

**NATIONAL TRADE POLICY REFORM, THE WTO AND THE
MILLENNIUM ROUND:
THE CASE OF DEVELOPING COUNTRIES AND COUNTRIES
IN TRANSITION**

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I propose to view the WTO, its upcoming Seattle Ministerial, and the following round of multilateral trade negotiations from the perspective of developing countries and countries in transition. Before plunging into the topic, allow me to take a few snapshots of these slices of the world economy. What is their state of play in terms of international trade and foreign direct investment, and in terms of their own trade policies?¹

Less-than-rich countries now play an increasingly important role in international trade and investment. Since 1980, their share of world manufactured exports has doubled from 10 to 20 per cent. Over a third of FDI goes in their direction, up from 14 per cent in the late 1980s. According to World Bank projections, their shares of world trade and output could roughly double to 50 per cent and 30 per cent respectively by 2020.

Correspondingly, developing countries and countries in transition play a weightier role in international trade policy. They account for over three-quarters of WTO membership today – a share that is set to increase further as new countries gain accession (including Russia and China).

For much of the post-war period most developing countries, accounting for about half the world's population, pursued interventionist and protectionist policies, and were marginal players in the GATT. In addition, a third of the world's population lived in centrally planned economies almost hermetically sealed from the world economy and not even members of the GATT.

In the last decade-and-a-half, though, a sea-change in trade policies has taken place, alongside policy reform in other areas. Thirty-three developing countries (almost half of all developing countries with protectionist policies) swung from relatively closed to relatively open trading regimes between 1985 and 1995. In roughly the same period, the number of them with

liberal or mostly liberal regimes of cross-border capital movements swelled from 9 to 30. Since 1990, three-quarters of countries in transition have liberalised trade-and-payments regimes in the most dramatic episode of economic liberalisation the world has ever seen.

These basic facts are symptomatic of something bigger and more profound. One of the hallmarks of policy reform in the 1980s and 1990s has been the embrace of international economic integration (or globalisation) by many poorer parts of the world. Although occurring somewhat gradually and patchily, there seems to be rising awareness and appreciation of globalisation's advantages, allowing national economies to allocate resources more efficiently through specialisation and exchange (in static terms), and (in dynamic terms) to reap productivity gains and higher growth through widening the geographic range of markets, increasing exposure to world-class competition, technology transfer, *inter alia*. Recent comparative economic performance confirms the above propositions: there is mounting evidence of the link between external openness and higher growth. On the trade front, for instance, the fastest growing developing and transition countries are clearly those with the highest degree of openness to imports and exports.²

Nevertheless, this overhaul of trade policy, in a liberalising direction, is very patchy and uneven. If anything, *divergence* of policy in the developing and transition world has increased since the 1970s and 1980s. A minority, mainly in East Asia, Latin America and Eastern Europe, have liberalised trade and investment extensively (in tandem with macroeconomic stabilisation, internal price liberalisation, privatisation and institutional reform), and reaped the attendant benefits of higher growth; the vast majority, especially in Africa, the Middle East, South Asia,

Southeastern Europe and the ex-Soviet Union, have liberalised very partially and fitfully, and are on correspondingly lower, or in some cases even negative growth paths.

This sets the scene for the fit between the WTO and national trade policy reform in the less developed world. Multilateral trade negotiations and agreements have formed part of national strategies of external liberalisation, and the forthcoming Millennium Round could well be a pillar of redoubled efforts in this direction. However, there are other important foundation stones and pillars supporting the edifice of outward-oriented trade policy. The Millennium Round should be seen within this scaffolding (if you will indulge my Schumpeterian taste for architectural metaphor). This takes us from the basement to the ground floor of the discussion.

The next section looks at the different national tracks of trade liberalisation, and tries to identify the complementarities and contradictions between the multilateral (WTO) track and other tracks. The following section then views the Millennium Round itself through the prism of multi-track national trade policy. What are developing and transition country interests, and what positions should these countries adopt, in the Millennium Round? What is the state of their political and institutional capacity to set and achieve objectives, and what political strategies would be most appropriate? Not least, how would further WTO-track liberalisation relate to unilateral and regional tracks of liberalisation, with the objective of achieving closer national integration with the world economy?

Three tracks of trade policy

In this section I view national trade policy as a multi-track endeavour. There are three primary tracks: unilateral, multilateral and plurilateral. One or more are used at any one moment; the absolute and relative importance of each may vary over time. In the 1990s, developing and transition countries have proceeded along all three tracks simultaneously. It is therefore apposite to pinpoint the advantages and disadvantages of each track, and the manner in which they interrelate.

a. The unilateral track: “liberalism from below”

I trust the government ---- will not resume the policy which they and we have found most inconvenient, namely the haggling with foreign countries about reciprocal concessions, instead of taking that independent course which we believe to be conducive to our own interests. --- let us trust that our example, with the proof of practical benefits that we derive from it, will at no remote period insure the adoption of the principles on which we have acted.

Sir Robert Peel, House of Commons, 1846.

The nature and pace of reform have been determined by our own internal political processes, not by the slow speed of international negotiations. We should not wait for international reform to make decisions that seem to be in our own best interests.

Statement on trade policy, Ministry of Foreign Affairs and Trade, New Zealand, 1993.

