Policy Research Working Paper

Competition Policy and the Global Trading System
A Developing-Country Perspective

Bernard Hoekman

The major options for encouraging trade and competition in developing countries are unlikely to have much of a downside for developing countries. Those that are most advantageous are likely to be opposed by special interest groups in industrial countries.

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Summary findings

Starting in the late 1980s, policymakers and academics began increasingly to call for the development of multilateral discipline on anticompetitive practices.

Some believe that falling trade barriers must be complemented by antitrust measures to ensure that foreign competition materializes; some believe that without multilateral discipline it would be impossible to limit the use of antidumping and related policies; and some believe that the exercise of market power by global multinationals requires a global code on competition.

Efforts to establish multilateral disciplines on competition have resulted only in various "codes of conduct," none of them legally enforceable. But prospects for negotiating an agreement improved with the recent decision at the first ministerial meeting of the World Trade Organization (WTO) to establish a working group on the topic.

Hoekman evaluates various options from the perspective of developing countries: agreeing to minimum standards for national antitrust laws; expanding the reach of the WTO provision on multilateralization and impairment to policies that restrict competition; granting the WTO a mandate to advocate competition; and doing nothing.

He concludes that developing countries would benefit from an agreement that:

- Bans price-fixing and market-sharing.
- Includes a ban on export cartels.
- Initiates a process of replacing antidumping actions with enforcement of domestic competition laws.
- Strengthens the WTO's mandate to advocate competition and to settle disputes.

Achieving such an agreement may be quite difficult, however, as some of these elements will be opposed by various special-interest groups in industrial countries.
Competition Policy and the Global Trading System:
A Developing Country Perspective

Bernard Hoekman
World Bank

Correspondence: 1818 H St. NW, Washington DC 20433; tel: (1) 202 473 1185; fax: 202 522 1159

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I. Introduction

Starting in the late 1980s, an increasing number of policymakers and academics began calling for the development of multilateral disciplines on anticompetitive practices. The rationales offered for this included market access concerns (a perception that falling trade barriers must be complemented by antitrust measures to ensure that foreign competition materializes); a perception that without such disciplines it is impossible to constrain the use of trade policies such as antidumping; and a belief that the exercise of market power by global multinationals requires a global competition code. The issues have been the subject of international discussions for many years. Competition law and policy disciplines were on the agenda of the negotiations to establish an International Trade Organization (ITO) after the second World War. As is well known, the ITO never came into being, and the General Agreement on Tariffs and Trade (GATT) only took over the ITO provisions on restrictive business practices in a "best-efforts" clause (Art. XXIX GATT). Since then developing countries have pursued the topic in the UN context and the OECD has been dealing with the issue for many years in the context of its Competition Law and Policy Committee. These efforts have resulted in various "codes of conduct," none of which is legally enforceable.¹

Prospects for negotiations on multilateral disciplines relating to competition policy recently increased with the decision of the first Ministerial meeting of the World Trade Organization (WTO) in December 1996 to establish a working group on the topic. The working group has been given two years to study issues relevant to the interaction between trade and competition policy. This paper discusses the desirability and feasibility of alternative types of international agreement on trade-related antitrust principles (TRAPs) for developing countries. Section II reviews the major options. The desirability of these alternatives is analyzed in Section III, using three criteria: (i) the impact on market contestability; (ii) the likely effect on the welfare of developing countries; and (iii) the possible

¹ See Davidow (1981) for a discussion of developments in the 1960s and 1970s; Lloyd and Sampson (1995) provide an overview of the various multilateral instruments and fora that have addressed competition issues.
implications for the trading system. Section IV discusses the feasibility question. Section V concludes.

To summarize, the paper argues that from a developing country perspective a TRAPs agreement should be limited to a ban on horizontal restraints (price fixing, market sharing, etc.)—including a ban on export cartels—and embody a set of procedural disciplines to ensure transparency; initiate a process of replacing antidumping actions with domestic competition law enforcement; and strengthen the competition-advocacy and dispute settlement dimensions of the WTO. Developing countries potentially have much to gain from such an agreement. Achieving it may be difficult, however. The elimination of exemptions for export cartels, the abolition of antidumping and the strengthening of the WTO are all issues that will confront opposition by interest groups in industrialized countries. Consequently, the competition “dossier” may require not only efforts by developing countries to oppose proposals on TRAPs that are not in their interest, but also a need to pursue cross-issue linkages and tradeoffs to achieve an agreement that benefits them.

II. Options for an Agreement on TRAPs

Many options have been identified in the literature on how competition law might be treated in the WTO, ranging from a global competition code (harmonization) to doing nothing (competition between competition regimes). What follows identifies the major ones.

Option 1. Minimum Antitrust Standards

In 1993, the so-called Munich group of competition law experts created a Draft International Antitrust Code (Fikentscher and Immenga, 1995). The establishment of an International Antitrust Authority is envisaged, which would have the task of enforcing a set of common, harmonized antitrust rules in all contracting parties (through the offices of national competition authorities). It would have the power to request domestic competition authorities to initiate an investigation and to challenge implementation of the Code before an International Antitrust Panel. The rules proposed are detailed, and include per se
prohibitions for specified horizontal and vertical restraints.\(^2\) They would have direct effect, i.e., they could be invoked by private parties before national courts. The Code would be an Annex IV agreement under the WTO, i.e., a plurilateral treaty applying only to those WTO members that sign it.\(^3\)

Scherer (1995) has made a proposal along similar lines, suggesting that agreement be sought on a number of minimum standards: "the most likely candidates are export and import cartels, serious abuses of dominant positions in the world market, and merger approval procedures" (Scherer, 1996, p. 18). An International Competition Office would start enforcing the agreed standards seven years after its creation, and employ national competition authorities to support its investigations. Participants initially would be allowed to exempt three industries from the ban on export cartels. A difference with the Munich proposal is that the focus is much more on anticompetitive practices that directly affect trade.

