

DEVELOPING COUNTRIES IN THE WTO

For developing countries, the Uruguay Round of trade negotiations marked their full entry into the world trading system. Furthermore, they entered a system which had been transformed by the Round and the World Trade Organization (WTO) which it created.

By the time the Round ended on 15 December 1993, most developing countries had expectations of substantial gains and there was impatience with the failure of industrial countries to settle their outstanding trade differences. This contrasted with the beginning of the Round in 1986, at the initiative of the US with only limited support from other industrialised countries, when the developing countries were either apprehensive, or indifferent to international trade reform. Some of this apprehension remains, especially for the poorest countries, where possible losses from the Round are a serious concern.

This Briefing Paper considers the basis for these different developing country outlooks on the outcome of the Round. It provides a detailed examination of the results and of the issues which the Round raised and suggests that the quantifiable effects will be smaller than some of the highest estimates, but they will be unequally divided. It also shows how the changes in the trading system are as significant as the founding of the GATT itself

Why trade reform matters to developing countries

The Uruguay Round was more important than earlier Rounds to developing countries for three reasons:

- the traditional area of GATT-regulated trade, manufactures (excluding clothing), is now a significant part of their trade and they have become significant markets and competitors for the industrial countries and for each other. In the past, the products negotiated under GATT were of less interest to developing countries. In 1970, developing countries exported 7% of world exports of manufactures. By the beginning of the Uruguay Round in 1986 the share had risen to 12.5%, and by 1992, 20%. Manufactures had increased to more than half their total trade by the beginning of the Round, from about a third in 1970; they reached almost three quarters by 1992.
- the Round brought *agriculture*, in particular those foods in which some developing countries compete directly with developed and of which others are large-scale importers, and *clothing*, a major export for many developing countries, back under the normal rules of the trading system. Both were previously under separate systems of regulation and quotas. With the negotiations now dealing with products of direct interest to them, 31 developing countries joined GATT during the Round, including major countries such as Mexico and Venezuela. These new members further increased the impact of GATT on existing members, and the growing membership in turn led the former centrally planned economies to seek membership. When these join, the WTO will cover all trade in goods by all countries, a transformation from ten years ago.
- increased depth of *regulation*. The Uruguay Round has tightened controls on tariffs and non-tariff barriers. It has extended those on subsidies and regional group preferences. It established a framework for regulating services trade, which includes rules on capital and labour movement. It added protection of intellectual property through regulation of copyright and patent law. Finally, it greatly strengthened and refined the system for monitoring and enforcement through the new powers assigned to the WTO.

In the past, GATT's limited coverage lowered the cost to developing countries of following a national strategy which stressed import replacement rather than exports. High tariffs and trade barriers in developed countries raised the value of preferential access to their markets. 'Special and differential' treatment permitted import barriers and preferences. The terms of the trade-off between this special status and accepting normal multilateral rules altered sharply in the 1970s and 1980s. Developing countries' own policies changed. Freedom to impose import controls was less important, and obstacles to their exports more important. The latter were seen not just as barriers to static efficiency gains, but constraints on a strategy for dynamic change and industrialisation. Lower 'Most Favoured Nation' (MFN) tariffs, available to all, reduced the value of preferential treatment. For industrial countries, it became more costly to offer special privileges to countries which were now competitors. In the Uruguay Round, increased pressure from other countries to remove special treatment met lower resistance. The result was a much more limited and selectively defined list of special exemptions (Box 1).

Quantifiable effects of the Round

Trade in manufactures: tariffs and preferences

Under GATT and WTO rules for trade in goods, the only restrictions on trade normally permitted are tariffs on imports. These discriminate by sector, but not by country. The current level (or an upper limit), as agreed with trading partners, is registered with GATT/WTO ('bound'). It can be lowered, but not raised except with further negotiation or compensation. In the first 20 years and five negotiating Rounds of the GATT, MFN tariffs fell by large proportions (25–50%) from high levels. By 1970, tariffs were already, on average, low, and by the end of the seventh (Tokyo) Round in 1979, the average tariff, excluding petroleum, charged by industrial countries was 6.3%. From 1970, developing countries had paid less than MFN, under the Generalised System of Preferences. After the Tokyo Round the average was two points below the MFN level.

