

Maximizing the Benefits of the Trade Policy Review Mechanism for Developing Countries

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Abstract: This paper is concerned with the Trade Policy Review Mechanism (TPRM), an important policy review function of the WTO. From a developing country perspective, a truly effective TPRM should accomplish several interrelated goals which together should add up to a boost to investor confidence in developing country markets. Several improvements that may move us closer to such a regime are discussed. These include better organization and retention of the data already collected as part of the TPRM process, better dissemination of the information collected as part of the TPRM process, and technical assistance in the use of this information.

"The purpose of the Trade Policy Review Mechanism ('TPRM') is to contribute to improved adherence by all Members to rules, disciplines and commitments made under the Multilateral Trade Agreements and, where applicable, the Plurilateral Trade Agreements, and hence to the smoother functioning of the multilateral trading system, by achieving greater transparency in, and understanding of, the trade policies and practices of Members."

Marrakesh Agreement Establishing the WTO, Annex III(A)

"There are no statesmen in this business. Trade theory is about identifying whose hand is in whose pocket and trade policy is about who should take it out."

Finger (1981, n1)

1 Introduction

The rights and obligations embodied in the WTO are not limited to tariffs. They also include a set of agreements that limit the scope of non-tariff actions. Adherence to these obligations is also reinforced by procedures for the settlement of disputes and for the regular monitoring of the policies of World Trade Organization (WTO) Members through the Trade Policy Review Mechanism (TPRM). The TPRM was established (on a provisional basis) in 1989 as a part of the GATT following the December 1988 Montreal Mid-Term Review of the Uruguay Round. It was made a permanent part of the World Trade Organization (WTO) through Annex 3 of the 1995 Marrakesh Agreement establishing the World Trade Organization. The stated purpose of the TPRM is enhancement of the transparency and understanding of WTO Members' trade policies. (See the quote above). This paper is concerned with the value of the TPRM, and particularly its promotion of transparency, for developing countries.

When considering the gains from increased stability and transparency of policy regimes under WTO rules (*vis-à-vis* the GATT 1947 system), it is helpful to recall that for much of the postwar period a common characteristic of most developing country trade regimes was their ingenuity in combining policy instability with opacity. In this context, policy bindings can limit the scope for arbitrary increases in protection, and hence have the potential to boost the credibility of policy reforms. The domestic and foreign credibility of trade reforms may also be enhanced by periodic monitoring, such as that undertaken through the TPRM.

This paper is organized along the following lines -- What? Why? and What Next? Section 2 focuses in what the TPRM is. It briefly describes the TPRM mechanism itself. Section 3 then elaborates on why the TPRM may be relevant for developing countries. In particular, what are the benefits of enhanced policy credibility? This is followed, in Section 4, by a discussion of ways in which the TPRM and its byproducts might be made more useful for the design and enhanced credibility of trade policy in developing countries.

2 What is the TPRM?

The TPRM was introduced on an interim basis in 1989. It was motivated by concerns that the only available review of global trade policies at the time was one produced by the Office of the U.S. Trade Representative. Logically, this report was viewed as one that was biased towards U.S. interests. (See Keasing 1998 for discussion). Being a U.S. report, it also steered clear of U.S. trade barriers. In its first years, the TPRM was limited to a review of policies affecting trade in goods. However, with the creation of the WTO, which also includes services and intellectual policy commitments, the TPRM was expanded to cover new areas like trade in services and intellectual property rights. The TPRM was moved from interim to permanent status with the creation of the WTO.

The frequency of reviews varies across WTO Members. There are technically three review cycles: every two years for the four largest trading entities (the United States, the European Union, Japan, and Canada); every four years for the next sixteen countries; and every six years for other Members. There is nothing sacred in the 2 year cycle, and one frequent option raised for stretching the resources devoted to the TPRM is to stretch the review time out for the big 4. Even under the existing schedule, in practice not all Members are reviewed on this cycle. There are provisions for a longer interval for least-developed countries, and the practice has been to review the smaller trading countries only when they request a review. Table 1 provides a list of reviews conducted since 1995.

The TPRM reports are prepared by the WTO's Trade Policies Review Division (the TPRD). This Division, at full strength, consists of only one Director, sixteen professional and eleven support staff. The approach of the TPRM is therefore very different from country monitoring by the World Bank and the IMF. Where the Bank and IMF, comparatively speaking, have armies of analysts following national policy developments, the WTO works on a relative shoe-string budget. Yet even these resources are under constant pressure, as the mission of the WTO has expanded greatly vis-à-vis the old GATT 1947 without a comparable expansion of resources.