It is often forgotten that the bulk of recent trade-and-investment liberalisation in the developing and transition worlds has taken place unilaterally, i.e. governments have liberalised quotas, tariffs, licensing arrangements, restrictions on FDI and state trading monopolies independently and not as part of international agreements. Although many governments have reluctantly undertaken unilateral liberalisation as part of IMF and World Bank structural adjustment programmes, the really strong and sustained liberalisers, such as Chile and Argentina

in Latin America, Estonia and the Czech Republic in Eastern Europe, the East Asian NIEs and China, have gone ahead under their own steam, largely without the need for external pressure. Among the developed economies, only Australia and New Zealand have undertaken radical unilateral liberalisation in recent decades.

The benchmark example of unilateral free trade was Britain, which comprehensively dismantled all protectionist barriers between 1842 and the late 1850s, and then sustained free trade through thick and thin until World War One. For most of the twentieth century the unilateral track was hardly used – until East Asian, Latin American and then East European countries travelled down this route. Indeed, they did so in greater numbers and at faster speed from the mid 1980s. Since the launch of the Uruguay Round, over 60 developing countries have unilaterally lowered barriers to imports.

Unilateral liberalisation is what I would call “liberalism from below,” precisely because governments can simply go ahead and “just do it” – the trade policy equivalent of the Nike strategy. Policy-makers need not wait to conclude bilateral, regional or multilateral agreements – “from above,” as it were – in order to liberalise trade and FDI.

In economic theory and in practice, unilateral liberalisation makes eminent sense. Nearly all the classical economists from Adam Smith to Alfred Marshall, as well as the great British economic policy reformers of the nineteenth century, vigorously promoted unilateral free trade on theoretical and practical grounds. To begin with, national gains from trade result directly from *import liberalisation*, which spurs more efficient resource allocation. One important effect of import liberalisation is to channel resources into profitable export sectors, removing the bias

against exports inherent in protectionist regimes. Seen in this light, there is every reason to go ahead on the fast track of unilateral liberalisation without wasting time on the slow track of reciprocal negotiations.³

The case for unilateralism or “liberalism from below” is reinforced by rather persuasive and enduring political economy arguments. The alternative policy of reciprocity (“liberalism from above”), i.e. using intergovernmental negotiations to achieve trade liberalisation, is a politicised, time-consuming and cumbersome affair. It encourages trade negotiators to think in terms of power games rather than economic efficiency. Meanwhile, rent-seeking interest groups continue to exercise influence with governments. Lastly, the game of reciprocity inevitably involves the threat of retaliation if one party believes that other parties are engaging in “unfair trade,” or are simply not making enough concessions on market access. The grand virtue of unilateral liberalisation is that, by taking the direct route to freer trade rather than the roundabout route of reciprocity, it avoids the prospect of government failure and retaliation. It quite simply short-circuits the arbitrary politics inherent in intergovernmental negotiations.⁴

b. The multilateral track: “liberalism from above” through the WTO

The great political virtue of multilateralism, far exceeding in importance its economic virtues, is that it makes it economically possible for most countries, even if small, poor and weak, to live in freedom and with chances of prosperity without having to come to special terms with some Great Power.

Jacob Viner

As alluded to above, reliance on reciprocity *at the expense of* unilateralism can be disadvantageous. Apart from anything else, the political economy rationale of reciprocal liberalisation is basically mercantilist: governments bargain over access to each other's *export* markets, conveying the mistaken impression that exports are “good” and imports are “bad.” This

kind of thinking creates a political atmosphere in which trade negotiators aim to extract as many concessions from other governments on access to their markets, while at the same time striving to give away as little as possible on access to one's own market.

While these demerits of reciprocity apply to the GATT/WTO track of trade liberalisation, the latter does have considerable, even overriding advantages, particularly for less developed countries. The initial point to make here is that, for most of the twentieth century, rich and poor countries have not been able to use the unilateral track due to unfavourable domestic political conditions. The external prop of an international agreement, whereby many countries move ahead with external liberalisation in concert, can be useful to overcome domestic opposition. Since the late 1940s, the multilateral rules of the GATT/WTO have provided such a framework for progressive trade liberalisation, especially through the basic principles of non-discrimination embodied in the Most Favoured Nation and National Treatment clauses.

For most of the GATT's existence, developing countries were largely exempt from its rules and obligations. Consequently, a small club of developed countries ran the show and did not take developing country interests seriously in GATT deliberations. The Uruguay Round was a turning-point: for the first time some developing countries played an active part in many negotiating areas. This was particularly the case with East Asian countries that had already undertaken significant unilateral liberalisation and saw further multilateral liberalisation as a logical underpinning and extension of their reform processes. Many Latin American countries followed by becoming active proponents of multilateral liberalisation on the back of their unilateral reforms from the mid 1980s (in Chile's case, from the mid 1970s). This applies to

Australia and New Zealand as well in the OECD: previously, they had stood aside from GATT liberalisation measures; after initiating their own unilateral trade reforms, they began to push for multilateral liberalisation, particularly in agriculture.

Hence, on the basis of own unilateral reforms and Uruguay Round experience, a significant block of developing countries is now in a far better position to appreciate the advantage of multilateral rules, and to play a more proactive role in shaping their future course. This applies equally to the ex-command economies that have joined the GATT/WTO since the early 1990s.

