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**SOME KEY ISSUES IN SOUTH-SOUTH TRADE AND ECONOMIC
COOPERATION: OUTCOME AND PAPERS PRESENTED TO THE WORKSHOP
ON TRADE, DOHA HIGH-LEVEL FORUM ON TRADE AND INVESTMENT,
Doha, Qatar, 5-6 December 2004**

Compilation prepared by the UNCTAD Secretariat

Executive summary

A High-Level Forum on Trade and Investment was organized in Doha, Qatar, from 5-6 December 2004 by the Government of Qatar. It was intended to substantively contribute to the preparation of the 2005 South-South Summit. At the Forum, a Workshop on Trade was held and discussed key issues in South-South trade and economic cooperation including on commodities, against the backdrop of an emerging new geography of trade and international economic relations. This report compiles the outcome of the Workshop and the papers presented by eminent personalities on the subjects of (a) strengthening developing countries' capacity for trade negotiations; (b) networking among regional integration groupings; and (c) enhancing South-South cooperation and trade, particularly in commodities

Note

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Preface

A High-Level Forum on Trade and Investment was organized in Doha, Qatar, from 5-6 December 2004 by the Government of Qatar with the support of the UNCTAD Secretariat. It was intended to substantively contribute to the preparation of the 2005 South-South Summit. The Doha Forum on Trade and Investment deepened the understanding and provide impetus to actions in two key areas of South-South cooperation, namely trade and investment.

Against the background of the main theme of the High-level Forum on the South-South dimension of the new geography of international economic relations, the Workshop took up the specific theme of trade, and within it, issues arising from a new geography of trade. A Workshop on Trade was held on 5 December and addressed the following key issues:

1. Strengthening developing countries' capacity for trade negotiations;
2. Networking among regional integration groupings; and
3. Enhancing South-South cooperation and trade, particularly in commodities.

The outcome of the Workshop on Trade is reproduced in the section I.

The following eminent panellists made presentations on the three main topics addressed by the Workshop on Trade:

- His Excellency, Mr. Dipak Patel, Minister of Commerce, Trade and Industry of Zambia;
- His Excellency, Mr. Manuel A. González Sanz, Minister of Foreign Trade of Costa Rica;
- Her Excellency, Ms. Amina Mohamed, Ambassador of Kenya to the United Nations, Geneva, Switzerland;
- His Excellency, Mr. Ransford Smith, Ambassador of Jamaica to the United Nations, Geneva, Switzerland; and
- Mrs. Lakshmi Puri, Director, Division of International Trade in Goods, Services and Commodities, UNCTAD.

Their respective presentations are compiled in sections II, III, IV, V and VI.

I: OUTCOME OF THE WORKSHOP ON TRADE

The Workshop on Trade discussed and resolved to implement strategic actions to consolidate, strengthen and deepen South-South trade. It was considered that galvanizing South-South trade was timely against the backdrop of a new geography of trade and economic relations in which the South is making important contributions.

Highly motivating, forward-looking and practical presentations were made by a number of eminent panelists. Their presentations were followed by rich and in-depth debate.

Three interconnecting issues were addressed, namely:

- (1) strengthening developing countries' capacity for trade negotiations;
- (2) networking among regional integration groupings; and
- (3) enhancing South-South cooperation and trade, especially in commodities.

The following conclusions and recommendations were highlighted by the participants:

1. Trade policy is a key instrument available to developing countries in promoting development. It must be used strategically in the context of liberalization in the South-South trade and at the multilateral level. South-South consultations and exchanges of experiences on these issues should be reinforced. This could be one contributing element to the implementation of the MDGs. In this context, the development issue should be placed at the top of the UN agenda.
2. Development of necessary capacities to negotiate trade agreements, to comply with and implement them, and to take advantage of them through increased production, competitiveness and exports in manufactured goods, commodities and services. Central to trade negotiations is the need to promote a development-friendly system of rules and opportunities, especially at the multilateral level in the current Doha round of negotiations under the WTO and factor in the cost of implementation.
3. Equally important is the need for sustained solidarity and partnerships, including questions linked to WTO accession, which need to be made more equitable and just, reflecting the development status of developing countries and without political conditionalities. Any unilateral coercive measures by developed countries that work against the trade and development interests of developing countries should be opposed by developing countries. Appropriate consultative South-South mechanisms to foster cooperation on these issues need to be put in place.
4. Addressing process-related issues in trade negotiations, especially at the multilateral level, to bring about greater transparency and inclusiveness in

decision-making, is also important. This has, and continues to be, a collective agenda of the South, in seeking better access and better terms of engagement.

5. Essential aspects of capacity building include multi-stakeholder consultations at the national level. It also includes investment in human development, as a means of promoting trade and development, as well as peace and stability.
6. South-South trade in commodities, including in strategic resources, is poised for a change. Transforming the commodity problématique into an engine for development will need enhanced market access and entry conditions, improved cooperation and capacities of national enterprises, regional cooperation, and trade financing. An Action Group on South-South Commodities' trade in the context of the International Task Force on Commodities could be created.
7. Strengthening regional trade and integration agreements of the South requires proper pacing and sequencing of internal and external liberalization. Key issue for developing countries involved in North-South arrangements is cooperation in ensuring a development interface between these arrangements and the multilateral trading system. A network of integration agreements can be constituted to foster exchanges of experiences and information among different groups and regions. Also, initiatives such as the Asia-Africa Sub-regional Organization (AASROC) could serve as examples of South-South cooperation.
8. Inter-regional trade has an important potential that remains to be fully realized. The scope to do so has improved substantially. The Global System of Trade Preferences among Developing Countries (GSTP) is a key instrument that can bring new dynamism to such trade and thus developing countries need to actively participate in the third round of negotiations that has been launched so as to make a significant impact on South-South trade.
9. Exploiting complementarities in South-South services trade can offer important trade and investment opportunities. Actions need to be taken to build up South-South trade in services through closer cooperation at the bilateral, regional and interregional levels in services sectors with high growth potential, including on the movement of natural persons.
10. Trade infrastructure and trade facilitating measures are necessary for export competitiveness and for reducing transaction costs on trade of developing countries. There is need to invest into improving infrastructure facilities and network among developing countries, to reduce the cost of doing business, and to enhance trade facilitating services.
11. Capacity building is important in developing and strengthening institutions that can help countries meet international technical standards and sanitary and phytosanitary measures for manufactures and agricultural products. Developing mutual recognition agreements on standards is also needed to facilitate trade.

Support should be provided to the Consultative Task Force on Environmental Requirements and Market Access for Developing Countries.

12. The Network of export-import banks of the South just launched at UNCTAD XI to provide financing needs of South-South trade should be supported and consolidated.
13. Developing countries should seek representation at the Bank of International Settlements through the creation of an "Emerging Markets Committee" so their interests can be considered and taken into account in the setting of international banking and financial standards.
14. The debt trap in which many developing countries are caught has obliged them to use limited resources to finance debt repayments and this, in turn, prevents them from financing trade, production, infrastructure and capacity building activities for development. The situation has been aggravated by the failure of OCED countries to meet the target set of extending 0.7 per cent of their GDP as development assistance. The international community should urgently meet this commitment, make available needed financial resources for development, and promote durable solutions to addressing the external indebtedness of developing countries including debt cancellation. Work on trade, debt and finance in the WTO launched at Doha should also be expedited.
15. Technical cooperation among developing countries (TCDC) should be enhanced through tripartite mechanism involving donor countries or regional financial institutions, in promoting South-South cooperation.
16. The North remains an important partner for developing countries. It needs to adopt policies and measures to facilitate South-South trade and trade generally of developing countries. These include improving market access conditions, removing market entry barriers, avoiding trading distorting practices such as in agriculture, and providing additional trade and development assistance.
17. The G77 is an important forum for follow-up on South-South cooperation. It must continue to consolidate its solidarity and cohesiveness in trade and trade negotiations. It should consider conducting an annual review of practical initiatives in promoting South-South trade to take stock of progress and provide continued follow-up to decisions taken. UNCTAD is a key partner of the G77. It should increase support for the G77 in promoting South-South trade on a more sustained basis, including in conducting annual reviews on follow-up to recommendations adopted. Other relevant international organizations such as UNDP could also contribute in supporting economic cooperation among developing countries. The important contribution of IFAD in the area of rural and agricultural development as well as its efforts to enhance small holder farmers to have better access to markets, was recognized. Support should also be provided to the South Centre that is in a position to make valuable contribution to the capacity building of developing countries in trade negotiations.

