Chapter 14

THE PROGRESSIVE TARIFF REDUCTION SCHEME

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As economists have known since Adam Smith, free trade should benefit all nations by allowing them to take advantage of gains from specialization.[1] Indeed, the benefits of trade are supposed to justify unilateral liberalization: as the late British economist Joan Robinson once remarked, if your trading partner throws rocks into his harbor, that is no reason to throw rocks into your own. While unilateral liberalization has occurred in many countries to varying degrees, it has obviously not led to global free trade.

Rich countries apply an average tariff of 5.2%, and poor countries apply an average tariff of 14%.[2] Some countries choose to protect important industries as an integral part of their development strategy.[3] For other countries, even if liberalization were to make the country better off as a whole – in the sense that there are more winners than losers in the long run and the winners could, in principle, compensate the losers – it may still be politically unfeasible, if those losers have political power and cannot be effectively compensated. (Part of the problem is making a credible commitment to compensate *in the future*.) The persistence of protection suggests that, in most countries, political leaders continue to find that the balance of economic and political-economy considerations falls in favor of protection.

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1 Recent research, however, has shown that the conditions under which trade is beneficial are more restrictive. For example, with imperfect risk markets or other conditions of imperfect competition, trade may not lead to an increase in welfare. See D. Newberry and J. Stiglitz, "Pareto Inferior Trade" (1984) 51(1) *Review of Economic Studies* 1. See also note 3 below.

2 H.P. Lankes, "Market Access for Developing Countries" (2002) 39(3) *Finance and Development* 8.

3 See J. Stiglitz and B. Greenwald, "Helping Infant Economies Grow: Foundations of Trade Policies for Developing Countries" (2006) 96(2) *American Economic Review* 141.

The purpose of multilateral trade negotiations (MTNs) is to shift that balance in favor of greater liberalization. In the coordinated MTN setting, liberalization is made more attractive for each country by the concomitant gains in access to other countries' markets. Parties to MTNs seek to agree upon Pareto superior vectors of protection, or at least on liberalizations which have enough winners with enough gains that they have the ability to push through the requisite legislation. In the current Round, the set of politically and economically feasible agreements appears to involve unambitious cuts to protection – a "minimalist" agreement. It may even prove to be empty; as we write this, the talks have stalled.

In this chapter we argue that the set of feasible agreements is constrained by the principle of reciprocity at the core of MTNs. Reciprocity worked better in the early rounds of MTNs when negotiations were conducted (principally) among rich countries. But now reciprocity means that a country like Saint Lucia – one of the world's poorest and smallest countries – is placed in a bargaining scenario in which it is expected to "swap" tariff reductions with the United States, the world's largest and richest country. In this context, it is no surprise that reciprocal bargaining has proved to be difficult.

But so has its principal alternative. Attempts to reduce the reciprocity of bargaining in the Doha Round via so-called special and differential treatment (SDT) have not been particularly successful. In May of 2004, then EU Trade Commissioner Pascal Lamy attempted to placate the developing countries and salvage the round by offering a significant compromise on SDT. In a letter to Trade Ministers, he wrote: "We propose that the least developed countries and other weak or vulnerable developing countries . . . should not have to open their markets beyond their existing commitments, and should be able to benefit from increased market access offered by both developed and advanced developing countries. So in effect these countries should have the 'Round for Free'."[4]

The danger of the blanket approach to SDT embodied in the "Round for Free" proposal is that it creates disincentives for developing countries to participate in the Round. If the least developed countries are required to do nothing, they may be pushed to the periphery of the negotiations. The Doha Development Round would then bear a striking resemblance to the early rounds of trade negotiations where the GATT operated as a club for the advancement of rich country interests. In those early rounds,

[4] See letter dated 9 May 2004 from Pascal Lamy to EU Agriculture Commissioner Franz Fischler. Lamy quickly stepped back from this offer. In June he noted that the "Round for Free" slogan was perhaps a misnomer since developing countries would be required to make commitments on binding their tariffs in some areas, and participating in negotiations on trade facilitation. He coined the somewhat less-catchy slogan "Round at a modest price." See speech by Pascal Lamy, "European Commissioner Responsible for Trade: Where next for EU Trade policy?" Berlin *Deutsche Gesellschaft für Auswärtige Politik*, 11 June 2004.

