

# **Development and the Global Trade Architecture**

## **An Overview of the Global Trade and Financial Architecture Project**

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### **Introduction**

In December 2005, trade ministers will meet in Hong Kong to assess the progress made in implementing the mandate they gave to their negotiators in Doha, Qatar, at the end of 2001. This mandate called for the pursuit of multilateral negotiations to significantly reduce the use of trade-distorting policies and to bolster the development relevance of the World Trade Organisation. The Round has been dubbed the Doha *Development Agenda*, and the challenge confronting WTO members is to agree to a deal that delivers on development.

As argued in the Millennium taskforce report on trade (UN 2005), achieving an ambitious outcome—through deep liberalisation of access to markets, abolishing all tariff peaks, greatly lowering agricultural protection, and making substantial commitments on freer trade in services—will generate global gains that far exceed the losses. By enhancing trade opportunities for competitive suppliers and reducing prices for consumers everywhere, it will advance global development prospects and help to achieve the Millennium Development Goals. Deep multilateral liberalisation would also reduce discrimination in trade, which is becoming increasingly prevalent with the ever-expanding number of preferential trading arrangements (Sutherland et al., 2004).

This paper provides an overview and synthesis of the results of the research project “Global Trade and Financial Architecture”. The focus of this project was to

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explore options that could help enhance the development dimension of the WTO.<sup>2</sup> Annex 1 lists the papers cited and summarized here.

## **1. Background and Motivation**

What can trade agreements do to promote development? How could rules be designed to benefit poor countries? Can multilateral trade cooperation in the World Trade Organization (WTO) help developing countries create and strengthen institutions and regulatory regimes that will enhance the gains from trade and integration into the global economy, and what are the costs from doing so? These are questions that confront policymakers and citizens in both rich and poor countries. Answering them is the primary objective of the project: how the trading system could be made more supportive of economic development, without eroding the core functions of the WTO: the internalization of international policy spillovers.

Enhancing the “development relevance” of the trading system became a formal objective of WTO members with the launch of the “Doha Development Agenda” at the WTO’s Ministerial Conference in November 2001 in Doha, Qatar.<sup>3</sup> Whether the WTO is an organization that can and should be used to pursue development objectives is not uncontroversial—some are of the view that the focus of the WTO should be limited to increasing market access opportunities and negotiating away policies that impose negative spillovers on other countries, and that the best way of addressing differentiated capacity is to exclude the poorest countries from the process.<sup>4</sup> Global liberalization can be argued to promote development prospects, even though the link is often indirect with much depending on whether governments pursue complementary policies to enhance the ability of entrepreneurs and poor households to benefit from better market access opportunities. On this view, the latter is not something that should be the concern of the WTO. Rather, this is a task for national governments and their citizens, supported by international development agencies.

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<sup>2</sup> The project was financed by the Department for International Development (DFID), United Kingdom through its Trade Policy Development Project (TPDP) with the Development Research Group of the World Bank. The project Steering Committee was chaired by Ernesto Zedillo. Members of the committee and the research team comprised John Audley, Chad Bown, Simon Evenett, Joseph Francois, Eleanor Fuller, Gerry Helleiner, Bernard Hoekman, Faizel Ismail, Hans Peter Lankes, Nuno Limao, Ricardo Melendez-Ortiz, Patrick Messerlin, Dominique Njinkeu, Howard Pack, Sheila Page, Susan Prowse, Jayanta Roy, Kamal Saggi, Jose Manuel Salazar, Sok Siphana, Thierry Verdier, and L. Alan Winters. All members of this group participated in a strictly personal capacity. The project builds on the report of the UN Millennium Taskforce on trade (UN, 2005). A more comprehensive synthesis of the project research results and all background papers can be found at <<http://www.ycsg.yale.edu>>.

<sup>3</sup> This section draws on Evenett and Hoekman (2005).

<sup>4</sup> E.g., Wolf (2004).

Others, however, argue that the choice was made in Doha to promote development through the WTO, and that members must therefore go beyond these traditional focal points and identify actions (international cooperation, information exchange, specific agreements, etc.) that will help reduce poverty more directly. From the latter perspective, relying on self-interested, reciprocal bargaining of the type that characterizes WTO negotiation is not sufficient; instead, active efforts are needed to ensure that the disciplines of the WTO will assist in reducing poverty around the world. The challenge for those taking this view is to identify how this might be done in a way that the baby—a trading system that is based on enforceable rules that ensure greater predictability of policies and thus less uncertainty—is not thrown out with the bathwater.<sup>5</sup> This is the focus of the approach taken by this project.

The above characterization of two very different views of the appropriate role of the WTO is crude. The issues and challenges that arise, and the history of how “development” has been addressed in the GATT/WTO are discussed in greater depth in Evenett (2005a) and Page (2005). These papers are helpful in understanding the debates between governments and interest groups on the appropriate work program for the WTO in the late 1990s and the difficulty in making negotiating progress in the Doha Round. There are a number of reasons why development has become a higher profile subject in the WTO. Developing countries have historically played a limited role in the multilateral trading system. Until the Uruguay Round (1986-93), their participation in negotiated agreements was effectively voluntary with many not making a substantial number of binding commitments. This changed with the entry into force of the WTO in 1995 and is due to the so-called Single Undertaking—where all contracting parties to the General Agreement on Tariffs and Trade (GATT) were required to accept almost all of the various proposals and negotiated agreements as one package, or else to abstain from joining the WTO.

Some of the agreements that were negotiated in the Uruguay Round, in particular the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), were highly skewed towards benefiting rich countries (Finger, 2002). Other previously negotiated GATT agreements that developing countries had not signed, but

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<sup>5</sup> See, for example, Helleiner (2000) Rodrik (2001), Oxfam (2002) and Hilary (2002) for arguments and proposals that development considerations be made a more integral part of the WTO. Much of this debate emerged in the run-up and subsequent to the 1999 WTO ministerial meeting in Seattle. Finger and Winters (1998) and Finger (2002) are good discussions of the key questions. See also UN (2005) and Commission for Africa (2005) for comprehensive treatments of the trade and development agenda.

that became applicable as a result of the Single Undertaking generated asymmetric implementation costs.<sup>6</sup> The impact of these agreements was almost exclusively on developing countries, as the rules reflected existing practices of the industrialized members of Organization for Economic Co-operation and Development (OECD) countries (Finger and Schuler, 2000). While developing country negotiators presumably perceived there to be offsetting benefits associated with the entire Uruguay Round package—which included the agreements to remove the Multifibre Arrangement (MFA) quotas on textile exports, to ban Voluntary Export Restraints (VERs), to re-integrate agriculture into the GATT, and to strengthen dispute settlement provisions—it is fair to say that serious doubts and regret emerged in many low-income countries in the first years of the WTO’s operation.

Having been very successful at reducing trade barriers among OECD countries the multilateral trading system is now entering a difficult arena as developing countries become more active participants, a point complicated by the fact that there are increasingly large differences between these developing countries. Moreover, the focus of deliberations at the WTO has shifted more to non-tariff measures and domestic regulation. This is the case for both the GATT and the General Agreement on Trade in Services (GATS), where tariffs are not the instrument used to protect domestic firms given the intangible nature of services. In the case of both goods and services, it is not an obvious matter what type of international cooperation makes sense for regulatory policies. Clearly some types of national policy, and international rules on those policies, are important from a development perspective; after all research has shown that a good investment climate and good public sector governance are key ingredients for sustained economic growth. Insofar as the WTO is (or can be) an institution that is used to define good practice and act as a focal point for governments seeking to implement such policies, it could make an important contribution to development. In this respect it is worth noting that policy areas such as competition law, investment policy, transparency in government procurement, and trade facilitation that were proposed as subjects for negotiation at the WTO, are all determinants of the investment climate prevailing in a country. National policies in such areas can also impose negative spillovers of foreign countries, giving rise to the traditional rationale for international cooperation.

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<sup>6</sup> Examples are the agreements on antidumping, subsidies, standards (technical barriers to trade) and customs valuation.

How WTO members address the regulatory diversity that creates international spillovers, and to what extent the focus should go beyond addressing spillovers to center on “good practices,” are therefore two of the major questions confronting trade diplomats, national officials, civil society and analysts. Here an important factor is the WTO dispute settlement mechanism, which has become a key driver motivating efforts by some interest groups to advocate including new issues on the WTO negotiating table. The fact that the WTO has a system of compulsory, third party adjudication is a major strength in terms of ensuring that commitments can be enforced and have value, but is also a factor that may make governments (and other stakeholders) less inclined to consider engaging in binding agreements on matters where it is unclear what the expected net benefits of cooperation are. In defining the appropriate reach of the WTO, the type of enforcement mechanism that should apply is an important consideration.

While much attention is being devoted to the role of the WTO in realizing international cooperation on “behind the border” policies, there remains as well a large, more “traditional” market access agenda. Realizing the promise of trade reforms through reciprocal bargaining requires a “negotiating set” that has something for everyone. While traditional market access matters remain very significant, especially in sectors such as agriculture, overall tariff barriers are now quite low in many industrialized countries. This suggests one hypothesis as to why countries have been seeking to expand the negotiating set: by proposing new rules for ‘behind the border’ policies it becomes possible in principle to link these to reforms in sensitive market access areas such as agriculture. Such a linkage strategy can be effective, but it can also be highly divisive, especially if a large fraction of the membership is concerned that that any proposed multilateral rules might not be in their interest.