There is a constant struggle within the WTO Secretariat to move scarce staffing positions across divisions. Hence, though the TPRM seems understaffed given its mission, the TPRM is actually the largest division in the small WTO Secretariat, and there is a constant and real danger that economist slots within the division will be liquidated to make way for more lawyers within the organization. For this reason, any discussion of changes to the TPRM, even cosmetic ones, immediately raise questions about resources and the possibility of outside assistance.

Table 1

TPRM reports 1995-1999 (including scheduled 1999 reviews)

1999	1997
Argentina	Malaysia
Togo	European Union
Guinea	Mexico
Egypt	Chile
United States of America	Benin
Bolivia	Paraguay
Israel	Cyprus
Philippines	Fiji
Romania	
Nicaragua	1996
Papua New Guinea	El Salvador
Thailand	Canada
Togo	United States
Argentina	Brazil
	New Zealand
1998	Korea
Canada	Colombia
Hong Kong, China	Zambia
Indonesia	Norway
Uruguay	Singapore
Burkina Faso and Mali	Switzerland
Trinidad and Tobago	Czech Republic
Jamaica	Dominican Republic
Turkey	Venezuela
The Solomon Islands	Morocco
Hungary	
Australia	1995
Nigeria	Thailand
South African Customs Union	Slovak Republic
India	Sri Lanka
Japan	Mauritius
	Uganda
	European Union
	Cote d'Ivoire
	Costa Rica
	Japan
	Pakistan
	Cameroon

The TPRD writes its reports on the basis of Member replies to a questionnaire, discussions with officials during mission visits, and information collected from other (unofficial) sources. The entire process usually takes about ten months. While the TRPM reports draw on academic research, they have also generated occasional reviews of national policy within the academic press. This includes "reviews" of the reviews published in the journal *World Economy*. (See for example Anderson 1995, Balasubramanyam 1995, Fane 1996, Gunning 1996, Holden 1995, Kehoe 1995, Krenin 1996, Krueger 1995, Pelkmans and Carzaninga 1996, Qureshi 1995, Togan 1995, and Wonnacott 1996.)

3 Why the TRPM?

3.1 Policy Credibility in Developing Countries

What are the benefits of the TRPM for developing countries? Two sets of potential benefits are emphasized in this section. Both involve reduction in policy uncertainty. The first relates to improved monitoring of trading partner commitments under the various WTO agreements. In particular, this involves added insurance that the larger export markets (i.e. the OECD) will meet their commitments regarding market access for developing countries. The second set of reasons relates to the credibility of domestic policy reform and to how such reform is viewed by domestic and international investors.

For the reasons outlined in this section, we should view a truly effective TRPM as one that, when applied to trading partners, contributes to political support for trade reform at home, to the general orientation of the economy toward tradable activities, and to investor confidence. However, for developing countries to benefit, they must actively engage themselves in the TRPM process, pressing their own interests not just with regard to OECD markets, but also with regard to the trade policies of other developing countries. An effective TRPM should also serve to reinforce the credibility and rationality of home policies regarding the domestic and international economy. Improvements that may move us closer to such a regime are discussed in Section 4.

3.2 Market access in export markets

As trade economists, we often emphasize import protection when writing on trade policy. However, political emphasis during negotiations is not placed on home protection. Rather it is placed on protection in export markets. Improved market access, which to exporters means more restrictive bindings on protection in export markets, is the price demanded by governments for own-liberalization. This follows, in part, from the willingness of individual exporters to back initiatives that involve improved access to their export markets.¹

While improved market access is an important precondition for political support for liberalization at home, there are other effects that follow from improved market access conditions in export markets. Reduced uncertainty about trading conditions in export

¹ If one believes that own-liberalization is an important source of welfare gains, then the GATT/WTO can be viewed as a very successful trick. By pressing for mutual liberalization in export markets, Member countries are actually, on net, acting as if they were jointly pursuing import liberalization (as one's imports is another's exports). Therefore, own liberalization is pressed by the harnessing of mercantilist interests.

markets has significant welfare implications for the economy as a whole. Francois and Martin (1997) offer a formalization of this point. Uncertainty about the terms-of-trade depresses the expected level of national income. Such uncertainty can follow directly from trade policy in export markets. Beyond this, such uncertainty also provides incentives for investors to shy away from tradable sectors. Wincoop (1992) for example offers econometric evidence that increased terms-of-trade uncertainty leads to a higher fraction of national resources (employment and capital) being placed in the non-tradables sector. In effect, uncertainty about the general conditions of market access (i.e. the terms-of-trade) acts as a tax on the tradables sector of the economy. It hits both import competing and export sectors. It also serves to dampen investment. Mendoza (1997) for example offers both theoretical arguments and econometric evidence supporting the assertion that terms-of-trade uncertainty implies significant macroeconomic costs, manifested as lower investment and growth rates.

