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Report of the Secretary-General

Summary

The present report covers recent developments in international trade and the trading system, particularly the World Trade Organization Doha work programme and their implications for developing countries. The Doha Round and the multilateral trading system stand at a critical juncture. An agreement on modalities on agriculture and non-agricultural market access is urgently needed to conclude the Round by the end of 2007. The Round needs to deliver on its development promise, including through substantial market access and market entry in agriculture, industrial products and services for developing countries. A balanced, equitable and development-oriented outcome can improve the prospects for economic growth and development, and contribute to achieving the Millennium Development Goals.

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I. Introduction

1. The present report has been prepared pursuant to General Assembly resolution 61/184 of 20 December 2006, in which the Secretary-General, in collaboration with the secretariat of the United Nations Conference on Trade and Development (UNCTAD), was requested to report to the Assembly at its sixty-second session on the implementation of that resolution and on developments in the multilateral trading system.

II. Trends in international trade and development

2. Continuing steady growth since 2002, the world economy expanded by 5.4 per cent in 2006, significantly faster than world population growth, which increased 1.2 per cent, thus supporting an increase in real gross domestic product (GDP) per capita levels throughout most of the world. In developing countries, per capita income rose by over 5 per cent and their share in world output grew to 23 per cent. In terms of the Millennium Development Goal of halving poverty by 2015, regional performance varies, with developing Asia set to exceed its poverty reduction objective and Africa, despite impressive growth averaging nearly 5 per cent since 2000, falling short of growth levels needed to meet its target.

3. International trade has been a powerful engine of economic growth and development. During the period 2000-2005, export growth accounted for over 60 per cent of GDP growth for developing countries and over 40 per cent for the least developed countries, as compared to 30 per cent for developed countries. In 2006, world merchandise exports increased by 14.8 per cent, to $12 trillion. Manufactures accounted for some 72 per cent of traded goods, while agriculture represented some 8 per cent. Mineral and fuels exports, accounting for 17 per cent, continue to grow due to increased demand and the recent rise in commodity prices. Developing countries increased their share in world merchandise exports from 35.9 to 36.8 per cent. The fastest export growth was recorded in Latin America and the Caribbean (19 per cent), followed by Asia (17 per cent) and Africa (11 per cent). Least developed countries shared in trade growth, with their share in world merchandise trade having risen from 0.79 to 0.83 per cent. World services exports grew by 9.7 per cent to $2.7 trillion. The share of developing countries increased from 23.8 to 24.5 per cent, while the share of least developed countries remained unchanged at 0.46 per cent. Information and communication technology and labour mobility have become the driving force of trade and investment globalization.

4. Commodity prices continued to appreciate for oil, metals and minerals, while prices of some agricultural commodities have declined (e.g., tea and tobacco) or remained stagnant (e.g., coffee and cotton). Higher world oil prices remain buoyed by increased demand and supply-side developments. While the current hike in oil price affects all countries, its impacts are more severe on fuel-importing developing countries with relatively higher levels of energy intensity in their industries and limited access to alternative energy sources. As per capita income and industrial output continue to rise in developing countries, increased awareness emerges of the need to reduce energy intensity and to search for environmentally friendly alternative sources in mitigating negative environmental impacts of economic development. Economic growth in developing countries intensifies the need for more rapid and effective transfer of environmentally sound technologies from

developed countries. Strengthened intergovernmental cooperation on climate change and development assistance efforts are important.

5. Intra-developing country trade has expanded rapidly, providing enormous development opportunities. UNCTAD research finds growing complementarities among developing countries, including in the context of regional and global production chains, across a variety of products, including natural resources, intermediate and consumer goods, and low- and high-tech products. In 2006, South-South trade represented 17 per cent of world merchandise exports, an increase from 10 per cent a decade ago, and 46 per cent of total exports of developing countries. The South-South trade boom is dynamized by major players such as China, Brazil, India and South Africa. Eighty-two per cent of that South-South trade was intraregional, while interregional trade increased to 18 per cent. In 2006, intraregional exports represented 22 per cent of exports to developing countries for Africa, 92 per cent for Asia and 55 per cent for Latin America and the Caribbean. Intraregional trade in Asia grew from $850 billion in 1995 to $2.5 trillion in 2005, representing nearly half of its global trade. Africa's strong bias towards extraregional exports is driven largely by its exports of primary commodities to Asia, mainly petroleum, minerals and raw materials. As regards services trade, intraregional services trade represented 57 per cent, 94 per cent and 71 per cent of South-South services trade for the respective regions.

III. Evolving international trading system

6. A paradigm shift is under way in the international trading system consequent to the changing structures of world trade, investment and production. The larger role of developing countries in world trade, both as exporters and importers, has led them from the periphery to the centre of the international trade scene. The continuing dynamic growth in Asia and the Pacific, the commodity boom in Africa and the robust trade expansion in Latin America and the Caribbean have given rise to a buoyant global South. Despite the continued importance of developed countries in the trading system, the rise of developing countries has led to a multipolar international trading system, where developing countries act as global players in shaping and influencing the evolution of the system. Developing countries have gained prominence in the World Trade Organization, as they account for three fourths of its membership. Moreover, the emergence of a new Quadrilateral Group of Industrialized Countries ("QUAD"), or the Group of Four (G-4), in the multilateral trade negotiations comprising Brazil and India, the European Union and the United States of America, is symbolic of a higher level of integration of developing countries.

7. A concomitant development is the increasingly divergent interests between the developing countries and the least developed countries including smaller and weaker countries, most of which are commodity- and preference-dependent that have differing perspectives on the trade agenda owing to their dependence on unilateral preferences. They see most-favoured-nation liberalization as eroding their preferences. While preferences are diminishing through regional and multilateral liberalization, they continue to represent a critical competitive edge for them in major developed country markets. They are thus concerned over maintaining such preferences.

