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**VESTED INTERESTS AND TRADE POLICY-MAKING:
THE INFLUENCE OF BUSINESS
AND NGOS IN TRANSITION
AND DEVELOPING ECONOMIES**

It is often claimed that globalization suffers from a deficit of democracy. What is the place of advocacy by various interest groups in the process of trade policy-making and international trade negotiations which shape transition economy and developing country participation in the global trading system? What is and what should be the role of companies and business organizations in these processes? How to encourage government responsiveness to trade-related concerns of the business community? How to promote the interest of the private sector and civil society in international trade negotiations, such as the Doha Round? This study provides an overview of the issue, discusses the results of a behaviourist study conducted in the *milieu* of business, civil society and government, and offers suggestions on how to improve business-government interactions in trade policy-making of the countries concerned.

Keywords: Business advocacy, Lobbying, Trade policy, Governance, Business-government relations, NGOs, Economic development

INTRODUCTION

Business advocacy – if transparent and legitimate – can help pluralistic society to shape trade policies through democratic decision-making and to work out solutions that are socially acceptable. However, companies and industrial associations from economies in transition and developing economies are not sufficiently active in this process. This results in the countries' passive attitude in international trade negotiations and puts bureaucrats – unaware of managerial concerns and objectives – in the driver's seat.

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Trade policy-making is a complex process. Dozens or hundreds of legislative acts are needed to manage foreign trade regimes, agricultural policies, technical standards, or trade-related intellectual property rights. Although business organizations – such as chambers of commerce, industry associations, or individual companies – have virtually no formal access to the World Trade Organization (WTO) or regional trade agreements, their influence is strongly felt due to advocacy targeted at trade negotiators and policy-makers. As Nobel laureate economist Joseph Stiglitz (2002) noted, the trade and commerce ministers who represent member states in the WTO are *closely aligned with the commercial and financial interests of those in the advanced countries*. Such advocacy activities aim at persuading and negotiating with the various stakeholders – at home and in international fora on matters of opportunities and threats resulting from various policy options. Advocacy is part of a democratic process and is useful for obtaining information and reaching a “balanced” policy outcome. Though the role of business has been rather limited in the past, this situation is changing as business organizations from emerging economies become more pro-active in the trading system. It is thus important to consider what should be the direction of such change in the trade policy regime and in the business organizations concerned.

Business advocacy refers to activities of business organizations aimed at influencing government decisions and public opinion as part of the legitimate and democratic process of policy-making. This form of advocacy involves (i) monitoring trade policy-making for a group interest, (ii) building a case in favour of that interest, (iii) presenting it – with varying degrees of pressure – to decision-makers for their acceptance and support, (iv) assisting the authorities in trade negotiations, (v) controlling the advocacy process, (vi) evaluating the benefits obtained, and (vii) communicating the results to the fund-providers. Those activities may be coupled or de-coupled into patterns best suited to a particular situation as shown in Box 1.

Box 1

Illustrative List of Business Advocacy in Trade Policy-making

The Doha Round of multilateral trade negotiations (WTO) is concerned with the proposal to allow low-income countries to import generic copies of patented drugs. The proposal has been blocked by pressure from The International Federation of Pharmaceutical Manufacturers Associations (IFPMA) and its member associations to boost drug patents protection. In international fora such as the WTO and the World Health Organization (WHO), IFPMA is lobbying governments of drug exporting nations to support stronger patent protection for medicines. The IFPMA's efforts are criticised by health campaigners such as Médecins sans Frontières (MSF), Oxfam and the US-based Health Gap that oppose stricter protection on life-saving drugs of major importance to black Africa and other poor nations.

The Bulgarian Industrial Association (BIA) – a voluntary, non-government, non-profit organization of Bulgarian business and industry – participates in the preparation of documents and position papers required in the process of bilateral negotiations with the European Union (EU), in the Doha Round negotiations and in domestic consultations on various trade policy options.

The Brazilian Bar's Committee on the GATT was able to influence the Uruguay Round negotiations on trade in legal services both due to its intellectual leadership in the debate on the issue and its co-ordination efforts with other Bar Associations within the MERCOSUR, a South American common market among Argentina, Brazil, Paraguay and Uruguay (Arkell, 1994).

The US business community supports Russia's accession to the WTO under condition of better market access for the US exporters to Russia and an effective improvement in Russia's enforceable legal system with transparent and uniform laws (Naray, 2001).

Source: author's own

1. REVIEW OF LITERATURE

The preponderance of research on business involvement in trade policy-making deals with political economy and legal issues. Numerous studies discuss the constitutional foundation of trade policy and the role of pressure groups in that context. The conceptual insights of the economic theory of democracy (Downs, 1954) and the analytical framework of the Virginia School of Constitutional Economics, developed by G. Tullock and other public choice academics, have been used to examine domestic and international trade policy-making. The political economy analysis of the issue has been developed by Finger (1979), Tumlrir (1985), Hillman (1982) and Olson *et al.* (2000) and related legal aspects have been discussed by writers such as Bronckers (1996), Esty (1998), Hudec (1993), Jackson (1997), Petersman (1998) and Roessler (1985).

Political science literature added to that vision a series of studies by such authors as Winham (1989), Goldstein (1993), Hocking (1999) and McMenamain (2002). The latter two studies suggest, for example, that with

the demise of the party authority in the post-communist era, industry groups in the post-Soviet block countries and China might be able to establish powerful super-lobbies exercising a strong influence on trade policy – a topical issue in the context of the trade tensions generated by the dynamic Chinese exporters during the first decade of this century.

The political economy vision permitted us to gain insight into the pattern of protection (Ray, 1990, Rodrick, 1995, Hillman, 1989). Several studies have dealt with country and industry-specific variables and their contingent influence on the level of barriers to trade. Finger (1991) found that the structure of protection was influenced by a variety of industry and economic factors, including size of the industry; and a subsequent study confirmed several of the above results for Mexico (Grether *et al.* 2001). In a series of papers, Rugman and Verbeke (1989, 1990, 1991) developed an analytical framework integrating business strategy and trade policy-making (2001). However, the concept has not yet been empirically tested, partly due to the difficulty of gathering the necessary data. In general, behaviourist studies on business-government interaction in trade policy have been neglected. This research seeks to make a contribution towards filling this gap.