Multilateral rules provide the following advantages for developing and transition countries:

- Less developed countries are mostly small compared to the large trading nations of the developed world. They are highly dependent on trade and consequently have a large stake in the healthy growth of the international economy. As such, the protection of a well-functioning system of international trading rules is especially important to them.
- WTO rules, in return for certain obligations, provide less developed countries with *rights*: rights to market access to exports; and rights against the arbitrary and selective protection and predation of more powerful players in the developed world. Since the conclusion of the Uruguay Round, these rights have been enforceable through a strong, legally binding dispute settlement mechanism.

- Multilateral rules serve an important domestic political and economic function. Binding reciprocal commitments lock-in previously undertaken measures of liberalisation and help prevent a descent back into protectionism, especially in conditions of low growth or recession when domestic pressures for protection increase. Thus, the WTO mechanism *reinforces the credibility* of domestic policy reform in the eyes of exporters, importers, and local and foreign investors.
- International treaties strengthen the hand of governments and shift the balance of interest group politics within the domestic sphere. Binding international obligations protect governments against politically influential domestic producer groups clamouring for protection against imports. At the same time, intergovernmental negotiations mobilise the support of domestic exporters, who have a stake in lobbying their governments to “concede” market access at home in return for improved market access for their products abroad.

c. The plurilateral track: “liberalism in between”

In between the two aforementioned tracks is the plurilateral route, on which two or more countries come together to regulate trade. Advocates argue that groups of like-minded countries can club together to take trade and investment liberalisation deeper, wider and faster than would be possible in the much larger and more diverse WTO. Indeed, the plurilateral track could be used to accelerate progress along the multilateral track. On the other hand, detractors argue that bilateral or regional trade agreements are a stumbling block in the multilateral trade order. The initial objection is that they can lead to international resource misallocation through trade

diversion. More fundamentally, they are usually discriminatory, favouring members of the club at the expense of third parties, thereby violating the GATT's MFN principle. The danger is that regional trade agreements (RTAs) in particular can lead to a patchwork of opaque, overlapping and discriminatory procedures, especially in the form of non-tariff barriers such as rules of origin and domestic content requirements. This might easily divert time and resources from, and weaken the non-discriminatory nature of both multilateral and unilateral liberalisation.

Most developing and transition countries have been part of the proliferation of RTAs since the early 1980s. To date, there has been no hard evidence that RTAs have impeded the growth of world trade and investment. Indeed, many would hold that regional initiatives, such as the EC's Single Market programme, NAFTA, MERCOSUR and APEC, have had a net liberalising effect and created additional trade and investment flows.⁵ One should also mention the explosion of bilateral investment treaties: there are over 1600, three-quarters of which have been concluded since 1990. A growing number and proportion of these involve non-OECD countries.

However, the very fact that *discriminatory* regional trade liberalisation is in the ascendant poses serious questions for the rule-integrity of the WTO and the continued viability of unilateral liberalisation.

d. Multi-track liberalisation: complementarities and contradictions

At this stage, let me try to pull together the elements of the preceding discussion and give an idea of where I think national trade policy should be heading and how it could proceed *en route*. To those who believe in free trade (broadly defined) as a means of enlarging the freedom

to choose – for its own sake and as a handmaiden of greater prosperity – the end-objective must be complete or near-complete integration with the world economy. Basically, this translates into the freedom of cross-border movement in goods, services and capital, to the extent that residents in different countries should be as free to transact business with each other as are residents of the same country.⁶ Non-discrimination between own citizens and foreigners, therefore, is the litmus test of free trade in practice.⁷ Trade and investment liberalisation along at least two, and possibly all three tracks identified would be useful in working towards this goal. That said, it is very important to recognise how these tracks might complement and mutually reinforce each other, on the one hand, and how they might clash, on the other. Above all, indiscriminate and unreflective use of all three tracks might hinder rather than promote the cause of progressive external liberalisation.

First, unilateral liberalisation should be advocated much more powerfully and prominently; *indeed, it should be the primary track, and first-order priority, for trade policy.*⁸

Second, unilateralism on its own is often insufficient as a political strategy. Most developed, developing and transition countries lack the domestic political requisites to undertake and sustain unilateral trade reforms. Even the benchmark examples of unilateral liberalisation face domestic political pressures to reverse course when economic conditions take a turn for the worse. Crucially, the US and the EU, the two major influences on the international trade policy game, remain wedded to reciprocity as the chief instrument to open markets worldwide.

Given these factors at the end of the twentieth century, the multilateral track of reciprocity can serve as a helpful auxiliary to unilateral liberalisation. There is complementarity between the

two tracks: unilateral liberalisers can lock-in their reforms through binding WTO agreements; in turn, the latter can provide the springboard for further and deeper unilateral reforms.

This virtuous circle is already apparent in the expanding field of tradable services. Unilateral domestic deregulation and privatisation, first in the US and the UK, paved the way for GATT negotiations on trade-related services during the Uruguay Round. Also illustrative are the recent GATS agreements on financial services and basic telecommunications services. Developing country signatories view these multilateral agreements as crucial instruments to improve their service infrastructures, particularly by attracting FDI; some have since proceeded beyond WTO commitments with further unilateral liberalisation.