II: STRENGTHENING DEVELOPING COUNTRIES' CAPACITY FOR TRADE NEGOTIATIONS

Dipak Patel

Introduction

Government trade policy must be underpinned by a common direction and a common vision of all national stakeholders. Trade policy must be elaborated and designed by all affected sectors of the national economy, and transmitted to Parliament for endorsement as a national policy. Also it must have strategies to create linkages between various sectors such as agriculture, manufacturing (and technology linkages as well) and services, as well as cover concerns for sustainable development. Policy must be well orchestrated and managed in a participatory manner.

Today, trade policy is increasingly influenced by proliferating trade negotiations and trade agreements for the liberalization and development of trade. The most significant of these are the multilateral trade negotiations and agreements made under the World Trade Organization (WTO). It is worth bearing in mind that the Uruguay Round took almost 8 years to conclude and its results expanded significantly the rules and scope of multilateral liberalization, extending into behind-the-borders issues. The Doha round of negotiations has entered into its third year and will not be concluded in early 2005 as originally envisaged, but much later, probably in 2006 or 2007. Its results are also likely to have major implications on the scope for trade policy formulation in support of growth and development.

Developing countries can thus realize the significance of trade negotiations and trade liberalization in so far as it affects the potential for utilizing trade as an instrument of development and poverty reduction. Apart from multilateral trade negotiations, developing countries are engaged in various multilateral and interregional negotiations. Zambia, for example, is involved in the Common Market for Eastern and Southern Africa (COMESA), the wider African Union aspiration for a continental common market, ACP-EU negotiations and the Doha round.

Participation in regional and multilateral trade liberalization processes calls for well prepared, well informed and well supported trade negotiations. Otherwise, unpreparedness for trade negotiations may result in accepting unrealistic obligations, which a country is unable to implement and abide by.

There are at least three sets of capacity building requirements in terms of participation in regional and multilateral trade negotiations. These are:

- (1) Capacity to negotiate;
- (2) Compliance with trade agreements negotiated;
- (3) Enhancing competitiveness of production.

A key question is how to prepare to meet each requirement?

A: Capacity to negotiate trade agreements

An enhanced capacity to negotiate international trade agreements is critical to define and protect national trade and development interests. It thus sets a major burden on countries. An essential part is the identification of trade negotiation objectives, based on national development priorities. Many developing countries tend to react to negotiation proposals submitted by industrialized countries. In contrast OECD countries invest considerable sums of money to identify their national and common trade interests in international trade negotiations.

At the national level, the trade policy community must be focused in one direction, talk in a common language and must be concerned about raising people's living standards. It involves identifying national trade interests and the attendant negotiation objectives, via a participatory (inclusive) process. These trade development and negotiations objectives once identified by all stakeholders, should then be actively pursued in international trade negotiations by trade negotiators.

Zambia is constituting a multi-stakeholder forum to deal with WTO and other trade negotiations. It is grateful for the support it receives from ITC, UNCTAD and WTO under the JITAP programme for this institutional capacity building. Such a national mechanism can be combined with other measures including: (a) a permanent presence in Geneva with adequate and technically competent staff; (b) group solidarity such as among the African Group or LDCs; (c) coalition building such as the G-20 or G-90; and (d) active engagement in the negotiations.

At the international level at the WTO, there is a long-term and a short-term objective, namely:

- The long-term objective is the active promotion in trade negotiations of the country's trade and development interests as identified by national stakeholders. This becomes manageable if the multilateral trading system is development-friendly. The current Doha negotiations are mandated by the Doha Ministerial Declaration of November 2001 to deliver such a result. The mandate, however, will not be translated into concrete results that place the needs and interests of developing countries at the heart of the negotiations without the necessary effort, attention and focus on such issues. This has become even more critical in the aftermath of the 1 August 2004 Decision of the WTO General Council containing the so-called July Package.
- The short-term objective is to seek solutions to shortcomings in the WTO as evidenced from the almost 10 years of implementation so far of the WTO Agreements. These deficiencies arise:
 - in the rules, including in the use of the dispute settlement mechanism;
 - in the ongoing liberalization (market access) of goods and services;
 - in the implementation of WTO Agreements;
 - in the provision of technical assistance and capacity-building; and

- in the provision of special and differential (S&D) measures (important in that WTO members face equal rules (a level playing field) but face unequal opportunities, arising from the inescapable fact that WTO members are at different stages of development).

At the regional level, market access programmes within regional trade agreements should be consolidated. These would provide an opportunity to develop products and stimulate competitiveness, setting the basis for strengthening South-South trade as a launching pad for integration into international markets. Seeking first the markets near you is a logical approach to developing competitiveness, testing new products and diversifying production.

Countries need crash programmes and short-term programmes on trade negotiations in terms of both skills and substance. Such training would enable negotiators and policy makers to be better equipped and acquainted with international commercial diplomacy. Continuous training of more local people would create a cadre of policy makers, business people and civil society representatives familiar with the multilateral and regional trading system and the attendant negotiations, enabling them to operate without outside support. There is need to design and implement training at the international level of supporting international organizations and at the national level of training institutions. The two training aspects are interrelated and must be coordinated to benefit the beneficiary country.

Developing countries need serious analytical studies on the development impact of agreements both prior to, during, and after, trade negotiations on individual countries. Development assessment prior to negotiations is needed to alert countries to the potential costs and benefits of engaging in negotiations, and to see who will pay for these costs. Development assessment during negotiations is needed to monitor the potential impact on development of different proposals and suggestions during the course of negotiations so that an informed choice can be made on which course of action to follow that can bring the best result in terms of maximizing development. Development assessments are required after negotiations to see what are the implications of implementing the new agreements and of taking advantage of them. These assessments would facilitate identification of the country's trade interests, as well as help identify deficiencies in the multilateral trading system and seek solutions to them in furtherance of the development objectives of the country. With proper development assessment studies, countries could then be in a position to participate in negotiations from a position of strength, having scientific evidence of their level of participation in the multilateral trading system.

B: Capacity to comply with and defend acquired rights

Compliance with international trade agreements is directed at protecting national interests and taking advantage of the opportunities that emerge from trade agreements and to lock-in development policies. It does not involve compliance for its own's sake. Compliance under WTO Agreements relate for example to (1) transparency requirements (notifications and enquiry points), (2) adaptation of trade regulations to WTO rules for example on customs valuation, standards (TBT, SPS), TRIMS, TRIPS etc; and (3)

implementation of market access concessions offered on industrial goods, agricultural products and services under the Uruguay Round.

Compliance also means ensuring that other WTO Members are also complying with their obligations. A key aspect of this is to use the rule-based multilateral trading system, and ultimately the dispute settlement mechanism, to defend acquired rights in export markets.

Some of the priority requirements for developing countries, especially LDCs, in strengthening their capacity to comply with international trade agreements include the following:

- (a) Institutionalizing and upgrading trade legislation, and developing regulatory framework on an economy-wide basis that is consistent with the WTO and regional trade agreements. It can, for example, include the adoption and setting in place of detailed administrative practices for meeting TRIPS obligations. This is a costly exercise as many countries are finding out.
- (b) Infusion of a new administrative culture and expertise. Some independent elements of the judiciary, legal experts and consultants conversant with the WTO must be developed. They would, in particular, be involved in strengthening the implementation of policy objectives and strategies, including WTO obligations. They would also assist in ensuring that if WTO rules are deficient, as they often are, then they would find ways and means to turn this negativity to the benefits of their peoples and consumers.
- (c) Coordination function and maintenance of effective institutional bodies must exist. Countries must consider the setting up and operationalization of permanent mechanisms to coordinate their participation in multilateral trade agreements and prepare for the future. The coordination must extend to liaison with NGOs and civil society. Thus all actors will communicate and network on the main trade interests of the country. It is important that all stakeholders in trade policy are carried in the same direction, and with the same vision.

