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International trade and development

Report by the Secretary-General

Summary

The present report reviews recent developments in international trade and the trading system, particularly negotiations under the World Trade Organization Doha Round and their implications for developing countries. The Doha Round and the multilateral trading system stand at a critical juncture, as the recent informal World Trade Organization “mini-ministerial” meeting failed to set the basis for concluding the Round this year. Particular attention is paid to the linkages of trade and the trading system with the achievement of internationally agreed development goals, particularly the Millennium Development Goals, and to persistent and emerging challenges of global economy.

* A/63/150 and Corr.1.



I. Introduction

1. The present report has been prepared pursuant to General Assembly resolution 62/184, 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-third session on the implementation of that resolution and on developments in the multilateral trading system.

II. Trends in international trade and development

2. Robust output and export growth worldwide have marked recent years, driven particularly by the growth in productive capacities in many parts of the developing world. However, global demand and supply shocks on account of finance, fuel and food prices have cast uncertainties over the world economy. World growth in 2008 is now expected to be lower than in previous years. The economic slowdown and emerging challenges could risk undermining the development and poverty-alleviation prospects of developing countries and progress towards the Millennium Development Goals. With increasing economic uncertainty, protectionist and anti-globalization sentiments have also re-emerged and concerns over adjustment intensified.

3. A global financial crisis, prompted by the collapse of subprime loans in the United States of America, has substantially reduced liquidity in global credit markets, and the resulting higher interest rates have reduced investment worldwide. The depreciation of the dollar and the economic slowdown in the United States have decreased global import demand. The spike in energy and commodity prices has fuelled global inflation. The spot price of crude oil rose from \$50 a barrel in January 2007 to \$147 in July 2008, before retreating to \$115 in August. Speculation has amplified price variations, as portfolio investments have shifted to commodity markets in search of higher returns. High energy prices have made agricultural production more expensive by raising the cost of inputs, including fuel, fertilizers, pesticides, seeds and transport. Subsidies for biofuels, including in developed countries, have contributed to rising prices by diverting production away from agriculture. Containing inflationary pressures without discouraging growth has become an increasing concern of central banks.

4. The dramatic rise in global food prices and the depletion of cereal stocks, particularly of staples, has created a host of humanitarian, socio-economic and developmental challenges. Wheat, rice and soybean prices have increased by 40 to 60 per cent since early 2007, although prices have stabilized lately. The cereal import bill of low-income net-food importing countries has doubled over the past five years. Food prices are expected to remain significantly higher than their 2004 level despite the deployment of short-term measures, owing to multiple deep-rooted causes, including changing demographics, consumption patterns and growing impacts of climate change and desertification and failures of national and international development policies and measures that have historically provided disincentives to agricultural production in many developing countries. Agricultural subsidies in developed countries have distorted international markets and weakened agricultural production in developing countries. The recent imposition of export taxes and restrictions has provided short-term relief for domestic consumers but

could risk aggravating situations in other countries and discourage longer-term supply responses.

5. The global food crisis has the potential to reverse the progress made towards the achievement of the Millennium Development Goals, particularly the eradication of extreme poverty and hunger (millennium development goal 1). Hunger needs in over 37 developing country, 20 of which are least developed countries, require urgent attention. The crisis may add another 100 million people to the existing 854 million suffering from extreme poverty and hunger. Reduced availability of food also compromises children's health (goal 4), education (goal 2) and maternal health (goal 5). Estimates indicate that if current price levels are sustained, annual international aid in the order of \$25 billion to \$40 billion is necessary to help enhance food production in developing countries. The crisis thus requires a comprehensive and coordinated response, comprising emergency responses as well as scaling up productivity-enhancing safety nets and agricultural investments. The Doha Round could contribute to medium- or long-term solutions by tackling the systemic distortions in the international food market, although the effects of a successful Round — with the growth in global production estimated at -2 to 2 per cent, depending on the sector — may be small compared with the magnitude of recent price increases.¹

6. Climate change represents a long-term human challenge, particularly for developing countries. Response measures taken multilaterally or unilaterally, however, could place medium-term constraints on the production possibilities of countries and incur adjustment costs for developing countries. Multilateral cooperation has been strengthened by the recent decision taken at the United Nations Climate Change Conference in Bali in December 2007 to launch negotiations on strengthened cooperation on the reduction and mitigation of greenhouse gases. It is estimated that by 2030 developing countries will require \$28 billion to \$67 billion in funding to adapt to climate change. On the other hand, various environmental standards, elaborated on the basis of carbon intensity and energy efficiency of goods and services traded, could incur high adjustment costs for developing countries that have traditionally relied on emission-intensive production processes and methods. The multilateral trading system can facilitate trade in environmental goods and services, and discipline some trade-related measures taken for environmental purposes, such as border tax measures, and trade-restrictive standards and non-tariff barriers.

7. Against the backdrop of growing economic uncertainties, 2007 marked the fourth consecutive year of global economic growth. World output expanded by 3.8 per cent. Developing countries led the expansion, growing at a robust rate of 7.3 per cent, compared to 2.5 per cent for developed countries, where weak growth is projected for several quarters to come. World merchandise exports expanded by 14.4 per cent, at a slower pace than in the previous year, to \$13.8 trillion, and exports of services grew by 18.1 per cent, to \$3.3 trillion. Developing countries' merchandise exports grew by 15.2 per cent and their share in world merchandise exports increased from 37.3 to 37.5 per cent, while their share in world exports of services remained unchanged, at 25.4 per cent. Least developed countries merchandise exports grew by 21.2 per cent, to increase their world share from

¹ S. Polaski, *Winners and Losers: Impact of the Doha Round on Developing Countries* (Carnegie Endowment Report, March 2006).

0.85 to 0.91 per cent, while their share of world services trade remained constant at 0.5 per cent.