8. The international trading system itself appears to be undergoing a major transformation towards a multilayered system, as countries increasingly pursue their trade interests in multiple forums. At the centre of the international trading system lies the multilateral trading system enshrined in the General Agreement on Tariffs Trade (GATT)/World Trade Organization, providing an essential global governance structure for trade and a public good since 1947, anchored in the cardinal principle of non-discrimination and a rule-based system. At the same time, accelerated proliferation of bilateral and regional trade agreements, totalling 214 and with the prospect of increasing to 400 by 2010, has gained prominence. Such evolution poses systemic challenges to the broader international trading system in ensuring coherence and synergy. For individual developing countries, this represents a developmental challenge in optimizing their trade-led growth strategy and development interests in different forums. The increased complexity is seen as diverting attention from the multilateral trading system and eroding its non-discrimination principle.

9. The proliferation of bilateral and regional agreements is a global reality. It involves almost all countries, including those that have traditionally favoured multilateral, rather than regional, approaches to trade liberalization, as they seek to lock-in and improve their market access opportunities in their export markets. Today’s new regionalism distinguishes itself from the traditional one in several respects. There emerges a renewed interest in North-North regional trade agreements, including the transatlantic economic cooperation and regulatory harmonization agenda, pointing to greater systemic implications given the sheer size of trade involved. North-South bilateral agreements have come to target emerging economies and non-traditional partners. The recent agreement between the United States and the Republic of Korea, the largest agreement concluded by the United States since the North American Free Trade Agreement, and the new European Union trade strategy towards South and South-east Asia are emblematic of this trend. Negotiations between the European Union and 78 African, Caribbean and Pacific countries for economic partnership agreements are significant given the sheer difference in economic size and capacity between partners. The negotiations assume strategic linkage with the Doha Round, as the Cotonou waiver expires in December and pressure builds for African, Caribbean and Pacific States to conclude the negotiations by that time. North-South regional trade agreements are transforming traditional North-South economic relations based on unilateral preferences into reciprocal ones, entailing greater adjustment challenges for developing countries, as they tend to incur deeper commitments posing greater constraints on national policy space. These agreements can be seen as having affected incentives of each country in the multilateral negotiations.

10. There has been a quantum leap in South-South regional trade agreements and economic integration arrangements over the past decade. Various South-South regional trade agreements, such as the Association of Southeast Asian Nations (ASEAN), the Common Market for Eastern and Southern Africa (COMESA) and the Common Market of the South (MERCOSUR), have made significant progress in liberalizing and facilitating South-South trade and, to some degree, regulatory harmonization and economic cooperation, including infrastructure development. They have provided a viable regional platform for developing countries to take advantage of regional markets as a stepping stone to global competition, to integrate themselves into the global supply value chain and to take advantage of economic

upgrading and diversification. Some efforts have been made to explore the potential of interregional South-South trade such as Indian, Brazilian and South African, India-MERCOSUR and Southern African Customs Union-MERCOSUR initiatives.

11. The third round of negotiations of the Global System of Trade Preferences (GSTP), launched at the eleventh session of UNCTAD (UNCTAD XI) in Sao Paolo, in 2004, is the only multilateral initiative for liberalization of trade among developing countries across regions. The GSTP negotiations, supported by UNCTAD, are set to conclude in December 2007. Currently, GSTP is composed of 43 developing countries. The GSTP countries account for $1.8 trillion in exports and $1.6 trillion in imports. They represent 50 per cent of South-South trade. Total intra-GSTP exports total $813 billion, and in Asia 25 per cent is intra-GSTP trade. GSTP negotiations have sought to achieve effective reduction in tariffs through mutual exchange of concessions and the definition of rules of origin. They are also expected to address non-tariff barriers to facilitate trade. Addressing service liberalization is being considered for future negotiations.

IV. Developments in the Doha Round

12. The Doha Round of multilateral trade negotiations stands at a critical juncture. The Round has been under way since 2001, with the target date of the end of 2007 for completion. The Sixth Ministerial Conference of the World Trade Organization, held in December 2005, in Hong Kong (China), failed to reach agreement on liberalization modalities on agriculture and non-agricultural market access, despite modest progress attained in some areas. The inability of countries to reach a consensus on the modalities led to the suspension of the Round in July 2006. The negotiations were resumed seven months later, in February 2007. The completion of the Round requires an agreement on modalities of agricultural tariffs and subsidies, and industrial tariffs in early fall, and a commensurate level of progress in all other areas under a single undertaking. This represents a collective challenge for World Trade Organization members. The United States Trade Promotion Authority expired in June 2007. Chances for agreement are expected to become smaller in 2008 and 2009 owing to political processes in the United States and other countries. Negotiations among 151 World Trade Organization members, with Tonga being the newest member, has been challenging because of differing economic interests, development stakes, and evolving negotiating dynamics and increased relative importance of bilateral agreements and regional trade agreements.

13. Given the increasing contribution of trade to development, and the increased relevance of the trading system to policies and strategies affecting economic growth and development, stakes are high for realizing the development dimension and bringing the Round to a successful conclusion with balanced and development-oriented outcome as an essential contribution of the trading system to the Millennium Development Goals, particularly Goal 8, of achieving an open, transparent, predictable, non-discriminatory and equitable multilateral trading system (“global partnership for development”).

14. Achieving a balanced, mutually beneficial deal among the 151 World Trade Organization members would require full recognition of the paradigm shift underlining the trading system, with the rise of developing countries both in terms of their proactiveness in the negotiations and their significant role in trade. The

equitable distribution of benefits and costs across countries is thus important in the search for a balanced outcome. For instance, the autonomous liberalization undertaken by developing countries during the 1980s and 1990s, including under the structural adjustment programmes, represents the bulk of recent liberalization efforts, which have contributed significantly to a boom in international trade. Binding such unilateral efforts should be given greater recognition/credit within the trading system. Preference-dependent countries and net food-importing developing countries are estimated to incur net loss from agricultural liberalization. Such prospects for potential loss and development challenges imply the need for specific solutions, deeper concessions and resource transfer as quid pro quo in offsetting the expected loss of these countries and providing adjustment and supply capacity-building mechanisms. The United States debate on a bill to reform the Trade Adjustment Assistance programme highlights the adjustment challenge facing all countries, particularly developing countries, in terms of industrialization, employment, and poverty-related impacts and costs.

