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**Assuring Development Gains from the International Trading
System and Trade Negotiations**

Background note by the UNCTAD secretariat

Executive summary

The present note draws on the results of intergovernmental discussions in the Trade and Development Board and its subsidiary bodies since UNCTAD X, as well as on analyses by the UNCTAD secretariat. Its main objective is to facilitate the thematic session's discussion of *Assuring development gains from the international trading system and trade negotiations* within the conference theme of *Enhancing coherence between national development strategies and global economic processes towards economic growth and development, particularly of developing countries*. These discussions could explore policy approaches and UNCTAD's contribution to achieving the Millennium Development Goals, including the commitment "to an open, equitable, rule-based, predictable, and non-discriminatory multilateral trading and financial system". The fundamental challenge is to make the international trading system ensure commercially meaningful and measurable development gains for developing countries from international trade and trade negotiations.

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I. Development Gains for All

1. International trade is recognized as an important engine of growth in the world economy and globalization. The key challenge is to maximize the potential of trade in goods, services and commodities for developing countries so as to enable them to achieve sustainable growth, development and poverty reduction. Increasing and predictable earnings from trade can substantially relieve foreign exchange constraints facing developing countries, reduce dependence on foreign aid, and lessen external debt burdens. Improved trade performance can contribute to higher levels of domestic and foreign investment, strengthening and diversifying the economic base and enhancing efficiency in resource allocation through greater competition. Trade can provide an important impetus to strengthening a country's scientific and technological base and promoting innovations, which are among the key determinants of increasing local content, enhancing domestic value-added activities and improving returns on factors of production. Trade can unleash the entrepreneurial spirit and capacity. By increasing productive employment, trade can create new opportunities for the poor and expand the prospects for more beneficial participation by women in economic activities. Trade can ensure access for the poor to food, essential medicines and basic social services.

2. Increasing gains from trade for developing countries is in the interest of developed countries, considering that domestic demand growth potential in some developed countries is likely to level off in the future, reflecting long-term demographic trends and the high degree of consumption saturation. Developing countries constitute a reservoir of untapped demand that, if realized, could provide a potentially exponential impetus to the growth of international trade and the expansion of the world economy, with beneficial effects on the welfare of developed-country economies, consumers and businesses. This underscores the global importance of nurturing developing economies and strengthening their production and trading capacity and purchasing power as a contribution to spreading global prosperity and expanding markets. Already, developing countries occupy an important position in the trade of major developed countries. In 2003, for the first time ever, the United States imported more goods from developing countries than from developed countries, while the share of its exports to developing countries increased to over 40 per cent. Some developing countries have the potential to become powerhouses of economic activity the way Europe, the United States and later Japan did during the twentieth century. Developed countries nonetheless remain major markets for developing countries, despite some country and regional diversification of the sources and destinations of exports and imports. Accordingly, assuring development gains from trade is central to realizing this "triple win" – for developing countries and countries in transition, for developed countries, and for the world economy.

3. There are, however, short- and long-term costs associated with international trade and trade liberalization that would require adjustment. For example, there will be a continual need to address loss of employment, displacement of local production, erosion of preferences, and exposure to world market volatility. If the benefits of international trade and trade liberalization are to be maximized and the costs minimized, clearly focused and coherent trade and development policies at the domestic and international levels as well as support mechanisms and social safety nets are prerequisites. In particular, it is, therefore, necessary for future negotiations to take this into account and to provide for it in a systematic manner. Synergy and proper sequencing – in the light of the capacities of developing countries, the level of obligations they are to assume, and the costs of implementation – and adequate financial and technical resources would be required. Developing countries require concrete assistance to build supply capacity and put in place safety nets, both to meet adjustment costs and to help cushion erosion of trade preferences. Targeted, comprehensive and high-quality technical assistance and deeper institutional and structural capacity building are important components. They need to be

enhanced and to go beyond traditional technical cooperation directed at implementing World Trade Organization (WTO) Agreements by providing for, *inter alia*, deeper institutional and structural capacity building.

4. Assuring development gains from international trade hinges on the national policies of developing countries themselves. An enabling and positive international economic environment and coherent, complementary and supportive developed-country policies are critical determinants too.

II. The International Trading System at a Crossroads and Increased Relevance for Developing Countries

5. It is on the assumption that increased trade will deliver welfare and efficiency gains for all, that unprecedented and wide-ranging trade liberalization and rule making continue to be attempted and justified in the international trading system (ITS). At the multilateral level, the creation of the WTO in 1995 marked a paradigm shift by encompassing “within-the-borders” policy issues in the context of a single undertaking. This considerably enlarged the substantive scope of the multilateral trading system (MTS). An integration approach to the trading system, which the Doha Work Programme (DWP) seeks to take further, was ushered in. At the regional and bilateral levels, too, trade and economic integration arrangements on a North-North, South-South and North-South-South basis gained strength, depth and momentum, and they now occupy nearly half of world trade space. These processes and the pervasive impact of the ITS and trade negotiations for the employment and even survival of people everywhere underscore the importance of prioritizing development in trade and trade negotiations. Instilling inclusiveness, ownership, transparency and democracy of negotiating processes and decision making, nationally and internationally, are becoming a *sine qua non* to reflect the burgeoning of democracies around the world represented in the growing membership of the WTO.

6. Since the integration into the ITS of developing countries has increasingly involved aligning their policies and standards with those of developed countries, there a number of expectations have been implicit in the participation of developing countries in the ITS: (a) that their development, financial and trade needs and circumstances would be fully “integrated” into the framework of rights and obligations; (b) that adequate international support and assistance, technical and financial, would be readily available, as structural and adjustment support; (c) that their own liberalization and structural adjustment would be reciprocated, especially by developed-country partners; (d) that international markets would be less imperfect and distorted and would allow developing-country enterprises to compete fairly and make best use of efficiencies generated by economic reform; (e) that enhanced and stable preferential market access in areas of developing countries’ inherent and emerging comparative advantage in commodities, manufactures and services would be realized in their major markets; and (f) that their vulnerabilities and inadequacy of bargaining power would be redressed. The Doha Declaration reinforced these aspirations by seeking “to place their [developing countries’] needs and interests at the heart of the Work Programme adopted...”

