STUDIES IN TRADE AND INVESTMENT

56

Delivering on the WTO Round: A High-level Government-Business Dialogue

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ECONOMIC AND SOCIAL COMMISSION FOR ASIA AND THE PACIFIC

ESCAP is the regional development arm of the United Nations and serves as the main economic and social development centre for the United Nations in Asia and the Pacific. Its mandate is to foster cooperation between its 53 members and 9 associate members. ESCAP provides the strategic link between global and country-level programmes and issues. It supports Governments of the region in consolidating regional positions and advocates regional approaches to meeting the region's unique socio-economic challenges in a globalizing world. The ESCAP office is located in Bangkok, Thailand. Please visit our website at <www.unescap.org> for further information.

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Delivering on the WTO Round: A High-level Government-Business Dialogue

Papers and statements presented at the Conference on Delivering on the WTO Round: A High-level Government-Business Dialogue for Development, organized in collaboration with the International Trade Centre UNCTAD/WTO and Government of Macao, China

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FOREWORD

The United Nations ESCAP secretariat periodically organizes high-level policy dialogues to facilitate a common understanding of issues of mutual interest among members and associate members of ESCAP.

With particular regard to regional and World Trade Organization (WTO) negotiations, this year, for the first time, ESCAP organized a high-level multistakeholder policy dialogue among Governments, the business sector and the research community, entitled "Delivering on the WTO Round: A High-level Government-Business Dialogue for Development" in Macao, China, from 4 to 6 October 2005. The Conference was organized in collaboration with the Government of Macao, China, and the International Trade Centre (established under the auspices UNCTAD/WTO). The Asia-Pacific Research and Training Network for Trade (ARTNeT) participated actively through substantive contributions to the successful outcome of the Conference.

The issuance of this publication was made possible with the funding support of the Government of Macao, China, and the International Development Research Centre of Canada. The ESCAP secretariat gratefully acknowledges their generous support.

Furthermore, the ESCAP secretariat is grateful for the collaboration of other partners concerning the Conference and the contribution of papers: the International Monetary Fund, the United Nations Conference on Trade and Development, the United Nations Development Programme, the World Bank, and WTO. The key role played by the International Trade Centre UNCTAD/WTO in bringing business advocacy to the forefront of the on-going debate on delivering on the WTO Round is also gratefully acknowledged.

The consensus that emerged from this policy dialogue concerning the current WTO trade and development Round was: it is not a question of whether the peoples of Asia and the Pacific need this Round to be concluded. Rather, it is a universal need for the Round to conclude with the same level of ambition that had been demonstrated at Doha in 2001.

The contributions to this publication, which is a compilation of selected papers presented at the Conference, underscore the need for action if such a conclusion is to materialize. We are better informed today than we were at the start of the Doha Round with regard to the size and distribution of gains from various liberalization scenarios. However, negotiations have barely progressed.

Why is it that countries are unable to take the steps that will move the Round forward to its closure?

Is it a trust deficit between major trading countries, or between agricultural exporters and importers, superpowers and micro States, or national Governments and the business sector?

Is it possible that those who are undertaking the "trade talks" are not hearing those who need trade to work?

Large global companies need open markets in order to establish efficient, seamless supply chains. Small and medium-sized enterprises also need open markets, to enable them to gain better access to networks of similar companies overseas.

Workers need open markets if they are to continue working in those industries that can only flourish if the countries that they live in are allowed to specialize according to comparative and competitive advantages. For good governance, open markets are required, as political freedom goes hand in hand with economic freedom.

Ultimately, the choice lies with Governments, since it is governments that have the responsibility and are accountable to their citizens to deliver prosperity to all, not just to a chosen few.

We hope that this publication will contribute to advancing the debate in further support of the endeavours of the Governments and peoples of the Asian and Pacific region on trade as a means of securing prosperous and sustainable development.

Kim Hak-Su
Executive Secretary

ABBREVIATIONS

ACP	African, Caribbean and Pacific group
AD	anti-dumping
AFTA	ASEAN Free Trade Area
AGOA	African Growth and Opportunity Act
AMS	aggregate measure of support
ANZCERTA	Australia-New Zealand Closer Economic Relations Trade Agreement
AoA	Agreement on Agriculture
APEC	Asia-Pacific Economic Cooperation
APTA	Asia-Pacific Trade Agreement
ASEAN	Association of South East Asian Nations
AT	agricultural tradability
ATC	Agreement on Textiles and Clothing
BIMST-EC	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
BOP	balance of payments
BTAs	bilateral trade agreements
CAFTA	Central American Free Trade Agreement
CARICOM	Caribbean Community
CBI	Caribbean Basin Initiative
CFF	Compensatory Financing Facility
CEPT	common external preferential tariff
CMI	Chiang Mai Initiative
CPA	Cotonou Partnership Agreement
DDA	Doha Development Agenda
DMD	Doha Ministerial Declaration
EBA	Everything But Arms
EC	European Communities
ECLAC	Economic Commission for Latin America and the Caribbean
ECO	Economic Cooperation Organization
ECOWAS	Economic Community of West African States
EFTA	European Free Trade Association
EPAs	economic partnership agreements
ESCAP	Economic and Social Commission for Asia and the Pacific
EU	European Union
FDI	foreign direct investment
FfD	financing for development
FSA	Financial Services Agreement
FTAs	free trade areas or free trade agreement

GATT	General Agreement on Tariffs and Trade
GATS	General Agreement on Trade in Services
GDP	gross domestic product
GIAT	Growth through investment, agriculture and trade (Jakarta)
GNP	gross national product
GSP	Generalized System of Preferences
GSTP	Global System of Trade Preferences among Developing Countries
GTAP	Global Trade Analysis Project
HS	harmonized system
HRD	human resources development
IF	Integrated Framework
IMF	International Monetary Fund
IPRs	intellectual property rights
IT	information technology
LDCs	least-developed countries
MDGs	Millennium Development Goals
MERCOSUR	Mercado Comun del Sur
MFA	Multi-fibre Arrangement
MFN	most favoured nation
MNCs	multinational corporations
mt	metric tons
MTS	multilateral trading system
NAFTA	North American Free Trade Agreement
NAMA	non-agricultural market access
NFIDCs	net food-importing developing countries
NGOs	non-governmental organizations
NIEs	newly industrialized economies
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
PICTA	Pacific Island Countries Free Trade Agreement
PSE	Producer subsidy equivalent
PTAs	preferential trade agreements
R & D	research and development
RIS	Research and Information System for Developing Countries
RTAs	regional trade agreements
SDT	special and differential treatment
SAARC	South Asian Association for Regional Cooperation

SADC	Southern Africa Development Community
SAFTA	South Asian Free Trade Area
SAPTA	South Asia Preferential Trading Arrangement
SMEs	small and medium-sized enterprises
SP	special product
SPARTECA	South Pacific Regional Trade and Economic Cooperation Agreement
SPS	sanitary and phytosanitary
SSM	Special Safeguard Mechanism
TA/CB	technical assistance and capacity-building
TBT	technical barriers to trade
TIM	trade integration mechanism
TK	traditional knowledge
TNCs	transnational corporations
TRIMs	Trade-Related Investment Measures
TRIPs	Trade-Related Aspects of Intellectual Property Rights
TRQs	tariff rate quotas
UNDAF	United Nations Development Assistance Framework
UNCTAD	United Nations Conference on Trade and Development
USITC	United States International Trade Commission
VAT	value added tax
WAEMU	West African Economic and Monetary Union
WCO	World Customs Organization
WTO	World Trade Organization

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OPENING STATEMENT BY H.E. MR. HO HAU WAH, CHIEF EXECUTIVE, GOVERNMENT OF THE MACAO SPECIAL ADMINISTRATIVE REGION, CHINA*

The Honorable Executive Secretary of UNESCAP, Dr. Kim,
The Honorable Director of the Division of Trade Support Services of ITC, Mr. Badrinath,
Distinguished guests, ladies and gentlemen,

First of all, on behalf of the SAR Government and the people of Macao, I would like to extend a warm welcome to all guests and participants to the city of Macao. It is indeed an honour for myself to officiate at the opening of this prominent regional meeting jointly organized by UNESCAP and ITC and a privilege for Macao to host it here today.

As the regional arm of the United Nations Secretariat for Asia and the Pacific, UNESCAP has worked strenuously in uniting its 62 members in search of human development, social and economic progress and has witnessed the phenomenal growth in the region for the past 60 years. While UNESCAP endeavours to assist governments in member countries to more effectively participate in regional and global trade, the ITC helps business sector of developing countries to deepen their understanding of the WTO rules, in a way as to shed lights on their development directions and realize their full potential in the world marketplace. We are indeed much privileged to work jointly with UNESCAP and ITC in this event.

This meeting also forges a timely opportunity to evaluate the progress of the Doha Development Agenda. In a geographic area with economies as diverse as those in the UNESCAP region, an even and fair distribution of costs and benefits across countries would have to be a recurring concern when trade openness and regional integration take shape. The Doha Development Agenda has provided ground for negotiations towards a fair trading environment at both national and international levels. It also promotes dialogue to shelter the complexities involved in cooperation among different economies in the region characterized by extreme diversity.

We are aware that Macao is a small economy with limited natural resources and human capital. Our economic structure is also characterized by its proneness to external impacts, positive and negative alike. In order to maintain the momentum of growth, we endeavour to foster closer and long-term trade cooperation with other economies. Our main thrust now is to work together with places closer to us. In the past few years, we have achieved successful regional integration on trade and services with the Pearl River Delta, with increasingly greater access under the framework of the

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Closer Economic Partnership Arrangement signed with the Mainland. Since 2004, cooperation was further broadened to the Pan-Pearl River Delta Region, which includes nine Mainland provinces and the two special administrative regions of Hong Kong and Macao.

By sharing experiences and expertise with all the distinguished delegates here today, I am sure Macao can further deepen our insight in regional trading cooperation. In accordance with the "one country, two systems" principle and under the Basic Law, our mini-constitution, the SAR Government will insist on taking responsibilities as a member of the international community by maintaining a transparent and open trade policy as a right way forward in creating a level-playing field for local and foreign businesses.

Ladies and gentlemen,

Your deliberations at the dialogue here in this meeting will definitely help produce a balanced outcome of the negotiations that benefit all members in the Asia-Pacific region. I sincerely wish you every success in your discussions and a most pleasant stay in Macao. Thank you very much.

OPENING STATEMENT BY MR. KIM HAK-SU, UNDER-SECRETARY-GENERAL, UNITED NATIONS, AND EXECUTIVE SECRETARY OF THE ECONOMIC AND SOCIAL COMMISSION FOR ASIA AND THE PACIFIC

I wish to express my deep gratitude to the Government of Macao Special Administrative Region of China, for its generous support that made this conference possible. Having been at the crossroads of the great trading routes between East and West, the history of Macao, China is inextricably linked to trade – and the wealth that trade brings. It is therefore a most fitting venue for our discussions in preparation for the sixth World Trade Organization (WTO) Ministerial Conference.

The unique history of Macao, China is a blend of diverse cultures. From its beginnings as a safe haven for seafarers, it evolved rapidly into a competitive trading post for spices, porcelains and aromatic woods. Today, its pavements of stone mosaic are interspersed with state-of-the-art steel constructions: a truly modern globalizing economy that retains the mystery of a land of legend. Excellency Ho Hau Wah, indeed, I feel privileged to have the opportunity to be here to witness personally the tremendous strides that have been made since the return of Macao to China five years ago. The signs of a vibrant economy are amply evident, but more importantly for me, is observing how economic prosperity blends with a stable and harmonious society. Your wise leadership is a key determinant and I believe the people of Macao, China are poised for even greater prosperity and happiness in future.

Allow me now to turn to the WTO negotiations. The Doha Development Agenda (DDA) was born in a multilateral trading regime marred by "unfinished business". The Uruguay Round outcome was viewed as unbalanced, given that the playing field was not level for all players. Consequently, the ambitions were set high. The DDA came to be seen as an opportunity to adapt the trading regime to the development needs of the majority of the WTO members.

Four years later, the meandering course of the DDA indicates that ambitions at this level are easier set than delivered. Principally, WTO remains a forum for the exchange of concessions based on the principles of reciprocity and mercantilist "quid pro quo" bargaining. Harnessing the DDA negotiating process to pro-poor development goals of equity may need to be tempered with a dose of realism. WTO has its limits. A good part of the trade and development puzzle lies outside its narrow confines. The United Nations and other multilateral agencies have a key supportive role to play, in building trade capacity so that developing countries can make use more effectively of the enhanced market access opportunities that the DDA will bring. This was underlined at the 2005 World Summit held in August at New York, with many having expressed support for the establishment of an Aid for Trade initiative.

Having said this, a successful conclusion to the Doha negotiations in a manner that ensures new market opportunities for developing countries is a centrepiece of the trade and development puzzle. Yet, although only 10 weeks remain to the WTO Conference (in Hong Kong, China), the round continues to meander. Many questions arise. Is this painfully slow progress normal? Perhaps. After all, failed conferences and drawn-out negotiations have been seen before in the history of multilateralism. Has too much attention been paid to agriculture – a sector that proved so sensitive that it largely escaped the General Agreement on Tariffs and Trade rules for half a century? Has the scope of WTO become too wide? Is the membership too large? Is WTO now more about talk than action? The questions can go on indefinitely. Views will vary among countries and interest groups.

I wish to make one point only – the primacy of the multilateral system needs to be re-established. The Hong Kong Ministerial Conference presents a window of opportunity. It may, however, be the last in a row of windows that have been slammed shut. This goal is attainable, but three factors loom large.

First, the great trading nations of ESCAP now have an excellent opportunity to play a constructive role in shaping the final outcome of the Round. Not only is this an opportunity, it is a responsibility. These nations account for a growing share of world exports, which now stands at one third, just a little less than the European Union and the United States of America combined. They thus have a clear stake in a successful conclusion. Of course, attention is focused on the leadership that the European Union and United States will provide, particularly in agriculture, but a trade-oriented region such as ours could help to bridge differences and consolidate common interests.

Second, delivery requires political will to engage in deep and often costly adjustments. Such adjustments present challenges in both developed and developing countries. The Doha Round – I feel – has been held back, by a lack of real political will, from pursuing these adjustments.

Third, a pro-liberalization business lobby can muster the required political will. By putting forward a clear message, the business sector can nudge negotiators into a more ambitious delivery of results. The objective of our gathering here is to contribute to this process. Through dialogue and consensus building, the business interests and special concerns of the region can be more effectively integrated into the negotiating positions for the WTO Conference.

Continued stalemate would have large collective costs. At the same time, the laws of nature are such that flows of water will deviate around a blockage rather than confront it head on. Trade flows are no different. They will find the path of least resistance, and this is what seems to be happening in our region. Asia-Pacific now leads the world in terms of new regional and bilateral trade agreements. However, it is a mixed blessing. While these agreements create trade among the members of the agreement, they also tend to divert trade away from more efficient producers in third countries. One does not know with advance certainty, which of these two effects will be larger. In contrast, the all-inclusiveness of the multilateral route ensures that there is pure trade creation. Alternative routes are thus second-best policy options; however, sometimes they may be the only policy choice available.

The question, therefore, is how to design these agreements so that they adhere to the spirit and principles of WTO. This would go a long way in ensuring that trade diversion effects are minimized and that the interplay between regionalism and multilateralism is mutually reinforcing. We at ESCAP hope that the only regional trade agreement with a region-wide coverage that links East and South-East Asia, the Asia-Pacific Trade Agreement, will grow in that spirit. It is driven by a vision of an integrated ESCAP region. It could lay the foundations for a region-wide free trade and investment zone that would be a stepping-stone for an enhanced partnership between the region and the rest of the world.

Before concluding, I would like to express our special thanks to the International Trade Centre for its partnership in the organization of this meeting. The fruitful outcome provides clear evidence of the synergies that can be achieved when international organizations collaborate, each in accordance with their respective strengths. I would also like to express appreciation to a number of other international organizations that will be making important contributions. In particular, I should mention WTO with whom the ESCAP secretariat has been jointly implementing a flagship regional training programme, the United Nations Conference on Trade and Development, the International Monetary Fund, the World Bank and the International Development Research Centre, of Canada, for its support to trade research.

Special thanks are due to the Macao Economic Services of the Government of Macao, China for its professional organization of this conference, as well as its steadfast support to the work of ESCAP. We hope that this event will be the beginning of a continuing partnership with ESCAP on these important matters. My thanks are also due to the Rector of the University of Macau who is hosting the second leg of this meeting, i.e., the annual consultations on the trade research programme of a regional trade research network called ARTNeT.

In conclusion, I urge all to keep aiming high and not to allow this Round to under-shoot. Too many depend on you being able to bridge the differences and walk together on the path to prosperity. I wish this conference success in achieving what it has set out to do.

OPENING STATEMENT BY MR. RAMAMURTI BADRINATH, DIRECTOR, DIVISION OF TRADE SUPPORT SERVICES, INTERNATIONAL TRADE CENTRE

On behalf of the International Trade Centre (ITC), it gives me great pleasure to add my sincere welcome to you all to Macao, China. ITC is delighted to team up with ESCAP and the Government of Macao Special Administrative Region of China in organizing this high-level government-business dialogue for development. Delivering on the World Trade Organization (WTO) Round will be impossible if government and business interests do not go hand in hand. It is for this reason that ITC and ESCAP have planned this joint exercise to bring together the benefits of the ESCAP high-level policy dialogue and ITC's business-oriented approach to trade negotiations, which is illustrated by its "Business for Development" initiative featuring business advocacy.

As you know, ITC is the technical cooperation agency of WTO and the United Nations Conference on Trade and Development (UNCTAD) for operational aspects of trade development. Our mission is to support small and medium-sized exporters, and their business institutions, in their efforts to penetrate foreign markets. We help them understand and benefit from the multilateral trading system, develop export strategies, enhance trade support services available domestically and become more competitive on world markets.

