Unclassified **TD/TC(99)18/FINAL**

Organisation de Coopération et de Développement Economiques
Organisation for Economic Co-operation and Development

OLIS : 24-Nov-1999
Dist. : 25-Nov-1999

Or. Eng.

TRADE DIRECTORATE
TRADE COMMITTEE

TD/TC(99)18/FINAL
Unclassified

Cancels & replaces the same document:
distributed 13-Nov-1999

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The document has been revised in light of comments at the 126th Session of the Trade Committee and written comments by Delegations received afterwards. In line with the conclusions of the Chairman at that meeting, this final version is de-restricted under the responsibility of the Secretary-General.

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NON-OECD COUNTRIES AND MULTILATERAL TRADE LIBERALISATION: A BACKGROUND NOTE ON SOME KEY ISSUES

1. The objective of this paper is to analyse the benefits of multilateral trade liberalisation for non-OECD countries. These are presented both in terms of qualitative gains from enhanced rules and disciplines in the context of the WTO, and quantitative gains from further cuts in protection. Qualitative gains are described in reference to the system of rules and disciplines that are embodied in the WTO and the interests of developing countries in seeing these develop further. This is an area where all countries, be they net importer or exporter of this or that product or service, share similar interests, but perhaps where non-OECD economies have bigger stakes than the larger trading nations in the OECD area.

2. Calculations made for this paper have sought to reflect different packages of cuts in tariffs on trade in agricultural and industrial goods. The results suggest that in the year 2010, assuming a full and global tariff liberalisation, net world welfare could be around US$1,200 billion (in 1995 prices) higher than it would be if current levels of tariff protection remained unchanged. The technical limitations inherent in all exercises of this type are such as to lead, almost certainly, to the net benefits being underestimated. Two other scenarios are also presented here reflecting less ambitious tariff liberalisation outcomes. It should be stated that the purpose of this exercise is neither to describe the scope or modalities of future tariff negotiations, nor to prescribe what the agenda should or ought to encompass. Rather, the objective is to give an idea of the benefits that can still accrue from just traditional cuts in tariffs.

3. The paper is organised as follows. Section I describes the latest trends in the world economy leading to the enhanced participation of non-OECD countries in international trade and their integration into the multilateral trading system. The section then identifies the qualitative benefits that accrue to non-OECD countries from participating fully and actively in the multilateral process. Section II analyses the achievements of the Uruguay Round with the objective of underlying the benefits that non-OECD countries had obtained from the successful conclusion of the Round and identifying some of the remaining issues in market access that may be of interest to non-OECD countries.

4. Section III then moves to exploit opportunities from further reductions in tariff protection and presents three different scenarios of tariff liberalisation. Section IV discusses the interests and concerns of non-OECD economies in promoting services trade liberalisation, a sector that is assuming increased importance in domestic economies around the globe. Finally, Section V reflects on issues related to special and differential treatment accorded to developing countries under the WTO.

I. The Drive towards integration of Non-OECD Countries into the Multilateral Trading System

5. Over the past two decades, a number of factors have profoundly changed the outlook for global political and economic developments. International trade, investment and international financial markets have experienced their fastest growth ever. And many countries the world over began to adopt outward-oriented policies.

6. The evidence is compelling. Today, the volume of world merchandise trade is about 16 times what it was in 1950, while the world's total output is only five and a half times as big. The ratio of world exports to GDP has increased from 8 percent to 15 percent. Most remarkable has been the accelerating pace of trade-led integration: during 1985-96, the ratio of trade to world GDP rose three times faster than in the preceding decade, and nearly twice as fast as in the 1960's.

7. An important feature of the growth in world trade over the past two decades has been the heightened involvement of developing countries. Fifteen years ago, developing countries' share in world merchandise trade was less than 20 percent. In 1998, that share had risen to 30 percent. Inter-developing countries trade is also on the rise; they sold more than forty percent of their exports to each other in 1998, compared with less than a quarter a decade ago.

8. In addition, the economies of OECD and developing countries are now more closely intertwined than they have ever been. OECD countries now depend on developing countries for a quarter of their exports sales --as compared with less than 18 percent two decades ago, a fifth of their primary commodity imports, and almost half of their petroleum consumption. Developing countries, for their part, rely on OECD countries for more than 60 percent of their trade and 47 percent of their primary commodity imports.

9. Not only did developing countries deepen their involvement in world trade, they have also managed to diversify their trade linkages. During the period 1950-80, the share of manufactured products in developing countries' total exports hovered between 35 and 45 percent. Beginning in 1981, this more or less flat trend that never before broke the 40 percent barrier began to trace an upward sloping line that continued its climb unabated throughout the last fifteen years to reach 87 percent in 1998.

10. Such striking structural transformations, in the extent and depth of developing countries' participation in international trade have been to a large extent the result of significant changes in their trade regimes that saw the abandonment of inward-looking policies of protectionism and inward orientation in favour of the adoption of more outward-oriented policies. A recent study that has adopted a fairly restrictive definition of trade openness found that 33 developing countries switched from relatively closed to open trade regimes between 1985 and 1995 (Sachs and Warner, 1995).

11. In addition, more than ever developing countries engaged actively in the Uruguay Round of multilateral trade negotiations and through the single undertaking have committed to implementing the entire package. And during the course of the Uruguay Round (1986-1993), developing nations were responsible for fifty-eight of the seventy-two autonomous liberalisation actions reported to the GATT. Twenty-eight have since joined the GATT/WTO, while over twenty are now in the process of acceding.

The Multilateral Trading System as an engine for domestic reforms

12. While attempts at reforms should be "home-grown," initiatives at the multilateral level can provide significant support, and in some cases may define the political feasibility of reforms. The "rules-based" global system that has evolved since World War II, epitomised by the GATT (now the WTO) helps developing countries in implementing economic reforms through at least two channels. First, the GATT/WTO sponsors concerted multilateral negotiations that aim to liberalise the flow of goods and services internationally. Two important benefits emerge from this: (a) there is the enhanced prospect for political saleability when reform of domestic protection is part of a global effort, or in other words, concerted multilateral liberalisation helps to turn exporters into a more coherent force for import liberalisation; and (b) there is the additional benefit that can accrue from liberalisation by others; that is, the gains from trade liberalisation tend to be greater the larger the number of countries involved. Second,

the GATT/WTO provides rules and disciplines for the conduct of international trade. It specifies the rules of the game. These rules and disciplines are legally bound and are subject to clear dispute settlement procedures, which provides added security and certainty.

13. In fact, for developing countries, be they small, medium-sized or even large economies, trading in the international markets on the basis of strong rules and disciplines agreed through multilateral, rather than bilateral negotiations is of critical importance, and relatively more important to them than it is for industrial countries. There are at least two reasons why this is the case. First, some industrial countries have enough bargaining power to influence the behaviour of others. And, second, developing countries have a large stake in a healthy growing world economy. It is thus not surprising to see that the most important accomplishments of the Uruguay Round in as far as developing countries are concerned were the substantial strengthening of the rules governing the conduct of international trade and their extension to new areas of activities, and the protection of all of these through an efficient and effective dispute settlement procedure. In other words, the more rules are developed at the multilateral level and the more disputes resolved at that level, the more likely that the interests of developing countries will be protected.

14. In addition to sharing a common interest in the strength of the multilateral trading system, all developing countries, be they importer or exporter of this or that product or service, look to the system to further their own trading needs. These include, inter alia, ensuring the timely and full implementation of all URAs, including those of interest to them (e.g. in such sectors as textile and clothing, and agriculture; and in areas such as special and differential treatment, technical assistance and problems of the least developed countries), and that the system develops in a manner that will continue to serve their interests, be that in the area of existing rules (e.g., anti-dumping, countervailing duties, safeguards, and TBT), contemplated rules (e.g. in respect of trade and environment), and promoting further liberalisation in areas of export interest to them (e.g. further reductions in goods tariffs and liberalisation of services activities).

15. Thus, reform-minded developing countries around the globe have a common interest in supporting the smooth functioning of the multilateral trading system and, equally importantly, its continued strengthening. These governments have a window of opportunity as momentum is building up for a new multilateral trade negotiation round to be launched at the Third WTO Ministerial Meeting in Seattle at the end of the year. In addition, developing countries need to abide by the scheduled implementation of the various obligations they have agreed to in the Uruguay Round, as well as identify their priorities in improving market access and WTO rules and disciplines in the new WTO 2000 negotiations.

II. Market Access in Goods

16. The past quarter century has seen much progress in strengthening the processes of international consultation and negotiations about global issues. The establishment of the WTO in 1995 has greatly strengthened the permanent institutional mechanisms for the discussion of trade issues and the resolution of disputes. A larger number of developing countries are now persuaded of the importance of trade as a motor of development and several played an important part in bringing the UR negotiations to a successful conclusion. During the eight years following the launch of the UR, over 60 developing countries unilaterally lowered their barriers to imports and 28 have since joined the GATT/WTO. Thus, membership has grown from 88 in 1985 to 134 today.

17. Completion of the Uruguay Round of trade negotiations has resulted in broad based tariff reductions and the easing of some of the most important non-tariff barriers, strongly enhancing the prospects for reaping global welfare gains from further trade expansion. Efforts to calculate the benefits of the UR suggest prospective gains of anywhere from one percent up to about a five percent increase in

world GDP. Unsurprisingly, the countries that are benefiting the most from the Uruguay Round are the ones that have liberalised the most.