7. Significant gains were anticipated and promised, including from the “grand bargain” that was struck from the most ambitious round of multilateral trade negotiations, the Uruguay Round, which led to the creation of the WTO. For example, at the end of the Uruguay Round, annual income gains of \$116 billion¹ were projected for developing and transition economies as a group by 2005, out of a total \$510 billion increase in annual world income.² From the perspective of developing countries, which constitute the majority of the WTO membership, the unfinished business of the Uruguay Round needs

¹ All references in this document to dollars (\$) are to United States dollars.

² The Results of the Uruguay Round of MTNs, Market Access for Goods and Services: Overview of the Results, GATT Secretariat, Geneva, November 1994, p. 6.

to be completed, the Agreements fully implemented, and its gains to materialize. Many developing countries have drawn attention to the urgent need to address specific development provisions and mandates of the Doha Declaration, and to correct the asymmetries in the MTS. Their core market access agenda on trade liberalization, particularly in areas such as agriculture, non-agriculture goods (NAMA) and Mode 4 of the General Agreement on Tariffs and Trade (GATS), needs to be given due priority.

8. To meet these targets and challenges, faith in the MTS as a principal vehicle for enabling development gains from trade needs to be reinvigorated through concrete progress and actions, especially after the Fifth WTO Ministerial Conference. The resurgence of protectionism and concerns about job losses in some key markets, in both old and in new areas of importance to developing countries, need to be countered.

9. All countries have a shared interest in the success of the DWP and the realization of its core agenda. If effectively pursued and implemented, the DWP could put in place the elements for achieving what the Millennium Summit Declaration termed “an open, equitable, rule-based, predictable and non-discriminatory multilateral trading and financial system”. It can help reinforce multilateralism; shelter developing countries in particular against arbitrariness and act as a guarantor of fairness and equity in trade relations; galvanize international economic and development cooperation and promote development solidarity and cohesion; augur well for the global economy, which currently faces many uncertainties and sluggish growth prospects; send positive signals to investors and traders that could spur increases in trade and investment flows; act as a transmission system for reduction of widespread and persistent poverty by offering the poor new opportunities; and enable countries and the international community to provide public goods such as environmental sustainability, access to essential goods, services and technologies for all, and access to essential medicines.

10. Priority should be given to consolidation of the MTS, with a focus on the substantive and core trade and development issues, allowing manageability and prioritization of the Doha negotiations and implementation of their development agenda. Indeed, there is no better alternative than an effective development-oriented MTS for promoting international trade and assuring development gains from it.

III. Trends in International Trade and Development

11. International trade seems to be rebounding; it increased from 3 per cent in 2002 to 4.7 per cent (13 per cent in dollar terms) in 2003. UNCTAD estimates suggest it will increase to 7 per cent in 2004. Apart from the role of the major developed countries, developing countries made a significant contribution with robust 9 per cent growth. Much of this improved performance was attributable to increased import demand in developing and, to a lesser extent, transition countries. China led Asia’s impressive trade growth with a 30 per cent increase, while Africa and Latin America and the least developed countries (LDCs) recorded modest growth. Developing countries increased their share in international trade to 31 per cent by 2001. Today, manufactures represent nearly 70 per cent of developing countries’ exports of goods, indicating a trend towards greater diversification.

12. There are important performance variations among countries. A large number of developing countries, particularly LDCs and commodity-dependent countries, continue to remain marginalized in international trade and the trading system and are still vulnerable to external shocks.³ Most developing countries that have been able to shift from primary commodities to manufactures have done so by

³ The share of LDCs has witnessed a secular decline from 1.46 per cent in 1970 to 0.25 per cent in 2001. This implies that global trade increasingly outpaced LDC exports during the period.

focusing on resource-based, labour-intensive products, which generally lack dynamism in world markets, have low value addition, or involve high levels of competition that can rapidly drive prices down. Some developing countries moved quickly into exports of skill- and technology-intensive products, which have enjoyed a rapid expansion in world trade in the past two decades. Some developing countries, including East Asian newly industrializing economies (NIEs), have been able to achieve sharp increases in shares of world manufacturing value added that have matched or exceeded increases in their shares of world manufacturing trade. These exports are often at the higher end of the value chain.

13. In all countries, the service economy has been gaining importance over the last two decades and has contributed a growing share to gross domestic product (GDP) and employment. The services sector is a fundamental economic activity, with a key infrastructural role and important implications for poverty reduction. There are, however differences in the development of the services economy and infrastructural services across countries and regions. Services accounted, on average, for 50 per cent of GDP in developing countries by 2000, while for developed countries this share was 68 per cent. Trade in services represents 16 per cent of the total trade of developing countries and is expanding at the same pace as trade in goods. The share of workers employed in services activities has reached 70 per cent in most of the developed countries and 50 per cent in many developing economies. Most of the firms in services activities are traditional employers of women, including government, which retains its role in providing services in many developing countries.

14. The share of developing countries in total world exports of services increased to 23 per cent by 2001, while their share in world imports grew to 25 per cent. Although the LDCs as a group account for only some 0.4 per cent of total world exports of commercial services, and their imports of the latter are close to 1 per cent, services as a share of total trade in individual countries are of undisputed importance. Consequently, most of the developing countries remain net importers of services. Their comparative advantage is in exports of labour-intensive services, mostly through the temporary movement of natural persons (Mode 4 of the GATS). E-commerce and outsourcing of services from developed to developing countries are gaining importance for a number of countries and are linked to achieving a certain level of development.

