

Making SIA relevant

Making trade sustainable impact assessment more relevant to trade negotiations

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While trade sustainability impact assessments (trade SIAs) have generated much useful information about the potential impacts of trade liberalisation, they have made very limited impact on trade negotiations, which generate unresolved controversy, if not deadlock. This paper contends that one reason for this is that trade SIAs do not explicitly recognise the motives for countries to resist free trade. Five such motives are identified, with very different characteristics and validity from the perspective of social welfare enhancement and sustainable development. The paper suggests revisions to the trade SIA methodology to help decision-makers better understand the obstacles to trade liberalisation negotiations and whether it is likely that these obstacles will, and desirable that they should, be overcome.

Keywords: trade sustainability impact assessment, trade negotiations, sustainable development preferences

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SUSTAINABILITY IMPACT assessment of trade liberalisation (trade SIAs) is a process undertaken during a trade negotiation that seeks to identify economic, social and environmental impacts of a trade agreement. It is now a well established exercise of the European Commission, enshrined in a broader commitment endorsed at the European Council at Gothenburg in 2001.

To date, trade SIAs have shown that a range of quite demanding conditions need to be met for trade liberalisation to lead to environmentally sustainable and shared economic gains. A second result is that, in spite of the substantial developments made in trade SIA methodology, trade SIAs have not made the contribution to the European Union's trade negotiation position that might have been expected.¹ Indeed, the EU position in trade negotiations is often objected to for its conservative and protectionist stance, particularly in the agricultural sector.²

The main information conveyed by these two results is that trade SIAs do little to benefit the negotiations, and the negotiations do not make clear progress either. This paper makes the case that these two failures are linked, and, in particular, that trade SIAs do little to benefit trade negotiations because they fail to address a number of important factors that cause negotiators to resist free trade.

The contribution of this paper lies in organising the broad and narrow motives against free trade within a single framework. The underlying assumption made throughout this paper is that not all motives to resist trade liberalisation are equally valid, and that assessing the validity of negotiating positions from a sustainable development perspective, prior to assessing

trade agreements impacts *per se*, is a prerequisite to improving the sustainable development component of trade agreements called upon by the European Council Decision and by the Preamble of the Agreement establishing the World Trade Organisation (WTO). Hence our proposition aims to respond also to the criticisms addressing current trade SIAs according to which “in order for the SIAs to have any policy relevance, the current [handbook] must be amended to recommend that SIAs are to be integrated before and during the negotiations ..., but certainly not after, since this would prove politically irrelevant”.³

In the next section, we describe the implicit assumptions made in trade SIAs regarding governments’ decision variables, and then compare them to what mainstream political economy suggests; we argue for bridging the gap between these two. We then outline what such a bridge would look like, providing a comprehensive framework wherein the different motives to depart from free trade are defined. Identifying among such motives what would be the genuine sustainable development motives is the difficult task that the following section comments on and argues for. We then summarise a number of methodological implications for the trade SIA approach. The final section concludes with a number of suggestions for further research and development of trade SIAs.

Trade SIAs and political choice

Governments face a complex range of arbitrations, not only among different kinds of impacts within each group of actors, but also among groups of actors (producers, tax payers, consumers, and so on), facing changing types of impact. National benefits and damages arising from trade liberalisation are not uniformly distributed among the population. If a liberalisation scenario brings net positive impacts but if these impacts are unequally distributed among the groups of actors, it is likely that the scenario will face perhaps decisive political opposition. Matching the likely impacts of trade liberalisation with the preferences of each group of actors, and reconciling these with broader commitments to achieve sustainable development overall is the challenge facing trade negotiators.

The redistribution brought by the liberalisation, and its broader implications for human rights and social values, can be socially desired or not. Hence the government should not only know the future impacts of trade liberalisation options, but should also be able to map the gains and losses across different economic groups. A relevant type of information that trade SIA should provide in this respect is a mapping of the relationships among different types of liberalisation measures (tariff reduction, subsidy decoupling, decrease in public services, better conditions for foreign investment, and so on) and the distributional effects among different economic agents, including non-monetary effects.

