CHAPTER II

The erosion of non-discrimination

A. NON-DISCRIMINATION: THE CENTRAL PRINCIPLE OF GATT

58. At the heart of the GATT was the principle of non-discrimination, characterized by the most-favoured-nation (MFN) clause and the national treatment provisions principally embodied in Article I. The MFN clause was regarded as the central organizing rule of the GATT, and the world trading system of rules it constituted. It required that the best tariff and non-tariff conditions extended to any contracting party[8] of the GATT had to be automatically and unconditionally extended to every other contracting party.

59. The choice of unconditional MFN as the defining principle of the GATT reflected widespread disillusionment with the growth of protectionism and especially of bilateral arrangements during the inter-war period. The Great Depression was widely seen as, at least partly, a consequence of the closing of markets and competitive exchange rate policies at the end of the 1920s. As a consequence, some key political leaders as well as most students of international trade concluded that MFN, and its attendant non-discrimination, was the best way to organize international trade among the community of nations.[9]

60. **Yet nearly five decades after the founding of the GATT, MFN is no longer the rule; it is almost the exception. Certainly, much trade between the major economies is still conducted on an MFN basis. However, what has been termed the "spaghetti bowl" of customs unions, common markets, regional and bilateral free trade areas, preferences and an endless assortment of miscellaneous trade deals has almost reached the point where MFN treatment is exceptional treatment. Certainly the term might now be better defined as LFN, Least-Favoured-Nation treatment.** Does it matter? We believe it matters profoundly to the future of the WTO. That is not to say the arguments are not complex. Nor is it to suggest that the spaghetti bowl can be easily or quickly unravelled. But all of us concerned to support the multilateral approach to international economic cooperation need to weigh carefully current trends and look for some answers if the risks to the system are, indeed, real.

61. The proponents of what we shall call, collectively, "Preferential Trade Agreements" (PTAs) see a number of justifications for action outside the multilateral system. Periodically, the motivations that drive governments towards bilateral or regional arrangements reflect simple frustration with the multilateral approach. In a sense, this Consultative Board was constituted as a consequence of widespread frustration with the paucity of recent multilaterally negotiated advances in the World Trade Organization. Our purpose - and the objective of this Report - is to sustain constructive engagement by governments at the negotiating table in Geneva that is focused, efficient and purposeful in manner.

62. However, it would be wrong to dismiss PTAs as simply the easy way out. Other arguments are commonly put forward in their defence. The first is that groups of willing nations - smaller than the full membership of the WTO - may well wish to develop trade relationships that are both broader and deeper than is easily achievable on a global scale. There is certainly, also, some experience to show that such agreements - the EU and NAFTA are the most obvious - can act as spurs to the more hesitant development of the multilateral system. Protectionism at national level can be confronted and defeated to the benefit of later multilateral negotiations. Of course, there must be concern that some PTA agendas might lead the WTO in the wrong direction, as we shall discuss, but that risk should not be used to deny some potential benefits.

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[8] Participants in the GATT were known as contracting parties.

[9] US Secretary of State (1933-1944) Cordell Hull was a principal proponent of MFN. John Maynard Keynes, arguably the greatest economist of the 20th century, while originally against it, became an impassioned advocate as well. Nearly all of the great economists of international trade of the time when GATT was launched, such as Gottfried Haberler of Harvard University, were staunch multilateralists and supporters of non-discrimination.

63. Further, the political or foreign policy motivations that drive some PTAs also have their positive as well as negative connotations. Paying off allies is not an easily defensible approach to trade policy. Supporting reform, stability, poverty alleviation and the fight against corruption may well be. The EU was itself founded in an effort to provide peace, stability and security in a region that had known enormous conflict. It was a noble cause and remains so as new countries from behind the old Iron Curtain enter and themselves become part of the customs union with which the rest of the world trades.

