1 An overview: options for global trade reform – a view from the Asia-Pacific

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Introduction: the setting and major themes

Prior to the successful Doha Ministerial in November 2001, the Asia-Pacific had played host to three of the most influential meetings on international trade and investment cooperation in the 1990s – the APEC Leaders' meeting in Bogor in 1994; the Singapore Ministerial meeting of the World Trade Organization (WTO) in 1996; and the WTO Ministerial meeting at Seattle in November 1999. The first of these, the APEC Leaders' meeting at Bogor in 1994, set the extremely ambitious goal of free and open trade and investment in the Asia-Pacific by 2020. The second, the initial Ministerial meeting of the new WTO, built on the ambitions of the Uruguay Round and added investment and competition policy, trade facilitation, and transparency in government procurement to the agenda. The third of these meetings, proved to be important in an entirely different way, and was unable to adopt even an agenda for further discussions. Only after a long period of hard work and preparation could agreement on a Doha Development Agenda be reached in November 2001 (WTO 2001a).

The failure of the Seattle Ministerial involved a number of elements, the most important of which related to poor preparation, the breadth of the agenda, and the approaches to be adopted in particular areas (Schott 2000). Inside the meeting, a key source of discord and dismay was the traditional divide on agriculture, between the group of industrial countries that protect their agricultural sectors, and the agricultural exporters – both developed and developing. A number of other sources of tension within the meeting were development-related. These included the slow phase-out of the quotas imposed by the industrial countries against developing-country exports of textiles and clothing, and the

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problems created for developing countries by industrial country abuses of anti-dumping rules. Another set of development-related concerns focused on problems experienced by developing countries in implementing the commitments they undertook in the Uruguay Round, particularly in areas such as trade-related investment measures (TRIMs), Trade-Related Intellectual Property Rights (TRIPS) and the Customs Valuation Agreement. A final set of concerns – both inside the meeting and out in the streets – concerned rules for trade and the environment and the protection of workers' rights.

As Ruggiero (2000) has observed, the WTO is, in many respects, a victim of its own extraordinary success in being seen as relevant to many of the passionately held concerns of our era – vital issues such as development and poverty alleviation, protection of the environment, and protection of weak and vulnerable workers. Unlike the GATT, where faceless bureaucrats labored in obscurity on arcane issues of border protection on manufactured products, the WTO has succeeded in engaging the interests and attention of a wide range of activists and Non-Governmental Organizations (NGOs). This success has created an environment where it is much more difficult to make the compromises that are necessary to reach agreement. Clearly, it is likely to be much harder to reach compromises about methods of protecting much-loved endangered species than about tariffs on toasters.

At times, it has seemed that one of the few things uniting the protagonists is a shared recognition that there are many serious problems in the world trading system. Many deep divides, both within and between countries, had to be bridged before any agreement could be reached. As Wang and Winters (2000) predicted, a great deal needed to be done to even begin the process of "putting Humpty together again." Key elements in the success of the Doha Ministerial included good preparation, serious attention to developing country concerns, and a renewed focus on improving market access. An important feature was the agreement on TRIPS and public health, which was supported both by developing country trade policy makers and many western NGOs – two groups which shared little common ground in Seattle.

Developing-country concerns with the implementation issues arising from the Uruguay Round were dealt with through a special Ministerial Declaration (WTO 2001b) laying out the issues and proposals for dealing with each of them. Developing-country concerns about the risks of premature negotiations on the "Singapore Issues" of investment, competition, trade facilitation, and transparency in government procurement were allayed by agreement to defer negotiations on these issues until after the Fifth Ministerial in 2003. As Hoekman (2002) has emphasized, technical assistance and capacity building in developing countries will be required if developing countries are to deal with many of the behind-the-border issues arising in areas such as trade in services, and the "Singapore Issues." The Ministerial Declaration recognizes this concern both through its commitments to provide technical assistance and capacity building in specific areas, and its built-in review of the adequacy of technical assistance.