Several guidelines drawn from the academic literature are of interest to behaviourist studies. A good starting point is the idea that the basic feature of pluralism of power in a democracy is that it is widely dispersed among various groups. The right question is, therefore: who should make trade policy decisions and what should be the place of business organizations in a democratic society? Three concepts are particularly relevant in this context: (i) economic efficiency, (ii) political markets and (iii) neo-pluralism.

Economic efficiency. Trade theorists frequently assume that the government acts in the collective interest and that it tends to maximize the nation's social welfare (Corden, 1997). The government's objective function is thus supposed to be identical with that of society and if differences do exist, they are viewed as anomalies that should be eliminated. This vision has the merit of spelling out what is the most appropriate welfare-maximizing trade policy and what instruments should be used to implement the various government objectives. The business community's role in this picture is reduced (i) to providing information to trade policy-makers so that their decisions are economically rational, and (ii) to conducting international transactions subject to government controls. However, this vision neglects the fact that government is a political institution and that its rationale does not necessarily coincide with the economic objective to maximize social welfare. Therefore, it is necessary to supplement the economic efficiency

approach with a political market approach which emphasizes the political rationality of a democratic government.

Political markets. The political market model assumes that government decision-making is shaped by pressure and support by various interest groups in society (Downs, 1954), and government is perceived in that model as a neutral referee among the groups concerned (Tullock, 1967). The interest groups or lobbies want “access” to decision-makers, who make choices for or against them. The resulting advocacy networks may be seen as a hyphen, linking government and interests in society (Norton and Gratham, 1986), and it may be argued that such a hyphen results in better trade policy. The reason is that the government is being told how trade policy may work when applied and that interest groups may choose to support a given policy option and to facilitate its implementation. The political market model has greatly influenced our thinking about policy making. Indeed, most English language textbooks have taken the stance – implicit or explicit – that business advocacy in policy issues is a guarantor of pluralism and, therefore, it should be encouraged.

Neo-pluralism. This variant of the political market approach recognizes that not all interest groups in a liberal economy are equal in influence and power, and hence, in access, to the government. It is assumed that of all the interest groups, the most influential in a market economy is business and that it is privileged over all other interests. Neo-pluralists consider that democratically elected governments need prosperity to win elections and that business – being a main generator of prosperity – is likely to have its requests satisfied more frequently than other constituencies (Lindblom, 1977, Moloney, 1997). This theory provides a realistic vision since most advocacy in the trading system has been done for and on behalf of business interests. However, that situation is increasingly challenged by civil society which favours models of policy-making which emphasize not only economic but also social and human concerns.

2. THE MODEL

The main variables determining government responsiveness to advocacy efforts in trade policy-making are listed in Figure 1.

The term *government responsiveness* refers to the perceived action of government to accommodate the preferences voiced by business

organizations. Several variables are likely to influence that *responsiveness* as shown in Figure 1.

Quality of business organizations. A business regime is defined as a set of rules guiding real-life business interactions. Obviously, every manager is interested in the business regime in which his company operates. How do local markets work? What are the most successful patterns of company relations with their various publics, etc? Differences in business regimes between developed and developing countries have many implications for trade-related advocacy. Table 1 briefly compares the *modus operandi* of business communities in the OECD (developed) area and in the emerging economies such as Brazil, China, India, Pakistan, the Philippines, South Africa and Russia.

Table 1

The Business Systems in Developed Economies versus Emerging Economies Compared

Developed Economies	Emerging Economies
Stability of political, administrative and business environment encourages investment in advocacy.	Rapid evolution of business patterns and frequent changes in government staff make advocacy outcomes difficult to predict.
State institutions have solid traditions and democracy is firmly in place. Advocacy activities tend to be regulated to favour legitimacy.	Democracy is young or non-existent and state institutions are weak. Trade policy decisions tend to be non-transparent and certain interest groups benefit from preferential access to decision-makers.
Informal business sector is relatively limited. Most business interests are organized and represented by a web of business organizations.	Informal business sector is important in terms of employment and output, but it is rarely able to voice its concerns.
Competitive advantage is based on capital, technology and managerial skills. Business organizations work hard to protect their competitive position in the global economy (market access, intellectual property, etc.).	Competitive advantage is largely based on low-cost labour that is poorly organized and exploited. FDIs play a strategic role in economic transformation.
There is a solid network of business organizations and mechanisms for government-business consultations tend to function well.	Business organizations are still developing and mechanisms for business-government consultations tend to be weak or not effectively used.
Governments are responsive to pressures from business interest groups.	Ideology, clan-considerations, and the like, may precede business community's concerns and social concerns.
Business advocacy – firmly in place – is increasingly encouraged to follow the principles of transparency, fairness and legitimacy.	Business advocacy is gaining ground but it tends to be non-transparent and it is practiced by a limited number of interest groups.

Source: Business for Development summaries (www.inracen.org) and our interview-based research

Notes:

- ☐ – hypothesis confirmed.
- Hypothesis 1, 2, 3 and 8 – test based on quantitative data.
- Hypothesis 5, 6 and 7 – test based on qualitative data.
- Numbers behind independent variables refer to the numbers of the related hypotheses.

