

DEVELOPMENT, DEVELOPING ECONOMIES AND  
THE DOHA ROUND OF MULTILATERAL TRADE  
NEGOTIATIONS

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## **Abstract:**

The Global community's commitment to the goals of economic growth and poverty alleviation is an old one. Over the last half century, several United Nations (UN) commissions have committed themselves to promotion of growth and development. The Millennium Development Goals (MDGs) are the newest manifestation of the same worthy and noble objective. Trade expansion has a strong correlation with growth. Although the WTO is not a development institution, its operations have definite development relevance. There are certain facets of its mandate that decisively influence developmental endeavors of countries. The system of ruled-based conduct provided by the WTO reduces uncertainties in the multilateral trade arena, which in turn helps in promoting multilateral trade and domestic investment at lower risk. As the Doha Round is intended to be a development round, development concerns have remained an integral part of the Doha Round. The Group-of-Twenty (G-20) developing economies, which was born in Cancún, played a consequential role in the MTNs. No doubt a successful culmination of the Doha Round can help in poverty alleviation and achieving the first MDG. This article provides a detailed analysis of the growing participation of the developing economies in the evolving multilateral trading system. Their expectation is to integrate with the global economy and in the process accelerate growth. However, so far the task has seemed arduous, progress has been slow and the road appears to be long. That being said, a small sub-group of developing economies has managed to integrate well with the multilateral trade regime as well as the global economy.

## **Keywords:**

Trade, WTO, Multilateral Trade Negotiations, Growth, Globalization, Doha Round

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## **DEVELOPMENT, DEVELOPING ECONOMIES AND THE DOHA ROUND OF MULTILATERAL TRADE NEGOTIATIONS**

One of the most important achievements of the last ten years has been the enhanced integration of developing countries into the WTO system. Never before have so many been such active participants in the global trading system and the development focus of the Doha Round is an appropriate reflection of this. ...The development dimension can no longer be an after thought or an add-on, a sort of pisco you add to the main dishes of market opening. Exceptions and derogations have their place, but they can too easily lock developing countries into the status quo and put a ceiling on their future possibilities.

—Pascal Lamy. 2006a

### 1. Global Commitment to Economic Growth

The commitment and dedication of the global community to the goals of economic growth and poverty alleviation is an old one. Over the last half century, several United Nations (UN) commissions committed themselves to the promotion of growth and development. Two of the notable commissions were headed by Lester B. Pearson and Raul Prebisch. Both developing and industrial economies were part of these commitments to global economic development. The final outcomes of many of these Commissions were creations of worthy development institutions like the Food and Agriculture Organization (FAO) and the United Nations Conference on Trade and Development (UNCTAD). The most recent endeavor of this kind is the enthusiastic accord of the global community on the Millennium Development Goals (MDG), which also led to an expanded vision of global development. While many of the targets were first set out by international conferences and summits held in the 1990s, they were eventually adopted as the MDGs.

The global community appreciates the moral imperative and development rationale of achieving the MDGs, particularly the first one that aims at reducing income poverty. Favorable global growth environment helped sustain global poverty alleviation endeavors over the 2000-2005 period. Buoyant trade volume

expansion, low interest rates and strong growth performance in the industrial economies helped low- and middle-income developing economies grow at an average rate of under 5 percent in 2005, which was well above their historic rates (WB, 2006). Macroeconomic indicators in these country groups were markedly superior in 2005 than they were over the 1990s, albeit the gains were uneven. Much of the improvement was focused in East and South Asia and in Eastern Europe and Central Asia. During 2000-2005, GDP growth rates in the middle-income economies have been higher and less volatile than those in the low-income ones. They also grew more resilient to external shocks. To be sure, there is a great deal of room for improvement.

Advancing the agenda of growth and poverty alleviation within the framework of multilateral trade regime, within the mandate of the on-going Doha Round of multilateral trade negotiations (MTNs), is in the commercial and development interests of both developing and industrial economies. Failure of the Doha Round will indeed risk the near-term prospects for growth in the low- and middle-income economies noted above, in the process impairing the global income-poverty reduction endeavors. Conversely, a successful conclusion of the Doha Round would bolster growth and income-poverty alleviation endeavors. Its successful conclusion would also provide a reliable engine of trade-led growth for the global economy. However, the MTNs have neither been progressing briskly nor smoothly. The major trading powers missed the deadline of April 30, 2006, for putting in order an agreement on farm and industrial goods. Failure of the Cancún Ministerial Conference of the WTO, lack of any substantive realization in the Hong Kong Ministerial Conference, and subsequently missing the April 30 strategic deadline by the major trading economies in the MTNs have engendered skepticism regarding a successful conclusion of the Doha Round.

Can an improved climate for external trade and multilateral trade regime, in agreement with domestic trade policy of the WTO member countries, make any contribution to achieving the MDGs and poverty alleviation? Does trade

expansion accelerate economic growth in the developing economies? Essentially due to its high policy relevance, the latter subject has been extensively researched by economists during the preceding quarter century. A library full of research is available on this issue. The saving grace is that the large empirical literature that was produced around this theme has led both policy mandarins and neoclassical economists to generally accept the view that trade expansion, together with improvement in human capital, is a key driver of growth and poverty alleviation, although there is a question mark on causality.<sup>1</sup>

Like the MDGs, the global community needs to adopt the policy objectives of economic growth and poverty alleviation by means of an ambitious program of trade policy reforms. To be sure, such a reform program will need to have an ambitious vision and necessarily encompass decoupling of agricultural support, including abolition of export subsidies, significant tariff slashing on the most-favored nation (MFN)-basis on labor-intensive products, which are of interest to the exporting firms from the developing economies. This comprehensive reform program could cover all the WTO members, both developing and industrial economies. Such a reform program has immense potential to become a source of welfare gains to the developing economies, and the absolute poor in it.

## 2. Macroeconomic Policy and the Trade-Growth Nexus

Because of its immense policy implications, this nexus has been paid a great deal of attention by researchers. This subject is not without its contentious aspects. While there are sound empirical and theoretical reasons supporting a

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<sup>1</sup> While there are numerous literature surveys, one of the most recent and eminently readable one is *Trade, Growth and Poverty: Selective Survey*, by A. Berg and A.O. Krueger (2003). Giles and Williams (2000) provided another comprehensive survey of more than 150 export-growth applied papers. They described the changes that have occurred, over the last two decades, in the methodologies used empirically to examine for relationships between exports and economic growth, and provided information on the current findings. The 1990s saw an abundance of time series studies that focused on examining for causality via exclusions restrictions tests, impulse response function analysis and forecast error variance decompositions. They found that that the results of studies examining export-led growth based on standard causality techniques were not typically robust to specification or method.

move to a more liberalized trade regime, there are equally sound theoretical arguments that support protection from international competition for some domestic industrial sectors, at least in the initial stages of industrialization. Economic theory does not decry infant industry protection. The large body of empirical literature, based on comparable methodological approaches, which largely entail exploring cross-country evidence at the macroeconomic level, came up with conclusions that were far from uniform. Numerous multi-country case studies were conducted in the past, which also utilized similar analytical frameworks, also came up with results that were not harmonious.<sup>2</sup> These empirical and statistical studies subsequently became the target of criticism for methodological weaknesses.

Intense evaluation by the economics profession of the trade-growth nexus brought them to the inference that that in a liberal multilateral trade regime, countries that trade more grow faster. The liberalized multilateral trade regime and domestic policies are positively correlated with growth. While this was the leitmotif of numerous empirical studies conducted over a long period, there was no certainty regarding the direction of causality. In addition, this empirical evidence of a relationship was not without its controversies. There were fundamental problems that permeated them, casting a shadow of doubt over the validity of their estimates. For instance, endogeneity bias and omitted variables were among the most serious problems with these earlier studies. Due to these statistical flaws, Ordinary Least Squares (OLS) regression technique commonly used in the early empirical studies tended to yield biased estimates of the coefficient of interest, that is, impact of openness on the GDP growth. Also, mere examination of correlation coefficients could not identify the direction of causation between trade and growth.