IV. Policy Approaches to Assuring Development Gains

1. The role of trade, trade liberalization and policy space

Economic growth and poverty reduction

15. Over the past two decades, the mixed record of trade performance, economic growth and poverty reduction across developing countries has been at the source of the ongoing international debate on the role of trade and trade policy reform in the development process. Income inequality has grown and remains a problem between and within countries, and poverty remains endemic in developing countries, with about 1.2 billion people living on less than \$1 per day in 1999, which makes the Millennium Development Goal of halving poverty by 2015 a difficult challenge. Given this poverty threshold, with respect to regional performance, strong economic growth during the 1990s in East Asia was a major factor in the region's decrease in poverty levels; over this period, annual GDP growth there averaged 6.4 per cent, and poverty was reduced by over 40 per cent.⁴ Owing to the region's large population, this reduction was a major factor in the nearly 10 per cent decrease in global poverty during the 1990s. However, in other developing regions economic growth was sluggish

⁴ World Bank (2004). www.developmentgoals.org/poverty.htm.

and even negative, and poverty levels increased significantly during the 1990s. For example, in Latin America and the Caribbean, annual GDP growth averaged only 1.6 per cent and poverty increased by almost 20 per cent, while the GDP in sub-Saharan Africa fell at an annual rate of -0.4 per cent and the poverty level increased by over 30 per cent. Recently, the World Bank has predicted a reversal in these negative trends through projected across-the-board GDP growth in all developing regions, and an attendant decrease in poverty levels in all regions except Africa, through 2015.⁵ It is important to note that these projections are predicated on significantly improved commercial benefits from trade for developing countries subsequent to further trade liberalization in global markets. Less favourable trade liberalisation outcomes for developing countries would inhibit the realization of these encouraging projections.

Trade liberalization

16. Trade liberalization has been the central part of mainstream policy advice in recent decades and one of the most prominent characteristics of globalization. Comprehensive trade liberalization has been undertaken by the majority of developing countries in different regions since the early 1980s as part of broader policy reforms, mostly under the policy advice of international financial institutions to stabilize, liberalize and privatize. Economic reform and trade liberalization have produced mixed results in terms of sustained economic growth and improvements in human development indicators for many developing countries. Nevertheless, the exposure to international trade and competition brought about by economic reform and liberalization can be an important source of economic growth, and many success stories show the way. Experience has, however, shown that such a relationship does not develop automatically, and that it should be complemented by other national and international policy measures, some of them outside the scope of trade policy. In fact, while trade is not an end in itself, it remains a means to contributing to balanced, equitable and sustained development if it complements other policies – both national and international – in economic, social, technological and environmental domains.

17. The successful experiences of some East Asian NIEs (even though these are not immune to major external shocks) point to the relevance of strategic and virtuous approaches to trade and trade policy reforms focusing on the combination and coordination of trade liberalization, tariff policy and industrial policy in reaping development gains from international trade and investment flows. A strategic positioning of trade policies in development strategies implies a coordinated approach to three basic and closely related issues: (a) the orientation of trade policy to actively expand market access for exports and improve external conditions for exports, including by seeking the removal of market entry barriers in a country's premium and other markets; (b) targeting economic policies to support diversification of the economy, strengthening supply-side capacities and creating conditions that encourage domestic investment and improve the competitiveness of domestic companies; and (c) taking accompanying policy measures with regard to adequate physical and trade-related infrastructure, social and financial policies providing adequate measures under labour policies (e.g. safety nets and retooling and retraining programmes for facing increasing competition and structural adjustment), and robust and sound regulatory frameworks, including for managing financial flows.

18. International and national efforts to assure development gains from trade need to be based on an objective and realistic assessment of the policy experience of developing countries, the implications of developed-country policies on their trade performance and prospects, and their economic and institutional realities. While developing countries' own trade and development policies are key, given the greater, and sometimes overwhelming, weight and impact of developed countries'

⁵ World Bank (2003). *Global Economic Prospects*.

policies on international trading, financial and monetary systems, the external environment assumes crucial importance. Key problems outside the area of trade need to be addressed urgently by national policy makers and the international community. These include, for instance, optimal resource management, debt sustainability, poverty reduction and environmental protection.

The interdependence of trade and development policy

19. Management of the interaction of trade and development policy at the national level and the beneficial symbiosis of these policies with global economic processes are a major preoccupation today. Global economic processes affecting the outcomes of the national development strategies of developing countries include the international trading, financial and monetary system; international markets in goods, services and technology; and the behaviour of global enterprises. These, therefore, need to be sensitive to and coherent with national development efforts. Developing countries need to rationalize approaches and achieve coherence to address the diversity of situations, challenges, regional initiatives and national capabilities. There is no single or universal trade and development policy recipe for producing accelerated economic growth and poverty reduction. Rather, policies need to be tailored to national conditions, and to build on lessons learned and best practices evolved.

20. Imperatives of greater openness to trade and investment, the comprehensive scope of the ITS, and the stress on economic freedom nationally and internationally highlight the need to have appropriate flexibility and room for development policy choices according to levels of development if developing countries are to make progress in realizing the Millennium Development Goals adopted by the international community. In climbing up the development ladder, developed countries have historically enjoyed, and even now retain, substantial policy space for their own development strategies. Policy space is important over time for development purposes and for safeguarding the public interest (e.g. in areas such as job creation; transfer of technology; development of local industries and entrepreneurs; provision of infrastructure and essential services; protection of cultural diversity, heritage, traditional knowledge and environment; improvement of social conditions; provision of equal opportunities; and targeting of foreign direct investment (FDI) to meet domestic priorities, eradicating poverty and fostering gender equity). Optimal development and economic growth require considerable experimentation, domestic deliberations among stakeholders, and domestic redesigning of policies and institutional innovations, rooted in the needs and real interests of the people. However, this does not in any way imply a break with globalization, liberalization and multilateral commitments. Rather, it implies that policy space must be factored into the evolving ITS.

