THE MILLENNIUM ROUND AND THE ASIAN ECONOMIES:
AN INTRODUCTION

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Abstract

The ninth Round of multilateral trade negotiations (MTNs) is to be launched at the end of November 1999 in Seattle. It is essential for the Asian economies, particularly those that are known to be successful exporters, to participate in this Round skillfully because what transpires in the Round will have an enormous impact on the trade performance of these economies during the 21st century. Past experience confirms that MTNs are an exceedingly complex affair. To complete these negotiations in a mutually profitable manner, there is an imperious need to have an agenda having something of value to all participants. A mandate existed for negotiations on trade in agricultural products and services—the so-called built-in agenda of the Uruguay Round. Other than this, a whole range of old and new issues is also open for negotiations. Besides, work was in progress in four areas in various World Trade Organization committees, which is sure to be taken up during the current Round. The width and depth of these issues provide the current Round with a wide scope. The author provides a succinct analysis of these negotiating points.
I. Background

It is widely agreed that exports have played a significant role in the economic success of several Asian economies over the last quarter century. Seven Asian economies now figure in the 25 leading exporters list of the World Trade Organization\(^1\) (WTO) for 1998. They are People’s Republic of China (PRC), which was the 9th largest exporter in the world; Hong Kong, China (10th); Republic of Korea (12th); Taipei, China (14th); Singapore (15th); Malaysia (19th), and Thailand (24th) (WTO 1999a). By 1995, the PRC and the East and Southeast Asian economies accounted for 67 percent of developing countries’ exports of manufactures. Therefore, the overarching objective of the Asian economies in the Millennium Round\(^2\) lies in ensuring a healthy expansion of an open multilateral trading system. To this end, what transpires in the Millennium Round will be of immense significance for Asian economies.

Since the late 1970s, trade policies in the Asian economies—in particular in the large exporting economies—have undergone a sea-change. This is borne out by the steady liberalization, sometimes unilateral, of trade regimes, both in goods and services. While the pace and scope of liberalization has varied, majority of Asian economies have participated in the process. These liberalization endeavors have enabled the Asian economies to become much more active players in the multilateral trading system, and made them important participants in fashioning international trade policy. The hegemonic role played by the industrial economies during multilateral trade negotiations (MTNs) has been considerably reduced over the last decade. On one hand, as their volume of exports grew, the importance of MTNs has increased for the Asian economies; on the other hand they became increasingly more consequential contributors to the MTN process. Therefore, there is an imperative need for skillful participation of Asian economies in the forthcoming Millennium Round.

The first Geneva Round of MTNs was limited to negotiations on tariffs. Seven other Rounds followed and the international trading system continually reinvented itself during the postwar period, albeit in an incremental manner (Table 1). The last iteration of this process occurred at the end of the Uruguay Round (1986-1994)\(^3\) when the contracting parties of the

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\(^1\)As of June 1999, the WTO had 135 members. The WTO accession negotiations for Estonia concluded successfully in May 1999, making it the 135th member on 21 May 1999. All the major trading Asian economies are members of the WTO, except for the People’s Republic of China and Taipei, China, which have observer status. These two economies have applied to join the WTO and their membership applications are in an advanced stage of negotiations.

\(^2\)Sir Leon Britton, Vice President of the European Commission, was first to use this nomenclature. Since then it has caught on with the academics and the economic and financial press.

\(^3\)The Uruguay Round was completed in 1994. The formal agreement was signed on 15 April 1994 in Marrakesh, Morocco. Therefore, it is also referred to as the Marrakesh Agreement. Implementation of various agreements will continue through to 2000. Implementation of the accord on the Multifibre Arrangement (MFA) will continue through to 2004.
General Agreement on Tariffs and Trade (GATT) agreed to establish the WTO. The nature, ambit, and complexity of international trade relations as well as negotiations have pari passu metamorphosed since the first Round, which primarily focused on tariff reduction on manufactured goods. This process of tariff-slashing continued to get priority over other trade-related issues down to the Tokyo Round (1973-1979). What was needed was expansion of the nature and ambit of the issues covered in the future MTNs. The Uruguay Round extended multilateral rules of trade to nontariff barriers (NTBs), trade in services, trade-related aspects of intellectual property rights, and investment measures. This Round also succeeded in bringing agriculture and textiles into the fold of international trade discipline. The WTO inter alia has a unified dispute settlement system. It prevents disputants from blocking decisions, and enhances the credibility of WTO rights and obligations among both developed and developing countries. The enhanced institutional status of the WTO has provoked numerous concerns from labor, environment, and other nongovernmental organizations regarding the new authorities vested in the supranational body.

The Uruguay Round was different not only in terms of scope but also in terms of follow-up. Until this point in time, each Round was followed by a long hibernation and endeavors to implement the recommendations of the Round. However, in the new WTO system a series of successful sectoral negotiations were concluded after the Uruguay Round was completed. These negotiations covered the following areas: information technology products, basic telecommunications services, and financial services. In an era of globalized markets, these three agreements are highly significant and closely integrated.

During the Uruguay Round of MTNs it was mandated that WTO members negotiate for further liberalization of trade in agricultural products and services. Many member governments, particularly those from the industrial countries, were of the opinion that these two negotiations constitute the basis for launching a new round of MTNs. The proposed round will be the ninth in the 51-year history of the GATT/WTO (Table 1). Since the completion of the Uruguay Round, two Ministerial Conferences of WTO member countries have taken place. The First Ministerial Conference took place in Singapore in December 1996. During the Second Ministerial Conference on May 1998 in Geneva, trade ministers of the member countries recommended “further liberalization sufficiently broad-based to respond to the range and concerns of all Members, within the WTO framework” (WTO 1998b).

During this year, policy community in the Asian economies would develop strategies for participation in the Millennium Round and the academic community would analyze various related issues. In some countries deliberations and preparations are currently under way. Many Asian economies are reluctant to participate in negotiations other than on agriculture and services, that is, the so-called built-in agenda of the Uruguay Round. However, the next Round must be an undertaking that maximizes the opportunities for tradeoffs across issues and, thereby, further liberalizes global trade. This makes inclusion of a larger number of issues necessary. This paper argues that Asian economies can derive significant benefits from a broader WTO Millennium Round of negotiations. While the interest of different subgroups of Asian economies will be asynchronous, there are a number of important issues beyond agriculture and services, which Asian economies as a group may wish to have been included and addressed in the next Round. In several areas, fruitful negotiations can take place for the Asian economies, with eventual profitable outcomes. In what follows, these possibilities have been introduced and explored.
Table 1: The GATT/WTO Trade Rounds

<table>
<thead>
<tr>
<th>Year</th>
<th>Place/Name</th>
<th>Subjects Covered</th>
<th>Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>1947</td>
<td>Geneva</td>
<td>Tariffs</td>
<td>23</td>
</tr>
<tr>
<td>1949</td>
<td>Annecy</td>
<td>Tariffs</td>
<td>13</td>
</tr>
<tr>
<td>1951</td>
<td>Torquay</td>
<td>Tariffs</td>
<td>38</td>
</tr>
<tr>
<td>1956</td>
<td>Geneva</td>
<td>Tariffs</td>
<td>26</td>
</tr>
<tr>
<td>1960-61</td>
<td>Geneva (Dillon Round)</td>
<td>Tariffs</td>
<td>26</td>
</tr>
<tr>
<td>1964-67</td>
<td>Geneva (Kennedy Round)</td>
<td>Tariffs and antidumping measures</td>
<td>62</td>
</tr>
<tr>
<td>1973-79</td>
<td>Geneva (Tokyo Round)</td>
<td>Tariffs, nontariff measures, plurilateral agreements</td>
<td>102</td>
</tr>
<tr>
<td>1986-94</td>
<td>Geneva (Uruguay Round)</td>
<td>Tariffs, nontariff measures, rules, services, intellectual property, dispute settlement, textiles, agriculture, creation of the WTO, etc.</td>
<td>123</td>
</tr>
<tr>
<td>1999-</td>
<td>Seattle (Millennium Round)</td>
<td>Presently being decided</td>
<td>135</td>
</tr>
</tbody>
</table>

II. Crafting the Millennium Round Agenda

The shape of the world trade and regulations governing it in the 21st century will necessarily depend upon the dexterity with which the Millennium Round is conducted. The basic challenge facing WTO members, including the Asian economies, is to skillfully craft an agenda for the new global trade negotiations that provides the broadest participation and the greatest potential for agreement on significant new trade reforms. Given the diverse and divergent trading interests of the participants, formulating the agenda will take some efforts. The impact of the Round will necessarily be asymmetric over the participating economies. In addition, trade issues do not clearly break down along North-South lines, although they dominated the agenda until the recent past. The constituencies driving the new trade issues are diverse, and span the different regions of the globe. For instance, it is obvious that the least developed countries of the world have little in common with the larger ones like Brazil, PRC, and India. Again, the latter country group finds economies like the newly industrialized economies (NIEs) to be competitors as often as allies during the MTNs. Therefore, the expectation that at the end of the proposed Millennium Round all the participating economies will be able to “take home” some of their negotiating priorities
may well be far-fetched, if not unrealistic (Schott 1998). In other words, the agenda should have something of value for every participating member country. It is essential because without it countries will neither be able to attract domestic political support for participating in the Millennium Round nor reform their own trade regimes.