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<sup>2</sup> Principal among the early studies are Little, Scitovsky and Scott (1970), Balassa (1971) and Krueger (1978).

Frankel and Romer (1999) suggested a remedy to address the methodological weaknesses. Their innovation was to take a size-weighted distance measure between countries. Dollar and Kraay (2002) reconstructed this instrument for their sample economies and found that there is a highly significant positive effect of trade expansion on the per capital income of a developing economy. This methodological improvement not only confirmed the results of Frankel and Romer (1999) but also yielded larger coefficient than OLS regression analysis. Making an inter-temporal distinction, Dollar and Kraay (2002) also inferred that trade expansion plays a larger role in the short run on growth than does institutional development, which has a greater effect in the longer run.

The improvements in the theory of edogenous growth which took place in the latter half of 1980s and early 1990s made a decisive contribution to this debate.<sup>3</sup> The new growth theory was partially based on the relationship between trade and growth. Improvements in theory and availability of more comprehensive data made it possible to launch more sophisticated cross-country economic analyses relating to various measures of “outwardness”, or “outer-orientation” or “openness” to the growth rate of GDP and total factor productivity (TFP). These studies found a strong positive relationship between outward-looking policies and growth. Cross-country evidence at macroeconomic level was once again positive.<sup>4</sup> Some of these studies further improved the methodology by using measures of trade intensity instead of measures of trade policy as the relevant variable determining GDP growth. This measure captured more than just the influence of policy-induced trade barriers like tariffs and non-tariff barriers (NTBs). Like the earlier empirical studies, this sub set of studies also found that more open developing economies grow at a faster GDP growth rate. Like the earlier studies, they also did not go unchallenged. Rodriguez and Rodrik (2001)

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<sup>3</sup> Reference here is to the well known researches of Paul Romer (1986), Robert Lucas (1988) and Gene Grossman and Elhanan Helpman (1991).

<sup>4</sup> See, for instance, Dollar (1992), Sachs and Warner (1995), Harrison (1996) and Edwards (1998).

not only questioned the robustness of their results but also regarded the “search for such a relationship futile”.

Dollar and Kraay (2004) examined the effect of liberalization, trade expansion and globalization on growth, inequality and poverty. Over half the developing country population presently lives in globalizing economies that have seen large increases in trade and significant declines in policy-induced trade barriers, both at the domestic and multilateral levels. These developing economies are catching up with the industrial countries, while the rest of the developing world is falling farther behind. Second, they examined the effects on the poor. The increase in growth rates leads on average to proportionate increases in incomes of the poor. The evidence from individual cases and cross-country analysis supports the view that promotion of trade and globalization leads to faster growth and poverty reduction in poor countries.

Following the post-war performance of the Japanese economy, the four East Asian dragon economies (Hong Kong, Republic of Korea, Singapore and Taiwan) and Southeast Asian economies (Indonesia, Malaysia, the Philippines and Thailand) turned to the traded goods sector to function as an engine of growth. Adoption of outward-orientation helped these economies achieve stellar economic performances, which turned Asia into the most dynamic region of the global economy (Das, 2005). The hopeful showcase of the Asian economies has been analyzed endlessly. From the Asian scenario, lessons were sought for the other developing economies. Thinking in the academe and policy-making institutions like the Bretton Woods twins and the WTO markedly shifted in favor of an outer-orientated growth strategy and liberal global trade regime.

Disagreements among the researchers apart, a number of cross-country studies have supported the trade-growth nexus. It is increasingly believed in the policy-making community that protectionist environment promotes and perpetuates inefficient industries in the developing economies. Also, protectionist policies were usually combined with inflexible industrial regulations and over-valued

exchange rates. South Asian and Latin American developing economies testify to these facts. Trade does not stimulate growth in developing economies with excessive regulations (Bolaky and Freund, 2004). While the strategy of inward-oriented or import-substituting industrialization can stimulate domestic production, it suffers from obvious and severe anti-export, anti-labor and anti-agriculture biases. Consequently, developing economies that adopt this growth strategy were deterred from specializing in accordance with their perceived comparative advantage.

Both static and dynamic effects of trade expansion on the domestic economy are well known. The static effects work through efficiency in resource allocation in the domestic economy, while the dynamic ones work by transporting growth-enhancing factors like technological advances and knowledge. The dynamic effects are divided into the following five categories, namely, spillover effects, scale-economies effects, competition generated effects, imitation effects and increased variety of intermediation (Acemoglu and Zilibotti, 2001). Little wonder that efficiency gains are directly correlated with the liberalization of trade policy in the developing economies and liberalizing multilateral trading environment and that TFP gains are regarded as one of the standard outcomes of trade expansion (Bernard and Jensen. 1999).

### 3. Development Relevance of the Multilateral Trade Regime

The definitions of the multilateral trade regime and the WTO clarify that it is not a development institution. The GATT/WTO system was originally not designed for economic development. That being said, efforts to enhance the development relevance of the WTO have constantly been made. There are certain facets of its mandate that decisively influence developmental endeavors of countries consciously striving to climb the ladder of growth, development and industrialization. The two quintessential functions of the WTO regime are: (i) negotiating commitments for improving market access, and (ii) establishing a rule-based trading system that leaves no element of unpredictability in

multilateral trade. These are two critically important dimensions and the developing economies can benefit from both of them. First, as noted above, domestic policy stance of openness is associated with brisk growth and poverty alleviation. If the WTO ensures greater market access for the developing economies, the ones that have reformed and liberalized their domestic policies and put a compensatory policy structure in place are sure to experience acceleration in their growth performance. Tariffs and NTBs work as a tax on development. This observation applies to both developing and industrial economies (Das, 2001).<sup>5</sup> Secondly, the majority of the developing economies are relatively weaker players in the multilateral trading system. By conceiving, designing and establishing a rule-based multilateral trade regime the WTO protects the interests of developing economies, particularly the smaller traders, that have little ability to influence the policies of the dominant players in the world trade arena.

A system of common rules and mutually agreed codes of conduct among the WTO members can reduce uncertainties among trading partners by placing boundaries on the policies adopted by members. This in turn helps in promoting domestic investment at lower risk. It has been observed that the private sector shies away from investing if a rule-based trade discipline and commensurate domestic reforms are in doubt because investors perceive it as a high-risk environment. A framework of multilateral agreements renders the domestic policy measure more credible. Such a framework also renders domestic policy reversal or backsliding impossible because for all appearances they are locked in with a multilateral agreement.

Although not the naissance, the evolution of the multilateral trade regime took place in an oblique and prejudiced manner during the General Agreement on Tariffs and Trade (GATT) era. During this period, the developing economies were not significant traders and did not actively participate in the MTNs. Therefore, the

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<sup>5</sup> Refer to Das (2001), in particular Chapter 1.

multilateral trade regime evolved to reflect the perceived interest of the industrial economies. Many early GATT rules reflected the practices that were being followed in the industrial economies. Heavily subsidized production and export of agriculture in the industrial economies and distortion in trade in agricultural products was considered acceptable because it suited the interests of the industrial economies. The same logic applies to binding of trade in textiles and apparels in quotas, an anathema according to the GATT rules.

This was not only true of the past practices but has also persisted until the present. Many recent laws adopted under the new WTO regime still reflect the interests of and practices followed in the industrial economies. For instance, the WTO rules on the protection of intellectual property rights are the very same laws that are followed in the industrial economies. This implies that while the developing economies are obliged to create a new regulatory framework on intellectual property rights, the status quo continues in the industrial economies. No changes are required by the WTO in their intellectual property rights regulations.<sup>6</sup>

During the early rounds of MTNs, developing economies did not participate actively. They were minor trading economies and watched the negotiations from the sidelines rather than participating in them proactively. During the mid-1980s, many developing economies, particularly the large ones, began implementing far-reaching macroeconomic reform and restructuring programs. Their principal objective was to increase and diversify their exports and economies. This was regarded as an instrument for integrating into the global economy. These reforms began showing tangible results in several developing economies, which were visible in rising export volumes. Therefore, the Uruguay Round (1986-94) saw a radical change in the mindset of policy-makers in the developing economies. The old GATT mindset was transformed. During and after the Uruguay Round the developing economies became proactive participants in the MTNs. An increasing

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<sup>6</sup> This part draws on Chapter 6 of the *Global Economic Prospects* (2004) published by the World Bank. See pp. 205-231.

number of them *pari passu* became more proactively involved in multilateral trade.

