

# **Developing Countries and the WTO:**

*The Road Ahead*

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The World Bank

Discussion paper series 2000-002

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**DEVELOPING COUNTRIES AND THE WTO: THE ROAD AHEAD**

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**As Prepared for Delivery at the United Nations University Workshop  
On “Trade Environment and Development after Seattle and Bangkok”  
United Nations, New York February 22, 2000**

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## **THE DEVELOPING COUNTRIES AND THE WTO: THE ROAD AHEAD**

The World Bank believes that more effective integration of developing countries in the international trading system can stimulate development and alleviate poverty. Multilateral trade negotiations in the WTO which take into account of the developing countries' interests and constraints can make a contribution to this objective. As a consequence, it was disappointing that the Seattle meeting reached no agreement in launching a new Round. This workshop provides an opportunity for exploring ways of moving forward and I am delighted in being able to participate in your discussions.

In the weeks before the Seattle Ministerial I wrote an article in the *Journal of World Trade* in which I discussed the parable of the bicycle which is very familiar to those working on international trade issues. The basic parable compares international trade liberalization to the movement of a bicycle. It has to maintain forward momentum through multilateral trade negotiations or else it stops and the rider falls, as protectionist forces, present in all countries, catch up. I said then, that this would also apply to a new Round—which I favored then and still do —provided the bicycle is not overloaded, because it would then crash.

Well, in Seattle the bicycle was overloaded with such extraneous issues as Labor, Investment and others. Predictably it crashed. And it is in need of urgent repairs before it gets going again. Overloading was not the only reason for the Seattle debacle. But it was an important one; and it holds lessons for the future.

Today, I want to look to the future and how to get the process of trade liberalization going forward again in ways that fully takes into account the priorities of developing countries. I will present TEN steps which need to be taken in order to get back into a meaningful Round of Multilateral Trade Negotiations. Most need to be done by the governments members of the WTO. Some need to be initiated by the WTO Secretariat. I will group the actions in several major themes.

## **A. Developing Understanding and Building Support of Civil Society for WTO.**

There is very little understanding in civil society, including NGOs, universities, members of parliament about what the WTO is or does; and most importantly what it is not and can not be. The WTO does not dictate anything to any country or company, unless that country has agreed to it in advance in a WTO agreement. The WTO is not the place to pursue particular objectives of special lobbies either of developed or developing countries. The WTO DOES provide a framework within which governments negotiate agreements and rules on trade issues which they commit themselves to abide by. And it provides a quasi-judicial system where disputes regarding the agreements they have signed can be resolved. Two steps are especially important to be taken in this area:

**Proposal 1.** It would be useful to set up an international WTO Parliamentary Assembly. This would give an opportunity to parliamentarians from all countries to meet, develop a better understanding of the issues that WTO can or can not deal with and provide links to their societies.

**Proposal 2.** It is necessary to strengthen the links of the WTO with NGOs. There are various models for doing this ranging from formal accreditation of NGOs to establishment of an NGO committee that deals WTO issues on the World Bank model. The World Bank also faced a period of strong criticism by the NGOs. In part this was because adequate communication channels with NGOs did not exist. The situation has improved significantly in recent years. There will always be some differences, but they should not be the result of misunderstanding of concerns on the one hand and procedures and policies on the other.

## **B. Strengthening the Governance Structure of the WTO**

Getting consensus among more than 135 member governments is not easy. And weighted voting, as practiced in the World Bank is politically impossible – and not in the developing countries interests. Consultations do occur in the WTO, and there is a process. But it is informal and hence not transparent. It has to become more formalized and therefore more transparent.

**Proposal 3.** It would be useful to set up a group of eminent persons to analyze the governance structure and make proposals to the Director General of the WTO. While they are at it, they may also review and make recommendations on the organization of the Secretariat and the functioning of some of the existing WTO bodies. The group should be set up quickly and report to the DG before the end 2000. There is precedent for such groups before, and they have been helpful, not

necessarily for the implementation of specific proposals but in providing a sounding board for different approaches to deal with sensitive issues.

**C. Implement Certain Measures in Support of Developing Countries Immediately.**

A number of measures in support of further integration of developing countries in the international trading system were under consideration and had gained almost complete agreement at Seattle. The international community should not wait for the beginning of a new Round before implementing these measures. The problems they were designed to address will not go away, and they should be considered as part of the 'implementation' package developing countries have been seeking in advance of a new Round. These include:

**Proposal 4.** Market access for the Least Developed Countries (LDCs) should be improved immediately on an autonomous basis to cover duty , and quota free entry for all exports from these countries. This is a commitment the international community has already made in principle and which with the exception of one country it was prepared to undertake in practice in Seattle. It is politically easy to implement because these countries' exports account for a miniscule proportion of total world trade; and the bulk of them enter duty free already.

**Proposal 5.** Extend the same market access improvements provided to LDCs to all the low income heavily indebted developing countries participating in the HIPIC debt reduction initiative. The situation in the HIPIC countries has been demonstrated to be unsustainable and they need all the help they can get in market access terms. Indeed their situation may be even worse than some of the LDCs. There is substantial overlap in the two lists. As an exercise of improved coherence in international initiatives, the two lists should be combined.

