Developing Country Trade Policy Reform and the WTO

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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 percent. Over a third of foreign direct investment (FDI) goes in their direction, up from 14 percent in the late 1980s. According to World Bank projections, their shares of world trade and output could roughly double to 50 percent and 30 percent, 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 World Trade Organization (WTO) membership today ~~a~~ share that is set to increase further as new countries gain accession (including Russia and China).

For much of the postwar period most developing countries, accounting for about half of the world's population, pursued interventionist and protectionist policies, and were marginal players in the General Agreement on Tariffs and Trade. 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 liberalized trade-and-payments

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regimes in the most dramatic episode of economic liberalization 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 was the embrace of international economic integration (or globalization) by many poorer parts of the world. Although it is occurring somewhat gradually and patchily, there seems to be rising awareness and appreciation of globalization's advantages, allowing national economies to allocate resources more efficiently through specialization and exchange (in static terms), and (in dynamic terms) to reap productivity gains and higher growth through widening the geographic range of markets and increasing exposure to world-class competition and technology transfer, among other things. Recent comparative economic performance confirms these 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 (Sachs and Warner 1995; Edwards 1998).

Nevertheless, this overhaul of trade policy, in a liberalizing 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 liberalized trade and investment extensively (in tandem with macroeconomic stabilization, internal price liberalization, privatization, 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 liberalized 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 liberalization, and a new round of WTO negotiations 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 next 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 liberalization and tries to identify the complementarities and contradictions between the multilateral (WTO) track and other tracks. The following section then views WTO negotiations themselves through the prism of multitrack national trade policy. What are developing and transition country interests, and what positions should these countries adopt, in multilateral trade negotiations? 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 liberalization relate to unilateral and regional tracks of liberalization, 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 multitrack endeavor. 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 appropriate to pinpoint the advantages and disadvantages of each track, and the manner in which they interrelate.

The Unilateral Track: Liberalism from Below

It is often forgotten that the bulk of recent trade-and-investment liberalization in the developing and transition worlds has taken place unilaterally; that is, governments have liberalized 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 liberalization as part of International Monetary Fund and World Bank structural adjustment programs, the really strong and sustained liberalizers, such as Chile and Argentina in Latin America, Estonia and the Czech Republic in Eastern Europe, the East Asian newly industrialized economies 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 liberalization 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 I. For most of the 20th century the unilateral track was hardly used—until East Asian, Latin American, and then East European countries traveled down this route. Indeed, they did so in greater numbers and at faster speeds from the mid-1980s. Since the launch of the Uruguay Round, more than 60 developing countries have unilaterally lowered barriers to imports.

Unilateral liberalization is what I call "liberalism from below," precisely because governments can simply go ahead and "just do it"—the trade policy equivalent of the Nike strategy. Policymakers need not wait to conclude bilateral, regional, or multilateral agreements—"from above," as it were—to liberalize trade and foreign direct investment.

In economic theory and in practice, unilateral liberalization 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 19th century, vigorously promoted unilateral free trade on theoretical and practical grounds. To begin with, national gains from trade result directly from *import liberalization*, which spurs more efficient resource allocation. One important effect of import liberalization 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 liberalization without wasting time on the slow track of reciprocal negotiations.[1]

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"), that is, using intergovernmental negotiations to achieve trade liberalization, is a politicized, 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 liberalization is that taking the direct route to freer trade, rather than the roundabout route of reciprocity, avoids the prospect of government failure and retaliation. It quite simply short-circuits the arbitrary poli-

[1]The terms of trade/optimum tariff argument complicates the case in favor of unilateral liberalization 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, 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 favor of unilateral free trade. On the terms of trade/reciprocity debate, see Robbins (1958: 182–231) and Irwin (1996: 106–15).

tics inherent in intergovernmental negotiations (Sally 1998: 54–56, 94–95, 168–70, 198–99).

The Multilateral Track: Liberalism from Above through the WTO

As alluded to earlier, reliance on reciprocity *at the expense of* unilateralism can be disadvantageous. Apart from anything else, the political economy rationale of reciprocal liberalization 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 as possible 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.