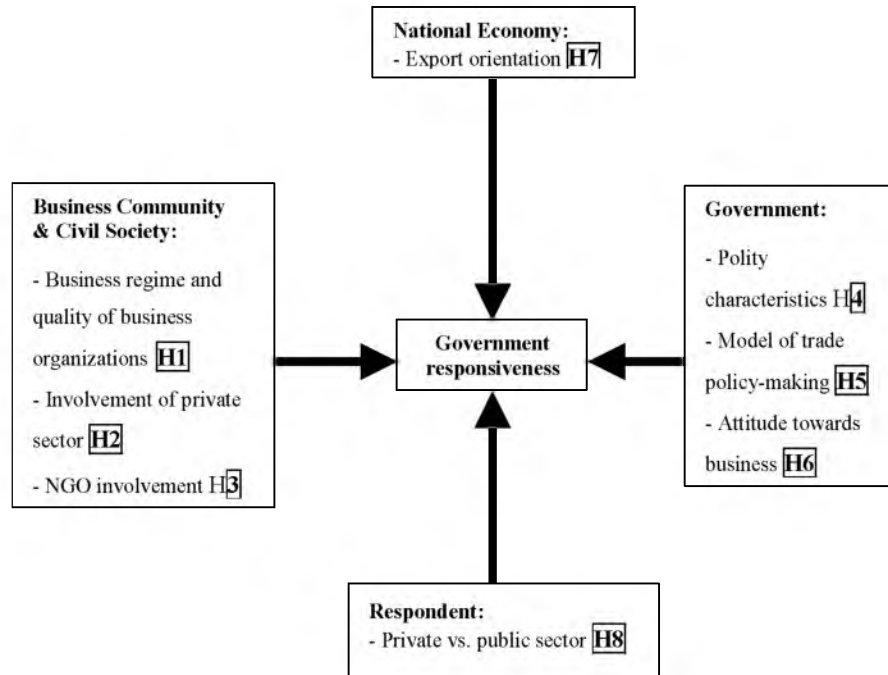


Figure 1. What Determines Government Responsiveness to Advocacy? - A Path Diagram

Source: author's own

Numerous business organizations in transition and developing economies are state-dependent and unable or unwilling to assume a pro-active role in advocacy. In some countries they are *de facto* state-run institutions with little or no independence from government departments (top-down dependence) and no bottom-up support. In other countries, the business community's influence is monopolized by powerful lobbies serving a traditional business elite or large privatized industries. In such situations, new industries tend to push for the creation of their own organizations in order to ensure balanced decision-making. In the least developed countries where business organizations are virtually non-existent or too rudimentary business advocacy remains an empty concept. One can thus expect a significant and positive relationship between government responsiveness and the existence of business organizations effectively representing the interests of their members. Therefore:

H1: Government responsiveness is encouraged by the existence of independent and effective business organizations.

It seems that business in the countries considered is not sufficiently aware of trade-related advocacy and its potential benefits. Moreover, the lack of training, experience and financial resources explains why business organizations are not sufficiently active in policy-making and international trade negotiations. Many economies in transition and developing countries also lack a significant private sector with organizations able to co-ordinate advocacy activities and act as coalition-builders. Finally, business firms have to decide how much resources should be invested in advocacy as there are numerous alternative activities that contribute to profit and growth. (The latter comprise product development, distribution, publicity, or customer relations). The distribution of the firm's efforts among the various profit-generating activities should ensure that the returns on the last monetary units spent on every activity are equalized. Returns on investment (ROI) in trade-related advocacy tend to be small for developing country business due to the small scale of business, instability and weak business associations. The limited involvement results, in turn, in a negative perception of government responsiveness. This leads thus to the formulation of the following hypothesis:

H2: The more the private sector is pro-active, the more government is responsive.

The involvement of civil society in policy-making became an issue of public debate world-wide and it is another determinant of state responsiveness to advocacy efforts. Indeed, civil society is increasingly active in analysing, commenting and shaping the process of globalization (Hocking 1999), and many governments react to that trend by adjusting their behaviour and trade-policy regime. Therefore,

H3: The more the NGOs are involved in trade policy making, the more the government is perceived as responsive.

Government responsiveness to interest group pressures in trade policy-making may be expected to depend on various policy variables, which measure the degree of democracy in a government's decision-making. In particular, the degree of regulation of political competition and the extent of government restriction on political competition are important factors in evaluating interest group participation in the trade policy-making process. Participation is regulated to the extent that there are binding rules on "if, when, and how" political preferences are organized and expressed in the trade policy area. Both one-party states and Western democracies regulate interest group participation but they do so differently. The latter do it by allowing stable and enduring interest groups to compete non-violently for political influence and power. The former do it by channeling participation through a hegemonic political institution, which limits diversity of opinions (see: www.cidcm.umd.edu/inscr Polity measurements). Therefore, we suggest that the following hypothesis should be tested:

H4: The higher the degree of democratization of a country, the more its government is perceived as responsive.

Model of trade policy-making (MTP). Private sector involvement in policy-making also depends on the model of trade policy-making in place. Detailed reports on formal mechanisms for consultations and decision-making on trade policy are easily available (e.g. in the WTO trade policy reviews – www.wto.org). Yet, in spite of the institutional niceties, business and government often do not meet, or the interaction is limited to a small elite with a hidden agenda – contradicting the principles of "good governance" (Box 2). What matters, in the real world, is whether or not all interest groups concerned truly have access to the system, and if and how

different interests are balanced and the decisions scrutinized to ensure a socially acceptable outcome.

Every “model” discussed below describes the *modus operandi* of trade policy-making in a given country. It may be defined as a set of written and unwritten rules and procedures according to which business actors, government bodies and NGOs (such as trade unions, professional associations, consumer organizations, etc.) effectively interact in the policy-making process. Three basic types of MTPs and their implications for business-government interaction are presented in Table 2.

The bureaucratic model (I). Trade policy is designed and implemented through a top-down approach. A policy is essentially formulated by ministries and little influence is left for business organizations on the spot. Marginal business influence may be exercised by privileged business leaders with close links to politicians or top bureaucrats; however, the influence tends to be non-transparent and often takes place through informal channels.

Business oriented model (II). Trade policy is made through the interaction between government departments and various business associations or companies. The model implies a varied degree of openness in the sense that major business interests get access to trade policy-makers and may present their evidence and arguments. At times, resources from the private sector (know-how, funding of impact studies) may supplement government resources. Business may also become active beyond its national borders in order to mobilize larger international support for its country’s negotiating position. Freer trade strategies are, in principle, not questioned, but specific trade policy options may be subject to cost-benefit analysis.