8. The most dynamic growth in merchandise exports among developing regions was recorded in Asia (16.3 per cent), followed by Latin America (12 per cent) and Africa (10.7 per cent). China recorded the fastest export growth, 25.7 per cent, while India's exports grew by 20.3 per cent, and Brazil's by 16.6 per cent. From 2000-2006, exports of primary commodities grew faster than those of manufactured goods, while the share of ores and metals in their merchandise exports rose from 4 to 7 per cent, and fuels from 20 to 22 per cent.

9. South-South trade continues to accelerate, and accounted for 46 per cent of total developing country exports, or 17 per cent of world merchandise exports in 2006. Asia accounted for 85 per cent of South-South trade, while Latin America and Africa accounted for 10 and 5 per cent, respectively. South-South trade remains largely intraregional in nature, while increasing opportunities exist for interregional trade. Given the rapid proliferation of regional trade arrangements, over half of global trade is estimated to take place among regional trade arrangement partners. Nearly 60 per cent of the exports of high-income Organization for Economic Cooperation and Development (OECD) countries are directed to regional trade arrangement partners. This share is lower for developing countries, in the range of 30 to 40 per cent.

10. Tariff protection has continued to fall over the past decade.² Global most favoured nation tariffs averaged 9.4 per cent in 2007, a fall from 11.7 per cent during the period 2000-2004. From, 2001 to 2007, average most favoured nation tariffs imposed by developed countries on low- and middle-income country exports declined from 11.1 to 6.8 per cent for agriculture, from 4.0 to 3.4 per cent for industrial products and from 8.5 to 5.9 per cent for textiles and clothing. The effectively applied tariffs (including preferences) faced by least developed country exports in developed countries fell from 2.3 to 1.6 per cent for agriculture, from 2.9 to 1.4 per cent for industrial products and from 6.7 to 4.7 per cent for textiles and clothing. Relatively high tariffs and peaks, and tariff escalation, remain in developed countries on products exported by developing countries, including agricultural products and textiles and clothing.

11. An increasing proportion of trade enters markets at a zero tariff rate either on a most favoured nation or preferential basis. Globally, duty-free trade has increased (34 per cent on average) in all regions over the past decade, to about 40 per cent.³ From 2000 to 2005, the percentage of developed countries' imports admitted duty-free increased from 63 to 76 per cent for developing countries, and from 75 to 82 per cent for least developed countries. While half of total United States imports and 63 per cent of total European Union imports in 2006 were imported duty-free on a most favoured nation basis, only 29 per cent of United States imports from developing countries are duty-free on that basis, as these countries tend to export the more protected goods. However, 34 per cent of United States imports from developing countries and 16 per cent of European Union imports from developing countries were eligible for some form of preferences reserved for developing countries.

² World Bank, *World Trade Indicators 2008*.

³ *Ibid.*

12. Agricultural support estimates in OECD countries fell slightly, from \$376 billion in 2005 to \$365 billion in 2007, or from 1.05 to 0.89 per cent as a share of gross domestic product (GDP). The proportion of trade-related capacity-building in total official development assistance declined from 4.4 per cent in 2001 to 3.5 per cent in 2005, against the backdrop of insufficient progress towards the target of 0.7 per cent of gross national product by 2015, consistent with the Monterrey Consensus.

13. As regards services, developing country exports remain relatively concentrated, as the top five exporters supply half of all exports of services, and the top 15 exporters 75 per cent. Asia accounted for three quarters of developing country exports of services. In 2007, the most dynamic exporter was Africa, with export growth of 19.8 per cent, followed by Asia (18.9 per cent) and Latin America (13.0 per cent). Least developed countries' exports of services grew by 11.4 per cent. Travel and transport represented two thirds of developing country exports of services, while business, information and communications, and financial and insurance services accounted for nearly one third. Countries with economies in transition expanded their exports of services by 30.5 per cent. South-South trade in services is estimated to account for 45 per cent of developing country exports of services, or 11 per cent of world exports of services. As in the case of merchandise, there is a strong bias towards intraregional trade.

14. In 2007, total foreign direct investment (FDI) inflows to developing countries reached a record level of \$471 billion, or one quarter of total world FDI inflows. This was driven by an increase in greenfield investment and in production abroad by transnational corporations. Brazil, China, India and South Africa accounted for half of all FDI inflows to developing countries. Growing economic uncertainties in 2008 are expected to result in decline by some 40 per cent of FDI inflow to developing countries, to \$282 billion.

15. Labour mobility and migration contribute to fostering a trade, investment and development link between countries of origin and of destination. Over 200 million people live and work outside their country of origin, and global remittance flows, which reached \$318 billion in 2007, are an important source of income and foreign exchange. Maximizing net benefits for both sending and receiving countries through "co-development" partnership is important, as are channelling remittances into public and productive investment and ensuring circular migration.

16. The Accra Accord, adopted at the twelfth session of UNCTAD, in April 2008, recognizes that in order to make globalization a positive force for all, with its benefits shared equitably, a comprehensive and coherent set of development policies and initiatives is required, and that ensuring the effective, qualitative and beneficial participation of all countries, in particular developing countries, in the international trading system is a critical challenge, but could also generate opportunities (para. 62). It recognizes that the interplay between the economic and social policies and environmental dimensions of globalization should be tailored to the specific needs and circumstances of each country. It also calls upon all World Trade Organization members to uphold and reiterate their commitment within the organization to promote a well-functioning, rules-based, open, equitable, predictable and non-discriminatory multilateral trading system that promotes development (para. 63). It stresses that they must demonstrate their shared interest in, and the political will to achieve, the successful completion of the Doha Round of

negotiations and the full realization of its core agenda, in line with its overall development dimension.