2. Redressing economic and institutional imbalances

Structural and institutional constraints

21. It is increasingly recognized that a one-size-fits-all approach to integrating countries with varying degrees of structural, institutional, regulatory and other constraints into a MTS may yield asymmetric benefits and costs. Such imbalances are grounded in a number of institutional and structural factors such as income levels, size of economic operators, patterns of specialization, and other structural and institutional factors.⁶ Inadequacy and high cost of infrastructure, including trade-related infrastructure, finance, technology, energy, transport, marketing and skill-intensive services, increase production costs in many developing countries, making them less competitive and hindering

⁶ For example, the average per-capita GDP in developed countries in 2000 was nearly \$27,000, which is 20 times higher than that in developing countries. Only two developing-country corporations are among the world's 100 largest transnational corporations, ranked in terms of foreign assets.

diversification into higher-value-added items. Most developing countries are unable to offer required assistance to potential and fledgling new lines of export activity where they may have actual or latent comparative advantage. Structural deficits and “institutional thinness” also mean little endogenous capacity to absorb the economic, social and human costs arising from adjustment or domestic and external shocks. Also, while some developing-country enterprises are reaching the critical mass required to compete effectively in global markets, the bulk of developing-country enterprises are small and medium-size enterprises (SMEs).

22. In the context of limited resources, developing countries have difficulty giving priority to the resources required for trade success when some pressing development priorities (e.g. combating widespread poverty, illiteracy, hunger and malnutrition and pandemics) legitimately claim a large part of their institutional attention and budgetary allocation. Unless adequate support and phase-in are provided for integration into the ITS, the costs of integration may far outweigh the benefits. All these factors have to be integrated into processes for mainstreaming trade into development and development into the international trading system and trade negotiations. Hence, aid for trade and aid for development have to be adequate, properly targeted and mutually reinforcing. This is proved by the European Union’s provision of structural and cohesion funds to assist in the integration of new and economically weaker members.⁷ The trade adjustment assistance of the United States under the Trade Promotion Authority also confirms this.⁸

Coherence of trading and financial systems

23. Coherence of trade with international financial systems is necessary in order to genuinely improve development prospects, which at present are undermined by continuing high debt repayments and other financial outflows from many developing countries. Net resource flows to developing countries, as measured by the current account balance, are negative. According to preliminary estimates by the United Nations Department of Economic and Social Affairs (UNDESA), the net transfer of financial resources from developing countries, including net capital inflows, increases in reserve holdings and net payments on foreign investment income, reached an unprecedented \$192 billion in 2002. About \$90 billion of this was transferred as net payments on foreign investment income, which exceeded total net capital inflows, including official capital inflows, by some \$15 billion. So net transfers of financial resources from developing countries to developed countries are occurring throughout the developing world in general, even after the Monterrey Conference on Financing for Development. The implications of this situation are grave, as it deprives countries of their ability to plough back financial resources generated by trade into development and inhibits their ability to invest in further trade expansion.

3. Special and differential treatment

24. The DWP has re-emphasized the importance of special and differential treatment (SDT) for developing countries as a key principle of the WTO system. It reaffirms that “provisions for special and differential treatment are an integral part of the WTO Agreement” and agrees that all SDT provisions “shall be reviewed with a view to strengthening them and making them more precise,

⁷ The structural funds include the European Regional Development Fund to help regions whose development is lagging behind to catch up, the European Social Fund, and the European Agricultural Guidance and Guarantee Fund. The budget awarded to the structural funds has reached €195 billion for the 2000–2006 period. The Cohesion Fund covers EU members whose gross national product (GNP) per capita is below 90 per cent of the EC average and is designed for assistance to promote economic and social cohesion and solidarity.

⁸ The provisions on “Trade Adjustment Assistance” to assist workers who lose jobs as a result of foreign competition arising from trade agreements is projected at some \$10–12 billion over 10 years.

effective and operational". The objective of SDT in WTO Agreements can be deduced from the Enabling Clause, in which it is agreed that any differential and more favourable treatment provided under the clause by developed members to developing countries shall "be designed and, if necessary, modified, to respond positively to the development, financial and trade needs of developing countries". In this light, many developing countries, in their numerous negotiating proposals, have considered that SDT should be placed on a firm contractual basis and targeted to their specific needs. Agreeing on a package of SDT provisions, both cross-cutting and agreement-specific, that have practical commercial value in terms of providing either greater flexibility or preferential treatment would move the development agenda forward and enhance the confidence of developing countries in the MTS.

25. A broad-based, non-discriminatory and development-oriented SDT would need to reflect the following key elements: (a) strengthening most-favoured-nation (MFN) treatment and non-discrimination while upholding the principle of less than full reciprocity for developing countries and preferential treatment, wherever possible; (b) greater stability, security and predictability of the SDT; (c) enhanced market access and market entry for commodities, manufactures and services of export interest to developing countries and redressing of current imbalances; (d) adequate flexibility and space for developing countries regarding within-the-borders issues and resource-intensive agreements; (e) full consideration of the development dimension in new and emerging issues; (f) transitional periods that reflect developing countries' level of development and implementation capacity; and (g) strengthened coherence to ensure that SDT considerations are taken into account by international financial institutions and donors.

4. Trade preferences

26. The Generalized System of Preferences (GSP) and other unilateral trade preferences play a significant role in providing enhanced market access to developing countries. The total value of actual trade under GSP schemes was \$71.4 billion in 2001, as against the estimated total value of product coverage under them of \$183 billion, which represented a 38 per cent utilization ratio. This indicates substantial scope for enhancing their use while preserving the original non-discrimination and non-reciprocity objectives of the GSP. Initiatives such as Everything But Arms (EBA), the American Growth and Opportunity Act (AGOA) and improvements by Australia, Canada and Japan in their GSP schemes are welcomed. However, it has been estimated that effective use by LDCs of preferences remains well below its potential and coverage.⁹ The low use results mainly from the requirements attached to preferences, especially rules of origin and market entry barriers. To improve the value and increase the use of trade preferences, further efforts are needed to provide greater stability, develop realistic rules of origin matching the industrial capacity of developing countries, and extend country and product coverage. The erosion of preferences has raised concern among preference-receiving countries. Initiatives, particularly by international financial institutions and the donor community, to provide adjustment for the erosion of preferences would help to allay anxieties about MFN liberalization and projected losses resulting from it.

