that financial stability is essential to foster trade growth.

The Fund has worked hard to support the work of the GATT and latterly the WTO. By promoting the opening up of the financial system, we seek to facilitate the continuing expansion of trade.

And it is striking how few financial crises there were during the downturn of 2000-2001. The international financial system appears to be more resilient than it was, in part because of the many reforms undertaken in the wake of the 1990s crises. But a more robust global financial system has helped underpin the economic recovery and the rapid resumption of global trade growth.

We conduct Article IV surveillance consultations with almost all of our 184 members every year (a few have such consultations at slightly less frequent intervals). As part of that process we draw on economic analysis to seek to persuade our members of the benefits of free trade, the harm that market-distorting measures can inflict and the benefits of further trade liberalization.

And both we and the World Bank have worked in close consultation with the WTO to support the Doha negotiations. The Trade Integration Mechanism (TIM) launched in 2004, is an example of the work we have been doing to support the Doha process. TIM is, in effect, designed to act as contingent insurance for countries anxious about the costs of adjustment to a Doha settlement. TIM provides for financial support from the Fund in the small number of cases where countries might need assistance as they undertake adjustment.

Conclusions

Let me sum up, briefly.

Economic integration has brought enormous benefits for most countries and most citizens. As this process has accelerated, so have the benefits risen sharply. We need to consolidate and extend the benefits that globalization has brought.

The rapid growth of world trade is a vital component of globalization. The multilateral trading system established after World War II has directly resulted in a rapid expansion of world trade and unprecedented rates of economic growth around the world.

Trade liberalization has been central to this rapid expansion. Further liberalization offers the prospect of accelerated growth and the chance to extend the gains to those who have not yet been able to enjoy them fully. Halting or reversing this process now would deprive millions the chance to benefit from higher living standards and to escape poverty.

Yet in spite of the unequivocal nature of those gains, there remain forces pushing the global economy in a different direction. Misguided anti-globalists, fear of competition, sectional interests, political pressure for protection — such factors threaten to impede further trade liberalization and so hamper the prospects for global growth.

Resisting these pressures is going to be a formidable task. It requires political courage — governments need to put their rhetoric into practice, in the face of sometimes powerful political opposition.

Economists have a vital contribution to make. We have to win the philosophical and theoretical arguments about free trade and economic theory; and empirical evidence is important. Richard Snape was a great advocate and a great educator. But he was also a great technician, able to harness his economic skills to confront practical problems and come up with workable solutions. We need his like at this critical juncture. He is sorely missed.