These are areas where action must be taken urgently by countries and with technical assistance from international organizations and donors. They would contribute to developing well-prepared local institutions and a cadre of experts capable of responding rapidly to changes in international trade negotiations and trade agreements

C: Capacity to compete and take advantage of trade agreements

Strengthening the capacity to be competitive in the international market place is the real key challenge facing developing countries, in particular LDCs like Zambia. It is an Herculean task in overcoming supply-side impediments, diversifying into new and value-added products and strengthening competitiveness of production, in particular of export-oriented industries. It comes with identifying and developing policies and mechanisms to

seize the new, emerging trading opportunities from multilateral trade liberalization, and to minimize the costs of conducting businesses locally.

Much remains to be accomplished in the public sector domain. For example, compliance with trade agreements such as tariff reduction that bring down the costs of imported inputs can be consolidated by the private sector. A judicious use of tariff policy i.e. while bringing down tariffs as a result of multilateral and regional agreements, there is a need at the same time to maintain some tariffs to protect selected key industries and maintain a stable source of fiscal revenue, is a key consideration. There is a host of policy measures available to Governments, consistent with WTO rules, to spur industrial expansion and exports. It must, however, be recognized that international trade liberalization practices under the WTO and World Bank/IMF adjustment programmes impose increasingly important policy constraints on countries. These include:

- Limitations on tariff policy;
- Limits on exports subsidies;
- Limits on specific subsidies for investment and production;
- Limits on national content rules and export balancing requirements under the TRIMS Agreement;
- Limits on imitation of imported technologies by the TRIPS Agreement.

Much remains to be accomplished in the private sector as well. New opportunities for trade resulting from trade liberalization remain theoretical opportunities only if they are or cannot be exploited by the domestic business sector.

There is need to address costs structures to be competitive domestically, regionally and internationally. Otherwise, it becomes a limitation on attracting new investments and perpetuates technology deficiency and in turn puts a limitation of progressing into value-added production and industrialization. These competitiveness inhibiting structures include:

- the high costs of finance;
- weak technological capacity;
- high transport costs;
- lack of coherent strategy for export development.

There is also need to:

- ensure a stable macro-economic environment;
- build and strengthen national and regional institutions geared to supporting enterprises in upgrading products, developing new products and finding new markets;
- build human resources and expertise;
- improve operating conditions for export industries such as simplification of customs procedures, administrative procedures, upgrading of infrastructure (ports, roads, airports, telecommunications, electricity supplies, water and other utilities) and ensuring efficient supply at reasonable costs;

- foster basic ingredients of innovative and high-tech development for production in industry and in services (education, R&D, technology zones);
- strengthen organizational capacity;
- make better use of physical resources; and
- seek external resources.

Ultimately, each country needs to take decisions and recommendations, translate these into concrete and actionable programmes and implement them with national resources, and where possible with international support as well.

At the international level, support is needed to improve supply capacity and competitiveness of developing countries. Liberalization measures will also be important, especially in products and sectors, including services sector of export interest to developing countries. The call by LDCs for bound, duty free and quota free access for all exports of LDCs remain an important goal to be realized by WTO members and in doing so, give meaning to the commitment in the Millennium Declaration to provide improved market access conditions to LDCs. It will be fitting if at the UN General Assembly session in 2005, when a review of the first 5 years of the Millennium Declaration is taken up to hear that the international community has delivered substantially on the market access commitment to LDCs.

Of course, market access is only one part of the story. There is the other equation of market entry. Barriers of these types continue to baffle and impede exports of developing countries. These included unjustified standards, security measures, restrictive rules of origin, concentrated market structures, anti-competitive practices and other measures. There is need for the international community to look closely into these barriers and address them so that the market access opportunities generated by trade liberalization can actually be a meaningful one.

In conclusion, trade policy is a key instrument available to developing countries in promoting development and alleviating poverty. Efforts are underway to mainstream trade into development at the national level, such as through poverty reduction strategies. Equally importantly, developmental considerations must be mainstreamed into trade policy, trade negotiations and liberalization. This means, for example, making the WTO system more development-friendly; this can be done by integrating the needs and interests of developing countries into the Doha round specifically, concretely and meaningfully. The extent to which this is achieved will depend considerably on the negotiating capacities of developing countries. Hence, such capacities must be considerably strengthened.

In strengthening capacities to negotiate trade agreement, implement and take advantage of them, national efforts of developing countries need to be support by the international community and international organizations. In this regard, UNCTAD has a particularly important role to play, which was recently enhanced by UNCTAD XI. The São Paulo Consensus provides a roadmap for UNCTAD's work in the next four years, and much is expected in terms of its focus on assuring development gains from the international trading system and trade negotiations.

III: NETWORKING AMONG REGIONAL INTEGRATION GROUPINGS: THE CASE OF COSTA RICA

Manuel A. González Sanz

A: Economic and trade environment

In less than ten years, Costa Rica's exports have increased from US \$ 2.9 billion to \$ 6.1 billion with an the annual average growth of these exports close to 9.4 per cent. The country has a diversified export-oriented economy where traditional products only represent 13.1 per cent of the total exports. The number of products and their destination have also increased. While in 1990, Costa Rica exported to a 107 destinations; in 2003 the country exported goods to 138 different destinations. In 1986, Costa Rica exported 107 different types of products and in 2003 this number increased to 3,565. In terms of FDI (foreign direct investment), Costa Rica received \$ 4.8 billion during the last 10 years.

Costa Rica is a small country that has a strategic location in central America. Its total population is 4 million people, with a literacy rate of 95.6 per cent. Education is free and obligatory, and as result there is a highly educated, skilled and productive workforce. The abolishment of the military forces in 1949 reflected the stability of a long well-known democracy that characterizes Costa Rica's economic and social stability. In addition, Costa Rica is rich in natural resources. In its twenty thousand square miles (20,000), Costa Rica gathers 6 per cent of the world's biodiversity and more than a 30 per cent of the total territory enjoys some form of special area protection. In the context of sustainable development, Costa Rica has ranked 9th out of 142 countries according to the Environmental Sustainability Index of the World Economic Forum, 2002.

Costa Rica has enjoyed the benefits of a well-defined and smart trade policy. Its exports have increased in less than ten years from \$ 2.9 billion to \$ 6.1 billion and the average annual exports' growth is close to 9.4 per cent. It has evolved from traditionally harvesting, and exporting only 4 products namely coffee, sugar, meat and bananas to over 3,500 different products. Thirty years ago these products represented 85 per cent of the county's total exports. Currently they only add up to 13.1 per cent of total exports. It has taken more than ten years to consolidate the diversification of the exports that enabled the country to face the fluctuation of prices of some goods in the international market. In 1990 Costa Rica exported 1,700 different products to 107 different destinations. By 2003, the country had more than doubled this number to 3,565 different products to more than 125 different destinations.

The national productive sector has not only given firm steps in marketing agricultural goods such as water squash, pineapple, melon, roots, tubers and ornamental plants, but has also successfully exported products that require more sophisticated processes such as computer parts, medical equipment, software programmes, among others. Costa Rica ranked as one of the top countries in Latin America according to the Technology Index. This index measures the quality of its environment for innovation, the capacity to receive international technology and export goods with technological content. It

was also ranked among the first five most competitive countries in Latin America according to the Global Competitive Report of the year 2003.