5. Gains from the multilateral trade negotiations

27. The contribution of the MTS to the expansion of international trade is undeniable and vital. The key question is what aspects of the DWP would yield maximum development advantages and for

⁹ See UNCTAD report TD/B/50/5, 7 August 2003.

which countries. Other issues relevant for an assessment of gains relate to the relative contributions of developing countries' own liberalization and liberalization by others in delivering gains. It has also been argued by some that developing countries need make appropriate trade-offs between their market access agenda and retention of policy space, given the links with development strategies. Questions have been raised regarding prioritization and estimation of the major areas of gain, which need to be delivered for a successful outcome to the trade negotiations. These projections of gains are based on certain assumptions and represent the value of opportunities that would become available, while translating them into actual trade performance and gains will require appropriate national and international policies and actions.

Agriculture

28. In most developing countries, agriculture is the predominant sector in terms of employment and income generation, although value added is relatively small. Trade in agricultural goods is very important to developing countries, where these products often account for more than 50 per cent of all exports. Since the dependence of the world's poorest people on food products is disproportionately high, on the income side as well as on the expenditure side, negotiations on agriculture are closely related to poverty. Tariffs for agricultural products are many times higher than tariff rates for non-agricultural products, and domestic support and export subsidies remain high in developed countries. The total support to agriculture in OECD (Organisation for Economic Co-operation and Development) countries is estimated to have amounted to \$318 billion, or 1.2 per cent of GDP, in 2002.¹⁰ Between 1995 and 2000, on average, \$6.2 billion of export subsidies that give exporters a direct cost advantage were provided annually worldwide, the vast majority by developed countries. Furthermore, issues such as tariff escalation and sanitary and phytosanitary regulations make it difficult for developing countries to increase their export income.

29. Many countries have emphasized the centrality of gains from a reform and liberalization of agricultural trade that would accrue from enhanced market access, levelling the playing field and encouraging regeneration of the agricultural sector of developing countries. Estimates of the contribution to global welfare gains from completely removing trade barriers in agriculture vary greatly, but the amount could be as high as \$165 billion annually, of which developing countries would receive about one quarter.¹¹ In a full liberalization scenario, the increase in trade would be worth about \$25 billion, of which developing countries could garner about 30 per cent. Hence, fundamental reform through reductions and phasing out of export subsidies, substantial reductions in trade-distorting domestic support, and substantial improvement in market access in agriculture remains the most crucial area for many developing countries. Competitive agricultural exporters in Asia, Africa and Latin America have the most to gain, while potential exporters, which are upgrading and improving their supply capacities and competitiveness, will also be able to enter and sustain themselves in the world markets. LDCs, small economies and net-food-importing developing countries, which face problems of attaining food security and developing their own production and supply-side responses, will face adjustment costs and will need to be supported – for example, through market-based mechanisms – to make operational the Marrakech “Decision Concerning the Possible Negative Effects of the Reform Programme on Least-Developed and Net Food-Importing Developing Countries” and for WTO members to act to implement the Decision.

¹⁰OECD (2003). The European Union has pointed out that actual budgetary outlays by developed countries are about \$100 billion, and the amount for the European Union it is less than \$45 billion a year.

¹¹ Anderson (2002).

Market access, market entry and competitiveness

30. Developing countries have major commercial stakes in non-agricultural market access (NAMA) negotiations, in terms of market access, market entry and development flexibility. While market access is a prerequisite for market entry, it is not a sufficient condition, and therefore it is necessary to address actual market entry conditions. These market entry conditions have serious implications for developing countries in terms of high compliance costs and potential or actual trade losses, as an increasing number of their exports are subject to such conditions. Therefore, in order to really capture gains from NAMA liberalization, innovative measures are required to upgrade substantially developing countries' technical levels and capacity, particularly in standard setting in accordance with respective international standards and scientific criteria.

31. A particular area of interest to developing countries is the liberalization of textile trade under the Agreement on Textiles and Clothing (ATC) in 2005 as mandated. It is expected to generate income gains of \$24 billion per year, export revenue gains of \$40 billion and employment generation of about 27 million jobs for developing countries.¹² The efficiency and welfare gains to the importing developed countries themselves could be as high – for example, yearly gains of \$18 billion in the United States¹³ and ECU 25 billion in the European Union.¹⁴ Exports of preferred suppliers would be placed on par with those of non-preferred suppliers as far as removal of quotas was concerned, but they would still enjoy tariff and other advantages. Also, existing regional trade agreements (RTAs) would modulate the gains for major non-preferred suppliers arising from the post-ATC era. Positive measures are needed to help less competitive developing countries adjust to a post-ATC regime.

32. As part of negotiations in the multilateral trade negotiations (MTNs) and RTAs, there is a need to address the following: (a) removing tariff bias against developing countries' exports;¹⁵ (b) reducing tariff escalation and tariff peaks for processed exports from developing countries; (c) further liberalizing sectors of export interest to developing countries and LDCs; (d) addressing the erosion of preferences faced by many developing countries; (e) improving and simplifying rules of origin procedures; and (f) disciplining and removing, as appropriate, non-tariff barriers and evolving discretionary market entry barriers, particularly those related to technical regulations and standards, sanitary and phytosanitary measures, environmental conditions and anti-competitive market structures and practices.

33. Voluntary codes of conduct, fair trade initiatives and corporate social responsibility are becoming increasingly prominent features of international markets involving developing countries. They are useful in increasing awareness of the social, environmental and developmental aspects of trade. For example, in the commodity sector, corporate social responsibility is leading many major corporations to strengthen links with developing-country suppliers. This gives such suppliers access to new, often more stable markets as well as to a range of services such as credit and input supply. It also allows a greater part of the value added of products to stay in their countries. However, care has to be taken to ensure that these codes and initiatives do not become (a) an aspect of formal conditionality

¹² International Monetary Fund/World Bank (2002). *Market Access for Developing Country Exports – Selected Issues*. 26 September, pp. 42–43.