One important qualification: unilateral and multilateral liberalisation can only be complementary if both are pursued on a *non-discriminatory* basis consonant with MFN and National Treatment. If the end-objective is full integration with the world economy through non-discrimination as between own citizens and foreigners, WTO member-states should, first, undertake non-discriminatory unilateral liberalisation, and, second, pursue multilateral liberalisation on an equally non-discriminatory basis, with progressively fewer loopholes and get-out clauses in WTO agreements. Under such conditions, unilateralism and multilateralism would form a coherent whole in underpinning simple, transparent national trade policy regimes.

Third, the in-between track of plurilateral liberalisation is more problematic. When it discriminates against third parties it adds to the opacity and political arbitrariness of trade policy regimes, and thereby undermines (non-discriminatory) unilateral and multilateral liberalisation. There is some evidence of this in Latin America and East Europe, where strong, non-

discriminatory unilateral liberalisation has been arrested, at least in part due to the prioritization of regional trade agreements (in Latin America) and EU accession (in East Europe). Although discriminatory regional liberalisation cannot be wished away, there are ways and means of making it less incompatible with unilateral and multilateral tracks. This should be one issue for the Millennium Round.

On the other hand, when the plurilateral track is used in a non-discriminatory manner, there is a good fit between it and the other tracks. The best example of this is the loose form of “open regionalism” in APEC, in which joint measures of liberalisation are automatically extended to third parties in conformity with unconditional MFN.

The Millennium Round and the less developed world

The integration of developing countries --- is in many ways the greatest challenge of this exercise (the Millennium Round). --- The WTO train must not depart without the developing world.

Sir Leon Brittan, address at the LSE, July 1st 1999.

Developing and transition countries can improve their growth prospects by playing a more active role in the WTO and taking better advantage of its multilateral rule-base. In particular, the forthcoming Millennium Round presents them with a golden opportunity to deepen their integration into the world trading system.

An Australian study, for example, estimates that halving global protection for agriculture, manufacturing and services would boost the world economy by more than \$400bn annually, double the welfare gains from the Uruguay Round. All countries stand to gain: developed countries would gain more in absolute terms, but less developed countries would benefit more if

gains were expressed as a proportion of GDP. If anything, these are conservative estimates: they do not take account of the longer-run dynamic effects of trade liberalisation.⁹

Hence, developing and transition countries should focus more on the multilateral track of trade and investment liberalisation. However, this does not mean that they should veer away from other tracks, particularly unilateral liberalisation. On the contrary, they should accelerate progress along unilateral and multilateral tracks concurrently, while seeking to avoid some of the pitfalls of the plurilateral track.

a. Further unilateral liberalisation

Nearly all less developed countries still have wide scope to undertake further unilateral liberalisation of tariffs, non-tariff trade barriers and inward investment. In agriculture, many countries retain an anti-export bias due to government-induced distortions that favour inefficient but politically well connected urban manufacturers. In manufacturing, trade-weighted MFN applied tariffs are still high in South Asia and North Africa (just under 30 per cent), although they have come down to fairly low levels (just above 10 per cent) in East Asia and Latin America, and even lower levels in East Europe (about 6 per cent). Developing country exports continue to be hindered by tariff peaks (on sensitive goods) and tariff escalation (on processed, higher-value goods) in other developing countries.

Further liberalisation in both agriculture and manufacturing, for example by lowering tariff peaks (to 5-15 per cent) and setting a low uniform tariff, would reduce or remove the bias against tradable goods and shift productive resources into export sectors. Liberalisation of own services markets, critical to improving domestic infrastructure, would feed through into greater

efficiency in agriculture and manufacturing. At present farmers and manufacturers are handicapped by severe supply bottlenecks, especially backward transport and communication infrastructures. Lastly, abolishing discriminatory restrictions on foreign-owned firms and according them National Treatment, and launching further privatisation measures, would send the right signals to attract more FDI.

The strong and sustained trade policy reformers in Latin America, East Asia and East Europe have also been the most prominent unilateral liberalisers. Their task is to combine more liberalisation with domestic institution-building measures to entrench and deepen the reform process. The vast majority of less developed countries, in contrast, have been reluctant unilateral liberalisers and are well behind the first division in terms of overall liberalisation. Their task is to proceed with the basic steps of external liberalisation, e.g. abolishing quotas and licensing restrictions, lowering tariffs and tariff dispersion, and taking away remaining restrictions on FDI.

Thus, less developed countries still have a large trade and investment liberalisation agenda ahead of them, much of which can be achieved unilaterally, without waiting for the negotiation and conclusion of international agreements. *Wherever and whenever politically feasible, unilateral liberalisation should be pursued on its own merits and not held back as a bargaining chip in multilateral or regional negotiations.* To repeat an earlier point, *unilateralism should be the primary track and first-order priority of trade policy.* This is one important maxim developing and transition countries should take to heart as they enter important WTO negotiations in 2000. They would be making a grave mistake and harming their self-interests if they were to slow down on the unilateral track in the belief that further liberalisation should only

be “conceded” in WTO negotiations in return for export market access. This would be the fast track to denying themselves the benefits of speedy and substantial import and inward investment liberalization.