A very real source of market access uncertainty involves contingent protection. Uncertainty (and hence intertemporal variability) in the rate of protection can be particularly marked in import monitoring and administered protection regimes such as those imposed where dumping is alleged. In this regard, Winters (1994) finds that import surveillance, in the case of the European Union, has a significant dampening effect on trade. Tollefsen (1994) notes that, as a group, VERs and monitoring mechanisms are the most common form of nontariff barrier (NTB) protection applied in the industrial countries. Both are a common outcome of threatened or suspended antidumping and countervailing duty actions. Boltuck et al (1990) make a similar point with regard to the U.S. antidumping mechanism, where the system of posted duty bonds, estimated duties, and administrative reviews adds considerable price uncertainty to importers of good subject to antidumping reviews. With the spread of antidumping regimes to the developing countries themselves (a spread aided by technical assistance from the WTO, World Bank, and European Union), developing countries will encounter difficulties in this area in coming years as they try to gain access to other developing country markets.

The TPRM, by subjecting the largest OECD markets to periodic review, shifts the balance of power in the WTO, ever so slightly, in favor of the developing countries. It ensures that the trade policy practices of the industrial countries are subjected to periodic, public peer review. While the TPRM is not charged with passing judgement on the compliance of Members with WTO obligations, it plays an important transparency role. For example, it makes it easier for the developing countries to point collectively to the use of dumping duties by the European Union and the United States against developing countries. Perhaps equally important, the TPRM also subjects the developing countries themselves to a review of market access conditions. Since some of the most dynamic export markets (recent crises notwithstanding) over the next two decades will be found outside the OECD, reduced uncertainty about market access in developing country markets is going to be increasingly important for developing countries themselves. (See Blackhurst et al 1995 for a discussion of the importance of developing country market access to other developing country markets.)

3.3 The TPRM and the credibility of domestic reform

The recent movement to market based policies in developing countries has served to highlight the importance of political economy constraints in the economic reform process.

As North (1990) has emphasized, not all stable policy regimes are characterized by good practice. In fact, through most of history, and across most of the world, regimes conducive to stagnation and decline have been remarkably tenacious and even robust. The recent (1998-1999) experiences with capital market crises in Brazil and Russia have served to remind us of this reality. Politics can conspire (often with apparent ease) to stymie well intentioned reform efforts.

Membership in the WTO involves commercial policy commitments (technically called commercial policy "bindings".) Because policy reform undertaken in the context of binding external commitments involves restraints on backsliding, it may carry more credibility than otherwise. (Francois 1997). Periodic reviews under the TPR mechanism can serve to remind capital markets of this fact, enhancing the expected durability of domestic reforms and the extent to which such reforms are "locked-in" under external obligations. The net result under such a situation would be a reduction in policy uncertainty. As recent research (discussed above) suggests, the reduction of policy uncertainty in this way may have important positive implications for investor confidence.