17. Addressing emerging global challenges and achieving the Millennium Development Goals requires the different strands of global partnership — trade, aid, finance, investment and technology — to all work in complementary ways to reinforce national benefits. An essential component of Millennium Development Goal 8, on global partnership for development, is to develop further an open, rule-based, predictable, non-discriminatory trading system. A high-level event on the Millennium Development Goals, and the Doha Review Conference on financing for development, would help build consensus on the efforts needed to achieve that goal. Halfway towards the 2015 target date for achieving the Millennium Development Goals, efforts are needed to improve market access conditions for developing country trade, reduce distortion in agricultural trade and substantially increase international support to help developing countries benefit from international trade.

III. Developments in the multilateral trading system

18. The Doha Round, under way since 2001, has entered its seventh year. It stands at a critical juncture, as negotiations were aimed to conclude by the end of 2008. The political cycles in some major countries are expected to render negotiations more complex in 2009. Focus has been given to establishing full modalities for reduction commitments in agriculture and non-agricultural market access. Achieving a commensurate level of progress in other areas of negotiations, such as services, the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), rules and trade facilitation, has also been given importance in achieving an overall balance within a single undertaking. Following the first draft modalities on agriculture and non-agricultural market access, issued in July 2007, revised texts on both subjects were issued in February, May and July 2008 to form the basis of discussion.

19. An informal World Trade Organization “mini-ministerial” meeting, convened from 21 to 30 July 2008 with the participation of some 40 ministers and senior officials, essentially to establish modalities on agriculture and non-agricultural market access, failed to achieve a much-needed breakthrough. The meeting was aimed at resolving key outstanding issues in the negotiations through intersectoral “horizontal” negotiations at the higher political level. Such outstanding issues included the extent of reduction in the overall trade-distorting domestic support for agriculture in developed countries, the extent of reduction in agricultural tariffs in developed countries, flexibilities for developing countries in agricultural tariff reduction and the extent of tariff cuts for industrial products in developing countries. It was hoped that resolutions on these issues would galvanize agreement in agriculture, non-agricultural market access and other areas. A “signalling conference” on services, where signals were exchanged among 32 participating countries on possible improvements in services offers, was held during the meeting to inject impetus into negotiation on services. The proposal to bind the European Union’s new banana tariffs at 114 euros per ton (from the existing 176), which arose from the long-standing dispute between the European Union and Latin American banana producers, were also discussed. The three TRIPS-related issues (multilateral register for geographical indications for wines and spirits, extension of stronger

geographical indication protection for all products and protection of biodiversity and traditional knowledge through the patent system) were also addressed, as several countries attached special importance to them.

20. Despite the significant progress made on many core issues, the small-group discussion among Australia, Brazil, the European Union, China, India, Japan and the United States of America failed, unexpectedly, on the issue of the special safeguard mechanism in agriculture. The question was how easy it should be for developing countries to invoke a safeguard action that could raise applied tariffs above the existing legal ceiling rates (“bound rates”) to counter an increase in imports. The collapse of the negotiations meant, among other things, that a more ambitious and expeditious reduction of cotton subsidies, sought by African countries, was not addressed by ministers. Although a convergence of positions on 18 out of the total 20 core issues essential for modalities on agriculture and non-agricultural market access was reported, it was felt that differences persisted on some of the issues within the package. There was a perceived imbalance in the level of concessions sought from developing countries, particularly in the light of the principles of special and differential treatment, including on the proposed extent of industrial tariff cuts by developing countries and of farm subsidy-reductions by developed countries. As regards process, while the need for the small-group negotiations was largely recognized, given that wider group discussions had failed to produce results, concern remained on the part of countries outside the small-group process because of what they perceived as the lack of full inclusiveness and transparency. The outcome of that process would have required multilateral endorsement by consensus, as, ultimately, the Round’s outcome needs to be adopted by the World Trade Organization Ministerial Conference, involving all members.

21. The failure to set the basis for the concluding stage of the negotiations has made it impossible for the Round to be concluded by the end of 2008, and more difficult to resuscitate in 2009. Another complicating factor is the lack of trade promotion authority for the United States Administration. Its renewal is regarded as essential for that country’s credible engagement in the negotiations. There is concern that the Round might be put on hold for some time, possibly two years, while more and more calls are being made to fully resume the negotiations at an earliest date possible. Early harvest of some of the deliverables has been suggested, while the principle of “single undertaking” means that all elements remain open until all components are settled. Suggestions are also made to harvest development deliverables on a fast-track basis. Intensive consultations are under way, including by the Director-General of the World Trade Organization to determine ways forward and possible resumption.

A. Agriculture

22. Agricultural negotiations have been conducted with regard to market access, domestic support and export competition. The central issues noted were the extent of the overall trade-distorting domestic support reduction, tariff cuts in developed countries and flexibilities for developing countries. The mini-ministerial meeting also addressed cotton-specific subsidies, special safeguards mainly for developed countries, “sensitive products”, tariff ceilings, “special products” and the special safeguard mechanism. Other outstanding issues included preference erosion, tropical products, tariff simplification, tariff rate quotas that allow for imports at

low tariff rates up to a specified quantity, duty-free and quota-free market access for least developed countries, product-specific subsidies, export competition and export restriction.

23. UNCTAD estimates indicate that the most significant impact of the Round would result from a reduction in the European Union average applied tariffs from 21 to 12 per cent and Japanese tariffs from 31 to 17 per cent. Developing countries applied agricultural tariffs would be reduced to a limited extent, possibly from 17 to 15 per cent. A significant increase in developed-country imports of oilseeds, beef, bananas, other tropical fruits, citrus and a range of other products is expected. Net-food importing developing countries and least developed countries would be worse off because of the rise in food import prices and the erosion of preferential market access.