As there was a built-in agenda for a new Round in the Uruguay Round agreement for negotiations in agriculture and services, the problem of an agenda could be treated as partially resolved. But agriculture and services, in spite of being critical areas, do not comprise a "critical mass of issues" that could yield agreements to liberalized long-established trade barriers. With such a limited scope, the Round will yield little in terms of trade liberalization. Most countries will be reluctant to remove their trade barriers unless they receive reciprocal concessions from their trading partners in terms of market access (Schott 1998). Domestic protectionist lobbies have to be allayed and reciprocal concessions must work to keep them contented. Exchanging concessions makes it politically feasible to continue the MTN process. This brings us again to the point that narrow sectoral negotiations provide little scope for tradeoffs, because a rule of thumb is that negotiators demand a reciprocal benefit for every concession they offer. One illustration of the limited utility of a narrow sectoral negotiation is the much heralded financial services pact, which failed to achieve any significant liberalization of existing trade barriers (Dobson and Jacque 1998). If the MTNs are wide-ranging, the negotiating countries can exchange cross sector concessions, necessary for a successful Round of MTNs. Had the Uruguay Round not been extended to agriculture, textiles, services, and intellectual property, its results would have been limited. By the same token, if the Millennium Round is to succeed its agenda must be comprehensive. It needs to be far more than the so-called built-in agenda of the Uruguay Round. Also, it is likely that Asian and other developing countries will need to agree to trade liberalization and regulatory reform measures in new areas like investment, competition, and electronic commerce, so that they are able to get the industrial economies to commit to further reforms in agricultural products and textiles and apparel. The last named areas are of great significance to the developing economies.

III. Possible Range of Issues

It was not too long ago that a major Round of MTNs culminated, yet the global trading system can benefit from discussions and negotiations on a large range of issues during the Millennium Round. As noted earlier, a mandate exists for negotiations on trade in agricultural products and services. This has been called the built-in agenda following the Uruguay Round (Section 1). Thus the forthcoming Round has these two important areas to begin with. These two areas of negotiations are discussed below in Section IIIA. However, a whole range of old and new issues is also open for negotiations. The width and depth of these two sets of issues provide the Millennium Round with a wide scope and, therefore, it has the makings of a complete Round of MTNs. Going by the experience of the Uruguay Round, these issues can potentially keep the negotiators busy for a while.

In addition to the above-stated issues, work has been in progress in four areas in various WTO committees, which is sure to be taken up during the proposed Round. There are some issues that were not a part of the WTO agenda at any point in time but have been on the minds of several members. They have been debated from time to time and were taken
up for discussion during the 1st Ministerial Conference of WTO in December 1996 in Singapore. An attempt may be made to include these peripheral issues as well in the forthcoming Round. There are other issues being speculated about in the academic and policy making communities, which may or may not be taken up for negotiations in the Round, but they are full-fledged issues in their own right.

A. Built-in Agenda

The agreements on information technology products, basic telecommunications services, and financial services, which were part of the built-in agenda of the Uruguay Round, were finally concluded on schedule in 1997. In all, 28 substantive agreements had been completed during the Uruguay Round, many of which have “general review provisions” after stipulated periods of differing lengths. These reviews could create fresh areas for negotiations on that or related subjects. As noted earlier, two of the Uruguay Round agreements go further. The Agreement on Agriculture and the General Agreement of Trade in Services (GATS) call specifically for negotiations to carry forward the process of liberalization embarked upon during the Uruguay Round. As the negotiations on both agriculture and services will be broad in scope, they are expected to affect major trade interests of most countries, either as exporters or importers. These negotiations, by general consent, are seen as the core subjects for the next round and will be launched almost simultaneously. However, members of the Asia Pacific Economic Cooperation (APEC) forum, in particular the United States (US), convened a meeting of the trade ministers in June 1999 and declared that they are strongly in favor of inclusion of trade in industrial goods in the Millennium Round. They believe that inclusion of the industrial goods will broaden the scope of the Round and facilitate tradeoffs during the negotiations (Croome 1998, Withers 1999).

Article 20 of the 1994 Uruguay Round Agreement on Agriculture relates to commitment to new, or continuing, negotiations on trade in agriculture. All the member countries have arrived at a consensus regarding this commitment. In addition, they had an “agreed exchange of information” to allow members to better understand the issues involved (Anderson 1998a), and which has since been in progress through informal discussions in the WTO Committee on Agriculture. The principal issues being discussed include market access, domestic support, and export subsidies.

After 1950, a great deal of growth in agricultural protection occurred in the industrial economies and subsequently in the NIEs. The protectionist trend accelerated in the early 1980s. The Uruguay Round Agreement on Agriculture has already had a beneficial impact in that it has laid the foundations for reversing the growth in agricultural protection, particularly in the European Union (EU) economies. It is logical to assume that this Agreement is working toward reduction in the international price-depressing effect of protectionist policies in trade in agriculture. Negotiations on trade in agriculture have come to acquire a certain pattern. It is likely that this pattern will, with some variations, be repeated during the future Round. What can be reasonably expected is that the US will again push for further trade liberalization, and the EU will again be engaged in the reform of the Common Agricultural Policy, this time under the pressure of difficulties in meeting the Policy’s budgetary cost. However, the Cairns Group will again strongly promote trade liberalization in agriculture. The Group members recently stated that the negotiations should “achieve fundamental reform which will put trade in agricultural products on the same basis as trade
in other goods". As the Cairns Group comprise the exporting countries, their demands in this respect were—and continue to be—the most ambitious.

Trade negotiations in agriculture are highly significant for the developing economies, because agricultural protection and intervention in the industrial economies has remained much higher than protection of trade in manufactures. To make things worse, farmers and rural communities that depend on agricultural production in the developing economies often remain subject to higher effective taxation and production disincentives than manufacturers. As farmers are the largest part of the poor in the developing economies, it is important that the most be made of the opportunity offered by the WTO’s built-in negotiating agenda so that this group benefits as much as possible. Liberalizing trade in agriculture would increase the role of market discipline in the allocation of resources in the agricultural sector. Market access negotiations should be given their due priority because the potential welfare gains from liberalizing access to agricultural markets is still huge (Anderson, Hoekman, and Strutt 1999).

The Uruguay Round Agreement on Agriculture and the GATS share an important characteristic. Each agreement provides a framework of principles, rules, and procedures of practical significance largely related to the specific liberalization commitments made by individual WTO members. It was recommended that these rules and procedures be followed in the future negotiations, although in the Millennium Round negotiations on agriculture some of these rules and principles may be reexamined. Given the background of the last Round, it is expected that the main focus during the new Round will be on setting lower tariff ceilings and more stringent limits on farm subsidies. As regards trade in services, many key obligations in the GATS apply only to those services for which the country concerned has made liberalization commitments in its services schedule. The Millennium Round negotiations on trade in services will certainly focus attention on improvement in the rules, but their primary emphasis is likely to be on extending the reach of the present rules by adding to the coverage of WTO members’ services schedules (Anderson 1998a, Das 1998).

Strengthening Article VI of the GATS, which provides the basic framework for minimizing trade distortions created by domestic regulations, can be one of the important objectives of the Millennium Round. This article states that "... in sectors where specific commitments are undertaken, each member shall ensure that all measures of general application affecting trade in services are administered in a reasonable, objective and impartial manner". A strengthened version of this article could go a long way in facilitating market access liberalization by committing member countries to the reform of regulations that impede competition. Under the amended version of Article VI, member countries should be asked to establish procedures for the review of regulations at the request of the exporters of services. The negotiators need to ensure that the amended version is based on objective and transparent criteria, and not be more burdensome than necessary to ensure the quality of the service that is being exported. Transparency can be achieved by asking the member countries to explicitly state the objectives served by a restrictive policy regulation. Such a statement will facilitate and expedite any examination of whether the regulation is "more burdensome than necessary to ensure the quality of the service". This Article can be further improved.