Multi-stakeholder model (III). Trade policy-making involves government departments, business and civil society. The process is based on the principles of transparency, democracy and legitimacy of decision-making. The model aims to enhance national consensus in favour of freer trade and deregulation in the face of growing opposition to those objectives on the part of certain interest groups. Trade policy issues are often linked to social adjustment, foreign policy and broader high policy matters. Openness and communication efforts aim to encourage public interest in policy matters. Trade liberalization may be put into question. It may be also linked to certain forms of conditionality. The latter can, for example, mean a legitimate compensation of a wide range of citizens or labor that lose in the liberalization process.

Table 2

Models of Trade Policy-making and Business-Government Interaction

Models of Trade Policy-making	Objectives	Actors	Principal Characteristics
Bureaucratic Model (I)	Co-ordination of government position in face of increasingly complex trade negotiations (domestic and international).	Ministry of trade and sector-specific ministries concerned.	Bureaucracy and political actors dominate policy-making. Closed decision-making: little effective influence from business or civil society. Some business influence possible for privileged interest groups. Major conflicts result from inter-ministerial tensions.
Business-oriented Model (II)	Allow the business community to contribute to the decision-making process.	Ministry of trade, sector-specific ministries, industry interest groups and the national business community are involved.	Representation of business organizations and their mode of involvement in the consultation process are well determined. Business concerns tend to be given priority over other social or economic concerns (consumer concerns). Government often acts as arbitrator between conflicting business interests.
Multi-stakeholder Model (III)	Ensure that trade policy reflects concerns and interests of all members of society.	Ministry of trade, sector-specific ministries, industry interest groups, national business representatives and numerous members of civil society are involved.	Trade policy-making is related to broader patterns of social and economic change. Attention is paid to issues of structural adjustment, environment, social equity and legitimate compensation to losers of various trade policy options. Trade policy concerns and trade negotiations are the subject of public debate. Government often arbitrates between conflicting interests involving business and various members of civil society.

Source: based on: Dymond, B. and Hocking B. (2004) and Kostecki (2005)

It is often suggested that a multi-stakeholder model is a *sine qua non* condition of social moral decency. Indeed, when a third party has not consented to or played a role in the carrying out of a given policy option, it results in externality. Many bad things happen to individuals or organizations as a result of negative externalities. For example, we may suffer as a result of another person's aggressive driving and be obliged to repair the body of our car. Beyond the car repair example, trade policy externalities may have an enormous effect on corporate performance, consumer well-being or the welfare of entire nations. In business and policy-making alike, power needs counter-power in order to ensure that costs are not externalized on other players not involved in the decision-making process. If there is no mechanism for power sharing between multiple stakeholders, there is the possibility that certain interest groups will externalize their costs on other players.

Depending on the type of the trade policy-making model, business organizations have, thus, different "procedural opportunities" to exercise influence. To reduce externalities, such opportunities are usually based on three pillars of good governance: (i) transparency, (ii) fair access to policy-makers, and (iii) legitimacy (Box 2).

Based on the above discussion, we expect that there is a positive and significant relationship between private sector involvement and the model of trade policy-making in the country concerned. Government responsiveness to business requests is encouraged by the non-bureaucratic nature of the trade policy model in place (model II and III rather than model I).

Box 2

Principles of Good Governance in Trade Policy-making

Transparency refers to the openness of the decision-making process in terms of access to information, ability to forward proposals and voice concerns, and to assess the distribution of power among the various players in the process (politicians, government departments, producers, consumers, labour and different actors of civil society).

Access refers to the possibility of various business groups and civil society to participate in decision-making. Is participation limited to a set of specific business units or organizations? Can self-help business organizations be also involved? What is the degree of the organizations' involvement in policy decisions? What forms of participation are possible and most frequently practiced?

Fairness relates to the degree of impartiality, legitimacy and social responsibility in decision-making. Since trade policy may be seen as a form of income redistribution among various interest groups, a growing number of countries are trying to ensure that it does not provide unjustified privileges to a particular group over other vested interests or social welfare. Advocacy should defend business interests, but – to be sustainable in the long run – it should also maintain harmony between private and public concerns.

Source: Kostecki, 2005

Even when official institutional arrangements for business-government consultations exist, the opportunities may be insufficiently used due to (i) a negative attitude towards business, and (ii) a lack of initiative on the part of the officials or politicians resulting from the shortage of staff, or limited experience in corporate-government relations. An anti-business bias is not rare in a developing country administration. Indeed, in many instances, business people are perceived as exploiters and crooks. In some cases, the dominant ideology may also favour negative government attitudes towards business and its advocacy efforts. There is no shortage of media reports showing partiality and abuse in policy-making motivated by ethnicity, clan solidarity, or corruption. Such occurrences are particularly frequent in political systems that are non-democratic, non-transparent and largely influenced by partisan decision-making. Therefore, we formulate the following hypothesis:

H6: Governments suffering from anti-business bias are less likely to opt for good governance based on (i) transparency, (ii) fair access and (iii) legitimacy in trade policy-making.

Export orientation and government responsiveness. There is likely to be a positive relationship between a country's export orientation and the government's responsiveness to advocacy effort by interest groups. First, the stronger a country's export orientation is, the more powerful its export lobby is likely to be. Second, as most governments suffer from a mercantilist bias or favour exports to implement strategic trade policy or to eliminate distortions, exporters are perceived more positively than importers. Consequently, export interests have better access to trade policy-makers than domestically-oriented producers or importers. Therefore:

H7: The more export-oriented a country is, the more its government is perceived as responsive.

Type of respondent (private versus public sector). There is likely to be a perception gap between officials and business leaders concerning government responsiveness to advocacy. *A priori*, two reasons might be identified to explain why:

(i) It is a frequent feature of human beings to blame responsibility for failure on others rather than on themselves. Therefore, officials may be

expected to project a more positive image of government responsiveness, and a more negative image of business involvement, than business or civil society.

(ii) Officials perceive government as being more responsive because they have a broad view of the government efforts to consult, whereas business tends to have only a fragmented vision of such efforts directed at a specific sector or a company.

