THE WTO’S SPECIAL BURDEN ON LESS DEVELOPED COUNTRIES

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The General Agreement on Tariffs and Trade was a card of professional wrestling, put on for a good cause. The political groans and grimaces that kept the true believers at the edges of their seats, an economist knew, were fake. In the GATT, the pains that participants complained about were mere politics. A government might protest having to cut its own tariffs, but an economist knew that those cuts would make the economy more productive, not less. The political discomforts were growing pains perhaps, surely not warning signs of injury.

Although the GATT was a game that an economist could enthusiastically cheer, the World Trade Organization is something else. Some of the concessions the WTO asks for (or assigns) are indeed economic costs, not mere mercantilist misperceptions. Although it did not make sense for an economist to ask about the GATT, “Is it worth it?” it does make sense to ask that question about the WTO.

The distinction I allude to between the WTO and the GATT is more precisely between liberalization of border measures such as tariffs and quantitative restrictions—the business on which the GATT was built—and the creation of rules on nonborder measures that affect trade. The latter is a considerable part of the WTO. At the Uruguay Round, countries took on major commitments to modernize regulations and institutions of trade administration—for example, customs valuation. Countries also took on obligations in areas usually thought of as domestic regulation—for example, intellectual property rights, industrial standards, and sanitary and phytosanitary (SPS) standards.

These matters, I suggest, differ in two ways from reducing trade restrictions: (1) implementation costs money and, therefore, (2) alter-
native uses are relevant—the money might be better spent elsewhere. Put another way, GATT-mandated reforms were a gift horse, and no economist would look a gift horse in the mouth. For what the WTO offers, one has to pay, so it makes sense to ask not only if this is the best horse for the money, but also if buying a horse is really the best use of the money.

None of the problems I take up here involve developing countries’ commitments on trade liberalization. Indeed, on trade liberalization the developing countries’ commitment—tariff reductions and elimination of quantitative restrictions—is now in place (January 1, 2000, deadline) and in scope as large as the industrial countries’ commitment. The major market-access concession received by the developing countries is still to be implemented: the deadline for eliminating the Multifiber Arrangement is 2005. Liberalization of agriculture is yet to be negotiated. Trade liberalization by developing countries is a good thing and is proceeding apace of obligations (Finger and Schuknecht 1999).

Lessons from the World Bank Experience

As noted, WTO member countries at the Uruguay Round took on obligations in several areas of “domestic” regulation or trade process. For many of the less advanced members, meeting these obligations requires changes, installation of systems and of enforcement processes not now in place. To learn something about what is involved in this implementation, a colleague, Philip Schuler, and I reviewed the World Bank project experience in customs reform, intellectual property regulation, and sanitary and phytosanitary measures. In each of these areas we went through our review with four questions in mind:

1. How much does the implementation cost?
2. What are the problems developing countries face in these areas?
3. Does the WTO agreement correctly diagnose the problems?
4. Does the WTO agreement prescribe appropriate remedies?

“Appropriate” in the fourth question refers both to correctly identifying the problems and to recognizing the capacities (resource constraints) of the least developed countries.

The major lesson we drew from our review is that implementation will cost money and, thus, it is relevant to ask what return the investment will provide. In large measure, implementation involves spending from the development budget, and that task draws on the World Bank’s expertise.

The project costs we identified provide a first approximation of the investments needed to implement WTO obligations on customs
reform, intellectual property rights, and SPS. Hungary spent more than $40 million to upgrade the level of sanitation of its slaughterhouses alone. Mexico spent more than $30 million to upgrade intellectual property laws and enforcement that began at a higher level than those in place in most least developed countries. We identified some 16 elements in customs reform, each of which can cost more than $2.5 million to implement. The figures, for just three of the six Uruguay Round agreements that involve restructuring of domestic regulations, total $150 million.\(^1\) This sum is more than the annual development budget for 8 of the 12 least developed countries for which we could find a figure for that part of the budget.

Tariff reductions and removal of quantitative restrictions can be put in place by the stroke of a minister’s or a legislature’s pen. Money may flow in different directions because of these policy changes, but implementation itself costs nothing. However, implementation of customs reform, Trade Related-Aspects of Intellectual Property Rights (TRIPs), and so on will cost money to purchase equipment, train people, and establish a system of checks and balances. Questions of project design costs and of rates of return compared with alternative uses of capital are therefore relevant. A decision to give a concession on market access is based on what a trading partner will give in return. Exchanging reductions of trade barriers on this basis has worked—not because the decision process brings forward the relevant costs and benefits, but simply because it moves toward a good result. The same decision schema—comparing the market-access impacts given and received—is not the way investment decisions are usually made, and the Uruguay Round experience suggests that it does not lead to good investment decisions.

