Policy Brief

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The Development Dimensions of Trade

Introduction: integrating developing countries into the world economy

Economic success in non-OECD countries is generally associated with progressive integration into the world economy. Two factors have been particularly important in facilitating integration: 1) domestic reforms to establish framework conditions enabling industries to plug into global production networks; and 2) liberalisation to reduce impediments to the free flow of goods, services and investment across borders. Developing countries that have embraced openness have tended to reap substantial benefits from buoyant world markets; others who failed to do so have tended to see their fortunes stagnate or even decline. A forthcoming OECD study on *The Development Dimensions of Trade* reviews the factors behind this process, highlighting areas where further progress can make a substantial development contribution.

The international trading system has underpinned the integration of non-OECD countries into the world economy. The system, as embodied in the WTO, mediates international trade relations such that trade can take place in a stable and predictable, rules-based environment with instruments for the settlement of disputes. The system has benefited WTO member economies by delivering improved access to export markets and helping members to defend their market access rights. It has also promoted the sustained development of sound economic policy by providing guarantees against policy reversal and by making promises of future reforms credible. The WTO system is particularly important to non-OECD countries for at least two reasons. First, it constrains OECD countries that have enough bargaining power to unilaterally influence the behaviour of others. Second, the system contributes to a healthy, growing world economy which developing nations need in order to maximise growth.

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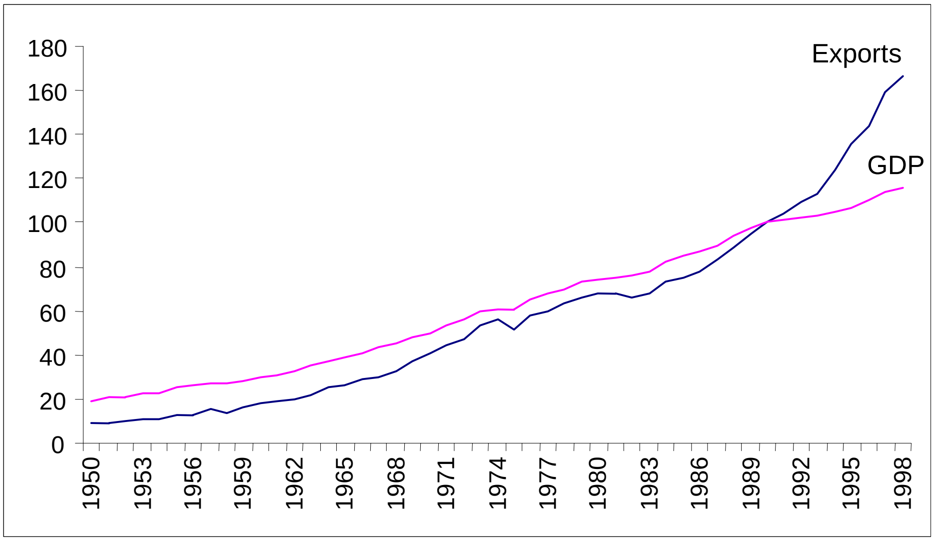
While globalisation provides substantial economic opportunity, the ability to seize this opportunity and address any negative impacts depends on an appropriate policy framework. Experience points to certain key elements that tend to be included in successful approaches: macroeconomic stability, adequate labour supply and human capital, appropriate social protection and respect for core labour standards, sound environmental practice and good governance (e.g. with respect to regulation, corruption, effective policy development processes, conflict resolution), among others. Adopting complementary policies to reinforce social cohesion appears to be particularly important in sustaining the drive towards trade liberalisation. In the poorest countries, development co-operation can play a role by fostering capacity building to ensure that institutions are able to implement the requisite policies. ■

How far has trade liberalisation advanced?

