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Globalization, WTO and ASEAN

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ABSTRACT

Globalization, WTO and ASEAN

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This paper examines the extent and causes of globalization and its consequences for the policy strategies of Southeast Asian countries. Added to the digital revolution’s contribution to globalization have been substantial policy reforms by national governments in the past two decades. The latter have been partly unilateral and/or, as with the ASEAN Free Trade Agreement, regional. But the GATT/WTO has been crucial during the past half century in encouraging economies to open up more and to commit to staying open to international trade and investment. Greater openness of and interdependence between national economies provides wonderful opportunities for ASEAN economies, but it is not without its challenges. Globalization is raising the rewards to economies choosing good economic governance, but is also raising the cost to economies with poor economic governance. Good economic governance requires a permanent commitment to a liberal international trade and payments regime, and to secure property rights.

Keywords: globalization, WTO, ASEAN

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1. Introduction

The pervasive effects of the process of globalization are being felt in poorer economies at least as much as in richer ones. They are also being affected by, and are affecting, international institutions such as the World Trade Organization (WTO). The WTO’s evolution in turn is altering the policy options of developing and transition economies. Furthermore, the ability of those countries to influence the WTO is beginning to increase. This three-way interaction between globalization, the WTO, and the trade and development strategies of developing and transition economies is explored in this paper with a view to drawing out implications for further action by governments of Southeast Asian countries for the early 21st century. Those actions certainly involve getting rid of, or not introducing, certain types of government interventions in markets, especially those whose inappropriateness is increasing with globalization. But attention is also given to the question of what new government actions may be required -- at international as well as at national levels -- to maintain or improve the smooth functioning of economic and political markets.

The remainder of this paper is organized as follows. The next section defines globalization and briefly describes indicators of its growth. Section 3 summarizes technological aspects of globalization of relevance to ASEAN countries. Section 4 notes the changes in national economic policies that have contributed to globalization. As discussed in section 5, the General Agreement on Tariffs and Trade (GATT) and now the WTO have added significantly to those governmental contributions to globalization. The concluding section of the paper explores the implications of these developments for policies and strategies of ASEAN countries in some detail. Particular attention is given to rural development strategies, because
globalization is likely to strengthen urbanization and thereby add to the burden of adjustment to economic growth that rural areas traditionally bear.

2. Definition and Extent of Globalization

Globalization could be defined simply as the decline in costs of doing business internationally. One of its key effects is to enhance the international integration of markets for goods, services, technology, ideas, financial and other capital, and labour. An indicator of its progress is reducing differences in prices for those products and factors across space (within and between countries). That and related effects of globalization are being felt by all countries of the world, especially in open economies such as Southeast Asia's.

As was evident in Seattle late last year, when trade ministers of WTO member countries tried to meet with the expectation of launching the next round of multilateral trade negotiations, not everyone favours globalization. Trade union representatives of some low-skilled workers in rich countries fear it threatens their members' jobs, while environmental groups fear it contributes to national and global environmental problems. Others simply prefer their country to be more self-sufficient in producing what its citizens consume. Protestors from among such groups were sufficiently mobilized in Seattle as to at least contribute to the postponing of the launch of the next WTO round.

Both technological and governmental barriers contribute to the costs of interacting internationally. Falls in transport costs, the huge decline in communication and information costs, and cuts in tariff and non-tariff governmental barriers to trade in goods and services have combined in the late 20th century to accelerate globalization to an unprecedented speed that shows no sign of abating.

While the extent of the acceleration in globalization cannot be captured in a single statistic, several provide partial indications of what is involved. A standard

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indicator is the comparison between trade and GDP growth. As Table 1 shows, while merchandise trade for centuries has grown faster than output for all periods except between the two world wars, the gap has been larger in the 1990s than in any earlier period since the mid-nineteenth century. More than one-fifth of global output is now exported, double the proportion in the 1950s. As well, annual outflows of foreign direct investment grew more than six-fold between 1983 and 1990, and continued to grow more than twice as fast as goods trade in the 1990s. Intra-firm trade among multinational corporations (MNCs) is estimated to account for one-third of world trade, and another one-third is MNC trade with non-affiliates.