15. The Doha Round has implications for development and poverty reduction prospects of developing countries. Developing countries seek improved market access for products and services of their export interests, including agriculture, manufactures and labour-intensive services. Their concerns relate to possible adverse impact of liberalization to their nascent industries and the poorer segment of society, in terms of food security, livelihood security and rural development, employment, industrialization, Government revenue preservation, and access to essential services and medicines. Least developed countries, and smaller and weaker developing countries — preference and commodity-dependent countries, small and vulnerable economies and net food-importing developing countries — have faced particular developmental challenges from liberalization. Common to all are the supply constraints characterizing their economies and market-entry barriers they face in accessing markets abroad, which significantly limit their ability to benefit from freer trade. This can be addressed only through effective market access and development flexibility and policy space for strengthening productive capacity by technical and financial aid for agricultural, industrial and services sector development. The Doha Round thus intrinsically has strong development dimensions, and placing the needs and interests of developing countries at its heart has been one of its agreed objectives.

16. Since the resumption of the Round, importance has been attached to an inclusive and transparent negotiating process based on a bottom-up approach. Developing countries actively participated in the process, including through various negotiating platforms of the Group of Twenty, the Group of 33, NAMA-11 and the Group of 90 (G-90). The G-4 emerged as a key negotiating forum, while excluded countries expressed concern over its top-down nature of decision-making. Developing countries persistently emphasized the importance of adhering to the existing Doha mandate and avoiding setting new parameters.

17. Positions of major players remained essentially unchanged from July 2006, when the Round was suspended. Discussions thus continued to centre on finding a right balance between agriculture and non-agricultural market access and setting numerical targets on various parameters. In April and May, impetus was given by the papers issued by the Chairman of the agricultural negotiating group setting out his assessment of possible ranges of and options for compromise solutions. Negotiations also intensified in other areas to achieve a commensurate level of

progress, including services, rules, trade facilitation and trade-related aspects of intellectual property. No significant movement was recorded on development issues of special and differential treatment and implementation issues. Work continued on the operationalization of Aid for Trade. The multilateral process was seen as being dependent on critical bargaining and the search for compromise solutions in G-4. As the G-4 ministerial meeting held in Potsdam (19-22 June) failed to achieve a breakthrough, attention returned to the multilateral process.

18. The draft modalities for agriculture and non-agricultural market access issued by the Chairmen of respective negotiating groups on 17 July marked an important milestone. Initial reactions indicated that, while the draft modalities for agriculture were seen as a relatively reasonable basis for further negotiations, the draft non-agricultural market access modalities were largely criticized by developing countries as not being conducive to genuine engagement and consensus. Developing countries warned against partial modalities that would sideline issues of their interest, and were particularly concerned over the proposed cuts in industrial tariffs, questioning whether it would meet the mandates on "less than full reciprocity" and the balance with agriculture. The possible adverse impacts of proposed industrial tariff cuts on employment and industrial development in developing countries were also highlighted by civil society groups.

19. Intensive negotiations are expected as from September to establish full modalities, convergence on which will likely be challenging. Striking a balance requires full clarity on all elements of the modalities, including special and differential treatment. The modalities would need to be translated into individual schedules of national commitments by members, entailing substantial work. The commensurate level of progress is needed in all areas for an overall balance within a single undertaking, while the right sequencing is important across different issues. Given the significant time constraints facing the Round, a minimalist "Doha-lite" package, calibrating ambitions against sensitivities of countries, might seem a practical way forward in meeting the time frame and saving the Round, despite the repeated calls for an ambitious package. The argument has been made that the proposals on the table would yield gains three times greater than those achieved in the Uruguay Round. Developing countries have stressed the importance of the content, rather than timing, to ensure the realization of enhanced market access opportunities and fairer rules, and to mitigate adverse implications that may arise from the Round.

20. The case for a realizable Doha package may be stronger, given the possible broader systemic implications of a failure to conclude the Round within a reasonable time frame. The Doha negotiations already exceed the original deadline by three years. The perceived diminishing effectiveness of the multilateral negotiations might lead to an increased recourse to dispute settlement or more vigorous pursuit of bilateral agreements and regional trade agreements. Such prospect warrants a reflection on the modus operandi of the trading system and the definition of the negotiating agenda. The built-in agenda from the Uruguay Round consisted primarily of agriculture and services, while the Doha Round incorporated a broader package including non-agricultural market access and Singapore issues. This was believed to facilitate intersectoral trade-offs, but proved to be unmanageable, with the result that the three Singapore issues had to be dropped from the Round in 2004. The broader agenda resulted in the attention diluted from the core issue, namely agriculture. In this light, targeting short-term but more

frequent negotiations focusing on core market access issues may arguably be found more productive.

21. The Round urgently needs the firm engagement of all parties in real negotiations on core issues and strong leadership in enabling convergence on mutually beneficial outcome. The observed want of such a leadership role by major developed countries in the Round contrasts with the strong leadership exercised by the United States in the previous rounds in guiding trading partners to negotiated outcomes. A new Trade Promotion Authority is thus important for the continued credible engagement of the United States in the negotiations, while tangible progress in its export interests has been considered indispensable domestically for its renewal. The recent United States debate on the approval of regional trade agreements with Panama, Peru or the Republic of Korea, revolving around environment and labour provisions, might be indicative of prospects of the new Trade Promotion Authority for the Doha Round. The United States Farm Bill reform is important because of its ability to improve its offers in agricultural domestic support.

