POINT OF VIEW

Why Should Small Developing Countries Engage in Global Trading

3 Three points of view on a hot topic in the Doha Round

Over the past few years, developing countries, especially the smallest and most vulnerable, have increasingly worried about greater participation in the global trading system—fearing they may get swamped by products from rich countries or lose out to cheaper rivals. To gain some insight into these fears, which are a major factor holding up progress in the Doha global trade talks, *F&D* turned to three experts on the topic. Rubens Ricupero, former Secretary-General of the United Nations Conference on Trade and Development (UNCTAD), stresses that practical initiatives are needed to exorcize the fears of developing countries about the impact of liberalization. Faizel Ismail, head of South Africa's delegation to the World Trade Organization (WTO), underlines the need for special consideration for the smallest members. And Sok Siphana, Cambodia's Secretary of State for Commerce, emphasizes that openness, not isolation, is the key, noting that Cambodia has managed to make WTO rules work in its favor.

1 Overcoming Fear First

Rubens Ricupero

Our question could be rephrased as: Why are small developing countries afraid of multilateral trading negotiations? To emphasize fear as the central element of the problem does not mean we are adopting a negative approach; rather, it is simply a recognition of the truth of the matter. Fear is, in fact, the basic explanation of why small developing countries are reluctant to engage in the multilateral trading system. Fear is not always irrational or unexplainable. When it results from a real danger, there is no use pretending that it will go away under the influence of academic arguments about the theoretical gains from trade openness.

The specific causes of fear must be addressed and exorcized. In the case of trade negotiations, they can be reduced to three generic types:

- the fear of not understanding the issues at stake or of not possessing the negotiating skills and resources to effectively take part in the difficult game of negotiations;
- the fear of very tangible negative consequences of negotiations: the loss of jobs, of preference margins, of food security, the deterioration in terms of trade for net food importers, and the extra cost of implementing complex enforcement systems like those required for intellectual property rights; and
- the fear of not being competitive in quality, price, and range of products.

Lack of skills

The first variety of fear can be dealt with only through a systematic drive to train skilled negotiators and boost analysis of the pros and cons for developing countries of adopting certain positions. Boosting negotiating capacity has to go much beyond the traditional concept of technical cooperation to explain the content of trade agreements and to provide technical advice in particular cases. As we envisaged in UNCTAD, when we launched the "Positive Agenda for Trade Negotiations" in 1996, the ultimate goal has to be more ambitious. The aim should be to build up a country's capacity to formulate its own negotiation strategy based on its potential competitive advantages and capacity to supply certain products. Several agencies are involved in this kind of work. Among the best results, at least in terms of conceptual planning, have been those from the interagency Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries (see box on page 17 for more on this). Difficulty in financing the implementation of projects has been a stumbling block, however. There may be a case, therefore, for making trade-oriented technical cooperation an integral and enforceable commitment for future negotiations.

Uncertain outcome

The fear of specific losses has to be faced, case by case, with concrete and practical initiatives, such as the welcome decision of the IMF to provide financial support to countries severely affected by the erosion of preferential margins. There are other proposals of the same nature, like the joint work of UNCTAD and the UN's Food and Agriculture

Countries Engage in the System?

Organization that deals with the problems of net food importing countries. Whenever an agreement under negotiation will result in a substantial increase in administrative costs in developing countries—as in the case of the WTO's intellectual property rights agreement—this downside has to be taken into account in the overall balance of costs and benefits. In addition, implementation and transitional periods will have to reflect the availability of financial and human resources in the country under consideration.

In this second category of concerns, the fear about job losses is perhaps the most serious because of its potential social destabilizing effect. This problem should not be underestimated or minimized as there are many indications of the short- or medium-term dislocations in employment in African and Latin American economies that have undergone rapid trade liberalization without complementary social safety nets. An example is that of the United States, which, since the days of President John F. Kennedy more than 40 years ago, has always had a Trade Adjustment Act to serve as a complement to major trade negotiations. The most recent version, adopted in 2002 together with the Trade Promotion Authority, earmarked millions of dollars to spend on retraining, education, health insurance, and pension benefits. If the most competitive economy in the world considers adjustment an indispensable tool of trade liberalization, would it not make sense for the international community to envisage a similar multilateral aid program for the countries that lack the resources internally?