developing countries were burdened with few obligations, but they had only a weak voice in the negotiations and little power with which to assert their interests. Developing countries benefited from industrial country liberalization, thanks to the MFN[5] principle, but their peripheral role meant that they could exert little pressure on the *way* that industrialized countries liberalized. Thus, liberalization of goods of interest to developed countries proceeded swiftly, but the liberalization of goods of interest to developing countries, especially labor-intensive goods, lagged behind. Developing countries ultimately suffered. Some developed countries were happy with this system because the small and poor countries did not have sufficiently attractive markets to bother with: the benefits of market access were smaller than the costs of liberalizing their own labor-intensive import-competing sectors. The "Round for Free" approach smacks of the same two-tiered system which exempted developing countries from commitments, but excluded them from the negotiations. However, as Keck and Low argue, "where new policy areas or new rules are under negotiation, or consideration for negotiation, the best interests of developing countries would be served through engagement with respect to the substance of core proposals."[6] Another problem with the "Round for Free" approach, which concerns many negotiators from developed countries, is that it allows the poorest countries to continue to participate in the round (and, indeed, slow its progress, as was one interpretation of the failure at Cancun) when they are contributing very little to it.

Moreover, the "Round for Free" approach may result in substantial opportunity costs for developing countries by robbing them of the benefits of liberalization of intra-developing country, or "South-South," trade. Developing countries now account for around one third of global trade. South-South merchandise trade has grown at twice the pace of world trade over the past decade. Yet barriers to South-South trade are high.[7] Seventy percent of the tariffs paid by developing countries ($57 billion annually) are paid to other developing countries. Indeed, developing countries stand to benefit a great deal from improved market access to other developing countries. The World Bank estimates that developing countries stand to realize welfare gains of more than $30 billion per year if other developing

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[5] Most-Favored Nation (MFN) is enshrined in the first article of the GATT, which governs trade in goods. MFN is also a priority in the GATS (Article 2) and the *TRIPS Agreement* (Article 4), although in each Agreement the principle is handled slightly differently.

[6] A. Keck and P. Low, "Special and Differential Treatment in the WTO: Why, When and How?" Economic Research and Statistics Division, Staff Working Paper ERSD-2004-03 (WTO, 2004), at 29.

[7] For example, East Asian exporters face tariffs in other East Asian countries that are 60% higher than in rich nations.

countries eliminated tariffs on industrial goods and a further $30 billion if they removed their barriers to agricultural trade.[8]

In this chapter we propose that the principle of reciprocity be replaced by a principle of progressive rights and obligations.

Underlying this proposal is the recognition that the developing countries are in a markedly different position from developed countries, in ways which will be made clearer later in this chapter. The consequence is that even seemingly symmetric liberalizations can have asymmetric effects.[9] Moreover, the marked differences in circumstances create difficulties even in assessing what is "fair" or "reasonable." While average tariffs of developing countries are markedly higher than those in developed countries, developed country tariffs and subsidies are directed against the products produced by the developing countries, and effective tariffs (taking into account tariff escalation) of developed countries are markedly higher than nominal tariffs.

The challenge is to design a system which gives developing countries flexibility and minimizes adjustment and implementation costs, without marginalizing their participation in the global trading system or foregoing the gains from South-South liberalization. To achieve this, *all WTO Members could commit to providing free market access in all goods to all developing countries poorer and smaller than themselves.* Thus all developing countries could expect free access to all markets with (a) a larger GDP and (b) a larger GDP per capita. This SDT provision would bind developing and developed countries alike. For example, a middle income country like Egypt with GDP per capita of $1,390 and GDP of $82 billion, would receive free access to countries like the United States, but would be required to give free access to a country like Uganda (GDP per capita of $240 and GDP of $6.2 billion).

Underlying this proposal is the recognition that small and poor countries are at an especially disadvantageous position. The costs of liberalization are greater, and the benefits are often smaller. They lack the resources and infrastructure, for instance, to take advantage of new opportunities for market access.[10]

This proposal has several advantages over alternative schemes:

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8 *Global Economic Prospects and the Developing Countries: Making Trade Work for the Poor* (World Bank, 2002). One must, of course, treat these numbers with considerable caution. The models used to generate them involve several assumptions of questionable validity.