64. The use of non-reciprocal preferences for developing countries - especially the least-developed among them - has grown strongly over the past decade. As we shall see, the trend is not wholly positive. Nevertheless, we have to accept that access to such treatment is now long established in the WTO and is reasonably regarded as part of the "acquis" of its developing Members. Moreover, the commercial value to many firms in poor nations, struggling to find a small niche for themselves in a tough global economy, is real. Such firms frequently need some positive discrimination if they are to stand a chance. So, for every importer seeking to cope with the spaghetti bowl of PTAs there are manufacturers, farmers and traders in developing countries whose best opportunity lies in exploiting a small comparative advantage born of a preference.

65. In that same context, it is also understandable - politically at least - that small groups of developing countries may see value in liberalizing within regional trade arrangements as a means of working their way in (or moving up the learning curve) to the harsher competitive realities of the global economy. Mercosur[10] is one example of such a grouping.

66. Thus, our basic approach to PTAs has to be, first, to appreciate the concerns; second, to accept the reality of the situation we have now reached with the massive spread of PTAs over the past decade; and, third, to look at where we go from here.

B. EXCEPTIONS TO A RULE - DISCRIMINATION IN THE GATT

67. Despite the pervading importance of the non-discrimination principle, the GATT contained explicit Articles to permit discrimination, and departure from MFN, in particular circumstances. These exceptions fell into two classes: those which were exceptions to the MFN rule for functional reasons; and those that exempted certain classes of contracting parties from the rules accepted by all others (or modified the rules for them).

68. In regard to the first class of exceptions, Article XXIV was the most important. This provision permitted the formation of Free Trade Areas and Customs Unions, described widely today as Preferential Trade Agreements (PTAs), but also defined the rules that would apply to their formation. Although of a quite different nature, other provisions allowed discriminatory action against imports - Article VI (anti-dumping measures and countervailing measures against subsidized goods - both directed not just at countries, but individual firms) and, more recently the Uruguay Round Agreement on Safeguards that effectively replaced Article XIX of the GATT.

69. In regard to the second class of exceptions, the original GATT Agreement allowed for the developing countries to have special rules, as in Article XVIII under which they had different, less onerous obligations for balance of payments purposes and to develop "infant industries". Article I:2 provided blanket exemption from the MFN rule in regard to pre-existing preferences under the old colonial regimes - now, largely phased out.

[10] Members of Mercosur: Argentina, Brazil, Paraguay and Uruguay.

70. What became known as Special & Differential Treatment ("S&D") developed over time. Part IV of the GATT was added in the 1960s and provided for discriminatory "advantages" for developing countries in GATT negotiations. They were explicitly relieved of any requirement to reciprocate the benefits provided by developed countries. In 1971, a waiver was adopted to temporarily legitimise a "Generalized System of Preferences (GSP)". This later became part of the 1979 "Enabling Clause". Such GSP preferences were subject to few rules, with the selection of products, the level of preferences, and the choice of beneficiaries, left to the discretion of each developed country. It also provided cover for preferences among developing countries. Further, it allowed for S&D with respect to rules on non-tariff measures under the agreements negotiated in the Tokyo Round. A number of agreements provided for limited, voluntary membership. In the Uruguay Round, where all agreements required the commitment of all Members, S&D was used to permit easier, usually delayed, implementation terms to developing countries. This has again become an issue prior to, and during, the Doha Round.

71. In 1972, the European Communities agreed the Lomé convention, which folded the previous colonial preferences into a preferential system aimed at the African, Caribbean and the Pacific countries (the ACP group).

72. The GATT 1979 Understanding now called the "Enabling Clause" effectively made GSP permanent and further extended discriminatory preferences on an additional basis to the so-called least-developed countries (LDCs). The Enabling Clause also confirmed the notion of non-reciprocity by developing countries in trade negotiations.

