Evolution of the international trading system and of international trade from a development perspective

Note by the UNCTAD secretariat

Executive summary

The present note reviews recent developments in the international trading system (ITS) of particular relevance to developing countries, especially developments in the post-Doha work programme, as well as various bilateral and regional initiatives, and coherence between these trade agendas in the light of recent trends in international trade. Particular attention is placed on the linkages of trade and trade negotiations with the achievement of the Millennium Development Goals (MDGs) and with the global food crisis.
Introduction

1. Buoyant trade and economic growth worldwide have marked the beginning of the twenty-first century, driven by globalization and growth in productive capacities in many parts of the developing world. A series of global demand and supply shocks has shaken the world economy, which could risk aggravating current uncertainty. Financial crises and a weak dollar have chilled global demand, while the food crisis, and high energy and commodity prices, have seriously affected global supply and poverty. Climate change poses a long-term challenge, while its response measures may constrain trade and production. Jobless growth and unemployment continue as a central preoccupation of policymakers. Migration and remittances have become a salient feature of international trade. With increasing economic uncertainty and the rise of the South, protectionist and anti-globalization sentiments have re-emerged and concerns over adjustment exacerbated.

2. Such evolution of international trade represents tremendous challenges – and opportunities – for developing countries (DCs). They constitute a broader context in which the ITS is evolving today, and thus have implications for the extent to which international trade and the trading system contribute to the achievement of internationally agreed development goals (IADGs), including MDGs. The emergence of the dynamic South notwithstanding, the ITS in itself is not sufficient for addressing comprehensively and effectively such global challenges, even though the successful conclusion of the Doha Round of trade negotiations can make an important contribution. Complementary policies at all levels need to accompany trade negotiations, including policies aimed at greater competitive productive capacity and flanking policies. Coherence across various layers and systems of global economic governance is essential.

I. Trends in international trade

3. Global economic growth continued in 2007, although at a slower pace, amid growing uncertainty. Global output expanded by 3.8 per cent in 2007. DCs recorded a robust growth of 7.3 per cent, as compared to 2.5 per cent for developed countries. After four years of strong performance, estimates for 2008 indicate that the global economy could decelerate. With slower output growth, trade also recorded slower growth. World merchandise exports increased by 14.4 per cent to $13.8 trillion and services exports by 18.1 per cent to $3.3 trillion. DCs’ merchandise exports grew by 15.2 per cent and their share in world merchandise exports increased from 37.3 to 37.5 per cent, while their share in world services exports remained unchanged at 25.4 per cent. Least developed countries’ (LDCs’) merchandise exports grew by 21.2 per cent to increase their share from 0.85 to 0.91 per cent. Their share of world services trade remained constant at 0.5 per cent.

4. The most dynamic growth in merchandise exports among developing regions was recorded in Asia (16.3 per cent), followed by Latin America (12 per cent) and Africa (10.7 per cent). China recorded the export growth of 25.7 per cent, while that of India was 20.3 per cent, that of Brazil 16.6 per cent. Over 2000–2006, ores and metals increased their share in total DC merchandise exports from 4 to 7 per cent, and fuels from 20 to 22 per cent. Owing in part to soaring prices, DC exports of primary commodities grew faster than manufactures, at an average annual rate of 15 per cent, compared to 13 per cent for the latter. In 2006, primary commodities represented 34 per cent of total DC exports, and manufactures 66 per cent.

5. Regarding services exports, Asia accounted for three quarters of DC exports with Latin America and Africa, representing 13 and 10 per cent respectively. Africa experienced the fastest export growth (19.8 per cent), followed by Asia (18.9 per cent) and Latin America (13.0 per cent). LDCs grew by 11.4 per cent annually. In 2006,
LDC exports stood at $14 billion, imports $32.9 billion, with a services trade deficit of $18.9 billion. Travel represented 54 per cent of their services exports. The bulk of DC exports remained concentrated, mostly in Asia, as the top five exporters supplied half of all DC services exports, and the top 15 exporters three quarters. Travel and transport represented two thirds of DC services exports, business; information and communication, and financial and insurance services represented another one third. Countries with economies in transition expanded their exports by 30.5 per cent.

6. In 2006, growing at 22 per cent, South–South trade represented 17 per cent of world merchandise exports, or over 46 per cent of total DC exports. Asia accounted for 85 per cent of South-South exports, while Latin America and Africa represented 10 and 5 per cent respectively; 81.5 per cent of South–South trade was intraregional while interregional South–South trade increased from 17.6 per cent in 2005 to 18.5 per cent. As regards services, estimates indicate some 45 per cent of DC services exports directed to other DCs, representing 11 per cent of world services trade. As in merchandise trade, there is a strong bias towards intraregional exports, which explain 57, 71 and 94 per cent of South–South services trade for Africa, Latin America and Asia respectively.

7. The spike in energy and agricultural commodity prices are twin supply shocks. A global food crisis has emerged with the depletion of cereal stocks and a rapid increase in prices, especially of staples. Wheat, rice and soybeans prices have increased by over 40, 60 and 40 per cent respectively since early 2007. These price increases have repercussions for consumers. The cereal import bill of low-income net-food importing countries doubled in the five years up to 2007–2008, from $6.5 billion to $14.6 billion in Africa, $7.0 billion to $15.4 billion in Asia and $3 billion to $7 billion in Latin America. Food price increases also worsen the balance of trade of net-importing countries. Hunger needs in over 37 DCs, 20 of which are LDCs, require urgent attention.

