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# The Doha Round of Multilateral Trade Negotiations and the Developing Economies

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After years of sitting on the fence, developing economies became active participants in the multilateral trade negotiations (MTNs) during the Uruguay Round. In particular, the Group-of-twenty-one (G-21) developing economies played a consequential role both at the Fifth Ministerial Conference in Cancún and at the WTO meeting held in Geneva in the last week of July 2004, which put together the framework agreement, or so-called July package. As the Doha Round is intended to be a development round, development concerns form an integral part not only of the Doha Ministerial Declaration but also of the subsequent framework agreement. This article focuses on the initiatives of the developing economies in the Doha Round of MTNs and calibrates their achievements – or lack thereof. It also deals with the role of the large number of small and low-income developing economies in the MTNs. Success in the Doha Round can certainly influence the absolute poor of the world favourably. Empirical estimates have been made about how many people would be lifted out of absolute poverty by a successful conclusion of the Doha Round.

Keywords: developing economies, Doha Round, Group-of-twenty-one, multilateral trade negotiations, special and differential treatment

## 1. The Multilateral Trade Regime and the Developing Economies

The definitions of the multilateral trade regime and the World Trade Organization clarify that the WTO is not a development institution. That being said, efforts to enhance the development relevance of the WTO have constantly been made. Certain facets of its mandate decisively influence developmental endeavours of countries consciously striving to climb the ladder of growth, development and industrialization. The two quintessential functions of the WTO regime are (1) negotiating commitments for improving market access and (2) 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, a domestic policy stance of openness is associated with brisk growth and poverty alleviation. If the WTO ensures market access for developing economies, the ones that have reformed and liberalized their domestic policies and put compensatory policy structures in place are sure to experience acceleration in their growth performance. Tariffs and non-tariff barriers (NTBs) work as a tax on development. This observation applies to both developing and industrial economies.[2] Second, 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, which have little ability to influence the policies of the dominant players in the world trade arena. A system of common rules and a mutually agreed code of conduct among WTO members can reduce uncertainties among trading patterns by placing boundaries on the policies adopted by members.

This system of rules and codes 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 the situation as high risk. A framework of multilateral agreements renders domestic policy measures more credible. Such a framework also renders domestic policy reversal or backsliding impossible because to all appearances policies 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. As the developing economies were not significant traders and did not actively participate in MTNs, the multilateral trade regime evolved to reflect the perceived interests 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 agricultural goods 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 apparel in quotas, an anathema according to the GATT rules. This not only was true of past practices but also has persisted until the present. Many of the recent laws adopted in the WTO 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 (World Bank, 2002).[3]

During and after the Uruguay Round, as developing economies became active participants in the multilateral trade regime, the old GATT mindset had to change. Developing economies also became more proactively involved in multilateral trade. Consequently, in the space of just the 1990s, the average trade-to-GDP ratio for developing economies soared from 29 percent to 43 percent (Ingco and Nash, 2004). 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 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 trading regime. During the two decades ending in 2001, multilateral trade growth in agriculture and manufacturing took place at similar paces. Table 1 shows that as exports of agricultural products from developing economies rose in the 1990s, so did exports 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. 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. These simple statistics attest to the fact that trade barriers have been more effective in stifling agricultural exports from the developing economies than they have been in stifling manufacturing exports.

**Table 1** Export Growth Rates (Percentages) in Constant (1995) Dollars

| | World export growth rates | | Developing countries' 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 data tapes.

Participation of the developing economies in the multilateral forum is progressively becoming more consequential. The Group-of-twenty-one (G-21), which was born in Cancún, played a consequential role both at the Cancún Ministerial Conference and at the WTO meeting held in Geneva in the last week of July 2004, which put together the July package, or the framework agreement.[4] The members of the G-21 should endeavour to ensure that, to avoid later frustrations, they approach future ministerial conferences, MTNs and other important WTO meetings only with well beefed-up teams of trade economists. For the most salutary outcomes, their degree of preparations for future negotiations should be along the lines of the preparations undertaken by delegations from the Quadrilateral (or Quad) countries.[5]

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

As the Doha Round is intended to be a development round, development concerns form an integral part not only of the Doha Ministerial Declaration 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, which places the needs and interests of developing and least-developed countries at the heart of the Doha Work Program. The council reiterated the "important role that enhanced market access, balanced rules, and well-targeted, sustainably financed technical assistance and capacity-building programmes can play in the economic development of these countries" (WTO, 2004).

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 opportunity and incentive to use trade integration proactively as a growth lever. To ensure that it 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 (2004) devised four litmus tests of whether the negotiations, agreements and decisions are pro-development or not. These four principles are as follows: (1) an 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 Doha Development Agenda (DDA); (2) an agreement should be fair as well as (3) fairly arrived at; and (4) an agreement should be confined to trade-related and development-friendly areas and not venture outside into non-trade-related areas because these have an indirect bearing on trade.