During the 1990s international portfolio investment grew even faster than foreign direct investment (Craft, 2000). Between 1991 and 1999, the annual value of cross-border mergers and acquisitions grew from $100 billion to more than $700 billion, or from 0.5 to 2.5 per cent of global GDP. In 1999 those cross-border activities accounted for nearly one-third of all mergers and acquisitions globally, and were valued at four-fifths that of FDI flows that year (UNCTAD, 2000, pp. 10-12). The increase in global foreign currency (forex) transactions has been even more dramatic (Rajan, 2001).

The 1990s have also seen an explosion in the world’s capacity for electronic commerce. In the decade to 2001, the WTO expects a doubling in the number of telephone lines, a 25-fold increase in the number of cellular phones, a near quadrupling in the number of personal computers, and an expectation that two-thirds of those PCs will have internet access (WTO, 1998b, p. 8).

3. **The Technological Dimension of Globalization**

There have been three technological revolutions in transport and communication costs in modern times. The cost of transporting goods was lowered enormously in the 19th century be the advent of the steam engine, which created the
railway and steamship. Steel hulls for ships and refrigeration further lowered the real cost of ocean transport late last century, particularly for perishable goods. The telegraph helped too (O’Rouke and Williamson, 1999).

The second technological revolution lowered hugely also the cost of moving people. It was dominated, in the middle half of the 20th century, by the falling cost of transport by car and aeroplane thanks to mass production of such goods and associated services. Ocean freight rates (helped by containerization) and telephone charges also fell massively over this period2.

The third and current revolution in transport and communications technology, beginning towards the end of the 20th century, is digital. Aided by deregulation of telecom markets in many countries, it is lowering enormously long-distance communication costs and especially the cost of rapidly accessing and processing knowledge, information and ideas from anywhere in the world3. Science has been among the beneficiaries of the digital revolution, spawning yet another revolution, namely in biotechnology.

A side effect of the Internet’s expansion is the growth in the use of the English language. It has been claimed that there are now more people using English as a second language than there are people for whom it is a first language (Cairncross 1997). This too is lowering costs of communicating between countries.

4. The Governmental Contribution to Globalization

2 Between 1920 and 1980, the real charge per tonne for ocean freight fell by almost three-quarters and between 1960 and 1980 the real cost of a telephone call from New York to London fell by 90 per cent. Meanwhile, between 1930 and 1980 the real cost of air travel fell 85 per cent (Hufbauer, 1991). Transport costs can be crudely captured by the extent to which the _c.i.f._ import price exceeds the _f.o.b._ export price for a product. For United States merchandise trade, that mark-up has fallen from 9.5 per cent in the 1950s to 6 per cent in the 1990s (Frankel, 2000).

3 Two book titles summarize this 150-year history: Blainey’s _Tyranny of Distance_ which refers to Australia’s early isolation from the Old World prior to steamships, and Cairncross’ _Death of Distance_ which refers to the latest communications revolution (Blainey, 1966 and Cairncross, 1997). For comparisons of the nineteenth and late twentieth century episodes of globalization, see Baldwin and Martin (1999) and Bordo et al. (1999).
The above developments have been reinforced by government decisions to liberalize goods and services trade and currency and investment regimes, and to better assign and enforce property rights.

Following the protectionist inter-war period, market liberalization began with the lowering of import tariffs on trade in manufactures between industrial economies. Within Western Europe that trade was especially liberal following the Treaty of Rome and the formation of the European Free Trade Area. In the 1980s trade reform was followed by extensive liberalizations of foreign exchange markets and of restrictions on financial capital flows, leading (with the help of new digital technologies) to the development of new varieties of internationally tradable financial security instruments. At the same time many non-OECD countries -- including China, the Soviet bloc, India and Indo-China -- began moving away from inward-looking to outward-oriented trade and investment policies (though pace and timing have varied). The 1980s also saw the deregulation of domestic markets in a growing number of countries, which reinforced the effects of deregulating transactions at national borders.

Economic reforms have included the better assignment of property rights. Water is one example. In Southeast Asia as in many other countries, water has been grossly underpriced; and in many cases ownership of the resource itself or of access to it had not been assigned. That is changing as government charges rise to more fully reflect the worth of the resource flow, and/or as the right of access to surface and ground water is being allocated to landholders in the form of tradable certificates. Another example is intellectual property. New information technology, including DNA fingerprinting, makes it much easier and hence much less costly to enforce intellectual property rights (IPRs). That has prompted more governments to assign IPRs, for example to plant-related inventions based on genes. And a third example is land rights. Their evolution is a normal part of economic development as
traditional societies begin to modernize. But in the 1980s and 1990s many former centrally planned economies have passed at least user rights back to individuals. A major effect of that in China has been a huge boost to farm output, raising its share of global food production to around 18 per cent. Once that extends more effectively to mines in China, and if/when rights to the use of agricultural and mineral resources are more efficiently allocated in other former centrally planned economies or CPEs (most notably Russia), comparative advantages of resource-rich market economies could be altered significantly4.

