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**Asian Developing Countries and  
the Next Round of WTO Negotiations**

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## **ABSTRACT**

This article focuses on the approach that should be taken by the Asian developing countries in the next round of WTO negotiations. It analyses the changes in the WTO negotiating environment today compared to earlier rounds of negotiation. While GATT negotiations focused on tariff questions, the WTO has begun to examine issues of domestic legislation – investment policy, competition policy, labour standards and the environment. This comprehensive agenda is perceived as reflecting the EU's continued pre-occupation with agricultural protection leading the EU to seek trade-offs through these "new issues". By contrast, the Asian developing countries, supported by the United States, favour an incremental approach to international economic integration and would avoid negotiations on such domestic issues in the forthcoming WTO negotiations. The article highlights the risks to the Asian developing countries, especially the least developed countries and those of limited market interest, of continuing with the strategy of opposing a new round of trade negotiations and focusing only on implementation issues relating to the Uruguay Round Agreements. It concludes that the effect of such a strategy would be to marginalise such states as the developed countries and the major developing countries embark on bilateral and plurilateral preferential trading arrangements (also known as Free Trade Areas or FTAs). Instead, the Asian developing countries should develop a positive agenda for the negotiations focused on seeking a reduction in industrial and agricultural tariffs, the liberalisation of trade in services, embarking on negotiations on electronic commerce and greater discipline in the implementation of anti-dumping measures.

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# **ASIAN DEVELOPING COUNTRIES AND THE NEXT ROUND OF WTO NEGOTIATIONS**

## **Introduction**

In the aftermath of the failure of the Seattle WTO Ministerial Conference in December 1999, there has been a surge of interest in bilateral and regional Free Trade Agreements (FTAs), especially in Asia which had traditionally strongly supported multilateral negotiations. Japan, Korea, Thailand and Singapore have adopted a dual track approach – supporting multilateral trade liberalization while seeking “WTO-plus” agreements on a bilateral basis. This approach is similar to the position taken by the proponents of the North American Free Trade Area (NAFTA) and the European Union (EU). In North America, the success of NAFTA has stimulated the development of preferential trading arrangements within MERCOSUR and the proposal for a Free Trade Area of the Americas (FTAA). With the assumption of the US Presidency by George W Bush and his keen interest in hemispheric affairs, it is likely that the United States will be the driver for early FTAA negotiations. At the same time, the United States has embarked on bilateral FTA negotiations with Chile and Singapore while concluding an agreement with Jordan.

In the European Union, there is a continued trend towards expansion eastwards. Besides participation in the EU, a preferential trading arrangement (from the trade perspective), the delegation of decision-making authority to the EU Commission on trade issues results in the EU acting as a bloc within the WTO system. The European Union has concluded FTAs with Mexico, South Africa and Israel and is also negotiating FTAs with significant trading partners.

The analysis in this paper will demonstrate why the trend towards FTAs as well as the unwillingness of Asian developing countries to consider any issues beyond questions of implementation of the Uruguay Round of Agreements could be to the detriment of the Asian developing countries. It could result in the marginalization of those Asian countries least able to negotiate on international trade issues effectively on a bilateral basis. While major Asian developing countries such as India, Pakistan and Malaysia will still be able to move in the direction of bilateral or plurilateral FTAs if they find themselves excluded from the trend towards trade liberalization and globalization, the least developed countries and other

developing countries of limited market interest will be excluded from such negotiations. Consequently, a focus only on remedying the defects of the Uruguay Round of Agreements in future WTO negotiations will lead to a disenfranchisement of those who would benefit most from global negotiations.

Before focusing on the approach that should be taken by the Asian developing countries in the next round of WTO negotiations,<sup>1</sup> this paper briefly discusses the strategies adopted by the Asian developing countries in previous rounds of negotiations, analyses the changes today compared to the earlier rounds of negotiations and highlights the risk to the Asian developing countries of maintaining the current standoff in the WTO. As Japan and South Korea are OECD members, their positions will be discussed in relation to the position of the developing countries but their positions will not be the focus of this analysis.

### **Asian Developing Countries and GATT/WTO Negotiations**

On attaining independence from colonial rule, the Asian developing countries adopted import substitution policies. Through the 1960's and 1970's, they were influenced by the Prebisch-Singer hypothesis of the secular decline in the terms of trade of developing countries and sought to insulate themselves from the vagaries of international trade.

The negotiations during the Tokyo Round, which concluded in 1979, were the first occasion that the developing countries led by India played a significant role in the GATT process. The key outcome was the inclusion of their demand for a Differential and More Favourable Treatment, including not being required to reciprocate tariff concessions by the developed countries. In effect, however, the developing countries opted out of the GATT process. However, this outcome had negative effects for the developing countries. First, it enabled developing countries to continue their import substitution policies. Secondly, it enabled developed countries to entrench GATT inconsistent policies, for example, in textiles,

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<sup>1</sup> All Asian members of the World Trade Organization (WTO), except for Japan and South Korea which are OECD members, are members of the Group of 77 which represents developing countries in the WTO and in the UN system. The term "Group of 77" reflects the original membership of the grouping. Today, more than 100 members of the UN participate in meetings of the Group of 77. However, membership of the WTO is not automatic for UN members. Currently, the WTO has 135 members. There is an accession process for every new WTO applicant. China, for example, took 15 years to complete its accession negotiations as it had to negotiate individually with all existing GATT/WTO members, concluding the final set of negotiations (with Mexico) only in September 2001.