The Uruguay Round saw an average fall for industrial country MFN tariffs on goods exported by developing countries of 2.4 points, from 6.3% to 3.9%. Given their GSP advantage, however, the actual tariff reductions were small or zero. The cuts for the least developed were smallest because many of their exports already faced no tariffs. The distribution between low and high tariff goods continues to discriminate against goods important to the poorest exporters: clothing is one of the highest and leather, rubber, shoes, travel goods and transport equipment all had small cuts on high tariffs. The result was very small effects for Latin America and Asia (Table 1).

For the African, Caribbean and Pacific countries associated

Box 1: Special Treatment of Developing Countries

The WTO differentiates in privileges and obligations among 'least developed', 'developing' and 'developed'; but does not define these groups. This remains one of the major uncertainties of the Round. The existing UN definition of least developed was not based primarily on trading characteristics. There is no standard definition for developing. This classification is inconsistent with the traditional GATT method of trade bargaining, among *ad hoc* groups, forming according to their interests in specific products or subjects. Product-by-product graduation has also been used in some preference schemes.

with the EU (ACP), and the Caribbean countries associated with the US, there has been even more preferential treatment for manufactures and they faced zero tariffs on primary exports. For them, there is almost no gain from the cut in tariffs. Where the MFN cuts are to zero, eliminating any preferential margin, the other developing countries will gain relative to those who were 'more preferred' and all developing countries will lose relative to industrial countries without preferences. This gives the negative effects for Africa and ACP in Table 1.

For some developing countries, an increasing share of exports go to other developing countries. For Asian countries, intra-regional trade is now a third of the total, and for Latin American, a fifth. One aspect of the less 'special' treatment of developing countries in this Round was that they also had to reduce their tariffs. The major cuts were in the high Latin American tariffs. The smaller cuts by the Asian NICs, however, will have more effect, because their imports from other developing countries are much larger. The average tariff charged by all developing countries was reduced from 13.5% to 9.8%, at 3.7 points a larger fall than in developed countries.

Developing countries not only lowered their tariffs, but 'bound' them. The proportion bound rose from 13% to 61%. Industrial countries had already bound most industrial products, but for agriculture, their bindings increased from 81% to 100%; for developing countries the rise in agriculture is from 22% to 100%.

Agriculture

The principal reform in agriculture is the substitution of tariffs for the complex system of quotas, controls, and variable tariffs imposed by the US, EU and Japanese protection of domestic suppliers. These tariffs will be reduced to a level on average 36% below the pre-Round, 1986-88 level. The settlement also requires reductions in domestic and export subsidies and in the quantity of subsidised exports. These changes mainly affect developed countries, but middle-level developing countries must reduce subsidies by 24%; the least developed are exempt.

The principal effect is to raise world prices. Developing countries are net importers of food, so this will be a cost, but there are large benefits to some exporters (Table 1). The size of the effects is particularly difficult to estimate because the size and nature of the changes are unprecedented, and some countries may increase domestic production sufficiently to change from importing to being self-sufficient or even to exporting. There is also a question of how much of the change should be attributed to the Round: all the industrial countries were under pressure for domestic budgetary (the EU and US) or food shortage (Japan) reasons to reform their systems unilaterally. Here, all the change is 'credited' to the Round.

As in the case of tariff reductions, those exporters which had special preferences, notably a few southern African countries into the European market for meat and cereals, have little to gain and could lose markets to previously less preferred countries, both developed and developing. It is the countries which faced the highest barriers with the least preferential

access, notably some Asian rice producers (e.g. Thailand) and Latin American wheat and animal feed exporters (e.g. Argentina and Brazil), which could gain. Importing countries, which lose include many in Africa and some in the Caribbean. For these, a GATT Ministerial Declaration has suggested that their extra costs give a case for compensation (Box 2).

Changes for tropical products come largely from the elimination of MFN tariffs on some products into the EU, which removes preferences from the ACP countries. The effects are negative for them, especially coffee producers, and positive for other developing countries. There is little overall change.

Textiles and clothing and the MFA

Trade in textiles and clothing has been effectively removed from GATT since 1962, subject to a series of quota systems, culminating in the Fourth Multi-Fibre Arrangement (MFA). Tariffs remained high. The MFA quotas were imposed by individual importers on individual exporters and products, at a very detailed level, with provisions to add new countries and products as these reached significant shares or growth rates in trade. As each new country became successful, it attracted quotas. The effect was to disperse the trade, from the original successful exporters (principally the large countries of Asia) to a series of other suppliers with cheap labour, until they also had quotas. The new settlement sets a detailed ten-year schedule to end the MFA by increasing and eliminating all quotas, in four stages, with about 50% in the last. Tariffs will remain high at about 12%.