An EU Group of Experts has suggested that agreement be sought in the WTO context on specific business practices that impede trade, without creating a new international institution (EU Commission, 1995). Enforcement of the common minimum standards would be the responsibility of national antitrust authorities. The agreement again would be plurilateral in nature. In addition to the substantive rules—per se prohibitions on horizontal restraints and export cartels; complemented by a rule of reason approach to other practices—the proposal includes notification requirements, positive and negative comity obligations,\(^4\) and subjecting firms that have been granted special or exclusive privileges to the agreed competition standards. The WTO would enforce the agreement; nullification and

\(^2\) The desirability of alternative competition standards are discussed in Section III below.

\(^3\) See Hoekman and Kostecki (1995) for a discussion of such agreements.

\(^4\) The notion of positive comity appeared alongside traditional negative comity in the September 1991 cooperation agreement in antitrust between the EU and the Unite States. According to the traditional (negative) comity principle, sovereign states will consider important interests of other states when exercising their own jurisdiction. Positive comity shifts the initiative to the state whose interests are affected, which is given the legal option of requesting another state to initiate appropriate enforcement proceedings to address the petitioning country’s concerns (Art.V of the agreement). See Ham (1993) for a discussion of the EU-US agreement.
impairment provisions would be extended to private anticompetitive practices. Others have made suggestions along similar lines, but are less ambitious with respect to the coverage of the minimum standards. For example, Messerlin (1996) has suggested that attention be limited to a prohibition of pro-cartel provisions of national competition laws (i.e., export and import cartels). In all these cases the TRAPs agreement would also address procedural and administrative matters to ensure transparency, enforcement, appeal, and dispute settlement.

Option 2. Link Competition and WTO Trade Policy Disciplines

A number of suggestions have been made to introduce competition law principles into the WTO by incorporating them into specific WTO Agreements. By far the most common proposal is to establish linkages between competition law disciplines and “unfair-trade” laws such as antidumping. The most far-reaching suggestion is to replace antidumping with antitrust.\(^5\) Less radical options include allowing antidumping actions to be contested (ex ante or ex post) on the basis of antitrust considerations; making an antidumping investigation conditional upon a finding by the antitrust authorities of the home market of the exporting firms claimed to be dumping that they benefit from significant barriers to entry; or introducing competition law-type thresholds and criteria into the antidumping process. Examples of the latter include using a "relevant market" instead of "like product" approach to defining the product market in an investigation; including an injury to competition standard; allowing for competition-based defenses by exporters (e.g., "meeting the competition" or absence of market power); imposing maximum market share or concentration criteria on domestic industries that petition for protection; and abolishing provisions allowing for suspension of antidumping investigations after negotiation of voluntary price "undertakings".\(^6\)

Some antitrust-related disciplines have already been incorporated into WTO agreements on

\(^5\) Arguments favoring the abolition of antidumping have been made for many years. See, e.g., Caine (1981).

trade policy. An example is the Agreements on Safeguards (Art. XIX GATT). Art. 11 of the Safeguards Agreement prohibits the use of voluntary export restrictions (VERs) and similar measures on either exports or imports, including import surveillance and compulsory import cartels. WTO members are also to refrain from encouraging or supporting the use of measures with equivalent effect by public or private enterprises (Art. 11:3).

Option 3. Extend the Reach of WTO “Nonviolation” Dispute Settlement Mechanisms

Some observers have suggested extending the reach of WTO dispute settlement procedures to cover entry-restricting business practices that are tolerated by a government. This approach would not involve the negotiation of substantive antitrust disciplines (as under option 1); instead WTO dispute settlement panels would determine if business practices restrict market access for foreign products. Art. XXIII:1 of the GATT already allows WTO members to challenge actions by governments that, although not illegal under WTO rules, nullify or impair concessions obtained in trade negotiations (so-called non-violation disputes). Until a dispute between Kodak and Fuji was brought to the WTO in 1995, the provision had not been used to challenge non-enforcement of antitrust law. In part this reflects a need to show that the nullification is caused by a government measure that was not “reasonably” foreseeable at the time the trade concessions were negotiated. In the antitrust context the problem is whether nonenforcement or the discriminatory application of competition law constitutes a “measure.”

Use of nonviolation dispute settlement might be facilitated by seeking agreement that non-enforcement of national antitrust law is a government “measure” and to weaken the “reasonable expectations” language (Hindley, 1996). Explicit agreement on the necessary conditions for antitrust-

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7 In 1982 the EC requested the establishment of a working party under Art. XXIII:2 on the basis that the benefits of successive negotiations with Japan were not realized because of "a series of factors peculiar to Japan" that inhibited imports. This was a so-called situation complaint under Art. XXIII:1(c), but was ultimately never pursued (see Bronckers, 1985; WTO, 1995, p. 670).
related nonviolation cases could be sought. For example, it might be agreed that the national antitrust authority must have ruled against a petition by a foreign firm alleging violation of the antitrust law by domestic incumbents. Thus, if a foreign firm’s petition is rejected by the national competition authorities, this would constitute a “measure.” Alternatively, Graham and Richardson (1994) have suggested that in the case of antitrust-related trade disputes the application of domestic competition legislation first be reviewed by a multilateral panel of experts, and that invocation of nonviolation proceedings be made conditional upon the panel finding that national competition laws were not appropriately applied. Hoekman and Mavroidis (1994) argue in favor of a broader approach that would focus on obtaining agreement that the effect of national antitrust be “contestable.” This would permit not only invocation of nonviolation disputes based on specific antitrust decisions but would also allow the effect of exemptions to be contested.