The traditional dynamics of reciprocity in the WTO negotiating process require that developing countries offer “enough” to induce other countries to take on the domestic interest groups that benefit from trade protection, and visa versa. If there is little desire to engage on new issues (pursue a broader linkage strategy), by necessity the focus must remain limited to trading concessions on trade policies for goods and services. This in turn has implications for the traditional developing country strategy in the GATT of seeking less than full reciprocity, and indeed, insistence on preferential access to OECD markets. For faster progress to be made than what major players are willing to undertake unilaterally, developing countries—especially those with larger

markets and higher income levels—will have to reconsider this traditional approach. For these countries there is still much scope to trade market access commitments—in both goods and services—as average barriers remain higher, and many have not bound their tariffs at currently applied levels. Moreover, from an economic perspective, in contrast to regulatory issues or demands for the stronger enforcement of rights to intangible assets (intellectual property, geographical indications, etc.) that may entail a zero-sum bargain, there is a greater likelihood that all gain at the end of the day. This is true for least developed countries (LDCs) as well. Given that they have much better access to major markets than many other developing countries, the biggest potential market access gains for LDCs are often in other developing country markets.<sup>7</sup>

## **2. A short synthesis of the research results emerging from the project**

Market access for goods and services produced in developing countries provided on a MFN basis is the most direct way the WTO can assist development prospects on a global basis. Trade reform undertaken in conjunction with concomitant “behind the border” policy measures and investments has significant potential to generate additional trade opportunities that would help lift a large number of people out of poverty (UN taskforce on trade, 2004; Global Monitoring Report, 2005). But it should be complemented by actions to redistribute some of the global gains to help the poorest countries benefit more from trade opportunities.

To date, movement in the Doha Round to reform trade-distorting agricultural policies has been limited, and those policies that cause the largest global distortions have yet to be put on the negotiating table in a serious manner. The effort being made to obtain a commitment to gradually abolish export subsidies is important. But it needs to be complemented by an equal ambition to lower border barriers to trade. Here the approach thus far adopted by protectionist interests in both the North and South looks unlikely to produce much effective liberalisation. A major example is the desire to exclude ‘sensitive’ products, which are often the goods that are the most highly protected.

Services are a major area of negotiation with large potential positive impacts on development, but here, too, not much ambition for change can yet be seen. For many developing countries, obtaining better access for their service suppliers through

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<sup>7</sup> In the case of Bangladesh – the largest LDC – the major potential gains are in the US and Japan.

temporary movement of providers (migration) could make a big difference, as could liberalisation commitments by developing countries themselves. Thus far, however, offers on both sides have been limited.

For access to non-agricultural markets, the proposed negotiation modalities have great potential to lower the highest rates of protection the most, including crucial tariff peaks on textiles and other tariff peaks in the OECD, and the higher average tariff barriers in major developing countries. But here, too, little progress has been made.

Much research has been undertaken to estimate the potential impact of a Doha Round outcome. This project did not seek to add to this literature, which concludes that the potential is significant, depending on the specific assumptions that are made regarding the depth and type of reforms that are negotiated. The only market access area where some new work was commissioned was in the area of services—with the focus on improving our understanding of the potential returns to policy reforms in terms of economic growth, and, more specifically, the linkages between services liberalization, trade in goods and the role of FDI. This is summarized in a subsequent section.

An ambitious Doha outcome—defined for purposes of this synthesis as full free trade in the North and significant MFN based reforms in the South—would generate adjustment costs and impose losses on developing countries that will see preferential access rents removed. Such costs would be distributed asymmetrically within and across countries. These costs must be addressed credibly up front—if not, an ambitious outcome will not be attained. Thus, the better the mechanisms to handle losses and adjustment problems the more ambitious a round can be. One implication is that the loss of preferences by beneficiary countries must be taken into account and offset.

Some countries—especially the poorest—would not gain much from even an ambitious Round either because they already have trade access to all their actual and potential partners or because they are not diversified and have investment and business environments that impose high operating costs—and thus result in low productivity. This is not an issue that can or should be addressed through trade policy. Preferences and “special and differential treatment” have been the standard approaches to address the symptoms of the problem in the WTO—what is needed is to address the causes,

through instruments that target the problems directly.<sup>8</sup> Doing so requires diagnostics and analysis, the development of a growth strategy, and support from the international community to address the related investment costs and knowledge gaps. For the WTO to help on this agenda, the focus must be on constructive engagement at least not to obstruct the use of appropriate policy instruments—not provide exemptions for the use of trade policies. These will generally be second best. More appropriate instruments may include subsidies as well as measures relating to the investment climate—tax and monetary policies, regulation, financial sector reforms aimed at increasing access to credit, etc.

The same line of reasoning applies to a traditional instrument used by governments to build support for trade liberalization: safeguards. These are mechanisms to reimpose protection if imports injure domestic producers “too much”. Such mechanisms offer industries and workers some insurance that if things get too tough, the government will be able (and willing) to step in to provide more time for adjustment. Approaches towards recognizing adjustment costs and the redistributive nature of trade policy and policy reform need to consider the use of safeguards in the WTO. In practice, trade policy instruments do not encourage adjustment—here again there is a need for more pro-active and targeted instruments, including credible and effective adjustment assistance policies that target not just trade-related adjustment pressures, but provide general support for reform. As discussed below, there is scope for greater aid to assist in supporting global trade reforms.

The foregoing is not new—indeed, the arguments have been well known for a long time. What has been missing is a credible commitment to address the political economy constraints that lead governments to (continue to) use trade policy instruments. A number of the papers in this project argue that this is a reflection of a lack of policy coherence and that aid (financial transfers) can make a big difference if appropriately conditioned and managed to prevent longer-term capture.<sup>9</sup> The WTO can play an important role in achieving these preconditions, through mutual surveillance and monitoring, through negotiated, binding disciplines on the use of specific policy instruments, and through the use of its dispute settlement body.

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<sup>8</sup> See Page and Kleen (2005) and Keck and Low (2005) for discussions of SDT in the WTO.

<sup>9</sup> See Verdier and Suwa-Eisenmann (2005) for an informative review of the literature on aid and trade that takes a coherence perspective.

As noted previously, some of the disciplines of the WTO have been criticized by many developing countries, resulting in increasing calls for stronger and more effective SDT and exemptions from trade liberalization. The latter is unlikely to promote development—see above—but the former has the potential to do so. What is needed is to shift towards a more balanced approach that shifts from solely emphasizing “hard” rules with negotiated exceptions, holes and loopholes, to constructive engagement-cum-assistance on policy. That is, a shift from the traditional “Enabling Clause” approach of open ended opt outs, to an “Enabling Mechanism” that actively assists developing country governments attain specific trade-related objectives. This would not imply ceasing to negotiate binding disciplines in areas where governments impose negative spillovers on each other; nor would it constrain the set of issues on which countries might negotiate, but it would imply the imposition of “circuit breakers” to allow developing countries greater flexibility to use instruments that are subject to disciplines, subject to ex post multilateral monitoring of the effects of these policies.

In practice, as noted in the Sutherland et al. (2004) report, MFN has been greatly eroded by virtually all WTO members through the pursuit of preferential trade arrangements, both non-reciprocal and reciprocal. Given that MFN is desirable from a global welfare perspective—and especially important for smaller, developing countries—one area where political commitment is required is related to the ever expanding use of reciprocal PTAs. These are increasingly defended as pro-development instruments by proponents. These claims would be more compelling if discriminatory access was taken off the table. Project papers generate evidence that PTAs are slowing down MFN reforms and propose some simple changes in approach that would reduce the extent of discrimination caused by preferential trade agreements.

Enforcement of agreements is a major determinant of the likely impacts of any negotiation. Market access concessions are of little value if they cannot be enforced. Similarly, proposed changes in rules and modus operandi of the trading system are of little relevance if they cannot be enforced. The fact that the WTO has a binding dispute settlement mechanism is a unique feature of the organization. This system has been used intensively and is relatively effective. However, its features arguably make it less effective for countries with small markets than those with large markets because the ultimate sanction is trade retaliation. Small countries (including those that are economically small, i.e., poor) have less ability to credibly threaten retaliation against non-compliance by other WTO members than larger ones. Moreover, it is often

remarked upon that retaliation – raising trade barriers – is not in the interest of a small country as it will simply raise prices for consumers, resulting in losses that are greater than any benefits for the domestic industry that produces import-competing goods. This helps to explain why the use of the DSU by poorer developing countries has been limited. A number of papers explore alternative options that could increase participation, either by lowering the costs associated with the process or the expected returns to winning a case.

What follows discusses the various papers and summarizes their major conclusions. The intention is not to be comprehensive, as detailed analysis and argument can be found in the papers themselves (listed in Annex 1). These can be downloaded from the Yale Center for the Study of Globalization website: <http://www.ycsg.yale.edu>.

### **3. Market Access: Financing Ambition and (Re-)Distributing the Gains**

Estimates of the gains from liberalisation vary according to the assumed depth of reforms and the methodologies employed. Recent research concludes that an ambitious Doha outcome is needed for there to be significant overall gains for developing countries – excluding just a small number of “sensitive” products for example from liberalization in OECD countries would result in minimal (effectively zero) gains for sub-Saharan Africa as a whole (Anderson, et al. 2005). Even under conservative estimates of supply responsiveness, the gains from further global trade liberalisation are large. The models extant conclude that in static efficiency terms developed countries would gain more in absolute terms than developing countries from trade reform. If dynamic productivity gains, exploitation of economies of scale, benefits from improved competition in services, including greater temporary international mobility of service suppliers are taken into account, this greatly increases the potential aggregate gains.<sup>10</sup> Moreover, the benefit would be larger under any scenario if the counterfactual was not the status quo but a rise in protectionism.