22. An evolution in the concept of special and differential treatment is discernible. As compared to the Uruguay Round agreements, in which only limited provisions were provided for countries in special needs other than least developed countries (e.g., annex VII countries under the Agreement on Subsidies and Countervailing Measures or Net Food-Importing Developing Countries under the Agreement on Agriculture), specific needs of developing countries, individually or collectively, have become salient in the negotiations, most notably small and vulnerable economies, recently acceded members, low-income transition economies or individual countries facing special circumstances. Although they are not deemed to create a new category or precedence, the approach departs from the traditional one of special and differential treatment being based on country status, as it tends to differentiate among developing countries according to specific situations, as demonstrated by some criteria with special treatment open to all countries meeting those criteria. There emerged recognition that the terms of accession are often not commensurate with the level of individual development, financial and trade needs. The draft modalities provide for some corrective measures for recently acceded members. The granting of waiver from unsustainable terms of accession (e.g., the elimination of export duties on cashmere for Mongolia) is another case in point.

23. The World Trade Organization increasingly goes beyond border measures and the application of the principle of non-discrimination and national treatment, and addresses deeper "behind the border" regulatory and standard-related issues, including through "necessity test" (the requirement that measures not be more trade-restrictive than necessary to fulfil a legitimate objective). This has been an issue in dispute settlement cases and negotiations for disciplines on domestic regulation in services that have a bearing on regulatory autonomy and the right of developing countries to regulate, including for legitimate public policy purposes. There is concern that the multilateral trading system has increased its scope and depth in regulating different policies, including trade and trade-related policies such as trade-related aspects of intellectual property rights or trade-related investment measures. Trade-related aspects of intellectual property rights have ramifications for developing countries to achieve different Millennium Development Goals, such as those relating to health and education. For developing countries, this also implies

that their policy and regulatory regime is becoming increasingly subject to scrutiny by the multilateral trading system.

V. Specific areas of negotiations

A. Agriculture

24. Agriculture is important in developing countries because of its contribution to national income, employment and rural development. About 40 per cent of the workforce is employed in the sector, and a disproportionately large share of the world's poorest depend on income from the sector. Thus, the sector has significant poverty implications. Since agriculture is the most distorted sector with high border protection and subsidies, developing countries seek to achieve genuine market reform and fullest liberalization of the sector to eliminate such distortion hampering their export potential. Support for agriculture is, however, sensitive in developed countries, despite the sector's relatively low and declining contribution to their economies, owing to concerns about rural employment, multifunctional contribution of the sector and political economy difficulties in removing support once capitalized into land values. UNCTAD analyses show annual welfare gains of $35 billion from an ambitious liberalization scenario with $20 billion accruing to developing countries. Major beneficiaries are the highly protected developed countries, including of the European Union and Japan, and, among developing countries, exporters of protected products (wheat, beef, sugar, rice and dairy products), including Argentina, Brazil, Malaysia, Mexico and Morocco.

25. While recognizing the merit of freer agricultural trade, less competitive or net-importing developing countries have raised concerns over the possible adverse effects of liberalization. Many are concerned that increased imports may adversely affect their food security, livelihood security and rural development. Net Food-Importing Developing Countries are wary of the rise in food prices as a result of the elimination of export subsidies that kept international prices artificially low. Commodity- and preference-dependent economies fear erosion of preferences and export revenue loss as a result of most-favoured-nation tariff reduction. UNCTAD estimates indicate a net welfare loss for sub-Saharan Africa due mainly to adverse terms of trade effects and the absence of efficiency gains, highlighting the need for addressing specific development needs of countries through operational and effective developmental provisions and support to supply-capacity building.

26. Domestic support provides recipient producers with a cost advantage and distort production and trade. The draft modalities for agriculture proposes reductions of trade-distorting support of between 66 and 85 per cent in major developed countries. This would in most cases only lock-in existing agricultural policies and not affect actual spending. For instance, the proposed reduction (between 66 and 73 per cent of the current bound level) would limit United States spending to between $13 billion and $16 billion. Actual spending of the United States was estimated at $11 billion in 2006. The ongoing United States Farm Bill debate suggests possible modest reduction in the trade-distorting support spending with the reallocation of some existing measures into non-trade-distorting-support categories while maintaining major programme designs. In the meantime, the existing support, including for specific commodities (e.g., corn), have been

challenged under the World Trade Organization dispute settlement mechanism. On cotton, Brazil successfully challenged the United States domestic support measures.

27. Developing countries are increasingly concerned that the reductions in trade-distorting-support spending would have only a negligible effect on eliminating or reducing distortion in trade and production in developed countries. This is because the reduction would apply to a bound ceiling level that tends to be significantly higher than the actual spending amount, and a whole category of domestic support ("Green Box") that represents a substantial proportion of existing total domestic support is excluded from the reduction commitment on the grounds that it has non- or minimally trade-distorting effects, which many consider not necessarily to be the case. They thus seek real and effective cuts in trade-distorting support, and stringent disciplines on subsidies exempt from reduction commitments to ensure that they do not have trade-distorting effects.

28. As regards cotton, a major cash crop of particular importance to West African cotton producers, the principle of a more ambitious, expeditious specific cut, including on domestic support, had been agreed previously. A recent estimate indicates that the removal of tariffs and subsidies on cotton has the potential of lifting incomes of sub-Saharan African cotton producers by 31 per cent. The draft modalities for agriculture suggests a reduction formula, proposed by the four Western African countries (Benin, Burkina Faso, Chad and Mali), which implies subsidy cuts of 82 per cent on cotton for the United States (as compared to 60 per cent under general reduction formula). This was reportedly found not acceptable to the United States. The development dimension forms a part of wider cotton problematique.