B: Costa Rica's trade policy

“Promote, facilitate and consolidate Costa Rica's integration into the international economy”

For a small economy like Costa Rica, with GDP of \$ 17.5 billion and a per capital income of approximately \$ 4,270, trade is a key factor to build up new and better economic opportunities. Costa Rica has long recognized that the size of its market is very limited, and cannot contribute adequately to furthering the required economic and social growth opportunities. For this reason, in the last fifteen years, the main objective behind the country's foreign trade policy has been to promote, facilitate, and consolidate Costa Rica's integration into the international economy.

The success of this policy is reflected, in the growth of exports, products and markets diversification, increase of foreign direct investment and the creation of employment: the exporting sector. The key areas of focus are: (1) the multilateral system, (2) regional integration, and (3) negotiation of trade and investment agreements and other market access initiatives. The Government of Costa Rica is applying in tandem a package of instruments that include participation in the multilateral system, furthering regional integration, negotiating trade and investment agreements and other market access initiatives and revitalizing the process of opening up the economy through unilateral liberalization initiatives.

1. Multilateral system

Costa Rica is a strong supporter of the multilateral trading system. It fully supports the launching of the WTO Doha round of trade negotiations. Costa Rica is an active participant at the WTO and plays an active role in this forum. It has established strategic alliances and forms part of different groups in accordance with the country's best interest (Colorado Group, Friends of investment Group, Cairns Group, among others). These alliances, as well as other individual initiatives, have enabled the country to influence decision-making in the multilateral forum.

Costa Rica has always believed in the multilateral trading system and has supported all moves to buttress that system since the inception of the WTO. A strong multilateral system with clear and transparent rules is of enormous benefit to a small, foreign trade-dependent economy such as that of Costa Rica. Costa Rica actually chair two WTO Committees: the Anti-dumping and Countervailing Measures Committee and the Committee on Regional Trade Agreements. Even though Costa Rica is a small country, it has a say in the WTO. As proof of the latter, Costa Rica has been invited to a series of closed meetings where only 25 countries of the 148 members of the WTO were invited. Minister Trejos attended all of the WTO mini-ministerial meetings invitations that took place in Japan, Egypt, Canada, and most recently in France.

Through its own experience Costa Rica has confirmed that the dispute settlement mechanism can be a useful instrument for upholding the law and making trade relations secure and predictable. In 1996, Costa Rica became the first WTO member to request that a panel to be set up to review measures it considered to be in breach of the Agreement on Textiles and Clothing (ATC). In November 1996 the Panel concluded that the quotas imposed by the United States were in violation of its ATC obligations. In 1997 the Appellate Body also found in favour of Costa Rica by concluding that this restrictive measure could not be applied retroactively. On that occasion the dispute settlement system demonstrated it could be the best guarantee for safeguarding the interests of a small developing country. This is why Costa Rica believes that the rules and procedures governing this system must be clear, fair and equitable and free of loopholes or contradictions.

Costa Rica's observance of WTO rules and disciplines is demonstrated by the country's effective compliance with its assumed commitments. Over the years, the country has notified a range of measures aligning its trade policy and laws with the agreed rules. Costa Rica, for example, notified the dismantling of its measures that were inconsistent with the TRIMs Agreement, ahead of the expiry of the timeframe.

2. Regional integration

(a) Free Trade Agreement of the Americas (FTAA)

Costa Rica plays an active and constructive role in the FTAA process. It has established strategic alliances based on shared interests with other countries. It envisions an FTAA that is multilateral, comprehensive, and one which deepens economic integration in the hemisphere. It strongly supports moving forward in the negotiation process with a firm steady pace.

Thus, Costa Rica has played an active and constructive role in the FTAA process since the launch of the initiative in December 1994. It has done so, not only through its work throughout the process and its regular contribution of ideas in the negotiating groups, but also through its role in holding several important posts. Between May 1997 and 1998, Costa Rica chaired the FTAA process and hosted the Fourth Ministerial Summit in San José (1998). As an outcome of that meeting, the Ministers recommended to the Heads of State and of Government that the FTAA negotiations should start at the Second Summit of the Americas and agreed on the objectives, principles and structure of the process. In addition, the country has chaired the Working Group on Investment, as well as the Negotiation Groups on Investment and Dispute Settlement and Negotiation Group on Government Procurement.

On the 20 November of 2003, the Eighth Ministerial meeting took place in Miami and the resulting Declaration instructed the Trade Negotiation Committee (TNC) to develop a common set of rights and obligations applicable to all the countries. This Declaration also stated that the TNC should work in developing additional procedures for plurilateral negotiations within the FTAA. Even though the process is in an impasse, Costa Rica strongly supports moving forward in the negotiation process.

(b) Negotiation of Trade and Investment Agreements

Costa Rica has concluded the following free trade agreements:

- Costa Rica- Mexico Free Trade Agreement;
- Central America – Chile Free Trade Agreement;
- Central America – Dominican Republic Free Trade Agreement;
- Costa Rica – CARICOM Free Trade Agreement;
- Costa Rica – Canada Free Trade Agreement;
- Central America – US Free Trade Agreement; and
- Agreements on the Promotion and Reciprocal Protection of Investments.

On the bilateral front, along with Mexico and Chile, Costa Rica is currently one of the countries that has contracted the largest number of bilateral free trade agreements in the hemisphere. It has negotiated such agreements with Mexico, Chile, Dominican Republic, CARICOM and more recently with the United States.

The Free Trade Agreement between Costa Rica and Mexico (1995) became the first instrument of its kind to be signed between two developing countries in Latin America. The negotiations to revitalize the Free Trade Agreement and improve market access conditions were concluded in 1999. During this time, the FTA has had a positive impact by reducing and even beginning to reverse in Costa Rica's favour the limitations in the historical pattern of trade flows between Central American countries and Mexico over the past three decades. Nine years have passed since the agreement entered into force, and exports have shown great dynamism. Before this agreement Costa Rica's exports to Mexico represented \$ 13 million and last year exports came to \$ 132 million.

Costa Rica also negotiated a treaty with Chile that entered into force in February 2002. This negotiation was conceived as key strategy to boost trade with South American countries. Significant concessions were granted in this agreement, for example, 93 per cent of the Costa Rican products are no longer subjected to tariffs. The latter represents a valuable opportunity for our national productive sector to successfully place their products in a market of 13 million potential customers. This agreement, as well as other treaties, negotiated by Costa Rica have clear and transparent rules that guarantee preferential access that was once given out as a unilateral concession.

Costa Rica also negotiated an FTA with the Dominican Republic, in the view of the fact that the productive sector had informed us that they were very interested in entering this market. The sole announcement of this negotiation triggered trade between both countries. During the month of October, when negotiations were announced exports to Dominican Republic increased in a 37.8 per cent in comparison to the same period in the year 2001. At Costa Rica currency exports a large variety of products that include plastics, medicines, cookies, jellies and refrigerators, among others. It exported \$ 67.9 million (2003).

Costa Rica negotiated with Trinidad and Tobago when negotiations finished in January of 2002 and the text was submitted for the approval of the rest of the members of CARICOM and they decided to join the agreement. For these reason, last year Costa Rica launched new negotiations with the Caribbean countries. After three rounds negotiations came to an end and as a result of this agreement, 95 per cent of Costa Rican products have preferential access to this market composed by 14 countries, that together stand for more than 15 million people. Only 3.9 per cent of the products were excluded. This agreement opened the possibility to export some agricultural good in some stations of the year to countries in the Caribbean whose economies that are more developed.

In addition, Costa Rica negotiated an FTA with Canada. This is the first time a small economy has negotiated with an industrialized country that forms part of the G-7, that has population of 30 million, an enormous ethnic diversity and GDP per capita of more than \$ 20,000. This agreement is a strategic alliance that points Costa Rica as the only country in the continent that has preferential agreements with two Parties of NAFTA (Mexico and Canada). Parallel to this agreement Costa Rica negotiated cooperation agreements in environmental and labour issues. Because of the negotiation and subscription of these cooperation agreements important projects are being carried out. These projects are likely to create adequate conditions in order to collect the benefits that the agreement offers. Presently, national producers are successfully exporting to Canada goods such as sugar, tropical fruits, vegetables, coffee, flowers, crafts, and textiles, among others. Furthermore Costa Rican businessmen and women are starting to invest in Canada obeying the necessity to expand company operations to other markets.