Since the failure of the Seattle negotiations, and given the slowdown in progress on APEC-style concerted liberalization, there has been a dramatic upsurge of preferential regional arrangements in the Asia-Pacific. Scollay and Gilbert (2001) count over twenty such arrangements under consideration in the region. They note also that this, in many ways, reflects a return of the region to world-wide patterns of behavior. Between 1990 and 1998, the number of regional arrangements reported to the GATT world-wide more than doubled. While regional arrangements can have desirable economic features, this is largely the case where they take a form that will make them stepping stones towards broader liberalization (World Bank 2000). However, there is a serious risk that this emerging network of regional arrangements will introduce serious distortions into the world trading system. These distortions are likely to include the trade diversion that often eliminates meaningful gains from trade liberalization (Fukase and Martin 2001), and problems associated with differing rules of origin and standards measures.

It is frequently forgotten that the Most-Favored-Nation (MFN) principle enshrined in Article I of the GATT was not handed down *ex cathedra* but rather was found to be the most practical procedure for dealing with multiple regional arrangements in nineteenth-century Europe (Irwin 1992). Unless the reinvigoration of the multilateral system is maintained, however, it appears that the world may be set on a long and costly path to rediscovering this fundamental principle the hard way – through the operation of a plethora of uncoordinated regional arrangements. Analysis of the type presented in this volume of what might, instead, be achieved through multilateral negotiation, and how regional initiatives might complement multilateral initiatives, could have substantial payoffs.

It is now clear that lasting progress is to be made on today's enormously wide trade agenda needs the involvement and support of a range of organizations at the national, regional, and global level. In the Asia-Pacific, the inter-related institutions of Asia-Pacific Economic Cooperation (APEC) and the Pacific Economic Cooperation Council (PECC) are particularly important for a number of reasons. First, they provide fora in which developed- and developing-country members that account for close to 50 percent of world trade can meet and attempt to develop common understanding of issues in a non-confrontational environment. Secondly, an important component of their agenda is economic and technical cooperation that helps developing countries strengthen their trade-related institutions in a way consistent with their development needs – helping to avoid or diminish many of the implementation problems of the type arising from the Uruguay Round.

The trade-related institutions of the Asia-Pacific will clearly face many opportunities and challenges in the coming years. The accession of China and Chinese Taipei to the WTO during 2001 will have major implications for world trade (Ianchovichina and Martin 2001), and for the world trading system (Martin and Ianchovichina 2001). Further, the crucial Fifth Session of the Ministerial Conference, at which it will become a little more clear whether the WTO has been able to adapt successfully to the changes in its environment, will be held in Mexico in 2003.

The present volume draws primarily on the expertise of authors from APEC member countries – expertise honed through participation in PECC fora. Preparation of most of the chapters involved authors from both developed and developing countries, and all of the studies take into account the needs and concerns of developing countries. Market access and related issues in agriculture, non-agricultural merchandise, and in services trade receive particular attention. Also examined in detail are the "Singapore" issues of investment, competition, and trade facilitation, on which WTO members are committed to deciding on modalities for negotiation in mid-2003. All of these critically important issues are analyzed in this volume with a view to identifying approaches by which progress might be made.

The primary aim of this volume is to improve understanding of the issues, the objectives of policy, and the options for trade policy reform. The volume is presented with sufficient rigor to be useful for the specialist in international trade, but in a manner that is accessible to the informed lay person. Since the trade agenda is so broad, no one person can be fully abreast of all its dimensions. For this reason, this volume brings together contributions from specialists in the major topic areas. Furthermore, since the development dimension is so important, it brings together contributors from both developing and developed countries, and draws on extensive background research undertaken by the trade team at the World Bank and the many analysts with which it works (see, for example, Hoekman and Martin 2001).

Six key themes emerge from the volume:

- ***Improving market access*** remains extremely important There remains a strong case for lowering the barriers that hinder access to markets, particularly where these barriers disproportionately hinder the exports of developing countries, as they do in all the major areas – agriculture, manufactures, and services.