These reforms benefit most the countries making them, but they also benefit virtually all of their trading partners5. Hence the more countries open up and reform, the greater is the gain to other countries from doing likewise. In particular, they expand the opportunities for developing and transition economies to access goods and services markets, investment funds, and technologies, thereby raising the payoff to those economies from joining the band-wagon of liberalization. Those that have already done so have grown much faster than the rest, and have seen their incomes converge toward OECD income levels6. The reasons for faster growth of more open economies have to do with the dynamics of trade liberalization, something which is not just an abstract idea from new trade and growth theory (Grossman and Helpman, 1991 and Taylor, 1999) but one that is well supported empirically (USITC, 1997).

Yet greater openness can carry some risks, especially if appropriate domestic policies are not in place. Two examples are prudential regulation of the financial sector and environmental concerns. There is also a risk that the market-opening

4 See Pomfret (2001) for a recent discussion of the reintegration of CPEs into the global trading system.

5 Even those that might lose in the short term from an adverse terms of trade change are in the long term likely to benefit from the faster economic growth and greater openness of the reforming countries.

6 See, for example, Dollar (1992), Edwards (1993) Sachs and Warner (1995), Frankel and
reforms of the post-war period, and especially the past fifteen years, could be reversed by governments as domestic political circumstances change. As explained in the next section, during the past 50 years that risk has been contained by the GATT and, since 1995, its successor the WTO. But, as the events in Seattle showed in late 1999, it is certainly not eliminated.

Together with the above-mentioned technological revolutions, these policy reforms have brought about a more-integrated global trading system, a much more-integrated global capital market, and more integrated firms as international transactions that formerly took place between independent entities are being internalized within single firms or corporate alliances. The increasing mobility of the productive assets of firms enables them to minimize their corporate income tax exposure by strategically locating their headquarters and using transfer pricing in their intra-firm international trade. It also encourages governments to compete for the presence of firms, via regulatory reforms, lower tax rates, and other investment incentives (including, particularly in developing countries, restraints on the adoption of higher environmental and labour standards). This could leave governments with less tax revenue to supply social policies at a time when the demand for such policies is rising with income growth.\footnote{It tends to be the relatively abundant factor of production that gains most from opening up to trade. In rich countries, there is a risk that (relatively scarce) unskilled labour could suffer from trade reform if re-training opportunities were difficult to access. In poor countries, by contrast, unskilled labourers -- the vast majority of the working-age population -- could be the main gainers (Deardorff and Stern, 2000).} But if the regulatory reform is growth-enhancing and includes the privatization of state-owned enterprises, government revenue could expand.

These technological and governmental revolutions have contributed increasingly to the drift towards urbanization. The first helped launch the industrial revolution in Western Europe, but partly by lowering the cost of exploiting natural resources abroad which allowed primary sectors in less densely populated and

\footnote{Romer (1999) and, for an extended bibliography, WTO (1998a, pp. 62-63).}
tropical countries to expand also. The second revolution accelerated industrialization in the West and its spread to the Far East including via what Vernon (1966) described as the product cycle. The third and current revolution is increasing the scope to subdivide the processes of production and distribution into parts that can be relocated anywhere in the world according to ever-increasing changes in comparative advantages over time (Jones and Kierzkowski, 1997 and; Feenstra, 1998). That out-sourcing can be via various means including sub-contracting, licensing, joint ventures, and direct foreign investment by multinational corporations (Markusen, 1999 and Markusen et al., 1996).

As well, methods of industrial production are altering dramatically. Specialized, single-purpose equipment for mass production is being supplemented or replaced by flexible machine tools and programmable multi-task production equipment. Because this type of machinery can be quickly and cheaply switched from one task to another, their use permits the firm to produce a variety of products efficiently in small batches (Milgrom and Roberts, 1990).