The following hypothesis may be, thus, suggested:

H8: Government is perceived as less responsive by business leaders than by government officials.

3. EMPIRICAL RESULTS

This section reports the results of an empirical study on trade-related advocacy in the *milieu* of business, NGOs and governments in 41 developing and transition economies. The data has been collected through 18 in-depth interviews and 123 valid questionnaires. (For the methodology of the field research, sampling information and questionnaire, see annexes).

Government responsiveness to advocacy. How would you characterize your government's responsiveness to business requests concerning trade policy? Respondents were asked to evaluate the responsiveness of the government to business interests using the scale ranging from 1 (not at all responsive) to 4 (very responsive). The survey shows (Table 3) that, overall, governments are perceived as relatively responsive to advocacy efforts by civil servants and somehow less so by business leaders or NGOs. However, many business leaders have a negative perception, and their interview comments elucidate the reasons for such criticism: *Government does not listen to us (Bangladesh). There is not enough interaction between government and business. We should reduce the gap to encourage government responsiveness (Paraguay). The government-business consultations are not sufficient to ensure that business interests are taken into account (Kyrgyz Republic). There is a lack of on-going communication to ensure that government responds to business needs (South Africa).*

Table 3
Opinion Survey on Trade Policy-making in Developing and Transition Economies:
(percentages)

	<i>very weak</i>	<i>weak</i>	<i>medium</i>	<i>high</i>	<i>very high</i>
Government responsiveness	2.13	18.09	9.57	58.75	11.70
Use of formal mechanism	5.32	4.26	21.28	50.00	19.15
NGO participation	7.45	9.57	19.15	56.38	7.45

Source: 123 questionnaire responses comprising business people, government officials and NGO leaders from 41 developing and transition economies (sample distribution is presented in Annex 1).

Among the positive comments, the following are particularly representative. A businessman from Mauritius notes that his industry association is able to *use the consultation mechanism quite effectively to influence decisions at ministerial level*. An entrepreneur from Kazakhstan remarks that *certain business organizations know how to use the consultation mechanism effectively and to make their voice heard*. The president of a business association from India states that his organization *participates in the elaboration of trade policy using the existing consultation forum and is generally satisfied with the outcome*.

In conclusion, it may be seen that in spite of a relatively favourable overall perception there is a lot of dissatisfaction within the business community with government responsiveness. The interviews and questionnaire-based data show that traditional, established industries, large firms or business associations are given better access to trade policy-makers than newcomers, SMEs or smaller associations. In several instances it is suggested that with the demise of party authority, post-communist industry groups establish powerful lobbies (especially in Central Asia) along the lines suggested by Olson (2000) and McMenamin (2002). It is further apparent that ETDE governments are more responsive to large foreign companies acting as foreign direct investors, rather than domestic firms. This observation confirms the evidence available in economic studies of protection, which suggest a positive relationship between the level of FDI, in a particular sector, and the level of protection.

Use of formal consultation mechanisms. About 70 percent of interviewees consider that the formal mechanisms for consultations are frequently or very frequently used, and about 64 per cent estimate that NGO involvement in trade policy-making is high or very high. Again, the results

are slightly more satisfactory for the sample of respondents from government than from the business community. However, there are numerous critical comments referring to the formal consultation mechanism.

Several business leaders and government officials refer to the weak features of the formal consultation mechanism and comment on its structure and limited ability or willingness to make full use of the existing arrangements. A businessman from Swaziland considers that *the mechanism should be enhanced further because, at present, it is not satisfactory*. A manager from Malawi notes: *It (the mechanism) is not fully utilized (...). A lot of work has to be done*. A businessman from Peru considers that *the Ministry of Economy, that is in charge of negotiation, is rarely consulting the business sector*. A business person from Guatemala notes that *government does not have at its disposal appropriate staff to conduct serious consultations with the business community*.

Certain other commentators blame business rather than government for the poor consultation process. A government official from Kenya attributes the limited use of formal consultations mechanism to the fact that *the sector-specific nature of business associations limits the effectiveness of the mechanism*. A government official from Tanzania stresses that *business-government consultations are only used to deal with the issue of budget and domestic laws and not so much to address WTO issues*. Finally, an official from Guyana attributes the limited use of formal consultation mechanism *to the lack of co-ordination by various private sector bodies required to make proposals on trade and related matters*.

Quality of business organizations. The qualitative data suggest that there is a direct and significant relationship between the quality of the local business organizations (evaluated in terms of their effectiveness and independence from the government) and private sector involvement in policy-making. The following quotes illustrate that claim: A government official from Lithuania notes: *Some business associations do not know how to lobby; others don't feel that the outcome is worth the effort, still others don't believe that it may work*. An official from Romania underlines that *nothing stops business from using consultation forums if it wishes*. A government expert from Botswana says that *at this stage (...) business organizations have not aggressively used this mechanism as a means for engaging government*. A manager from El Salvador notes: *The private sector suffers from apathy. Businessmen are not informed about trade negotiations and do not want to spend time and resources to deal with trade policy issues*. An official from Zimbabwe underlines that *private companies are not very*

proactive, unless they are faced with a particular problem of direct concern to their business. A government official from Nigeria complains that business-government consultations are difficult because *they mainly deal with inward looking issues rather than international trade problems.*

The lack of training, experience and financial resources explains in a number of cases why developing country business organizations are inactive in trade policy-making and international trade negotiations. *Trade negotiations are very complex. Our business sector is still emerging and it takes time for them to understand what active steps should be taken –* comments a civil servant from Mozambique. *The private sector is unable to come up with good argumentation and statistical supportive evidence to defend its stand –* says a civil servant from Peru. Moreover, in a number of countries the private sector is unable to co-ordinate its advocacy activities and present a common front on trade policy issues.