24. On market access, a tariff-cutting formula that classifies tariffs into four bands and applies larger cuts for higher tariffs (“tiered formula”) had been agreed. Developing countries would undertake a cut amounting to two thirds of the cut of developed countries in the corresponding band. Some 30 developing countries would apply the tiered formula, while the 48 small and vulnerable economies would apply a more lenient formula cut or an overall average cut. Least developed countries are exempted from any cut. The extent of cuts for developed countries’ high tariffs remained unresolved, as they tend to be import-sensitive. This was proposed to be 70 per cent at the mini-ministerial meeting. Since the line-by-line reduction does not guarantee a priori the significant level of overall average reduction, the target minimum average cut for developed countries was set at 54 per cent. For developing countries, the maximum average cut was set at 36 per cent so that the tiered formula does not lead to disproportionately deep cuts, as developing countries tend to maintain high initial bound tariffs that are subject to larger cuts.

25. The level of market access improvement is dependent on exceptions to the formula. The designation, “sensitive products”, available to all countries to provide flexibility to a limited number of protected products, allows the tariff cuts to be reduced to one third, one half or two thirds of the normal formula cuts if the relevant tariff rate quota is increased. The number of sensitive products for developed countries was proposed to be 4 per cent of agricultural tariff lines, and the extent of tariff rate quota expansion would be 4 per cent of domestic consumption. Countries with a high-tariff structure are entitled to an additional 2 per cent subject to tariff rate quota expansion. While sensitive products can undermine potential welfare gains, tariff rate quota expansion is important in compensating for the loss. The proposed limit on maximum allowable tariffs after the formula cut (“tariff cap”) at 100 per cent would not apply to sensitive products but would apply to the remaining agricultural products, with the exception of 1 per cent of tariff lines. This would impose constraints for countries having high agricultural tariffs on a number of products.

26. Developing countries with vulnerable and small-scale farmers have attached particular importance to a special allowance available only to developing countries — for special products — to promote food security, livelihood security and rural development. This is particularly relevant given the current food crisis. The designation “special products” allows for a gentler tariff reduction, including no reduction, for a limited number of products. Agricultural exporters were concerned that an overly permissive special products arrangement could hamper their market

access improvements in developing country markets. The mini-ministerial meeting discussed the proposal whereby the maximum number of eligible products is 12 per cent of agricultural tariff lines; 5 per cent would be eligible for zero tariff cuts, and the overall average cut would be 11 per cent. A coalition of some 100 developing countries thus called for greater product coverage and a lesser minimum average cut to shield a greater number of products from fuller market opening.

27. The special safeguard mechanism is another instrument of particular importance to developing countries for protecting vulnerable farmers in case of a rapid increase in cheap imports that could adversely affect the subsistence needs of poor farmers. This issue was the apparent cause of the mini-ministerial setback. The special safeguard mechanism allows developing countries to temporarily increase tariffs in response to an import surge or fall in import prices. Key questions are whether, to what extent and under which conditions remedial tariffs can exceed pre-Doha bound rates and, on the other hand, how a special safeguard mechanism can be made genuinely operational for developing countries if there is an a priori ceiling constraint on possible remedies. In the case of an import surge, the July 2008 draft modalities text (“July text”) suggested that a different amount of remedial duties might be imposed on existing tariffs according to the level of import surges within the general ceiling limits of the pre-Doha bound rates. Developing countries would be entitled to exceed this ceiling rate by the higher of 15 percentage points or 15 per cent of the new bound rates if limited to two to six products in any given period. Small and vulnerable economies and least developed countries would be eligible for less restrictive higher ceilings.

28. The mini-ministerial meeting discussed limiting the availability of such a ceiling level higher than the initial bound rate only to the case of high import surges (i.e., greater than 140 per cent). The proponents of the special safeguard mechanism found this trigger level too high, making the instrument effectively non-operational. They argued that by the time imports increase by as much as 40 per cent, domestic production could already have been severely damaged. Agricultural exporters argued that the lower trigger level could allow the imposition of additional tariffs even in the event of normal import growth, and the impact of price increases could be substantial for bulk commodities sold at a small price margin. The coalition of some 100 developing countries supporting the special safeguard mechanism called for a lower trigger level and higher additional duties to make the mechanism more easily available at an earlier stage to effectively counter import increases.

29. Some developing countries groupings have competing interests over the issues of preference erosion and tropical products. Those dependent on preferential access to developed countries, such as African, Caribbean and Pacific States in the European Union market, seek to postpone and lower tariff reductions in preference-granting countries to attenuate the erosion of preference margins. In contrast, exporters of tropical products without preferential market access, mainly from Latin America, seek deeper and faster tariff reductions to expand most favoured nation market access opportunities for their exports. The issue is that two thirds of products determined to be vulnerable to preference erosion overlap with those classified as tropical products, including bananas, sugar, cut flowers and tobacco. Both parties have thus sought to reduce the number of overlapping products, including taking into account the setting of new European Union tariffs on bananas at 114 euros per ton, which has been proposed as a solution to the long-standing legal dispute between European Union and Latin American banana producers.

30. The mandated substantial reduction of trade-distorting domestic support is being pursued through specific cuts in the individual components of trade-distorting subsidies, and through cuts in the overall trade-distorting domestic support as a whole. These efforts would not lead to substantial cuts in actual spending on domestic support, as the reduction is from a ceiling level that is often significantly higher than actual spending level. It would, rather, limit the scope for discretionary policy changes and improve the structure of commitments for future rounds. A central issue in domestic support was the new ceiling level for the United States of America, particularly given its 2007 Farm Bill, which maintained much of the commodity support. The mini-ministerial meetings discussed a 70 per cent cut for the United States, which would reduce its overall trade-distorting domestic support ceiling from \$48.2 billion to \$14.5 billion. This is, however, above its assumed current spending, which is low because of high commodity prices.