Little economic analysis was done in the past on the potential impact of individual WTO agreements on member countries 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 lobbying from strong interest groups. For quantifying the potential impact of each agreement, computable general equilibrium (CGE) exercises can be useful. They are excellent tools 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 of agreements. 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 analyses. Economists at the University of Michigan and Perdue 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 could produce with the help of academic scholars in this area. These empirical studies could quantify the impacts 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. Fairness is a somewhat tricky concept. Economic circumstances of each one of the 148 WTO members are different; therefore, each WTO agreement affects each of the members in a unique manner. In terms of net gains measured as percentage of GDP, if any agreement hurts one country group and benefits another, it is considered unfair by the one that is hurt. Fairness also has an element of the progressive: 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 is most appropriately applied to the entire package of WTO agreements rather than to individual agreements. The package has to be viewed and adjudged in its entirety. In the case of individual agreements, there necessarily has to be leeway in give and take, with one agreement giving more to one group of members and another agreement giving more to another group. This latter effect of the WTO agreements is inevitable; therefore, one needs to look at the overall bottom line in this regard and reckon which countries, on balance, are benefiting and which are losing.

Procedural fairness or justice is the principle that deals with the transparency of the negotiation process. Historically, transparency was not part of the culture of the GATT system, which is known for its lack of transparency, reflected in the "green room" process. This 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 on the final outcome of the MTNs. Therefore it is essential that participating members have a say in setting the agenda. As many opinions and stances as possible need to be taken into account before the agenda of an MTN is finalized. Lack of transparency often allowed the large and powerful trading economies to ride roughshod over the system. Since the debacle at Seattle, the WTO system has made visible and impressive strides toward transparency. The July package, also known as the framework agreement, which was finalized on 31 July 2004, was posted on the website of the WTO soon after finalization.

The fourth principle 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 labour standards and pollution control. Any international issue that was not formerly covered by any other supranational organization 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 labour issues. Stiglitz and Charlton (2004) contend that policy makers employed the prefix "trade related aspects of" somewhat liberally 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 areas. There is a price for expanding the policy space of the WTO. First, inclusion of many tangentially related 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. 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 Singapore issues in the Fifth Ministerial Conference at Cancún is a case in point. Expansion of the WTO mandate should strictly follow the principle of conservativism, and not include issues that do not have a direct relevance to multilateral trade flows.[6]

## 3. Special and Differential Treatment

The WTO does not have a definition of developing economies, although some supranational institutions, like the World Bank, provide a closely worded definition not only of developing economies but also of their various subgroups. A WTO member decides and declares its status itself. Over the years, 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 give them exemptions from certain rules or give them extra time periods to comply. The history of SDT is as old as the GATT/WTO system. SDT has existed since the inception of the GATT. It has 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 declining terms-of-trade. Therefore, they (along with Ragnar Nurkse) propounded the strategy of import-substituting industrialization (ISI) 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. These economists 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 the GATT-1947, which allowed developing economies to void or renegotiate their commitments.[7] 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 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 moment in the life of SDT came during the Tokyo Round (1973-79), when the "enabling clause" was introduced, establishing that the developing economies were exempted from Article I (the most-favoured-nation, or MFN, clause) of the GATT-1947.[8] The enabling clause meant that the developing countries should receive more favourable treatment without having to reciprocate to the other signing contracting parties. 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 the GATT-1947, and subsequently the 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 regulations. It also exhorts the industrial countries to take into account the interests of the developing economies in the application of the GATT disciplines. 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 try to improve their capacity to gradually reciprocate concessions. This requirement was christened the process of "graduation". Subsequently, several preferential trade agreements (PTAs) were created under the enabling clause.[9]

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, (1) preferential access to the industrial economies' markets without reciprocation, (2) exemption from some WTO obligations, many of which are transitory and some permanent and (3) technical assistance and help in institution building so that the WTO obligations can be fulfilled and negotiated decisions implemented.

SDT is a system of preferences, which by definition are discriminatory. Historically, efforts to operationalize SDT centred on preferential market access through the Generalized System of Preferences (GSP). Theoretically the concept of SDT is unarguably noble, but in reality it did not generate 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 the eligible countries and products for their schedules. It was observed that, for one, the selected countries and products generally lacked capacity to export; as well, 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. Third, 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 portion of EU and U.S. imports. Over the preceding three decades, they have ranged between 0.9 percent and 0.4 percent of total annual imports of the EU and the United States. 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 referred to as the absolute poor of the world.[10] They could not reach this target group at all (World Bank, 2004).

There has been a long-standing trend of unilateral discriminatory liberalization, or offering tariff- and quota-free market access to the small and poor least-developed countries (LDCs).[11] If such access were to be fully implemented, it could certainly make 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 to do so would be a political impossibility. 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 benefit only if trade liberalization is made multilateral and non-discriminatory. Such reforms 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 the industrial economies under the WTO framework, and promote the normal trade liberalization process.[12]

### 3.1. Beneficiaries of Special and Different Treatment

SDT has operated for small, low-income developing economies for many decades. A good number of these economies benefited from SDT, but not all. The foremost group to benefit from SDT was a small subset of relatively more advanced developing economies. The supply-side scenario in this subset was better developed than in the other small, low-income developing economies; also, they put to good use the rents generated. This group not only had the wherewithal to export products but also met the administrative requirements of the GSP-granting countries well. They efficiently accomplished preparation of the documents required by the preference-granting countries. It has been 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.[13]

According to statistics compiled by the World Bank (2004), in 2001, 130 countries were eligible for SDT; 10 of these accounted for 77 percent of U.S. non-oil imports under the U.S. 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 EU taxpayers and consumers (World Bank, 2004).