18. Nevertheless, market access still represents perhaps the single most important trading issue between the developing and OECD countries. The developing countries' strongest demands are not only for continued access to OECD countries' markets, but also for increased access. On the other hand, OECD countries look for developing countries to participate more effectively in the negotiations, and for some of them to contribute more and to assume more WTO obligations.

19. In the pre-Uruguay Round trading environment, MFN tariffs in many sectors were not legally bound, and as such could be raised easily. This created a lack of security in market access, and may have produced detrimental trade effects. A major goal of the Round has been to increase the proportion of industrial tariffs that are bound, thus providing added protection to trade liberalisation commitments. As is evident from Table 1, this goal has been successfully met: the percentage of OECD countries' imports of industrial goods under bound rates rose from 94 percent to 99 percent, leaving only one percent not bound; the corresponding figures for developing economies are 14 and 59 percent, respectively; those for transition economies are respectively 74 and 96 percent. On a regional basis, North America and Latin America were the greatest achievers, as all of their industrial imports as well as their corresponding tariff lines became bound. Asia remains the region least committed to binding its tariffs on industrial goods: only 67 percent of its tariff lines which cover 70 percent of industrial imports are now bound.

20. In the area of agriculture, comprehensive information on the levels of bindings by major country group is not available. However, a recent study by the OECD (OECD, 1999) found that on average, OECD countries bound close to 99 percent of their agricultural tariff lines, an achievement which is similar to that in a sample of thirteen developing countries.

21. In the long run, the improved security of access through increased tariff bindings may offer more advantages to developing countries than unilaterally granted, but unbound, preferential access. In addition, it has been argued that one of the most significant benefits of the Round for developing countries is the greater predictability of their own trade policy regimes from their own tariff bindings, as well as acceptance of the obligations on non-tariff measures (Safadi and Laird, 1996).

22. In addition to the increased security of market access through increases in tariff binding, bound tariff rates have also been reduced. As is evident from Table 2, OECD countries achieved the most in the area of tariff reductions. Today, the mean MFN tariff in OECD countries against imports from non-OECD countries stands at 4.5 percent as opposed to 6.8 percent in the pre-UR period (Table 3), a reduction of some 34 percent. It is also clear that developing and transition economies have also participated in the tariff reduction exercise during the UR. Developing countries agreed to reduce tariffs by an average of 28 percent on imports originating from OECD countries, and by 29 percent on those originating from other developing countries.

23. In eight industrial sectors, covering 69 percent of OECD countries' imports from developing countries, tariff cuts agreed during the Round have exceeded the target of one-third that was set during the Round. For example, developing countries' exports of metal products to OECD markets have experienced a reduction in their tariff rates by an average of 67 percent. The corresponding reductions affecting wood, pulp, paper and furniture products is 63 percent. In addition, zero-for zero agreements in industrial sectors have increased the share of OECD countries' duty-free imports from 20 percent to 43 percent (OECD, 1994).

24. For tropical and resource-based products, tariff reductions by OECD countries have also exceeded the overall target: on a trade-weighted average, these cuts have been 45 percent and 34 percent,

respectively, while the corresponding cuts affecting developing countries' exports to OECD countries are higher, amounting to 57 percent and 35 percent, respectively.

25. Table 3 also shows that OECD mean tariffs on imports from non-OECD countries vary from a low of 1 percent on imports of metals to a high of 12 percent placed against imports of textiles and clothing products. Such a margin points to the presence of some tariff peaks, an observation that is confirmed by inspecting the data reported in Table 4 where OECD countries' tariff profiles by major industrial group are shown. For example, a full 82 percent of all imports of textiles and clothing products into OECD markets remain in the post-UR subject to a tariff over 5 percent, including some 28 percent of imports that enter OECD markets at duties in excess of 15 percent. A similar pattern is also observed in respect of imports of leather, rubber, footwear and travel goods.

26. It is also the case that tariff reductions have not been even across broad sectors. This is most obvious in the case of agricultural imports where it was agreed to convert all border measures such as quotas and variable levies into tariffs (tariffication). In some cases, the tariffication process involved the introduction of tariff rate quotas at relatively high rates.

27. Another reservation regarding the low post-UR mean tariffs is related to the structure of tariffs that still exhibits some degree of tariff escalation. The practice of tariff escalation biases exports of developing countries towards unprocessed resource-based commodities, on which they earn less in the way of value-added. This would not only deny these countries the opportunity to innovate and to enhance their productivity in resource use, but also to specialise in sectors where they enjoy comparative advantage. A complementary effect in this regard is that developing countries will be denied the opportunity to diversify their exports base while forcing them to depend on a limited number of primary commodities.

28. Table 5 shows the pre and post-Uruguay Round tariff levels by product and by processing stage as well as the absolute differences in tariffs which were achieved during the Uruguay Round. It is evident that tariffs increase significantly from raw to finished products: the average post-Uruguay Round tariff for all industrial products goes from 0.8 percent on raw materials to 4.8 percent on the finished product. However, a product-by-product examination of the absolute *difference* between tariffs on different stages of processing reveals that de-escalation has occurred in practically all the commodities analysed; jute and cocoa being the two exceptions where reductions of tariffs applied on intermediate products were larger than those on the final stages.

29. Although the Uruguay Round has not eliminated the trade bias originating from the practice of tariff escalation, it has nevertheless managed to reduce it. Further progress on this front will translate into significant gains for developing countries. These will arise from the re-capturing of forgone exports of semi-finished and finished products that will bring increased employment opportunities. Moving up the processing chain will also encourage developing countries in reducing their dependence on traditional primary product exports whose terms of trade have been declining. It will also lessen the impact of the increase in both the substitution of synthetics for many of these items (plastics for metals, artificial for natural fibres, chemical sweeteners for sugar), and the instability of primary product prices in international markets. Finally, developing countries stand to gain significantly from the realisation of economy-wide linkages and "learning effects" resulting from the processing (manufacturing) function.

30. In addition to progress on the tariff front, the UR managed to dismantle some of the most important non-tariff barriers (NTBs), including the phase-out of the Multi-Fibre Arrangement (MFA) that was considered to be the single most costly trade restrictions in OECD markets against imports from developing countries. Trela and Whalley (1990) put the benefit in terms of net welfare gains arising from liberalisation of both quotas and tariffs at US$23.4 billion, with about one-third of the total estimated gain accruing to developing countries as a group.

31. In addition to the phase-out of the MFA, the Round managed to completely eliminate the use of voluntary export restraints (VERs, or any similar measure affecting imports or exports such as orderly marketing arrangements, discriminatory import systems, consulting arrangements...). VERs covered some 400 tariff lines in each the US and the EU in the pre-Uruguay Round trading environment. They affected such sectors as metals, transport equipment, footwear and domestic utensils.

32. The total elimination of VERs implies a significant relaxation of NTBs. Table 6 presents the incidence of all non-tariff barriers (NTBs) affecting developing countries' exports to OECD countries' markets during the pre-Uruguay Round, by type of NTB. The table shows that VERs were amongst the most used form of quantitative restrictions. They account for more than half of all quantitative measures affecting imports of developing countries. Aside from textiles and clothing, developing countries' exports of iron and steel products to industrial countries were the products most affected by NTBs. The footwear sector was the second largest sector affected by high coverage of NTBs.

33. The above makes it clear that countries that have participated in the Uruguay Round have succeeded in promoting their trading interests through binding and lowering of tariffs and the easing up of some of the most important non-tariff barriers on exports of interest to them. Among other achievements, developing countries did manage to bargain for the gradual phase-out of the MFA, the single most costly trade restrictions against them. Along with the Cairns group, developing countries were also instrumental in getting agriculture into the Uruguay Round. Equally important were developing countries' own commitments in the Round that are serving to promote their own economic efficiency through reductions in their own trade barriers.

34. The foregoing also makes it clear that the Uruguay Round left in its wake some protected sectors of critical trading interests to developing countries. To cite a couple of examples, tariffs on textile and clothing products as has been stated reflect above than average levels; the same characterises tariffs on agricultural exports which are of particular interest to food-exporting countries, especially temperate agricultural products. The expansion in exports of agricultural goods is of special concern to food-exporting developing countries given the widely held view that potential job creation in these countries is greater in agriculture than in most manufacturing activities.

35. It is also worth noting that an important influence on developing countries' economic prospects is the global economic climate. A more favourable global economic climate remains one of the most important factors that will buttress economic growth in developing countries. While an open and healthy growing world economy is in the interest of all countries, it is crucial to developing countries especially those that have defined their developmental and growth strategy on outer-orientation.

36. Thus, in order to safeguard past undertakings to tackle unfinished business, and to exploit more fully the opportunities that exist, the international policy environment needs to be reinforced through a new multilateral trade negotiation. This is all the more important in view of the alternatives that would either allow preferential trading arrangements to take centre stage, and/or encourage sectoral approaches to multilateral liberalisation. Both of these alternatives to multilateral trade liberalisation may not necessarily serve the interests of developing countries.