Contrary to received wisdom among politicians, trade negotiators and assorted experts, continuing and accelerated unilateral liberalisation would be perfectly compatible with the vigorous pursuit of own interests on the multilateral track. Above all, the latter should be regarded as a lock-in mechanism for ongoing national reforms by binding previously undertaken measures of unilateral liberalization, increasing the costs of reform reversal, and providing extra sustenance to domestic interests favoring open markets. The effective combination of the two tracks would best reinforce the credibility of national trade policy regimes in the eyes of domestic and foreign investors. Seen in a “classical-liberal” or “constitutional” light – “from below” in terms of the quality and consistency of the *national policy framework* -- the emphasis should be to use a combination of unilateralism and multilateralism to strengthen private property rights in international transactions. This, after all, is part and parcel of Adam Smith’s “natural liberty, upon the liberal plan of freedom, equality and justice.”

b. Regional trade agreements

There is no harm in using the plurilateral track to advance trade and investment liberalisation providing there is no discrimination against third parties. This is why APEC should be regarded as a helpful auxiliary to both unilateral and multilateral liberalisation. Discriminatory RTAs, however, are another matter. At present, Article XXIV of the GATT and Article V of the GATS, both loosely worded and effectively unpoliceable, seem to provide a floor rather than a

ceiling for the proliferation of *preferential* trading arrangements, thereby undermining the non-discriminatory basis of the WTO. As part of the Millennium Round, all member-states should enter negotiations with a view to strengthening the surveillance of RTAs, and to tightening the WTO rule-base, particularly concerning the use of rules of origin requirements.

c. The Millennium Round¹⁰

With a greater share of international trade and FDI, and a louder voice in the WTO, developing and transition countries have a window of opportunity to actively shape the Millennium Round and help see it through to a successful conclusion. They should clearly and precisely identify a shopping-list of positions consonant with their national interests, and then act as forceful *demandeurs* in forthcoming WTO deliberations.

However, many developing countries, led by India, Pakistan and Egypt, would prefer multilateral negotiations to stick to the WTO's "built-in" agenda: implementing the Uruguay Round agreements and further negotiations on agriculture and services. This strategy is unwise; rather less developed countries should support a broad agenda with pan-sectoral coverage. A limited agenda would likely deliver liberalisation only or mainly in areas of interest to developed countries. A broader agenda, on the other hand, would offer something to all participants and allow for trade-offs between negotiating areas. This is the best hope for liberalisation in the interests of less developed countries. By "conceding" market access in services, binding tariffs at low rates, restricting the use of Special and Differential Treatment, etc. – all in any case in their self-interests -- less developed countries would have a better chance of extracting developed country concessions on textiles and clothing, agriculture, industrial tariffs, etc. Moreover,

interest groups are more likely to mobilise in support of trade liberalisation if the Millennium Round covers a wide range of sectors.

If most less developed countries come to the Seattle Ministerial with a negative and reactive mind-set, they will form an unwitting coalition with anti-globalisation NGOs to block the launch of a comprehensive Millennium Round. This will probably undermine the WTO's credibility and increase protectionist pressures. A proactive mind-set on the part of less developed countries, on the other hand, would be crucial in launching a broad and ambitious Millennium Round agenda. This would prevent backsliding into protectionism, enhance the credibility of the WTO, and set the ball rolling in the direction of significant welfare gains from further trade liberalisation. *Developing and transition countries now have the double-edged power to block progress in the international trading system, or to push it onto a faster track.*

Developing and transition countries should consider staking out and pushing the following positions for the Millennium Round:

A Single Undertaking: A "single undertaking" approach should be followed, i.e. the results of the Round should be adopted in their entirety and apply to all WTO members. Less developed countries should agree to restricting Special and Differential Treatment (S&D) to technical assistance and, as a last resort, longer implementation periods for WTO agreements, while otherwise accepting non-discriminatory rules-based obligations (particularly MFN). A focus on across-the board lowering of trade barriers, underpinned by rules applying equally to all members of the club, would be of much greater benefit to less developed countries than a continued fixation with, for example, the Generalised System of Preferences. The latter has

delivered scant gains to poor countries and been a costly diversion of their political and administrative resources.

Less developed countries should also agree to:

- Make less use of Article XVIII of the GATT, which sanctions exchange controls and quotas on balance of payments and infant industry grounds.
- Bind their WTO MFN tariff ceilings at or close to applied rates. At present, only 59 per cent of developing country tariffs are bound (compared to almost 100 per cent for both developed and transition countries), and there are large gaps between applied and bound rates. Although average applied tariffs in developing countries post-Uruguay Round are 13 per cent, bound tariffs hover around 20 per cent. In Latin America, for instance, applied rates are relatively low as a result of unilateral liberalisation, but their WTO bound rates are thrice as high (30 per cent). In East Asia and Eastern Europe they are twice as high (20 per cent and 13 per cent respectively). In South Asia and North Africa, bound tariffs are close to 50 per cent.
- Make substantially more bound commitments in the GATS. Most unilateral reforms in developing country service sectors remain unbound; in fact less than 20 per cent of maximum possible commitments have been bound in the GATS.
- Desist from increasing anti-dumping actions.

All the above measures would serve two purposes: strengthen the credibility of national trade policy regimes; and improve the chances of major developed country concessions in other areas.

The MFA: Less developed countries should insist, *as an absolute precondition*, that developed country undertakings made in the Uruguay Round, especially on the phase-out of the Multifibre Agreement, are carried out in full. This should be followed by significant tariff reduction in textiles and clothing.

