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The Need for a Development Round

2.1 Redressing Past Imbalances

In June 1993 the Uruguay Round was finally brought to a close. Part of the impetus for members to conclude the Round was the promise of large welfare gains that had been projected by many researchers. In 1992–1993, the World Bank, the Organisation for Economic Cooperation and Development and various other institutions made projections of welfare gains in the order of $200 billion a year.[7] A large share of the gains was predicted to accrue to developing countries.[8]

In hindsight these estimates – particularly in relation to developing countries – were over-optimistic. It has since been estimated that 70 per cent of the gains from the Uruguay Round will go to developed countries, with most of the rest going to a relatively few large export-oriented developing countries. Indeed, many of the poorest countries in the world will actually be worse off as a result of the Round. In the first six years of the Round (1995–2001), the 48 least developed countries were actually forecast to be worse off by some $600 million a year, with sub-Saharan Africa worse off by $1.2 billion (UNDP HDR, 1997: 82).

One reason was that the modelled scenarios were not fully reflected in actual events.[9] Several reforms, which were significant sources of predicted gains, did not proceed as had been hoped early in the negotiations. For example, the Agreement on Textiles and Clothing (ATC) was structured to significantly backload liberalisation;[10] the ability of tariff-rate quotas (TRQs) to liberalise agricultural market access was overestimated; and the costs of implementation were almost completely ignored.

In addition, the Uruguay Round agenda reflected, in large part, the priorities of the developed countries. Market access gains, for example, were concentrated in areas of interest to developed countries and there was only marginal progress on the priorities of developing countries (particularly in agriculture and textiles). The result of this regressive asymmetry *was that after the implementation of Uruguay Round commitments, the average OECD tariff on imports from developing countries is four times higher than on imports originating in the OECD* (Laird, 2002). Domestic protection, particularly agricultural subsidies, is also much higher in developed countries, amounting to more than US$300 billion in 2002. The impact of this protection is particularly regressive since producers in the poorest developing countries are the most affected by OECD policies. Only 4 per cent of the exports of developed countries are subsidised by another WTO member, but 6.4 per cent of the exports of middle-income countries are subsidised. In contrast, a much larger share (29.4 per cent) of the exports of the poorest countries (not including China and India) are subsidised by another WTO member.[11]

As well as receiving a small share of the gains from the Uruguay Round, developing countries accepted a remarkable range of obligations and responsibilities. New trade rules and domestic disciplines were introduced, but they too reflected the priorities and needs of developed countries more than those of developing countries (for example, subsidies were permitted for agriculture, but not for industrial products). Many of the rules acted to constrain the policy options (such as industrial policies) of developing countries, in some cases prohibiting the use of instruments that had been used by developed countries at comparable stages of their development. Many of the new obligations imposed significant burdens on developing countries. In return, the least developed countries were promised financial assistance with implementation costs and extensions of preferential market access schemes. The common feature of these commitments was that they were non-binding on developed countries. As a consequence, developing countries found themselves at the mercy of the goodwill of developed countries. As Finger and Schuler (2000) aptly note: 'the developing countries took a bound commitment to implement in exchange for an unbound commitment of assistance'. Insufficient attention has subsequently been paid to the enormous demands upon developing countries in implementing the outcome from the Uruguay Round. Agreements related to intellectual property, customs valuation, technical barriers to trade and agricultural food safety have been particular targets of criticism in this regard.[12]

2.2 Unfinished Business

The 1994 Agreement on Agriculture defined a framework in which agricultural protection could be negotiated in the WTO, but it did not deliver significant benefits to developing countries. Martin and Winters (1996) note that the Agreement achieved 'little in terms of immediate market opening'. Indeed, the level of OECD farm protection was not noticeably reduced. In 1986–88 transfers were equivalent to 51 per cent of all OECD farm production, and 14 years later, after the implementation of the Uruguay commitments, they still account for 48 per cent of all farm production – roughly US$320 billion (OECD, 2003). Trade-distorting measures of industrialised nations displace the agricultural exports of developing countries. By suppressing world prices, these policies have a direct effect on farm incomes.[13] Moreover, there may be dynamic effects when investment is suppressed in countries whose trade is affected by OECD support.[14]