**Customs Reform**

Our review suggests that reform is needed and that reform will cost money. Do the Uruguay Round agreements correctly identify where developing countries’ priorities should be, that is, what reforms should be made?

- Do the WTO agreements appropriately identify the problems faced by developing countries?
- Given the least developed countries’ needs and their resource bases, do the agreements provide the most effective remedy?

\(^1\)The experiences we reviewed were in the more advanced developing countries. The costs could be higher in the least developed countries that begin below the required standards.
The WTO customs valuation agreement extends the Uruguay Round concern to control import restrictions by developing countries—bound ad valorem tariffs are not constraining if valuation is not constrained. But from the perspective of the least developed countries’ need for customs reform, the WTO agreement provides neither an appropriate diagnosis nor an appropriate remedy.

The valuation process that the Uruguay Round agreement requires is one that complements customs systems in place in most of the advanced trading nations, including both developing and industrial countries. Their systems are based on familiarity with auditing techniques and generalized use of electronic information management—not only to process customs information but also to arm auditors with the information they need. Trade in these countries takes place in large lots, and duty rates are generally low. In this context, departure from routine practice is costly for traders relative to what is at stake in paying the duty. In poorer countries, incentives are different. At a duty rate of 50 percent, the duty on the number of television sets one person can transport on a bicycle-jitney can equal a year’s wages.

Effective customs administration has both physical and administrative dimensions. The WTO agreement presumes that the physical dimensions are under control. In poorer countries they often are not. A World Bank project undertaken to increase trade among Eastern European countries by improving procedures at land crossings found that the local citizens assigned the highest priority to building bathrooms. Trucks wait 8 to 12 hours at crossings, but because there are no toilets for the drivers, the alleys and roadways are foul. Next priority: many of the crossings have no electricity or telephones.

Customs processes in poorer countries exhibit many interacting weaknesses—excessive procedures (international guidelines) that are not codified, ineffective provision for appeal, poorly trained officials, a civil service system that does not pay a living wage and depends on officials who receive side payments for performing their functions. Bert Cunningham, in assessing several least developed countries considering customs reform, observed that systems appeared to have evolved to maximize the number of steps and approvals—to create as many opportunities as possible for negotiation between traders and customs officials (Cunningham 1996). The Uruguay Round negotiations, however, paid attention only to customs valuation, ignoring the dimensions of customs reform, which is where the critical developing country problems exist.

The foregoing information comes from projects in poor countries that want to improve their customs processes. The Uruguay Round agreement addresses only customs valuation—perhaps an inch of the
whole yard of problems that these countries face. In most of the countries, to put the WTO-prescribed valuation system on the physical and administrative base that currently exists would make things worse, not better. Administratively, it would increase rather than decrease the potential for customs valuation to be negotiated rather than objectively determined. Physically, it would install computers in border posts without electricity and without telephone lines. For the poorer countries, the WTO customs valuation agreement provides an inappropriate diagnosis and an inappropriate remedy.

**Intellectual Property Regulation**

The WTO agreement on TRIPs covers the seven main areas of intellectual property: copyright, trademarks, geographical indications, industrial designs, patents, layout designs of integrated circuits, and undisclosed information including trade secrets. TRIPs also requires WTO members to provide for protecting plant varieties, either by patent or by an effective sui generis system such as the plant breeder’s rights established in the International Union for the Protection of New Varieties of Plants convention. In each area, the agreement specifies standards of protection that governments must provide and requires governments to provide procedures to enforce.

The minimum standards are similar for each of the areas. For patents they cover (1) what is patentable, (2) what rights flow to the owner of a patent (the government is required to prevent unauthorized persons from using, selling, or importing the patent, the patented process, the patented product, or the product or products directly made from the patented process), (3) what exceptions to those rights are permissible—for example, compulsory licensing may be required, (4) how long the protection lasts.

The enforcement provisions require that a member provide civil as well as criminal remedies for infringement of intellectual property rights. They also require members to provide means by which rights holders can obtain the cooperation of customs authorities to prevent imports of infringing goods.