29. Export subsidies were a contentious issue at the beginning of the Doha Round. Their use has diminished considerably since then, with the result that, at the Hong Kong Ministerial Conference, major users were able to agree to eliminate export subsidies by 2013. Progress has been made also on non-direct export subsidies such as food aid, export credit and state-trading enterprises. As regards food aid, genuine and emergency food aid would be protected under new disciplines, while the disposal of surplus would be eliminated, which would be to the detriment of local food producers in the poorest regions.

30. On market access, the draft modalities for agriculture indicate tariff cuts that would lead to average tariff reductions of around 52 per cent in developed countries and up to 36 per cent cuts in developing countries. A different approach of an average cut by 24 per cent was suggested for small and vulnerable economies, as well as African countries that had bound their tariffs at high uniform levels in the Uruguay Round. Developed countries would be allowed to exempt 4 to 8 per cent of their dutiable agricultural products from full reduction as "sensitive products". While these products are also subject to reduction to a lesser degree, they can be selected freely at the countries' discretion with no eligibility criteria. These products are likely to be those with high tariffs, which tend to coincide with products of export interest to developing countries. UNCTAD estimates show that over half of developing country exports to developed countries could be restricted if 5 per cent of tariff lines were exempt from full tariff reduction.

31. Developing countries have recourse to sensitive products as well as special products, which exempt a certain number of products from full reduction commitment, on the basis of self-selection guided by indicators on food security,

livelihood security and rural development. Developed countries have argued that such flexibilities should be limited so as not to hamper real market access and new trade flows. The proponents are concerned about the selection process of identifying eligible special products. The Draft Modalities for Agriculture suggests that the criteria be quantified in a verifiable manner. This could substantially limit the products that could be selected, including because of a lack of data availability. Furthermore, tariffs for these products are proposed to be subject to reduction, although the proponents had argued for no reduction at least for a part of eligible products. The details of the special safeguard mechanism, another important developmental provision that would allow developing countries to protect domestic producers from import surges and price depression, are yet to be determined. Developing countries have attached utmost importance to this instrument, since price fluctuations are high for many agricultural products and they do not dispose of means other than tariffs to provide security for their farmers.

32. Preference erosion remains a major concern of many preference-dependent countries. These countries have called for mitigating the negative impact of tariff reductions on their preferences through lesser reduction and longer implementation periods for a limited number of products that are most vulnerable to preference erosion, as some products such as sugar and bananas benefit from significant preference margins, while others represent substantial market value with smaller preference margins. Preference erosion is primarily an issue in the European Union market. Addressing preference erosion through trade measures has proved to be contentious, as products vulnerable to preference erosion tend to coincide with tropical products, for which fullest liberalization has been mandated.

33. Commodity dependence remains a major development problem afflicting many countries, particularly in Africa. The long-term decline and volatility of agricultural commodities prices remains a serious obstacle for increased and sustained export earnings. African countries have called for addressing tariff escalation and non-tariff barriers hampering market entry and diversification, and suitable measures to ensure the stabilization of prices at levels that are stable, equitable and remunerative. Least developed countries are exempt from reduction commitment and continue to pursue fullest implementation of duty-free and quota-free market access for their exports.

B. Non-agricultural market access

34. Developing countries have a vital interest in industrial tariffs, as they diversify their economies into manufactures and integrate themselves into the global production and supply chains of raw materials, intermediary and final products. Developing countries' share in world trade rose from 25 per cent in 1995 to 33 per cent in 2005. Manufactures represented 66 per cent of developing countries' merchandise exports, of which 46 per cent was shipped to other developing countries. Industrial imports account for 72 per cent of their merchandise imports. Despite the relatively low average tariffs in developed countries, high tariffs, mostly on labour intensive manufactures, and higher tariffs on processed products, rather than raw materials, persist in some sectors. Developing countries have higher bound rates, and in most cases autonomous liberalization leads to lower applied rates. Higher bound tariffs have provided policy flexibility for countries to raise tariffs if necessary, without need for having recourse to costly trade remedy measures. UNCTAD estimates indicate welfare gains of $107 billion globally under a possible

liberalization scenario with $65.2 billion accruing to developing countries. Adjustment costs increase with more ambitious scenarios.

35. Non-agricultural market access negotiations have become increasingly salient with greater calls for real market access and new trade flows in developing countries, while developing countries found such calls not in line with the Doha negotiating mandate. The Doha mandate provides for reducing or eliminating tariffs, including high tariffs, tariff escalation and non-tariff barriers, especially on products of export interest to developing countries, with special and differential treatment and "less than full reciprocity" in reduction commitments in favour of developing countries.

36. The draft non-agricultural market access modalities was largely criticized by developing countries as lacking balance at their expense. The major concern related to the tariff reduction formula whereby each tariff line, with some exceptions, is subject to a mathematical formula that produces the new bound rate. The structure of the formula — the "Swiss formula" — which reduces higher tariffs by a higher percentage than lower tariffs, had been agreed as a major concession of developing countries. The parameters that actually determine the level of tariff reduction ("coefficients") are now at the centre of negotiations. The proposal in the draft non-agricultural market access modalities to reduce tariffs in developing countries to below 19 to 23 per cent implies average bound tariff cuts of around 60 per cent for developing countries and of around 35 per cent for developed countries. Tariff reductions of such magnitude are expected to reduce current applied tariffs or significantly reduce the difference between bound and applied rates, which would represent flexibility for developing countries to raise applied rates.

37. Developing countries find such higher percentage cuts by themselves contradictory to the principle of "less than full reciprocity", arguing that this mandate requires that developing countries undertake smaller percentage reduction of bound tariffs than developed countries. Developed countries hold the view that the fact that final tariffs remain higher in developing countries than in developed countries after the formula cuts should satisfy the mandate. Developing countries are also concerned about the mandated balance between agriculture and non-agricultural market access. They highlight that reduction commitment by developing countries in non-agricultural market access is disproportionately higher than that undertaken by developed countries in agriculture.