which discriminated against imports from developing countries. Thirdly, it allowed the developed countries to maintain higher duties on items of export interest to the developing countries, especially through the provision of tariff peaks and tariff escalation.<sup>2</sup>

The implementation of the Generalized System of Preferences (GSP) and the granting of special and differential treatment to developing countries fostered a culture of dependency among the developing countries. Instead of focusing on equal treatment with the developed countries within GATT, the developing countries acted as supplicants, accepting what the developed countries were prepared to grant them on a unilateral basis. In most developing countries, particularly in South Asia, the opportunity to open their economies and benefit from trade liberalization was foregone in favour of the maintenance of entrenched interests. East Asian economies were an exception, opening their economies to foreign direct investment (FDI) and taking advantage of lower tariffs in the developed countries. The double digit growth rates of Taiwan, Hong Kong and Singapore through the 1970s and 1980s had a significant demonstration effect on other states in the region, including Malaysia, Thailand and Indonesia, which emulated these policies with positive effects on economic growth.

The Uruguay Round of Negotiations, which lasted from 1986-1994, marked a fundamental shift by the Asian developing countries as they moved away from seeking exemption from multilateral disciplines to an increased acceptance of the multilateral rules. However, the negotiating flexibility of Asian developing countries was circumscribed by their initial objections to the inclusion of negotiations on services, trade-related investment measures and intellectual property rights but eventual acquiescence to their inclusion in the Uruguay Round Agreements. In particular, the Trade-related aspects of Intellectual Property Rights (TRIPs) Agreement opened the door for the trend towards embodying protectionism in GATT/WTO Agreements. In future negotiations, as a rollback of TRIPs is not feasible, the Asian developing countries should focus on encouraging pro-competitive aspects. The emphasis should be on promoting innovation, creativity and investment instead of locking-in users to current commercial applications of technology.

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<sup>2</sup> T.N. Srinivasan, "Developing Countries in the World Trade System: From GATT, 1947, to the Third Ministerial Meeting of WTO, 1999", *The World Economy* (November 1999), p.1052.

Nevertheless, the final Uruguay Agreements reflected a significant milestone with the developing countries recognizing the benefits arising from greater acceptance of the multilateral disciplines. For example, they increased the percentage of bound tariffs on manufactures from 21% to 73%, bringing them closer to the near universal binding of tariffs by developed countries. The Multifibre Arrangement was to be phased out over a period of 10 years, although most of the liberalization provisions took effect at the end of the period, a loophole that many developing country negotiators overlooked and was to become a source of later dissatisfaction. Agricultural trade, the mainstay of the developing countries, was brought under the same discipline as applied to trade in manufacturing. A clear starting point for future agricultural tariff reduction negotiations was provided under the built-in agenda of the WTO. The General Agreement on Trade in Services (GATS) marked a step forward in the establishment of multilateral disciplines in this sector.<sup>3</sup>

While the largest welfare gains in absolute terms arising from the Uruguay Round Agreements accrued to the developed countries, many developing countries gained more relative to their GDPs. Studies also demonstrated that the benefits of trade liberalization were commensurate with the efforts of each country: the deeper the cuts in protection, the larger the gains. However the record of integration into the global economy was uneven. Countries that aligned their economies with the forces of globalization and embraced the reforms needed to do so by liberalizing markets were those that gained the most from buoyant international trade and investment flows.<sup>4</sup>

The focus of the Asian developing countries was on market access in the developed countries. Closer attention was paid to the demands of developed countries in embarking on market-opening measures in the developing countries. Contrary to the rhetoric of South-South economic cooperation, commodities of export interest to the developing countries were discriminated against relative to products from the developed countries. India, for example,

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<sup>3</sup> *Ibid*, p.1053

<sup>4</sup> Organization for Economic Co-operation and Development (OECD), *Trade and Development Issues in Non-OECD Countries* (2<sup>nd</sup> revision), Paris, 13-14 February 2001, pp. 6-7; [TD/TC (2000) 14/REV2] pp.6-7.

imposed tariffs of 50.8% on soybean oil (imported from the United States) compared to tariffs of 92.4% on palm oil (imported from Malaysia, Indonesia and Thailand).<sup>5</sup>

For many developing Asian countries, a significant aspect was that the obligations which they assumed, for example, in tariff reduction and services liberalization, were immediate or with short transition arrangements, as in the Trade-related aspects of Intellectual Property Rights (TRIPs) and Trade-related Investment Measures (TRIMs) Agreements. But the benefits they gained from the Uruguay Round Agreements through the opening of export markets in the developed countries was postponed to the future, as exemplified by the outcomes in the textiles and agricultural negotiations.

In textiles, for example, major textile manufacturers such as India, Pakistan, Indonesia and Thailand will enjoy the full benefits of the Agreement on Textiles and Clothing only from 1 January 2005. The United States and other developed countries have taken full advantage of the ten-year transitional period in the Agreement to delay the abolition of quotas in those textile categories manufactured by such developing countries. In the Uruguay Round negotiations on agriculture, the interest of the Asian developing countries in obtaining market access for tropical wood and wood products, fisheries, rice, fruits, vegetables and vegetable oils was not addressed. The liberalization of trade in agriculture became part of the “built-in” agenda of the WTO, with a provision for negotiations on agricultural reform by 31 December 1999.