**Proposal 6.** It is necessary to increase technical and other assistance to developing countries to enable them to meet the commitments they have made under the WTO agreements. Everybody agrees with this proposition. UNCTAD and the World Bank and other bilateral donors can help in this respect. In order for the commitment of the developed countries to be of a contractual nature however, the specific proposal is to increase very substantially the technical co-operation budget of the WTO. Up to now the WTO agreements contain plenty of commitments to provide technical assistance, but there is no legal obligation by anybody to do anything. Everything is in "best efforts" terms. As a result, the technical assistance needs of developing countries are being met on an ad hoc

basis. Most of the technical co-operation provided by the WTO is being funded through Trust Funds voluntarily provided by three bilateral donors. WTO's own budget for technical co-operation is half million US\$ per annum. Similarly, the so called Integrated Framework of assistance for LDCs is being funded by contributions of the participating international organizations as well as by bilateral donors. There has been no serious costing of the commitments developing countries have undertaken in the WTO by the WTO. Perhaps the only real alternative is to balance the legal obligations developing countries have assumed with legal commitments of the developed country members to fund the assistance needed to implement them. One way to do this is to raise very substantially the technical co-operation budget of the WTO. A ten fold increase will do for the first year—a figure close to what I understand DG Moore is seeking.

**Proposal 7.** The transition periods provided for developing countries to implement certain agreements need to be reviewed on an urgent basis. Many of these transition periods have expired, for example in TRIPs, TRIMs, Customs Valuation. According to the provisions of these agreements countries that can not meet their obligations have to notify the WTO. Very few developing countries have done so. Most have not and some may not be even aware that they have to do something. Meeting some of these commitments requires institutional capacity not easily or quickly established. Developed country members have said that they will address this problem case by case. This is on the face of it reasonable: after all, the capacity of different developing countries to meet their obligations differs: Argentina and Singapore may be much better able to deal with their TRIPs commitments or customs valuation, than Ghana or Sri Lanka. Yet they are all 'developing countries'. But looking at every case individually is unreasonable: it will tie up the WTO for months. On the other hand, some advanced developing countries are asking for generalized extensions when it is not obvious why they would need them. One solution would be to automatically extend the transition periods for all developing countries up to a certain level of per capita income and look at the remaining ones case by case. But the problem needs to be addressed urgently. It would be a bad precedent for these timetables to be violated wholesale; what is then to stop developed countries from violating timetables they have agreed to in liberalizing textiles?

#### **D. Start Getting Ready for a New Round of Multilateral Trade Negotiations**

I continue to believe that a new Round with the proper agenda and timetable is in the interests of developing countries. This is because I believe that there is still a lot of protection worldwide which needs to be reduced and that the only way to do this is through a multilateral round. Unlinked

sectoral negotiations are not helpful to developing countries because they do not have the leverage to induce reductions in the heavily protected sectors of developed countries. Only when the countervailing force of export interests in developed countries—which are seeking greater access in developing country markets-- is present and only then are governments in developed countries prepared to take on the entrenched protected interests of their agriculture and textile and other lobbies. And this is maximized when there are linked negotiations in a number of sectors and areas. But not too many, because then the institutional capacity of developing countries will not be able to sustain them. I had argued for a 'single undertaking' with a limited package before Seattle and I continue to think that such a package is desirable and feasible. But not the limited package offered by the US; nor the very large package proposed by the EU.

**Proposal 8.** In order to get a limited package on items of interest to developing countries, it would be necessary to unload items which have unnecessarily burdened the WTO negotiations to date to other organizations or bodies. Foremost of these is 'labor standards'. This simply has to go and the only place for it to go is the ILO. But instead of the developing countries simply saying 'no' to including in the WTO agenda, they should actively pursue this issue in the ILO. Similarly 'investment' has to go away completely. The trade related elements of this issue have been already included in TRIMS ( Trade Related Investment Measures) and there would be sufficient pressure by developed countries brought to bear on some aspects of foreign direct investment ( e.g. rights of establishment and national treatment) in the services negotiations. Competition, is not ready for "negotiation" in my view, nor is it a priority for most developing countries to adhere to international standards in this area. It is important to continue strengthening domestic legislation and rules and supervision. There is working group discussing the issues in the WTO; and it should continue to do so.

Finally, I am of the view that developing countries ought to consider certain aspects of the environment as part of a package for future negotiation. A lot of work has been done on the subject in the WTO and there is a number of areas in which there is a convergence of views that they should be addressed in a negotiation. I know this entails danger of getting covert protectionism in the guise of environmental standards. However, there is another danger as well: in the absence of well defined rules in the matter, developed countries may simply implement environmental regulations inconsistent with the WTO. It would be then up to the developing countries to get these rulings reversed through the WTO dispute settlement process. This is what has been happening recently, ( e.g. the tuna-dolphin case). But the task is not easy. It may be wiser for the developing

countries to agree to selective review of certain provisions to deal for example with issues such as eco-labeling, the 'precautionary principle' etc.

**Proposal 9.** Developing countries should be participating actively in the upcoming negotiations on Agriculture and Services. They should also pursue an aggressive review of the TRIPs agreement which contains a number of features that are contrary to their interests. The negotiations in agriculture and services will start soon, as will the TRIPs review. They will drag on for a while, as there is no time limit for their conclusion; and most importantly, the US has no fast track authority that will permit it to negotiate seriously for a while. TRIPs contains a number of problems, including, but not limited, to the issue of costs of patented pharmaceuticals needed to eradicate disease in developing countries, protection of bio-diversity and others. Developing countries need the assistance of institutions such as UNCTAD and the World Bank in these negotiations to help them analyze issues and frame positions.

**Proposal 10.** At some point in the future, developing countries should agree to a 'single undertaking' for a new Round which contains the key elements of interest to them. Besides the three areas mentioned above, the Round should include negotiations of tariffs outside agriculture—as there are lots of tariff peaks to be reduced in developed countries—and in developing countries as well; and some elements on the environment. They should do so, only if they have achieved concrete progress on the implementation issues discussed above; and only after the US has obtained 'fast track' approval from Congress. This is not likely to be until sometime in 2001-2002.

So, there is still some time to fix the bicycle before it can move again. Let us use the time well. The future of the developing countries in world trade depends on it.