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Report of the Secretary-General

Summary

The present report covers recent developments in international trade and the trading system, in particular the multilateral trade negotiations under the Doha work programme since the Sixth Ministerial Conference of the World Trade Organization in December 2005, and their implications for developing countries. The suspension of the Doha Round announced in July 2006 has cast significant uncertainty on the negotiations and may have major implications for the trading system. International trade can make a valuable contribution to development in all countries and especially in developing countries. Efforts to improve the trading environment, particularly through multilateral negotiations, can thus improve the prospects for economic growth and development and contribute to achieving the Millennium Development Goals.

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I. Introduction

1. The present report has been prepared pursuant to General Assembly resolution 60/184 of 22 December 2005, in which the Secretary-General, in collaboration with the secretariat of the United Nations Conference on Trade and Development (UNCTAD), is requested to report to the Assembly at its sixty-first session on the implementation of that resolution and on developments in the multilateral trading system.

II. Rising role of trade in development

2. International trade can be a powerful engine of growth, development and poverty eradication in all countries, particularly in developing countries. This can be seen from the increase in the share of exports of goods and services in gross domestic product (GDP). It increased between 1980 and 2004 from 14 per cent to 35 per cent for the world; from 13 per cent to 31 per cent for developed countries; and from 25 per cent to 49 per cent for developing countries. This shows that trade is increasingly a major source of income for many countries. It contributes to generating resources for development by stimulating production, promoting exports, increasing access to essential services and creating jobs, income and welfare. Trade's contribution to development is recognized by the United Nations Millennium Declaration (see General Assembly resolution 55/2) and the 2005 World Summit Outcome (resolution 60/1).

3. The rising proportion of trade in GDP of developing countries is primarily due to the greater integration in the world economy and strong trade performance of dynamic developing countries, mostly in South and East Asia but also in Latin America. In 2005, the world's merchandise exports recorded a robust growth of 13.8 per cent and their value reached $10.3 trillion, while developing countries expanded their exports at a faster pace (21.3 per cent) than developed countries (9.2 per cent as a group, 9.4 per cent for the United States of America and 8.7 per cent for the European Union) to reach $3.7 trillion. As a result, their share in world trade exceeded 35 per cent (35.9 per cent) for the first time since 1948. The major contributor to this increase in developing countries' exports continues to be China, which represented about one fifth of the total developing countries' exports and increased its exports by 28 per cent. Major petroleum exporters, representing yet another fifth of developing countries' exports as a group, recorded significant export growth of 35.3 per cent owing mainly to the rise in oil prices by 41 per cent. Among developing regions, North Africa experienced the greatest trade expansion (35.1 per cent), followed by West Asia (30.6 per cent), South America (27.5 per cent), sub-Saharan Africa (22.2 per cent), South and South-East Asia (18.8 per cent) and the Caribbean (14.1 per cent). South-South trade is intensifying, as 42 per cent of developing countries' exports were destined to other developing countries, and represented some 14 per cent of the world's total exports in 2003. Over two thirds of developing-country exports were composed of manufactured goods. Primary commodity exports remain important for Africa and the least developed countries, accounting respectively for 70 and 64 per cent of exports. Key commodity price indices increased significantly in 2005, particularly for iron, copper and petroleum.

4. Services have gained prominence and become a new growth area for a number of countries. The contribution of services to GDP, trade and employment has increased remarkably over the years in both developed countries and developing countries. In 2005, global services exports expanded by 10 per cent and reached an estimated $2.4 trillion. This represents one fifth of the world's total exports of goods and services. The ratio is lower for developing countries (13 per cent) although their services exports grew at a faster pace (14.1 per cent) than developed countries' (7.8 per cent as a group, 10.1 per cent for the United States and 6.5 per cent for the European Union) to reach $576 billion, equivalent to 23.6 per cent of world services exports. The dynamic exporters in South and South-East Asia accounted for about two thirds of the total developing country services exports and recorded an export growth of 15.3 per cent. South America (21.3 per cent), sub-Saharan Africa (13.5 per cent) and the Caribbean (11.1 per cent) also experienced a substantial expansion in the export of services.

5. Notwithstanding this overall positive performance, many developing countries, especially in Africa, least developed countries and small and vulnerable economies remain marginalized from the expanding international trade. For instance, the least developed countries saw their exports increasing by 27.5 per cent for goods and by 9.7 per cent for services in 2005. However, their share in world trade remained marginal both in terms of goods (1.8 per cent) and services (0.5 per cent). Their participation in international trade remains vulnerable owing to various factors, including structural problems related to the building of competitive supply capacities and diversification of production towards new and dynamic sectors of world trade and in services. For these countries, therefore, trade liberalization alone is not a magic bullet to foster development. There is a need for accompanying flanking measures and "Aid for Trade" to help them to take advantage of trade and trade liberalization.

6. Against this backdrop, all countries need to ensure that they participate actively in the multilateral trading system, shaping development-friendly rules and disciplines that provide the framework and policy space within which to trade and developing strategies to take advantage of the opportunities emerging from the international trading system. It is equally important to continue developing an open, transparent, predictable, non-discriminatory and equitable multilateral trading system, especially through the Doha Round, with a substantial development content.

III. Developments in the multilateral trading system

7. The year 2006 is a landmark year for the multilateral trading system and the World Trade Organization (WTO). The substantive negotiations in the current, five-year-long Doha Round were expected to conclude with a single undertaking in December among 149 WTO members that would build on and deepen liberalization in current WTO agreements and usher in a more specific, stronger and operational focus on the development dimension. There is an urgent need to resume the suspended talks so that the compact in the Doha Ministerial Declaration of 2001 (A/C.2/56/7, annex) to place the needs and interest of developing countries at the heart of the Doha Round can be carried to a positive, development-oriented outcome. This is the critical challenge facing WTO members.

