

# The World Trade Organization and Development

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## Abstract

Historically, development has not been at the core of the multilateral trade regime. The multilateral trade system did not incorporate development concerns until the Doha Development round, which paradoxically has since its launching in 2001 contained the seed of its own failure, given the focus on development it was supposed to embrace. This chapter looks at the major aspects of the trading system and its relations to development. The General Agreement on Tariffs and Trade (GATT) evolved over time in its treatment of developing countries, changing the use of special and differential treatment (S&D). An imbalance in rule making became evident with

the results of the Uruguay Round agreements and its implementation costs, with debate moving from the concept of S&D to creating space for discussing development policy. Some reflections are offered on the current governance challenges the World Trade Organization (WTO) faces today.

**Keywords:** WTO, GATT, development, special and differential treatment, trade governance

## **Introduction**

The development literature has placed a strong focus on the role of the trade policy regime in growth, and more broadly on the link between liberalization and growth. Country performance in relation to these issues has been the subject of controversy for well over a century. The debate on whether trade was a handmaiden or an engine of growth was an analytical one before it became increasingly fact-based from the late 1960s onwards, when developing countries were first subjected to intensive scrutiny in the heat of the center-periphery debates. This essay will not touch on the debate but review the road taken in a stylized fashion. The aim here is not to elaborate on any of these vast and complex topics, but rather to show interconnectedness as well as the most significant ways in which the trade regime has acted and reacted to the evolution of ideas on development.

Global trade was worth almost fifteen trillion U.S. dollars in 2011. This figure represented almost a third of global production, a comparison that is meant to show the relevance of trade for development. Thus traditionally, developing countries have sought differential and more favorable treatment in the General Agreement on Tariffs and Trade/World Trade Organization

(GATT/WTO) with a view to increasing the development relevance of the trading system (Hudec 1987; Finger 1991). But the multilateral trade regime did not incorporate development concerns until the Doha Development round, which paradoxically has since its launching in 2001 contained the seed of its own failure, given the focus on development it was supposed to embrace.

A country's trade chances depend on a mix of conditions and circumstances based on endowments, internal structures, and the world market context. Policies and internal dynamics matter but they are formulated and implemented within the context of a facilitating or inhibiting global regime. This context was first marked by the GATT and then by its successor, the WTO, which sets limits and crystallizes trends. As such, what is possible for national policy is set by the trade regime, itself continuously redefined by the negotiating process and the right to litigate. The rules established by the WTO and its predecessor, the GATT, have contributed to the global trade system through the provision of a regulatory framework within which member countries conduct trade and other commercial relations among themselves. This has contributed to a measure of stability and predictability as contrasted to an alternative scenario in which arrangements are dominated by unilateral policies and bilateral arrangements.

If global collective action is to be acceptable, it must result from a bargaining process based on the full and equal participation of parties. However, power differentials result in rules that sanction unequal distribution of benefits and conflicting interests. For that reason the trade regime retains heavy overtones of a North-South struggle.

Based on liberal economic theories that assert a connection between open trade and growth, the regime has sought to promote the liberalization of trade, enforced a set of rules and regulations, and served as a forum to settle disputes. The system was originally conceived at the end of World War II. Its first expression was the GATT, adopted in 1947 by twenty-three founding members. Between 1947 and 1994, the GATT held a total of eight rounds of tariff reductions, leading to substantial liberalization of the trade in manufactures of developed countries. The premises underlying import-substitution policies were so widely accepted in the post-war period that they were incorporated into the charter of the GATT. Article XVIII explicitly excluded developing countries from the “full obligations” of industrialized countries and permitted them to adopt tariff and quantitative restrictions. Although the GATT covered a wide array of trade issues, it omitted some crucial trade areas for development, such as commodities.

For most developing economies, the GATT was a “rich men’s club” where they did not belong. Round after round of negotiations delivered meager benefits for developing countries.

Liberalization remained largely restricted to the large scale operations of industrial countries (Tussie 1988). In 1955 the trade in manufactured products among developed countries had accounted for a third of world trade; by the end of the 1960s this had risen to nearly half. No efforts were made to tackle the issues of trade in primary products. The panoply of tariffs and nontariff barriers on primary products posed severe obstacles for other countries to develop downstream processing. Subsidies ballooned after the Common Agricultural Policy (CAP) of the European Economic Community (EEC) came into being in the 1960s.<sup>1</sup> As subsidies grew unabated, prices were pushed downwards and the developed countries were able to surpass the developing countries in the value of primary product exports. By 1969, developed countries’ share of world trade had reached over 80 percent.

