Developing Countries and a New Round of WTO Negotiations

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This article summarizes some of the results and findings emerging from an ongoing World Bank research and capacity-building project that focuses on the World Trade Organization (WTO) negotiating agenda from a developing country perspective. Recent research suggests that the potential gains from further multilateral liberalization of trade remain very large. The payoffs associated with attempts to introduce substantive disciplines in the WTO on domestic regulatory regimes are much less certain. This suggests that the focus of current and future negotiations should be primarily on the bread and butter of the multilateral trading system—the progressive liberalization of barriers to trade in goods and services on a non-discriminatory basis. In addition, priority should be given to ensuring that rules are consistent with the development needs of poorer countries and to helping developing countries implement WTO obligations.

The Uruguay Round of multilateral trade talks, concluded in 1994 after eight years of often confrontational negotiations, was a landmark in the history of the trading system. Agriculture and textiles and clothing—two sectors that for all intents and purposes had been removed from the ambit of the General Agreement on Tariffs and Trade (GATT)—were brought back into the fold. The system of multilateral rules was extended to include intellectual property rights and services and, because of the single undertaking rule, all countries desiring to become members of the new World Trade Organization (WTO) were required to accept a variety of disciplines in areas ranging from customs valuation to subsidies.

Reflecting the very limited liberalization that had occurred in agriculture and services, the two agreements on these subjects included provisions calling for new negotiations within five years of the entry into force of the WTO. Other WTO agreements contained review provisions. To increase the scope for beneficial tradeoffs across issues, the 1998 WTO ministerial meeting called for the development of an agenda for “further liberalization sufficiently broad-based to respond to the range of interests and concerns of all members.” In the lead-up to the subsequent ministerial meet-
ing that was expected to launch a new round, WTO members submitted numerous proposals regarding the issues that should be included on a negotiating agenda. A number of influential voices called for such a round to be a “development round” and to seek greater balance in addressing issues of concern to developing countries. In the event, the November 1999 ministerial meeting in Seattle turned out to be a fiasco, failing to launch a round.

Domestic politics in the United States played a key role in the failure to attain consensus on a broad negotiating agenda, greatly reducing the willingness of the U.S. administration to agree to put items on the table that were opposed by domestic lobbies. Strong differences on the scope of agricultural liberalization between the European Union, on the one hand, and the United States and other agricultural exporters, on the other hand, were also important. Another major factor was the active and full-fledged participation by developing countries, many of which refused to accept the agenda being pushed by a number of high-income countries in some areas—most notably the United States on labor standards—and raised concerns about implementation problems associated with the Uruguay Round. Many also expressed general dissatisfaction concerning the process through which a negotiating agenda was being set. Small countries in particular perceived themselves to be left out completely, not having access to the forums where potential agenda-setting compromises were being crafted.

In the two years following the Seattle ministerial meeting, a great deal of effort at the WTO was focused on dealing with the implementation concerns of developing countries and on building the confidence of the smaller and poorer members in the trading system. Many of the implementation concerns deal with the trade and development issues surveyed herein. An important part of the confidence-building agenda has been proposals for higher-income countries to grant unrestricted market access to the least developed countries.

The Doha Development Agenda that emerged from the 2001 WTO ministerial meeting in Doha, Qatar, launched a broader set of negotiations. The Doha agenda gives great prominence to development concerns, reflecting proactive participation by developing countries in the process. Negotiations are to take place on market access for manufactures, dispute settlement, WTO rules, disciplines on regional integration, environment, and Trade Related Aspects of Intellectual Property Rights (TRIPS) (geographical indications). These negotiations will complement the ongoing negotiations on agriculture and services mandated by the Uruguay Round agreements. Negotiations may be launched on the four so-called Singapore issues—trade facilitation, transparency in government procurement, competition policy, and investment policy—at the 2003 WTO ministerial meeting if consensus exists on the modalities of such talks. The Doha agenda explicitly deals with key concerns of developing countries, including the implementation issues from the Uruguay Round, the need for technical cooperation and capacity building in developing countries, and market
access for the least developed countries. The meeting also dealt with the concerns of developing countries about intellectual property rights and public health.

This article summarizes some of the results emerging from a collaborative research and capacity-building project involving scholars in developing countries, international experts, and World Bank staff. The aim of the project is to generate both cross-country and country-specific analysis on the costs and benefits of further multilateral rule making and liberalization. The article focuses first on market access issues (the potential gains from further liberalization of trade in agriculture, manufacturing, and services) and then on topics that are of particular concern to developing countries—policies for investment and export development; rule making and implementation; labor, environment, and related standards issues; and participation of developing countries in the WTO. A message emerging from much of this research is that if the objective is economic development, the focus of attention should not be on efforts to graft a development dimension onto the trade agenda. Rather, the focus should be on making trade a more effective instrument of development. In many cases, that implies a need to strengthen significantly the supply side of the economy through investment in infrastructure and strengthening of trade-related institutions.

Agricultural Liberalization

Barriers to trade tend to be highest in agriculture and services. Average tariffs on agricultural imports are in the 15–20 percent range, with peaks for some commodities exceeding 100 percent in many countries, both developing and industrial. By contrast, average manufacturing barriers are quite low in Organization for Economic Co-operation and Development (OECD) countries, but significantly higher in developing nations. However, certain manufacturers (such as clothing) continue to confront high tariffs in many high-income countries. Tariff barriers faced by developing countries on their exports of agricultural products are estimated to average 15.6 percent in rich countries and 20.1 percent in developing countries (table 1). The rates for the industrial countries are much lower. Estimates of the implied tariffs paid (constructed by multiplying the marginal tariffs levied on the relevant trade flows by the value of the corresponding trade flow) suggest that more than half of the levies charged on developing country exports are associated with their exports to industrial countries.

These prevailing patterns of protection imply that many developing countries have a large stake in achieving significant agricultural liberalization. Hertel and others (1999) built a model of the world economy in 2005—at which time Uruguay Round commitments will have been fully phased in. They estimate that a 40 percent reduction in post–Uruguay Round agricultural tariffs and export subsidies will cause an increase in global real income of about US$60 billion per year. This figure increases
The precise outcome of agricultural negotiations will depend heavily on the specific modalities used. Anderson, Hoekman, and Strutt (2001) identify the priorities for further progress in agriculture as reducing import barriers, disciplining domestic support, and eliminating of export subsidies. They make clear that it would require substantial reductions in import barriers even to begin to approach parity with the treatment of manufactures trade. Nothing short of elimination of export subsidies would be sufficient to do so. They also note the large overlap between the agricultural reform agenda and the “second-generation” regulatory issues—competition
policy, procurement, product standards, environmental regulation, and investment regimes—that a number of countries have proposed.