Although these demerits of reciprocity apply to the GATT/WTO track of trade liberalization, 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 20th century, rich and poor countries have not been able to use the unilateral track because of unfavorable domestic political conditions. The external prop of an international agreement, whereby many countries move ahead with external liberalization 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 liberalization, especially through the basic principles of nondiscrimination embodied in the most favored nation (MFN) 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 liberalization and saw further multilateral liberalization as a logical underpinning and extension of their reform processes. Many Latin American countries followed by becoming active proponents of multilateral liberalization on the back of their unilateral reforms from the mid-1980s (in Chile's case, from the mid-1970s). The same thing occurred with Australia and New Zealand in the Organization for Economic Cooperation and Development. Previously, they had stood aside from GATT liberalization measures; after initiating their own unilateral trade reforms, they began to push for multilateral liberalization, particularly in agriculture.

Therefore, on the basis of their 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 with 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 liberalization and help prevent a retreat 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 clamoring for protection against imports. At the same time, intergovernmental negotiations mobilize 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.

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 liberalization 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, favoring 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 nontariff barriers such as rules of origin and domestic content requirements. This might easily divert time and resources from, and weaken the nondiscriminatory nature of, both multilateral and unilateral liberalization.

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 European Community's Single Market program, NAFTA, MERCOSUR, and APEC, have had a net liberalizing effect and created additional trade and investment flows (WTO 1995). One should also mention the explosion of bilateral investment treaties: there are more than 1,600, three-quarters of which have been concluded since 1990. A growing number and proportion of these involve countries outside the Organization for Economic Cooperation and Development.

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

Multitrack Liberalization: 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.[2] Nondiscrimination between one's own citizens and foreigners, therefore, is the litmus test of free trade in practice (Henderson 1992: 635). Trade and investment liberalization along at least two, and possibly all three, tracks identified would be useful in working toward this goal. That said, it is very important to recognize 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 liberalization.

First, unilateral liberalization should be advocated much more powerfully and prominently; indeed, it should be the primary track, and first-order priority, for trade policy.[3]

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 liberalization face domestic political pressures to reverse course when economic conditions take a turn for the worse. Crucially, the United States and the European Union (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, the multilateral track of reciprocity can serve as a helpful auxiliary to unilateral liberalization. There is complementarity between the two tracks: unilateral liberalizers 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 privatization, first in the United States and the United Kingdom, paved the way for GATT negotiations on trade-related services during the Uruguay Round. Also illustrative are the recent General Agreement on Trade in Services (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 pro-

[2]Economic liberals would also advocate the freedom of people to migrate across borders, much along 19th century lines. Given present-day policies, however, this must remain a very long-term objective.

[3]This can be done without excessive, or even any, reliance on conditional aid, including aid from the International Monetary Fund 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.

ceeded beyond WTO commitments with further unilateral liberalization.

One important qualification: unilateral and multilateral liberalization can only be complementary if both are pursued on a *nondiscriminatory* basis consonant with MFN and National Treatment. If the end objective is full integration with the world economy through nondiscrimination as between own citizens and foreigners, WTO member-states should, first, undertake nondiscriminatory unilateral liberalization, and, second, pursue multilateral liberalization on an equally nondiscriminatory 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 liberalization is more problematic. When it discriminates against third parties it adds to the opacity and political arbitrariness of trade policy regimes, and thereby undermines (nondiscriminatory) unilateral and multilateral liberalization. There is some evidence of this in Latin America and East Europe, where strong, nondiscriminatory unilateral liberalization has been arrested, at least in part because of the prioritization of regional trade agreements (in Latin America) and EU accession (in East Europe). Although discriminatory regional liberalization 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 new round.

On the other hand, when the plurilateral track is used in a nondiscriminatory 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 the Asian Pacific Economic Cooperation forum, in which joint measures of liberalization are automatically extended to third parties in conformity with unconditional MFN.