We are happy to see such a strong presence of business interests here. In earlier decades, in most developing countries, the interest of businesspersons in international trade regulations was limited. During that period, unlike the situation in developed countries, dialogue between business and government in developing countries on trade policy and formulating negotiating strategies in multilateral or bilateral trade talks was minimal. Over the past two decades, the situation has changed significantly. The conclusion of the Uruguay Round was a watershed in the awakening of the interest of developing country business in multilateral trade negotiations.

The reason is that once the implementation of the Uruguay Round Agreements began, the exporting community in developing countries began to feel the impact on their day-to-day business. This awakened their interest in an area that they had, until then, been content to leave to their governments. Of the number of difficulties that surfaced during implementation, one realization that emerged in developing countries was that their business/government partnership in these negotiations had been weak and needed to be strengthened. Business, due to a lack of interest and expertise, had been unable to make the required contribution to the negotiating process. In addition, many developing country governments had not fully realized that they needed the support of business in the negotiations if implementation was to be smooth. Such support could have avoided situations where some of the agreements concluded contained provisions that did not always reflect the best interests of their business community.

Both business and government reached the conclusion that the same mistake must not be repeated in the Doha Development Round. Soon after the completion of the Uruguay Round, the International Trade Centre was flooded with requests from business in developing countries requesting information on the business implications of the just-concluded trade negotiations as well as technical assistance in building up knowledge and expertise for a more effective involvement of business in trade policy formulation.

Two simple maxims emerge out of this experience. First, while governments negotiate agreements, companies do business. Therefore, integrating their business concerns should precede the formulation of negotiating approaches and not come as an afterthought. Second, any trade agreement that cannot be converted into business opportunities will not be beneficial, durable or enforceable in the long term. It is that which will assure the development dimension of the Doha Development Agenda.

It is against this background that ITC launched the World Trade Net Programme to give developing countries a means to debate and discuss business implications of WTO-related issues as well as plan strategies for negotiations. The programme is active in more than 55 countries. Subsequently, with the full support of UNCTAD and WTO, the "Business for Cancun" and the "Business for Development" initiatives were launched for promoting business advocacy through active partnerships between the government negotiator and the business representative. The six "Business for Cancun" and the seven "Business for Development" consultations organized in all regions of the world brought together more than 800 business and government leaders from more than 85 developing and transition countries to discuss the impact on business of major developments in the Doha Development Round. The consultations have been facilitated by extensive documentation prepared specially for the business reader, and presentations by trade diplomats and experts from WTO, UNCTAD and ITC. The intensive discussions that followed provided food for thought regarding a more intensive dialogue between business and government in the participating countries.

The cooperation between business and government in trade policy matters has improved considerably since the start of the Doha Development Round. In Cancun, for example, about 50 developing country and transition economy delegations included business representatives.

Without the input of business, government negotiators cannot do their work properly. This input is invaluable in assessing and identifying national interests in the subject under negotiation, whether it be about tariff and non-tariff barriers or services, or the needs in terms of trade facilitation. Without the contribution of businesses, governments are not in a position to establish request lists and cannot reply in substance to requests submitted by other governments. Take, for example, trade in services, a sector with tremendous growth potential for developing countries. Our meetings have revealed that business-government cooperation is particularly weak in this area. Smaller service providers, including many small business associations, still do not understand the specific language of the General Agreement on Trade in Services and are unable to follow the ongoing negotiations. The creation and strengthening of services and other business associations and coalitions would be a useful contribution to the progress of negotiations.

ITC intends to continue with these multi-stakeholder events and provide an open forum to exchange views on business implications of the various issues under negotiation in WTO, and help to provide a greater common understanding on the key regional development issues and their implications on business ahead of the completion of the negotiations.

The 2005 series of regional "Business for Development" events will culminate in a gathering of business leaders, senior trade and economic officials and parliamentarians on the two days (11 and 12 December 2005) prior to the commencement of the Hong Kong WTO Ministerial Conference. We look forward to continued collaboration with ESCAP at that event also. Those of you who plan to be in Hong Kong, China on those days are cordially invited to join this exercise.

Finally, we all know that market access alone does not result in trade. It has to be backed by supply-side capabilities, including the ability of the business community to compete effectively in international markets. This is another area where ITC can make a significant contribution in terms of technical assistance through a suite of programmes, tools and services for strengthening capacities at the enterprise level as well as at the level of national agencies that support these enterprises. Many of these are already being applied in your countries and are capable of being customized to specific national or sectoral needs. Documentation on this, including a compendium of ITC's competitiveness tools, is available at this meeting.

ITC has been implementing a number of trade-related technical assistance programmes in Asia. Under the Asia Trust Fund (co-funded by the European Union and ITC), we channel quick delivery of one-year, trade-related technical assistance in response to an immediate need identified by the beneficiary countries or regional organizations. Much of this assistance is in the area of MTS. Altogether, 19 Asian countries and two regional organizations are part of this programme. In addition, ITC has been coordinating wide-scope bilateral programmes co-funded by the European Union and the ITC, and involving other trade-related United Nations agencies such as the United Nations Industrial Development Organization and the World Intellectual Property Organization, with the aim of better integrating Pakistan and Sri Lanka into the global trading system. Other countries will follow. Finally, 11 countries from the region are part of the ITC World Trade Net Programme, which was initiated in 1994. The purpose of this programme is to inform and advise the business community on WTO-related issues and to integrate business views into national trade negotiation strategies.

ITC is particularly happy to partner with ESCAP in organizing this meeting in Macao, China. We see obvious complementarities in the value added each institution can bring to your work in preparation for the Hong Kong Ministerial Meeting in December 2005 and beyond. We are convinced that the expertise of ESCAP, ITC and WTO will stimulate active and fruitful discussions between all participants, which will be manifested in better-prepared national negotiating positions and agreements that more fully reflect the interests of business in Asian developing countries.

Our objective here is to bring the businesspeople and the government officials present closer together – indeed, close enough that all leave with the impression that they are part of their national team for trade negotiations and that, together, they contribute to the success of the Doha Development Round for the benefit of their own countries and companies.

LUNCHEON ADDRESS BY MR. VICTOR FUNG, CHAIRMAN, LI & FUNG GROUP LTD., ON BUSINESS PERCEPTIONS AND EXPECTATIONS REGARDING THE WTO DOHA NEGOTIATIONS

The upcoming sixth World Trade Organization (WTO) Ministerial Conference, scheduled for December 2005 in Hong Kong, China is an event in which we all share a vital interest. I would like to address this topic as a member of the private sector, in terms of why the Doha Round must succeed and why real progress must be achieved in December. As all of us here are aware, this meeting is coming at a crucial point in the entire Doha process. Over the past six years, we have seen discord in Seattle and Cancun, followed by what appears to be a widening divergence of views between developed and developing economies. I would like to give my own business point of view on what is at stake and why all the negotiators coming to Hong Kong, China in December have an interest in finding common ground. In essence, I would like to supply a real world perspective. It is important not to lose sight of what the Doha Round is really trying to achieve.

Since I have been asked to provide this business perspective, allow me to start with something we at Li & Fung deal with on a daily basis – the global production system. Manufacturing today is quite different from the past. In the old days, when we talked about manufacturing a product, the idea that immediately sprang to mind was that everything would be done "in-house" – in one factory, under one roof, and in one country – before a product was exported and sold in another country. However, times have changed and manufacturing a product carries a completely different meaning today. Products are no longer manufactured in one factory and under one roof. Increasingly, production is being dispersed across different factories in different countries and indeed, it is becoming globalized.

With regard to the Doha Round, some of you may feel that trade in manufactures is not your "number one" priority. What I want to emphasize is that the global production system is of vital interest to all of us. I believe that the multilateral approach to trade regulation is the only way to ensure its continued health, and to promote global prosperity.

A. The global production system

The modern global production system is essential to economic efficiency and consumer welfare. It benefits consumers by improving efficiency and reducing cost. Thanks to the modern global production system, consumers get higher quality, greater variety and lower prices than they would get otherwise, because it is possible to draw from the entire world as a production base. For developed countries, the global production system facilitates the development of the "knowledge economy." It enables them to focus on design, branding, understanding the needs of consumers and specialized activities that are knowledge-intensive.

Developing countries also benefit. Today, developing countries have far better access to the global economy than was possible in the past. Developing countries can now get into the game, because the global production system allows each activity in the value chain to be carried out in the most suitable location. It used to be that, in order to become active in international trade, an economy would ideally have to be able to perform all the activities in the production value chain in one place. This included manufacturing, research, development, branding and design. Now, because of the global production system, countries can get into the game by undertaking just one or two pieces of the chain. This is allowing many new locations into the game for the first time. They do not have to be able to do it all. In this way, the modern global production system lowers the barriers to entry for developing countries, especially for small and medium-sized enterprises worldwide. This has obvious implications for employment and economic development.

My company, the Li & Fung Group, is a Hong Kong-based multinational company focused on supply chain management, and is active in export trading, retailing and distribution. We operate in some 40 countries and regions, and directly employ around 16,000 persons worldwide. Our export-trading arm, Li & Fung Limited, sources high-volume and time-sensitive consumer goods on behalf of customers in the world's leading markets. Li & Fung operates through a network of 70 sourcing offices around the world. Taking into account our manufacturing contracts with thousands of suppliers, Li & Fung has indirect employment links with an estimated 1.5 million workers. Having an open, multilateral trading system is what allows us to help generate business and employment involving so many countries and so many people.

The way we do business at Li & Fung has changed because of the developments I am describing. For example, suppose we receive an order to produce 10,000 shirts for a retailer in the United States. In the old days, our response as a trading company would be to look for the best manufacturer available, give him the order and earn some commission in return. However, that approach has changed completely. Today, if we get an order for 10,000 shirts, what must we do? We must first consider the best place to source the yarn required for making those shirts. Having analysed what is available in the world, we may decide that the Republic of Korea is the best place to produce that particular type of yarn. We will then identify a factory in the Republic of Korea to produce the yarn for us.

Next, where should we do the dyeing and the weaving to make the fabric? It depends on the client's need, the timing, the capacity and the technology requirements. Let us say, in this example, we decide that Taiwan Province of China is the best place. Therefore, we ship the yarn from the Republic of Korea to, say, two factories in Taiwan Province of China because we have a tight deadline to meet. After the fabric is produced, the next thing is to identify the best place to produce the shirts – where to do the cut, make and trim – the final stage of adding value to the whole process. For labour, capacity and skill reasons, we may, for example, want to do it in Thailand. To save time, we may use three different factories in Thailand. The whole production process is therefore carried out in a dispersed manner across multiple economies.

In the end, the final products that arrive on the retailer's shelf will look exactly the same as if they all come from one single factory; in fact, we have done it in six factories in three different countries. What makes all this possible is, of course, the development of information technology and modern logistics, which allows us to break down the entire manufacturing process into different components at different stages. At each stage, we will consider the best place to produce the component we need. The end product, therefore, becomes a truly globalized one. In an open multilateral system, Li & Fung can push each order back through its network to the best location for each activity. While this creates obvious gains for consumers, it also enables more locations worldwide to participate and contribute according to their own skills and capabilities, and to develop their own competitive strengths.

Dispersed manufacturing is the way of the future. I predict that we will be seeing even more segmentation of the global production system. The underlying reasons are efficiency and economics, and in particular, specialization, division of labour and gains from trade. The process will be facilitated by improved communications and transportation, and information and management systems that allow the coordination of complex supply systems. As manufacturing activities become more dispersed, there will be benefits to developing countries. In the process, developing countries will become increasingly active in the international trading environment. They will be able to do so one step at a time, gradually expanding as they develop their own competitive edge. In this process, small and medium-sized enterprises also will have the chance to participate in global production, progressively developing their core competences. I see this as a process of democratization of the global production system. With comparative advantage and open trade, there is a place for everyone.

B. The multilateral approach

All of us are familiar with the benefits of the multilateral approach. It is widely recognized that overall wealth for individuals and countries will grow when barriers to trade are lifted. The multilateral approach is best because it maximizes this process of wealth creation. Because the future lies with dispersed manufacturing and increasingly complex trade flows, multilateralism will matter even more in the future than it has in the past.

Going forward, a multilateral world trade system is our very best hope for addressing the broad range of issues on the Doha Agenda, such as market access, tariff and non-tariff barriers to trade, trade in services and trade facilitation. With respect to market access and tariffs, multilateral solutions will help us optimize the efficiency of the complex cross-border flows generated by dispersed manufacturing. Non-tariff barriers become more challenging when production is fragmented, and they have proven particularly thorny to resolve on a bilateral basis. As for trade in services, the single best way to move ahead is for WTO member States to come forward in large numbers with meaningful undertakings to open their services markets under the General Agreement on Trade in Services. The multilateral approach is also best for the various issues in the Doha Round pertaining to "trade facilitation." These include issues of customs valuation, import licensing, pre-shipment inspection and rules of origin.

Rules of origin are a good example of why multilateralism matters. Value added is becoming global. Under one widely accepted, traditional approach, the "country of origin" is where "substantial transformation" occurs; that is, where the inputs are "substantially transformed" into the finished product. In the old days, this approach matched the realities of production. Because everything was manufactured under one roof in one country, the country where "substantial transformation" occurred and the "country of origin" were the same. Today, not all the value added is occurring at the place of substantial transformation. Value added is occurring in multiple countries.

C. Proliferation of bilateral agreements

During the past several years, as the Doha Round has faltered, we have seen a proliferation of bilateral agreements in the Asia-Pacific region and elsewhere. What few people realize is that bilateral agreements have very troublesome consequences for the global production system. Let us consider a hypothetical example. A bilateral agreement is signed between "Country A" and "Country B." This bilateral agreement requires that goods have "Country A" as their "country of origin" in order to qualify for duty-free entry into "Country B." Raw materials can be sourced only from "Country A" and perhaps a few small neighbouring economies in order for the finished products to qualify for duty-free entry into "Country B". The negotiators for "Country B" are very keen to limit the geographic scope of country of origin as much as possible. To my understanding, this example, while hypothetical, accurately reflects real-world bilateral trade negotiations.

Next, let us try to visualize the consequences of this type of negotiation outcome for the global production system. Returning to the example I discussed earlier, the order for 10,000 shirts, as soon as bilateralism is introduced, everything will be sub-optimized. Bilateralism starts to distort the flows. It throws up barriers. It creates friction, reduces flexibility, raises prices and hinders the ability of companies to get new countries involved in the global production system. If you take what I have just said and multiply it by 100, you can see how quickly the global production system degenerates.

I am deeply concerned that the proliferation of bilateral agreements is forcing businesses to sub-optimize. Imagine the situation facing the supply chain manager.

You have thousands of products in tens of countries, and hundreds of factories. In structuring the supply chain, every country of origin and every bilateral has to be tacked on as an additional consideration. With each new bilateral, the considerations related to “rules of origin” multiply and become more complex. This phenomenon is what trade experts call “the spaghetti bowl effect.” Even larger companies have a hard time keeping track. For small firms, it is impossible. That is why the multilateral system is so important. It defines rules of universal application. It is necessary to understand only one guiding set of rules.

From a business standpoint, the question in structuring the supply chain should not be how to qualify for favourable “rules of origin” treatment. Instead, the question should be “what is the optimal way to create a product?” I should do this in the most cost-effective way for the final consumer. That is the only thing about which I should be worried. Why should I worry about where is the point of “substantive transformation”? Why should I worry about it occurring in any particular location in order to qualify for duty-free treatment? The whole world should do it based on economics. In order for the future world-trading regime to mirror economic reality, and to allow the use of modern business strategies, what we need is a single, over-arching framework for trade.

Bilateral agreements cause the business community to sub-optimize. In economic terms, bilateral agreements destroy value. The implications are clear. If left unchecked, the continued growth in bilateral agreements has the potential to hinder the development of the global production system. Such agreements are also endangering the multilateral system itself. We must think very hard before we allow further proliferation.

I take issue with views that are commonly expressed about the supposed merits of bilateral agreements. Bilateral agreements are not a substitute for true multilateralism. Nor do they complement the multilateral system. I do not adhere to the notion that bilateral agreements represent a pragmatic way to take a step forward. To advocates of bilateral agreements, I say: “Please show me how a series of bilateral agreements, as they proliferate, somehow merge into a coherent multilateral system.” The truth is that they cannot. Instead, they make it harder for business to create value and hence economies to create jobs.

D. Conclusion

My message is straightforward: the world must return to multilateralism. Multilateralism is an ideal that has served all of us well. For the reasons I have cited, and the way economies in the real world are developing, multilateralism has to be the only way forward.

On behalf of the business community, I would like to drive home one final point. All of us here at this meeting, and all the economies represented, have a tremendous amount riding on the successful conclusion of the Doha Round. The negotiators going into the Hong Kong Ministerial Conference in December 2005 need to understand that they are under very real pressure. The future of the global production system rests on their shoulders. If we are unsuccessful in Hong Kong, China, and the world dissolves into a world of bilateral agreements, much of the gain that is possible from the global production system will be lost. This affects every one of us here today because there is something in it for everyone: knowledge-intensive jobs, manufacturing jobs, jobs creating components and inputs, and service-related jobs. The multilateral system enables each location around the world to contribute according to its skills and capabilities, and to develop its own competitive advantages. Modern production systems are multilateral, not bilateral. Multilateralism democratizes the global economy – there is, indeed, a place for everyone.

CLOSING STATEMENT BY H.E. MR. THOMAS AQUINO, SENIOR UNDER-SECRETARY, DEPARTMENT OF TRADE AND INDUSTRY, THE PHILIPPINES, AND CHAIRMAN ON THE CONFERENCE

A. Highlights of issues of common concern and interest to the Asia-Pacific region

The Conference on Delivering on the WTO Round: A High-level Government-Business Dialogue for Development (HLD) is the first policy dialogue between governments and business leaders organized in this region prior to the sixth World Trade Organization (WTO) Ministerial Conference in Hong Kong (to be held in December 2005). HLD was organized as a partnership between ESCAP and the International Trade Centre (ITC) with the aim of furthering the dialogue between government and business, so that business perspectives can more effectively be integrated into policy positions as countries prepare for the WTO Hong Kong Ministerial Conference.

