

## **Designing North South Trade Agreements to Promote Economic Development\***

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## **Introduction**

The traditional motivation for reciprocal preferential trade agreements (PTAs) is mercantilist, although in some cases the objective has been deep integration of markets (the EU of course being the foremost example). More recently, a motivation underpinning the continuing expansion of PTAs—both reciprocal and non-reciprocal—is that this can help achieve economic development. This paper explores what might be done in order to make PTAs a more effective instrument to support economic development. A basic premise is that if the objective shifts from market access to development, the modus operandi of negotiating and implementing trade agreements will have to change. One reason for this is that many of the poorest countries may not benefit much from a traditional trade agreement—they already have good access to the major markets due to non-reciprocal preference schemes, while confronting potential welfare losses if they pursue preferential liberalization in favor of only PTA partners. Another reason is that the priority needs in many poor developing countries are not trade policy-related but revolve around bolstering trade capacity, improving the investment climate and maintaining a competitive real exchange rate.

The plan of the paper is as follows. In Section 1 reviews recent trade developments and the trade-related reform agenda that confronts developing countries. Section 2 discusses some of the rationales for and challenges of North-South PTAs from a development perspective, and the evolving status quo. Section 3 presents some proposals for moving forward *assuming* the focus of North-South trade agreements is to promote development prospects. Given that preferential liberalization is an exercise in the second-best from a global welfare perspective, proposals are developed to encourage the pursuit of non-discriminatory liberalization, as well as a much more targeted focus on the key constraints that prevent developing countries from benefiting more from trade opportunities. Section 4 assesses current approaches towards PTAs with developing countries pursued by the EU in light of these proposals. The intention is not to be comprehensive or to single out the EU—a similar discussion could be applied to recent US PTAs. However, the EU has been in the forefront in seeking to use PTAs as an instrument to promote development. Section 5 concludes.

## 1. Recent Trade Developments and Policy Reform Priorities

The past two decades saw a boom in world trade. Growth in non-oil exports from developing countries outpaced those from industrial countries (table 1), and their market share rose from 21 percent in 1980 to 37 percent in 2003 (table 2). Developing countries' share of manufacturing trade rose even more sharply. In the 1990s alone, the share of developing countries in global trade rose by more than 7 percentage points. For all regions, manufactures rose from less than 30 percent of export earnings on average to more than 70 percent, with almost all regions increasing the technological content of their exports. Services trade has also expanded significantly for many developing countries, especially those in East and South Asia.<sup>1</sup> On average, the absolute value of service exports increased fourfold between 1980 and 2002 for these regions, as compared to a factor of only two for OECD countries.

Country group	1991-95	1996-2000	2001-03
<b>Exports</b>			
World	8.7	4.8	5.8
Developing countries	12.2	7.7	7.4
Least developed countries	3.8	10.1	8.4
African least developed countries	0.1	7.3	10.2
Low-income countries	8.7	9.6	8.1
African low-income countries	2.8	12.6	4.2
<b>Imports</b>			
World	8.1	5.2	6.0
Developing countries	13.3	5.3	8.1
Least developed countries	5.8	3.3	12.0
African least developed countries	3.1	1.9	13.3
Low-income countries	9.2	4.4	12.8
African low-income countries	5.2	0.9	16.1

Source: World Bank and IMF (2005).

These increases reflect the growing openness of developing countries to trade and the competitiveness of their exports in global markets. This is not just a trade phenomenon.

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<sup>1</sup> The share of services in total trade has grown most rapidly in formerly centrally planned economies in Europe and Central Asia, rising from 1.4 to 7 percent of GDP between 1990 and 2002. In large part this is a reflection of the transition to a market economy and the proximity of many of these countries to Western Europe, providing an extra stimulus to trade in transport and travel (tourism) services.

Foreign direct investment (FDI) has expanded enormously in the last two decades. About 40 percent of total FDI flows since 1990 have gone to developing countries, a cumulative flow of some US\$2,000 billion (\$2 trillion). The increase in FDI is a major factor underlying the change in the volume and composition of trade. More and more, flows of trade have come to comprise intermediates—products that are shipped abroad for further processing in locations where this can be done most advantageously—exchanged between affiliates or joint ventures of multinational enterprises. Parts and components as a share of total exports of manufactures more than doubled between 1990 and 2002 for all low-income countries, rising from 2.9 to 7.7 percent. For middle-income economies the share in 2002 was 18.3 percent, up from 11.9 percent in 1990 (Hoekman and Winters, 2005).

<b>Country group</b>	<b>1975</b>	<b>1980</b>	<b>1990</b>	<b>1995</b>	<b>2000</b>	<b>2003</b>
Industrial countries	80.3	78.9	76.5	70.6	65.1	62.6
Developing countries	19.7	21.1	23.5	29.4	34.9	37.4
Least developed countries	0.8	0.6	0.6	0.4	0.5	0.6
African least developed countries	0.6	0.4	0.4	0.2	0.3	0.3
Low-income countries	3.1	1.7	2.0	1.9	2.3	2.5
African low-income countries	2.1	0.8	1.0	0.7	0.9	0.9

Source: World Bank and IMF (2005).

There are important differences between developing countries in terms of both the growth in trade and its pattern and structure. Agricultural trade remains of great importance for Latin America and Sub-Saharan Africa, accounting for 25 percent or more of total exports. One consequence is that countries in these regions are subject to greater commodity price (terms of trade) volatility. The poorest countries generally did less well than middle-income economies in the 1990s, partly because of the dependence of their foreign exchange earnings on agricultural commodities helping to explain why Sub-Saharan Africa's share of world trade remains far below what prevailed in the 1970s (table 2). Africa is the least diversified region in the world today. The concentration index of its exports was 0.47 in 2001, similar to that of the Middle East and North Africa, a region heavily dependent on oil exports. This is almost double the figure for Asian

countries. Indeed, the concentration ratio increased in the 1990s, rising from 0.39 in 1990.<sup>2</sup>

Evidence by Imbs and Wacziarg (2003) suggests that countries at early stages of development experience a positive relationship between export (production) diversification and growth. The foregoing (very) brief overview of trade developments suggests that the main focus from a development perspective should be to identify what actions could be taken to support such diversification. Existing programs that center on trade—especially non-reciprocal preferential access to OECD markets—have not been very effective.<sup>3</sup> Major reasons for this include problems on the supply side of the market, civil conflicts, macroeconomic policies that resulted in overvalued currencies, governance problems, corruption, and institutional weaknesses that inhibit local entrepreneurs from taking advantage of market opportunities. The question then is to identify what the reform priorities are and what PTAs could do help achieve progress on such issues.