C. DISCRIMINATION: THE CENTRAL REALITY OF THE WTO

73. Therefore, by the time the GATT had yielded to the WTO at Marrakesh, the principle of non-discrimination had been badly dented. As detailed below, while Article XXIV had been envisaged as an exception to MFN that would be judiciously and only occasionally exercised, the reality by the time of the formation of the WTO was that the number of PTAs had risen dramatically; it has almost exploded since.

74. The reality today is that the WTO presides over a world trading system that is far from the vision of the architects of the GATT. This is best illustrated by reference to the EU which now has its MFN tariffs fully applicable to only nine trading partners[11], albeit including the US and Japan. All other trading partners are granted concessional market access under Article XXIV, the Enabling Clause, GSP schemes, "Everything but Arms" and other relationships.

D. CUSTOMS UNIONS AND FREE TRADE AGREEMENTS

75. From the outset, GATT Article XXIV has allowed customs unions and free trade agreements to exist, subject to conditions. In addition, the Enabling Clause has also allowed preferential trade liberalization to occur, in a much less demanding fashion, for the developing countries outside the Article XXIV framework. However, the sad fact is that even the relatively weak disciplines of Article XXIV - principally the condition, albeit undefined, that barriers to "substantially all" trade between PTA members should be eliminated - have been poorly enforced.

76. Out of a total 300 PTAs notified to the GATT and the WTO up to October 2004, 176 were notified after January, 1995.[12] Of these, 150 PTAs are currently in force, and an

[11] Australia; Canada; Chinese Taipei; Hong Kong, China; Japan; Korea; New Zealand; Singapore; and the US.
[12] These figures correspond to PTAs notified to the GATT/WTO under GATT Article XXIV, GATS Article V and the Enabling Clause, including accessions to existing agreements.

additional 70 are estimated to be operational, although not yet notified. By the end of 2007, if PTAs reportedly planned or already under negotiation are concluded, the total number of PTAs enforced might well approach 300.

77. In only one case[13] was consensus reached in an examination of an agreement under Article XXIV provisions. In practice, there are now just too many WTO Members with interests in their own regional or bilateral arrangements for a critical review of PTA terms to take place and for consensus on their conformity to be found.

78. Originally, economists were sceptical of PTAs simply because they, in line with the optimistic assumption of the architects of Article XXIV, assumed that the effects of PTAs could be analyzed as if there was only one PTA to consider. The classic analysis of a PTA in this vein was by the economist Jacob Viner. He wrote that a PTA (which he simply called a "customs union"), even as it reduced tariffs, was not necessarily welfare-enhancing either for its members or for non-members. He showed this by demonstrating that a PTA could divert trade from a lower-cost non-member country to a higher-cost member country.

79. International economists since Viner's path-breaking work have known that a single PTA must therefore be judged by whether the trade creation it leads to (implying a shift in production from one high-cost member to another low-cost member) outweighs the trade diversion it may create. Ongoing research into the trade diversion problem by economists familiar with the complexity introduced by trade diversion is not reassuring.

80. Observers and critics of PTAs, however, have focused on new issues that Viner's analysis had not contemplated. There are three important problems:

81. First, as noted already, PTAs have multiplied. The result is that there is more than an element of confusion in the world trading system. This is not merely because multiple preferential rates are being applied to multiple trading partners - and often within schemes that have different timelines for reaching the final zero or low-duty preferential rate. The administration of these schemes is complicated. Preferential origin rules are complex and inconsistent. We are still without the harmonized rules of origin promised at the end of the Uruguay Round - though, admittedly, preferential arrangements were excluded from the negotiating mandate. That is a pity; especially since the globalization of production and trade means that many products contain components and inputs from a variety of sources. As of now, "local value added" or "transformation" tests are built in, purely arbitrarily, to define origin.