The conference was hosted by the Government of Macao, China. H.E. Chief Executive Edmund Ho Hau Wah, in his opening statement, stressed that his Government would continue to assume its responsibilities as a member of the international community by maintaining a transparent and open trade policy as the right way forward to creating a level playing field for local and foreign businesses. Mr. Kim Hak-Su, Executive Secretary of ESCAP, in his opening statement underlined the need for the primacy of the multilateral trading system to be re-established, so that the region could continue to integrate and evolve into an outward-oriented, dynamic trading building bloc of the multilateral trading system. The Hong Kong WTO Ministerial Conference might be the last opportunity to achieve this. Mr. Ramamurti Badrinath, Director, Trade Support Services Division, ITC, stressed that trade agreements that could not be converted into a business opportunity would be neither beneficial nor durable, nor enforceable in the long term. Realizing business opportunities was thus seen inextricably linked to the development dimension of the Doha Development Agenda.

HLD attracted more than 140 participants. Over twenty ESCAP members and associate members participated, of which seven were represented at the ministerial level. In addition, 31 leading business organizations of the region, 14 research institutions from the ESCAP-initiated research network, ARTNeT, multilateral organizations such as WTO, the International Monetary Fund, the World Bank, the United Nations Conference on Trade and Development, and national level entities such as IDRC Canada also participated. The conference was conducted in a highly interactive manner, whereby representatives from government and the business community teamed up by country and shared views on each topic, with the objective of increasing common understanding across the region.

The following are the highlights of the issues discussed:

(a) Primacy of multilateralism. There was clear commitment towards the multilateral trading system and the need to re-establish its primacy as a first best trade policy option, and as a centrepiece of the trade and development linkage. Nevertheless, the complexities involved could not be underestimated. It was agreed that technical work related to the negotiations had been exhausted and that political will was the key to a successful outcome for the Ministerial Conference. A reasonable benchmark by which to measure success at the Hong Kong Ministerial Conference would be a two-thirds completion of the Round.

(b) Agriculture. Liberalization of agricultural trade, in particular its market access pillar, continued to be a pivotal issue around which progress in all areas of the negotiations, especially non-agricultural market access (NAMA), was intrinsically linked. Some of the forthcoming Hong Kong Ministerial Conference deliverables highlighted were:

   (i) A date by which export subsidies will be eliminated;

   (ii) A clearer understanding of the magnitude of reduction commitments on domestic support, including definition and clarification of the content of the modified Blue Box;

   (iii) A liberalization formula that is sufficiently ambitious to deliver opening of markets to those who for years have been seeking greater access;

   (iv) Special products that had implications on rural livelihoods and food security, as well as special safeguard mechanisms were integral elements of special and differential treatment for developing countries; and

   (v) The cotton initiative remained relevant and the Hong Kong Ministerial Conference was expected to articulate further a deliverable on the matter.

(c) NAMA. Consensus appears to be converging on a Swiss-type formula with options on coefficients and built-in flexibilities for developing countries still to be worked out. Small developing economies had a special interest in the NAMA negotiations, as the improvement of market accession conditions was of decisive importance for the implementation of their export led economic growth strategies. A view was expressed that the participation of developing countries in the sectoral tariff reduction initiatives should be optional. A further negative aspect of the sectoral zero per cent tariff proposals was that they focused only on finished products, disregarding the tariff situation of raw materials and semi-finished products. Attention was drawn to the importance of reducing tariffs and non-tariff barriers in respect of handicraft products exported by least-developed countries (LDCs).

Non-tariff measures constituted an increasing problem to exporters, and negotiations on the reduction/elimination of these measures in the Doha Round should be intensified.

The positive role of tariff reduction in the context of South-South trade was stressed.

The issue of how unbound tariffs should be worked into the formula remains a task for the Hong Kong Ministerial Conference.

The textiles and clothing sector was a key export sector for the region, as it encompassed many aspects under the DDA, including NAMA negotiations, the cotton aspect under agricultural negotiations and regionalization issues. Therefore, there was a great deal at stake with regard to textiles and clothing. It was stressed that preferential market access was the most important component in determining competitiveness, especially for Asian LDCs and small vulnerable countries. However, Asia in general, and Asian LDCs in particular, were granted less favourable preferences. As one way out, the importance of South-South trade development was underlined in an Asian regional context. The July 2004 package made special reference to this possibility. This included market penetration into fast-growing Asian emerging markets, improvements of rules of origin regulations in developed markets to encourage South-South trade of intermediary products such as fabrics and trims.

Finally, technical cooperation among Asian countries was emphasized as an important factor to secure future export success of all Asian countries, including land-locked countries and LDCs. Large Asian countries expressed their willingness to help smaller vulnerable countries, sharing their experience and expertise with them in order to improve the business environment and build on regional competitiveness.

(d) Services. Liberalization of services trade continued to hold potential for making a direct contribution to improve efficiencies of economies in the region. Yet, the still evolving regulatory regimes in developing countries continued to be an issue of concern that had weakened the ability of countries to take on more ambitious liberalization commitments. Progress achieved to date in services negotiation was disappointing, with few and low quality offers having been made. There was a consensus that the contribution of business to services negotiations was the key in moving the process forward. Nevertheless, smaller service providers had difficulties in understanding the specific language used by the General Agreement on Trade in Services.

(e) Trade adjustment finance. The economic case for further trade liberalization between developed as well as high-and middle-income developing countries was well established. However, it required approaches that went beyond the exchange of concessions (even as corrected through special and differential treatment commitments). Multilateral redistributive mechanisms that were more effective, and which took into account the implementation burden and adjustment costs, both across countries and between different groups of people within countries, would be needed. It was agreed that the discussion on trade adjustment financing could not have been timelier. The issue of Aid for Trade, including adjustment financing, featured prominently in the participants' discussions, as it was particularly important for countries that had severe domestic policy and supply side constraints. While there were short-term adjustment costs related to greater trade openness, such as reduced export revenues, increased import bills or other shortfalls in external balance of payments that required international assistance, trade liberalization was typically linked to medium- and long-term adjustments and thus required longer-term financing assistance and better consistency among various financing schemes.

Concern was expressed over conditionalities imposed through lending facilities that might lead to de-industrialization in some countries or other forms of economic and social destabilization. The need for improved policy coherence content by the Bretton Woods institutions was stressed. ESCAP and ITC, in collaboration with multilateral organizations, were requested to undertake further research on the design of current initiatives with a view to strengthening the trade and development linkage.

(f) Trade Facilitation. Trade facilitation was identified as an important component of the ongoing WTO negotiations. It was noted that in comparison to other areas of negotiations, discussions had proceeded in a constructive spirit in the Negotiating Group on Trade Facilitation. It was recognized that this area of negotiations could produce a win-win outcome for all members, as it would facilitate implementation of much needed domestic reforms while at the same time ensuring that similar reforms and measures were implemented in other countries, leading to potentially significant reduction in international trade transaction costs. Strengthening of Article V on Matters Related to Goods Transit was highlighted as being particularly important for many LDCs and landlocked developing countries in the region. While many proposals had been submitted by both developed and developing countries, there was now a need to agree on the specific trade facilitation measures and mechanisms that should be included in an agreement. At the same time, it was important that all countries be given the time, flexibility, and assistance they needed to implement the agreed measures. ESCAP and ITC were requested to engage in further capacity-building research and analysis to promote government-business partnerships, and to promote the inclusion of trade facilitation into economic reform programmes of multilateral donor agencies.

(g) Business advocacy. Government and business representatives agreed that without closer participation of business, trade negotiations could not be conducted successfully.

In recent years, positive developments had been observed in respect of closer business-government cooperation. In many countries, consultation mechanisms were established to reinforce business-government exchanges of views on trade policy issues. Efforts should be made, however, to make the existing mechanisms more efficient.

More efficient involvement of business in trade negotiations was hampered by insufficient analytical capacities, scarce financial resources, poor cooperation between fragmented business organizations, government policies that were not fully transparent in trade-related information dissemination, and availability of trade policy makers.

Business organizations were urged to strengthen their contributions to WTO and other trade negotiating processes through the formation of coalitions with like-minded business organizations in other countries, and to improve networking in the context of WTO and other trade negotiations. Attention was drawn to the increasing importance of multinational companies in trade-related business advocacy and the potential for increased networking across countries.

Participants appreciated the pioneering work done by ITC on promoting business advocacy in developing countries, and recommended that ESCAP and ITC continue providing technical assistance to strengthen government business dialogue, as business advocacy in most developing countries was still in its infancy.

(h) Regionalism. Present economic circumstances were uniquely opportune for the region to emerge as an integral zone of efficient production and trade growth for the world. However, developing countries would need to revisit their own structure of protection, the incidence of which had often been shown to weigh more heavily on developing country exporters than on those from developed countries. Regional economic and trade cooperation, including cooperation through bilateral trade and investment agreements, was a central mechanism employed by most, if not all, developing countries to expand mutual trade and investment flows. A dense web of bilateral trade agreements and the fragmentation of trade and investment flows was a cause for concern. There was some pessimism on the extent to which WTO rules, particularly as embodied in the General Agreement on Tariffs and Trade Article XXIV and the General Agreement on Trade in Services Article V could discipline the proliferation of regional trade and bilateral trade agreements. The risk was high that without an operational common framework, an irreconcilable fragmentation of trading relations might evolve. If regionalism was to continue to evolve as a building block of an enhanced global partnership, an essential but perhaps underestimated condition was the need for a deeper and more rational process of regional integration.

(i) Accession. The ESCAP region accounted for the highest proportion of countries in the process of accession, many of which found themselves at the most difficult and complex part of the accession process. Regional cooperation among developing countries could play an essential role in facilitating that process. Two aspects of regional cooperation were identified as being of particular importance. One was through "Government to Government" sharing of the experiences of those LDCs that had recently acceded. The second was through the support and flexibility that advanced WTO developing countries members could provide to acceding countries, and ESCAP was requested to facilitate this process in collaboration with ITC, WTO and other international organizations.

B. Concluding session

The conference ended with a special vote of thanks to the Government of Macao, China for its excellent organization and commitment that had been instrumental in the success of the dialogue. The chairman also expressed his special thanks to ESCAP and ITC for this important initiative. The depth and range of the discussions underlined the continuing need for such a dialogue, which would lead to increased trading opportunities for the benefit of all peoples of the Asia-Pacific region.

I. GLOBAL TRADE LIBERALIZATION AND POOR COUNTRIES: POVERTY IMPACTS AND POLICY IMPLICATIONS

By Bernard Hoekman and Marcelo Olarreaga***

Introduction[1]

The members of the World Trade Organization (WTO) agreed at Doha, Qatar in 2001 to launch the Doha Development Agenda for multilateral negotiations to reduce the use of trade-distorting policies and bolster the development relevance of WTO.[2] The Doha Agenda spans numerous issues, including the reduction of agricultural support policies, market access liberalization for goods and services, and strengthening of WTO rules and dispute settlement procedures. As has been stressed in virtually all research on the potential impacts of broad-based global trade reforms, the potential benefits for the world economy are significant. Global trade reforms can also do much to help attain the Millennium Development Goal (MDG) of reducing poverty by half by 2015. However, not all groups and individuals will gain from global trade reforms, which helps to explain why progress has been slow.

Progress on removing trade distorting trade policies has been slow, especially in the key area of agriculture. Sometimes the reason for limited progress on market access is seen to be the lack of "enough on the table" to interest exporters. However, this ignores the fact that large emerging market countries maintain much higher tariffs and other barriers to trade than do Organisation for Economic Co-operation and Development (OECD) countries. By reducing these barriers, they will benefit OECD exporters and bolster South-South trade. This prospect should help to mobilize the political support needed in OECD to implement reforms. For these emerging market countries, then, the Agenda is not the problem; it is the freeing of trade that is costly for those groups who currently benefit from trade protection.

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1 This paper summarizes research undertaken at the request of the UN Millennium Project Task Force on Trade to inform its report, *Trade for Development*. The research project was a joint venture of the Groupe d'Economie Mondiale of the Institut d'Etudes Politiques (Sciences Po, Paris), the Centre for the Study of Globalization at Yale University and the World Bank. Financial support from the John D. and Catherine T. MacArthur Foundation, the Netherlands and the United Kingdom is gratefully acknowledged. The authors are also indebted to the co-chairmen of the taskforce, Ernesto Zedillo and Patrick Messerlin, for their support and guidance, and to Rebecca Martin and Haynie Wheeler for their help with the logistics. The opinions, figures and estimates set forth in this paper as well as any errors or omissions are the responsibility of the authors and should not be attributed to the World Bank or its management, or the United Nations.

2 The Ministerial Declaration launching the Doha Round uses the word "development" more than 50 times in its 10 pages.

For many smaller and poorer countries, potential adjustment costs are of concern. However, a more critical problem is that they lack the international competitiveness and supply capacity that would enable them to benefit from a freer global trade regime. Some developing countries stand to lose from trade reforms that will enhance global welfare – in particular, from deep non-discriminatory trade liberalization that will erode the value of the trade preferences they receive, or increase the import prices they pay for some staples. For poor countries that have not diversified their economies, and which depend on preferential access to major markets, there may be little immediate gain, especially if they do not undertake their own reforms in trade and domestic economic adjustments to improve their competitiveness.

Adjustment costs in developing countries are an inevitable outcome of an ambitious Doha Round. The more ambitious their reforms, the greater the medium-term benefits for incomes are likely to be; but the greater, too, are the short-term adjustment costs. Therefore, addressing such costs and putting in place a policy environment that provides assurance to households that the result of reform will be the creation of new employment opportunities is an important political imperative (Bhagwati, 2004; Zedillo and others, 2005). This need spans both industrialized high-income countries and developing countries.

A more open international trade regime is desirable for a number of reasons – it will lead to a better allocation of world resources, expand consumption opportunities and production efficiency, and help move economies to a higher growth path. However, trade policy changes also have important distributive consequences within and across countries. Some countries and many individuals will lose as a result of trade liberalization. In principle, aggregate gains will exceed aggregate losses (the sum of adjustment costs and the present discounted value of the difference between pre-reform and post-reform incomes of those individuals unable to find any employment that pays wages at or above their pre-reform levels). As noted in international economics textbooks, this implies that it is possible to redistribute incomes post-reform to compensate losers, while still generating net benefits for those who gain from reform. In practice, political and technical constraints preclude such full compensation. Political constraints include equity considerations – for example, should those who, in the past, were able to put in place trade-distorting policies that came at the cost of society as a whole be compensated? Technical constraints include the ability to tax and redistribute, and more importantly, the ability to identify losers and design compensation programmes in a way that does not distort the incentives to adjust. These factors make compensation very difficult within countries.

A major conclusion emerging from the studies prepared as background papers for the MDG trade taskforce (summarized below) is that even assuming such short-term adjustment cost concerns will be addressed and market access liberalization can be agreed, this is not sufficient for harnessing trade for development and poverty reduction. Significant gains in poor countries from global trade reforms are conditional on actions to induce new employment opportunities, higher wages and a move out of subsistence agricultural activities. Global trade reform by itself is not enough to ensure these outcomes. Domestic supply constraints are the main reason for the lack of trade growth and diversification in many of the poorest developing countries. Without action to improve supply capacity, reduce transportation costs from remote areas, increase farm productivity through extension services and improve the investment climate, trade opportunities cannot be fully exploited. Thus, the potential gains from trade will not be maximized. The policy agenda spans numerous areas, many of them "behind the border." Specific interventions that will generate the largest payoffs must be determined on a case-by-case basis. The associated analysis and subsequent actions to address identified priorities will generally require resources that are likely to be in short supply in most poor countries, giving rise to a strong case for additional "aid-for-trade" to complement global trade reform.

Thus, there is a need for compensation across countries as well as within countries. There may be net winners and losers from global trade reform at the country level. Of particular interest is whether the poorer countries are among those who could be hurt by a move towards a more open trade regime, whether within poor countries poorer households will be negatively affected, and if so, what can be done *ex ante* to reduce the incidence of any losses. The research summarized in this paper was motivated by these questions.

A. Trade policy changes and the poor

Changes in trade policy have direct and indirect effects on the poor. The direct effects will arise through two main channels. First, reforms may affect the demand for their labour and other assets they own, and therefore have an impact on their income. Second, trade reforms will change the price of the consumption bundle. The indirect effects will operate through changes in incentives to invest and innovate, which generate the potential for higher economic growth. Indirect effects can be quite important. They are not considered in this paper, in part because they have been the subject of much recent research (see, for example, Harrison, 2005). Instead, the focus here is on the direct impact effects of global trade liberalization.

Both theory and practice suggest that there will be significant heterogeneity in the poverty impacts of a common trade policy shock across different countries. The answer to whether the poor will benefit or not from global reforms is country and individual specific. The poor in Cambodia consume and produce different products than the poor produce in Ethiopia. The trade policies of these countries are also quite different. The same is true of other policies, market structures, infrastructure and regulatory regimes. Such differences will lead to different transmission mechanisms and thus impacts at the level of the individual and household. One cannot expect the impact of a common shock to be similar across poor households in different (poor) countries.

The background papers prepared for the MDG taskforce sought to assess the likely impact of a successful conclusion of the Doha Round on the poor in some of the poorest countries in the world. The countries covered span three regions. Three are located in Africa (Ethiopia, Madagascar and Zambia), two in Asia (Cambodia and Viet Nam) and two in Latin America (Bolivia and Nicaragua). An important consideration in country selection was the availability of good quality data on household incomes and expenditure. Such data are critical to capturing the impacts of global trade policy reforms at a disaggregated level within each country.

By focusing on a spectrum of poor countries in different regions, the intention was to provide some general guidelines regarding the likely impacts of a Doha Round and what could be done to enhance the impact of global reforms on development. The work distinguishes itself from other contributions in the literature by focusing exclusively on very low-income countries for which there has been no previous attempt at measuring the impacts of global trade liberalization on the poorest segments of the population. The methodologies used employ high levels of disaggregation, both at the household level, based on incomes and consumption/expenditures, and at the trade level, by using statistics on imports and exports at the six-digit level of the Harmonized System of product classification.