### ***Reform Priorities: What Matters Most?***

Because average tariff barriers in developing countries are higher than in industrialized ones, much of the potential welfare gains from reducing trade barriers (discrimination against foreign goods and services) will arise from own reforms.<sup>4</sup> Reasons why a country imposes trade barriers in the first place are numerous and include infant industry protection, unemployment prevention, balance of payments maintenance, and fiscal revenue objectives. All of these are “second-best” in most circumstances in that a lower-cost domestic policy instrument can in principle be identified to satisfy the objective at lower social cost. The persistence of trade policies can be explained by political economy reasons. Even though the aggregate income and wealth of a nation may be expected to grow when trade distortions are reduced, not everyone will gain. Owners of previously protected inefficient firms will lose, as may their workers, especially if there are doubts regarding the creation of new employment opportunities. Social insurance and adjustment

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<sup>2</sup> The measure of concentration reported here is the Herfindahl-Hirschmann index (the sum of squared shares), normalized to range between 0 and 1.

<sup>3</sup> There is an extensive literature on the effect of preferences. Hoekman and Ozden (2005) provide a recent survey of both the old and more recent literature.

<sup>4</sup> What follows draws in part on Hoekman and Winters (2005).

assistance mechanisms may not exist or be weak. These realities make complementary reforms to increase the likelihood of realizing the benefits from trade reforms important.

The list of beneficial concomitant reforms can be long and rather formidable. This does not necessarily imply there are difficult trade-offs to be made, however—most of the policies are essentially “additive” to trade liberalization in the sense that they do not give rise to trade offs.<sup>5</sup> Adjustment costs may be lower if adjustment can be spread over a period of time, as long there is credibility that reform will actually occur. Without credible commitment to a clearly defined and commonly known final goal, investments and adjustments may look undesirable and there may be a diversion of effort into lobbying. Trade agreements can play an important role in this connection.

Failure to choose and maintain a realistic real exchange rate has been one of the main causes of the failure of trade liberalizations in developing countries (World Bank, 2001). Another is a failure to address the fiscal consequences of tariff revenue losses. These are far from inevitable, especially if non-tariff barriers are converted into tariffs, exemptions are reduced and collections improved, but they can pose a problem for poorer countries in which trade taxes account for large proportions of total revenue. Time may be required to develop alternative sources of revenue. However, experience suggests that moving towards a more uniform tariff structure and a concomitant elimination of exemptions may increase revenue collection, providing the space to develop alternative tax bases before undertaking more far-reaching liberalization.

A major area in which administrative constraints bind is with respect to institutional reforms. Given the importance of building up their legitimacy and ownership among the population, they require not only significant “technical” set-up time, but also a good deal of “political” time. Getting institutions right the first time is very difficult if not impossible: they require continuing monitoring and adjustment. If there are often advantages to proceeding on a broad front in order to maintain some semblance of

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<sup>5</sup> Of course, this is not always true. One trade-off between trade liberalization and other objectives can arise in the short run if too large a shock would lead to the complete collapse of a market. For example, local labor markets can seize up in the face of large-scale redundancies because workers cease to leave their jobs speculatively for fear of not finding another. This is essentially a matter of timing – perhaps of staggering the trade liberalization (as is very common in practice), or ensuring that it is not accompanied with a negative macro shock.

fairness, institutional reforms are likely to require a long time and considerable administrative skill to achieve.

Governments have to build up support for their policies. Powerful interests will need to be assuaged, unless reforms are implemented in the context of major economic crises.<sup>6</sup> Such compensation through the careful design of complementary policies is not just a matter of sordid logrolling. Although any single efficiency-enhancing reform will hurt someone, if enough of them are packaged together, negative effects will be netted out and many more people and interests will obtain a net gain. This is one of the major reasons for proceeding on a broad front. Of great importance is to ensure that potential beneficiaries from trade-related reforms have the capacity to actually exploit new trade opportunities. This requires attention for the business environment and transactions costs, measures to enhance the productivity of firms and farms, ensuring they are linked to markets and have access to finance, etc. Specific areas for attention may include:

- *Infrastructure support.* Farmers need to be able to reach major market centers at reasonable cost; firms need access to a reliable and efficient power supply; etc. In poor countries transportation (logistics) and transactions costs are often a multiple of any tariffs exporters confront. This helps explain the more limited participation of poor countries in the process of international specialization noted previously.
- *Credit markets.* Access to finance is a critical input, both in terms of new start-ups and expansion of existing plants. For example, achieving minimum consignment size might entail hiring draught power or seasonal labor, but this is not possible without credit.
- *Labor markets and mobility.* The primary vehicle for spreading the benefits of increasing labor demand widely is labor mobility. If markets are segmented and/or distorted, benefits will be reduced.
- *Establishing new businesses.* Cumbersome regulations for establishing new firms, constraints on access inputs (e.g., utilities), restrictions on physical expansion or labor recruitment and separation, can curtail the willingness of entrepreneurs to start or expand operations.

The benefits of trade liberalization depend in part on other policies and institutions being supportive. Openness can help induce improvements in these dimensions by making them more “visible” and creating incentives to fix the problems. However, additional investments and reforms will be required to address many of the

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<sup>6</sup> In many countries import-competing firms were compensated for trade reform by depreciation and other reforms that reduced their input costs—e.g., measures to improve the efficiency of service providers.

constraints. As discussed below, development assistance and mechanisms for monitoring impacts can help ensure reforms are pursued in an effective manner. Trade agreements can help by providing focal points, but a precondition is that policies and assistance (investments) are directed towards national priorities.

## **2. Trade Liberalization Strategies: What Role for Regionalism**

For governments that have decided to pursue opening of the economy the practical issue is how to pursue trade liberalization. Starting in the 1960s a number of countries were highly successful in increasing incomes and reducing poverty. Notable examples include Singapore, Hong Kong, Taiwan (China), Korea, Chile and, more recently Mauritius. All of these countries dramatically increased their exports (and trade to GDP ratio), but pursued considerably different “models” of trade policy reform. The success stories may be grouped into four broad categories:

- **Economy-wide trade liberalization.** Some countries have pursued very liberal MFN trade regimes, avoiding non-tariff barriers and either adopting free trade (Hong Kong and Singapore) or low non-negotiable uniform tariffs (Chile and Estonia pre-EU accession).
- **Protection with offsetting policies for exporters.** Other countries reduced the incentives created by protection to produce for the domestic market by elaborate systems that offset the bias against exports, including complex duty drawback systems. Korea, Taiwan (China) and Japan (in the early stages) are examples.
- **Protection with export processing zones.** Here protection is combined by offering exporters located in specific zones tariff free access to intermediate inputs, better infrastructure and fewer regulatory requirements. The limited geographical scope of the zones makes them easier to manage for countries with weak governance than the “Asian” economy-wide model. Few have succeeded in stimulating exports substantially through this model. Mauritius is an exception, where zones generated some two-thirds of gross exports and employed one-sixth of the work force.
- **Regional integration.** An increasing number of countries are using a strategy of acceding to a preferential trade agreement (PTA) to provide a focal point or blueprint for reforms, a mechanism to increase market size and enhance the contestability of markets, and to overcome political economy resistance to reforms.