Great strides have been made in opening the world economy to trade, with the result that globally in recent years export growth has exceeded the growth in output (see figure below). Since the Second World War, eight rounds of multilateral trade negotiations succeeded in lowering the average (trade-weighted) most-favoured-nation tariff rates on industrial goods from roughly 40 % to around 4 %. In addition to broad-based tariff reductions, the most recent rounds of trade negotiations have resulted in the easing of some important non-tariff barriers, thereby enhancing the prospects for further trade expansion. It has been estimated that once the Uruguay Round agreements are fully implemented, the share of imports from non-OECD countries affected by OECD countries' non-tariff barriers (including the Multi-Fiber Arrangement-related restrictions) will drop from around 18% to roughly 5%. Along with progress on the traditional agenda of tariffs and non-tariff barriers, the Uruguay Round delivered progress in other areas. The result was the signing of three new agreements (the General Agreement on Trade in Services, the Agreement on Trade-Related Aspects of Intellectual

Trends in world merchandise exports and GDP,
1950-1998 - Volume indices, 1990=100



Property Rights and the Agreement on the Application of Sanitary and Phytosanitary Measures) and the reform of the Agreement on Technical Barriers to Trade.

Trade liberalisation resulted, at first, in better integration primarily for the OECD countries. However, during the last two decades, a number of new players have entered the stage. These non-OECD countries have taken deliberate steps to open their economies wider to the outside world through a combination of unilateral, regional and multilateral liberalisation initiatives. With rapid growth, these countries see their stakes growing in a well-functioning world economy and are preparing themselves to engage substantively in the discussion of how and when to open markets further and to deepen and broaden international rule-making or understandings that affect trade.

In order to help put the impact of economic openness in perspective, it is instructive to consider estimates of the net results of trade liberalisation under the Uruguay Round compared with what would have been obtained in its absence. Taking into account dynamic effects, these estimates reveal a net increase in world income of roughly 1 to 2% of GDP. While different models using different assumptions and liberalisation scenarios can lead to different results, the estimates nevertheless illustrate the substantial global benefit from just one round of trade liberalisation. While the largest welfare gains in absolute terms have tended to accrue to OECD countries, many non-OECD countries have gained more relative to their GDPs.

The globalisation of production, facilitated by trade liberalisation, is yielding additional benefits to non-OECD countries. It has created domestic opportunities for developing countries to absorb new and more efficient processes, over and above the direct benefits from expanding export-related trade, output and employment growth. The spillover effects of production sharing processes include the diffusion and absorption of new and improved production technologies, management and labour skills, and information about world markets. In turn, these lead and facilitate the upgrading of quality, the introduction of new products and catching-up with best practices in the world economy. ■

What more can the multilateral trading system do for development?

Developing nations have increasingly focused on several priorities for the multilateral trading system including expanding market access for products and services, improving rules and disciplines, enhancing provisions for special and differential treatment, and increasing the scale and effectiveness of technical assistance. There is a crosscutting goal of a timely and complete implementation of all Uruguay Round Agreements. Specific issues concern enhancements in the system with respect to both existing and contemplated measures.

Market access

Market access represents perhaps the single most important trading issue between OECD and non-OECD countries. Many developing countries continue to face barriers to market access that limit their ability to reap the full potential benefits of trade. Agricultural producers encounter high tariffs, quotas and subsidies that constrain their export potential. Multi-Fiber Arrangement-related quotas on textiles and clothing are set to be phased out by 2005, but many of these products will remain subject to relatively high tariffs. Some sensitive industrial products are subject to escalating tariffs that also limit export prospects. Market access has also been hindered by contingency protection measures and indeterminate measures (e.g. voluntary export restraints). Balanced development of merchandise trade links between OECD and non-OECD countries requires progress in reducing remaining trade restrictions, especially on product categories where non-OECD countries enjoy a comparative advantage such as certain labour-intensive manufactures and agricultural products.