3.4 The Advantages of Boosting Investor Confidence

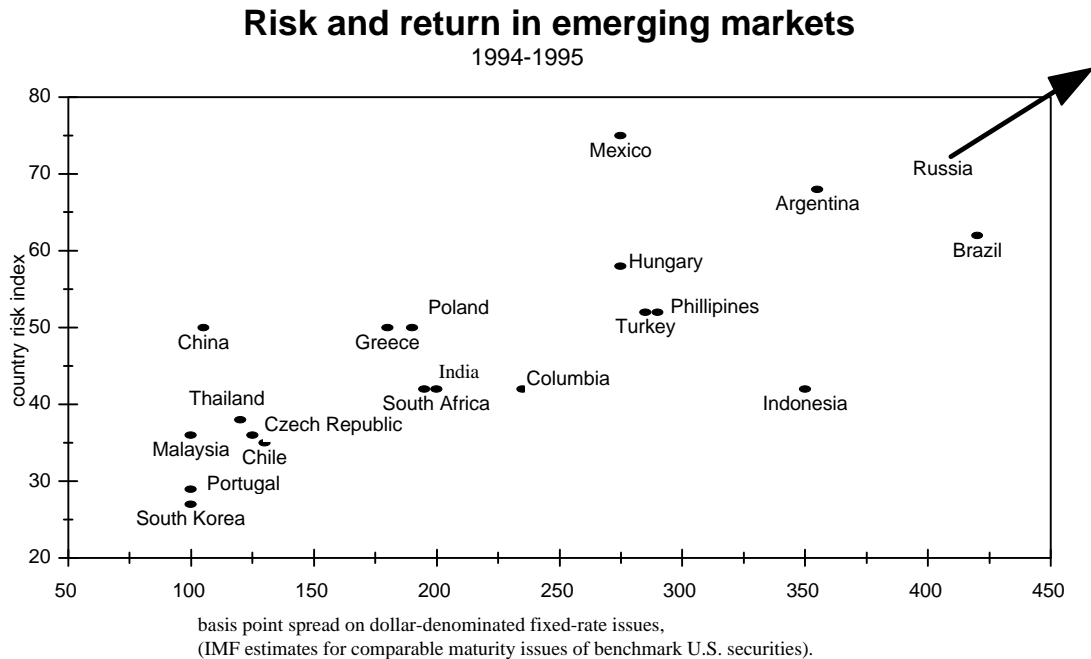
From a developing country perspective, an effective TPRM should have two outcomes. The first is that it should boost the security of market access in export markets. At the same time, it should also boost credibility of domestic policy and policy reform. Taken together, both in turn should serve to boost investor confidence and reduce country risk.

What are the likely investment-related benefits of a fall in country risk? They relate to dynamic mechanisms that have been examined in the context of simulation analysis by Kehoe (1998) and Young Romero (1994) for Mexico and Baldwin et al (1997) for the Central and East European Countries (CEECs). Francois (1997) and Francois and Martin (1998) focus more broadly on developing countries.

In general, the conditions for international capital lending reflect a number of factors, including risk of nationalization, and the security provided by outside obligations (i.e. the Mexican GATT accession in 1986 and the NAFTA, or CEEC obligations as part of their efforts to join the EU). As elements are added to the climate that reduce the underlying risk premium, investors are willing to accept projects that yield lower returns. The result is an increase in investment levels, and hence a national income gain from the reduced risk premium. This is related to expanded production and rising labour productivity and wages. Arguably, this effect may be one of the most important medium- to long-run effects of anchoring investment-related external policy reforms.

How important are such effects? First, we know from Wincoop (1992) and Mendoza (1997) that trade-related uncertainty is associated with lower investment and growth rates and with a shift in resources toward non-tradables. In addition, we also know that riskier policy regimes are directly associated with higher capital costs. As a result, rates of return on capital differ sharply across nations. Such differences can be very persistent. Put simply, investors demand a risk premium on funds invested in nations with economic and/or political environments that are perceived as unstable.

One view on these costs, offered by Baldwin et al (1997), involves the cross-country comparison of international lending terms. Such a comparison is provided in Figure 1. The figure plots, on the horizontal axis, World Bank estimates of the basis point spread charged to emerging economies for dollar-denominated fixed rate issues in 1994-95 (World Debt Tables, 1996 Extracts, World Bank 1996). The vertical axis plots country risk indexes (from the Economist Intelligence Unit) for 1995. (Russia is off the charts on both axes.) It can be seen that country risk does correlate closely with rates of return. "Safe" markets, from the point of view of investors, enjoy a significant advantage in capital markets.



4 Enhancing the Value of the TPRM

Since the inception of the TPRM, several authors have examined the process itself and made recommendations for improvement. One of the more detailed overviews is provided by Keesing (1998). Keesing makes several sets of recommendations. One general recommendation relates to improved dissemination of the existing reports through the economics and business press. However, this is tied to a comment that "the (WTO) External Relations Division ... does not yet try to use the TPRs systematically to influence policymakers in the member countries and beyond." (Keesing, 1998, p. 46). This leads us to a second set of recommendations made by Keesing (and other authors), that the TPRM should be used as a more proactive mechanism by the WTO. This includes the targeting of opinion leaders in Member countries, and the use of the mechanism to highlight the cost of protection. It also includes subjective comments on policy credibility and sustainability as well.

The view of this author is that the TPRM plays a very important role, but one misunderstood by those who recommend that the TPRM be more proscriptive. In particular, the TPRM is at its heart a vehicle for providing information. It was not meant

to be used for policy recommendations. The WTO Members said as much when stating, in Annex 3 of the Uruguay Round Agreements defining the TPRM (see attached) that the TPRM "is not ... intended to serve as a basis for the enforcement of specific obligations under the Agreements or for dispute settlement procedures, or to impose new policy commitments on Members."