82. Many observers have noted that this situation increases substantially the transaction costs of trade in the trading system today. But, as South Africa's former Trade Minister Alec Erwin has emphasized, these costs are particularly onerous for small corporations and traders, and hence for the developing countries.[14] In effect, they constitute a significantly greater tax on the trade of poor nations than for larger corporations from the rich countries. Added to the formal costs of administering preferences, the potential for informal costs, through corrupt practices at the border - for instance, as bribes are paid to ensure decisions on origin attract the preferential tariff - must be added in to the equation.

83. Second, are PTAs "building blocks" or "stumbling blocks" in the opening of markets at the multilateral level? Economists have discussed two alternative ways in which this question may be analyzed: if a group of countries form a PTA, will there be an incentive or a disincentive for the PTA to add members and

[13] The customs union between the Czech Republic and the Slovak Republic after the break up of Czechoslovakia.
[14] Speaking at the World Economic Forum in Davos in 2001.

would it handicap or prompt them to liberalize their trade barriers on non-members?[15] Again, the conclusions are not always encouraging.

84. While this economic debate remains inconclusive, some policy-makers embrace the concept of "competitive liberalization": participation in PTAs provides a spur to liberalization on multiple fronts and contributes to innovative policies in such areas as investment rules and market regulations. While there may be some truth to this proposition, the unregulated proliferation of PTAs tends to create vested interests that may make it more difficult to attain meaningful multilateral liberalization. Also, the last generation PTAs has seen diminished attention to tariff issues relative to increased focus on regulatory issues in goods and services trade. This is creating complex networks of trade regimes potentially undermining transparency and predictability in international trade relations. Thus, while these so-called WTO-plus PTAs may act as testing grounds for new multilateral trade policy disciplines and regulations, the discretion enjoyed by PTA parties in designing such regulatory regimes can strike a serious WTO minus note for the multilateral trading system.

85. We can look further than theoretical analysis. In the Doha Round we have witnessed the hesitations of many developing countries, enjoying GSP or PTA preferential access to rich-country markets, to support ambitious objectives on MFN tariff reductions that would erode the value of their preferences. There is, therefore, real reason to doubt assertions that the pursuit of multiple PTAs will enhance, rather than undermine, the attractiveness of multilateral trade liberalization - at least in the short and medium term. This doctrine has been described as one of "competitive trade liberalization". Critics suggest it is based on an arguable and possibly implausible assumption that the relationship between PTAs and multilateral trade liberalization is complementary.

86. At the very least, the diversion of skilled and experienced negotiating resources into PTAs - especially for developing nations and probably for rich countries also - is too great to permit adequate focus on the multilateral stage. Despite all the efforts at training negotiators in developing countries, there are just not enough capable people for most of them to concentrate adequately on more than one serious trade negotiation at a time. In recent years, we fear it is the WTO that has lost out in terms of negotiating focus.

87. Third, one other unanticipated and significant issue that has arisen with the growth of PTAs is the injection of particular "non-trade" objectives into trade agreements. Apart from comparatively ambitious and one-sided provisions on intellectual property rights, we have seen an increasing tendency on the part of preference givers to demand significant labour and environmental protection undertakings - and even restrictions on the use of capital controls - as the price for preferential treatment. The evident fear is that such requirements become not merely "templates" for further PTAs but the forerunners of new demands in the WTO. After all, as more and more countries concede non-trade provisions of this kind at the PTA level the less these WTO Members are likely to stand out against demands for their eventual inclusion in the multilateral rules. We would argue that if such requirements cannot be justified at the front door of the WTO they probably should not be encouraged to enter through the side door.

E. SPECIAL & DIFFERENTIAL TREATMENT

88. If there is recognition of the serious problems posed by PTAs, and the preferences they entail to the multilateral trading system, there is a similar need to recognize the fault lines in the other significant source of discrimination in the world trading system: those arising from special and differential treatment (S&D) for the developing countries.

[15] See the citations to the work of Richard Baldwin, Pravin Krishna and Philip Levy, in particular, in Bhagwati, Krishna and Panagariya (1999, Introduction and Chapters 1 and 2).