Recent performance of the GSP beneficiaries indicates that a small number of small, developing economies that developed their-supply side capabilities had the most success in exploiting the market access that was provided to them under the GSP. A comparison of countries that were eligible for the U.S. GSP with 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 higher export to GDP ratios as well as higher export growth rates in real terms. One explanation for the success of the countries that graduated from the U.S. GSP eligibility list that seems rational is that it appears that the 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 GSP alone cannot turn countries into successful exporters. Reform of their macroeconomic policy structures must also have played a decisive role.

### 3.2 Special and Differential Treatment in the Doha Round

The Doha Development Agenda again reaffirmed the importance of SDT in the multilateral trade regime and referred to it as "an integral part of the WTO agreement" in the Doha Communiqué. SDT figures in several places in the 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 especially the least-developed among them, secure a share in the growth of world trade commensurate with the needs of their economic development. In this context, enhanced market access, balanced rules, and well-targeted, sustainably financed technical assistance and capacity-building programmes have important roles to play" (WTO, 2001).

Recognizing that SDT has not been 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 SDT 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 three channels so that the benefits can be targeted more precisely to the groups that need them most. In paragraph 14, the Doha Communiqué provided a deadline for re-establishing the new modalities for SDT. The deliberations and dialogues on this issue continued all through 2002, but without a consensus or decision. Members not only were divided on important SDT matters, but also had opinions that were significantly far apart.

In view of the fact that SDT did not spawn large benefits for the target groups, academics and policy makers have debated what shape SDT should take in future so that it is able to meet its goals.[14] The ongoing Doha Round negotiations give additional relevance to this debate, because they offer an opportunity to refine the SDT system. There is some degree of agreement among researchers on the new shape of SDT. Their recommendations are comprehensive and are summarized as follows. First, by 2010 the industrial economies need to slash all MFN tariffs on labour-intensive exports from the developing economies to 5 percent, and on agricultural exports to 10 percent. The target year for the millennium development goal (MDG) is

2015. By this time all tariffs on exports of manufactured products should be eliminated.

Second, developing economies should likewise reduce their tariff barriers on the basis of the adopted formula approach. Thus they would reciprocate the measures taken by the industrial economies.

Third, industrial economies should make binding commitments in trade in services to expand temporary access of service providers by a specific amount, say, 1 percent of the workforce.

Fourth, industrial economies need to unilaterally expand market access for LDCs and simplify the ROO requirements.

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

Sixth, feasible channels for meeting the special institutional development needs of small developing economies and LDCs should be explored.

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

Eighth, the trade-related technical assistance needs of the small and low-income developing economies have to be met.[15]

None of these proposals are novel and revolutionary; these or similar changes in SDT have been discussed in the past. 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 persons", similar to the famous Leutwilder group of eminent persons appointed by the GATT in 1985, could 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.

### *3.3 The July Package and SDT*

After the failure of the Fifth Ministerial Conference, the 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 reaffirmed the DDA objectives of not only strengthening these provisions but also making them more precise, effective and operational. The Committee on Trade and Development (CTD) was reviewing 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, will 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.

As well, the council instructed all other WTO bodies to expeditiously complete the consideration of these proposals and report to the General Council, with clear recommendations for a decision, as soon as possible and no later than July 2005. In doing so these bodies are to ensure that, as far as possible, their meetings do not overlap, so as to enable full and effective participation of developing countries in these discussions.

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 TRTA for the LDCs and the Joint Integrated Technical Assistance Program (WTO, 2004). These developments do give an impression that SDT is being taken up for serious review and at the end of the Doha Round should emerge stronger than in the past.

## 4. 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. GSPs are unilateral in nature and are devised with large country groups of beneficiaries in mind. GSP status does not provide free market access; rather, it provides only a reduction 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 United States 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. The principal EU programs include the Cotonou Convention, which includes the African, Caribbean and 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 Mediterranean economies.[16]

The characteristic features of the unilateral and reciprocal trade agreements differ from the features of the GSPs in several important respects. Several sectors (such as textiles and apparel, processed foods, etc.) are treated as "sensitive" and usually excluded from the GSPs, which are designed for large numbers 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, sugar and bananas) will not be liberalized until after 2006. Their liberalization would begin in 2007 and end in 2009. Second, 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, overall imports into the industrial economies under various preferential schemes have continued to remain diminutive, almost insignificant. Exceptions in this regard are the textiles and apparel exports from small African economies that came under the AGOA to the United States; these exports 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 1900s (Inama, 2003). A similar quantitative study by Haveman and Shatz (2003) produced comparable, although slightly different, evidence of coverage.