8. The Sixth WTO Ministerial Conference, held in Hong Kong, China, from 13 to 18 December 2005, recorded modest progress. In agriculture, agreement was reached on 2013 as the end date for the elimination of export subsidies. On cotton, agreement was reached on the elimination of all forms of export subsidies in 2006 and the provision of duty-free quota-free treatment for cotton exports from least developed countries. On non-agricultural market access, a “Swiss” tariff-cutting formula was chosen. On services, Ministers set specific modal and sectoral objectives for making new and improved commitments, and launched multilateral negotiations. On development issues, five agreement-specific special and differential treatment proposals for least developed countries were adopted, notably duty-free quota-free treatment. Important recognition was given to the need for Aid for Trade.

9. The post-session negotiations focused on establishing modalities in agriculture and non-agricultural market access by 30 April so as to conclude the negotiations by the end of 2006 as mandated by the Hong Kong Ministerial Declaration. Attention was given to the “triangle of issues” considered as essential for an across-the-board grand bargain, including domestic support and market access in agriculture and non-agricultural market access. Greater efforts were called for from the United States to move on agricultural domestic support including for cotton, from the European Union (and G-10 that are countries of net agricultural importers) to cut agricultural tariffs more substantially, and from some large developing countries to make greater reductions in industrial tariffs and to provide substantial offers in services.

10. Trade ministers from G-6 countries (Australia, Brazil, the European Union, India, Japan and the United States) held a meeting in July in an effort to break the impasse but were unsuccessful. Negotiations foundered on the agricultural leg, as the gap in the level of ambition between market access and domestic support remained too wide. This led the Director-General of WTO to propose a suspension of the negotiations across all areas of work of the Round to review the situation, examine available options and review positions, which WTO members generally supported. The Doha Round is thus effectively suspended across without an indicative date for its resumption or a road map for the way forward.

11. The suspension of the Round has cast significant uncertainty over the prospects of the negotiations. The timing and conditions for resumption remain unclear. Without an early resumption, the timely conclusion of the Round is put into doubt, as this would also depend on the renewal of the trade promotion authority of the President of the United States, set to expire in June 2007. Many countries emphasized the importance of preserving the integrity of the Doha mandate under the single undertaking. In the interim, work might continue on Aid for Trade and the integrated framework. In the coming months, the Director-General of WTO and others are expected to launch intense diplomatic activities and consultations aimed at securing an early resumption. It is believed that the prospects for resumption will be related to developments in domestic electoral processes and political decisions.

12. The longer-term implications of the suspension are manifold. First, it is a setback to the international efforts to render the multilateral trading system more equitable and development-oriented, as the successful development-oriented outcome of the Round could have brought gains for economic growth and poverty alleviation, including in new growth areas such as services where significant gains

are expected from commercially meaningful commitments in modes 4 (temporary movements of natural persons) and 1 (cross-border supply). Some of the progress attained so far in the negotiations will be placed on hold. Second, the suspension sends a negative signal for the future of the world economy and may encourage a resurgence of protectionism. Third, there is a risk that countries will intensify their pursuit of bilateral and regional trade initiatives, in which developing countries have less bargaining power, and some developing countries might be left out of the process, undermining most favoured nation treatment and non-discrimination. Fourth, distortions caused by subsidies in world agricultural trade will persist at the current level, thereby jeopardizing the prospects of developing countries to generate additional export revenue and income from agricultural exports, including cotton. Fifth, greater recourse may be made to dispute settlement cases.

13. The suspension of the Round calls for careful reflection on the modus operandi of the trade negotiations and the definition and scope of the trade agenda. A comprehensive round of negotiations under a single undertaking has been considered an effective means of reaching mutually beneficial agreements among a multitude of participants, as it is expected to facilitate intersectoral trade-offs among them. While the Doha negotiations incorporated a broad agenda, the centrepiece continues to be agriculture, which, together with services, is part of a built-in agenda from the Uruguay Round. In agriculture, the expected across-the-board trade-offs have not materialized, as the estimated gains are not seen as sufficient to offset the political costs in farm constituencies. Moreover, the breadth of the agenda resulted in diluting the attention given to the core negotiating issues such as agriculture, services, implementation and special and differential treatment. In this light, consideration could be given to pursuing a more realistic, simple and selective format that would have greater prospects of success, focusing on core trade agendas, including rules aspects, and with the required flexibilities for developing countries. Such an approach would be more conducive to bringing developing countries on board.

14. It has to be emphasized that the relevance and importance of WTO as a central pillar of the multilateral trading system in facilitating the implementation of multilateral trade agreements, providing the forum for negotiations, administering dispute settlement mechanisms and conducting trade policy reviews, remains intact.

15. Given the key development stakes at issue, and the commitment of the international community to work expeditiously towards implementing the development dimensions of the Doha Round as reaffirmed in the 2005 World Summit Outcome, effort and leadership are needed to ensure that the suspension of the Round does not lead to the lowering of ambitions in the development dimension of the Round, and that core negotiating issues of developmental importance are addressed meaningfully. As development is intended to be at the heart of the process, it needs to be fully and effectively integrated into the core areas of market access negotiations (where most of the commercial benefits would arise) and into the requisite flexibilities to provide policy space for development. It is the shared responsibility of all countries, and especially the key players, to demonstrate renewed political will and additional flexibility in the search for compromise solutions to facilitate the resumption of negotiations, maintaining inclusiveness and transparency in the process and not losing sight of the development component of the Round. The involvement of the Secretary-General has been sought in mobilizing support for an early resumption of the negotiations.