Problems competing

Finally, there is the fear arising from supply-side constraints. Many small developing countries still rely on one, two, or three commodities for the bulk of their exports—such as coffee, cocoa, cotton, sugar, palm oil, and petroleum. It is very hard to convince these countries that they have something to gain from negotiations that have little or nothing to do with their main concerns: oversupply, excessive price volatility, and increasing erosion in the percentage of the final price that goes to the producer. Countries in that situation need first and foremost to diversify and enhance their productive sector through investment, technology, and managerial skills. Successful examples are Cambodia, Lesotho, and Mauritius. Once countries improve their production structure, their interest in trade negotiations is a natural, logical, and spontaneous consequence.

Many, perhaps all, of these fears could be addressed if, in the case of small and vulnerable developing countries, major trade negotiations were supported by social impact studies of the likely outcome. Nowadays, nobody dreams of undertaking an infrastructure construction project without evaluating its possible environmental impact. Why shouldn't we adopt the same kind of approach for the social evaluation of trade liberalization? If conducted in a balanced and responsible way, this new approach could become a powerful instrument to dispel the fear of negotiations, build confidence in the trading system, and increase the integration of small developing economies into the system. ■

Rubens Ricupero, a former Finance Minister of Brazil, was UNCTAD's fifth secretary-general from 1995 to 2004.

2 Help Needed to Liberalize

Faizel Ismail

Ever since the Doha trade talks were launched, WTO members have been debating how to tackle a plethora of complex trade and development issues raised by developing countries. The issues have been made more complex by the changing patterns of global integration of developing countries since the conclusion of the Uruguay Round. While some developing countries have begun to successfully integrate into the world economy and significantly improve their share of world markets, others—especially the smaller economies—have been increasingly marginalized, with their share of world markets declining.

This changing global context has prompted some developing countries to request special consideration in light of their development needs. But so far, no significant progress has been made on how to handle what is known in trade circles as special and differential treatment.

A new approach

If the Doha talks are to advance in this area, a new conceptual approach will be needed. I would like to suggest the following four-pronged strategy.

(1) Financial help. Several studies indicate that while a successful Doha trade round could lift at least 140 million people out of poverty—and integrate developing countries into the world economy—the trade reforms would need to be accompanied by complementary actions in low-income countries to support adjustment and a strong supply response. If developing countries are to take these steps, however, they will need significant additional financial assistance from developed countries. The history of European economic development provides some valuable insights into past trade integration efforts. The Marshall Plan after World War II was partly initiated to "neutralize the forces moving Western Europe permanently away from multilateral trade (Foreman-Peck, 1983)." European integration itself was facilitated by economic assistance provided to weaker countries and regions (Tsoukalis, 2003).

Where would the needed money come from? One source could be recycled funds from Doha Round gainers—which studies show include both developed and developing countries, with developed countries being the major beneficiaries. Gains would accrue to both consumers and producers and would boost tax revenues for many governments. A small share of these funds could be set aside to help low-income countries meet adjustment costs and build needed capacity.

(2) Capacity building. Many developing countries have argued that their access to developed country markets is further denied by high costs associated with meeting health and technical standards. The WTO has recognized the need to address the capacity constraints of developing countries and committed the WTO to provide enhanced technical and capacity building assistance to increase their effective participation in the negotiations, to meet WTO rules and health and technical standards, and to enable them to adjust and diversify their economies.

(3) Vulnerabilities. Developing countries stand to gain considerably from ambitious multilateral reductions in tariffs and agricultural subsidies. But it is important to recognize that some of them will also be seriously hurt by the decline in the value of their preferential access to developed country markets as a result of global liberalization. Policymakers will have to tackle the anticipated revenue loss, higher cost of food imports, and need for adjustment and diversification, but they should do it in a way that does not increase the existing distortions in world markets and perpetuate existing levels of protection for developed countries.

(4) Policy space. In the agriculture negotiations on market access, developing countries have argued for increased protection and space to adjust for special products, based on the criteria of food security, livelihood security, and rural development. A similar case could be made for industrial products based on development needs. Any granting of "policy space" should go hand in hand with developing countries increasing the binding (or fixing) of tariffs so as to benefit from the discipline of a rules-based system and not face further marginalization.

Greater flexibility in WTO rules is also required for many developing countries that may need more discretion to use some trade policy instruments to enhance economic development. How could WTO flexibility be monitored? A multilateral monitoring mechanism could be set up to identify where WTO disciplines would be inappropriate and would need to be made more flexible in response to development needs (see article by Bernard Hoekman in this issue). The result would be to create a more development-friendly WTO for these countries.