## 5. 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, which became the 148th member of the WTO, is one such country. With growing numbers, this category of countries acquired a good deal of influence in the multilateral trade system and its decision-making processes. 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 lead by Rwanda.

Two interesting characteristics of small and low-income developing countries and LDCs tend to stand out. First, their economies and trade volumes 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 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.[17] 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 2 of this article, the contemporary intellectual and political environment strongly favours 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 (2004) 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 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, 2004). In the final analysis the DDA should promote both *de facto* and *de jure* fairness.

To be sure, the 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 MFN-based liberalization is the most efficient for reallocation of global resources, it also leads to adverse distributional effects 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 deformed and 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 the large, industrial-economy members. Without this say the multilateral trading regime cannot be egalitarian. To resolve this knotty situation Mattoo and Subramanian (2004) proposed devising a transfer mechanism for compensating the small and low-income WTO members that stand to lose as a result of 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 for two-thirds or three-fourths majority, depending upon the decision being made, some decisions can only be made by consensus, giving the small-economy members *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 and not in others. For instance, it cannot be exercised with regard to issues such as 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 calls for a consensus. The latter category covers areas like antidumping 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 apprehension of small developing countries blocking them. This country group has, however, come to acquire *de facto* powers, stemming 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 such as liberalization of trade, upgrading of institutions 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 WTO affairs. Basically, this is fallacious logic because, first, small developing economies and the LDCs were not the only economies that were asked to take on costly obligations, all participants were, and, second, in acknowledgement of their special set of circumstances they were given significant latitude and more time than other members to fulfill demanding and stringent WTO obligations.[18]

A transfer mechanism such as that proposed by Mattoo and Subramanian to compensate small and low-income members (2004) would be difficult to devise. Even if it were devised, it would be politically infeasible to implement. The system will gravitate towards what is feasible, albeit less desirable. With regard to the question of 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 should 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 favourite systemic response to this knotty riddle that is emerging is as follows: as the financial assistance and market access response is seemingly infeasible, small member economies are being relieved of WTO obligations that they see as impositions, and in the process their opposition and antagonism to the continuance of multilateral trade liberalization under the DDA is eliminated.

## 6. MFN-based Liberalization: A Possible Doha Round Innovation

Experience with the GSP programs so far has been that they have produced only limited results. In spite of the goodwill of the donor economies, the target groups are not receiving benefits; that is, the absolute poor in the world population have not been benefiting from the various GSP schemes. The target of achieving the millennium development goals (MDGs) in this regard is not likely to be met unless the delivery vehicle is thoughtfully changed. As a large proportion of the world's absolute poor live in the People's Republic of China (hereinafter China), South Asia and sub-

Saharan Africa, economies in these geographical regions cannot be granted zero tariffs under GSPs for all their exportables, because to do so would be a political impossibility. However, there is a possibility of granting zero tariffs to the sub-Saharan economies, since their export volumes are tiny.

To this end, an ambitious and innovative modality could be considered during the ongoing Doha Round. The old approach – before the GSPs were created under the GATT – was that MFN-based liberalization is the best route to underpinning economic growth. It was believed that, first, as noted above it is efficient, and second, it will *inter alia* eliminate the reverse SDT. Reverse SDT refers to opt-outs and exemptions made by industrial economies due to political expediency or pressure from domestic interest groups. These are made at the expense of the exporting developing countries. Elimination of agricultural subsidies as well as protection of the textiles and apparel sector would benefit not only the developing countries but also consumers in the industrial economies. The same observation can be made regarding removal of tariff peaks, both international and national, on the one hand and tariff escalation on the other.[19] This would advance the trade policy reform process in the developing economies and liberalize their macroeconomic structures.

Over the last half-century, several United Nations commissions committed to promotion of growth and development globally. Two of the notable commissions were headed by Lester B. Pearson and Raul Prebisch, respectively. Both developing and industrial economies were part of these commitments to economic development. The final outcomes of many of these commissions were creations of worthy institutions like the Food and Agriculture Organization (FAO) and the United Nations Conference on Trade and Development (UNCTAD). The most recent endeavour of this kind is the MDG, which also committed the international community to an expanded vision of global development. Many of the targets were first set out by international conferences and summits held in the 1990s, and subsequently adopted as the MDGs. In a similar vein, the policy objectives of poverty alleviation by means of an ambitious program of trade policy reforms could be adopted together by the developing and industrial economies. To be sure, such a reform program would necessarily encompass decoupling of agricultural support, including abolition of export subsidies, and significant tariff slashing on the MFN basis for labour-intensive products that are of interest to the exporting firms from developing countries. This comprehensive reform program could cover all WTO members, both developing and industrial economies. Such a reform program has immense potential to become a source of welfare gains to the former country group, and the absolute poor in it.

