

Canberra Roundtable on Trade and Development

**Gains and Costs to Developing Countries from the
Multilateral Trading System and Liberalization**

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Thank you for inviting me to be with you here today for what promises to be a very interesting discussion of trade and development issues. As you may know, these days I head up a new Institute in Adelaide that, among other things, is active in the development and provision of trade-related capacity building programs for developing countries. But before coming to this job, I was for three years the Deputy Director-General of the World Trade Organization and that time we were working hard toward the successful launch of the Doha Development Agenda multilateral trade negotiations. A great deal of thought, discussion and negotiation was involved in turning the WTO around from the disaster at Seattle in 1999 to the success in Qatar just two years later.

This morning, I would like to say something about the backdrop to the Doha Round and also where I expect we will be by the end of the round. The title of this session is “examining the costs and benefits of trade liberalization for the poor”, but I am going to take the liberty of expanding that somewhat and talk not just about liberalization but also more generally about the costs and benefits for the poor countries of participation in the global trading system. Trade liberalization is a major part of that equation, but not the only part.

Uruguay Round

For all practical purposes, developing countries were not really a part of the multilateral trading system until the end of the Uruguay Round negotiations in 1993. Probably a majority of the WTO’s 148 Members today were not even contracting parties to the old GATT system. Why? First, there was little incentive to become involved because the system didn’t treat most of the issues they were concerned with. Second, what little the old system offered developing countries in terms of imperfect benefits of membership was generally offered “free” without these countries having to accept obligations on the way they behaved themselves.

The Uruguay Round changed all of that. The single undertaking, the renunciation by WTO Members of the 1947 GATT and the inclusion in the Uruguay Round Agreements of a number of issues of great importance to developing countries dramatically altered the picture. WTO's membership practically doubled overnight and the role played by developing countries in the system increased geometrically. Agriculture, of central importance to nearly all developing countries, was now subjected to significant – if not perfect – disciplines for the very first time. All WTO Members were required to participate in agreements like those addressed to technical barriers to trade, SPS measures, trade in services and trade-related intellectual property rights.

The rules of the new WTO system were structured to include special and differential treatment for developing countries in many areas. There were promises of increased market access as well: in what was billed as a major concession, the developed countries agreed to the eventual elimination of the multifibre agreement restricting developing countries' textile and apparel exports. Furthermore, the new dispute settlement system gave developing countries a way to stand up to more powerful developed countries and protect their rights in the WTO.

So the system changed dramatically in the mid- 1990's. Under the new system, developing countries received a number of important benefits not available to them under the GATT, but they also have been forced to accept enormous burdens in terms of new obligations.

Of course, promises are one thing and reality is often very different. The scorecard in 1999 when WTO Ministers met in Seattle clearly showed that the developing countries were not happy with where things stood. Take textiles and clothing as an example: By the end of 1997, the USA had only eliminated 13 of 750 MFA quotas. Restrained trade freed of quotas amounted to only 6.12 percent in the US and 4.18 percent in the EC in 1997. The developing countries collective unhappiness was a key reason why the Seattle meeting failed.

When we left Seattle, we knew that if the WTO were to survive, its next Ministerial meeting would need to launch a different kind of negotiation. We knew that the list of so-called "implementation issues" identified by the developing world needed to be constructively addressed. And we knew we would need a development-friendly negotiation that would make the next round a development round.

An Interim Assessment

But before we move on to the Doha meeting, let's try to take an objective look at where things stood for the developing countries in the run up to the meeting in Qatar. Where can we say that developing countries gained from the past round and where can we say their participation in the WTO system has led to costs?

Institutional Gains: First, a word about institutional gains. Relative to the pre-Uruguay Round GATT period, one has to conclude that developing countries have scored immense and important institutional gains in the Post Uruguay Round WTO. Let's start with dispute settlement, which is the very heart of the rules-based system:

Up to now, more than 280 disputes involving over 230 distinct matters have been brought to the WTO. Forty-three WTO members, counting the EC-15 as one, have resorted to the system and it has been a big gain for developing countries relative to GATT. In the most recent year, 2002, just under half of all the panels established were at the request of developing countries. More importantly, over the past several years, developing countries have made successful use of the system to effectively protect their rights against much larger developed

countries. To cite some examples of “wins” which we would never have seen under GATT’s flawed system:

- Venezuela/Brazil v. USA on reformulated gas
- Peru / Chile v. EC on scallops
- Ecuador, Guatemala, Honduras, Mexico v. EC on bananas
- Thailand v. EC on rice
- Costa Rica v. USA on underwear
- Brazil v. Canada on aircraft
- Colombia v. USA on corn brooms
- India v. EC on bed linens
- India v. USA on wool coats
- Argentina v. USA on groundnuts.

And this is not a full listing of the disputes involving the interests of developing countries by any means.