#### **3.1. Dealing with losers: internal compensation and insurance**

One reason why these potential gains have yet to be realized is that liberalization will also generate losses. The costs associated with reform are incurred by households and

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<sup>10</sup> Given the large number of models and analyses of the potential gains from a global round, this project has not put emphasis on developing another set of estimates. The general point being made is that the potential is large. See UN (2005) and Francois et al. 2004 for further discussion.

firms in both developed and developing countries. In the North, losers include those that were benefiting from protection. In the South, losers will include those that depend heavily on consumption of products whose prices may rise post-reform without offsetting income increases, and those who produce goods and services whose domestic prices will fall post-reform.

Compensating losers in the main markets that are most important for developing country exporters is a precondition for realizing ambition. As noted by Verdier (2005), policymakers need to pay more attention to the “pains from trade,” (the term is due to Sapir, 2000), the distributive dimensions of trade integration, and the interactions between trade openness and domestic redistributive policies. The fact that gains exceed losses implies that losers can be compensated by the winners while still leaving the latter better off. In practice, however, losers often are not compensated. One reason for this is that it is difficult—governments may not have the instruments needed. Verdier notes that trade integration can be expected to affect the redistributive capacity of governments in several ways. From an economic perspective, it may change the structural parameters of the economy (e.g., price elasticities and the tax base), rendering domestic redistribution more or less difficult. From a political perspective, trade integration may affect the pattern of political power and coalitions, preventing or promoting compensation through the redistribution of resources inside the economy. The capacity and willingness for domestic redistribution and compensation cannot therefore be analyzed separately from the decision to open the country to trade and foreign direct investment flows.

Verdier’s analysis suggests that policymakers may need to provide insurance mechanisms in order to secure national welfare gains. Any such instruments should not involve manipulation of relative factor and goods prices. The latter condition is often violated, reducing the gains from trade liberalization and enhancing the capacity for industries to (re-)forge a protectionist coalition. Shifting to less trade distorting, more credible instruments to support the groups benefiting from protection can be done through lump sum one off payments and providing access to mechanisms that insure against declines in the value of key assets – e.g., land values in rural communities that form the basis of local tax revenues and educational/training

programs that enhance the skills of workers.<sup>11</sup> Given that aggregate gains exceed overall losses, in principle the resources for this will be generated by the trade reforms. In the case of developing countries, there is an obvious link to be made with development assistance as a source for additional (co-) funding of such programs. This is discussed further below under aid for trade.

### **3.2. Trade policy reform: gradualism, safeguards and issue linkages**

The “traditional” approach to building the needed support for trade reform is to rely on issue linkage in the negotiating process (usually focused on mobilizing export interests), to implement liberalization gradually over a number of years, and to offer some insurance to industries that they can petition for re-imposition of protection if needed.

The first is a key element of the WTO process, and calls for active engagement by developing countries in negotiations. Large “rounds” of negotiation with a complex agenda are driven by the need to create a negotiating set that allows for a package to be negotiated that offers the prospects of net gains for all members. Starting in the Uruguay Round, calls were made that large rounds were inefficient, taking too long to come to closure and bearing the risk that outcomes would not be beneficial to all countries. Particularly controversial has been the so-called Single Undertaking rule that was used in the Uruguay Round. Levy (2004) analyses the role of issue linkage in WTO rounds and the pros and cons of the Single Undertaking—under which the final outcome of a multilateral round is a package deal that all must accept on a take it or leave it basis. He argues that linkages across issues are a central component of international trade negotiations. This is true whether one considers governments as unified entities promoting national welfare or whether one takes into account the role of the interest groups in shaping government preferences. The fact that the landscape of negotiations has changed, with issues that were once considered domestic making their way onto the agenda does not diminish the possibility of cross-sectoral tradeoffs and issue linkages—it just makes it more complicated. While the added complexity puts a greater burden on negotiating countries, Levy argues that broad rounds are preferable to a narrow agenda in that it may allow otherwise unattainable deals. Countries’ own efforts to ensure that their concessions are offset

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<sup>11</sup> See Aksoy and Beghin (2005) for discussions of such programs and options in the context of agriculture in OECD countries.

by gains should be sufficient to ensure the breadth of participation. However, he also concludes that the case for issue linkage in general does not translate into a strong rationale for imposing a Single Undertaking requirement. An implication is that strengthening provisions of the WTO to recognize development differences may be a necessary condition for continued progress and expansion of the coverage of the agenda, which in turn may be necessary to maintain international cooperation on trade. We return to this issue below when discussing specific proposals.

The second aspect of the traditional approach is gradualism in terms of implementation of liberalization commitments. This attenuates the period-by-period adjustment costs for groups that benefit from protection and the potential revenue losses that may accompany deep liberalization. While gradual implementation has a clear rationale, the sequencing of reforms is important to ensure that the objective of facilitating adjustment is achieved. In practice the implementation path may create perverse incentives and slow down the needed adjustment rather than encourage it. An important example is analyzed in a paper prepared for the project. Francois and Woerz (2005) analyze the implications of the transition path that was negotiated in the Uruguay Round for the elimination of quotas on trade in textiles and clothing. They calculate the bilateral ad valorem equivalent export taxes implied by the quotas and evaluate how these implicit taxes changed over the ten-year implementation period (1995-2004). They show that for some importing countries – Canada is an example – export tax equivalents fell steadily throughout the period, implying steady adjustment pressure for the domestic industry. In the case of the EU, some 50 percent of the total reduction in the tax was left until the end of the period, whereas in the US no liberalization at all had occurred with respect to imports from China and India as of 2004. The result was that the adjustment was left to the end – helping to explain the problems observed in 2005 in removing quotas completely.

The third dimension of the “traditional” approach generally pursued in trade agreements is to build in scope to use instruments of contingent protection. These have historically played an important role in building and maintaining political support for liberalization. The various safeguard mechanisms found in most trade agreements—Art. XIX GATT and the Agreement on Safeguards, but also antidumping – may offer some comfort to import-competing interests and facilitate broader trade liberalization. However, they do little to encourage adjustment—and in the case of antidumping especially they create incentives to avoid adjustment, thereby

imposing an externality on exporters. The use of such instruments has grown significantly in recent years – between 1995 and 2004, some 2,500 antidumping cases were initiated by WTO members, and the use of safeguard actions has expanded significantly as well since the WTO was created.

It is sometimes argued that such instruments can be important vehicles to allow more general trade policy reforms and liberalization – and thus that the net effect of their existence and use may be positive (see e.g., Nelson, 2005, for a nuanced and informed review of the literature; Finger and Nogues, 2005, for case study examinations of a number of Latin American countries). However, this does not mean they are the most efficient means of supporting a liberalization process. Bown and McCulloch (2005), in their paper prepared for the project, argue that rather than rely on a multiplicity of “safeguards” in the WTO (including antidumping), a shift should be considered to promote the (temporary) use of subsidies (possibly financed from current tariff revenues) that are conditional on/promote adjustment. This may require the WTO rules on subsidies to be adjusted accordingly.<sup>12</sup> Their recommendations go in the direction of what Richardson (2005) calls “opportunity nets”—the adoption of active policies that protect the asset base of workers and communities.

### **3.3. External compensation for losses: preference erosion**

Nonreciprocal trade preferences have been a major feature of North-South trade relations for decades. Recent years have witnessed the deepening of trade preferences for LDCs and sub-Saharan Africa.<sup>13</sup> While preference schemes can have a positive effect on the exports of beneficiary countries, much depends on their supply-side capacity. Insofar as capacity constraints do not bind, the share of any associated rents that accrue to exporters may be much less than 100 percent.

In two papers supported by the project, Olarreaga and Ozden (2005) and Ozden and Sharma (2004) find that any rents created by preferential access will be shared with intermediaries in the importing country. Olarreaga and Özden (2005), focusing on the AGOA preference scheme find that the average export price increase for products benefiting from preferences under AGOA was about 6 percent, whereas the average MFN tariff for these products was some 20 percent. Thus, on average

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<sup>12</sup> The same is may be true if there is shift towards greater use of fines and compensation in dispute settlement – discussed later in this paper.

<sup>13</sup> Two major examples are the EU Everything But Arms Initiative and the US African Growth and Opportunity Act (AGOA).

exporters received around one-third of the tariff rent. Moreover, poorer and smaller countries tended to obtain lower shares—with estimates of the share of the loss ranging from a low of 13 percent in Malawi to a high of 53 percent in Mauritius.<sup>14</sup> In the case of market power, the result is a simple redistribution of the benefits of preferences: rents are transferred to importers. In the case of administration costs, however, the result is not redistribution but a deadweight loss (waste).

While such rent “transfers” do not reduce the trade volume or diversification effects of preferences, they do reduce the benefits of preferences. Costs due to ancillary documentary requirements imposed by preference-granting countries, such as rules of origin, which have been shown to be a major impediment, especially for key sectors such as clothing, may also reduce utilization rates. Research suggests that the benefits from preferential trade programs for many countries has been limited given uncertainty/costs created by “political conditionality”, product exclusions and rules of origin. The importance of liberal rules of origin has been demonstrated in the context of the African Growth and Opportunity Act (AGOA) —where relaxation of triple transformation or yarn-forward rules underpinned an export boom in countries such as Lesotho.