III. What a new Round of multilateral trade negotiations is worth?

37. Trade liberalisation entails both costs and benefits. In addition to the possibility of job losses, other short-term costs may include increased demands on the social welfare and training systems, investments that cannot be fully written off, and lost revenues from customs duties. There may also be more lasting consequences in localities where certain activities are adversely affected by increased

competition from abroad. It should be noted, however, that most of these costs affect sectional interests and do not apply to the economy as a whole. Moreover, these losses may be readily offset by some of the immediate gains from trade liberalisation: substantial reductions in budget outlays from savings in subsidies, higher returns on investment in sectors which tap the new market opportunities, higher land values in regions where competitive industries are located, and higher demands from increased real incomes. These benefits occur both in the short and longer terms. Over and above these, the really large benefits from trade liberalisation are longer terms, as the allocation of resources becomes more efficient across the economy.

38. It is not possible to draw up a precise balance sheet of the losses and gains from trade liberalisation. Ultimately, it is a matter of careful judgement -judgement that is informed by past experience, but also by constantly updated analysis of how economies work. Economic models provide some assistance in calculating what the likely net benefits might be, but because of technical limitations they cannot tell the whole story, as for example where it concerns social and environmental spill-overs.

The Potential Benefits from tariff liberalisation

39. Quantifying the benefits from multilateral trade liberalisation efforts creates major difficulties for models. This is because they go well beyond cutting protection on trade in goods to include services, investment, and intellectual property, and because many of the effects will operate through an improved system of multilateral rules and disciplines. For technical reasons, the quantitative measures that are presented here are confined to estimates of the effects of cuts only in tariffs on goods, both industrial and agricultural.

40. The model used here is the Trade Simulation Model (TSM) which is a variant of the LINKAGE model developed by the OECD Development Centre (OECD, 1997a) and its technical aspects are described elsewhere (OECD, 1997b). TSM is a dynamic general equilibrium model that contains full general equilibrium features for 16 individual countries and regions that are linked together through international trade.[1] The results of the different scenarios presented here are estimations of the potential net welfare gains from trade liberalisation where the latest projections provided by the World Bank have been used to define the "baseline reference scenario" for the 16 countries and regions over the period 1995-2010. Net welfare gains are then calculated as deviations from the base line scenario following reductions in tariffs. Finally, the model incorporates dynamic gains from tariff liberalisation; these are obtained from reductions in production costs following increased competition, or from increases in imported technology that is embodied in non-substitutable intermediate and capital goods following relaxation of foreign exchange constraints.

41. Three different scenarios are used here to describe the welfare impact of tariff liberalisation.[2] These scenarios are not meant to prescribe the agenda for future negotiations, or the scope or modalities of future tariff negotiations. All three scenarios assume that future tariff liberalisation will commence in the year 2001 and that tariffs will be reduced linearly from their applied levels prevailing in the base year 1995.

42. Scenario I assumes a full and global tariff liberalisation for agricultural and industrial goods. Scenario II is a partial liberalisation scenario where OECD countries follow the path described in the previous paragraph towards full liberalisation while non-OECD economies reduce their tariffs by 50

1 See Attachment 1 for a comprehensive list of countries and regions.

2 The OECD Development Center is in the process of preparing a more detailed assessment of the welfare impact of tariff liberalisation using other scenarios in addition to those presented here.

percent in total. The third and final scenario is also a partial liberalisation one where OECD countries still move to full tariff liberalisation and non-OECD countries adopt a flat tariff rate of 5 percent across all products.

43. The results for the different simulation scenarios are presented in Table 7. Welfare gains resulting from a full and global tariff liberalisation are estimated to be US$1,212 billion in 1995 prices which is equivalent to a 3 percent gain in world GDP. While the OECD area is estimated to net US$757 billion out of this total and the corresponding estimate for the non-OECD economies is US$455 billion, yet the non-OECD area would gain relatively more as a percent of its GDP from full and global liberalisation than the OECD area, 4.9 percent and 2.5 percent, respectively.

44. The estimated gains as a share of GDP are highest in the case of India (9.6%), by far the largest among all the countries included, be they OECD or non-OECD countries. Sub-Saharan African countries as a group stand to improve their GDPs by 3.7 percent under this scenario, a prospect that may lift it out of low growth rates. This implies annual gains of US$11 billion, which is almost equal to OECD official development assistance to Africa in 1997 (US$11.37). Finally, note that all countries benefit from global and full liberalisation with each country's benefits commensurate with the height of its pre-existing tariff barriers.

45. As expected, the estimated benefits from tariff liberalisation will be lower in the case of more limited liberalisation efforts as described in Scenarios II and III. Under Scenario II, the non-OECD area stands to improve its welfare by an amount equal to US$292 billion which is equivalent to 3.1 percent of its GDP; while the corresponding estimates under Scenario III for the same area are US$459 billion and 4.9 percent, respectively.

46. What these various estimates show is that by just cutting tariffs, the net benefits are not only substantial, but equally importantly they are distributed evenly across countries and groups. Every single country or a group of countries stand to benefit from tariff liberalisation with the benefits proportionate to the degree of liberalisation.

47. Finally, it is important to note that while the liberalisation scenarios presented here are restricted to tariff reductions due to technical reasons, multilateral tariff negotiations under the auspices of the GATT have been most successful in the area of tariff reductions. Note the reductions in the average trade-weighted tariffs from a high of 40 percent in the immediate post-War period to 4 percent following the successful conclusion of the Uruguay Round.

IV. Services

48. The inclusion of trade in services into the multilateral trade regime has been rightfully hailed as one of the major achievements of the Uruguay Round. It is now one of the pillars of the multilateral trading system. This development provides developing countries with an opportunity to remove services barriers from domestic markets that hinder their overall economic performances as well as in areas where they have export interests.

49. This Section discusses the benefits and the win-win nature of a broad-based liberalisation effort in trade in services. The main message is that while the next Round of multilateral trade negotiations is about improving commitments, regulatory reform and trade liberalisation in many areas, essentially producer services, would be in the own interests of developing countries.

The role of services

50. Since the early 1990s a number of factors have contributed to the changed perception of the nature of services and to their recognition as a key factor for spurring development and economic growth. First, rapid advances in information and telecommunication technology coupled with trade and investment liberalisation and privatisation and regulatory reform of services industries have dramatically expanded the boundaries of tradability of services. Many international transactions, which previously would have been considered prohibitively expensive, have now become commonplace. Second, the increasing share of services within most countries' GDP, including developing countries', and the rapid development of services trade have revealed that services have become the major engine of growth in developed and developing countries alike.

51. These trends are reflected in the fact that no sector has grown as fast as the service sector: trade in services has grown faster than trade in goods for well over a decade. Between 1990 and 1997 the average annual growth of world commercial services exports was 8 percent and exceeded that of merchandise exports. Much of this growth took place in Asian developing countries. In the first half of the 1990s, services exports from Asian developing countries grew twice as fast as those in developed countries, with the result that the services orientation of trade is now higher in some developing countries of the region than in developed countries. Latin-America's growth rates during this period reached world average, with Brazil's reaching 25 and 37 percent in 1995 and 1997 respectively. Among the leading services trading nations, the most dynamic countries are China and Mexico. Last year, China entered the group of the ten leading exporters of merchandise trade and that of the ten leading importers of commercial services. For the first time, Mexico' s exports exceeded those of Spain. The importance of trade in services for some developing countries is also highlighted by the fact that 9 of the 25 leading exporters of commercial services are developing nations. There are also 9 developing nations among the world's 25 leading services importers.[3]

52. While developing countries' traditional export interest has been in tourism, transport and labour movement, the most dynamic components of their services exports may be found in "other commercial services" such as financial, construction, computer and information and communications services. Niche opportunities for developing countries have been identified by UNCTAD as including, such services as: low-cost professional services (e.g. architecture, consulting engineering, legal research, market research); professional services linked to emerging concerns (e.g. sustainable design, forensic accounting); technical assistance for other developing economies linked to experience with commonly used, low-tech and medium-tech production processes (e.g. industrial engineering, industrial design, R&D); back office operations with higher added value than basic data entry (e.g. software programming, data capture and repair, adjudication of claims, management of electronic medical records); and services that leverage cultural or linguistic strengths (e.g. provision of multilingual offshore call centre services).

53. The service sector has become by far the largest and fastest growing part of the world economy. A good 60 percent of world FDI flows is directed to, and sustains employment in, services activities. Developed economies today derive around 70 percent of their output and employment from this sector. The lion's share of the GDP of some developing countries is also derived from the service sector: the share of services in GDP amount to some 80 percent in Hong Kong China, over 60 percent in Argentina, Brazil, Chile, Korea, Mexico and Thailand, and around 50 percent in Egypt, India and Indonesia. (Table 8). While

3 Hong Kong China, Singapore, the Republic of Korea, China, Turkey, Chinese Taipei, Thailand, the Philippines and Malaysia are among the leading exporters and China, the Republic of Korea, Chinese Taipei, Hong Kong China, Singapore, Brazil, Thailand and Malaysia among the leading importers.

commercial services exports accounted for some 17 percent of world trade in 1980, the share had risen to over 22 percent in 1993, although in 1996 this share has slightly decreased to some 20 percent.[4]

54. As seen above, growth of services - in the OECD area and some developing countries - has exceeded overall economic performance for decades. This growing role reflects higher consumer and business demand, outsourcing of service-related activities from manufacturing firms and the prominent role played by information technology. Consumer and business demand and structural changes are important growth factors especially for business and personal services.