IV. Specific areas of negotiation

1. Agriculture

16. Agriculture remains the most important sector in many developing countries. It accounts on average for 38 per cent of employment in developing countries and 71 per cent in least developed countries. Agricultural products often account for over 50 per cent of developing countries' total exports. A large proportion of their poor population lives in rural areas. Liberalization and reform in agricultural trade could bring about important gains for developing countries, making a useful contribution to poverty reduction. UNCTAD estimates show that agricultural export revenues of developing countries could increase by up to 30 per cent under some liberalization scenarios.

17. Agricultural negotiations are aimed at substantial improvements in market access; reductions of all forms of export subsidies, with a view to phasing them out; and substantial reductions in trade-distorting domestic support. At the Sixth Ministerial Conference, agreement was reached to establish full modalities by 30 April 2006. Significantly, progress was made in setting 2013 as the end date for the elimination of export subsidies, with a commitment to front-loading implementation. Little movement was made on domestic support. As regards flexibilities for developing countries, the right of developing countries to self-designate special products for food security, livelihood security and rural development was agreed and clarification was provided on the trigger conditions of the proposed special safeguard mechanism for developing countries. Agreement was also reached on the exemption of those developing countries without aggregate measurement of support commitments from overall reduction commitments and de minimis[1] ceiling cuts, as well as a review of the Green Box[2] criteria to provide greater coverage of developing country programmes.

18. Whereas all WTO members continue to be committed to the objective of substantial improvements in market access and substantial reductions in trade-distorting domestic support, there were diverging views as to the exact level of adjustments to be made in those two pillars, which led to the suspension of the negotiations. The United States has called for significant improvement of market access through substantial cuts in applied tariffs and very limited flexibility to diverge from those cuts for sensitive products before it would improve its offer on domestic support reductions. The European Union and some developing countries, on the other hand, held that greater cuts in trade-distorting domestic support were required.

19. On market access, the Uruguay Round reformed the rules of agricultural trade but did not result in significant liberalization in bulk commodities, although there were some useful tariff cuts for higher value added horticultural and floricultural products. Agricultural tariffs in the major developed countries remain at an average of about 38 per cent. Developing countries' bound tariffs are higher but their applied rates are significantly lower (see table 1).

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[1] "De minimis" support designates minimum permissible trade-distorting domestic support not exceeding 5 per cent of total agricultural production.

[2] "Green Box" designates those domestic support measures that have no or minimal trade-distorting effect.

Table 1
Tariffs on agricultural products
(Percentage)

	Developed countries	*Developing countries*
Bound	38	61
Applied	34	25

Source: UNCTAD Trade Analysis and Information System (TRAINS), simple averages.

20. At the Sixth WTO Ministerial Conference, agreement was reached on the structure of the tariff-cutting formula that would determine the reduction for each tariff, but not on the percentage cuts. Although the European Union was not the only market considered in the negotiations, its average cuts were used as a benchmark that could, to a certain extent, be used to determine the level of cuts in developing countries, as some participants are arguing that the level of tariff cuts by developing countries should be related to that of developed countries. After the Conference, the European Union indicated its willingness to move from its earlier offer of average cuts of 39 per cent closer towards the developing country group (G-20) proposal of 54 per cent, but not as far as the earlier proposal made by the United States of cuts of about 66 per cent. Under the G-20 proposal, developing countries are expected to make average cuts in bound rates of up to 36 per cent. Some developed countries have observed that owing to the binding overhang in developing countries' tariffs structures (the gap between bound and applied rates), effective reduction in applied rates in some developing countries might be limited.

21. Another stumbling block in the market access pillar was the exemptions permitted to all countries, both developed and developing, under "sensitive products". The share of tariff lines that could be designated as sensitive products ranges from 1 per cent (United States and G20) to 15 per cent (G10). The number of sensitive products would affect the overall level of tariff reductions, as a permissive approach to exemptions could substantially reduce the potential global gains. Whether the number of sensitive products makes a significant difference to the level of ambition depends also on the level of tariff reductions or expansion of import tariff quotas that is required for sensitive products, but this is yet to be resolved.

22. Erosion of preferences is a major concern for developing countries dependent on long-standing preferential schemes for their exports. Developing countries have also stressed the importance of safeguarding their food security, livelihood security and rural development and, guided by these indicators, they have the right to self-designate special products. A group of developing countries that called for these special and differential treatment measures (G33) proposed that 20 per cent of tariff lines be eligible for special products while others found this too high. The special safeguard mechanism for developing countries also remained controversial. It was agreed at the Sixth Ministerial Conference that an additional duty would be allowed in the case of a price decrease and/or an import surge, but it is yet to be determined to what extent and how such measures could be invoked by developing countries, in terms of eligible products, trigger conditions and durations of measures. Many developing countries called for broad coverage and flexible rules but others favoured a limited safeguard tool.

23. Domestic support payments amounted to $185 billion in 2000 in the three major subsidizing entities (European Union, Japan and United States) alone, which represented about 38 per cent of the value of production. Some support measures are considered non-trade distorting and are not subject to reduction commitments. Of the trade-distorting domestic support that is subject to reduction commitments, the support actually provided in 2005 was below the commitment level. This gap between the committed amount and actual spending is such that the European Union, Japan and the United States can accommodate reductions of their potential commitment of overall trade-distorting support of about 47 per cent, 86 per cent and 63 per cent, respectively, without reducing their actual spending.

24. The Sixth Ministerial Conference agreed that the European Union, as the biggest provider of trade-distorting domestic support, would make the deepest cuts in such support, followed by Japan and the United States and finally all other countries, without specifying the exact cuts. The overall trade-distorting domestic support, which would be capped and reduced, is composed of three components which themselves would be either reduced or capped. Since the European Union reformed the Common Agricultural Policy in 2003 and shifted most of its support into the reduction exempt Green Box of non-distorting, or minimally trade-distorting support, the major difficulty in this area of the negotiations was seen as the support level in the United States. The United States offered to reduce its level of trade-distorting domestic support to about $22 billion annually. Since the current spending is $19.7 billion, this was found inadequate by many developing countries, which demanded significant cuts in actual spending to around $12 billion, and by the European Union, which demanded cuts that would result in less than $20 billion for the overall commitment of the United States.