Agriculture: Developing country exports are hindered by high tariff and non-tariff developed country protection in the agriculture, fisheries and food industry sectors. Agricultural liberalisation should be accelerated by reducing peak tariffs, tariff escalation and domestic support, as well as eliminating export subsidies. In addition, less developed countries have a big stake in ensuring that WTO Sanitary and Phytosanitary (SPS) regulations are based on scientific evidence rather than being used as a backdoor for protection. SPS measures introduced by developed countries are a growing barrier to market access for developing country exports. Less developed countries must participate more actively in WTO deliberations on SPS.

Industrial tariffs: High tariffs and tariff escalation on processed goods continue to distort resource allocation and cramp trade in politically sensitive sectors such as textiles and clothing, steel, footwear, travel goods, transport equipment, automobiles and energy products. Many of these sectors are of great export interest to less developed countries. Tariff peaks and tariff escalation should be substantially reduced, *which must include liberalization in the textiles and*

clothing sectors. Lastly, a deadline should be set for duty free access to all goods exported by least developed countries.

Anti-dumping: Rather arbitrary anti-dumping (AD) actions hit small firms and new entrants from less developed countries particularly hard. They are less able than firms from developed countries to fight AD actions in political and bureaucratic arenas, and to comply with the often prohibitively high costs of implementing relevant administrative procedures. During the 1990s, developing countries have increasingly resorted to their own AD actions, especially against other developing countries. Noticeably, Latin American countries, under pressure from domestic lobbies, have increased AD actions while abolishing quotas and steeply reducing tariffs (a similar trend has occurred in Australia and New Zealand).

Less developed countries should push hard to tighten AD procedures in Article VI of the GATT in order to reduce arbitrary and selective protection. However, it is unlikely that the EU and the US will agree to radical multilateral restrictions on their AD regimes. Nevertheless, the issue should be raised. There is a long-odds chance that the US and the EU will relent on anti-dumping if offered significantly greater access to developing country markets, especially in services. Not least, less developed countries should take the long view by raising the issue now, which would improve the prospects of eventually beefing up Article VI.

Trade, environmental and labour standards: Less developed countries should firmly reject developed country demands for trade sanctions to enforce environmental and labour standards extra-territorially, which would introduce “green” and “brown” protectionism into the WTO. Higher environmental and labour standards are largely a reflection of more advanced

economic conditions and more demanding consumer preferences in developed countries; they are inappropriate for poorer countries. The costly imposition of such standards on them would not be in line with their comparative advantages and would hinder exports.

At the same time, less developed countries should resist attempts by developed countries to use previous rulings by WTO panels or the Appellate Body to apply national or regional environmental regulations extra-territorially. This applies in particular to the Appellate Body ruling on the shrimp-turtle issue, which, while finding against the US in the specific case, suggested that there might be grounds for extra-territorial application of national regulations providing there is adequate consultation. Arguably, this interpretation contravenes the provisions of Article XX of the GATT forbidding discrimination of imported goods by governments on the basis of how they are produced.

The environmental standards issue in particular is politically highly charged and potentially explosive. Well-funded and highly mobilised environmental NGOs from developed countries are putting concerted and very public pressure on the EU and the US to push the issue in Seattle. On the other hand, developing countries are adamant that they will not compromise on WTO trade sanctions to enforce environmental standards. The nightmare scenario is that this will lead to deadlock in Seattle and abort the Millennium Round project.

With this in mind, less developed countries must do their utmost to avoid a “nuclear” confrontation in Seattle, without compromising their baseline position and the integrity of WTO rules. They should consider adopting the following strategies:

- Advocate “win-win” solutions to reduce agricultural and fishing subsidies with environmentally beneficial effects.
- Agree to consider global environmental (and labour) problems more actively in non-WTO fora, e.g. in the context of other international organisations.
- Agree to measures to improve WTO information disclosure, and to upgrade dialogue between the WTO and civil society constituencies. However, less developed countries should make it very clear that direct access to and participation in WTO deliberations are the exclusive preserve of member governments, not private parties. *The WTO is and should remain a strictly intergovernmental mechanism to negotiate trade liberalisation according to multilateral rules.* Direct interest group participation, whether by NGOs or business constituencies, would fatally undermine the WTO. This is a constitutional point of the utmost importance that should not be sacrificed on the altar of political correctness with respect to NGOs. Ultimately, the WTO should be regarded as a bulwark of non-discriminatory rules supporting private property rights in international transactions; it must not fall victim to nebulous and arbitrary concepts of “democracy” bandied about in the current cacophony on globalisation.

Technical assistance and capacity building: Most developing countries, especially the least developed among them (LDCs), take little advantage of multilateral rules. Their main obstacle is weak or very weak institutional capacity. The WTO’s ongoing work and expanding coverage, particularly in the wake of the Uruguay Round agreements, require additional capacity

from member governments. This is simply beyond the reach of LDCs with weak and corrupt governments, deficient civil services and poor communications.