The first three approaches are all unilateral. Trade liberalization by other countries is clearly desirable, however, and trade negotiations are the time honored mechanism to seek such liberalization. In South-South agreements the focus is increasingly on expanding the size of the market by abolishing not only trade barriers but also internal



constraints on intra-regional trade and investment.<sup>7</sup> Given large asymmetries in economic power (market sizes), the challenge for small and poor countries in North-South agreements is to ensure that any negotiated outcome is in their interest. Such countries have very little scope to use their trade policies as an instrument to induce other countries to open up their markets. There are two implications. First, unilateral reforms imply little costs to developing countries in mercantilist terms—large (potential) PTA partner countries simply will not be that interested, as their markets are too small. Second, and related, *quid pro quo* “payments” are likely to be requested in other, non-trade areas such as regulatory regimes, investment policy, etc. That then raises the issue of whether in the process governments lose access to potentially useful instruments to promote development.

The prevalence of complicated trade policies in many countries reflects both rent seeking and a belief on the part of governments in industrial policy. There is a long history of such efforts in many countries. This spans not just trade protection, but subsidies and direct government involvement in industry. While opinions differ, the weight of the evidence suggests that such policies are generally very costly, often prolong the adjustment period and distort competition. That said, subsidies can facilitate learning, technology acquisition, and dynamic comparative advantage where returns to such activities cannot be appropriated by private agents. Many commentators have argued that policy interventions, including implicit or explicit subsidies, lay behind the economic “miracles” in Korea and Taiwan (China). Their case is that carefully targeted subsidies allowed these governments to stimulate key sectors that became efficient in their own right and provided positive spillovers for the economy as a whole.

In considering this infant industry argument for government support, it is important to differentiate between sector-specific subsidies and policies aimed at facilitating learning and the development of private enterprise. The case for general policy supports for certain types of activity, including innovation, education, transport infrastructure and similar public goods is uncontroversial. The same is true for policies aimed to promote socially beneficial activities. Markets do fail and there may be good

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<sup>7</sup> See Schiff and Winters (2003) for a comprehensive review of rationales and evidence on both North-South and South-South PTAs.

rationales for governments to provide incentives for firms and agents to undertake activities that would otherwise be undersupplied (Rodrik, 2004). Specific interventions, however, will often get it wrong, in part as a result of rent seeking and in part as a result of general equilibrium effects (a subsidy for one activity implies a tax on all others). Monitoring and credible exit mechanisms are therefore important—trade agreements offer one vehicle to support such mechanisms.<sup>8</sup>

A challenge from a PTA perspective is to generate not only better access to partner markets but to improve “governance” in developing country partners by using the PTA as a vehicle to promote competition, reduce policy uncertainty and more generally improve the investment climate and business environment. As discussed further below, rather than be (too) prescriptive ex ante, there is a case for flexibility conditional on ex post monitoring of outcomes (accountability).

### *The Evolving PTA Status Quo*

The growth of reciprocal preferential trade agreements (PTAs) has been significant in recent years. Recent PTAs tend to be more open than earlier vintages, many of which were designed to implement import-substitution strategies at the regional level. They also increasingly involve North-South cooperation and extend to “behind the border” regulatory policies relating to investment, labor, environment or competition. Examples involving the US are bilateral agreements with Australia, Chile, Central America, Jordan and Morocco. Investment and competition policies are being discussed as part of the Economic Partnership Agreement negotiations between the EU and ACP countries and are on the agenda of its Association Agreements with non-ACP countries.<sup>9</sup>

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<sup>8</sup> In a recent comprehensive retrospective on the East Asian development experience, Noland and Pack (2003) argue that sector-specific policies did not result in high rates of total factor productivity growth for manufacturing. In the case of countries such as Korea and Taiwan, productivity growth was not much higher than in the OECD. They argue that the primary reason these countries developed rapidly has more to do with economy-wide policies in areas such as education and infrastructure than with industrial targeting or picking winners, not least because the government did not prove very effective at identifying these.

<sup>9</sup> BITs have been the primary vehicle for international cooperation in this area. BITs are in part designed to spur investment flows by providing recourse to international dispute resolution in event of conflict with governments. Although some PTAs explicitly do not include investment policy disciplines because of pre-existing BITs—e.g., the 2000 Canada-Costa Rica PTA (Gestrin, 2002)—most recent US PTAs have more ample rights and coverage, and generally subsume prior BITs.

Often the use of such policies may entail pecuniary spillovers on other countries, providing a rationale for cooperation—e.g., tax or other incentive programs to attract FDI. In many cases however the purported rationale is that disciplines will promote development. From a development perspective, the extension of PTAs to regulatory issues can be beneficial if improves policy credibility, thereby reducing risk premia and helping attract investment. There is a prima facie case that regional cooperation on regulatory issues may be beneficial. Partners may be more similar and have common legal or administrative systems. North–South PTAs also tend to be associated with transfers of finance and knowledge (technical assistance), potentially helping to reduce implementation and adjustment costs. High-income partners may also provide offers of assistance in the form of implicit ‘insurance’ as in the case of US financial intervention to assist Mexico during the ‘tequila crisis’.

In part the expansion of the negotiating agenda is driven by a need to mobilize additional political support for abolishing remaining trade distorting policies in areas such as agriculture. The Uruguay Round was premised on such a grand bargain, with developing countries accepting new disciplines in a variety of areas (TRIPS, services) in return for the elimination of the MFA, outlawing of VERs and inclusion of agriculture into the WTO. A similar dynamic is driving regionalism today. The regulatory standards that are written into trade agreements generally start from the status quo prevailing in OECD countries, so that the lion’s share of associated implementation costs—but presumably also the benefits—lies with developing country signatories. From a development perspective the acid test is whether proposed or negotiated rules in regulatory areas will deal with the business environment and the supply side priorities. Here proponents of deep integration in North-South agreements argue that binding disciplines in areas such as competition and investment policy is critical to integrate market, especially if the focus is on implementing a Southern PTA at the same time. This is discussed further below.