The Uruguay Round led to virtually complete tariffication of agricultural border protection. Unfortunately, the process that achieved this allowed substantial “dirty tariffication” in industrial countries—setting tariff bindings far above the tariff implied by prevailing nontariff barriers—and very high ceiling bindings in developing countries (Hathaway and Ingco 1995). The gap between applied tariff rates and tariff bindings in agriculture is particularly large in many developing countries (Abbott and Morse 1999), implying that substantial reductions in tariff bindings are required to achieve any liberalization of applied rates (Francois 1999). One approach to dealing with the gap between bound and applied rates is to make applied rates the basis for future negotiations, in effect requiring all countries to bind at applied rates. This is unlikely to be feasible because it would also create perverse incentives for countries to keep applied tariff rates high to conserve bargaining chips for future negotiations. A better approach would probably be to devise a formula that would impose the largest reductions in the highest tariff bindings. Josling and Rae (1999) suggest a “cocktail” approach that uses a formula to reduce the very highest tariffs, which are likely to contain a good deal of “water”; subjects moderate tariffs to a uniform percentage cut; and abolishes nuisance tariffs.

**Figure 1. Implications of a 40 Percent Reduction in Agricultural Trade Barriers**

![Graph showing implications of a 40 percent reduction in agricultural trade barriers across different regions.](Hertel and others 1999)

Source: Hertel and others (1999).
De Gorter (1999) shows that since the Uruguay Round was completed, OECD countries have become intensive users of tariff rate quotas (TRQs). TRQs can be important market access barriers. Under a TRQ, there is an out-of-quota tariff that applies to imports above a specified quota quantity. Volumes below the quota limit pay a lower in-quota tariff. Elbehri and others (1999) provide indicators of the extent to which TRQs are binding access constraints for a number of sensitive agricultural commodities, such as sugar, dairy, meats, and grains. They conclude that for the United States, the European Union, Canada, and Japan, imports exceeded the quota volume in 13 out of 16 cases. The allocation of associated quota rents is uneven, with many countries allocating a substantial share of the quota rents to exporters. By contrast, in the Philippines and the Republic of Korea, the two developing countries where Abbott and Morse (1999) find evidence of binding TRQ regimes, it appears that importers retain the quota rents.

Understanding the impact of TRQs is critical to predicting the outcome of attempts to liberalize trade. For example, reducing out-of-quota tariffs would increase imports only if the demand for imports exceeded the quota amount such that the out-of-quota tariff were operational. If imports were less than the quota level, reductions in out-of-quota tariffs would be ineffective. However, marginal expansion of the TRQ would be ineffective if imports were greater than the TRQ; the only effect would be to increase the volume of imports on which scarcity rents are earned. If imports were less than the TRQ, expanding the quota would also be ineffective. Only reductions in in-quota tariffs would stimulate greater imports in this case. Thus, reductions in out-of-quota tariffs would be the most effective instrument for achieving market liberalization in most cases. However, it could be desirable to accompany such cuts with expansion of the quotas.7

Agricultural liberalization (especially movement toward eliminating export subsidies) may increase world prices of food products and thus have a negative effect on developing countries’ net food imports. However, any such impact would be offset to some degree by the increase in domestic supply that higher prices would stimulate. Current policies result in large global price swings that are highly detrimental to developing countries, and farmers in many developing nations suffer from a significant antiagricultural policy bias. Even if the prices of imports rise, complementary reforms at home can make net food importers better off: they initially lose welfare by unnecessarily stimulating food imports and the price rise curtails that stimulus (Wang and Winters 2000). However, mechanisms are needed to ensure that any price-increasing effects of reforms do not reduce the real income/consumption of the poorest in society. Such social safety nets may not exist or may not function adequately in many countries. Multilateral trade liberalization generally takes a long time to negotiate and implement. This provides an opportunity for governments to develop and/or strengthen safety net programs and complementary policies to maintain the real incomes of the poorest in society.
It should be emphasized that the need for such mechanisms is quite general and not specific to agricultural reform. All types of policy reforms that are beneficial for the economy as a whole, as well as exogenous shocks of various kinds, may have detrimental consequences for the poor. Mechanisms to offset the negative impact of shocks should therefore be broad in scope and not conditional on changes in trade policies only.

**Industrial Tariffs**

There has been a sweeping change in the structure of international trade in the past two decades. In the mid-1960s, manufactured exports accounted for only around one-quarter of developing country exports. By the early 1980s, this share had risen to around one-third. Since then, growth has accelerated; as of the mid-1990s, the share was around three-quarters, and it is projected to go on rising (figure 2). Much of the increase in developing country exports during the past three decades has not followed a north-south pattern. The share of developing country exports going to other developing countries has risen sharply as the importance of developing countries in the world economy has risen and barriers to trade have declined in both de-

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**Figure 2. The Increasing Share of Manufactures in Developing Country Exports**

Source: Hertel and Martin (2000).
veloping and industrial countries. Developing countries therefore have a strong interest in including industrial products in WTO negotiations. Although industrial countries impose low average tariffs on their imports of manufactured items, the average tariff on imports from developing countries is four times higher than average tariffs originating in the OECD (table 2). This is primarily because of the relatively high tariffs on such products as textiles and clothing. Estimates of the implied tariffs paid suggest that the barriers developing countries face in other developing countries account for more than 70 percent of the total tariffs levied on their industrial exports. This situation contrasts sharply with that in agriculture (see table 1).

A computable general equilibrium (CGE) analysis of the impact of a 40 percent cut in applied tariffs on manufactures by all countries suggests that global trade volume would expand by some $380 billion in 2005, or about 4.7 percent of projected merchandise and nonfactor service trade (Hertel and Martin 2001). This increase is reflected in almost all products, including nonmanufactures. The largest increase is for wearing apparel. Even after the phase-out of quotas agreed in the Uruguay Round, trade volume in this sector rises by a further 20 percent, reflecting the heavy tariff protection in high-income countries. Textiles and autos follow in importance. Figure 3 reports real income and efficiency gains as a share of 2005 income by region. The difference between these two variables reflects terms-of-trade effects. (If the real income gain exceeds the efficiency gain, then the terms-of-trade effect is positive; the opposite is also true.) Efficiency gains depend on the degree to which a country liberalizes its markets. Sharp tariff cuts give rise to increased access to cheaper imported goods and generate gains in consumption as well as improvements in the efficiency of use of domestic resources.