Several methodologies can be used to study the impact of trade on poverty: (a) statistical methods that rely on microeconometrics using household surveys; (b) simulation techniques using computable general equilibrium models; and (c) cross-country regressions. The results discussed here all use a similar methodology based on statistical methods that combine information on trade policy at the product level with income and consumption data at the household level, as well as microeconometrics to measure the response of individuals or households to trade shocks. The use of similar empirical methodologies that employ the same set of global policy shocks to evaluate the impact of trade reforms allows for a deeper and more robust comparison of results across countries.

A two-step methodology was applied in the research project. First, the global impact of two alternative outcomes of the Doha Round on prices of traded goods was estimated. The second step involved applying the estimated changes in prices and quantities at the country level, and matching the vectors of global price and trade quantity changes generated in the first step to the household survey data for each country, in order to assess the direct impact on incomes and consumption of the poor. These impacts are partly estimated and partly calculated. Each of the country studies starts with "locating" or characterizing the poor in terms of their consumption and production bundle using household survey datasets. That is, the objective is to identify the assets that the poor own or control, such as type of labour, skill, land and capital as well as the goods they consume (consumption bundle). Once the poor have been "located", the question analysed is how the specific trade policy shocks affect the return on their assets and the prices of the goods they consume as well as the ease with which the poor are able to adjust to the new relative prices.

The first step, which is the basis of the analyses that are undertaken in the country papers, is a global assessment of the impact of an assumed Doha outcome on the welfare of 153 countries by Hoekman, Nicita and Olarreaga (2005). The methodology used is to develop a simple multi-product, multi-country trade model to estimate the impact of two alternative Doha outcomes on world prices, exports and imports at the six-digit level of the Harmonized System of product classification. The country and product disaggregation are a distinct feature of the analysis, as the objective is to be able to identify individual small, poor countries as well as the heterogeneity across countries in terms of patterns of trade and revealed comparative advantage. This is not something that global general equilibrium models can do, as most poor countries are not identified separately in the available databases and the level of product disaggregation is limited.

The approach used has the additional advantage of using estimated elasticities at the six-digit product level (which allows use of the associated standard errors to calculate confidence intervals). Moreover, where possible, the impacts on wages, employment and domestic prices of the simulated global price/quantity changes are all estimated. Thus, a distinguishing feature of the analysis is a heavy reliance on econometric estimation of key variables rather than relying on assumptions of how markets and households react to the trade shocks that will be created by the Doha Round.

Two possible scenarios are considered. The first, termed "business as usual", involves:

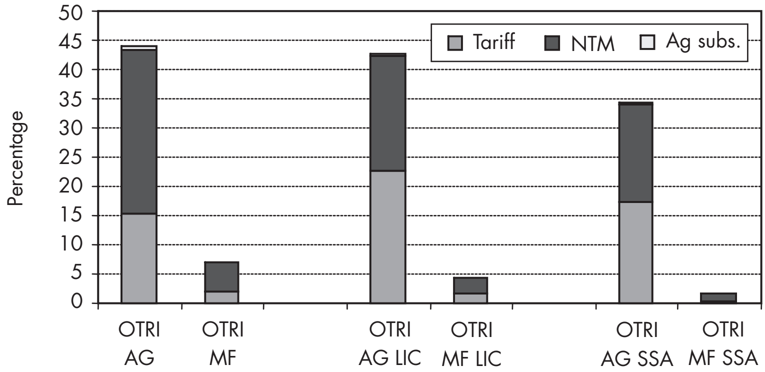
(a) A 40 per cent reduction in the bound tariffs of WTO members, with applied tariffs varying depending on the difference between current applied and bound levels;

(b) A reduction of all tariff peaks to a maximum of 50 per cent, and a 40 per cent reduction in agricultural domestic support commitments (the Aggregate Measure of Support);

(c) The elimination of agricultural export subsidies and an improvement in trade facilitation corresponding to a 2 per cent increase in imports.

The second scenario is a more ambitious one of the type advocated by the United Nations Millennium trade taskforce (United Nations Millennium Project, 2005). It involves full elimination of tariffs and subsidies, the same improvement in trade facilitation as under the business as usual scenario, plus a 50 per cent reduction of the restrictiveness of non-tariff measures (tariff quotas, anti-dumping, and health and safety standards). As documented by the World Bank and International Monetary Fund (IMF) (2005), non-tariff measures account for a large proportion of the total trade restrictiveness of the national policies applied by OECD countries (figure I). Agricultural protection is high in OECD countries, with border barriers accounting for a large proportion.

Figure I. Agricultural protection in OECD countries



Hoekman, Nicita and Olarreaga (2005) estimated that a business as usual Doha outcome would generate a US$ 59 billion global gain (with a 95 per cent confidence interval of US$ 46 billion to US$ 72 billion), of which US$ 23 billion would be captured by developing countries. Under the ambitious scenario global welfare gains rise to US$ 269 billion (with a 95 per cent confidence interval of US$ 253 billion to US$ 285 billion), of which developing countries would capture US$ 112 billion.

These are estimates, and actual eventual outcomes will diverge substantially depending on the specific aspects of what is eventually negotiated in the Doha Round. However, what matters is the difference in overall magnitude across the two scenarios – clearly ambition matters. Moreover, in both scenarios, the reduction of market access barriers matters most for world market prices of the products traded by developing countries. This is not surprising given the finding that subsidies account for only a small share of the total trade restrictiveness of OECD countries (see, for example, Hoekman, Ng and Olarreaga, 2004 and World Bank/IMF, 2005).[3]

While the magnitude of global gains is affected by the type of scenario assumed, in both scenarios the gains are much higher for high-income OECD countries. More importantly, under the business as usual scenario, it is projected that some 40 countries will experience either no gains or even a fall in real income (welfare). These losses will mostly be quite small in absolute terms, but noteworthy from a poverty perspective is that the losers include many least-developed countries (LDCs) and poor Central Asian economies. Under the ambitious Doha scenario, the number of losers falls to around 20 countries, with many of the LDCs that would lose under the business as usual outcome now expected to gain, sometimes substantially. Income inequality is estimated

[3] While subsidies have much less of an impact overall, at the commodity level this is not always the case – cotton being a prominent example.

to remain almost unchanged under both Doha scenarios, although increasing slightly under the business as usual scenario.

The implication of the simulations is that ambition on the market access front is important, especially relative to an outcome where the focus is primarily on reducing subsidies and limited progress is made on market access liberalization, including non-tariff measures. Even an ambitious outcome, however, would not be enough to make the Doha Round truly a "Development Round," in that the gains will be skewed towards high-income OECD countries. This asymmetry can be offset through redistribution of some of the gains to the South. Such transfers, if used to reduce trade costs within poor countries and increase farm productivity (through extension services and greater competition in backbone service sectors such as transportation, communications and finance), could have significant impacts in improving the outcomes for the poorest segments of the population in the poorest countries. This would also allow them to benefit from the new opportunities offered by multilateral trade liberalization.

B. Country studies

The analysis by Hoekman, Nicita and Olarreaga (2005) concluded that most of the countries for which case studies were undertaken would be only marginally affected by a business as usual Doha scenario, and that a number were expected to lose slightly. Conversely, gains from a more ambitious Doha outcome would be positive for all the countries studied. The country studies go further and explore the implications for poverty within each country. The impact on some segments of the population within each country can be very different as aggregation can hide the significant heterogeneity that prevails across households. The micro-studies identify the extent to which impacts are pro-poor, i.e., benefiting poorer households disproportionately within each country. They also allow exploration of what can be done within each of these countries to try to maximize the benefits (reduce potential losses for poor households) from Doha.

As noted, all the country studies employ the same shocks in terms of global reform impacts. These shocks generate very different outcomes in terms of poverty impacts (Hertel and Winters, 2005). Table 1 summarizes the broad impacts of the different reforms considered – an ambitious Doha, a business as usual Doha deal, own trade liberalization and complementary (non-trade policy) reforms. While there is considerable heterogeneity, an ambitious Doha scenario brings important increases in income for the poor in all the seven countries studied. A business as usual scenario will only bring significant income gains for the poor in Nicaragua, Madagascar and Viet Nam. Moreover, in none of the case studies will the poor (on average) be seriously hurt by the Doha Round. Thus, the finding that some poor countries may lose in the aggregate from a Round does not necessarily imply that poor households within these countries will lose. That is an important finding. It is likely that the poor will remain unaffected by Doha. In terms of income inequality (as defined in table 1) the picture is ambiguous. Income inequality falls in only three countries, Bolivia, Madagascar

Summary of case study findings

Category	Ambitious Doha	Business as usual	Own trade liberalization	Complementary reforms
Income changes:				
Poor gain[a]	All	NIC, MDG VNM	MDG, ZMB	All
Poor unaffected[b]	None	BOL, KHM, ETH, ZMB	KHM	None
Poor lose[c]	None	None	ETH	None
Inequality:				
Falls[d]	BOL, MDG VNM	BOL, VNM		All
Unchanged[e]	KHM, NIC, ZMB	ZMB		None
Increases[f]	ETH	ETH, MDG, NIC		None

Note: BOL = Bolivia, KHM = Cambodia, ETH = Ethiopia, MDG = Madagascar, NIC = Nicaragua, VNM = Viet Nam and ZMB = Zambia.

[a] The poor gain when they experience an average increase in real income of more than 1 per cent.

[b] The poor are unaffected if they experience an average change in real income between -1 and +1 per cent.

[c] The poor lose when they experience an average loss of real income of more than 1 per cent.

[d] Income inequality falls when the percentage increase in real income of the 50 per cent poorest individuals is at least 0.5 per cent age points higher than the increase in real income of the top 50 per cent.

[e] Income inequality remains unchanged when the percentage increase in real income of the 50 per cent poorest individuals is within 0.5 per cent age points of the increase in real income of the top 50 per cent.

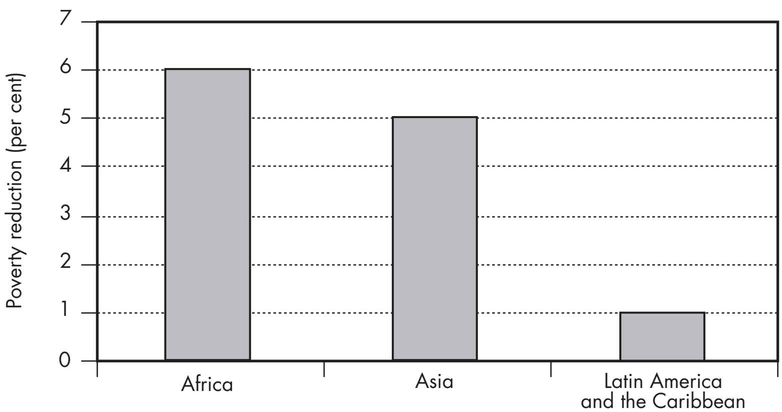
[f] Income inequality increases when the percentage increase in real income of the 50 per cent poorest individuals is at least 0.5 per cent age points lower than the increase in real income of the top 50 per cent.

and Viet Nam, under the ambitious scenario. Thus, an ambitious Doha is likely to benefit the poor, but not necessarily proportionately more than the rich.

In addition to the distributional impacts of a Doha Round, the country studies analyse a wide range of complementary reforms that might be pursued in conjunction with global trade reform. This reveals the importance of domestic actions in magnifying the impact of Doha. Own trade liberalization is one possible reform. In Madagascar and Zambia, this would bring important gains for the poor. In the case of Madagascar, half of the real income gains obtained for the poor under the ambitious scenario are due to the country's own trade liberalization. In Ethiopia, on the other hand, the poor are projected to lose from own liberalization due to the fact that the consumption and production bundle of the poor is such that the mix of associated price and wage effects works out as negative, overall.

In terms of complementary reforms, the studies focus on actions in poor countries to move households "into the market" (out of subsistence), a necessary condition for them to be able to benefit from the trade opportunities created by Doha (or from existing opportunities). The conclusion suggested by the analyses is that without complementary reforms in low-income countries, and additional development assistance to pursue such reforms, the Doha Round will do much less than it could to deliver on the development promise. This finding will not come as much of a surprise to development economists, but it is something that has not been highlighted in most trade-oriented research. Given that poverty is concentrated in rural areas that depend heavily on agriculture, trade opportunities can increase incomes but only if products are produced for the market. This may require active intervention to assist households make the switch, through extension services, access to credit, and investments in infrastructure. Moreover, such actions may also be needed to help improve yields and enhance productivity, a key requirement for reducing poverty in Africa (figure II).

Figure II. Poverty impact of a 10 per cent increase in yields



Source: Thirtle, Lin and Piesse, 2003.

The following summarizes some of the specific findings of each of the country studies.

1. Ethiopia

Nicita (2005a) concluded that in Ethiopia the poor would benefit less substantially than non-poor households. From a geographic standpoint, the regions that are expected to benefit the most are the urban areas of Addis Ababa and Dire-Dawa. Rural and remote regions would be only barely affected by Doha. Explanations for the small impact of multilateral trade liberalization on Ethiopian households are that the impacts on prices and quantities of products exported by Ethiopia are not expected to be large, and that exports represent only a small part of GDP, so even hypothetically doubling exports values will not have much impact on overall poverty. Moreover, in Ethiopia, domestic markets are poorly interconnected and households largely engage in subsistence activities, with the consequence that price and quantity effects of trade polices will not reach remote regions where the majority of the poor live. Finally, low agricultural productivity hinders the capacity of Ethiopian households to increase their supply to external markets.

2. Madagascar

In a similar study on Madagascar, Nicita (2005b) concluded that a business as usual Doha Round would have a small positive impact on Malagasy households, increasing real incomes by about 0.6 per cent. Ambitious multilateral trade liberalization raises average real incomes to some 1.8 per cent. The reforms are pro-poor: households that benefit most are those living in poverty, with increases ranging from 2 to almost 3 per cent, while the richest households benefit the least in percentage terms (0.5 per cent). Poor households benefit most from price effects (due to increased agricultural prices) and export effects (due to increased international demand for Malagasy products). Richer households tend to benefit more from the new employment opportunities.

As in Ethiopia, the effects of multilateral trade liberalization will not be large for Madagascar because it will have only small effects on the prices and international demand of export products for which Madagascar has a comparative advantage (vanilla, cloves and apparel). Other products of Madagascar on which Doha is expected to have larger impacts (cereals, particularly rice) are barely traded. As a result, increased prices of cereals will not have a large net positive effect but rather a redistributive effect from consumers to producers (from urban to rural areas). A low supply response and the insulation of poor households from market shocks, due to a lack of infrastructure, missing markets and pervasive subsistence, make international trade policies of little direct relevance to the majority of the poor.

3. Zambia

Balat, Brambilla and Porto (2005) investigated the case of Zambia. Their findings suggest that only small impacts can be expected from a business as usual Doha Round, again because this will generate only small changes in prices and because Zambian households spend a very large fraction of total expenditure on, and derive a large fraction of their income from, home-produced goods. However, an ambitious Doha Round would lead to more significant welfare gains for Zambian households. To reduce poverty, trading opportunities need to be complemented with domestic reforms. This conclusion is illustrated by several case studies: one on extension services in agriculture, another on cotton marketing reforms, and one on job programmes supporting employment opportunities for heads of household.

4. Cambodia

Soloaga (2004) focused on Cambodia, where the effects of Doha on the rice market are expected to be potentially important. A business as usual Doha outcome is estimated to generate a small average loss of 0.2 per cent of Cambodian per capita consumption, whereas an ambitious round will generate a substantial increase in per capita consumption of about 5 per cent. Losses to producers from lower global rice prices are more than compensated by gains to consumers. If Cambodia also moves to adopt its tariff structure to a 7 per cent flat rate, this will raise household incomes by about 3.7 per cent, almost all of it coming from reduced tariffs on foods.

An expansion in the textile sector will have additional beneficial effects through greater labour demand. From the total non-industrial working population an estimated 220,000 workers are estimated to switch jobs and move to the industrial sector if the apparel industry expands. The average gain for people switching from the primary sector is equivalent to 22 per cent on average of their current wages (39 per cent for those switching from the services sector). Soloaga estimated that if labour demand in the industrial sector were to rise by 50,000 employees, it would increase the income of those households with at least one member switching jobs to the industry sector by 8.3 per cent.

The rise in income is higher in the first four deciles of the income distribution, and is therefore pro-poor. Finally, Soloaga showed that if liberalization/Doha wais accompanied by improvements in two key dimensions of rice production – improving the paddy-to-rice yield and lowering of post-harvest losses – as well as actions to lower transaction costs in general, there would be a further noticeable improvement in the livelihoods of poor Cambodians.

5. Viet Nam

Işik-Dikmelik (2005) examined the case of Viet Nam. Her analysis concluded that the short-term effect of either Doha scenario – one under which factors of production are assumed not to move – would be minor overall, but negative (-0.2 per cent for business as usual and -0.6 per cent for the ambitious outcome). The medium-term effects – taking changes in export demand and employment into account – are positive for both scenarios (0.9 per cent and 1.1 per cent, respectively). Consumption effects were found to contribute negatively in all cases, but more dominantly in the short-term and for urban households. Rural households gain under all cases (1.4 per cent for business as usual and 2.5 per cent for ambitious in the long term), while urban households lose (-0.9 per cent and -3.9 per cent in the long term, respectively). Due to the small share of agricultural production in urban areas, consumption effects dominate income effects, resulting in losses for urban households.