In respect of bilateral investment treaties (BITS), Costa Rica has persevered with its policy of protection of foreign investment through Agreements on the Promotion and Reciprocal Protection of Investments, providing substantive and legal guarantees for investments. Since 1995, the Legislative Assembly has approved agreements of this kind with the United Kingdom, France, Germany, Spain, Canada, the Czech Republic, Argentina, Paraguay, the Netherlands and Venezuela.

(c) Central America and United States Free Trade Agreement (CAFTA)

In the Declaration of Grenada (June 2002), Costa Rica expressed its will to fully join the Central America customs union. Important integration issues Costa Rica relate to the elimination of trade obstacles, lower costs of transportation, lower administrative costs and enhanced use of human resources and infrastructure

Additionally, Costa Rica faced along with the rest of Central America one of the most important challenges of its commercial history. The trade agendas included a negotiation process between Central America and the US. For the countries in the region this represented a great opportunity to promote economic development by strengthening and bounding relations with our main trade partner. The US is Coat Rica's main trade partner. Some 49 per cent of Costa Rica's exports are directed to that country and 51 per cent of Costa Rica's imported goods come from the US. Costa Rica exported some 1,670 different types of products to the US. The US is the main country of origin of FDI to Costa

Rica. Nearly 500,000 jobs are associated to the US market and 2 out of 3 companies that export to the US are small or medium businesses

The Caribbean Basin Initiative (CBI), whose main objective is to promote the economic recovery of the Central American countries and Caribbean during the 1980s, regulates Costa Rica's trade relation with US. The US did this by granting tariff preferences to these countries allowing products to enter without paying tariffs. Nevertheless, this scheme has some limitations namely: (1) it is a unilateral concession, (2), it does not have a full coverage, (3) preferences are only based in tariff exception, (4) termination of benefits for some goods, and (5) it does not include a dispute settlement mechanism.

In terms of results and achievements expected from CAFTA's negotiation, the following are important:

- Ensures permanent access of Costa Rican products to the US market without paying import tariffs;
- Gradually reduces or eliminates import tariffs of US products;
- Establishes rules and disciplines in different areas to regulate trade relations – avoiding unilateral actions;
- Opens sectors that where traditionally State monopolies (telecom and insurance);
- Strengthens the implementation of labour and environmental legislation;
- Establishes a legal mechanism for dispute settlement between the Parties.

Final remarks

Costa Rica will continue to work for the successful conclusion of the Doha round of negotiations. It will continue to play a constructive part in the FTAA forum because it believes in the benefit that hemispheric integration could bring to all 34 countries. In this sense, Costa Rica strongly supports moving forward in the negotiation process and facing up to the actual challenges it faces. At a regional level Costa Rica will do its best, along with the rest of Central American countries, to consolidate regional integration schemes. It will continue to encourage its private sector to reap the maximum benefits of the FTAs it has signed.

Costa Rica has an open economy in which the external sector is of paramount importance. For this reason, the country will be pressing ahead with a foreign trade policy that promotes greater and more secure access for Costa Rican products to international markets as a way of generating the growth and development opportunities that the country needs. Furthermore, as a complement to its multilateral endeavours, Costa Rica will continue to play a constructive part in the various regional fora so as to promote investment, facilitate trade and eliminate more barriers at all levels. To that end, the country is actively engaged in the WTO and FTAA negotiations. In Central America, moves will continue to buttress this regional integration scheme.

Finally, Costa Rica will do whatever is necessary to reap maximum benefits from the free trade agreements it has signed and will continue to favour initiatives for more trading links with other countries.

IV: TRADE NEGOTIATIONS CAPACITY ISSUES

Amina Mohamed

Introduction

The historic Fourth WTO Ministerial Conference was held in Doha, Qatar, in 2001. The Conference marked a turning point for developing country participation in trade negotiations. This High-level Forum in Doha will help increase focus on the preoccupation of developing countries with South-South trade. Discussions on the new geography of international trade, and the documentation made available for the Forum by the host country and its collaborating partners provide a wealth of information and analyses on trade negotiations. Some of these appropriately identify critical issues from the perspective of developing countries involved in trade negotiations, and the results these countries hope to achieve in these negotiations.

Now, trade like any other subject has its own internal and external dynamics that ultimately influence the direction it takes and benefits it delivers to any given entity, country or region. What is not in doubt today is the role of trade in economic growth and development and the need for a multilateral rule-based system. Trade can contribute immensely to improving livelihoods and reducing poverty and examples of such cases have been presented in this workshop. It is also sad, but nevertheless true, that trade can also have the opposite effect. One only needs to look at trade in agriculture which has simultaneously created wealth in some countries and severe misery in others, to make that point. It is therefore logical to argue that in order to keep the gains possible from trade, which incidentally operates not within a vacuum but within carefully designed and negotiated legal frameworks, one must actively engage in the process of formulating those trade rules. For it is only then that one can expect multilateral trade to effectively respond to the needs of all.

A: Developing countries in trade negotiations

Developing and least developed countries have, for too long, been absent from the core group of countries in the negotiating table of multilateral trade agreements. The result of such marginalization has been disastrous, not least because developing countries have not been able to develop and sharpen their negotiating skills and alliances.

Strengthening the capacity of developing countries for negotiations is even more urgent now than before because of the complexities of the multilateral trading system. But equally important is the involvement of developing countries in multiple tracks of negotiations, at the WTO, at the regional level, and at the inter-regional level which makes the task of managing negotiations highly demanding. Added to that is the lack of institutional and human resources, which makes it an impossible mission.

In fact, developing countries need a focused and sustained effort at all levels, national, regional and international to build their negotiating capacities. One example to

illustrate this point may seem almost comical if it was not true but there are countries that do not even have the capacity to identify their trade needs. For instance only a very small number of countries have submitted their offers in trade in services. This is one area in which developing countries if well prepared have much to gain.

Furthermore, developing countries can neither analyse the bottlenecks nor identify opportunities. They are almost overwhelmed when sitting at the negotiation table. It is therefore incumbent upon them to develop creative ways in the short term to deal with their handicap, while at the same time fast tracking capacity building. Minister Patel has referred to the avenues that developing countries must use to promote, project and protect our interests.

B: Building partnerships

Building partnerships is a good place to start. These can be partners that share similar concerns, for example the unity among developing countries for special and differential treatment issues. It can be unity based on sectoral interests, such as the G-20 on agriculture. It can also be partnerships based on a common sense of identity, such as the LDCs group or the ACP Group of States, or the African Group, or the G-90. We can use these partnerships to pool our resources in terms of capacity. Our experience with such partnerships has been positive in the main.

It is also important to build sustainable partnerships that can put up a common negotiating front *vis-à-vis* other trading partners and maintain solidarity. The terms "sustainable" and "solidarity" must be emphasized. These are very important. If there is division among coalition partners, it is important that such differences be addressed in the group and ironed out prior to confronting other trading partners.

Another important group of partners relates to the support from international organizations, in particular UNCTAD. In the fast pace of multilateral trade negotiations, where important decisions have to be taken in a short span of time, countries need "fire fighters" who can provide, on short notice, technical and development-oriented advice to enable countries to take strategy decisions. They need such technical agencies to exchange ideas on very technical details, so that while the countries work out the details, they do not lose sight of the overall goal of development. UNCTAD has been at the forefront of providing such support and developing countries look forward to its continued support. In Kenya, the National Committee on the WTO is the focal point for national discussions and consensus-building on multilateral trade negotiations. It has received invaluable support under the JITAP programme implemented by UNCTAD, together with WTO and ITC, in terms of strengthening domestic negotiating capacity. This is a point that has been highlighted, namely effective national institutions and mechanisms for multi-stakeholder consultations and decision-making.