The value of the TPRM reporting process lies in the strong (and correct) belief that the report is purely positive, rather than normative. It focuses on accurate information valuable to the global trade policy community. This alone is a pathbreaking and daunting task. The information that results is taken seriously precisely because the TPRM does not expressly set out to make pronouncements on the merits of the policies they describe. TPRM reports describe the policy landscape, exposing it to the daylight for the Members, their leaders, the business press, academia, and the electorate themselves to inspect, evaluate, and discuss. In the process, they also summarize external views on these policies.

The information role of the TPR is important, for the reasons outlined above. The availability of comparable data across countries places the developing countries on a more equal footing during trade negotiations. It also serves to keep trade policy a relatively open process, important for the democratic setting of policy. In the poorer countries, it provides an otherwise impossible chance to examine the overall trade policy implications of otherwise disjoint policy decisions. Within this pure informational role, there is indeed scope for improving the value of the TPRM to developing countries. Potential improvements are listed in Table 2. They are discussed below. They are grouped into three broad categories: (1) data extension; (2) data dissemination; and (3) follow-up.

Table 2
Recommendations for Improving the value of the TPRM

1. Data Issues

- 1.1 Add the tariff data collected as part of the TPRM to the integrated database.
- 1.2 Maintain a detailed, TPRM-based time-series database of protection data, linked to trade and production data.
- 1.3 Use the periodic TPRM reports as an opportunity to construct a "quantitative" database that draws on other notifications under various WTO bodies.

2. Dissemination

- 2.1 Distribute the full TRPM reports, at no cost, on the WTO WWW site.
- 2.2 Distribute detailed protection data, at no cost, on the WTO WWW site.

3. Follow-up

- 3.1 Integrate detailed TPRM data into TRAINS and SMART.
 - 3.2 Integrate protection data collected during the TPRM into the GTAP database.
 - 3.3 Provide follow-up technical assistance to local stake-holders.
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4.1 Data Issues

A tremendous amount of data is collected as part of the TPR process. This includes current tariff schedules, recent changes in tariff schedules, other price and quantity measures affecting exports, and information on the structure of the economy itself.² This is all tied into a discussion of the recent evolution of trade policy in the country, and the general national policy context in which these changes have taken place. Without substantially changing the data collection requirements, some changes could be introduced that would enhance the information value of these efforts. These are discussed below. They are tied to a related recommendation (further below) that the resulting information be disseminated more widely.

- Add the tariff data collected as part of the TPR to the integrated database. The integrated database (IDB) is a computerized database of applied and bound tariff rates, maintained by the WTO Secretariat and available to participating Members for consultation during negotiations. The participation by the least developing countries in the IDB is limited by the very real resource constraints they face. (Developing countries must first supply the data that is then placed into the IDB). The IDB was critical to quantitative assessment of the Uruguay Round (see, for example, the studies in Martin and Winters

² Keesing provides a good discussion of the process.

1995), and will play a similar role in the next Round. In theory, the tariff data relevant for the IDB are also collected as part of the TPRM process. Especially for the least developed countries, this seems like an ideal opportunity to kill two birds with one stone. Unfortunately this is not feasible given current resource constraints within the TPRM Division itself. However, one could easily justify spending some of the development assistance funds provided by developed WTO Members to this integration of the TPRM with efforts to augment the IDB.

- Maintain a detailed, TPRM-based time series database of protection data, linked to trade and production data. The TPRM provides a unique opportunity to build a global time series on levels of protection in Member countries. National tariff schedules must be processed anyway so that descriptive statistics can be produced. There has been some effort within the WTO Secretariat to produce a limited amount of time series data from past TPRM reports. However, because the detailed data on individual TPRM reports are not joined into a detailed *collective* database, and in fact are often set aside and eventually "lost" as analysts move on to the next review, a tremendous opportunity is lost. At the moment, historic series can only be produced based on the summary data published in tabular form in the reports. More effort should go into producing a time series out of the raw data. Such data could be used not just for more detailed discussion of individual countries across time, but also for more detailed sectoral discussion across countries. Obviously, there is scope to integrate such an effort with enhancement of the IDB, as discussed above. Such data (perhaps using GTAP or comparable data) should also be linked within the database to available information on the structure of production.
- Use the periodic TPRM reports as an opportunity to construct a "quantitative" database that draws on other notifications under various WTO bodies. There are a number of bodies within the WTO that have reporting requirements. For example, members are required to report on implementation of Uruguay Round Agreements, antidumping and countervailing actions. Relational databases of these notifications are in some cases maintained within the WTO Secretariat. However, these are generally legal in nature (as are the notifications themselves). For the delegations from the least developed countries, there is no hope of wading through these notifications to find the big picture. The resources simply are not available.³ The closest they come is background material prepared by the WTO Secretariat. The periodic TPRM reviews provide an opportunity to marry these notifications with economic