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4 See communiqué of Cairns Group Ministers, Sydney, 3 April 1998. The members of Cairns Group are: Argentina, Australia, Brazil, Canada, Chile, Columbia, Fiji, Indonesia, Malaysia, New Zealand, Paraguay, Philippines, South Africa, Thailand, and Uruguay.
in a functional manner. For instance, it can define the "quality of services" by including reliability, safety, integrity of network, and service to underserved regions and population segments.

It is possible to make significant improvements in the GATS during the Round. Article XIX:1 of GATS aims at "achieving a progressively higher level of liberalization" and mandates development of new rules. There is also a need for an explicit mandate for work on improving the clarity of the Agreement. According to Low and Mattoo (1999), there are several obvious ambiguities of a fundamental nature in the GATS in its present form. The areas that need immediate clarification or attention include:

(i) Relationship between market access and national treatment in order to specify precisely the scope of existing and future national treatment commitments.

(ii) Relationship among modes of supply with respect to commitments on a given services activity, for instance, if a service is delivered under different modes, it should be considered a "like" service regardless of the modal distinction made in schedule.

(iii) Confirmation of the principle of technological neutrality within modes, that is, within a mode of supply a service is to be regarded as "like" independently of the means by which it is delivered. This should confirm that existing commitments cover electronic delivery of the service in question.

(iv) Removing interpretive confusion regarding the true scope of bound market access and national treatment commitments.

(v) Development of a detailed nomenclature for general application to trade in services.

Article XIX can potentially provide more assistance and guidance on the content of and preparation for, negotiations. It says that the negotiations are to be directed in such a manner that the final outcome is "the reduction or elimination of the adverse effects on trade in services" (GATS 1994). It emphasizes that liberalization in trade in services should take place "with due respect for national policy objectives and the level of development of individual members (of the GATS), both overall and individual sectors". This provision can be profitably utilized by the developing economies. It further suggests "appropriate flexibility for individual developing country members for opening fewer sectors, liberalizing fewer types of transactions". To provide a better knowledge and understanding of trade in services, Article XIX of the GATS called on the WTO's Council for Trade in Services to carry out an assessment of trade in services in overall terms and on a sectoral basis, before the launching of the Millennium Round. The WTO has responded to this by conducting various scholarly studies of trade in services.

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5Refer to Part IV, Article XIX.
B. Other Important Issues Open for Negotiations

As indicated above, salient issues that are expected to come up for negotiations during the Millennium Round inter alia include the following:

(1) The WTO

The mandate given to the WTO is expanded in Article III of the WTO Agreement, which spells out all the five functions of the WTO: (i) administer and implement the multilateral and plurilateral trade agreements that together make up the WTO; (ii) act as a forum for multilateral trade negotiations; (iii) administer arrangements for the settlement of disputes; (iv) review national trade policies; and (v) cooperate with the International Monetary Fund and the World Bank with a view to achieving greater coherence in global economic policy making. A strengthened and extended dispute settlement provision, the system of regular trade policy reviews, and cooperation with the other supranational bodies were three of the most significant innovations of the Uruguay Round. The three have resulted in a much-strengthened WTO, which in turn can be taken for the principal institutional innovation of the Uruguay Round.

Globalization is one of the key forces that is pushing for an expansion of the WTO mandate, particularly in the policy coverage dimension. A growing share of gross domestic product is being traded by a growing number of economies. This endeavor involves not only transnational corporations (TNCs) but also medium-sized and sometimes small enterprises in both industrial and developing economies. These enterprises are increasingly spreading their activities like sourcing, marketing, and investment across national boundaries. It is widely felt that the WTO discipline reflect these and other modern commercial realities. In addition, as globalization progresses and economies become more intertwined, there is an increased risk that trading partners will be affected by spillovers from ostensibly domestic policies. Therefore, there will always be suggestions for further expansion of the WTO’s mandate. Some may come up in the Millennium Round negotiations and will need careful scrutiny.

There is no apparent and pressing need for substantial institutional improvements in WTO at this stage. None of the WTO members have sought any fundamental change in the new institution. However, the US and Canadian delegations took initiative to “consider how to improve the transparency of WTO operations”, which cannot be called a fundamental change. The transparency these two countries have asked for is beyond Article X of the GATT, which requires transparency related to trade-related policies and practices of governments. It further implies notifying the WTO regarding developments in environmental and labor policies. Criticism has also been expressed on such issues as the slow-moving procedures for accession to the WTO, lack of substance in the role of the Council for Trade in Goods, and the level of minimum budget contribution payable by countries with a small share in world trade. To be sure, some of these problems could be overcome by appropriate administrative changes (Blackhurst 1998, Croome 1998).
(2) **Dispute Settlement Provision**

The central institutional feature of the WTO is its dispute settlement process. At the end of the WTO dispute settlement procedures, if all else fails, lie multilaterally approved trade sanctions. The Dispute Settlement Understanding (DSU)\(^6\) is a binding treaty. This is a welcome measure toward a more rule-oriented system that is expected to allow better adjustment of frictions between nation-states as well as greater predictability and reliability for traders. However, it has come under criticism from various quarters. Some of its rules and procedures have been seriously castigated (Cameron and Campbell 1997). Developing economies feel themselves at a disadvantage in dispute settlement proceedings, particularly if the opposing party is the US or the EU. The developing economies feel at a disadvantage because of the technical nature of disputes. They are neither able to present their cases forcefully nor defend themselves adequately. The industrial economies are far better equipped, both legally and technically. They cannot only call on an array of legal experts but also the technical support of corporations often involved in the disputes. A decision was taken at the end of the Uruguay Round, in April 1994, regarding a complete review of DSU. A meeting of the Dispute Settlement Body in March 1998 also agreed that WTO members should submit written suggestions regarding the issues and rules that should be taken up for negotiations. It was decided that in the 3rd Ministerial Conference, to be held in November-December 1999, it should be determined “whether to continue, modify or terminate such dispute settlement rules and procedures.” To be sure, the Millennium Round is an ideal time reference for a DSU review.

(3) **Market Access and Tariffs**

Since the inception of the GATT, the basic rationale for all trade negotiations was to improve market access by bringing down tariff barriers and binding import tariffs. These two objectives have managed to be the principal *raison d'être* of all the MTNs down to the Tokyo Round. In the 1st Ministerial Conference in Singapore in December 1996, WTO Ministers renewed a commitment to “progressive liberalization and elimination of tariff and nontariff barriers to trade in goods”, but did not include tariffs in the long list of subjects on which they agreed to start a process of AEI. Tariff reductions on industrial products, which was agreed upon in the Uruguay Round, was being brought into force in five equal annual installments. Of these, the last was to be made on 1 January 1999. Many countries are currently engaged in reducing their most-favored nation (MFN) tariffs as a result of recent sectoral negotiations, notably those that led to the Information Technology Agreement reached in March 1997. More sectoral negotiations, both of the regional and global variety, were in the offing. For instance, the APEC economies, which have committed to “open regionalism,” had identified 15 product categories as candidates for early voluntary trade liberalization. Of these, nine were considered priority areas for commencing liberalization. At the same time tariffs were being scaled down in Europe. This was being done under bilateral agreements between the EU economies on the one side and the transition economies of Europe on the other. The EU economies were also undertaking a similar exercise with the economies of the Association of Southeast Asian Nations. This is not an exhaustive

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\(^6\)See Article XXVI and Annex 2 of the WTO agreement.
enumeration of tariff reduction endeavors that were ongoing during this period, which were not negotiated during the Uruguay Round.

With the contemporary regional, subregional, and sectoral initiatives on tariff reduction, one may be seized by the futility of any such future exercise. This impression is incorrect because, first, most observers concur that a broad-based and balanced round of MTNs cannot possibly ignore tariff reductions. Even after the Uruguay Round agreements are implemented, by which time tariffs on manufactured goods will be down to very low levels, there will be sufficient scope for tariff reduction on manufactured and nonmanufactured goods. High tariffs represent impediments to trade, while low tariffs such as those below 2 to 3 percent also create nuisance to trade. Nuisance tariffs are unlikely to provide any significant protection for domestic industries, and have high domestic administrative costs. Sometimes these costs are higher than the revenue generated. They are known to generate considerable administrative procedures and burden to traders, hampering the efficient flow of trade. In addition to focusing on tariff-slashing, the Millennium Round may devote its energy to harmonization that would reduce tariff peaks and tariff escalation.