25. A remarkable achievement in the negotiations was the commitment to eliminate all forms of export subsidies by 2013. This was a significant issue during the Uruguay Round, but diminished in importance because of the decline in the use of this form of support to around $2.4 billion (2001). Nonetheless, most developing countries and agricultural exporters called for the elimination, which would advantage producers in developing countries and in other competitive agricultural exporting countries. Technical details regarding the four forms of export subsidies (direct subsidies and subsidy components in export credits, State trading enterprises and food aid) are still open. A “safe box” for bona fide food aid will be provided. To some extent, proposals to eliminate export subsidies are a double-edged sword for developing countries, because their elimination may increase the international prices of imported food. In an attempt to offset this, it was agreed that appropriate provisions in favour of least developed countries and net food importers, as provided for in the Marrakesh Ministerial Decision should be completed.

26. On cotton, the Sixth Ministerial Conference agreed to eliminate all forms of cotton export subsidies in 2006 and to have developed countries provide duty-free quota-free market access for cotton exports from least developed countries from the beginning of the implementation period of the Round. On domestic support, the Conference provided for more ambitious and quicker reduction of trade-distorting domestic support on cotton than other domestic support. The “Cotton Four” countries (Benin, Burkina Faso, Chad and Mali) had initially hoped for an “early harvest” on this issue, particularly in respect of domestic support and a credible development assistance package. Recently, they proposed a specific formula that implies larger cuts in cotton subsidies than for agriculture as a whole and an

implementation period for the cuts of one third the time for other support. The majority of trade distortions in the cotton sector stem from domestic support and thus remain unresolved.

2. Non-agricultural market access

27. Reducing or removing protection in the non-agricultural sector could lead to global gains, although these would vary between countries and sectors. UNCTAD estimates suggest that global welfare gains from non-agricultural market access liberalization could be of the order of $20 billion to $60 billion annually. Developing countries could potentially enjoy about two thirds of these gains. However, non-tariff barriers and market entry barriers or residual bias in tariff structure may potentially impede developing countries from benefiting from new trading opportunities. Global export revenues for industrial products may increase between 2.6 per cent and 5 per cent under a reasonable range of scenarios, but the gains would not be spread evenly across countries or sectors. The particular trade flows and tariff cuts matter.

28. Some countries may lose from liberalization because of loss of preferential access, competition from more efficient rivals or adverse terms of trade. For countries that can compete, a shift in resources from declining to expanding sectors is required, and this will involve some adjustment costs in terms of unemployment, retraining of labour and writing off of capital. The adjustment costs increase with more ambitious scenarios and can be substantial, with a decrease of employment of up to 50 per cent in specific sectors. Deeper liberalization may also lead to significant tariff revenue losses, which is a concern in those developing countries where tariffs are a major source of Government revenue. Thus, policies facilitating the adjustment process are important.

29. Average tariffs in developed countries are low (see table 2), but tariff peaks and tariff escalation were identified as two issues that need addressing.

Table 2
Tariffs on industrial products
(Percentage)

	Developed countries	*Developing countries*
Bound	2.9	12.6
Applied	2.8	8.1

Source: UNCTAD TRAINS, trade-weighted averages.

30. The objectives of the non-agricultural market access negotiations have been to reduce or eliminate tariffs, including tariff peaks, high tariffs and tariff escalation, as well as non-tariff barriers, in particular on products of export interest to developing countries, with less than full reciprocity in reduction commitments applied to developing countries. The "July package" in 2004 further specified that developing countries would enjoy less-than-formula cuts or the flexibility to leave some tariff lines unbound provided certain criteria are met. Developing countries with a very low binding coverage would be exempt from the formula but would

have to bind their tariffs, probably at the overall average of bound rates of developing countries. At the Sixth WTO Ministerial Conference, a harmonizing "Swiss tariff-cutting formula" was chosen and the coefficients (the basis and numbers are yet to be agreed) would be more than one. Participation in the sectoral initiatives was clarified to be on a voluntary basis. Furthermore, for the first time in the negotiations, parallelism was established with agriculture so that the levels of ambition in both areas are comparably high.

31. Non-agricultural market access negotiations have centred around three issues: the tariff-cutting formula (now determined as a "Swiss" formula), the treatment of unbound tariffs and the exemptions to the formula. Also discussed are flexibilities for small and vulnerable economies, preference erosion, sectoral initiatives and non-tariff barriers. WTO members had conflicting views in the negotiations on how to achieve these targets. Regarding the formula, two broad approaches have been discussed. The first option consists of setting two predetermined coefficients, one for developed and one for developing countries. The second option specifies national coefficients that are related to the average initial bound tariff rates. The first harmonizes tariffs across countries while the second tends to harmonize tariffs within countries only. The level of coefficients also matters as it corresponds to maximum permitted tariffs and determines the level of tariff cuts.

32. Members did not agree on the specific coefficient to which the Swiss formula would apply or on the question of whether the coefficient would be common across countries or be differentiated according to initial tariffs or some other criterion. There seems to be general agreement, nonetheless, that developing countries would have a higher coefficient than developed countries. This implies lesser tariff cuts for developing countries for tariffs of similar size. However, since developing countries start off with higher initial tariffs, their average cuts can still be higher than those in developed countries. Developing countries noted that such results would be against the less than full reciprocity principle.