- Some of the ***complex rules governing trade*** need to be rationalized in order to achieve greater transparency and better outcomes. This is particularly important in areas such as agriculture and services, where the regulatory framework is new.
- ***A broad agenda*** is likely to be needed to ensure that the now much broader export interests of developing countries are addressed (World Bank 2001), and the opportunities for coalition formation and bargaining across sectors and issues come fully into play.
- The ***development dimension*** is crucial, and needs to include improvements in market access for products of interest to developing countries, assistance to developing countries in implementing new and proposed policy reforms, and to ensure that future rules take into account the developing countries' capacity and needs.
- Policies on ***investment and competition*** are increasingly important at a national level, but progress on multilateral rules is likely to be very slow. Incremental reforms that build on current WTO agreements, and particularly on the investment provisions of the General Agreement on Trade in Services (GATS), might allow significant progress even in the absence of negotiations.
- On ***trade, the environment, and labor standards***, it is clear that the WTO cannot resolve all of the problems, although it may make some progress in the areas covered by the Doha agenda. The WTO and other organizations dealing with environmental and labor issues must cooperate in dealing with the critical problems that have emerged.

In the remainder of this introduction, we survey the issues covered in the volume.

Built-in agenda one: the negotiations in agriculture

In chapter 2 of this volume, Kym Anderson, Erwidodo, Tubagus Feridhanusetyawan, and Anna Strutt examine the potential for the ongoing negotiations in agriculture. They begin by examining the barriers in world agricultural trade, and observe that the price distortions resulting from these barriers are substantially larger than those in manufactures trade, in both industrial and developing countries. Globally, the average tariff rate on agricultural products is twice as high as in textile and clothing, and four times as high as on other manufactures. Given these very large distortions, they find that the global gains from agricultural trade reform will exceed those from liberalization of manufactures trade, despite the small share of agricultural products in world trade.

While the gains from further liberalization of agricultural trade are enormous, the difficulties associated with reform are also substantial.

These difficulties arise both from the political strength of high-cost agricultural producers in the European Union and Japan, and the special nature of the rules governing agricultural trade. The special nature of these rules is evident in each of the three broad areas of the Uruguay Round Agreement on Agriculture – export competition, market access, and domestic support. The fact that frequently discriminatory export subsidies continue to be tolerated distinguishes the rules on agricultural trade sharply from those governing trade in all other merchandise. The market access reforms involved sharp reductions from initial levels of protection – but these levels were inflated by devices such as "dirty tariffication" and the use of ceiling bindings. Further, the market access opportunities provided under the agreement are subject to a range of constraints that frequently result in these tariff rate quotas going unfilled.

The authors argue for an ambitious and broad agenda that would sharply reduce barriers to agricultural trade and allow the difficult decisions that need to be taken on agriculture to be balanced by benefits from increased market access in other areas. Reducing protection in agriculture will be difficult because so many of the tariff bindings in agriculture are far above current, or likely, levels of protection. This problem might be dealt with by formula-type reductions that reduce higher rates of protection more than lower rates. While the tariff rate quota system has many undesirable features in terms of transparency and equity, the best approach for dealing with it might be to expand the quotas in order to compensate some who lose from reductions in quota rents (Elbehri, Ingco, Hertel, and Pearson 2003). A broader agenda of the type adopted in Doha is seen as vital for success.

On agricultural trade rules, the authors believe that there is a strong case for adopting a generic approach, rather than attempting to devise agriculture-specific rules. The rules on domestic support for agriculture might, for instance, usefully be merged with the general rules on subsidies. Similarly, the rules on state trading might be integrated with future rules on competition policy and on domestic regulatory policies. Rules on trade and environment, and the range of other non-trade concerns identified in the negotiations to date, should also be generic, rather than agriculture-specific.

Market access in manufacturing

Florian A. Alburo in chapter 3 of this volume examines the reductions in protection brought about by the Uruguay Round. From this assessment, he concludes that substantial progress was made in the Uruguay Round in reducing tariffs, in increasing the share of products entering duty-free, and in reducing tariff escalation. Despite this, it is clear that considerable potential gains remain available in the negotiations on market access for non-agricultural products initiated at Doha. Developing countries, in particular, pay relatively high duties on their exports of manufactures to both developed and developing countries. The use of contingent protection, and particularly anti-dumping measures, has also been increasing, imposing additional barriers on developing-country exports, and creating serious concerns about the value of market access offers.