Many developing economies, particularly those in Latin America, have managed to keep a large gap between applied and bound tariffs, the latter being much higher than the former. If this gap is reduced, or even eliminated, it will contribute to improving the predictably to market access. In addition, during the negotiations, bringing bound tariffs down would provide the developing economies some bargaining chips, without any loss of revenue or domestic protection. The next Round can also be useful from the perspective of domestic trade policy. Developing economies may use it as a leverage against domestic interest groups that resist tariff reduction.

(4) Textiles and Apparel

Inclusion of trade in textiles and apparel within the ambit of the WTO regime is widely considered a major achievement of the Uruguay Round. This is an important area for the developing economies in general and Asian economies in particular. The transitional Agreement on Textiles and Clothing reached during the Uruguay Round did not promise a great deal in absolute terms, but it did achieve a lot relative to the past. A significant achievement is that it adopted the goal of tariff-only restraint on trade. Yet, if one examines the fine print of the Agreement, tariffs are not going to be the key constraint on trade for a long time. The Agreement did allow faster quota growth but this growth rate is not fast enough to make quotas redundant by the end of the transition decade. Hertel et al. (1996) calculated that by 2005 the quotas will have increased by about half the amount necessary for them to become redundant. If so, tariffication would require the other half of the increase to occur at the end of the 10-year transition period. This raises questions about the political commitments to implementation.

The transitional Agreement on Textiles and Clothing reached during the Uruguay Round has nothing in its text that gives rise to new negotiations in the immediate future but it does have a provision for reviews before the end of each of the three stages of implementation of the agreement. The first such review, which was completed in 1998, showed that very little progress was made until then. The developing countries feel that the importing countries, in particular Canada, EU, and US, have completely disregarded the spirit of the agreement by applying its letter in ways that have brought about little or no real
liberalization so far. Some industrial economies, including the abovenamed ones, have supplemented the effects of repealed quotas by unjustified antidumping actions as well as restrictive rules of origin (Croome 1998). Textile and apparel exporting countries are concerned that so much of the agreed upon MFA liberalization measures have been left for the final years of the transition period that full integration of trade in textiles and apparel in the WTO regime may never be achieved. However, the importing industrial economies disagree with the exporting economies on these issues. They are sure about meeting the deadlines by 1 January 2005. On their part, the industrial countries complain of the level of tariff and nontariff barriers (NTBs) on imports of textiles and apparel maintained in the Asian economies.

The MFA is one area in which the opinions of developing economies are in complete unison in the WTO. Twenty-three exporting economies are members of the International Textiles and Clothing Bureau, a body through which they coordinated their position in the textiles negotiations during the Uruguay Round. During the last review of the Agreement in the WTO Council for Goods, the bureau presented a cogent unified case. Representatives of Colombia; Hong Kong, China; and Pakistan made forceful statements on behalf of the exporters. This show of solidarity is indispensable for the exporting developing countries. An additional apprehension the exporting countries have is that the importing countries may increasingly resort to changes in rules of origin, antidumping action, and measures supposedly introduced to protect the environment and labor standards as substitutes for present quantitative restrictions.

(5) Technical Barriers to Trade

The Uruguay Round agreement on Technical Barriers to Trade (TBT) demands that technical standards and regulations not be drawn up in such a manner as to restrict trade. The Agreement encourages the use of international standards, and calls for national testing and certifying bodies to avoid discrimination against imports and to recognize other countries' tests and certificates. The agreement on the Application of Sanitary and Phytosanitary Measures (SPS) is like the TBT in its objectives and recognizes the right of governments to take measures to ensure food safety and protect animal and plant health. But this agreement regulates nations' abilities to restrict imports based on scientifically determined criteria and requires that such measures be applied only to the extent necessary to these ends. Both the TBT and SPS were negotiated as a defense against the imposition of new NTBs that could nullify the reductions in import duties and other traditional obstacles to market access but both have been beset by controversy (Casella 1996, Croome 1998).

Asian economies do not have a common position on these two agreements, but do have some similar concerns. Many Asian and other developing economies feel ill-equipped to participate in formulating the international standards established in such bodies as the International Organization for Standardization and the FAO/WHO Alimentarius Commission. A good deal of deliberation and research have taken place in these two bodies after the end of the Uruguay Round and several recommendations were made to resolve the controversial issues. These recommendations may be considered in the Millennium Round for modifying the text of the Agreement. Asian economies also find the notification requirements under these two agreements burdensome. They have difficulties finding out, and meeting, the standards applicable to their exports. Developing economies that are still at
a lower rung of economic growth have had difficulties in demonstrating that their exports of meat, fresh fruit and vegetables, and canned tuna meet SPS requirements.

The SPS Committee agreed in July 1998 on a procedure to review the operation and implementation of the SPS Agreement. Its report was published in March 1999 (WTO 1999), in which it did not recommend any modification of the text of the Agreement. One reason why it did not recommend any modifications was that the review was far from exhaustive. Several issues need to be debated to improve the functioning of the Agreement. They relate to the divergence of standards and regulations which creates costs for international trade, equivalency of regulations, mutual recognition agreements, transparency and notification provisions, and adaptation to regional conditions.

6. Trade-related Investment Measures

Investment was a major issue during the Uruguay Round negotiations, although the developing economies have historically shown reluctance to provide right of establishment to foreign investors. They consider investment policies a part of their economic development policies and prefer to maintain flexibility in this regard. Conversely, the US took considerable initiative in the negotiations on Trade-related Investment Measures (TRIMs) during the Uruguay Round. TRIMs have become a contentious issue and the Millennium Round negotiations may not yield a great deal. The US objective has been to establish a new set of regulations prohibiting governments from attaching potentially trade-distorting conditions on foreign direct investment (FDI). Although five trade-distorting measures were identified, the final outcome of the US endeavors was modest. Industrial economies were required to eliminate these trade-distorting measures by January 1997, developing economies by January 2000, and the least-developed countries by January 2002 (Croome 1998). It is strongly felt by the industrial economies that the TRIMs agreement is needed to be negotiated further. In addition, any future review of the agreement will need to include consideration of "whether the agreement should be complemented with provisions on investment policy and competition policy" (Agreement on Trade-related Investment Measures, Article 9).

To maintain the coherence of the international trading system, future negotiations should build on the achievements of the Uruguay Round. In addition, under the GATS the most significant market access commitments have been obtained in relation to commercial presence, particularly in the post-Uruguay Round negotiations on financial services. Under the GATS framework liberalization of commercial presence is viewed jointly with development objectives. The GATS also provides for further negotiations on this issue during the future Rounds of MTNs, which may expand commitments in this area.

This is a valuable negotiating chip for developing countries as the industrial economies are the "demandeurs" in this area of negotiations. Some scholars (Hoekman and Saggi 1999) point to the possibility of a "grand bargain" for the developing economies. Although there may be a significant scope for a large benefit as *quid pro quo*, a broad investment agreement should be approached carefully by developing economies. A broader agenda would indeed benefit those developing economies that face domestic resistance in adopting better FDI policies, however, there is a definitive downside. Attempts to broaden the agenda may allow some social groups to seek cross-issue linkages in areas such as environment and labor standards, which are not the core issues for the WTO and bear no relation to its objective of expanding international trade.
By far the most controversial and problem-ridden Uruguay Round agreement was on antidumping measures. Antidumping rules became one of the central issues of the Uruguay Round and lack of agreement among countries on antidumping reforms threatened the success of the Round. The recent alarming increase in the number of antidumping actions pursued by both industrial and developing economies has caused considerable concern among economists, trade reformers, and policymakers. The Uruguay Round Antidumping Agreement (URAA) lays down regulations regarding how governments, which use antidumping measures, should establish the existence of dumping, and damage, or threat of damage to domestic producers. It goes further and prescribes procedures for antidumping investigations and for the imposition or termination of antidumping duties. As the Antidumping Agreement was finalized somewhat hastily during the dying days of the Uruguay Round a number of concessions were made to the views of the industrial economies. However, the agreement is fully in effect for all the WTO members and there is no provision for its general review.

The so-called "screwdriver plants" and their output is a chestnut in this regard. Industrial economies agree that when such plants carry out the final assembly in the importing country or a third country, to circumvent tariff, the importing country should be allowed antidumping action against their products. While it was agreed that universally accepted rules on "anticircumvention" action were desirable and that discussion should continue in the Anti-Dumping Committee, no timeframe was set for it (Clarida 1996). Even the 1st Ministerial Conference in Singapore set no work program for antidumping apart from an effort to improve notifications. The anticircumvention issue may be raised in the Millennium Round by the industrial economies.