89. **S&D is part of the WTO's legal "acquis" and remains a valid concept, although the mechanisms of S&D have to be compatible with WTO aims. In light of the present characteristics of the trading system and global economic realities, these mechanisms require further study and research that the Board recommends be undertaken.**

90. As it developed in the GATT and the WTO, S&D reflected two early and central assumptions about why the developing countries should be subjected to different rules: first, that the economics of trade liberalization was not valid for the poorer countries so that demands for reciprocal trade concessions[16] from them was inappropriate; and second, that reciprocal trade concessions by the developing countries, in any event, were not worth the bother because their markets were insignificant.

91. Today, the second assumption does not hold for many developing countries. Hence, the demands for "graduation" - moving the more advanced economies towards mainstream WTO obligations. This has long been a difficult issue within the WTO and, indeed, the United Nations family. With a good number of "developing" countries now performing better in terms of GDP per capita than some Organisation for Economic Co-operation and Development (OECD) members, the issue will have to be grappled with, even at the cost of some solidarity among developing countries.

92. However, the bigger issue today is with the first assumption. Many empirical studies[17] of trade policies in the developing countries, underlined two principal lessons. First, they concluded that autarkic, inward-looking policies were harmful to the developing countries and that the doctrine of infant industry protection had to be resorted to carefully, not indiscriminately. Second, it was apparent that their own protection undermined the developing countries' export performance by creating a "bias against exports". Effective market access to developed markets was being frustrated and countervailed by the protection of the developing countries themselves. Developing countries were increasingly saddled with higher average manufactures tariffs than those of the developed countries and all the economic costs that went with them.

93. Nevertheless, the two assumptions led towards an S&D doctrine that, not merely should developing countries not be asked to make any concessions in trade negotiations, but that developed countries should go further and offer discriminatory (non-reciprocal) market access to them. The analysis by many economists of the GSP and related schemes that have materialized has raised substantial doubts about the wisdom of such discrimination. Among the many criticisms are the following:[18]

94. First, GSP was to be granted unilaterally by developed countries and for developmental purposes. In reality, the recipient countries have been burdened with obligations unrelated to trade, which are expressed as conditions to receiving preferences. Thus, it can be argued, preferences are no longer unreciprocated. A recent WTO Appellate Body finding,[19] overturning part of a panel ruling in the GSP case brought by India against the EU, seems to establish that there is at least some limitation on what developed countries can demand as conditions to receiving preferences. Nevertheless, by enabling discriminating conditions among

[16] The "Enabling Clause" states: "The developed countries do not expect reciprocity for commitments made by them in trade negotiations to reduce or remove tariffs and other barriers to the trade of developing countries, i.e., the developed countries do not expect the developing countries, in the course of trade negotiations, to make contributions which are inconsistent with their individual development, financial and trade needs. Developed contracting parties shall therefore not seek, neither shall less-developed contracting parties be required to make, concessions that are inconsistent with the latter's development, financial and trade needs".

[17] Several in-depth projects under the auspices of the OECD (led by Little, Scitovsky and Scott), of the NBER (National Bureau of Economic Research, led by Bhagwati and Krueger), and of the World Bank (led by Balassa) during the late 1960s through 1970s.

[18] See the illuminating discussion of S&D, in terms of GSP, by Arvind Panagariya, "EU Preferential Trade Policies and Developing Countries", The World Economy, Vol.25 (10),November 2002, pp. 1415-32. The discussion of S&D in its more recent WTO versions, discussed below, can be found in the excellent paper by Alexander Keck and Patrick Low, "Special and Differential Treatment in the WTO: Why, When and How?", Economic Research and Statistics Division, WTO, May 2004.; and also in Bernard Hoekman, "Overcoming Discrimination against Developing Countries: Access, Rules and Differential Treatment".

[19] "European Communities—Conditions for Granting of Tariff Preferences to Developing Countries," Appellate Body Report, WT/DS246/AB/R, 7 April 2004.