38. Developing countries have underscored the importance of tariffs as development policy tools for the following reasons: (a) the relatively high dependency on tariffs as a source of fiscal revenue and public financing, including for education, health and other social development objectives; (b) high costs associated with introducing alternative sources such as broad-based indirect taxes; and (c) the continued need for protection to promote industrialization and diversification and to pre-empt de-industrialization. While recognizing the need for a cautious approach to tariffs because of associated distortion, they have highlighted the important role played by tariff protection in a number of developed countries in their early stages of industrialization and development.

39. According to the draft non-agricultural market access modalities, some 27 developing countries are subject to formula cut. As special and differential treatment, developing countries applying the formula would have recourse to flexibility not to bind some tariff lines or to apply less-than-formula cuts to limited

tariff lines (5 to 10 per cent) or, alternatively, to apply a less ambitious formula cut. Twelve developing countries with a high proportion of unbound tariff lines are exempt from the formula cut, but bind almost all their tariffs (90 per cent) at 28.5 per cent. The countries concerned had argued for lower binding coverage (70 per cent). Some countries have raised concerns over the possible adverse impact of the formula cuts and binding that may be undertaken by a member of a customs union, such as the Southern African Customs Union, on other members of the customs union exempt from formula cut.

40. Least developed countries are exempt from formula cut. Some 32 small and vulnerable economies, representing individually less than 0.1 per cent of world trade in non-agricultural products, would not apply formula, but would reduce their average bound rate to 14, 18 or 22 per cent, depending on their initial average tariff. This can, in some cases, still imply ambitious steep cuts of their bound rates, albeit with flexibility regarding cuts for individual tariff lines. As regards countries that have acceded to the World Trade Organization since 1995, only 6 of the 16 countries concerned would be exempt from reduction commitments, as they had undertaken significant reduction commitments as part of accession negotiations. The other six would fall within the category of small and vulnerable economies. The others, including China, would be subject to formula cut, but would be provided with a short grace period and a longer implementation period.

41. As in agriculture, preference-dependent countries have called for addressing preference erosion arising from non-agricultural market access tariff reduction through trade measures, including lower tariff cuts and a longer implementation period. Trade solutions had been important for them, as preferences directly affect their export revenue, which could not easily be compensated, at least in a short run, by the development solution. However, other countries not benefiting from preferences are opposed to trade solutions, as such measures would delay realizing their most-favoured-nation market access gains.

42. The reduction and elimination of tariffs in specific sectors ("sectoral initiative") is based on non-mandatory participation and critical mass approach. Various sectors have been proposed. Developing countries had argued that the sectoral initiative did not form core modalities, while developed countries have expressed strong interest in some sectors. The sectoral initiative is of relevance to preference erosion, as it would lead to the elimination of preference margins. Some sectors are those where high tariffs and tariff peaks prevail in developed countries, including textiles, leather, fish and fish products.

43. Non-tariff barriers are considered a key offensive agenda for developing countries. Negotiations are geared towards identifying such barriers affecting countries' exports, but developing countries experienced difficulty in identifying specific barriers adversely affecting their exports. Specific proposals have sought to establish an independent expert arbitration procedure and address various non-tariff barriers relating to specific sectors, e.g. electrical, automotive textiles. Others have proposed to reduce or eliminate export taxes and restrictions that developing countries found to be outside the mandate on the non-agricultural market access negotiations.

C. Services

44. The contribution of services to national income, employment and foreign exchange earnings has increased across countries. Empirical evidence suggests that expanding the services economy is important for developing countries' economic diversification and expansion of the share of manufactures in total merchandise exports. Services represent 52 per cent of GDP and 35 per cent of employment in developing countries, as compared to 72 per cent and over 70 per cent in developed countries. Services directly contribute to building infrastructure, productivity and competitiveness, and upgrading and diversifying productive structure of an economy, hence contributing to eradicating extreme poverty (Millennium Development Goal 1). Some developing countries are successful in exporting services, including tourism, transport, construction and business services, through temporary movement of natural persons (mode 4) and cross-border supply of services (mode 1). The majority of developing countries have yet to exploit the full potential of the services economy and trade, with the 15 largest exporters representing 70 per cent of developing countries' services exports. Realizing gains from liberalization presumes certain preconditions to be in place, including appropriate design, pacing and sequencing of national policies, including for supply capacity-building, macroeconomic stability and institutional and regulatory frameworks.

45. The sector performs important social functions through the provision of essential services (see TD/B/COM.1/EM.30/2). Universal access to education, health and medical, and water and environmental services is essential in achieving universal primary education (Millennium Development Goal 2), reducing child mortality (Millennium Development Goal 4), improving maternal health (Millennium Development Goal 5), and sustainable access to safe drinking water (Millennium Development Goal 7). Given the gender intensity of the services industry, promoting gender equality and women's empowerment (Millennium Development Goal 3) is also relevant. While Government has traditionally played a central role in the provision of such services, private sectors become increasingly important, with the privatization and deregulation of the sectors concerned. Experiences show that liberalization and privatization yielded mixed results in enhancing efficiency, competitiveness and universal access, and point to the case for the important role of Governments in designing adequate policies and regulations that best suit national contexts and conditions. Negotiations have addressed education, environment, postal and courier, energy and telecommunication services. Recently, there has been a call by G-90-plus countries to exclude water services and other essential services from the General Agreement on Trade in Services (GATS).

46. Negotiations on services aim at the progressive liberalization of trade in services and increased participation of developing countries in world services trade. As regards market access negotiations, negotiations are guided by the services negotiating guidelines adopted on 28 March 2001 and annex C of the Hong Kong Ministerial Declaration, which set modal and sectoral objectives. Since 2006, negotiations have been conducted principally on a plurilateral basis. As of July 2007, 71 initial offers and 30 revised offers have been submitted. Least developed countries are exempt from liberalization commitments. They continue to seek effective implementation of the least developed countries modalities adopted in 2003. The suggestion was made recently to extend national treatment commitments

in all committed sectors across countries or to hold a ministerial meeting for signalling and pledging commitments (which may be limited to those having participated in the plurilateral negotiations). The need for such new approaches and modalities has been questioned. Developing countries were concerned that the former proposal may have excessively deep liberalization effects and that the latter may lack inclusiveness and transparency with implications for those not participating in the initiative.