A closer look at the results reveals that the main factor in Viet Nam is the impact on rice. Since rice constitutes a major part of income for rural households (and expenditure for both urban and rural households), and since price and production changes in rice are expected to be large, gains and losses will be highly affected by a household's net position on rice. Işik-Dikmelik found that either Doha scenario would redistribute wealth from net buyer households to net seller households. The extent of redistribution depends on the level of trade liberalization implemented. Net sellers will gain by 3.8 per cent and net buyers will lose by 0.8 per cent under the business as usual scenario (in the long term). Under an ambitious Doha, the gain for net seller households increases to 10 per cent, while net buyers lose by 4.5 per cent. The overall effect of Doha on poverty is expected to be small, due to offsetting effects on different groups of households. Approximately 50 per cent of the net seller households are poor, thus the expected gains to net seller households will help alleviate poverty. On the other hand, 60 per cent of all poor households are net buyers, offsetting some of the positive impacts.

6. Bolivia

Lara and Soloaga (2005) assessed the likely impacts on Bolivia. A business as usual Doha scenario generates an average loss equivalent to 0.7 per cent of household expenditures, while an ambitious outcome produces an average gain that is equivalent to 1.3 per cent of household expenditure. In this latter scenario, all gain except the first decile. When also considering changes in exports, the estimated impacts increase, with households in deciles 2 through 7 obtaining gains above 4 per cent. The authors also assessed the impact of an expansion in labour demand. For agriculture, an expansion in the agricultural sector could yield average gains of 7 per cent on household income, which is a larger expected gain than what would result from the changes in prices and quantities due to an ambitious Doha Round. Generating such increases is therefore important. In practice, it should be feasible, given the increasing share of non-traditional exports such as soybeans and Brazil nuts. A successful Doha Round will permit further increases in exports of these products, creating greater labour demand and generating correspondingly positive effects on household incomes. For manufacturing, the authors estimated that 50,000 people moving to the manufacturing industry would produce an average increase of about 2 per cent in real incomes, with the three richest deciles benefiting the least (less than 1 per cent). Thus, induced increased labour demand will have greater effects than the direct effects of changes in prices and quantities, and it will be more pro-poor.

7. Nicaragua

Gomez, Ivette and Soloaga (2005) assessed the expected quantitative impacts on Nicaragua. A limited Doha outcome induces an average loss equivalent to 0.6 per cent of household per capita expenditures, with poorer deciles losing more. On the contrary, an ambitious global reform produces an average gain of 4.6 per cent, with the poorer households experiencing larger gains. The expansion in labour demand coming from an increase in exports of manufacturing goods generates an income gain of about 2 per cent. The authors also assessed the likely effects of changes in agricultural extension services and improvements in road infrastructure. Both policies are estimated to have a positive impact on the income of the poorer families in Nicaragua, either by increasing productivity for coffee producers (of which about 25 per cent are in extreme poverty) or by increasing market participation. Finally, if poor subsistence farmers can switch to (rural) wage employment, they can expect an increase in income of about 44 per cent.

C. Global policy implications: "aid-for-trade" and complementary policies

To realize the promise of the Doha Development Agenda, both the global modelling and the country studies illustrate that trade reforms need to be ambitious to maximize the potential poverty reducing impacts. However, even ambitious global reform is not enough to have a major impact on global poverty, and in particular, on outcomes in the poorest countries. In addition, action is needed in two key areas:

(a) Significantly expanding dedicated grant-based funding to bolster supply capacity and improve productivity, through an "aid-for-trade" integration mechanism that identifies and addresses trade priorities and capacity constraints on a country-by-country basis; and

(b) Adopting a new approach in trade agreements that places greater emphasis upon the realization of development goals and the impacts of trade policies in developing countries, rather than focusing on defining exemptions from rules.

1. Dedicated funding for aid-for-trade: A multilateral trade integration programme

An ambitious freeing of market access will benefit developing countries as a group. However, as illustrated in the country studies done for the MDG taskforce report, some countries (especially the poorest) may not gain much even from an ambitious round, given their economic structures and the discouraging environments they provide for investment and business. Numerous complementary policies can and should be pursued in order to increase the set of households that can benefit from trade opportunities. Many of these will require resources.

An important first step towards mobilizing additional resources to bolster trade capacity was the commitment by the G8 Heads of Government in 2005:

(a) To increase aid to developing countries for building physical, human, and institutional capacity to trade; and

(b) To grant additional support for trade capacity-building, in order to take advantage of the new opportunities to trade that will result from a positive conclusion of the Doha Round.[4]

[4] See G8 Declaration, Gleneagles, 2005, Africa text: paragraph 22 (a).

In absolute terms, multilateral trade liberalization will yield greater economic benefits to high-income countries than to developing countries. Given the relatively limited overall gains from trade reforms for many poor countries, there is a case for transferring some of the gains that will accrue to rich countries to those that are less well off. Trade is arguably also a good use of some of the additional aid that OECD countries have agreed to provide, independent of the outcome of the Doha Round. Bolstering the trade capacity of poor countries will help achieve development objectives by increasing economic growth and expanding employment.[5] However, providing additional aid for trade in the context of an ambitious Doha Round – in effect, redistributing some of the global gains from trade – can also help in delivering the desired ambitious outcome by increasing political support for deep trade reforms.

To undertake trade reform and participate effectively in the global trading system, poorer countries face a gamut of challenges. They must pay the costs of adjustment before they can see offsetting economic activities emerge. Many of the poorest developing countries are ill- equipped to take full advantage of trade opportunities. Improved market access without the ability to supply export markets competitively is not much use. Similarly, to gain from liberalizing their own trade policies, developing countries need an environment that allows mobility of labour and capital, and facilitates investment in new sectors of activity. This requires, among other factors, an efficient financial system and good transportation/logistics services. Countries that depend heavily on tariff revenues for fiscal resources will need to reform their tax systems. Aid for trade can never substitute for progress in market access or unilateral domestic reform. However, it can greatly increase the benefits of trade opportunities for many poor countries by supporting their own reforms and help to deliver the global public good of substantially freer trade.

Although the modalities of how additional funding should be administered, allocated and monitored will need to be resolved, the basic principles that should be satisfied by an aid for-trade integration mechanism are simple:

(a) Support should take the form of grants;

(b) Support should be credible and predictable;

(c) Support should cover more countries than just LDCs; and

(d) Support should be based on a process of identification of trade capacity requirements that is truly country-driven and owned, and which has its processes and outcomes independently monitored.[6]

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5 The pursuit of development goals through trade-induced growth and employment suffers from not being able to target specific Millennium Development Goals directly, but may be more sustainable as the associated improvements in areas such as primary education will be demand driven rather than exogenously induced by aid aimed at creating schools and training teachers.

6 See Susan Prowse, 2005 for an in-depth discussion of the issues and options.

Particularly important is the credibility and predictability of funding. Previous "best endeavour" promises to provide assistance for trade were only partially realized. More promises provide little assurance to low-income countries that their concerns will be addressed. Experience demonstrates the need for a mechanism that is dedicated to identifying and addressing the constraints on a nation's trade competitiveness, augment the gains from global trade reforms and help offset the adjustment costs of reform.

The elements of such a mechanism have been created in recent years in the form of the Integrated Framework for Trade-Related Assistance. The Integrated Framework brings together six multilateral agencies: IMF, the International Trade Centre, United Nations Conference on Trade and Development, United Nations Development Programme (UNDP), WTO and the World Bank. The basic purpose is to help countries define a trade agenda by identifying and prioritizing a set of trade-related adjustment and capacity-building needs and associated complementary reforms. This mechanism is also aimed at providing support to embed the resulting trade agenda into a country's overall development strategy, usually as Poverty Reduction Strategy Papers (PRSP), to enable the country concerned to seek financing for needed investments from donors and international institutions.

The majority of LDCs (more than 40) have now applied for assistance under the scheme. As of 2005, there were 17 bilateral donors (including Canada, the European Union, Japan and the United States). A small trust fund finances the national trade assessments (diagnostics) and provides for small-scale technical assistance arising from the action matrices identified in the assessments. The trade and investment assessment is undertaken by the country, usually in partnership with IMF, the World Bank, and UNDP.[7] It looks at a range of issues, including the linkage between trade reform and poverty, the need for additional fiscal measures, likely social adjustment costs and other necessary complementary behind-the-border policy reforms. It also identifies a prioritized list of trade-related capacity building needs, many of which concern trade-related infrastructures, trade facilitation, standards and social costs. This list takes the form of an action matrix of prioritized trade-related capacity-building and assistance needs that are linked to the country's overall development strategy. In addition, the list allows both bilateral and multilateral donors to respond to each country's identified needs in a systematic and coherent manner, based on comparative advantage and preference.

In most cases, the prioritized trade capacity-building plans are presented at the consultative group meetings and roundtables associated with the PRSP process, where donors usually make pledges. The process reduces the duplication and proliferation of vertical initiatives and ensures that assistance is provided according to the needs identified by the country. However, the trade action plans must compete with other priority sectors (health, education etc.). As a result, there is no guarantee that trade needs will be financed.

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[7] Currently, a small secretariat located at the World Trade Organization handles paper flow, while the United Nations Development Programme manages the trust fund.

As mentioned, G8 countries have committed themselves to providing additional aid for trade. The issue now is to determine how such an expansion of resources will be managed and assistance delivered. At the September 2005 IMF/World Bank annual meetings, agreement was reached on expanding the Integrated Framework for Trade-Related Technical Assistance by providing it with additional resources to undertake analyses of trade needs and ensuring that these trade needs were considered by governments and donors through existing development assistance mechanisms, i.e., the PRSP and consultative groups/donor roundtables. There was also agreement to consider extending the approach to span additional countries and the need to consider whether there should be a mechanism to address regional integration-related needs, not just country-specific actions.

Several important open questions need to be considered here:

(a) How can the Integrated Framework for Trade-Related Assistance approach be expanded to non-LDCs? There is general recognition that this is needed. In the case of the Economic Community of West African States, for example, there are several non-LDC members; it makes no sense for these members to be excluded;

(b) Related to this is whether there should be a mechanism for addressing regional integration priorities. This is an important issue in many regions, given that such integration has become a trade policy objective of many countries. Should this be made a part of an expanded Integrated Framework for Trade-Related Assistance, through the creation of regional window? Alternatively, is it more appropriate to develop stand-alone regional funds managed by the relevant regional bodies?

(c) In addition to bolstering the capacity of the Integrated Framework for Trade-Related Assistance to identify and follow up on diagnostic studies, should there be greater dedicated grant-based funding for trade needs, to ensure that trade priorities will be financed on a timely basis? That is, should the process continue to rely on existing mechanisms (the Consultative Group/Roundtable donor process and multilateral lending)?

(d) Should there be stand-alone funds to address specific areas that research has already identified as priorities? Examples here include trade facilitation and improving product standards and certification systems. Such priorities could, of course, also be addressed via an expanded Integrated Framework for Trade-Related Assistance type of mechanism, assuming this is extended beyond LDCs. However, specific funds could help address the technical issues concerned in a more effective and timely manner.

Addressing such questions needs to be pursued in parallel to the Doha Round. This is necessary so that by the time it is concluded an effective mechanism is also in place through which additional resources can be made available to developing countries to help them implement their trade strategies and benefit from trade opportunities.

2. From exceptions for developing countries to helping meet development goals

One of the important questions facing policy makers in the Doha Round concerns the circumstances, if any, under which developing countries should be allowed to use trade policies to pursue development (for example, by using import barriers to protect domestic industries). While the basic trade policy rules of WTO make good sense for all countries, high-income and developing alike, these rules ignore the fact that governments may be forced to use trade policy because more efficient instruments are not available. (For example, a country's weak tax base may preclude its government from using subsidies). Compliance with basic WTO rules is also more costly for low-income than for high-income WTO members, insofar as the negotiated rules reflect the status quo prevailing in industrialized countries.

Providing exemptions for the use of trade policies by developing countries – the traditional WTO approach and the focus of much of the Doha negotiations on special and differential treatment – is not the best way to help achieve development objectives. Instead of focusing exclusively on exemptions to allow the use of trade policy instruments, the trading system can be made more supportive of development by the provision of independent monitoring of the development impact of trade and trade-related policies, together with the proposed aid-for-trade integration mechanism. What is needed is to more actively assist developing countries attain their trade-related objectives, and to move away from the exclusive reliance upon negotiating exceptions and exemptions for developing countries.

This could be achieved by creating a mechanism in WTO that focuses on a country's trade agenda and priorities, and which establishes linkages with the enhanced aid-for-trade integration programme noted above. The objective would be to reduce governments' perceived need to use costly trade policy tools, to place the implementation of WTO disciplines in a national context and to monitor the effects of trade and related policies.

Different complementary options can be considered for putting this idea into effect. The most limited option is to build on the agreement that was reached in the area of trade facilitation, with implementation (enforcement) of negotiated disciplines being conditional on adequate assistance having been given by industrialized countries to developing countries. More ambitious is to establish a multilateral mechanism to help developing countries to pursue national objectives through instruments that do not distort trade. One specific proposal that would do this is for WTO members to agree to a set of "core" disciplines that apply to all members, and allow developing countries to invoke a "development defence" in disputes alleging violation of non-core rules (Hoekman, 2005). Agreement to consider options that would move in this direction is one way in which WTO can help in achieving the goal of greater policy coherence for development.

D. Conclusion

In its report, the United Nations Millennium taskforce on trade stressed that an ambitious Doha Round outcome could do much to help achieve the MDG poverty goals. Trade can, and should, play an important role in allowing countries to achieve development objectives. The country studies support this conclusion: an ambitious Doha Round outcome would help reduce the incidence of poverty. At the same time, the taskforce report noted that not all countries would gain in the short term and that there would be adjustment costs in all countries. From the perspective of the poorest countries, a Doha Round outcome that liberalizes market access on a non-discriminatory basis will be beneficial, but it is by no means sufficient to bolster growth prospects. Indeed, many countries may not benefit much from a Doha Round in the short term, whether ambitious or not, as many of the poorest households are only tenuously connected to markets. The country studies clearly show that the consequence of subsistence and limited pass-through of global price changes due to infrastructure and other costs/weaknesses is to attenuate the poverty-reducing effects of global trade reforms.

Moreover, some poor countries stand to lose because of preference erosion – the deeper the Doha Most Favoured Nation reforms, the more the existing preferential access will be eroded. This issue was not incorporated into the analysis given that recent research on this topic suggests that the aggregate impact of erosion for most poor countries will be limited. The reason is that administrative requirements (rules of origin), the exercise of market power by importers (retailers and distributors), product exclusions, and low Most Favoured Nation tariffs for most manufactures and natural resource-based products all imply that the effective value of preferential access is limited. This is not to deny this is an important issue for some countries, but these mostly comprise middle-income economies (Alexandraki and Lankes, 2004).

Expanded, dedicated funding for an aid-for-trade mechanism that provides predictable resources to address national competitiveness constraints, addresses regulatory weaknesses and deals with adjustment costs – including assistance to help countries deal with preference erosion and replace trade-distorting policies with alternative policy instruments that enhance the benefits of global trade policy reforms – would help to enhance the benefits of trade for a larger group of countries. An expanded aid for trade mechanism could also facilitate an ambitious Doha outcome on market access as well as provide tangible evidence that development objectives are being taken seriously by rich WTO members.

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II. THE DOHA DEVELOPMENT AGENDA AND AN ENHANCED GLOBAL PARTNERSHIP FOR DEVELOPMENT: PROMISE OR REALITY?

By Tiziana Bonapace,
*Mia Mikic and Matthias Brückner**

Introduction

The objectives contained in the Millennium Declaration and related Millennium Development Goals (MDGs) represent a major commitment by the international community to eliminate poverty and accelerate human development. In particular, the Millennium Declaration states that "the central challenge we face today is to ensure that globalization becomes a positive force for all people of the world people. For while globalization offers great opportunities, at present its benefits are very unevenly shared, while its costs are unevenly distributed."[1] The Millennium Declaration emphasizes the need to address "the abject and dehumanizing conditions of extreme poverty, to which more than a billion (people) are currently subjected," and resolves "to create an environment – at the national and global levels alike – which is conducive to development and to the elimination of poverty."[2]

Shortly thereafter, in recognition of the fact that trade openness, growth and poverty reduction can be mutually reinforcing, the Doha Round began with a pro-development ministerial declaration, in line with the commitments taken a year earlier at the Millennium meeting in the area of development and poverty reduction. World Trade Organization (WTO) members made the commitment to prioritize developing country needs and interests in the implementation of the Uruguay Round agreements and new trade negotiations. This needs to be understood in the broader context of the Millennium Declaration commitment to fight poverty and foster human development.

Less than a year after the Doha Ministerial Conference, the international community adopted the Monterrey Consensus on Financing for Development in Monterrey. The Consensus confirms that the international community will give priority to "mobilizing and increasing the effective use of financial resources, and achieving the national and international economic conditions needed to fulfil internationally agreed development

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1 *United Nations Millennium Declaration,* para. 3, United Nations document A/RES/55/2 (2000).

2 Id., para. 11-2.

goals, including those contained in the Millennium Declaration, to eliminate poverty, improve social conditions and raise living standards, and protect our environment."[3]

The Consensus reached during the Conference emphasizes at the outset that while each country has primary responsibility for its own economic and social development, national efforts need to be supported by an enabling international economic environment. Under the emerging framework, and true to MDG 8 which aims at developing a global partnership for development, both developing and developed countries are to provide the necessary means to attack poverty. For their part, developing countries are required to mobilize resources for sustainable pro-poor growth and formulate sound policies, good governance at all levels and the rule of law. Likewise, to enable developing countries to make more effective use of enhanced market access, affluent countries must be willing to (a) provide an enabling environment for development, (b) enhance market access, including through the phasing out of agricultural subsidies, (c) accelerate effective debt relief, and (d) provide a substantial increase and sustainability in development assistance. Hence, the Monterrey Consensus embodies a timely attempt to establish a system of shared global rules anchored on a framework of mutual obligations and accountability between developed and developing countries.[4]

These initiatives all stress the centrality of poverty reduction and the instrumental character of trade liberalization, particularly as embodied in a rules-based, open and predicable multilateral trading system.

The purpose of this paper is to consider how the Doha Development Agenda (DDA) negotiating process can be linked, and indeed harnessed to the realization of the MDGs. Central to the paper is the view that, with the right policy regimes in place, the region's trade and investment flows will serve as an engine of world growth. Thus, they will turn the region into a building block of a future enhanced global partnership for development.

