V

Trends and Issues in the Global Trading System

A new, multilateral trade Round will be launched at the Ministerial Conference of the World Trade Organization (WTO) in Seattle in December 1999, five years after the conclusion of the Uruguay Round negotiations. In a climate of slower trade growth in 1998 and 1999, and amid some signs of tensions developing in international trade relations, an ambitious Round would contribute to the restoration of market confidence, help to create more competitive global markets for goods, services, and technology, and reinforce the multilateral trading system. Sustaining and enhancing the growth of world trade is essential to a balanced and sustained recovery in the world economy.

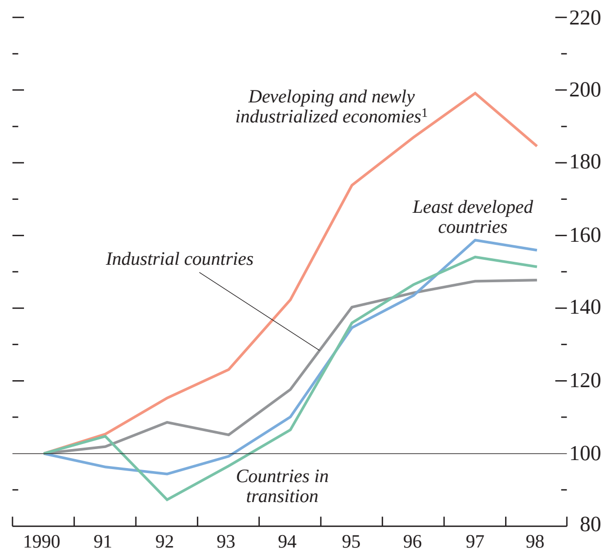
Trends in Trade and Policies

World trade in goods and services expanded by over 55 percent in nominal U.S. dollar terms between 1990 and 1998, from $4,300 billion to $6,700 billion. Trade volume growth (6.7 percent a year) has continued to outpace significantly the growth of real GDP (about 3 percent a year). Thus, the openness of national economies has continued to increase: the ratio of global trade in goods and services to GDP rose from 19 percent in 1990 to 23 percent in 1998; for developing countries the same ratio now stands at well over 30 percent. Developing and newly industrialized economies have achieved the fastest expansion of trade in the 1990s (Figure 5.1), with an average annual increase of over 10 percent; their share in world trade increased from 23 percent to 27 percent. The share of industrial countries, although declining somewhat (to 68 percent in 1998 from 72 percent in 1990), is still predominant, while that of the transition countries remained constant at around 4 percent. World trade growth in volume and value slowed sharply in 1998 as a result of the collapse of demand in Asia, the broader slowdown in global economic growth, and depressed commodity prices.

Changes in the geographic and product composition of trade reflect to a large extent policy trends during the 1990s. For example, the developing country regions experiencing the fastest growth in trade—Asia and the Western Hemisphere (Figure 5.2)—are also the ones that have implemented the most substantial

Figure 5.1. Exports of Goods
(U.S. dollar value; 1990 = 100)

Developing and newly industrialized economies have experienced the fastest growth of trade in the 1990s.

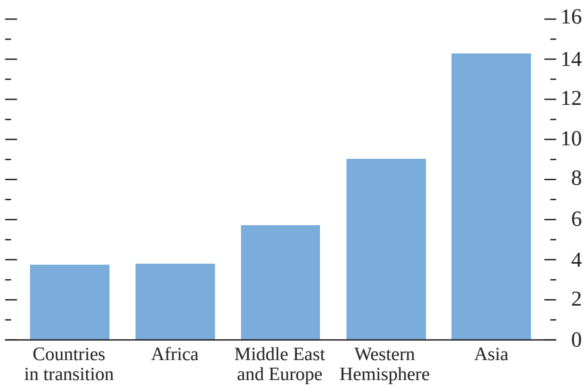


[1]The category of developing countries in this figure excludes the least developed countries.

trade reforms.[1] At the same time, both developed and developing countries engaged in regional groupings have experienced an increased regional orientation of trade. This is true, for example, of members of the European Union (EU), the North American Free Trade Agreement (NAFTA), the Common Market of the South (MERCOSUR), and the Association of South East Asian Nations (ASEAN) (Table 5.1). Trade in services has grown slightly faster than trade in goods. Trade in manufactures has continued its long-term historical trend of growing faster than trade in agricultural and mining products, both in value and in volume terms (Figure 5.3). The slower growth of trade in agricultural products can be related in part to the restrictiveness of the trade regimes that apply in this sector. World prices of traded agricultural and mining products have lagged behind those of manufactures, causing terms of trade losses for countries, particularly the least developed, that specialize in them.

