



United Nations
Conference
on Trade and
Development

Distr.
LIMITED

TD/B/COM.1/L.7
30 September 1998

Original: ENGLISH

TRADE AND DEVELOPMENT BOARD
Commission on Trade in Goods and
Services, and Commodities
Third session
Geneva, 28 September 1998
Agenda item 8

DRAFT REPORT OF THE COMMISSION ON TRADE IN GOODS AND SERVICES,
AND COMMODITIES ON ITS THIRD SESSION
(28 September - 2 October 1998)

Rapporteur: Ms. Leticia Casati (Paraguay)

Speakers:

Secretary-General of UNCTAD
Secretariat
Uruguay (for GRULAC)
India (for Asian Group and China)
Austria (for European Union)
Mauritius (for African Group)
Russian Federation

Note for delegations

This draft report is a provisional text circulated for clearance by delegations.

Requests for amendments should be communicated by **Friday, 9 October 1998, at the latest** to:

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INTRODUCTION

1. The third session of the Commission on Trade in Goods and Services, and Commodities was held at the Palais des Nations, Geneva, from 28 September to 2 October 1998. In the course of the session, the Commission held ... plenary meetings (8th to ... meetings) and ... informal meetings.

Opening statement

2. The **Secretary-General of UNCTAD** said that he would like to put the deliberations which would take place during the session in the context of two important developments currently taking place in the global economy: one was the Asian financial and economic crisis, and the other was the preparatory process for the Third Ministerial Conference of the World Trade Organization (WTO), due to take place in the United States before the end of 1999. Although institutionally unrelated, those two events were closely linked, since the Ministerial Conference could play a constructive role in repairing the damage done by the economic crisis and preventing further economic instability.

3. He stressed the negative impact of the Asian crisis on developing countries' economies, especially the impact on many countries' current account balances, which had forced them to adopt measures to reduce current account and trade deficits. The measures included macroeconomic policies to slow down economic growth and thus reduce import demand. Asia, for example, which until recently had been a major source of import demand, was now facing growing trade surpluses based on a reduction in imports rather than a real increase in exports. Even though some countries, such as the Republic of Korea and Thailand, had increased their export growth, that had hardly compensated for the losses resulting from price reductions as a consequence of currency devaluations and fluctuations in commodity prices.

4. The reasons why certain countries were so negatively affected by the crisis did not necessarily lie in economic mismanagement, although that might have been the case in some countries. In other countries, such as Chile, economic adjustment had led to high economic growth rates over the past thirteen years and considerable annual budget surpluses. As a result of the crisis, Chile expected to face a current account deficit of almost 7.5 per cent by the end of 1998. That figure was similar to Thailand's deficit before the devaluation of its currency, despite the fact that Chile had followed the advice it had been given to the letter and had integrated itself into the world economy and the world trading system, including by considerably increasing its exports to Asia. With the economic collapse in Asia, export demand in Chile had fallen considerably, while products related to copper and other export commodities had suffered from falls in prices which had had a severe impact on its economy.

5. The example of Chile was useful for demonstrating the interplay between financial forces, financial volatility and the operation of the trade system,

which had also been described in the *Trade and Development Report 1998*. It was not trade itself that was the culprit, but trade could not operate without a financial and monetary system which guaranteed a minimum of stability in the world economy. The problem lay with the lack of coherence and balance in the world economy: trade had been successfully submitted to regulations, but there were still problems in the financial and monetary system 26 years after the old rules of the Bretton Woods system had been abandoned.

6. Trade would continue to provide the boost that the world economy needed but it was necessary to be realistic and recognize that it would be impossible for emerging markets to continue to act as a source of import demand, since they would be forced to slow down their economies. That was already happening in Latin America, where forecasts for economic growth had been revised downwards from 3.1 per cent to 0.6 per cent in a matter of only two months. The revised forecasts were not a reaction to protectionist measures but reflected the fact that countries were being forced to resort to macroeconomic instruments to slow down growth. In Brazil, for example, imports, which had grown at a fast pace during the previous three years, had collapsed since January 1998 despite textbook measures taken to slow down the economy and reduce the current account deficit. Still, Brazil was facing a current account deficit of less than 4 per cent, much lower than that of Chile, but only because Brazil had started to apply its policies much earlier. Similar situations could be found all over the developing world. The stimulus for the world economy and for world trade would have to come from those economies which were still growing or which had current account and trade surpluses. The role of those economies was to stimulate demand and to continue to grow not only through exports but also by increasing their import demand.