As for the negotiating modality for such a comprehensive MFN liberalization, two steps are essential for WTO members: first, setting up benchmarks for tariff reduction and product coverage, and second, setting up a precise timetable and an accepted schedule for the implementation of various measures. To this end, identifying "reciprocal commitments that make economic sense and support development" would be a challenging and time-consuming task for the members (World Bank, 2004). In such negotiations, the old norm of non-reciprocity can become a disadvantage for the developing economies. Hindsight reveals that non-reciprocity was overly used in the past, resulting in reductions in gains from trade by way of domestic trade policy liberalization. Besides, "non-reciprocity is … a reason why tariff peaks today are largely on goods produced in developing countries" (World Bank, 2004). However, since the Uruguay Round, this policy mindset in the developing economies has undergone a sea change. An impetus to domestic trade liberalization would also be instrumental in stimulating intra–developing country trade.[20]

## 7. Intra–developing Country Trade and the Doha Round

Historically, developing economies traded reluctantly with other developing economies and maintained high tariff and non-tariff barriers against each other. They preferred to focus on opening up access to industrial-country markets. Their reluctance to trade with each other represents a missed opportunity for the developing economies and LDCs. Export market diversification is one of the most important benefits of intra–developing economy trade. Not only was growth in trade among developing economies low, such growth occurred only in fits and starts, as these economies went through their stop and go cycles. Intra–developing economy trade was dominated by primary products, and accounted for 6.4 percent of multilateral trade in 1990. During the decade of the 1990s, developing economies grew at a faster clip 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. Its value soared from $219 billion to $640 billion during this 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).[21] Higher GDP growth performance during the 1990s was the principal reason leading to doubling of the share of total multilateral trade represented by intra–developing country trade by 2001. Thus, a possibility of this performance being repeated during the first decade of the 21st century is strong.

As continuing high GDP growth rates are forecast for the medium term for the developing economies, further liberalization under the DDA could provide an impetus to their trade with each other and diversify their exports further. To this end, the Doha Round provides an apt opportunity for the developing economies to make concerted efforts to slash both tariffs and NTBs.

The two factors, namely, above average real GDP growth rate and substantial trade and investment liberalization, lead to dynamic growth in trade expansion in the developing economies, and intra–developing country trade benefited from it. Notwithstanding the liberalization of the trade regime since the mid-1980s, the developing economies still have higher tariffs and non-tariff barriers than the industrial economies. One measure of tariff barriers is the ratio of tariff revenue collected vis-à-vis the value of imports. This ratio was computed for selected developing economies and showed a decline from 12 percent in 1985 to 4.5 percent in 2000.[22] Also, average applied tariffs fell from 25 percent to 15 percent over the same period. However, wide differences still persist in levels of protection, both among the developing economies and the product categories. The dollar value of total import duties collected in the developing economies in 2000 was $83 billion, which was almost 65 percent of the total global import duty collection.

Using the Global Trade Analysis Project (GTAP) 6.3 database (the GTAP 2004 database) Fugazza and Vanzetti (2004) computed the trade-weighted applied average tariffs in merchandise trade for different country groups against each other. Their calculations, given in table 2, show the trade-weighted tariffs levied by industrial countries, developing countries and LDCs. In the area of merchandise trade the industrial economies levy tariffs of 2.1 percent on imports from the other industrial economies, 3.9 percent on imports from the developing economies and 3.1 percent on imports from LDCs. The most significant sectors contributing to higher tariffs on developing-country exports are petroleum and coal products and textiles and apparel. Industrial economies face higher tariffs (9.2 percent) when they export to developing economies than do the other developing economies (7.2 percent). This discrepancy is partly explained by the composition of trade and partly by preferential agreements among groups of developing economies. Agricultural trade presents a different picture. In this area, average tariff rates are higher in both industrial and developing economies for exports from both the country groups. However, in this sector industrial economies provide greater access to LDCs (2 percent) than to developing economies (12 percent). The reason, which applies to all the industrial economies, is various GSP schemes.

**Table 2** Trade-weighted Average Applied Tariffs (as Percentages) by Stage of Development

| Exporting country group | Industrial countries | Developing countries | Least developed countries |
|---|---|---|---|
| Industrial economies | 2.1 | 9.2 | 11.1 |
| Developing economies | 3.9 | 7.2 | 14.4 |
| Least developed countries | 3.1 | 7.2 | 8.3 |
| Total | 2.9 | 8.1 | 13.6 |

Source: Computed by Fugazza and Vanzetti (2004) from WITS/TRAINS (2004) database.

Fugazza and Vanzetti (2004) also examined potential for gains from liberalization of intra–developing economy trade. The GTAP 6.3 database had 86 countries and 65 sectors. They estimated that static annual welfare gains to developing countries were $50 billion from intra–developing country trade liberalization. By comparison, liberalization of industrial economies resulted in estimated annual gains of $24 billion to the developing economies. Estimates show that all the developing regions gain from liberalization of trade among the developing economies. However, the benefits were not evenly distributed. The largest beneficiaries were Korea (Republic of), Taiwan, Mexico, China and the Association of Southeast Asian Nations (ASEAN) region. Conversely, Latin American economies and sub-Saharan Africa turned out to be net losers. The negative effects were derived from the negative terms-of-trade (TOT) effect in the manufacturing sector. As the TOT effects add up to zero globally, these negative effects have a positive impact through lower import prices for the other developing economies.