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2The TRIPs agreement provided the following transition periods:
• Industrial countries, until 1 January 1996
• Developing countries and transition economies, up to 1 January 2000
• Least developed countries, up to 1 January 2006—and may be extended on “duly motivated” request by a least developed country

Developing countries that now provide patent protection to processes and not to products, for example, in the food, chemical, and pharmaceutical sectors, can delay the application of the obligation to protect products up to 1 January 2005. Even here, governments must specify that inventions made between 1995 and 2004 will be able to gain patent protection after 1 January 2005.
The TRIPs agreement builds on standards expressed in relevant international conventions such as the Paris Convention for the Protection of Industrial Property and the Treaty on Intellectual Property in Respect of Integrated Circuits. TRIPs requires each WTO member to adhere to the provisions (with a few provisions excepted) of such international intellectual property rights conventions, whether or not the member is party to those conventions. This represents a major extension for many countries. For example, when TRIPs came into force, the treaty on integrated circuits had only nine signatories, only one of which had ratified it. Another example, the Rome Convention—which establishes rights of performers, producers of sound recordings, and broadcasters—has few signatories, particularly among developing countries. The TRIPs agreement creates an obligation on each member to provide the means through which a recording company from another member can attack unauthorized reproduction and sale of its products within the first; that is, a recording company located in Country A may use the legal mechanisms of Country B to attack unauthorized copying or sale by Country B citizens entirely within Country B.

The TRIPs standards are sometimes described as “minimum” standards, but they are minimum only in the sense that each member must provide at least the specified levels of protection and coverage. For perhaps every member, even the industrial countries, they represent an expansion of intellectual property rights in favor of intellectual property providers over users.

As with the customs valuation agreement, we found that the investments required for TRIPs implementation did not match the priorities revealed by actual developing country decisions. Generally, most countries have been at an advanced stage of development before they provided the mandated level of protection for producers of intellectual property. France, for example, introduced pharmaceutical patent laws in 1960, Germany in 1968, Japan in 1976, Switzerland in 1977, and Italy and Sweden in 1978 (Juma 1999: 18). One analyst described the coverage of TRIPs as “the standards of protection on which the industrial countries could agree among themselves” (Reichman 1998: 586). Again, for the poorer countries, the WTO agreement on intellectual property rights does not provide an appropriate diagnosis or an appropriate remedy regarding where these countries’ investment budgets should be allocated.

Because TRIPs builds on international conventions developed in large part by the industrial countries and on the enforcement practices they employ, the default mode for meeting the TRIPs obligations is for the developing countries to copy industrial country intellectual
property law. Although legal scholars point out that the agreement allows for the possibility of adopting intellectual property law that is friendlier to users and to second comers, they also point out that the benefit of the doubt is on the side of copying present industrial country approaches (see Reichman 1998). The mandate that the industrial countries have delivered through TRIPs is “Do it my way!” A developing country that opted to develop its own alternative would add to the cost of implementation the cost of developing that alternative plus the cost of defending it—in WTO’s political and legal processes.

Sanitary and Phytosanitary Measures

The World Bank has assisted many countries in implementing sanitary and phytosanitary regulations. The projects cover a range of activities, among them, upgrading veterinary services, building or upgrading quarantine stations, certifying disease-free and pest-free zones, and providing staff and equipment for research aimed at reducing chemical residues in exported meat.

Bank projects supporting SPS systems have typically placed these measures in a general development context of ensuring food security, increasing agricultural productivity, and protecting health, rather than focusing on the narrower objective of meeting stringent requirements in export markets. None of the projects we reviewed listed meeting WTO requirements as one of its objectives, though several were built on the realization that diversification into higher value-added exports such as processed meats, seeds, and horticultural products required producers to meet more stringent quality control standards.

The SPS agreement elaborates on the provision in GATT Article XX that governments may restrict trade when necessary to protect human, animal, or plant life or health, provided that the measures (1) are not applied in a manner that unjustifiably discriminates between countries with the same conditions and (2) are not applied as a disguised restriction on trade.

The agreement specifies that SPS measures conforming to relevant international conventions3 are to be deemed necessary to protect human, animal, or plant health, and presumed consistent with the relevant parts of the SPS agreement and of Article 3.2 of the GATT. Industrial countries have been leaders in establishing these international conventions, the resulting conventions being for the most part generalizations of their practices and standards.

3The SPS agreement specifically recognizes the Codex Alimentarius Commission, the International Office of Epizootics, and the International Plant Protection Convention, including subsidiary and regional parts thereof.
The SPS agreement is less intrusive than TRIPs. TRIPs mandates the intellectual property rights regulations that a country applies in its domestic economy while SPS obligations concern only SPS measures that are applied at the border. The SPS agreement provides a basis for a country to defend the import-restricting measures that it applies (as consistent with the agreement) and to challenge through the WTO dispute settlement mechanism the restrictions other countries apply to its exports (as inconsistent with the agreement).