Several papers in the project focus on the magnitude of potential preference erosion that may result from an ambitious round, and the possible policy response (Francois, Hoekman and Manchin, 2005; Hoekman and Prowse, 2005; Limao and Olarreaga, 2004). The premise underlying these papers is that a non-discriminatory trade regime and MFN-based liberalization by WTO members is a global public good. This is not to deny preferences are legitimate or to say that they do not benefit recipients. However, they are distortionary and help generate increasing preferential trade in the world trading system as excluded (less-preferred) countries confront incentives to negotiate reciprocal preferential trade agreements (PTAs) with major donor countries, and for efforts to negotiate additional preferences to offset potential losses resulting from multilateral reforms.

Focusing on the LDCs and using a global general equilibrium model and the latest version of the Global Trade Analysis Project (GTAP) database that incorporates data on the major OECD preference programs Francois, Hoekman and Manchin

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<sup>14</sup> Ozden and Sharma (2004) undertake a similar analysis of the US CBI program. As discussed below, in other work done under the project, Francois and Wooton (2005) obtain similar size-dependent results in an analysis of the impact of market power (lack of competition) in distribution services.

(FHM) conclude that preference erosion due to a move to full free trade by the OECD—including in agriculture—would impose a welfare (real income) loss of some \$460 million on African LDCs and an additional \$100 million on Bangladesh.<sup>15</sup> This assumes away compliance costs. Limão and Olarreaga also undertake an analysis of the welfare effects of complete preference erosion. They calculate what the income transfer to LDCs would need to be so as to be equivalent to the transfer implied by existing preference programs. They conclude that for LDCs the figure is \$266 million. This is a one-year, short-run effect—all else equal the net present value will be several times higher. This brings their results in line with those of FHM, although the results are not strictly comparable given that Limão and Olarreaga use partial equilibrium methods. FHM, using the empirical approach in Manchin (2005), another paper prepared for the project, find strong evidence that preferences are eroded by administrative burdens. This presumably reflects rules of origin and similar hurdles placed in the way of actually utilizing trade preferences. The implication is that the actual value of preferences is reduced quite substantially.

The message that emerges from the papers in the project that focus on preferences is that taking into account supply capacity constraints, the costs of satisfying documentary requirements (rules of origin), the fact that rents will accrue in part to importers, not exporters, and the potential offsetting effects of own reform and that of other developing countries – i.e., multilateral liberalization under a Doha round – the aggregate magnitude of erosion will be limited. Preferences can only have an impact if there is a non-zero tariff in the importing market. Two-thirds of the major items Africa exports to Canada, for example, face zero MFN tariffs; and 69% of EU imports from Africa (by value) in 2000 were in items facing zero MFN duties. One response is to argue against further MFN liberalization so as to ensure that preferred developing countries do not lose any more preferential access. This would impose a significant opportunity cost from a global efficiency perspective.

In US dollar terms Francois, Hoekman and Manchin (2005) find that the primary negative impact of preference erosion follows from the removal of EU trade barriers. This suggests that dealing with the erosion problem is primarily a bilateral matter, although multilateral liberalization by all major countries can serve to

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<sup>15</sup> While it is important to recognize that trade preferences are not just about transfers –the goal is (was) development of exports – in terms of potential compensation for losses incurred as a result of MFN reforms, the focus of analysis needs to be on a quantification of their monetary value.

substantially reduce the aggregate amount of erosion losses. The stand-alone impact of the removal of preferential access to the most distorted markets (those in the EU) will be significant for a relatively small number of countries for which a small number of tariff lines are important. This then raises the question from a policy perspective whether the focus should be on the overall economic net effects taking into account possible (feasible) policy responses, or whether the focus should be on the loss incurred in those markets where preferences matter, ignoring any possible offsetting effects.

Hoekman and Prowse (2005b) argue that both perspectives are relevant. The first focal point is the appropriate one from an economic perspective, as clearly governments should seek to attenuate any negative effects of global MFN liberalization. The second focal point is a relevant metric of the magnitude of erosion of benefits that stem from removal of an explicit development-motivated policy that has been put in place by OECD countries. From this perspective it is not relevant that there are other sources of offsetting gains—what matters is the impact effect of removal of the non-reciprocal access to specific protected markets.

Two broad, complementary approaches can be identified in responding to preference erosion losses. The first is to seek compensation within the trade negotiating agenda—i.e., take actions that will improve market access and the terms of trade of the targeted countries. This can involve non-liberalization of products that are of greatest value from a preference point of view and new types of discrimination, or efforts to increase the value of existing schemes—through e.g., more liberal rules of origin.

It is not easy to identify trade-based solutions that are consistent with the MFN principle while appropriately targeting those countries that are most affected by the erosion of preferences. The challenge is illustrated in a paper prepared for the project. Limao and Olarreaga (2005) investigate the implications of converting bilateral preferences into equivalent bilateral import subsidies. This would preserve both the trade-based nature of the assistance and its bilateral (discriminatory) nature, while still implying a multilateral solution. They show that this import subsidy scheme would be welfare superior to trade preferences—indeed, technically it would be a Pareto improvement, making all WTO members better off, as it would allow deeper MFN liberalization to occur. Note, however, that this approach is premised on continued

acceptance by WTO members of discrimination across trading partners. It is not MFN in the sense that some countries will be more favored than others.

This is a general problem with any effort to obtain “compensation” within the trading system. This would include expanding preferential access for LDCs to major emerging markets, to reduce the costs of rules of origin—through harmonization towards the most liberal common denominator (Commission for Africa, 2005), and to provide discriminatory access in other areas—e.g., better access for mode 4 under the GATS. The latter is already occurring on a bilateral basis, outside the WTO, as reflected in special arrangements or relationships between individual OECD countries and specific developing nations. On the assumption that efforts to move down such discriminatory paths in the WTO are not desirable, and that a major objective or rationale for seeking to shift away from using preferential trade as a form of aid is that it undermines the fundamental principle of non-discrimination as well as create incentives to impede MFN liberalization (Limão, 2005), the question is: what then?

One possibility is to respond to preference erosion concerns by shifting to an alternative instrument: development assistance. A rationale for pursuing this avenue is that the research on erosion costs referenced above finds that in monetary terms the primary negative impact of erosion follows from the removal of specific trade barriers in specific OECD countries. That is, the erosion problem is primarily a bilateral issue that should be resolved on a bilateral basis, in the sense that those imposing the costs should bear the burden of offsetting them.<sup>16</sup> Moreover, given that preferences are increasingly “financial substitutes,” making this explicit is appropriate. This is not to deny that preferences are a WTO concern—the system of bilateral preferences has multilateral consequences. Any solution should therefore have a multilateral component. Moreover, given the objective of preferences—export development—arguably the focus should also be on the attainment of that goal, and not just on financing an equivalent transfer.

As mentioned above, and discussed in more depth in Page (2005), export diversification and trade development were the primary motivations for preferences when these were put in place in the 1960 and 1970s. Many countries in the past have benefited from preferential access and have graduated from bilateral programs, and others continue to benefit. But many of the poorest countries have not managed to use

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<sup>16</sup> This also true from a WTO perspective in that under the Enabling Clause preferences are a bilateral issue.

preferences to diversify and expand exports. Given the systemic downsides, limited benefits, and historical inability of many poor countries in Africa and elsewhere to use preferences, a decision to shift away from preferential “trade as aid” toward more efficient and effective instruments to support poor countries could both improve development outcomes and help strengthen the multilateral trading system.

Hoekman and Prowse (2005) argue that preference erosion is an issue that should be taken seriously, and that “compensation” for losses should take place outside the WTO to avoid increasing the use of distorting trade policy instruments. Specifically, a commitment could be sought that preference giving countries/trading blocs transfer the assessed financial value of current preference programs in the form of financial aid. This implies that assistance would be specific for each preference-granting and each beneficiary country. Assistance would be based on losses from *future* policy reforms—i.e., those that will be imposed as a result of the Doha Round. The political economy rationale for this is that it will help support a more ambitious outcome in terms of MFN liberalization, which is beneficial for all WTO members and an important systemic reason for addressing preference erosion concerns.

In terms of quantifying the value of preferences, there is a (political economy) case that the transfer would need to be the equivalent of the bilateral “partial equilibrium” value of preferences received. That is, the quantification exercise would ignore the general equilibrium effects of changes in other countries policies or the country’s own policy stance.<sup>17</sup>

Such bilateral compensation will by necessity target only those countries that have successfully exploited preferential access opportunities. Countries that have proved unable to benefit much from such programs should be assisted through expanded aid for trade. Rather than seek to create a stand-alone fund to compensate for erosion of preferences—whether inside or outside the WTO—it is more efficient and effective to integrate funding to offset preference erosion into a broader “aid for trade” effort. This is discussed below.

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<sup>17</sup> A question that is left open is whether compensating transfers should be temporary and declining over time, or longer-term. From an adjustment viewpoint the former is appropriate; from a development perspective a case can be made that the duration of assistance should be conditional on development of competitive export capacity. As discussed below, such assistance is best provided as part of a broader “aid for trade” framework

### **3.4 Regionalism and discrimination against developing countries**

Discrimination in trade is becoming increasingly prevalent with the ever-expanding number of preferential trading arrangements (PTAs) (Sutherland et al., 2004). A standard prescription by economists to members of PTAs is to lower the external levels of protection so as to reduce trade diversion costs. This would also promote the global public good, as preferential liberalization is an exercise in the second-best from a global welfare perspective. Rounds of WTO negotiations are beneficial for the world in part because this pushes PTA members to reduce external barriers. In addition to periodic global negotiations, the WTO also attempts to reduce the negative spillover effects of PTAs through disciplines on the content of PTAs. These require that PTAs cover substantially all trade and do not result in higher external barriers than were in place before the formation of a PTA.