The question that trade SIAs have addressed is: if an economic sector is liberalised, what are the consequences going to be for the environment, for social aspects and for economic aspects? The implicit assumption is that governments arbitrate among these three sets of variables. By assessing impacts on the three pillars of sustainable development (economic, social, environmental), trade SIAs seem to define the role of governments in terms of balancing, say, ‘good’ environmental impact with ‘bad’ social impacts. This is a thankless task because there is no metric for comparison and the two kinds of impact are in any case likely to overlap because of the distribution of preferences for more or less environment among the population.

Trade SIAs should not be blamed for such an oversight. When looking at what economics and political economy provide on one society’s preferences at whatever level (individual excepted), it is striking to see that group ‘preferences’ either valued by economic tools or weighted by the lobby-group approach of political economy remain a flimsy scientific object (Le Cotty *et al.*, 2005). The political economy of trade negotiations, for instance, focuses mostly on the bargaining between government and organised groups in the design of trade policies, where the objectives of such pressure groups, as different as environment conservation and rent-seeking in commercial activities, are put on an equal footing. This approach is so pervasive among trade economists that the rationale for the WTO itself is often described through the unique prism of domestic lobbying:

Industry associations, labour unions, consumer lobbies and government agencies all interact in determining the policy outcome. The WTO is somewhat analogous to a mast to which governments can tie themselves to escape the siren-like calls of various pressure groups. (Hoekman and Kostecki, 2001: 29).

Between the too-limiting assumptions of trade SIAs over the variables of political choice scattered throughout economic, environmental and social effects on the one hand, and the political economy approach on the other, wherein all preferences should be conveyed through organised lobbies competing for public support, a bridge is to be built. Bridging these two strands of expertise and literature would lead to integrating more political economy into trade SIAs, meaning focusing more on gainers and losers, and, conversely, opening up our understanding of the political economy of trade negotiations through the integration of non-market impact variables that have been explored by trade SIAs. To help do so, we proceed by asking first, why governments depart from free trade, and second, how to investigate whether motives to depart from free trade are valid from a sustainable development perspective, for example, do they contribute or not to fulfilling the

A bridge must be built between the too-limiting assumptions of trade SIAs over the variables of political choice in economic, environmental and social effects, and the political economy approach, wherein all preferences should be conveyed through organised lobbies competing for public support

sustainable development goals one country's citizens explicitly or implicitly set for trade policies.⁴

Identifying motives to depart from free trade

Since the Doha WTO Conference in 2001, multi-lateral trade negotiations have come to a standstill, while proliferating bilateral or pluri-lateral free trade agreement initiatives display an uneven pace of achievement. A limited momentum for multilateral trade liberalisation was only created shortly before the Hong-Kong WTO Ministerial Conference by predictions of a devastating crisis in the world trading system should it fail.

Motives to depart from free trade have been a puzzling feature at least for trade economists. We can recall the famous words of Krugman (1997: 113), "If economists ruled the world, there would be no need for a World Trade Organization: ... global free trade would emerge spontaneously from the unrestricted pursuit of national interest". To isolate motives to depart from free trade, we have to separate explanations about certain countries' reluctance to engage in liberalisation, from explanations about the inability of a trade agreement or an organisation such as the WTO to commit its contracting parties and/or members to go further down a common road.

The former set of explanations is centred on states' implicit preferences against further liberalisation. It almost ignores other states' preferences⁵ and tries to explain why "the compelling economic case for unilateral free trade carries hardly any weight among people who really matter" (Krugman, 1997: 113). There, the economic case for liberal trade is essentially unilateral: a country serves its own interests by pursuing free trade regardless of what other countries may do. Trade treaties are odd and paradoxical features of international relations. Anyone who has tried to make sense of international trade negotiations, Krugman adds:

eventually realizes that they can only be understood by realizing that they are a game scored according to mercantilist rules, in which an

increase in exports — no matter how expensive to produce in terms of other opportunities foregone — is a victory and an increase in imports — no matter how many resources it releases for other uses — is defeat. The implicit mercantilist theory that underlies trade negotiations does not make sense on any level, indeed it is inconsistent with simple adding-up constraints but it nonetheless governs actual policy.