Figure 5.2. Developing Countries and Countries in Transition: Average Annual Growth of Exports, 1988–98
(U.S. dollar value; percent)

Asia and the Western Hemisphere are the developing country regions that have experienced the fastest growth of trade in the 1990s.



Policy Trends

Considerable progress has been made in the 1990s in liberalizing trade policies. Trade restrictions have been reduced, and in most sectors quantitative restrictions (quotas, licensing, etc.) have now been replaced by price-based measures such as tariffs; trade in textiles and clothing remains the most significant sectoral exception, but even here quantitative restrictions are scheduled to be removed entirely by January 1, 2005, once the Uruguay Round results in this area are fully implemented. Trade policy reform has extended inside national borders, to tackle market and policy distortions that limit competition between domestic and foreign suppliers. And although the speed and depth of implementation vary from one region to another, a majority of countries are now engaged in forward-looking, outward-oriented, trade policy reform programs.

Trade policy reform has been the outcome of a mix of unilateral, regional, and multilateral initiatives, in varying measures across countries and regions. Broadly speaking, the industrial countries have relied mainly on the multilateral process under the WTO and on regional integration initiatives to generate a positive dynamic in favor of more liberal trade, while unilateral trade reform has been a feature primarily in developing, newly industrialized, and transition economies. While multilateral and unilateral trade liberalization have generally complemented each other, doubts have been raised about whether regional trade

[1]This is as measured by changes in overall ratings under the IMF's index of trade restrictiveness, where available, or by reductions in average tariff rates. The index of trade restrictiveness is made up of measures relating to both the pervasiveness of nontariff barriers and average tariff protection. See Robert L. Sharer and others, *Trade Liberalization in IMF-Supported Programs* (Washington: IMF, 1998).

Table 5.1. Intraregional Export Shares, 1990–98

	1990	1991	1992	1993	1994	1995	1996	1997	1998
NAFTA	41.4	42.2	43.7	45.8	48.0	46.2	47.6	49.1	51.0
EU	59.0	58.7	59.5	56.2	56.8	63.5	62.8	62.1	62.5
MERCOSUR	8.9	11.1	14.0	18.5	19.2	20.3	22.7	24.8	24.8
ASEAN	18.7	19.3	19.1	20.0	22.7	23.0	22.9	22.1	20.6
Andean Community	3.8	5.8	7.8	9.8	10.5	11.8	10.4	10.0	10.0

Sources: IMF, Direction of Trade Statistics (DOTs); and EUROSTAT.

agreements (RTAs) foster trade liberalization on a Most Favored Nation (MFN) basis. Maintaining the momentum of the multilateral trade agenda, and cuts in external tariffs by RTAs at least matching any increases in regional preferences, are necessary to ensure that intraregional trade preferences do not become the norm in international trade relations and are steadily reduced.

Unilateral Liberalization

In the mid- to late-1980s and early 1990s, unilateral liberalization reflected a major shift in attitudes in developing, newly industrialized, and transition economies away from inward-looking policies of import-substitution that had earlier characterized their policymaking. To a large extent, the change was caused by recognition of the economic inefficiencies and anti-export bias which those policies had produced. Unilateral trade reform has generally been proportional to the initial degree of restrictiveness, with the transition being most evident in Latin America and central and eastern Europe, followed by southeast Asia. Some progress in the same direction has been made in south Asia and Africa, albeit to a lesser degree. Many of the reforms, particularly in Latin America, eastern Europe, and Africa, have been implemented in the context of programs supported by the IMF and the World Bank.[2]

Central and South American countries have implemented substantial reforms on a unilateral basis, with trade liberalization having become a symbol of economic progress. Chile pioneered reforms in the late 1970s, and trade liberalization took hold more broadly from the mid-1980s, with early reformers, such as in Mexico and Bolivia, followed in the late 1980s and early 1990s by the majority of other Latin American and Caribbean countries. The initial focus was on the elimination of nontariff barriers (NTBs), which covered up to 100 percent of tariff lines in central American countries and 60 percent in South American countries in the mid-1980s, and which have been reduced to less than 10 percent of tariff lines in most countries today. This was supplemented by substantial reductions in tariffs,[3] which have been reduced from an unweighted average of more than 50 percent in South and Central America to the range of 10–15 percent,[4] as well as a significant reduction in tariff dispersion. However, in the 1990s for many of these countries, unilateral liberalization has given way to regional initiatives, and in most cases the pace of reform has slowed.