There is also a tremendous potential for expansion of international trade in services. The service sector is already the fastest growing component of both trade and foreign direct investment. The agreement to create a General Agreement on Trade in Services (GATS) was one of the major innovations to emerge from the Uruguay Round and a contributing factor to the growth in the sector. The GATS offers the benefits of the multilateral trading system such as the stability and civility available under the rules and the binding of commitments on market access and national treatment (which WTO member countries assume in their national schedules). However, to harness the full potential of the GATS, countries will need to use the opportunity of the current negotiations (under the built-in agenda from the Uruguay Round) to aim for a significant expansion in the number and coverage of commitments.

For developing countries, one of the largest potential areas for commercially meaningful tradeoffs concerns liberalisation of temporary entry of service providers (mode 4 services). Although traditionally a sensitive policy area in many OECD countries, labour mobility is one issue where incremental progress could be made in the new GATS round. It is also an area where opposition within OECD countries is not monolithic - there are indeed many “user” industries that would benefit from - and clamour loudly for - more liberal temporary access regimes, and the development of coalitions with such industries could help change the status quo.

The service sector is an area where trade liberalisation can have favourable influences on the domestic economy more broadly. Services are essential inputs into the production of virtually all other goods and services, and producers depend on services to deliver their output to end-users. Expanded trade opportunities in this area can increase the range and quality of services that are available, with major effects on overall economic performance.

Rules

Among the most important accomplishments of the Uruguay Round for non-OECD countries was the strengthening of the rules governing the conduct of international trade, their extension to new areas of activities, and the assurance of protection through an enhanced dispute settlement procedure. Under the WTO, there are systems for surveying the operation of these disciplines and discussing problems or issues that may arise (e.g. the Council for Trade in Goods, the Council for Trade-Related Intellectual Property Rights and the Anti-Dumping Committee). Areas governed by such disciplines include, for example, trade-related investment measures (TRIMs), trade-related aspects of intellectual property rights (TRIPS), the use of anti-dumping and countervailing measures and customs valuation procedures.

The strengthening of dispute settlement procedures in the WTO, in particular, greatly enhanced the credibility and integrity of multilateral trade disciplines and provided a more reliable mechanism for dispute resolution. In effect, the Uruguay Round Agreements constituted a rule-writing exercise intended to forestall the protectionist abuse of other types of government interventions (especially domestic policies), while establishing a level playing field for national policies and increasing their predictability. At the same time, some developing nations have expressed particular concern with the existing rules (e.g. anti-dumping, countervailing duties, safeguards, and technical barriers to trade) and contemplated rules (e.g. in respect of trade and environment). In some cases, there are concerns expressed about excessively burdensome implementation problems and inadequacy of provisions to safeguard the interests of developing countries.

Implementation issues are often cited with respect to the TRIMs and TRIPS agreements. For example, some non-OECD countries have cited the TRIMs Agreement as having an inadequate transitional period for phasing out such investment measures and have called for extension of compliance deadlines. This concerns, for example, local content requirements in the automotive sector. Moreover, several non-OECD countries have argued that intellectual property protection under the TRIPS Agreement is largely oriented towards areas of interest to developed countries, leaving aside areas that particularly interest other countries, like indigenous knowledge or geographical indications for traditional handicrafts. Moreover, some countries point out that compliance with the TRIPS Agreement is particularly difficult for “developing countries,” given that most of them had to start work on IPRs from scratch and lacked the necessary human resources and expertise.

Many non-OECD countries have also expressed concerns about the number of anti-dumping measures taken against their products. (However, it is interesting to note that between 1995 and 1999, non-OECD countries have filed a total of 632 anti-dumping cases against 595 filed by OECD countries). Some non-OECD countries are particularly concerned that anti-dumping measures may increase substantially in the textiles and clothing sector once the MFA-related quantitative restrictions are phased out. These countries have called for a prohibition of repeated anti-dumping investigations on the same product within a year, as well as for making it mandatory rather than “desirable” to impose a smaller margin of anti-dumping duty when this would suffice to remove injury from domestic industry. Anti-dumping procedures are resource-intensive and, as such, they tend to weigh more heavily on small-sized economies than on others. Moreover, for countries whose exports are concentrated in relatively few sectors, anti-dumping duties may have a disproportionate impact on their economies.