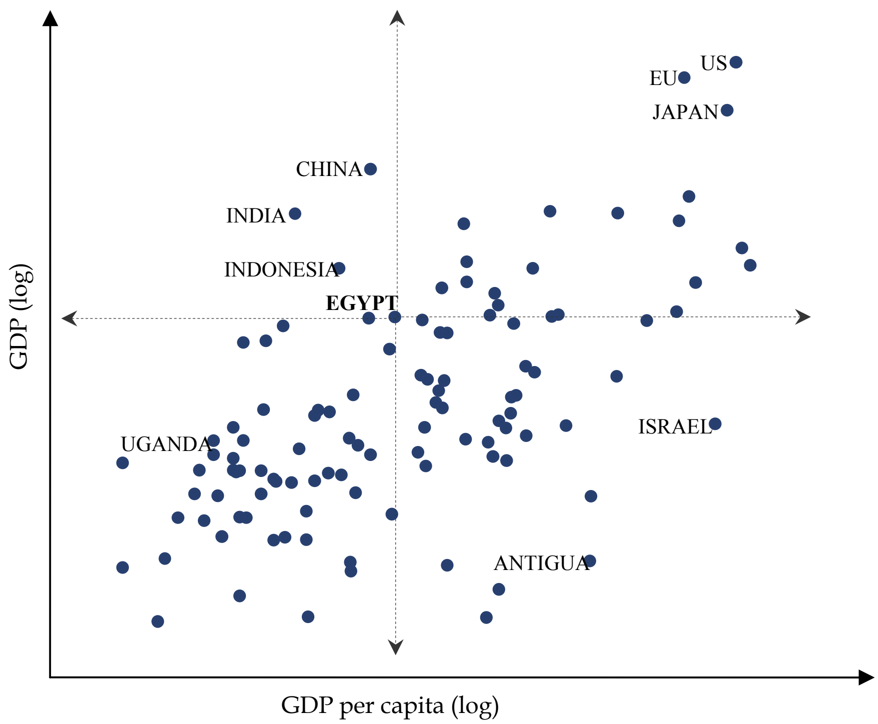
9 One of the differences that we do not discuss is differences in ability to enforce violations. The inability of a small Caribbean country to take effective action against a violation by the United States stands in marked contrast to the ability of the United States to take action against the Caribbean island State.

10 Reflected, for instance, in the disappointing results from the Everything But Arms initiative, at least in the initial years. See P. Brenton, "Integrating the Least Developed Countries into the World Trading System: The Impact of EU preferences under EBA" (World Bank, mimeo, 2003).

I. IT INVOLVES SIGNIFICANT LIBERALIZATION

First, it does deliver significant liberalization. The magnitude of liberalization delivered by this scheme is in part a function of the correlation coefficient of the GDP and GDP per capita of WTO Members – in the limit case where the coefficient is -1, this scheme requires no liberalization from any country. Figure 1 plots the GDP and GDP per capita of WTO Members. The correlation is large and positive (0.6), implying that this scheme delivers significant liberalization. The dotted lines in Figure 1 illustrate the implications of the proposal for Egypt, a country in the middle of the distribution of both size and wealth. This scheme would require Egypt, after a negotiated implementation period, to provide free market access to more than fifty developing countries to its south-west in Figure 1 (with total market size of $500 billion). In return, it receives free market access to more than twenty developed and upper middle-income countries to its north-east in Figure 1 (with a total market size of $28 trillion).[11]

Figure 1: *WTO Member's GDP and GDP per capita* ($US in logs, correlation = 0.6)



[11] We include the European Union as one country, although it makes little difference to the market size numbers.

As with existing preferential schemes, the effect of this scheme is, to some extent, limited by rules of origin. Any meaningful scheme would, of course, have to "aggregate" rules of origin; that is, in assessing whether a good should be treated as coming from a least developed country, all of the value added from least developed countries would be aggregated. It is not the intention of this note to describe various policy options for specific rules of origin regulations, but it is worth noting that this scheme would significantly reduce the incidence of rules of origin on LDCs since many of the middle income countries from which they might import intermediate inputs would also receive preferential access to some of the rich countries to which these goods are exported. Thus, while not eliminating the problem of rules of origin, this scheme does reduce its effect in practice.