The resulting productivity growth in industrial and service sectors is altering the key source of wealth of nations, which is moving ever-faster away from natural to human capital (that is, from raw materials and physical capital per worker to human skills and knowledge). In particular, wealth creation in the 21st century will depend especially on the ability to access and make productive use of the expanding stocks of knowledge and information, and to build on them through creative research and development to design highly flexible production methods (World Bank, 1998). How well and how quickly people of different regions are able to do that will increasingly determine relative economic growth rates. But for all countries the extent and speed with which economic events abroad are transmitted to domestic markets will increase inexorably – and governments will have less and less capacity to isolate their economies from such trends, as financial derivatives and electronic commerce
have made clear in the cases of international financial flows and a widening range of traded goods and services (WTO, 1998b).

5. The GATT/WTO’s Contribution to Globalization

History shows that the risk of market-opening being reversed is much more likely in the absence than in the presence of international constraints on national trade policy actions. For example, the Cobden-Chevalier Treaty of 1860, between England and France, contained a most-favoured-nation (MFN) clause. This required that the agreed cut in the tariff on each item in their bilateral trade was to be applied also to their imports from other countries. It also meant that every European country that subsequently signed a trade treaty with either England or France (and most did by 1867) signed onto MFN. The effect was a network of treaties that lowered hugely the level of tariff protection in Europe (Kindleberger, 1975), allowing world output and trade to boom for several decades until the First World War intervened (Table 1). Following that war, efforts to restore liberal trade centred on international conferences but did not lead to renewed trade treaties with binding commitments to openness based on MFN. Then when recession hit in the late 1920s, governments responded with beggar-my-neighbour protectionist trade policies that drove the world economy into depression. The volume of world trade shrunk by one-quarter between 1929 and 1932, and its value fell by 40 per cent. And the first attempts to reverse that protection were discriminatory, as with the Ottawa Conference of 1932 that led to preferential tariffs on trade among members of the British Commonwealth.

Out of the inter-war experience came the conviction that liberal world trade required a set of rules and binding commitments based on non-discriminatory principles. While there was not enough agreement to create an international trade organization, at least a General Agreement on Tariffs and Trade (GATT) was signed by 23 large trading countries in 1947. The GATT provided not only a set of
multilateral rules and disciplines but also a forum to negotiate tariff reductions and rules changes, plus a mechanism to help settle trade disputes. Eight so-called rounds of negotiations took place in the subsequent 46 years, the last one (the Uruguay Round) culminating in the ‘interim’ GATT Secretariat being converted into the World Trade Organization (WTO) in January 1995.

The GATT, and now even more so the WTO, contributes to globalization in several crucial ways. The WTO has four key objectives: to set and enforce rules for international trade, to provide a forum to negotiate and monitor trade liberalization, to improve policy transparency, and to resolve trade disputes. Apart from the transparency role, these were also the key objectives of its predecessor before the WTO came into being; but the WTO is much more comprehensive than the GATT. For example, GATT’s product coverage in practice was confined mainly to manufactures (effectively not including textiles and clothing), whereas the WTO encompasses all goods (including sensitive farm products), services, capital to some extent, and ideas (intellectual property). As well, following the conclusion of the Uruguay Round negotiations, the interim GATT Secretariat was converted to a permanent WTO Secretariat with greatly strengthened trade policy review and dispute settlement mechanisms. It also has a new role: cooperating with the IMF and World Bank with a view to achieving greater coherence in global economic policy making.

GATT/WTO rules to govern international trade serve at least three purposes. First, they protect the welfare of small and weak nations against discriminatory trade policy actions of large and powerful nations. GATT Articles I (most-favoured-nation) and III (national treatment) promise that all WTO members will be given the same conditions of access to a particular country’s market as the MFN, and all foreign suppliers will be treated the same as domestic suppliers. These fairness rules are fundamental to instilling confidence in the world trading system. In particular, they
lower the risks that are associated with a nation’s producers and consumers becoming more interdependent with foreigners -- risks that otherwise could be used by a country as an excuse for not fully opening its borders.