**Option 4. Create a Competition Advocacy Role for the WTO**

Rather than expand the scope of WTO disciplines to competition law-related issues, the WTO secretariat could be given a greater competition advocacy role. In national jurisdictions there is a very good case for allowing competition agencies to monitor the competitive impact of government policies as well as enforce competition laws (Khemani and Dutz, 1995). A number of developing countries and economies in transition have granted their competition agencies the right to comment on or oppose government policies that restrict competition (Boner, 1995). A similar task could be given to the WTO. One forum for this could be the WTO’s Trade Policy Review Mechanism, under which the trade policy stance of all WTO members is periodically subjected to a detailed report by the WTO.

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8 This has been suggested by Mitsuo Matsushita.

9 The motivation for this is that in economies that have a history of intervention and where industry is often highly concentrated enforcement of competition law will need to be supplemented by competition policies that support the objectives of the competition law. In addition, there will often be a need for “educating” enterprises, legislators and officials regarding the objectives and application of competition legislation.
secretariat which is the basis for a review by the WTO Council. Such reports could be broadened to include not just trade-related policies that are subject to WTO disciplines but competition policy broadly defined. An alternative is to give the WTO secretariat a mandate to undertake research on the competitive effects of government policies in specific areas. An example is to look at the economic impact of existing product standards and certification requirements on the contestability of markets. Another would be an in-depth investigation of the behavior of state-trading entities and firms granted exclusive rights.

Option 5. *Keep TRAPs Completely Off the WTO Agenda*

A final option is not to do anything at all in the WTO context. Some have argued that efforts should be devoted to expanding the reach and depth of bilateral and plurilateral cooperation between the competition agencies of the major industrialized countries, including application of the principle of positive comity. The presumption is that in the WTO setting priority should be given to more “traditional” government policies that discriminate against foreign producers, including not only trade barriers but also investment restrictions, government procurement practices and policies that reduce competition in service markets. The basic argument is that trade and investment liberalization—while perhaps not sufficient to ensure competition—is the most powerful pro-competitive instrument available and that as long as significant trade barriers remain in place, the pursuit of antitrust is a second-best endeavor (Blackhurst, 1991; Palmeter, 1994). It has also been argued that existing WTO rules already provide substantial scope to contest foreign actions that restrict competition and that these should be “tested” before embarking on further expansion of the WTO agenda. Hoekman and Mavroidis (1994) have noted that the absence of antitrust-related nonviolation cases may imply that anticompetitive practices are not much of an issue. One can also point to the GATT ban on export quotas (Art. XI

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10 In an empirical evaluation of US Section 301 cases, Finger and Fung (1994) conclude that antitrust violations have not been a factor underlying the initiation of such cases.
This could in principle be used to attack export cartels, as these may well operate in a manner that is analogous to an export quota. If so, this would allow a violation case to be brought.

III. Developing Country Interests

Three criteria are useful in evaluating the desirability of these options: (i) the extent to which they enhance the contestability of markets for foreign firms; (ii) the likely impact of alternative options on the national economic welfare; and (iii) their effect on the functioning and integrity of the existing trading system.\(^\text{11}\) The market access yardstick is relevant because to a large extent what is driving antitrust on to the WTO agenda is a perception that inadequate antitrust enforcement may allow incumbent firms to block or attenuate foreign competition. Clearly the trade negotiators’ focus on market access is not necessarily welfare improving, given its emphasis on mercantilist and reciprocity considerations.\(^\text{12}\)

Market Access

To what extent could each TRAPs option help increase the contestability of markets for foreign firms? A minimum standards agreement is not likely to do much to enhance the contestability of markets for foreign firms. In markets where minimum standards imply a strengthening of antitrust law enforcement (mostly developing economies), the magnitude of government-imposed trade and investment restrictions often continues to be significant. Agreement on minimum antitrust standards per se may not have much of an impact on the conditions of competition for foreign firms if more traditional trade and investment barriers are not reduced first. Conversely, in industrialized country markets minimum standards will be of little relevance to developing country exporters as they are already satisfied.

\(^{11}\) It is assumed in the subsequent discussion that and agreement will be enforced by national authorities. The creation of an international antitrust office in the foreseeable future is generally considered to be utopian.