The largest efficiency gains (as a share of income) occur in developing economies, with countries or regions where tariffs are highest in the 2005 base gaining the most

| Table 2. Patterns of Protection in Manufacturing, 1995 |
|---------------------------------|---------|-------|
| Importing region                |         |
| Exporting region                | High income | Developing |
| Import-weighted average tariffs (percent) |         |
| High income                     | 0.8     | 10.9   |
| Developing                      | 3.4     | 12.8   |
| World                           | 1.5     | 11.5   |
| Implied tariff paid (US$ billions) |     |
| High income                     | 16      | 93     |
| Developing                      | 23      | 57     |
| World                           | 40      | 150    |

Source: Hertel and Martin (2000).
China’s greater gains relative to India (which is projected to have higher protection levels in 2005) are due to the fact that the manufacturing sector in China is larger and more trade oriented. Tariff cuts in the industrial economies of Japan, Western Europe, Australia/New Zealand, and North America generate almost no efficiency gains because tariffs are already extremely low. However, the bulk of the gains go to the developing countries, which are estimated to receive three-quarters of the total gains from liberalizing manufacturing trade.

These results suggest that there are strong economic and political economy reasons for developing countries to support the inclusion of industrial products in any multilateral round of negotiations. From a political perspective, industrial products make up a very large share of exports; frequently these products are produced by a relatively small number of producers that can provide active support for the politically difficult reforms required by a trade negotiation. From an economic perspective, the substantial static welfare gains outlined above are a good reason to support their inclusion, as are the potential dynamic gains associated with moving to a more outward-looking manufacturing sector.

The quantitative analysis of liberalization of trade in manufacturing and agriculture is highly stylized and simplified. The use of a uniform percentage cut in applied
rates of protection provides only a rough guide to the potential benefits from a broad-based liberalization. In practice, the policy instruments on which negotiations focus are tariff bindings, which may be higher than applied rates. The actual outcome will depend heavily on the precise approach to liberalization used. Theory predicts that the gains are likely to be larger than those indicated if negotiators choose a top-down approach that reduces the variance of protection by more than a uniform cut. The gains will be smaller if less reduction in the variance of protection is achieved—that is, if politically sensitive tariff peaks are preserved. Further research is necessary to take these potential differences into account.

The research summarized uses static models and does not consider the dynamic effects of liberalization or the fact that many industries are imperfectly competitive. Current cge techniques allow such factors to be incorporated into analyses. This will affect the magnitude of the predicted net gains, however, it will not affect the basic message that emerges: developing countries have a major stake in the attainment of further reductions in barriers to trade in both agriculture and manufacturing.

Services

In contrast with agricultural and industrial tariffs, it is much more difficult to employ numerical general equilibrium techniques to assess the potential gains from alternative liberalization options for trade in services. The required information on prevailing barriers to trade and investment simply does not exist. In the case of merchandise trade, the main barrier is the tariff. Although differences between tariff bindings and applied rates and accounting for preferential trade agreements and subsidies certainly complicate analysis, the prevailing policies are relatively straightforward to characterize. This is not the case with services. Frequently market access barriers are enforced “behind the border” and are embodied in regulations that control entry and/or operations, impose limitations on foreign equity holdings or nationality constraints, or require professionals to recertify as a condition for operating in a market. Because services often are not tradable, firms and/or providers have to move to the location of the buyer/consumer of a service (or vice versa). This implies that regulatory regimes pertaining to the temporary entry (visa restrictions or economic needs tests) or longer-term entry (foreign direct investment policies) of service suppliers and consumers must be considered in determining the overall policy stance of a country toward trade in services.

Ongoing work seeks to improve tariff-equivalent estimates of the effect of service policies and to use this information in cge modeling (for example, Brown and Stern 2001). This research also involves efforts to construct openness indicators for modes of supply, especially foreign direct investment, and for specific sectors using qualitative assessments of the extent to which actual policies raise the costs of entry and/or
operation postentry. The staff of the Australian Productivity Commission has made a noteworthy attempt, identifying existing policies affecting foreign direct investment, assigning each a weight, and summing across weights to obtain an overall restrictiveness index. Their results suggest that across Asia-Pacific Economic Cooperation countries, communications, financial services, and transport are subject to the greatest barriers to foreign direct investment, reflecting the existence of ownership limits or an outright ban on foreign ownership. The most restrictive countries include Korea, Indonesia, Thailand, and China—all countries that appear to have restrictive service sectors using a variety of other measures (Francois and Hoekman 2000).

Developing countries have a large stake in enhancing the efficiency of domestic service providers and improving their ability to contest foreign service markets. Although the large OECD countries dominate global trade in services, developing countries dominate the list of countries that are most specialized in (dependent on) service exports as a source of foreign exchange. Often this reflects the importance of tourism and/or transportation services. But developing countries have also become large exporters of transactions processing, back-office services (Jamaica), and information and software development services (India). There is enormous potential to exploit recent and emerging technological developments—such as e-commerce—that facilitate cross-border trade in services and provide firms with incentives to slice up the value chain geographically.

Recent research suggests the emphasis in the next set of General Agreement on Trade in Services (GATS) negotiations should be on three issues: expanding the coverage of specific commitments; increasing the transparency of prevailing policies; and improving multilateral disciplines. 

**Expanding the Coverage of the GATS**

The sectoral coverage of specific commitments on national treatment and market access is limited for many countries. By one measure, high-income countries made commitments on only about half of all services, of which only one-half involved commitments of free access. That is, governments committed to imposing no restrictions on market access or national treatment for only 25 percent of all service activities. Developing countries made even fewer commitments. In the case of major developing countries, on average, free access commitments were made for only 15 percent of the service sector (Hoekman 1996). Subsequently, successful negotiations expanded the coverage of specific commitments for basic telecoms and financial services. These negotiations were important both for keeping momentum going and because the services involved are vital intermediate inputs. Despite the success in concluding these agreements, they have not led to a significant increase in the coverage of the GATS, as the Hoekman (1996) compilation included commitments made as of 1994 in both sectors.
Thus, many governments have refrained from even binding the status quo. More commitments have tended to be made with respect to foreign direct investment (mode 3) than other modes. A number of countries’ commitments favor infusions of foreign equity into existing firms over entry by new firms. As noted by Mattoo (2000), such protection of incumbents and/or existing market structures is difficult to rationalize and must be carefully monitored because it can easily result in a transfer of rents to foreign firms rather than a socially desirable increase in competition and lower prices/higher quality output.