Croome (1996) pointed out that the pattern of use of antidumping action has shifted significantly in the recent past. The Antidumping Agreement was negotiated when almost all antidumping measures were imposed by the industrial economies, in particular by Canada, EU, and US. There has been a striking change in this trend. Of late, developing economies have taken to imposing antidumping measures. During 1996-1997, developing countries accounted for 17 out of 23 notifications of antidumping actions to the WTO. The list of users was a roll call of the developing countries most active in the WTO. It included Argentina, Brazil, Chile, Colombia, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Singapore, Thailand, and Venezuela. Several of the actions taken were against suppliers in other developing countries. An interesting turn of events in this regard is that at present US corporations are divided over the antidumping issue. While some corporations (particularly large steel producers) still prefer rules that would allow easier introduction of antidumping measures, corporations having strong export interest (as well as performance) are aware of the risk that weaker rules would expose them to greater risk in their export markets. Another new element in the situation is that the WTO is now discussing competition issues, and might one day negotiate on them. Hong Kong, China and Korea have pointed out that effective rules could make antidumping action superfluous. All these new elements are bound to affect the outlook for any future multilateral negotiations on the antidumping rules.
(8) **Subsidies and Countervailing Measures**

Among the Uruguay Round agreements, one whose provisions are less stringent for the developing economies than those for the industrial economies is the Agreement on Subsidies and Countervailing Measures. Under the Agreement subsidies intended to improve export performance are “actionable” but if their motive is to promote R&D or help a disadvantaged region they are permissible. The old dictum of a subsidy “threatening and causing injury” to producers in the importing country being punishable by countervailing measures stays. Industrial economies can no longer subsidize their exports. But developing economies with per capita income below $1,000 are allowed to maintain their subsidies for an indefinite period. All the other developing countries have to phase out the subsidies by January 2003. Two important rules of this Agreement were scheduled to be reviewed in late 1999. They related to subsidies that amount to more than 5 percent of the value of the product, or are given to cover an industry’s operating losses, and the “green” subsidies. It was strongly felt that these subsidies have trade-distorting effects and must be dismantled (Feketekuty 1998). Clarification of the rules on measures, and pricing policies that are disguised as export subsidies are two of the important outstanding issues that need to be addressed in the Millennium Round. Although several glaring deficiencies continue to exist in the subsidization calculations in antisubsidy proceedings, WTO members have not evinced any interest in new negotiations. They are more concerned with the implementation of the Agreement because a large majority of them have provided little implementation-related information.

(9) **Safeguards**

Article XIX of the GATT was on safeguards and, for nearly two decades it was considered ineffective. There was a serious need for its thorough revision. The Uruguay Round Agreement on Safeguards aims at facilitating structural adjustment and to enhance rather than limit competition in global markets. Its basic rationale was to address the lack of control over “legitimate” safeguard measures and the excessive and nontransparent use of distortive grey area measures. If the Agreement only succeeds in controlling such measures it would amount to an improvement in the safeguard area from the point of view of competition policy. In the new Agreement a considerable amount of procedural and substantive detail has been introduced, where formerly there was only a GATT Article containing the basic requirements for applying a safeguard measure in a single paragraph, namely, “serious injury or threat thereof” caused by increased imports. There were no procedural requirements in the past regarding how “serious injury or threat thereof” was to be determined. The most significant addition under the new Agreement is the requirement of an investigation to determine the existence of “serious injury or threat thereof”. Procedural rules for such an investigation have also been determined. In the absence of such a requirement, there was a tendency to apply safeguard measures where they were not substantively warranted.

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7 This category includes voluntary export restrictions, orderly marketing arrangements, and similar measures that afford protection, including export moderation, export-price or import-price monitoring systems, export or import surveillance, and discretionary export or import licensing schemes.
The Agreement represents a tradeoff that outlaws the gray area measures and installs a special mechanism, which allows departure from the general MFN rule with particularly tight restrictions on the most dynamic suppliers. This provision is known as “quota modulation” and can only be applied under well-defined circumstances. It was controversial at the time of negotiations and has never been applied, partly because antidumping or countervailing measures can be applied easily and less provocatively. The Agreement on Safeguards is fully in force, with one exception. A special provision allows the EU to continue to restrict imports of Japanese cars until the end of 1999. Although no member governments are presently seeking changes in the Agreement, Asian economies would continue to keep a close surveillance on how it is applied (Croome 1998, Morgan 1999).

(10) State Trading

While Article XVII of the GATT stipulated the right of members to grant special rights to a limited number of governmental or nongovernmental enterprises, it also reminds members that state trading enterprises can erect significant nontariff barriers to trade. Governments, through their special rights or privileges, can distort trade by favoring particular exporters, subsidizing exports, or fixing high prices. The potential for trade distortion and the likelihood of the existence nontariff barriers is highest when state trading enterprises benefit from monopoly import or export rights. The decision making process of these enterprises is influenced by government objectives that are not solely in accordance with commercial considerations. Present rules that apply to state trading are not adequate. Unlike many other provisions of the WTO that constitute exceptions to general rules, they not only lack the necessary precision that would ensure that their enforcement is feasible but also not take into account the implications of new disciplines introduced during the last round of MTNs. During the Uruguay Round there was an attempt to address the shortcomings of Article XVII, but the Understanding on the Interpretation of Article XVII of GATT appears to have fallen short, making the necessary clarifications.

To establish the nature and extent of trade distortion due to state trading, a working party was set up in April 1998 under the Uruguay Round Understanding. This working party examined notifications by the WTO members of enterprises covered by a newly designed questionnaire for the trade distortion notifications. The findings were to be analyzed during 1999 by the working party. Based on these findings, the working group is to recommend how to ensure MFN and national treatment in state trading as well as consider ways of tightening the disciplines spelled out in Article XVII.

(11) Rules of Origin

This has introduced an element of uncertainty in international trade. Therefore, several guiding principles were agreed upon by the WTO members regarding the rules of origin during the Uruguay Round. A consensus was arrived at regarding these rules being objective, predictable, coherent, and based on positive standards. An export product should be considered as originating from a country where it was wholly produced; or, if more than one country was associated with its production, where it was last substantially produced. As this appeared somewhat simplistic, development and adoption of a single set of
harmonized rules of origin was considered necessary. This work is presently being done by the Technical Committee on Rules of Origin of the World Customs Organization.

Even small trading members are interested in establishing harmonized rules of origin because they will successfully eliminate a favored instrument for protectionist action. Asian exporters recognize that they have substantial trade interest at stake, therefore, they prefer to have a definitive set of rules of origin. These rules are of particular interest to the textile and apparel exporters who frequently face problems on this count. Imprecision in these rules can be used as substitutes for the quantitative restrictions that are being phased out under the Agreement on Textiles and Clothing.

(12) Regional Trade Agreements

During the last 10 years, regional trade agreements (RTAs) have reemerged as a major issue in the global policy agenda. Although we are experiencing this "second wave" of regionalism, the effect of RTA on trade is still an open question. An important point of focus during the 1st Ministerial Conference in Singapore in 1996 was that RTAs have expanded vastly in number, scope, and coverage. More than half of world trade is now carried out within RTAs and almost all WTO members are parties to one or more RTAs. This is a clear manifestation of the fact that RTAs have become important and have become an integral part of the multilateral trading system. Recent experiences show that RTAs have contributed to a great extent to the growth of world trade by expanding the production of, and trade in, goods and services, both between parties of these agreements, and in most cases, also with third parties (WTO 1999b). RTAs have also contributed to a greater degree of transparency and predictability of world trade. The Singapore communiqué stated that such agreements can promote further liberalization and may assist least developed, developing, and transition economies in integrating into the multilateral trading system (Vanvakidis 1999, Soloaga and Alan Winters 1999).

Trade regulation in relation to the RTA (Article XXIV of the GATT) has had well-known areas of ambiguity. Consequently a good number of RTAs came into being even though almost none of the agreements has been formally found totally compatible with the Article. The Enabling Clause, adopted in 1997, accorded differential and more favorable treatment to the developing economies. It also provided further flexibility for such agreements among developing countries. The GATS allows similar provisions through Article V.