During the decade of 1990s, developing economies recorded an average merchandise export growth rate which was one-third higher than that of the industrial economies. In the space of one decade, the average trade-to-GDP ratio for the developing economies soared from 29 percent to 43 percent (Ingco and Nash, 2004). The year 2004 saw a marked increase in the share of developing economies in world trade to 31 percent, the highest ever. This was essentially due to increases in their share of the export of manufactures. In 2004, they accounted for 28 percent of world exports of manufactures. Considering the fact that this share was only 22 percent in 1995, this was a significant achievement. Some developing economies like China and several Asian economies have made successful niches in the global trade scenario. In 2004 China overtook the US as the world's largest exporter of advanced-technology products like laptop computers, information technology products, cellular phones and digital cameras. In 2003, the US was the global leader in this category with exports of \$137 billion, followed by China with \$123 billion. In 2004, China notched up another first. It exported \$180 billion worth of high-technology equipment in 2004, compared to the US exports of \$149 billion, making China the leading global economy in the exports of high-technology products (Das, 2006).

While this group of developing economies gave reason to be optimistic about their future, the fact remains that still only a small number of them have so far benefited from the expansion in trade. The 50 least developed countries (LDCs) account for about 1 percent of world trade. The share of sub-Saharan countries was 2 percent in 2005. The developing economies that benefited from the multilateral trading system and have integrated into the global economy are those that pursued sound macroeconomic policies, including open trade and investment regimes.

Thus viewed, over the last decade several developing economies have emerged as important trading economies. With the progressive involvement of the developing economies, a new goal needed to become part of the WTO deliberations and negotiations, namely economic growth and development. The implications of the new WTO rules are to be carefully evaluated. They should be so designed that they proactively lead a member developing economy to the new growth target. Economic growth is indeed a difficult metaprocess, which *inter alia* requires active, and educated involvement of the developing economies in the multilateral trading system.

In the recent past, the developing economies have been more successful in exporting manufactured goods than agricultural products. This is partly due to the idiosyncrasies of the multilateral trade regime. During the two decades ending in 2001, multilateral trade growth in agriculture and manufacturing trade took place at similar paces. Table 1 shows that exports of agricultural products from developing economies rose in the 1990s, so did the growth rate of manufacturing products. However, these statistics conceal an important difference. During the period under consideration, developing countries' exports of agricultural products to other developing economies more than doubled, while those to industrial economies stagnated. Consequently, the share of developing countries' agricultural exports to other developing countries increased from 9.5 percent to 13.4 percent during the 1980-2001 period. Over the same period, their share of agricultural exports to industrial economies declined from 25.8 percent to 22.9 percent. Conversely, their share of manufactured goods exports to industrial economies soared from 12.7 percent in 1980-81 to 15.2 percent in 1990-91, and further to 21.1 percent in 2000-01. This set of simple statistics portend to the fact that trade barriers have been more effective in stifling agricultural exports from the developing economies than manufacturing exports. This trend in turn reflects the idiosyncratic nature of the present multilateral trade regime.

Table 1

## Export Growth Rates in Constant (1995) Dollars

(In percent)

	World Export		Developing Countries	
	Growth Rates		Export Growth Rates	
	1980-1990	1990-2001	1980-1990	1990-2001
Agriculture	4.5	3.6	3.5	4.8
Manufacturing	5.9	4.8	7.6	8.9

Source: Computed by Ingco and Nash (2004) from COMTRADE date tapes.

Participation of the developing economies in the multilateral forum is progressively becoming more consequential. The Group-of-twenty (G-20) which was born during the Cancún Ministerial Conference, not only played a consequential role in Cancún Ministerial Conference but also at the WTO meeting in Geneva, held in the last week of July 2004, which put together the July Package or the July Framework Agreement.<sup>7</sup> For the members of the G-20, one lesson learned at Cancún was that to avoid later frustrations they need to approach future ministerial conferences, MTNs and other important WTO meetings with well beefed-up teams of trade economists and better preparations for negotiations. For the most meaningful and salutary outcomes, their degree of

<sup>7</sup> The G-20 achieved in Geneva what they could not in Cancún.

preparations for the future MTNs should be on the lines of the delegations of the Quadrilateral (or Quad) countries.<sup>8</sup>

#### 4. A Developmental Round: Abiding by the Basic Principles

The Doha Round of MTNs was christened the development round by the WTO secretariat. Lamy (2006b) noted that this was done in recognition of the fact that “there remains, in today’s multilateral trading system’s rules and disciplines, imbalances that penalize developing economies—and this must be corrected.” The intention in naming it a development round was to try to improve the multilateral disciplines and commitment by all members of the WTO in such a manner that they “establish a more level playing field and provide developing countries with better conditions to enable them to reap the benefits of trade liberalization.” It is safe and fair to assume that it was expected that the final outcome of this round will have development implications. Developmental concerns formed an integral part not only of the Doha Ministerial Declaration (December 2001) but also of the subsequent July Package (July 31, 2004) or the framework agreement.

The General Council rededicated the WTO members to fulfilling the development dimension of the Doha Development Agenda (DDA), which places the needs and interests of developing and least-developed countries (LDCs) at the heart of the Doha Work Program.<sup>9</sup> The General Council reiterated the “important role that

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<sup>8</sup> Canada, the European Union (EU), Japan and the United States (US) are the four Quadrilateral (or Quad) countries

<sup>9</sup> Fifty countries are presently designated by the United Nations as “least developed countries” (LDCs). The list is reviewed every three years by the Economic and Social Council (ECOSOC) of the United Nations. In its latest triennial review in 2003, the ECOSOC used the following three criteria for the identification of the LDCs, which were proposed by the Committee for Development Policy (CDP): (i) a low-income criterion, based on a three-year average estimate of the gross domestic product per capita (under \$750 for inclusion, above \$900 for graduation); (ii) a human resource weakness criterion, involving a composite Augmented Physical Quality of Life Index (APQLI) based on indicators of: (a) nutrition; (b) health; (c) education; and (d) adult literacy; and (iii) an economic vulnerability criterion, involving a composite Economic Vulnerability Index (EVI) based on indicators of: (a) the instability of agricultural production; (b) the instability of exports of goods and services; (c) the economic importance of non-traditional activities (share of manufacturing and modern services in GDP); (d) merchandise export concentration; and (e) the

enhanced market access, balanced rules, and well targeted, sustainably financed technical assistance and capacity building programs can play in the economic development of these countries” (WTO, 2004) . The ninth round under the aegis of the GATT/WTO system, the Doha Round, promises a new direction to the MTNs and calls for a new mindset among negotiators from both industrial and developing economies. It is time to banish the ghosts of mercantilism and set these negotiations firmly on the path of shared global economic growth.

For the developing economies, gains from trade integration are acknowledged to be far larger than any probable increase in external assistance flows. A pro-development outcome of the Doha Round is sure to provide developing economies an opportunity and incentive to use trade integration proactively as a growth lever. It will also go a long way in establishing the development credibility of the present trade regime in general as well as the WTO in particular. To ensure that the Development Round remains a Development Round, the WTO members need to run some checks and balances over what is currently transpiring in the MTNs. Stiglitz and Charlton (2005) devised four litmus tests of whether the negotiations, agreements and decisions are pro-development or not. These four principles are: (i) the agreement’s future impact on development should be assessed objectively. If there are possibilities of it being negative, then it is unfit for inclusion in the DDA, (ii) the agreement should be fair (iii) fairly arrived at, and (iv) the agreement should be confined to trade-related and development-friendly areas, and not venture outside into non-trade-related areas on the pretext that they have an indirect bearing on trade.