7. With regard to the preparation for future trade negotiations, the current situation was strikingly similar to the beginning of the discussions for the Uruguay Round in 1986, but there was less divergence in views on the content of the future trade negotiations than there had been in the early 1980s, although there were still important issues to be dealt with. The immediate future would be a time for consolidation of progress achieved rather than for major new revolutionary ideas, so that the unfinished business of the Uruguay Round could be tackled and attention given to those sectors which had somewhat lagged behind. He referred to the studies which the UNCTAD secretariat had made in cooperation with WTO, which showed that there was still considerable scope for tackling problems such as tariff peaks and tariff escalation, and the areas most subject to protectionism, namely agriculture, processed foods, textiles, clothing, footwear, leather goods, and fruit and vegetables. Efforts should be made to ensure further progress in those areas as well as in the area of rules addressing the problem of implementation. He stressed that it would be vital to pay attention to the difficulties faced in the area of implementation, not only by developing but also by developed countries.

8. He encouraged the Commission to take into consideration the broad framework he had outlined and provide the UNCTAD secretariat with firm guidance on the work it would like the secretariat to carry out. Trade was a major and positive force in the world economy and UNCTAD could help developing countries use trade as an effective way of developing their economies. His belief that UNCTAD could play an important role in that respect had been confirmed at the recent ad hoc expert group meeting on the effects of the Uruguay Round on developing countries and on providing those countries with a more proactive agenda for future trade negotiations. Five objectives were crucial in that work: they were to help developing countries (1) formulate development-related trade policies, (2) pursue those policy objectives during trade negotiations, (3) meet their obligations, (4) defend their acquired rights, and (5) exploit the trading opportunities that would be created by trade negotiations. The meeting had tried to enhance UNCTAD's analytical capabilities by networking with universities and international organizations. The active participation of WTO in the meeting was particularly gratifying. In part as a result of that interaction, Latin American countries had organized a Latin American trade network among researchers in the region. In the context of closer involvement with UNCTAD, four country studies had been commissioned from the Economic Commission for Latin America and the Caribbean to map out the challenges facing those countries in the negotiations ahead. A number of African studies on the same subject had also been carried out and UNCTAD was trying to include more countries as a sign of its practical approach to problems and in a spirit of cooperation with other organizations.

Chapter I

WAYS AND MEANS OF ENHANCING THE UTILIZATION OF TRADE PREFERENCES BY DEVELOPING COUNTRIES, IN PARTICULAR LDCs, AS WELL AS FURTHER WAYS OF EXPANDING PREFERENCES

(Agenda item 3)

SCOPE FOR EXPANDING EXPORTS OF DEVELOPING COUNTRIES IN SPECIFIC SERVICES SECTORS THROUGH ALL GATS MODES OF SUPPLY, TAKING INTO ACCOUNT THEIR INTERRELATIONSHIP, THE ROLE OF INFORMATION TECHNOLOGY AND OF NEW BUSINESS PRACTICES

(Agenda item 4)

9. For its consideration of agenda item 3, the Commission had before it the following documentation:

"Ways and means of enhancing the utilization of trade preferences by developing countries, in particular LDCs, as well as further ways of expanding preference - Report by the UNCTAD secretariat" (TD/B/COM.1/20 and Add.1)

"Ad Hoc Meeting of the Secretary-General of UNCTAD on GSP, GSTP and New Initiatives for LDCs - Report by the UNCTAD secretariat" (UNCTAD/SG/AC.1/1)

10. For its consideration of agenda item 4, the Commission had before it the following documentation:

"Scope for expanding exports of developing countries in specific services sectors through all GATS modes of supply, taking into account their interrelationship, the role of information technology and of new business"
(TD/B/COM.1/21 and Add.1)

11. The representative of the **UNCTAD secretariat**, introducing agenda item 3, said that in 1996 imports worth around US\$ 103 billion had benefited from GSP treatment as compared to about US\$ 11 billion two decades previously. However, an analysis of recent GSP trade performance revealed that the benefits had been concentrated on relatively few major exporting developing countries, utilization rates had been in many cases well below 100 per cent, and few LDCs had benefited. Hence, a fair amount of GSP trading opportunities had yet to be seized by many beneficiary countries, so that ways and means of increasing the use of GSP preferences deserved priority attention. He described some such measures

identified by the Ad Hoc Meeting of the Secretary-General of UNCTAD on GSP, GSTP and New Initiatives for LDCs, and contained in document TD/B/COM.1/20.

