# TRADE POLICY MAKING IN DEVELOPING COUNTRIES:
## AN ANALYSIS

Formulating trade policy has become a special concern in modern society. In the late eighties, and largely as a result of the conclusions of Special Groups that settled disputes dealing with environmental regulations under the General Agreement on Tariffs and Trade (GATT), wide sectors of civil society organized in international networks emerged as interested parties to better understand the way multilateral trading system works and try to influence trade-related matters.

The subsequent coming into effect in 1995 of the World Trade Organisation (WTO), that contained rights and obligations that went beyond the traditional trade-related issues, together with a stronger dispute-settlement system deeply involved in the countries' sovereignty, resulted in deepened interest of organized groups within the society to take part in decisions on trade policy, to ensure protection and promotion of their interests.

In a number of developing countries, the creation of the WTO was welcome in the beginning, but later on it arose concern when people better understood (and in some cases misunderstood) the extent and scope of related obligations and problems to implement it.

Although developing countries account for a four-fifths (and increasing) majority in the WTO, only a small minority are active in it; most of the rest – an absolute majority of WTO membership – seem incapable of effective participation.

Weak participation in the WTO is largely a reflection and extension of *policy-making* deficits at home. Most developing countries suffer from poor leadership, misguided policies (not least continuing protectionism) and basic institutional defects (such as corruption and the weak enforcement of rights and laws). Related to this, although insufficiently appreciated, is their lack of logistical wherewithal – the administrative capacity and expertise --to deliver and sustain sound, credible trade policies.

Little thought is given to how developing countries *make* trade policy. Nevertheless, the national decision-making setting is the crucial delivery mechanism for good and bad trade policies, including the extraction of benefit from the WTO (or not, as the case may be). Why is it that some have made strides in the right direction while most others languish – at home and in the WTO?

**Developing countries in the GATT/WTO**

Until the launch of the Uruguay Round, nearly all developing countries excluded themselves from the GATT's core business: export market access was not considered especially important in the context of import-substitution policies; and Special and Differential Treatment (SDT) meant that developing countries were not obliged to open own markets.

This changed from the 1980s onwards when successive waves of developing countries liberalised trade (and foreign direct investment) as part of broader packages of policy reform. Trade became central to national growth strategies: governments realised that they needed the GATT to negotiate export market access (particularly in highly protected sectors like agriculture and textiles), and to defend themselves against (especially) non-tariff protection from developed countries.

Hence a small batch of developing countries – mostly from Latin America and East Asia, plus India -- became increasingly active during the Uruguay Round. For the first time a critical mass of them were at the GATT negotiating table, bargaining for market access and even involved in key rule-making deliberations. The vast majority of developing countries, however, remained passive and reactive.

Such divergence between an active minority and an inactive majority has become more marked since the founding of the WTO in 1995. There are just a score or so of really active developing countries. Most of them are in the middle-income bracket with not insignificant and rising shares of international trade and investment. Most have also undertaken radical and sustained unilateral liberalisation. They have well-staffed missions in Geneva with high-profile ambassadors, many of whom chair important WTO committees. They are active in the formal and informal coalitions where much of the deal making is done.

It is in the compact, issue-based coalitions, often spanning the notional developed-developing country divide, where the active developing countries really come into their own (the Cairns Group in agriculture being perhaps the best example). Finally, some, but by no means all of them have reasonably well resourced trade policy operations back in national capitals.

Next comes a motley crew of poorer developing countries, some quite large (such as Pakistan and Bangladesh), whose vocal ambassadors tend to push “development” issues. However, their influence in the WTO’s work programme is limited by their serious lack of administrative capacity, in Geneva and at home.

This leaves a very large group, amounting to about half or more of the WTO membership, with weak-to-minimal participation. Many of them are least developed countries and small island-states without a Geneva mission. Most of the others have perhaps one or two representatives in Geneva to cover all the international organisations in town.

The WTO sorely needs stronger developing country participation. Only then can developing countries be forceful *demandeurs* for their market access priorities, defend themselves against front and backdoor protection from developed (and other developing) countries, and make sure their rights are upheld in dispute settlement.

**Participation in the WTO begins at home: developing country trade policy capacity**

Unfortunately, the thinking on trade policy capacity-building in developing countries is conceived in Olympian, “top-down” terms. “Global governance,” involving a never-ending list of donors and international organisations, is the order of the day. This misses the point: the simple truth is that good trade policy, like charity, begins at home, not in the IMF and World Bank, nor indeed in the WTO. Trade policy capacity has to be rooted in the subsoil of nation-states and nurtured “bottom-up.” Only on this *terra firma* can countries participate effectively in the WTO.

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The latter, in turn, can be a helpful auxiliary, an external constitutional prop, to good *national* governance, especially by buttressing the rule-framework for the protection of private property rights and the enforcement of contracts in international transactions, thereby providing a more stable and predictable business environment. In other words, the WTO is at best a complement, not a substitute, for what is in essence a national task.

Two basic propositions follow from this constitutional train of thought:

- Developing countries with reasonably well functioning trade policy management and credible trade policies at home participate actively in the WTO and benefit from its rules and obligations.
- The vast majority of developing countries lack these domestic foundations; rather, in the absence of leadership and capacity at home, donors and international organisations often drive trade policies externally. Consequently, these countries are weak in the WTO; they are reactive and muddle through. This enables powerful developed countries to bully them in negotiations, as happened especially in the latter stages of the Uruguay Round. These are precisely the countries that have not benefited from the WTO system to date.