All this may help explain why recent PTAs involving countries that objected to the inclusion of issues such as investment and competition in the WTO, not to speak of more controversial subjects such as labor and environmental standards, may include disciplines in these areas at the regional level. Presumably the net balance is positive

otherwise countries would not sign. But deeper integration may not be beneficial to all signatories. From a development perspective the issue is not whether on net there are benefits, but maximize the potential payoffs by minimizing potential negative dimensions. There is potential cause for concern in particular with PTAs that involve offering partial access to large markets for goods in exchange for acceptance of rules that may do little if anything to increase the flow of investment to developing country partners. In the case of investor protection and dispute settlement provisions, the disciplines that are contained in some PTAs may be detrimental (Hoekman and Newfarmer, 2005). Using PTAs as a framework to reduce the frictional costs of trade by harmonising regulations and standards, increasing the credibility of reform initiatives or acting as vehicles for governments to test the waters of freer trade may be beneficial but is complex to realize.

Summing up, there is a clear trend for PTAs to go beyond trade in manufactures. Recent US PTAs include agriculture and movement on this front is also discernable in the EU—in the Euro-Med context there is a proposal to pursue reciprocal liberalization of trade in agricultural products. In the areas of services, investment and regulatory regimes—arguably areas where there is much to be gained by developing countries from policy reforms and liberalization—there are potential concerns insofar as these countries perceive proposed/actual disciplines not to be in their interest, but necessary to (continue to) obtain the benefit of preferential access to Northern markets. Clearly much depends on the coverage of agreements and in particular whether the regulatory disciplines for behind-the-border policies are appropriate in the sense that the benefits outweigh the costs of implementation. Much also depends on the extent to which merchandise trade is liberalized—including access to agricultural markets and the threat of contingent protection is removed—and services liberalization spans mode 4 (temporary movement of service providers).

### **3. Harnessing Regional Integration for Development**

To be most beneficial to developing country signatories, arguably PTAs should:

- remove foreign barriers to trade in products that they produce;
- lower domestic barriers that raise the prices of goods and services that firms and households consume;

- support the adoption of complementary measures and actions that allow the potential benefits of trade opportunities to be realized; and
- promote more general MFN-based liberalization (as this best serves *global* development prospects).

The first two of these objectives are the “bread and butter” of PTAs. Their realization is constrained by political economy forces. Small, poor countries have little to offer in mercantilist terms to induce large countries to remove policies that harm them. However, such access is important to mobilize political support in the developing country partner for domestic reforms. A problem is that nonreciprocal preference programs may imply exporters already have free access to the high-income market(s). Realization of the third objective may be impeded by the fact that the rules embedded (or proposed) in North-South PTAs will tend to reflect the status quo in the high-income countries. The specific disciplines may not be a priority for development—implying that even if financial and technical assistance is made available, it could constitute “diversion”—the resources would have had a higher return elsewhere. In the case of poor land-locked countries, South-South integration with neighboring countries can help reduce trade transactions costs and expand the effective size of markets—enhancing the potential attractiveness for investment. Note that this is only a subset of the policies that determine the attractiveness of the investment climate, which is mostly a domestic agenda. Moreover, the best way of addressing the nontariff policies that segment markets may not be to adopt the model that was developed in a Northern partner. Finally, the fourth objective (MFN) is of course *not* driving PTAs as these revolve around *discriminatory* access.

Thus, none of the four objectives is straightforward to achieve, explaining why many PTAs have partial coverage in market access terms and impose rules that may not be first best for developing country members. If PTAs are to do more to satisfy the four criteria suggested above, the modus operandi of designing and implementing them should give more weight to development (economic efficiency and equity) considerations. Movement in this direction could be pursued through three channels involving changes to existing WTO rules for North-South economic integration arrangements, the ‘modalities’ of cooperation in PTAs, and the provision of ‘aid for trade’ that focuses on developing

country priorities instead of narrow implementation of agreements. Concretely, three changes could make North-South PTAs more “development friendly”:

- Unconditional acceptance by all parties to a PTA of MFN liberalization of trade in goods *and* services by developing country signatories, and preferential removal of *all* barriers by OECD partner countries—in both case bound in an enforceable treaty instrument;
- Building mechanisms to pursue priority national regulatory policy objectives in developing country partners as opposed to harmonization on the standards of OECD countries, while maintaining the role of PTAs as a commitment device; and
- Strengthened grant-based financing mechanisms to improve trade supply capacity and increase the benefits of trade reforms for poor households, based on a local analysis of needs, with allocations determined by the country’s overall development strategy.

***Market access: Returning to the primacy of MFN liberalization***

PTAs are a major and steadily increasing source of discrimination in trade today. Lowering external levels of PTA protection so as to reduce the extent of discrimination against non-members – which will often be developing countries – would promote the global public good. A solution offered by “realists” has been to point to MFN liberalization through WTO negotiating rounds, based the fact that efforts to regulate PTAs through the WTO rule-making and enforcement process have been totally ineffective (Mavroidis, 2005). In principle, however, *if* development were to be taken more seriously as a goal, changing the WTO rules on regionalism could help make the PTA process more “development friendly.” Concretely, high-income countries would be required to liberalize in *all* sectors (and not just “substantially all”) on a preferential basis, with liberal and simple rules of origin.<sup>10</sup> Conversely, developing country signatories would reduce their tariffs and apply negotiated trade policy commitments *on an MFN basis*. This MFN liberalization would not imply a requirement to move to zero tariffs across the board—instead the goal would be a significant reduction in applied MFN tariffs by developing country partners, bound in the WTO. This would prevent trade diversion, reduce the administrative burden on customs authorities (as there is no need for rules of origin to be enforced on imports), help ensure that the PTA benefits all

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<sup>10</sup> While preferential liberalization by OECD members of PTAs is of course undesirable from a global welfare perspective, the solution to this is continued multilateral negotiations to remove trade-distorting policies on an MFN basis.

trading partners, not just members, and allow governments more time to put in place alternative sources of fiscal revenue.

Large Northern partners will not offer complete duty and quota free access to large developing countries without a quid pro quo. In principle, such a quid pro quo should be MFN reform as well—there is no reason to differentiate between developing countries. In effect, the MFN proposal implies emulating the type of asymmetric liberalization that has been the norm in the GATT/WTO, with the difference being that in the North-South PTA context the Northern countries “go all the way”—commit to free trade. Insofar as the North is not willing to do this for large developing countries, the WTO can and should be used as an instrument for reciprocal liberalization—the fact that the “full preference” rule might prevent PTAs from forming is of course not a problem from a global welfare perspective.