In the preparations for the first WTO Ministerial Conference held in Singapore in December 1996, Asian developing countries, like other members of the Group of 77, focused on the problems of implementation of the Uruguay Round Agreements. The developed countries recognized this concern and agreement was reached in Geneva on consensus texts in this area, well ahead of the meeting. In retrospect, the developing countries committed a significant tactical error. There was no consensus on the new issues proposed for the WTO agenda including labour standards, the environment, investment and competition policy. Consequently, the focus of the Conference was on these new issues of interest to the developed countries. As the draft conference declaration texts on the problems of

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<sup>5</sup> *Bernama*, 5 May 2001. Malaysian Prime Minister Datuk Seri Dr. Mahathir Mohamad further claimed that India could apply import duties as high as 300% on palm oil. He noted that this was the result of not being alert during WTO negotiations. *New Straits Times*, 30 Mar 2001.

implementation were agreed in Geneva, the attention of the Ministers, the delegates and the media was solely on these new issues during the Singapore conference. The developing countries therefore appeared to be fighting a rearguard action aimed at maintaining the status quo in the face of the broader agenda promoted by key developed countries.

One significant agreement at the Singapore Ministerial Conference was the Information Technology Agreement. This agreement included the participation of most states, including Asian developing countries, having an export interest in this growing sector. However the exclusion of consumer electronics, an area of major export interest to the East Asian developing countries, highlighted an emerging problem within the WTO system. As the developing countries become competitive exporters of manufactured goods, developed countries exclude sectors of interest to developing countries such as consumer electronics from multilateral negotiations in order to protect their domestic markets. While developing countries are urged to undertake the burdens of adjustment in order to benefit from increased global market access, developed countries are unwilling to open their markets to more competitive imports from the developing countries.

By contrast, the post-Uruguay Round agreements for the liberalization of financial services and telecommunications created opportunities for the penetration of developing country markets by the developed countries. From the perspective of the Asian developing countries, the disciplines imposed by multilateral liberalization ensured that these sectors would be globally competitive. Instead of poor telecommunications services serving as an impediment to economic growth and human welfare, the liberalization of telecommunications services, in particular, enabled the rapid penetration of information technology and the infocommunications revolution. On the other hand, the liberalization of financial services in the developing countries highlighted the risks as financial market liberalization was not accompanied by an increase in effective domestic regulation and strengthened corporate governance. The East Asian financial crisis of 1997-1998 was the first demonstration of the risk of financial contagion arising from the globalization of financial markets.

## **Seattle and Beyond**

The failure of the third WTO Ministerial Conference in Seattle in December 1999 hangs over our current preparations to launch a new round of negotiations.<sup>6</sup> While media attention focused on the demonstrations on the streets, the negotiations failed mainly because the developing countries were unwilling to acquiesce to the US agenda, especially on the issues of labour standards and anti-dumping.<sup>7</sup> Other significant factors for the Seattle debacle included the hard-line developing countries stance on implementation issues, the lack of political will by the US and EU as well as the compendium of unresolved issues forwarded by the Geneva negotiators for resolution by the Ministers in Seattle within four days – a recipe for failure! Nevertheless, the events in Seattle highlighted that because of the WTO's demonstrated success in implementing agreements, it had become the lightning rod for complaints and attacks by opponents of globalization.

Turning to the role of the major developed country protagonists at Seattle, certain discernible features attract attention. The United States promoted a narrow agenda focusing on sectoral liberalization. As the United States moved towards Presidential elections in November 2000, the emphasis was on ameliorating domestic pressures. US negotiators sought the inclusion of labour standards and the environment while avoiding debate on issues such as anti-dumping and the accelerated implementation of the Agreement on Textiles and Clothing. Although the George W Bush Administration is not beholden to trade union and environmentalist interests, unlike the Clinton Administration, the balance between the Republicans and the Democrats in the Senate and Congress ensures that these issues will remain on the agenda, especially if the US President seeks 'fast track' authority.

By contrast, the EU, Japan and Korea sought a comprehensive new round. Although the EU favoured a broad agenda, it remained preoccupied with the protection of its

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<sup>6</sup> The second WTO Ministerial Conference was held in Geneva in May 1998. Its main focus was on celebrating the fiftieth anniversary of the establishment of the General Agreement on Trade and Tariffs (GATT). The highlight was the address by President Clinton of the United States in which he offered to host the next WTO Ministerial Conference whose objective would be to launch a new round of trade negotiations aimed at further multilateral trade liberalization.

<sup>7</sup> David E. Sanger, "A Grand Trade Bargain", *Foreign Affairs* (January/February 2001), pp. 65-75. However, in the aftermath of the terrorist attacks on New York and Washington which took place on 11 September 2001, the United States has shown a revived interest in multilateralism. US Trade Representative Robert Zoellick has taken a leading role in promoting a new WTO round.

agricultural sector under the Common Agricultural Policy (CAP). The EU was joined by Japan and Korea in arguing for “multi-functionality” of agriculture, a term understood to include the multi-dimensional impact of agriculture, including on the environment, culture and society. Such a recognition would validate exemptions from multilateral disciplines. However, continued insistence on multi-functionality in future negotiations is likely to be a deal-breaker as every significant area of negotiations has multi-functional impacts on the domestic environment of individual states. Thus the EU/Japanese approach is one of a broad but shallow agenda. Agriculture remains the most significant sector in promising potential gains from further liberalization but the EU, Japan and Korea are the most resistant to the opening of their domestic markets, supporting comprehensive negotiations instead to deflect from early conclusion of the negotiations on agriculture.