Several commentators explain why developing country business has so little interest in trade-related advocacy. The short decision-making horizon of most business units and industry associations, lack of stability in the business environment (which favours opportunistic attitudes), and lack of confidence in government, explain why state administrators are often perceived by business as trouble-makers rather than supporters. An executive from Uruguay notes that *lobbying by the private sector is aimed at short-term benefits and is rarely well-planned and effective.* *We don't have enough proactive business leaders* notes a government official from an east European ministry of trade. A government official from Africa stresses that *the weak element of the existing formal mechanism for consultation is the difficulty for government to obtain feedback from the private sector, especially small and medium-sized businesses (Belize).* A high-ranking trade official from Zimbabwe considers that *the business community should be more proactive. They should contribute significantly to the agenda and attend meetings more consistently.* A government expert from El Salvador notes that *business is not knowledgeable about trade negotiations and does not want to spend time and resources to deal with trade policy issues.* Finally, a politician from Zimbabwe notes that there is *a general lack of belief in one's ability to influence policy-making.*

Among the positive comments about business organizations, the following are most representative. A leader of the Federation of Economic Associations in Mozambique considers *that his organization has been reasonably involved in trade policy consultations.* Also a business leader from South Africa says that in his country *business organizations are well-*

developed and their involvement in trade policy decisions is pretty successful. Overall, the comments suggest that private sector involvement in trade policy-making is considerably encouraged by the existence of independent and well-performing business organizations such as chambers of commerce and industry associations. They also indicate that technical assistance work should be done on the spot to encourage participation of developing country business in trade policy-making and international trade negotiations.

Table 4 provides a summary of the results of standardized linear regressions. The dependent variable is the Perceived Government Responsiveness (Gov_Resp) and independent variables are:

- Involvement of the Private sector in the country's trade policy-making (Priv_inv).
- Type of Respondents (Resp): members of government, of NGOs or from the private sector.
- Degree of Export Orientation (DEO) or "Balance of Trade" = ("Total export" – "Total import") / GDP.
- Involvement of NGOs in trade policy-making (NGO).

The Thorstone scaling allows the variables Priv_inv, Gov_Resp and NGO to be combined with metric data and to be analyzed in a regression model.

Table 4
Standardised Linear Regression Results (I)

Variable	Standardized Coefficients	t-value	Significance
Priv_inv	0.245	2.846	0.015**
NGO	0.110	1.124	0.264
Resp	0.269	2.850	.005**
DEO	0.184	1.933	0.056*

Note: * significant at .90; ** significant at .95.

Source: author's own computations

The model is significant at the .99 level ($F = 5.219$) with an explanatory power of: $R^2 = 0.456$ and $R^2_{adj} = 0.208$. However, it can be seen that the "NGO" variable is not significant. The results will be briefly interpreted below.

Involvement of the private sector and government responsiveness. The quantitative results support the hypothesis (H2) that the more the private

sector is involved in policy-making, the more the government is perceived as responsive (at the significance level of 0,005). The finding suggests that a negative view of government diminishes as business organizations adopt a pro-active approach and acquire experience in advocacy. (We are not able to support a similar hypothesis for NGO involvement – H3).

Characteristics of policy and government responsiveness. The measures of competitiveness of political participation used in our model refer to the extent to which alternative preferences for policy formation and leadership roles can be pursued in the political arena of the countries considered. Both the degree of organization and institutionalization of participation and the degree to which this political participation is free from government control were measured. The data used were those of the Polity IV Project (www.cidcm.umd.edu/inscr/polity). The indicators combined ten broad patterns of political competition, scaled roughly to correspond to the degree of “democraticness” of political competition within the polity. Both parametric and non-parametric tests indicated weak correlations between government responsiveness and polity variables, but the results were not statistically significant. Therefore, hypothesis H4 could not be confirmed using our data. This seems to suggest that both democracies and dictatorships may be responsive or unresponsive to business requests.

Model of policy-making and government responsiveness. The available qualitative data suggest that private sector involvement in trade policy-making and the resulting government responsiveness are significantly encouraged by the non-bureaucratic nature of the trade policy model in place such as model II or III (H6). Numerous interviewee comments support that claim.

A leading businessman from Paraguay complains about the lack of government responsiveness to business concerns in trade policy and notes that *corporate-government co-operation is not sufficient, since closer institutional links – along the lines of Model II – should be developed between government agencies and the business community*. A manager from Africa points out that the lack of business-government co-operation is due to a number of weaknesses of the existing consultation *mechanism which is not sufficiently formalized and transparent to encourage business participation (Swaziland)*. *Government is lacking competence to co-operate successfully with business* – commented an expert from Pakistan. An official from Belize remarks that *the lack of consultation is mainly due to the fact that decision-makers are many, lacking capacity and focus, and their efforts are not well-managed*.

A Peruvian business leader notes that his country's *government department in charge of negotiations is rarely consulting the business sector due to the soft requirements to engage in such consultations, and little understanding for the utility of such consultations*. A corporate executive from Uruguay notes that *the consultation mechanism is not continuous and regular enough, and that trade policy is formulated by government officials with little regard to business priorities*.

Several interviewees suggest that a shift towards – what has been described above as a more business-oriented model of trade policy-making – would encourage private sector involvement. A representative of a Bulgarian NGO suggests that his organization's participation in trade policy-making is limited because *the mechanism is still developing and its rules require further improvement*. A government official from Costa Rica thinks that his government is pushing for reforms of the country's trade policy regime *to facilitate business-government consultations*, suggesting that a shift towards a more business-focused model is underway.

On two occasions the interviewees underline that it is not sufficient to consider only the official consultation mechanism because, in many cases, they remain a dead letter. For example, a NGO representative from Central Asia notes that *the consultation mechanism looks nice on paper but the official description does not provide an accurate representation of what is happening in trade policy-making*. Also a CEO from Bangladesh confirms that *the legal arrangement is not enough when government does not want to listen*. This suggests that though appropriate rules and procedures for government-business consultations are a necessity and should be encouraged, the implementation issue is likely to remain a challenge.

Civil society's involvement in trade policy-making is encouraged by the open nature of the policy model in place. (Civil society comprises interest groups, non-profit and non-political organizations other than members of business community). Several interviewees comment on civil society's involvement in trade policy-making and identify weaknesses in civil society's participation in the process. A manager from Columbia recognizes that *consumer interests are neglected*. A businessman from Bangladesh concedes that *civil society's voice is very weak*. The case of South Africa is quoted by two experts as a good example of civil society's involvement in policy-making (based on the King's Report), which might provide a benchmark for other trading nations – not only developing countries or transition economies.