8. The global food crisis is likely to continue, despite short-term measures, as it is the consequence of deep-rooted, long-term causes – changing demographic and consumers’ patterns, climate change and failures of development strategy. These have led to long-standing disincentives given to agricultural production in many DCs, including (a) consequences of structural adjustment programmes that encouraged fiscal austerity and weakened State-supported extension services, marketing boards and commodity stabilization funds for agricultural commodities and food staples; (b) the neglect of public and private investment in agriculture, including research and development; (c) low agricultural productivity in DCs; (d) supply and demand imbalance, including as a result of drought and floods in food producing countries; and (e) declining food stocks. Agricultural support from developed countries has also contributed to distortion in international markets and weakened the agricultural sector in DCs.

9. These factors have been compounded by recent oil price rise and other factors. High energy prices have made agricultural production more expensive by raising the cost of inputs including fuel, fertilizers, pesticides, seeds and transport costs. The subsidies supporting bio-fuel production in the European Union and the United States have also contributed to rising prices by diverting production away from food. By some estimates, increases in bio-fuels production over 2000–2007 have contributed to 30 per cent of the increase in grain prices. Speculation has had a multiplier effect on price variation as portfolio investment was redirected to commodity markets with

global financial volatility. Recent export taxes and restrictions have provided some relief for domestic consumers but could affect a positive supply response and have implications for net-food importing countries.

10. The global food crisis could reverse much of the progress towards achievement of MDGs, particularly the eradication of extreme poverty and hunger (MDG 1). Reduced availability and consumption of food, along with worsened nutrition, compromises children’s health (MDG 4), education (MDG 2) and maternal health (MDG 5). Enhancing agricultural productivity, including through technology and innovation, can provide a medium- to long-term solution. Attention could also be given to sustainable forms of agriculture, including organic. The effect of the food crisis on poverty is ambiguous. Many rural poor are net producers of agricultural commodities, and benefit from high prices. However, they also spend three quarters of their household expenditure on food. On balance, evidence suggests that even in rural areas, only a small share of the population are net sellers of food, so rising commodity price make the poor worse off. A complicating factor is the labour market. Many farmers sell their labour off-farm, and rising prices may increase the demand for their labour. This positive effect on incomes may outweigh the negative commodity price effect. An empirical assessment is needed to determine the short-, medium- and long-term impacts of the food crisis on the poor and to identify solutions.

11. Another facet of global supply shock is high fuel prices. From early 2007, the spot price of crude oil rose from $50 to above $140 in June 2008. The price continues to be driven by increasing demand with fixed or declining supply. However, these variations have been limited, as global production of crude oil declined by only 0.2 per cent in 2007, while global consumption increased by only 1.1 per cent in 2007. Such relatively small variations are not commensurate with the magnitude of shocks. The latest data indicate that the rising price of oil and energy is beginning to reduce global consumption. In 2007, consumption by Organization for Economic Cooperation and Development (OECD) countries fell by 0.9 per cent due to changing consumption patterns, including enhanced conservation, efficiency and the increased use of alternative renewable fuels.

12. On the demand side, the financial crisis continues to have a major dampening effect. Since the subprime crisis emerged, cumulative losses are estimated at over $400 billion, and an International Monetary Fund (IMF) estimate suggests that worldwide losses could exceed $900 billion. The crisis has substantially reduced liquidity in global credit markets and reduced investment worldwide. Furthermore, depreciation of the dollar and the United States economic slowdown had substantially decreased global import demand. Together with growing inflationary pressure, there is increasing concern over global economic downturn and stagflation.

13. Climate change and its response policies and measures, undertaken unilaterally or through multilateral commitments such as on greenhouse gas emission abatement under the Kyoto Protocol, could have significant trade and development impact in the medium and long term. Various environmental standards are elaborated autonomously based on carbon intensity, carbon emission and energy efficiency of goods and services. While promoting climate-friendly products and technology, such standards could incur higher adjustment costs for DCs that have traditionally relied on emission intensive production. Trade policy instruments may play a role in addressing concerns about competitiveness, through the use of carbon border taxes on imports from countries without commitments, although the WTO compatibility of such measures is yet to be ascertained. Much concern centers on the relocation of emission intensive industries. To some extent, emission reduction in Kyoto Protocol annex I countries (with commitments) will be offset by increased emissions in non-annex I countries (without commitments). This leakage is estimated to be 5–20 per cent, depending on the required cuts.
14. Without concerted governmental action, private standards have evolved to encourage consumers to purchase goods, mainly food, with supposedly low environmental cost, such as carbon labelling schemes and “food miles”. The last encourages consumers to purchase locally produced products. The concept focuses on one input (carbon) and highlights the role of transport as opposed to other production costs. Since transportation represents a significant proportion of costs for DCs, it can have disproportionate effects on their exports.

15. **Migration** contributes to fostering trade, investment and development links between countries of origin and destination. Around 200 million people live and work outside their country of origin, and global flows of remittance reached $318 billion in 2007. Large welfare gains are expected from easing labour mobility worldwide, bringing associated economic and social benefits for both sending and receiving countries. For sending countries, such benefits include increased remittances, which provide sources of development finance, human capital, skill improvements, knowledge transfers and gender empowerment. For receiving countries, supply-demand matching – particularly in health and information and communication technology (ICT)-related sectors – is a major benefit. Migration provides an indispensable human and skill-development dimension to international trade. Possible “brain drain” and skilled-labour scarcity, especially in health and education, may represent costs for sending countries, while receiving countries’ concern lies in possible job loss and downward wage pressures for the locals. The challenge remains to maximize net benefits for both sending and receiving countries, through “co-development” partnership at bilateral, regional and global levels. Channeling remittances into public and productive investment, and ensuring circular migration, is important.