Although during the Uruguay Round a minor interpretative understanding was reached on Article XXIV, it cleared up a number of largely technical points. It fell far short of the ambitions of some governments that are not members of the major regional agreements, and believe that Article XXIV has been used as a cover for discrimination against nonmembers. In 1996 a new WTO Committee on Regional Trade Agreements was set up to provide a single body to review new or enlarged arrangements, to improve examination and reporting procedures, and "to consider the systemic implications of the regionalism/multilateralism relationship." In its first task, the Committee appears to be successful, except to the extent that progress is held hostage to the disagreements on systemic issues, and there is no suggestion that a change is needed. On reporting procedures, the Committee agreed in February 1998 on three sets of recommendations covering (i) obligations under GATT Article XXIV, (ii) the Enabling Clause, and (iii) GATS Article V (Croome 1998). However, these recommendations are regarded by some countries as less binding than they should
be. The EU and Canada, in particular, believe that the provision of trade statistics should be obligatory rather than just “desirable” (Frankel 1997). During the 1st Ministerial Conference in Singapore trade ministers had agreed that it was important to analyze whether the system of WTO rights and obligations, as it relates to RTAs, needs to be further clarified, both from the substantial and procedural point of view. The issue of “the systemic implications of the regionalism/multilateralism relationship” may well contain seeds of future negotiations.

(13) Trade-related Aspects of Intellectual Property Rights

Many industrial economies have endeavored for stronger protection of intellectual property rights (IPRs) through bilateral, regional, and multilateral actions. As opposed to this, the developing economies believe that such protection would result in reduced welfare for them and for the global economy as a whole. They believe that as a public good, innovations have two crucial characteristics, namely, nonrivalry in consumption and nonexclusion (Panagariya 1999). The former implies that the use of innovation by yet another individual does not reduce its availability to the existing users. That is, the marginal social cost of an innovation is zero. Nonexclusion implies that once an innovation has been done, we cannot prevent others from using it. As innovations have costs, no one wants to reinvent the wheel. It is this public good thinking that is behind the opposition of the developing economies to certain facets of Trade-related Intellectual Property Rights (TRIPs).

The Agreement on TRIPs, including trade in counterfeit goods, negotiated during the Uruguay Round has emerged as one of the three multilateral agreements8 laying the fundamental framework under which the WTO operates. To be sure, TRIPs was not expected to promote a globally applicable standard of IPR protection, but it did lay the foundation for future convergence toward higher standards of protection on a global scale. Constantly emerging new technologies have led to the continuous adaptation of IPR protection instruments. For example, the evolution of IPRs protection for biotechnology and its implications for agriculture and the pharmaceutical industry represents an important new area with high relevance for developing economies. Computer software and digital environment like the Internet are other important examples. The IPR regimes is still in a state of flux in all these areas, although some inchoate trends are emerging. They are being ratified by new international agreements with minimum standards of protection. They pose new challenges for the legal systems of the developing economies as well as for institutions that have played a prominent role in the international diffusion of knowledge. Therefore, the TRIPS Agreement provided for a review in 2000 to “examine relevant new developments which might warrant modification or amendment of the Agreement”.

The TRIPs Agreement, as noted above, will require WTO members to observe minimum standards of IPR protection. It is a complex legal system, which so far has been an uncharted territory for trade policy officials. The advantage of its inclusion in WTO regulations is that it is equipped with binding dispute settlement procedures. Although the TRIPs obligations currently apply to the industrial economies, the developing economies still have been given a transition period. The Uruguay Round agreement gave developing economies until January 2000 to apply TRIPS rules, and the patent rules will not be applicable until

8The other two principal international agreements are the Berne Convention and the Paris Convention.
January 2005 to products that are not patentable at present. However, the developing economies are obliged to provide MFN treatment and national treatment to other WTO members in their protection of intellectual property. While they can decide not to support patent protection for pharmaceuticals or agricultural chemicals, they do have to allow registration of patent applications. India failed to do so and invited a formal dispute case against it in the WTO dispute settlement penal.

During 1997 and 1998, the TRIPs Council was engaged in research and inquiries as well as negotiations on some specific IPRs issues. It has also reviewed the intellectual property legislation of the industrial economies and has plans to conduct similar reviews for the developing economies. TRIPs-related research, deliberations, and negotiations are sure to continue in the future.

(14) Government Procurement

The absence of general trade regulations on public purchasing practices has long been an area of neglect in the WTO. Government procurement can account for up to 15 percent of GDP, and opaque and discriminatory practices, therefore, significantly distort trade. So far any adherence to multilateral regulations in this regard was voluntary for the developing economies, but during the Millennium Round there would be substantial pressure on the developing economies to adhere to them. There is a strong belief in the industrial economies that discriminatory procurement policies in the developing countries are motivated by protectionism. Discriminatory government procurement practices impact on national welfare on one hand and competition policy regime on the other (Breton and Salmon 1995). An Agreement on Government Procurement was reached toward the end of the Uruguay Round, but it is only applicable to those countries that have signed it. Its signatories are the 15 EU economies, Canada, Japan, Liechtenstein, the Netherlands, Norway, Switzerland, US, including some of the more advanced developing economies such as Hong Kong, China; Israel; and Singapore. The WTO Working Group on the GATS was working on the government procurement practices to facilitate future negotiations in trade in services in the Millennium Round. Following the 1st Ministerial Conference in 1996, a study of transparency on government practices has also been launched. Transparency is the basic building block of a stable and predictable procurement regime. All participants in the procurement process benefit from it. To be sure, there would be difficulties surrounding some of the so-called horizontal issues, in particular the questions of scope, coverage, and enforcement. Therefore, it may not be possible to conclude a transparency agreement in a short time, but if sufficient progress is made regarding the basic principles of transparency, prospects of a subsequent consensus would improve.

C. Current Issues

Work has been in progress on the following four subjects in the WTO: trade and environment, trade and investment, trade and competition, and trade facilitation. None of these areas are presently being covered by multilateral trade regulations in a substantive manner. In mid-1998, a decision was made to add a fifth subject, namely, electronic commerce or e-commerce. All these five subjects are ripe for development into full-fledged areas of trade negotiations in the Millennium Round.
(1) **Trade and Environment**

Trade and environment became a high-profile issue during the early 1990s. While protecting the environment is not the WTO's primary objective, the importance of this policy goal has been clearly acknowledged in WTO agreements and recent WTO dispute proceedings. In the preamble to the 1994 agreement establishing the WTO, for example, member countries agreed to "protect and preserve the environment and to enhance the means for doing so". In the Final Act of the Uruguay Round a decision to establish the Committee on Trade and Environment was taken. The mandate for the Committee was "to identify the relationship between trade measures and environmental measures in order to promote sustainable development". The mandate was reiterated at the time of the 1st Ministerial Conference in Singapore in December 1996, and it was asked "to make appropriate recommendations on whether any modifications of the provisions of the multilateral trading system are required, compatible with the open, equitable and nondiscriminatory nature of the system". In its late-1998 ruling in a dispute concerning US trade measures against countries that do not employ devices to protect sea turtles from shrimp nets, the report of the WTO Appellate Body asserted "we have not decided that the sovereign nations that are members of the WTO cannot adopt effective measures to protect endangered species, such as sea turtles. Clearly, they can and should."

Some of the key trade and environment issues that the WTO members are likely to address in the Millennium Round are as follows: First, a close relationship with environmental organizations and NGOs and other institutions of civil society needs to be developed. This can be achieved by sharing information and by dialogue. In both areas it should be possible to reach consensus and set an agenda of realistic reforms. Second, eliminating trade restrictions and distortions can also directly produce "win-win" outcomes in specific industries. A win-win outcome implies environmental benefits and improved market access. Identifying and exploiting these potential win-win situations is an initiative that can be pursued within the existing rules of the WTO (Sampson 1999). Third, WTO members need to take a careful look at how the trade system handles product and process-related environmental standards. For instance, some consider ecolabelling\(^9\) to be discriminatory under WTO regulations. There is absolutely no similarity in the views of the members on the extent to which the Technical Barriers to Trade Agreement applies to life-cycle-based ecolabels or other process-related standards. Fourth, trade officials, who have limited expertise in environmental issues, recognize that policy relating to transboundary environmental problems are best left to specialized multilateral agreements or institutions. In a recent meeting of the Committee on Trade and Environment, several members expressed concern about potential conflicts between WTO obligations and those of other multilateral environmental agreements. There are many other such issues that may await the negotiators in the Millennium Round.

Developing economies do not have a common stand on environmental issues, yet their views are not far apart from each other. They have frequently expressed their opposition to change in trade regulations on the pretext of environmental impact. They see environmental issues as a new threat to their exports. Their stand in this regard is that any substantive policy changes on environmental matters should be sought through international agreements.