The paper first considers linkages of trade, economic growth and poverty reduction, and evidence emerging from the Asia-Pacific region. Second, it reviews MDG indicators that have been designed to measure progress in removing market access barriers. It complements indicators at a global level by computing corresponding regional indicators. The paper then considers trade protectionist policies that are hindering poverty reduction, and the elements of a pro-development outcome to the Doha Round negotiations are proposed. Finally, the paper examines pro-poor trade policies within the context of broader regional and national development strategies. Particular attention is paid to official development assistance (ODA) and its use in building supply-side capacities in the Asia-Pacific region, so that additional market access opportunities that will emerge from Doha Round negotiations can be more effectively utilized.

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[3] Report of the International Conference on Financing for Development, Monterrey Mexico, 18-22 March 2002, chap. 1, para. 3, p. 2, United Nations document A/CONF.198/11.

[4] Id., para. 1.

A. Linkages between trade liberalization and poverty reduction

The drive to achieve the MDGs has been instrumental in bringing about an extensive analysis of linkages between trade liberalization and poverty.

Trade liberalization has long been a key element of national development strategies and has been considered a prime source of income convergence across countries. This is based on the expectation that the reallocation of resources in accordance with countries' comparative advantages will yield significant allocative efficiency gains and welfare benefits. The orthodox view on the relationship between trade liberalization and poverty reduction is grounded in the belief that the former spurs economic growth, and therefore will provide the means for poverty reduction.[5]

This view is based on the fact that sustained rapid growth cannot be achieved without rapid trade growth. This is reflected in the experience acquired over more than four decades (1961-2005) that, according to the proponents of this thesis, offers virtually no examples of countries achieving significant economic growth without simultaneously experiencing sustained rapid growth in trade in the presence of declining tariffs.[6]

Among the observed countries, there are numerous examples from Asia and the Pacific region that support this claim. Economies that recorded sustained high growth rates were also the ones with high growth of exports and imports (for example: China; Fiji; Hong Kong, China; the Republic of Korea; Malaysia; Singapore; Taiwan Province of China; Thailand; and, more recently, India) It is estimated that poverty has decreased on average by 12.5 per cent (during the decade from 1990 to 2001) in this region,[7] with China in particular having made impressive inroads into poverty reduction. At

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[5] The literature is extensive. See, among others, David Dollar and Aart Kraay, 2001, "Globalization is good for the poor, World Bank, http://econ.worldbank.org/files/1696_wps2587.pdf; David Dollar and Aart Kraay, 2001, "Trade, growth and poverty", http://econ.worldbank.org/files/2207_wps2615.pdf; Jeffrey Sachs and Andrew Warner, 1995, *Economic Reform and the Process of Global Integration,* Brookings Papers on Economic Activities. However, the conclusions of these studies have been challenged by other economists (see Ravi Kanbur, 2001, "Growth and trade: the last redoubt?", http://people.cornell.edu/pages/sk145/papers.htm; Branko Milanovic, 2002, *The Two Faces of Globalization: Against Globalization as We Know It,* New Delhi, International Development Economics Associates; Dani Rodrik, comments on "Trade growth and poverty" by Dollar and Aart Kraay, 2000, www.gapresearch.org/eldis/; Mark Weisbrot and Dean Baker, 2002, "The relative impact of trade liberalization on developing countries", www.cepr.net/pages/Globalization_page.htm; Paul Mosley, 2000, "Globalization, economic policy and convergence", 23 World Economy 613; Francisco Rodriguez and Dani Rodrik, 2000, "Trade policy and economic growth: a sceptic's guide to the cross-national evidence, in *Macroeconomics Annual,* 261 (Ben S. Bernake and Kenneth Rogoff, eds.).

[6] See, most recently, Arvind Panagariya, 2004, "Miracles and debacles: in defense of trade openness," *27 World Economy* 8, August, p. 1149. Angus Maddison documented similar linkages for much longer periods of time.

[7] Based on data in "Investing in development", United Nations, 2005, table 2, p. 9.

the same time, the region is not homogenous. It comprises countries with a vastly diverse historical evolution, religions, cultural values, political systems and geographical vulnerabilities, which all have an impact on their ability to trade, grow and fight poverty. There are 14 least-developed countries (LDCs), four of which are landlocked; most of them also belong to a group of 16 small island developing States. Therefore, it is necessary to differentiate between them when discussing their experience and potential capacity in using trade to fight poverty. The "averaging out" notion that "at current trends, East Asia and the Pacific will eliminate extreme poverty by 2015 and hit most other targets" of the MDGs[8] masks deeply entrenched difficulties that some countries are experiencing in fighting poverty. It could thus lead to a wrong positioning of policy makers in and outside the region with detrimental consequences.

Eagerness to use or advocate the use of trade liberalization to stimulate growth and development gave rise to cases where trade liberalization was transformed from being a means to an end, to being a goal in itself. This approach has increasingly come under criticism in recent years. For example, the Structural Adjustment Participatory Review International Network (SAPRIN), a global network of civil society groups and researchers, recently completed a four-year, multi-country study of the effects of specific structural adjustment policies on a range of economic sectors and social groups.[9] The study concluded that trade liberalization, having been pursued indiscriminately, has allowed import growth to surpass export growth in a manner that undermines the conditions necessary for the sustainable development of domestic firms and indigenous productive capacity. Export growth has been concentrated in a few activities that do not always create backward linkages of benefit to the local economy, and typically has been narrowly based on a few resources and items produced with low-skilled labour. Employment creation has been concentrated in export enclaves or in similar low-wage services; overall, real wage rates have tended to decline, income inequality has increased, and job insecurity and "informalization" are spreading.[10] While these negative trends are not pervasive in this region, the main point is that trade liberalization effects vary significantly across countries, regions and groups within countries. This requires a more nuanced approach in assessing the effects of trade liberalization on poverty.

8 Martin Wolf, 2005, "The elimination of poverty" in the *Financial Times,* 15 February 2005, citing "Investment in development", United Nations, 2005, but which, however, carefully emphasizes the intraregional disparities in Asia and the Pacific.

9 Structural Adjustment Participatory Review International Network, 2002, "The policy roots of economic crisis and poverty: a multi-country participatory assessment of structural adjustment", available at http://www.saprin.org/SAPRI_Findings.pdf. The study was funded by the European Union and several European governments, the United Nations Development Programme and others, and involved collaboration with the World Bank and government officials as well as a wide range of non-government stakeholders in each country.

10 Id., pp. 55-56.

The relationship between trade liberalization and poverty reduction is particularly complex in the case of LDCs, land-locked and small island developing countries. In those countries, the nature of integration into the world economy, and not just trade liberalization per se, needs to be considered in order to ensure that trade is made an engine of poverty reduction. A key linkage between trade and poverty reduction is through employment.[11] Openness expands domestic production and creates employment opportunities in more efficient sectors than would be the case in a closed economy. This generates new income, which, in turn, leads to further stimulatory effects through increased private consumption, and inroads into poverty reduction can be achieved. In contrast, when the supply capacity of countries is weak, rapid trade liberalization – before the building up of supply capacity – can bring impoverishment through a reduction of domestic output (because of competition from cheaper imports), a chronic and unsustainable balance of payments deficit and capital flight (as there is no viable domestic investment).

B. Trade protectionism that affects pro-poor development

The relationship between trade liberalization and poverty remains, in many respects, unclear. One of the issues on which a broad consensus exists is the recognition that in both developed and developing countries many of the existing trade policies and practices have detrimental effects on potential pro-poor development gains. These policies could be grouped into the following categories:

(a) High protection in labour-intensive agriculture and industrial goods trade;

(b) Anti-dumping duties, stringent regulations and standards and other non-tariff measures potentially hindering poverty reduction;

(c) Limited access to services markets, especially for services in which developing countries have comparative advantage, particularly the cross border movement of natural persons (Mode 4 services); and

(d) Complex and asymmetric intellectual property rights protection regimes with no recognition of protection and promotion of traditional knowledge (TK) embodied in products, services or processes of LDCs and developing countries.

1. High protection in labour-intensive agriculture and industrial goods trade

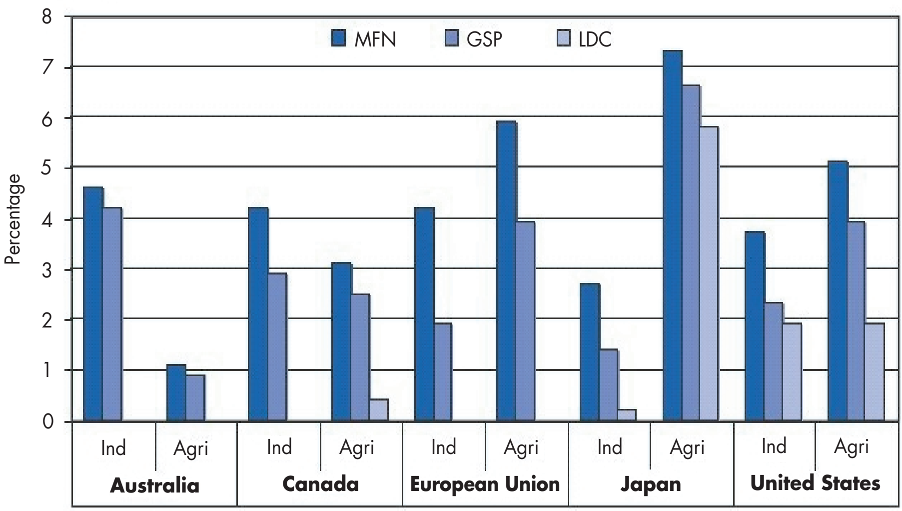
Agriculture is known as the most trade-distorted sector of the world economy. Farm producers in rich countries still receive substantial support, resulting in farmgate prices that are almost one third higher than world prices. Apart from the negative

[11] High rates of population growth require high rates of employment generation to ensure that the working-age population is fully and productively employed. The median age of the LDC population was 18.1 years in 2000; the LDC working-age population will increase by 30 per cent between 2000 and 2010.

effects this has on major farm exporting countries such as Argentina, Brazil and Thailand, the poorest developing countries that are dependent on a small number of commodities, such as sugar, cotton and rice, are also affected.

Despite the fact that negative impacts of tariffs are widely understood, they are still the "protection instrument of the day" as they are deemed to cause lesser distortions than other instruments. Tariff protection tends to be higher in the agricultural sector than in the industrial sector (figure I). Furthermore, although tariff protection on agricultural goods appears to be higher in developing economies on average, it does not mean that protection in developed countries is not problematic. It is the maximum tariffs on individual tariff lines (tariff peaks) that have greater impact (table 1). For example, in the United States there were 24 tariff lines above 100 per cent, with the highest rate at 350 per cent, while in the European Community there were 141 tariff lines with the highest above 500 per cent. In Japan, there were 142 tariff lines with the highest above 2,000 per cent.[12] Table 2 illustrates the extent to which tariff peaks exist in major countries that are importers of LDC products.

Figure I. Tariff levels applied by developed countries on all goods under three trading regimes: MFN, GSP and LDC, 2002



Source: World Trade Organization, *World Trade Report, 2004.*

Note: As of 2003, LDCs benefit from duty-free access to Australia for all products and to Canada for industrial products. Reference year for Australia's tariffs is 2001. See Technical Notes in the Report for calculation methodology.

[12] M. Olaregga and Ng, "Tariff peaks and preferences", in Bernard M. Hoekman, Philip English and Aaditya Mattoo (eds.), *Development, Trade, and the WTO: A Handbook* (Washington, D.C., World Bank, 2002), pp. 108-109.

Table 1. Tariff profile: Averages

	Product group	Industrial economies		Developing economies	
		Applied	Bound	Applied	Bound
1.	Agriculture, excluding fish	5.2	7.2	18.6	19.9
2.	Fish and fish products	4.2	4.9	8.6	25.9
3.	Petroleum	0.7	0.9	7.9	8.4
4.	Wood, pulp, paper, and furniture	0.5	0.9	8.9	10.3
5.	Textiles and clothing	8.4	11.0	21.2	25.5
6.	Leather, rubber and footwear	5.5	6.5	14.9	15.4
7.	Metals	0.9	1.6	10.8	10.4
8.	Chemical and photographic supplies	2.2	3.6	12.4	16.8
9.	Transport equipment	4.2	5.6	19.9	13.2
10.	Non-electrical machinery	1.1	1.9	13.5	14.5
11.	Electrical machinery	2.3	3.7	14.6	17.2
12.	Mineral products; precious stones and metals	0.7	1.0	7.8	8.1
13.	Manufactures, not elsewhere specified	1.4	2.0	12.1	9.2
	Industrial goods (rows 4-13)	2.5	3.5	13.3	13.3
	A; merchandise trade	2.6	3.7	13.3	13.0

Source: Hoekman, Mattoo and English, 2002, *Development, Trade and the WTO,* World Bank, p. 98.

Table 2. Number of international peaks in agriculture and non-agriculture trade facing LDC exports in major markets, 2002

Region/country/area	Agriculture	Non-agriculture
European Community	0	0
United States	24	163
China	385	1 195
Thailand	476	1 924
Japan	100	3
India	27	119
Korea, Republic of	340	74
Taiwan Province of China	248	178
Canada	9	410
Singapore	0	0
Saudi Arabia	9	116
Malaysia	37	1 323
Indonesia	27	119
South Africa	150	471
Hong Kong, China	0	0

Source: World Trade Organization, 2004, WT/COMTD/LDC/W/35; TN/MA/S/12; table 10, p. 19.

Although not as severe as in farm products, trade barriers in non-agricultural products continue to be significant, and of particular detriment to LDCs in the Asia-Pacific region. High tariffs, tariff peaks, tariff escalations and non-tariff (e.g., technical standards) barriers fall on those very labour-intensive goods in which countries of this region are competitive. Non-agricultural protection is highest in textiles and clothing, the sector in which this region enjoys comparative advantage, and where there are large potential development and employment benefits. The average post-Uruguay Round tariffs on textiles and clothing for the three major industrial country markets are 14.6 per cent for the United States, 9.1 per cent for the European Union and 7.6 per cent for Japan, while their average industrial tariffs are 3.5 per cent, 3.6 per cent and 1.7 per cent, respectively. This sector is especially important for Asia-Pacific LDCs whose exports of textiles and clothing account for more than 90 per cent of all LDC exports.

One way of considering the costs of such trade protectionist policies is to estimate the income gains that would accrue if agricultural and manufacturing tariffs were eliminated. According to a World Bank study,[13] by 2015 static gains alone will amount to US$ 291 billion at global level, with US$ 159 billion accruing to developing countries. Of the total gains, the reduction of barriers in agriculture and food yields US$ 193 billion, of which more than 50 per cent accrues to developing countries. It is important to note that more than 80 per cent of this comes as a result of trade reform in developing countries themselves, with only US$ 20 billion arising from agricultural and food reforms in developed countries. Liberalization in manufacturing goods trade in developed countries brings slightly larger gains of US$ 25 billion to developing countries. If dynamic gains were taken into account, gains to developing countries would be about 120 per cent higher. Employment generation is estimated at 144 million new jobs with direct consequences for poverty reduction, given that such employment would be generated in low-skill sectors.

2. Market access and MDG 8: Perspectives from Asia-Pacific

Trade has been overshadowing standard external sources[14] for development finance in Asia-Pacific even though many developing countries are still trading below their potential. Market access barriers on their exports are one significant reason. In this regard, the Millennium Declaration recognized the importance of removing market access barriers as an essential condition for fulfilling the goal of "Developing a Global

[13] More details on the rates used in this estimation are in World Bank, 2004, "Global economic prospects 2004", downloaded from www.worldbank.org.

[14] "External development finance consists of those foreign sources of funds that promote or at least have the potential to promote development in the destination countries if delivered in the appropriate form. This rather broad definition qualifies all forms of external finance, … These include official bilateral and multilateral, private commercial, and private non-commercial flows," Matthew Odedokun, World Institute for Development Economics Research, 2004.

Partnership for Development" (MDG 8). Likewise, the Monterrey Consensus reconfirmed the importance of opening the markets for developing and LDC exports.

The ESCAP region has an outward trade orientation with about 50 per cent of its exports on average destined for outside the region with developed countries accounting for the bulk of this share. Consequently, market access conditions in those developed countries play an important role in the region's trade expansion. Specific MDG indicators have been designed to measure progress in removing market access barriers. Indicator 38 measures the proportion of total developed country imports from developing countries and LDCs, admitted free of duty. Indicator 39 measures market access conditions for developing countries through average tariffs imposed on their exports. More specifically, it reports applied tariff averages for agricultural, textile and clothing goods, three sectors of particular interest for developing countries.

(a) Methodology

To date, indicators 38 and 39 have been computed at the global (world) level only. As market access conditions vary across regions, a computation at the regional level can provide further insights into region-specific problems and help to develop appropriate regional negotiation strategies. The ESCAP secretariat therefore computed regional MDG indicators 38 and 39. An important consideration was to ensure that the regional analysis complemented the global analysis. Consequently, to ensure comparability and consistency, the primary data was provided by the WTO secretariat and the methodology applied was the same as in the global reporting undertaken by WTO together with the United Nations Conference on Trade and Development and other organizations. This is the first time that a set of indicators (38 and 39) have been calculated at the regional level.

At the same time, South-South trade is an important complementary building block in the enhanced global partnership for trade, foreseen in MDG 8. Developing countries of the ESCAP region are increasingly trading with each other on an intraregional basis. The analysis therefore went beyond market access conditions in developed countries foreseen in MDG indicators, to include conditions prevailing for intraregional trade among developing countries. It should be noted, however, that data availability was not as comprehensive and up-to-date as that for analysis of global trade flows. In the following presentation of the findings, emphasis is placed on the wide variations among countries, given the diversity of the ESCAP region.