³ In fact, many of the least developing countries do not even have a WTO Mission, or else have a small mission tasked with covering all international organizations in Geneva. This disparity with developed countries can be particularly striking. For example, during the Uruguay Round the U.S. steel industry had better representation than many of the least developing countries (combined).

data, and to integrate them into a general database on protection measures.⁴ This should not be controversial. In theory, Member notifications are made precisely to promote transparency across Members (and presumably to generally promote the transparency of the whole WTO vis-à-vis non-governmental organizations and citizens in Member states). Such an approach would simply make the notifications more accessible. Those Members that never submit notifications could continue to do so. This would simply show up as holes in the data that might, on occasion, be filled during a TPR.

4.2 *Dissemination*

The next area where the process can be improved is through dissemination. The TPRM reports are a basic tool for promoting transparency in the global trading system. Unfortunately, there is an emphasis on cost recovery for what should be viewed as a public good. This cost-recovery model should be replaced by one targeting low-cost but broad dissemination.

- Distribute the full TRPM reports, at no cost, on the WTO WWW site. The Members should recognize the reports for what they are (public goods), and move toward full free electronic dissemination. The IMF has taken a similar tack on its web site with many of its reports. National government agencies, like the U.S. International Trade Commission, follow a similar tack as well. The WTO recovers only limited costs (and perhaps none on net) from charging for these reports. The policy of only making current reports available in hard copy limits public access. (Keesing reports that typical production runs for the English version of a report are 900 to 1000 copies. Most of these remain in Geneva). Certainly, this limits access by potential users in academia, local research institutions, and the local press within developing countries. This in turn limits penetration into the community of local stake-holders. The WTO has itself taken a step to correct this problem. Several years of past TPRM reports are now available on CD-ROM (1995-1997) are now available at a single-user price of \$85. While distribution of CDs and hard copies should perhaps continue on a commercial basis, the historic reports from the CD, and new ones as they are made available, should be posted publicly on the internet as well. This is an obvious low-cost form of general distribution. If some Members object to a departure from "cost-recovery," then technical assistance money should be devoted to underwriting this effort.

⁴ As an example, governments notify their dumping and countervailing duty actions every six months. These notifications can be downloaded from the WTO web site (with a time lag). Unfortunately, the notifications are very aggregated. Hence, they may tell you that flat-rolled steel from Korea is subject to a U.S. dumping duty. They do not tell you the information needed to assess the economic impact and the implications for market access (matching duties with affected trade flows, for example), or the fact that these duties replaced voluntary export restraints.

- Distribute detailed protection data, at no cost, on the WTO WWW site. Electronic dissemination should extend beyond the current report. The underlying data, enhanced as described above, should also be disseminated on the Internet. This would allow for public interest groups in Member countries to access protection information directly. Unfortunately, there are Members who do not want the public to have access to their tariff schedules. This has so far effectively blocked public access to the IDB.⁵ However, at least for Members who have undergone a TPR, the cat is already out of the bag and in print. In addition, some regional organizations have already published tariff rates for their members. For example, one can find tariff rates for MERCOSUR members and APEC members on the Internet. The European Commission also makes tariff rates for selected trading partners available on the internet. The TPR is a logical mechanism for collecting such information globally, and making it available to the citizens of the global village. This should be combined with information on bindings, so that the public (especially the business and financial communities) can make more informed assessments of the scope for commercial policy backsliding in various areas. Ideally, such a public access database would include
 - tariff rates
 - tariff bindings
 - current and past antidumping and countervailing duty actions and suspension agreements
 - affected trade flows under these various measures
 - notifications by members of preferential arrangements
 - commitments made under the GATS

Such a database should allow for the wholesale download of relevant data (rather than the tariff-line-by-tariff-line approach of the legally-focused relational databases). Such an approach is consistent with the electronic distribution of data by some national governments, like price and wage data published electronically by the U.S. Bureau of Labor Statistics on the internet. Like the TPRM reports, governments need to recognize the public good aspect of such a data product. For many developing countries, this may be the most cost effective way to consistently make available the information needed for active participation in trade negotiations with industrial countries. It is also an effective way to subsidize research on the trade policies of developing countries.