II. IT IS LIKELY TO ENCOURAGE SOUTH-SOUTH LIBERALIZATION

Another advantage of this proposal is that it takes South-South liberalization seriously. Many existing types of SDT (including several proposed changes) do little to promote South-South trade – the liberalization of which may bring large gains to developing countries. Indeed, most Doha Round estimates indicate that the scope for welfare gains for developing countries is larger from the liberalization by other developing countries than from liberalization by developed countries.[12]

South-South liberalization has progressed slowly. Attempts at preferential market access agreements have been made outside the WTO under the auspices of the Global System of Trade Preferences (GSTP) among Developing Countries.[13] Unfortunately, the GSTP is based on reciprocity, which is one reason for the low participation of least developed countries among its members, and it has struggled to make significant progress.[14]

Bilateral and regional Free Trade Agreements (FTAs) between developing countries are increasing in number, but it should not be assumed that South-South FTAs are agreements between equals. Thus, there may still be a strong case for introducing a development dimension into South-South agreements. There are schemes being considered by some larger developing countries, including India, China, and Brazil,

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[12] J. Francois, H. van Meijl, and F. van Tongeren, "Trade Liberalization in the Doha Round" (Erasmus University, mimeo, 2004). But see J. Stiglitz and A. Charlton, "A Development-Friendly Prioritization of Doha Round Proposals" (2005) 28(3) *World Economy* 293, for a discussion of some of the limitations of these studies.

[13] The GSTP, established in 1988 and promoted by the UNCTAD, provides trade preferences to developing countries without extending them to developed countries.

[14] The two previous GSTP rounds, in the past two decades, were not as successful as expected, due to the economic situation of the poorest developing countries and the poor negotiating capacity of member States.

which would give special access to the least developed countries. While additional market access is welcome, these schemes, like the existing GSP schemes operated by the advanced industrial countries, would be a patchwork of discretionary and conditional promises, rather than clear legal rights enforceable within the WTO.

Within the WTO, developing countries have often been urged to reduce their MFN tariffs by claiming that it would lead to an increase in South-South trade. But many developing countries are reluctant to do so: while they might be receptive to opening their markets to other developing countries, they worry about a surge of imports from the advanced industrial countries. Our proposed scheme recognizes that, for this purpose, liberalization need not occur on an MFN basis.

III. OBLIGATIONS ARE DISTRIBUTED PROGRESSIVELY

The scheme is progressive in the sense that it requires significant South-South liberalization from middle income countries and very little from the poorest and most vulnerable countries. It requires the most liberalization from the countries in the North-East of Figure 1 (in particular, the Quad countries) and less of those in the South-West of the Figure 1 (mostly African LDCs). Under this scheme, all but the very poorest countries do *not* get the "Round for Free" since all countries accept the obligation to provide market access to other Members that are smaller and poorer than they are. In return, the developing countries receive considerably more market access, under well-defined commitments, than under existing preferential schemes, which are discretionary schemes operated by industrialized countries that are not subject to detailed WTO regulation governing their implementation (and in which developed countries often impose implicit or explicit political or trade conditionality).[15]

Figure 2 plots the ratio of market access rights to market access obligations under the proposed scheme for developing country WTO Members against their GDP per capita.[16] The vertical axis is the ratio of the sum of the size of all the (bigger and richer) markets to which the country will have free access to the sum of the size of all the (poorer and smaller) markets to which the country will be obliged to give free market access. The ratio of rights to obligations is progressive in the sense that the poorest