GSP-eligible countries, non-trade conditions introduce clout for advancing what are principally developed country lobbying agendas.

95. These conditions also introduce instability in the GSP schemes since the benefits are not binding. For instance, in April 1992, the US terminated India's GSP privileges on $60 million worth of exports of pharmaceuticals and chemicals on the pretext, backed by unilateral determination, that India did not have adequate intellectual property protection.

96. Second, grantor, rather than grantee, country interests have determined the product coverage and the preference margins in GSP schemes. The EU's GSP system, for example, increasingly became differentiated on product coverage as protectionist caps were imposed as soon as GSP led to successful exports.
A reputed critic has written: "Yearly tariff quotas were established for dozens of countries and tens of thousands of products. Some tariff quotas were so tight that they were filled within the first three days of each year. Others (for jet aircraft for example) were not taken up at all. In fact, different sets of rules and margins of preference soon developed for different categories of products. All areas of potential comparative advantage for developing countries were subject to tight tariff quotas, meagre preference margins and strict rules of origin."[20] In fact, until very recently, the EU GSP schemes excluded agricultural products almost completely. The "Everything but Arms" (EBA) initiative, designed to give added preferential access to LDCs, will ultimately include all agricultural commodities - though for some important products (rice, bananas and sugar) after a considerable delay.

97. Another source of insecurity has been introduced through alterations in local content requirements within increasingly complex rules of origin. For instance, the US granted GSP preference under the Caribbean Basin Initiative when the eligible products had 35% local content. However, when corporations invested in Jamaica and Costa Rica to convert European wine into ethanol so as to reach the 35% local content, and exports rose, the US raised the local content required for GSP eligibility to 70%, ruling out access to GSP benefits.[21]

98. More generally, the application of identical local content rules can put the smaller, less developed countries at a disadvantage because their manufacturing sectors are often limited to simple assembly operations in which local content is necessarily low.

99. Third, as might be expected from the preceding arguments, empirical studies of the impact of GSP schemes conclude that little benefit has in fact accrued to developing countries. One economist whose sympathies for developing countries are not in doubt has offered the following judgment, writing in 1990: "This paper suggests that the available empirical studies, limited as they are, point to the conclusion that special and differential treatment has had only a marginal effect on country economic performance, especially through GSP. And in the more rapidly growing economies, such as Korea; Chinese,Taipei; Turkey and others, there is little evidence that special and differential treatment has played much of a role in their strong performance."[22]

100. Fourth, the offer of preferential market access, even as it is hedged and fudged in the ways detailed here, serves to undermine the incentive and the ability of developing countries to stand up to their own domestic protectionist pressures. While unilateral trade liberalization is relatively common, reciprocity still has its uses and remains a powerful mechanism for enabling governments to open markets.
A recent econometric analysis of annual data sets for 154 developing countries eligible for the US GSP programme, in the period 1976 -

[20] Victoria Curzon-Price, (2004), "Place of Non-discrimination in a Rapidly Integrating World Economy", Cordell Hull Institute Trade Policy Analyses Volume 6.
[21] This example is cited by Bernard Hoekman and M. Kostecki, "The Political Economy of the World Trading System", Oxford University Press, 2001.
[22] John Whalley, "Non-discriminatory Discrimination: Special and Differential Treatment under the GATT for Developing Countries", The Economic Journal, Vol.100, December 1990,pp. 1318-28.

2000, compares those dropped with those who remained on GSP. It demonstrated that those dropped from the GSP programme opened their markets significantly.[23]

101. Finally, the tendency of GSP beneficiaries to become over-reliant on preferences (or trapped by the nature of the system) at the expense of industrial and agricultural diversification is a common and observable phenomenon hardly requiring analytical or theoretical confirmation.