## 8. Trade in Textiles and Apparel and the Doha Round

Several developing economies and LDCs have strong comparative advantages in both textiles and apparel sectors and are among the major exporters in both. According to the COMTRADE database, in 2002 China ($16.9 billion) was the largest exporter of textiles, followed by the United States ($12.4 billion). Other sizeable developing-country exporters included Korea ($11.2 billion), Taiwan ($9.9 billion) and India ($4.8 billion). In apparel trade, again China ($41.0 billion) was the largest exporter, followed by Italy ($14.1 billion). The other large developing-country exporters included Turkey ($8.9 billion), Mexico ($8.5 billion), Hong Kong SAR ($8.3 billion), India ($7.0 billion) and Bangladesh ($5.1 billion). The last named country is an LDC. Over the 1980–2000 period, apparel exports from developing countries increased by a factor of 7 and textiles exports by a factor of 5. The corresponding figures for the industrial economies were 3 and 2, respectively. During this period, textiles and apparel together were the second most dynamic products in the world trade, with an average annual growth rate of 13 percent. Electronics and electronic goods was the only sector that surpassed this growth performance, with an average annual export growth rate of 16 percent. In 2000, the developing economies accounted for 60 percent of world exports in apparel and 46 percent of world textiles exports. Two decades ago these figures were 8 percent and 9 percent, respectively. These statistical data convincingly establish not only that textiles and apparel are two of the most important sectors of export for the developing economies but also that they have a comparative advantage in these two sectors that has allowed them to strengthen their position in the global trade arena.

Two of the latest trends in trade in textiles and apparel are the emergence of transnational intermediaries and the concentration of retailers. Both of these new trends have had a discernible impact on production and trade in textiles and apparel. Firms from East Asia have moved up from mere manufacturing and assembling of cut fabric to more complex operations. They entail coordination, supply of machinery and finance, and managing a network of global subcontractors. These firms have now started operating as transnational intermediaries, receiving large orders from retailing chains in the industrial economies, subcontracting them to a network of globally spread manufacturers, and then selling the final output to the retailing chains. At the same time, markets in textiles and clothing have become highly concentrated in the industrial economies. For instance, 29 large retailers cater to 98 percent of the U.S. apparel market. The EU economies show the same trend. Furthermore, high-volume discount chains in the industrial economies have developed their own brands and outsourced all their textile and apparel needs, instead of manufacturing them at home (Gereffi and Memedovic, 2003).

The Uruguay Round Agreement on Textiles and Clothing (ACT) expired on 1 January 2005, ending the 30-year regime of the Multifibre Arrangement (MFA), which was a well-honed system of import quotas. Now these important sectors of multilateral trade will come under the WTO discipline. The original objective of the MFA was to protect the textiles and apparels industries in the industrial economies, but unintentionally it benefited the textiles and apparel industries of several developing economies that otherwise would not have been competitive in these sectors. The expiry of the MFA quota system threatens the positions of small developing economies in these sectors of multilateral trade. A number of these small exporters are fearful of losing their export markets overnight to China and other large exporters that have a strong comparative advantage in textiles and apparel.[23]

Numerous empirical studies have tried to estimate the post-ACT textiles and apparel trade. Most of them utilize the GTAP model. These simulation exercises conclude that while the Asian exporters will benefit from the expiration of the ACT, other exporters that have gained their market shares through regional integration agreements (RIAs) are likely to lose. Also, economies specializing in assembly and export of low-value-added garments will face intense competition in the post-ACT era (Spinanger, 2003).

Trade in textiles and apparel was not identified as one of the 20 issues in the DDA. However, during the Doha Round negotiations, the negotiating group on market access for non-agricultural products (NAMA) has attempted to reduce or eliminate tariffs in textiles and apparel. Trade in textiles and apparel presently suffers from all the three malaises, namely, tariff spikes, high tariffs and tariff escalation. These were being addressed under the Doha Round, along with the NTBs in these two sectors.[24] Negotiators are to take into consideration the needs of the developing economies, particularly those of the LDCs. Also, in keeping with the provisions of Article XXXVIII *bis* of the GATT-1994, less than full reciprocity has to be applied in exchanging liberalization commitments.

The modalities in this regard have not been finalized. However, in the so-called July package, or framework agreement, of 1 August 2004, the General Council decided that Annex B is to be the basis of future negotiations in this area. The WTO members have agreed to include textiles and apparel in sectoral negotiations. The benefit of sectoral negotiations is that rapid full liberalization of trade – which implies elimination of tariff and non-tariff barriers – in the selected sector becomes a reasonable possibility. This is expected to be undertaken according to a pre-stipulated timeline. Some developing economies have proposed that participation in sectoral negotiations must be made voluntary, because full liberalization in this sector at a rapid pace may create serious domestic adjustment problems for them (UNCTAD, 2004).