4.3 *Follow-up*

Finally the value of the process would be greatly enhanced if there was a more explicit link between the final product of the TPRM and work by related international agencies and consortiums.

⁵ Efforts to assess the Uruguay Round were caught in an elaborate dance between Members who, on the one hand wanted an assessment, and on the other hand did not want the public to know the exact terms of what was being assessed.

- Integrate detailed TPRM data into TRAINS and SMART. UNCTAD produces a CD-ROM that provides a detailed overview of protection and trade. There is obvious scope for the UNCTAD TRAINS team to work directly with the detailed information produced by TPRM Division *after the report has been completed* (cost-sharing might even be worked out) to ensure that the detailed information collected during the TPRM process is included in the TRAINS dataset. Similarly, there may be scope for a formal arrangement for incorporating the same data in the World Bank's SMART system. (Past cooperation efforts between the World Bank and the WTO on the IDB have been problematic.)
- Integrate protection data collected during the TPRM into the GTAP database. In addition to TRAINS and the World Bank SMART system, there is the GTAP consortium. The GTAP consortium includes the WTO, the World Bank, the European Commission, and the OECD. Its purpose is to produce a globally consistent database on trade, production, and protection data. This dataset has emerged in recent years as a functional core for quantitative modeling of regional and multilateral trade agreements. Especially on the developing country side, the detailed TPRM-related data on protection should be made available to the GTAP consortium. This would help ensure that the GTAP dataset has adequate *accurate* coverage of developing WTO Members.
- Provide follow-up technical assistance to local stake-holders. As a follow-up to the entire TPRM process, development assistance should be directed toward working with the less developed WTO Members after a TPRM report has been completed. This would not be part of the TPRM itself. Rather, a formal institutional mechanism should be established, whereby technical assistance should be provided to Member governments through the WTO (perhaps jointly with similar efforts by UNCTAD) *upon request* to help them use the detailed data produced to make their own assessment based on the data collected. On one extreme, this may simply involve help in simply disseminating the economic content of the report across the local research and policy community. Alternatively, it may involve quantitative modeling. Obviously, this is beyond the scope of the TPRM itself. At the same time, it is a logical next step with the information produced.

5 Summary

This paper is concerned with the Trade Policy Review Mechanism (TPRM), an important policy review function of the World Trade Organization (WTO). The TPRM was established (on a provisional basis) in 1989 as a part of the GATT following the December 1988 Montreal Mid-Term Review of the Uruguay Round. It was made a permanent part of the World Trade Organization (WTO) through Annex 3 of the 1995 Marrakesh Agreement establishing the World Trade Organization. The stated purpose of the TPRM is enhancement of the transparency and understanding of WTO Members' trade policies.

From a developing country perspective, a truly effective TPRM should accomplish several interrelated goals. By promoting transparency of trading partner policies (developed and developing) it should contribute to political support for trade reform at home and to the general orientation of the economy toward tradable activities. It should also serve to reinforce the credibility and rationality of home policies regarding the domestic and international economy. Taken together, all these should add up to a boost to investor confidence in developing country markets.

Several improvements that may move us closer to such a regime are discussed. These include better organization and retention of the data already collected as part of the TPRM process, better dissemination of the information collected as part of the TPRM process, and technical assistance in the use of this information. Such technical assistance should target local stake-holders, and promote their and use of the information collected to inform and guide the local policy process.

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Annex 3 to the Marrakech Agreements
TRADE POLICY REVIEW MECHANISM

Members hereby agree as follows:

A. Objectives

(i) The purpose of the Trade Policy Review Mechanism ("TPRM") is to contribute to improved adherence by all Members to rules, disciplines and commitments made under the Multilateral Trade Agreements and, where applicable, the Plurilateral Trade Agreements, and hence to the smoother functioning of the multilateral trading system, by achieving greater transparency in, and understanding of, the trade policies and practices of Members. Accordingly, the review mechanism enables the regular collective appreciation and evaluation of the full range of individual Members' trade policies and practices and their impact on the functioning of the multilateral trading system. It is not, however, intended to serve as a basis for the enforcement of specific obligations under the Agreements or for dispute settlement procedures, or to impose new policy commitments on Members.

(ii) The assessment carried out under the review mechanism takes place, to the extent relevant, against the background of the wider economic and developmental needs, policies and objectives of the Member concerned, as well as of its external environment. However, the function of the review mechanism is to examine the impact of a Member's trade policies and practices on the multilateral trading system.