Government responsiveness and anti-business bias. Many governments in developing and transition economies suffer from a negative attitude towards business and from excessive bureaucracy. Governments with an anti-business bias or decision-making influenced by clan considerations and corruption are less likely to follow the principles of (i) transparency, (ii) fair access and (iii) legitimacy (H7). As notes a business leader from Guatemala, *there is not enough confidence in business-government relations and there is not enough transparency.* Several business leaders complain about the negative attitude of government employees to business organizations. A businessman from Argentina mentioned *the climate of confrontation between government and the private sector due to lack of confidence.* Another business leader from Venezuela referred to *an ideological problem in business-government relations.* *Lack of confidence in business-government relations and bureaucracy mistrust in dealing with business* are also mentioned by managers from Asia (Indonesia and Bangladesh) and Africa (Mali and Nigeria).

Several interviewees point to partiality and abuses in trade policy motivated by ethnicity, clan solidarity or corruption. In two instances they also refer to the non-democratic nature of the country's political regime and the lack of clearly-defined consultation procedures as a cause of the discriminatory treatment of certain business organizations. Our data also suggest that there are substantial differences in the way in which governments treat particular industries. The point is well illustrated by a businessman from Columbia, who makes the following comment: *The weakest point is the lack of equitable representation of various sectors in the decision process. Certain businesses are clearly treated in a privileged manner while others are discriminated against.*

Lack of confidence, a negative government's attitude towards business, anti-business ideology of the government, decision-making influenced by clan and other considerations, and corruption, were mentioned by more than one third of our respondents, and the government responsiveness for the countries concerned was valued as "high" or "very high" by only 41% of them (as opposed to 70% for the total sample). They confirm the hypothesis that negative government attitude towards business reduces government responsiveness to business interest groups in trade policy-making (H6).

Export orientation and government responsiveness. The results of the regression analysis (Table 4) indicate, though with lesser credibility, that the more export-oriented a country is, the more its government is responsive to advocacy efforts (H7). A similar regression using trade dependence data

(exports and imports) gave no significant results, suggesting – in conformity with our initial expectations – that export dependence, rather than the degree of openness of the national economy, is a critical determinant of government responsiveness to advocacy by business organizations. This may be due to that fact that export industries benefit from a particularly high ROI on advocacy due to the concentration of their trade interests and government mercantilist bias that favours exports over imports or domestic market suppliers.

Perception by private and public sector. As suggested above, our data confirm that there is a gap between the private and public sector perception of government responsiveness. The survey results (Table 4) confirm the hypothesis (at the significance level of 0,005) that government employees and politicians perceive their government as more responsive to advocacy efforts than business leaders (H8). The existence of the perception gap is thus confirmed.

CONCLUSIONS

Business organizations in economies in transition and developing economies are not fully satisfied with government responsiveness to their trade concerns and remain inactive in international trade negotiations. This is an important shortcoming, because it encourages a passive attitude on the part of the governments concerned in international trade negotiations and results in modest trade benefits for the countries.

This study confirms the claim (H1) that government responsiveness to business pressures in trade policy-making increases with the growth of independent and effective business organizations. Indeed, in many developing and transition economies there is a flattened civil society structure and this, in turn, limits advocacy activities. Therefore, an increased influence of business on trade policy-making and international trade negotiations should be favoured through the enforcement of independent business associations, chambers of commerce and professional organizations in those countries.

This study demonstrates that the more the private sector is pro-active in trade policy-making, the more government is perceived as responsive. Indeed, a pessimistic vision of trade policy-making where government ignores business – is particularly characteristic of passive and inexperienced companies and industry associations. Business organizations who adopt a

pro-active approach and practice advocacy tend to perceive their governments as more responsive and helpful. This signifies that business organizations are, themselves, partly responsible for poor government responsiveness since they are insufficiently involved. Thus a more participatory and democratic policy management may be promoted through increasing the awareness of business and civil society about the potentially significant impact they can have through advocacy.

The qualitative data shows that business involvement in policy-making is encouraged by the non-bureaucratic nature of the trade policy regime in place (regime II and III as opposed to regime I). The more the trade policy regime is business-oriented, the more private sector is involved (H5 confirmed). Furthermore, a shift away from a bureaucratic model towards a multi-stake model (model III) is likely to encourage transparency, fairness and legitimacy, and to reduce clan politics and corruption.

There is some evidence to suggest that governments suffering from an anti-business bias or abusive decision-making (clan-based decisions or corruption) are unlikely to opt for good governance principles and tend to remain non-responsive to business requests (H6 confirmed). Weak responsiveness is also due – as our qualitative data suggest – to bureaucratic myopia, insufficient and incompetent government staff, as well as to the ill-conceived and ineffective consultation process.

The quantitative data shows a perception gap, since governments are perceived as less responsive by business rather than by government employees. In other terms, the state administration is often satisfied, whereas business leaders judge the government responsiveness as insufficient. Government officials emphasize that weak government responsiveness is due to the lack of competence and interest on the part of the private sector, little capacity and motivation to deal with trade matters that are not of immediate business interest, poor knowledge of trade issues at stake, limited ability to undertake collective action and ineffective business organizations. The negative perception of governments is also attributed to the lack of familiarity with the various consultation mechanisms within the private sector, low ROI in advocacy, and to the conflict of interests within the business community itself. When assessing reform and assistance needs, the business-government perception gap should be taken into account.

It is emerging from our data that the business-government dialogue is evolving under the pressure of growing pro-business attitudes, strengthening export orientation, growth of the private sector and FDIs, and the more proactive stand of business. The trend is further encouraged by technical

assistance initiatives, such as awareness seminars, training in advocacy techniques and capacity building of local business organizations. All of these might suggest a paradigm shift away from the “traditional” and towards the “new” approach to advocacy in trade policy-making as shown in Table 5.