12. Non-reciprocal preferences had not become obsolete in the new post-Uruguay Round trading environment. There was still scope for commercially viable preference margins, particularly in sectors of export interest to developing countries. Moreover, the Singapore Ministerial Conference of the World Trade Organization (WTO) and the High-level Meeting on Integrated Initiatives for Least Developed Countries' Trade Development had provided new impetus to efforts to improve market access conditions for LDCs. One of the options for expanding preferences was to provide duty-free and quota-free market access for all products from LDCs on a non-reciprocal basis. Greater selectivity might be required to ensure that those developing countries most in need benefited most from the GSP and other trade preferences. It was important to build consensus among preference-giving countries on a broad common policy that would significantly enhance the promotional impact of the GSP and help find ways to adapt it to the new trading environment.

13. The representative of the **UNCTAD secretariat**, introducing agenda item 4, said that opportunities in trade in services had increased as a result of several specific global trends, particularly in the use of information technologies which, together with advances in telecommunications, had made virtually all services tradeable. Although there was scope for expansion in the traditional sectors of export interest to developing countries, such as tourism, the most dynamic component of commercial services was the "other commercial services" category, including, for instance, computer and information services and communications services. Involving the private sector in commercial services and outsourcing would help build competitive capacity for the export of services. In order to take advantage of trading opportunities, service firms from developing countries would need to continuously keep up to date with technical and professional advances, as well as to meet and exceed international service quality standards and incorporate information technology in the provision of their services. The expansion of service exports from developing countries depended not only on national capabilities, but also on the quality of the telecommunications infrastructure in place and on emerging market opportunities. The effective supply of services required the use of all modes of supply, and to effectively compete in world markets would require the liberalization of all factors of production. The modal approach in the General Agreements on Trade in Services (GATS) had created a flexible framework for liberalization under GATS, as well as for the possibility of trade-offs between different modes of supply.

14. However, service suppliers from developing countries were faced with a number of barriers to market access, such as requirements which limited or prohibited the temporary movement of natural persons, a lack of credibility in foreign markets (an issue which related to quality), the lack of appropriate and timely market information, the lack of access to distribution networks, financial constraints and a high degree of market concentration as a result of mergers and

acquisitions and strategic alliances. Economic needs tests were a major barrier to trade in services and left considerable uncertainty as to the level of a country's commitment to market access. The adoption of specific criteria for the application and eventual removal of such tests, particularly with respect to clearly identifiable categories of professions, would be central to future efforts to liberalize trade in services. Facilitating the movement of service providers, through the introduction of streamlined GATS visas for example, would enhance the service exports of developing countries.

15. Particular attention needed to be given to the cross-border mode of supply of services, in view of the opportunities offered by electronic commerce for the supply of long-distance, labour-intensive services. The Internet was changing market structures and eliminating the need for intermediaries. Efforts needed to be made to ensure that the access of developing countries to cross-border data flows was not constrained. International mechanisms were required to regulate and harmonize cross-border legal questions and provide competitive safeguards against the creation of monopolies. The cost of infrastructure for electronic commerce was an important barrier to export expansion. For developing countries to benefit from the opportunities offered by electronic commerce, it was important that the provisions in articles IV and XIX.2, as well as the Annex on Telecommunications, of GATS were faithfully implemented.

16. Developing countries would have to ensure that their service suppliers made use of new business strategies, such as joining strategic alliances, to avoid being marginalized. However, since strategic alliances might also develop into de facto industry standard-setters or price-setters, a development which might lead to the erection of new entry and access barriers, there was a need to pay particular attention to the development of national and international competition policies.