33. In essence, the major stumbling block in the non-agricultural market access negotiations is the level of tariff reduction, or "ambition". Developing countries in particular are concerned that ambitious bound tariff reductions will lead to reductions in applied rates and consequently a flood of imports that may overwhelm their domestic industries. Developed countries are keen to ensure that substantial improvements in market access are forthcoming, particularly in the large and potentially lucrative markets.

34. As noted earlier, developing countries are experiencing rapidly expanding trade with one another, and South-South trade now accounts for some 42 per cent of their exports, so that reducing tariffs among them would contribute to further strengthening South-South trade. The average applied tariff on this trade is 7.2 per cent but reducing these tariffs under a formula approach has proven more difficult than it first appeared, as currently only 78 per cent of developing-country tariffs are bound, and the treatment of unbound tariffs in the negotiations remained unresolved.

35. The importance of the treatment of unbound industrial tariffs stems from the high proportion of unbound tariffs in developing countries, often on sensitive products. Negotiators have agreed on a non-linear markup over the applied rate. For example, a hypothetical markup of 30 percentage points would increase an applied tariff of 10 per cent to 40 per cent and an initial tariff of 100 per cent to 130 per cent. With the exception of countries with a level of binding less than 35 per cent,

the final tariff would then be cut according to the Swiss formula. As yet, there is no agreement as to what the markup might be.

36. Another unresolved issue of significance concerns flexibilities for developing countries, which provide for (a) less-than-formula cuts and (b) exceptions from binding or the application of the formula. Such flexibilities would enable developing countries to protect industries they consider important. Some developed countries have raised concern that the flexibilities need to be limited to a given number of tariff lines and to a given proportion of imports, and thus should be related to the overall level of tariff cuts under the Swiss formula. Most developing countries, maintaining that these flexibilities are stand-alone allowances already agreed to consider such linkage inappropriate. The challenge therefore is to find an acceptable balance between the level of flexibility and the overall level of ambition.

37. In seeking a solution to such issues, taking account of the development goals of the Doha Declaration (A/60/111, annex I), some important elements need to be addressed. For developing countries, processed and manufactured goods have increased significantly in importance in recent years and currently represent on average nearly 70 per cent of their exports. Although tariffs are relatively low in industrial products compared with other sectors, there are some protected sectors of export interest to developing countries where tariff peaks and escalation are prevalent. Developed countries have 8 per cent of their tariffs at more than three times the national average, and average tariffs on intermediate and final products are five times the average tariffs on primary products. Furthermore, developing countries face higher average applied tariffs on their exports to developed countries (3.9 per cent) than developed countries face on their exports to other developed countries (2.1 per cent) owing to their export product composition, which tends to be concentrated in more heavily protected sectors. This is the case in spite of the preferential access that many developing countries enjoy on their exports to developed countries.

38. Developing country exporters are also increasingly facing non-tariff barriers, especially trade-distorting technical barriers and standards that often go beyond international standards and which limit their effective entry into the key markets. The UNCTAD Trade Analysis and Information System (TRAINS) shows that the use of technical measures doubled within the last decade. There is also a clear trend of non-tariff barriers becoming more stringent, complex and multidimensional (often combining environmental, health, including animal health, safety and social/ labour requirements). Non-tariff barriers are widespread in dynamic export products of developing countries such as electrical and electronic goods, textiles and clothing, footwear, fruit and vegetables. Quantification and categorization of non-tariff barriers is difficult, and comprehensive and systematic approaches are limited. UNCTAD is leading an international effort, along with other agencies, to define and classify non-tariff barriers through its Secretary-General’s Group of Eminent Persons on non-tariff barriers. The distinction between discriminatory and non-discriminatory non-tariff barriers is difficult since there is no clearly defined point at which measures become discriminatory. Non-discriminatory measures may hinder exports to developed countries due to the high fixed costs required to meet the standards. The relative cost of meeting a European standard of $2,000 is more significant for a small farmer in a developing country than for a developed-country farmer.

3. Services

39. A well-functioning services sector, with backward and forward linkages with the rest of the economy, is central for enhancing the efficiency and competitiveness of an economy and for improving infrastructure, facilitating trade and providing services essential to human life and well-being. Services have a key role to play in the achievement of the Millennium Development Goals, including poverty reduction and gender empowerment. The liberalization of trade in services provides opportunities for economic growth and development. However, certain preconditions have to be met for liberalization to generate the expected gains, including securing an appropriate content, pacing and sequencing of market opening and regulatory reform; implementing suitable complementary policies and regulations (such as competition laws); and providing support for domestic supply capacity-building. A comprehensive national assessment of the services sector from this perspective is important in defining appropriate policies and national negotiating objectives and options. UNCTAD has assisted developing countries in undertaking such assessments.

40. Services negotiations, initiated in 2000 as a built-in agenda from the Uruguay Round, continued under the Doha Round encompassing market access and rule making under the General Agreement on Trade in Services. The Sixth Ministerial Conference set modal and sectoral objectives and qualitative benchmarks for making new and improved commitments, and agreed to the initiation of multilateral negotiations in addition to request-offer negotiations, which remain the main modality for negotiations. The target time line for a second revised offer was set at 31 July and for a draft schedule of commitments at 31 October 2006. Proposed quantitative benchmarks were not retained given strong resistance from developing countries.

41. Regarding market access, as at August 2006, 71 initial offers had been submitted by 95 WTO members and 30 revised offers by 54 members. Despite this number of offers, improvements in quality have been limited in terms of both the sectoral coverage and the depth of offers. The newly launched multilateral negotiations have not yet achieved the expected liberalization commitments although they were considered as useful in clarifying technical issues. The participation of developing countries in the multilateral negotiations was limited to a small number.