Increasingly the ambit of PTAs extends beyond trade policy. The rationale may be to internalize pecuniary spillovers of national policies on other countries—e.g., tax or other incentive programs to attract FDI—but in many cases the purported rationale is that disciplines will be beneficial in and of themselves, i.e., promote development. The extension of trade agreements to regulatory issues can be beneficial if it improves policy credibility, thereby reducing risk premia and helping attract investment. However, the adoption of harmonized regulatory disciplines may be inappropriate. Even if appropriate, regulatory disciplines may give rise to asymmetrically high implementation costs, with the burden falling disproportionately on poorer countries (Finger and Schuler, 2000).

There is a large literature on the development impacts of PTAs – see Schiff and Winters (2003). Papers prepared for the project contribute to this literature by focusing on a subset of the PTA phenomenon – the one that past research has suggested provides the greatest opportunity to be beneficial to developing country signatories: North-South agreements. Francois, McQueen and Wignaraja (2005) discuss the content of recent EU PTAs with developing countries, focusing in particular on their coverage. As has been pointed out by others, they conclude that there is only limited coverage of regulatory, “behind the border” policies, and significant holes in the coverage of trade flows (agriculture; restrictive rules of origin). Moreover, they conclude that given significant domestic distortions in partner countries in sectors such as services, developing country signatories of such North-South PTAs can lose from implementing an agreement.

Limao (2005) explores the effects of the expansion of PTAs on the incentives to engage in MFN liberalization. As mentioned, a major benefit of the WTO is that its periodic rounds put pressure on PTA members to reduce external tariffs. However, Limao shows that in the case of the US, and to a lesser extent the EU, countries that have PTAs with these partners are “sheltered” from MFN liberalization commitments in the sense that the extent of MFN reductions is smaller for goods that PTA partners export to the US/EU. That is, Limao finds evidence for a “stumbling block” effect of PTAs. Insofar as other countries respond to this with smaller reductions in barriers, his empirical estimates of the size of the negative effect will be biased downward.

These papers suggest that from a development perspective it is important to address the domestic distortions that prevail in developing country partners, and to deal with the discrimination that is inherent in the PTA process – both to reduce trade diversion and attenuate the stumbling block effect. If North-South PTAs were to focus explicitly on the domestic “supply side” agenda in partner countries while minimizing discrimination, the national development impacts and the global welfare effects would be enhanced.

Building on these insights, Hoekman. (2005c,d) and Hoekman and Prowse, (2005a) argue that *assuming* the focus of North-South trade agreements is to promote development prospects, the focus should be on the pursuit of non-discriminatory liberalization, as well as a much more targeted focus on the key constraints that prevent developing countries from benefiting more from trade opportunities. Three changes could make North-South PTAs more “development friendly”(i) unconditional acceptance by all parties to a North-South PTA of MFN liberalization of trade in goods *and* services by developing country signatories, and preferential removal of *all* barriers by OECD partner countries<sup>18</sup>—in both cases bound in a treaty instrument; (ii) building mechanisms to pursue priority national regulatory policy objectives in developing country partners as opposed to harmonization on the standards of OECD countries, while maintaining the role of PTAs as a commitment device; and (iii) strengthened grant-based financing mechanisms to improve trade supply capacity and increase the benefits of trade reforms based on a local analysis of needs, with allocations determined by the country’s overall development strategy.

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<sup>18</sup> While preferential liberalization by OECD members of PTAs is of course undesirable from a global welfare perspective, the solution to this is continued multilateral negotiations to remove trade-distorting policies on an MFN basis.

The last two of these proposals essentially replicate proposals for the WTO setting that are discussed below. The first, that developing country signatories would reduce their tariffs and apply negotiated trade policy commitments *on an MFN basis*, would be a new approach for the WTO towards PTAs. This MFN liberalization would not imply a requirement to move to zero tariffs across the board—instead the goal would be a significant reduction in applied MFN tariffs by developing country partners, bound in the WTO. This would prevent trade diversion, reduce the administrative burden on customs authorities (as there is no need for rules of origin to be enforced on imports), help ensure that the PTA benefits all trading partners, not just members, and allow governments more time to put in place alternative sources of fiscal revenue.

Large Northern partners will not offer complete duty and quota free access to large developing countries without a quid pro quo. In principle, such a quid pro quo should be MFN reform as well—there is no reason to differentiate between developing countries. In effect, the MFN proposal implies emulating the type of asymmetric liberalization that has been the norm in the GATT/WTO, with the difference being that in the North-South PTA context the Northern countries “go all the way”—commit to free trade. Insofar as the North is not willing to do this for large developing countries, the WTO can and should be used as an instrument for reciprocal liberalization. (The fact that the “full preference” rule might prevent PTAs from forming is of course not a problem from a global welfare perspective.)

The “full Monty” rule for the North is consistent with the thrust of current WTO rules for regional agreements, except that it would go beyond the “substantially all trade” requirement to cover all trade. While a formal rule change to this effect would be desirable, in his paper for the project, Mavroidis (2005) notes that Art. XXIV GATT and the Committee on Regional Trade Agreements are basically defunct in terms of ex ante or ex post evaluation of PTAs. The DSU can and has been used, but the scope to do so is limited by the non-pronouncement on specific PTAs by the CRTA. Given the absence of effective enforcement of rules, seeking to change them may be a largely irrelevant exercise. Thus, in practice, full liberalization is an action that needs to be taken *unilaterally* by Northern countries. There is no need to change Art. XXIV to permit the implementation of this aspect of the proposal—what is needed is a real commitment to take development seriously. If language to this effect could be included in Art. XXIV, that would be beneficial, but it can already be done

unilaterally.<sup>19</sup> This is not the case for the suggestion that developing country partners commit to MFN liberalization. Here an alternative to redrafting Art. XXIV is to pursue waivers for specific PTAs, which may be feasible given that MFN-based reform implies that all WTO members stand to gain from the PTA.

The argument in favor of a MFN approach by developing country PTA members extends to services. Multilateral liberalization opens the market to the largest number of competitors and gives consumers maximum choice. It also leads to a less complex policy regime than a preferential arrangement, implying lower administration costs for the government and lower transactions costs for the private sector.

In practice the revealed preference of members of existing PTAs is clear: full liberalization is often not the objective, and MFN certainly not the goal. Seeking to change this status quo is clearly difficult. What the papers illustrate is that *if* development is indeed a major objective of the Northern partner, changes in approach that will help achieve it can be identified. These changes go beyond putting greater emphasis on non-discrimination in the application of policies and liberalization initiatives. They extend to the approach taken towards the “behind the border” trade agenda in partner countries, where arguably there is a need to enhance the coherence between trade agreement disciplines, development assistance, and the national priorities of countries..

#### **4. Enhancing the benefits of market access for the poorest countries**

Tariffs are just a part of the overall set of factors constraining developing country exports—other variables include transport and transactions costs that are often much higher per unit of output than in higher income countries. With or without preferences, more effective integration of the poorest countries into the trading system requires instruments aimed at improving the productivity and competitiveness of firms and farmers in these countries. Supply constraints are the primary factors that have constrained the ability of many countries to benefit from preferences.<sup>20</sup> This suggests that the main need is to improve trade capacity and encourage diversification, rather than actively discourage it—as is sometime the case. In part this can be pursued

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<sup>19</sup> This should not be difficult insofar as partners are small, poor countries. The EU already gives many of these countries duty-free access to markets, as does the US through AGOA.

<sup>20</sup> See, e.g., Commission for Africa (2005), Page (2005), and Stevens (2002).

through a shift to more (and more effective) development assistance that targets domestic supply constraints.

#### **4.1 Aid for trade**

The extent to which gains of the order of magnitude generated by global simulation models can be realised in practice, notably in low-income developing countries, depends importantly on complementary policy actions being taken to improve the investment climate and expand trade-related capacity building. This “behind the border” agenda will require additional support and resources. Given that in absolute terms developed countries are expected to gain economically more than developing countries from multilateral trade liberalisation, these gains from trade provide the means to mobilize additional funding (development assistance) to further reduce global income inequality and poverty. A broader “aid for trade” effort would also recognize that market access is not the most important variable constraining export growth in many developing economies.

Prowse (2005), in her paper for the project, argues for a multilateral trade integration program that would expand support for trade development. The objectives would be to: (i) enhance in-country expertise to strengthen trade development and policy formulation (trade diagnostic), (ii) provide more predictable financing and a more effective process to respond to the prioritised trade-related needs assessment determined by the trade diagnostics, and (iii) address specific adjustment issues affecting certain countries arising from MFN liberalisation (notably preference erosion).

The modalities of how additional funding should be administered, allocated, and monitored are all key issues that will need to be resolved. The basic principles that should be satisfied by an aid-for-trade integration mechanism are simple: support should take the form of grants, be credible and predictable, cover a broad set of developing countries, be based on a process of identification of trade capacity needs that is truly country-driven and owned, and have its processes and outcomes independently monitored. Prowse argues that aid allocation would be more effectively disbursed if undertaken within a multilateral framework that responds to national priorities. She also notes that country coverage should extend beyond LDCs to cover non-LDC poor countries. Assistance is envisaged as taking the form of grants, rather than loans over a 10-20 year period. Particularly important is the credibility and

predictability of funding. Previous ‘best endeavour’ promises to provide assistance for trade have not been realised. Making more promises provides little assurance to low-income countries that their concerns will be addressed. Experience demonstrates the need for a mechanism that provides dedicated funding to address the identified constraints on a nation’s trade competitiveness and to help offset the adjustment costs of reform.

