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Reply to the commentators

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We are grateful to the commentators for their valuable observations. We cannot do justice to the full range of comments we have received. Below we respond briefly to some of the issues raised.

We do not believe that the 'influence that small and poor countries have in the WTO [is] counterproductive' and that there are 'second tier members' or 'second tier interests'. If the paper conveys this impression, we welcome the opportunity to dispel it. We believe that the empowerment of the small and poor is likely to contribute to more egalitarian outcomes of negotiations, and this is unquestionably desirable. In some areas, however, the goal of ensuring equity will conflict with the goal of enhancing efficiency through greater multilateral liberalization. To deny this divergence of interests does disservice to the small and poor countries and perpetuates the illusion that multilateral liberalization is automatically Pareto improving. Instead, our paper, by drawing attention to the divergence of interests, seeks to improve our understanding of the situation of small and poor countries in the WTO. It thereby highlights the need for, and may facilitate the design of, mechanisms that ensure these countries are better off, which is not only desirable but also necessary for a successful Doha outcome.

On the categorization of countries, our objective was not to provide precise economic or legal criteria for drawing boundaries. Rather we were concerned with illustrating the peculiar situation in the WTO of certain broad types of countries that (a) are so small and poor that they have insignificant domestic markets and are therefore unable to participate in the mercantilist exchange of market access, and (b) have preferential access to foreign markets and so could lose from multilateral liberalization. Which countries fulfill condition (a) is really determined in the negotiations themselves, and revealed by the seriousness of the effort that negotiators make in prying open specific markets. The countries that fall into category (b) are selected by the preference-granting countries. In other words, we believe that the sorting of countries into 'small/poor' and 'large/rich' will not and cannot be done *ex ante* on the basis of precise criteria but will happen endogenously, shaped largely by the attitudes of partner countries.

The problem of small market size cannot be overcome by small countries forming coalitions, because even their aggregate market size is insignificant. The aggregate share in world imports of 62 small and poor countries listed in our paper is 1.1 per cent. The possibility of forming political coalitions is of course not ruled out – in fact, the issue of blocking coalitions is central to the paper.

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We agree that a more thorough empirical assessment is needed of the impact on small and poor countries of multilateral liberalization. For example, it is well-known that the value of preferential access is substantially diluted by restrictive rules of origin and other impediments that often induce supposed beneficiaries to export through the non-preferential route. We would ideally have liked to compare the costs of preference erosion with the benefits of improved access when MFN rates decline. But this demanding exercise must remain a priority for future research.

We agree that any technical assistance must be devoted to addressing supply constraints in the small and poor countries as well as any adjustment costs arising from their own liberalization. And we accept that our treatment of how credible technical and financial assistance would be generated and how it would work is very preliminary. We acknowledge clearly in the paper doubts about the feasibility of this desirable option. Finding a solution to this problem must be a central concern for negotiators and policy makers, and a high priority for researchers. Maintaining an efficient trading system that is responsive to the interests of all members could well hinge on this.

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