The distribution and size of the effects is more difficult to measure than for agriculture because of the artificial dispersion. Some will be reversed, but some new suppliers have lower labour costs and some existing suppliers retained markets for some products because experience of exporting gave an advantage. The estimates assume a small (20% over 10 years) rise in total exports, with most of the increase and some of present trade going to the most efficient producers, China, India, Pakistan; to South Korea, with access to its own synthetic fabrics as well as Chinese textiles, and probably also to Eastern Europe, with its easy geographical access and preferences. Some countries may experience falls, notably Mauritius, Jamaica and Bangladesh. These are, however, from levels which were raised by the operation of the MFA, and the falls probably would have occurred in any case.

Overall quantifiable results

The overall effect is small, a net increase in exports by developing countries of 1.4% by the end of the ten-year transition period, plus the small welfare effect from the reductions in their own barriers to imports. The major gains go to Asian countries. This is because of tariff cuts among their neighbours, the good prospects for clothing and the fact that there are few preferences to lose. The outstanding examples are China (assuming that it joins the WTO) and India. The Latin American countries also lose relatively little on preferences; they gain as food exporters, but gain less than other areas from regional tariff cuts or those of industrial countries.

Table 1: Effects of the Uruguay Round on Developing Countries (% change 1992 exports) to 2005

	1995	1998	2001	2005 Final Change	Changes by sector (2005)			
					Agriculture		Mfrs	MFA
					Temperate	Tropical		
Africa	-0.63	-0.94	-1.03	-0.72	-0.36	-0.29	-0.87	-0.80
Latin America	0.07	0.12	0.27	0.62	0.02	0.08	0.12	0.40
Asia	0.03	0.02	0.52	2.05	0.02	0.02	0.01	2.00
South Asia	-0.01	0.02	1.18	4.59	-0.11	0.02	0.19	4.50
ASEAN	0.13	0.17	-0.13	-1.08	0.16	0.03	0.02	-1.30
NICs	0.03	0.03	0.48	1.88	0.04	0.01	0.02	1.80
other	0.01	-0.00	1.52	6.10	-0.04	0.02	0.02	6.10
ACP	-0.63	-0.94	-1.26	-1.70	0.45	-0.37	-0.68	-2.20
All developing	-0.02	-0.02	1.40	1.37	-0.02	0.00	-0.01	1.40

Table 2: Developing countries' services by sector (% of countries making offer)

	Business	Communications	Construction	Distribution	Education	Environment	Finance	Health	Tourism	Recreation	Transport
Total, developing countries	78	55	40	20	11	42	60	25	100	25	49
Africa	60	53	33	13	7	0	53	7	100	7	47
Latin America	77	50	41	32	18	0	73	32	100	41	50
Asia	94	61	56	11	6	11	50	33	100	22	50
EC, US, Japan	100	100	100	100	100	100	100	100	100	100	100

African countries have least to gain, because they face fewest barriers, and most to lose, in preferences and as food importers. For Africa, as was true for most developing countries in earlier Rounds, the changes are at best irrelevant. The difference is that African countries have signed the agreement (in the past, some Latin American countries stayed out), and accepted the argument that the reductions and the increased regulation of the system which have been agreed will eventually lead to benefits.

As Table 1 shows, the staged implementation means that most areas will initially see little effect, and the negative effects will come before the positive. The tariff cuts by Latin America have already occurred; most of the remaining general cuts will occur quickly. The agricultural reforms have already started, as both the US and the EU have already moved from the pre-Round base. The remaining cuts can largely be postponed to the final stages. The textile and clothing changes are planned to have the largest cuts in the last stage; unfilled quotas and the provisions for averaging will allow the US and EU to make only minimal changes in the first two stages.

Services

Including services in the GATT was a major objective of the US in 1986, and regarded as a major threat by some developing countries. During the Round, however, an increasing number of these became aware of their own advantages, from low labour costs and more modern structures in sectors such as air, shipping and construction, and also computing and communications. Here also policy shifted away from import protection. Although the final settlement still shows a clear hierarchy, with most commitments by the most developed, and least by the poorest developing, in the end the Asian NICs and Brazil, which had been the strongest opponents, were significant participants. Typically the African countries offered 2-4 sectors: the Latin American and Asian 6-9. A few, like Bangladesh, offered only one.