From an Asian perspective, one significant development in the aftermath of the Uruguay Round was the emergence of an ASEAN caucus at the WTO. While the ASEAN member states continued the practice of negotiating as individual members, unlike the EU which negotiated as a bloc, ASEAN increasingly took a unified position where there was a consensus among its members, with its current chairman speaking on behalf of its members. Consequently, ASEAN was perceived as an influential sub-group within the G-77 group of developing countries. The emergence of an ASEAN caucus spear-headed by the five original members of ASEAN also socialized newer WTO members such as Brunei and candidates for accession such as Vietnam into the norms and practices of the WTO.

The perception that ASEAN was influential within the G-77 and represented outward-oriented economic policies resulted in ASEAN states such as Singapore, Malaysia, Indonesia and Thailand participating in key informal institutions of governance within the WTO, including the Informal Ministerial Meetings, the Invisibles Group and the Green Room process. While ASEAN leaders have supported a new round of WTO negotiations, they have demonstrated varying degrees of enthusiasm. Singapore and Thailand have been active proponents as part of a group of small and medium size countries regarded as “Friends of the New Round (FOR)”. Thailand has also been active as a member of the Cairns Group of agricultural producers. While Malaysia was earlier critical of a new round, it is moving towards supporting negotiations provided that issues such as investment, competition policy and the environment are excluded. Because of their recent domestic turmoil, Indonesia and the Philippines have been less active in shaping the negotiating agenda. Given its

enthusiasm, it is thus not coincidental that Singapore has been invited to host the Informal Ministerial Meeting to be held on 13-14 October 2001, the final meeting of 22 key players in the WTO system before the Qatar (Doha) WTO Ministerial Conference to be held in November 2001.

### **The Changing Negotiating Environment**

With this background, it is useful to highlight the fundamental changes in the WTO negotiating environment compared to the eight earlier rounds of GATT negotiations<sup>8</sup>. First, there has been a change in the balance of the economic benefits arising from international trade rules. Twenty years ago, GATT negotiations focused on the reduction of tariffs when goods crossed the borders of one state into another state. Today, the WTO has gone beyond border questions to questions of domestic legislation – investment policy, competition policy, labour standards, government procurement and the environment. There are also many implementation issues such as, for example, the Trade-related Intellectual Property Rights or TRIPs Agreement. This agreement provides benefits to the owners of IP, such as recording companies and software companies. For developing countries, compliance requirements result in costs for the users of such intellectual property without increasing their export opportunities. This is the difference between the current negotiations and the negotiations 20 years ago. 20 years ago when there was a negotiation on tariffs, it meant that there were benefits to both parties.

Similarly, the perception that the WTO Agreements are weighted heavily in favour of developed countries needs to be countered. Again using the TRIPs Agreement as an example, the Agreement as it stands provides for specific protection for products such as champagne (only if it is grown in Champagne, France, will it be recognized as champagne). But no similar protection is accorded to developing country exports such as Indian basmati rice or Thai fragrant rice!

Secondly, there have been significant changes in the political management of trade negotiations. As long as GATT focused on tariff issues, it meant that trade policy experts

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<sup>8</sup> William A. Dymond and Michael M. Hart, "Post-Modern Trade Policy: Reflections on the Challenges to Multilateral Trade Negotiations after Seattle", *Journal of World Trade*, Vol. 34 (3), 2000, pp. 33-34.

dominated. Ministers of Trade were the ones who engaged in negotiations. As the current WTO agenda touches upon domestic regulatory issues, a whole range of government and non-government agencies have come into play. Thus Japan was represented by its Ministers of International Trade and Industry, Foreign Affairs and Agriculture in Seattle accompanied by their technical staff who were all involved in the negotiations on agriculture.

By contrast, many Asian developing countries (outside the G-15 and the NIEs) continue to be represented by foreign service officers, most of whom have neither a background in economics nor law. This underlines the post-UR problems in many Asian developing countries, as there was little technical understanding of the issues being discussed. There was also no “buy-in” by domestic agencies that perceived the Uruguay Round of Agreements as impositions by powerful outside parties since the negotiations were handled, often exclusively, by Foreign Ministries whose focus in the Geneva missions was on the UN agenda, not on the substance of the UR negotiations.

Thirdly, there have been changes in the management of trade policy. We have moved from negotiation to litigation. In the past, the tendency was for two parties involved in a dispute to negotiate issues and to seek a mutually satisfactory settlement. Today with an effective WTO dispute settlement mechanism, the tendency has been to bring issues on which there are differences to the WTO for legal resolution. The effectiveness of the dispute settlement mechanism has resulted in its perhaps undermining political support for the WTO.

Many Asian developing countries are unable to use the dispute settlement provisions to enforce market access rights because of the lack of appropriate manpower resources. A promising development is that recent data indicates that the number of developing countries using the Dispute Settlement Understand (DSU) to enforce their WTO rights has considerably increased. One innovation advocated by the OECD Secretariat is the use of WTO secretariat resources by the least developed countries to collect information, undertake surveillance and take up cases on their behalf.