In practice, Krugman (1997) concludes, "this particular set of bad ideas has led to pretty good results". The main explanations for the reluctance of governments to pursue their own interest are two-fold: the economic case for second-best protectionism on the one hand, and the political economy argument for a protectionist bias on the other. Such arguments are basically static. Dynamic effects of trade liberalisation (or trade protection) provide a different picture of gains and losses, the case for free trade weakening or on the contrary strengthening depending on *ad hoc* assumptions made regarding trade and growth linkages.⁶

The second set of explanations focuses on multi-lateral trade institutions, agreements and rules. It seldom digs into one particular state's preferences for or against further liberalisation; it rather contemplates the external effects of trade policies. Contrary to the unilateral case, the case for liberalisation is explicitly multilateral, because countries can be made potentially worse off if they liberalise while other countries do not do so.

Multilateral trade agreements are the necessary devices that help countries move from a Nash equilibrium, prisoner dilemma position, to a co-operative, welfare-enhancing freer trade situation. Though this case was acknowledged by trade economists after the seminal contribution of Johnson in the 1950s on the basis of optimal tariff arguments made by Torrens in the large-country case one century before, it only appears in footnotes or in the introductions of papers by world-class economists such as Bhagwati or Krugman for whom the rationale for trade liberalisation remains unilateral.⁷

The most powerful and convincing exposition of the economic case for multilateral negotiation is quite recent and is due to Bagwell and Staiger (1999), whose contribution appears to be a major breakthrough. The question raised by this literature, and the answers found as to why countries fail to embrace free trade, are obviously different from what is provided by the first set of explanations. The question there is no longer how to enable countries to withstand their lobbies and reform their inefficient policies, but what kind of rules and compensatory arrangements can help countries decrease the adverse effects of their policies on other countries and decrease other countries' adverse effects on their own economy.

We derive from these two broad sets of literature five possible explanations or motives for departing

from free trade. Although some may be interlinked or may partly overlap, they are arranged in a typology that allows further order setting of the available answers.

Motive 1. Vested interests preservation by protectionist lobbies: the protectionist bias argument

Studying the interactions among national leaders who are concerned with both providing a high standard of living to the general electorate and collecting campaign contributions from special-interest groups, the Grossman–Helpman (1994) “Protection for Sale” model, concerning the political economy of trade protection, yields compelling predictions for the cross-sectional structure of import barriers.⁸ The rationale for trade agreements is then mostly to allow governments to overcome their national interest groups in a way that increases the welfare of the general electorate. From this perspective, trade agreements serve as exogenous constraints for economic reforms that governments would not dare to, or simply could not, pass against the interest of some specific groups:

Trade negotiations may be based on a false theory, but by setting exporters as counterweights to producers facing import competition they nonetheless are politically crucial to maintaining more or less free trade. That is, the true purpose of international negotiations is arguably not to protect us from unfair foreign competition, but to protect us from ourselves. (Krugman, 1997: 118)

Hoekman and Kostecki (2001) explicitly reckon that “a rationale for the [WTO] organization is that political constraints prevent government from adopting more efficient trade policies, and that through the reciprocal exchange of liberalization commitments these political constraints can be overcome”.

Motive 2. The social costs of trade liberalisation are short term, while efficiency gains are long term: the adjustment cost argument

As long as a transition period is required for the economy to adjust to liberalised trade and tap efficiency gains, arbitrage between short-term social cost mitigation and long-term efficiency gain maximisation is likely to be made in favour of short-term social cost mitigation, which is coherent with the conservative approach to trade liberalisation wherein imports are minimised and exports maximised.⁹ The political unattractiveness of implementing deep structural changes for a modest short-term aggregate welfare gain, if any, plausibly explains the limited appeal of the free trade doctrine.