Central and eastern European countries (CEECs) and the Baltic countries have taken decisive steps to reverse quasi-autarkic policies applied in the context of centrally planned systems. During the 1990s, quantitative restrictions on industrial products have been virtually eliminated, and average (unweighted) tariffs have been reduced often to below 10 percent. As in Latin America, the unilateral process subsequently gave way to regionally oriented liberalization, with the CEECs signing free trade agreements with the EU (the Europe Agreements) and among themselves (Central European Free Trade Agreement (CEFTA)). The removal of quantitative restrictions under the Europe Agreements was extended to all other trading partners, while the margin of preference between tariffs levied on EU products, and most manufactured products from outside the region, is small. Nevertheless, in some sensitive areas such as textiles and agriculture, the phasing-out of preferences has clearly provided an incentive to bilateral trade between the CEECs and the EU, raising concerns in third countries about possible trade diversion.

The trade reform process in southeast and east Asia is being conducted in a more gradual way, partly because it has been under way for much longer than in most other regions. Reforms in the 1990s have focused essentially on reducing tariffs, with reductions of about one-half in Indonesia, Korea, and Malaysia, from around 20 percent in 1990 to less than 10 percent currently. While gradualism facilitated reforms, it also allowed a substantial degree of discretion in implementation. Little progress has been made in tackling

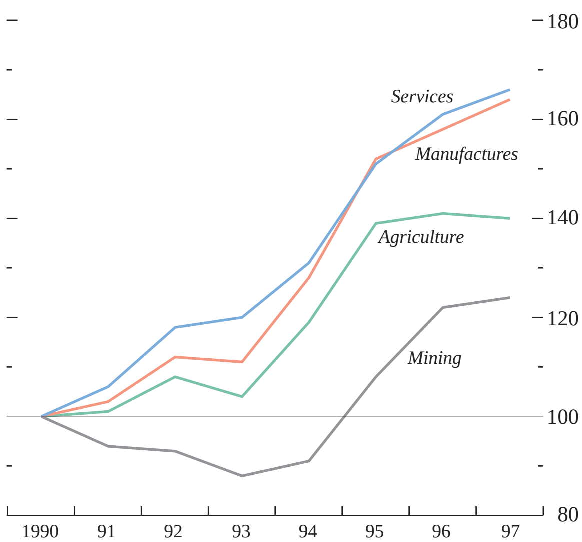
[2]See, in particular, Sharer and others, *Trade Liberalization in IMF-Supported Programs*.

[3]Tariff data for Latin America are drawn from *Crisis and Reform in Latin America*, World Bank, 1998.

[4]Impressively, Peru reduced average tariffs from 110 percent to 15 percent in two years (1990–92), and Colombia from 34 percent to 12 percent in one year (1990–91).

Figure 5.3. World Merchandise and Services Exports
(U.S. dollar value; 1990 = 100)

Trade in services and manufactures has continued to grow faster than trade in agricultural and mining products in the 1990s.



Source: World Trade Organization.

NTBs, so that when the financial crisis broke several important sectors in these countries continued to be sheltered from international competition, hampering their adjustment efforts. This was particularly evident in the high level of protection accorded to agriculture, and to a lesser extent heavy industries, in several countries, and more broadly throughout the region in restrictions on foreign investment in key sectors such as banking and finance. In the wake of the crisis, governments in many cases realized that trade-distorting barriers had played a role in the vulnerability of their economies to downturns and took steps to remove them.

Trade policies in south Asia have become more outward-oriented, but progress in reducing tariffs has been slow. Recent analysis indicates that some countries, such as Bangladesh, Pakistan, and Sri Lanka, have achieved a level of elimination of quantitative restrictions and liberalization of NTBs which is now comparable to that of southeast Asia. Overall, however, reforms here have not been as deep as in southeast Asia, and considerable scope remains to reduce tariffs further. Bangladesh (21 percent), India (35 percent), and Pakistan (24 percent) still have average, unweighted tariffs that are among the world's highest. Furthermore, the process of trade reform has lost momentum in the past two years.

Trade reforms in Africa began somewhat later than elsewhere, but have accelerated since the early 1990s, particularly in the context of Fund-supported structural adjustment programs. While in absolute terms trade regimes in Africa remain more restrictive than those of the other regions, significant progress is being achieved. In 1990, more than 75 percent of African countries had trade regimes classified as "restrictive" under the IMF trade restrictiveness index, with a combination of high tariffs and extensive NTBs. No African country was classified as "open" under this index. By the mid-1990s, the share of restrictive trade regimes had been reduced to less than half, and 20 percent had moved into the "open" category. By end-1998 the proportion of restrictive trade regimes had fallen to 28 percent, and trade regimes classified as "open" had risen to almost 40 percent. Reforms have focused on removing the previously far-reaching panoply of NTBs. Progress was also made on tariffs, which now average about 20 percent—still about twice the average of Africa's main competitors in Latin America, the CEECs, and Asia. The median tariff of all Fund members is 12.5 percent.

