

BACKGROUND

briefing

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The WTO and Developing Countries

It is essential that we retain, strengthen and reform the WTO and the rules-based system, and ensure that it works for poor countries. The alternative is a situation in which the rich and powerful dominate the rest, or where the richer economies make bilateral trade deals between themselves and exclude the poorest.

White Paper on International Development 'Eliminating World Poverty: Making Globalisation Work for the Poor', December 2000

Following the Ministerial Conference at the end of 1999 in Seattle, most people will have heard about the World Trade Organisation (WTO). It is an organisation that is attracting growing media and public interest.

This background briefing aims to set out UK policy on WTO issues. It aims to explain the role of WTO in development and in the international system, how developing countries can have a greater say in the WTO, how new rules can be made more responsive to the needs of developing countries, how dispute settlement procedures can be improved and whether and how the WTO could be made more open. This brief builds on the UK Government White Paper *Eliminating World Poverty: Making Globalisation Work for the Poor*¹.

What is the World Trade Organisation?

The WTO was established in 1995 at the end of the Uruguay Round of multilateral trade negotiations. Two thirds of its 142 members are developing countries.

The WTO is a forum for governments to negotiate trade rules, served by a small secretariat in Geneva, Switzerland. The WTO Secretariat numbers about 500 staff and provides administrative and technical

support for WTO members. It is not an institution that can take unilateral decisions; rather it is a member-driven organisation where decisions are generally made by consensus among all members. Its rules are negotiated by member governments, then ratified by all members' parliaments.

...and why is it important for development?

The WTO, as a rules-based, membership-based organisation, gives developing countries the power to make the rules of international trade fairer. A world where the only new trade rules are made through regional and bilateral trade agreements would risk marginalising developing countries and allowing the more powerful countries to dominate. Developing countries need commitment from their trading partners to trading conditions that are stable, predictable, transparent and without discrimination. The WTO system provides them with such an assurance. The alternative is a world where the rich and powerful countries dominate the rest.

The WTO aims to promote trade liberalisation as a *means* of sustainable development, not an end in itself. A principle of the WTO system is to encourage countries to lower their trade barriers and to allow trade to flow more freely. As set out in the White

¹ See www.globalisation.gov.uk

Some one in five of the world's population live in extreme poverty. Governments worldwide have agreed to work together to halve the proportion of people living in extreme poverty by 2015, and to other targets including universal primary education and improved healthcare. The UK Government is strongly committed to these targets.

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Paper on International Development, trade has a vital role to play in helping developing countries boost their economic growth and to generate the resources necessary for reducing poverty.

The WTO is not about blindly liberalising trade at any cost. Its impact on trade opening depends on what countries are willing to bargain for with each other, how ready they feel they are to lower trade barriers, and what they want to obtain from other members in return. WTO rules allow tariff² barriers to be lowered gradually so that domestic producers can adjust.

What is the WTO's place in the international system?

The WTO is of course not the only international organisation and should not be expected to extend its rules into every aspect of international governance. But the WTO does need to evolve to keep pace with the changing ways in which trade takes place.

The main emphasis of trade negotiations has traditionally been on lowering tariffs, since these have been the major obstacle to trade. But as tariffs fall, so called 'non-tariff barriers'³ assume greater importance. WTO members need to agree rules in these areas so that they do not replace tariffs as new forms of protectionism.

Almost every issue is in some way related to trade. But we should not expect the WTO to develop and oversee international rules in areas that are the responsibility of other international organisations or agreements.

For example, it is the task of the environmental agencies and conventions to take the lead on the development of international rules on environmental protection⁴. The WTO should recognise the authority of multilateral environment agreements but is not the right body to agree or enforce them. Similarly it is the task of International Labour Organisation (ILO) to promote core labour standards, and these should not be agreed or enforced through the WTO⁵.

It is the job of governments to ensure that the agreements they reach in different fora on environment, labour and conflict are coherent and

consistent with each other. Further, we are working with international organisations, such as the International Monetary Fund, World Bank, ILO and WTO, to ensure that they co-operate and work together to implement international agreements and share knowledge.

How can developing countries have a greater say in the WTO?

The WTO can be a force for development because developing countries now represent the majority of WTO members. But there is a need for them to exert their influence more effectively. Without this, WTO risks being dominated by a small group of rich countries.

We are working to encourage a more active involvement by developing countries in the WTO. There are three elements: increasing policy-making capacity in developing country capitals, improving their representation in Geneva and improving the organisation of activities inside the WTO.

Trade negotiations require skilled staff and institutional knowledge. It is crucial for developing countries to build adequate policy capacity *in their capitals* if they are to achieve results in Geneva-based WTO discussions.

Many developing countries lack representation in the WTO in Geneva. 14 'least-developed' and 14 developing member countries do not have a *representative in Geneva*, and many more have only one person to cover up to 40 meetings a week. We are working with the WTO Secretariat and other organisations in Geneva to provide suitable support to strengthen the participation of these countries.

Building developing country capacity in capitals and in the WTO requires active support for public administration reform programmes in developing countries and more specific trade policy capacity-building. Together with others we are looking at ways in which we can strengthen our support to countries that have difficulty participating fully in the WTO⁶.

Effective dissemination of information in the WTO is vital to ensure that members are kept involved and informed. The WTO Secretariat has recently launched a daily news bulletin and keeps members informed of submissions by civil society groups.

2 A tariff is a duty or tax charged on the import of goods from another country. The higher the tariffs, the more protectionist a country is considered to be.

3 These can be quantitative restrictions (quotas), product standards, anti-dumping measures or rules of origin requirements.

4 The EU's position for a new Round is that there needs to be clarification of the relationship between environmental agreements

and trade rules. Without this being dealt with in negotiations, it is left to the settlement of individual cases to determine this relationship.

