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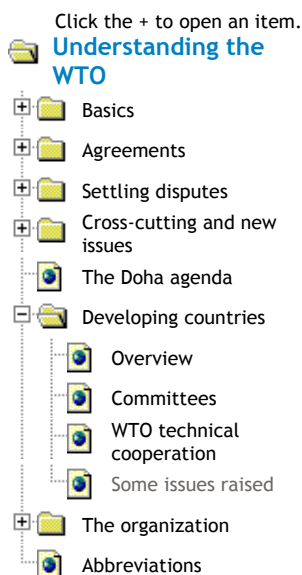
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UNDERSTANDING THE WTO: DEVELOPING COUNTRIES

Some issues raised

The Uruguay Round (1986-94) saw a shift in North-South politics in the GATT-WTO system. Previously, developed and developing countries had tended to be in opposite groups, although even then there were exceptions. In the run up to the Uruguay Round, the line between the two became less rigid, and during the round different alliances developed, depending on the issues. The trend has continued since then.



More introductory information

- > [The WTO in Brief](#)
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In some issues, the divide still appears clear – in textiles and clothing, and some of the newer issues debated in the WTO, for example – and developing countries have organized themselves into alliances such as the African Group and the Least-Developed Countries Group.

In many others, the developing countries do not share common interests and may find themselves on opposite sides of a negotiation. A number of different coalitions among different groups of developing countries have emerged for this reason. The differences can be found in subjects of immense importance to developing countries, such as agriculture.

This is a summary of some of the points discussed in the WTO.

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The WTO agreements, which were the outcome of the 1986-94 [Uruguay Round](#) of trade negotiations, provide numerous opportunities for developing countries to make gains. Further liberalization through the Doha Agenda negotiations aims to improve the opportunities.

Among the gains are export opportunities. They include:

- fundamental reforms in agricultural trade
- phasing out quotas on developing countries' exports of textiles and clothing



Peaks' and 'escalation': what are they?

Tariff peaks: Most import tariffs are now quite low, particularly in developed countries. But for a few products that governments consider to be sensitive – they want to protect their domestic producers – tariffs remain high. These are “tariff peaks”. Some affect exports from developing countries.

Tariff escalation: If a country wants to protect its processing or manufacturing industry, it can set low tariffs on imported materials used by the industry (cutting the industry's costs) and set higher tariffs on finished products to protect the goods produced by the industry. This is “tariff escalation”. When importing countries escalate their tariffs in this way, they make it more difficult for countries producing raw materials to process and manufacture value – added products for export. Tariff escalation exists in both developed and developing countries. Slowly, it is being

- reductions in customs duties on industrial products
- expanding the number of products whose customs duty rates are “[bound](#)” under the WTO, making the rates difficult to raise
- phasing out bilateral agreements to restrict traded quantities of certain goods – these “grey area” measures (the so-called voluntary export restraints) are not really recognized under GATT-WTO.

In addition, liberalization under the WTO boosts global GDP and stimulates world demand for developing countries’ exports.

But a number of problems remain. Developing countries have placed on the Doha Agenda a number of problems they face in implementing the present agreements.

And they complain that they still face exceptionally high tariffs on selected products (“[tariff peaks](#)”) in important markets that continue to obstruct their important exports. Examples include tariff peaks on textiles, clothing, and fish and fish products. In the Uruguay Round, on average, industrial countries made slightly smaller reductions in their tariffs on products which are mainly exported by developing countries (37%), than on imports from all countries (40%). At the same time, the potential for developing countries to trade with each other is also hampered by the fact that the highest tariffs are sometimes in developing countries themselves. But the increased proportion of trade covered by “[bindings](#)” (committed ceilings that are difficult to remove) has added security to developing country exports.

A related issue is “[tariff escalation](#)”, where an importing country protects its processing or manufacturing industry by setting lower duties on imports of raw materials and components, and higher duties on finished products. The situation is improving. Tariff escalation remains after the Uruguay Round, but it is less severe, with a number of developed countries eliminating escalation on selected products. Now, the Doha agenda includes special attention to be paid to tariff peaks and escalation so that they can be substantially reduced.

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An issue that worries developing countries is the erosion of preferences – special tariff concessions

granted by developed countries on imports from certain developing countries become less meaningful if the normal tariff rates are cut because the difference between the normal and preferential rates is reduced.

Just how valuable these preferences are is a matter of debate. Unlike regular WTO tariff commitments, they are not “bound” under WTO agreements and therefore they can be changed easily. They are often given unilaterally, at the initiative of the importing country. This makes trade under preferential rates less predictable than under regular bound rates which cannot be increased easily. Ultimately countries stand to gain more from regular bound tariff rates.

But some countries and some companies have benefited from preferences. The gains vary from product to product, and they also depend on whether producers can use the opportunity to adjust so that they remain competitive after the preferences have been withdrawn.

The ability to adapt: the supply-side

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Can developing countries benefit from the changes? Yes, but only if their economies are capable of responding. This depends on a combination of actions: from improving policy-making and macroeconomic management, to boosting training and investment. The least-developed countries are worst placed to make the adjustments because of lack of human and physical capital, poorly developed infrastructures, institutions that don't function very well, and in some cases, political instability.



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