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COLUMBIA BUSINESS SCHOOL

THE WTO AND DEVELOPING COUNTRIES

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The World Trade Organization's current Doha trade round—launched in the shadow of September 11—was called a development round because of its focus on constructing a fair system of trade for developing countries, including the reduction of trade barriers for textile imports, agriculture and services. During the selected luncheon discussion, two world-renowned figures of global development, representing two large developing countries with enormous challenges, shared their thoughts on the current round of trade talks.

Opening remarks by moderator Professor Jeffrey D. Sachs, director of the Earth Institute at Columbia University and special advisor to UN Secretary-General Kofi Annan, laid the foundation for the session. He asked the panelists to address, among others, the following questions: Is there in fact a development agenda in the Doha round? How important is this round for Nigeria, Indonesia and more generally for other developing countries? What can still be accomplished in this round? What is the role of Nigeria, Indonesia and developing countries in general in the WTO—an organized international trading system? The panelists were

- *Ngozi Okonjo-Iweala, Minister of Finance, Nigeria*
- *Mari Elka Pangestu, Minister of Trade, Indonesia*

The Nigerian Response

United Nations Development Program (UNDP) statistics indicate that sub-Saharan Africa (population 689 million) contributes less than half of what Belgium (population 10 million) does toward world trade. Another UNDP estimate indicates that had Africa maintained its 1980 level of global exports, it would have earned around $119 billion more than it has today from world trade. Clearly, Africa has experienced a marked decline in its contribution toward world trade and must work harder to rectify this. At the same time, the WTO and the international community also have to do more to assist Africa in attaining its goal. Primarily, there are four major areas that the WTO, the international community and the countries of Africa need to focus on in order to realize the benefits from the Doha round and from trade in general.

All Parties Must Obey the Rules Established by Rules-Based Institutions

Unfair trade practices exist in different sectors, with agriculture being the most often noted. The rules governing domestic support and export subsidies for agriculture are being ignored or disobeyed by larger, wealthier countries. For example, the share of agriculture export subsidies for the United States, Europe and Japan amount to around $300 billion a year, which is almost equivalent to the GDP of the entire African continent. When developed countries do not obey the rules, it causes a significant challenge for developing countries: taking away from their ability to compete, to use exports as a means of reducing poverty, to stick to rules themselves and to open up their markets.

This is especially the case when subsidies are concentrated on products that the developing countries are more efficient at producing. Note that cotton farmers in Africa can produce at 21 cents per pound compared to 73 cents in the United States. However, protectionist tendencies among the more developed and powerful countries prevent these efficiencies from being realized by consumers; they also prevent developing countries from competing fairly and thereby bailing themselves out of poverty as quickly as they could if free-market rules were allowed to prevail.

As a side note, emerging-market countries should reconsider their own trade rules and regulations as they impact the least developed countries. Not all developing countries can be lumped together, and their interests can often diverge. Emerging-market countries such as Brazil, South Africa, Indonesia and others are at a different stage of development than a country such as Nigeria. Consequently, their interests are not necessarily always the same as those of the least developed countries.

Adjust Tariffs to Incentivize Value-Added Production

The WTO can serve as a vehicle for building consensus around greater market access for developing countries. The Commission for Africa report led by Prime Minister Tony Blair of the United Kingdom recommended that developed countries should progressively reduce all tariffs to 0 by 2015, in addition to minimizing nontariff barriers—as doing so is key to achieving the Millennium Development Goals.

Many African policymakers feel that their countries are being forced to remain primary commodity exporters because of this issue of tariff escalation. As raw goods are transformed to higher-end products, tariffs increase immensely. The average tariff on unprocessed cocoa, for example, is 0 and 0.5 percent in the European Union and United States, respectively. However, the tariff on processed final cocoa products could go as high as 63 percent in the European Union and 186 percent in the United States.

Clearly, jobs are created as value is added to products. But when products are encountering such high tariff barriers, producer countries are forced to remain primary commodity exporters. Such countries are experiencing limitations in their opportunities to “manufacture” their way out of poverty—as other countries have done. Developed countries have to do more to allow developing countries to succeed in this regard: to add value to their primary products, to create jobs and to allow their labor pool to evolve in their skill set.