\(^{12}\) Indeed, it may be inconsistent with antitrust principles insofar as negotiations may give rise to anti-competitive market sharing and "voluntary" import expansion agreements.
Table 1: Antidumping Investigations and Measures In Force, 1994-95

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of initiations during 7/94-6/95 against:</th>
<th>Measures in force as of 6/95</th>
<th>Number of initiations during 7/95-6/96 against:</th>
<th>Measures in force as of 6/96</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>LMICs</td>
<td>HICs</td>
<td>LMICs</td>
<td>HICs</td>
</tr>
<tr>
<td>Argentina</td>
<td>5</td>
<td>1</td>
<td>3</td>
<td>26</td>
</tr>
<tr>
<td>Australia</td>
<td>3</td>
<td>3</td>
<td>86</td>
<td>6</td>
</tr>
<tr>
<td>Brazil</td>
<td>9</td>
<td>3</td>
<td>18</td>
<td>1</td>
</tr>
<tr>
<td>Canada</td>
<td>1</td>
<td>8</td>
<td>91</td>
<td>3</td>
</tr>
<tr>
<td>Chile</td>
<td>2</td>
<td>0</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Colombia</td>
<td>1</td>
<td>0</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>EU</td>
<td>31</td>
<td>6</td>
<td>178</td>
<td>16</td>
</tr>
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<td>Guatemala</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>1</td>
</tr>
<tr>
<td>India</td>
<td>8</td>
<td>1</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Israel</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>0</td>
</tr>
<tr>
<td>Japan</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Korea</td>
<td>3</td>
<td>0</td>
<td>6</td>
<td>1</td>
</tr>
<tr>
<td>Malaysia</td>
<td>na</td>
<td>na</td>
<td>na</td>
<td>0</td>
</tr>
<tr>
<td>Mexico</td>
<td>18</td>
<td>0</td>
<td>42</td>
<td>2</td>
</tr>
<tr>
<td>New Zealand</td>
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<td>1</td>
<td>22</td>
<td>7</td>
</tr>
<tr>
<td>Peru</td>
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<td>0</td>
<td>na</td>
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<td>Philippines</td>
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<td>na</td>
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<td>Singapore</td>
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<td>0</td>
<td>0</td>
</tr>
<tr>
<td>South Africa</td>
<td>7</td>
<td>2</td>
<td>15</td>
<td>8</td>
</tr>
<tr>
<td>Thailand</td>
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<td>0</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Turkey</td>
<td>2</td>
<td>0</td>
<td>38</td>
<td>0</td>
</tr>
<tr>
<td>U.S.</td>
<td>21</td>
<td>9</td>
<td>305</td>
<td>10</td>
</tr>
<tr>
<td>Venezuela</td>
<td>1</td>
<td>0</td>
<td>na</td>
<td>5</td>
</tr>
<tr>
<td>TOTAL</td>
<td>128</td>
<td>35</td>
<td>820</td>
<td>100</td>
</tr>
</tbody>
</table>

Note: HIC=high income countries; LMICs=low and middle income countries, including transition economies

Introducing more competition law principles into existing WTO rules could have an impact on market access if this were to constrain the use of contingent protection. Unfair-trade laws and associated contingent protection have become a major consideration for developing country firms. As of mid-1996, WTO members maintained 776 antidumping measures—either antidumping duties or price undertakings by affected exporters (Table 1). Of these, 72 percent were imposed by high income countries, the rest by developing countries. Of the new investigations launched between July 1994 and June 1996 (a total of 317), over two-thirds were directed against firms from developing countries. As the Uruguay Round agreements to eliminate the Multifibre Arrangement are implemented, the probability of developing countries confronting antidumping may rise further.

Eliminating the threat of antidumping actions would be of great benefit in terms of guaranteeing market access conditions for exporters and reducing uncertainty. Even though high income countries account for the lion’s share of antidumping cases, some 15 low and middle income countries also initiated antidumping investigations in 1994-95 (Table 1). An increasing number of developing countries and economies in transition either have or are in the process of adopting unfair-trade laws. At last count, over 50 developing and transition economies had antidumping legislation (WTO, 1996). Developing country trade accounted for some 32 percent of global trade in 1993: 20 percent of all merchandise exports involved sales of goods by industrial to developing economies; South-South trade represented another 13 percent of the total (World Bank, 1996). Disciplining the use of antidumping would improve access conditions in both industrial and developing country markets.

The option of expanding the reach of WTO nonviolation dispute settlement would facilitate raising antitrust-related issues in the WTO and generate information on what types of practices are

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13 The following developing country and transition economy WTO members have notified antidumping legislation to the WTO: Argentina, Barbados, Bolivia, Botswana, Brazil, Brunei Darussalam, Chile, Colombia, Costa Rica, Cote d’Ivoire, Cuba, Czech Republic, Dominican Republic, Ecuador, Egypt, El Salvador, Guatemala, Republic of Guinea, Honduras, Hungary, India, Indonesia, Israel, Jamaica, Kenya, Korea, Macau, Malawi, Malaysia, Maldives, Mauritius, Mexico, Morocco, Nicaragua, Pakistan, Paraguay, Peru, Philippines, Poland, Romania, St. Lucia, Senegal, Slovakia, Slovenia, South Africa, Sri Lanka, Suriname, Swaziland, Thailand, Trinidad & Tobago, Tunisia, Turkey, Uganda, Uruguay, Venezuela, and Zambia.
considered most problematical. However, the remedies that may be suggested by a WTO panel cannot affect the national application of antitrust law—at best a complainant country will be offered compensation. This is therefore unlikely to enhance market access conditions for the firm that brought the complaint. That is, the conditions of competition for firms will not necessarily improve as the policies—by definition—do not violate any WTO rule.