31. A more substantial and faster reduction of cotton subsidies proposed by African countries was not addressed at the mini-ministerial meeting. The major issue is the treatment of United States domestic support for cotton, which is in part dependent on the general disciplines, still outstanding, on product-specific domestic support. The United States is the world's second largest producer of cotton, after China, and the leading exporter. According to some commonly quoted estimates, the removal of United States subsidies would increase world prices by 10 to 12 per cent, although such an estimate is sensitive to assumptions on supply responses.⁴ UNCTAD estimates indicate that removing \$3 billion of United States subsidies could generate welfare gains of about \$40 million for West African countries.

B. Non-agricultural market access

32. Tariff protection for non-agricultural products is generally low in developed countries, despite tariff peaks and high tariffs in some sectors, including textiles and clothing. Tariffs are higher in developing countries but, owing mainly to unilateral liberalization, applied rates are often lower than bound rates, leaving tariff overhang between the two. Given that manufactures account for two thirds of imports, developing countries are concerned that an abrupt opening of their industrial sectors to international competition risks causing de-industrialization, government revenue loss or lesser flexibility in tariff policies. Import duties represent on average 19 to 30 per cent of total tax revenue in low-income developing countries.

33. Non-agricultural market access negotiations have proved to be controversial. Non-agricultural market access tariff reduction is based on harmonizing the "Swiss formula", which reduces higher tariffs to a greater extent. Twenty-seven developing countries would apply the formula while other developing countries are subject to different tariff-cutting methods: the 12 developing countries with low binding coverage would increase their binding coverage at an average rate not exceeding 30 per cent. Most of the 33 small and vulnerable economies would bind their tariffs at proposed average tariff rates of 18 to 30 per cent. Least developed countries are exempt from any tariff cut. Major issues of contention pertain to the extent of tariff reduction by developing countries, terms of developing country flexibilities,

⁴ Daniel A. Sumner, "A quantitative simulation analysis of the impacts of US cotton subsidies on cotton price and quantities", available at http://www.mre.gov.br/portugues/ministerio/sitios_secretaria/cgc/analisequantitativa.pdf.

including the proposed “anti-concentration clause”, and sectoral tariff negotiations and harmonization. Other outstanding issues include a formula for small and vulnerable economies, preference erosion, special flexibilities for some individual countries, duty-free and quota-free market access for least developed countries and non-tariff barriers.

34. The July text linked the Swiss formula coefficients (which are equal to maximum ceiling tariffs) with differing degrees of flexibilities, thereby establishing tradeoffs between the two. Accordingly, developing countries opting for a higher coefficient would apply lower or no flexibilities in moderating formula cuts. Developing countries find such a linkage contrary to the Doha mandate and dismissive of their sensitivities. Developing countries question the increased scope of flexibilities that may exclude a substantial proportion of sensitive developed country products.

35. A central issue was the question of whether the proposed tariff-cutting modalities fully meet the agreed principles of “less than full reciprocity” and “comparably high level of ambition in market access” between agriculture and non-agricultural market access. The current non-agricultural market access proposal would effectively cap developing country tariffs at the level of 20 to 25 per cent, implying that developing countries would have to make higher average cuts than developed countries, even though they would maintain higher tariffs than developed countries after the formula cuts. Developing countries pointed to a proposed tariff cap at the level of 100 per cent in agriculture in support of a higher ceiling level for their industrial tariffs. Developing countries remained concerned about possible adverse development implications and adjustment costs of deep tariff cuts. Developed countries were concerned that the proposed cuts would not generate real market access and new trade flows in developing countries.

36. “Flexibilities” from the formula for developing countries consist in applying either half the formula cut or no cut for a certain proportion of industrial tariff lines, with the condition that import volumes accounted for by those tariff lines do not exceed a certain maximum amount. Developing countries are concerned over the so-called “anti-concentration” clause, which pre-empts the exclusion of entire product categories from the formula cut. Some members of customs unions have sought greater flexibilities to prevent steeper tariff cuts applied by one member from inducing the same deep cuts for other members that otherwise would not be required (e.g. least developed countries) owing to the existence of common external tariffs. Such concern was raised in respect of the Southern African Customs Union and the Common Market of the South.

37. Greater emphasis has been given recently to sectoral negotiations that seek to reduce and harmonize tariffs in specific sectors over and above a formula cut, as the general level of ambition through the Swiss formula remains unresolved while developed countries seek deeper liberalization in growing markets, such as the chemical, electronics and automobile markets. While the developing country participation in sectoral negotiations had been agreed on a voluntary basis, a linkage between participation in the sectoral initiatives and the level of coefficients had been proposed. Developing countries were concerned that such a linkage might render the sectoral negotiations almost mandatory. The mini-ministerial meeting considered the proposal that developing countries would participate in negotiating

the terms of at least two sectoral negotiations and that their participation in the final sectoral initiatives would be compensated with the increase in Swiss coefficients.

38. As in agriculture, for preference-dependent countries, the erosion of preferences in their export markets is a major concern. The sectors in which they most benefit from deep preferences are those where most favoured nation tariffs are high but would be reduced to a greater extent owing to the harmonizing Swiss formula, such as the clothing and fish sectors. A limited number of products determined to be vulnerable to preference erosion in the European Union and United States markets would be subject to longer implementation. In that regard, for some Asian developing countries and least developed countries, a shorter period is applied to a limited number of clothing products that are not covered by certain preferential schemes, and thus would be disproportionately affected if most favoured nation tariff reduction were delayed. Preference erosion can be more significant for those products that would be included in sectoral initiatives leading to deeper tariff reduction. There is a possibility that those tariff lines listed for preference-erosion products could be excluded from sectoral negotiations so as not to override preference erosion.