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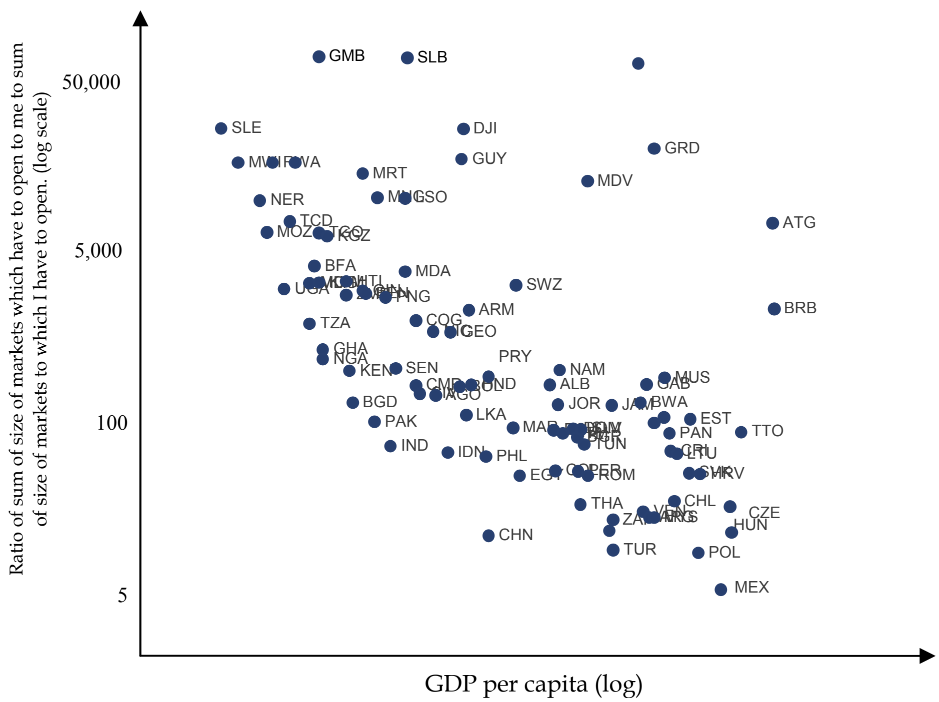
[15] For instance, before developing countries were forced to have strong intellectual property protection for pharmaceuticals, the United States would threaten the loss or suspension of preferences unless stronger intellectual property protection was granted. The African Growth and Opportunities Act, under which the United States grants preferential access to its market, has explicit political conditionality.

[16] Figure 2 describes free market-access rights and obligations after the implementation of this scheme, rather than the change in rights and obligations. That is, it includes preferential access under existing schemes, as well as new access.

countries get free access to huge new markets while being obligated to give free access to much smaller markets.

As Figure 2 indicates, all developing countries benefit from the scheme. Even the largest and richest developing countries[17] receive free access to markets whose total size is more than seven times the size of the markets to which they must give free access. The median ratio of market access rights to obligations under this scheme is 303; that is, the median developing country receives access to markets 303 times the size of the markets to which it must *give* free access. Alternatively, measured by imports, the median developing country receives free market access to countries whose total imports are 113 times the size of the imports of the countries to which it is required to give access.

Figure 2: *A progressive distribution of rights and obligations*
(Ratio of new market access rights to obligations for developing countries)



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[17] We define developing countries as those which have a GDP per capita in 2003 below $10,000.

IV. COUNTRIES CAN MANAGE MAJOR IMPORT THREATS

The proposal imposes no extra obligation on developing countries to open their markets to larger or more developed economies. This gives developing countries the *option* to provide their key industries with some protection from imports from economies with cost advantages derived from either scale advantages (for example, larger countries, particularly China), or technological advantages (more developed countries).

Developing countries may also desire at least temporary protection because of the large adjustment costs, which could be particularly severe in developing countries characterized by high unemployment, weak risk markets, and low social insurance.

This protection may form part of an industrial strategy based on 'infant industry' or infant economy protection.[18]

Whether it is wise for developing countries to pursue such protectionist strategies is, of course, another matter, but if it is not, they bear the costs. Their impact on global markets is so small that the costs to the global economy of such protectionism are minimal. What should be clear is that the evidence is ambiguous: there is no certain recipe for success. Many of today's successful economies developed behind protectionist barriers. [19]

This proposal provides integration by giving all developing countries significantly increased access to larger and richer markets, while providing the option of protection from imports from countries which are at later stages of development or have scale advantages.

V. THE PROPOSAL IS CONSISTENT WITH OTHER MFN LIBERALIZATION SCHEMES

It is important to point out that this proposal is not anti-openness and may actually lead to more liberalization. It does not involve any increases in existing MFN rates. Each country would continue to uniformly apply

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18 Although this might not be particularly desirable from a theoretical point of view (and indeed seems unlikely) since infant industry policies have often been ineffective (see R.E. Baldwin, "The Case against Infant-Industry Tariff Protection" (1969) 77(3) *Journal of Political Economy* 295) and inferior to alternative forms of industry assistance (see N. McCulloch, L.A. Winters, and X. Cirera, *Trade Liberalization and Poverty: A Handbook* (Centre for Economic Policy Research, 2002)).