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\(^9\)Ecolabelling is the practice of identifying foreign products according to the manner in which they were produced.
institutions with necessary specialized knowledge, like multilateral environmental agreements and the International Organization for Standards. In their view, the WTO is an inappropriate forum for environment-related actions and accords (Anderson 1998b, Bhagwati and Srinivasan 1996).

(2) Trade and Investment

In the academic and policy circles, there has been enormous interest in multilateral investment agreements. It essentially stems from the merits of globalization in general and the role of transnational corporations in particular. The recent Asian financial crisis and the widespread concern regarding the volatility of international capital flows have provided an additional impetus to the debate on the desirability of a multilateral agreement on foreign investment. The issue was intensively debated during the Uruguay Round, and continued after the Round ended. One of the most controversial issues during the 1st Ministerial Conference of the WTO in 1996 was whether the WTO should concern itself with investment issues. The controversy was made more acute by the fact that not only was there a division of opinion among the industrial and developing economies but also, developing economies were divided over it. (For a detailed discussion of this controversy, refer to Graham 1996 and WTO 1996.) Several industrial countries wanted the inclusion of the Multilateral Agreement on Investment, which was negotiated by the Organization for Economic Cooperation and Development economies, on the trade agenda of the WTO. The US was a strong proponent on this, while the developing economies were averse to it. Eventually this issue was not included and a carefully balanced decision was taken, linking with the launch of related work on competition issues, to establish a working group to “examine the relationship between trade and investment” with the explicit understanding that “work undertaken shall not prejudge whether negotiations will be initiated in the future”. The report of the working group was to be reviewed in 1999 and it was to be decided whether new multilateral negotiations are called for or not. The working group has discussed a long list of issues grouped under three headings: (i) implications of the relationship between trade and investment for development and economic growth, (ii) economic relationship between trade and investment, and (iii) stock-taking and analysis of relevant existing international instruments. Based on this on-going work the working group will (i) compare existing instruments and identify possible gaps and incompatibilities between them; (ii) consider advantages and disadvantages of bilateral, regional, and multilateral rules on investment; (iii) consider the rights and obligations of host and investor countries; and (iv) consider the relationship between whatever cooperation might be undertaken on investment policy and cooperation on competition policy (Croome 1998, Anderson 1999).

(3) Trade and Competition

Numerous recent high-profile trade disputes have involved private business practices that seemingly work as trade barriers. Controversy over these practices has been at the center of disputes between Japan and the US in trade in semiconductors, auto parts, and photographic films. The EU and the US came close to a collision point over their sharply differing reactions to the merger between Boeing and McDonnell Douglas. Trade and competition issues, therefore, have become a part of the WTO agenda. As with trade and
investment issues, this subject is being studied in a working group set up by the General Council of the WTO. The EU largely exercised leadership on this issue. The formal charge of the working group was "to study issues raised by members relating to the interaction between trade and competition policy, including anticompetitive practices, in order to identify any areas that may merit further consideration in the WTO." This working group is also working on the same lines as the group on trade and investment. The first area of focus for this working group is the relationship between the objectives, principles, scope and instrument of trade, and competition policy. Second, the group is reviewing the content and application of national competition policies and laws related to trade. Third, it is analyzing the interaction of trade and competition policies, including the impact of anticompetitive practices of enterprises on international trade, the trade impact of state monopolies, and regulatory policies. Fourth, the group is trying to identify "any areas that merit consideration in the WTO framework". Although participants in this working group have contributed a large volume of papers, several issues remain either unexplored or poorly understood. The working group needs more time and a longer process for mutual education before they can contribute to the decision making in this intricate area (Tharakan and Lloyd 1998).

The EU was the prime mover in this regard, initiating the trade and competition debate and enlisting the support of developing economies. The developing economies have supported the EU stand because they believed that they will be able to deal with the TNCs better than with the trade delegation of countries. As opposed to this the US is unenthusiastic about any future agreement on competition policy. Although it is a part of the working group, the US sees little utility in having WTO regulations on trade and competition. The US doubts that there is sufficient agreement among WTO members on basic goals for competition policy, or sufficient practical experience in antitrust matters in most member countries to build a useful multilateral agreement (Graham and Richardson 1997).

(4) Trade Facilitation

The 1st Ministerial Conference also added the issue of trade facilitation to the WTO work program. Like trade and competition, it was adopted into the work program as a result of the initiatives taken by the EU. The Goods Council of the WTO is required to "undertake exploratory and analytical work, drawing on the work of other relevant international organizations, on the simplification of trade procedures in order to assess the scope for WTO rules in this area."

The rationale of the EU proposal is that inefficient and unnecessary import and export procedures impede trade flows. Industries and exporters worldwide expect the WTO to simplify, harmonize, and automate procedures, reduce documentation, and increase transparency. Gains will be meaningful for small companies and developing countries, for whom compliance with procedures cost higher and deter exports. Eventually the benefits will accrue to consumers, through reduced costs and delays, and to governments and taxpayers through better controls, higher revenue intakes, more efficient management, and better investment climate. The WTO has a natural role in setting rules in this field. A rule-based approach will guarantee transparency and predictability for traders, and ensure that appropriate measures are introduced. Therefore, a framework of WTO commitments to simplify and harmonize trade procedures should be developed, which inter alia should encompass modern customs and management techniques, and automation of data management.
Commitments to progressively introduce modern customs techniques globally would facilitate trade. This will strengthen compliance and control and speed up release of legitimate goods from customs. The key agreement in this regard is the Kyoto Convention of 1973, administered by the World Customs Organization. The Convention has 55 signatories but each has accepted only a few of the 30 annexes that set out substantive obligation. The other relevant organizations are the United Nations Conference on Trade and Development, APEC, and International Chamber of Commerce. Although work has made some headway, it has not gone beyond the information collection stage about the endeavors of these organizations. Although member countries have expressed willingness to explore the implications of the EU proposal, the US has remained unenthusiastic in this regard.

(5) Electronic Commerce

E-commerce is a new method of conducting business and trading across national boundaries. Though only three years old, it has the potential to radically alter economic and business activities. It has already affected such large sectors as communications, finance, and retail trade. It holds similar promise in areas like education, health, and government. As of 1999, the volume of e-commerce is small ($26 billion) but it is growing dynamically and may approach a trillion dollars by 2004 (OECD 1999). Electronic commerce is the newest subject to dawn on the horizon of MTNs. The US raised it for the first time in the WTO Council in February 1998. Electronic commerce offers unprecedented opportunities for both industrial and developing economies. In the short run the gains are likely to be concentrated in the former, but over the long haul, the latter may have more to benefit from e-commerce. This is because in the short run developing economies lack the infrastructure and do not have the physical means to build it; but in the long run they can leapfrog, skipping some of the stages in the development of information technology through which developed countries had to pass.

It was proposed that the member countries should not impose customs duties on electronic transmissions. As e-commerce was growing rapidly, the US proposed that the WTO should demonstrate support for its continuing expansion and that no precedent should be set for taxation or regulation of this sector. The reaction of the WTO members was basic concurrence, but they were not willing to pledge themselves never to impose duties on it, particularly without thoroughly studying the possible fiscal and revenue implications of such a commitment. Several developing economies, including India and Pakistan, have raised questions regarding several issues, including the risk of discrimination in favor of e-commerce over traditional forms of trade, potential loss of revenue, and the issue of proper recording of transactions. In May 1998, WTO ministers formally agreed that the WTO should conduct a comprehensive study of all trade-related issues relating to global electronic commerce. The proposed study was also to take into account the economic, financial, and development needs of developing countries and draw up recommendations for the 3rd Ministerial Conference to be held in November-December 1999.

D. Peripheral Issues

Repressive labor market practices in developing countries are seen by some as providing "unfair" and "artificial" advantage to exporting firms. Interest in global labor
standards has also emanated from altruism. Although there is a good deal of international agreement that certain core rights of workers should be globally recognized and protected, there is virtually no consensus regarding the means of ensuring such protection. Moreover, the link between varying international standards for labor protection and international trade policy is tenuous, both in theoretical and empirical terms. Potential benefits from such a linkage are limited, while potential costs are high (Sengenberger 1995). Yet, the issue of trade policy in ensuring desirable social outcomes has frequently surfaced in international trade fora. It has been on the minds of several WTO members in all past negotiations and has assumed importance because of labor interests in the industrial economies. The policy community in industrial economies believes that varying international standards of labor were given inadequate attention in the Uruguay Round and, therefore, should be placed high on the agenda of the Millennium Round. Over time, the pursuit of international labor standards have come to acquire a protectionist overtone.