The “full Monty” rule for the North is consistent with the thrust of current WTO rules for regional agreements, except that it would go beyond the “substantially all trade” requirement to cover all trade. While a formal rule change to this effect would be desirable, as noted by many—see e.g., Mavroidis (2005)—Art. XXIV GATT and the Committee on Regional Trade Agreements are basically defunct. Absent effective enforcement of rules, seeking to change them is a largely irrelevant exercise. Thus, in practice full liberalization is an action that needs to be taken *unilaterally* by Northern countries. There is no need to change Art. XXIV to permit the implementation of this aspect of the proposal—what is needed is a serious commitment to take development seriously.<sup>11</sup> This is not the case for the suggestion that developing country partners commit to MFN liberalization. Both Art. XXIV and the Enabling Clause—which allows developing countries to liberalize less especially if it concerns South-South agreements—would be implicated by an “MFN rule.” In terms of Art. XXIV requirements, it may be easier to pursue a waiver for specific PTAs, as MFN-based reform implies that all WTO members stand to gain from the PTA. This leaves the inconsistency with the Enabling

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<sup>11</sup> This should not be difficult insofar as partners are small, poor countries. Both the US and the EU already give many of these countries duty-free access to markets.

Clause. Arguably the economics here are clear: pursuing a MFN strategy has much less potential for a welfare loss and can enhance benefits.<sup>12</sup>

The argument in favor of a MFN approach by developing country PTA members extends to services. While actual *additional* liberalization in the services area has not been great—with the exception of the EU, most PTAs have not gone much beyond the GATS—as noted previously, services and investment policies are very much on the PTA agenda.<sup>13</sup> Multilateral liberalization opens the market to the largest number of competitors and gives consumers maximum choice. It also leads to a less complex policy regime than a preferential arrangement, implying lower administration costs for the government and lower transactions costs for the private sector.

If the above market access “rule proposals” for PTAs are formalized in the WTO, this immediately gives rise to the question what to do about existing PTAs. In practice the revealed preference of members of these PTAs is clear: full liberalization is often not the objective, and MFN certainly not the goal. Seeking to change this status quo is unlikely to be fruitful. *De facto* therefore, existing PTAs will need to be grandfathered in the unlikely event that it proves possible to change the WTO rules. That said, there is no reason why existing agreements could not be reopened by a developing country government—assuming that development is indeed a major objective of the Northern partner.

***Policy flexibility with accountability: towards better economic governance***

The market access dimension of PTAs arguably should involve “hard law”: be binding and enforceable. As mentioned previously, a major element of the status quo is an increasing focus on harmonization and hard law (binding, enforceable commitments) for “behind the border” policies—services, investment, regulation. This may well be beneficial to signatories, but much depends on country circumstances. What are the preconditions for such commitments to be beneficial? Have they been satisfied? Do the

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<sup>12</sup> Insofar as a North South PTA has a South-South PTA as the partner (as opposed to only one developing country), arguably the latter partner PTA also should completely liberalize trade to ensure that there is indeed an integrated market being created. Rather than continue to use trade policies (including NTBs) as way of sheltering local firms from competition, other policies are needed to address market failures (coordination problems, public goods) and achieve equity objectives. Import substitution policies that rely on trade protection have been proven to be largely ineffective and costly.

<sup>13</sup> Fink and Mattoo (2002) note that in the case of telecommunications and financial services, the GATS has in fact achieved a higher level of bound liberalization than that on offer in most PTAs.



commitments remove access to policy instruments that are desirable or the only ones a government can feasibly employ to address a market failure? Given there is likely to be uncertainty with respect to these issues—and often differences in views between governments—an approach that allows for greater policy flexibility could do much to enhance the perceived benefits of engaging in PTA-based commitments.

A precondition for ownership of international agreements is that governments and stakeholders perceive the rules to benefit the economy overall. A more economically based mode of cooperation—as opposed to a focus on harmonization-cum-approximation of laws—could help enhance such ownership. From an economic development perspective, a mechanism to identify ‘good practices’ makes good sense, as often these will differ across countries. The focus would be on the provision of information and learning through regular interactions of relevant policymakers and constituents (stakeholders), peer review, and (multilateral) monitoring of the impacts of policies and their effectiveness in attaining stated objectives.<sup>14</sup> That is, rather than seek to “impose” existing norms applying in OECD countries as examples of “best practice”, cooperation would be geared towards assisting countries attain their objectives in an efficient manner. The specific content of regulation should reflect national (or local) circumstances. Thus, what may be most appropriate from an economic welfare (development) perspective is to create a framework for assisting governments to identify good policies, not a system that aims at harmonization.

An important corollary of such an approach must be accountability for performance and outcomes—generating information (based on analysis) whether the policies that are used are effective, what their costs and benefits are, etc. The fact that trade agreements are binding contracts—commitments are enforceable—gives them their value. Traders have greater certainty regarding policy, and governments know what they are “buying” when they make commitments. Any approach towards recognizing differential capacities and identifying regulatory options and priorities should minimize uncertainty for traders and investors. As noted above, binding, enforceable disciplines on the use of trade policy are likely to be beneficial for development. Although the case for trade policies to deal with specific government and market failures that may prevent a

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<sup>14</sup> See Abbott and Snidal, 2000; Chayes and Chayes, 1995; Helleiner, 2000; and Sabel & Reddy, 2002.

supply response to reforms from emerging is very weak (Pack and Saggi, 2005), what types of domestic policies might be most appropriate and effective may not be obvious, suggesting that experimentation and learning should be encouraged—see e.g., Rodriguez-Clare (2004) and Rodrik (2004).

PTAs can help by creating the institutional mechanisms to help identify what policies would be effective and efficient in attaining specific goals set by governments, and by increasing the transparency of policies and their effects (outcomes) through common (joint) monitoring and analysis. How might this be done? A first step is to identify the relevant policies via the equivalent of what is done at the WTO through the Trade Policy Review Mechanism, followed by an economic assessment of the rationale for—and effectiveness of—the relevant policies. An example of an institution that does the latter is the Productivity Commission in Australia. Assessing whether instruments are achieving development objectives and whether less trade distorting ones can be identified requires judgments regarding appropriate sequencing and the need for complementary reforms and investment. These judgments must be made by the concerned government but would benefit from by inputs from other PTA members.<sup>15</sup>

Even if one is not convinced by the upside of pursuing greater flexibility in PTAs on regulatory disciplines, the downside is arguably limited. At worst, the cost is that PTA members conclude after a number of years that the approach is not beneficial. However, this may be too complacent. A case can certainly be made that if the *raison d'être* of a trade agreement is the negotiation of binding commitments, policy dialogue discussions may do more harm than good by increasing uncertainty, redundancy (as this is also undertaken by the World Bank, IMF, etc.), and transactions costs. An alternative is to leave economic policy dialogue to international development and financial institutions. There is much to be said for this counter argument. However, it ignores the reality that PTAs are extending deeper ‘behind the border’. Moreover, with the exception of the

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<sup>15</sup> International financial institutions could be brought into this process as well in an advisory capacity. The involvement of the latter would be desirable for a number of reasons. First, they have the mandate, experience, local presence, and capacity to provide policy advice. Second, these organizations generally take the lead in development and financing of projects and programs in developing countries. There is already a fair amount of cooperation and coordination between some of the major actors and the international development community—especially by the EU. However, as discussed below, much more could be done in this area.