Little economic analysis was done in the past for the potential impact of individual WTO agreements on member country or country groups. Analytical studies that were attempted did not penetrate into the core of negotiations, which largely remained based on prevailing orthodoxies. They were also influenced by

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handicap of economic smallness (as measured through the population in logarithm); and the percentage of population displaced by natural disasters.

lobbying from strong interest groups. For quantifying the potential impact of each agreement, computable general equilibrium (CGE) exercises can indeed be useful. They are an excellent tool for quantifying the potential impact. Modeling frameworks like the Global Trade Analysis Project (GTAP) and its variations have been in frequent use by scholars and professional economists for the purpose of reckoning the impact. The GTAP project is coordinated by the Center for Global Trade Analysis, which is housed in the Department of Agricultural Economics, Purdue University. The Center for Global Trade Analysis undertakes applied general equilibrium (AGE) modeling, and provides services to other AGE modelers as well as supranational organizations using AGE-based analysis. The objective of GTAP is to improve the quality of quantitative analysis of global economic issues within an economy-wide framework. Since its inception in 1993, GTAP has rapidly become a common “language” for many of those conducting global economic analysis. Economists at the University of Michigan and Purdue University have a great deal of experience, spanning over a decade, in running these comprehensive simulation exercises. Given the availability of this technique, the WTO Secretariat could be assigned the responsibility of conducting general equilibrium incidence analyses, which they can produce with the help of academic scholars in this area. These empirical studies can quantify the impact of different proposals on different countries or country groups. However, it should be ensured that the CGE and AGE models used remain sensitive to this differentiation.

Fairness of agreements is as important as it is problematical and conflict-ridden. It is basically a tricky concept. Economic circumstances of each one of the 150 WTO members are different, therefore, each WTO agreement impacts upon each of the members in a different manner.<sup>10</sup> In terms of net gains measured as

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<sup>10</sup> During the Sixth Ministerial Conference of the WTO in Hong Kong, (15 December 2005) members approved Tonga’s terms of accession. This decision paves the way for the South Pacific Island nation to become the 150th member of the Organization. The Kingdom of Tonga will be the fourth Pacific Island State to join the WTO after Fiji, Papua New Guinea, and the Solomon Islands. Vietnam’s accession negotiations were in the final stage during the first quarter of 2006.

percentage of GDP, if any agreement that hurts one country group and benefits the other, it is considered unfair by the one that is hurt. Fairness also has an element of progressiveness, that is, the largest benefits of an agreement should accrue to the poorest group of member developing countries. So defined, fairness has not been a part of the multilateral trading regime thus far. This concept of fairness applies to the entire package of WTO agreements, not to individual agreements. The package has to be viewed and adjudged in its entirety. In case of individual agreements, there necessarily has to be some leeway in making give and take. This effect of the WTO agreements is inevitable, therefore, one needs to look at the bottom line in this regard and reckon which country, or country group, is benefiting or losing on balance.

Procedural fairness or justice is the principle that deals with the transparency of the negotiations process. Historically, transparency was not part of the culture of the GATT system, which was known for its lack of transparency, reflected in the Green Room process. Its lack of transparency became one of the destructive features during the Seattle Ministerial Conference. It is apparent that setting an agenda will have a large bearing over the final outcome of the MTNs. Therefore, participating members having a say in the mapping of agenda is essential. As many opinions and stances as possible need to be taken into account before the agenda of an MTN is finalized. In the past, a lack of transparency often allowed the large and powerful trading economies to ride rough shod over the system. After the debacle at Seattle, the issue of transparency in the WTO system made visible and impressive strides. The “July Package”, also known as the July Framework Agreement, which was finalized on the 31 of July 2004, was posted on the website of the WTO immediately after finalization.

The fourth litmus test relates to defining and limiting the policy space to trade-related areas during the MTNs. Over the last two decades, particularly during the Uruguay Round, there was a strong tendency to expand the mandate of the WTO to include all kinds of assorted areas, ranging from intellectual property rights to labor standards and pollution control. For a while it seemed that any

international issue which was not formerly covered by any other supranational organizations was considered right for the WTO. Attempts were made to include in the ambit of the WTO even those issues for which there were specialized or United Nations organizations, like environment and labor issues. Stiglitz and Charlton (2005) contended that policy makers employed the prefix “trade related aspects of” liberally and excessively in the past.

The WTO deals with a difficult and important area of multilateral economic life. It cannot possibly be made into a negotiating forum and enforcement mechanism for all and sundry issues. There is a high price for expanding the policy space of the WTO. First, inclusion of many tangential issues tends to confuse and overload the WTO system, which has expanded considerably following the Uruguay Round and thereafter. Second, it also stretches the analytical and negotiating resources of the member developing economies. Third, the industrial economies negotiate from a higher platform in the WTO system. Expansion of the WTO boundaries gives them an opportunity to use their superior bargaining strength in trade negotiations to exploit the developing economies over a larger range of issues. The inclusion of the so-called Singapore issues in the Fifth Ministerial Conference at Cancún is a case in point. Therefore, expansion of the WTO mandate should strictly follow the principle of conservatism, and not include issues that do not have a direct relevance to multilateral trade flows.<sup>11</sup>

##### 5. Special and Differential Treatment

The WTO does not have a definition of developing economies, although some supranational institutions, like the World Bank, not only provide a closely worded definition of developing economies but also of their various sub-groups among them. A WTO member decides and declares its status itself. Over the decades, the traditional approach of the developing economies has been to seek benefits under special and differential treatment (SDT). The term SDT captures the WTO provisions that grant preferential access to markets to certain subsets of developing economies and gives them exemptions from certain WTO rules, or

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<sup>11</sup> For a more detailed discussion on this issue refer to Stiglitz and Charlton (2004).

gives them extra time periods to comply with. The History of SDT is as old as the GATT/WTO system itself. It not only existed since the inception of the GATT but also had a significant history in the multilateral trading system.

Raul Prebisch and Hans Singer were the intellectual fathers of the concept of SDT. They argued that the exports of the developing economies were concentrated in the area of primary products and commodities, which were characterized by volatile prices and deteriorating terms-of-trade. Therefore, they (along with Ragnar Nurkse) propounded the strategy of import-substituting industrialization (ISI) in the 1950s, supported by high rates of protection for the developing economies. Although the infant industry argument is accepted by economic theory, this group of economists applied it a little too comprehensively. Consequently, in the economies that followed the ISI strategy, the infant industries remained infants for decades—until many of them touched their middle ages. This strategy was avidly followed by South Asian and Latin American economies in the 1950s and beyond. They also promoted the notion of preferential market access for developing economies in the industrial country markets through instruments like SDT.

In the initial stages SDT was limited to the provisions of Article XVIII of GATT-1947, which allowed developing economies to void or renegotiate their commitments.<sup>12</sup> The second defining moment in SDT came during the Kennedy Round (1962-67), when Part IV on the benefits to and obligations of the developing economies was introduced in the Articles of Agreements of the GATT-1947. Article XXXVI of Part IV acknowledged the wide income disparities between the developing and industrial economies and emphasized the need for

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<sup>12</sup> In economics of international trade, the two expressions, namely, the GATT-1947 and the GATT-1994, are frequently used. The difference between the two is that the latter is the revised version of the original GATT Agreement of 1947. The text of the Agreement was significantly revised and amended during the Uruguay Round and the new version was agreed upon in Marrakesh, Morocco. Apparently, the GATT-1994 reflected the outcome of the negotiations on issues relating to the interpretations of specific articles. In its renewed version, the GATT-1994 includes specific understandings with respect to GATT Articles, its obligations and provisions, plus the Marrakesh Protocol of GATT-1994.

rapid economic advancement in the developing economies by means of “a rapid and sustained expansion of the export earnings of the less-developed contracting parties.”

The third important period in the life of SDT came during the Tokyo Round (1973-79), when the Enabling Clause was introduced, which established that the developing economies were exempted from Article I {the most-favored-nations (MFN) clause} of the GATT-1947.<sup>13</sup> The Enabling Clause meant that the developing countries should receive more favorable treatment without having to reciprocate to the other signing contracting parties (CPs). The reciprocity was limited to levels “consistent with development needs” and the developing economies were provided with greater freedom to use trade policies than would otherwise be permitted under the GATT rules.