Few industrial countries have improved market access on a unilateral basis, probably because trade policy typically is formulated on legalistic, quid pro quo principles rather than on economic considerations which recognize the merits of unilateral liberalization. Australia and New Zealand are the only countries to have engaged in significant unilateral trade liberalization. Canada has taken some steps to liberalize its agricultural and services sectors, and Switzerland has removed many of its NTBs, prompted by the creation of the European Single Market and Switzerland's consequent need to maintain competitiveness vis-à-vis European Union firms. Broadly speaking, however, trade reform in these countries has been driven by regional initiatives and by the multilateral liberalization process. The latter has focused particularly on advanced sectors, particularly telecommunications and information technology. Agriculture remains highly restrictive and implementation of the Uruguay Round Agreement on Textiles has been heavily backloaded.

Regional Initiatives

The 1990s were marked by a substantial expansion in the scope and number of regional trade agreements. By 1999, there were more than 100 RTAs in force, and others are under negotiation. Nearly all countries participate in at least one agreement. Often, such agreements are aimed at wider geopolitical objectives, such as strengthening political relations or security with neighboring countries. Their impact on world trade is a complex issue. On the one hand, some RTAs have provided powerful motivation for structural reforms in member countries (for example, the EU and NAFTA), and some have offered a means for countries to take their first steps toward the broader process of integration into the world economy (for instance, Vietnam's experience with ASEAN). In many cases, progress made in eliminating intraregional barriers to trade has facilitated access not only for members but also for third countries. In some areas, such as technical regulations and standards, regional processes have achieved faster and deeper liberalization than has been possible at the multilateral level. At the same time, certain aspects of regionalism cause concern, particularly when tariff preferences are granted to regional members; where complex rules of origin have been imposed to safeguard regional preferences (frequently the case in sensitive sectors such as automobiles and textiles); and where the accession of new members has led to increases in tariffs by existing members. In addition, powerful regional groupings may discourage smaller member countries from adopting more liberal trade policies unilaterally.

Regional integration has the greatest benefits when it is outward-oriented, i.e., based on nondiscrimination and transparency, and is complementary to liberalization on a Most Favored Nation basis. This is the case for the Asian-Pacific Economic Cooperation (APEC) agreement, whose members have committed themselves to extending any trade liberalization they agree among themselves on an MFN basis. In some other regional groupings, such as ASEAN, members have been careful to reduce preferential and MFN tariffs concurrently, so that margins of preference for regional suppliers have remained constant and relatively limited. In general, there seems to be a growing awareness of the important impact RTAs can have on the multilateral trading system, although much remains to be done to translate good intentions into reality and to make sure that regionalism complements multilateralism.

The *EU* has been the main actor in the regionalization process, internally by removing numerous barriers to the free circulation of goods, services, persons, and capital under the Single Market, and externally by developing its network of Free Trade Agreements (FTAs). As a result of these agreements, the EU now trades duty- and quota-free with its immediate neighbors on most products, with the notable exception of agriculture. This includes central and eastern European countries in the context of Europe Agreements, and neighboring countries in the Mediterranean basin under the so-called Euro-Mediterranean Agreements. It also has agreements with South Africa, Mexico, Chile, MERCOSUR, and Canada. It cooperates with the United States in reducing NTBs to bilateral trade under the Transatlantic Economic Partnership. Finally, it is negotiating with the Atlantic, Caribbean, and Pacific Countries (ACP) on a successor to the Lomé Convention.

The *United States* has also been active in developing regional economic and trade ties within the Western Hemisphere. Building on the 1989 bilateral FTA with Canada, *NAFTA* entered into force in 1994, with a view to removing trade barriers between the United States, Canada, and Mexico by 2003. Duty-free treatment has already been achieved on many products. The United States has also been sponsoring the recent agreement on the creation of a *Free Trade Area of the Americas* (FTAA), gathering 34 countries in a hemispheric FTA by 2005. In South America, Argentina, Brazil, Paraguay, and Uruguay established *MERCOSUR* in 1991, an FTA that evolved into a partial customs union in 1995, with a Common External Tariff (CET) covering 85 percent of trade. A full customs union is to be developed by 2000. Since the creation of MERCOSUR, a number of subregional FTAs have developed to link all South American countries. For example, Bolivia and Chile are now tied to MERCOSUR members by an FTA, although they do not participate in the CET. MERCOSUR members are also discussing the prospects for an FTA with the Andean Community, which itself vows to form a common market by 2005. Chile has signed, in 1998, an FTA with Canada.