17. The representative of **Uruguay**, speaking on behalf of the **Latin American and Caribbean Group**, recalled, with regard to agenda item 3, the importance for several countries in the region of unilateral trade preference mechanisms as instruments of market access, particularly for access to the markets of the United States and the European Union. However, such preferences had been eroded and their effects on trade reduced as a result of multilateral trade liberalization and the rise of reciprocal regional and subregional agreements. With regard to agenda item 4, he said that UNCTAD had an important role to play in identifying sectors of export interest to developing countries and in supporting the latter's participation in future negotiations by providing them with technical assistance to develop their analytical and negotiating capabilities.

18. He drew attention to three issues which were of the utmost importance to developing countries and therefore should be incorporated into the work of UNCTAD and the Commission on Trade in Goods and Services, and Commodities. The first was the interdependence between trade developments, on the one hand, and monetary

and financial issues, on the other. There should be a discussion on the impact of the current economic crisis on the orientation of international trade flows, on the levels of competitiveness of regions and countries and on general macroeconomic equilibria. UNCTAD should also make a contribution to the reform of the international financial system. At present the Latin American and Caribbean region was being destabilized by developments beyond its control.

19. The second issue was that of commodities. In 1998, commodity prices had reached their lowest level in 20 years. Although there was a need to analyse the effects of that fall in prices on the export earnings of developing countries, commodity issues were largely absent from the international debate. There were currently fewer sources of strategic information on commodities than there had been a few years earlier. UNCTAD should revise the studies on the processing, marketing and distribution of commodities which it had done during the 1970s, given the significant changes which had occurred since then.

20. The third issue which deserved greater attention in international forums and in UNCTAD in particular was the trend towards international company mergers in almost all strategic economic sectors. Such mergers had an overwhelming impact on market structure (through the establishment of monopolies and oligopolies), international pricing decisions, competition, trade policy, production, marketing and transport systems, the physical location of the production facilities of large companies, the scope of multilateral trade negotiations, and the capacity of developing countries to formulate national policies. There was a risk that such mergers would negate the tremendous development efforts made by the countries of the Latin American and Caribbean region during the 1990s. UNCTAD should analyse the impact of mergers on trade and development.

21. If the Commission on Trade in Goods and Services, and Commodities continued to ignore those three very important issues, it would lose its influence and relevance.

22. Finally, he said that if the Commissions of the Trade and Development Board were to function effectively, it was absolutely essential that full interpretation services should be made available for the full duration of their sessions.

23. The representative of **India**, speaking on behalf of the **Asian Group and China**, said that, with regard to agenda item 3, the GSP and other non-reciprocal trade preferences continued to be important tools for development. The need for preferential market access treatment remained strong, especially in the light of the economic slump in several dynamic developing countries as a result of the global financial crisis. In order to determine the actual benefits of preferential arrangements for the various preference-receiving countries, the UNCTAD secretariat should strengthen its analytical work on the issue.

24. The utilization of GSP and other non-reciprocal trade preferences by recipients had been low. Accordingly, ways and means had to be found to ensure that the developing countries in most need of non-reciprocal trade preferences benefited from them. Technical cooperation activities, including through the use of new information technologies which enhanced awareness in preference-receiving countries about the substantive and operational features of the trade schemes should be strengthened. Product coverage could be extended so that it matched to a greater extent the supply capabilities of preference-receiving countries. Preference margins could be improved where peak tariffs persisted on products of export interest to developing countries. Tariff quota limitations for GSP imports, particularly in the agricultural sector, could be removed. The greatest possible restraint should be exercised in the use of non-trade-related conditionalities. Better stability, predictability and transparency was also required in a number of the GSP schemes.

25. Special attention should be given to trade preferences for the LDCs, including in the context of regional integration groupings, as agreed upon at the Singapore WTO Ministerial Conference. Improved market access conditions alone were not sufficient, but needed to be coupled with measures to improve LDCs' capabilities to supply exports.

26. The trend towards liberalization and reciprocity in trade relations necessitated a closer examination of issues regarding non-reciprocal trade preferences, with a view to enhancing their effective contribution to the trade and development of developing countries. Such issues included the concept of graduation, the alignment of trade preferences for LDCs, the harmonization of GSP rules of origin, improved burden-sharing among preference-giving countries, broadening the scope of the GSP to cover trade in services, the "development-friendly" operation of GSP schemes, and new, more differentiated and flexible approaches to special and differential treatment for developing countries.