**II. Evolution in the multilateral trading system**

16. The Accra Accord adopted at UNCTAD XII in April called upon all World Trade Organization (WTO) members to uphold and reiterate their commitment to promote a well-functioning, rules-based, open, equitable, predictable and non-discriminatory multilateral trading system (MTS) that promotes development. In this regard, it also called upon WTO members to demonstrate their shared interest in and the political will to achieve the successful completion of the WTO Doha Round of negotiations and the full realization of its core agenda.

17. The Doha Round has been underway since 2001 and entered its seventh year. Negotiations are expected to conclude by the end of 2008. The political situations in major countries are expected to render negotiations more complex in 2009. Focus has been given to establishing full modalities for reduction commitments in agriculture and non-agricultural market access (NAMA), and achieving a commensurate level of progress in other areas of negotiations, so as to proceed to horizontal negotiations of the entire Doha Round package under a single undertaking. Following the first draft modalities on agriculture and NAMA issued in July 2007, revised texts on both subjects were issued in February 2008 with further revision in May and July. The revised texts were largely seen as representing incremental progress in the case of agriculture, but divergences were persistent among countries on NAMA. A ministerial meeting of 35 to 40 countries was scheduled for 21–26 July, with the aim of establishing the modalities in agriculture and NAMA, regarded as the gateway to the final phase of the negotiations towards the Round’s conclusion by the end of the year.
A. Agriculture

18. The Doha Round, it has been argued, would provide medium- to long-term solutions to the food crisis by tackling the systemic distortions in the international food market and therefore the crisis would add to the urgency to conclude the Round. Domestic support and export subsidies in developed countries, for example, have contributed to weakening the agricultural sector in DCs and they are addressed in the negotiations. However, the effects of a successful round – with the growth in global production estimated at -2 to 2 per cent depending on sectors – may be small compared with the magnitude of recent price increases. Since negotiations concern bound ceilings often well above actual current expenditures, it is unlikely that domestic support would be significantly reduced in practice. In DCs, negotiated tariff cuts could have limited impact on domestic prices given their tariff overhang. Others argue that an agreement would worsen such a crisis because, for example, continuing liberalization would increase the dependency of poor countries on food imports; they stress the need for adequate flexibilities in liberalization commitments. Nevertheless, an incremental process of removing market distortions, as represented by a successful Doha Round, would be a positive step.

19. The July revised modalities text is widely welcomed although some elements remained unresolved. The two central issues pertain to the extent of reduction in the overall trade-distorting domestic support (OTDS) in major developed countries, including the United States, and the extent of cuts in high tariffs in developed countries, including the European Union. These key issues are understood to be for political decision. The other unresolved issues are mainly in the market access area (e.g. sensitive products, special products (SPs), special safeguard mechanism (SSM), preference erosion and tropical products) and some lingering concerns remain over domestic support.

20. On market access, WTO members had already agreed on a tariff reduction formula that classifies tariffs into four bands and applies larger cuts for higher tariffs. DCs would undertake a two-thirds cut for developed countries in the corresponding band, although the thresholds for their tariff bands are different. The revised text contains specific figures, rather than ranges of possibilities, for cuts in the three lower tariff bands. Cuts for the highest band remain unresolved, with the proposed range being 66–73 per cent for developed countries. Some elements of “tariff cap” have been introduced.

21. The minimum average cut of developed countries of 54 per cent, and the maximum average cut for DCs of 36 per cent, appears to have been agreed. The developed country average reduction is inclusive of lower cuts for sensitive products and higher cuts relating to tariff escalation and tropical products (table 1). Sensitive products have a significant impact on the new average tariff, which is considerably higher than without sensitive products, since most sensitive products would be those with higher initial tariffs. For example, European Union average tariffs are reduced from 22 to 8 per cent under the formula reductions, but only to 12 per cent with sensitive products. The deeper tariff cuts in tropical products reduce the final average tariff only marginally to 11 per cent, but are sufficient to raise the average cut, as opposed to the average tariff, well above the required 54 per cent. This occurs because the initial tariffs on tropical products tend to be lower than on sensitive products.

Table 1. Tariff cuts in developed countries

<table>
<thead>
<tr>
<th></th>
<th>Without sensitive and tropical products</th>
<th>With 5% sensitive products</th>
<th>With 5% sensitive products and tropical products</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Initial bound</td>
<td>New bound</td>
<td>Average cut</td>
</tr>
<tr>
<td>European Union</td>
<td>21.6</td>
<td>8.2</td>
<td>54</td>
</tr>
<tr>
<td>United States</td>
<td>6.2</td>
<td>2.7</td>
<td>51</td>
</tr>
<tr>
<td>Japan</td>
<td>31.3</td>
<td>10.6</td>
<td>54</td>
</tr>
<tr>
<td>Canada</td>
<td>15.4</td>
<td>5.4</td>
<td>53</td>
</tr>
</tbody>
</table>

22. For the 48 small and vulnerable economies (SVEs), the required average cut in bound rates is 24 per cent with no minimum cut. This is significant, as many SVEs would otherwise undertake higher average cuts due to their high initial tariff levels. LDCs are exempted from reduction commitments, but some may be affected in cases where they have a common external tariff with non-LDCs, including in the South African Customs Union (SACU).

23. Exceptions to the formula influence the overall level of ambition. All countries are entitled to designate a certain percentage of tariff lines as sensitive products for which the tariff cuts could be reduced to one third, one half or two thirds of the normal formula cuts if the relevant tariff rate quota (TRQ) is increased. The maximum number of sensitive products remains unresolved, 4–6 per cent. DCs would have an additional entitlement of one third. While sensitive products can undermine potential welfare gains, TRQ expansion is important in compensating for the loss. Agricultural exporters are therefore keenly interested in the details of TRQ expansion.