¹³ World Bank (1987). *World Development Report 1987*, p. 150.

¹⁴ Francois JF, Glismann HH and Spinanger D (2000). *The Cost of EU Trade Protection in Textiles and Clothing*. Working Paper No. 997. Kiel Institute of World Economics, August, p. 67.

¹⁵ Industrial tariffs in OECD countries have decreased over the years as a result of various liberalization efforts and are quite low for LDCs in particular; however, the remaining duties are a concern for developing countries. UNCTAD calculations of simple averages show that developed countries' tariffs (taking into account preferential rates) on industrial products involving developing-country imports are 38 per cent higher (i.e. 5.1 per cent) than those for intra-OECD country imports (i.e. 3.7 per cent). Peak tariffs exist for a few specific sectors, such as apparel (12.7 per cent), petroleum and coal products (18.4 per cent) and textiles (10.2 per cent).

for trade; (b) so onerous as to act as barriers to exports by developing countries; or (c) a disincentive for major corporations to invest in and source goods and services from developing countries.

Services

34. Given the centrality of services for development, optimal gains for developing countries from liberalization of trade in services, both autonomous and in the context of the GATS, require certain preconditions. These include, at the national level, adoption of services strategies, appropriate macroeconomic policies, strengthening of regulatory, institutional and competition frameworks, building of infrastructural services and ensuring of universal access to essential services, especially for the poor. The need to strengthen and support SMEs remains a priority in all the services sectors of developing countries. Progressive GATS liberalization, with appropriate conditions and limitations, could provide conducive conditions for FDI, yielding gains in infrastructure development, creating opportunities for services exports, and facilitating imports of more efficient services and technologies. A major requirement for increasing participation in international trade in services by developing countries is to build competitive services supply and secure facilitated and favourable access to technology, information networks and distribution channels and accurate market information. Developing countries also face serious trade barriers in developed-country markets that need to be addressed through effective implementation of Article IV of the GATS and GATS-specific commitments.

35. Recent research suggests that trade liberalization in services could result in much greater welfare gains than other areas, especially through Mode 4. An increase in developed countries' quotas for the inward movement of temporary workers at all skill levels equivalent to 3 per cent of their workforces would result in estimated annual welfare gains for all countries of about \$150 billion yearly.¹⁶ Remittances received by developing countries amounting to over \$90 billion annually exceed annual official development assistance and FDI, and thus constitute a major resource for development and poverty reduction.

36. Liberalization of market access for Mode 4-related trade would be important in redressing the balance in the international trading system in terms of providing for freer, but regulated, movement of labour to meet growing demands in developed countries for cost-competitive services in various labour-intensive sectors. Labour being their unique and crucial asset in services trade, developing countries require market access in Mode 4-enabled services to participate in export of information and communication technologies (ICT), business and professional services, health care, educational services, audio-visual services, tourism services and construction services. The present discretionary, changeable bilateral or unilateral arrangements need to be placed in a more predictable framework of multilateral liberalization commitments by addressing the following issues: (a) increasing the scope, coverage and depth of the commitments on Mode 4 de-linked from Mode 3 (commercial presence); (b) clarifying definitional issues; (c) removing economic needs tests (ENTs) and labour market tests; (d) increasing transparency and streamlining with regard to visas, work permits and other regulatory requirements and ensuring that they are not more trade restrictive than necessary, and (e) facilitating recognition of the equivalency of educational degrees and qualifications.

37. Outsourcing, which is covered under Mode 1 of GATS (cross-border supply of services using ICT), is a new area of comparative advantage for developing countries. It has evolved from a largely intra-OECD phenomenon to include a new North-to-South dimension. Global outsourcing expenditures are estimated at \$320 billion in 2003 and are expected to grow to \$827 billion in 2008.

¹⁶Winters LA, Walmsley TL, Wang ZK and Grynberg G (2002). *Negotiating the Liberalisation of the Temporary Movement of Natural Persons*. March.

For developing countries, this constitutes a big window of opportunity to ensure instant and durable development gains. Outsourcing opportunities for developing countries are much broader, with a wide range of countries expected to significantly increase their presence in global outsourcing markets. Of traditional IT-related services, 25 per cent are expected to be outsourced to developing countries by the year 2010.¹⁷ Also, efficiencies and cost savings generated from outsourcing are mostly ploughed back into home-country economies, contributing to the viability of job-generating businesses there.

6. Trade and competition policy and law

38. The increasing concentration of market power in a few megafirms with global reach and control poses a singular challenge for developing countries. In addition, cross-border monopolization and cartels and anti-competitive practices in international distribution networks adversely affect the market entry of developing countries' exports. Furthermore, their prevalence, along with oligopsonistic conditions in key markets and sectors, tends to reduce the bargaining power of developing-country producers and enterprises, as well as their value retention and participation in value chains, and restrict their market entry. Developing countries' ability to innovate, diversify and access technology are also constrained by the intellectual property rights regimes and restrictive franchising and licensing conditions set by dominant firms.

39. Developing countries need national competition laws and frameworks suited to their needs and stage of development, complemented by technical and financial assistance for capacity building. A development-oriented competition policy involving intergovernmental cooperation and enterprise-level discipline has a significant role to play in promoting a competitive and dynamic enterprise sector. At the national level, competition is relevant for the success of economic reform, involving well-designed and -sequenced trade liberalization, deregulation, privatization and FDI openness. In agriculture and industry, services and technology sectors, developing-country Governments need to calibrate competition policy to create the appropriate framework to help build supply capacity and competitiveness and ensure both efficiency gains for the economy and welfare gains for the population. In addition, developing countries need to support the development of their domestic producers and enterprises, which are mostly SMEs, so these can attain critical mass and viability through different policies and instruments. At the international level, Governments need, in line with the United Nations Set of Principles on Competition,¹⁸ to take effective measures to dismantle anti-competitive structures and practices, and to intensify collaboration with developing countries to help their producers and enterprises take advantage of these measures.