## 9. 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 income poverty by half by 2015. This 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 19th and the 20th 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 the 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, 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. Nevertheless, economic theory suggests that trade can certainly favourably 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 impacts 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 but not sufficient, condition for poverty alleviation. Even when trade liberalization and expansion lead to rapid GDP growth, they do not and cannot ensure improvement in income equality in the economy. But higher GDP growth does decisively enhance the probability of poverty alleviation. As wage inequality decreases as a consequence of trade expansion, the poverty level declines. Liberalization of multilateral trade in line with the mandates of the DDA is widely expected to contribute to alleviating poverty and achieving the MDGs.[25] Among the Asian economies, the wage gap between 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 with regard to the potential for trade liberalization to lead to poverty alleviation. In the medium and long term, an increase in returns to labour and capital employed in a sector – one having comparative advantage – should logically attract more resources to that sector. It should also raise gains for labour and capital going to this particular sector. If this sector of the economy is relatively labour-intensive, a rise in the prices of the output of this sector is sure to raise the economy-wide wages of labour. This rise would benefit all wage earners, skilled and unskilled, and also those directly or indirectly employed in the sector in question. This benefit is likely to appear as a long-term effect of trade liberalization. While this holds as a generalization, empirically linking multilateral trade liberalization to poverty alleviation 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 limitation, most empirical studies that quantify the impact of trade liberalization on poverty focus on the impact on 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 a day, and 2,736 billion if it is defined as $2.15 a day. 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.[26]

For analyzing the impact of multilateral trade reform at a global level, applied general equilibrium (AGE) models have been a useful tool in the past. Whally (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, importers and exporters. Despite the level of representation these models achieve, they present a stylized representation of an economy. For instance the model used for World Bank (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 GTAP dataset with a 1997 base year.

According to 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. As well, it can potentially lift global income by $2.8 trillion by 2015. Of this, $1.5 trillion would accrue to the developing economies.[27] Hertel et al. (2004) developed a micro-simulation model to assess the 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 labour market. Thus viewed, successful rounds of MTNs do have a discernible favourable impact over the incidence of poverty.

## 10. Conclusions and Summary

Although the WTO is not a development institution, its operations have definite development relevance. Certain facets of its mandate decisively influence developmental endeavours 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. For a long time the developing economies remained inactive participants in the multilateral trading system. For the first time, during the Uruguay Round and thereafter, as developing economies became active participants in the multilateral trade regime, the old GATT mindset changed. Participation of the developing economies in the multilateral trade forum has progressively become more consequential. The Group-of-twenty-one (G-21) 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 Geneva, held in the last week of July 2004, which put together the so-called July package or the framework agreement. As the Doha Round is intended to be a development round, development concerns form an integral part not only of the Doha Ministerial Declaration but also of the subsequent July package.

To ensure that it remains a development round, the WTO members need to run some checks and balances over what is currently transpiring in the MTNs. Four possible tests of whether the negotiations, agreements and decisions are pro-development or not are (1) an 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; (2) an agreement should be fair as well as (3) fairly arrived at; and (4) an agreement should be confined to trade-related and development-friendly areas, and not venture outside into non-trade-related areas because they have an indirect bearing on trade.

Special and differential treatment (SDT) was devised to assist exclusively the small and low-income developing economies. In the initial stages SDT was limited to the provisions of Article XVIII of the GATT-1947, which allowed developing economies to void or renegotiate their commitments. The second defining moment in the life of 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 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 moment in the life of SDT came during the Tokyo Round

(1973–79), when the enabling clause was introduced, establishing that the developing economies were exempted from Article I (the most-favoured-nation, or MFN, clause) of the GATT-1947. SDT has operated for many decades. There were a good number of recipients of SDT's benefits, but not all of those intended to benefit from it did. Finally, the preferential market access schedules did not benefit the target group called the absolute poor of the world. It is widely acknowledged that the various SDT programs could not reach this target group at all.

Given these shortcomings, the WTO members participating in the Doha Round called for a review of the SDT schedules so their provisions could be strengthened to make them more precise, effective and operational so they would fulfill their objectives. In paragraph 14, the Doha Communiqué provided a deadline for re-establishing the new modalities for SDT. Deliberations and dialogues on this issue continued all through 2002, but without a consensus or decision. In view of the fact that 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 ongoing Doha Round negotiations give an additional relevance to this debate, because they offer 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 reaffirmed the DDA objective of not only strengthening SDT but also making its provisions 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 favours 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. The primary principle of the Doha Round should be to ensure that the final agreement promotes development in the poor countries. To make this principle operational the WTO needs to foster a culture of robust economic analysis to identify pro-development proposals and promote them to the top of the agenda.

Historically, developing economies traded reluctantly 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, when developing economies grew at a faster clip 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 developing economies will continue to grow faster than industrial and transitional economies during the coming decade (2003–2015). It is realistic to expect that intra–developing country trade will continue to grow in the medium term at a more rapid pace than multilateral trade.