Perhaps most glaringly, poorer countries, and LDCs in particular, suffer from deficient legal resources for, and political/administrative monitoring of WTO dispute settlement. All less developed countries should insist on the establishment of an independent Advisory Centre on WTO Law to assist LDCs and other less developed members in bringing and defending cases in the Dispute Settlement Mechanism. This is all the more important in light of the creeping legalisation of the WTO. There is the danger that, given the “constructive ambiguity” of GATT and GATS texts, and following the shrimp-turtle ruling, policy decisions may be driven by WTO members able and willing to commit significant legal resources to dispute settlement cases. Less developed and smaller countries need to become more involved in dispute settlement to prevent this happening, and to make sure that panel and Appellate Body rulings stick to the letter and spirit of WTO rules.

LDCs also require substantially increased financial and technical assistance to comply with intellectual property rights obligations, customs procedures, and SPS and technical standards imposed by developed countries.

Services: Less developed countries have a strong interest in further liberalisation across-the-board in trade related services. As mentioned before, liberalisation of own markets, achieved unilaterally, plurilaterally and multilaterally, will be critical to upgrading domestic transport and communications infrastructures. Air and maritime transport are two previously excluded sectors that need to be brought into GATS negotiations. In addition, less developed countries should

campaign forcefully for export market access in service sectors where they enjoy comparative advantage, especially in the cross-border movement of temporary labor (under Mode Four of the GATS).

Other issues: Less developed countries might consider backing issues of lower priority but possibly worthwhile supporting in return for developed country concessions in other areas. A WTO agreement on foreign direct investment would be at the head of this list.

Political strategies for the Millennium Round

Developing and transition countries face big obstacles in advancing many of the positions advocated above. To begin with, less developed countries have increasingly differentiated interests. Korea, Singapore and Hong Kong have achieved high per capita income levels on the back of exporting a diversified set of sophisticated manufactures; other East Asian, Latin American and East European countries are in the middle-income bracket and are also reliant on export-led growth; some developing countries are net exporters of unskilled labour-intensive manufactures; and at the extreme, there are LDCs who are net food importers reliant on external aid.

Differentiation of interests is matched by differentiation of capacity: while most developing countries and the more backward transition countries are under-active or hardly active at all in the WTO, there are about 30-35 developing and transition countries who are active or very active, with well-staffed WTO missions, and strong representation in the formal and informal consultations that take place in the WTO. This group includes Chile, Mexico,

Argentina, Brazil, the ASEAN countries, Korea, Hong Kong, the Czech Republic, Hungary and Poland.

Given this diversity in the developing and transition world, it will be politically more effective for some less developed countries to join forces with some developed countries where there is common interest, both at a general, pan-sectoral level and at a more sector-specific level. The paradigm is the Cairns Group, uniting agricultural exporters from developed countries with developing countries from ASEAN and Latin America. Also worthy of mention is the Chilean approach ahead of the Millennium Round, forging alliances with Australia and New Zealand on services liberalization, working through the Cairns Group on agricultural liberalization, and finding common cause with the EU on foreign direct investment.

Nevertheless, there are issues on which all developing and transition countries have common interests, such as resistance to trade sanctions to enforce labour and environmental standards, credit for unilateral liberalisation, and technical support for dispute settlement. Here a united front would enhance bargaining power.

Ultimately, middle-income countries in East Asia and Latin America that have already undertaken extensive unilateral liberalisation and participate actively in the WTO must take the lead. They should expect support from East European countries in the vanguard of transition, although the latter can be expected to align their positions with the EU in preparation for EU accession. It is up to these advanced developing and transition countries to build alliances on separate issues with like-minded developed countries, as well as to make a concerted effort to persuade other developing and transition countries to jump on board a pro-liberalisation agenda.

Other issues and conclusion

The message I have tried to get across in this paper is that less developed countries should make maximum use of unilateral and multilateral tracks of trade and investment liberalisation. These are complementary, not mutually exclusive routes to closer national integration with the world economy, provided that non-discrimination is the lodestar of policy. The Millennium Round should be seen in this context.

There are a couple of other issues I should like to mention before signing off. These are relevant, if indirectly, to the Millennium Round, and are of great moment to trade policy and trade policy-making in the less developed world.

The first issue concerns accession of new countries to the WTO. Over 30 are in the queue. The prospective accession of Russia and China in particular is bound to have a major impact on the future of the WTO. On balance accession is good news, although it will put further strain on an already creaking WTO machinery that operates by consensus. Taiwan is the most promising accession candidate: WTO membership should spur further domestic reforms; and one would hope that this major trading nation will soon be in the vanguard of East Asian and Latin American members of the WTO vigorously pursuing a pro-liberalisation agenda. As far as Russia and China are concerned, there is considerable political pressure from the US and the EU to bring them inside the WTO tent as quickly as possible. However, other WTO members should take great care to ensure that accession takes place on the right terms, even if that takes time. It would damage the rule-integrity of the WTO to have easy and hasty entry for a handful of (politically

powerful) countries, while the bar of accession seems to be getting higher and higher for other accession candidates.