WTO, trade policy is not a consistent focus of the activities of international organizations. A major advantage of a PTA is that the focus is on trade and trade-related policies. Creating a focal point for a *constructive*, as opposed to adversarial, interaction between governments could do much to raise the domestic profile of the trade agenda in developing country PTA signatories. It would also increase information on the effects of existing policy instruments—a necessary condition for adopting better policies—and ensure that trade-related policy actions and investments are considered by decision makers when allocating resources to public expenditures.

All this can be characterized as an effort to improve “economic governance” in partner countries and in the process enhance the “ownership” of PTAs. Clearly the effectiveness of the implementation of the interactive mechanisms will be critical for their credibility. In the end, where governments (the partners jointly), deem a binding commitment in an area makes sense, doing this will increase the probability of enforcement. Insofar as cooperation remains of the soft law variety in specific areas, legal enforcement mechanisms are not available. Here accountability can only come from transparency, engagement and publicly disseminated analysis of actions and impacts. Oversight by parliaments and analytical assessments by institutes in the North—the Congressional Budget Office, US General Accounting Office, similar national institutions in the EU (e.g., CEPII in France; the Centraal Plan Bureau in the Netherlands, etc.), the Productivity Commission in Australia—could help inform development assistance programs. But strengthening the capacity to undertake such analysis in developing country partners is key.

Might such monitoring and interaction be better delegated to the WTO? While non-PTA members may have little immediate interest in the policies pursued by a specific developing country PTA member, the substantive coverage of PTAs will generally overlap to a great extent with the issues that are addressed by WTO agreements or may be in the future. There is a lot to be said for considering an expansion of the WTO TPRM to undertake a much more in depth analysis of impacts of policies pursued by PTA members and by customs unions (Hoekman, 2005). An additional reason for establishing such a mechanism at the WTO is that there will certainly be resource costs associated with consultations and impact assessments associated with any policy flexibility

mechanism. These may be significant for poor countries with a scarcity of skilled personnel. If undertaken multilaterally, much of the required work could be undertaken in the context of mechanisms such as the Integrated Framework for Trade-Related Technical Assistance (IF), reducing such costs.<sup>16</sup>

More regular interactions on trade policies would provide a framework for assisting governments to assess whether instruments are achieving stated objectives. If published and disseminated in the countries concerned, the results and findings of reports and discussions would also help to increase the public profile of trade-related policies. A more regular cooperative interaction on trade policies and constraints to trade integration could also help improve communication between the development and trade communities, as the analysis and discussions could help identify where development assistance could help countries to benefit from trade agreements.

#### ***Aid for Trade: Capacity building for competitiveness***

The third plank of a development-focused approach is expanded development assistance to help address supply capacity constraints in poor countries—the types of measures briefly discussed in section 2. This requires identifying needs, prioritizing them and providing funds to address them. Especially in small low-income countries that already have relatively free access to major markets using aid to address constraints that reduce their competitiveness can have high payoffs (and may be the primary source of benefit). A major lesson of experience with projects and programs in the trade area (and most others) is that country ownership and leadership at the highest levels are critical factors in ensuring concrete and sustained follow-up in removing constraints to trade expansion. The “flexibility mechanism” proposed above could help mobilize this by identifying where specific investments are likely to be needed, but will need to be complemented by a comprehensive “diagnostic” analysis of factors constraining supply responses and reducing competitiveness. Such diagnostics should feed into (inform) the process through which countries determine public investment allocations and policy reform priorities. In many low-income countries this process increasingly centers on Poverty Reduction Strategy Papers, which form the basis for the provision of donor assistance at the country

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<sup>16</sup> See Prowse (2002, 2005) for a discussion of the IF.

level. As discussed at greater length by Prowse (2002, 2005), trade-related funding should be allocated within the context of an overall country development program and an agreed macroeconomic policy framework. As a development tool stand-alone specific funds and associated mechanisms are less likely to be effective than integrating the prioritization and resource allocation process into national poverty reduction and development strategies.

Trade policy often will not be the most important policy area from a growth perspective—and it should be borne in mind that many low-income countries have taken actions to move away from nontariff barriers and to reduce the dispersion in tariffs. A fortiori, trade policies and institutions that are covered by PTAs may not be among the most important areas within the trade area where actions and investment are needed. As stressed previously, the primary determinants of success in harnessing trade openness to deliver growth are concomitant policies and institutions in developing countries themselves. Supply capacity is a necessary condition for exploiting market access opportunities, which will be determined by the prevailing investment climate and trade/business environment. Much of the associated policy agenda extends beyond trade policies and cannot be addressed through trade agreements narrowly conceived. Measures to facilitate trade are likely to be particularly important in many of the poorest countries—getting goods and services in and out of the country at low(er) cost. Given that many of the poorest countries are land-locked, cooperation with neighbors to reduce the costs of transit/transport and access to ports may well generate a particularly high payoff. In general, measures aimed at improving the investment climate are likely to dominate trade policy, as are macro-economic policies to ensure a realistic exchange rate and actions aimed at ensuring that markets exist and function.

The implication is that financial and technical resources made available by high-income countries to developing country PTA partners should be allocated on the basis of national priorities, and not tied to the narrow ambit of whatever is embodied in the PTA. As argued below, a corollary of this is that it would be desirable to integrate PTA-based resources into the emerging multilateral mechanisms to assist poor countries bolster their trade capacity.

#### 4. The Proposed Approach and the Evolving Status Quo

The need for policy flexibility and aid for trade will vary by country—priorities differ, capacity differs, and politics differ (what is feasible and to what extent there is a need to use trade agreements to pursue or lock-in reforms). Thus, differentiation is called for. In practice such differentiation is already applied in the PTA context. The “front runner” is the EU. Thus, the European Commission has stressed that development is an explicit objective underpinning its pursuit of PTAs with developing countries. A recent EU initiative is illustrative. Driven by the expansion of the EU in 2004, a new European Neighborhood Policy (ENP) was launched in 2004. The ENP has a three-fold goal: (i) to support the national development strategy of a partner country; (ii) integration of partners into (parts of) the EU economic and social structures (“a stake in the Internal Market”); and (iii) implementation of existing (and future) PTAs—Association Agreements. Technical and financial assistance (development cooperation) will focus on the areas that are identified as priorities under country-specific ENP action plans (CEC, 2004).