The Integrated Framework for Trade Related Technical Assistance (IF) has become an established mechanism that provides a programmatic approach to assistance for trade adjustment and integration within the context of a country’s development programme (Prowse, 2002). The main purpose of the IF approach is to generate a broad-based trade policy agenda within a country’s overall macroeconomic and development strategy and to prioritise capacity building needs to which bilateral and multilateral donors respond. To date it has relied on existing donor-recipient aid allocation mechanisms to finance projects. Given that consideration of trade and investment activities must compete with other sectors, the trade dimension has often been relatively limited. While this may be appropriate, without additional assistance, one can question the efficacy of the programme to provide a more enabling process of integration into the global trading system.

There are numerous operational questions that will need to be resolved in terms of how additional funding might be managed through a mechanism that builds on the IF framework—these are discussed in Prowse (2005). Although the earmarking of development assistance is generally not efficient, there is a case to be made for it in the case of the trade agenda on the basis that deep MFN reforms have the characteristics of a global public good. Without a credible commitment to provide expanded assistance to address domestic bottlenecks and constraints, the likelihood of an ambitious Doha outcome is reduced. Calling for dedicated, additional funding for trade is not to deny in any way that support for trade competitiveness and integration should be aligned with country policies and programs. On the contrary. This is one reason why any funding commitment for dedicated trade assistance be time bound—to extend over the length of any implementation period agreed under a Doha agreement—and that resources be channelled through existing processes.

What the national priorities are that should be allocated funding will vary. However, a number of possible areas were the subject of papers prepared for the project. One is “industrial policy” – broadly defined here as efforts by governments to

assist in diversification of the economy by addressing identified market failures. Another is to reduce input costs for firms and farmers so as to make them better able to exploit the comparative advantages of a country (improve their competitiveness in the market place). Much of this revolves around the investment climate broadly defined, an agenda that is relatively well understood. But also important are services, in particular “backbone services” such as transport, logistics, finance, and communications. Industrial policy matters are discussed below; what follows briefly turns to the services papers. A message emerging here is that services reforms matter a lot for development prospects, but that trade agreements need to assist countries deal with national priorities. Simple reciprocity targeting market access is not enough – it may even be detrimental if the appropriate regulatory environment is not in place.

#### **4.2. Services**

One of the stylized facts of economic development is that the share of services in GDP and employment rises as per capita incomes increase. This reflects increasing specialization and exchange of services through the market (“outsourcing”)—with an associated increase in variety and quality that may raise productivity of firms and welfare of final consumers. It also reflects the limited scope for (labor) productivity improvements in the provision of some services, implying that over time the (real) costs of these services will rise relative to merchandise, as will their share of employment. Services are increasingly becoming tradable as a result of the greater mobility of people and technological change. This further increases the scope for specialization in production and trade.

Services such as finance, telecommunications and transport are major inputs into the production of goods and services—including agriculture as well as manufacturing. The costs of these inputs can account for a substantial share of the total cost of production, thus affecting the competitiveness of firms. Services are also important determinants of the productivity of workers in all sectors—education, training, and health services are key “inputs” into the formation and maintenance of human capital. Thus, service sector reforms potentially can do much to enhance economic growth and efficiency.

While these relationships are generally recognized, little empirical research has been done on the design and impact of services policy reforms. To a large extent this reflects the absence of information that allows services policy regimes to be

characterized across groups of countries in a comparable manner. In a paper for this project, Eschenbach and Hoekman (2005) exploit a dataset compiled by the EBRD on services policy reforms by transition countries over the period 1990-2004. They find that reforms in policies towards financial and infrastructure services, including telecommunications, power and transport, are highly correlated with inward FDI. Controlling for regressors commonly used in the growth literature, they find that measures of services policy reform are statistically significant explanatory variables for the post-1990 economic performance of transition economies. Although the sample of countries was limited to transition economies—time series policy reform indices of the type compiled by the EBRD do not exist for developing countries—the findings indicate that services policies should be considered more generally in empirical analyses of economic growth. The need for collecting data of the type compiled by the EBRD on a global basis is discussed below.

Services are important for the growth performance and prospects of countries in a variety of ways. As mentioned, one important “services dimension” is that some services are the vehicle through which goods and other services are transported and delivered to consumers. Recent research has stressed the importance of transport costs and the linkages between such costs and the geography of production and trade. A different slant is taken by Francois and Wooton (2005) in another background paper for the project. They examine the interaction between trade in goods and the degree of market power exercised by the domestic trade and distribution sectors – what they call “margin” sectors. They first develop a theoretical model that highlights interactions between the degree of competition in domestic service sectors and the pattern of trade in goods. The model points to an expected linkage between service sector competition and goods trade: the domestic service sector can serve as an effective import barrier. One implication is that the benefits of liberalization of trade in goods may not accrue to consumers but may instead be reflected in higher profits for the distribution sector. Econometric analysis involving the import patterns of 22 OECD countries vis-à-vis 69 trading partners supports this prediction. There is a statistically significant linkage between effective market access conditions for goods and the structure of the service sector. What this means is that if the structure of the domestic service sector is ignored, the market access benefits of actual tariff reductions may be over-estimated.

An interesting finding is that the competition of margin sectors matters more for poor and small exporters than for others. This is consistent with the conclusions of

the background papers on the incidence of the rents created by preferential access programs (Ozden and Sharma, 2004; Olarreaga and Ozden, 2004). These also found that small/poor countries obtain a lower share of the rent than larger/richer developing countries.

The analysis in the papers just mentioned suggest a comprehensive “behind-the-border” policy reform agenda focusing on services can help boost goods trade, and attract much-needed investment, both domestic and foreign. Openness to foreign competition—through policies that permit foreign participation on domestic markets—is a key element of good service sector policy and overall economic performance. The Doha Round offers an immediate opportunity to pursue further service sector liberalization. This is especially important for countries that do not have any prospect of accession to a major North-South PTA that includes services – such as accession the EU. However, as documented by Eschenbach (2005) in a paper prepared for this project, even far-reaching commitments in the WTO on services is not a panacea as there is no robust empirical relationship between the extent and depth of commitments made by countries in the GATS and actual services policies and economic performance. In the case of the transition economies analyzed by Eschenbach, some of the countries with the deepest commitments in the GATS scored the lowest on the EBRD index of services policy reform.

This conclusion points to the fact that the focus of the WTO – liberalization commitments (greater participation by foreign services firms on domestic markets) – is not sufficient. Given the characteristics of services and services markets—often affected by asymmetric information or high fixed costs and associated barriers to entry—there is also need for effective regulation and regulatory supervision of both domestic and foreign operators. This leads to the question whether trade agreements can ensure that the domestic policy efforts are made to put into place the needed complementary regulatory framework, and what can be done to ensure that the regulatory pre-conditions for liberalization have been put in place. These questions were also the subject of research under the project.

## **5. WTO Rules, Enforcement and Transparency**

Much of what is discussed in the WTO under the heading of “special and differential treatment” (SDT) and problems related to implementation of negotiated commitments revolves around perceptions that the existing rules are not fully supportive of

development. While there is a case for pro-active policies to address market failures, trade policies are unlikely to be effective or appropriate. However, more efficient policies may be subject to existing WTO (or proposed) disciplines (e.g., subsidies of various kinds), or there may be national constraints that preclude the use of more efficient policies. There will also be uncertainty as to what the appropriate policy may be in a specific situation. This suggests a potential rationale for greater “flexibility” in the application of disciplines and greater effort to monitor the use and effects of policy.

### **5.1. Policy flexibility**

The traditional UNCTAD/GATT-WTO approach to SDT comprises limited reciprocity in trade negotiations and (temporary) exemptions from certain rules, conditional on level of development, in addition to trade preferences through the Generalized System of Preferences (GSP). Government intervention is allowed to address market distortions and to achieve social (equity) objectives. Such interventions may also be beneficial in overcoming supply side constraints. What these are can only be determined by countries themselves, on the basis of country-specific analysis. The same is true for identification of the most appropriate feasible instruments. What types of domestic policies might be most appropriate and effective may not be obvious, suggesting that experimentation and learning should be encouraged (Rodrik, 2004).<sup>21</sup>

There is a large literature on these issues. Both the older and the more recent literature is surveyed in the background paper by Pack and Saggi (2005). They also review recent industrial development successes. They argue that only a limited role was played by public interventions, and that the recent ascendance of international industrial networks that dominate the sectors in which developing countries have in the past had considerable success, implies a further limitation on the potential role of industrial policies as traditionally understood. Compared with the exceptionally complex process of either picking sectors (or firms) or the process of allowing firms to identify their own competitive advantage (advocated by Rodrik, 2004), they conclude that it seems much more efficient in the current state of intensifying world competition and the growing importance of extensive and complex supply networks

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<sup>21</sup> This also suggests a link between the aid for trade agenda and issues of “policy flexibility” and SDT in the WTO and regional trade agreements.

to allow foreign firms to facilitate the reduction of costs in developing countries. This implies governments could seek to use domestic regulation and tax/subsidies to encourage local learning, the use of appropriate technologies (to protect the environment), etc.