Where negotiations end, implementation begins. Thus, the capacity to implement agreements and develop competitiveness to take advantage of them is critical in the period follow-up to the conclusion of trade agreements. During implementation, the important consideration for many developing countries is to use the agreements to find new markets

and sell their goods and services, hopefully with no obstacles or no new and hidden barriers. Developing countries have to be vigilant that their rights are not impaired or diluted. They also have to develop the supply side capacity.

Concerns with costs of implementations, especially resource intensive are genuine. This is the case, for example, of trade facilitation measures. Developing countries can be glad that the modalities in the July Package clearly recognize the principle of relating implementation capacity of developing countries to availability of technical assistance and investment support. They should not agree on agreements that they cannot implement, nor for which the required supporting resources will not be forthcoming. Thus, a key consideration is any agreement, just like any business contract is to show clearly what the costs are and who will bear them.

Apart from capacity building issues, there are, of course, process-related issues in negotiations like the WTO. A system is needed in which there is transparency, inclusiveness and democracy in decision-making. It is the full membership that must be seen to be driving or riding the bicycle, and not just a few. This is a negotiating objective which developing countries need to continually strive for in WTO negotiations.

V: NETWORKING OF REGIONAL TRADE AGREEMENTS

Ransford Smith

A: Revival of South-South cooperation

There is no doubt that, as developing countries, our best interests rests in promoting and strengthening South-South Cooperation, and that regional trade agreements have a critical role to play and are an important foundation of this effort. The Group of 77 and China have always pursued trade, economic and technical cooperation linkages among developing countries as a central plank of the overall thrust to enhance their development prospects. This has also been central to the work of UNCTAD, through initiatives such as the Global System of Trade Preferences among Developing Countries (GSTP). Interestingly as well, recently some major developed partners have been promoting regional and sub-regional trade and economic cooperation amongst developing countries as a means of strengthening the economic base of these countries and facilitating their effective integration into the multilateral trading system.

This emphasis on South-South Cooperation is not new. It has been a fundamental tenet since the birth of the Group of 77 and UNCTAD. It is arguable though that what is new is the environment in which we are now seeing a renewed burst of energy and enthusiasm in respect to strengthening South-South linkages. The current surge of interest in enhanced South-South Cooperation is different from the past in that it appears to be largely anchored, not in a defensive outlook, but in the assessment that the opportunity for defining our collective destiny is better now than at any time in the recent past, and perhaps better, than at any time in several decades.

B: Some caveats

A few caveats need to be noted regarding the new surge of interest in South-South cooperation. Developing countries are not a monolithic group, and it is vital that we bear in mind the fact that significant disparities exist in the contribution of regions, and even of individual countries, to the improved performance and prospects that are now frequently cited. It is also important to understand that if we prepared to recognize this in a forthright manner, this need not itself prove to be a weakness, but can be a source of strength, especially for South/South cooperation. The existence of locomotives for the global economy is well recognized. The United States, Japan and Europe have played this role at different times. The possibility of locomotives emerging in the South would be a new and welcome development. This would require that we redouble our efforts to forge the kind of linkages that will ensure that as some economies and regions progress, other developing countries are in a position to gain. The objective should be to ensure not just that there are locomotives of the South, but that they also become locomotives for the South.

Briefly, the following are some of the evidence that should remind us that a large number of developing countries are not yet being buoyed by the rising economic tide:

- A recent report by the WTO Secretariat to the WTO's Committee on Trade and Development¹ notes that behind the aggregate figures the performance of developing regions and economies varies widely. Out of 148 developing countries, less than half - 61 countries - had export growth rates that exceeded the global average.
- Even among LDCs, which UNCTAD's data show to have experienced, as a group, solid growth of 4.9 per cent between 2000 and 2002, GDP actually stagnated or declined in 24 countries, i.e. half of all LDCs.
- The World Bank, generally upbeat about developing country prospects and performance, has noted that "notwithstanding robust aggregate performance, many countries have been less successful in reaping the benefits of the last few years of strong economic conditions. More than fifty developing countries have current account deficits that exceed 5 per cent of GDP. If trade growth were to slow more than currently predicted, or if terms of trade were to deteriorate more, the required adjustment could be severe."²

The objective situation, therefore, is that while there are welcome new trends emerging in global trade, including the emergence of major growth poles in the dynamic economies of South-East Asia, and in the rise of China, there is the need for strategies to ensure that the dynamism evident in some economies is sustained, and that it has a positive multiplier effect throughout the South. A key instrument for achieving this is through regional trading agreements (RTAs). But it is important to recognize that, despite their increasing prevalence, there is still need for analytical work to establish the key elements in successful RTAs, and as well, the conditions that provide a basis for members to benefit optimally.

C: Proliferation of RTAs and their impact

The WTO has been notified of 206 RTAs since August 2004; a further 30 had been signed and were awaiting entry into force, and an additional 60 or so RTAs were in the negotiations/proposal stage. The WTO expects the number of RTAs that will actually be in force in the next two years to be more than 300. The Director General of the WTO in his 2004 Annual Overview of Developments in the International Trading Environment,³ draws attention to the intensification of RTA activities across all regions of the world, even though this has been more pronounced in the Western Hemisphere and in the Asia Pacific region. Indeed, of the WTO's 146 members,⁴ only Mongolia was cited in 2003 as not belonging to, or actively engaged in the negotiation of an RTA. It is also interesting to note that 65 WTO members were engaged in RTAs that are "cross-regional" in nature, suggesting that the term "regional" is, to some extent, losing geographic connotation in the context of this growing number of RTAs of variable configuration.

Given this proliferation of RTAs and their diversity in country, sector, and policy coverage, and given what, based on long experience, appears to be their uneven trade

¹ WT/COMTD/W/36.

² Global Economic Prospects 2005, p.12.

³ WT/TPR/OV/10.

⁴ Membership now 148

performance - for some go back several decades - it is imperative that developing countries draw lessons from this experience, and share these lessons within and across regions.

UNCTAD in its very informative recent paper on “Multilateralism and Regionalism: The New Interface,” noted that the share of intra-regional trade is generally low in South-South Agreements as compared with North-North Agreements, and found to be significant, also, the variations in intra-regional trade across different RTAs in the South. ASEAN (23 per cent) and MERCOSUR (18 per cent) were cited as having attained and maintained a relatively high degree of intra-regional trade. Other groupings, to be found in the second tier in terms of intra-regional trade, include the Central American Common Market (CACM), West African Economic and Monetary Union (WAEMU), Caribbean Community and Common Market (CARICOM) and Southern Africa Development Community (SADC). Among these latter, intra-regional trade levels are quite modest, being in the 10 to 14 per cent range. UNCTAD found further that the trade levels for some RTAs in Asia and Sub-Saharan Africa were still substantially low.

Some intuitive reasons for this low level of intra-regional trade could be advanced. These would include underdeveloped supply capabilities, and the prevalence of similar and undiversified output structures amongst members of some regional arrangements, which reduces the potential for trade amongst neighbours in these arrangements. In fact, this latter point has been advanced as the reasons for the growing appeal of RTAs involving cross-regional partners.

The World Bank, in its recent very detailed and useful study of RTAs,⁵ has suggested another reason for this low level of intra-regional trade. According to the World Bank, MFN liberalization which creates more trade is the fastest and most efficient way to increase intra-regional trade. For the World Bank, a critical ingredient of a successful RTA is not simply low trade barriers with intra-regional partners, but low trade barriers with **all** global partners. This can reduce trade diversion, ensure access to low cost inputs, and help to ensure that the RTA is a "springboard" to global markets. The Bank emphasizes, in this context also, what it considers to be the gains to be had from reduced market access barriers amongst developing countries, both because protection is on average higher amongst developing countries, and because of a higher growth potential for these countries over the next decade as compared with industrial countries.