Fourthly, traditional GATT negotiations were deregulatory. The emphasis was on tariff reductions, including the removal of ‘nuisance’ tariffs, where the costs of administration were lower than the revenue earned. But the Uruguay Round Agreements in areas such as TRIPs established a rule-based regime with significant administrative costs of

implementation and a new regulated environment. For LDCs, in particular, the costs of implementation were immediate while the benefits were expected only in the future, undermining domestic political support for implementation of these commitments.

Fifthly, the negotiating process highlighted the necessity for a fundamental change in the system of governance within the WTO. Developing consensus in the GATT/WTO has been based on a building block approach. The Quads (the United States, EU, Japan and Canada) historically shaped the negotiating agenda. Since 1995, the Invisibles Group chaired by one of the Quads, and composed of about fifteen member states represented by senior capital-based officials, met periodically to discuss key issues on the WTO agenda. Negotiations were conducted within a 30-35 member “Green Room” committee selected by the WTO Director General, consisting of major players in the WTO as well as those likely to have serious concerns on individual issues – who might participate in a particular issue but exit the group when the next issue is discussed – before the agreed package goes to the broad membership for adoption.

In the current lead-up to the new round of WTO negotiations, a series of informal Ministerial Meetings have been held. However, the practice of US/EU leadership continues and the participation at such meetings resembles the former Consultative Group of Eighteen (CG-18). The negotiators have adopted the negotiating mechanisms of the past in the search for a consensus on the launch of the new round. The problem with this structure is that the developing countries are under-represented. As WTO decisions have an increasing impact on domestic regulations, every country seeks the right to participate in the negotiations. In Seattle, the African Group and the Caribbean states, for example, objected to the decision-making process, which largely excluded them. Ironically, it is the states which have been demanders for external transparency, in particular the US and EU, that have been the strongest supporters of the existing non-transparent internal WTO procedures.

These developments emphasize the need to create a new system of governance and decision making in the WTO. The old Green Room process will not work. Neither will the CG-18 mechanism. In future, the approach should be to have open-ended informal consultations. This is, after all, the way other major international treaties and agreements are negotiated. In practice, it will mean that 45-50 delegations will be active in negotiations but no delegation will unilaterally be excluded.

Furthermore, the WTO should move away from negotiations at ministerial conferences. The deadlock in Geneva will not be overcome at a 3- or 4-day ministerial meeting. Nor should we expect Ministers to negotiate on the technical issues, which increasingly encompass such negotiations. This is a recipe for failure.

### **Towards a Positive Agenda for the Asian Developing Countries**

With the above in mind, the Asian developing countries should re-assess their goals for the WTO in the immediate future. Asian states should adopt a realistic negotiating agenda. Comprehensive negotiations are unacceptable to some while others would view a minimalist approach as a serious setback. The best approach for the Asian developing countries lies in adopting a realistic and tangible negotiating agenda for the short-term, but also locks in, at the same time, avenues for further expansion of this agenda when it is appropriate.

As part of the confidence building measures intended to build support within the WTO system, the WTO General Council should agree before the Qatar (Doha) Ministerial Conference (to be held in November 2001) on addressing the implementation concerns of developing countries, especially those relating to the expiry of transitional periods under WTO agreements. The WTO General Council should also agree on a package of technical assistance, in particular, for LDC members of the WTO.

Given the drift towards bilateral and plurilateral FTAs, the Asian developing countries, in particular, the least developed countries in Asia (whose caucus in the WTO is chaired by Bangladesh) and those likely to be excluded from such preferential trading arrangements, need to re-think their objectives and strategy. A critical examination needs to be made on the costs and benefits of further multilateral trade negotiations, instead of focusing only on the issue of implementation. On the other hand, believers in the efficacy of multilateral trade liberalization need to convince governments in the developed countries that the developing countries should be given a stake in the successful outcome of such negotiations. The following section therefore focuses on developing a negotiating agenda which meets the critical needs of the Asian developing countries, including the G-15, NIEs,

as well as LDCs and developing countries of limited market interest, while providing the basis for a package acceptable to the developed countries.

A good starting point for future negotiations would be market access issues. The mandated negotiations on services and agriculture already provide a platform. In agriculture, substantive reductions in import barriers are required if we are to approach the current levels of trade in manufactured goods.

As Hertel and Martin have demonstrated, the developing countries should be the strongest advocates for the inclusion of industrial tariffs in the next WTO round. The average developing country depends on manufactures for three-quarters of its merchandise exports. Potential gains arise from reductions in tariff peaks in industrial countries, increased market access in other developing countries and efficiency gains resulting from lowering their own trade barriers.<sup>9</sup> An early decision by the developed countries to consider tariff reductions in textiles and garments, footwear and consumer electronics would be a major inducement to bring Asian developing countries to the negotiating table. From the perspective of the Asian developing countries, as the trend in these three industries is towards distributed manufacturing, the lowering of tariffs in the Asian developing countries would benefit these countries directly. The electronics sector, for example, relies on parts and components manufactured in several countries and having final assembly in a low labour cost location. The globalization of production will result in increasing specialization as economies of scale drive costs down. Even in sectors where the developing countries have a traditional comparative advantage, there will be a need to re-configure business models in order to maintain their competitive edge over other emerging manufacturers.