For example, estimates by the US Department of Agriculture (Burfisher, 2001) show that the one time (that is, static) welfare gains of world agricultural trade liberalisation would be about US\$31 billion, equivalent to 0.1% of world aggregate gross domestic

produce (GDP) and 1% of consumer expenditure on agricultural and agricultural-related goods. In developed countries, gains amount to 0.16% of GDP and 2% of consumer expenditure on agricultural goods. Ratios drop to 0.05% of GDP and 0.2% of consumer expenditure on agricultural goods in developing countries.

Aggregate gains even turn into losses for those countries whose imports come from Organisation for Economic Co-operation and Development (OECD) countries. This means that, in such a case, countries face a comparative disadvantage when opening up to trade. At stake for them is to build comparative advantages, an argument close to the infant-industry protection case made in the 1960s after the Principles of Political Economy of John Stuart Mill.¹⁰

The picture is different in the long run where all countries are expected to gain in most trade models, though no clear normative assumption allows generalising such a happy end (Chabe-Ferret *et al.*, 2006). One clear issue then relates to the identification of short-term losers among the population and the best and most acceptable way to compensate them for the adjustment cost they are expected to bear. The (budgetary) difficulty of such compensation may explain in turn the persistence of apparently inefficient production patterns.

Panagariya (2005) suggests that:

the global community would do well by accepting [that] free trade in both developed and developing countries increases efficiency, and [that] increased aid from developed to the developing countries, especially the LDCs [less developed countries], can be used among other things to offer adjustment to those free trade would temporarily displace.

In this view, factor market imperfections, preventing capital and labour from adjusting instantaneously to the price changes induced by trade liberalisation, hamper the realisation of the efficiency gains from free trade.

Motive 3. Some countries would be worse off: the externality argument

This argument suggests that, once non-market products and services such as biodiversity, landscape, land preservation (either public goods or positive externalities in economic language) are taken into account, some countries’ economies may be close to their efficiency frontier, meaning that only modest, not to say nil, gain can be expected from the liberalisation of further sectors, whatever the term. It is clearly possible for the production of a certain product, inefficient in market terms, to be efficient once positive externalities and public-good like services joined to the production of specific goods have been taken into account.

This is particularly the case with economies of scope between the production of a market output and

the production of a non-market output, meaning that it is less costly to produce both products within the same production process than to produce them separately. In such situations protection can be more efficient than the standard free trade formula. The issue in such a case is to ascertain the trade impact of such countries departing from free trade. National non-market gains in a protectionist country have then to be compared with market share losses in trade partner countries for the sectors considered. Difficulties with making the comparison include finding an appropriate metric and deriving a feasible compensation scheme (Le Cotty and Voituriez, 2004).

One notable difference between motive 3 and motive 2 is that market failures relate in this case to products and services markets, and not to factor markets.

Motive 4. The social fabric endangered: the collective preferences argument

The collective preferences argument, set out by Pascal Lamy when he was Directorate General Trade commissioner, isolates some objective reasons not to liberalise fully on social choice grounds (Lamy, 2004). Even if the argument is not fully expounded there, it clearly asserts that the expansion of trade discipline to domestic policies jeopardises the 'social fabric' by restricting legitimate choices a government may wish to embrace so as to satisfy its citizens' preferences on societal issues. Essential services provision, precautionary environmental and health regulations, protection against child or forced labour product or services imports, appeared during the various public presentations of the argument as possible illustrations.

Because there is no science-based definition nor universality in what is an 'essential service' and what is not, different preferences regarding sectors to be open to free competition and those that should not be cannot be generalised across countries. A point conceded by some of those who normally dispute the validity of trade arguments related to collective preferences was made on the occasion of the WTO US–Antigua dispute over cross-border gambling (Thayer, 2004). This case exemplifies both an acceptance of collective preferences by some of those who normally advocate trade liberalisation, the current unwillingness of the WTO to recognise such preferences, and the difficulty of resolving such disputes through normal channels of negotiation.