42. Mode 4 (temporary movement of natural persons) and mode 1 (cross-border supply) have been identified as areas of export interest to developing countries. Welfare gains from liberalizing the temporary movement of natural persons are estimated on the order of $150 billion to $250 billion and a substantial share of these gains would be realized from liberalization in the movement of low-skilled service suppliers. Remittances represent an important source of financial flows to developing countries. In 2003, total remittances amounted to more than twice the amount of the official development assistance, and their share in GDP in 2004 was high in low-income countries such as in Togo (31 per cent) and Lesotho (26 per cent). Temporary movements of service providers can increase welfare for both sending and receiving countries, and their beneficial effects spill over to the transfer of skills and technology, investments in education and skills development, and gender empowerment in sending countries.

43. Developing countries have called for commercially meaningful offers in mode 4, and a group of countries made multilateral requests on this mode consistent with the modal objectives of the negotiations set out in the Hong Kong Ministerial Declaration. They call for substantial improvements in the coverage of categories of movement, de-linked from commercial presence (contractual services suppliers and independent professionals); removal of market access limitations; improvements in commitments in national treatment; and enhanced transparency in each of these categories. Least developed countries have also made a request on mode 4 focusing on four categories of service suppliers, namely independent professionals, business visitors, contractual service suppliers, and others such as foreign personnel of carriers/vessels under a foreign flag and graduate trainees.

44. Liberalization in mode 4 has been particularly sensitive for both sending and receiving countries, and only limited offers have been made. For sending countries, concern exists over the possible loss of skilled service providers, especially in health care and education services. For receiving countries, a wide array of economic and social concerns — related to employment, wage parity, health and pension plan portability, illegal extension of stay and security — has induced the continued imposition of protective measures, resulting in limited commitments and offers. Policies at the national, bilateral, regional or multilateral levels are important to address such concerns. They could include policies to ensure temporariness, such as depositing bonds, garnishing remuneration, devising rotation schemes or other incentive-based mechanisms, and collaboration of sending and receiving countries to ensure return. Receiving countries could mitigate temporary brain drain by adopting ethical recruitment schemes. Consideration needs to be given to a rights-based approach to migration, focusing on economic rights in respect of remuneration, access to health care, education and social security and the rights of women.

45. The potential of migration (including temporary migration) for development has attracted increased international policy attention, as evidenced by the High-level Dialogue on International Migration and Development to be held at United Nations Headquarters in September 2006 (see A/60/864). The Global Migration Group, which includes UNCTAD, has brought specific contributions to the Dialogue, inter alia, in respect of trade and development aspects of migration.

46. Least developed countries have sought the effective implementation of the least developed country modalities adopted in 2003 and reaffirmed by the Hong Kong Ministerial Declaration. To that effect, they proposed a specific mechanism for ensuring that special priority be granted to them. Several developed countries expressed reservations on the proposal. The Quadrilateral Group of Industrialized Economies (Canada, the European Union, Japan and the United States) has proposed a specific mechanism to assess the granting of special priority to sectors and modes of supply of interest to least developed countries in the services offers of WTO members that are not least developed countries.

47. Universal access to essential services, particularly for the poor and marginalized segment of a society, is relevant to human and social development, as some services such as health, education, water and energy are essential to human survival and well-being. National policies on universal access involve complex trade-offs between promoting equitable and affordable access to basic health products and services and ensuring efficiencies in the health-care system. National

policies may be increasingly affected by international rules and liberalization commitments under the General Agreement on Trade in Services. Appropriate flexibility, consistent with the right to regulate recognized under the General Agreement, is important in allowing countries to implement various policies and regulations suited to their particular developmental objectives in a given national context.

48. Significant progress has been made in negotiations on domestic regulations. A consolidated working paper was issued by the Chairman of the Working Party on Domestic Regulations in July 2006. Many fundamental issues remain unresolved, including the applicability and/or definition of certain concepts like "technical standards" and "necessity test". Since multilateral disciplines on domestic regulations would affect developing countries' ability to implement development policies suited to their national context, striking the right balance between the right to regulate and achieving clear international disciplines is a major issue. For instance, several developing countries have expressed reservations on the application of a necessity test in the future disciplines, as it may constrain the flexibility available to them. The right to regulate as recognized under the General Agreement on Trade in Services, and flexibilities for developing countries, including through special and differential treatment, are becoming more important as focus is being given to those regulations promoting market access opportunities. Such flexibility could take the form of temporary exemptions from the application of the future disciplines, exemptions or temporary suspension of disciplines for measures taken with development objectives, or carve-out for least developed countries. These aspects are yet to be fully addressed.

49. Progress has been limited in negotiations on rules under the General Agreement on Trade in Services relating to emergency safeguard measures, subsidies and Government procurement. On emergency safeguard measures, the need for a viable safeguard mechanism in the services area has been highlighted mainly by developing countries. Regarding Government procurement, the European Commission has proposed an annex to the General Agreement on Trade in Services, drawing on provisions in existing regional trade agreements. The proposal suggests the possibility of making specific commitments in General Agreement on Trade in Services schedules to open Government procurement to international competition.

50. The suspension of the negotiations does not foreclose the improvement of services policies at the national level. There is a need to intensify efforts on comprehensive assessments of service sectors as an essential tool for undertaking requisite policy reform within national development strategy. Concomitantly, it is important to strengthen regulatory, institutional, and administrative frameworks and build regulatory capacity in developing countries. There is a need to capitalize on progress made to date in negotiations in market access offers and domestic regulations.

4. Development

51. As regards special and differential treatment and implementation issues, to which developing countries have attached particular importance, progress has been difficult. Despite intensive consultations held in pursuance of the Hong Kong Ministerial Declaration, the positions of countries on these issues remained largely

unchanged. The deadline of 31 July 2006 set by the Hong Kong Ministerial Declaration for implementation issues, was not met. No significant progress on either issue has been reported.