There are two problems in quantifying effects. The offers state the limits which countries will now accept on protecting their services, but there is no indication of whether these are lower than before the Round. In many cases, particularly in the detailed offers of the developed countries, it is clear that they are merely quoting present legislation. The second problem is that the negotiations established a framework based on sector and type of barrier, but without any measurement of the height of the barrier. A detailed offer may therefore indicate a range of controls, or it may be a set of exceptions to a basically liberal regime. Table 2 summarises how many countries made offers in each sector. If these numbers measure the size of change, then because of both their own opening and that of their neighbours, Asian countries again are likely to gain most, and African least. The sectors most often included are tourism, business and finance, with distribution and education least open.

The offers typically allow some freedom of foreign investment, to provide a service in an importing country, and a little freedom for professional workers to migrate to provide services, but little or no opening for unskilled labour. This also implies more gains for the developed countries, and for the more developed of the developing countries.

The establishment of the principle that services are subject to international regulation and the new availability of information on the national systems of control represent a

significant gain for all countries. The agreement also explicitly requires in several services a reopening or continuation of negotiations.

Regulation

Intellectual property

Copyright, patents, and other means of protecting 'intellectual property' in the past had their own international negotiations and codes, normally through the World Intellectual Property Organisation, or were subject to bilateral agreements. The EU and NATA, however, set the precedent of treating them as part of harmonising a trade zone. They were brought into the Uruguay Round to strengthen rules against counterfeit goods; but also to discipline countries which permit production of such goods as pharmaceuticals, without payment of licence fees, justified under national health policies. The objective here was to change the national regimes.

The agreement requires countries to accept existing conventions. It extends them, and allows use of the WTO enforcement mechanisms. For technology-exporting countries (the present industrial countries and increasingly the NICs), it increases or guarantees their income. For developing countries which are net importers of technology, it is intended to ensure that technology is paid for, by direct purchase or through foreign investment, rather than taken without permission. Countries like Brazil and India which, in 1986, were primarily importers, originally opposed its inclusion in the Round. Seven years later, Brazil and India were moving out of this stage, with their own computer and software industries. Other countries, particularly in South East Asia had signed bilateral agreements with the US providing similar protection. Mexico had altered its laws in preparation for NAFTA. It is, yet again, the countries which have not yet approached the NIC stage which suffer immediate costs for potential long-term benefits.

The new framework of trade regulation

Three important changes – policy reviews, anti-dumping actions and dispute settlement – all depend on countries' own use of them. Unlike other international organisations, the WTO has no authority to take action itself against violations of the rules. It is the damaged party which must bring a complaint

Box 2: Compensation for food importers

For low income food importing countries, the GATT/WTO offers some prospect for compensation for any increase in food prices. However, the agreement itself does not include a mechanism for compensation as the WTO has neither food nor funds to offer. It will calculate the loss and make a recommendation to the aid donors. The international financial institutions have already said that they cannot make extra funds available. Bilateral donors are allowed to offer food aid, however, an exception to the new rules on subsidies. The results given here suggest that the size of the effect is small, and its significance may be reduced because the price of many foods is tending to fall. Actual prices may therefore fall.

The proposed relief is the only example of GATT/WTO support of compensation for a cost resulting from liberalisation, in other words for losing a 'benefit' which was a side-effect of a basically harmful intervention in trade. Individual country results suggest loss of preferences on tropical goods, clothing, and other manufactures will have more serious effects.

and, where permitted, take retaliatory action to enforce a judgement. This remains a serious weakness for small countries acting against large ones, although limited forms of collective complaint and action will now be permitted.

An early result (1988) of the Round was a system of periodic *trade policy reviews* for all countries by GATT staff. At first these were justified as purely fact-finding exercises, a contribution to transparency. The report and the country's response are discussed by the GATT/WTO Council, and then published. In practice, the reports, particularly in the second round of reviews, have become increasingly analytical and critical. From 1995, they will include services and the other new subjects. The reports are a major contribution to the information available on actual trade practices, including violations of rules. They may have had some effect in shaming countries into modifying rules. As the criticisms have not spared the US and EU, they are the nearest substitute for a WTO enforcement mechanism against major countries.