27. With regard to agenda item 4, he said that service industries in developing countries had not reached a stage where they were able to take full advantage of the trade and investment opportunities in other countries. Liberalization policies in different service sectors should be properly sequenced and phased in gradually to enable each sector to become strong enough to compete in international markets. The financial turmoil in Asia had demonstrated the vulnerability of countries to currency speculation, volatile capital flows and inadequate systems of financial regulation and supervision, which could have a serious impact on growth, employment and development.

28. Under articles IV and XIX.2 of GATS, the developed countries had undertaken to facilitate the participation of developing country members in world trade in services through negotiated specific commitments. Those provisions needed to be operationalized to ensure that practical benefits accrued to developing countries, by providing a notification and monitoring mechanism with regard to the implementation of article IV.

29. While much attention had been paid to ensuring commitments on commercial presence, hardly any attention had been paid to providing market access for professionals from developing countries. The movement of natural persons faced considerable barriers in the form of economic needs tests, visa and entry regulations, discriminatory licensing and professional qualification requirements. Most of the commitments in that mode of supply were made horizontally without any sectoral specificity, which gave rise to concerns that the symmetry between the movement of capital and the movement of labour was not being respected. Asian countries were concerned that their professionals were not able to exploit their comparative advantage to the full, while there was unabating pressure on them to open markets in sectors such as basic telecommunications or financial services and modes of supply (the cross-border and commercial presence modes) of export interest to developed countries. Initiatives to change the architecture of GATS and formulate separate agreements for each mode of supply should be viewed in the context of balancing rights and obligations under GATS and the need to maintain the neutrality of policy measures in relation to the four modes of supply. The work on emergency safeguards in GATS needed to be completed within the agreed time-frame in order to encourage developing countries to continue with their liberalization efforts.

30. In the next round of trade negotiations, substantial improvements would need to be made in the provision of market access to developing countries. The latter would need assistance from UNCTAD in preparing for those negotiations, and would benefit from a joint UNCTAD/WTO assessment of the impact on developing countries of liberalization under GATS.

31. The representative of **Austria**, speaking on behalf of the **European Union**, stressed that the full integration of developing countries into the multilateral trading system, towards which regional integration was a useful intermediate step, was one of the primary objectives of the European Union's development policy. UNCTAD had made a substantial contribution to the debate on trade liberalization from the perspective of developing countries, and trade policy makers from both developed and developing countries needed to engage in a positive dialogue with a view to exploring ways to enhance the linkage between an open trading system and developmental objectives. She welcomed in particular the fact that the issues on export expansion in the service sector had been chosen as one of the substantive items of the current session, as the service industries already represented a large share of global economic activities, and continued to steadily increase in importance in most developing countries.

32. The representative of **Mauritius**, speaking on behalf of the **African Group**, said that the Commission had a mandate to provide an integrated policy framework to enable the full integration of developing countries, especially LDCs and those with structurally weak and vulnerable economies, into the multilateral trading system. That mandate included helping developing countries to identify and take advantage of new export opportunities.

33. With regard to agenda item 3, he expressed concern over the inability of African countries to take full advantage of non-reciprocal preferential trade schemes. The low utilization of trade preferences was evident from the data provided in table 3 of document TD/B/COM.1/20/Add.1. The further utilization of preferences by African countries was constrained by the introduction by preference-giving countries of new criteria for graduation of beneficiaries, the phasing out of trade schemes, or the introduction of non-trade related conditionalities relating to social, environmental and humanitarian standards.

34. Accordingly, it was incumbent upon the international community to assist the African countries in particular in expanding their utilization of trade preferences. Priority areas in that respect included the strengthening of the export supply capabilities of African countries; wider dissemination of information about the trade schemes to enhance understanding in African countries about available trading opportunities; making the trade schemes development-friendly by, *inter alia*, expanding their product coverage and providing derogations from rules of origin and granting duty-free access for all products from LDCs; and infusing predictability and stability into trade schemes with long-term commitments.