These objectives are covered by Article XVIII of GATT-1947, and subsequently GATT-1994. Article XVIII not only permits the developing economies to use their trade policies in pursuit of economic development and industrialization but also imposes a weaker discipline on them than on the industrial economies in several areas of GATT/WTO regulations. It also exhorts the industrial countries to take into account the interests of the developing economies in the application of the GATT discipline. The Enabling Clause made SDT a central element of the GATT system. With prescience, the Enabling Clause also required that, as economic development gathers momentum, the developing economies would try and improve their capacity to gradually reciprocate concessions. This was christened the process of “graduation”. Subsequently, several preferential trade agreements (PTAs) were created under the Enabling Clause.<sup>14</sup>

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<sup>13</sup> Although most-favored nation (MFN) sounds like a contradiction, implying some kind of special treatment to a particular trade partner, in the WTO jargon it means non-discrimination. That is, treating all trade partners under the WTO regime equally. Each WTO member treats all the WTO members as “most-favored” trading partner. If any country improves the market benefits to one trading partner, it is obliged to give the same best treatment to all the other WTO members so that they all remain “most-favored”. However, historically MFN did not mean equal treatment.

<sup>14</sup> For instance, the Generalized System of Preferences (GSP), the Caribbean Basin Initiative (CBI), the Lome Convention, the Cotonou Agreement, the NAFTA Parity Act, the Central

The SDT is a system of preferences, which by definition are discriminatory. Historically, efforts to operationalize SDT centered on preferential market access through the Generalized System of Preferences (GSP). To maximize the benefits of WTO membership, developing economies sought to expand the reach of SDT. The benefits of SDT span three important areas, namely, (i) preferential access to the industrial economies' markets without reciprocity, (ii) exemption from some WTO obligations, many of which are transitory and some permanent and (iii) technical assistance and help in institution building so that the WTO obligations can be fulfilled and negotiated decisions are implemented.

There has been a long standing trend of unilateral discriminatory liberalization, or offering tariff- and quota-free market access for the small and poor LDCs. If it is fully implemented, it could certainly make the SDT more effective than it was in the past. This kind of unilateral market access cannot be offered to the developing economies that do not fall under the LDC category, because it is a political impossibility in the industrial economies. Therefore, the absolute poor of the global economy cannot benefit from it because a large proportion of them live in South Asia and Sub-Saharan Africa. While all of these economies come under the category of developing economies, not all of them are LDCs. This means that the absolute poor can only benefit if trade liberalization is made multilateral and non-discriminatory. To be sure, such reforms leading to wider and deeper market access would allow the developing economies to exploit their comparative advantage. Besides, many benefits of free trade accrue to the exporting economy through the reform of the domestic macroeconomic framework. That being said, as expected by the Enabling Clause, consistent with their development needs the middle-income—both lower and upper—developing countries should explore the feasibility of exchanging reciprocal concessions with

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American Common Market (CACM) and the CARICOM Common Market, are some of the PTAs that were created under the Enabling Clause.

the industrial economies under the WTO framework, and promote the normal trade liberalization process.<sup>15</sup>

### 5.1. Beneficiaries of Special and Different Treatment

The SDT operated for small, low-income developing economies for so many decades. Theoretically this concept is unarguably meaningful and significant, but in reality it did not engender substantial benefits to the developing economies. There were several causes behind this failure. The preferential market access schedules under SDT were designed voluntarily by the industrial economies, which chose both the eligible countries and products for their schedules. It was observed that, for one, the selected countries and products generally lacked capacity to export and, secondly, countries and products with export potential were excluded from the schedules. Second, when the market preferences were granted, the preference schedules were laden with restrictions, product exclusions and administrative rules. Three, overall coverage of these schedules was only a tiny part of developing country exports, and the eligible countries were able to utilize only a small part of the preference granted to them. The exports of countries that enjoy the GSP under various preferential schemes form a very small part of the European Union (EU) and United States (US) imports. Over the preceding three decades, they have ranged between 0.9 percent and 0.4 percent of total annual imports of these the EU and US (WB, 2004). Fourth, the preference schedules were characterized by trade diversion, that is, they diverted trade with the ineligible developing countries. Finally, the preferential market access schedules did not benefit the target group called the absolute poor of the world.<sup>16</sup> They could not reach this target group at all.

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<sup>15</sup> We divide the various groups of developing economies according to the World Bank (2004) definition, which is available in *Classification of Economies* on the Internet at <http://www.worldbank.org/data/countryclass/countryclass.html>. Economies are divided according to 2003 per capita gross national income. The groups are: low-income developing countries have, \$765 or less; lower-middle income, \$766 - \$3,035; upper-middle income, \$3,036 - \$9,385; and high income, \$9,386 or more.

<sup>16</sup> The definition of absolute poor is based on subsistence, the minimum standard needed to live. Robert McNamara who coined this term defined it as "a condition of life beneath any reasonable standard of human dignity." There has been a long drawn debate in the discipline regarding whether income or consumption poverty lines should be defined in absolute or relative terms.

While there were a good number of recipients of SDT's benefits, not all of them benefited from it. The foremost group to benefit from SDT was a small sub-set of relatively more advanced developing economies of Asia, which soon acquired the status of emerging-market economies (EMEs). The supply-side scenario in this small group was better developed than in the other small, low-income developing economies, also the rent generated were put to good use by them. This group not only had the wherewithal to export the products but also met the administrative requirements of the GSP-granting countries well. Preparation of the required documents placed by the preference-granting countries was efficiently met by them. It was observed that liberal rules of origin (ROO) were a critical factor for eliciting a strong response from the potential beneficiary economies, particularly in products like textiles and apparel.<sup>17</sup>

According to the statistics compiled by the World Bank (2004), in 2001 there were 130 countries that were eligible for the SDT, 10 of them accounted for 77 percent of the US non-oil imports under its GSP. The same 10 countries accounted for 49 percent of all GSP imports from all the industrial countries that were providing GSP. Occasionally a small developing country did benefit substantially from preferential market access where domestic prices were raised above the world market prices by tariffs, subsidies or other trade distorting mechanisms. For instance Mauritius, which exports sugar and enjoys preferential access to the EU markets, benefited a good deal from this opportunity. However, these benefits to Mauritius came at a high cost to the EU taxpayers and consumers (WB, 2004).

Recent performance of the GSP beneficiaries again indicated that a small number of small developing economies that developed their supply side

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Most international organizations define the poverty line in an absolute way as the "level of income necessary for people to buy the goods necessary to their survival." In keeping with this concept, the dollar-a-day line, at 1985 purchasing power parity, is being extensively used (Bourgignon, 1999).

<sup>17</sup> See for instance Brenton (2003) and Brenton and Manchin (2002).

capabilities succeed more in exploiting the market access that was provided to them under the GSP. A comparison of countries that were eligible for the US GSP, and those that were recently graduated from it, revealed that the latter category outperformed the former in terms of export performance. Countries that were no longer on the GSP eligibility list had a higher ratio of export to GDP ratio, as well as higher export growth rate in real terms. One explanation of the success of the countries that graduated from the US GSP-eligible list that seems rational is that it appears that GSP provided a stimulus to their export industries. Causality must be carefully attributed, but GSP seemingly helped the graduating countries in engendering supply side capabilities, which strengthened with the passage of time and turned them into successful trading economies. The flip side of the coin is that merely GSP cannot turn them into successful exporters. Reforming their macroeconomic policy structure must have played a decisive role in this endeavor.

## 5.2 Special and Differential Treatment in the Doha Round

The Doha Development Agenda (DDA) again reaffirmed the importance to the SDT for the multilateral trade regime and referred to it as “an integral part of the WTO agreement” in the Doha Communiqué. The SDT figures at several places in the Doha Communiqué. The objective of the DDA in this area is clearly laid down in paragraph 2 of the Communiqué as “... we shall continue to make positive efforts designed to ensure that developing countries, and specially the least-developed among them, secure a share in the world trade commensurate with the need of their economic development. In this context, enhanced market access, balanced rules, and well-targeted, sustainably financed technical assistance and capacity-building programs have important roles to play” (WTO, 2001).