55. This rising trend has resulted in the share of services in total economic activity increasing over time and can be expected to continue, or even accelerate, in light of the increasing prominence of knowledge-based, service-oriented activities. In general, service sectors are playing a greater role in both cyclical developments and structural growth in the OECD economies than was previously the case. Today the service sector plays in many developing countries a more important role than it did in OECD economies at similar level of per capital GDPs. Due to technological developments, trade and investment liberalisation and globalisation, services may play a catalyst role for the development of many developing countries.

56. Historical experience of OECD countries show that the share of value-added originating in services, including both commercial services and trade, transport, and communications services, is positively linked to the level of development. However, it also demonstrates the importance of services for export performance. In OECD countries, commercial services and trade, transport, and communications services became the most important sectoral elements of exports. While most developed OECD countries' exports are concentrated in manufactures, their economies are concentrated in services. Services are a major aspect of production, even for especially for manufactured exports.

57. This is not a specific characteristic of high-income developed countries. For some developing countries, the significance of the service sector for overall exports is much greater than the direct trade balance suggests. Though in overall terms OECD countries continue to have the highest competitive advantage in services trade, the interest of developing countries in the liberalisation of some services sectors is highlighted by the role of producer services in their exports and their overall economic performance.

Specific commitments in the GATS

58. There have been a number of attempts to assess on a quantitative basis the Uruguay Round and subsequent undertakings by WTO members on services. Given the very nature of services trade regulations, a fully quantified evaluation of the specific commitments, such as in the case of tariffs, has not proved feasible. Most specialists tend to agree that the value of the GATS thus far has been in its mere existence, i.e. that the Uruguay Round succeeded in bringing services into the multilateral trading system and by doing so, a process for successive and progressive liberalisation has been put on track. As to the immediate material benefits of the Uruguay Round in the area of services, there are indications that - broadly speaking - specific commitments undertaken relate more to binding a certain levels of market access and national treatment for certain sectors and certain types of mode of delivery rather than to actual market openings. This statement is, of course, the result of a generalisation, but rare are the cases where

[4] It should be recalled, however, that commercial services measured on a BOP basis, do not include a large portion of trade in services, for example services incorporated in goods and value added service activities of locally incorporated foreign affiliates. Consequently, these data seriously underestimate the real value of world services exports.

binding commitments went beyond the level of liberalisation that existed before the conclusion of the Uruguay Round. Nevertheless, as in the case of tariffs, ceiling binding commitments in services have values not only in trade policy terms but also for imparting security and predictability for the business, provided they do not fall far from real market openness.

59. Further developments following the conclusion of the Uruguay Round in the areas of financial services and basic telecommunications revealed the ability of GATS to provide a framework for actual liberalisation of trade in services.

60. On the basis of a frequency count, OECD countries on average made commitments, at the end of the Uruguay Round, on 64 percent of all service activities, while the comparable figures for transition and developing economies were 52 percent and 16 percent, respectively. It is important to note that these averages conceal significant variance among countries within the groupings. This is especially true of the developing countries, of which a number made commitments more far-reaching than suggested by the average. While developed and transition economies made relatively comparable level of commitments during the Uruguay Round, commitments by developing countries show significant differences (Table 9). Columbia, Malaysia, Gambia, the Philippines and Thailand committed a high proportion of services, while 67 developing countries made binding commitments on less than 40 sectors (out of the 160 sectors in the sectoral classification list).

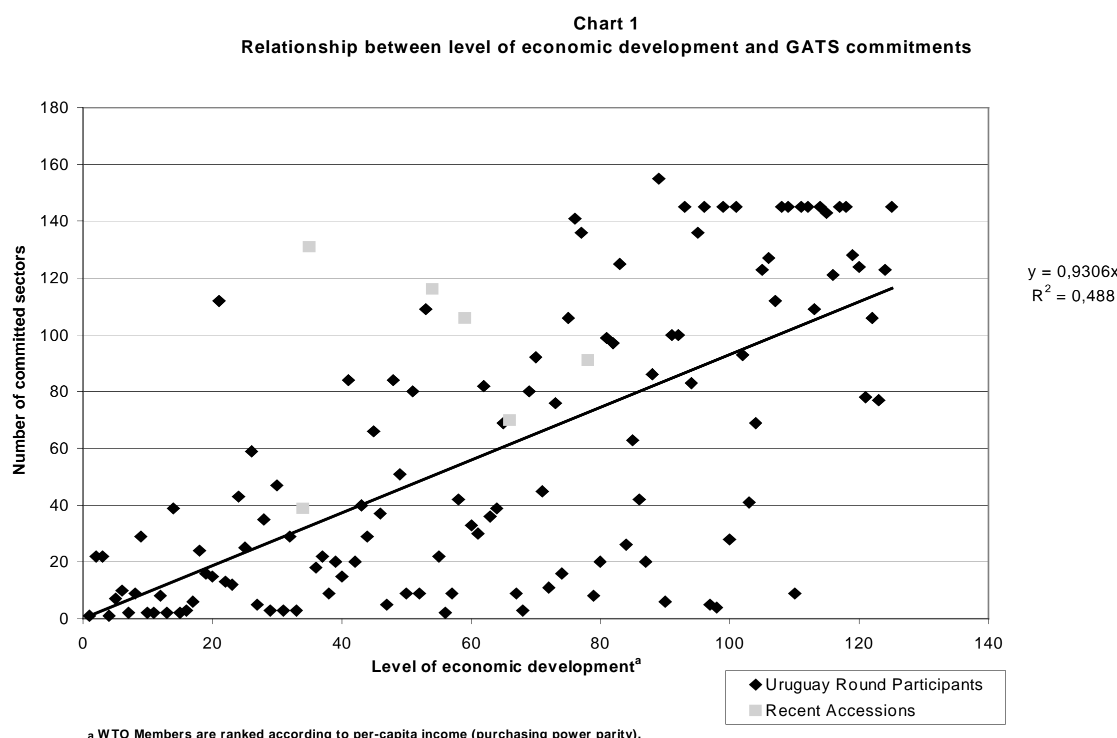
61. While this broad picture may suggest a relationship between the ability (or willingness) to make binding commitments on services trade and the level of development, a breakdown by individual countries gives a more discrete result. Indeed, the WTO did find only a relatively weak relationship between GATS bindings, based on the number of sectors committed, and the level of economic development (Chart 1). (The correlation coefficient found between the number of committed services activities and the level of *per capita* income is 0.12.) It mainly attributes the absence of such a strong link to differences in policy options among countries at comparable level of development, governments' views varying significantly on the economic benefits of bound access conditions for individual services sectors and modes of supply.

62. Clearly, considerable scope exists for increasing the level of obligations accepted by governments without undertaking the kinds of adjustments to the structure of the GATS itself. Action could be taken on several fronts. First, governments could include more sectors and activities in their schedules of specific commitments. Second, they could reduce and eliminate by means, e.g. of formula type approaches the market access and national treatment limitations that they have inscribed in their schedules. Third, governments could reduce and eventually eliminate all exemptions to the MFN principle. A presumption exists in GATS that this ought to occur over time. Second It has been suggested that the limitations which have been inscribed reflect the *status quo* in terms of policies applying at the time the commitments were made, and that in this sense, the GATS has yielded little so far by way of trade liberalisation. Fourth, governments could eliminate the gap that is sometimes maintained between the actual policies they apply in practice and the level of commitments they undertake in GATS. By aligning GATS commitments with policies actually in place, governments would be providing greater market security and ultimately a more liberal trading environment, pending the attainment of additional trade liberalisation that could be scheduled.

63. Due to inter-modal linkages and cross-sectoral interdependencies, developing countries may be interested to use formula-type liberalisation techniques when negotiating the reduction of barriers to their services exports. For example efficient provision of computer services, where some developing countries are already quite competitive, involves a combination of all four modes of supply. Cross-border on-line Software customisation, database management, and Web-site design and management as well as computer consultancy and technical support and assistance not only involve Mode1, 2 and 3 but also require the travel of skilled staff to the customers' home market in order to be most effective. Sectoral inter-linkage is

exemplified by tourism sector, where efficient operations may be affected by pricing policies of monopoly transportation providers and global distribution system operators.

Chart 1
Relationship between level of economic development and GATS commitments



a WTO Members are ranked according to per-capita income (purchasing power parity).

64. The trend towards fuller participation by a large number of developing countries in the multilateral trading system has gained further momentum in the extended negotiations on financial services and basic telecommunications. Under the telecommunications agreement 56 developing countries made market access commitments of a total of 83 signatories, while in the case of financial services 45 developing countries made improved commitments out of a total of 70 signatory country. (The EC-15 counted as one.) The participation of a large number of developing countries in these negotiations reflected a spreading conviction that liberalisation in these sectors was essential for their own development. Especially significant was that in financial services developing countries most seriously affected by the crisis made commitments to access for foreign banks, in the belief that stronger competition and greater market openness would contribute to stronger and more efficient domestic financial infrastructure

65. The growing awareness of the importance of an open and pro-competitive services market for both exports and development of developing countries is also evidenced by numerous liberalisation and deregulation measures they have taken after the Uruguay Round either on a regional level or on an autonomous basis. ASEAN and APEC exemplify regional initiatives on services. Autonomous services and investment liberalisation measures were taken, for example, by Indonesia, Korea and Thailand, some in the context of IMF programmes.