47. Mode 4 can significantly enhance world welfare. Worldwide flows of remittances, including those generated by mode 4 movement, were estimated at $268 billion in 2006. Welfare gains of $156 billion are estimated from a flow equivalent to 3 per cent of developed countries' skilled and unskilled work forces, with most of the gains accruing to developing countries. Gains of $200 billion are estimated if a temporary work visa scheme is adopted multilaterally. Movement of natural persons is also expected to generate spillover effects such as knowledge and skill transfer and human development. Developing countries and least developed countries have called for mode 4 liberalization, especially regarding particular categories of movement that have comparative advantage, including semi- and low-skilled workers and the movement de-linked from commercial presence. A recent plurilateral request by developing countries focused on contractual service suppliers and independent professionals. Despite limited improvement in offers on mode 4 by developed countries, they fail to provide adequate market access. Mode 4 has important development potential and is of particular relevance to broader international efforts such as the General Assembly High-level Dialogue on International Migration and Development, the Global Migration Group and the Global Forum on Migration and Development, to optimize the developmental potential of international migration.

48. Outsourcing through cross-border services supply has emerged as dynamic sectors of the world economy, giving rise to new trade opportunities for developing countries. Global offshore outsource spending is estimated at between $10 and 15 billion. Other estimates suggest that the amount could reach $110 billion by 2010. Some developing countries have argued for full liberalization of modes 1 and 2 in several sectors, including computer-related, professional, research and development, real estate, certain rental/leasing, other business, telecommunication, distribution, environment, financial services, tourism, recreational services and services auxiliary to all modes of transport.

49. As regards GATS rule-making, negotiations on subsidies aim to develop multilateral disciplines to avoid distortive effects that subsidies may have on trade in services, while recognizing the role of subsidies in relation to the development programmes of developing countries and the need for flexibility for them. Recent discussions have pertained to the implications of future disciplines on subsidies that may be applied for universal access purposes. Negotiations on government procurement in services have seen little progress, as views continued to differ among countries on the coverage of the negotiating mandate, including on market access elements. Developing countries have stressed the importance of government procurement for industrial development and social policy objectives. The Commission of the European Community has proposed a draft annex to GATS on government procurement setting out general principles and obligations with the possibility to make specific commitments on government procurement in schedules.

50. Developing countries attach importance to negotiations on an emergency safeguards mechanism. March 2007 saw a new proposal by ASEAN (minus Singapore) providing a good basis for negotiations. The emergency safeguards mechanism would allow Governments a safety valve against possible adverse effects of services liberalization to facilitate adjustment in affected sectors, thereby allowing them to move progressively towards freer trade. While some developed countries remain undetermined about their desirability and feasibility in the services area, many developing countries have highlighted the need for a viable emergency safeguards mechanism as a central component of a Doha services package.

51. Negotiations on domestic regulation relating to technical standards, licensing and qualification requirements for all service sectors have seen significant progress and moved to text-based negotiations on the basis of an April 2007 draft text issued by the Chairman of the working party on domestic regulations. The overall design and stringency of the future disciplines are at issue with developing countries, which are arguing for a sufficient degree of flexibilities for them. Different views exist on the questions of how the disciplines should address a “necessity test”, an obligation for prior comment, a carve-out for least developed countries and the design of special and differential treatment. Developing countries have stressed the importance of designing the disciplines in such a way as to strengthen their export opportunities, particularly through mode 4, by complementing market access commitments with facilitated recognition of qualifications of services suppliers so as to allow them effective market entry. Their concern relates to the possible implications of the disciplines for the right to regulate for public policy purposes, including in securing universal access to essential services such as the granting of concessions and the use of licensing fees.

52. Assessment of trade in services, as mandated under GATS and the services negotiating guidelines, is important for the objectives of increasing the participation of developing countries in world trade. Negotiations would be adjusted in the light of the results of such assessment. UNCTAD has assisted developing countries in undertaking assessment of trade in services. The Special Session of the Council for Trade in Services is to conduct an evaluation before the completion of the negotiations of the results attained in terms of increasing participation of developing countries. Such a review would ascertain the extent to which offers provide commercially meaningful market access to developing countries. This is yet to receive specific attention in the negotiations.

D. Development

53. Special and differential treatment and implementation issues continue to be essential to the development dimension of the round, as addressing imbalance in the multilateral trading system on a fast-track basis was part of the balance in the Doha mandate. The initial 88 agreement-specific special and differential treatment proposals have seen little progress in terms of making them more precise, effective and operational, as the progress made at the Hong Kong Ministerial Conference was limited mainly to five least developed countries-specific proposals. Least developed countries continue to urge full implementation of duty-free and quota-free market access for them with transparent and simple rules of origin. No significant movement has been recorded on various implementation issues.

54. Since the World Trade Organization task force recommendations in July 2006, efforts have continued to operationalize Aid for Trade. Aid for Trade would address development, financial and trade needs and challenges facing developing countries in benefiting from trading opportunities, building supply capacity, competitiveness, trade-related infrastructures and adjustment. It is deemed as a complement to, not a substitute for, a successful Round. Consultations are under way to secure new, additional, predictable and non-debt creating resources that remain an important benchmark for a successful Aid for Trade. Developing countries have stressed the importance of genuine additionality in resources, rather than reallocating existing development aid or trade-related capacity-building funds. The country eligibility to the mechanism remains an issue, as the eligibility of non-least developed countries developing countries is yet to be determined, including International Development Association-only countries. Another issue relates to setting up an effective mechanism to match demand and supply of Aid for Trade. Developing countries are expected to mainstream trade into national poverty reduction strategies, including through multi-stakeholder consultations, to identify and prioritize assistance needs, and establish in-country monitoring and evaluation systems to strengthen the effectiveness and sustainability of assistance. Developing countries have called upon development partners to be forthcoming in responding in an effective and timely manner to the needs and priorities identified by beneficiary countries through mainstreaming trade in their development assistance plan and programming. Despite the importance attached to national Aid for Trade needs and priorities, they continue to stress the importance of securing and enhancing regional and global, public-good type trade-related technical assistance and capacity-building programmes, particularly through multilateral institutions, including the United Nations/UNCTAD.