Welfare

From a national welfare perspective, in principle there is a strong rationale for adopting and enforcing antitrust rules. The reason is that although an open trade and investment regime is a powerful device to ensure competition, it may not be adequate in the face of concerted efforts by firms to collude or to restrict entry. Moreover, if non-tradable sectors (e.g., distribution services) are controlled by domestic manufacturers and sheltered from foreign competition (through investment) imports may be subject to discrimination. Whether antitrust enforcement will improve national welfare depends on the substantive rules that are adopted and on their enforcement. As in any area of regulation, care must be taken that the specific disciplines that are adopted are appropriate to the economic situation of each country and that competition agencies are shielded from problems of capture and political influence.  

The basic competition norms that are considered for inclusion in a TRAPs agreement are therefore of great importance. Clearly “one size fits all” does not apply. This is amply illustrated by the widely diverging laws and policies among OECD countries, where differences exist on virtually all aspects of competition law, be it the treatment of mergers, resale price maintenance, parallel imports, the weights that should be given to actual versus potential competition, what constitutes an abuse of a dominant position, and so forth. This reflects differences in objectives, priorities, and economic

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14 See, e.g., the contributions in McChesney and Shughart (1995).
philosophy. A reading of the literature suggests that there is virtual unanimous agreement that horizontal restraints—collusion between firms in the same industry to restrict output or fix prices—are anticompetitive and should be banned (assuming that the objective of competition law is to foster efficiency). A multilateral rule to this effect would benefit developing countries.

With respect to most other practices that may be of concern (e.g. vertical restraints, actions by dominant firms, and mergers), apparent restrictions on competition may be justified on efficiency grounds. Most laws therefore allow competition agencies to make judgements in such cases following a so-called "rule of reason" approach. This suggests that going beyond the adoption of common norms on horizontal restraints is likely to be very difficult, if not impossible. An implication of the differences that exist across high income countries on substantive issues is that the question whether there exists a minimum set of common rules on "non-horizontal" practices that would benefit developing countries is not likely to be relevant in practice. Instead, the focus of multilateral attention can be expected to center on the procedural and administrative aspects of competition laws in order to ensure transparency and due process.

Thus, at most any minimum standards are likely to be limited to horizontal restraints. There are two types of such restraints that are relevant. The first are domestic restraints that impact on the domestic market; another are restraints imposed by foreign firms. The latter, which are exemplified by export cartels, are often explicitly allowed by national competition laws as long as the agreements do not have a detrimental effect on the home country market. The Webb-Pomerene Act in the US is a prominent example. Export cartels may allow firms to exploit greater market power in foreign markets. The resulting transfer of income (profits) to domestic firms may increase the welfare of the home country, explaining the permissive attitude that is often taken by national competition laws.

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15 For much more comprehensive discussions on this topic, see Boner and Krueger (1992), Boner (1995), and Khemani and Dutz (1995).

Although scope to exploit export cartels may exist for some developing countries, they are more likely to be confronted with export cartels from industrialized countries that raise the price of imported goods. Indeed, developing countries have traditionally been concerned about the scope for multinational enterprises to exploit their market power in developing country markets. A negotiated ban on export cartels would be beneficial to developing countries.\footnote{17}

From a welfare perspective, the procedural disciplines that are embodied in a TRAPs agreement may well be a much more important source of gain than the substantive disciplines that nations commit themselves to. Any agreement is likely to be similar to existing WTO agreements on issues such as product standards, government procurement or intellectual property. These agreements have a few key substantive provisions (e.g., non-discrimination; 20 year patent protection) which are complemented by very detailed procedural and “due process” requirements that are intended to ensure that policies are transparent and the key rules are not easily circumvented. Any competition agency should ideally have a number of features, including transparency of the administrative mechanisms, regulations and procedures; separation of investigation and prosecution from adjudication functions; expeditious and transparent proceedings that safeguard sensitive business information; provisions for imposing significant penalties; and checks and balances to guarantee due process, including the right of appeal, reviews of decisions, and access to information on legal and economic interpretations (Khemani, 1994). A TRAPs agreement embodying such principles would help ensure that these desirable features are realized in all WTO members, in part by providing external surveillance of their implementation.

The option of linking trade and competition policy disciplines is likely to be welfare enhancing

\footnote{17 Of course, in principle certain developing countries may have some (potential) market power in the export of particular commodities. However, experience with commodity agreements illustrates the difficulty of exercising this. More generally, the pursuit of “strategic” trade policies—of which toleration of export cartels is an example—requires a great deal of information if it is to be welfare enhancing, and account must be taken of possible retaliation by trading partners. The potential gains for developing countries that might be realized through export cartels are likely to be much lower than the possible cost incurred through the activities of foreign export cartels.}
for developing countries insofar as it reduces the threat of contingent protection, both in export markets and at home. As mentioned previously, an increasing number of developing countries have adopted—or are in the process of doing so—antidumping mechanisms. Thus, elimination or disciplining of antidumping is not only an issue of expanding exports, but also one of reducing costs for domestic users of imports in developing countries. It is well established that the economic rationale for antidumping is almost nonexistent and that antidumping regimes can be very costly for the countries that implement them (Finger, 1993).

The welfare implications of expansion of nonviolation dispute settlement are also likely to be positive as this is an additional instrument to ensure that liberalization commitments will be implemented. An important advantage of this option over others is that it goes beyond competition law-related issues. In principle, any measure that nullifies a trade liberalization commitment can be contested. Here again there is a domestic and foreign market access component, with the former being as if not more important than the latter. The reason is that nonviolation can be a useful avenue to identify policies that restrict competition. In this respect nonviolation is a “strong” form of competition advocacy and would complement any mandate that might be given to the WTO secretariat to act as a competition advocate.