66. For almost one decade, many developing countries have initiated and continued to pursue services trade liberalisation as part of their overall economic and trade policy reforms aiming at greater

outward-orientation and market-responsiveness. In these cases, the inclusion of services was motivated, *inter alia*, by the recognition that in order for market-oriented trade policy reforms to produce the required results, such policies should apply in as much a uniform manner as possible throughout the whole economy, with the least sector-specific exceptions; they should not be confined only to production and trade of goods, but also to services and investment.

Costs of services protection and potential gains from liberalisation

67. Current levels of services protection are estimated to be as high or higher than those applied to goods ten or fifteen years ago. As reported by Hoekman and Messerlin, in many instances, the level of protection suggests average *ad valorem* tariff equivalents ranging from 50 percent to 100 percent for large sectors, similar to the rates existing in developing countries in the early 1980s.

68. The costs associated with entry barriers to services markets suggest huge potential gains from the liberalisation of service activities. The benefits of services liberalisation would not only imply cheaper and more varied services for the direct consumers but, more importantly, efficiency gains for the whole economy.

69. The economy-wide benefits of trade and investment liberalisation are particularly important in the case of producer services. This is so not only because economies derive the bulk of their income and employment growth from services-related activities but also because of the role producer and business services play in the economy. Today many service sectors assume a key infrastructural role and provide basic inputs to the production of other (both goods- and services-producing) industries. The list of those services is long, and with rapid technology advances, is rapidly expanding. Telecommunications, financial services, professional services and transport are most frequently cited. Protected and hence inefficient services imply high costs to the entire economy.

70. The above characteristics imply that trade liberalisation and deregulation of services, including institutional changes, are likely to promote the competitiveness of many downstream activities while improving overall economic performance. Empirical evidence suggest that early liberalisation can contribute substantially to a country’s locational attractiveness for new foreign direct investment.

71. The spill-over of costs of shielded producer services has negative implications on the protection of other sectors, be they in the area of goods or other services. In the context of trade liberalisation of goods for example, if decreasing tariffs are not accompanied by services liberalisation, effective rates of protection may become negative for the goods for which such protected producer services are inputs. (The estimate was made that welfare gains associated with the Uruguay Round cuts in industrial tariffs might have been three times higher if services barriers had been cut by 25 percent rather than bound at the *status quo*.). From a domestic economic perspective, this strongly argues in favour of liberalisation and deregulation of services, even on an autonomous basis.

72. A second conclusion that may be drawn from the above is that liberalisation and deregulation of services should not be viewed only in a traditional, mercantilist way, since the costs of maintaining protection also negatively affect countries which identify their export interests mainly in the area of goods. Ideally welfare gains from, and interests in the liberalisation of the various services sectors should be assessed by governments from the perspective of costs and benefits for the entire economy. The inclusion of other components, i.e. production and trade of goods and other services, would make sense, especially as the next round of services negotiations will take place in a broader context including also trade in goods.

73. By way of illustration, a 1996 study by the World Bank found that anti-competitive cargo reservation policies adopted by most African governments had an important adverse effect on freight rates

facing Sub-Saharan Africa's exports. It revealed that freight costs were a far more restrictive barrier to African exports than tariffs: average ad valorem transport costs for all Sub-Saharan countries' exports exceeded average tariff on these goods by more than 8 percentage points. Effective rates of protection facing African exports on the U.S. market due to African freight rates ranged from about 7 percent for electrical machinery to over 90 percent for animal feeds. These transport protection costs had important negative impact on exports and the location of manufacturing activities in Africa. The study concluded that these anti-competitive cargo reservation policies appeal for deregulation of the cargo sector; other studies for other regions showed that deregulation and measures allowing competition for shipping services may reduce freight rates in the liner trades by as much as 50 percent.

74. Because of the substantial scope for productivity gains, services liberalisation is expected to be high in all countries, although by different degree. GTAP modelling of multilateral services liberalisation indicates a substantial annual gain in world welfare from a 50 percent reduction of services market distortions globally. Account should be taken of the dynamic effects of services liberalisation through its spill-over effects on the productivity on the entire economy. (Estimates of annual welfare gains by regions/countries are presented in Table 11).

Liberalisation and national sovereignty

75. As suggested above, governments generally undertake trade, including services trade, and investment liberalisation as part of overall national economic reform strategies aimed at maximising the welfare gains for their economies and citizens. Indeed, for most governments liberalisation is a means to improve international competitiveness thus actually increasing their country's room to manoeuvre on domestic economic and social policies: improving national income and making it less vulnerable to external shocks. In this way, key aspects of sovereignty should be seen as strengthened rather than diluted, albeit in the context of an undeniably interdependent and rapidly changing world.

76. Economic regulation is a prominent feature of numerous service sectors, since governments are much more heavily involved in regulation in services sectors than they typically are in goods sectors. As recent experiences show, either in the GATS context or in relation to national structural adjustment programmes, services liberalisation needs to be complemented by a pro-competitive regulatory framework, which in most cases involves regulatory reform, sometimes re-regulation of the service sector concerned. The impact of liberalisation of trade in services on national sovereignty to regulate and to protect domestic economic and social interests is an area of public debate and concern in both developed and developing countries.

77. Furthermore, liberalisation does not involve the wholesale dismantling of domestic regulatory measures. However, while liberalisation decisions often need to be supplemented by domestic regulatory reforms to improve the efficiency and transparency of market functions and the quality of regulatory performance therein, this is a matter for national decision-making rather than something that is directed or imposed externally. It is important to recall that embarking upon trade liberalisation in the WTO, in no way questions the right of countries to pursue their public policy objectives. In the services area, the GATS leaves intact governments' prerogatives over macroeconomic policy and policies regarding non-discriminatory domestic regulation of services activities (e.g. qualification requirements and procedures, technical standards), prudential requirements in the financial services sector. In addition WTO members retain full right to take measures to protect public morals or to maintain public order to protect privacy as well as measures concerning national security.

Services liberalisation and commercial presence vs. movement of labour

78. While the Uruguay Round negotiations resulted in substantial commitments (even though sometimes falling far from actual level of liberalisation) in other areas, efforts by developing countries to obtain removal of restrictions on labour entry remained ineffective.

79. Many observers are calling on developing countries to link removal of barriers on the movement of natural persons in the next negotiations to liberalisation of commercial presence. The underlying premise being that in the GATS an alleged "symmetry" exists between Mode 3 and Mode 4 delivery of services, the first mode representing developed countries' interests and the second those of developing ones.

80. The interest of developing countries in removing restrictions under Mode 4 is undeniable. Many of them do have actual or potential competitive advantage in labour-intensive services that they can not supply to other markets due to entry barriers. Sectors often cited are, for example, health care services, construction services and software development. Except for human-capital intensive sectors and where presence of natural persons is an essential factor of commercial presence, Mode 4 supply remained largely restricted after the Uruguay Round, despite the extended negotiations on movement of labour. It is striking in this regard that mode 4 commitments are very limited for all countries, developed and developing alike. In general, commitments relate to presence of personnel related to commercial presence, business visitors and highly qualified professionals and specialists. Self-employed labour movement, an area where less developed countries tend to identify their export interests, is generally left unbound, by both developed and developing countries. For example, India made commitments only on intra-corporate transferees, business visitors and for some professionals with academic background. Pakistan's commitments relate to executives and specialists and are further limited by quantitative restrictions. Brazil's commitments are confined to highly qualified professionals, managers and directors. The lack of commitments concerning self-employed persons suggests significant barriers to entry to both developed and developing economies, including in South-South trade.

81. This suggests that policy considerations motivating the reluctance to liberalise beyond the categories of natural persons mentioned above are not specific to developed countries. Though present labour market policies certainly differ from country to country, it seems that they have one point in common: political sensitivities and "play-it-safe" regulatory attitude prevented major cuts in restrictions on labour movement. Reluctance to be more forthcoming on Mode 4 issues may be found in all corners. Indeed, recent regional initiatives involving developing countries to liberalise trade in services failed to liberalise labour movement.

82. The foregoing suggests that substantial progress on Mode 4 in the future services negotiations would require a horizontal approach and tremendous efforts from all parties. Sectors identified as areas of interest for developing countries include, for example, computer services, environmental services, health services, construction services. Once again, in order to secure their export interests in Mode 4, developing countries may seek to negotiate on the basis of balanced formulas, whereby liberalisation by developed countries for self-employed persons and small teams in specific occupations could be matched by greater liberalisation by developing ones for intra-corporate transferees and Mode 3 related entry of specialists. At the same time, developing countries should also envisage commitments on Mode 4 that correspond to what they expect from developed nations and from each other. After all, trade in services is not a North-South issue, and there is no specific reason for developing countries to restrict entry of labour from either developed or other developing countries. Furthermore, as noted by UNCTAD and the World Bank, temporary labour movements are often complementary to other international transactions in services, thus developing countries should not focus exclusively on their export opportunities in the area of labour

services. They should also evaluate the extent to which their own domestic regulations on the entry of temporary labour may hinder other transactions.