This paper looks at the major aspects of the trading system and its relations to development. The first section addresses how the GATT evolved in its treatment of developing countries. The second section analyzes how the use of special and differential treatment (S&D) has changed over the years. The third section addresses how the imbalance in rule making became evident with the results of the Uruguay Round agreements and its implementation costs. The fourth

section addresses how the debate has moved from the concept of S&D to the discussion of policy space. Finally, we conclude with some reflections about the current governance challenges the WTO faces today.

## **The early years**

From the day the GATT was established, developing countries emphasized the uniqueness of their development problems and challenges and their need to be treated differently. However, the system did not take into account their development needs except for granting them a list of exceptions that was systematized under the S&D treatment until the late 1970s.

The GATT revision of 1954–55 marked the first time provisions were adopted to address the needs of developing countries as a group. Three main provisions were adopted, two of them related to Article XVIII reflecting the argument that developing countries would be more prone to face balance of payment instability over an extended period of time; Article XVIII B was revised to include a specific provision to allow countries at “an early stage of their development” to adopt quantitative restrictions on imports whenever monetary reserves were deemed to be inadequate in terms of the country’s long term development strategy. At the same time,

Article XVIII C was revised to allow impositions of trade restrictions (tariffs and quantitative restrictions) to support infant industries. In 1961 the GATT adopted the *Declaration on the Promotion of Trade of Less Developed Countries*, which called for preferences in market access for developing countries not covered by preferential tariff systems such as Commonwealth.

In 1964, Part IV of the GATT—entitled “Trade and Development” was adopted—providing a specific legal framework for developing countries. This Part IV includes three new articles.

Article XXXVI established that parties should provide “in the largest possible measure more favorable and acceptable market access conditions for products of export interest to developing countries” (particularly primary products and processed goods), while stipulating at the same time that developing countries should not be expected to make contributions inconsistent with their level of development. In addition, Articles XXXVII and XXXVIII called for improved market access for products of export interest to developing countries.

In sum, a pattern evolved in these early years in which on the one hand the GATT accommodated developing countries’ desires not to liberalize their import regimes based on infant industry grounds and balance of payments reasons, but on the other hand failed to take action on questions of market access to developed countries as well as commodity price stabilization. The

GATT Committee on Trade and Development was a forum to discuss developing country issues but not to negotiate legal commitments in their favor, as many developing countries were not part of the GATT or participated only minimally in its deliberations. Developing countries did not see the GATT as a primary forum to debate their trade concerns; during those years they lobbied instead at the United Nations Conference for Trade and Development (UNCTAD).

With UNCTAD's support, developing countries succeeded in establishing the Generalized System of Preferences (GSP), which essentially provides an exemption from the most favored nation principle (MFN), with the purpose of lowering tariffs for developing countries on a basis of voluntary preferences granted by developed countries. Among other concerns, developing countries claimed that MFN was creating a disincentive for richer countries to reduce and eliminate tariffs and other trade restrictions that could benefit developing countries. In 1971, the GATT issued an official waiver that permitted developed countries to grant tariff preferences to developing countries for an initial ten-year period, and another waiver allowing developing countries to grant preferences among themselves. The main argument for this system was that reductions in industrial tariffs in previous rounds of negotiations were not particularly beneficial for developing countries, as most of the products of export interest to them were not covered by

the negotiations. This exemption later evolved into the concept of special and differential treatment (S&D) analyzed in the following section.

## **Rise and fall of special and differential treatment**

By the late seventies, import substitution provided declining returns in terms of growth and many of its premises came under siege in development circles. The marginalization of developing countries from international trade had concurrently given rise to an active campaign to reform the structure of the international trading system under the leadership of Raúl Prebisch (Dosman 2008). From the UNCTAD which he created, he had advocated the principle of S&D for developing countries.

The first steps towards S&D—that is, asymmetrical treatment or non-reciprocity in international trading rules when they involved transactions between developed and developing countries—were gradually inscribed toward the end of the 1960s to underscore the trade–development link. It allowed positive discrimination for developing countries. S&D had first led to the drafting of

Part IV of the GATT on trade and development, and subsequently to the more comprehensive “Enabling Clause” approved in 1979 during the Tokyo Round (Tussie 1988).

The understanding of the meaning of S&D was clarified and written into the fifth provision of the Enabling Clause: “Developed contracting parties shall therefore not seek, neither shall less-developed contracting parties be required to make, concessions that are inconsistent with the latter's development, financial and trade needs.”<sup>2</sup> The main development of this principle was the creation in 1968 of the Generalized System of Preferences (GSP) and its implementation in the early 1970s by major industrial countries, based on the waiver to the MFN principle for the GSP approved in 1971. However, the GSP did not turn out as planned: a *generalized* (as its name indicates) system of preferences subject to multilateral supervision. As far as market access, studies soon indicated that its effects were rather frustrating. Thus, for example, Karsenty and Laird (1987) showed that in 1983 the GSP had increased developing country exports by only two percent, with half of those benefits going to the Asian Tigers and Brazil (Whalley 1990).