24. The methodology to determine the TRQ expansion at the disaggregated tariff line level has proved to be complex, since it is based on domestic consumption and such data is usually available only at higher aggregated levels. DC exporters are mainly interested in unprocessed products and are concerned that disproportionate amounts of expanded TRQ would be allocated to processed products. For DCs that do not have such TRQ arrangements, it is undetermined whether they can create new TRQs. Alternatively, they can opt for sensitive products for a shorter implementation period and a reduced cut of three quarters of the normal cuts.

25. DCs are entitled to SPs which can be designated guided by indicators based on the criteria of food security, livelihood security and rural development. This provision is particularly relevant given the current food crisis. The two unresolved issues are the number of SPs and those that would be fully exempt from any cuts. The July text incorporates two views of SPs within a single, two-tiered structure. The number is proposed to be 10–18 per cent of agricultural tariff lines. The latter includes the possibility to designate some of these (below 10–18 per cent) without linking them to the indicators. This is useful as only 7 of the proposed 24 sub-indicators are readily available. Either 6 per cent or none of the products could be exempt from cuts. In any case, the overall average cut should be 10–14 per cent. Critics of SPs argue that this mechanism would undermine the market access improvement, while proponents consider it important in encouraging domestic production.

26. DCs have competing interests over the issues of preference erosion and tropical products. Those with preferential access to developed countries seek to postpone tariff reductions in preference-granting countries. The tropical product proponents seek deeper tariff cuts for those products. The products concerned include
bananas, cut flowers, tobacco and sugar. Two thirds of the preference erosion products overlap with the tropical products. If tariffs of those overlapping products are drastically reduced as tropical products, there could be a severe impact on African, Caribbean and Pacific Group of Countries (ACP) exports. In some ACP countries, exports of those products to the European Union, for instance, contribute over 50 per cent to their agricultural exports. For many Latin American countries, gains would arise from improved most favoured nation (MFN) access for the same products.

27. The proposed SSM is another unresolved issue of importance to DCs. It allows DCs to temporarily increase tariffs in response to an import surge or sudden fall in import prices. A key question is whether remedial tariffs can exceed pre-Doha bound rates. For the case of an import surge, the proposed mechanism allows applying a different amount of remedial duties according to the level of import surges within the ceiling limits of the pre-Doha bound rates. There is no limit on the number of products eligible for the SSM. It is yet to be agreed on whether, and to what extent, DCs are allowed to increase tariffs above pre-Doha bound rates. The July text suggests that DCs would be entitled to increase rates up to the higher of 15 percentage points or 15 per cent of the post-Doha bound rates only for two to six products in any given period (table 2).

### Table 2. Examples of SSM

<table>
<thead>
<tr>
<th>Import surge (% of base imports)</th>
<th>Pre-Doha bound</th>
<th>Post-Doha bound</th>
<th>Additional duties*</th>
<th>Max duties</th>
</tr>
</thead>
<tbody>
<tr>
<td>112</td>
<td>20</td>
<td>13.3</td>
<td>25</td>
<td>35</td>
</tr>
<tr>
<td>112</td>
<td>150</td>
<td>80</td>
<td>25</td>
<td>105</td>
</tr>
<tr>
<td>150</td>
<td>20</td>
<td>13.3</td>
<td>50</td>
<td>35</td>
</tr>
<tr>
<td>150</td>
<td>150</td>
<td>80</td>
<td>50</td>
<td>130</td>
</tr>
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Note: *The higher of the percentage of the applied rates or percentage points. Applied rates are assumed to equal bound rates.

28. Tariff escalation, where tariffs become higher depending on the stage of processing, discourages DC exports of processed products. For example, Africa’s exports of cocoa beans to the European Union, where tariff escalation exists, are about $2 billion annually, whereas exports of cocoa butter are $0.2 billion and cocoa powder only $0.02 billion. For a limited number of products, the draft modalities provide a specific formula that would cut higher tariffs on processed products by a higher percentage.

29. On the OTDS, ranges of proposed cuts remain unchanged – 75–85 per cent for the European Union and 66–73 per cent for the United States and Japan – and will be left for a political decision. The central issue is the new ceiling level for the United States, including given the recently approved United States Farm Bill (see box). The lowest proposed ceiling level for United States OTDS ($13 billion) is above its assumed current spending which is at a low due to high commodity prices. The European Union would have to undertake the highest cuts in its OTDS. On “green box” support, the text provides for clearer dissociation of direct payments from production by fixing the historical base period so as not to create an incentive for
producers to expand production. The text allows for an updating of the base only if it does not alter producer expectations of future entitlements.

The United States Farm Bill

The 2007 Farm Bill is similar to the 2002 bill. It retains much of the domestic support provided to producers. Current support subject to reduction commitment, $13 billion in 2005, is well below the aggregate measurement of support (AMS) binding commitment of $19.1 billion. The bill allows for some $300 billion in support over five years. The sugar market continues to be insulated from world markets. Loan rates for raw cane sugar and refined beet sugar are increased with the effect of maintaining domestic sugar production in the face of growing imports under free trade agreements (FTAs). The bill also assists cotton producers through assistance to users of cotton and provides for a payment of 4 cents per pound of cotton used, whether domestic or imported. Because imports of cotton are low, this payment would primarily go to users of domestic upland cotton.

30. Positive developments regarding domestic support are the establishment of product-specific limits and the encompassing of all trade-distorting elements into one OTDS commitment. However, a relatively high base is set for reductions and the product-specific limits are caps rather than reductions. Thus, the current provisions improve the structure of commitments for future rounds but would not lead to substantial changes in domestic support currently provided.

31. The four West African proponents of the cotton initiative are concerned over a lack of responses for their proposals. They have proposed the elimination of all trade-distorting cotton subsidies and financial compensation until these subsidies are completely removed. The major issue is the treatment of domestic support on cotton. The continued volatility and relative low price of cotton indicates continued importance of cotton issues.