Agricultural liberalization under the built-in agenda would provide the largest percentage gains in real income to developing countries, such as South Asia (excluding India), Southeast Asia (excluding Indonesia) and the East Asian NIEs by eliminating current distortions. Most Asian developing countries, except the heavily food importing states, would experience overall gains.<sup>10</sup> This is a reminder that currently high tariffs and

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<sup>9</sup> Thomas W. Hertel and Will Martin, "Liberalizing Agriculture and Manufactures in a Millennium Round: Implications for Developing Countries", *The World Economy* (April 2000), p. 468.

<sup>10</sup> Hertel and Martin, *op.cit.*, pp. 456-57.

quantitative restrictions in developing countries are major impediments to the expansion of agricultural trade among developing countries, regardless of the rhetoric of the G-77.

Developing country products with high tariffs in OECD countries include (1) major agricultural staple products, such as meat, sugar, milk, dairy products, and chocolate, where tariff rates frequently exceed 100 per cent; (2) tobacco and some alcoholic beverages; (3) fruits and vegetables – including 180 per cent for above-quota bananas in the EU and 550 per cent and 132 per cent for shelled groundnuts in Japan and the US respectively; (4) food industry products, including fruit juices, canned meat, peanut butter and sugar confectionery, with rates exceeding 30 per cent in several markets.<sup>11</sup> As Asian developing countries such as Thailand, Malaysia and India enjoy a comparative advantage in several of these products, they would therefore benefit from early progress in the negotiations for agricultural liberalization.

Secondly, for the Asian developing countries, the incentive to support liberalization of services trade under the built-in agenda will occur if there is greater liberalization of “mode 4” trade which involves the temporary movement of service suppliers. Besides the software sector where the demand for Indian software expertise has now spread to other markets, industries with a high labour component such as transportation, distribution, construction and environmental services would benefit from the temporary entry of service suppliers from Asian developing countries into the OECD countries. Unless such services and modes of supply of interest to the Asian developing countries are put on the table for negotiations, significant progress in further liberalization in this sector is unlikely.

By supporting the inclusion of significant new areas in the services trade negotiations, the Asian developing countries can engage the developed countries. Unlike trade in goods, where negotiations proceeded from the premise of an overall commitment to reduce tariffs, the General Agreement on Trade in Services (GATS) was based on a positive list approach – governments offered liberalization in specific services but all other services sectors were off-limits to negotiations. One consequence was that many Asian developing countries retained a protectionist outlook towards services and paid the price in terms of higher costs for the provision of such services, continued inefficiencies in supply and the inability to meet

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<sup>11</sup> OECD, *op.cit.*, p. 59.

domestic demand. Often liberalization in the services trade in Asian developing countries occurred as a result of IMF conditionality, not as an outcome of WTO negotiations. Indonesia and Thailand, for example, liberalized their retail services as a result of the IMF bailout package after the Asian economic crisis, going well beyond their commitments under the Uruguay Round.

Although electronic commerce has led to a digital divide between the rich and poor countries, e-commerce offers unprecedented opportunities for the developing countries. The Asian developing countries should support negotiations in this sector, including permanent zero tariffs for e-commerce. The hesitancy of Indian negotiators at the WTO contrasts with the innovation and creativity of the Indian software industry, which has turned Bangalore into another Silicon Valley and has made graduates of the Indian Institute of Technology as sought-after as MIT or Caltech graduates. Because of the rapid pace of change, developing as well as developed countries share an interest in avoiding the establishment of global regulatory and oversight policies which could develop into a new set of trade barriers. In the short run, Asian developing countries lack the infrastructure to take full advantage of the Internet. But in the long run, they can leapfrog, skipping some of the stages in the development of information and communications technology (ICT) undertaken by developed countries. China's share of global ICT expenditure, for example, has experienced a compound annual growth rate of 30 percent since 1992. In 1992, China accounted for 0.6 percent of global ICT expenditure, rising to 2.2 percent in 1999. By contrast, Germany accounted for 8.2 percent of global ICT expenditure in 1992, declining to 6.5 percent in 1999.<sup>12</sup>

Thirdly, a major concern for Asian developing countries in the New Round will be the need for strengthened discipline in the application of anti-dumping measures, which have become a form of harassment. For example, the US steel industry has pursued anti-dumping actions against Indonesia because the price of Indonesian steel sold to the US is now lower than US steel. However, this is due to the sharp decline in the Indonesian rupiah, as a consequence of political and economic turmoil, not because of predatory pricing. On this

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<sup>12</sup> World Information Technology and Services Alliance (WITSA), *Digital Planet 2000* provides comprehensive coverage of the 55 largest information and communications technology purchasing nations and regions accounting for 98 percent of global spending.

issue, the interests of Asian developing countries coincide with Japan and Korea. Because of the targeting of the Japanese manufacturing sector, Japan has traditionally played a leadership role in seeking additional disciplines in the application of anti-dumping provisions.

It is likely that remedial action in this area will now be more difficult as developing countries are increasingly turning to such protectionist measures. South Africa, India and Brazil, for example, have become major users of anti-dumping measures. Other Asian users include Indonesia, Malaysia and Thailand. Even Japan has taken action against China following a surge of imports of Chinese agricultural products such as shitake mushrooms, green onions and rush plants (used to make tatami mats). Between 1995 and 1999, developing countries filed 632 anti-dumping cases against 595 cases by OECD countries. Of those filed by developing countries, 301 cases were filed against OECD countries and 331 against other developing countries.<sup>13</sup> In the forthcoming negotiations, the Asian developing countries have highlighted two areas that could be the focus of negotiations. First, a prohibition of repeated anti-dumping investigations on the same product within one year. Secondly, a mandatory rather than “desirable” requirement to impose a smaller margin of anti-dumping duty when this would suffice to remove injury from the domestic industry.