As for what leeway was allowed to protect their own markets, S&D manifested as benign neglect in terms of ensuring that developing countries' domestic policies conformed to tight regulations. Until the Uruguay Round (1986–94), developing countries were able to keep most of the tariffs

unbound at high levels, to use quantitative import restrictions and other mechanisms of trade intervention. Developing countries were also left out of the loop of the codes of conduct on export subsidies, import licenses and other issues. Drache correctly concludes that asymmetry in the acceptance of rules paradoxically became the institutions' default option (Drache 2011). In practice, the “development dimensions” of the global trading system continued to be a bone of contention.

A key factor in the global environment all through the 1980s was, of course, the change of perception in the development debates about the virtues of import substitution versus export-led growth. In the orthodox interpretation that gradually gained ground, protection was increasingly viewed not only as leading to inefficient allocation of resources but also as a source of the “anti-export biases” that blocked growth. The interpretation of trade as adjustment to market forces turned the tables from a development approach to trade policy to one in which trade liberalization became the path to development. It was most compellingly articulated by Anne Krueger (1974), and when she became Chief Economist at the World Bank it became the official World Bank doctrine in the 1980s. This implied a view of protection and export promotion as stark alternatives rather than complementary strategies, and was based on a particular interpretation of East Asian success with export-led growth, which emphasized

“neutral incentives” rather than state intervention, in sharp contrast to the interpretations by Amsden (2001), Chang (2003), and Wade (2003), among others.

Mexico’s accession to the GATT in 1986 was the turning point. The country agreed to bind all of its tariff schedule and sign four of the six codes of conduct of the Tokyo Round, a significant departure from the typical pattern in the late 1970s and early 1980s, when countries that joined the GATT were only required to bind a next to negligible proportion of their tariff schedule and did not have to abide by any of the codes. As the tide turned, a host of countries, particularly in Latin America, turned to outward oriented growth in an effort to emulate the success of Southeast Asia. By the time the Uruguay Round of the GATT closed in 1994, countries were snatching the multilateral agenda as a means to lock in freshly acquired taste in trade policies or as an element to throw into their “package of concessions” as a lever they could use to prise open closed markets. With this new thrust came an acceptance both of rules and of tariff reductions for the first time. Certainly, in previous rounds, countries that had already joined the GATT had either stood on the sidelines or had pressed to be released from rules. But when the Uruguay Round closed in 1994, all countries extended their “bindings” to almost all tariff items. The Uruguay Round also gave birth to the successor of the GATT, the World Trade Organization (WTO), which was established through the Marrakesh Agreement in April 1994. It incorporated

the GATT's principles and added a strong enforcement mechanism through its dispute settlement system.

The preamble to the 1994 Marrakesh Agreement establishing the WTO states that “trade and economic endeavor should be conducted with a view to raising standards of living, ensuring full employment and a large and steadily growing volume of real income and effective demand . . . in accordance with the objective of sustainable development.” It further recognizes the need to “ensure that developing countries, and especially the least developed among them, secure a share in the growth of international trade commensurate with the needs of their economic development.”

In any case, and leaving aside the conceptual debate on development policies, it was increasingly clear that those developing countries that relied on export-led growth now had a growing interest in a better multilateral trading order per se. It also meant that industrial countries increasingly saw them as competitors, and were thus reluctant to grant them S&D. Turning the tables, developed countries now called for a “level playing field” (Bhagwati 1995).

## **New rules, novel concerns, fresh approaches**

### ***Imbalanced rules***

Despite the cumulative efforts countries made to play by the rules and accept blanket obligations, they came out sorely disappointed. Countries soon learned that acceptance of the rules of the game (including their own liberalization) did not translate automatically into leverage, as they found it difficult to decisively influence the process of agenda setting and to shape the final outcome of negotiations. Over the first decade and a half of the WTO, while the call for a level playing field gained ground, developing countries made efforts to put forward technically substantive negotiating positions, no longer accepting the WTO principles, rules, and processes uncritically.

First, they showed how the rules and outcomes of negotiations were imbalanced against their interests. The expansion of the agenda under the Uruguay Round, through the introduction of the then new issues, made the system even more imbalanced, as well as constraining of the domestic policy space as the system moved from its traditional concern with trade barriers at the border to

issues involving domestic economic and development strategies and policies. Many developing countries have complained that the benefits they anticipated have not materialized, particularly in the area of agriculture. While developing countries reduced tariffs, increased bindings, and agreed to tighten rules on intellectual property and get rid of export subsidies, they did not gain much in terms of improved market access.