Motive 5. Some sectors intrinsically deserve exception to trade liberalisation, and some practices should not be allowed to benefit from it: the exception argument

Article XX of the General Agreement on Tariffs and Trade (GATT) acknowledges that there are a number of reasons why some sectors should not necessarily be liberalised, and some practices should not be encouraged by free trade. These reasons are

essentially to do with human rights, the legitimate aspirations of state sovereignty and the public-goods type characteristics of some goods and services. The specific examples in Article XX relate to human health, the conservation of natural resources and prison labour. It is to be expected that, with changing political and social priorities, other areas might be added to this list.

The arguments in respect of sovereignty and public goods contend that, when providing specific goods and services, free markets and trade are either inappropriate or are doomed to failure and inefficiency. The debate on food sovereignty and the multifunctionality of agriculture, on the one hand, and on essential services provision like education and health on the other, elaborate on it extensively. Contrary to the collective preferences argument and the externality argument above, the public-good characteristics lent to goods and services provided by agriculture and specific sectors are supposed to be universal and hence acceptable by all countries.

This line of thought suggests that there exist some universal reasons for governments to be sovereign over some exceptional sectors (for example, agriculture, health, education), in recognition of the fact that their delivery is an inalienable part of sovereign democratic choice that should not be compromised by free trade disciplines. Problems arise when universality in relation to particular sectors is not accepted by all trade partners.

In the French version of multifunctionality and the so-called specificity of agriculture argument, two universalities were confronted: that of comparative advantage and free trade in goods and services to increase countries' welfare; and the universality of market failures in agricultural world trade. Conflict between universalities arise also in the controversy over free trade in capital, when, against the classical, free trade argument made by the International Monetary Fund (IMF) for full capital account convertibility, trade economists such as Bhagwati, Krugman, Rodrik and Stiglitz harshly criticised the idea of unfettered capital flows (Bhagwati, 1998).

Identifying sustainable development motives

Table 1 lists the five motives to depart from free trade discussed in the previous section. Strikingly, arguments one to five against trade liberalisation roughly match the chronology of trade negotiations from Havana to Hong Kong as well as the progressive integration of environmental and development concerns — or 'sustainable development' concerns — in the WTO agenda and objectives, even if sustainable development as an objective remains a bit fuzzy.¹¹ The 'exceptions' clause of GATT (Article XX) has already been referred to. Table 2 gives examples of how the institutions of the world's trading system have already sought to recognise and cope with the five arguments against trade liberalisation.

Table 1. Five motives to depart from free trade

Motive 1	Vested interests preservation by protectionist lobbies: the protectionist bias argument
Motive 2	The social costs of trade liberalisation are short-term while efficiency gains are long-term: the adjustment cost argument
Motive 3	Some countries would be worse off: the externality argument
Motive 4	The social fabric endangered: the collective preferences argument
Motive 5	Some sectors intrinsically deserve exception to trade liberalisation: the exception argument

Source: authors

The five arguments are familiar to trade negotiators for the mere fact that they tell a large part of the history of GATT and of WTO, and they remain the major reason that trade liberalisation negotiations do not follow a smooth and unobstructed path. Selecting, among the motives, which are the genuine sustainable development ones and which are the strategic, for instance, the purely mercantilist or ‘lobby-group’, ones is the core issue raised by the integration of sustainable development objectives in trade negotiations.