7. Commodities

40. The Monterrey Consensus highlighted the need to mitigate the consequences of depressed export revenues on countries that depend on commodity exports. Commodity production and trade play a significant role in ensuring sustainable livelihoods for the poor, as well as in the export and growth performance of the large number of commodity-dependent developing countries. Half of all developing countries depend on non-fuel commodities for more than half of their export earnings (two thirds if fuels are included). Over the past decade, commodity export dependence and export concentration have not decreased significantly. Price fluctuations have continued to characterize

¹⁷ *Financial Times*, March 17, 2004.

¹⁸ The UN Set of Principles and Rules on Competition was negotiated and unanimously adopted by the General Assembly on 22 April 1980. It contains principles and rules directed at Governments, enterprises (including TNCs) and regional and sub-regional groupings. It also contains international measures and preferential or differential treatment for developing countries.

almost all commodity markets, and, if anything, the amplitude of the fluctuations appears to have increased. The commodity price instability index as calculated by the UNCTAD secretariat (average monthly deviation from exponential trend) for commodities in current US dollars was 2.8 per cent during the period 1999 to 2002, compared to 1.8 per cent 10 years earlier, from 1989 to 1992.

41. The amplitude of price fluctuations varies considerably among groups of commodities and individual commodities, with vegetable oilseeds and oils and minerals, ores and metals having, on average, higher fluctuations than agricultural raw materials and food and beverages. In recent decades, the real prices of some important commodities have continued to fall. In 2002, the price index of agricultural commodities deflated by the price index of manufactured exports of industrial economies in US dollars (74) was one half of the same index in 1980 (145). The period from 1998 to 2002 witnessed major falls in the prices of some commodities of major export interest to developing countries, such as coffee, cotton and sugar. Coffee-producing countries and West African cotton-producing countries would have earned respectively \$19 billion and \$1 billion more between 1999 and 2002 if prices had remained at their 1998 levels. Coffee producers now receive roughly a third of the price they used to get in the mid-1990s.

42. The secular decline in real commodity prices and large price fluctuations have direct consequences for poverty, since farmers cannot generate the surplus needed to invest in measures to raise productivity through more intensive and appropriate use of capital and inputs, or to diversify production for export. In addition, observing the large risks in agriculture and lacking the know-how for dealing with these, financiers have generally been reticent in providing the necessary seed and working capital. Managing large fluctuations in commodity prices is a formidable task for governments and enterprises. This is further complicated by the emergence of increasingly concentrated market structures at the international level and stringent standards and requirements in developed-country markets. If present trends continue, a large number of commodity-dependent developing countries risk being excluded from the dynamic segments of the world economy, with serious consequences for their growth, sustainable development and poverty levels.

43. The time has come to give high priority to commodities in international trade and development cooperation with a view to converting the commodity problem into a source of resources for development. The report of the Group of Eminent Persons on Commodity Issues convened by UNCTAD¹⁹ includes several recommendations that are relevant in this context, including on the importance of enhanced, equitable and predictable market access for commodities of key importance to developing countries, addressing the problems of oversupply, making compensatory financing schemes user-friendly and operational, strengthening capacity and institutions, and establishing a diversification fund.

44. Within the MTS, the current trade negotiations in keeping with the Doha mandate could contribute to improved prospects for commodity prices and the diversification of developing countries' exports. Attention should be given to the provision of assistance to mitigate the consequences of earnings shortfalls resulting from low prices caused by structural oversupply, including through International Monetary Fund facilities, and to efforts to reduce the likelihood and scope of these shortfalls through the application of commodity price risk management and financial instruments and the implementation of diversification programmes. There is a need to enhance farm income through productivity growth, diversification and upgrading to increase value added. Support is also required for enhancing participation by developing countries in global supply chains and for strengthening the capacity to meet quality and other requirements emanating from international agreements and market exigencies.

8. Trade and environment

45. There is growing recognition that trade and environment are often intrinsically linked. International trade drives changes in national production patterns of goods and services, which in turn affect the environment. Domestic environmental regulations play a key role in addressing these impacts. Gains from trade can also provide necessary resources for environmental conservation. Conversely, the environment and environmental concerns also affect trade. The natural environment is the basis of production for many exported products, particularly from developing countries, and an important input to their long-term sustainable development. Rising environmental concerns, as enshrined at the international level in multilateral environmental agreements and at the national and local level in environmental regulations and standards as well as consumer preferences for “greener” products, increasingly influence competitiveness and trade patterns.

46. While environment is an important concern for developing countries, most developing countries are concerned that negotiations in the WTO should aim at enhancing the mutual supportiveness of trade and environment in the pursuit of sustainable development and not result in additional obstacles to trade. Environment plays a role in many issues in the Doha Work Programme, including agriculture, services, market access for non-agricultural products and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). It is important to promote a broad-based sustainable development agenda that goes beyond the WTO framework and also focuses on addressing capacity constraints in developing countries, incentives and enabling measures rather than trade measures and restrictions. Issues of key interest to developing countries include the need to address global environmental problems through appropriate packages of measures including enabling measures and, where necessary, trade measures; participation in standard setting and equivalence of standards; identifying environmental goods and services that provide the largest possible sustainable development gains to developing countries, preserving, protecting, promoting and harnessing traditional knowledge for sustainable development, including through intellectual property protection and benefit-sharing systems; and promoting production and exports for niche markets with high-value-added potential.