The principal bilateral trade weapon since the early 1980s has become *anti-dumping actions*. The old GATT code was vague on what criteria countries could use to back a complaint that countries were charging 'below cost' export prices. The principal users were the US, Australia, and the EU, and the principal defendants were Japan and the NICs. Since 1990, however, other developing countries have been affected, including not only lower middle income countries like Peru or the Philippines, but some of the poorer: Bangladesh, Pakistan, Kenya, and Zimbabwe. The Uruguay Round agreement gives a more transparent and predictable method of determining the 'correct' price, and sets a time limit (normally five years) on any action. But the new definitions effectively follow those of the EU, which were probably the most effective in finding 'dumping', and which had originally been criticised, even by the US, as too wide. Developing countries, led by Korea and Mexico, but now including Brazil and India, have started to use these actions as well. A strong anti-dumping mechanism remains likely to damage low cost producers more than high cost, and thus to discriminate against developing countries and likely to restrict trade.

The major reform to regulation in the Uruguay Round is that *dispute settlement* has now been placed in a framework of automatic procedures. Under the GATT system, each stage (complaint, setting up a panel to consider a dispute, the proceedings of the panel, and consideration of its report), could be delayed effectively indefinitely by either party. Any country, including the one against which a finding had been made, could hold up adoption of a report. Under the new rules, time limits are laid down for each stage, giving a maximum time from complaint to Council adoption of about a year. Adoption is automatic, unless voted down by the Council. Developing countries had started to use the old procedure, and are among those who have already taken action under the new one. The mechanism is likely to be heavily used: even the list of existing disputes which can now be brought forward is long, and the new rules will offer wide scope for dispute. The procedure is clearly an improvement, but its effect should not be exaggerated. Even with all the loopholes available legally under the old system, countries still used unauthorised ones as well, notably bilateral action instead of formal dispute complaints and ignoring the findings.

The future of the World Trade Organization

Formally, the reason for differentiating the WTO from the old GATT is that it needs to cover the new areas, which were not explicitly in the GATT. However the real reasons for creating the WTO were different. The first was to create a presumption that all countries would adopt all of the settlement, in contrast to the last Round in which some agreements applied only to those who chose to join. This has succeeded. Second, there was a desire to strengthen visibly the basis of the international trade system, not just making the coverage more comprehensive, but

establishing clear obligations and better enforceability. Raising the formal status of the organisation is part of this. This is closely allied to the third reason: to make the new organisation more overtly part of the international policy system in parallel with the World Bank and IMF.

An important role of the WTO, with a Ministerial Conference every two years, will be to provide a framework and a forum for continuing negotiations, rather than relying on Rounds. In several of the new areas, particularly among services, there was explicit provision for completing or reopening negotiations during the next five years. A system of 'credits' for reforms outside negotiating Rounds (used to accommodate Latin American tariff cuts occurring during the Round) will provide a way of managing cross-subject bargains spread over different periods, and the trade policy reviews and the dispute procedure should provide a framework for identifying problems and enforcing agreements. The ten-year phasing in is longer than in the past, and the clothing and agricultural agreements are significantly more complicated, and potentially in need of supervision, than the tariff cuts of past Rounds.

In terms of the international system, the central gain as perceived by developing countries, especially the apparent losers in Africa and other least developed countries who gain little from the quantifiable changes, is certainty: of what the rules are, of no arbitrary changes in market access, of the criteria for actions like anti-dumping or the required standards on intellectual property, and, in the final resort, on dispute procedures. They have less power to demand or participate in bilateral negotiations. They ratified the WTO, and most did so sooner than the US, EU, or Japan, in the belief that these outweighed the losses on food costs, loss of preferences, increased costs of technology, and restriction on trade barriers.

The history of GATT is that each extension to new areas and each increase in the economic importance of trade leads to new subjects being seen as related to trade or an increasingly integrated market. The environment and labour standards are already in both EU and NAFTA agreements, and have been placed on the future WTO agenda. The developing countries, as a group, have opposed including these issues on the grounds that they are protectionist in intent. Individually, however, some are already nuancing their opposition. As happened during the Uruguay Round with the issues which were 'new' for it, some will see their interests change, and opportunities for challenging industrial countries will appear. It is not only, or even mainly developing countries which damage the environment, and not all industrial countries have adopted minimum ILO (or EU) standards for labour. The spread to more 'new areas', however, raises the question of whether an organisation and set of procedures designed for regulating trade is the most appropriate for these wider concerns.

For further information, see *World Trade Reform* by Sheila Page and Michael Davenport, Overseas Development Institute, 1994, from which the tables are taken.

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