V. Special and Differential Treatment

83. Prior to the UR, there were five areas where developing countries received special and differential (S&D) treatment: one from the 1947 GATT (Article XVIII, the right to infant industry and balance of payments trade restrictions); one from Part IV of the 1964 GATT (exemption from making reciprocal tariff concessions); and three stemming from the Enabling Clause (the right not to sign the Tokyo Round codes, relaxation of some provisions of Article XXIV, and providing the legal framework for the Generalised System of Preferences, GSP).[5]

84. The concept of the single undertaking in the Uruguay Round did not eliminate such treatment. For example, the Uruguay Round Agreements contain special provisions for developing countries that grant them, among other things, long and gradual phase-in periods for their commitments and fewer obligations in some sectors.[6] The Agreements also contain provisions for technical and other assistance to developing countries as well as commitments by developed members to implement the Uruguay Round Agreements in ways that are beneficial or least damaging to the interests of developing countries.

85. Perhaps the most significant area of S&D treatment remains the Generalised System of Preferences, or the GSP. This system allows OECD countries to exempt some of developing countries' exports from MFN treatment. These exemptions are autonomous policies and they continue quite independently from the outcome of the UR, under the cover of the Enabling Clause. S&D treatment is firmly rooted in a "developmentalist" rationale. It is presented as an aid to development, as a way of helping developing countries to catch up with industrial countries.

86. Because preference schemes are often of relatively short duration, and subject to periodic renewal, discussions on the justification, purpose and content of these schemes take place on a continuing basis. Most recently, these discussions have been influenced by two broader tendencies towards liberalisation -- the MFN-based trade barrier reductions resulting from the Uruguay Round and the growing number of regional agreements that liberalise trade among members. Liberalisation efforts of this nature inevitably erode the relative value of non-reciprocal preferences. The protestations of preference-receiving countries about the ill-effects of multilateral trade liberalisation, which were loudly voiced by some countries during and after the successful conclusion of the Uruguay Round, have also emphasised the potential conflict between MFN and preferential trade liberalisation. Moreover, a growing body of analysis shows that preferences have either been of limited use, or have benefited a much narrower set of recipients than intended by the original design of the preference schemes.

87. In theory, preferences can increase the exports of a recipient country, but if the expansion derives from trade diversion rather than trade creation, it will be at the cost of the preference-giving country and third parties. Export expansion in beneficiary countries may contribute to development in a broad sense, via increased investment, growth and employment, and diversification of the production base away from exclusive reliance on production of primary goods. The non-preferential creation of new market access opportunities would hold out the same promise, but with the vital difference that no particular country or

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5 Formally, the Enabling Clause is the Decision on Differential and More Favourable Treatment, Reciprocity, and Fuller Participation of Developing Countries of 1979.

6 Other areas where developing countries still enjoy S&D treatment include: customs valuation (longer transition periods), agriculture (smaller tariff cuts), safeguards (longer-lasting restrictions), TRIMS (restrictions available for balance of payments purposes), and services (similar S&D rules as for goods).

group of countries would be accorded such opportunities to the exclusion of others. This competitive "edge" provided by preferences, supposedly on a temporary basis, is generally justified as a mechanism to help developing countries catch up with their more developed counterparts.

88. The future of preferential trading arrangements is not promising, for at least four reasons. First, there is a perception that preferences have not been very effective as an instrument of development, except perhaps for a restricted group of high-income developing countries. This is neither a novel nor, in all likelihood, a minority view, and so interest in preferential trade arrangements will probably continue to wane. Second, precisely because a few, relatively well-off countries have enjoyed most of the GSP benefits available, and at the same time have registered impressive levels of growth and development, pressures for more far-reaching graduation are bound to increase. Third, multilateral trade liberalisation efforts, such as those made in the Uruguay Round will probably continue. Proposals for zero tariffs on industrial products may enjoy more success in a future negotiation, and continuing liberalisation efforts are likely to be made in agriculture. Finally, regional free trade initiatives are likely to increase, and where these involve industrial and developing countries, they tend to reduce preferences received by non-parties.

89. Such reflections should not, however, be taken as an argument in favour of repealing the programmes or introducing new trade barriers against particular countries or the products of particular countries. While the diminishing importance of these schemes is the inevitable result of graduation under GSP now, emphasis should be given to multilateral trade liberalisation as the mechanism that renders preferences increasingly irrelevant, not the reintroduction of restrictions. In the meanwhile, preferences for least developed countries are likely to be maintained. In any event, by the time these countries are able to benefit from preferences in the manner that more advanced developing countries appear to have done under GSP, margins on most products may have been reduced almost to nothing. A more constructive approach to helping the poorest developing countries, therefore, would be to assist them in addressing the constraints that really underlie their sluggish trade and growth performance, and to provide them with technical and other assistance that responds to their specific needs and concerns.

90. Sluggish trade and growth continue to characterise the performance of some developing countries and especially the least developed countries (LDCs) as a group. LDCs is a group that includes some 48 countries that remain the weakest partners in the international community with important structural problems, often compounded by natural or human-invoked disasters. They face many difficulties in their efforts to develop both human and economic capital. These include structural rigidities, low skill capacity, poor infrastructure, weak institutions and a private sector stifled by parastatals, and overwhelming debt burdens. Their gradual integration into the multilateral trading system, and their eventual "graduation" from the status of least developed is a priority area.

91. Because of these reasons, it should be no surprise that many such LDCs are unable at present to take full advantage of the opportunities provided by the process of globalisation and trade liberalisation. WTO Ministers, meeting in Singapore in 1996, recognised these constraints and committed themselves to address the problem of marginalisation for LDCs and agreed to assist these countries to improve their overall capacity to respond to the opportunities offered by the trading system.

92. Specific actions that were identified include: improving market access for LDCs' exports, including bound duty-free access and the elimination of all quotas on exports of interest to them; improving foreign investment flows and co-ordinated programmes of technical assistance to build human and institutional capacity; and encouraging LDCs to tackle their own domestic constraints on economic growth. These and additional actions in favour of LDCs have been highlighted at several high-level meetings under the Integrated Initiatives for Least Developed Countries.

93. Implicit in the discussion above is the fact that the developing world has become more heterogeneous over the years and thus the interests and concerns of countries differ. In fact, such a trend was already present in the context of the Uruguay Round with the consequence of focusing many of the S&D benefits towards LDCs. This trend will probably be reinforced in the future as the interests and concerns of developing countries and the least developed amongst them become more distinct. For example, a distinction can be made in respect of net food importing countries, land-locked countries, small countries, commodity exporters and others. This argues in favour of further "tiering" the S&D treatment among various beneficiaries. In other words, "one-size fits all" approach may no longer deliver the required result of promoting the integration of non-OECD countries into the multilateral trading system.

94. A key conclusion in this regard is that in the case of some countries, emphasis in the context of S&D treatment will probably shift to adjustment needs and capacity issues. The challenge is then to more carefully rationalise and target these provisions.

Table 1. Pre- and post-Uruguay Round scope of bindings for industrial products (excluding petroleum)

(Number of lines, billions of US dollars and percentages)

Country group or region	Number of lines	Import value	Percentage of tariff lines bound		Percentage of imports under bound rates	
			Pre-	Post-	Pre-	Post-
By major country group:						
OECD economies	86 968	737.2	78	99	94	99
Developing economies	157 805	306.2	22	72	14	59
Transition economies	18 962	34.7	73	98	74	96
By selected region:						
North America	14 138	325.7	99	100	99	100
Latin America	64 136	40.4	38	100	57	100
Western Europe	57 851	239.9	79	82	98	98
Central Europe	23 565	38.1	63	98	68	97
Asia	82 545	415.4	17	67	36	70

Source: OECD, 1994.