A strong case can be made that the GATS should cover all services. There is no rationale for excluding certain sectors or modes of supply from the national treatment and market access disciplines, given that the GATS allows for derogation of both principles. One way of moving toward this would be to apply a formula approach to expanded coverage in the next round of negotiations, setting minimum coverage targets for GATS members to be attained by a specified date (which may vary depending on per capita income level to allow for a transition period). This could include agreement that a specified share of all commitments must involve full binding of status quo policies. A more ambitious approach would be to seek agreement on a deadline for full coverage to be reached. This should include politically sensitive but economically important sectors, such as air and maritime transport. Weak (managed) competition on many international transport routes—both sea and air—imposes large costs on developing countries (Francois and Wooton 2001).

From a market access perspective, developing countries have a great interest in ensuring that substantially more commitments are made on mode 4—supply of services through temporary entry by service providers—and cross-border trade (mode 1), which is of great importance for e-commerce. Although the tradability of services has been increasing rapidly due to technological developments, in many cases it remains imperative that service providers be able to work on the premises of their clients. Currently, virtually all GATS members maintain restrictions on such trade, usually through the application of economic needs tests and other requirements imposed on requests for entry visas. Achieving concrete agreements to liberalize access to service markets through mode 4 would go far toward making the GATS a more balanced market access liberalization instrument. The difficulties of making progress in this area are obvious, as there is vigorous opposition on the part of unions and sectoral interest groups in industrial countries. However, there are also industries in the importing countries that have a large stake in being able to employ foreign service providers. The software industry in the United States is just one prominent example; it was the major force behind a temporary expansion in the number of H-1B visas allocated by the U.S. government for temporary movement of service professionals (Chandra 1999). The challenge confronting developing countries is to build coalitions with domestic industries in large markets to achieve a permanent increase in the number of visas for service providers that may be issued (that is, a quota expansion).11
Toward Greater Transparency and Better Rules

A major weakness of the GATS is that it does not force members to come clean regarding the measures that are used to restrict the ability of foreigners to contest domestic service markets. It is very unlikely that negotiators will be willing to reopen the issue of scheduling commitments, and efforts to adopt a “negative list” approach are likely to be counterproductive. But a negative list–reporting exercise for transparency purposes deserves serious consideration. This would involve all members reporting information on all measures that affect market access and national treatment in all services sectors. It would result in a comprehensive database of status quo policies and provide a focal point for reform efforts.

Market access and national treatment only apply on a sector-mode basis under the GATS and are subject to exceptions if governments schedule them. The ability to make commitments by modes of supply can distort the incentives to use alternative modes or to make a commitment in one mode irrelevant because providers need to have access to more than one mode. One way to reduce potential inconsistencies is to require one-to-one mappings between commitments relating to different modes (non-discrimination across modes). Such modal neutrality is an objective worth pursuing because, as the literature often emphasizes, trade and investment have increasingly become complementary. It is also frequently noted that it will become increasingly difficult to maintain a clear distinction between trade in goods and trade in services, as technology may give producers the choice of delivering their products in tangible or disembodied (digitized) form.

Ideally, scheduling of liberalization commitments should shift from the sectoral (specific) to the horizontal (general). This would allow negotiating efforts to center more on developing disciplines that make sense from a long-term growth and economic development perspective. In general, these effects are likely to focus on safeguarding the contestability of markets while maintaining national sovereignty to regulate activities to attain health, safety, and prudential and related objectives. In this perspective, it may be useful to consider generalizing the appropriate parts of the so-called Reference Paper for telecoms to other infrastructure network services to establish a horizontal set of procompetitive disciplines. Useful work could also strengthen the reach of the most favored nation principle and extend it to the area of standards and certification to ensure that (mutual) recognition agreements minimize discrimination.

The Uruguay Round left open a number of outstanding issues, including whether to adopt rules on procurement, subsidies and safeguards. Evenett and Hoekman (2000) argue GATS-specific disciplines on procurement should not be sought, as any disciplines should cover both goods and services. Moreover, what really matters for foreign firms is to have access to service procurement markets, and frequently this can only be achieved if they have a commercial presence in a country. In such cases,
the binding constraint is not a policy of discrimination, but the ability of foreign firms to establish (enter). This suggests the focus of attention should be on expanding market access commitments under the GATS.

Multilateral disciplines on subsidies might help avoid policies that are mutually destructive from the viewpoint of developing countries—for example, seeking to attract foreign direct investment through the use of incentives. Subsidies are an important source of distortions in OECD markets for some services (for example, transport). However, to be effective in disciplining the use of firm-specific fiscal incentives, subsidy rules will have to be quite comprehensive to ensure that countries cannot sidestep them through the use of alternative policies. Here again, the same conclusion arises as for procurement—any disciplines should be general, not sector specific.

One area where a more compelling case can be made for service-specific rules concerns safeguards. The limited nature of liberalization commitments in mode 4—temporary movement of service providers—may in part be due to the nonexistence of safeguard instruments. Given that this mode of supply is of major interest to developing countries, a safeguard instrument could be tied to mode 4 liberalization commitments. These safeguards could be explicitly aimed at providing country governments with an insurance mechanism that can be invoked if liberalization should have unexpected detrimental impacts on their societies (Hoekman 2000).

Industrial, Investment, and Export Development Policies

Many developing countries pursue a variety of programs for industrial development, agricultural extension and export promotion. These may involve assistance with adopting new technologies, penetrating new markets, and general advertising campaigns that aim at “selling” the country and enhancing the visibility of export products. During the 1990s, an increasing number of countries also implemented so-called matching grant schemes that subsidize a proportion of the cost of improving production facilities, obtaining ISO 9000 certification of management systems, and exploring new export markets.