32. On export prohibitions and restrictions, the July text provides that existing export prohibitions and restrictions be eliminated at the first year of implementation and any new export prohibitions or restrictions not normally exceed 12 months. This could restrict the flexibility for countries to prevent or relieve critical shortages of foodstuffs.

33. It was agreed at the Hong Kong (China) Ministerial Conference that all forms of export subsidies be eliminated by 2013. On export credits, some suggest extending the maximum repayment term for net food-importing countries. On food aid, disciplines seek to prevent commercial displacement. An outstanding issue is whether it is allowed to sell food aid to finance certain activities such as transportation of aid. Concern is that such “monetization” could have adverse effects on local markets while aid recipients emphasize the importance of monetization in certain specific circumstances.

B. NAMA

34. Tariff protection for non-agricultural products is generally low in developed countries, despite tariff peaks and high tariffs in some sectors, including textile and clothing.Tariffs are generally higher in DCs but, owing mainly to unilateral liberalization, applied rates are often lower than bound rates, leaving tariff overhang between the two. Given that manufactures represent two thirds of imports, DCs are concerned over abrupt opening of their industrial sectors to international competition to risk causing de-industrialization and labour displacement, government revenue loss or lesser flexibility in tariff policies.
35. Despite some progress, the revised draft NAMA modalities were controversial. At the source of the contention was the question of whether the proposed modalities fully met the agreed principles of “less than full reciprocity” and “comparably high level of ambition in market access” between agriculture and NAMA. DCs applying the formula would make higher average cuts in bound tariffs than developed countries, even though they would maintain applied tariffs higher than developed countries after the formula cuts. DCs pointed to the lack of a tariff cap even at the level of 100–150 per cent in the agriculture negotiations in support of higher coefficients. The current NAMA proposal would effectively cap their tariffs at the level of 19–26 per cent. Possible average tariff cuts of around 60 per cent for DCs and 30 per cent for developed countries compare with proposed target maximum/minimum cuts in agricultural tariffs of 54 per cent for developed countries and 36 for DCs. Developed countries remained concerned that the proposed cuts would not generate real market access in DCs.

36. The draft modalities link the Swiss formula coefficients with differing degrees of flexibilities, thereby establishing tradeoffs between the two. Thus, DCs opting for a higher coefficient would apply lower or no flexibilities in attenuating formula cuts. DCs find that such a linkage is contrary to the Doha mandate and ignores their sensitivities. Developed countries have questioned the increased flexibilities as it may exclude substantial proportion of sensitive products. The so-called “sliding scale” approach also makes it difficult to ascertain a priori each country’s “contribution”. Table 3 shows that DCs in general would undertake greater cuts in bound tariffs than developed countries, and that a coefficient of 19 with flexibilities would induce greater tariff cuts for DCs than a coefficient of 26 without flexibilities.

Table 3. NAMA tariff cuts

<table>
<thead>
<tr>
<th></th>
<th>Initial bound</th>
<th>New bound</th>
<th>Average cuts</th>
<th>New bound</th>
<th>Average cuts</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Coefficient 26</td>
<td></td>
<td>Coefficient 19 with flexibility</td>
</tr>
<tr>
<td>Argentina</td>
<td>31.9</td>
<td>14.1</td>
<td>54.4</td>
<td>13.0</td>
<td>58.2</td>
</tr>
<tr>
<td>Brazil</td>
<td>30.8</td>
<td>13.9</td>
<td>53.4</td>
<td>13.0</td>
<td>56.7</td>
</tr>
<tr>
<td>China</td>
<td>9.1</td>
<td>6.2</td>
<td>24.0</td>
<td>6.4</td>
<td>26.3</td>
</tr>
<tr>
<td>India</td>
<td>38.6</td>
<td>15.0</td>
<td>57.8</td>
<td>14.2</td>
<td>60.5</td>
</tr>
<tr>
<td>South Africa</td>
<td>16.7</td>
<td>8.9</td>
<td>34.3</td>
<td>9.2</td>
<td>36.5</td>
</tr>
<tr>
<td>Coefficient 8</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Canada</td>
<td>5.4</td>
<td>2.6</td>
<td>32.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>European Union</td>
<td>4.0</td>
<td>2.2</td>
<td>27.4</td>
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<tr>
<td>Japan</td>
<td>2.9</td>
<td>1.3</td>
<td>16.6</td>
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<tr>
<td>United States</td>
<td>3.3</td>
<td>1.7</td>
<td>21.7</td>
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37. DCs are concerned over the so-called “anti-concentration” mechanism that would preempt excluding the entire product categories from formula cut through the use of flexibilities, as it would render the flexibilities overly stringent. Recently, greater emphasis has been given to sectoral negotiations, as the general level of ambition remains unresolved. The July text introduced draft sectoral modalities for 12 proposed sectors. Also contentious is a linkage between participation in the sectoral initiatives and coefficients. The July text provides that for some countries, the sectoral initiatives would help to balance the overall results of the NAMA negotiations, which
includes coefficients and the levels of flexibilities for DCs, even though the participation in the sectoral initiatives would be on a voluntary basis.

38. The May draft introduced a slightly lower coefficient for developed countries – 7–9 instead of 8–9. Since developed countries already maintain low tariffs, the lower coefficient would have negligible impact, except possibly a few sectors.

39. Some members of customs unions have sought greater flexibilities, for instance, in the form of additional coefficients, to avoid steeper tariff cuts being applied by one member from inducing the same deep cuts for other members that otherwise would not be required (e.g. LDCs). The revised modalities provide for special flexibilities for SACU and the Southern Common Market (MERCOSUR).