Table 5

Business Advocacy in Trade Policy: A Paradigm Shift

New Approach	Traditional Approach
Great emphasis on a structured and formal consultation process.	Non-transparent, informal consultations drive the formal consultation process.
Bureaucracy is seen more as a facilitator rather than decision-maker.	Bureaucracy dominates the decision-making.
Transparency is required. Policy proposals are subjected to public scrutiny through public hearings, debate and Internet sites.	Lack of transparency. Hidden deals at a political level or within bureaucracy are possible.
Consultations comprise all major stakeholders: industry associations, regional interest groups, consumers, trade unions, NGOs, etc.	Decision process is dominated by a limited number of large companies and the most powerful industries with links to the government.
International (global) orientation. The influence of foreign investors is strongly felt.	Domestic (nationalistic) orientation. Trade policy is largely formulated keeping in mind the interests of the main domestic industries.
Important role of networks (and on-line Internet communities) in coalition-building and issue management.	Coalition-building and issue management are centralized in the hands of bureaucracy, politicians and powerful economic actors.
Advocacy focuses on issues requiring technical expertise. Skills to communicate in simple terms with Government and public at large are needed.	Advocacy focuses on market access issues and on the related redistribution of income.
Regional and bilateral trade arrangements are gaining in importance, rendering business advocacy more complex. Smaller business organizations are more active on the international level.	Advocacy on the international level is rather limited and is mainly conducted by large multinational companies.

Source: Kostecki (2005)

The shift is towards more transparency, greater participation of interest groups and civil society, more emphasis on fairness, legitimacy, social control and networking. The trend is also towards a greater use of *advocacy pull* encouraged by the growing impact of public opinion and social cause activism. There are signs social cause activists are intensifying their pressure to encourage good governance in trade policy-making in economies in

transition and developing economies. The deficit of democracy in the trading system might be further reduced by including this topic in future WTO negotiations.

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ANNEX

The Qualitative Research Methodology

In-depth interviews proved to be a useful tool for the model development and testing. The researcher emphasized lateral thinking and insights rather than the mechanical sorting of ideas. To assure objectivity, the procedures suggested by Yin (1989) and Eisenhardt (1989) were followed and replication techniques and multiple investigators were involved. Interviewed managers, government officials, and NGO leaders (18 individuals) were selected among the most active participants of the ITC World Trade Net Business for Development and Business for Cancun meetings. This was done in a way to cover the major export sectors and sub-sectors of interest to developing countries. We have always tried to interview our experts with a progressively more defined focus. The initial formulation of the research question was considered as tentative and the question shifted considerably as our qualitative research progressed. The data was then analysed to reveal broader patterns. The patterns were allowed to emerge from the data rather than imposing *a priori* theory. The data enabled us to develop a systematic classification of major advocacy-related concerns in trade policy-making using the Ishikawa framework, to gain insights into the problems raised and to evaluate the relative importance of the various concerns. The qualitative results usefully supplemented the data collected through questionnaires at the second stage of the project and guided us in the formulation of our quantitative research.

Methodology of the Interview Research

The following questions were asked in the in-depth interviews:

1. What are the main strong and weak points of trade policy making in your country and what changes in the government's consultation mechanism for business and other members of the civil society are most urgently required and why? 2. Could you give specific examples of the best initiatives that improve the quality and relevance of the consultation process preceding international trade negotiations or unilateral trade policy-making by your government? 3. What are the most important strong points and shortcomings of the current business advocacy initiatives in your country relating to trade policy-making? 4. What specific innovations should be introduced to reinforce business influence in that area?

The interviews, their critical assessment and the preparation of transcripts and the analysis of the material were conducted using standard operating procedures of scientific behavioural research (Kvale, 1996, Kress, 1979).

Sampling and coding procedures

The population considered in this study consists of 403 participants of the Business Advocacy Workshops organized by the International Trade Centre (UNCTAD/WTO) in Africa, Asia, Eastern Europe and Latin America in the 2002–2005 period. The population of highly educated and experienced individuals consists of direct participants of the consultation process on trade policy matters and comprises representatives from the private sector, non-governmental organizations (NGOs) and the government. A total of 240 questionnaires were distributed, about 60 in each regional workshop. This method allowed for the immediate self-administration by the respondents and collection by the researcher. The rating scale used was

the Thorstone scale which is a semantics-based interval scale that may be assimilated to an iso-distance scale which permits regression analysis). The response rate was 32.5 per cent, with a total of 131 questionnaires received. 8 questionnaires were either not properly answered or incomplete, and the final sample comprised 123 usable copies. The sample comprised 44 respondents from the private sector, 35 respondents from government, and 41 respondents from NGOs. The country composition of the sample is as follows: Angola (1), Argentina (1), Bangladesh (3), Belize (2), Bhutan (1), Bosnia (2), Botswana (2), Bulgaria (5), Cambodia (2), Colombia (2), Costa Rica (2), Cuba (1), Egypt (1), El Salvador (2), Estonia (4), Guatemala (2), Guyana (1), Honduras (1), Hungary (5), India (2), Jordan (1), Kazakhstan (3), Kenya (1), Kyrgyzstan (2), Latvia (6), Lesotho (2), Lithuania (4), Malawi (2), Malaysia (1), Mauritius (3), Moldova (1), Mozambique (3), Namibia (2), Nepal (3), Nicaragua (1), Panama (1), Paraguay (1), Peru (1), Philippines (3), Romania (1), Seychelles (2), South Africa (5), Sri Lanka (5), Swaziland (2), Tanzania (4), Thailand (3), Uganda (4), Uruguay (3), Uzbekistan (4), Venezuela (2), Vietnam (5), Zambia (3) and Zimbabwe (4). The trade flow data used in the regressions model were those of the WTO trade statistics, completed – in three cases – by the UN trade statistics.

One open question referring to the use of business-government consultations has been coded by a panel of three researchers to enable its use in regression analysis. In two cases, when coding differences between two independent evaluators could not be solved, the author acted as arbitrator to finalize the rating.