Many developing country governments have expressed concerns regarding their ability to pursue industrial policies without running afoul of WTO rules and disciplines. Multilateral rules on subsidies and related industrial policies were tightened substantially for developing countries in the Uruguay Round. Export subsidies became prohibited (except for the least developed countries) and trade-related investment measures (TRIMS)—for example, local content schemes that imply discrimination against imports—were outlawed. The TRIMS agreement prohibits both mandatory measures and the more common policies with which compliance is necessary to obtain an advantage (such as a tax concession, import duty exemption, or subsidy). Matching grant schemes—an instrument often used in developing countries—may
be regarded as export subsidies insofar as the provision of the grant element is made conditional on exports.

In almost all these cases, the rationale for activist policies is the existence of distortions created by market failures or other government policies. It is well known that if the source of the problem is policy induced, the case for a subsidy is only a second-best one (Bora, Lloyd, and Pangestu 2000). A good case can be made that WTO disciplines on export subsidies and TRIMs are generally likely to be beneficial. Export subsidies are distortionary for the world as a whole and can easily be captured by private interests seeking rents. In practice, they are very difficult to justify on the basis of distortions or market failure. In contrast, production subsidies (and taxes) can be an efficient way to offset externalities, and are allowed under WTO rules (although the effect of direct subsidies may be countervailed by importing countries if they can be shown to materially injure domestic competitors). The adoption of a “green box” approach toward subsidies in the Uruguay Round allows substantial freedom for governments to use subsidy instruments in cases where this is called for on economic grounds and reduces the scope for other countries to second-guess the motivation underlying the use of such instruments. The types of subsidies that are defined to be acceptable (but in principle countervailable) are subsidies where economic theory suggests intervention can help offset market failures (that is, support for research and development and certain types of agricultural input subsidies for developing countries). A good case can be made that disciplines should not be tightened in this area, that is, the range of “acceptable” subsidies should not be tightened.

Many developing countries have resisted the requirement to abolish TRIMs, arguing that they need such instruments to encourage industrialization. In the Uruguay Round, it was decided that the TRIMs agreement would be reviewed in 2000, at which time it would be complemented by provisions on competition and investment policy (Low and Subramanian 1996). Because the five-year review deadline coincided with the built-in negotiating mandate on such topics as services and agriculture, TRIMs became a potential negotiating topic for a millennium round. Some countries argued in favor of wrapping the TRIMs discussion into a more general WTO negotiation on foreign direct investment policies. This position can be motivated on the basis that TRIMs are just part of the relevant policy landscape: investment measures are often general, not trade related. Many countries apply licensing and approval regimes and impose related red-tape costs on foreign investors. They may also prohibit entry through foreign direct investment altogether or impose equity ownership restrictions. The TRIMs agreement does not apply to such nontrade-related policies, nor does it affect service industries.

Neither the economics nor the political economy of seeking WTO disciplines on foreign direct investment is straightforward (Markusen 2001; Moran 1998). Restrictive policies may reflect welfare-enhancing attempts to shift foreign profits to the domestic economy or welfare-reducing rent-seeking activities by bureaucrats and
sometimes the effect of policies is simply to waste real resources (so-called frictional costs). A key question concerns the value added offered by multilateral rules in this area to developing countries, given that much can (and should) be done through unilateral reform to attract investment. This is an underresearched topic. Hoekman and Saggi (2000) argue that there are potential payoffs but that these may be difficult to realize. They also argue that in the area where foreign direct investment matters most as a mechanism to contest markets—services—a WTO instrument already exists. The GATS extends to foreign direct investment policies as countries can make specific market access and national treatment commitments for this mode of supply for any or all services. Thus, a lot can already be achieved using existing structures.

As far as more traditional TRIMS are concerned, the available empirical evidence suggests that local content and related policies are generally ineffective or costly to the economy. Often they do not achieve the desired backward and forward linkages, and they encourage inefficient foreign entry and create potential problems for future liberalization as those who enter lobby against a change in regime (Moran 1998; Pursell 2001). The major policy question is implementing the agreement—that is, phasing out illegal TRIMS. Governments may be constrained in eliminating costly status quo TRIMS because protected industries are politically powerful. Although the Uruguay Round agreement incorporated transition periods, some countries may need extensions of transition periods as well as assistance in designing effective and credible transition paths (Hoekman 2001).

Achieving Balance: Rule Making and Implementation

Resource constraints impede the ability of many developing countries to identify and defend their interests in multilateral negotiations and to participate in WTO activities (Blackhurst, Lyakurwa, and Oyejide 2000). Even if countries are able to influence the set of subjects to be negotiated so that notional symmetry prevails in terms of defining the agenda, outcomes can easily be asymmetric, reflecting differences in negotiating power. Under the GATT, this asymmetry was exemplified by the exclusion of agriculture and textiles and clothing from many multilateral disciplines and the use of various instruments of contingent protection by OECD countries, including some that were illegal under the GATT—for example, voluntary export restraint agreements. In the Uruguay Round, negotiating power asymmetries were illustrated by the implicit bargain in which the Multi-Fibre Arrangement, voluntary export restraints, and some agricultural barriers of concern to developing countries were abolished in return for introduction of a TRIPS agreement proposed by OECD countries. This involved a “payment” for the elimination of practices that violated the spirit (if not the letter) of the GATT.
Asymmetry under the Uruguay Round was also reflected in the fact that developing countries became subject to a large number of disciplines in areas that were voluntary under the GATT—including rules on customs valuation, antidumping, subsidies, technical product standards, and sanitary and phytosanitary measures. In these areas, it is difficult (if not impossible) to trade concessions. Negotiators focused instead on the identification of specific rules that should be adopted by all. In practice the norms chosen were those that were (are) applied in industrial countries (Finger and Schuler 2000). In contrast to traditional trade liberalization, a “one-size-fits-all” approach may not be optimal. Nonetheless, one size fits all was a central pillar of the Uruguay Round—developing countries were only granted additional time in which to implement obligations. In many areas, these periods were five years and expired at the end of 1999. Many developing countries remain far from compliance, making extension of time limits for implementation—and possibly renegotiation or granting of waivers—priority issues for them. Extensions of the time limits for implementation of the TRIMS agreement were finally agreed in August 2001 in the run-up to the Doha ministerial conference.