35. With regard to agenda item 4, he said that no tangible benefits, particularly in terms of new investment, had yet accrued to most African countries, notwithstanding the binding commitments made by them under GATS and within WTO. Moreover, the trend towards the formation of strategic alliances and mergers between major service providers gave rise to monopoly situations that might further exclude many African countries from trade in those service sectors. It was therefore imperative that the international community should assist African countries in strengthening their participation in international trade in services. Priority areas in that respect included the reinforcement of the Coordinated African Programme of Assistance in Services and its extension to all African countries, the development of human resources in new technologies, the modernization of infrastructure, and the establishment of appropriate legislation for trade in services.

36. The representative of the **Russian Federation** gave a positive assessment of the Commission's work, including its analytical and practical components. In particular, he mentioned the successful outcome of the Ad Hoc Meeting of the Secretary-General of UNCTAD on GSP, GSTP and New Initiatives for LDCs, held in July 1998. He believed there was still a long way to go before trade liberalization and greater reciprocity in trade relations made unilateral trade preferences redundant. Therefore, GSP schemes continued to play an important role.

37. The Russian Federation was one of the preference-giving countries, having had a national GSP scheme in force since 1994. Under the scheme, all LDCs enjoyed duty-free access, and imports from 104 developing countries were subject to a levy of 75 per cent of the basic rate.

38. It was essential for the Russian Federation, which was still a net importer of services, to develop a national services infrastructure, adequate legislation and services exports. Problems affecting trade in services were similar in developing countries and economies in transition, so the Russian Federation was particularly interested in further work by UNCTAD in that area. Moreover, the role of UNCTAD in that area should be strengthened in view of the new WTO negotiations on services. He was of the view that, with due regard to the complementary tasks and comparative advantages of various international organizations, UNCTAD could make an effective contribution to the debate through human capacity-building and analytical work aimed at identifying export potential for the services of interested countries. In addition, he favoured UNCTAD's more active involvement in increasing the negotiating capacity of those countries, particularly with regard to the choice of negotiating strategy and tactical issues. He also supported UNCTAD's initiative on electronic commerce issues, which should be linked with its work on trade in services in the context of future multilateral negotiations. He also emphasized the usefulness of a recent ad hoc expert group of the Secretary-General of UNCTAD devoted to preparations for future multilateral trade negotiations.

Chapter II

ORGANIZATIONAL MATTERS

A. Opening of the session

39. The third session of the Commission on Trade in Goods and Services, and Commodities was opened on 28 September 1998 by Mr. Bozorgmehr Ziaran, Chairperson of the second session of the Commission.

B. Election of officers

(Agenda item 1)

40. At its 8th plenary meeting, on 28 September 1998, the Commission elected its Bureau as follows:

<u>Chairperson:</u>	Mr. Sándor Simon	(Hungary)
<u>Vice-Chairpersons:</u>	Mr. Luis Alberto Padilla Menéndez	(Guatemala)
	Mr. Mark Jones	(United Kingdom of Great Britain and Northern Ireland)
	Ms. Rafla Mrabet	(Tunisia)
	Ms. Gothami Indikadahena	(Sri Lanka)
	Ms. Marianne Zuur	(Netherlands)
<u>Rapporteur:</u>	Ms. Leticia Casati	(Paraguay)

C. Adoption of the agenda and organization of work

(Agenda item 2)

41. At the same meeting, the Commission adopted the provisional agenda circulated in document TD/B/COM.1/19. Accordingly, the agenda for the third session was as follows:

1. Election of officers
2. Adoption of the agenda and organization of work
3. Ways and means of enhancing the utilization of trade preferences by developing countries, in particular LDCs, as well as further ways of expanding preferences

4. Scope for expanding exports of developing countries in specific services sectors through all GATS modes of supply, taking into account their interrelationship, the role of information technology and of new business practices
5. Reports of the subsidiary bodies of the Commission
6. Provisional agenda for the fourth session of the Commission
7. Other business
8. Adoption of the report of the Commission to the Trade and Development Board

D. Provisional agenda for the fourth session of the Commission

(Agenda item 6)

[To be completed]

E. Other business

(Agenda item 7)

[To be completed as appropriate]

**F. Adoption of the report of the Commission to
the Trade and Development Board**

(Agenda item 8)

[To be completed]