Special and differential treatment

The majority of non-OECD countries benefit from some degree of preferential access to many OECD markets. More than two-thirds of the WTO's roughly 140 members are considered to be developing countries. Despite extensive references in the WTO agreements to special provisions, rights and obligations for developing countries, there is no official definition of what constitutes a developing country. GATT Contracting Parties have self-elected their designation, most recently when the WTO was created. In all, there are some 145 special and differential treatment provisions operating within the WTO system. These include 1) provisions aimed at increasing developing countries' trade opportunities; 2) provisions that call upon WTO members to safeguard the interest of developing countries; 3) flexibility of commitments; 4) transitional time periods; and 5) technical assistance. They are spread across various accords such as the Multilateral Agreements on Trade in Goods, GATS, TRIPS, the Understanding on Rules and Procedures governing the Settlement of Disputes, and various Ministerial Decisions.

A number of developing countries have expressed dissatisfaction with the actual operation of many of special and differential treatment provisions. They consider these to be inadequate instruments to help them integrate more fully into the multilateral trading system. On the other hand, developed countries increasingly take the view that no single system can address the interests and concerns of a diverse group of countries, such as the developing nations. Already, the Uruguay Round agreements incorporated a limited application of the concept of tiering of some benefits across different groups of developing countries. That is, in some cases more generous treatment was accorded to least developed countries, net food importing developing countries and countries with a per capita income of less than US$ 1 000 (known as Annex VII countries).

There remains pressure for further differentiation. Critics point out, for example, that even when problems and their magnitudes are roughly similar across countries, the remedies appropriate to a country like Singapore (with per capita income of US$ 26 600 in 1998) are probably different from those appropriate to Ghana (with a per capita income of US $400 in 1998). In rare cases where the remedies are the same, it nevertheless remains likely that the capacity of Singapore to adopt them is different from that of Ghana. Further differentiation in the treatment of developing countries might be accomplished in a number of ways. One approach would continue and extend the practice initiated during the Uruguay Round of targeting more benefits to a select group of developing countries. An alternative approach would involve graduation of the more advanced developing countries from the group, either on a self-initiated basis or by using analytical criteria based on economic indicators. Whichever approach might eventually be selected, it is clear that multilateral co-operation in this area is of critical importance. At the same time, ensuring that the WTO works more effectively to the benefit of all its members is a responsibility for all nations to share.

Capacity building

In order to benefit more fully from the multilateral trading system and better integrate into the globalising world economy, some developing countries are pursuing a comprehensive development strategy aiming to facilitate private sector-driven development. This entails continued efforts at liberalising trade and investment regimes, building supply-side capacities, and enhancing the competitiveness of the private sector, among other actions. It is by no means an easy task and, in the trade area, will require major efforts to help these countries strengthen their basic human and institutional capacities.

The objective of enhanced international integration has been incorporated in goals articulated by the development community and embodied in the Comprehensive Development Framework. International institutions, donors and host-countries are translating this framework into action through country-specific poverty reduction strategies where trade reforms play a central role. In addition, capacity-building and technical assistance programmes are being specifically designed to assist the less advanced developing countries with their integration efforts. ■

Conclusions

Openness offers the potential for creation and preservation of value and wealth, and a much more reliable way to develop constructive responses to challenges than bureaucratic centralism. Over fifty years ago, the major economic powers realised that reducing barriers to the international flows of goods and services was vital to economic recovery from the Great Depression and the Second World War, as well as to future growth. This realisation was pursued over succeeding decades in a process of trade liberalisation leading to the establishment of the WTO in 1995 with provisions to support additional liberalisation in the future.