While overall there appears to be little empirical support for an activist government policy to address market failures, clearly in principle these can justify the use of industrial policy. The case for trade policy to address such failures is very weak. Economic theory argues that in the case of market failures, policy interventions should directly target the source of the failure. Trade policy will rarely do so. If trade policies are used, there is a clear efficiency ranking of trade policy instruments, with quotas and quota-like instruments being particularly costly. WTO rules that impose disciplines on the use of such instruments will benefit consumers and exporters in developing countries and enhance global welfare. Similarly, there are benefits to abiding by WTO rules and criteria for taking actions against imports that are deemed to injure a domestic industry (the latter are discussed in Bown and McCulloch, 2005). The implication is that a good case can be made that the basic trade policy rules of the WTO make sense for all countries, developed and developing.

Increasingly, the focus of high-income WTO members has turned to international cooperation on “behind the border” regulatory policies. Often these may entail pecuniary spillovers on other members, but this is not necessarily the case. The emphasis tends to be on harmonization – which may not be optimal for many developing countries. Efforts during the Doha round to launch negotiations on the Singapore issues – transparency in procurement, competition policy, investment policy and trade facilitation – revealed how difficult it is to obtain a consensus on what and how to negotiate on such regulatory matters. Two papers prepared under auspices of this project, Evenett and Hoekman (2005) and Hoekman and Saggi (2005)—on procurement and competition policy, respectively—review the experience in the WTO on these subjects. They argue that there was substantial uncertainty regarding the implications of alternative approaches and possible outcomes. Despite the fact that in both areas one can identify “traditional” spillover-type rationales for international cooperation, the authors conclude that more analysis and a greater focus on mapping proposed subjects onto the priorities of countries is needed. This contrasts to the line often taken by proponents of specific proposals—which was to simply state

that a proposed approach would be in the own interest of developing countries. At the end of the day this was simply not compelling to many participants.

These papers illustrate the basic choice noted earlier that confronts WTO members – i.e., either limit attention to spillovers caused by policies and deal with those, or, alternatively, seek to put in place policy disciplines and mechanisms that would help improve policies in the areas concerned. Arguably neither was done very effectively in these two subject areas. Key dimensions of policy that do create spillovers were not put front and center – e.g., investment incentives, export cartels, market access in procurement – while other aspects simply reflected the status quo that had emerged over time in OECD countries.

Various approaches can be envisaged to deal with differences in interests and uncertainty with respect to the expected payoffs of alternative regulatory disciplines. One is to build on the status quo – essentially, to allow for (and facilitate) opt-outs by developing countries. This has been the traditional approach towards “development” in the GATT/WTO – SDT and the Enabling Clause provided a variety of ‘holes and loopholes’ for developing countries, implying less pressure to reciprocate in negotiations and more opportunities to (continue to) use trade policy instruments and discriminate between countries. These instruments can be complemented by requests for waivers on disciplines not covered by SDT provisions. The waiver mechanism has in fact been used – e.g., for customs valuation – and may be an effective approach to implementation problems, although it is not certain in terms of outcomes and involves negotiating costs.

A variant of the status quo espoused by Sutherland (2004), among others, entails bolstering the “development dimension” of the trading system by moving towards greater use of plurilateral agreements and/or GATS-type positive list scheduling to allow for differentiation across countries. Another approach is to allow for opt-outs on the basis of explicit criteria (such as size) to determine the applicability of rules, rather than leave it to case-by-case negotiations. Currently, whether SDT is invoked in the WTO is left to individual members (i.e., whether or not to self-declare as a developing country), with a mix of unilateral action and bargaining by developed country members whether to accept this and provide SDT. A major advantage of simple country criteria to allow more differentiation—if they could be agreed—is that it is “clean”—there is no need for additional negotiation. The

disadvantage is that criteria are inherently arbitrary, and to date has been resisted by many WTO members.

Neither approach does much to engage governments to help them identify better policies or areas where complementary actions/investments are needed. Instead, the focus is purely “legalistic” – understandable given that the WTO is a legal instrument – in that the intent is to identify a mechanism to allow countries not to undertake investments or implement rules they do not wish to while avoiding being confronted by the threat of dispute settlement and retaliation for non-compliance.

An alternative proposed in one of the project papers is to define (negotiate) a set of “core” disciplines and to make these binding (directly enforceable). Hoekman (2005a,b) argues that from an economic perspective these basic or “core” rules arguably span the MFN rule, the ban on quantitative restrictions, committing to ceiling bindings for tariffs, engaging in the process of reciprocal trade liberalization, and transparency of policy. Currently, under the WTO none of these apply equally to all members, due in part to SDT provisions and the Enabling Clause (which calls for reciprocity in negotiating rounds by developing countries to be limited to what is “consistent with development needs”) and more generally to the fact that everything is negotiated – so that for every rule there are exceptions. These exceptions extend to industrialized countries as well – e.g., in agriculture, where members were permitted to tariff at high rates and apply special safeguards.

Given agreement on a set of “core” principles – which would need to be negotiated – countries would be permitted not to implement “non-core” WTO rules on development grounds. In effect, they would be able to invoke a “development defense” if dispute settlement cases were brought, through agreement that there would be a “circuit breaker” in such instances – involving multilateral consultations with representatives of the trade (WTO) and development communities (donors, financial institutions) on the effectiveness and impacts of the policies concerned. The focus of these interactions would be to assist governments achieve their objectives through the use of more efficient instruments if these can be identified, including development assistance.

This more active approach does not imply ceasing to negotiate binding disciplines or hollowing out the DSU. In cases where there are significant negative spillovers on another developing country, for example, these should be identified and recourse to the DSU allowed in the process of consultations and multilateral

monitoring does not result in the adoption of a less trade-distorting instrument. The focus on a country's identification and pursuit of a national trade agenda and priorities and linking this to the proposed aid-for-trade integration program could help to reduce a government's perceived need to use costly trade policy tools. The monitoring mechanisms would also help to place the implementation of WTO disciplines in a national context and increase information on the effects of the applied trade and related policies.

The intention behind this proposal is not to make the WTO a development organization. This is not desirable. Instead, the objective is to put in place an enabling mechanism to support greater integration of developing countries into the WTO and to increase the coherence and transparency of policies that are pursued by developing countries. The WTO is a binding contract. This gives the WTO its value—traders have greater certainty regarding policy, and governments know what they are “buying” when they make commitments. Allowing for policy flexibility will increase uncertainty and could reduce the willingness of major trading countries to make commitments in the first place. Agreement that a core set of WTO disciplines would constitute binding obligations on *all* members should help address this concern.

The proposed core set is based on economic principles—they are desirable from an efficiency perspective and are (would be) beneficial to all countries no matter what the level of development. This implies there is a tension with the current approach in WTO—which is a legal treaty. It is important to note that currently there are no general, unconditionally binding rules in the GATT/WTO—i.e., there is no agreed “core” set of rules. As mentioned, for every rule there is a (negotiated) exception or set of exceptions. Thus, SDT is a “normal” aspect of the rules-based trading system, one that supplements the option to re-write (re-negotiate) the rules. Even from the perspective of the WTO being a “rules-based system” the proposed policy flexibility mechanism is therefore not inconsistent with the modus operandi of the WTO.

The proposal is discussed at greater length in Hoekman (2005a,b). Advantages of the proposed approach are that (i) it would bolster the engagement with developing country governments on their policies—complementing the TPR (which is arguably under-utilized because the secretariat is not permitted to form judgments regarding the WTO consistency of observed policies or their impacts within and across countries); (ii) generate assessments whether instruments are achieving development objectives;

(iii) allow discussion/identification of less trade distorting instruments; (iv) permit inputs from development institutions that have the experience, local presence, and capacity to provide both policy advice and financial resources (the WTO should not move into project design and financing) and help improve communication between the development and trade communities—identifying where development organizations should help and where WTO disciplines may be inappropriate.<sup>22</sup>

It would also have the potential to explicitly consider and use pro-active policies—including “industrial policies”—while helping to prevent the downsides of such policies—capture and rent-seeking. As discussed in Pack and Saggi (2005) in their background paper for the project, experience illustrates that it is very difficult in practice to identify the market failures that could justify intervention. This makes the surveillance and monitoring mechanisms particularly important and a valuable element of multilateral cooperation.

The approach complements the one that has greatest support in the current negotiations: an agreement-specific approach involving the *ex ante* setting of specific criteria to determine whether countries could opt out of the application of negotiated disciplines. Thus, the primary focus of the status quo is on detailed negotiation of opt-outs, rules and exemptions from specific agreements. An example is the Doha Round proposal that developing countries be permitted to designate special products and use special safeguard procedures for agricultural products. This approach requires poor countries to determine on an issue-by-issue basis the specific provisions that would be beneficial. What these are may not be clear, and the ability to get agreement from developed countries on such proposals is constrained by mercantilist calculus: the perceived cost to them of a proposal, not whether it makes development sense. Nonetheless, clearly the agreement- (rule-) specific approach also has significant potential to further enhance the development relevance of the WTO.

## **5.2. Enforcement**

The poorest WTO member countries almost universally fail to engage as either complainants or interested third parties in formal dispute settlement activity related to their market access interests. Explanations include the costs of the WTO’s litigation process, potential fear of issue linkage and “retaliation” outside of the WTO, free

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<sup>22</sup> Potential concerns about possible cross-conditionality and weakening of developing country negotiating positions in trade agreements need to be addressed.

riding, the weakness of the WTO remedy if a case is won (i.e., there is no compensation for damages incurred), and the fact that retaliation makes no sense for small countries (and thus is not credible). Background papers to the project explore various ways these issues might be addressed.