The interests of East Asian developing countries in improved market access for manufactures are particularly strong, and have become much stronger in recent years as the shares of manufactures in their exports have risen. Since the barriers that they face in other developing countries are large, it is important that liberalization of manufactures trade should include developing countries as well as industrial countries. A key question that arises in this context is how liberalization might be achieved.

Alburo believes that the experience of the East Asian countries in achieving liberalization is likely to be a useful source of guidance in the design of policies for future reductions in manufactures trade. Here, he points to the experience of the ASEAN countries in designing modalities for a number of initiatives including the ASEAN free trade area, the Information Technology Agreement, and the APEC experience with concerted liberalization. The ASEAN free trade area built on an earlier, unsuccessful, scheme, and has been able to achieve substantial reductions in barriers through a scheduling procedure that provides incentives to include products of export interest, but also restricts countries' ability to exclude sensitive products in the longer term. The APEC experience with economic and technical cooperation provides a potential basis for trade capacity building, of the type highlighted in the Doha Ministerial.

Another key issue in manufacturing trade is the abolition of the quota regime that currently prevails in the market for textiles and clothing. Agreement to do this was reached in the Uruguay Round, with a ten-year phase-out period for the quotas under the Agreement on Textiles and Clothing (ATC). This agreement allowed the industrial country importers a substantial degree of flexibility in meeting their commitments to phase out the regime, flexibility that they used to delay most of the liberalization to the very last moment of the phase-out period, December 31, 2004. A consequence of this delayed reform is a heightened risk of backsliding in the industrial countries, and policy uncertainty that inhibits both adjustment in the industry and further progress in international negotiations.

In chapter 4 of this volume, Nattapong Thongpakde and Wisarn Pupphavesa examine the issues involved in returning textiles and clothing to GATT disciplines. They first examine the nature of the adjustment process involved in the industry, noting that the outcome was considerably worse than the developing countries had expected in terms of the timing of liberalization. The text of the agreement specifies that textile and clothing products will be returned to GATT disciplines in four steps. But because the integration process involves all textile and clothing products, not just those under quota, the developing countries were able to select primarily unrestricted products for the first three stages of integration, thereby delaying the abolition of the quotas. On the other side of the coin, the disciplines of the ATC, and some key dispute settlement cases, made it much more difficult than expected to introduce new quotas under the safeguards provisions of this agreement. This has slowed the previously break-neck pace of introduction of new quotas against exports of textiles and clothing from developing countries.

The empirical studies reviewed by Nattapong and Wisarn conclude that abolition of the MFA was one of the most important components of the Uruguay Round Agreement, accounting for between a half and a third of the global welfare gains. Interestingly, the welfare gains from abolition of this iniquitous quota regime were largest for the industrial countries that imposed this regime and resisted its abolition for so long. The other group of important gainers from abolition is highly efficient exporters such as China, Indonesia, and the Philippines. Even for these efficient exporters, the market for textiles and clothing becomes much more competitive after abolition of the quotas. This increase in competitiveness both increases the return from productivity-enhancing reforms, and increases the losses from inaction or policy changes that raise costs. Exporters such as Hong Kong, whose comparative advantage has moved to other areas, and are continuing in this industry in large part because of the quotas, do suffer some static welfare losses from abolition. However, this reform allows them to move resources out of what are, for them, "sunset" industries.

Since the Uruguay Round agreement was reached, the market for textiles and clothing has evolved rapidly. Exporters such as Hong Kong have continued to lose competitiveness, a phenomenon that is manifested through a fall in the prices of quotas in Hong Kong. Another important development has been increased penetration of the quota-restricted markets by beneficiaries of regional arrangements. In the US market, for example, Mexico managed to more than double its export volume shares for both textiles and clothing in the four years from 1994, and both Mexico and Canada are now larger exporters of textiles and clothing to the United States than China. This outcome was clearly in large part a consequence of trade diversion, despite the costs imposed by restrictive rules of origin that, in a sense, export US protection of its textile sector to Mexico.