A premise underlying the ENP is to pursue (offer) *differentiated* convergence with EU norms (competition policy, regulatory action for services liberalization, etc.). The ENP’s explicit recognition of differences in capacity and priorities in the context of bilateral economic cooperation with its neighbors and the need to complement binding treaties (PTAs) with “soft law”-type cooperation and technical and financial assistance implies that it has parallels with the proposals in section 4. Partner countries will have to determine whether they want to pursue integration and if so, in what areas and how to do so. This presupposes an understanding of the benefits and costs of alternative instruments of cooperation, in particular “hard law” (expanding the coverage of binding treaties) versus “soft law” (economic cooperation). As illustrated in table 3, this is a nontrivial challenge.

Table 3 maps two objectives—integration and development—against EU instruments. It assumes that the EU cares about economic integration *and* development, whereas the partner country cares exclusively about national development—implying that for it, integration is also an instrument. As can be seen from the first row, the various EU instruments are all relevant in terms of their potential to help achieve the integration goal, although in practice much will also depend on the national policies that are pursued by

partner countries (e.g., implementation). However, it is unclear whether the instruments that the EU has available will help achieve development objectives—with the exception of market access, this will depend very much on what a specific measure will do in/for the country concerned—the extent to which it addresses priority needs. The same point applies more generally to the question whether actions to pursue integration will promote development.

**Table 3: Objectives and Instruments**

Objectives	EU Instruments							National Policies
	Treaties		Soft law		Aid			
	Border barriers	Internal market (Acquis)	Economic Cooperation	Participation in common programs	Grants	Loans		
	<b>Integration (EU)</b>	X	X	X	X	X	X	
<b>Development (EU and partners)</b>	X	?	?	?	?	?	X	

Note: X = effective instrument; ? = sign of impact uncertain

There is a tension between national development and integration in that the latter constitutes a unique focal point that is defined by existing EU members, even if it is one that is constantly evolving. The former has no such focal point—both the goal and the metric used to assess progress will be idiosyncratic. Whether an instrument promotes development (growth, employment creation, etc.) will depend on what is done. A major question then is whether deeper integration would help growth, and, more important in the short run, in what areas integration will generate the highest payoffs. Table 3 simply indicates whether the expected sign is positive in terms of realizing the objective—from a practical policymaking perspective it is also necessary to know the rank-ordering of policy instruments, in what areas the goal should be to make binding commitments and in what areas the focus should be on cooperation and aid.

Hard law—binding treaty instruments—involves extending Association Agreements to include services, agriculture, and possibly parts of the *acquis*. This is straightforward to conceptualize for simple market access—i.e., reciprocal agreements to provide better access for agricultural and services flows, including the right of

establishment (investment). However, there is likely to be limited scope for reciprocity when it comes to EU law (the *acquis*)—this is essentially non-negotiable. Here the issue is what will be asked of partner countries and the extent to which assistance is offered to attain the required minimum standards. In practice, whether an à la carte approach is possible may depend importantly on the extent to which use is/can be made of the “recognition” principle, as regulatory convergence (harmonization) may not be beneficial from a national development perspective. It also may or may not be necessary for effective access to the EU markets concerned (agriculture and services) or for the abolition of the threat of antidumping and safeguard actions.

Indeed, integration (defined by the *Acquis*) may be second-order in terms of payoffs if the associated market access benefits are much smaller than gains from purely domestic reform. Take the example of services. The case for action to lower costs and improve quality is well known. There are also incentives for domestic agents to support services reform, especially in sectors that are inputs into production/consumption and that thus affect large segments of the population (finance, transport, health, education...). While in principle pursuit of market opening reforms through trade agreements can be motivated on standard political economy grounds if there is not enough of a domestic constituency to support autonomous reform, it may be difficult to put this in practice. Thus, there may not be sufficient (any) export interests, or alternatively, these may be concentrated in “sensitive” sectors—mode 4, for example—where the scope for the EU to make concessions is limited given the limited mercantilist value of access to the partner markets. This implies it will be important to mobilize EU groups that attach value to the attainment of development objectives—NGOs, etc. There are also potential downsides insofar as partner countries are already pursuing unilateral services reforms—driven by a desire to improve international competitiveness. Putting bilateral or regional services opening on the negotiating table may slow down desirable reforms if governments perceive more open markets as a bargaining chip.

Analysis aimed at prioritization of policy measures and related actions is therefore critical. Benefiting from North-South PTAs requires a coherent national development strategy in which trade- and integration-related measures are included as part of a country’s overall agenda. Hard law, soft law—economic cooperation—and financial and



technical assistance options all need to be clearly mapped to the pursuit of national priorities. Hard law can be very useful and beneficial to overcome political economy resistance to reform, reduce uncertainty and lock in market access. But integration for its own sake or the adoption of the “EU model” is not necessarily going to be beneficial, and even if it is, may not be a priority at a given point in time. Mechanisms to generate information and analysis of the impacts of different options, *ex ante* and *ex post*, are therefore of great importance. The lack of such mechanisms is perhaps the weakest element of the evolving status quo.

### ***The Economic Partnership Agreements***

Motivated by a desire to make EU trade relations with the ACP countries comply with WTO requirements on regional integration, the Cotonou Agreement envisages replacing the unilateral trade preferences currently granted by the EU to the ACP with reciprocal FTAs—so-called Economic Partnership Agreements (EPAs). EPA negotiations are to be completed by December 2007. The EPAs aim to establish reciprocal PTAs between the EU and regional blocs of subsets of ACP countries, strengthen these regional blocs by supporting deeper intra-bloc liberalization, and improve coordination with EU technical and financial cooperation programs. The EPAs go beyond merchandise trade and include trade in services, investment and competition policy, and trade facilitation, among other subjects. The EPAs will be accompanied by substantial aid, building on existing financial cooperation arrangements.

The challenges for ACP countries are significant (Hinkle and Schiff, 2005). The EPA talks are not bilateral, but between the EU (a common market) and counterpart ACP regional blocs. A number of the relevant African PTAs are FTAs that incorporate smaller customs unions, and include both LDC and non-LDC members (Hinkle and Newfarmer, 2005). Differences in priorities across (prospective) members of these counterpart PTAs make it more difficult to negotiate. The EU has a preference to negotiate with customs unions—implying that PTA members need to also agree on a common external tariff (CET) for each partner PTA. This is complicated by very different “sensitivities” in terms of products currently obtaining protection (Stevens and Kennan, 2005). The rationale offered by the EU is that ACP PTAs will help increase the effective size of the partner’s

markets. Thus, the agenda spans not just agreeing to a CET, but removing the many barriers to intra-regional trade in the partner ACP PTAs.