39. Addressing non-tariff barriers remains important for developing countries, as they tend to face higher non-tariff barriers than developed countries. Market access alone is not sufficient to ensure the realization of export opportunities resulting from the Doha Round and effective market entry for developing country exports. Seven specific “horizontal” and “vertical” non-tariff barrier proposals, including on the facilitation of dispute resolution for non-tariff barriers, would be given particular attention. Other listed non-tariff barrier proposals include those for chemical products, electronics, labelling on textiles, clothing and footwear. The list does not refer to the proposal on export taxes.

C. Duty-free and quota-free market access for least developed countries

40. The duty-free and quota-free market access decision agreed at Hong Kong (China) remains a key issue for least developed countries. The decision called for granting duty-free and quota-free treatment to at least 97 per cent of products by 2008 or the start of the Doha implementation period, with the remaining 3 per cent to be progressively liberalized thereafter. The issue remains of how to progressively achieve 100 per cent coverage, by when, and how to ensure that rules of origin are “transparent and simple”. Three per cent of tariff lines could affect a significant proportion of least developed countries exports. In agriculture and non-agricultural market access negotiations, least developed countries have sought to clarify the time frames and procedures for achieving these goals and monitoring the implementation, including of rules of origin.

41. Many developed countries had already met 97 per cent coverage in 2005, while others had yet to do so. Major improvements were reported in Japan and Switzerland, which recently expanded their product coverage for duty-free and quota-free treatment to meet the 97 per cent threshold. Furthermore, India and China have taken major steps to improve market access for least developed countries. Least developed countries had submitted a proposal on rules of origin calling for the use of harmonized rules based on value addition methods and addressed the issue

bilaterally. The non-agricultural market access modalities urge countries to use this proposed model. Ongoing reforms of rules of origin, such as in the European Union, are expected to address some of the least developed countries' concerns. Least developed countries have stressed the need for adapting rules of origin to their production and export profiles.

D. Services

42. As the services sector represents 52 per cent of GDP and 35 per cent of employment in developing countries, and given its multifaceted nature, well-functioning services sectors are essential in meeting Millennium Development Goals, particularly in respect of eradicating poverty. Universal access to education, health, water and environmental services is essential for meeting the goals related to universal primary education (Millennium Development Goal 2), child mortality (goal 4), maternal health (goal 5) and safe drinking water (goal 7). The role of women in the supply and consumption of services makes the sector relevant to gender empowerment (goal 3). UNCTAD undertakes comprehensive work on services, including on universal access to services.

43. Developing countries in general aim to realize through services negotiations adequate pacing and sequencing of national policies, reform and liberalization, including for supply capacity-building and institutional and regulatory frameworks, as well as securing enhanced market access and entry in sectors and modes of supply of their export interest. Some 71 initial and 31 revised offers have been submitted. The quality of offers is felt to need improvement in terms of the depth and breadth of commitments, consistent with the development objectives of General Agreement on Trade in Services, articles IV and XIX. Since 2006, plurilateral negotiations are conducted in addition to the bilateral negotiations. Twenty-one plurilateral requests addressed key sectors, all modes of supply and most favoured nation exemptions.

44. The signalling conference held during the mini-ministerial meeting was aimed at boosting market access negotiations through exchange of indications of possible offers (and requests) with regard to new and improved market access for services in response to bilateral and plurilateral requests. Some 32 participants indicated their possible offers on a conditional basis, yet to be confirmed in the revised offers.

Services signalling conference

The signals exchanged addressed all the major services sectors, including business, postal and courier, telecom, construction, distribution, environmental, financial, transport (particularly maritime) and energy-related services. Signals were made regarding the removal of limitations with respect to mode 3 in sectors such as postal and courier, telecom, distribution, environmental, banking, insurance and energy-related services. As regards mode 1, discussions centred on business and distribution services. On mode 4, the signals were made on sector-specific improvements (such as business services), as well as across-the-board improvements in all relevant categories (such as intra-corporate transferees, business visitors, contractual service suppliers and independent professionals). Also indicated were the extension of periods

of stay; clarification, reduction or elimination of economic needs tests; removal of definitional uncertainties; and adjustment of current entries to prevailing scheduling conventions in exchange for improved developing country commitments in such sectors as telecom, finance, environmental and distribution services. The importance of negotiations on domestic regulations was noted. Developing countries were largely disappointed with the lack of added value in offers on modes 4 and 1.

45. A services text, “Elements required for completing the services negotiations”, was under discussion to establish balance among market access negotiations on agriculture, non-agricultural market access and services. The draft text provided that World Trade Organization members, to the maximum extent possible, would respond to bilateral and plurilateral requests by making deeper and/or broader commitments, including, where possible, reflecting substantially current levels of market access and national treatment, and providing new market access and national treatment, in areas where significant impediments exist, particularly sectors and modes of export interest to developing countries, such as modes 1 and 4. Such commitments should be commensurate with the level of development, regulatory capacity and national policy objectives of individual countries. The date for the submission of revised offers was proposed to be set for 15 October, and that for the final draft schedules for 1 December.

46. Developing countries initially questioned the merit of the services text, as the negotiating guidelines already existed (adopted in 2001, supplemented by the July 2004 framework agreement and annex C of the 2005 Hong Kong Ministerial Declaration). Certain elements of the text were also controversial, such as reference to “current levels of market access and national treatment”. Concerns also existed on development flexibilities, structure of the General Agreement on Trade in Services and the regulatory framework. The text made no reference to some mandated elements of the negotiating guidelines, including the assessment of trade in services in the light of objectives of article IV of the General Agreement on increasing participation of developing countries in trade in services, the consideration of the extent to which article IV is being implemented and the suggestion of ways and means of promoting the goals established therein, and an evaluation, before the completion of the negotiations, of the results attained in terms of the objectives of article IV.