Second, large economies have the potential to exploit their monopoly power by taxing their trade, but we know from trade theory that the rest of the world and the world as a whole are made worse off by such trade taxes. Thus while each large economy might be tempted to impose trade taxes, the effect of lots of them doing so simultaneously may well be to leave most if not all of them worse off -- not to mention the welfare reductions that would result in many smaller countries. Hence the value of agreeing not to raise trade barriers and instead to ‘bind’ them in a tariff schedule at specified ceiling levels. This rule is embodied in GATT Article II, whereby WTO members are expected to limit trade only with tariffs and are obligated to continue to provide market access never less favourable than that agreed to in their tariff schedules. Again, the greater certainty which this tariff-binding rule brings to the international trading system adds to the preparedness of countries to become more interdependent and of business people to invest more.

The third and perhaps most important contribution of multilateral rules disciplining trade policy is that they can help governments ward off domestic interest groups seeking special favours. This comes about partly via Article II, which outlaws the raising of bound tariffs, as well as via numerous other articles aimed at ensuring that non-tariff measures are not used as substitutes for tariffs. This benefit of the system is sometimes referred to as the ‘Ulysses effect’: it helps prevent governments from being tempted to ‘sin’, in this case to favour special interest group at the expense of the rest of their economy.8

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8 Petersmann (1991) goes so far as to say that:
the primary regulatory function of the GATT .... [is] the welfare-increasing resolution of domestic conflicts of interest within GATT member countries among individual producers, importers, exporters and consumers (p.83).
Similarly, Roessler (1985) claims that:
While no one would argue that the GATT rules have been applied without exception, the fact that they are there ensures the worst abuses are avoided. They therefore bring greater certainty and predictability to international markets, enhancing economic welfare in and reducing political tensions between nations. More than that, by promoting interdependence the GATT/WTO indirectly has raised the price and hence reduced the likelihood of going to war.

But why do countries need the WTO to negotiate freer trade? One of the clearest lessons from trade theory is that an economy unable to influence its international terms of trade cannot maximize its national income and economic growth without allowing free trade in all goods and services. Consumers lose directly from the higher domestic prices of importables, while exporters lose indirectly because import barriers cause the nation’s currency to appreciate (there is less demand for foreign currency from importers) and raise the price of labour and other mobile resources. More open economies also grow faster. Why, then, do countries restrict their trade, and why do they need to get together to agree to liberalize those protectionist trade regimes multilaterally, when it is in their national economic interests to do so unilaterally?

Numerous reasons have been suggested as to why a country imposes trade barriers in the first place, but almost all of them are found wanting (Corden 1997). The most compelling explanation is a political economy one. It has to do with the national income redistributive feature of trade policies: the gains are concentrated in the hands of a few who are prepared to support politicians who favour protection, while the losses are sufficiently small per consumer and export firm and are distributed sufficiently widely as to make it not worthwhile for those losers to get together to provide a counter-lobby, particularly given their greater free-rider problem.
in acting collectively (Hillman, 1989, Grossman and Helpman, 1994, and Anderson, 1995). Thus the observed pattern of protection in a country at a point in time may well be an equilibrium outcome in a national political market for policy intervention.

That political equilibrium in two or more countries might, however, be able to be altered for the better through an exchange of product market access. If country A allows more imports it may well harm its import-competing producers if there are no compensation mechanisms; but if this liberalization is done in return for country A’s trading partners lowering their barriers to A’s exports, the producers of those exports will enjoy this additional benefit. The latter extra benefit may be sufficiently greater than the loss to A’s import-competing producers that A’s liberalizing politicians too become net gainers in terms of electoral support. Likewise, politicians in the countries trading with A may well be able to gain from this trade in market access, for equal and opposite reasons. That is, a new opportunity for trade negotiations can stimulate trade liberalization by altering the incentives to lobby politicians and thereby the political equilibrium in trading nations.

Such gains from trade negotiations involving exchange of market access will tend to be greater nationally and globally, the larger the number of countries involved and the broader the product and issues coverage of the negotiations. Hence the wisdom in negotiating multilaterally with more than 100 countries over a wide range of sectors and issues, as in the Uruguay Round, despite the process being cumbersome. Now that there is so much more product coverage under the WTO than under the GATT, and the number and extent of participation by member countries keeps growing, the scope for exchange of market access has increased dramatically. That is especially true for exchanges between more- and less-developed economies, now that agriculture and textiles and clothing are back in the against the national interests of other countries but against sectional interests within their own and other countries (p.298).
GATT mainstream and services and trade-related intellectual property have been added, making a wider range of intersectoral tradeoffs possible.