Since 1993, *ASEAN* countries have been working together with the view of reducing tariffs on intra-ASEAN trade to between zero and 5 percent and eliminating all remaining NTBs. Members agreed in 1998 to accelerate tariff reductions and to create a region-wide "free investment" area. Twenty-one economies of Asia and the Pacific are associated within the *APEC* forum, although the benefits of all liberalization initiatives are to be expected on an MFN basis. Regional integration is also developing in south Asia, with the recent signature of an FTA between India and Sri Lanka.

RTAs have featured increasingly strongly in trade liberalization in *Africa* during the 1990s. In west and central Africa, countries in both monetary zones are seeking to establish closer integration with fellow members while opening up to the rest of the world. Thus in the West African Economic and Monetary Union, member countries have reduced external tariffs and extended bilateral preferences in preparation for the establishment of a common external tariff in January 2000. Various groupings have proliferated in southern and eastern Africa, sometimes with overlapping memberships, and conflicting rules and administrative procedures.[5] Overlapping regional groupings may increase confusion and uncertainty, and the complexity of doing business for foreign investors. This makes it even more important that reductions in external tariffs are priority actions for all the RTAs.

The Multilateral Trading System

The multilateral agenda in the 1990s was dominated by the conclusion of the Uruguay Round negotiations in 1994 and by the establishment of the WTO as successor to the GATT on January 1, 1995. The WTO has brought permanence to a strengthened set of multilateral rules for trade and now oversees an extensive legal framework applying to trade in goods, services, and the protection of intellectual property. The new dispute settlement mechanism, previously subject to veto by any member under the GATT, is now binding and more automatic. The practice of binding tariffs and locking in trade policies under WTO rules has increased the credibility and lasting character of economic policy reforms, by guaranteeing that they will not be reversed at some later date. Tariffs have been substantially reduced, and the integration of the textiles and clothing and the agricultural sector under the disciplines of the WTO represent significant progress.

Since the creation of the WTO, the momentum of trade liberalization has been maintained with a number of additional sectoral agreements. Important liberalization of trade in basic telecommunications services and in financial services has been achieved, and under the Information Technology Agreement, tariffs have been eliminated by 40 WTO members accounting for 92 percent of trade in the products covered.

Maintaining the Momentum of Liberalization

Since the onset of the recent crises, the growth of world trade has slowed substantially, from 10 percent in 1997 to 3¼ percent in 1998. While the growth of world trade is expected to pick up as the health of the global economy improves, it is also essential to keep up the pace of trade liberalization in order to help restore confidence in the trading community and offer new market opportunities for all countries. In the past two years, some protectionist reactions, generally in the form of selective tariff increases (often partly motivated by fiscal concerns), have been recorded in such crisis-stricken groups of countries as Latin America (Argentina, Bolivia, Ecuador, Mexico, and Venezuela), the transition economies (Kazakhstan, Lithuania, Russia, Slovakia, Tajikistan, and Ukraine), and Asia (Thailand and the Philippines).[6] Overall, however, these reactions have remained limited and have not caused major disruption in global trade flows. Governments of the large importing countries generally resisted protectionist demands, except for some increase in antidumping activity and the development of a clear protectionist pattern in the steel sector.[7] Compared to the situation prevailing a decade ago, the resolution of trade tensions is facilitated by the existence of well-established channels of communications at the regional level, and the operation of an enforceable dispute settlement system at the multilateral level. Nevertheless, the existence of large external imbalances among the major trading nations of the world poses a clear threat of increased protectionist pressures. This danger seems most acute in the United States, especially if the prospective slowdown in economic growth were to be more protracted than envisaged at present; the danger in this case would seem to be one of pressure for increased contingent protection (antidumping or countervailing actions).

The containment of protectionist pressures is not a sufficient objective in a context where doubts over the fairness of the global trading system are rising, notably among developing countries. The momentum for trade liberalization needs to be revived and the upcoming multilateral talks provide an excellent opportunity for it. However, full participation in the talks can be ensured only if frustrations linked to the implementation of the Uruguay Round are addressed. This concerns in particular the maintenance of high levels

[5]The Cross-Border Initiative (CBI), a loose association of countries committed to reform in partnership with the IMF, World Bank, African Development Bank, and the EU, has been encouraging a fast pace of common tariff reductions and mutual trade preferences. The Common Market for Eastern and Southern Africa (COMESA)—the largest RTA in geographic terms with 21 members from Egypt to Namibia—plans to establish a free trade area in October 2000 and a common external tariff by 2004. The Southern African Development Community (SADC)—which includes South Africa and many southern African members of COMESA—has been conducting negotiations to start a free trade area in 2000, but does not have an agenda for external liberalization.