Liberalization of Services and Free Movement of Labor Should Receive Universal Support

In services, countries should open their financial, insurance, banking and telecommunications sectors. Many developing countries, including Nigeria, have already made significant strides. An area of interest to developing countries that developed countries seem reluctant to address is the temporary movement of natural persons. Through an orderly organization of these movements, developing countries could benefit to the tune of $150 billion dollars—if the OECD countries were to grant a 3 percent quota of their low-skills labor market to developing countries. This is three times the amount of aid that is being considered for sub-Saharan Africa until 2015.

Needless to say, this issue is of great interest to African countries and should be for developed countries as well, especially reflecting upon the demographic reality of such countries. Developed countries have an inverted labor pyramid, so they will need the labor. How they get it is the key issue. Walls and such are not going to address this. Rather, a solution can be found only when the world sits down to discuss an orderly movement of labor.

Address Institutional and Infrastructural Weaknesses

Many developing countries do not know or understand negotiations rules and therefore have weaker capacity to participate fully. Even processes such as registering trademarks and intellectual capital are not being done or are done poorly. This is a problem for countries like Nigeria in which intellectual property is being stolen, developed and traded on the international market, including being sent back to Nigeria at a much lower cost.

One such example is a traditional female outfit made in Nigeria. United Nigerian Textiles (UNTL) is one of the textile companies that produced such outfits for the Nigerian market. Recently, a Chinese company registered the trademark of UNTL in China, began to produce the same outfit in China and is now selling it in the Nigerian market for $2 less than the original. Such products are arriving in African markets in large quantities. This begs the question of how companies in developing countries such as Nigeria, where 100,000 jobs have been lost because of this, are to survive if these practices continue. The WTO must talk about and deal with this.

Consideration must also be given to what are commonly termed “behind the border” issues (reforms that must take place within the countries themselves). African countries must develop their physical infrastructure. Investment from the rest of the world is critical to making this happen. Developing countries must get their ports working properly so they can move goods. If this is not done, then economic progression will be hindered, as will reform. Nigeria has already begun to transfer its ports to bigger international players; however, investment from abroad is needed to make reforms substantial. Unfortunately, there seems to be very little appetite from outside investors.

At the same time, the Prime Minister of Poland recently announced that the European Union would give Poland 91 billion euros over the next seven to eight years to upgrade the country’s infrastructure. Spain received about 10 billion euros. Ireland would not be the powerhouse it is today if the European Union had not pumped in billions of dollars to help it develop its infrastructure. China has openly admitted that its secret to growth has been a massive investment in its infrastructure.

While education, health and other human-infrastructure topics are without a doubt important, development of physical infrastructure is critical at this juncture. It is very difficult for African and other developing countries to move forward with reforms when they are not getting the type of investment they need. If the European Union is willing to give billions to its countries to upgrade their infrastructure, then it is only fair that the world look at meeting the needs of African countries in this regard as well.

Another issue for which developing countries bear responsibility is fighting corruption. While some laggards exist, many African countries are now bringing transparency to government and business. For the past three years, Nigeria has focused on maintaining fiscal discipline. It has gone from a fiscal deficit of 3.5 percent of GDP to a consolidated fiscal surplus of 10 percent of GDP in 2004 and 11 percent last year—more than $63.4 billion saved during that time. Now there is macroeconomic stability, and inflation has gone down from 23 percent to 11.6 percent. Corruption is being addressed, as is the trade regime, where average tariffs have been brought down from 25 percent to 17 percent. Nontariff barriers are also being removed, and reforms are occurring even in the public sector. The results have been noteworthy: GDP growth was 6.3 percent last year and 6.1 percent the year before, considerably more than the previous decade's GDP growth. It's worth nothing that the growth is not simply coming from higher oil prices; Nigeria has worked to diversify its revenue stream.

The Indonesian Response

Out of its population of 220 million, Indonesia still has 30 million people below the $1/day poverty line and another 30 or 40 million just above the poverty line. Can the Doha development round really help people out of poverty? There are four themes surrounding this question.