Table 2. Pre- and Post-UR Trade-Weighted Average Tariff Rates, by Country of Origin and Destination

	Destination								
	OECD countries			Developing countries			Transition economies		
Origin	Pre-UR	Post-UR	Reduction	Pre-UR	Post-UR	Reduction	Pre-UR	Post-UR	Reduction
OECD	5.5	3.0	45	14.9	10.7	28	10.4	7.7	26
US	4.4	1.9	57	13.6	10.2	25	8.3	6.1	27
EU	5.8	3.5	40	18.4	13.8	25	10.6	7.9	25
Japan	6.2	3.6	42	14.1	9.3	34	14.0	10.9	22
Other	4.9	2.4	51	12.4	9.0	35	9.6	7.0	27
Developing Countries	6.9	4.8	30	10.0	7.1	29	12.1	8.8	27
Lat. Am.	4.4	3.2	27	13.4	10.1	25	5.1	2.9	43
Asia	7.8	5.2	33	9.6	6.7	30	13.7	9.7	29
Africa	8.4	6.7	20	2.5	1.1	56	5.0	2.8	44
Europe	9.5	7.3	23	18.6	14.9	20	16.0	13.9	13
Transition Economies	5.9	3.6	39	20.8	15.7	25	0.4	0.3	25

Table 3. Pre- and Post-UR Trade-Weighted Average Tariff Rates in OECD Countries On Imports from non-OECD countries, by industrial product group

Product category	Import value	Average tariff		
		Pre-	Post-	Reduction
All industrial products (excluding petroleum)	169.7	6.8	4.5	34
Textiles and clothing	33.2	14.6	11.5	21
Metals	24.4	2.7	0.9	67
Mineral products, precious stones and metals	22.2	2.7	0.8	70
Electric machinery	19.2	6.3	3.5	44
Leather, rubber, footwear & travel goods	12.2	8.1	6.6	19
Wood, pulp, paper & furniture	11.5	4.6	1.7	63
Fish & fish products	10.6	6.5	3.4	48
Non-electric machinery	9.8	4.7	1.9	60
Chemicals & photographic supplies	8.2	7.2	4.0	44
Transport equipment	7.6	3.8	3.1	18
Manufactured articles n.e.s.	10.9	6.5	3.4	48
Developing economies products	122.8	8.0	5.6	30
Industrial tropical products	14.4	4.2	1.8	57
Natural resource-based products	33.4	4.0	2.6	35

Table 4. OECD Countries Tariff Profiles by Industrial Product Groups

Product category	Percentage of imports											
	Duty-free		0.1-5%		5.1-10%		10.1-15%		15.1-35%		Over 35%	
	Pre-	Post-	Pre-	Post-	Pre-	Post-	Pre-	Post-	Pre-	Post-	Pre-	Post-
All industrial products (exluding petroleum)	20	43	41	33	24	15	7	5	6	4	1	1
Textiles and clothing	2	4	6	14	27	29	30	25	33	27	2	1
Metals	36	70	36	21	23	7	3	1	2	1	1	0
Mineral products & precious stones	59	81	28	9	10	9	3	1	2	1	0	0
Electric machinery	5	30	54	55	26	6	11	7	3	2	1	0
Leather, rubber, footwear & travel goods	16	19	17	29	47	37	7	4	11	9	3	2
Wood, pulp, paper & furniture	50	84	24	6	20	7	2	2	4	0	1	0
Fish & fish products	21	24	42	44	18	21	18	8	7	3	0	0
Non-electric machinery	11	48	74	42	10	7	2	1	2	2	1	0
Chemicals & photographic supplies	14	34	31	27	40	37	10	2	5	1	1	0
Transport equipment	16	21	52	50	21	19	2	2	5	4	4	3
Manufactured articles n.e.s.	15	49	38	37	40	10	5	3	2	1	0	0

Table 5. The effects of Uruguay Round commitments on tariff escalation in OECD countries

Processing stage	Description	Tariff rate			Change in escalation indicator[1]	
		Pre-Uruguay	Post-Uruguay	Absolute reduction	Stage comparison	Absolute difference
	Hides, skins and leather	5.2	4.2	1.0		
1	Raw hides	0.1	0.1	0.0		
2	Semi-manuractures	4.5	3.5	1.1	2 with 1	Decreased
3	Finished products	8.7	7.3	1.5	3 with 2	Increased
	Rubber	3.3	2.2	1.1		
1	Crude rubber	0.0	0.0	0.0		
2	Semi-manuractures	5.5	3.2	2.3	2 with 1	Decreased
3	Finished products	5.1	3.5	1.6	3 with 2	Decreased
	Wood	2.0	0.9	1.1		
1	Wood in the rough	0.0	0.0	0.0		
2	Wood Based Panels	9.4	5.4	4.0	2 with 1	Decreased
3	Semi-manufactures	0.9	0.4	0.4	3 with 2	--
4	Wood articles	4.7	0.5	4.3	4 with 3	Decreased
	Paper	3.5	1.5	2.0		
1	Pulp and Waste	0.0	0.0	0.0		
2	Paper and paperboard	5.3	2.6	2.7	2 with 1	Decreased
3	Printed matter	1.7	0.3	1.4	3 with 2	--
4	Paper articles	7.3	1.9	5.4	4 with 3	Decreased
	Jute	5.1	1.8	3.2		
1	Jute fibres	0.0	0.0	0.0		
2	Yarns of jute	5.4	0.1	5.2	2 with 1	Decreased
3	Jute fabrics	5.7	3.2	2.5	3 with 2	Increased
	Cocoa	4.4	2.5	1.9		
1	Cocoa beans	2.1	0.0	2.1		
2	Paste, powder and butter	4.6	2.8	1.8	2 with 1	Increased
3	Chocolate	8.8	7.2	1.6	3 with 2	Increased

Table 5. continued

		Tariff rate			Change in escalation indicator[1]	
Processing stage	Description	Pre-Uruguay	Post-Uruguay	Absolute reduction	Stage comparison	Absolute difference
	Tobacco	17.3	11.2	6.1		
1	Unmanufactured	14.7	11.5	3.2		
2	Manufactured	22.1	10.7	11.4	2 with 1	Decreased
	Copper	1.7	0.8	0.9		
1	Unwrought	0.9	0.5	0.4		
2	Semi-manufactures	4.3	2.0	2.3	2 with 1	Decreased
	Nickel	0.7	0.3	0.4		
1	Unwrought	0.5	0.3	0.2		
2	Semi-manufactures	2.6	0.4	2.2	2 with 1	Decreased
	Aluminum	3.0	2.0	1.1		
1	Unwrought	2.1	1.6	0.5		
2	Semi-manufactures	5.9	3.1	2.8	2 with 1	Decreased
	Lead	2.4	0.9	1.6		
1	Unwrought	2.4	0.9	1.5		
2	Semi-manufactures	4.5	1.8	2.7	2 with 1	Decreased
	Zinc	2.2	0.4	1.8		
1	Unwrought	2.1	0.3	1.8		
2	Semi-manufactures	4.7	2.3	2.4	2 with 1	Decreased
	Tin	0.1	0.0	0.1		
1	Unwrought	0.1	0.0	0.0		
2	Semi-manufactures	3.9	0.2	2.7	2 with 1	Decreased
	All industrial products	6.4	4.6	2.4		
1	Raw materials	1.8	0.8	1.0		
2	Semi-manufactures	5.3	2.8	2.5	2 with 1	Decreased
3	Finished Products	7.4	4.8	2.6	3 with 2	Decreased

Table 6. Pre-Uruguay Round Trade coverage ratios of Certain OECD countries' non-tariff measures on imports from non-OECD countries, by type of NTB

Product Group (SITC)	Trade coverage ratios[1]					
	All non-tariff measures[2]	Variable levies and surcharges	Quantitative restrictions	Voluntary export restraints	Price control measures	Other entry control measures
Ores and metals (27+28+67+68)	10.0	0.1	0.5	5.5	6.5	0.0
Ferrous metals (67)	35.6	0.0	1.0	20.2	23.6	0.0
Non-ferrous metals (68)	0.0	0.0	0.0	0.0	0.0	0.0
Mineral fuels (3)	16.5	2.4	14.1	0.0	0.0	0.0
Chemicals (5)	3.4	1.1	2.2	0.1	0.0	0.0
Other manufactures (6 to 8-67 68)	21.6	0.4	1.7	18.3	0.5	2.1
Leather (61)	56.5	0.8	0.3	0.2	0.0	55.2
Textile yarn and fabric (65)	52.1	1.7	6.2	49.0	0.0	0.0
Clothing (84)	64.3	0.8	3.4	59.3	0.0	3.3
Footwear (85)	34.0	1.2	1.0	29.9	0.0	3.3
All items (0 to 9)	18.0	2.0	5.0	9.5	1.2	1.8

1. NTM groups are defined as follows. Variable levies and surcharges include all variable import levies (including variable components), product specific surcharges, minimum, reference, or basic import price regulations, price surveillance and voluntary export price restraints. Quantitative restrictions include prohibitions, quotas (global or country specific), state monopolies and non-automatic licensing requirements. "Voluntary" export restraints include measures under the MFA and similar textile quotas as well as other VERs (on quantity) that were negotiated outside the textile and clothing sectors. Other entry control measures include a variety of restrictions like local content regulations.

2. The coverage shares for the individual types of NTMs may sum to more than the "all NTM" coverage ratio due to "stacking" or the multiple application of NTMs on a specific product. OECD countries included are: Australia, Austria, Canada, EU, Finland, New Zealand, Norway, Sweden, Switzerland and the US. Comprehensive NTB data in the remaining OECD Member countries is not available.

Table 7. Welfare Gains from Multilateral Tariff Liberalisation, by Country and Region.