The important implication, therefore, is that much depends on the design and implementation of RTAs – on how matters such as the pace and sequencing of the removal of internal barriers and of external barriers to trade are dealt with. Other issues of significance are the design of rules of origin, the inclusion of services in the coverage of RTAs, and the extent to which border procedures and facilitation measures, such as the functioning of customs, are addressed within the scope of an RTA. These are some of the areas in which it would be desirable to have the benefit of the evaluation and assessment of the current experience of developing countries engaged in RTAs, so as to contribute to the development of best practices amongst developing countries in these areas.

⁵ World Bank, “Global Economic Prospects 2005: Trade, Regionalism, and Development” (November 2004).

D: Areas for collective action

There are two important areas in which developing countries need, in particular, to draw upon and benefit from individual and regional experiences, and, more so, need to act collectively and with common purpose to defend and promote their interests. This is in regard to, firstly, RTAs that are North-South in their configuration; and, secondly, the institutional interface of RTAs with the multilateral trading system.

In regard to North-South Agreements, these have generally been more far-reaching in scope and content than South-South RTAs, covering goods and services, as well as behind the border measures such as investment rules, intellectual property protection, labour and environment. It is now quite evident that developed partners pursue through North-South agreements policy objectives that they find more difficult to advance at the multilateral level. Thus TRIPS-plus provisions, or investor/state dispute settlement provisions, for example, are pursued in some North-South Agreements. In return, developing countries, party to such agreements, receive preferential access to northern markets.

The World Bank has drawn attention to the dilemma inherent in the fact that as more developing countries choose to enter into such North-South arrangements with developed partners, the less will be the real value of the preferential access to be had in these developed markets, and, by extension, the more costly in relative terms will be the reciprocal concessions granted by developing countries. To quote the 2005 Global Economic Prospects “The potential for inappropriate outcome is higher in North/South RTAs because the asymmetry in negotiating power can overtake real development priorities.”⁶ It is imperative that knowledge be shared regarding the content of North-South agreements, and on the relevant negotiating and implementation experience, so that developing countries can forge as common a front as is possible in this important area of interface with Northern partners.

A final key issue is the interface between RTAs and the multilateral trading system. The Doha mandate commits members to clarifying and improving disciplines and procedures under existing World Trade Organization provisions, which relate to regional trade agreements. The Doha mandate also emphasizes that “account shall be taken of the developmental aspects of regional trade agreements”. Quite apart from the longstanding and vexing issues in the WTO's Committee on Regional Trading Arrangements in regard to matters such as the product coverage of RTAs, their policy coverage, and the applicable transitional time frames, an important issue, given the emergence of North-South RTAs, is the scope of flexibility that should be afforded developing countries in RTAs covered by Article XXIV of the GATT 1994. The ACP Group of States, for example, has proposed in the current Doha Round negotiations that specific Special and Differential treatment for developing countries be incorporated into Article XXIV of GATT 1994, which deals with RTAs.⁷

⁶ World Bank, “Global Economic Prospects 2005: Trade, Regionalism, and Development” (November 2004); Page 126.

⁷ Submission on Regional Trade Agreements, TN/RL/W155 (28 April 2004).

This is another area in which cooperation and collaboration is highly desirable among developing countries engaged in RTAs, whether South-South, or as part of a North-South configuration, so as to ensure that the Doha mandate to reflect development concerns is fully met. It is vital that development-compatible obligations, which should encompass significantly different levels of reciprocity amongst unequal partners, including the possibility of non-reciprocity, be an integral part of North-South RTAs. The WTO rules must provide the necessary legal space in support of this.

Conclusion

It should be recalled that at UNCTAD XI in São Paulo, UNCTAD was mandated, *inter alia*, to examine and monitor the interface between the multilateral trading system and regional trading agreements, including in respect of special and differential treatment. UNCTAD was also mandated to provide support for regional integration and for the promotion of South-South trade. UNCTAD should fulfill this vitally important mandate through, among other initiatives, those outlined in paragraph 28 of the excellent background paper, entitled “International Trade Negotiations, Regional Integration and South-South Trade, Especially in Commodities”, prepared by the UNCTAD Secretariat for the High-level Forum on Trade and Investment. These measures should include facilitating the exchange of experiences, best practices, and lessons learned from the negotiation and implementation of regional trade agreements; promoting networking and information sharing; advancing consensus building and cooperation, and ensuring that full account is taken of the development dimension in regional trade agreements; undertaking work on and promoting a full understanding of the interface between RTAs and the multilateral trading system; and assessing and evaluating the developmental impact of these agreements.

In the final analysis, the productive sector in the South will have to become more aware and proactive regarding the opportunities for South-South cooperation. In the Caribbean sub-region, where we are pursuing the CARICOM Single Market and Economy, this is as true as anywhere else. Developing countries should ensure that discussions in this area now, and in the future, fully encompass, as well as public officials and trade negotiators, the productive sector, the relevant regional secretariats, and other technical and research bodies in the South.

VI: INCREASING SOUTH-SOUTH COOPERATION AND TRADE IN COMMODITIES

Lakshmi Puri

A: Commodities and development

Commodities are at the heart of any viable approach to the promotion of economic growth, job and income generation, poverty reduction, gender welfare, social development and environmental sustainability in developing countries, especially the least developed among them and the heavily commodity dependent countries. Developing countries themselves and the international community have long recognized this. It is clear for example that to achieve the objectives in the Millennium Declaration, the importance of commodity production and trade is repeatedly emphasized.

An integrated and sustainable development of the commodity sector in developing countries must include building productive capacity and competitiveness on the one hand, and better market access and terms of trade for developing country commodity exports on the other. These are the two pillars on which an important contribution can be made by the commodity sector to achieving the Millennium Development Goals. However, it is necessary to pass from declarations and exhortations on developing and maximizing the potential of commodities to concrete policies and actions.

B: The commodity problématique of the South

In examining the commodity problématique, some noteworthy facts can be kept in mind about developing countries dependency on commodities for trade and development:

- More than 60 developing countries depend on non-fuel commodities for more than half of their export earnings;
- Including fuels, then more than 90 per cent of export earnings of over 60 developing countries is dependent to commodities.
- Over 50 developing countries depend on the exports of three or fewer commodities for 50 per cent or more of their export earnings.

This is the picture after two decades of sustained efforts by developing countries to diversify their production and trade, add value to their commodities, and to move into dynamic, new and technology-intensive sectors of international trade. For developing countries, the persistent instability of world commodity prices and resulting terms of trade losses reduce their economic growth potential, and worsen indebtedness and poverty. Fluctuations in prices affect and generate fluctuations in output, and together these create uncertainties and difficulties in managing large variations in earnings for rural households, enterprises and governments.

Declining real prices and loss of market shares has led to commodity-dependent developing countries, particularly LDCs, finding themselves in a poverty trap, where ever declining incomes constrain investment and diversification and reinforce commodity

dependence. Despite recent dramatic price increases for oil and industrial raw materials, real prices in US dollars for almost all commodities remain at historically low levels. If the depreciation of the dollar is taken into account the situation is even worse. In effect, barring some differences between individual products, real commodity prices generally exhibit a long-term downward trend and high instability. This is particularly true for tropical beverages, vegetable oilseeds and oils, other foods, agricultural raw materials, and mineral ores and metals.

C: A new geography of commodities trade?

So far, any approach to the commodity problématique has focused on the North-South relationships and with good reason. The North has been the major market for almost all commodities from the South, fuel or non-fuel, agriculture or minerals and metals. Also, northern multinational corporations have a strong role and control on production, distribution, consumption, and prices of southern commodities and on international markets and instruments, such as commodity exchanges. Northern public and private policy signals impact commodity prices, as do technological developments in manufacturing and services. The increased concentration of market structures dominated by global northern enterprises, determine supply and value chain patterns and distribution of returns to developing country producers. For example, for agricultural commodities, large retailers and supermarket chains of developed countries are creating monopsonistics or oligopsonistic situations for developing country exporters.