E. Rules

55. The negotiations on anti-dumping rules have addressed outstanding issues such as “zeroing”. Negotiations on subsides witnessed a proposal to broaden prohibited subsidies, inter alia, to government payments to companies to cover operating losses, forgiveness of government-held debt, and government lending to “uncreditworthy” companies. Developing countries were concerned over its implications for their industrial policies. Fishery subsidies are seen as contributing to the depletion of fishery resources. The discussion focuses on broad-based top-down prohibition. Small vulnerable coastal States have called for exemptions for subsidies on the artisanal fisheries, processing industry and access fees. On regional trade agreements, the agreement on a transparency mechanism in 2006 has shifted the attention to systemic issues, including special and differential treatment under article XXIV of GATT, “substantially all the trade” and transition period. The issues are of particular relevance to developing countries negotiating regional trade agreements with developed countries such as African, Caribbean and Pacific States.

F. Trade facilitation

56. Trade facilitation is important as costs of border crossing and other transaction costs are estimated at between 1 and 15 per cent of the value of traded products, higher than applicable customs tariffs in many cases. World Trade Organization negotiations have focused on customs-related matters relating to transit, fees and

formalities, including clearance and publication and administration of trade regulations. Cost implications of proposed measures remain a major concern such as risk assessment requiring customs automation. Developing countries have proposed a categorization of commitments and a positive list approach so that different commitments can be implemented in different time frames, subject to the provision of capacity-building support and the acquisition of implementation capacities.

G. Trade-related aspects of intellectual property rights

57. Since developing countries often lack technological capacities, the transfer and dissemination of knowledge, technology and know-how are essential for the development process, poverty reduction and gender empowerment. Certain intellectual property rights, such as drug patents and access to essential medicines, are important to the objective of combating HIV/AIDS, malaria and other diseases (Millennium Development Goal 6), reducing child mortality (Millennium Development Goal 4) and improving maternal health (Millennium Development Goal 5). The protection of biodiversity, traditional knowledge and genetic resources contribute to environmental sustainability (Millennium Development Goal 7).

58. An agreement was reached in August 2003 to temporarily waive the obligations of article 31 of the Agreement on Trade-Related Aspects of Intellectual Property Rights so that the countries with insufficient or no manufacturing capacities in the pharmaceutical sector could import a patented medicine produced under compulsory licences, and the formal amendment of the Agreement on Trade-Related Aspects of Intellectual Property Rights was adopted in December 2005. To date, only seven countries have ratified the amendment, despite the target date set at 1 December 2007 for the amendment to enter into force. The slow pace of the ratification is a matter of concern, and the effectiveness of the system has been questioned.

59. Developing countries have attached importance to clarifying the relationship between the Agreement on Trade-Related Aspects of Intellectual Property Rights and the Convention on Biological Diversity, traditional knowledge and genetic resources, as they find certain provisions of the Agreement on Trade-Related Aspects of Intellectual Property Rights to be in conflict with the objectives of the Convention on Biological Diversity, particularly in respect of possible bio-piracy through patents. A group of developing countries proposes to introduce in the Agreement on Trade-Related Aspects of Intellectual Property Rights mandatory access, benefit-sharing and prior informed consent to limit the misappropriation of genetic resources and traditional knowledge through patents, including through a disclosure obligation on the country of origin of the resources and traditional knowledge, evidence of prior informed consent for access, and fair and equitable benefit-sharing from their use. Proposed enforcement procedures envisage remedies including suspension/revocation of patent and patent application. Some developed countries are opposed to the proposal, as they see no conflict between the Agreement on Trade-Related Aspects of Intellectual Property Rights and the Convention on Biological Diversity and consider that it would hamper innovation.

60. Geographical indications can serve as an important marketing tool, especially for processed agricultural products whose quality, reputation or other characteristics are essentially attributable to geographical origin. Two issues are important: (a) the

establishment of a multilateral register for wines; and (b) the extension of a higher level of protection to products other than wines and spirits. The so-called "old world" countries, such as European Union countries and developing countries, seek to expand and enhance the legal protection given to geographical indication. As regards the extension of a higher level of protection, the issue of whether to launch formal negotiations remains.

VI. Conclusions

61. International trade continues to be a powerful engine of growth and development. Developing countries have emerged as major players in international trade and trade negotiations. Against this backdrop, a balanced and fair outcome of the Doha Round, with substantial development content, is essential to realizing an open, transparent, predictable, non-discriminatory and equitable multilateral trading system and to contributing to development objectives enshrined in the Millennium Development Goals, particularly the fight against poverty. The Doha Round needs to be brought to its successful conclusion. This is all the more important, as the credibility and the viability of the multilateral trading system are at issue. The development ambition and content of the Round must be upheld as an essential benchmark of a Doha development package. Key to this remains enhanced and predictable market access and market entry for developing countries in agricultural and non-agricultural products and services, particularly commercially meaningful commitments in modes 4 and 1, genuine agricultural policy reform to end distortions, and improved and development-sensitive fair and equitable rules. The effective operationalization of the principles of special and differential treatment and "less than full reciprocity", supported by an ambitious and operational Aid for Trade, would be instrumental for rendering the trading system sensitive to the development aspirations of developing countries and ensuring their sustainable and beneficial participation in international trade.