52. As regards duty-free quota-free market access for least developed countries, those countries are seeking effective implementation of the commitment in the form of 97 per cent tariff line coverage by 2008, with the fast-track inclusion, in a commercially meaningful manner, of the products of their export interest, and moving expeditiously towards 100 per cent coverage. Least developed countries have thus called for duty-free quota-free treatment to be provided in those tariff lines in which positive duties are still applied to their exports and for follow-up discussions on the list of products excluded from the coverage, the time frame and implementation plans. The explicit mention of timing is significant, as some countries consider that duty-free quota-free market access is conditional upon the conclusion of the overall Doha Round. Product coverage remains important, as the remaining 3 per cent of tariff lines could exclude some 330 tariff lines, whereas, for example, an exclusion of 20 to 25 tariff lines would account for some two thirds of the total exports of Bangladesh. A study by the WTO secretariat finds that several countries have yet to achieve the target of 97 per cent coverage, including Japan (85.5 per cent), Norway (96.4 per cent), Switzerland (86.2 per cent) and the United States (81.8 per cent). As regards the commitment to ensure that applicable rules of origin are “transparent and simple”, least developed countries have proposed common and simple rules of origin applicable to their exports.

53. With respect to Aid for Trade, the Sixth Ministerial Conference agreed to the principle that Aid for Trade is required to help developing countries benefit from trade and trade negotiations. Accordingly, a task force was established and examined various aspects of operationalizing Aid for Trade (see para. 54 below). UNCTAD has contributed to this process, including by organizing a meeting jointly with the Commonwealth Secretariat. UNCTAD expertise in trade-related capacity-building programmes for developing countries and countries with economies in transition could contribute to the Aid for Trade initiatives. The 2006 G-8 summit in St. Petersburg expected spending on Aid for Trade to increase to $4 billion, including through enhancing the integrated framework. The task force released its report in July 2006 and provided a set of recommendations for the operationalization of Aid for Trade in respect of financing, scope, objectives, guiding principles, countries’ needs to be addressed and monitoring and evaluation. Aid for Trade is central to but also beyond the Doha negotiations — it is about enabling developing countries to improve their trading capacities, adjust to changing rules and trade patterns, and enhance their participation in global trade and realize concrete gains. Such aid must thus be additional to current development assistance and be secure, predictable and non-debt creating.

54. The task force on Aid for Trade recommended that projects and programmes for Aid for Trade should be considered if they were identified as trade-related development priorities in the recipient country’s national development strategies. Those priorities should be mirrored by donor and agency support and resource allocation for Aid for Trade. As a next step, it recommended that WTO members expeditiously implement its recommendations and request the Director-General of WTO to communicate its recommendations to relevant agencies and to urge Ministers at the forthcoming Development Committee meeting in Singapore to give consideration to the recommendations and encourage the World Bank and IMF to

ensure adequate follow-up; establish an ad hoc consultative group to take forward the practical follow-up to the recommendations; and convene an initial review of Aid for Trade with the participation of all relevant stakeholders. The task force stated that Aid for Trade could be delivered through existing mechanisms like the enhanced integrated framework for least developed countries and similar nationally oriented development frameworks for other developing countries. Some Aid for Trade will continue to be delivered multilaterally, for which support could be provided by United Nations agencies.

5. Trade-related aspects of intellectual property rights

55. On 29 November 2005, a decision was taken to grant least developed countries an additional seven and a half years for the implementation of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). A General Council decision taken in August 2003 had temporarily waived two obligations under the Agreement related to public health (article 31 (f) and (h)) to facilitate access to essential medicines for countries with no or limited manufacturing capacities. Subsequently, WTO members agreed on 6 December 2005 on an amendment of the Agreement that will enter into force once accepted by two thirds of the members, with a target date of 1 December 2007. Until then, the waiver will remain in force. To date, no use has been made of the waiver.

56. Two issues related to traditional knowledge — access and benefit-sharing for genetic resources, and the protection of traditional knowledge and folklore — have been stressed by developing countries. They have expressed concern that the current intellectual property protection system, including the Agreement on Trade-Related Aspects of Intellectual Property Rights, fails to adequately safeguard traditional knowledge and genetic resources. Consequently, countries rich in biological diversity and holders of traditional knowledge argue that the illegitimate commercialization of their resources, knowledge and traditions is happening without their prior informed consent and without the fair sharing of any resulting benefits. Solutions are being pursued at various levels. At the national level, access and benefit-sharing regimes, recognition of customary laws and practices and the creation of traditional knowledge databases could help to preserve traditional knowledge as a living body of knowledge in diverse communities. At the international level, a key proposal is to require the disclosure of the origin of genetic resources and associated traditional knowledge in relevant patent applications. Such a requirement could also include evidence of prior informed consent and benefit-sharing. These issues are being discussed in various international forums, including negotiations on an amendment to the Agreement, and through dedicated working groups and committees under the Convention on Biological Diversity and the World Intellectual Property Organization.

57. No agreement has been reached on negotiations on geographical indications relating to the establishment of a multilateral register of geographical indications for wines and spirits, and the extension of additional protection to products other than wines and spirits that is also discussed in the agricultural context.

6. Other issues

58. An "early harvest" was achieved in June 2006 on a transparency mechanism for regional trade agreements. The mechanism introduces procedural rules regarding early announcement, notification, enhanced transparency, subsequent notification and reporting of regional trade agreements. It streamlines the review process especially by requiring that the review be completed within one year following notification, that a single formal meeting be devoted to consider each notified agreement, and that any additional exchange of information should take place in written form. The mechanism also introduces factual presentation by the WTO secretariat in the examination process and technical support to developing countries. This is important in ensuring compatibility and coherence of regional trade agreements with the multilateral trading system. The mechanism applies to agreements under article XXIV of the General Agreement on Tariffs and Trade and article V of the General Agreement on Trade in Services, which would be reviewed by the Committee on Regional Trade Agreements, and Enabling Clause agreements, which would be reviewed by the Committee on Trade and Development. The mechanism would be implemented on a provisional basis. Little progress was made on systemic issues, including the definition of terms like "substantially all the trade", "transitional periods" and special and differential treatment.