Nattapong and Wisarn conclude that reform of this sector, and the progress of the current negotiations, could be improved if the industrial countries were to show leadership by speeding the process of integration, and by being willing to make further reductions in tariffs on textiles and clothing. To their own cost, and to that of developing countries and the trading system as a whole, the industrial countries have repeatedly – and most recently at Doha – refused to accelerate this process in any meaningful way. Abolition of these quotas and reductions in tariffs will be important for reducing the costly trade diversion inherent in the expansion of regional preferences in a situation characterized by serious distortions. This is an important illustration of the general principle (World Bank 2000), that the costs of trade diversion are likely to be particularly large when trade barriers are high.

Built-in agenda: trade in services

Because trade in services was included in the built-in agenda from the Uruguay Round, negotiations have been underway in the Services Council since early 2000. Relatively broad agreement appears to have been reached on the objective of including all service sectors, and on using the broad "architecture" of the GATS. There appears to be considerable support for using reciprocal "request and offer" approaches to the negotiations, and for providing some type of credit for autonomous negotiations. In chapter 5 of this volume, Low and Mattoo provide recommendations consistent with this broad framework that would allow for considerable progress to be made on these important negotiations.

One of the key issues identified by Low and Mattoo is a need to step back and increase the clarity of the GATS process. There is frequently a lack of clarity in the rules and their interpretation, and in the scheduling of countries' commitments, that considerably reduces their value. In the rules, they point out that there is frequently considerable ambiguity in the distinction between national treatment and market access. Another source of confusion that became clear in the negotiations on financial services was between modes of supply, and particularly between the provision of services by cross-border trade and by consumption abroad. Other problems that have been identified since the completion of the Uruguay Round include a lack of clarity in the relationship of commitments to domestic regulation, and in the legal interpretation of particular commitments. In all of these cases, much can be done to increase the clarity of the commitments, and this would appear to be a high priority for the current negotiations.

Assuming these problems can be overcome, a key challenge for the negotiations on services will be to increase the quality and coverage of the commitments given. One clear objective in this regard should be to focus on using commitments to increase competition, rather than on allowing a particular degree of foreign ownership. Another approach, used extensively in the telecoms agreement, was for governments to use the process to make credible pre-commitments to future liberalization. A further challenge will be to increase the extent to which domestic regulations support, rather than inhibit, the process of trade liberalization.

The broad preference for a "request and offer" approach in the current negotiations on services is only a broad guide to sentiment on the negotiating approach, and considerable effort will be needed to define more specific procedures for negotiation. Drawing on experience with the negotiations on maritime services and on basic telecoms, Low and Mattoo consider three potential approaches by which the negotiating methodology might be made more effective. The first would be through development of agreed model schedules for some subsectors. A second would be through development of an understanding covering a range of subsectors and issues acceptable to a broad range of members. A third approach might build on the success of the regulatory white paper in the telecoms agreement. It seems clear that institutions like APEC might, as suggested by Alburo in the case of manufactures, play a key role in the process of developing and obtaining agreement on such common approaches.

While Low and Mattoo see some merit in a shift from the current positive list approach to scheduling commitments on services, they do not, on balance, feel that such a profound shift from the current "architecture" of GATS would be warranted. Rather, they feel that effort should be focused on reducing the limitations on many of the commitments currently included in schedules. They see a key ingredient for success being a revival of reciprocity. To achieve this, they suggest a range of approaches, including pressure for a broad range of commitments from all countries in areas such as environmental services, and reciprocity between countries for services within a particular mode. For example the United States might provide cross-border access to the Philippines for insurance and audiovisual services in return for a reciprocal commitment on software and data-processing services.

Some important areas for negotiations in which these approaches might be given effect are: air transport, maritime transport, and telecommunications. All three are network industries where the potential gains from