Recognizing that SDT has not succeeded in imparting a lot of benefits to the target group of beneficiaries, in paragraph 44 participating members called for a review of the SDT schedules so that their provisions can be strengthened

“making them more precise, effective and operational” so that it is able to fulfill its objectives (WTO, 2001). As noted above, the benefits of SDT are provided through three different channels. A good case exists for rethinking all the three channels so that the benefits can be targeted more precisely for the target groups that need them most. In paragraph 14, the Doha Communiqué provided a deadline for reestablishing the new modalities of the SDT. The deliberations and dialogues on this issue continued all through 2002 and 2003, but without a consensus or an agreement. Members were not only divided on important SDT matters, but also had opinions that were significantly far apart from each other.

In view of the fact that the SDT did not spawn large benefits for the target groups, academics and policy makers have debated over what shape the SDT should take in future so that it is able to meet the expected goals.<sup>18</sup> The on-going Doha Round negotiations give an additional relevance to this debate, because this is an opportunity to refine the SDT system. There is some degree of agreement among the researchers on the new shape of STD. Their recommendations are comprehensive and are summarized as follows. First, the industrial economies need to slash all MFN tariffs on labor-intensive exports from the developing economies to 5 percent by 2010, and 10 percent on agricultural exports. The target year for the MDG is 2015, by which time all tariffs on exports of manufactured products from the developing economies should be eliminated.

Second, likewise developing economies on their part should reduce their tariff barriers on the basis of the adopted formula approach. This would be their reciprocation to the measures taken by the industrial economies.

Third, industrial economies should make binding commitments in trade in services to expand temporary excess of services providers by a specific amount, say, one percent of the workforce.

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<sup>18</sup> Some of the recent studies include Oyejide (2002), Hart and Dymond (2003), Hoekman *et al* (2003) and Hoekman *et al* (2004).

Fourth, industrial economies need to unilaterally expand market access for LDCs, along with simplification of the ROO requirements.

Fifth, an affirmation by the WTO regarding core disciplines about the use of trade policy, which should apply equally to all the members.

Sixth, the multilateral trade system needs to explore feasible channels of meeting the special institutional development needs of small developing economies and LDCs.

Seventh, there are some WTO agreements that are required to be adopted in such a manner that they become supportive of development.

Eighth, the industrial economies need to meet the trade-related technical assistance needs of the small and low-income developing economies.<sup>19</sup>

Although none of these proposals are novel and revolutionary, these or similar expansion of SDT have been discussed in the past. However, if they are deliberated, promoted and adopted during the Doha Round, the final outcome would indeed be supportive of development in the low-income developing economies and the LDCs. The name DDA would then ring true. Although numerous academics have addressed this issue, a Group of Wise Men, like the famous Leutwilder Group of eminent persons appointed by the GATT in 1985, can be appointed once again to analyze these issues and provide objective and functional recommendations that would bring the multilateral trading system closer to the DDA mandate.

### 5.3 The July Framework Agreement and the SDT

After the failure of the Fifth Ministerial Conference, the so-called framework agreement was arrived at during the last week of July 2004. In the framework agreement the General Council reaffirms that provisions for SDT are an integral part of the WTO agreements. The Council not only reaffirmed the DDA objective

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<sup>19</sup> Ibid.

of strengthening them but also recommended making them more precise, effective and operational. The Committee on Trade and Development (CTD) reviewed the SDT. The Council instructed the CTD to expeditiously complete the review of all the outstanding agreement-specific proposals regarding SDT and report to the General Council, with clear recommendations for a decision, by July 2005. The CTD, within the parameters of the Doha mandate, was asked to address all other outstanding work, including on the cross-cutting issues, the monitoring mechanism and the incorporation of SDT into the architecture of WTO rules. However, the CTD after several meetings failed to make concrete recommendations to the WTO General Council. Members had strong disagreements on the issues.

The General Council reviewed and recognized the progress that has been made since the beginning of the negotiations of the Doha Ministerial Conference in expanding Trade-Related Technical Assistance (TRTA) to developing and low-income countries in transition. In furthering this effort the Council affirms that such countries, and in particular the LDCs, should be provided with enhanced TRTA and capacity building, to increase their effective participation in the negotiations, to facilitate their implementation of WTO rules, and to enable them to adjust and diversify their economies. In this context the Council welcomed and further encouraged the improved coordination with other agencies, including under the Integrated Framework for (IF) TRTA for the LDCs and the Joint Integrated Technical Assistance Program (JITAP) (WTO, 2004). This gives an impression that the SDT is being taken up for serious review and at the end of the Doha Round should emerge stronger than in the past.

#### 6. Hierarchies of Beneficiaries and Preferential Market Access

In the hierarchy of beneficiaries from preferential market access, the most preferred countries are those that are part of a regional integration agreement (RIA) with the preference-granting economy. Trade partners in an RIA commonly have close trade and economic ties. This relationship is usually reciprocal in nature. The LDCs, which enjoy unilateral preferences or free market access,

come next. Other small developing economies with which the preference-granting economies have GSP relationships are the last. GSP are unilateral in nature and are devised for large country groups of beneficiaries in mind. The GSP status does not provide free market access, but only reductions in tariff rates to the exporting economy in the GSP arrangement.

Several unilateral preferential market access programs were devised as GSPs by the industrial economies as well laid out, structured and customized programs that were intended to be carefully implemented. Each one of them had characteristic features regarding eligibility criteria, product coverage, and administrative rules, in important areas like ROO. Together these criteria determine which developing countries are excluded and which can benefit from the customized unilateral preferential market access schedule. The programs devised and implemented by the US include the African Growth Opportunity Act (AGOA), the Caribbean Basin Initiative, the Andean Trade Promotion Act, as well as several unilateral and reciprocal trade agreements with Israel and Jordan. Likewise the principal EU programs include the Cotonou convention which includes the African, Caribbean and the Pacific (ACP) countries and the Everything-But-Arms (EBA) initiative targeting the LDCs. The EU has also entered a large number of unilateral and reciprocal trade agreements with the North African, Middle Eastern, and the Mediterranean economies.<sup>20</sup>

The characteristic features of the unilateral and reciprocal trade agreements differ in several important respects. Several sectors (such as textiles and apparel, processed foods, etc.) are treated as “sensitive” items and usually excluded from the GSP. They are designed for a large number of potential beneficiaries. These sensitive sectors of trade are included in the unilateral and reciprocal trade agreements. For instance, by 2009, the EBA initiative will cover all the exports of the target group of countries. All the protectionist measures will be eliminated for imports into the EU economies from the 50 LDCs. However, an unseen restriction in this is that the products that matter most to LDCs (rice,

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<sup>20</sup> See Das (2004) for these details, in particular Chapter 3, as well as Schiff and Winters (2003).

sugar and banana) will not be liberalized until after 2006. Their liberalization would begin in 2007 and end in 2009. Secondly, under the unilateral and reciprocal trade agreements administrative requirements tend to be more relaxed in comparison to the more comprehensive GSP schemes, particularly regarding the ROO.

Despite recent improvements in the implementation of these programs, as alluded to earlier, the overall imports into the industrial economies under various preferential schemes have continued to remain diminutive, almost insignificant. An exception in this regard is the textiles and apparel exports from small African economies that came under the AGOA to the US, which recorded significant gains. In 2001, imports by the Quad countries from the GSP beneficiary economies amounted to \$588 billion, of which \$298 billion were subject to normal trade and non-trade restrictions, while \$184 billion came under various preferential trade programs. That is, the coverage of these programs was 38.9 percent of the eligible exports, which in turn received market access preference. In 1991, this proportion was 51.1 percent. Thus the proportion of coverage of eligible exports declined during the decade of the 1990s (Inama, 2003). A similar quantitative study by Haveman and Shatz (2003) produced comparable, although slightly different, evidence of coverage.