19 As Hoekman et al. point out, protectionism can be self-defeating for developing countries in a world where multinational corporations have made production increasingly fragmented internationally. B. Hoekman, C. Michalopoulos, and L.A. Winters, "Special and Differential Treatment for Developing Countries: Towards a New Approach in the WTO" (World Bank, mimeo, 2003). For many developing countries, "the only option to reach the minimum scale required for sustained growth in output is integration with the rest of the world." Keck and Low, "SDT in the WTO", at 17.

MFN rates to larger and more developed countries. And indeed, this proposal is squarely in the realm of SDT.

There is still a role for the WTO to negotiate MFN tariffs. That is, this proposal complements other proposed modalities for MFN tariff reduction, rather than replacing them. And because developing countries would not have to provide access to developed countries on the negotiated MFN terms, they are less likely to block agreements, which would effectively be between developed countries. (We noted earlier that because developing countries would not have to grant access to developed countries on the same terms that they grant access to those at comparable stages of development, it might also facilitate liberalization among middle income and low income countries. The risk of adverse effects has been heightened by the *single undertaking*, in which countries are not allowed to carve out for themselves exceptions of their own choosing.)

One concern with the proposal is that it may affect the bargaining positions of developing countries in future rounds. One of the unfortunate side effects of existing preferential schemes is that they create an inbuilt incentive for developing countries to block MFN liberalization which would erode their preference margins. But this problem is much less severe for this scheme than it has been for existing preference schemes because it is far less distortionary: large rich countries do not give LDCs preferences that they do not also give to middle income countries. Thus, MFN liberalization by developed countries does not cause LDCs to lose out relative to middle income countries.

VI. IT TRANSFORMS DISCRETIONARY PREFERENTIAL SCHEMES INTO WELL-DEFINED OBLIGATIONS WITHIN THE WTO

One of the main advantages of this proposal over existing types of SDT is that it delivers clearly defined and legally binding rights to developing countries in a way that existing preferences do not. Many of these existing preference schemes were originally spawned by Part IV of the GATT, which includes provisions on preferential treatment for developing countries. This exception was further expanded in 1979 in the decision which has come to be known as the "Enabling Clause."[20] This consolidated the concept of "differential and more-favorable treatment" for developing countries as well as the principle of non-reciprocity in trade negotiations.[21]

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[20] GATT 1979 Decision on Differential and More Favourable Treatment, Reciprocity and Fuller Participation of Developing Countries.

[21] The most significant provision of the Enabling Clause is that which enables Members to accord differential and more favorable treatment to developing countries as a departure from the MFN Clause. It stipulates that "contracting parties may accord differential and more favorable treatment to developing countries, without according such treatment to other contracting parties."

However, the problem with this (potentially) wide-ranging clause is that it has never placed any formal obligations on developed countries. Instead, piecemeal preferential deals have been established which cover a limited range of goods from a limited group of countries. These preferences, the most important of which are offered by the "Quad countries" (Canada, the European Communities, Japan, and the United States), often divert trade from other poor countries.

Another problem with preferential schemes is their uncertainty. Existing preferences have become merely "legally unenforceable statements of intent or best-endeavor undertakings."[22] Preferences are not binding on the countries which grant them and can be altered to exclude certain products or withdrawn entirely at the discretion of the preference provider. For example, in 1992 the United States withdrew $60 million worth of pharmaceutical imports from their preference scheme because the US Trade Representative determined that India had weak patent protection which adversely affected US companies.

With so much uncertainty, investments required to take advantage of the new opportunities may not be forthcoming, and neither will the originally hoped for benefits from preferential treatment.[23]

Moreover, without binding obligations, preference providers have faced pressure from their own import-competing domestic lobbies to minimize the scope of their preferential schemes. As the Sutherland Report[24] notes, it is "grantor, rather than grantee, country interests [which] have determined the product coverage and the preference margins in GSP schemes."