(b) Findings: MDG indicator 38

As indicated in figure II (a)-(c), LDCs and other developing countries in Asia-Pacific account for a smaller share of duty-free exports to developed country markets compared with developing countries in other regions. Perhaps even more strikingly, the ESCAP LDCs have, since 1999, accounted for the lowest share of duty-free exports of all country groups, even lower than ESCAP developing countries. We find that the major reason for this decline is the surge in dutiable exports, especially clothing exports, to the United States. This is especially pronounced in the case of Cambodia, whose share declined substantially between 1996 and 2003, even though its duty-free exports in absolute figures actually increased. In the case of Myanmar, the decline is largely affected by the suspension of GSP privileges in the European Union. At the same time, there is a remarkable increase in duty-free exports from ESCAP developing countries (excluding non-LDCs) since 1999, due in large part to the implementation of the Information and Technology Agreement (ITA) under the WTO. This is the case particularly for those Asia-Pacific developing country exports destined for the European Union.

(c) Findings: MDG indicator 39

North-South tariff barriers remain significant in key industrial sectors, especially for clothing and agriculture exports from developing countries. However, market access barriers differ across developing countries as exporters. Developing countries of Asia-Pacific face higher tariffs on average than other developing countries of the world. There is however, a substantial variation across the region, as shown in figure III (a)-(e). While this figure indicates that, for 1996-2003, market access conditions improved somewhat for ESCAP as well as non-ESCAP members in all three sectors, it obscures many other important features of the ESCAP developing countries' trade.

Figure II. Share of duty-free exports, total trade excluding arms

Figure II (a): Country groups

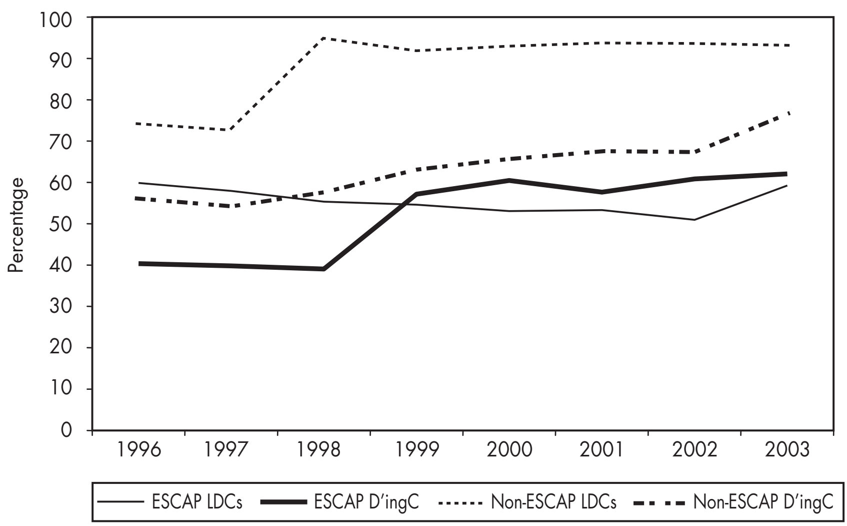


Figure II (b): LDCs

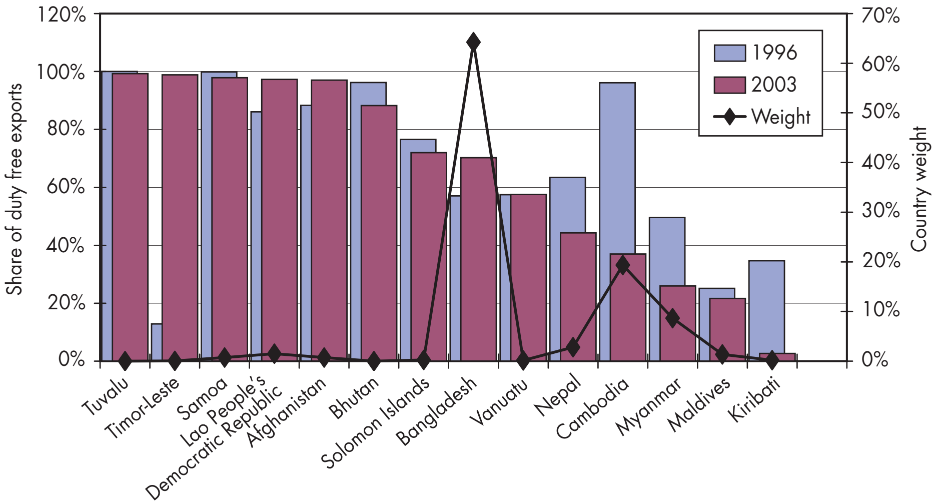
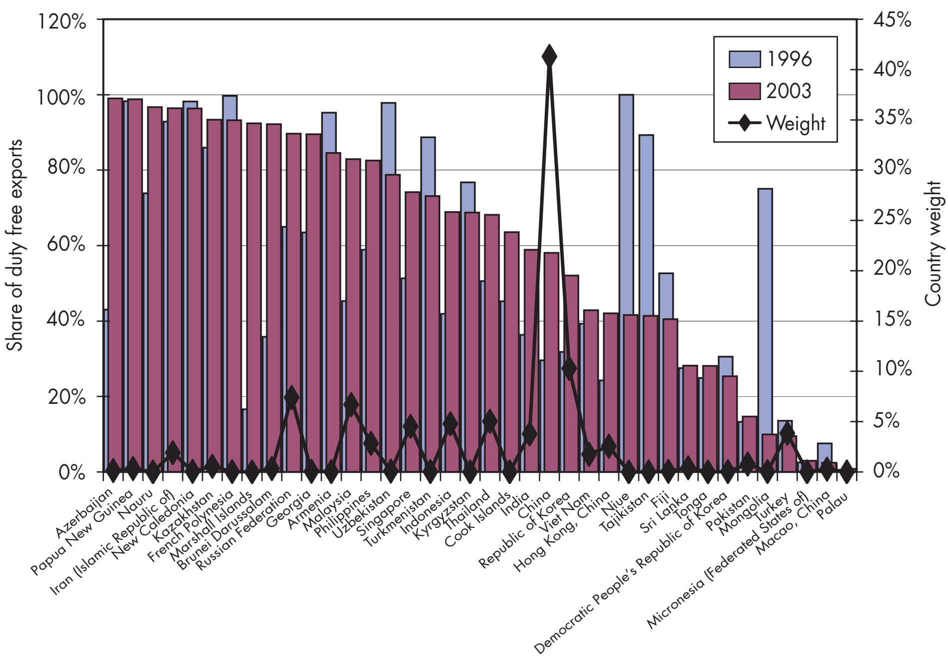


Figure II (c): Developing countries



Source: Calculations by the ESCAP secretariat, Bangkok.

Figure III. Average tariffs

Figure III (a): Total trade

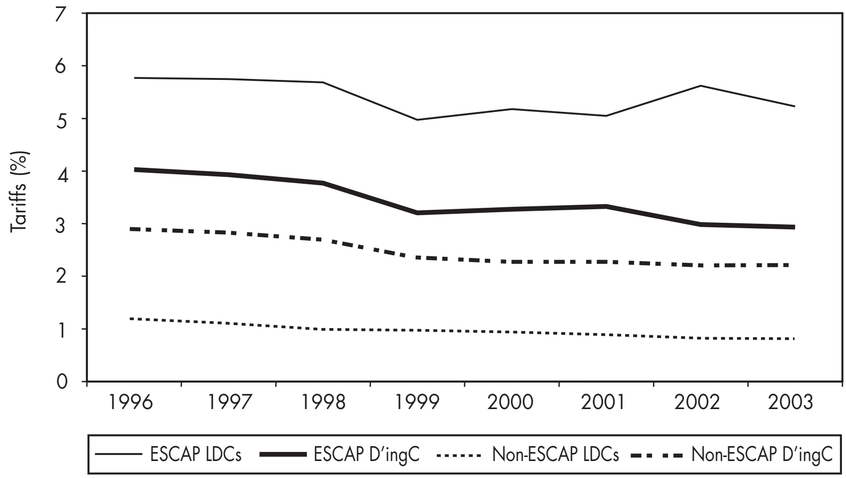


Figure III (b): Trade in agricultural products

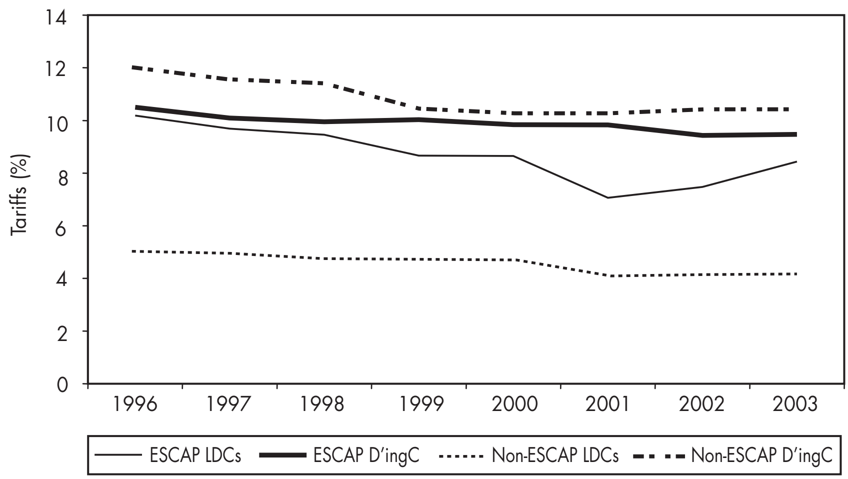


Figure III (c): Trade in textiles

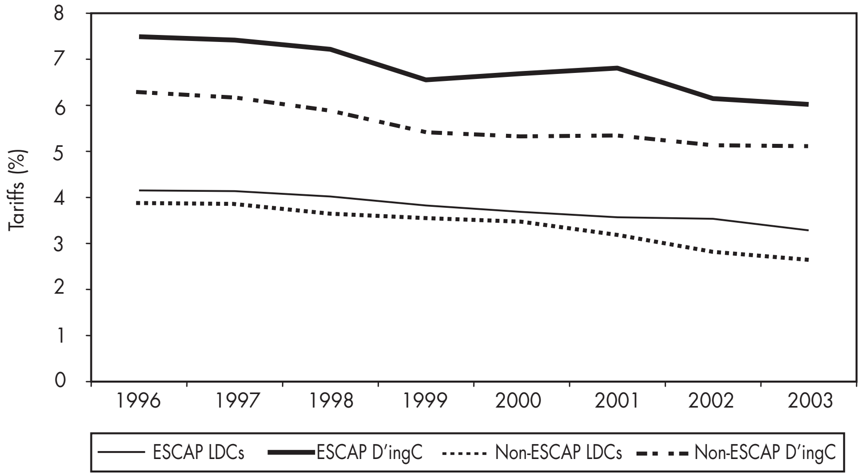


Figure III (d): Trade in clothing

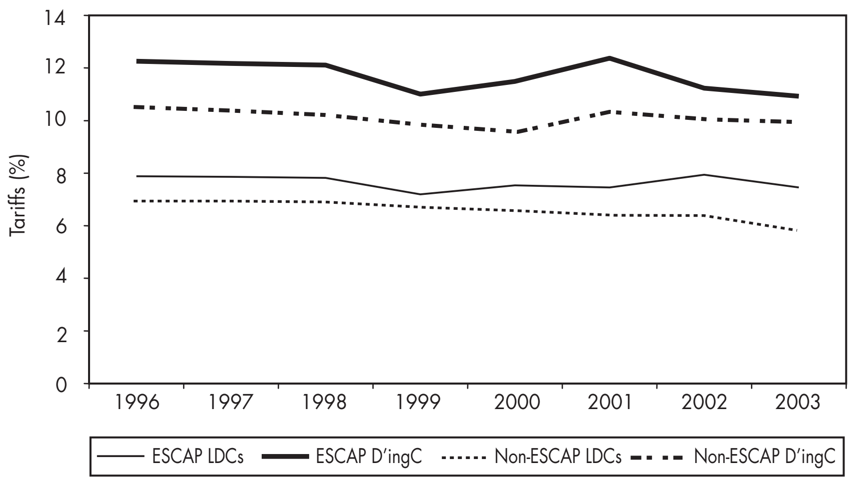
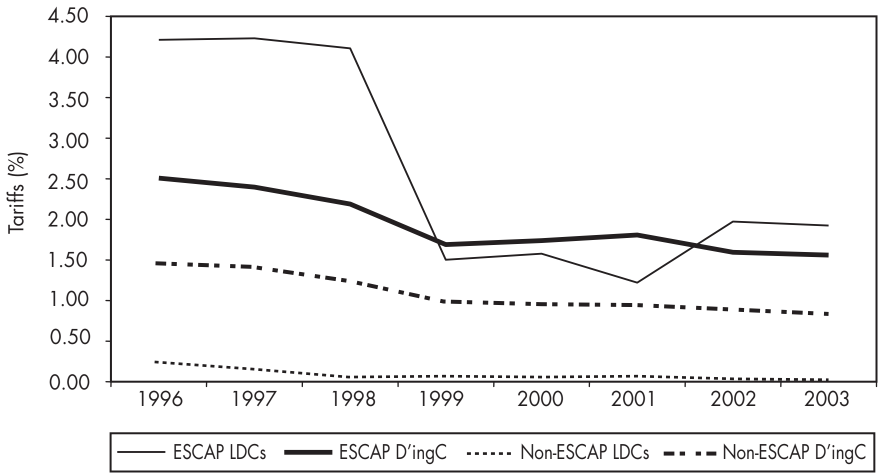


Figure III (e): Trade in other industrial goods



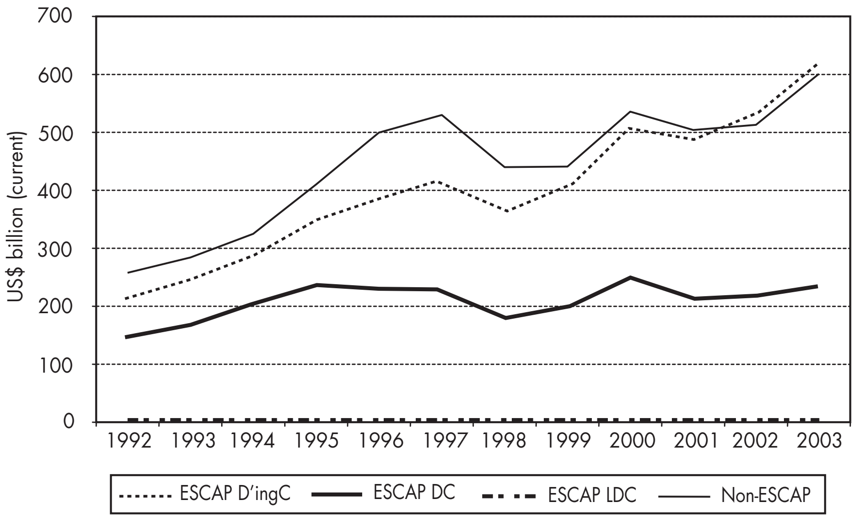
(d) Findings: Trading environment analysis of ESCAP developing countries and LDCs

Market access barriers are especially high for those countries dependent on clothing exports as well as for some non-WTO members. LDCs are the worst affected on average. On the other hand, some Pacific island economies, oil exporting Central Asian Republics as well as middle- and high-income developing countries such as Malaysia and Singapore whose export composition is dominated by IT goods, have higher shares of duty-free exports that enter developed country markets. These variations are due to trade preference and export composition effects. Only Pacific island countries benefit from African, Caribbean and Pacific Group of States preferences in entry to the European Union, whereas Asia-Pacific LDC clothing exports destined to the United States are not part of the African Growth and Opportunity Act and therefore face relatively less favourable market access conditions. In addition, due to the inclusion of fish and other aquacultural products, especially shrimps into the Generalized System of Preferences (GSP) scheme of duty-free access, average tariffs on industrial goods faced by ESCAP LDCs in the European Union dropped in 1999. This benefits Bangladesh, Myanmar (a major shrimp exporter) and Maldives (for fish exports). However, this tariff elimination was not accompanied by an export surge, probably due to conditionalities of GSP schemes (e.g., rules of origin) and other non-tariff barriers linked to product quality standards.

(e) Regional tariff barriers

An examination of market access conditions is incomplete without an examination of market access conditions within the ESCAP region. A new configuration of regional trade integration is emerging in which developing countries, particularly those with high rates of economic growth, are the dynamos of trade. The region is now its own best source of economic growth with trade among its developing countries growing faster than trade with countries outside the region. Figure IV shows that 2001 proved to be the year in which ESCAP developing countries started to import more from other developing countries of the region than from the rest of the world, thus benefiting the export performance of developing countries of the region. Intra-ESCAP trade grew at an annual average of 10 per cent during the past decade, or 2 percentage points faster than that with non-ESCAP trade.

Figure IV. Origin of imports by ESCAP developing countries



Source: ESCAP secretariat calculations from Comtrade database.

Despite these remarkable trends, there is reason to believe that this is not commensurate with the region's inherent economic strengths. Tariff barriers pose undue constraints on further expansion of trade.