#### 7. Small Developing Countries in the Doha Round

A large number of small and low-income developing countries and LDCs are now members of the WTO; together they dominate its membership. Although a majority of them belong to the LDC category, there are some that do not come under it, such as Kyrgyz Republic, Surinam, Guyana, Tajikistan and the like. Cambodia is one such country which became the 148<sup>th</sup> member of the WTO. With growing number, this category of countries acquired a good deal of influence in the multilateral trade system and its decision-making process. During the Fifth Ministerial Conference in Cancún, and the subsequent WTO meeting in

Geneva in July 2004, this group held together as the Group-of-Ninety (G-90) and was led by Rwanda.

Two interesting characteristics of small and low-income developing countries and LDCs tend to stand out. First, their economies and trade volume are small, if not tiny. By definition, each one of them accounts for 0.05 percent, or less, of multilateral imports of goods and services. Realistically, such a small trader has little to offer in terms of market access concessions to its trading partners during the MTNs. This eliminates this group of small developing countries from any serious reciprocal bargaining, which is considered central to the WTO operations. Second, the interests and trade-related requirements of this group of WTO members are imperfectly aligned with the extensive agenda of the multilateral trade system. In addition, as these small economies enjoy preferential market access to the industrial country markets, further multilateral liberalization in the Doha Round would in many cases erode rather than enhance the market access of these countries. Many of them would reap few benefits from broadening of the WTO mandate. If anything, they might incur substantial costs.<sup>21</sup> Owing to these two characteristic differences from the principal trading economies, small and low-income developing economies stand out as an unusual and exclusive group in the multilateral trading system.

As alluded to in Section 4, the contemporary intellectual and political environment strongly favors a “fair” Doha Round outcome for this country group. In such a *mise-en-scene*, the multilateral trading system is faced with the challenge of equilibrating two important and seemingly incompatible issues. Accommodating the interests and needs of this country group on the one hand and ensuring rapid, efficient and expeditious progress in the Doha Round on the other. Stiglitz and Charlton, (2005) noted that the primary principle of “the Doha Round should be to ensure that the agreements promote development in the poor countries. To make this principle operational the WTO needs to foster a culture of robust

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<sup>21</sup> Several researchers have addressed these issues. See for instance Hoekman *et al* (2003), and Messerlin (2003) and Wolf (2003).

economic analysis to identify pro-developmental proposals and promote them to the top of the agenda. In practice this means establishing a source of impartial and publicly available analysis of the effects of different initiatives on different countries. This should be a core responsibility of an expanded WTO Secretariat.” The other objective of this analysis would be to reveal that if any WTO agreement “differentially hurts developing countries or provides disproportionate benefits to developed countries”, it should be regarded as unfair and be considered inappropriate for and incompatible with the DDA (Stiglitz and Charlton, 2005). In the final analysis the DDA should promote both *de facto* and *de jure* fairness.

To be sure, MFN liberalization route is considered both efficient and innovative for the Doha Round (See the following Section), but the multilateral trading system “faces the classic conflict between efficiency and distribution” (Mattoo and Subramanian, 2004). If the MFN-based liberalization is the most efficient for reallocation of global resources, it also leads to adverse distributional effect on economies that have been granted the benefit of preferential market access. As the WTO has followed the GATT tradition of arriving at decisions by consensus, this situation is further exacerbated by the fact that the small, low-income, WTO member countries in this group have as much say in ensuring the progress of the Doha Round and creating an efficient multilateral trading system as a large industrial economy member. Without this say the multilateral trading regime cannot be egalitarian. To resolve this knotty, if paradoxical, situation Mattoo and Subramanian (2004) proposed devising a transfer mechanism for compensating the small and low-income WTO members that stand to lose by further liberalization of the multilateral trade regime.

A word about consensus in the GATT/WTO system is relevant here. Although the legal requirement of the Marrakesh Agreement (or the GATT-1994) establishing the WTO is of two-third or three-fourths majority, depending upon the decision being made, while some decisions can only be made by consensus, giving the small members economies *de jure* powers to block any agreement in those

areas. In the Doha Round negotiations, this *de jure* power can be exercised by small and low-income developing countries in some categories of issues, while it cannot be exercised in others. For instance, it cannot be exercised in issues like inclusion of the four Singapore issues which requires two-thirds majority, whereas it can be applied to the issue of deepening the WTO rules, which call for a consensus. The latter category covers areas like anti-dumping and subsidies agreements, and strengthening the framework of the GATT-1994 and the General Agreement on Trade in Services (GATS).

However, these *de jure* powers can have less influence over further market access liberalization negotiations. Members that mutually agree can proceed and exchange market access concessions without countenance or interference from other members, who are less concerned in these areas. Thus, in a lot of areas in the DDA agreements can be reached without the apprehension of small developing countries blocking them. In addition, this country group has come to acquire *de facto* powers, which stem from the fact that during the Uruguay Round they were required to take on numerous obligations, which they subsequently found demanding, intricate and costly to implement. Delivering on those commitments seemed beyond the institutional and budgetary capabilities of these economies. These obligations were in areas like liberalization of trade, institutional up-gradation and protection of intellectual property rights. The small and low-income members argue that if they are expected to take on arduous obligations, they should also have a commensurate influence over the WTO affairs. Basically, this is fallacious logic because, for one, small developing economies and the LDCs were not the only economies that were asked to take on costly obligations, all the participants were. Second, acknowledging their special set of circumstances they were given significant latitude and more time than other members for fulfilling demanding and stringent WTO obligations.<sup>22</sup>

To be sure, a transfer mechanism proposed by Mattoo and Subramanian (2004) would be difficult to devise. Even if it is devised, it would be politically infeasible

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<sup>22</sup> See also Hoekman *et al* (2002).

to implement. If so, then the system would gravitate towards what is feasible, albeit less desirable. As regards the question, what is desirable? It is logical to say that if this country group consents to let the multilateral trading system move forward with the broad liberalization agenda in the DDA, they would be offered a *quid pro quo* in the form of improved non-preferential market access and increased technical and financial assistance. Both are valuable and have long-term significance for this country group. At the present time, the favorite systemic response to this knotty riddle that is emerging is as follows: As the financial assistance and market access response is seemingly unfeasible, small member economies are being relieved of WTO obligations which they see as imposition, in the process eliminating their opposition and antagonism to the continuance of multilateral trade liberalization under the DDA.

#### 8. The Doha Round and Global Poverty Alleviation

As alluded to earlier, one of expectations of the Doha Round is to achieve the Millennium Development Goal (MDG) of cutting down income poverty by a half by 2015. It is the first of the eight MDGs, articulated by the United Nations General assembly in 2000. The long-term trend is that the number of absolute poor in the world has been rising. During the 19<sup>th</sup> and the 20<sup>th</sup> centuries the number of poverty stricken people in the world constantly rose (Bouguignon and Morrisson, 2002). There was a small reversal in this trend after 1970, and this number fell by a tad over 200 million. Measured in 1985 PPP terms, the number of poor had declined by 350 million (Sala-i-Martin, 2002). Impressive as this achievement seems, there were still 1.2 billion in the world, or one person in five, still lived in poverty (Collier and Dollar, 2002).

It should be noted that while the linkage between poverty alleviation and social sector reforms—like education, health, land reform, micro-credit, infrastructure development and governance—is direct, trade and poverty alleviation are not directly linked. However, economic theory suggests that trade can certainly favorably affect the poor through its positive effect on the GDP and per capita

income in an economy. Trade liberalization and expansion have both static and dynamic impact over the economy and create optimal conditions for rapid growth through flows of better ideas, technology transfer, goods, services and capital. More importantly, trade expansion underpins growth through better resource allocation in the domestic economy. However, it cannot be ignored that growth is a necessary, not a sufficient, condition for poverty alleviation. Even when trade liberalization and expansion lead to rapid GDP growth, it does not and cannot ensure improvement in income inequality in the economy. But higher GDP growth decisively enhances the probability of poverty alleviation. As wage inequality decreases as a consequence of trade expansion, poverty level decline. Liberalization of multilateral trade in line with the mandates of the DDA is widely expected to contribute to alleviating poverty and achieving the MDGs.<sup>23</sup> In the Asian economies, the wage gap between the skilled and unskilled workers narrowed in the decades following trade liberalization in Korea, Taiwan, Singapore and Malaysia, although evidence in the Philippines was mixed.