WTO Negotiations and the Less Developed World

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, WTO negotiations present 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 $400 billion 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 gross domestic product. If anything, these are conservative estimates: they do not take account of the longer-run dynamic effects of trade liberalization (Ministry of Foreign Affairs, Australia 1999).

Thus, developing and transition countries should focus more on the multilateral track of trade and investment liberalization. However, this does not mean that they should veer away from other tracks, particularly unilateral liberalization. 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.

Further Unilateral Liberalization

Nearly all less developed countries still have wide scope to undertake further unilateral liberalization of tariffs, nontariff trade barriers, and inward investment. In agriculture, many countries retain an anti-export bias due to government-induced distortions that favor 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 percent), although they have come down to fairly low levels (just above 10 percent) in East Asia and Latin America, and even lower levels in Eastern Europe (about 6 percent). 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 liberalization in both agriculture and manufacturing, for example, by lowering tariff peaks (to 5–15 percent) and setting a low uniform tariff, would reduce or remove the bias against tradable goods and shift productive resources into export sectors. Liberalization of own services markets, critical to improving domestic infrastructure, would feed through into greater efficiency in agriculture and manufacturing. Farmers and manufacturers are now 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 privatization measures, would send the right signals to attract more FDI.

The strong and sustained trade policy reformers in Latin America, East Asia, and Eastern Europe have also been the most prominent unilateral liberalizers. Their task is to combine more liberalization 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 liberalizers and are well behind the first division in terms of overall liberalization. Their task is to proceed with the basic steps of external liberalization, for example, 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 liberalization 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 liberalization 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 liberalization should only be "conceded" in WTO negotiations in return for export market access. That 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 liberalization 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. That, after all, is part and parcel of Adam Smith's "natural liberty, upon the liberal plan of freedom, equality, and justice."

Regional Trade Agreements

There is no harm in using the plurilateral track to advance trade and investment liberalization providing there is no discrimination against third parties. This is why APEC should be regarded as a helpful auxiliary to both unilateral and multilateral liberalization. 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 nondiscriminatory 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.

WTO Negotiations

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 next round of negotiations 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 Egypt, India, and Pakistan, 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. Instead, less developed countries should support a broad agenda with pansectoral coverage. A limited agenda would likely deliver liberalization 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 liberalization in the interests of less developed countries. By "conceding" market access in services, binding tariffs at low rates, and restricting the use of special and differential treatment—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, and so forth. Moreover, interest groups are more likely to mobilize in support of trade liberalization if the next round covers a wide range of sectors.

If most less developed countries go to WTO negotiations with a negative and reactive mindset, they would form an unwitting coalition with anti-globalization nongovernmental organizations to block the launch of a new round. This would 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 negotiating 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 liberalization. *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 a new round:

A Single Undertaking. A "single undertaking" approach should be followed, that is, the results of the round should be adopted in their entirety and applied to all WTO members. Less developed countries should agree to restricting Special and Differential Treatment to technical assistance and, as a last resort, longer implementation periods for WTO agreements, while otherwise accepting nondiscriminatory 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 Generalized 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 percent of developing country tariffs are bound (compared with almost 100 percent 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 percent, bound tariffs hover around 20 percent. In Latin America, for instance, applied rates are relatively low as a result of unilateral liberalization, but their WTO bound rates are thrice as high (30 percent). In East Asia and Eastern Europe they are twice as high (20 percent and 13 percent, respectively). In South Asia and North Africa, bound tariffs are close to 50 percent.
- Make substantially more bound commitments in the GATS. Most unilateral reforms in developing country service sectors remain unbound; in fact, less than 20 percent of maximum possible commitments have been bound in the GATS.
- Desist from increasing anti-dumping actions.

All of the preceding 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 Multifiber Arrangement. Less developed countries should insist, *as an absolute precondition,* that developed country undertakings made in the Uruguay Round, especially on the phaseout of the Multifiber Arrangement, be carried out in full. This should be followed by significant tariff reductions in textiles and clothing.