Giving the WTO such an advocacy mandate would also be beneficial as it would generate information on the economic effects of government policies. More important, it could provide incentives for the establishment of domestic counterpart institutions. The latter is particularly important for developing countries. Domestic “transparency institutions” and competition agencies have long been promoted by trade policy and competition analysts who argue that public information on the costs and benefits of government policies is required in order to countervail rent-seeking activities (see e.g., Finger, 1982). A multilateral competition advocacy role may help to support the creation and
operations of such institutions.\textsuperscript{18}

\textit{Systemic implications}

From a trading system perspective a key question is why an international agreement is \textit{necessary} to achieve a particular outcome. In general, multilateral cooperation is based on the existence of externalities or "market failures" that result in outcomes that are inefficient—that is, there are gains from cooperation. Of the various options, there seems to be least need for multilateral cooperation on minimum antitrust standards. After all, if it is in the self-interest of countries to prohibit horizontal restraints on competition one can expect them to pass legislation to that effect. Many developing countries have already done so (Table 2). One rationale for a minimum standards agreement may be that it will help encourage countries that have not adopted competition legislation to do so.\textsuperscript{19} A more compelling rationale relates to the procedural dimensions of a TRAPs agreement. If minimum standards are defined broadly to include procedural transparency and due process-enhancing disciplines, there may be enforcement and implementation-related benefits associated with an agreement. This possibility is of great potential significance as implementation of antitrust in some developing countries may be resisted by powerful vested interests.

The need for multilateral cooperation is clearer with respect to the other options, as unilateral action is either unlikely or impossible. Of the various options, only the introduction of greater competition disciplines into existing WTO agreements and enhancing the competition advocacy role of the WTO appear to be unambiguously beneficial. The other options have potential downside risks as well as benefits. Minimum substantive competition law standards could clearly strengthen the system,

\textsuperscript{18} Some countries have given antitrust offices a mandate to scrutinize government policy, including privatization and trade policies, for their impact on competition. A problem that arises for any agency that pursues such a mandate is that it may confront opposition by interests that benefit from a particular situation. This may result in attempts to constrain the agency's mandate directly, or in efforts to reduce its budget. A TRAPs agreement could help to sustain the work of such entities.

\textsuperscript{19} Of course, this will extend beyond whatever minimum standards are agreed for horizontal restraints.
Table 2: Adoption of Competition Law in Developing and Transition Economies

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<thead>
<tr>
<th>Country</th>
<th>Status</th>
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<th>Memo: Countries in the process of adopting legislation</th>
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<tr>
<td>China</td>
<td>1993</td>
<td>Sri Lanka</td>
<td>1987</td>
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<tr>
<td>India</td>
<td>1969; 1991</td>
<td>Taiwan</td>
<td>1991</td>
<td>Senegal</td>
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<td>Pakistan</td>
<td>1970</td>
<td>Thailand</td>
<td>1979</td>
<td>Zambia</td>
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<td>Argentina</td>
<td>1919; 1946; 1980; under rev.</td>
<td>Jamaica</td>
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<td>Brazil</td>
<td>1962; 1994</td>
<td>Mexico</td>
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<td>Chile</td>
<td>1959; 1973</td>
<td>Peru</td>
<td>1991; 1994</td>
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<td>Transition Economies</td>
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<td>Georgia</td>
<td>1992; under rev.</td>
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<td>1991; 1994</td>
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Note: This list of countries is not necessarily comprehensive.

especially if export cartels were to be prohibited. The toleration of export cartels is inconsistent with
the GATT ban on quantitative export restrictions and is a hole in the WTO. The adoption of
minimum standards may also help to diffuse bilateral pressure and actions. By adopting antitrust
legislation that satisfies these standards, a “target” country can argue that multilateral dispute settlement
procedures should be invoked rather than unilateral actions. But if “too much” is sought in terms of
harmonization of antitrust rules—especially beyond horizontal restraints—or enforcement, the scope for
disputes and breakdown of cooperation will increase; to the detriment of the system.

Similarly, expanding the reach of nonviolation-based dispute settlement has the potential for
stressing the system as WTO panels will be requested to look at the effects of enforcement or
nonenforcement of national antitrust laws. This may strengthen the system—by reducing the scope for
circumvention of liberalization commitments and reducing the uncertainty regarding market access
conditions—but it may also increase the pressure on the system. One reason is because of the implied
reliance on “judicial activism” as opposed to negotiated disciplines (Jackson, 1996). Another is that
panels cannot impose remedies that will change the status quo. This may induce greater use of
unilateral measures that are “motivated” by the finding of the panel. Finally, even the competition
advocacy and “do nothing” options may be detrimental to the trading system insofar as it encourages
the use of unilateral actions, discriminatory solutions, and so forth.

IV. Feasibility of Alternative TRAPs Agreements

Minimum Standards

At least 37 developing countries and economies in transition already have competition legislation, and
another 21 are in the process of revising or adopting such laws (Table 2). Although the substantive
obligations of these laws will differ, as will enforcement standards, in most cases existing statutes will

20 Another hole is the permissive approach towards the use of export taxes, which are not subject to GATT rules.
tend to be most stringent with respect to horizontal restraints. This suggests achieving agreement on minimum standards with respect to such practices may well be feasible. Greater difficulty may be experienced concerning the procedural and administrative disciplines, as this may well constitute more of a threat for vested interests that oppose greater competition.