During the 1st Ministerial Conference in 1996 the US, France, and Norway tried to secure inclusion of “a common core of labor standards” in the Singapore Ministerial declaration. This effort did not succeed because of strident opposition from developing economies, led by India, Malaysia, and Pakistan. After prolonged negotiations, members agreed to express support for observance of “internationally recognized core labor standards” but the competent body to set and deal with these standards will be the International Labor Organization. The communiqué went on to reject the use of labor standards for protectionist purposes and to agree that “the comparative advantage of countries, particularly low-wage developing countries, must in no way be put into question.” It was also clarified that labor standards were not on the WTO agenda, that no new work on this subject will be undertaken in the WTO secretariat, and that the WTO has no competence in the matter.

During the 2nd Ministerial Conference in May 1998, the WTO and the International Labor Organization were enjoined to “commit to work together, to make certain that open trade lifts living conditions, and respects the core labor standards that are essential not only to workers’ rights but to human rights everywhere.” The issue has been a prickly one and is sure to come up for discussion during the 3rd Ministerial Conference in November-December 1999. It is possible that it will again face strong opposition from the Asian and other developing economies and may eventually be dropped.

E. Speculated Issues

The current speculation is that a fresh discussion on “special and differential treatment” (SDT) is likely to become part of the negotiations in the Millennium Round, although how large a part will it be remains to be seen. The SDT was enshrined in the GATT discipline. The term itself had evolved from the debates of the 1960s regarding how trade can facilitate economic growth in developing economies. It referred to GATT rights and privileges extended to developing economies, but not to industrial economies. SDT reflects a long history of calls by developing countries for special treatment in global trade agreements.\(^\text{10}\) Initially, SDT entailed (i) special rights to protect markets, (ii) special rights

\(^{10}\text{The term special and differential treatment has been derived from a reference in the 1973 Tokyo Round Declaration, which recognized “the importance of the application of differential measures to developing countries in ways which will provide special and more favorable treatment for them in areas of negotiation where this is feasible.” Special and differential in this form denotes both an access and a right to protect.}\)
of market access, and (iii) special right to negotiate as a bloc and insistence on non-reciprocity.

In the Uruguay Round, SDT evolved further in its meaning from the earlier Rounds in two important ways. First, from a negotiating point of view, the Uruguay Round developing countries seemed to be surprisingly willing to move away from the bloc-wide special and differential nonreciprocal approach toward the mode they had followed in the Tokyo Round. In addition, the launch of the Uruguay Round and the period that followed overlapped with a period of sweeping intellectual change in trade policy in developing economies, and a sharp move toward unilateral trade liberalization (Whalley 1999, WTO 1998a).

Second, there has been a change in the intellectual basis for the SDT. In the past, SDT was offered to the developing economies as a response to their perceived special problems. A key problem was their limited capability to implement any new arrangements in a short period. It was apparent that they needed both time and special assistance in dealing with complex issues like intellectual property. Another problem was their fragile and small manufacturing sectors, which made adjustment costs of adapting to a changed environment disproportionately large. Consequently, developing countries had to be offered SDT so that they can adapt to the multilateral trade disciplines. In the Uruguay Round the focus of SDT changed from special right to protect and preferential market access, to one of response to special adjustment difficulties in developing economies stemming from implementation of WTO decisions. Preferences in implementation details were offered along with various best effort commitments of assistance, including technical assistance aimed to help developing countries in complying with the decisions of the Uruguay Round. While this kind of assistance was ad hoc and seemed largely tokenesque, the change in the focus of SDT was obvious.

The Uruguay Round refocused SDT to adjustment and implementation capability problems of developing economies. The new emphasis is on what SDT developing economies should receive as they progressively integrate into the global economy by adapting to the WTO discipline. As noted above, the Uruguay Round decisions regarding SDT were ad hoc and were arrived at rather late in the negotiation process. They also lacked an integrated intellectual structure. Providing this may well be the principal challenge of the Millennium Round. The challenges faced by developing economies in integrating themselves with the global economy should be documented and a consensus should be arrived at among the WTO members in this regard. Some of the problems arise from the limited policy formulation capacity of the developing economies, making it necessary for them to use broader measures as second-best policies (UNCTAD 1998). Developing economies are a heterogeneous lot and not all will simultaneously face all problems, therefore, groupings of developing economies or tiering of SDT benefits will be needed. This need was also recognized in the Uruguay Round, therefore, a good number of SDT measures were focused on the least-developed economies. The need for tiering will apparently be greater in the Millennium Round. To take an example, it is argued that as a first approximation, the installation cost of an intellectual property regime is the same for all countries. This makes the cost disproportionately large for the small economies, and the benefits intellectual property holders derive in these economies generally small.

The Millennium Round may launch a general review of SDT measures. This review exercise will clarify—if possible quantify—what the adjustment costs from implementing
multilaterally agreed decisions in the developing countries are. One fundamental limitation of SDT is the complete lack of transparency. Asian and other developing economies need to be more assertive in demanding transparency of operation of SDT commitments. A proposal of an annual SDT report in the Millennium Round will be a practical and profitable exercise. This report may estimate the significance of various SDT measures, as well as highlight areas of nonimplementation. How far will these two exercises go will necessarily depend on how activist the Asian and other developing economies are prepared to be on the SDT front during the negotiations, and whether such changes are negotiable with the industrial economies. If the Asian economies decide that their priorities are somewhere else, they will have to put the SDT on the back burner.

The possibility of extension of market access under the Generalized System of Preferences (GSP) is another important issue that needs to be explored under the SDT. This could involve various initiatives. One could be to explicitly extend GSP to agricultural products where, after tariffication in the Uruguay Round, tariff barriers are high. Action on this front can provide significant margins of preferences to Asian and developing economies. Whalley (1999) goes as far as suggesting changes in the language of Article XXXVI of the GATT, which indicates that a key purpose of the trading system is to facilitate the growth of developing economies. This Article should be so designed as to limit the force of antidumping actions of industrial countries (Whalley 1999).

IV. Progress in Preparing the Agenda

Trade ministers will reconvene in Seattle, USA, during 30 November – 3 December 1999 to propel new WTO negotiations. Although member governments have been discussing since early this year to decide on an agenda, it is far from finalized as yet. This is not to say that no progress has so far been made in this regard. The member governments do concur on significant components, which were part of the built-in agenda of the Uruguay Round. Several delegations have also identified the possible issues to be taken up, although they have not tabled specific proposals.

Preparations regarding the agenda are currently under way. The delegations agree that the next phase of preparation should be proposal-driven. The Japanese delegation emphasized that the principal objective of the proposals at this stage should be “on the scope, structure and time-frames” for the Millennium Round. The G-15 countries\(^\text{11}\) stressed that the following principles should underpin the preparatory process: a full implementation of SDT provisions that were agreed in various WTO Agreements, the importance of redressing the difficulties faced by developing countries in the implementation of the Uruguay Round agreements, and the lack of implementations or nonfulfillment of Uruguay Round obligations should not be used as bargaining instruments for obtaining further concessions from developing countries.

Countries represented in the Association of Southeast Asian Nations took the stand that they were keeping an open mind on proposals for new issues, but they would like the

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\(^{11}\) The following 17 developing countries presently comprise G-15: Algeria, Argentina, Brazil, Chile, Egypt, India, Indonesia, Jamaica, Kenya, Malaysia, Mexico, Nigeria, Peru, Senegal, Sri Lanka, Venezuela, and Zimbabwe.
new issues to be assessed according to the following criteria: (i) the new issues should be trade-related, (ii) they should be within the competence of the WTO and not duplicative of work in other supranational organizations, (iii) they should be of common concern to all WTO members, and (iv) a consensus should be sought before including an issue in the Millennium Round agenda. The East European countries expressed support for including the following issues: reduction in industrial tariffs, foreign direct investment, competition, transparency in government procurement practices, trade facilitation, and electronic commerce.

The EU expressed their deep commitment to the Millennium Round and said that the new Round should address the concerns of developing countries. They proposed that industrial countries grant tariff-free treatment to least developed countries. The EC also called for the new Round to deal with new areas mentioned in the Singapore Declaration, namely, transparency in government procurement procedures, competition rules, investment, and trade facilitation. The US stressed the importance of the following issues for the new Round: accelerated work on mandated negotiations on agriculture and services, results of the review of the Dispute Settlement Understanding, more trade liberalization, and inclusion of the initiatives taken by the APEC forum. The US also considered transparency in government procurement and electronic commerce as significant areas to be taken up during the Millennium Round.
References