Other important institutional gains for developing countries include the formalization of the consensus decision-making rule for WTO that has guaranteed each of WTO’s members, down to the smallest developing country a real voice in the running of the institution. We also need to take account of the commitment of enormous resources to trade-related capacity building by the WTO and its developed members and

the establishment of development-friendly WTO-related organizations like AITIC and the ACWL.

On the non-institutional side, and albeit over a period of some years, developing countries did in fact achieve major gains in the Uruguay Round with the agreement to eventually eliminate the restrictions on textiles and a new safeguards agreement outlawing so-called grey area measures. It may be true that the ATC's elimination of MFA restrictions has been back-loaded, but if that's the case, the keys to the candy store are in hand now as we are in the end of game phase. The importance of bringing the sector under effective discipline is not to be underestimated.

Agriculture too has been subjected to some real reform, albeit not as much as exporting countries would have hoped for in the Uruguay Round. Economically, this is the area of most direct importance in today's negotiations to developing countries and a clear candidate for making common cause with Australia and the Cairns Group. There is still a long way to go on agriculture, but in terms of the steps that have already been taken, we are worlds away from the situation that prevailed in the mid-1980's.

We also have to remember that developing countries are not a uniform homogenous group. There are developing countries that seek to eliminate developed country export subsidies in agriculture, but there are also net food importing developing countries that see the cost of feeding their populations rise with the end of export subsidies.

There are of course downsides to the post Uruguay Round period from developing countries' viewpoint. Implementation of the often-complex Uruguay Round agreements is often difficult for developing countries and it can also be administratively very costly. Michael Finger, an economist who previously worked with the World Bank has produced a number of studies pointing out how expensive it can be to implement agreements like those dealing with customs valuation and technical barriers to trade. We cannot really argue with this, but we can try to help – and that's where the trade related capacity building funds have come into the picture.

Another area of real unhappiness has clearly been the TRIPS Agreement where the TRIPS and public health intersection has not played out in the most positive of ways. The system is working hard to fix this – starting from the Doha Decision on TRIPS and Health and continuing with the ongoing discussions in Geneva on the compulsory licensing issue.

Things have also been a bit rocky in the area of subsidies discipline and with respect to trade-related investment measures, but here again, a continuing effort is being made to address legitimate concerns under the WTO's "Implementation agenda.

The Doha Round

The Round we launched in Doha is a development round in many ways. The objective of making trade contribute positively to development is spread throughout the declaration from Qatar in more than forty places. In each and every negotiating area, members are obligated to giving special attention to the interests of developing countries. In agriculture, services, market access, contingent trade protection rules and even in the so-called Singapore Issues, there are many opportunities for developing countries to walk away from this round with important economic gains.

But we need to be honest about this as well. To say this is a development round does not mean that this is a negotiation between developing countries on the one hand and developed countries on the other. Today, over seventy percent of the tariffs paid by developing country exporters on their exports are paid to customs authorities in other developing countries,

Correcting Some Misrepresentations:

Before closing, there are some misrepresentations of the WTO system and developing countries that I feel I should endeavor to set straight.

First. It is simply not true on any measure that developing countries generally are worse off today than they were in the pre-Uruguay Round period - and if they are individually worse off, it is clearly not due to what has transpired over the years in Geneva. You can find statistics today that show Africa as having experienced a real economic decline in the past eight years, but what are the right statistics? The World Bank keeps two books on Africa: Africa overall, averaging all countries' performance and African countries that have avoided conflict over the past eight years. It probably won't surprise you to know that while the first group has fared poorly, the second has actually experienced economic growth on the order of ten percent annually since the end of the Uruguay Round. My old boss, Mike Moore wrote a piece in yesterday's Australian Financial Review where he made the point that globalization is not the enemy of poor people in poor countries: marginalization is. Mike noted that free trade in agriculture if it can be produced

by this trade round would return to Africa five times more than all the overseas development aid put together.

Second, certain NGO's in particular persist in producing papers and publications that intentionally spread misleading characterizations of the WTO negotiating environment. To cite an example, it is often suggested strongly that WTO services negotiations oblige countries to schedule commitments and allow privatization in sensitive sectors, such as basic public infrastructure. That is simply not true. Even where such commitments might be voluntarily scheduled, nothing in the agreement requires privatization of state-owned activities. Of course, we should also watch just how defensive we get about these things. There are actually documented cases, such as the water distribution system in Argentina, where the private sector has done a better job than government in providing clean water to citizens at affordable prices than has the government.

My point here is that we should debate these issues, but we should have a well-informed debate that treats arguments on their merits.

And on the merits of the issue, while it is clear that developing countries have incurred some measurable costs and still have much to gain from the multilateral trading system, I do

not believe there is anyone who can prove that developing countries anywhere are worse off today than they were before the Uruguay Round or that the trading system has cost them more than it has benefited them over the past eight years.

We have a lot to do, particularly in the area of trade-related capacity building work so that developing countries are in a position to take full advantage of the trading system's opportunities, but I think this work is worthwhile because the potential gains from participation in the system and future liberalization are tremendous.

Thank you for your attention.