For developing nations, trade has served as a primary means for achieving integration into the global economy. The multilateral trading system has addressed key interests of these non-OECD countries, but many consider that they have not seen the full potential benefits of existing arrangements and that additional work is needed. Market access still represents perhaps the single most important trade issue between OECD and non-OECD countries, but there are many others. At the same time, a distinction can be made between those issues already embodied in existing WTO agreements, those which require new rules, and those which are not within the scope of the multilateral trading system as defined by the WTO members. Effective resolution of the full range of issues will require that each be considered in the appropriate international forum, with due regard to coherence across international institutions.

A multilateral round represents the best chance to address the multiple trade-related issues in a process yielding mutual benefits. This is because it offers a wide range of potential tradeoffs and a broad scope for gain due to the coverage of a large number of markets. The WTO's consensus approach is oriented toward guiding the process toward win-win solutions, meaning that the WTO membership as a whole must be satisfied that the results are balanced. Consequently, undertaking a multilateral round is a tremendous task but well worth the global effort by OECD and non-OECD countries alike. ■

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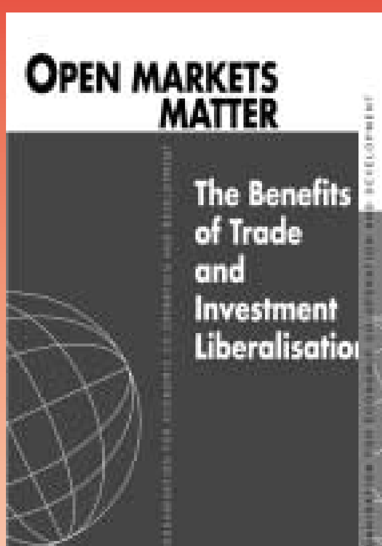

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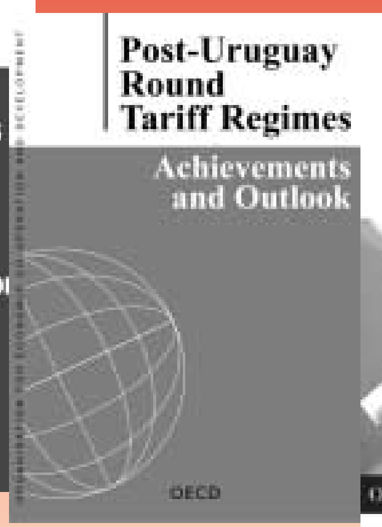

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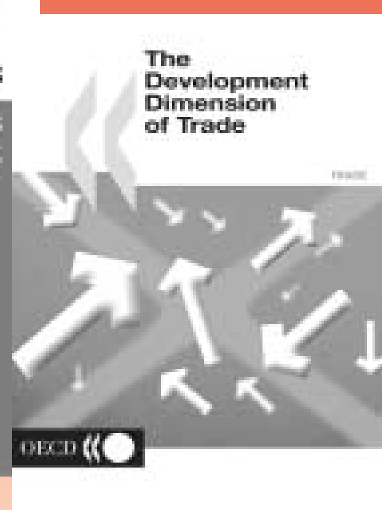

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Further Reading

- **The Development Dimensions of Trade**, (*forthcoming*) ISBN 92-64-19675-7
- **Open Markets Matter: The Benefits of Trade and Investment Liberalisation**, 1998
  ISBN: 92-64-16100-7, 19 euros, 116p.
- **Open Services Markets Matter**, (forthcoming)
- **Post-Uruguay Round Tariff Regimes: Achievements and Outlook**, 1999
  ISBN: 92-64-17128-2, 39 euros, 176p.
- **Multilateral Tariff Liberalisation and the Developing Countries,**
  by Sébastien Dessus, Kiichiro Fukasaku and Raed Safadi.
  OECD Development Centre Policy Brief No. 18, 1999 available on our internet site at **www.oecd.org/pdf/M00008000/M00008101.pdf**
- **The DAC Guidelines: Strengthening Trade Capacity for Development**, 2001,
  ISBN: 92-64-19504-1, 20 euros, 62p.

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