6. Implications for Development Strategies of ASEAN Countries

Greater openness of and interdependence between national economies provides wonderful opportunities for poorer economies, but it is not without its challenges. Globalization is raising the rewards to economies choosing good economic governance, but is also raising the cost to economies with poor economic governance. Just as financial capital can now flow into a well-managed economy more easily and quickly than ever before, so it can equally quickly be withdrawn if confidence in that economy’s governance is shaken – as the East Asian crisis demonstrated all too clearly in the late 1990s\(^9\). In this section there is space to discuss just one aspect of good economic governance in the wake of globalization: commitment to a liberal international trade and payments regime, so as to enable producers to take maximum advantage of new/prospective export opportunities following Uruguay Round implementation (and subsequent WTO rounds of trade negotiations).

The first priority for a poor country seeking to achieve sustainable economic development in the 21\(^{st}\) century is to practice good economic governance generally, and in particular to commit to a permanently open international trade and payments regime and to provide secure rights over property (intellectual as well as physical). The stability of the commitment to openness is much more crucial now than even just 15 years ago, because otherwise capital inflows and investments will tend to be short-term in nature and susceptible to withdrawal should confidence waver. It is for this reason, and because of the comprehensiveness of the Uruguay Round agreements, that liberal trade policy commitments under the WTO are so important.

\(^9\) On the pros and cons of a globally integrated capital market, see Obstfeld (1998).
They are valued by would-be investors because WTO commitments involve (a) legal bindings and (b) most-favoured-nation (MFN) treatment by trading partners. The legal bindings mean a WTO member cannot return to a more protectionist regime by raising tariffs above the bound rates listed in the member’s Schedules of commitments. Nor does that member risk facing higher than MFN bound tariffs in exporting to its trading partners if they are WTO members.

The security of a stable trading environment instills a confidence in investors that is noticeably less in countries that are not WTO members. For such countries a key ingredient in achieving good economic governance is to seek speedy accession to WTO. Already there are 140 countries that have chosen to join the new organization. The WTO is thus approaching the status of a truly global trade organization, except for under-representation by two groups: the former centrally planned economies (CPEs) seeking to transform from plan to market orientations, and some of the smallest and poorest economies.

Most of the CPEs not already members are seeking WTO accession, the most notable being China (whose accession would allow Taiwan to join) and Russia. Their accession negotiations have not moved rapidly, however. The problem is partly that members want more access to those countries’ markets than their governments have been willing to give. Additional problems include their lack of policy transparency and their high degree of state trading. In China’s case the ‘concessions’ available to developing country WTO members are also being sought. The US and others have been very reluctant to allow China those ‘concessions’, however, because that could effectively make less meaningful the negotiated access to Chinese markets (Anderson, 1997; Pomfret, 2001).

The other group feeling marginalized is the world’s least-developed countries (LDCs), particularly those that are not yet WTO members. For them the cost of the accession process, and subsequently of maintaining a mission in Geneva that is
large enough to cover the expanding number of items of key concern to them, is prohibitive without some financial and technical aid. A program of multilateral assistance does exist, and was expanded following a high-level meeting between LDCs and the WTO and five other international agencies in late October 1997. Many bilateral assistance programs also exist (OECD, 1998). But with so many new countries seeking membership and so many more issues to get on top of following the Uruguay Round, the budgets for those program may need to expand further, especially if a new round is launched soon.

In addition to the 30 countries in the queue for membership currently, perhaps another 20 will apply soon. Hence within a decade the WTO will have much the same membership number and composition as the United Nations. WTO’s predecessor, the GATT, began as a club of industrial countries, but by the start of the Uruguay Round those countries’ share had fallen to one-quarter – and could be as small as one-sixth during the next round.

To understand how well the WTO club is managing its own globalization, consider the following four questions: to what extent are less-advanced economies (a) opening up to trade, (b) able to get their exports into markets of more-advanced economies, (c) engaged in WTO activities such as improving the rules, and (d) able to accede expeditiously?

On the first question regarding openness, the answer is that many developing and transition economies are opening up substantially. During the past decade or so an ever-larger number of developing countries – including in Africa -- have embraced foreign trade and investment liberalization. Some of those reform programs have been adopted with reluctance as conditions for receiving IMF or World Bank loans, while others have been unconditional unilateral decisions. Until they are bound under the WTO, though, there is a risk of back-sliding in the future. Furthermore, tariffs need to be bound at levels close to applied rates to be taken seriously, unlike during
the Uruguay Round when many developing countries just committed to ceiling bindings at several times the level of applied rates.