In sum

Adopting this four-pronged approach to the challenges faced by developing countries in the global trading system would go a long way toward making WTO rules more compatible with the development objectives of small developing countries and bringing the Doha Round to a successful conclusion. ■

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3 Cambodia—No Turning Back

Sok Siphana

Cambodia's accession to the WTO in October 2004 marked its reintegration into the global trading system. Cambodia restored relations with the IMF and World Bank more than a decade ago and joined the Association of South East Asian Nations in 1999. Joining the WTO has marked the final step in bringing Cambodia back into the major regional and international organizations that govern international economic relations.

Like its trading partners, Cambodia views its participation in the multilateral trading system as a means of integrating into the global economy and maximizing the benefits from international trade. But skeptics have questioned whether Cambodia will really benefit from WTO membership. They argue that the 30 least developed countries in the WTO have been unable to secure trade opportunities commensurate with their development needs. Given the length and difficulty of the accession process, they have suggested that it is surprising so many members even want to become part of the WTO. However, in the case of a poor country like

Cambodia, accession is seen as a necessary means to achieve economic growth. In the words of the Cambodian chief negotiator Prasidh Cham: "In a time of harsh and fierce global competition, the survival of our country depends on our ability to capture the right opportunities at the right time. We believe entry into the WTO is such a case."

WTO accession provides the 12 million Cambodian people with secure, predictable, and nondiscriminatory access to the markets of 147 trading partners. Joining the WTO has shifted the process of trade reform in Cambodia away from an incremental approach to one incorporating quite detailed rules for trade policy. It is shaping, in very practical terms, the way business is done in Cambodia.

During the negotiations to join the WTO, Cambodia was able to achieve all of its main objectives: First and foremost, accession enables Cambodia to protect its garment industry—its main export industry—from having quotas imposed on exports in 2005 and beyond. In the process, of course, Cambodian employment has also been protected. Cambodia has avoided any obligation to lower applied tariffs; it has retained the ability to offer exporters duty-free access to imported raw materials and other inputs.

WTO membership can also help Cambodia improve the investment climate by ensuring unimpeded access to foreign markets. We are improving the legal framework for businesses and enhancing the business services infrastructure. The country retains ample flexibility to develop appropriate policies to support the agricultural sector and will benefit fully from the Doha Declaration on Trade-Related Aspects of Intellectual Property Rights and Public Health. Cambodia has recently passed and promulgated a law excluding pharmaceutical patenting altogether until the 2016 deadline agreed in the Doha Declaration. This means the Cambodian government and the public will not have to pay higher prices for drugs. Cambodia has thus succeeded in harnessing WTO accession in a way that advances and reinforces its outward-looking development strategy.

The full significance of this accomplishment, however, will depend on what happens next. The reality of WTO accession is that it is no guarantee of success in world trade. It is a tool to be used by the government, the private sector, and other stakeholders that provides opportunities and safeguards. That is the contract: living up to the obligations and taking advantage of the opportunities. If joining the WTO opens up a new range of possibilities for Cambodia, it does not guarantee that these possibilities will be automatically translated into advantages. In order to transform potential into reality, much hard work will need to be done in the months and years ahead.

While WTO accession will afford Cambodia access to member country markets on a most-favored-nation basis, it will also intensify competition from foreign goods and enterprises in both domestic and international markets. Because of this, Cambodia's investment climate will need to converge toward international norms by removing impediments that put its exporters at a disadvantage relative to other exporters competing for similar markets.

The message is clear: Cambodia has chosen not to protect, but to compete. Cambodia cannot be regarded as a "free rider" (taking the benefits of WTO membership without making its own contribution) and thus devoid of individual negotiating weight.

Making the most of the many exemptions (classified as special and differential treatment) and the generous technical assistance it has obtained under the WTO-led Integrated Framework, and stimulated by proactive pro-integration policies, Cambodia is poised to rise to the challenge of post-WTO integration.

A garment factory near Phnom Penh.

The more open and competitive the Cambodian economy becomes, the more exporters and importers and all Cambodian citizens, as well as foreign investors, will benefit from the legal security of the rules-based trading system. After all, Cambodia has tasted two decades of economic embargo and isolation, and it has also experienced a decade of integration and prosperity.

If anyone has doubts about openness, try isolation. Cambodia did, and we sure do not want to go back. With our accession to the WTO we have turned a page of history. It is time to open a new page and look forward to better days ahead. ■

Sok Siphana is Cambodia's Secretary of State for Commerce. He led his country's negotiations to join the WTO.