47. Least developed countries have called for establishing a mechanism for granting special priority through predictable and enforceable preferential access for least developed countries and their mode 4 request, in accordance with the least developed country modalities. The July version of the draft text provides that a waiver available to all World Trade Organization members from most favoured nation obligations in respect of preferential treatment benefiting all least developed country members offers the more satisfactory outcome and that specific principles and characteristics of such a waiver would be completed before the submission of a revised offer.

48. Developing countries continue to seek commercially meaningful mode 4 commitments where gains are estimated at \$150 billion to \$250 billion, especially from movements of low-skilled workers. To date, improvements in revised offers

have been limited. Developed countries' improvements mainly addressed high-skilled movements and those tied to mode 3, such as intra-corporate transferees and business visitors. Developing countries have called for commercially meaningful commitments, including the inclusion of categories de-linked from mode 3, eliminating quotas, economic needs tests and wage parity requirements, ensuring transparency on immigration laws and flexible qualification requirements (e.g., accepting competence and experience instead of formal degrees).

49. Under article VI:4 of the General Agreement on Trade in Services, disciplines on domestic regulation are being negotiated to ensure that qualification requirements, technical standards and licensing requirements do not constitute unnecessary barriers to trade in services. The main challenges remain striking a balance between the need for national regulatory autonomy and international disciplines to eliminate unjustifiable market access barriers, particularly for mode 4. Developing countries have emphasized the importance of flexibility for development policies and the right to regulate. The so-called "necessity test" directly affects the balance between market access and the right to regulate. While some see the notion as central to meaningful disciplines, others consider it an excessive constraint on Governments' regulatory discretion. The revised text avoids the reference to "necessity" but uses a similar formulation by requiring, for instance, that licence and qualification procedures "do not in themselves constitute a restriction on the supply of services". Little progress has been achieved on negotiations on General Agreement on Trade in Services rules.

E. Special and differential treatment and implementation issues

50. Special and differential treatment and implementation issues remain essential to the Doha Round's development dimension, addressing imbalance in the multilateral trading system. The initial 88 agreement-specific special and differential treatment proposals have seen little progress in making them more precise, effective and operational, with progress made on only five least developed country-specific proposals, including duty-free and quota-free market access for least developed countries. Discussions were held on 7 of the 16 remaining special and differential treatment proposals. On implementation issues, no significant progress has been reported, while some issues are discussed under TRIPS.

F. Other issues

51. Discussions intensified on the three TRIPS issues of the multilateral system of geographical indications notification and registration for wines and spirits, extension of stronger geographical indications protection for all products, and the relationship between TRIPS and the Convention on Biological Diversity, with the latter two being also "implementation" issues. In the context of the mini-ministerial meeting, proponents have called for "parallelism" for the three issues, for initiation of negotiations for the geographical indications extension and for an inclusion in the TRIPS Agreement of a mandatory requirement for the disclosure of origin of biological resources and/or associated traditional knowledge in patent applications. Little progress was made as differences persisted among countries, including as to whether these issues form part of a single undertaking and how to ensure parallelism. TRIPS issues are of particular relevance to the Millennium

Development Goals and the fight against poverty, as they affect the economic well-being of local communities and farmers, as well as environmental sustainability.

52. On rules on anti-dumping and subsidies, including fishery subsidies, particularly controversial has been “zeroing” — a method of calculating the dumping margin that many participants feel tends to inflate the margins. Positions differ between major users of anti-dumping measures (importers) and exporting countries targeted by such measures. On fishery subsidies, various subsidies are proposed for prohibition, including capacity-enhancing subsidies, operating cost subsidies (including fuels), infrastructure subsidies, income and price support, access rights transfer and subsidies for illegal, unreported and unregulated fishing. Matters exempted generally from the prohibition include capacity-reducing subsidies, such as decommissioning of vessels. Least developed countries are generally exempted from the prohibition. Developing countries are entitled to certain subsidies, including for artisanal fishery and small-scale fishing vessels. Certain special and differential treatment provisions are conditioned upon the adoption of a fishery management system.

53. Developing countries continue to seek, under trade facilitation negotiations, an implementation mechanism that would link implementation capacity, the provision of capacity-building support and the timing and level at which developing countries would enter into commitments. A group of developing and developed countries has proposed an implementation mechanism whereby developing countries would categorize commitments for immediate implementation, implementation subject to pre-determined transition periods and implementation subject to the provision of capacity-building support and capacity acquisition. Also debated are negative and positive list scheduling and “best endeavour” commitments. These require careful consideration to cater for the limited implementation capacities of developing countries.

54. Effective implementation of the Aid for Trade initiative, with adequate funding, remains a key concern for developing countries. Following global and regional reviews conducted in 2007, the 2008 Aid for Trade road map emphasizes moving the process to action, through increased developing country ownership, monitoring and implementation. Following a successful pledging conference in 2007, the Enhanced Integrated Framework is not yet fully operational. Substantial additional, predictable and non-debt-creating resources remains a key concern of developing countries.

IV. Evolution in regional trade arrangements

55. Regional trade arrangements continued to proliferate worldwide. By 2007, 385 regional trade arrangements had been notified to the World Trade Organization, 197 of which were in force. The recent proliferation is largely attributable to bilateral agreements. The United States of America has intensified its bilateral approach under the Trade Promotion Authority 2002 and concluded 11 regional trade arrangements, including with the Republic of Korea, with which it has its largest free trade agreement after the North American Free Trade Agreement. The new European Union strategy has redirected its attention to non-traditional partners in Asia and Latin America. Recent regional trade arrangements have intensified their behind-the-border coverage — including competition, investment and government

procurement, which have been dropped from the Doha Round — while leaving unaddressed other issues of systemic implications, such as agricultural subsidies. Increased involvement of developing countries in regional trade arrangements implies a greater relevance of the development dimension of such arrangements, including regulatory and institutional cooperation and development assistance.