Implementation will be expensive. To gain acceptance for its meat, vegetables, and fruits in industrial country markets, Argentina spent more than $80 million to achieve higher levels of plant and animal sanitation. Hungary spent more than $40 million just to upgrade the level of sanitation of its slaughterhouses. Technical assistance provided by industrial countries has generally been tied to the interests of industrial country enterprises.

Deriving benefits for the local economy from the technical assistance that is supplied is an issue. A number of industrial country processed food companies have facilities in developing countries from which they export to their home countries; meeting home-country SPS standards has been built into the construction of these facilities. The next challenge is to pass the mastery of this technology to indigenous enterprises. Some technical assistance has been aimed at expanding industrial country exports. An African food scientist who had been invited to attend a training session in an industrial country remarked to me in conversation, “They want us to implement SPS so that we will import more chickens.”

Uruguay Round Generated No Poor Country Ownership of the Rules

In the GATT/WTO political/legal system, the central organization has limited power to enforce. Unless a country has the “political will” to implement its obligations, the GATT/WTO legal mechanisms by themselves are unlikely to enforce meaningful implementation. Thus, national “ownership” of the rules is a necessary element in the functioning of such a system of rules. The members’ participation in establishing the rules is an important part of building a solid sense of owning them. Although the Uruguay Round has been celebrated for the active participation of many developing countries, that participation was a small part of the current 109 developed country and transition economy WTO members. (If we include observers, many of whom are negotiating accession, the number of developing and
transition economies involved totals 144.) Active developing country participation in the technical negotiations was particularly limited.

Three factors are behind the lack of developing country ownership of their Uruguay Round obligations: (1) incomplete negotiating delegations; (2) the “do it my way” approach of the industrial country negotiators; and (3) creation of the WTO, which significantly changed the options that the developing countries faced.

The African Economic Research Consortium’s evaluation found that Sub-Saharan African countries’ participation in the rule-making exercises of the Uruguay Round was minimal. The reasons behind this are as follows: (1) Geneva delegations were small and lacked persons with the technical backgrounds needed to participate effectively.4 (2) Links between WTO delegations and the relevant agencies at home hardly existed, for example, health and agriculture ministries with negotiators on sanitary and phytosanitary standards, and a customs agency with the customs valuation negotiators. (3) Stakeholders, for example, the business community, were minimally involved.

This point has two related dimensions—content and attitude. The content of industrial country proposals on customs valuation, intellectual property rights, and sanitary and phytosanitary measures was very much modeled on their own systems and institutions, which were already in place. SPS and TRIPs agreements allow for the possibility of approving developing country indigenous systems, but gaining approval would be expensive. For example, the basic metric of SPS implementation is risk assessment—the risk of establishing or spreading a disease or pest. International conventions deal with both the scientific method for measuring risk and the appropriate levels for regulation. A country may adopt other methods or other levels, but in applying such standards at the border, the WTO agreement places on the country the burden of demonstrating their scientific merit and appropriateness.

4When the Uruguay Round began in 1987, the GATT/WTO members totaled 65 developing countries, 20 of which did not have delegations in Geneva. Of the 20, 15 were represented from embassies in other European cities, and 5 by delegations based in their national capitals. Furthermore, developing country delegations were notably smaller than those of the industrial countries. The European Union had in Geneva a delegation of 10. EU member states’ delegations included an additional 57 persons. The U.S. delegation numbered 10, the Japanese, 15. Only 12 developing countries had delegations of more than 3 persons. The larger ones, Korea, Mexico, and Tanzania, had 7 each; Brazil and Indonesia, 6 each; Thailand, Hong Kong, and Egypt, 5 each. Of the 48 least developed countries, 29 are WTO members, but only 11 of these maintain delegations in Geneva. As of January 1999, 6 least developed countries were negotiating accession to the WTO; another 6 were observers who were not negotiating accession.
Regarding attitude, the record of negotiations over customs valuation shows that industrial country negotiators were unfamiliar with and were unwilling to learn the conditions under which customs officials in developing countries operated. U.S. and European Union differences on customs valuation were resolved in part by the EU customs officials making a four-week study tour of Canada and the United States (at EU expense). None of the industrial countries supported a proposal to organize in Geneva a workshop (under the GATT technical assistance budget) that would have included both developing and industrial country customs technicians. Vinod Rege, who served on the GATT Secretariat staff to support these negotiations, concluded as follows:

In hindsight, it would seem that if the EC officials who came back from the visit to the U.S. customs services, satisfied that the U.S. valuation system was not after all as arbitrary as they had thought, had also visited the customs services in a few developing countries, there would have been a better appreciation of the views of the developing countries’ negotiators. This would have facilitated more informed communication and, thus, created a basis for more fruitful dialogue. (Rege 1999: 74)