40. A change is introduced for the 12 DCs with low binding coverage, which were previously called upon to bind at 28.5 per cent for 70–90 per cent of tariff lines. The July text proposes two different levels of final binding coverage depending on their initial binding coverage. The formula applicable to 33 SVEs is based on binding at average tariffs according to the initial average bound rates, classified into four bands, each having different final target average rates (except the lowest band where minimum line-by-line cuts would apply).

41. A notable feature of DC flexibilities is that they seek to address special circumstances of individual DCs collectively and individually. Apart from LDCs, SVEs and DCs with low tariff binding, it is proposed that the Bolivarian Republic of Venezuela, Bolivia, Fiji and Gabon be subject to some specific flexibilities to address their individual needs. Eighteen recently-acceded members are provided with different treatment depending on their individual status, and only four of them apply the formula.

42. For preference-dependent countries, the tariff reductions in their export markets are another concern. The ACP and LDCs in particular benefit in those sectors where tariffs are high but would be reduced most according to the harmonizing tariff cutting formula, such as textiles and clothing, and fish. Such products would face even more severe preferences erosion if they were included in a sectoral initiative that aimed to eliminate or harmonize tariffs in the sector beyond formula. Proposals for sectoral initiatives include fish and fish products, textiles and clothing, and footwear. The draft modalities contain lists of preference erosion products (for European Union and United States markets), for which longer implementation periods are proposed. Recognizing the concern over preference erosion, the draft sectoral modalities on fish and fish products provide that the sectoral liberalization would start after the completion of longer implementation period for preference erosion products.

43. Addressing non-tariff barriers (NTBs) remains important for DCs, as they tend to face higher NTBs than developed countries. Market access alone is not sufficient to realize the export opportunities resulting from the Doha Round and effective market entry for DC exports. The July text lists seven specific “horizontal” and “vertical” NTB proposals, including on the facilitation of dispute resolution for NTBs, which would be given particular attention. The list does not refer to that on export taxes.

C. Duty-free and quota-free market access for LDCs

44. The DFQF market access decision agreed at Hong Kong (China) remains a key issue for LDCs. The decision referred to the granting of at least 97 per cent coverage by 2008 or the start of the Doha implementation period, with the remaining 3 per cent to be progressively liberalized. The issue remains of how to progressively achieve 100 per cent coverage, by when, and how to ensure that rules of origin are “transparent and simple”. 3 per cent of tariff lines could affect a significant proportion of LDC exports.
In agriculture and NAMA negotiations, LDCs have sought to clarify the timeframe and procedures for achieving these goals and monitoring the implementation, including of rules of origin.

45. Many developed countries had already met 97 per cent coverage in 2005 while others had yet to do so. Major improvements were reported in Japan and Switzerland, which recently expanded their product coverage for DFQF treatment to meet the 97 per cent threshold. Furthermore, India and China have taken major steps to improve market access for LDCs. LDCs had tabled a proposal on rules of origin calling for the use of harmonized rules based on value addition methods. The NAMA modalities urge countries to use this proposed model. Ongoing reforms of rules of origin such as in the European Union are expected to address some of the LDCs’ concerns. LDCs have stressed the need for adapting rules of origin to LDCs’ production and export profiles.

D. Services

46. The contributions of services to national economies is significant across countries, as they represent 52 per cent of gross domestic product (GDP) and 35 per cent of employment in DCs, as compared to 72 per cent and 70 per cent in developed countries. Services are important in diversifying production, building infrastructure, improving competitiveness and facilitating trade. DCs have potential in tourism, transport, construction, business services and temporary movement of natural persons (mode 4) and cross-border supply (mode 1). Realizing gains from liberalization requires appropriate design, pacing and sequencing of national policies and reform, including for supply capacity-building and institutional and regulatory frameworks.

47. Services can contribute to eradicating poverty (MDG 1) by offering employment and income generation for low-skilled labour. Exports through mode 4 can help enhance skills and generate remittances which serve for investment in productive capacities and social services. Universal access to education, health, water and environmental services is essential for achieving MDGs related to universal primary education (MDG 2), child mortality (MDG 4), maternal health (MDG 5) and safe drinking water (MDG 7). Governments play an important role as regulator and as service providers. The role of women in the supply and consumption of services implies the sector’s relevance to gender empowerment (MDG 3).

48. In services negotiations, 71 initial and 31 revised offers have been submitted. It is felt that the quality of offers needs to be improved in terms of the depth and width of commitments consistent with the development objectives of General Agreement on Trade in Services (GATS) articles IV and XIX. Since 2006, plurilateral negotiations are conducted in addition to the bilateral negotiations. Twenty-one plurilateral requests addressed key sectors, all modes of supply and MFN exemptions. A “signaling conference” is scheduled during the July ministerial meeting, where developed countries and some DCs would indicate their possible offers in response to bilateral and plurilateral requests.

49. The text “Elements required for completing the services negotiations” has been under discussion to set out guidelines for the services market access negotiations, and to establish balance with market access in agriculture and NAMA. The draft texts were issued in May and July. Many DCs initially opposed such an approach, as the negotiating guidelines already existed (including negotiating guidelines adopted in 2001 and annex C of the Hong Kong (China) Ministerial Declaration).

50. The controversial issues included the proposals (a) to establish parallelism in ambition for services, agriculture and NAMA; (b) for new commitments to “substantially reflect current levels of market access and national treatment”; and (c) to provide “new market access where market impediments remain”. The proposal to
start negotiations based on existing openness had already been rejected by many DCs when developing the negotiating guidelines. The text made no reference to some elements contained in the guidelines, including the mandated assessment of trade in services and evaluation of the results of the negotiations to gauge the extent to which article IV was being implemented, and to suggest ways and means of promoting the goals established therein, as well as an evaluation, before the completion of the negotiations, of the results attained in terms of the objectives of article IV.