In agriculture, even after reduction by 36 percent, which was the set obligation, in order to retain room to maneuver, many products ended up with higher levels of protection than applied prior to the Uruguay Round. For example, the following *ad valorem* tariffs were identified by the European Union (EU) as base rates: rice 361 percent, wheat 156 percent, sugar 297 percent, meat 125 percent, and dairy products 288 percent (Hathaway and Ingco 1995). Subsidies on agricultural products were “bound,” i.e., could not be increased beyond the specified level, but binding levels were strikingly generous in the amount of water included over and above the leeway to change from restricted to unrestricted categories (the notorious “blue box”)<sup>3</sup> and other such loopholes. The following are estimated figures of public support to farmers: in Japan, US\$23,000 per farmer; in the EU, US\$20,000 per farmer; and in the USA, US\$16,000 per farmer.

Before the commodity bonanza that started in 2003, in Japan agricultural subsidies represented 58 percent of the total value of production, and in the European Union and the United States 35 percent and 21 percent respectively. In short, there was meager agricultural liberalization and in many cases there was room for retrogression (Meller 2003). Japan, Iceland, Norway, the Republic of Korea, and Switzerland are among the countries with the highest level of subsidies, and the EU also exceeds the average of the OECD. In some cases, as subsidies shifted from one crop to another the redistribution has actually broken the rules. Thus, in a dispute settlement case involving cotton, the U.S. was found to have wrongly shielded some trade-distorting subsidies within the category of non-trade-distorting,<sup>4</sup> hence permitting subsidies (the so-called Green Box); it was asked to change its policies accordingly.

The developing countries had expected to benefit significantly from the Uruguay Round through increased access to the markets of developed countries for products. This was especially true in agriculture and textiles, sectors in which developing countries have a comparative advantage. These two sectors remained those subject to the highest levels of protection in industrial countries. Tariff peaks continued to be an embedded feature of the system, particularly in these two sectors, and continued to affect in particular developing country exports. About three-fifths of total imports into industrial economies of tariffs that exceed 15 percent (which represent

slightly less than 8 percent of these countries' tariff schedules) came from developing countries (Hoekman, Ng, and Olarreaga 2002).

Developed countries' subsidies are partly redundant from the point of view of their domestic markets, to the extent that tariff and non-tariff protection make domestic consumers pay higher prices. This is why the computable general equilibrium simulations mentioned above indicate that the relevant issue from the point of view of liberalizing agriculture is actually market access, particularly tariff rates applied beyond the minimum quota of market access. However, developing countries are affected by subsidies in two ways. First, they have to compete with subsidized agricultural goods in their own markets. In this regard, even the full elimination of export subsidies, as proposed during the Doha Round of negotiations, may hardly solve the problem, so long as production subsidies equally allow producers to sell below production costs. Second, developing countries lose export opportunities in third markets. This is particularly true of cotton, where world market distortions are essentially generated by production subsidies in the U.S. (Khor and Ocampo 2011).

Tariff escalation by industrial countries retained substantial loading against imports from developing countries. Much more important for development strategy were the provisions on

trade-related aspects of intellectual property rights (TRIPs). All members had to recognize minimum rights for owners of intellectual property, and to establish national enforcement mechanisms. Under these provisions the pharmaceutical industry was able to hold back on making valuable drugs available to developing countries. In the case of Argentina it has been estimated that rents of \$425 million per year may have been transferred from domestic to international pharmaceutical industries (Nogués 2005). The right to other policy instruments was also narrowed down and challenged in WTO committees and the dispute settlement mechanism: price bands<sup>5</sup> and simplified drawback schemes (in Chile), price reference system for imports (in Uruguay), export credits (in Brazil), and regional subsidies for tobacco and port development (in Argentina), among others. An underlying reason for the imbalanced outcome was that negotiations were not used to open foreign markets, but as a means of locking in reforms. In this context of enfeebled bargaining power, the world of ever growing continuous negotiations strengthened essential asymmetries, subjecting developing countries to disciplines from which they had previously been exempt. Negotiations often turned out to be opportunities for a combination of structural adjustment packages along a comparative advantage pattern.

### ***Implementation costs***

The implementation problems were the second thrust of the link between trade and development. When the costs of new obligations hit the raw nerve of policy, developing countries identified the multiple problems they faced when implementing their own obligations. In the run-up to the Seattle Ministerial Conference at the end of 1999, developing countries spoke up at the WTO and tabled papers on the implementation problems, and a group of them prepared a list of implementation issues that they wanted resolved.