	Scenario I		**Scenario II**		**Scenario III**	
	Welfare Gains		**Welfare Gains**		**Welfare Gains**	
	$ billion (1995 Prices)	Percentage of GDP	$ billion (1995 Prices)	Percentage of GDP	$ billion (1995 Prices)	Percentage of GDP
World	1212	3.1	912	2.3	1183	3.0
OECD Countries	757	2.5	620	2.1	724	2.4
Non-OECD Countries	455	4.9	292	3.1	459	4.9
ASE	56	4.7	37	3.1	59	5.0
CHN	103	5.5	67	3.6	105	5.6
ECE	15	2.9	11	2.2	16	3.0
EUR	96	0.8	66	0.6	86	0.7
IDN	13	4.1	8	2.5	13	4.0
IND	57	9.6	31	5.3	57	9.6
JPN	359	6.1	310	5.3	352	6.0
MER	78	4.9	49	3.0	75	4.7
MNA	16	1.6	11	1.2	17	1.7
NAF	231	2.1	186	1.7	219	2.0
NIS	8	1.3	6	0.9	7	1.1
OCD	71	5.4	57	4.3	68	5.2
OLA	23	4.5	16	3.2	23	4.5
ROW	66	10.3	42	6.6	67	10.5
SAF	10	5.0	6	3.2	10	4.9
SSA	11	3.7	8	2.7	11	3.7

Table 8. Share of services in the GDP of selected non-OECD countries

Country	Percentage of GDP
Argentina	65.4% (1996)
Brazil	64.9 % (1994)
Chile	59% (1996)
Egypt	51%
Hong Kong, China	84.4% (1996)
India	42% (1996)
Indonesia	40%
Israel	70%
Jamaica	56%
Malaysia	44.8 % (1996)
Morocco:	50%
Pakistan	57%
Philippines	55.6% (1997)

Table 9. Number of committed sectors, by WTO Members

Number of committed sectors	Number of committing WTO members	WTO members
• 20	44	Angola, Bahrain, Barbados, Benin, Botswana, Burkina Faso, Cameroon, Central African Republic, Chad, Congo, Congo (Rep), Costa Rica, Cyprus, Fiji, Gabon, Guinea, Guinea-Bissau, Guyana, Haiti, Honduras, Madagascar, Malawi, Maldives, Mali, Malta, Mauritania, Mauritius, Mozambique, Myanmar, Namibia, Niger, Paraguay, Rwanda, St. Kitts and Nevis, St. Lucia, St. Vincent and Grenadines, Solomon Islands, Sri Lanka, Suriname, Swaziland, Tanzania, Togo, Uganda, Zambia
21 - 40	23	Bangladesh, Bolivia, Brunei Darussalam, Burundi, Côte d'Ivoire, Djibouti, Dominica, El Salvador, Ghana, Grenada, Guatemala, Kenya, Macau, Mongolia, Nigeria, Papua New Guinea, Peru, Quatar, Senegal, Sierra Leone, Tunisia, Uruguay, Zimbabwe
41 - 60	10	Antigua & Barbuda, Belize, Cuba, India, Morocco, Netherlands Antilles, Nicaragua, Pakistan, Trinidad & Tobago, United Arab Emirates
61 - 80	12	Brazil, Ecuador, Egypt, Hong Kong (China), Israel, Jamaica, Kuwait, Liechtenstein, Poland, Romania, Singapore, Venezuela
81 - 100	12	Argentina, Chile, Czech republic, Dominica Republic, Indonesia, Lesotho, New Zealand, Panama, Slovak Republic, Slovenia, South Africa, Turkey
101 - 120	7	Australia, Bulgaria, Gambia, Canada, Philippines, Switzerland, Thailand
• 121	24	Columbia, EC (15), Hungary, Iceland, Japan, Korea (Rep. of), Malaysia, Mexico, Norway, USA

Source: WTO

Table 10. Commitments in selected services sectors, Modes 1 and 3

Mode 1	Non-OECD Economies					OECD Economies				
	Total Countries (number)	Market access		National treatment		Total Countries[1] (number)	Market access		National treatment	
		Full (%)	Partial[2] (%)	Full (%)	Partial (%)		Full (%)	Partial (%)	Full (%)	Partial (%)
Professional services										
Legal	30	23	57	30	47	26	4	92	4	92
Accounting	41	29	32	37	24	26	15	81	15	81
Medical and dental	31	32	29	45	19	18	17	11	22	6
Communication services										
Voice telephone	51	6	82	20	65	25	12	88	20	80
Private leased circuit	41	7	88	37	54	25	12	88	20	80
Electronic mail	37	30	62	59	32	26	15	85	15	85
Distribution services										
Wholesale	20	40	30	40	35	25	4	96	52	48
Retail	19	26	32	26	32	25	8	92	4	96
Financial services										
Non-life insurance	48	15	44	25	25	26	4	92	8	88
Depositing	55	29	20	35	16	25	0	16	0	16
Lending	54	24	31	33	24	25	0	16	0	16
Trading in securities	45	24	31	29	29	26	0	19	0	19

Table 10. continued

Mode 3	Non-OECD Economies					OECD Economies				
	Total Countries[1] (number)	Market access		National treatment		Total Countries[1] (number)	Market access		National treatment	
		Full (%)	Partial (%)	Full (%)	Partial (%)		Full (%)	Partial (%)	Full (%)	Partial (%)
Professional services										
Legal	30	7	87	23	70	26	0	92	0	92
Accounting	41	10	88	37	59	26	4	96	12	88
Medical and dental	31	26	68	52	39	18	0	89	6	89
Communication Services										
Voice telephone	51	8	90	16	76	25	0	100	8	92
Private leased circuit	41	5	95	32	59	25	0	100	8	92
Electronic mail	37	8	86	54	38	26	4	96	12	88
Distribution services										
Wholesale	20	30	70	30	65	25	0	100	0	100
Retail	19	11	79	16	79	25	4	96	0	100
Financial services										
Non-life insurance	48	10	83	19	71	26	0	100	0	100
Depositing	55	20	80	24	76	25	4	96	0	100
Lending	54	20	76	20	76	25	4	96	0	100
Trading in securities	45	18	82	13	87	26	4	96	0	100

Source: J. Michael Finger and Ludger Schuknecht: Market Access Advances and Retreats Since the Uruguay Round Agreement, Paper presented at the Annual World Bank Conference on Development Economics, 29-30 April, 1999

1. Maximum possible number of countries with commitments is 105 for developing and transition countries, and 26 for industrialized countries; EU=15 countries.
2. "Full", "partial" and "unbound" add up to 100%. The share of countries with "unbound" in a particular sector is, hence, the difference between 100 and the sum of "full" and "partial". Note, however, that this only refers to countries with scheduled commitments.

Table 11. Annual gains from a 50 percent cut to distortions in services

Economy/region	Welfare gain (US$ billion)
Africa	4.7
ASEAN	4.6
Eastern Europe	7.7
European Union	73.4
Latin America	12.6
North America	63.4
Australia	3.5
China	9.8
India	2.6
Japan	43.5
Korea	3.9
New Zealand	0.7
Other OECD	5.4
Other	15.5
Total	**251.2**

Source: Foreign Affairs and Trade, Australia.

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ATTACHMENT 1
REGIONAL CONCORDANCE FOR THE TRADE POLICY SIMULATION MODEL

1	ASE	Other East Asia
2	CHN	China and Hong Kong
3	ECE	Eastern and Central Europe (*) *Albania, Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovakia, Slovenia*
4	EUR	European Union (15), EFTA countries and Turkey *Austria, Belgium, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, United Kingdom*
5	IND	India
6	IDN	Indonesia
7	JPN	Japan
8	MER	Argentina, Brazil, Chile
9	MNA	Middle East and Northern Africa *Algeria, Bahrain, Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Saudi Arabia, Syrian Arab Republic, Tunisia, United Arab Emirates, Yemen Arab Republic*
10	NAF	Canada, Mexico, United States
11	NIS	Newly Independent States *Armenia, Azerbaijan, Belarus, Estonia, Georgia, Kazakhstan, Kyrgyz Republic, Latvia, Lithuania, Moldova, Russian Federation, Tajikistan, Turkmenistan, Ukraine, Uzbekistan*
12	OCD	Australia, New Zealand, Korea
13	OLA	Rest of Latin America *Antigua and Barbuda, Bahamas, Barbados, Belize, Costa Rica, Cuba, Dominica, Dominican, Republic, El Salvador, Grenada, Guatemala, Haiti, Honduras, Jamaica, Nicaragua, Panama, St. Kitts and Nevis, St Lucia, St. Vincent, Trinidad and Tobago, Bolivia, Colombia, Ecuador, Guyana, Paraguay, Peru, Suriname, Uruguay, Venezuela*
14	ROW	Rest of the World *Bangladesh, Bhutan, Maldives, Nepal, Pakistan, Sri Lanka, Afghanistan, Andorra, Bosnia, Herzegovina, Brunei, Cambodia, Croatia, Cyprus, Fiji, Kiribati, Laos, Liechtenstein, Macedonia (former Yugoslav Republic of),. Malta, Monaco, Mongolia, Myanmar, Nauru, North Korea, Papua, New Guinea, San Marino, Solomon Islands, Tonga, Tuvalu, Vanuatu, Vietnam, Western, Samoa, Yugoslavia (Serbia and Montenegro)*
15	SAF	South Africa

Attachment 1 (cont.)

16	SSA	Sub-Saharan Africa *Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Cape Verde, Central African Republic, Chad, Comoros, Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gabon, Cambia, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania Mauritius, Mozambique, Namibia, Niger, Nigeria, Rwanda, Sao Tome & Principe, Senegal, Seychelles, Islands, Sierra Leone, Somalia, Sudan, Swaziland, Tanzania, Togo, Uganda, Zaire, Zambia, Zimbabwe*

(*) Three OECD countries, Czech Republic, Hungary and Poland, are classified as part of "Eastern and Central Europe" due to the regional concordance defined by the GTAP date base (version 4) for the base year 1995