It should be clear that not all motives to resist trade liberalisation are equally valid from either a welfare-enhancing or sustainable development perspective. Assuming that motives remain contentious because of insufficient proof establishing them, or insufficient proof channelled towards stakeholders, we deduce that they could be either rejected or accepted as valid by negotiating parties on sustainable development grounds, with appropriate and shared information signalling that some vested interests are protected (motive 1), that adjustment costs are, for example, significant (motive 2), that some positive externality, say, is or is not valued by the society (motive 3), that sectors are really or dubiously specific (motives 4 and 5) and so on. We shall insist

Table 2. Arguments against trade liberalisation and institutional coping mechanisms

Argument against trade liberalisation	Institutional coping mechanisms
Protectionist bias	Reciprocal concessions as a principle of the GATT 1947
Adjustment cost	The Enabling Clause, 1979
Externality	WTO Committee on Trade and Environment (CTE) first convened in 1995
Collective preferences	WTO US–Antigua dispute over cross-border gambling, 2004
Exception	Doha’s Declaration on the TRIPs Agreement and Public Health, 2001; GATT Article XX

Disentangling what points to strategic or ‘mercantilist’ protectionism and what reflects genuine sustainable development motives for protection looks like an impossible task: however, the burden of proof rests on the protectionist country’s shoulders

that such information either may be missing, or may exist but be denied or at least not acknowledged by negotiators, or by any kind of pressure group, to preserve vested interests.

Disentangling what points to strategic or ‘mercantilist’ protectionism and what reflects genuine sustainable development motives for protection looks like an impossible task, however. What remains valid is that the burden of proof rests on the protectionist country’s shoulders; it will have to provide acceptable arguments for protection.¹² Protectionist bias is not an argument acceptable to trade partners, which brings us back to the same question: how can we identify, within one particular country’s trade negotiation position, the sustainable development genuine motives to depart from free trade from more strategic ones? Put another way: can we assess how the rationale for setting import tariffs in one particular country is distributed across the five motives?

Methodological approach

The main methodological extension we will dwell on lies in the objective of assessing the performance of existing methodologies and tools in providing knowledge on likely motives 1 to 5 supporting one particular country’s negotiation position. To fulfil this objective, we define a matrix where motives to depart from free trade appear in rows and available methodologies and tools in columns (Table 3 shows a hypothetical example).

The matrix in Table 3 is filled in with an ‘X’ indicating that an existing method or tool provides the necessary knowledge, so as to provide an idea of the knowledge gaps. Each assessment method is assessed with the following questions:

- Does the method account for trade impacts that challenge protectionist objectives?
- Does the method account for trade impacts that relates to the adjustment costs?
- Does the method account for trade impacts that are environmental losses or other externalities?
- Does the method account for trade impacts that are collective preferences?

Table 3. An assessment matrix of methods and tools

	Tool / Method 1	Tool / Method 2	Tool / Method 3	Tool / Method 4	...
1 – Protectionist bias	X		X	X	
2 – Adjustment cost	X	X			
3 – Externality		X			
4 – Collective preferences			X	X	
5 – Universal exception		X			

- Does the method account for trade impacts that are universal exceptions?

Having defined the gaps in the information provided by existing impact assessment tools, additional tools may then be developed to fill the gaps.

Conclusion

An analysis of the difficulties in achieving mutually beneficial multilateral trade agreements forms the backbone of this paper. Drawing from the academic literature and our experience of trade negotiations, we propose a set of five motives to depart from free trade in trade negotiations, ranging from the protectionist-bias argument down to arguments for universal exceptions from trade liberalisation. Such arguments pave the way of past negotiations successes and failures, from the 1947 Havana Charter to the Doha Development Cycle. The persistence of such motives is challenging for the trade community taken in a broad sense, for it basically underlines serious gaps between the expected consequences of trade and its real impacts, as well as between our understanding of the articulation of political preferences and actual political choices. Implications for research are twofold.

First, the measurement of actual trade impacts brings controversial and incomplete pictures of the disaggregated, distributive effects of trade on populations and the environment. Although widely shared by research institutions, with a significant improvement in our knowledge over the last years, sustainability impact assessment of trade liberalisation (trade SIA) remains a tricky exercise as long as the distribution of impacts among population groups and over time is to be considered.