51. A revised July text provides that WTO members, to the maximum extent possible, respond to bilateral and plurilateral requests by making deeper and/or wider commitments, including, where possible, reflecting substantially current levels of market access and national treatment, and providing new market access and national treatment, in areas where significant impediments exist, particularly sectors and modes of export interest to DCs such as modes 1 and 4. Such commitments should be commensurate with the level of development, regulatory capacity and national policy objectives of individual countries. The dates for submission of revised offers are set for 15 October, and that for the final draft schedules for 1 December.

52. DCs continue to seek commercially meaningful mode 4 commitments where gains are estimated at $150 billion–250 billion, especially from movement of low-skilled workers. To date, improvements in revised offers have been limited. Developed countries’ improvements mainly addressed high-skilled movements and those tied to mode 3 such as intra-corporate transferees and business visitors. DCs have called for commercially meaningful commitments, including the inclusion of categories delinked from mode 3, eliminating quotas, economic needs tests and wage parity requirements, ensuring transparency on immigration laws and flexible qualification requirements (e.g. accepting competence and experience instead of formal degrees).

53. The LDC modalities remain to be implemented, especially regarding the proposed mechanism for granting special priority through predictable and enforceable preferential access for LDCs and the LDCs’ mode 4 request. The July text provides that a waiver available to all WTO members from MFN obligations in respect of preferential treatment benefiting all LDC members offers the more satisfactory outcome and that specific principles and characteristics of such a waiver would be completed before the submission of revised offer.

54. Under GATS article VI:4, disciplines on domestic regulation are being negotiated to ensure that qualification requirements, technical standards and licensing requirements do not constitute unnecessary barriers to trade in services. The main challenges remain striking a balance between the need for national regulatory autonomy and international disciplines to eliminate unjustifiable market access barriers particularly for mode 4. DCs have emphasized the importance of flexibility for development policies and the right to regulate.

55. Outstanding issues include definition of “disguised restrictions” on services, “national policy objectives” and “international standards”. Capacity-building for DCs – including for facilitating their exporters’ meeting technical standards and qualifications and development flexibilities, particularly for LDCs – would require further discussion. The so-called “necessity test” directly affects the balance between market access and the right to regulate. While some see the notion as central to meaningful disciplines, others consider it as an excessive constraint on Governments’ regulatory discretion. The revised text avoids the reference to “necessity” but uses a similar formulation by requiring, for instance, that license and qualification procedures “do not in themselves constitute a restriction on the supply of services”. Little progress has been achieved on negotiations on GATS rules.
E. Other issues

56. Special and differential treatment (SDT) and implementation issues remain essential to the Doha Round’s development dimension, addressing imbalance in the MTS. The initial 88 agreement-specific SDT proposals have seen little progress in making them more precise, effective and operational, with progress made on only five LDC-specific proposals, including DFQF market access for LDCs. Discussions were held on 7 of the 16 remaining SDT proposals, relating to import licensing, sanitary and phytosanitary (SPS) standards and the General Agreement on Tariffs and Trade (GATT) article XVIII. On implementation issues, no significant progress has been reported, while some issues are discussed under the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).

57. On rules, the Chair’s text on anti-dumping and subsidies, including fishery subsidies, issued in November 2007, was controversial particularly on “zeroing” – a method of calculating dumping margin which many participants feel tends to inflate dumping margins. The draft omitted reference to the so-called “lesser duty rule”. Positions differ between major user of anti-dumping measures and those targeted by such measures.

58. On fishery subsidies, various subsidies are proposed for prohibition, including capacity-enhancing subsidies, operating cost subsidies (including fuels), infrastructure subsidies, income and price support, access rights transfer and subsidies for “illegal, unreported and unregulated fishing”. Exempted generally from the prohibition include capacity-reducing subsidies such as decommissioning of vessels. LDCs are generally exempted from the prohibition. DCs are entitled to certain subsidies, including for artisanal fishery and small-scale fishing vessels. Certain SDT provisions are conditioned upon the adoption of fishery management system.

59. Regarding TRIPS, discussions continue on the triple issues of the multilateral system of geographical indication notification and registration for wines and spirits, extension of stronger geographical indication protection for all products, and the relationship between TRIPS and the Convention on Biological Diversity (CBD), with the latter two being also “implementation” issues. Recently, proponents have called for “parallelism” for the three issues in the context of the horizontal negotiations, and for initiation of negotiations for the geographical indication extension, and for an inclusion in the TRIPS Agreement of a mandatory requirement for the disclosure of origin of biological resources and/or associated traditional knowledge in patent applications.

60. DCs continue to seek, under trade facilitation negotiations, an implementation mechanism which would link implementation capacity, provision of capacity-building support and the timing and level at which DCs would enter into commitments. A group of DCs and developed countries have proposed an implementation mechanism whereby DCs would categorize commitments for immediate implementation, implementation subject to pre-determined transition periods, and implementation subject to the provision of capacity-building support and capacity acquisition. Also debated are negative and positive list scheduling and “best endeavour” commitments.