Implementation became an issue partly because the costs associated with complying with some WTO agreements can be significant. As noted by Finger and Schuler (2000), such costs can easily exceed the entire development budget of a least developed country. This is not because the rules themselves are necessarily onerous but because of the ancillary investments needed to make the agreements work successfully. It is not at all clear from a development perspective that the resources required for implementation of WTO agreements, whatever the amount might be, would not be better used to build schools or improve infrastructure. Ensuring that WTO agreements are conducive to (consistent with) attainment of development objectives should therefore be a major objective of the next round. A necessary condition for this is full ownership of the WTO agreements, which, in turn, is predicated on participation in the development of the rules.

At the time of the Uruguay Round, the negotiators could draw on only limited developing country experience in the “new areas.” Poor countries have, for instance, yet to attempt to create intellectual property regimes that make traditional knowledge or cultural products into negotiable and defensible assets. Nor have they identified the alternative options that can be used to upgrade and enforce national product, health, and safety standards or to regulate service sectors that are subject to market failures. In many of these areas, the trial and error experience—the assessments of the real-world impacts of alternative policy options—that can inform the effective incorporation of the development dimension into multilateral rules does not exist. It seems desirable that future rule-making attempts should focus on the goals to be achieved, rather than on specifying the approaches to be used. WTO rules should allow for experimentation and learning, and should be complemented by adequate assistance to help countries develop appropriate regulatory instruments.
Intellectual Property Rights and Competition Policy

The Uruguay Round TRIPS agreement obliged all WTO members to enforce intellectual property rights (IPRs), although with transition periods for developing countries. Whether developing countries will gain from stronger protection of IPRs is a matter of vigorous debate. Those in favor argue that dynamic benefits—operating through foreign direct investment, technology transfers and licensing, and innovation within and for the domestic market—will more than offset any static losses. Those against note that dynamic benefits are uncertain, although on balance the short-run impact of the TRIPS regime—which will operate through higher prices, lower domestic output, and more imports—is likely to cause a transfer of income from poor to rich countries, with at best marginal impacts on economic efficiency, resulting in net transfers to firms in high-income countries.13

The scale of the transfer depends on the market structures that prevail and the closeness of available substitutes. For example, estimates by Maskus (2000a) suggest that because Lebanon is a net importer of pharmaceutical products and technologies and currently has relatively little inventive capability in the sector, the static impact of stronger patents is likely to be negative, increasing average prices by some 10 percent and resulting in lower output and fewer firms. But in other sectors where Lebanon produces IPR-sensitive products (such as printing and publishing, music, and film/video), stronger protection would be beneficial. The static net impact is therefore unclear. Dynamic effects are even more uncertain.

An important factor determining the impact of the TRIPS agreement is the ability of governments to intervene to offset socially detrimental outcomes. The agreement has a number of provisions that authorize the use of policy measures against abuses of IPRs. Competition law has an important role to play in this connection. For example, because rights holders will frequently use their IPRs to segment markets, developing countries may have a strong interest in applying an international exhaustion rule (allowing parallel imports). This would imply that domestic buyers could purchase patented and branded products wherever they find the most favorable prices. This is fully compatible with the TRIPS agreement, although both the European Union and the United States are active proponents of a national/regional approach to exhaustion. Whether to adopt an international exhaustion rule should be a matter for national authorities to decide independently. Of course, this is just one aspect of the interrelation among IPR and competition regimes, but it illustrates that a one-size-fits-all rule should be avoided (Maskus 2000b).

Developing countries have an interest in adopting strong competition policies, the main pillar of which should be a liberal trade and foreign direct investment policy stance. Competition law is required to ensure markets are contestable, especially in nontradable sectors. Antitrust legislation may also be required to maximize the benefits (or minimize the costs) of certain WTO agreements, the TRIPS agreement being one
example. What matters from the point of view of WTO negotiations is whether attempts to agree on binding multilateral disciplines would be beneficial for developing countries. In principle, a commitment to more thorough policing by industrial countries of their own exporters, of global strategic alliances (for example, in telecoms), and import-competing industries’ use of instruments of contingent protection could have very general benefits for developing countries (Maskus and Lahouel 2000). Hoekman and Holmes (1999) argue that developing countries should use the occasion of a trade round to put their interests on the table, recognizing that the quid pro quo they can expect will depend importantly on what they are willing to offer. Seeking modifications in antidumping laws and commitments by OECD competition authorities to provide assistance to developing country competition authorities are examples of the type of quid pro quo that could be sought. However, realism suggests that the primary focus should be on the design of appropriate national policies. After more experience has been obtained with the design and implementation of national regulations, countries will be better able to judge the appropriate type of multilateral agreement in this area.

Labor, Environmental, and Related Standards Issues

The collapse of the Seattle ministerial meeting in 1999 was in part due to differences in views between industrial and developing countries on whether the WTO should regulate and enforce labor and environmental standards. Determining the extent to which multilateral disciplines should extend “behind the border” and cover more areas of domestic regulation is one of the key challenges facing WTO members. Although the case for domestic regulation to address market failures or pursue non-economic objectives is indisputable, the case for international harmonization is not. Efforts to impose standards on all WTO members and enforce them via the threat of trade sanctions threaten to embroil the WTO in issues in which it has neither the technical ability nor the political legitimacy to act effectively (Rollo and Winters 2000).

The TRIPS agreement reflects the first clear attempt at harmonizing domestic policy and setting certain minimum absolute standards of IPR protection to which all members must adhere. The GATT was largely an instrument of negative integration—it revolved around agreements not to do certain things (discriminate in trade policy or raise tariffs above bound levels). The TRIPS agreement is the first major example at the multilateral level of what has been called positive integration (Tinbergen 1954). One result is that for the first time, failure to implement a certain type of regulatory regime (in this case to prevent the use of production processes by domestic firms that violate IPRs) can give rise to dispute settlement and possibly trade sanctions.

A question that has arisen concerns the implications of TRIPS on the scope of the WTO. If IPRs can be brought into the WTO, why not other areas of domestic regulation?
as well? In a useful approach to answering this question, Maskus (2000b) identifies a series of screens or criteria that can be used to determine if there is a good economic case for bringing a regulatory area under the WTO. These criteria are that the issue: (1) is strongly trade related; (2) gives rise to international externalities; (3) is associated with policy coordination failures that can be addressed effectively through WTO dispute settlement; and (4) has the potential to strengthen the trading system. In the case of labor standards, Maskus surveys the literature and concludes that, first, there is little credible evidence that deficient enforcement of core labor standards has a major impact on trade. Second, he finds that both the theoretical and empirical basis for arguing that lax labor standards in developing countries suppresses wages of low-skilled workers in OECD nations is very weak. Third, he argues that WTO-type enforcement (relying on trade sanctions) will worsen labor outcomes. Finally, he points out that linkages between core labor standards and existing WTO disciplines are non-existent (Maskus 1997, 2000b).