VII. BALANCES SIMPLICITY AGAINST THE NEED TO DIFFERENTIATE

The idea that SDT should be provided to countries based on objective access criteria has been previously addressed by Stevens. Stevens' proposal suggests that a new SDT regime involve "greater differentiation of treatment between WTO members which, in turn, implies the establishment of objective criteria on which to determine the differentiation."[25] For example, he suggests that access to some types of

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22 Keck and Low, "SDT in the WTO", at 29.

23 Keck and Low argue that SDT should enshrine "legal rights and obligations," which current preferential arrangements clearly do not. Ibid.

24 Report by the Consultative Board to the Director-General Supachai Panitchpakdi, *The Future of the WTO: Addressing Institutional Challenges in the New Millennium* (WTO, 2004), at 25. This Report, available at <http://www.wto.org/english/thewto_e/10anniv_e/future_wto_e.htm>, is often referred to as the "Sutherland Report."

25 C. Stevens, "Extending Special and Differential Treatment (SDT) in Agriculture for Developing Countries", Paper presented at the FAO Roundtable on Special and Differential Treatment in the Context of the WTO Negotiations on Agriculture (Geneva,

SDT in agriculture should be based on measurable criteria relating to food security. Countries could qualify for SDT if they have per capita calorie intake of less than a certain level (indicating vulnerability to food insecurity), a high share of agriculture in GDP (indicating the importance of agriculture in livelihoods), and a high share of food imports to GDP (indicating import dependency). Stevens' approach involves setting objective criteria on an agreement-by-agreement basis. Thus, SDT would be available to countries which met objective preconditions indicating their need for exception and/or assistance. The appeal of this approach is that it closely matches the needs of specific countries to SDT in different provisions. In addition, it provides more certainty to developing countries since, once the conditions are predetermined, eligibility would be automatic rather than at the discretion of other Members.

The disadvantage of this approach is that it would add to the complexity of trade negotiations and greatly increase transactions costs. SDT are already overly complicated in many areas. Hudec refers to preferences as systems of "refined complexity," determined by an "orgy of fine-tuning."[26] The process of tailoring objective criteria for SDT in each agreement requires countries to agree on measurable criteria and agree on eligibility cutoffs. As Stevens himself notes, "The whole process is likely to be fraught with political difficulty."[27] It is likely that neither the international consensus on these issues nor the necessary negotiating capacity currently exists to operate such an ambitious and resource-intensive SDT system.

By contrast, our proposal is simple to negotiate. It would entirely do away with the whole "spaghetti bowl" of preferences.

Moreover, it includes an inbuilt flexibility that removes the need for renegotiation over time. As countries develop and overtake others, they will, after an implementation period, lose some preferential rights and accept obligations to poorer countries. Alternatively, the scheme could be designed to include a "one-way" provision so that free trade would be monotonically increased in a dynamic world where rankings change.

VIII. CONCLUSION

The principle underlying this proposal is that all countries should participate in an enforceable system of preferential market access in which rights and obligations are distributed progressively according to objective criteria. The proposal presented in this chapter represents one simple

2002), at 1. See also C. Stevens, "The Future of Special and Differential Treatment (SDT) for Developing Countries in the WTO", IDS Working Paper No. 163 (Brighton, 2002).

[26] Robert E. Hudec, *Developing Countries in the GATT Legal System* (Trade Policy Research Centre, Thames Essays, 1987), at 210–211.

[27] C. Stevens, "An Analytical Framework for Further Research" (2003) 34(2) *IDS Bulletin* 90.

means of implementing this principle. Additional provisions for specific sectors, alternative dimensions to differentiate between countries, implementation periods, and various other complexities are left out of this chapter's exposition.

It is worth noting three further considerations:

First, one possible objection to this kind of proposal is that it demands much from the richest and largest countries and seems to offer them little in return. Still, this proposal would require significant liberalization by the large developed countries, particularly towards middle income countries. This makes sense from the point of view of both social justice and the perspective that unilateral liberalization is a good thing for countries which have mature industries and which have effective social safety nets in place. (Accordingly, it is argued, the proposal is politically unrealistic.)