Agriculture. Developing country exports are hindered by high tariff and nontariff developed country protection in the agriculture, fisheries, and food industry sectors. Agricultural liberalization 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, *particularly in the textiles and clothing sectors*. Last, a deadline should be set for duty-free access to all goods exported by least developed countries.

Antidumping. Rather arbitrary antidumping (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 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 to reduce arbitrary and selective protection. However, it is unlikely that the EU and the United States will agree to radical multilateral restrictions on their AD regimes. Nevertheless, the issue should be raised. There is a long-odds chance that the United States and the EU will relent on antidumping 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 Labor Standards. Less developed countries should firmly reject developed country demands for trade sanctions to enforce environmental and labor standards extraterritorially, which would introduce "green" and "brown" protectionism into the WTO. Higher environmental and labor 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 extraterritorially. This applies in particular to the Appellate Body ruling on the shrimp-turtle issue, which, while finding against the United States in the specific case, suggested that there might be grounds for extraterritorial 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 mobilized environmental nongovernmental organizations from developed countries are putting concerted and very public pressure on the EU and the United States to push the issue in the WTO. On the other hand, developing countries are adamant that they will not compromise on WTO trade sanctions to enforce environmental standards. The nightmare scenario that this will lead to deadlock and abort the Millennium Round project was realized in Seattle.

With this in mind, less developed countries must do their utmost to avoid a "nuclear" confrontation at the WTO, 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 labor) problems more actively in non-WTO fora, for example, in the context of other international organizations.

- 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 liberalization according to multilateral rules.* Direct interest group participation, whether by nongovernmental organizations 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 nongovernmental organizations. Ultimately, the WTO should be regarded as a bulwark of nondiscriminatory 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 globalization.

Technical Assistance and Capacity Building. Most developing countries, especially the least developed (LDCs) among them, 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 center 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 because of the creeping legalization 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 from 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 liberalization across-the-board in trade-related services. As mentioned earlier, liberalization 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 in which they enjoy comparative advantage, especially in the cross-border movement of temporary labor (under Mode 4 of the GATS).

Other Issues. Less developed countries might consider supporting issues of lower but possibly worthwhile priority 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 Multilateral Trade Negotiations

Developing and transition countries face big obstacles in advancing many of the positions advocated here. 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 labor-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: Although most developing countries and the more backward transition countries are underactive or hardly active at all in the WTO, about 30 to 35 developing and transition countries 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 Association of Southeast Asian Nations 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 with whom there is common interest, both at a general, pansectoral level and at a more sectorspecific level. The paradigm is the Cairns Group, uniting agricultural exporters from developed countries with developing countries from Association of Southeast Asian Nations 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 labor and environmental standards, credit for unilateral liberalization, 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 liberalization and participate actively in the WTO must take the lead. They should expect support from Eastern 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-liberalization agenda.

Other Issues

The message I have tried to relay in this article is that less developed countries should make maximum use of unilateral and multilateral tracks of trade and investment liberalization. These are complementary, not mutually exclusive routes to closer national integration with the world economy, provided that nondiscrimination is the lodestar of policy. Any new WTO negotiations should be seen in this context.

There are a couple of other issues I should like to mention. These are relevant, although indirectly, to the next round, and are of great moment to trade policy and trade policymaking in the less developed world.

The first issue concerns accession of new countries to the WTO. More than 30 countries 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-liberalization agenda. Regarding Russia and China, there is considerable political pressure from the United States 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 with developed countries. I have already highlighted the underrepresentation 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 nonexistent 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 frontline 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 decisionmaking, 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.

Conclusion

Much solid research has been done on the applied economics and macropolitical economy of trade policies in less developed countries, but very little has materialized 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 decisionmaking process can be improved, hopefully going beyond not very insightful World Bank stylized facts.

The vast potential for improving trade policy decisionmaking 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 liberalization; 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 globalization. There is nothing technically preprogrammed about external liberalization in today's world economy. Just as in the 19th 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 globalization itself, depends critically on political choice at the national level.[4]

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[4]My views on globalization and policy reform echo those of David Henderson in what must be the best, most savvy overview and interpretation of modern policy reform. See Henderson (1999).

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