It may also be difficult for high income countries to agree to eliminate exemptions for export cartels, given that there may be a good economic rationale for them. The need for multilateral cooperation/negotiations is clear. Any agreement to ban export cartels will have to be complemented by multilateral disciplines on government policies that have an equivalent effect. Although export prohibitions or quantitative restrictions are forbidden under GATT Art.XI, and export subsidies on manufactures are prohibited for industrialized countries, current WTO rules basically give members the freedom to impose tariffs on exports. They also allow for the formation of export monopolies, GATT disciplines (Art.XVII) in this regard being limited (Hoekman and Mavroidis, 1994). This implies that members would remain substantially free to attempt to shift the terms of trade in their favor. Efforts to agree to multilateral disciplines on export cartels therefore will have to be complemented by analogous tightening of the rules regarding the scope that exists for countries to pursue “strategic” export policy.

*Antitrust and Unfair-Trade Laws*

Recent regional integration agreements suggest agreements to link antitrust to trade policy will not be straightforward to achieve. A commitment by Central and Eastern European countries to apply EU competition rules did not eliminate the threat of contingent protection by the EU. Antidumping remains applicable to trade flows. The same is true in the EU’s recent agreements with the Mediterranean countries (Hoekman and Djankov, 1996). Similarly, the North American Free Trade Agreement also maintains antidumping for internal trade flows. Despite the Canadian government’s great interest in

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21 See Auquier and Caves (1979) for a discussion of the exemption from competition policy of “rent extracting” behaviour by home country firms on export markets, as well as the optimal policy that should be pursued by the home country.
disciplining the use of antidumping (with a stated preference for abolition) negotiators were unable to agree to replace antidumping with antitrust enforcement. However, there are regional agreements where the antidumping option has been repealed in favor of competition law enforcement. Examples are the European Economic Area, the Australia-New Zealand Closer Economic Relations Trade Agreement and most recently the free trade agreement negotiated between Chile and Canada. In the first two cases achieving such agreement took a long time, and was conditional upon substantial harmonization of competition and related policies, including subsidies.\footnote{For a discussion of New Zealand, see Ahdar (1991). More generally, see Hoekman and Mavroidis (1996) and Schöne (1996).}

Whatever the feasibility of linking antitrust and trade policy in the regional context, informal proposals to pursue such a linkage in the WTO have been confronted with strong opposition. This reflects the preferences of both the antitrust community and the proponents of "unfair trade" laws in a number of high-income countries. Discussion of minimum antitrust standards is not rejected by either group; what is opposed is making any agreement on TRAPs "too" trade-related. Many antitrust authorities are hesitant about becoming drawn into trade policy, given the different objectives in practice of the two policy communities. While in principle favoring the introduction of competition principles into trade policy in general and "unfair trade" laws in particular, there is concern about involving antitrust offices in the trade policy process. The fear is that this might end up "corrupting" antitrust enforcement by shifting the focus from protection of competition to protecting domestic firms from foreign competitors.

Supporters of antidumping and related "unfair trade" instruments are strongly opposed to any antitrust-related involvement in the enforcement of such laws (Rosenthal and Silliman, 1996; Stewart, 1996). For example, they argue that antidumping focuses on what is recognized by the WTO to be an "unfair" practice, that the appropriate disciplines and remedies were recently re-negotiated with great difficulty in the Uruguay Round, and that "antidumping policies as articulated in the [GATT]
Agreement on Article VI better promote rational resource allocation between countries than national competition policies...[and] since there are no internationally agreed rules on competition policy, it is at a minimum premature to discuss a merger of one area into another" (Stewart, 1996, p. 3). If anything, it is argued by Stewart, competition policy has significant lessons to learn from antidumping law. These propositions suggest that antitrust authorities do have potential cause for concern. The apparent confluence of interest between defenders of strong antitrust laws and the antidumping lobby may create a powerful coalition against any attempt to ensure that a TRAPs agreement introduces antitrust principles into the contingent protection process, especially antidumping.

Making WTO rules more competition friendly may therefore be difficult to attain, at least as far as "unfair trade" laws such as antidumping are concerned. This would be particularly detrimental to developing countries, who have much to gain from the introduction of competition principles in this area. Clearly a necessary condition for achieving this will be significant "concessions" by such countries. Whether enough concessions can be made to convince (force) the antidumping lobby to accept competition disciplines, and whether any resulting benefits will be worth these concessions are open questions.

Nonviolation Dispute Settlement
How feasible might it be to extend the reach of nonviolation? Clearly a necessary condition is that countries have national antitrust legislation. Many developing nations do not and will therefore have to adopt such provisions. However, as mentioned earlier, a large number of countries already have competition legislation or are in the process of drafting such laws. This is therefore not a binding constraint. The fact that GATT contracting parties did not avail themselves of this provision in the past, even though in principle it offers the opportunity to allege that nonenforcement of antitrust or measures supporting anticompetitive practices nullified benefits, suggests that extension may not be that easy to achieve. This is an approach that leaves it to panelists to determine the rules of the game, and
countries may fear that they tread on a slippery slope (Blackhurst, 1994). Moreover, insofar as agreement is reached on minimum antitrust standards, the need for expanding the reach of the nonviolation or nullification option may become less compelling to negotiators. After all, it can be argued that disputes will then revolve around violations of WTO commitments to abide by the minimum standards, and that expanding nonviolation is unnecessary.