This list was included in the draft Ministerial Declaration prepared by the Chair of the General Council. With the failure of the Seattle Ministerial Conference in 1999, nothing was agreed. The developing countries then actively pursued the issue in the process of preparing for the next Ministerial Conference in Doha in 2001: a draft decision on implementation-related issues was prepared, and a compilation of over a hundred outstanding implementation issues and proposals for their consideration was issued.<sup>6</sup>

After the Seattle fiasco, the developing countries made the negotiations on resolving implementation issues their top priority. They asked for priority solutions to these concerns, and

wanted to defer proposals of the developed countries for introducing yet more new areas (the Singapore issues) into the WTO mandate. However, the developed countries made it clear they were not interested in discussing the implementation issues, which to them were the result of previous negotiations (the Uruguay Round) whose outcome had already been agreed on. They wanted to push ahead instead with injecting new issues into the WTO.

In the aftermath of 9/11, when the Doha Ministerial Conference was convened, the developing countries held a strong bargaining position and so succeeded in placing implementation-related concerns in four areas of the Ministerial Declaration that launched the Doha Work Programme: Firstly, a separate Doha Ministerial decision on implementation-related issues and concerns was adopted,<sup>7</sup> which addressed several of the problems faced by members. However, the more important and difficult issues remained unresolved, and although this document is supposed to contain decisions to resolve problems, in fact many of them merely refer the particular matter to some WTO body or other for further discussion.

Secondly, a full section of the Doha Declaration (Paragraph 12) dealt with implementation issues. It mentioned that negotiations on outstanding implementation issues should be part of the Work Program. The outstanding implementation issues and their negotiations are part of the

single undertaking, which means that an outcome on these issues is to be an integral part of the whole set of agreements on the various issues of the Doha Work Program. There was also a deadline set for reporting back on the progress of the implementation negotiations by the end of 2002. The position of Paragraph 12 (as the first item of the work program) and the early deadline (before the conclusion of the negotiations on other issues such as agriculture or the Singapore issues) showed that there was an intention to give priority treatment to the implementation issues in the Doha Work Program.

Despite the prominence given to implementation at Doha, however, those issues were subsequently pushed out of sight. As awareness on implementation costs grew, countries resisted all proposals from developed countries to negotiate the introduction of still newer agreements or rules in the WTO, firstly on labor standards and secondly on the “Singapore issues.” The latter is a set of issues (investment, competition policy, transparency in government procurement, and trade facilitation) that the developed countries introduced at the WTO’s first ministerial meeting held in Singapore in 1996. If accepted as the subject of new rules, these issues would have greatly expanded the mandate of the WTO. Since 1996, these issues have bounced back and forth in the WTO’s negotiating process.

The stalemate between the two camps reached a record high at the Ministerial Conference in Cancun in October 2003. The meeting collapsed, and the list of proposals compiled and submitted by developing countries also went down the drain. The trade and development issues then took a new turn in terms of substance and process, as we shall now review.

## **Space for development policy**

Of equal or greater relevance to implementation are the constraints imposed on their policy space to implement development-oriented measures such as promotion of local industries or adoption of new technologies. The changeover from the GATT to the WTO substantially altered the range of available development policies (DiCaprio and Gallagher 2006). In addition to imposing disciplines on a wider range of activities, the WTO was also better equipped than the GATT to enforce compliance given the change in the Dispute Settlement agreement.

The agreement on subsidies allowed developed countries a free hand with their own subsidies (e.g., for research and development, regional development, and environmental adaptation) but outlawed subsidies normally used by developing countries (for export diversification). In turn,

the Agreement on Trade-Related Investment Measures (TRIMs) prohibits developing countries from making use of local-content policy (which developing countries had used to increase the use of local materials and improve linkages to the local economy) and some aspects of foreign exchange balancing (export targets aimed at correcting balance-of-payments problems). This prevents developing countries from taking policy measures that promote domestic industrial development, and that had previously been used by the present industrial countries and several developing countries.

The Agreement on Intellectual Property Rights (IPR) for the first time set minimal standards for the whole range of intellectual property. Developing countries, which previously had enjoyed the ability to set their own IPR policies, are now constrained by having to adhere to IPR standards that are not only high but also sanction monopoly rights to firms in developed countries. Prior to the WTO agreement, several developing countries had exempted pharmaceutical drugs and food from patentability, and had an active policy of promoting generic medicines. However, this policy of exemption can no longer be maintained, as the agreement prohibits exemptions on the basis of sectors. The agreement has therefore increased the costs for local firms in developing countries to access technology. Furthermore, in contrast to the strict protection of the rights of the innovator, there is no comparable protection of the rights of countries over their natural

resources, nor of the rights of traditional communities over their ancestral knowledge. In this sense, there is an incentive for “biopiracy” (Khor and Ocampo 2011) or the misappropriation of biological resources and traditional knowledge over the use of natural resources that mainly originate from developing countries.