56. Six African, Caribbean and Pacific regions and the European Union had been negotiating economic partnership agreements that would serve as instruments for sustainable development, poverty eradication and regional integration. This year, 2008, is the first year since the expiration of a World Trade Organization waiver authorizing the European Union's Cotonou preferences, and has seen the conclusion of full and interim economic partnership agreements. Thirty-five African, Caribbean and Pacific countries initialled agreements, including one full economic partnership agreement by the Caribbean region. Interim economic partnership agreements normally provide progressive liberalization of about 80 per cent of imports and products over 15 to 25 years in African, Caribbean and Pacific States. This largely reflects the parties' interpretation of the "substantially all the trade" requirement of the General Agreement on Tariffs and Trade, article XXIV, governing regional trade arrangements, while there is no agreed definition of the term. The African, Caribbean and Pacific Group of States has long called for reforming the parameters of that article to allow a lesser degree of market opening over longer periods. A third-party most favoured nation clause under an economic partnership agreement has raised concern over its possible dissuasive effects for South-South regional trade arrangements. In the World Trade Organization Brazil has questioned its compatibility with the spirit of the enabling clause.

57. Full economic partnership agreements are to be negotiated for most regions in 2008 and 2009. This timeline, together with the complexity of issues, highlights capacity constraints, particularly of African countries. Full economic partnership agreements would provide for comprehensive coverage, encompassing services, e-commerce, investment, competition, government procurement, intellectual property rights and personal data protection. The services provisions are likely to entail deeper commitments, including liberalization of investment in non-services sectors. Turning existing bilateral and subregional interim economic partnership agreements into full regional agreements in a manner that genuinely promotes regional integration processes would be a major challenge.

V. Conclusion

58. Halfway to the 2015 target for achieving Millennium Development Goals, current global economic realities — financial, food, fuel and energy crises, climate change and migration — pose challenges for the development prospects of developing countries. The international trading system can make an important contribution by addressing such global challenges affecting real economies and human needs, although it alone cannot solve the deep-rooted and multifaceted problems. The multilateral trading system continues to be the cornerstone of global trade governance. The trading system, however, must operate within a broader system of global economic governance. Greater coherence across different layers and systems of global economic governance — at the national, regional and global levels, as well as encompassing trade, aid, finance, investment, employment and technology — is thus essential.

59. Efforts must be deployed to ensure that the multilateral trading system continues to be upheld and to bring the Doha Round to a successful conclusion with development-oriented balanced outcomes. Immediate consequences of the delayed conclusion of the Round could be the greater recourse to trade litigation and the intensification of bilateral and regional trade agreements, which risk further fragmentation of the international trading system. As provided in the Accra Accord, it is essential that all World Trade Organization members uphold and reiterate their commitment within the organization to promote a well-functioning, rules-based, open, equitable, predictable and non-discriminatory multilateral trading system that promotes development. Efforts should also be deployed to re-engage in the negotiations and deliver the development promise of the Round.

60. Careful reflection might be warranted on the definition of the negotiating agenda, as well as on the ways and means in which the multilateral trading system manages a complex, broad-based agenda of negotiations under a single undertaking in an inclusive and transparent manner with its diverse membership of 153. The emergence of the dynamic South also calls for an adaptation of mindsets, policies and approaches in the trading system. A number of developing countries have emerged as key global players in production and trade. Such an evolution has significantly altered the dynamics of the trading system. For instance, developing countries with market power now have significant leverage in negotiations and become assertive when they relate to sensitive poverty and livelihood issues. The built-in agenda of the Uruguay Round consisted primarily in agriculture and services, while the Doha mandate incorporated a broader package, including non-agricultural market access, Singapore issues and other subjects. Although expected to facilitate intersectoral trade-offs, the larger agenda proved to be unmanageable, and three Singapore issues were dropped from the round in 2004. The broadened agenda resulted in diverting attention from the core issues, particularly agriculture, while the expected intersectoral trade-offs proved to be difficult on issues of particular importance to countries.

61. The promise of the Doha development agenda requires that the development objectives and aspiration are given greater prominence over narrower, short-sighted mercantilist considerations, and that the specific situations and concerns of a diverse membership receive adequate systemic responses and considerations. The principle of special and differential treatment is essential in all aspects of market access and rule-making negotiations. On the other hand, it has become increasingly challenging to balance diverse, sometimes mutually competing, interests of members, including within developed countries and developing countries. Such augmentation of diversity adds further complexity to the overall calculation of balance.

62. International trade continues to be a powerful engine of growth and development. The majority of developing countries have not fully benefited from such growth, owing to insufficient productive supply capacities and competitiveness, lack of supportive infrastructure and enabling policy environment and market access and entry barriers on their exports in agriculture, manufactured goods and services. The United Nations system, including UNCTAD (through its three pillars, intergovernmental consensus-building, research and analysis, and capacity-building and technical cooperation), continues to support developing countries in addressing such challenges and benefiting from increased trading opportunities. Aid for trade and aid for development are key components of such support.

63. Ensuring the beneficial participation of developing countries in the international trading system is a critical challenge that must be addressed if globalization is to be a positive force for all with its benefits shared equitably. As underlined in the Accra Accord (para. 45), “maximizing the benefits and minimizing the costs of international trade liberalization calls for mutually supportive and coherent policies and governance at all levels”. It is critical in this regard that the Doha Round be brought to a successful conclusion. As outlined in the Accra Accord, there is a need to secure increased and effective market access and entry for developing country exports; to implement fairer rules; to strengthen the development orientation of North-South, South-South and regional trade and cooperation arrangements; to mobilize the potential of the services trade and services economy for development; and to strengthen trade and productive capacity in developing countries.