On the second question of market access for developing country products, the answer is that not enough has been done. The two sectors of most interest to less-advanced economies are agriculture and textile/clothing, and protection levels in more-advanced economies for those items are as much as ten times the average for other merchandise. And even though commitments have been made in the Uruguay Round to lower agricultural and textile import barriers, only modest reductions resulted by the turn of the century. Pooling of negotiating efforts to open those markets more is one strategy worth pursuing, as the Cairns Group of agricultural exporting countries\(^{10}\) demonstrated during the Uruguay Round.

On the third question, the answer is that while there are ample opportunities for less-advanced economies to become engaged in WTO activities such as chairing committees, they are taken up infrequently. Michalopoulos (1998a) suggests that it is because poor and especially small countries have few if any delegates in Geneva, and those that are there are relatively poorly serviced by their national capitals and so are always over-stretched. The pooling of efforts by members forming a group has been one way of coping, as the ASEAN member countries do, for example. Perhaps further aid funding is warranted for the smallest and least-developed countries to raise the quality and quantity of representation by them.

As to the final question concerning the pace of accession of new members, the answer is unclear. Certainly an average time of six years to accede to WTO sounds long, and politics may have contributed to delays, as with China\(^{11}\). But much

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\(^{10}\) The Cairns Group was named after the Australian city in which it first met in 1986. It involves 15 countries whose governments and farm leaders are determined to lower, through multilateral trade negotiations, the extraordinarily high rates of protection to agriculture in numerous OECD food-importing countries.

\(^{11}\) In particular, the concern in the United States about human rights in China has often meant the US Congress is unsympathetic to China. One manifestation of that is the high demands on China in terms of policy reform and market opening before the US will conclude its bilateral negotiations on its WTO accession. Vietnam and Laos have similar hurdles to jump in their
of the delay appears to be on the part of the acceding country. Sometimes this is because of a lack of internal political support to push ahead with reform commitments. More often it is because of insufficient bureaucratic horse-power to get on top of the issues and to move the necessary papers forward any faster (Michalopoulos, 1998b). This is unfortunate, because the reforms required to join WTO will become even greater once the next round of WTO multilateral trade negotiations gets under way early in the new century. One partial solution is to raise the quantity and quality of trade policy staffing in national capitals, and in particular to boost training. Further education is needed not only about the WTO institution but also in analytical capability and skills in advocating the virtues of liberal markets. The domestic political commitment to do that may not be in place, however, in which case the question again arises as to whether more development assistance funds need to be directed to that cause.

Finally, a challenge for WTO members who are also associated with regional integration agreements (RTAs) – as are those of Southeast Asia, who are also signatories of the ASEAN Free Trade Agreement (AFTA) – is to use the RTA as a stepping stone rather than a stumbling block to freer trade and investment. For the new AFTA members whose applications to join WTO are still at an early stage of consideration (Cambodia, Laos and Vietnam), AFTA commitments provide an opportunity to liberalize with a subset of WTO trading partners. The choice of products to be liberalized and the strictness of the rules of origin will determine whether that leads to trade creation or trade diversion. Their economies, and the world as a whole, will be better off the more it is the former relative to the latter.

bids to join WTO, in their cases because of the sensitive issue of US soldiers missing in action during the Vietnam war (Anderson, 1998a,b).

12 Even just diverting trade negotiators’ attention away from multilateral (i.e., WTO) to regional or bilateral trade agreements can be welfare-reducing via trade diversion in place of trade creation.
References


Table 1
Growth in world GDP and merchandise exports in real terms, 1720 to 1999
(per cent per year)

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<td>Real GDP</td>
<td>0.8</td>
<td>1.9</td>
<td>2.5</td>
<td>1.8</td>
<td>5.4</td>
<td>2.7</td>
<td>2.0</td>
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<td>Export volume</td>
<td>1.4</td>
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<td>9.8</td>
<td>4.0</td>
<td>6.5</td>
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<td>1.6</td>
<td>0.3</td>
<td>1.8</td>
<td>1.5</td>
<td>3.3</td>
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<td>GDP growth</td>
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</table>

Sources: WTO (1998a, p.34) and WTO (2000, p.17)
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