We believe, however, there are several good reasons to be optimistic. There is significant support within the developed countries for free trade.[28] Europe has already adopted the principle of non-reciprocity in its Everything but Arms initiative. This simply extends that initiative and makes it binding. Moreover, the advanced industrial countries have recognized that poverty in the third world is one of the most important challenges facing the world today; they have committed to providing 0.7% of their GDP to assisting the poorest countries. If they are willing to give so much money, it makes sense for them to be willing to give developing countries more economic opportunity, which could have even greater benefits. Money without market access may mean little. (Indeed, as we have repeatedly noted, the advanced industrial countries as a whole benefit from this unilateral liberalization; it is only special interests within these countries which lose.) Moreover, there is a growing global social justice movement within many of the advanced industrial countries, which has been an important constituency for a *fairer* global trade regime; our proposal has already drawn interest on the part of many seeking to achieve such a regime.

Secondly, countries would still have access to safeguard measures to protect themselves from damaging import surges. While it may appear that this kind of proposal is more onerous on the United States, the European Union, and other developed countries than it is on poorer countries, it is important to remember that, for most products, rich countries already have very low tariffs. Going to zero tariffs is much less onerous for them than it is for the middle income and poor countries whose tariffs are much higher. While this proposal requires that richer countries provide free market access to more countries, the reduction in tariffs will be smaller for them since they have lower tariffs to begin with.

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[28] See, for example, the US National Foreign Trade Council's Zero Tariff Proposal.

Finally, those in developed countries who want to advance liberalization have come to realize that the current system, based on reciprocity, has reached an impasse. Even if something is agreed to as part of the Doha Round, ambitions have been so lowered that it may be of little interest to those export interests who originally hoped for – and pushed for – another round after the Uruguay Round. As we have argued, our proposal may allow for much more liberalization among the advanced industrial countries than is feasible under current approaches.

There is, moreover, (in both the developing and developed countries) considerable dissatisfaction with the treatment given by the WTO to its poorest Members. The development of an appropriate framework which maintains the "rules-based" trading system, but differentiates between rich and poor countries, is one of the most important issues facing the Doha Round.[29]

The greatest hope for this type of proposal comes from the lack of satisfactory alternatives within the Doha Round. Unless any proposed agreement to conclude the Round provides both significant liberalization and significant benefits for developing countries, it will diminish the credibility of the WTO and risk being rejected by developing country Members. An SDT and market access proposal of the type presented in this chapter would deliver on the development promise made at Doha and involve significant liberalization. It could be traded for concessions by developing countries in services, non-tariff barriers, and trade facilitation, and could lead to an agreement which successfully concludes the Round.

Developing countries have been understandably reluctant to commit to large reductions in their tariff levels. They are concerned that open borders will lead to a flood of cheap imports from more efficient producers, which could destroy their fledgling industries before they have a chance to develop. Because they are already characterized by high unemployment and weak private and social insurance, many developing countries believe that the adjustment costs from significant MFN tariff reductions are too large to be seriously considered. They believe, moreover, that the developed countries reneged on the "grand bargain" that they had made in the Uruguay Round, the promise of substantial reductions in agricultural subsidies and increases in market access for agricultural commodities. They are still waiting for the developed countries to make good on these earlier promises. Under these

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[29] For recent discussions on SDT, see B. Hoekman, "Operationalizing the Concept of Policy Space in the WTO", World Bank Policy Brief No. 4 (July 2004); Keck and Low, "SDT in the WTO"; Stevens, "The Future of SDT"; S. Page and P. Kleen, "Special and Differential Treatment of Developing Countries in the World Trade Organization", Overseas Development Institute, Paper prepared for the Ministry of Foreign Affairs (Sweden, 2004); and S. Prowse, "The Role of International and National Agencies in Trade-related Capacity Building" (2002) 25(9) *The World Economy* 1235.

circumstances, it is not surprising that developing countries have not offered large reductions in border protection in WTO negotiations.

The proposal in this chapter distributes new market access progressively, ensuring that the largest gains accrue to the smallest and poorest countries, and it distributes liberalization obligations progressively, requiring that the largest and richest countries liberalize most. (There are many other issues associated with tariff reduction in poor countries, including adjustment costs and declining revenue to governments. These issues, and their implications for the need for technical and development assistance to poor countries, are not discussed here.) The advantage of the market access proposal outlined in this chapter is that it provides significant liberalization, does not demand reciprocity from poor nations to richer ones, and places simple and well-defined obligations on both rich and poor countries alike. It even holds out the chance for more meaningful negotiated reductions, both among the advanced industrial countries in trading with each other and among middle income countries.