The recent decision by the US to bring a nonviolation complaint to the WTO alleging that Fuji has restricted Kodak’s ability to contest the Japanese market by engaging in anti-competitive practices suggests that there may be a willingness to explore expanding the reach of this procedure. From a systemic perspective it is beneficial that actions be brought to the WTO; from a national perspective it is valuable to be able to “deflect” pressures for action to the multilateral level—allowing firms access to an objective fact-finding mechanism may be enough in many instances to “clear the air.” Moreover, if it helps to prevent the use of unilateral remedies, this also will be a valuable systemic benefit.

A limited and clearly circumscribed expansion of the nonviolation option may prove acceptable. One possibility would be to require that a necessary condition for invoking nonviolation is prior rejection of a case in writing by the antitrust authorities of the importing nation. In such cases, panels might be limited to a review of the application of domestic antitrust legislation; a somewhat more far-reaching alternative would be to allow them to determine whether a decision not to act by a domestic antitrust agency implies nullification of negotiated liberalization commitments.

**Competition Advocacy**

Granting the WTO a competition advocacy mandate requires acceptance by members to be subjected to such surveillance. Until the Trade Policy Review Mechanism (TPRM) was adopted in the late 1980s there was little reason to be optimistic regarding the willingness of members to do so. In principle the rationale for accepting greater competition advocacy is the same as that underlying the TPRM: although a government may not like to be subjected to review as it can lead to pressure to change
policies (both by domestic lobbies and foreign trading partners), the quid pro quo is that all other WTO members are in the same situation. A potential limitation is that WTO members are likely to insist that competition advocacy remain trade-related, i.e., that there is a “trade effects” justification for investigating particular practices or situations.

V. Conclusions

A number of options for dealing with trade and competition policy in the WTO have been investigated in this paper: agree to minimum standards for national antitrust laws; introduce more competition principles into WTO trade policy rules; expand the reach of the WTO provision on nullification and impairment to policies that restrict competition; grant the WTO a competition advocacy mandate; or do nothing. From a developing country perspective all of these options have the potential to be beneficial. Indeed, the possible downside risk attached to any of them appears limited.

The option that in principle has the greatest potential for reducing welfare—harmonization of substantive competition rules—will in all likelihood be limited at most to horizontal restrictions. As economic theory strongly suggests that there are few if any efficiency rationales for permitting such practices, there should not be a major concern regarding this option. To the extent that countries currently tolerate such practices, banning them would improve welfare. This in turn suggests there is little need for an international agreement. Many developing countries either have, or are in the process of adopting competition legislation. An agreement on minimum standards may however be helpful in monitoring implementation and enforcement of competition laws, in large part through a variety of procedural disciplines that aim at transparency and “due process”. The rationale for multilateral negotiations to ban national antitrust exemptions for export cartels is more obvious—the status quo is likely to be inefficient from a world welfare viewpoint. Whether national incentives to ban such exemptions can be offset through negotiations is an open question. Much may depend in this connection on what else is on the table and on the cross-issue tradeoffs that can be made.
Developing countries would also benefit from a TRAPs agreement that links competition law to antidumping law, the goal ideally being to replace the latter with the former. Introducing antitrust-type disciplines into antidumping would be valuable from both a “market access” and a welfare perspective. However, attempting to achieve this will give rise to strong opposition on the part of those who benefit from antidumping. Such interests are currently mostly centered in industrialized countries where antidumping is often a prominent instrument of trade policy. The demand for antidumping is more likely to increase than decline in the coming decade. The elimination of MFA quotas and the commitment to reduce all tariffs to zero by 2010 in the APEC context, to name just two examples, may well result in a shift by affected import-competing industries towards antidumping and other forms of contingent protection. The increasing spread of antidumping legislation to developing economies expands the set of interest groups that may oppose its abolition.

Expanding the reach of nonviolation-based dispute settlement would also be beneficial. This is perhaps the most “hands-off” way of allowing antitrust-related market access problems to be raised in the WTO. It has the advantage of not requiring substantive agreements on common disciplines. In principle all types of anti-competitive practices tolerated by governments could be contested, and much might be learned about the significance of the various anticompetitive practices that are alleged to constitute market access restrictions. While this may be seen as too much of a “slippery slope” by some negotiators, the openendedness of this mechanism can be limited. For example, agreement could be sought to tie invocation of WTO nonviolation procedures to decisions by national antitrust authorities not to investigate or to act in a specific case brought by foreign firms.

Whatever the eventual outcome of a negotiation on competition policy, it must be kept in mind that without significant progress in reducing barriers to trade and investment a TRAPs agreement cannot do much to enhance the contestability of markets. Trade and investment liberalization should therefore be continued to be pursued on a priority basis. Of particular importance in this connection is liberalization of services. Commitments made by WTO members on services are quite limited, with
developing countries in particular fully opening up only a very small set of service activities to foreign competition. Granting the WTO secretariat a greater competition advocacy role could therefore prove to be quite useful in maintaining and expanding the scope of liberalization efforts.
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<td>L. Barbone</td>
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<td>Juan Zalduendo</td>
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<td>Luis Servén</td>
<td>February 1997</td>
<td>E. Khine</td>
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<td>Evidence, and Lessons for Africa</td>
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<td>Lessons from Ecuador</td>
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<td>Have the Outer Islands Been Left Behind?</td>
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<td>Effects of Regional Trade Arrangements?</td>
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<td>February 1997</td>
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<td>Developing Countries?</td>
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<td>WPS1733 The Usefulness of Private and Public Information for Foreign Investment Decisions</td>
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