5 Please see our background briefings *Trade, Labour Standards and Development* and *Trade, Development and Protecting the Environment*.

6 Please see our background briefing *Building Capacity for Trade*.

Consultations and negotiations in WTO need to be structured and organised to enable the full participation of developing countries. Informal consultations are required in an organisation and negotiations involving over 140 member countries. We are working to ensure that developing countries are not excluded from these, and that any informal contact groups in trade negotiations encourage the participation of developing countries. In particular, we are seeking the development of written guidelines for the way informal consultations feed into formal meetings in the WTO.

These issues become particularly important in the context of a trade Round. One criticism of the Uruguay Round of negotiations was that developing countries' concerns were added into agreements on an ad hoc basis, only when an appropriate negotiator was present. This process needs careful management in a future trade Round.

Can new WTO rules be more appropriate for developing countries?

WTO rules need to apply to all members. Rules should be universal and reflect common principles. But they must also be achievable by developing countries, with realistic implementation schedules and targets.

New rules require the right balance between standardisation and flexibility. For rules to be strong and binding, they need to have enough flexibility to meet the varying needs of the WTO membership and to recognise that WTO members are at different stages of development. This particularly applies to non-tariff agreements that require administrative capacity to implement.

Without flexibility, new WTO agreements will be stuck at the lowest common denominator. This will lead to richer members making agreements amongst themselves outside the WTO and without consideration for the impacts on developing countries.

The term 'special and differential treatment' (S&DT) is used to describe special provisions for developing countries in existing WTO agreements⁷. Many developing countries complain that in the Uruguay Round the

application of S&DT and the treatment of different country circumstances were haphazard and that longer implementation deadlines for developing countries were decided arbitrarily.

There needs to be a better application of flexibility in designing future WTO rules. Appropriate flexibility should be integrated systematically into WTO agreements, rather than added on as an afterthought. We believe future WTO rules should:

- include better structures or targeted provisions to address the problems countries may face
- be based on a better understanding of what might be the difficulties in putting new rules into practice
- include credible implementation processes that match different country capacities
- not rely on 'best endeavour' clauses by developed countries.

Can dispute settlement procedures be improved for developing countries?

The only time when a WTO body can have a direct impact on a government's policies is when a ruling is made by the Dispute Settlement Body. The dispute settlement system is designed to be impartial.

Disputes are usually settled by adoption of a report by a panel of experts. All parties to the dispute have to agree on the appointment of the panel. An expert from a developing country is usually included when the dispute involves a developing country. All WTO members are represented in the Dispute Settlement Body.

When developing countries either initiate a dispute or find their trade regime being questioned by another member, they can face particular difficulties. The most apparent is a lack of capacity to put their case. Developing countries can have difficulties preparing their, often highly technical, arguments in the time allowed. This situation should now improve with the creation of the Legal Advisory Centre in Geneva.

Getting new rules right is as important as the dispute settlement process. The longer the world trading system goes without a new Round, the more pressure will be placed on the Dispute Settlement System to resolve the issues that arise,

⁷ These are in the form of (1) provisions aimed at increasing trade opportunities, (2) provisions that call upon WTO members to safeguard the interest of developing countries, (3) flexibility of commitments, (4) transitional time periods, and (5) technical assistance.

for example over the interface between trade and environmental concerns or the difficulty of implementing agreements by poorer countries. Any new WTO rules should contain clear and concrete language that requires the minimum of clarification through dispute settlement⁸.

Should the WTO be more open?

There is growing public interest in the WTO, which needs to increase its transparency. The General Council has been conducting consultations on this, but progress is slow.

WTO is an inter-governmental organisation. Only governments can make decisions at the WTO and the private sector, non-governmental organisations and other lobbying groups do not participate in WTO activities except in special events such as seminars and symposiums. The way for them to exert their influence on WTO decisions is through their governments, which are in turn accountable to their parliaments.

We believe that it is important that all parties are clear that the accountability of intergovernmental organisations is through the governments and parliaments of their members.

But greater transparency is necessary for proper accountability. We believe that the WTO Secretariat should increase transparency by increasing the availability of WTO documents to an external audience. The Secretariat has made good progress towards this aim by developing a document dissemination facility on its website. However, many documents are restricted from public access automatically for six months. Many members, including the EU, would like to see this time-lag

cut. We also understand that the WTO suffers from a lack of translation resources, which means its documents are not always immediately available in its three official languages.

So, what are our priorities?

We aim to improve the functioning of the WTO and the rules-based trading system so that they embrace the goals of sustainable development. As set out in the White Paper *Eliminating World Poverty: Making Globalisation Work for the Poor*, our priorities for the WTO are:

- to urge the WTO to commit itself with the rest of the international community to achieving the International Development Targets
- to work to make the next multilateral Trade Round a Development Round – that brings real development benefits to developing countries, across a wide range of issues
- to press for significant reform of the EU's Common Agricultural Policy
- to work within the WTO to ensure much greater account is taken of developing country circumstances in rule-making
- to press for trade policy and complementary economic, social and political policies to be built into developing countries poverty reduction strategies
- to work with others to strengthen the capacity of developing countries to participate in international negotiations
- and to maintain our opposition to the use of trade sanctions to enforce core labour standards in the WTO, and oppose any protectionist misuse of environmental standards.

⁸ Please see our background briefing *A New Trade Round and Developing Countries*.

This background briefing forms part of the Trade Matters series. A summary of DFID's policies on trade and development is contained in the **Why Trade Matters** booklet. To obtain further publications in this series, please visit our website at www.dfid.gov.uk or contact the Public Enquiry Point (address details on page 1).