Thus, there is a need to determine the content of EU-ACP liberalization-cum-cooperation; choosing the external trade policy of the ACP PTA; and achieving intra-ACP PTA market integration. Given sensitivities to liberalization by ACP countries, it has been suggested that the “substantially all trade” provision of GATT Art. XXIV be interpreted as a *regional* coverage ratio of 90 percent of pre-PTA trade flows. This could be met by the EU opening up to all trade from ACP partners (including agriculture) and the ACP PTA members only abolishing tariffs on 80 percent of their imports from the EU. In effect this would extend the EU Everything But Arms (EBA) initiative to the non-LDC members of the relevant PTAs, while allowing the latter to exempt most of their sensitive products from liberalization. This makes little economic sense as it precludes liberalization where it matters while not minimizing the potential for trade diversion in other products. Stevens and Kennan (2005) also note that a strategy that exempts most sensitive (highly protected) goods will have a significant fiscal impact, building up gradually as the EPAs are implemented.

A better approach would be to gradually pursue MFN-based reforms for *all* products. This would allow the continued use of tariffs for revenue purposes for some time to come while developing domestic indirect tax systems (Hinkle and Newfarmer, 2005). This in turn will require either a change to Art. XXIV or a waiver. The former could be justified as part of the response to the call in the Doha Ministerial declaration to revisit existing WTO provisions on special and differential treatment for developing countries (Hoekman and Prowse, 2005). As noted previously, the need for full liberalization internally between the members of the ACP partner PTA also has implications for (non-)invocation of the Enabling Clause.

The approach taken in the EPA context towards services, investment and regulatory policies is still to be determined. One option—which appears to be the one pursued to date—is to adopt the basic elements of the *Acquis* as regards pro-competitive provisions of the EU treaties on competition policy, etc. Alternatively, the proposed enabling-cum-monitoring mechanism could be adopted. Past experience with Association Agreements negotiated with non-potential accession countries suggests what is needed is

not just flexibility, but transparency, information and accountability—including monitoring of actions taken by the EU to assist ACP partners put in place policies to help achieve their objectives in an efficient manner. The EU has experience in monitoring obtained in accession countries—where it closely tracked policy developments on a country-by-country basis. The approach in the EPA context would need to be qualitatively different by relying less on the *Acquis* as the focal point or benchmark, and much more on economic analysis of the incidence and impacts of policies and the effectiveness of development assistance in the trade area. There are serious human resource and administrative capacity implications for developing countries associated with this. The human resource requirements can be offset in part by both EPA-based assistance programs and the overall international effort to provide trade-related assistance to the countries concerned.

## **5. Concluding Remarks**

A precondition for benefiting from trade agreements is a clear understanding of the objectives to be achieved, in particular the type of trade policy that the government wants to pursue. Trade agreements can play a useful role in the design and implementation of trade reforms, acting as a mechanism to lock in reforms, a focal point for future reforms and a device to help overcome resistance by vested interests.

The PTAs the EU and US are increasingly negotiating with developing countries can do much good if they are designed in a way that puts development first. Taking development seriously has a number of implications, including identification of the most appropriate form of a PTA and its membership. The need to avoid trade diversion costs and attenuate tariff revenue losses is well known, as is the policy recommendation of complementing reciprocal liberalization with reductions in external (MFN) barriers to trade. The challenge is to move in this direction, which requires a willingness by the major traders to support *MFN* liberalization by developing country counterparts as an appropriate *quid pro quo* for preferential access to their markets. Formally this will require a renegotiation of Art. XXIV GATT (and Art. V GATS) or a waiver. Although past experience does not give cause for great optimism that this is feasible, an effort to do so would provide a signal that development concerns are being taken seriously. However, given that the WTO disciplines in this area are effectively redundant, in practice this may

not be a serious constraint. Insofar as developing country partners do undertake MFN reforms, it may be easier to seek a waiver.

Market access commitments are binding and should be binding to ensure they are credible. The acid test for whether regulatory disciplines in trade agreements should be binding is whether benefits outweigh costs. Often there will be uncertainty if this is the case. Mechanisms to exchange information on the effects of policies and the development of rules of thumb for behind-the-border, trade-related policies could be very beneficial for developing countries. That suggests greater reliance on a ‘soft law’ approach that establishes broad guidelines and relies on transparency and accountability through regular (multilateral) monitoring of performance may be more effective in promoting development than harmonization, not least by enhancing the eventual ownership of any specific norms that are adopted. While detailed international harmonization through trade agreements may not be appropriate in many instances, it is not possible to generalize here except to note that careful country-specific analysis and assessments are called for. International disciplines embedded in PTAs, starting with monitoring, analysis of impacts of policies and information exchange can help ensure transparency and promote increased accountability of governments.

The policy agenda confronting developing countries at the regional (PTA) level is similar to that at the multilateral level. A major difference is that in the case of North-South PTAs there are more significant development assistance commitments associated with the implementation of agreements. Here it can be questioned—similar to the proposed monitoring of the effects of domestic regulator policies—whether it is best to allocate and channel such aid through bilateral or regional mechanisms. A multilateral approach is likely to be superior. Channeling funds through a global, multilateral aid for trade mechanism—such as an expanded and augmented Integrated Framework (Prowse, 2005)—would ensure that trade-related assistance focuses on national, country-specific priorities. After all, there is (should be) only one national trade agenda. Technical and financial assistance should be managed accordingly. In the last 5 years much progress has been made by the international community to improve aid effectiveness and prioritization of aid across sectors and uses. This also spans the trade area—the Integrated Framework being a prominent example. Trade will be one priority among many, and should therefore

be considered in the context of the overall national development strategy. Ensuring that trade-related assistance provided in the context of PTAs conforms to this principle would further improve the potential development impact of PTAs, as implies that national priorities are put before PTA-defined requirements.

Indeed, much of what has been suggested in this paper should be done *multilaterally*. There is only one domestic trade agenda in developing countries, one set of regulatory reform priorities, one first-best trade policy. The “model” proposed for PTAs is generalizable and should be. In all the areas proposed, the WTO must play a supporting role—by requiring a shift from discriminatory to MFN reforms in a PTA context; by enhancing the information on and analysis of the impacts of PTAs and national trade-related policies; and by encouraging donors to channel the resources that are mobilized to support PTA implementation through multilateral aid mechanisms.

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