61. Effective implementation of Aid for Trade, with adequate funding, remains a key concern to DCs. Following global and regional reviews conducted in 2007, the 2008 Aid for Trade road map emphasizes moving the process to action, through increased DC ownership, monitoring and implementation. Following a successful pledging conference in 2007, the Enhanced Integrated Framework is not yet fully operational.
III. Evolution in regional trading arrangements

62. RTAs continued to proliferate, with greater developmental and systemic implications. By 2007, 385 RTAs were notified to WTO, 197 of which were in force. The recent proliferation is largely attributable to bilateral agreements. The United States has intensified its bilateral approach under the Trade Promotion Authority 2002 and concluded 11 RTAs, including with the Republic of Korea, its largest FTA after the North American Free Trade Agreement (NAFTA). The recent European Union New Strategy redirected its attention to non-traditional partners in Asia and Latin America. Recent RTAs have intensified their deepening of behind-the-border coverage – including competition, investment and government procurement, which have been dropped from the Doha Round – while leaving unaddressed other issues of systemic implications, such as agricultural subsidies. Increased involvement of DCs in RTAs implies a greater relevance of the development dimension of RTAs, including regulatory and institutional cooperation and development assistance.

63. Six ACP regions and the European Union had been negotiating Economic Partnership Agreements (EPAs) that would serve as instrument for sustainable development, poverty eradication and regional integration. This is the first year since the expiration of a WTO waiver authorizing the European Union’s Cotonou preferences, and has seen the conclusion of full and interim EPAs. Thirty-five ACP countries initialed agreements, including one full EPA by the Caribbean region. Preserving existing market access conditions was among their major motivations, as many of them rely heavily on exports vulnerable to the loss of Cotonou preferences, including beef, sugar and bananas.

64. Interim EPAs normally provide progressive liberalization of about 80 per cent of imports and products over 15–25 years in ACP States. This largely reflects the parties’ interpretation of “substantially all the trade” requirement of GATT article XXIV, while there is no agreed definition of the term. The ACP has long called for reforming the parameters of that article to allow a lesser degree of market opening over longer periods. A third-party MFN clause under EPA has raised concern over its possible dissuasive effects for South–South RTAs. Brazil has questioned in WTO its compatibility with the spirit of the enabling clause.

65. Full EPAs are yet to be negotiated for most regions in 2008/09. This timeline, together with the complexity of issues, highlights capacity constraints, particularly of African ACP countries. Full EPAs would provide for a comprehensive coverage, encompassing services, e-commerce, investment, competition, government procurement, intellectual property rights and personal data protection. The services provisions are likely to entail deeper commitments, including liberalization of investment in non-services sectors. Turning existing bilateral and subregional interim EPAs into full regional EPAs in a manner that genuinely promotes regional integration process would be a major challenge.

IV. Conclusion

66. World economy and the ITS stand at a critical stage for DCs’ trade and development, and for the achievement of IADGs, including MDGs. Halfway to the 2015 goal of achieving MDGs, current global economic realities – looming economic slowdown, financial crisis, food crisis and high energy and commodity prices, climate change and migration – pose challenges to development prospects of DCs, as well as to the ITS. The successful Doha Round can make an important contribution in this connection. As provided in the Accra Accord, therefore, it is essential that all WTO members uphold and reiterate their commitment within WTO to promote a well-functioning, rules-based, open, equitable, predictable and non-discriminatory MTS that promotes development.
67. The emergence of the dynamic South within the new geography of trade calls for a corresponding adaptation of the international trading system. A number of DCs have emerged as regional and global dynamos in production and trade, having successfully moved away from production based on natural resources and labour to that based on capital and technology, and become global demand poles. While such developments have caused some uneasiness in some parts of the world, the dynamic South represents tremendous opportunities for the world economy. It has also given rise to unprecedented potential for South–South institutions and cooperation to boost South–South trade, investment and economic cooperation. Such an evolution has significantly altered the dynamics of international trade and the trading system, which calls for an adaptation of mindsets, policies and the trading system, as well as of broader economic governance systems, to better reflect the evolving realities.

68. With the multilateral process moving slowly, bilateral FTAs and RTAs continue to proliferate, which risks fragmentation of the ITS. RTAs have intensified their deepening of behind-the-border coverage. This has resulted in flexibilities and SDT for DCs available under the MTS being overridden to a significant extent under RTAs. RTAs involving low-income countries have emerged as new phenomena. Furthermore, the emerging and larger DCs in Asia and elsewhere are increasingly involved in forging RTAs with developed countries. While RTAs can generate gains, they also entail inherent systemic implications for the MTS. Furthermore, DCs with limited bargaining power may not be able to achieve the benefits potentially available from a fully-functioning MTS.

69. It may be recognized that, despite the significant contributions they make, trade agreements alone are not sufficient in comprehensively and effectively responding to deep-rooted, far-reaching global challenges affecting real economies and human needs. Trade policy and the trading system must operate within a broader system of global economic governance. Greater coherence across different layers and systems of global economic governance – at national, regional and global levels, as well as encompassing development, trade, investment, finance, monetary policy and technology – is thus essential. The development dimension needs to be anchored in all its components.

70. In this context, innovative national, regional and global cooperative mechanisms, building upon “out-of-box” development vision and solidarity, need to be explored, particularly in energy and food security. Governments can play prominent roles in taking proactive policies as an enabling State. South–South, North–South and North–North regional, and global, intergovernmental cooperation could play an important role. Such intergovernmental cooperation could engage non-State actors, especially corporate sectors, including in addressing market distortion and anticompetitive practices to promote accountability of corporate actors to enable DC producers and consumers to take advantage of trade liberalization.

71. Careful reflection may be warranted on the ways and means in which the MTS operates. With WTO membership reaching 153, agreement seems to require more than ever taking into full account of their diverse interests and priorities. Widening diversity of membership, including among DCs, adds further complexity in the overall calculation of balance in the negotiations. It is also necessary to ensure greater inclusiveness and transparency in a bottom-up and member-driven approach to the negotiations. Despite such challenges, the MTS continues to be a central pillar of the ITS, and plays an important role in furthering the interest of DCs. Conclusion of the Round, with development-oriented balanced outcomes, combined with ambitious Aid for Trade, is a necessary contribution to achieving the MDGs.