The Stolper-Samuelson theorem can provide meaningful guidance over trade liberalization leading to poverty alleviation. In the medium- and long-term, increase in return to labor and capital employed in one sector—one having comparative advantage—should logically attract more resources to that sector. It would also raise gains for labor and capital going to this particular sector. If this sector of the economy is relatively labor-intensive, a rise in the prices of the output of this sector is sure to raise the economy-wide wages of labor. It would benefit all wage earners, skilled and unskilled, and also those directly or indirectly employed in the sector in question. This is more likely to be the long-term impact of trade liberalization. While this holds as a generalization, empirically linking multilateral trade liberalization to poverty requires a multi-region approach. As most household surveys are country specific, they are not the most ideal tools for multi-region models used for trade policy analysis (Reimer, 2002). To circumvent this problem, most empirical studies that quantify the impact of trade

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<sup>23</sup> Refer to two recent works of Winters (2000b) and McCulloch *et al* (2001).

liberalization over poverty focus on the impact on the average or per capita income.

According to the most recent estimates made by Chen and Ravallion (2004), 1,039 million people live below the poverty line globally if the reference poverty line is defined as \$1.08 dollars a day, and 2,736 billion if it is defined as \$2.15 a day. The largest proportions of population living below the poverty line are to be found in South Asia (31.3 percent) and sub-Saharan Africa (36.9 percent). China made the most impressive strides in reducing the proportion of population living below the poverty line. Between 1981 and 2001, this proportion declined from 63.8 percent to 16.6 percent.<sup>24</sup>

For analyzing the impact of multilateral trade reform at a global level, applied general equilibrium (AGE) models were found a useful tool in the past. Whalley (1985) and Martin and Winters (1996) put this tool to good use in the context of the Tokyo Round and the Uruguay Round, respectively. AGE models capture the detailed interactions across the many agents of an economy, which includes producers, consumers, public entities, investors, exporters, and exporters. Despite their level of representation, they present a stylized representation of an economy. For instance the version of model used for WB (2002) represented economic activity by only 20 goods and services sectors. This analysis decomposed the world economy into 15 regions and 20 economic activities. The model was calibrated to the latest release of the Global Trade Analysis Program (GTAP) dataset with a 1997 base year.

According to a World Bank (2002) estimates, success in the Doha Round would lift 320 million out of absolute poverty. That is, it could cut the number of people living in poverty by 8 percent by 2015. Besides, it can potentially lift global income by \$2.8 trillion by 2015. Of this, \$1.5 trillion would accrue to the

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<sup>24</sup> See Chen and Ravallion (2004), Table 2 and Table 3.

developing economies.<sup>25</sup> Hertel et al (2004) developed a micro-simulation model to assess impact of trade liberalization on household income. They posited that “in the short run household incomes will be differentially affected by global trade liberalization, depending on their reliance on sector-specific factors of production.” Their methodology was applied to an assessment of the consequences of global trade liberalization in the following sectors: merchandise tariffs, agricultural export subsidies, and quotas on textiles and apparel. This study focused on Indonesia and concluded that the national headcount measure of poverty declines following global trade liberalization both in the short- and long-term. In the long-run the poverty headcount in Indonesia fell for all strata of poverty. Increased demand for unskilled workers lifted income for the formerly self-employed, some of whom moved into the wage labor market. Thus viewed, successful rounds of MTNs do have a discernible favorable impact on the incidence of poverty.

## 9. Conclusions and Summary

The global community’s commitment to the goals of economic growth and poverty alleviation is an old one. The Millennium Development Goals is the newest manifestation of the same objective. Research over the last two-and-a-half decades has led trade analysts and economists to believe that trade expansion is strongly correlated with growth. Although the WTO is not a development institution, its operations have definite development relevance.

There are certain facets of the WTO mandate that decisively influence developmental endeavors of countries. The system of ruled-based conduct provided by the WTO reduces uncertainties in the multilateral trade arena, which in turn helps in promoting multilateral trade and domestic investment at lower risk. Over the GATT era, the developing economies largely remained inactive participants in the multilateral trading system. For the first time, during the Uruguay Round, and thereafter, the developing economies became active

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<sup>25</sup> See the World Bank (2002), Chapter 6.

participants in the multilateral trade regime. The old GATT mindset began to change. They also became more proactively involved in multilateral trade. Since then, participation of the developing economies in the multilateral trade forum has progressively become more consequential.

As the Doha Round is intended to be a development round, development concerns were an integral part of the Doha Ministerial Communiqué. The Group-of-twenty (G-20) developing economies, which was born in Cancún, played a consequential role both at the Fifth Ministerial Conference in Cancún and at the WTO meeting in held in Geneva in the last week of July 2004, which put together the so-called July Package or the July Framework Agreement. The developmental concern did not lose its relevance after the July Framework Agreement was designed.

Special and differential treatment (SDT) was devised to exclusively assist the small and low-income developing economies. In the initial stages SDT was limited to the provisions of Article XVIII of GATT-1947, which allowed developing economies to void or renegotiate their commitments. SDT remained an important part of the subsequent MTNs and the multilateral trade regime. The WTO members participating in the Doha Round called for a review of the SDT schedules so that their provisions can be strengthened making them more precise, effective and operational so that they are able to fulfill their objectives. In paragraph 14, the Doha Communiqué provided a deadline for reestablishing the new modalities of the SDT. The deliberations and dialogues on this issue continued all through 2002, but without a consensus or decision. In view of the fact that the SDT did not spawn large benefits for the target groups, academics and policy makers have debated over what shape the SDT should take in future so that it is able to meet the expected goals. The on-going Doha Round negotiations give an additional relevance to this debate, because this is an opportunity to refine the SDT system. After the failure of the Fifth Ministerial Conference, the framework agreement was arrived at during the last week of July 2004. According to this agreement, the General Council not only reaffirmed the

DDA objective of strengthening the SDT but also making them more precise, effective and operational.

A large number of small and low-income developing countries and LDCs are now members of the WTO; together they dominate its membership. The contemporary intellectual and political environment strongly favors a “fair” Doha Round outcome for this country group. In such a *mise-en-scene*, the multilateral trading system is faced with the challenge of equilibrating two important and seemingly incompatible issues.

Historically, developing economies reluctantly traded with other developing economies and maintained high tariff and non-tariff barriers against each other. Consequently, intra-developing country trade remained low in volume and value. The developing economies preferred to focus on opening up access to industrial country markets. This penchant underwent a transformation in the 1990s. Developing economies grew faster than the industrial economies and transition economies. The growth rate of intra-developing country trade was twice as fast as that of world trade during the 1990-2001 period. Recent long-term forecasts show that the developing economies would continue to grow faster than the industrial and transitional economies during the coming decade (2003-2015). It is a realistic expectation that the intra-developing country trade would continue to grow in the medium term at a more rapid pace than multilateral trade.

Success in the Doha Round can certainly influence the absolute poor of the world favorably. An empirical study estimated that it would lift 320 million out of absolute poverty. That is, it could cut the number of people living in poverty by 8 percent by 2015. Besides, it can potentially lift global income by \$2.8 trillion by 2015. Of this, \$1.5 trillion would accrue to the developing economies. Another study projected that in the short run household incomes will be differentially affected by global trade liberalization, depending on their reliance on sector-

specific factors of production. This study focused on Indonesia and concluded that the national headcount measure of poverty would decline following global trade liberalization both in the short- and long-term. In the long-run the poverty headcount in Indonesia fell for all strata of poverty. Increased demand for unskilled workers lifted income for the formerly self-employed, some of whom moved into the wage labor market. Thus viewed, successful rounds of MTNs do have a discernible favorable impact on the incidence of poverty.

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