There is considerable international agreement that certain core labor rights should be globally recognized and protected. Development and encouragement of implementation of such rights is the task of the International Labour Organisation (ILO). One of the principal arguments for inclusion of labor standards in the WTO is to provide an enforcement mechanism for ILO conventions. However, trade remedies to enforce labor standards would worsen the problems they were aimed to solve (by forcing workers in targeted countries into informal or illegal activities) and burden the trading system (by increasing the likelihood of controversial disputes). Account should also be taken of the nonnegligible danger that such instruments would be captured by protectionist interests seeking to limit imports from labor-abundant developing countries.

Attainment of core labor standards can be pursued more effectively through instruments that are targeted directly at improving outcomes. For example, efforts could be made to improve the quality of and access to primary education for poor children to reduce child labor exploitation, for example, through programs to subsidize the purchase of school supplies, provide transportation, and reduce the costs of schooling. It is important to avoid a confrontational approach to this issue and to pursue collaborative solutions that help developing countries improve labor standards. Attempts to force countries to adopt standards that do not reflect national preferences and conditions should be rejected (Bhagwati and Srinivasan 1996). Gains from trade arise in large part because countries differ, and national social or environmental policies are simply one determinant of these differences. They do not constitute barriers to trade or give rise to unfair trade.14

In the case of the environment, the argument for adopting substantive rules in the WTO is also weak. However, an important difference compared with labor standards is that trade policies may have adverse environmental consequences. An example would be subsidies and trade protection for the coal industry, which may discourage
a shift to cleaner-burning fuels. There may also be potentially important cross-border environmental spillovers, which give rise to a need for international cooperation. This has been reflected in various multilateral environmental agreements. Such agreements might include trade sanctions as enforcement instruments. Sanctions can give rise to WTO dispute settlements if a nonsignatory is targeted by signatories; therefore, the WTO membership may need to devise procedures that set out the conditions under which they would permit such sanctions. Rollo and Winters (2000) suggest the following as necessary conditions to ensure legitimacy and reduce the chances of protectionist capture:

- Sanctions must be genuinely a last resort.
- Decisions to sanction a transgressor should be collective, with a very substantial majority of WTO membership.
- Provision must be made for frequent review to determine if sanctions can be removed.
- Sanctions should be applied by all signatories of the multilateral environmental agreement.
- WTO members should have no discretion about what products to restrict.

Developing Country Participation and Market Access

Many of the contributions that have emerged from the ongoing research on which we have drawn emphasize that participation constraints are a general problem, in particular for the least developed countries; that lack of information and limited cross-country experience greatly constrain the ability of countries to exploit the “wiggle room” that is embodied in many WTO agreements; that there is a need to ensure that governments have the scope to pursue policies in a manner that makes sense from a development perspective; that fulfillment of offers of financial and technical assistance by high-income countries have proven to be disappointing; and that provisions requiring such countries to take into account the interests of developing countries have proven to be meaningless (Blackhurst, Lyakurwa, and Oyejide 2000; Finger and Schuler 2000; Michalopoulos 1999; Hoekman 2001).

The end result has been limited developing country ownership of many agreements, and a general suspicion of the WTO in large segments of civil society. This can be remedied only if the next round results in agreements that are supported by strong constituencies in developing countries. The preconditions for achieving greater balance appear to be there—developing countries have demonstrated a willingness to participate actively and constructively in the WTO. This was reflected in the run-up to the Seattle ministerial and the role played in the process of defining a negotiating agenda. The inability (unwillingness) of the industrial countries to accept the neces-
ecessary compromises helped scuttle the talks, but arguably helped set the stage for a more balanced agenda to be crafted at Doha. That said, to paraphrase Wang and Winters (2000), much will have to be done to “put Humpty Dumpty back together again” and repair the damage manifested in Seattle. Many developing country delegations left Seattle frustrated with wto procedures that excluded them from deliberations. This compounded prior resentment about the outcome of the Uruguay Round and concerns about the asymmetric burden of implementing wto obligations.

The process in Doha was much more inclusive—all meetings were open to all delegations, and chairs of working groups reported regularly to meetings of heads of delegations. The exclusionary “green room” approach to hammering out deals was largely avoided. Although successful in generating a final agreement, the Doha process is not something that can be applied on a day-to-day basis in Geneva.

In contrast to past negotiating rounds, modalities should be developed to ensure that agreements are consistent with development strategies and priorities, thereby avoiding the types of implementation-related tensions that arose after the Uruguay Round. In areas involving positive integration measures, this requires both greater flexibility in terms of time frame and modalities of implementation and binding commitments by high-income countries to provide the financial and technical assistance that is required to assist countries in implementing wto obligations in ways that support the economic development process. Political will and leadership are required to refrain from overburdening the institution by expanding its reach into areas that are not trade related, where it has no expertise, or where it is clear that interests among members diverge too much for agreement to be feasible.

One response to the concerns of the poorest countries has been a number of initiatives for richer countries to grant unilaterally improved market access for the least developed countries. Although such preferential market access has well-known disadvantages, including the fact that it tends to divert export opportunities away from other developing countries, it could potentially play a catalytic role in stimulating exports from the poorest countries. A careful examination of tariff peaks in the Quad (Canada, the European Union, Japan, and the United States) countries finds that, though average tariffs are low, tariff peaks and tariff escalation have a disproportionate negative impact on the exports of the least developed countries (Hoekman, Ng, and Olarreaga 2001). A related study by Ianchovichina, Mattoo, and Olarreaga (2001) estimates that opening Quad markets to Sub-Saharan African countries would raise their real incomes by $1.8 billion. Improved market access by itself is not enough. Such unilateral efforts need to be complemented by supply-side reforms to strengthen the export response (World Bank 2001a, 2001b).

There are good reasons to believe that the agenda that was adopted at the Doha ministerial meeting is a good one from a development perspective. It is consistent with the conclusions of research revealing that there is still a large market access agenda and that dealing with this matters most from a development perspective (Finger and
Schuknecht 2001). Research also suggests that much greater care is required to determine the development relevance and payoffs of extending the WTO into domestic regulatory areas (Finger and Schuler 2000; Hoekman and Kostecki 2001). The work program that was adopted for investment, competition policy, trade facilitation, and government procurement provides countries with an additional two years to determine what might make sense to discuss in the WTO. Furthermore, there is a strong emphasis on the need for technical assistance and capacity building for developing countries.