The services agreement has also increased pressure to open up service sectors —such as finance, utilities, business services, and telecommunications— to foreign participation, which could put local service providers at a disadvantage. In the traditional area of goods, several developing countries have also faced problems from rapid tariff decreases, sometimes as the result of national decisions to bring tariffs below WTO bound levels, commitments made in free trade agreements with industrial countries, and, in many low-income countries, conditions placed on financial support from international financial institutions. In the industrial sector, many African and Latin American countries have suffered “de-industrialization.” Similarly, as pointed out, in agriculture, liberalization has reduced the capacity of developing countries to compete against subsidized goods from industrial countries.

The results of the Uruguay Round are a fundamental paradigm shift in terms of the conception of development at the WTO. Since then the basic objective of trade disciplines became to oblige all

WTO members to abide by the same rules. As Abugattas and Paus (2008) state, this meant a paradigm shift from a *development-oriented* S&D to an *adjustment-oriented* and vanishing S&D. Under the WTO, S&D was limited basically to longer transition periods and the provision of technical assistance in order to allow developing countries to implement those multilateral commitments. It is widely acknowledged that those multilateral commitments limited space for industrial policies through the agreements on subsidies and countervailing measures, the agreement on agriculture, TRIMs, TRIPs, and the General Agreement on Trade in Services (GATS) (see, for example, Gallagher 2005; World Bank 1993). However, they also agree that certain policy space is still available for active public development policies.

As S&D was seen to be a losing battle while at the same time a new balance of global economic power began to emerge, the focus of the debate shifted to policy space for development policies. Some economists, including Rodrik and Stiglitz, have proposed a much more proactive role for economic policies. This may be interpreted as suggesting that developing countries could increase their current policy space only by opting out of at least some of their international commitments. Moreover, Rodrik (2007) argues that developing countries should embrace an alternative view of the world trade system in which the centrality of trade has to be questioned, particularly because a development-friendly international trade regime cannot exclusively focus

on improving poor countries' access to developed countries' markets. Instead, the focus should be on experimenting with institutional arrangements and leaving room for them to devise their own solutions to the problems or poverty traps they face.

While a reclaiming of policy space gained ground in the WTO after the Doha Round, North-South economic integration agreements resulted in further constraints on policy space. The web of bilateral asymmetric trade agreements between developed and developing countries reproduce the patterns that have characterized developing countries when they focus their expectations and complaints on asymmetries in market access (Quiliconi and Wise 2009).

## **Governance**

Finally, although WTO governance brought improvements in relation to the GATT, its decision making process also came under fire for not allowing meaningful participation of developing countries. This was especially so in the earlier years of the WTO, during which the major developed countries were able to leave out the developing countries that complained about the

decision making process, especially during Ministerial Conferences where the most important resolutions are adopted.

After the 1999 Ministerial Conference (the so-called “Battle of Seattle”), asymmetries in the WTO became a matter of concern for business and civil society alike. A new awareness and the power of numbers (i.e., the jump in WTO membership) gradually gave way to a new negotiating dynamic based on the formation of multiple negotiating coalitions. Pent-up dissatisfaction reemerged at the subsequent Ministerial Conference in Cancun in 2003. This time governments prepared beforehand, showing their ability to act in pursuit of collective interests and in favor of leveling the playing field. Brazil, the third largest exporter of foodstuffs, took the lead and joined forces with other emerging powers—China, India, and South Africa—as well as with leading agricultural exporters in Latin America.

Particularly remarkable was the rise within the WTO of a “G20 developing countries” centered on Brazil and India.<sup>8</sup> Following in the footsteps of the Cairns Group, the G20 was set up just before the Cancun Ministerial Conference in order to coordinate pressure on the EU and the U.S. to reduce their import tariffs, export subsidies, and domestic support in agriculture. By then China was “dictating global prices for nearly everything from copper to microchips,” since its

share of world trade had jumped from one percent to more than six percent in the last twenty years (Blázquez-Lidoy, Rodríguez, and Santiso 2006: 32). Leaning on commodity power as the new engine of growth, countries flexed their muscles against the historical rigidities in the trade regime, and especially against the subsidies of developed countries which if not brought under control could now win the race for access to the prized Chinese markets. After Cancun, Brazil in conjunction with India begun to play an innovative role, showing a greater interest and capacity to coordinate and lead positions.<sup>9</sup>

Learning from the experience of the G20, tropical exporters in the Andean and Central American countries have followed suit and come together as the G11, upholding the liberalization of tropical products. Interestingly, this coalition so far comprises solely Latin American members of the Andean Community and the Central American Common Market (Bolivia, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Panama, Peru, Nicaragua, and Venezuela.). The G33 is another bargaining coalition of developing countries that emerged, this one aiming to restrict access to domestic agricultural markets in net food-importing countries concerned about the prospects of premature liberalization at home.<sup>10</sup>

These new coalitions have a proactive agenda characterized by technically substantive proposals at each stage of the negotiations, and which is increasingly covering issues other than agriculture, particularly the so-called non-agricultural market access chapters. Each one relies on considerable research to support its agenda and looks for windows of opportunity to move. This strategy is in sharp contrast to the ideological battles that countries had waged in their call for the new international economic order of the 1970s.