102. Though we believe it is important that WTO Members consider with some care the benefits and drawbacks of preferential market access as it is often offered, other aspects of S&D are less problematic. Under the WTO regime, S&D has also taken the form of exemptions from disciplines and rules, including with respect to agreements on non-tariff barriers. Where these take the form of extended periods for implementation, owing to institutional and other capacity handicaps in developing countries, they make eminent sense. But it needs to be remembered that the longer the time taken to introduce reform - at the institutional and regulatory levels as well as market opening - the longer the time that the gains from trade liberalization will be delayed. Hence, an appropriate response to the concerns over trade liberalization has to include the external financing by aid agencies of developing country adjustment assistance programmes, as proposed elsewhere in this Report.

F. DISENTANGLING THE SPAGHETTI BOWL?

103. Finally, while our political senses tell us that little can be done effectively to prevent some further spread of PTAs, **we would like to think that governments will take into account the damage being done to the multilateral trading system before they embark on new discriminatory initiatives. If the motivation is to promote non-trade agendas or simply an instinctive desire to "catch up" with others or follow suit, they should show restraint. At the very least, we need to be clear that future initiatives are taken above all other considerations genuinely to improve trading and development prospects of beneficiaries or PTA members.**

104. In the longer term, it is clear that reducing MFN tariffs to zero can eliminate the spaghetti bowl problem (at least with respect to customs duties, if not for non-tariff measures). Since preferences are relative to the MFN tariffs, if the latter go to zero so do the preferences. **So, if old PTAs cannot be scrapped and new ones cannot be prohibited, the remedy to the spaghetti bowl of discriminatory preferences that they spawn would be to attack them indirectly through effective reduction of MFN tariffs and non-tariff measures in multilateral trade negotiations. Hence, the urgency of success in the Doha Round is manifest from this perspective - and perhaps a commitment by developed Members of the WTO to establish a date by which all their tariffs will move to zero should now be considered seriously.** But, as is often the case in public policy, while PTAs increase the necessity for MFN tariffs to be taken to zero, their perceived discriminatory value also increases the incentive not to do so.

105. **The other route to a less damaging approach to PTAs must clearly be clarification of Article XXIV and a better-organized means of administering its provisions**. This is on the table in the Doha Round. Progress to date has been slow with respect to the reform of the WTO rules, where long-standing problems are now compounded by the increasingly prominent place given to PTAs in countries' trade policies. However, negotiations have moved in the area of transparency. **Parties to PTAs examined in the Committee on Regional Trade Agreements may now opt for entrusting the Secretariat with the factual presentation of their agree-**

[23] Caglar Ozden and Eric Reinhardt, "The Perversity of Preferences: GSP and Developing Country Trade Policies, 1976-2000", February 15, 2002; mimeographed. The authors also consider specific examples such as how Chile, after being dropped from the US GSP programme in 1988, responded immediately by reducing Chile's average external tariff from 20 to 15%.

ment. This modest development - implemented on an experimental and voluntary basis - could easily be extended to a form of Trade Policy Review Mechanism of individual PTAs. Thus, on a regular basis, WTO Members would have a chance to review and comment upon the developments within, and external impact of, PTAs. That would entail no legal ramifications but would certainly add to transparency and understanding.

106. It is worth recalling the words of John Maynard Keynes, in the House of Lords in London, when the negotiations at the end of the war had allowed him to see the issue with clarity and perspicacity:[24]

107. "The policies being proposed in 1945 for adoption by the United Kingdom aim, above all, at the restoration of multilateral trade…the bias of the policies before you is against bilateral barter and every kind of discriminatory practice. The separate blocs and all the friction and loss of friendship they must bring with them are expedients to which one may be driven in a hostile world where trade has ceased over wide areas to be cooperative and peaceful and where are forgotten the healthy rules of mutual advantage and equal treatment. But it is surely crazy to prefer that".

[24] Quoted in Jay Culbert, "War-time Anglo-American Talks and the Making of the GATT", The World Economy, Vol. 10(4), 1987, pp. 381-408; page 395.