9. Transfer of technology

47. Enhancing technological capacity and developing human resources are central to building productive capacity and increasing competitiveness. In this connection, greater policy space for innovation, adaptation and improvement of technology in the light of local conditions and requirements is crucial. Requirements arising from the application of intellectual property rights and other obligations such as the TRIPS Agreement therefore need to accommodate this important development objective. The flexibilities already provided for under the TRIPS Agreement need to be utilized fully by developing countries. The development implications of ICT have acquired decisive proportions in the wake of the last decade's technological revolution. The situation calls for a fresh perspective on technology transfer and capacity building. Developed countries need to give their firms incentives to encourage them to transfer know-how and technology to developing countries. Also, acquiring capabilities in ICT is key to enhancing competitiveness, as they help reduce transaction costs in the production and exchange of goods and services and increase the efficiency of management functions and the expansion of employment opportunities.

¹⁹ UNCTAD (2003). TD/B/50/11.

10. Regional trade agreements

48. The proliferation, expansion and deepening of RTAs have been significant during the past decade. Today, a total of 215 RTAs are in force. Altogether they accounted for some 40 per cent of world trade in 2000 and are expected to cover over 50 per cent in 2005. Recent “new-generation” RTAs and bilateral trade agreements (BTAs) increasingly cover not only trade in goods, but also “behind-the-border” areas including trade in services, investment, competition policy, intellectual property rights, government procurement, labour, environment and development cooperation, thereby going beyond multilateral disciplines and liberalization commitments (“WTO-plus”). Furthermore, RTAs can have trade creation or diversion effects. This raises the question of the relationship and coherence between trade liberalization and trade policy reform through RTAs and MTS. The proliferation of RTAs, especially among major trading nations, has raised concern among developing countries and other non-participants over a possible deterioration in their conditions of access to these integrated markets and a fragmentation of the MTS. A major development has been the growth of North-South RTAs and North-South-South RTAs. A number of developing countries are in the process of transforming their trade and economic relations with their previously preference-granting developed countries into reciprocal free trade areas, as is the case with the negotiations between the African, Caribbean and Pacific (ACP) Group of States and the European Union for an Economic Partnership Agreement, the Euro-Mediterranean Agreements between the European Union and North African and Middle Eastern countries, and the Free Trade Agreement of the Americas (FTAA) negotiations involving countries in the western hemisphere. A challenge for developing countries in these novel forms of RTAs is the need to determine the appropriate degree and pacing of regional liberalization, as well as SDT, bearing in mind their limited economic capacity and negotiating resources and the ongoing Doha negotiations.

11. South-South trade

49. Regional integration agreements among developing countries (South-South agreements) are no exception to the process of expansion, proliferation and reinvigoration of RTAs. A number of South-South arrangements have accelerated their internal liberalization programmes involving trade in goods and have initiated the challenging process of liberalizing trade in services to complement national capacities and help develop niches of specialization. Such integration efforts are particularly beneficial to developing countries, but they are looking to exploit its full development potential through, *inter alia*, encompassing a “deeper integration” agenda, including infrastructure development.

50. Although it accounts for just over 10 per cent of total world trade, South-South trade is growing significantly and represents an important opportunity for developing countries to increase their exports. Over 40 per cent of developing-country exports are to other developing countries, and trade between these countries is increasing at an annual rate of 11 per cent. This “silent” transformation is further strengthened by increasing investment, technology transfer and enterprise-level interaction at the intra-regional level, but increasingly also at the inter-regional level. This presages the emergence of a new “trade geography” in the South. South-South trade through the Global System of Trade Preferences among Developing Countries (GSTP) provides a potential complementary avenue for developing countries to increase and expand their interregional market access opportunities. Ways need to be found to reinvigorate the GSTP.

12. Development benchmarks and assessments

51. There is a need for a more comprehensive understanding of the interconnections between trade and development gains, as well as of the existing positive synergies between national and international trade policies and negotiations on the one hand and development strategies on the other. In this context, identification of common standards or benchmarks for measuring development gains is a particularly important and challenging task. Such benchmarks can ultimately be fed into the development assessments of trade outcomes. Development assessments require methodological elaboration and institutional adaptation to the realities of individual developing countries. The UNCTAD secretariat presented broad areas for research and analysis on trade-related development benchmarks at the Trade and Development Board's fiftieth regular session in October 2003. Efforts are now underway to elaborate methodological approaches to quantitatively and qualitatively assess the linkages between trade and development, and to track the needs and gains of developing countries and the development solidarity efforts to meet these needs and assure development gains. A more in-depth development evaluation of the short- and long-term implications of each future trade agreement is needed. The Doha Declaration (paragraph 49) provides for the negotiations to be "conducted with a view to ensuring benefits to all participants and to achieving an overall balance in the outcome of the negotiations". Similarly, the Guidelines and Procedures for the Negotiations on Trade in Services (paragraph 15) provides for the conduct of an evaluation of the results attained in terms of the objectives of Article IV, before completion of the negotiations on trade in services.

V. UNCTAD's Contribution

52. A trade and development solidarity – at the international, multilateral, regional or national level – that is inspired by the priorities set in the Millennium Declaration is key to UNCTAD XI's agenda of achieving development gains from the international trading system and trade negotiations and, in turn, promoting coherence between national development strategies and global economic processes towards economic growth and development, particularly of developing countries. As the focal point in the United Nations system for the integrated treatment of trade and development, and through its three pillars of work – intergovernmental deliberations and consensus making, policy research and analysis, and technical assistance and capacity building – UNCTAD can make an important contribution to the realization of the new vision on trade policy for development. UNCTAD is an important partner in the endeavour to seek a successful conclusion of the Doha agenda negotiations in the post-Cancún period and realize its development content. UNCTAD can also help developing countries elaborate trade policies and strategies linked to and connected with national development strategies. It can clarify what is required in terms of multilateral rules and international policies and measures to accommodate the specificities of development needs and policy space requirements of developing countries at different levels of development. In the rapidly changing landscape of international trade, UNCTAD can monitor and present various scenarios to ensure that their implications for development are holistically understood and addressed in the context of global governance. _____