Even more interesting is the permanent interaction between the coalitions. Because of the differing priorities (and sometimes directly conflicting interests) of some of these coalitions, rifts are bound to appear from time to time. “Alliances of Sympathy” between coalitions build bridges and demonstrate efforts to coordinate positions and share information with other developing countries, and at the very least minimize overt contradictions when fuller coordination is not possible. Facilitated by overlapping membership, the bridges between the G20 and the G33—the first representing aggressive agricultural interests and the latter arguing for the respect of food security—serve as a case in point.

Coalitions frequently come to operate across issues, and are bound by a collective idea that the developing world shares several problems and needs to address them collectively. But unlike the

confrontation of the 1960s–70s for a new international economic order, the challenge mounted by these coalitions has not been accompanied by a call to replace the WTO with an alternative organization. Their mission is to inject momentum when it is lacking and to advance proposals for negotiations (in contradistinction to the attempt in the 1960s to establish the UNCTAD as a counter-alternative to the GATT). They have not fully advanced a vision of development alternative to the neo-liberal one, and the change that they have demanded is change within the WTO regime rather than radical restructuring. Members emphasize the importance of interests and the production of knowledge to press for these (Tussie 2009). Nonetheless, their tactics still show a strong policy commitment to distilling the issues of development and economic justice along North-South lines. There is actually no strong reason to dismiss these softer forms of associations as fickle because they allow members freedom of action and multiple allegiances from the onset.

To press the point just a bit further, in the world of negotiations coalitions continue their tasks. But coalitions are not a matter of principle: they are formed for specific contextual reasons, in this case the need to open up and to an extent democratize the WTO decision making process. In such settings, coalitions play a major regulating role as much through movement as through existence. But framing and defining problems, questions, and issues does not translate neatly into

a full development strategy. Such issue-specific trade alliances are restricted to the liberalization of certain products or, alternatively, to the concern not to give away policy space in exchange for market access, a necessary but insufficient condition for development, as witnessed by the 2001 Doha Declaration on Public Health. In view of the massive transfer of rents from developing countries to multinational drug companies, awareness that patent protection may now be too strong has increased. At the same time as countries accept intrusive disciplines over an ever-widening range of development policy areas by virtue of the North-South free trade agreements, they use the WTO to resist the continuous un-leveling of the playing field, and are bent on obtaining a more balanced treatment of domestic needs. And it is here that much of the remaining value of the WTO may remain, regardless of the outcome of negotiations.

This proactive posture has been present in a number of areas. Paraguay and Bolivia have been active in raising the special needs of landlocked countries. Chile, Colombia, Mexico, Argentina, and Brazil form part of the group to promote tighter practices on the use of antidumping, either of a free trade or defensive variety. Whatever the eventual outcomes of the Doha Round, coalitions have introduced a semblance of limited pluralism in the WTO and have led to the limbo in which the Round now exists.

Certainly, the entry of China into the WTO has shaken policies as well as beliefs. While China's low labor costs and strong competitiveness pose risks to manufactured exports, China's appetite for raw materials and foodstuffs has favored commodity producers. China is the major exporter of textiles and now concentrates almost 40 percent of world trade in clothing. At the same time, by 2003 China had become the world's largest importer of cotton, copper, and soybeans, and the fourth largest importer of oil. China has become the fastest-growing export market for a number of countries across the globe. Trade with China is, however, concentrated on a very small basket of commodities: copper, oil, iron ore, soybeans, and wood. The new engine of growth may deepen the historical trade specialization toward commodities—goods usually characterized by strong price volatility. Unless an effort to deepen specializations is mustered, and over-reliance on a single engine of growth is tempered, dependence on a few commodities will intensify; countries will remain overexposed to trade shocks, and the inequality-generating forces of international asymmetries will hardly be tamed. This scenario poses even more questions on the current stalemate than the Doha development round currently faces, and tears apart old North-South dichotomies, opening a space for a wider debate about what role development should play in the multilateral sphere.

## **Conclusion**

All told, the important point in the new scenario is that for the most part it has been the technical specialists who have held center stage, either hired experts and consultants or professional policy-makers working for national governments. By definition, these specialists work within the established political parameters of an era. They strive for a compromise between the concerns of policy space and the technical power of institutionalized ideas; without the aspiration of delivering a new paradigm, they are smart, alert, and industrious. In the real world of negotiations this was a door that needed opening; it was not a leap across boundaries to a new development paradigm, but it has made inroads into the processes of global governance.