Several developing economies and LDCs have strong comparative advantages in both textiles and apparel sectors and are among the major exporters in both sectors. Trade in textiles and apparel was not identified as an issue in the DDA. However, during the Doha Round negotiations, the negotiating group on market access for non-agricultural products (NAMA) has attempted to reduce or eliminate tariffs in textiles and apparel. Trade in these two sectors suffers excessively from all the three malaises, namely, tariff spikes, high tariffs and tariff escalation. These difficulties were being addressed under the Doha Round, along with the NTBs in these two sectors. Negotiators are to take into consideration the needs of the developing economies, particularly those of the LDCs. Also, in keeping with the provisions of Article XXXVIII *bis* of the GATT-1994, less than full reciprocity has to be applied in exchanging liberalization commitments in these two areas.

Success in the Doha Round can certainly affect the absolute poor of the world favourably. An empirical study estimated that success 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. As well, it can potentially lift global income by $2.8 trillion by 2015. Of this, $1.5 trillion would accrue to the developing economies (World Bank, 2002). Another study (Hertel, 2004) 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 labour market. Thus viewed, successful rounds of MTNs do have a discernible favourable impact over the incidence of poverty.

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## Endnotes

1. Dr. Das was educated at the Graduate Institute of International Studies, University of Geneva. A professor of international trade and international finance and banking, he was associated with Webster College Geneva; ESSEC, Paris; INSEAD, Fontainebleau, France; Australian National University, Canberra; Graduate School of Business, University of Sydney. He has published extensively on international trade, international finance, international business and issues related to globalization in the recent past. His most recent book is *Regionalism in Global Trade* (Boston: Edward Elgar, 2004).
2. Refer to Das (2001), in particular chapter 1.
3. This article draws on chapter 6 of *Global Economic Prospects* (2004) published by the World Bank. See pp. 205-231.
4. The G-21 achieved in Geneva what they could not in Cancún.
5. Canada, the EU, Japan and the United States are the four Quad countries
6. For a detailed discussion on this issue refer to Stiglitz and Charlton (2004).
7. In economics of international trade, the two expressions "the GATT-1947" and "the GATT-1994" are used frequently. The difference between the two is that 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 the GATT-1994.

8. Although “most-favored-nation” sounds like a contradiction, implying some kind of special treatment to a particular trade partner, in WTO jargon it means non-discrimination, that is, treating all trade partners under the WTO regime equally. Each WTO member treats each other WTO member as its “most-favoured” 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-favoured”. However, historically MFN did not mean equal treatment.
9. For instance, the Generalized System of Preferences (GSP), the Caribbean Basin Initiative (CBI), the Lomé Convention, the Cotonou Agreement, the NAFTA Parity Act, the Central American Common Market (CACM) and the CARICOM Common Market, are some of the PTAs that were created under the enabling clause.
10. The definition of absolute poor is based on subsistence, the minimum standard needed to live. Robert McNamara defined it as “a condition of life beneath any reasonable standard of human dignity.” There has been a long, drawn-out debate in the discipline regarding whether income or consumption poverty lines should be defined in absolute or relative terms. 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).
11. Fifty countries are presently designated by the United Nations as “least developed countries”. 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, which were proposed by the Committee for Development Policy (CDP), for the identification of LDCs: (1) 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); (2) a human resource weakness criterion, involving a composite augmented physical quality of life index based on indicators of (a) nutrition, (b) health, (c) education and (d) adult literacy; and (3) an economic vulnerability criterion, involving a composite economic vulnerability index 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 handicap of economic smallness (as measured through the population in logarithm); and the percentage of population displaced by natural disasters.
12. The various groups of developing economies are divided here 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 as follows: low-income developing countries, $765 or less; lower-middle income, $766 - $3,035; upper-middle income, $3,036 - $9,385; and high income, $9,386 or more.

13. See for instance Brenton (2003) and Brenton and Manchin (2002).
14. Some of the recent studies include Oyejide (2002), Hart and Dymond (2003), Hoekman et al. (2003) and Hoekman, Michalopoulos and Winders (2004).
15. Ibid.
16. See Das (2004) for these details, in particular chapter 3, as well as Schiff and Winters (2003).
17. Several researchers have addressed these issues. See for instance Hoekman et al. (2003), Messerlin (2003) and Wolf (2003).
18. See also Hoekman, Ng and Olarreaga (2002).
19. Bound tariff rates of 15 percent and above are known as international peaks (also tariff spikes). As opposed to this, when tariffs are three times or greater than three times the domestic mean tariffs they are called national peaks.
20. Francois and Martin (2003) deal with this issue at great length.
21. The World Bank (2003) forecast for the real GDP growth rate for the developing economies for the 2003–2015 period is 4.7 percent per annum, while that for the industrial economies is 2.5 percent. Similarly, the medium-term forecasts from the IMF (2003) for the 2003–2007 period are 5.7 percent for the developing economies and 3.1 percent for the industrial economies.
22. The source for statistical data reported in this paragraph is WTO (2003).
23. *The Economist*, November 13, 2004, provides a detailed account of the possibility of such transformations in trade in textiles and apparel. Refer to "The Looming Revolution" on pages 75-77.
24. Refer to paragraph 16 of the Doha Ministerial Declaration.
25. Refer to the recent works of Winters (2000) and McCulloch, Winters and Cirera (2001).
26. See Chen and Ravallion (2004), table 2 and table 3.
27. See World Bank (2002), chapter 6.