[6]See Box 1.3, "Are There Dangers of Increased Protection?" of the May 1999 *World Economic Outlook*.

[7]Steel is a highly cyclical and politically sensitive industry, and the recent crisis has exacerbated problems of excess capacity. A number of major producers have responded by taking restrictive actions against imports, particularly through antidumping.

of protection in areas of interest to developing countries, particularly agriculture, textiles and clothing, footwear, and some consumer goods. Given that the recovery of emerging market economies depends largely on a pickup of exports, which in turn depends significantly on open markets in these products, progress in these areas would be generally beneficial. Progress would also reinforce the case for liberal trade policies in developing countries. In this regard, only a comprehensive set of multilateral trade negotiations can generate the kinds of trade-off that will help developing, including the least developed, countries to feel that they are full participants in the negotiations.

Current Issues and the New Round

Topics Covered by the Round

The "Built-In Agenda" and Other Traditional Issues

Agreement was already reached five years ago, at the conclusion of the Uruguay Round, that further WTO negotiations would start, no later than January 1, 2000, to carry forward the multilateral liberalization of trade in agriculture and trade in services. These represent the core elements of the WTO's so-called "built-in agenda." It includes also the review of aspects of a number of key WTO agreements, such as the Agreements on Trade-Related Aspects of Intellectual Property Rights (TRIPs) and on Trade-Related Investment Measures (TRIMs), and the Dispute Settlement Understanding (DSU), which could also lead to further improvements in these areas.[8]

Since 1995, proposals have been made to add other subjects to the list for negotiation. They include industrial tariffs and NTBs, trade and investment, trade and competition policy, government procurement, trade facilitation, and electronic commerce. The preparatory process that is currently under way in the WTO aims to consolidate the proposals, and derive from them a consensus document to be presented for adoption at the WTO Ministerial Conference in Seattle in December. This would constitute the mandate for the new Round, and for other aspects of the future work program of the WTO. There is already widespread support for setting a target period of three years for completing a new Round, reflecting the desire to avoid another marathon negotiation; it took seven years to conclude the Uruguay Round.

Much will depend on progress achieved in the *services negotiations*. The potential is considerable. Trade in services alone already accounts for about one-fifth of world trade, or $1,300 billion. Services account for about 60 percent of world output, averaging some two-thirds in high-income countries and one-third in low-income countries. Despite the slowdown of the last two years, trade in services has grown at an average rate of 7 percent a year since the beginning of the decade, slightly exceeding the growth of merchandise trade. The flow of foreign direct investment (FDI) in services has grown even faster than cross-border trade. The participation of developing countries increased in the recent WTO Agreement on Trade in Services (GATS) negotiations on basic telecommunications and financial services, and the liberalization of services markets entails major benefits for all participants, both developed and developing. Opening to foreign competition and presence is the source of major productivity gains, by creating incentives for restructuring inefficient activities and attracting fresh foreign capital. The gains from increased services trade spread beyond the services sector to benefit the entire economy, as services constitute important inputs in the production of goods.

Preparations for the services negotiations that will be launched at Seattle are underway. The main focus of the negotiations will be the improvement of access conditions—the Agreement speaks of "achieving a progressively higher level of liberalization." This means improving the quality of existing commitments (through the removal of limitations now contained in members' schedules) and including new sectors. The basis for negotiations will be the schedules negotiated in the Uruguay Round plus the further commitments which have been undertaken in subsequent negotiations and in the accession of new members. There will clearly be interest in extending commitments in a number of sectors where relatively few commitments were made in the Uruguay Round: distribution, construction, education, and health services are among these, as is maritime transport, on which there is a specific agreement to resume the negotiations suspended in 1996. Further liberalization in basic telecommunications and financial services is also expected.

The new services negotiations will also cover a number of systemic issues relating to the GATS. An Annex to the GATS provides for the review and renegotiation of current exemptions from MFN treatment. There is also a commitment to consider extending the coverage of the Agreement in the air transport sector, where at present the great bulk of the industry is explicitly excluded. It is also clear that the ongoing negotiations on emergency safeguard measures, subsidies, and government procurement of services, on which the Agreement contains no disciplines at present, will be continued in the new Round, with improved chances of bringing them to conclusion.