The WTO Changed Options

Because the Tokyo Round codes were part of the GATT, the GATT nondiscrimination obligation (Article I) required that signatories to any code apply the code in their dealings with all GATT contracting parties, not just with other signatories—that is, nonsignatories were entitled to the benefits (in the mercantilist sense) of a code without accepting the obligations. The agreement to establish the WTO provided an all-or-nothing option, it did not allow a country to accept some of the constituent agreements (e.g., on customs valuation or intellectual property rights) and reject others. Industrial country negotiators, who might have been focused on getting a select list of about 20 developing countries to accept the new disciplines on customs valuation or on intellectual property, found that they now had a way to insist that all of them accept. For the developing country negotiators, the diplomatic value of becoming a WTO member weighed heavily. In many countries the obligations that came with it were not carefully considered. Olawale Ogunkola concluded that “the ratification of the agreement and the single undertaking clause made the implementation of the agreement almost non-negotiable” (Ogunkola 1999).

An Overly Legal View of How the GATT/WTO System Works

I suspect, but have not documented, that industrial country negotiators may have misread the historical record of how effective creating
legal obligations has been in forcing changes of national policies. The following, from an industrial country document on trade facilitation, illustrates what I consider an incorrect view of causation:

To succeed . . . requires political commitment . . . The creation in WTO of basic rules . . . will underline and secure the political commitment of WTO Members.

The reverse, that political commitment can lead to the creation and observance of meaningful rules, seems more consistent with the historical record. Robert Hudec, in a review of the first three years of the WTO dispute settlement mechanism, a review that drew on Hudec’s quarter century as an analyst of GATT/WTO dispute settlement, concluded as follows:

A third lesson suggested by the GATT’s experience is that political will is really more important than rigorously binding procedures—that strong procedures by themselves are not likely to make a legal system very effective if they do not have sufficient political will behind them. . . . When we ask whether or not the new system will work, therefore, we have to begin by asking what kind of political will stands behind it. The current fascination with the novel WTO procedures tends to obscure the importance of this first and most important condition of success. (Hudec 1999: 11)

The TRIPs, customs valuation, and SPS agreements and several others suggest that industrial country members furnish technical assistance to developing country members that request it. This provision, however, is not a binding commitment. In effect, the developing countries have taken on bound commitments to implement in exchange for unbound commitments of assistance to implement.

Without ownership (political commitment) among the members, WTO rules are not likely to be implemented. Imposing the rules in the “Got ya!” fashion of the Uruguay Round negotiations did not provide that ownership. More appropriate than a five-year implementation period might have been a five-year cooling-off period.

Conclusions

The WTO has 109 developing and transition economy members. As of January 1, 2000, 80 or 90 of them are in violation of the SPS, customs valuation, and TRIPs agreements. (For the 29 least developed country WTO members, the TRIPs deadline is 2005). Implementing their obligations would require the least developed countries to invest in buildings, equipment, training, and so forth that would cost each of them $150 million—for many of the least developed countries this represents a full year’s development budget.
Would this money be well spent? For perhaps 20 of them—mostly the developing and transition economies that meet their implementation deadlines—it might well be. For the other 80 or 90, it would be a bad investment. Basic education, particularly for women and girls, would have much more attractive rate-of-return numbers.

That does not imply that no reform is needed to improve developing countries’ customs procedures, food safety systems, and systems for generating and for using intellectual property. Developing countries are willing to borrow money to finance improvements in these areas. Thus, it is evident that they themselves see a need for reform. “Not to reform” is an untenable option. Questions about implementation are questions of priorities, of method, and of ownership-motivation.

We should be careful not to be lulled into the ethic of a reciprocal negotiation in which delay, in itself, is a victory. As I have already stated, the less developed economies need improvements in the areas that are new to the WTO—to delay these improvements is to lengthen the time that the people in these countries remain poor. Time will be needed for implementation; but implementation periods should be based on considerations of the appropriate priorities for the available development budget and on the engineering requirements to accomplish the required construction. Improvements should not be handed out as a second prize in a tough negotiation.

Arguments that GATT obligations (trade liberalization) are good medicine for industrial but not for developing countries are incorrect. The burden of implementation here is a political one, not an economic one. But many countries have now undertaken other WTO legal obligations that are not in their interests to implement—implementation makes neither domestic, political, nor economic sense.

My objectives in this article have been to illustrate that problems exist, to call attention particularly to the amount of money at stake, and to suggest that spending it would not make economic sense. For the GATT, an economist could in good faith urge that a country—industrial or developing—overcome opposing domestic politics and meet its obligations. For the WTO, one cannot.

References


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