**Objectives and indicators of good trade policy making**

Credible and sustainable trade policy outcomes require an efficient delivery mechanism, i.e. good trade policy decision making. The main objectives of good trade policy management are threefold:

- Clear, precise definition of national interests in *policy formulation*, with a strong sense of how trade policy fits into the overall national economic strategy.
- Effective *negotiating capacity* at bilateral, regional and multilateral levels, with a good appreciation of the dynamic interaction between these levels.
- Effective domestic *implementation* of unilateral measures and international agreements.

How are these objectives to be achieved? What are the indicators of good (and bad) trade policy making? The following checklist breaks down trade policy making into its main components.

- General institutional and economic policy issues inasmuch as they impinge upon trade policy.
- The overall structure of government, especially the interactions between the executive, legislature, judiciary and political parties on trade policy issue.
- The role of the lead ministry on trade policy.
- Co-ordination within government between the lead ministry, other ministries and regulatory agencies on trade policy.
- The input of sub-national actors in trade policy, especially in federal systems.
- The role of the national mission to the WTO, and co-ordination between it and the trade policy machinery back at home.
- Non-governmental input in trade policy, e.g. from business, NGOs and think-tanks.
- The role of donors and international organisations.
- Transparency issues, e.g. the level of public knowledge and debate on national trade policy choices.

Most developing countries fare badly on all these counts. No trade policy works in a climate of macroeconomic instability, made worse by rampant corruption and weak enforcement of property rights and contracts. Most lead ministries on trade policy are not high up the pecking order within government and tend to be captured by politically well-connected protectionist forces.

Inter-agency co-ordination is usually bad on traditional trade policy issues (tariffs and quotas on merchandise), and abysmal on newer issues like services, intellectual property and environmental standards, which involve regulatory agencies across the range of government. Most WTO missions are under-resourced and do not co-ordinate well with ministries back at home. Apart from habitual rent-seeking, business and other non-governmental input in trade policy is hardly evident. Finally, trade policy lacks transparency: almost everywhere it is dominated by well-organised "insiders" within government and outside it; intelligent public discussion on crucial trade policy choices, informed by independent, economically literate analysis, is conspicuous by its absence (although this is a developed country problem as well). No wonder most developing countries are unable to formulate clear and precise national interests in trade policy, lack negotiating capacity in international forums, and fail to implement international agreements in timely and effective fashion.

All is not bad news. There are examples of good practice in trade policy management across the developing world, which translates into reasonably sound and stable trade policies at home as well as effective participation in the WTO. Let us turn to a few of these examples.

*Lead ministries:* Trade policy responsibility is usually housed in trade-and-industry (commerce) ministries. However, foreign ministries take the lead in some countries. Brazil, Chile and Mauritius, all noted for effective and high profile trade policy operations, are cases in point (as are Australia and New Zealand in the OECD, and Estonia in Eastern Europe).

Investing trade policy competence in foreign ministries may have certain advantages. Foreign ministries tend to have some of the brightest and the best officials within national administrations; they are often led by powerful ministers; they may be less liable to interest group capture than commerce ministries; and, compared with sometimes parochial commerce ministries, they are better able to put trade policy into the larger foreign policy picture. On the other hand, foreign ministries often lack depth in terms of economic analysis and may sacrifice economically informed trade policy priorities to other foreign policy goals.

Nevertheless, there are examples of successful trade policy leadership by capable trade-and industry ministries. Hong Kong and Singapore are among the best examples.

*Inter-agency co-ordination:* Co-ordination among diverse ministries and regulatory agencies is increasingly important as trade policy becomes more entwined with non-border regulatory issues. However, it rarely works well, in part because non-trade ministries and regulators do not have trade policy high up their lists of priorities. Large, populous countries have a particular problem with inter-agency co-ordination, all the more so when they have complex federal systems. Small countries with relatively slimline, compact administrations tend to do a better job with inter-agency co-ordination. The trade-and-industry ministries in Hong Kong and Singapore, for instance, co-ordinate closely with other parts of government, especially on services issues (services being at the heart of trade policy in both global cities).

*The WTO mission:* Several Latin American countries, Hong Kong, Singapore, Hungary and Mauritius (to name a few) have well-staffed missions with talented officials and capable, influential heads of mission. The key to a mission's success is effective two-way communication with the lead ministry (and other parts of government) at home.

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*Non-governmental input:* Even with the active developing country participants in the WTO, business and other non-governmental input in trade policy has been lacking, although it is gradually improving. Policy makers and negotiators need qualitative and quantitative market intelligence from business, input from NGOs (e.g. on consumer issues such as food safety), and independent research and analysis from universities and think-tanks. Mauritius has a formal co-ordination mechanism with the private sector on trade policy issues; and some Latin American lead ministries on trade get increasing feedback from business on agriculture and some manufacturing issues. Private sector input on services remains a problem almost everywhere. Hong Kong is an exception: it has a very active Coalition of Services Industries which liases closely with the Trade Department and the WTO mission.

**Conclusion**

Clearly, there is much trade policy capacity building to do in the developing world. There are examples of better trade policy practice across developing countries. Given lower levels of development and more scarce political and administrative resources, developing countries probably have more to learn about good practice from each other, and from advanced emerging markets like Hong Kong and Singapore, than they can learn from long-established developed countries in North America and the EU.