Agriculture is the other key area of the built-in agenda. Through the Uruguay Round Agreement, agriculture became subject to strengthened and opera-

[8]The Agreement on TRIMs addresses measures linked to merchandise trade such as local-content requirements, export performance requirements, and certain foreign exchange restrictions. The DSU sets out rules and procedures for the settlement of disputes arising under WTO agreements.

tionally more effective multilateral rules, and thus to disciplines the sector had largely escaped for 50 years. Reliance on price supports for domestic production and exports were curtailed in favor of less distortionary forms of support such as direct income-support payments to farmers. Agriculture-specific NTBs such as import quotas, variable levies, and minimum import prices are now outlawed, while sanitary and phytosanitary measures are to be applied only to the extent necessary to protect health and must be based on scientific principles. However, despite significant tariff cuts overall, tariffication of NTBs has resulted, in many cases, in prohibitive duty rates. In a number of key product areas, market access improvements seem to have been limited to the opening of minimum access opportunities under tariff rate quotas. Moreover, agricultural tariff systems have remained complex and opaque.

It would be desirable for the new Round to set ambitious objectives in agriculture, which remains highly restrictive; for example, in OECD countries the effective subsidy has been estimated to average 1.5 percent of GDP. Liberalization of agriculture would be a significant benefit to the industrial countries, through more efficient resource allocation, reduced direct budget costs, and enhanced consumer welfare. It would also entail great benefits to developing and least developed countries, many of which have a comparative advantage in agriculture. Currently, their economic development is hampered by high market access barriers in agriculture abroad, as well as by continued high levels of protection and subsidies. Access conditions for agricultural products should be eased, so as to make them more comparable to those applying to other goods. Tariff peaks could be curtailed, average tariffs lowered, tariff escalation reduced, and tariff systems simplified and made more transparent. Tariff rate quota administration could be streamlined so that it does not impede filling tariff rate quotas. Moreover, trade-distorting domestic supports, which remain far in excess of subsidies available to other industries, could be reduced, and agricultural export subsidies eliminated. While food security is a legitimate concern, it could be addressed through increased trade, rather than subsidies, preferential treatment to select groups of producers, or restrictions on trade.[9]

The liberalization of agriculture is particularly significant for the export potential and prospects of the least developed countries,[10] as is the operation of existing trade preference systems and general issues related to access for their products in industrial country markets. As noted above, the trade performance of these countries has lagged behind the growth of world trade, with adverse implications for their development and growth performance. Policies with respect to agricultural liberalization and market access will be critical complements to their own domestic policy environment in efforts to better integrate these countries into the global trading system. Initiatives likely to be discussed in the context of the new trade round include calls for across-the-board, bound, duty-free access for their export products in industrial country markets. Discussion of such an initiative would coincide with the renegotiation of the EU's wide ranging Lomé system of trade preferences, which will expire in 2000.

There is growing recognition that *multilateral tariff negotiations on industrial products* should be part of the new Round. The recent failure to carry sectoral liberalization further forward in the WTO, through enhanced tariff cuts on information technology products (so-called "ITA II"), and at the regional level (APEC's "Early Voluntary Liberalization" scheme), show the limits of the sectoral approach. Both initiatives are to be carried over to the new Round, where trade-offs between sectors can be used to help generate liberalization. Various proposals have been submitted so far, most of them in favor of comprehensive tariff negotiations covering all industrial products. The objectives include substantial tariff cuts, the reduction or elimination of tariff peaks and tariff escalation, and the expansion of the scope of tariff bindings. Proposals have also been forwarded to simplify WTO members' tariff structures, and to convert specific duties to ad valorem duties. There is also a proposal to accord negotiating "credit" for autonomous trade liberalization initiatives. Most far-reaching of all is a proposal to eliminate tariffs on all industrial products ("zero-for-zero" approach).[11]

The trading system would benefit from *improvements in WTO rules on the use of antidumping duties and dispute settlement*. With respect to antidumping, in the current context of trade tensions the international trade community needs strong and enforceable multilateral trade rules which render the resort to protectionism more difficult. Current WTO rules provide governments with the means to impose antidumping duties well before there is any established proof of dumping, and are therefore prone to protectionist abuse.[12] New WTO rules on competition policy (see below) would provide a clear way of closing off this loophole. With respect to dispute settlement, although

[9]For example, the deregulation of agricultural imports in Indonesia, implemented as part of the IMF program, has improved the food situation.

[10]This would also apply to many other poor countries, for example, those covered by the HIPC initiative that are not classified as "least-developed" by the United Nations.

[11]Apart from agriculture and other sensitive sectors such as textiles and clothing, footwear, and transport equipment, which continue to carry higher-than-average tariffs, the elimination of tariffs on industrial products should not impose an excessive burden on industrial countries. Average bound industrial tariffs in the "Quad" countries (the EU, Canada, Japan, and the United States) are currently below 4 percent.