In non-agricultural goods, there is also scope for further liberalisation. The significant liberalisation of manufacturing tariffs in developed countries over the last two decades might suggest that there is little to gain from further negotiations on industrial products. However, if this is true to some extent for developed countries, it is certainly not the case for developing countries. While average developed country tariff rates are low, they maintain high barriers to many of the goods exported most intensively by developing countries. When weighted by import volumes, developing countries face average manufacturing tariffs of 3.4 per cent on their exports to developed countries, more than four times higher than the average rate (0.8 per cent) faced by goods from developed countries (Hertel *et al.*, 2000). Moreover, aggregate data hide the existence of tariff peaks. In the United States, post-Uruguay Round tariff rates on more than half of textile and clothing imports are between 15 and 35 per cent, while in Japan 22 per cent of textile imports face tariffs of 10–15 per cent (UNCTAD, 1996). Similarly, in the processed food sector, Canadian, Japanese and EU tariffs on fully processed food are 42, 65 and 24 per cent respectively. In contrast, the least processed products face tariffs of 3, 35 and 15 per cent in these countries (World Bank, 2002). Such tariff escalation discourages the development of food processing in LDCs since the *effective* tariff rate on 'value added' in food processing is very high. Tariff escalation and tariff peaks are manifestly unfair and have a particularly pernicious effect on development by restricting industrial diversification in the poorest countries.

After the Uruguay Round, there was also a widely held view that the TRIPS (trade-related intellectual property rights) Agreement needed to be reviewed, particularly in its application to public health and bio-piracy. Article 71.1 of TRIPS provided for a review of the implementation of the TRIPS Agreement after 2000, and for possible reviews 'in the light of any relevant new developments which might warrant modification or amendment'. Many developing countries felt that the Agreement as it stood primarily reflected protection for intellectual property rights that was suitable for developed countries, but that largely disregarded important factors in developing countries.

International rules for intellectual property rights have potentially huge public health effects and global distributional consequences. Unbalanced rules – and there is a concern that present rules are unbalanced – can impede efforts to close the north–south 'knowledge gap'. Additionally, the WTO also has a responsibility to protect indigenous knowledge. While there have been a few dramatic bio-piracy cases,[15] the full impact of expanded patentability remains uncertain. Patent laws need to be changed so that the onus of proof is reversed and companies should give an undertaking that the patent they are seeking is not based on traditional wisdom.

Finally, the Uruguay Round imposed strong restrictions on developing countries' use of industrial policies – policies that arguably played an important role both in the development of Western economies in an earlier century[16] and, more recently, in the East Asian miracle.[17] But they allowed developed countries to continue to use non-tariff barriers to exclude goods from the developing countries. Developing countries needed more freedom to use industrial policies, and more protection from the abuses by developed countries of dumping duties, countervailing duties, safeguard measures and phyto-sanitary conditions.

2.3 New Areas of Importance

Services represent an increasingly large share of GDP and trade in both developed and developing countries. With manufacturing dwindling to 14 per cent of US GDP, it was natural for the US to shift the focus of trade liberalisation to services.[18] Indeed, the irony was that increasingly it seemed as if the trade agreements of the past, centred around manufacturing, would, in the future, be of greater benefit to China than to any other country.

But the Uruguay Round focused on the liberalisation of those service industries of primary interest to firms in OECD countries, such as financial services. Significantly less attention was given to low-skilled labour-intensive services in which developing countries have a comparative advantage.[19] Developing countries have increased their exports of services by more than four times since 1990, despite the large trade barriers facing many of their most promising industries such as construction, shipping services and health services (OECD, 2002). In these industries developing countries have a legitimate and substantial interest in the outcome of a new round of liberalisation.[20]

Some of the areas of service sector liberalisation that were advanced in the Uruguay Round may well have disadvantaged the developing countries. Financial market liberalisation, for instance, may have weakened domestic financial firms, reducing the already scant supply of credit available to domestic small and medium-sized enterprises.

This agenda of 'new issues' and 'unfinished business' is markedly different from the agenda of the Doha Round. The new 'Singapore issues'[21] all centred around concerns of the developed countries. There was one, competition policy, which in principle could have been of benefit to the developing countries – had dumping duties been brought into the discussion. But the developed countries were adamantly opposed.