B. Domestic transparency

Members recognize the inherent value of domestic transparency of government decision-making on trade policy matters for both Members' economies and the multilateral trading system, and agree to encourage and promote greater transparency within their own systems, acknowledging that the implementation of domestic transparency must be on a voluntary basis and take account of each Member's legal and political systems.

C. Procedures for review

(i) The Trade Policy Review Body (referred to herein as the "TPRB") is hereby established to carry out trade policy reviews.

(ii) The trade policies and practices of all Members shall be subject to periodic review. The impact of individual Members on the functioning of the multilateral trading system, defined in terms of their share of world trade in a recent representative period, will be the determining factor in deciding on the frequency of reviews. The first four trading entities so identified (counting the European Communities as one) shall be subject to review every two years. The next 16 shall be reviewed every four years. Other Members shall be reviewed every six years, except that a longer period may be fixed for least-developed country Members. It is understood that the review of entities having a common external

policy covering more than one Member shall cover all components of policy affecting trade including relevant policies and practices of the individual Members. Exceptionally, in the event of changes in a Member's trade policies or practices that may have a significant impact on its trading partners, the Member concerned may be requested by the TPRB, after consultation, to bring forward its next review.

(iii) Discussions in the meetings of the TPRB shall be governed by the objectives set forth in paragraph A. The focus of these discussions shall be on the Member's trade policies and practices, which are the subject of the assessment under the review mechanism.

(iv) The TPRB shall establish a basic plan for the conduct of the reviews. It may also discuss and take note of update reports from Members. The TPRB shall establish a programme of reviews for each year in consultation with the Members directly concerned. In consultation with the Member or Members under review, the Chairman may choose discussants who, acting in their personal capacity, shall introduce the discussions in the TPRB.

(v) The TPRB shall base its work on the following documentation:

(a) a full report, referred to in paragraph D, supplied by the Member or Members under review;

(b) a report, to be drawn up by the Secretariat on its own responsibility, based on the information available to it and that provided by the Member or Members concerned. The Secretariat should seek clarification from the Member or Members concerned of their trade policies and practices.

(vi) The reports by the Member under review and by the Secretariat, together with the minutes of the respective meeting of the TPRB, shall be published promptly after the review.

(vii) These documents will be forwarded to the Ministerial Conference, which shall take note of them.

D. Reporting

In order to achieve the fullest possible degree of transparency, each Member shall report regularly to the TPRB. Full reports shall describe the trade policies and practices pursued by the Member or Members concerned, based on an agreed format to be decided upon by the TPRB. This format shall initially be based on the Outline Format for Country Reports established by the Decision of 19 July 1989 (BISD 36S/406-409), amended as necessary to extend the coverage of reports to all aspects of trade policies covered by the Multilateral Trade Agreements in Annex 1 and, where applicable, the Plurilateral Trade Agreements. This format may be revised by the TPRB in the light of experience. Between reviews, Members shall provide brief reports when there are any significant changes in their trade policies; an annual update of statistical information will be provided according to the agreed format. Particular account shall be taken of difficulties presented to least-developed country Members in compiling their reports. The Secretariat

shall make available technical assistance on request to developing country Members, and in particular to the least-developed country Members. Information contained in reports should to the greatest extent possible be coordinated with notifications made under provisions of the Multilateral Trade Agreements and, where applicable, the Plurilateral Trade Agreements.

E. Relationship with the balance-of-payments provisions of GATT 1994 and GATS

Members recognize the need to minimize the burden for governments also subject to full consultations under the balance-of-payments provisions of GATT 1994 or GATS. To this end, the Chairman of the TPRB shall, in consultation with the Member or Members concerned, and with the Chairman of the Committee on Balance-of-Payments Restrictions, devise administrative arrangements that harmonize the normal rhythm of the trade policy reviews with the timetable for balance-of-payments consultations but do not postpone the trade policy review by more than 12 months.

F. Appraisal of the Mechanism

The TPRB shall undertake an appraisal of the operation of the TPRM not more than five years after the entry into force of the Agreement Establishing the WTO. The results of the appraisal will be presented to the Ministerial Conference. It may subsequently undertake appraisals of the TPRM at intervals to be determined by it or as requested by the Ministerial Conference.

G. Overview of Developments in the International Trading Environment

An annual overview of developments in the international trading environment which are having an impact on the multilateral trading system shall also be undertaken by the TPRB. The overview is to be assisted by an annual report by the Director-General setting out major activities of the WTO and highlighting significant policy issues affecting the trading system.