Secondly, what can be politically accepted and what cannot raise unsolved questions in respect of political decision-making. We know that, if a liberalisation scenario brings net positive impacts but these impacts are unequally distributed among

different groups, then it is likely that the scenario will not be politically accepted. The relationships among different types of liberalisation measures (tariff reduction, subsidy decoupling, decrease in public services, better conditions for foreign investment, and so on) and the distributional effects among economic agents, including non-monetary welfare, is a first and crucial contribution trade SIAs could make to isolate sustainable development objectives from free trade and from those objectives driven purely by mercantilism or lobby groups. The mapping of such relationships with political decisions would complete the partial understanding we currently have of different countries' political preferences in a liberalisation context and, particularly, of different countries' reluctance to move towards free trade.

Notes

1. "SIAs are being conducted at arms length from policy-making, and policy makers are not sufficiently involved in the SIA process. There must be high-level commitment to, and involvement in, the SIA process. Unless Commissioners, senior officials in the Commission, Member State Ministers, and other senior personnel are committed to and involved in the process, SIA will remain at the periphery of policy-making and rarely go beyond the officials managing the consultants who conduct the research" (NGO Statement on SIAs of EU Trade Policy, 2002, available at <<http://www.foeeurope.org>>, last accessed 27 October 2006).
2. The April 2006 deadline for full modalities in WTO trade negotiations was unlikely to be satisfied, and actually was not, partly because, among other factors, Europe, and France especially, "were too conservative on agricultural issues" (P Lamy, interviewed by *Le Monde*, 24 February 2006).
3. NGO Statement on the Draft Handbook for Sustainability Impact Assessment, April 2005. Available at <<http://www.foeeurope.org/trade/statements.htm>>, last accessed 27 October 2006. The practical detail of the integration of our proposition in the negotiation's cycle goes beyond the scope of this paper.
4. In the answers below, reference is made to free trade even if trade negotiations aim to liberalise trade, making it less 'un-free', rather than freeing trade completely, simply because free trade provides the benchmark against which gains and losses a country may face are valued in the overwhelming majority of economic studies.
5. Except for cross-cutting evidence, see Mayda and Rodrik (2002).
6. No normative theory clarifies such linkages, see, for instance, Stiglitz and Charlton (2005).
7. See, for example, footnote 1 in Krugman (1997: 113): "Students of international trade theory know that there is actually a theoretical caveat to this [economic case for unilateral free trade] statement: large countries have an incentive to limit imports — and exports — to improve their terms of trade, even if it is in their collective interest to refrain from doing so. This 'optimal tariff' argument, however, plays almost no role in real-world disputes over trade policy".
8. An empirical investigation can be found in Goldberg and Maggi (1999).
9. To quote P R Krugman (1991): "To make sense of international trade negotiations, one needs to remember three simple rules about the objectives of the negotiating countries: 1. Exports are good. 2. Imports are bad. 3. Other things equal, an equal increase in imports and exports is good. In other words, Gatt-think is enlightened mercantilism."
10. For a renewed formulation of the argument, turned into "infant economy protection", see Greenwald and Stiglitz (2006).
11. The preamble of the Agreement establishing the World Trade Organisation (WTO) lists among its priorities sustainable development

and raising standards of living. While the latter goal dates back to the seminal 1947 GATT preamble, the explicit mention of expanding production of, and trade in, goods and services “while allowing the optimal use of the world’s resources in accordance with the objective of sustainable development, seeking both to protect and preserve the environment and to enhance the means for doing so in a manner consistent with [Members’] respective needs and concerns at different levels of economic development” is an innovation of the WTO compared with GATT (WTO, 1995: 9).

12. This assertion is a bit theoretical, Japan or Europe protectionism demonstrating that large countries may resort to protection without much justification. Still, the erosion of European tariffs, for instance, and the defensive stance the EU was obliged to observe during trade negotiations support our view that the reference point remains free trade and departing from it requires arguments and proofs of innocuousness for trade partners.
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