Bown and Hoekman (2005) discuss the scope to increase the participation of the private sector to provide DSU-specific legal assistance to poor countries—through legal service centres, NGOs, development organizations, international trade litigators, economists, consumer organizations, law schools, etc. The idea is to provide poor countries with the services needed at critical stages of the WTO’s litigation process, given a maintained assumption that resource constraints impede the ability to identify and bring cases. The WTO enforcement system relies heavily on a public-private partnership model that imposes a substantial cooperation burden on groups in an exporting country. Export interests need to be organized, the size of improved market access payoffs estimated (the expected “rate of return” of bringing a case), potential cases prioritized, the domestic government engaged, legal briefs prepared, evidentiary discovery pursued, etc. Bown and Hoekman identify a number of useful roles for various self-interested and altruistic groups in the enforcement process. These groups may assist with needed information-generation and increased transparency, if they are willing to invest in technological (legal and economic) upgrading so as to contribute to the provision of these services to help poor countries use the formal WTO dispute settlement process.

Other papers focus on the remedy side of the process. Evenett (2005b) analyzes the extent to which the threat of retaliation might be an effective mechanism to enforce compliance. Focusing on the bilateral trade flows of the largest 20 developing country traders, he concludes that about one-half trade intensively with each other as well as OECD countries. The implication is that credible retaliation threats will require these developing countries themselves to be active in using (or threatening to use) the dispute settlement mechanism. If they are not, the deterrent value of the current system is eroded. Thus, it is important to bear in mind that the “retaliation problem” is not a North-South issue, and that larger developing countries can use the system.

Bagwell, Mavroidis and Staiger (BMS) (2005) focus on a specific constraint that affects the ability of small, poor countries to make effective use of the WTO dispute settlement procedures—the fact that, by definition, these countries cannot

credibly threaten retaliation against large countries that “defect” from negotiated commitments. This may result in a systemic bias against these countries in terms of enforcement of agreements. An innovative proposal to address this particular problem was submitted by Mexico to the WTO in 2003. It suggests that WTO Members be permitted to trade their rights for retaliation in instances where a losing party refuses to implement a panel (or Appellate Body) report. BMS analyze the economics of this proposal, which they argue is the most ambitious and innovative proposal to have been made to date in the history of the GATT/WTO. They make the point that something along the lines proposed makes sense from the perspective of developing countries, given that they document a number of instances where dispute resolutions were not implemented by large trading partners. In their analysis of the Mexican proposal, they conclude that a slightly augmented version would have the greatest potential return for the developing country that auctions off its retaliation rights, especially if the violating party also has the right to bid.

BMS stress that their analysis does not imply that introducing the possibility of tradable remedies into the WTO system is necessarily a good idea given the likely political ramifications of a government imposing WTO-sanctioned retaliatory tariffs against other governments with whom it had no unresolved WTO dispute. However, they note that similar observations can be made about *any* attempt to bring multilateral elements into WTO dispute resolutions for the purpose of helping small and developing countries take part more effectively in the WTO system.

Another approach to the problem is more structural and would involve shifting to compensation and a system of fines. As noted by Bronckers and van den Broek (2005), this is not a new idea, having been proposed already in the 1960s, and more recently having been put forward in the Doha Round discussions by Pakistan. Bronckers and van den Broek strongly advocate adopting a system that uses fines (financial payments) as opposed to the threat of trade retaliation to enforce panel/Appellate Body rulings. This would have a number of advantages, including not (further) distorting trade, offering the prospect of compensation for damages incurred during the period in which a WTO member has nullified or violated a commitment, and raising the incentive to bring cases, thereby increasing the perceived “relevance” of the trading system for the private sector.

Limao and Saggi (2005) analyze the implications of compensation and show that a system of monetary fines is more efficient than one that is based on retaliation

(raising tariffs). However, they point to the enforcement problem – what incentives do losing parties have to pay a fine? If the ultimate threat to enforce compensation payments is to raise tariffs, nothing will have been achieved. In order to make a system of fines “work” in the absence of goodwill,<sup>23</sup> one possibility is to seek agreement *ex ante* to contribute to a multilateral “escrow account” (in effect posting a bond). If this can be done, the authors show that the need to rely on retaliatory tariffs can be avoided.

Open questions remain on which further research will need to be done. One that is important is the incentives for compliance under a system of fines and/or monetary compensation for damages (retroactive remedies) as compared to retaliatory tariffs. An advantage of the latter for those countries that can use them is that it is possible to target products for political purposes – i.e., to hit those industries and firms that are likely to be most effective in putting pressure on the non-complying government to bring its measures into compliance. Insofar as this is more effective than compensation in inducing compliance, larger countries may not want to go the compensation route. However, compensation requires public money, implying that Ministries of Finance will come to take an active interest in a country’s trade policy and compliance with international commitments. Insofar as such bodies have greater influence than the trade ministry, shifting to fines may be a more effective device to induce compliance than retaliation. From a compliance perspective this may be an additional argument in favor of compensation/fines.

### **5.3 Transparency of policies and multilateral monitoring**

The bottom line that is stressed repeatedly in the papers prepared for this project is that improved transparency of policies and their impacts (magnitude, incidence, etc.) is a key input into a better, more development relevant trading system. Monitoring and constructive engagement under the policy flexibility heading requires data. The same is true if developing countries are to enforce their rights through the DSU. This suggests that any significant expansion of “aid for trade” should in part be allocated towards the public good of information. This is currently grossly underprovided by the multilateral trading system—a major weakness that substantially reduces its value from a development perspective.

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<sup>23</sup> Bronckers and van den Broek argue that financial payments between governments to address “contract violations” are not that uncommon and examples can be found even in the trade area.

Despite the existence of the WTO and numerous international organizations that analyze trade flows and policies, there remain very large lacunae in the available databases of policy barriers to international integration. Even in the area where information is the best—on barriers to goods trade—the focus of data collection (and thus analysis) is mostly on statutory MFN tariffs and explicit quantitative restrictions on imports or exports. Data and measures of the types of nontariff policy barriers that are increasingly used by countries—such as antidumping and safeguard actions and excessively burdensome product standards—are not collected on a comprehensive and regular basis by the WTO or other organizations. Matters are much worse when it comes to information on policies affecting services trade, foreign investment, and the movement of people. Services now account for over 40 percent of international transactions, although data limitations imply there is substantial uncertainty on the real magnitude of the flow. Even less is known about the origin and destination of services trade and investment flows and the policies affecting these.

An effort to begin to remedy these gaps is urgently needed. The lack of data has made it difficult to examine the relationship between policies and performance, and to identify priorities for domestic reform and international cooperation in key areas such as services. Better data on underlying policies are a precondition for better policy advice and understanding of the process of globalization. Better data are also needed for the more “pedestrian” but critically important objective of monitoring policies. This is especially relevant in light of the global commitment to take action to attain the MDGs. Monitoring progress on this front and documenting the policies that are implemented by governments—North and South—to pursue the MDGs must include trade-related policies. The large gaps in our information on policies affecting international integration impede comparisons of country “performance” and assessments of the direction and magnitude of policy changes on an annual basis.

An effort to remedy the data gaps will involve several steps, starting with defining an appropriate conceptual framework that allows for different relationships between the major modes of integration (trade, investment and migration), the development of methods to identify relevant policies, and quantification of the different barriers implied by policies for each of these “modes” of integration. In trade, there is the issue of non-tariff measures, including mandatory standards or regulations for goods and services and the use of instruments of contingent protection. In FDI, there is the question of finding a common metric for restrictions on entry and

restrictions on ownership. In migration, identifying and quantifying the range of quantitative, fiscal and administrative barriers poses a major challenge.

Commissioning a group of experts to develop a practical methodology (index) for descriptive and monitoring purposes and to define what specific type of data should be collected for this purpose would be a first concrete step to move forward on this agenda. The objective of this exercise would be to improve quantification of the impact of policies and to identify what the input set should look like; what policies to focus on, and how to feed information on the existence and enforcement of these policies into the quantitative methodology.

Ensuring that this effort results in a durable policy-tracking mechanism will require anchoring the process in an organization with a clear mandate to do so, funding it and holding it accountable for results. Given the importance of local information, independence and objectivity, the recurring effort to regularly update the initial database needs to rely on local expertise. But this central organization should ensure timely delivery of data, quality control and administration (provision of funds, due diligence, etc.).

The WTO secretariat is an obvious candidate to take on the task of compiling comprehensive data on trade policies—going beyond applied and bound tariffs, to include bilateral preferences, nontariff measures (antidumping, subsidies, standards, rules of origin), services and investment policies, and data on bilateral flows of services trade, FDI and the sales of foreign affiliates. However, two critical preconditions need to be satisfied, both of which will require political will and high-level commitment by WTO members. First, the secretariat must be granted full independence—as well as the resources—by its members to do the job. Second, the data must be completely public, posted free of charge on the web in a format that is both informative and that lends itself to analysis. The experience to date with WTO members in this regard is not very good. Data have historically been kept restricted, accessible only to governments. While much has been done to improve access and transparency through the Web, notifications are often not user friendly, and internal efforts by the Secretariat to collate data into useable formats have not been made public.

## 6. Conclusion

The discussion in this overview paper has focused on some of the main findings of the research project, stressing the policy recommendations. These can be organized into three parts: (1) taking actions to allow an ambitious market access outcome to be realized in the Doha Round—by explicitly recognizing and addressing the political economy constraints that need to be dealt with to achieve such an outcome; (2) enhancing overall benefits for the poorest developing countries by improving the distribution of gains associated with an ambitious outcome—through additional aid for trade that boosts their ability to contest global markets; and (3) changing WTO disciplines, processes and enforcement procedures so as to make these more supportive of development.

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## Annex 1

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