Careful Targeting of Liberalized Industries Is Still Needed

Variation exists in the capacities of developing countries to benefit from trade liberalization. Trade liberalization in itself does not lead to development; much of it depends on the way a country opens up, the sequence, the speed and the internal capacity to manage the process. All of these help determine whether the benefits from greater openness are realized and evenly distributed within a country. Trade policy must be inherently related to an increase in productivity and competitiveness, which requires a comprehensive policy for physical- and human-infrastructure development, education, technology and productivity expansion of subsistence farmers. Supply constraints must be removed, and capacity must be dealt with across these various fronts.

In sensitive sectors like agriculture, losers will always exist. What is the best way to compensate those individuals? Among developed countries, only 2–3 percent of the population participates in agriculture. So a country like Korea can allocate $10 billion to buy off its farmers. In Indonesia, where 50 percent of the population is still in agriculture, the math does not work out; the country is not able to compensate the losers. Thus, in trade negotiations there is still a need for a category called special products that allows for certain products to not be subject to liberalization—when doing so would hurt a large proportion of the country's population.

An Evolution in Negotiations and Decision Making Is Occurring

Major developing countries and some smaller ones are becoming aware of their power to negotiate. They are beginning to form coalitions, which will strengthen that power. Talks fail, as was the case in Seattle, when large developed countries work in isolation during trade talks without consulting developing countries. In Doha, developing countries for the first time negotiated a difficult and tough compromise with the developed countries. Thus it behooves everyone to include the voice of developing countries in trade talks.

A much finer distinction is needed when speaking of developing countries, as not all of them are at the same stage of development. Interests can often diverge between the more and less developed “developing countries.” The G-20, led by Brazil, the G-23, led by Indonesia, and the G-90 all must do their homework to come up with credible proposals of their issues. These country groups must also coordinate with one another and stick to their positions during negotiations and be willing to consolidate their positions with other country groups. Developing countries must be active in a responsible way if they are to have their positions included in the negotiations. Despite the outcome or the slowness of the procedures, the processes should be followed and maintained. Being proactive, doing the necessary homework, having a well-defined position, anticipating pushback and having good answers to tough questions are all keys to success.

Carve-outs for Special Products Are Needed

Developing countries like Indonesia are concerned about market access and, in particular, about getting rid of unnecessarily high and ever escalating tariffs. The role of special products and special safeguard mechanisms is crucial, especially to sectors that employ a large number of farmers or are important for food security or for rural livelihood and development. Special and differential treatment for developing countries is also important. It is imperative to recognize the variations in capacities of developing countries to enjoy the benefits of liberalization. Differences can be so large that dissimilar timetables for compliance are called for. Not all developing countries should be lumped together, and individual country needs should be considered.

Regional and Bilateral Trade Agreements Must Be Considered Strategically

The proliferation of regional and bilateral trade agreements began around 1999 and was linked to the failure of the WTO meeting in Seattle and post–Asian crisis uncertainty. Countries like Japan, which had never before pursued preferential agreements, began to consider them. As uncertainty in the multilateral trading system increased, so did the willingness to consider regional free-trade agreements. The same kind of sentiment is emerging again as countries become more pessimistic about the ability of the Doha development round to benefit them.

Thus policymakers in developing countries like Indonesia must follow a multitrack strategy whereby they negotiate multilaterally, regionally and also bilaterally. This is unfortunate because the multilateral trading system is the best for developing countries, as it affords the most fairness and protection of a country's rights. Such a system contains mechanisms for dispute settlement against large developed countries such as the United States. It also allows for inclusion of the needs of developing countries in negotiations and in determining the rules of future trade talks. In regional or bilateral negotiations, especially with countries such as the United States or Japan, there is little room to maneuver. Those countries have the leverage to basically present a template and ask for a signature on the dotted line. And if you have a dispute or want to alter the terms, the outcome is not likely to be in your favor. Thus for fairness of trade and protecting the rights of the developing countries, the multilateral system is the best system.

As regional and bilateral agreements continue, developing countries will face a more challenging and complex international reality. Concerned policymakers must be conscious of turning such agreements into building blocks: instilling best practices or principles so that the same rules of margin, the same scheduled reduction of tariffs and the same standards can be implemented for these trade agreements. The role of the WTO in producing rules or guidelines deserves consideration. By approaching these trade agreements as building blocks, the multitude of regional and bilateral agreements can be combined to produce a multilateral, fair and open trading system.

Dimple Kaur MBA '06
Columbia Business School