If we are to take up the development approach to trade we need to look at the complexities of international economic institutions and the negotiations that ensue from them. At the core of these negotiations lies the question of whether the current trade regime enables developing countries to design policies that promote development. This is not an easy subject. Many studies have shown that appropriately designed trade reforms have the potential to make a significant contribution to development, and, with appropriate parallel measures, to do so in a socially

sensitive or sustainable manner. It has, however, proved extremely difficult to achieve these goals through the existing trade negotiating process.

For one, the Doha agenda did not change the multilateral process, only its stated goals.

Multilateral trade negotiations are not designed to deliver development. Their purpose has always been to maximize gains, and through a process of give and take, to move toward freer trade. To give real life to the development component, it may be necessary to reform the foundations of the negotiating process itself and to accept that “one size fits all” recipes have not produced a positive outcome in all developing countries. Most trade agreements have adopted development as a goal, but the bodies that negotiate them are not responsible for development, do not have the competence to define what sustainable development means, and are not subject to the requirements of any other authority except as provided through international law and other mechanisms of regional and global governance.

Moreover, while most of the literature addresses the correct sequence of policies and the timing for liberalizing trade, it does not address local conditions in depth. Negotiations are not paced or shaped in such a way as to allow timing and sequencing, nor do they take account of the concentration of economic power within countries. As well, academic knowledge is

systematically disregarded by the realpolitik of world trade negotiations. Trade policy choices are path-dependent, and that is why a long-term and tailor-made approach to development that allows policy experimentation is so important. The implications for domestic bureaucracies are paramount, since development should be an integral long-term part of all phases of the decision making process, not an isolated goal stuck into an agreement. There is a disconnection between those in government who deal with the adjustment process and those in charge of the trade decision-making process. Attention needs to be paid to the decision-making process itself in order to better address the most significant regional and global issues that have been identified within trade and development linkages.

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<sup>1</sup> The CAP was established by the 1957 Treaty of Rome. At the time, the EEC was a net importer of foodstuffs, so the first impact of the CAP's high support prices for domestic farmers was exclusion of imports. The CAP was so effective, however, that the EEC rapidly became a net food exporter, with major repercussions in the markets of many commodities of relevance to developing countries, particularly sugar.

<sup>2</sup> Paragraph 5 of GATT Document L/4903 (28 November 1979)

<sup>3</sup> The "blue box" refers to government support payments that limit production by imposing production quotas or requiring farmers to set aside part of their land. Blue box measures were excepted from the general rule that all subsidies linked to production must be reduced or kept within defined minimal (*de minimis*) levels.

<sup>4</sup> The debate since has indicated that the division between trade-distorting and non-trade-distorting subsidies is artificial.

<sup>5</sup> The use of price bands provides a buffer that prevents world prices from falling below domestic prices. It consists of setting a band of upper and lower prices for imports so as to trigger the application of an offsetting tariff when the international price of a product falls below the lower band level.

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<sup>6</sup> Document JOB (01)/152/Rev.1, available online at [http://www.wto.org/english/tratop\\_e/trips\\_e/ta\\_docs\\_e/2\\_job01152rev1\\_e.pdf](http://www.wto.org/english/tratop_e/trips_e/ta_docs_e/2_job01152rev1_e.pdf) (accessed February 26, 2013).

<sup>7</sup> Document WT/MIN (01)/17. See WTO (2009).

<sup>8</sup> Not to be confused with the G20 Leader summits or meetings of Finance Ministers, this “Group of 20” within the WTO subsequently expanded to twenty-three members, including: Argentina, Bolivia, Brazil, Chile, China, Cuba, Ecuador, Egypt, Guatemala, India, Indonesia, Mexico, Nigeria, Pakistan, Paraguay, Peru, Philippines, South Africa, Tanzania, Thailand, Uruguay, Venezuela, and Zimbabwe.

<sup>9</sup> The newfound commodity power was also a factor that enabled countries to hedge their bets and decide whether or not to plunge into the Free Trade Area of the Americas (FTAA).

<sup>10</sup> The G33 comprises the following countries: Antigua and Barbuda, Barbados, Belize, Benin, Bolivia, Botswana, China, Congo, Côte d’Ivoire, Cuba, Dominica, Dominican Republic, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, India, Indonesia, Jamaica, Kenya, Korea, Madagascar, Mauritius, Mongolia, Mozambique, Nicaragua, Nigeria, Pakistan, Panama, Peru, Philippines, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and Grenadines, Senegal, Sri Lanka, Surinam, Suriname, Tanzania, Trinidad and Tobago, Turkey, Uganda, Venezuela, Zambia, and Zimbabwe.

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