59. Negotiations on trade facilitation progressed relatively smoothly. A full draft text was expected in July 2006 but did not materialize. Many WTO members recognize the benefits of trade facilitation, and many developing countries, particularly landlocked countries, have shown strong interest in the negotiations. Developing countries generally emphasized the need to create synergy between the timing and degree of commitments, implementation capacity and the provision of capacity-building support and investment for developing countries as provided in the negotiating modalities, and have provided new "modular approach" proposals in this regard.

60. Negotiations on trade and environment, especially environmental goods and services, continue the search for a common ground, particularly on an approach that would reconcile the various environmental, developmental and trade interests in the broader context of sustainable development.

61. The number of cases initiated under the WTO dispute settlement mechanism decreased from 19 in 2004 to 11 in 2005. In 2006, 13 cases had been initiated by August. In 2005, developing countries accounted for 64 per cent of both complainants and respondents. The recent rulings have made some important findings regarding, inter alia, the jurisdiction of dispute settlement mechanisms under WTO and regional trade agreements, national treatment and the relationship between the protection of geographical indications and prior trademarks under the Agreement on Trade-Related Aspects of Intellectual Property Rights, and procedures for terminating pre-authorized trade sanctions. Some ongoing cases address the interface between trade liberalization and public policy objectives (public health and environment) or certain anti-dumping practices.

62. The Hong Kong Ministerial Declaration welcomed the accession of Saudi Arabia and noted the completion of accession negotiations of Tonga which was granted a one-year extension to ratify its accession. Recent accessions have resulted in major liberalization commitments. Some 30 countries are in the queue for WTO

accession. Acceding developing countries continue to face requests for deeper and more stringent commitments, including "WTO-plus" commitments, with their access to special and differential treatment provisions subjected to negotiations on a case-by-case basis.

V. Regional trade agreements and South-South Cooperation

63. The proliferation, expansion and consolidation of regional trade agreements show no sign of abatement, and major trade liberalization is taking place regionally. Consequently, some 50 per cent of world trade takes place within regional trade agreements. As at January 2005, a total of 312 had been notified to WTO, and 170 are currently in force. The United States has intensified bilateral initiatives, with negotiations launched or concluded with Panama, Central America, Peru, Colombia and Ecuador; Bahrain, Oman and Morocco; the Southern African Customs Union; and the Republic of Korea. The European Union has pursued negotiations with Mercosur, the Cooperation Council for the Arab States of the Gulf and the Syrian Arab Republic, and six Arab, Caribbean and Pacific regions for economic partnership agreements. Interest is resurging in North-North regional trade agreements such as the United States-Australia free trade agreement.

64. South-South trade cooperation and integration is deepening. Existing agreements are being expanded to partners within and outside the region, as in the Mercosur-Andean Community free trade agreement, the Bangladesh-India-Myanmar-Sri Lanka-Thailand Economic Cooperation Initiative and the South Asian Free Trade Area. Ten ASEAN countries have bilateral free trade agreements among themselves, and individual bilateral agreements with China, the Republic of Korea and India. The third round of the Global System of Trade Preferences negotiations, under way since 2004, aims at expanding South-South cooperation through the exchange of concessions. Work has been undertaken on guidelines, including the possibility of sectoral negotiations and deeper tariff cuts, as appropriate, on a line-by-line basis, techniques and modalities in negotiations, strengthening rules of origin, lists of priority exports, and special and differential treatment for least developed countries.

65. Notwithstanding the potential of regional trade agreements, their proliferation poses challenges for the trading system. All WTO members with the exception of one (Mongolia) are members of at least one regional trade agreement, and many are parties to two or more and are negotiating additional ones. North-South agreements are transforming pre-existing unilateral preferences into reciprocal preferences, and thus require developing countries to open up their own markets and often to undertake commitments on regulatory issues such as intellectual property, investment or competition policy ("WTO-plus"). By enabling faster and deeper integration and liberalization, new-generation regional trade agreements may reduce incentives for a multilateral approach, and could represent a systemic risk to the multilateral trading system. There is thus a need to ensure positive coherence and interface between the two processes.

VI. Conclusions

66. The recent suspension of the negotiations indicates that the Doha Round, and the multilateral trading system, have reached a critical phase, and confidence-building, political decisions and compromises, especially by major players, are needed to unlock the stalemate, particularly on agriculture, and move the process forward towards a timely conclusion. The relevance and importance of WTO as a central pillar of the international trading system is not undermined. Positive coherence between the multilateral trading system and regional trade agreements, including through the improved transparency mechanism, is important. There is also a need to ensure coherence between the trade negotiation outcomes and the implementation of the Millennium Development Goals. The suspension has led to uncertainty over the negotiating prospects, casting a shadow over world trade and the multilateral trading system. It is thus imperative that efforts be devoted to resuming negotiations at the earliest possible date, so that the development promises of Doha can be fully delivered, placing the needs and interests of developing countries at the heart of the negotiations and incorporating them in a balanced and development-oriented outcome, including in terms of:

- Enhanced and predictable market access and entry opportunities for developing country exports
- Improved support aimed at building trade-related infrastructure and competitive supply capacity, including in services through effective and operational Aid for Trade among other means
- Effective and operational special and differential treatment
- Elimination of all forms of export subsidies by 2013 on a front-loaded basis, and substantial reductions in trade-distorting domestic support in agriculture
- Addressing preference erosion and enhancing utilization of trade preferences
- Full provision of duty-free quota-free market access for the least developed countries.