[12]Use of antidumping actions has increased in recent years. The main traders are still the main users, but developing countries—as a group—are rapidly closing the gap.

the current system under the WTO is a major improvement, it has also proved to be sluggish and inefficient. This has made it particularly costly for developing countries—especially the least developed among them—to participate in dispute settlement. The review of the WTO dispute settlement system should aim at improving the implementation of rulings to ensure a better participation of the developing, and particularly the least developed, countries.

"New Issues"

In addition to the built-in agenda, the Seattle Conference will take stock of progress on work mandated by the WTO's 1996 and 1998 Ministerial Conferences. This includes the issues of trade and investment, trade and competition, and government procurement. Issues such as trade facilitation, electronic commerce, and trade and the environment will also be addressed in Seattle.

Since the interruption of OECD negotiations on a Multilateral Agreement on Investment (MAI), some countries have pushed for negotiations on a *WTO-based investment code*, building on the analytical work undertaken in the WTO Working Group on the Relationship between Trade and Investment and the Agreement on Trade-Related Investment Measures, the first WTO Agreement containing rules on the treatment of FDI (albeit not fully implemented yet). However, many developing countries have shown clear opposition to these proposals, and have been reluctant even to extend the mandate of the WTO Working Group to avoid being drawn into unwarranted negotiations. The future of the Working Group, as well as possible improvements to the Agreement on Trade-Related Investment Measures, will be major issues of the upcoming talks. The rapid development of FDI flows, particularly to developing countries, has created a need for more comprehensive rules in this domain. Major investors are seeking greater stability and transparency in host countries' policies, and, in their absence, the number of disputes linked to investment conditions (in particular investment incentives) has tended to increase. Clearly, bilateral investment treaties leave scope for discrimination and country-specific provisions.

The challenges posed for regulatory authorities by globalization also underlie discussions on the relationship between *trade and competition*. While the relevant WTO Working Group has highlighted the complementarity between trade liberalization and antitrust enforcement, Members do not agree on the need for worldwide competition rules at this stage.[13] In this context, the Round will have to decide on the continued existence of the WTO Working Group, with little prospect for negotiations in the near future. In the absence of a multilateral consensus on competition issues, bilateral cooperation in dealing with anticompetitive practices is developing slowly and carefully.

The WTO participates in the international effort to improve global governance by seeking to draw up rules on *transparency in government procurement*. Some WTO members are working toward having an agreement ready for adoption at Seattle, but there is a possibility that work on transparency issues will still be required in the course of the negotiations. Although enhanced transparency would, in itself, help to improve the cost-effectiveness of procurement decisions and market access for trading partners, the absence of multilateral rules on overt forms of discrimination against foreign supplies and suppliers will remain one of the major gaps in the multilateral trading system unless agreement can also be reached on tackling this aspect in the context of future negotiations.[14]

The WTO needs to accelerate its *accession process* if it is to become a truly universal organization. Since its creation in 1995, membership has increased by seven countries[15] to a total of 135. Thirty candidates are currently negotiating accession.[16] The start of a new Round adds urgency to the process, since it is desirable that as many of the world's trading nations as possible participate in the negotiations. The WTO accession process is technically complex, placing particular strains on least developed country applicants. Also, political factors, varying demands on applicants, hard bargaining strategies, and in some cases slow implementation of reforms by the applicants themselves have increased the length of negotiations. The fastest accessions usually take three to four years, yet accession negotiations for China have been dragging on for 13 years. This is particularly unfortunate given the rapidly growing weight of China in world output (12 percent in 1998, second largest after the United States) and world exports (3.1 percent, ninth in the rank of world exporters). It is to be hoped that agreement can be reached at the Seattle Conference to streamline the accession process, without compromising on its basic requirements.[17]

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[13]So far, two-thirds of WTO membership do not even have competition regulation, although several members deny that regulating in this domain is necessary.

[14]A plurilateral WTO Agreement addresses these issues but amongst a limited group of countries, consisting of the main industrialized countries, plus some leading developing countries.

[15]The new members are Bulgaria, Ecuador, Estonia, the Kyrgyz Republic, Latvia, Mongolia, and Panama.

[16]The main applicants, in terms of importance in world trade, are China, Russia, Taiwan Province of China, and Saudi Arabia. There are also a number of transition economies, including most of the countries of the former U.S.S.R., some Balkan countries (Albania, Croatia, and Macedonia) and some Asian countries (Cambodia, Laos, and Vietnam). Other applicants include some least developed countries (for example, Nepal), as well as Algeria and Lebanon.

[17]There are several proposals in this direction. They include the introduction of a fast-track procedure for the least developed countries, arrangements to allow applicants to participate in the new Round and have their views taken into account in areas of special interest to them, and greater responsiveness of Members to applicants that show clear willingness for compromise.