The last issue I wish to flag concerns the management of trade policy *within* less developed countries with inevitably larger institutional deficits compared to developed countries. I have already highlighted the under-representation and inactivity of a majority of less developed members in the WTO. This is but a reflection of deep-seated and often seemingly intractable deficiencies in the trade policy process within the domestic sphere. Mention should be made of some of the more glaring problems: lack of clear political direction; overlapping competencies and turf fights between ministries; corruption, and lack of professional expertise and competence in the civil service; lack of information on relevant trade policy issues; inadequate or non-existent channels of communication with business constituencies with a stake in open markets (exporters, multinational enterprises, users of imported inputs); bad or non-existent coordination between WTO missions and national capitals; interest group capture of relevant ministries; inadequate appreciation and enforcement of property rights and contracts, including those pertaining to international transactions. Usually, these defects translate into a passive, muddling-through stance on the international trade policy scene. The heart of the problem is that politicians, bureaucrats and even front-line trade negotiators do not have a clear conception of what national trade policy interests are, let alone how they can be achieved.

On the bright side, however, the first-division reformers in the less developed world (in Latin America, East Asia and Eastern Europe) have made great strides in improving the quality of trade policy decision-making, largely on the back of unilateral reforms. Many now have a

clearer appreciation of own interests, which translates into a more constructive, proactive role in the WTO.

Much solid research has been done on the applied economics and macropolitical economy of trade policies in less developed countries, but very little has materialised on the micropolitical economy of the trade policy *process* in these countries. This should be addressed urgently so that we can understand better why governments do not make better use of different tracks of trade policy. This would be the first step to offering advice on how the decision-making process can be improved, hopefully going beyond not very insightful World Bank stylised facts.

The vast potential for improving trade policy decision-making, and taking better advantage of unilateral and multilateral tracks of trade policy, should not obscure a very important, indeed historic trend. In recent decades, the West has been quite timid about further external liberalisation; radical opening has occurred where, even a decade-and-a-half ago, one expected it least – in developing countries, and more recently in countries in transition outside the traditional boundaries of the West. Hence the paradox of modern trade policy: the free trade ambition, a Western idea and long a preserve of Western practice, has taken hold in parts of the South and East whereas it has retreated in parts of the West itself.

This trend, it should be added, is not impelled by the impersonal and inexorable external forces of globalisation. There is nothing technically pre-programmed about external liberalisation in today's world economy. Just as in the nineteenth century when the world was seemingly on course for ever closer economic integration, sovereign governments today remain largely free to choose – to make a variety of policy choices on whether and how they should integrate their

economies with the world economy. This they do in reaction to (often unanticipated) events and crises, to interest group pressure, and to the changing climate of ideas and attitudes. All this plays out differently in different national contexts and in different circumstances, which accounts for the very real differences between national foreign economic policies (and consequently in comparative economic performance). How else is one to explain the divergence of policy and performance in the developing and transition worlds in our time? At the risk of sounding axiomatic, trade policy, like globalisation itself, depends critically on political choice at the national level.¹¹

¹ I take trade policy to include issues relating to foreign direct investment.

² Jeffrey Sachs and Andrew Warner, "Economic reform and the process of global integration," in William C. Brainard and George L. Perry eds., *Brookings Papers on Economic Activity* 1, 1995, pp. 1-118; Sebastian Edwards, "Openness, productivity and growth: what do we really know?" *Economic Journal* 108,44, March 1998.

³ The terms of trade/optimum tariff argument complicates the case in favour of unilateral liberalisation and provides theoretical support for the alternative policy of reciprocity. The argument here is that countries exercising long-run market power in international demand for certain goods should only lower tariffs if others reciprocate, in order to avoid worsening terms of trade. However, in reality very few countries (if any at all) have such market power under long-run conditions. Therefore, a beautiful idea on the Olympian heights of theory (not for the first time!) turns out to have little relevance in the valleys of real-world trade and practical policy. This returns policy, *as a practical proposition*, to a presumption in favour of unilateral free trade.

On the terms of trade/reciprocity debate, see Lionel Robbins, *Robert Torrens and the Evolution of Classical Economics* (London: Macmillan, 1958), pp. 182-231; Douglas A. Irwin, *Against the Tide: An Intellectual History of Free Trade* (Princeton NJ: Princeton University Press, 1996), pp. 106-115.

⁴ On unilateralism and reciprocity, see my *Classical Liberalism and International Economic Order: Studies in Theory and Intellectual History* (London: Routledge, 1998), pp. 54-56, 94-95, 168-170, 198-199.

⁵ *Regionalism and the World Trade System* (Geneva: WTO, 1995).

⁶ Economic liberals would also advocate the freedom of people to migrate across borders, much along nineteenth century lines. Given present-day policies, however, this must remain a very long-term objective.

⁷ David Henderson, "International economic integration: progress, prospects and implications," *International Affairs* 68, 1992, p. 635.

⁸ This can be done without excessive, or even any reliance on conditional aid, including aid from the IMF and the World Bank. As the experience of strong reformers in the developing and transition worlds shows, domestic political economy factors, not aid, ultimately determine the long-run success or failure of trade policy reform.

⁹ *Global Trade Reform: Maintaining Momentum*. Ministry of Foreign Affairs and Trade, Commonwealth of Australia, 1999.

¹⁰ This section relies on my paper, *How the Commonwealth Can Take Advantage of Multilateralism: Developing Countries and the WTO Millennium Round* (London: Commonwealth Business Council, 1999).

¹¹ My views on globalisation and policy reform echo those of David Henderson in what must be the best, most savvy overview and interpretation of modern policy reform around. See his *The Changing Fortunes of Economic Liberalism: Yesterday, Today and Tomorrow* (London: Institute of Economic Affairs, 1999).