Fourthly, a major area of contention between the developed and developing countries will be the development of rules in the “new issues” – investment, competition policy, environment and labour standards. Ironically, we are likely to see an unholy alliance between pro-free trade multi-national corporations and anti-globalization interest groups in the developed countries as they push for a WTO agenda which goes beyond border issues to the standardization of domestic laws and practices. In the aftermath of the demonstrations in Seattle, Washington and Prague, wary OECD governments will support the inclusion of labour standards on the WTO agenda while continuing to advocate further work on the environment, investment and competition policy. The EU, for example, has proposed plurilateral agreements on investment and competition as a way out of the current stalemate.

The effect would be that WTO members could ‘opt out’ of such agreements instead of being required to sign on to the negotiated agreements as a package. The defect of this approach is that it undermines the principle of the establishment of global rules and

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<sup>13</sup> OECD, *op.cit.*, pp. 74-75.

multilateral disciplines in investment and competitive policy in favour of the early conclusion of negotiations among interested parties. There are also deep suspicions among WTO negotiators from developing countries like India and Malaysia that if such plurilateral negotiations are included in the comprehensive package of the new round (the so-called 'single undertaking'), the developed countries will require them to sign on to such agreements at the conclusion of negotiations if they are to benefit from the overall package. For the Asian developing countries, there appears to be an emerging consensus that agreement on the extension of the mandates of the working groups on investment and competition policy should be supported, as well as further work on the relationship between trade and the environment. These issues could form part of a new built-in agenda, one of whose objectives should be to establish the parameters for global economic integration in these areas.

However, the issue of labour standards will remain a dividing issue between developed and developing countries as the objective of proponents of this issue is to undermine the competitive advantage of developing countries. The Asian developing countries, joined by Japan and Korea, have consistently argued that this issue properly belongs to the International Labour Organisation (ILO). The EU and other proponents claim that they only seek a discussion in the WTO. However, if this is the intention, it would be more appropriate to have a debate on this issue at the United Nations General Assembly as the WTO is a rule-making organ rather than a debating chamber. At the UN, the proponents could even present a resolution for adoption and existing UN rules allow non-government organisations (NGO's) recognised by the UN Economic and Social Council to participate in the debate. Nevertheless, this issue will not go away within the WTO.

With the election of the George W. Bush Administration, the US is unlikely to demand the establishment of global core labour standards. Instead, the EU will take the lead in future negotiations. The Asian developing countries, supported by Japan and Korea, should maintain their opposition to the inclusion of core labour standards, with agreement only to joint ILO/WTO consultations if this issue blocks consensus on an overall package.

## The WTO and the Challenge of Regionalism

In conclusion, the primary challenge in this and future rounds of negotiation is that the WTO has moved beyond border issues such as tariffs to questions of domestic governance including domestic competition policy, investment policy, labour standards and government procurement. For the Asian developing countries, the colonial experience and the quest for nationhood remain within the historical memory of the political elite. The desire to maintain a separate national identity and to have domestic regulatory frameworks, which differentiate, rather than integrate, will continue to be a key driving force in the Asian developing countries. An incremental approach to international economic integration, which develops a realistic WTO negotiating agenda, is therefore more likely to command support among the Asian developing countries rather than demands for comprehensive negotiations.<sup>14</sup> This raises the surprising prospect of a coalition between the Asian developing countries and the United States in favour of a realistic and tangible negotiating agenda instead of the comprehensive agenda demanded by the EU, Japan and Korea.

The US awareness of the need for coalition-building in multilateral negotiations has been revived by its efforts to forge a new anti-terrorist coalition after the horrific attacks on New York and Washington on 11 September 2001. In recent US meetings with Pakistan, the issue of access to the US market for Pakistani textiles was raised by Pakistan. After languishing in the US Senate for over one year, the US/Jordan FTA was easily approved on 24 September 2001. It is also likely that US trade negotiators will be granted 'fast track authority' (now known as trade promotion authority) so that any trade agreements negotiated at the WTO or bilaterally will be considered as a package by Congress, instead of being

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<sup>14</sup> Joseph E. Stiglitz, the former Chief Economist at the World Bank, has argued for two basic principles that should govern the next set of trade negotiations: **fairness** and especially fairness to the developing countries, and **comprehensiveness** (the need to include issues that are important to developing countries). See Stiglitz, "Two Principles for the Next Round or, How to Bring Developing Countries in from the Cold", *The World Economy* (April 2000), pp. 437-53. However, Stiglitz's application of the term 'comprehensiveness' differs

subject to amendments by individual Congressmen. The change in the US mood enhances the prospects for a US/developing country coalition supported by Canada, Australia and New Zealand that will put increased pressure on the EU, Japan and Korea to moderate their protectionist agenda on agricultural issues.

Such a coalition would revive memories of the 1992 APEC Ministerial Meeting which decided to hold an APEC Leaders Meeting in 1993 at a time when the conclusion to the Uruguay Round negotiations was stalled on the issue of agriculture. Because France feared the establishment of an APEC FTA that would discriminate against European exports, it agreed to the EU's acceptance of a consensus formulation on agriculture. This development led to GATT Director-General Peter Sutherland's conclusion of the negotiations, which had begun in 1986.