South-South trade in commodities has been taking place, but traditionally it has not been as significant. On the contrary, developing country commodity producers have been competing with each other in selling the same commodities to the North or have been engaged in sporadic supply management efforts with each other.

This situation is poised to change. A new geography of South-South commodity trade seems to be emerging. UNCTAD has referred to this as a new window of opportunity for increasing South-South trade in commodities, and converting commodities from a source of stagnation into an engine for development. It is likely to have an abiding impact on the production and trade of commodities. It would therefore be interesting to look at the shape and content this is likely to take in the future.

Over the past decade, South-South trade grew at 10 per cent a year, twice as fast as total world trade. South-South trade now accounts for some 40 per cent of developing country exports and 11 per cent of world trade. There is renewed and growing interest in South-South trade powered by fast economic growth in a number of countries and greater complementarity, creating a competitiveness continuum among countries of the South.

Almost half of South-South trade is in commodities, and this trade has been growing at 8 per cent a year from 1990 to 2003. Developing countries absorb 46 per cent of the total exports of commodities of other developing countries. Asian developing countries are the engine of this rapid economic growth, especially China and India, which saw an annual 14 per cent increase of their imports from developing countries from 1990 to 2003.

This has been one of the major dynamic elements for international commodity markets in recent years.

An example in point is the share of Asian developing countries' commodity exports to other developing countries (including intra-Asian trade) in total commodity exports that rose from 43 to 62 per cent. Equally, they are now importing commodities from other developing regions, including Africa and Latin America, in a big way. The trend in other developing regions is similar, but less marked. South-South trade in commodities has increased faster than South-North trade for almost all commodity groups and all regions.

Furthermore, commodities trade among developing countries has a very strong strategic resources component. Whether it is agricultural imports for food security or fuel imports for energy security, or even minerals important to feed rapidly growing agriculture, manufacturing and services sectors in developing countries, South-South commodity trade is vital for sustaining and enhancing their capacity to optimize development gains from international trade. From the point of view of southern commodity exporters too, southern markets provide new and burgeoning destinations for exports, better bargaining power in global markets for their commodity exports, as also better prices and returns.

D: Moving forward

It is evident that South-South cooperation in commodities will be crucial in the years ahead. Some initiatives in promoting South-South cooperation in commodities, also drawing upon the mandate underlined in the Sao Paulo Consensus adopted by UNCTAD XI, and which can link up through this High-level Forum and to the South-South Summit scheduled in Doha are suggested below.

1. Improving market access and market entry conditions (i.e., reducing barriers) within regional trade agreements on a South-South and North-South basis, and at the interregional level based on the GSTP. Addressing issues arising from sanitary and phytosanitary measures (SPS) and technical barriers to trade (TBT) measures is important.
2. Improving the capacity of national enterprises for a more effective South-South trade through advisory services and providing technical support and policy analysis to private enterprises for international and regional trade will be important. Governments can play both an enabling and proactive role, depending on the circumstances and preparedness of local enterprises. Some recent examples can be cited. A management model project in Mali aimed to improve infrastructure, health, education and access to market in which key supply chain participants are linked together through effective partnerships arrangements facilitated by the "Agence pour la Promotion des Filières Agricoles (APROFA)" foster successful horticultural exports to other West African countries. Some projects that attempt to link domestic exporters with regional markets. These include the Agricultural Export Promotion and Diversification Project in Côte d'Ivoire and the Agricultural Export Promotion project in Senegal, which are both working to diversify export possibilities and

promote South-South trade through developing partnerships between local entrepreneurs and regional businesses, as well as by helping local businesses to meet market requirements and to conform to globally accepted quality standards.

3. Input markets and infrastructure systems are also important to develop and expand South-South trade. These are still inadequate in many developing countries. In many cases, the unavailability of specialized inputs, capital markets, communication and transporting systems, support services, can all place limitations on South-South trade. Improved market access not only for commodities but also for inputs on a South-South basis is being pursued by regional trade agreements and could be addressed in the GSTP as well. These structural constraints relating to the efficient functioning of the supply chain can be chief impediments, if not improved, to the expansion of South-South trade. So work in this area is called for and projects – regional or interregional should be promoted.
4. Technological advances in communication (television, mobile phones and Internet), logistics (cold storage trucking), and large distribution systems (supermarkets and superstore marketing) as well as storage facilities (refrigeration and controlled-atmosphere storage) have generally positive correlation with the expansion of trade flows. The role of technological advances, therefore, be given consideration by developing countries in their policy strategies to promote South-South trade. South-South cooperation in this area is taking place and given promising results. This should be intensified.
5. Strengthened financial services for South-South trade are another particular aspect that deserves increased attention. This issue was raised, for example, in The San José Declaration and Plan of Action on South-South Trade, Investment and Finance (San José, Costa Rica, 13-15 January 1997, paragraph 16). Little has been done to operationalize the proposals in this area. The absence of efficient financing not only increases transaction costs for South-South trade, but may also act as an effective barrier to trade if neither of the two Southern parties is able to carry the financing burden. In North-South trade, a range of financial services have sprung up to fill this timing gap between buyer and seller. In contrast, there are very few similar services for South-South trade. While western export credit agencies are able to provide credits and credit insurance for exports to most developing countries, there are only few such agencies in developing countries. Those that exist often are only able to cover exports to developed countries. There are generally no direct links between local banks in developing countries. One or more developed country banks have to intermediate, adding at least one per cent to the costs of trade. Developing countries can do several things to combat the weakness of supporting trade finance infrastructure for South-South trade. Such actions can do much to reduce transaction costs and eliminate barriers to South-South trade. They may merit further discussion at the 2005 South-South Summit. These include the following:

- A concrete practical measure is to set up a network of export credit agencies to create a strong umbrella for South-South trade. UNCTAD is trying to act as a catalyst for such a network.
 - Another is to explore various other ways for governments to promote South-South trade through more efficient payment and credit arrangements, for example, Bilateral Payment Agreements.
 - Yet another is to improve the capacity of the local banking network and of trade-supporting institutions to support South-South trade, for example by using structured finance arrangements including through the supply chain approach.
6. Action group on South-South commodities trade in the International Task Force on Commodities. UNCTAD has long been associated with commodities trade and development. As a direct result of UNCTAD XI, UNCTAD is establishing an International Task Force on Commodities (ITFC) that will provide for a comprehensive and systematic consultative framework on commodities. South-South cooperation should of course play a prominent role in the work of the Task Force. In this regard, an Action Group on South-South Commodities Trade (AGSCT) could be created as part of the Task Force. The Action Group would have a membership that is member States (both commodity-dependent developing countries and interested development partners, especially donors), international organizations, commodity-specific bodies, the private sector, non-governmental organizations and the academic community. Its purpose will be to share information, improve transparency of markets, promote utilization of complementary expertise, identify innovative and practical ways for reducing transaction costs, and come up with specific pilot projects. Possible areas of focus could include regional commodity exchanges as a facilitating mechanism, commodity financing, South-South foreign investment in the commodity sector, and SPS-related cooperation in agricultural commodities, among others.

Conclusion

To conclude, with growing South-South trade in commodities, cooperation among commodity producers becomes important. Requisite steps will need to be taken to enable Southern commodity producers to achieve sustainable management of their commodity production and trade and increase their participation in supply and value chains, including on a regional basis. South-South cooperation could substantially increase returns to producers and assure surpluses for Southern consumers. It can also contribute to turning what is often called a resources curse of commodity into a source of boon on a durable basis. A new geography of trade in commodities is evolving that can set the basis for moving forward with South-South trade. Two practical considerations in this regard include the setting up of a network of export credit agencies of the South and other measures to develop trade-financing infrastructure for South-South trade; and an action group on South-South trade in commodities created under the International Task Force on Commodities.