Concluding Remarks

This article has surveyed a range of recent research regarding the interests of developing countries going into a new round of WTO negotiations. It is impossible to do full justice to the complexity of the issues that arise in many of the areas that could figure on the WTO negotiating agenda. Accordingly, readers are referred to the papers provided in the references for a more thorough treatment of these issues. It is also impossible to generalize regarding the interests of developing countries. Nations are very diverse, reflecting differences in per capita incomes, initial conditions, and endowments.

Since the late 1970s, assessments of trade rounds have relied heavily on CGE modeling techniques. These allow simulations of the economy-wide effects of policy changes. Such models are particularly well suited to assessing the impact across industries and countries of reductions in tariffs, quotas, and subsidies. We have summarized some key findings from one such model with respect to agricultural and manufacturing liberalization in the wake of the Uruguay Round. We conclude that developing countries are likely to gain relatively more than rich countries from further liberalization. However, CGE models are much less amenable to assessing the implications of rule making, and, as tariffs have fallen, this aspect of the negotiations has become increasingly prominent. It is therefore very difficult (if not impossible) to assess quantitatively the overall impact of multilateral trade talks, either ex ante or ex post. Many dimensions of WTO agreements simply cannot be quantified. Other instruments—ranging from the use of economic theory to cross-country econometric analyses and case studies—must be used to assess the likely impact of rules on regulatory policies.

It is important to separate initiatives that aim at directly reducing barriers to trade from initiatives to further expand and deepen WTO provisions pertaining to regulatory regimes. The available research strongly suggests that the potential benefits from vigorous pursuit of a market access agenda are significant. This conclusion spans agriculture, trade in manufactured items, and services. Future efforts in the WTO should give priority to reducing barriers to trade that, in the case of services, include policies that restrict the ability of foreign firms to contest markets through a variety of modes. Developing countries have a strong interest in taking up the banner of
manufacturing tariff cuts, given that manufactures account for some three-quarters of their merchandise exports. Efforts to further discipline the ability of governments to abuse instruments of contingent protection minimize the trade-restricting impact of product standards (especially sanitary and phytosanitary measures) and facilitate trade more generally. Although not discussed in this article due to space constraints, these efforts are also of great importance (see UNCTAD 1999; Finger, Ng, and Sonam 2000; Messerlin and Zarrouk 2000).

A good case can be made for greater scrutiny of attempts to introduce substantive rules on domestic regulatory and legal regimes that imply harmonization to rich-country standards. Efforts to agree on procedural disciplines that increase transparency of policies and measures that focus on achieving objectives, rather than specifying approaches, are less likely to create implementation problems.

Greater efforts to consider the development relevance and impact of proposed rules will help create a trading environment that allows developing countries to help themselves by specializing in sectors where they have a comparative advantage. Doubts remain about the introduction of substantive disciplines in the WTO on domestic regulatory regimes if this entails harmonization to OECD norms that have not been determined to be in the interests of developing countries. However, such doubts certainly do not extend to the bread and butter of the multilateral trading system—the progressive liberalization of barriers to trade in goods and services on a nondiscriminatory basis. This is an area where there still remains much to be done, and where traditional GATT negotiating modalities can be an effective mechanism to overcome resistance to reform in both developing and industrial countries.

Notes

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1. For example, Clare Short, U.K. minister of Development; Mike Moore, director-general of the WTO; and Joseph Stiglitz, former chief economist, World Bank (Stiglitz 2000).

3. In the case of agriculture, extensive discussions in Doha centered on the objectives of the talks, in particular the insistence of exporters that elimination of export subsidies be an objective. However, this was in the context of an already existing mandate for negotiations.

4. In addition to researchers based in national think tanks, the project draws on the work of a number of research networks, including the Latin American Trade Network; the Economic Research Forum for the Arab Countries, Iran, and Turkey; the African Economic Research Consortium; the Coordinated African Program of Assistance on Services; and the Trade Policy Forum of the Pacific Economic Co-operation Council.

5. These estimates exclude the effects of preferences on tariffs paid, which clearly results in some over-estimation of these barriers. However, Hoekman, Ng, and Olarreaga (2001:1) find that the beneficial effects of these preferences tend to be diminished by the exclusion of “sensitive” products.

6. A number of studies of complete global liberalization of post–Uruguay Round trade barriers have been undertaken. Anderson and others (forthcoming) analyze the benefits of trade reform by and to industrial and developing countries and review the range of estimates. The 40 percent liberalization scenarios were chosen as a degree of liberalization likely to be feasible in a round of negotiations.

7. Elbehri and others (1999) find that reducing by one-third the over-quota tariffs on sugar imported into the United States and the European Union results in losses for almost half of the exporting countries, a consequence of the reductions in quota rents. When the out-of-quota tariff reduction is paired with a 50 percent increase in the TRQs, most countries experience gains, and the remaining losses fall to negligible levels. Thus, there may be some grounds for liberalizing on both price and quantity margins simultaneously to secure acceptance of the overall liberalization program by importing and exporting nations alike.

8. See Warren and Findlay (2000) for an excellent survey of recent work. Stern (2001) collects a number of recent country studies on services by developing country analysts.

9. For a comprehensive discussion, see Mattoo (2001) and the contributions in Sauvé and Stern (2000).

10. However, the quality of the commitments, especially in basic telecoms, improved substantially. Of particular importance was the adoption of the so-called Reference Paper on regulatory principles. This is discussed further later.

11. See Chadha (2001), Chandra (1999), and Mattoo (2000) for more detailed analyses and proposals in the area of trade in services.

12. Implementation of these agreements did not cost high-income countries anything, given that the rules basically codified existing practices in these countries.


14. The focus here should be on policies, not outcomes. Thus, industries may shift production facilities abroad because environmental policies are less stringent in the host location, but as long as policies are appropriate to local conditions and reflect national (or local) preferences, this is desirable.

15. Hoekman (2001) suggests creation of a mechanism to allow development concerns and capacity constraints to be taken into account when defining implementation horizons for WTO agreements.

16. Many of these articles are available online at http://www.worldbank.org/trade.

References

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