Brazil, Argentina, Chile, South Africa, Thailand, Singapore and Hong Kong are among developing country proponents of a new round of trade negotiations. China, which is scheduled to join the WTO at the Qatar meeting, has also strongly supported the launch of a new round. Chinese Foreign Minister Tang Jiaxuan in a speech to a ministerial meeting of ASEAN and its dialogue partners in Hanoi on 26 July 2001 urged the developing and developed countries to launch a new round of WTO negotiations. He reiterated that China would observe more strictly the conventional international market rules and go further in opening up to the world after its WTO accession.<sup>15</sup> At the forthcoming APEC Leaders Meeting to be held in Shanghai on 20-21 October 2001, China is likely to push for an APEC commitment to launch a new round of WTO negotiations as a key outcome of the Shanghai meeting.

With Chinese membership of the WTO, the dynamics of WTO negotiations will change. The ability of the Quads (US, EU, Canada and Japan) to determine the WTO negotiating agenda will be reduced. China is likely to join the Asian developing countries in seeking an incremental approach to international economic integration. For China and the Asian developing countries, the benefits of expanded international trade will be balanced

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from that of the EU and its allies which use the term to mean the inclusion of the so-called new issues opposed by the developing countries.

<sup>15</sup> Text of speech by Chinese Foreign Minister Tang Jiaxuan at the ASEAN Post-Ministerial Conference, Hanoi, 26 July 2001.

against the increased costs of compliance with an expanded international regulatory framework. China's positive support for a new round, so soon after paying a high price for its WTO membership, augurs well for the WTO.

Meanwhile, the United States, the European Union, Canada and Japan will continue to push for regional, sub-regional and bilateral FTAs on a "WTO-plus" basis. The Quads, and their partners in the developed and developing countries, will continue to adopt a dual track approach to trade liberalization – supporting an early launch of the new WTO round of trade negotiations while embarking on bilateral and plurilateral FTAs. In Asia, the least developed countries and developing countries of insignificant market interest are likely to be left out of the latter process. The competitive pressures exerted by such negotiations should therefore provide a major incentive to these developing countries for expansion of the WTO agenda and for the early conclusion of WTO negotiations.

The reality for Asian developing countries, as well as developed countries, is that the trend towards globalization and increasing economic integration is one which cannot be wished away. Attempts to slow the process impoverish those who would benefit most from greater access to global markets. The smaller Asian developing countries and those of limited market interest should move in the direction of pushing for faster multilateral trade liberalization as they are at risk of being excluded by default when the developed countries and the major developing countries embark on bilateral and plurilateral preferential trading arrangements.

The emergence of China as a global trading power has been reinforced by China's interest in promoting multilateral and regional trade liberalization. As the Chinese economy becomes increasingly competitive, Chinese leaders have taken a leading role in promoting regional trade liberalization. Chinese President Jiang Zemin proposed at the ASEAN Summit in December 2000 that an FTA be concluded between China and ASEAN. A study group has since been established. Chinese representatives have suggested a 2010 deadline for the establishment of the FTA, which would match the 1994 APEC decision at the APEC Leaders' Meeting in Bogor, Indonesia, for free trade and investment in the APEC area by 2010 for developed countries and 2020 for the entire group. (In effect, China has sought the application of the 2010 developed country deadline for trade liberalization with the ASEAN

countries. This initiative is significant as it suggests that China will uphold the 2010 deadline for Chinese trade and investment liberalization within APEC.)

The most significant progress in regional trade liberalization in Asia has been in the establishment of an ASEAN Free Trade Area (AFTA). Despite the ongoing regional financial and economic crisis, the ASEAN leaders agreed to bring forward the implementation of AFTA to 2002, although the formal 2003 deadline remains. Tariffs will be reduced to 0-5%, including tariffs for unprocessed agricultural products. Services and investment have been included in the AFTA regime and a programme for dismantling non-tariff barriers and promoting trade facilitation has been adopted. It has also been agreed that all tariffs within ASEAN will be eliminated by 2010. By engaging policymakers in Vietnam, Cambodia, Laos and Myanmar in the process of trade negotiations and socializing them to the benefits of trade liberalization, ASEAN has facilitated their participation in the WTO. While Myanmar is already a WTO member, Vietnam, Laos and Cambodia will now meet the accession requirements of the WTO more easily.

Korea has also proposed a Northeast Asian FTA involving Korea, Japan and China. There have also been preliminary discussions on the feasibility of an ASEAN Plus 3 (China, Japan and Korea) FTA. A joint study group is also examining the feasibility of an AFTA-CER FTA linking ASEAN, Australia and New Zealand. These initiatives are a significant development demonstrating that Asia is moving away from avoiding regional preferential trading arrangements. In the past, Asia's commitment solely to multilateral trade liberalization distinguished it from North America and Europe. The trend in Asia is increasingly towards supporting multilateral trade liberalization concurrently with embarking on regional and bilateral FTAs. However, the risk of proliferation of such FTAs is that it could result in different rules of origin for different FTAs, undermining the fundamental GATT/WTO principle of non-discriminatory treatment of cross-border trade. As major Asian trading states engage in these FTAs, interest in the protracted process of WTO negotiations could decline. The losers will be those states that have not become significant actors in the global economy and lack leverage in negotiating bilateral agreements. Asian developing countries, especially the least developed countries and those of limited market interest, therefore need to support a new global round of trade negotiations.

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