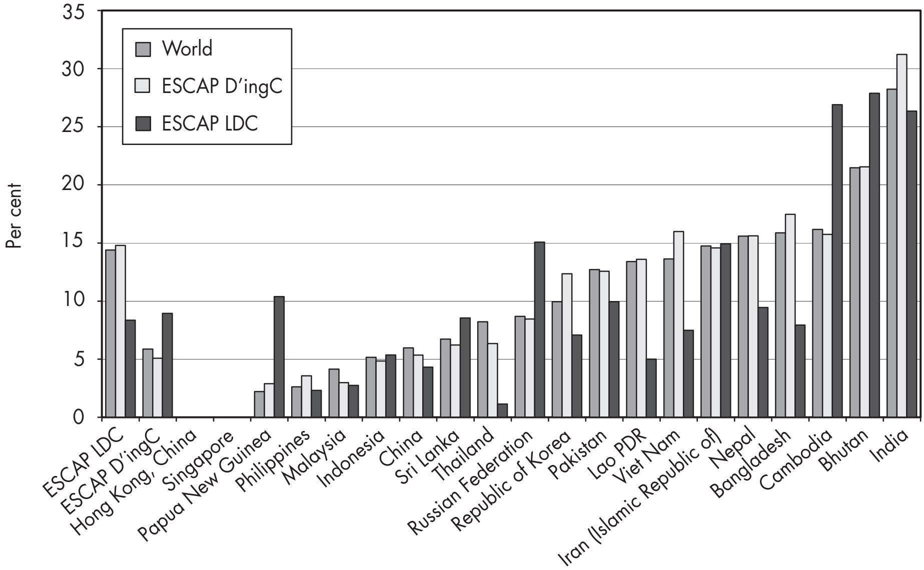
(f) Tariff barriers among ESCAP developing countries

On average, ESCAP developing countries face higher tariffs in other developing country markets compared to developed countries (figure V). This is particularly so for agricultural exports. In contrast, average tariffs in the textiles and clothing sector faced by ESCAP developing country exports are lower in ESCAP developing countries than in developed country markets. This result, however, may be misleading as it is driven mainly by the transhipping role of Hong Kong, China. About two thirds of all intraregional clothing exports pass duty-free through Hong Kong, China, with mainland China being the main source country.

Figure V[15] shows that there is little difference between the tariff that ESCAP developing countries apply to products from other ESCAP developing countries and that which is applied to exports from developed countries (5.1 per cent and 5.9 per cent, respectively). However, they apply a much higher tariff at 9 per cent on imports from other ESCAP LDCs. This is mainly due to "composition of exports" effects, in which clothing and agriculture products feature prominently.

Figure V also shows that these averages hide substantial variations among ESCAP members, with a number of developing countries applying higher tariffs on exports from developing countries of the region, than those from the rest of the world. The situation is even more marked for LDCs. This also shows that trade agreements among developing countries and LDCs in the region do not successfully eliminate barriers.

Figure V. Average tariffs imposed by selected ESCAP members and associate members



Source: Secretariat calculations from TRAINS database.

Note: Data for China predate the recent extension of duty-free access to a substantial number of products from 39 LDCs.

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[15] Figure V shows average tariffs imposed by selected ESCAP members and associate members. The figure contains applied trade-weighted tariff averages (from the latest available year) that are imposed on imports from all countries (world), ESCAP LDC countries and developing ESCAP countries (ESCAP developing countries [D'ingC], including economies in transition). The data are drawn from the United Nations Conference on Trade and Development TRAINS Database.

(g) Implications for trade negotiations

As the previous analysis has shown, ESCAP developing countries still face substantial tariff barriers when seeking market access. The commonly held view that tariff barriers are no longer of significance does not hold for the ESCAP region. While tariffs for most industrial goods are approaching zero on average in major developed countries, tariff protection persists in selected sectors such as clothing and agriculture. The reason is simple: the ESCAP region is highly competitive in those very products that are captured by strong lobby groups in developed countries. Ambitious liberalization has thus been politically difficult. However, the task of reducing tariff barriers does not rest only with developed countries. There is ample scope for bolder tariff liberalization among developing countries of the region.

What does this imply for negotiating strategies? Should developing countries focus their negotiating capital on multilateral, regional or bilateral negotiations? Furthering liberalization through non-reciprocal preference schemes in developed countries (GSP schemes) or in other developing countries (GSTP) is yet another option.

There are no simple answers to this question. As trade liberalization in these sectors has not succeeded in multilateral trade negotiations, there are doubts as to how likely an expansion of GSP schemes or North-South bilateral trade agreements (BTAs) will be in effectively removing existing barriers. While tariffs under these options may appear lower, the conditionalities attached to their utilization notably, but not limited to rules of origin, reduce their effectiveness. If BTAs are used as a means of securing sector-specific market access these negotiations are reciprocal. Developing countries therefore have to pay a "price" for obtaining preferential access (e.g., the Trade-Related Aspects of Intellectual Property Rights [TRIPs] Agreement plus restrictions on domestic regulations etc.). The price to be paid for improved access may be relatively higher in BTA than in WTO or regional trade agreement (RTA) negotiations, as BTA negotiations often resemble ultimatum games, with a developed country in the first mover position. In addition to the fact that the global benefit from trade liberalization is largest under the multilateral system, the formation of BTAs also imposes negative trade externalities on third countries, especially other developing countries (from trade diversion effects). To avoid these externalities, third countries may actually be driven into negotiating a North-South BTA as well, forcing them to pay a price higher than under multilateral WTO negotiations.

A further concern is that BTAs may impose additional distortions, as they reduce the incentives for the BTA partners to actively engage in multilateral negotiations having an impact on the success of multilateral rounds. Finally, in major North-South BTAs, agriculture is covered only marginally, if at all. So far, it is only under the wide scope and membership of WTO that the critical mass of trade-offs has been attained to enable agricultural reform. WTO has proven to be the only forum where any progress has been made in that sector. WTO liberalization is thus the first best policy option. A more equitable distribution of the global gains from trade among ESCAP developing countries would be an important element to increase acceptance of liberalization under WTO.

Liberalization through intraregional South-South liberalization offers an attractive potential complementary strategy. However, the current proliferation of RTAs and BTAs as well as the limited coverage and depth of concessions poses concerns. There is much scope to be more ambitious in a manner that not only is supportive of the WTO process, but which actually stimulates it. Developing countries negotiate from a position of greater balance in South-South BTAs and RTAs. Furthermore, the heterogeneity among ESCAP countries with regard to development offers greater trade complementarities that would counteract the traditional argument of ineffective South-South RTAs.

In recognition of the significance of market access barriers hampering the exports of the region, a closer examination of how these barriers affect the region in particular is necessary.

3. New forms of trade protection affecting poverty reduction

While tariffs do not block market entry, they can make it prohibitive when duties are relatively high. As a result, trade defence measures and various standards and regulations are increasingly being used to appease domestic industry lobby groups or to manage macroeconomic difficulties. These measures are very effective in blocking market entry for exporters who are unable to comply with often complex and stringent anti-dumping rules, internal regulations and standards. As reported by WTO, between 1995 and the end of 2005, some 2,600 measures were launched by WTO members. Members most frequently subject to the initiation of anti-dumping investigations are other developing and transition economies, with China in first place. However, developing countries are increasingly making use of such measures. India has become the largest initiator, with a cumulative total of some 15.7 per cent of all initiations, followed by the United States (13.6 per cent), the European Union (11.3 per cent) and Argentina (7.5 per cent)."[16] Overall, as at 31 December 2003, 1,511 anti-dumping measures were in force; the largest number of measures was maintained by India (273), the United States (205), the European Union (187) and Argentina (138).

Countervailing measures are used more sparingly than anti-dumping measures, with 161 initiations since 1995 (up to June 2003). The main user has been the United States (65 initiations). Members are now also resorting more frequently to safeguard measures than a few years ago. In 2001/2002 (30 October–28 October) members notified 33 initiations, a sharp increase from 13 in 2001. The number of definitive safeguards also rose from 6 in 1999 to 15 in 2002 but then decreased to 13 in 2003.[17]

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[16] Rohini Acharya and Michael Daly, 2004, "Selected issues concerning the multilateral trading system", World Trade Organization Discussion Paper No. 7, p. 26.

[17] World Trade Organization, "The overview of the developments in the international trading environment", *Annual Report*, 2004.

Compliance with requirements of Technical Barriers to Trade (TBT) and Sanitary and Phytosanitary (SPS) certification is often difficult and costly for exporters. These barriers remain significant constraints for developing country exporters in many sectors. Regulatory measures of this kind include (a) customs and other documentation formalities, (b) non-uniform customs classification practices with respect to the same products, (c) rules of origin (including stricter rules for eligibility for preferences), (d) health and other SPS prescriptions, and (e) technical requirements and standards for non-agricultural goods. In many developing countries, the latter measures pose greater obstacles to market access than tariffs.

4. Limited access to services markets, especially in labour-intensive services

Market barriers to trade in services remain significant in both developed and developing countries. Some common limitations relate to nationality, residency, commercial presence requirements and other conditions related to security (data protection, liability, privacy). Some of these constitute market-entry barriers and restrictions that go beyond market access and national treatment commitments under the General Agreement on Trade in Services (GATS).

Of particular interest to developing countries of this region and MDGs are the barriers in cross-border supply of services (Mode 1), commercial presence (Mode 3) and barriers to the temporary movement of service suppliers (Mode 4).

Mode 3, which involves foreign direct investment, is the preferred way of trading services. It accounts for around 60 per cent of total world trade in services. An issue that has become a matter of concern for the United States as well as some other developed countries is Mode 1 or “out-sourcing” of (labour-intensive) services (helped by heavy use of telecommunications). It has been steadily increasing in the United States, resulting in angst for job losses and contraction of some sectors. Countries on the receiving end of outsourced services, such as India and the Philippines, are resisting attempts by the United States to curtail this type of trade in services, as such actions have a negative impact on comparative advantage-based resource allocation in a global economy, and run counter to the creation of a global partnership in the fight against poverty.

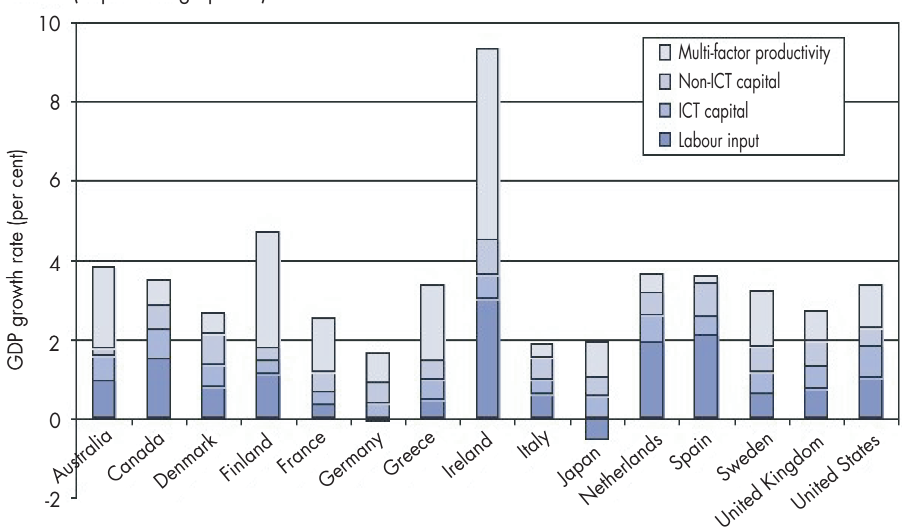
Mode 4 trade is taking place in the context of extremely limited multilateral commitments and/or bilateral and regional frameworks and unilateral regimes. These are, by their very nature, often changeable or arbitrary; they do not provide stable and predictable market access conditions. GATS Mode 4 commitments that are pro-poor would open up sectors where low-skilled workers dominate, a key issue for this region. It should be noted, however, that in addition to the limited GATS commitments, there are a number of other market-entry barriers that Mode 4 exports of developing countries face in developed countries. Achieving effective liberalization of Mode 4 needs to go beyond market access and national treatment, as entry barriers arise from immigration-related restrictions and a plethora of administrative, procedural, technical and licensing requirements. Such barriers to entry fall more within the realm of immigration policies, rather than GATS restrictions per se.

5. Intellectual property rights: a double-edged sword

TRIPs is not part of the core negotiating agenda under the Doha Round, as foreseen in the July 2004 package. Nevertheless, since intellectual property rights (IPRs) make it possible to control the commercial exploitation of the results of scientific, technological and cultural creation, the issue has key economic growth and developmental implications of a long-term nature for the region. Knowledge is critical for development, and for countries at the vanguard of the world economy, the balance between knowledge and natural resource endowments has shifted so far toward the former that knowledge has become perhaps the most important factor determining the standard of living of a country – more than land, tools and labour. Today's most technologically advanced economies are truly knowledge-based.[18] This is supported by Figure VI, which illustrates factors contributing to growth of the gross domestic product (GDP).

Figure VI. Contributions to GDP growth in selected Organisation for Economic Co-operation and Development countries, 1995-2001

(In percentage points)



Source: World Trade Organization, *World Trade Report,* 2004.

[18] World Bank, 1998, *Knowledge for Development,* World Bank/Oxford University Press, Washington, D.C., p. 17.

The TRIPs Agreement requires all WTO members to establish minimum standards for most categories of IPRs. As argued in the previous section, those standards mirror, to a great extent, those in force in the industrialized countries at the time of the negotiation of the Agreement. The explicit aim of the TRIPs Agreement was to ensure that the protection and enforcement of intellectual property rights contributed

> "To the promotion of technological innovation, and to the transfer and dissemination of technology, to the mutual advantage of producers and users of technological knowledge and in a manner conductive to social and economic welfare, and to the balance of rights and obligations" (Article 7).

Nevertheless, from a development perspective, the concern is that the rules can affect the conditions for, access to and use of technology and, therefore, the patterns of industrial and technological development in developing countries. Reverse engineering and other methods of imitative innovation have been restricted, thereby making technological catch-up more difficult than before. Strengthened IPRs also generally increase the negotiating position of right-holders in determining the level of royalties thus increasing the financial burden of implementation for poorer societies.

Notwithstanding these arguments, a growing number of countries are using improved IPR regimes in combination with their own knowledge and human capital base to attract multi-national companies to outsource research and development activities from developed country headquarters. India stands out in particular as a country where advanced science and technology bases, particularly in IT and biotechnology, have great potential. Of course, a number of sensitivities arise. Some view outsourcing of biotechnological research (involving genetics and bio-prospecting) to developing countries as nothing more than a newer version of the outsourcing of polluting chemical and resource extracting industries. While these views should not be ignored, they should not distract the global community from continuing in its effort to allocate resources to their best uses. This would allow the creation of high-growth clusters with backward linkages that could have a beneficial effect on long-term development and poverty reduction.

Another important issue related to the TRIPs Agreement – access to essential medicines – was the subject of the pre-Cancun Doha Declaration on TRIPs and Public Health. The Decision on implementation of paragraph 6 of the Doha Declaration adopted in August 2003 temporarily waived the obligations under Article 31(f) for those exporting members supplying generic medicines to countries with insufficient or no manufacturing capacities in the pharmaceutical sector. However, to date, no country has used the waiver to enhance its access to generic drugs, owing mainly to difficulties in meeting the conditions stipulated as well as cumbersome and costly procedures for both producers and users of drugs. The deadline set for definitively amending Article 31(f) has been extended amid significant differences on content, legal form and timing.

A number of other questions related to TRIPs are still open. This includes the coverage of the Agreement. A number of developing countries hold the view that the TRIPs Agreement should be revised to prohibit patents on plants, animals, micro-organisms, and essentially biological processes. Another important area is the protection, preservation and promotion of TK, which is increasingly recognized as a valuable asset for developed and developing countries alike. TK is often indispensable for the survival of the poorest segments of societies, particularly women, indigenous people and rural inhabitants, and especially in LDCs. In this context, it is crucial to ensure that the benefits of cumulative innovation derived from traditional knowledge accrue to its holders while also enhancing their socio-economic development.

TK is further used as an input into such modern industries as pharmaceuticals, cosmetics, agriculture, food additives, industrial enzymes, bio-pesticides and personal care. However, most of the value-added in such cases is appropriated, without the prior informed consent of the holders, by firms based in developed countries whose advanced scientific and technological capabilities make such appropriation possible. Likewise, an increasing number of countries of the region oppose extension of additional protection to products other than wines and spirits, not only because it is likely to increase the costs or compliance but also because it narrows the range of production differentiation that is crucial for sustaining growth of markets and development. Other developing countries hold the opposite view, as they have products that have built up brand names that are linked to their geographical origin.

C. Pro-development liberalization potential of the Doha Round

A number of important issues can be identified, in the context of the ongoing negotiations, which would have a positive impact on the realization of MDGs and the development of the region. This encompasses the notion that rules agreed to, and commitments undertaken, do not hamper specific national policies and measures aimed at poverty reduction.

1. Agriculture: A sector with complex and varying development effects

As noted above, agriculture lies at the heart of the Doha Round and at the core of the MDG 8 aim of achieving an enhanced global partnership. The reason for this is clear when one considers its importance to the region. Agriculture accounts for GDP shares ranging from 22 per cent in Bangladesh to 51 per cent in the Lao People's Democratic Republic, while some Pacific island countries are dependent on the export of one or two key agricultural commodities, notably sugar. In the rural areas of some countries, subsistence farming generates up to 75 per cent of household income, while about 70 per cent of the region's poor people are dependent on agriculture for their livelihood. Agriculture is thus the mainstay of most developing economies; it is the basis for food security, export earnings and rural development. However, estimates show a decline in per capita agricultural production for domestic and export markets throughout the 1990s. LDCs, in particular, continue to be marginalized from world agricultural markets; they accounted for only 1 per cent of global agricultural exports in the late 1990s. Improved export opportunities would thus be a singularly important means of enhancing livelihoods. Not surprisingly, a majority of developing countries, notably the agricultural exporters, view agriculture as holding the key for unlocking a pro-poor Doha Round outcome.

All three pillars of the Agreement on Agriculture, i.e., market access, domestic support and export competition, should be tackled simultaneously if they are to have a pro-poor outcome.

(a) The way forward

(i) Market access

A key issue, both from a development perspective and from the perspective of unlocking the current stalemate in the Doha negotiations, is tariff liberalization in the agricultural sector. Ambitious liberalization in tariffs with developed countries leading the way in the reduction of applied tariff peaks (with no levies above a two-digit negotiated cap), an expansion of tariff-rate quotas, and duty- and quota-free market access for products from LDCs, would have a major impact on pro-poor outcomes. It would send a powerful message to developing countries to also make substantial liberalization commitments that would, in turn, serve to reduce the pressures to subsidize exports.

At the same time, the fragility of developing country situations should be built into the end result. Developing countries should therefore reduce only their bound tariffs (which are much higher than applied tariffs), and special provisions should apply to products linked to rural livelihoods and subsistence farming.

(ii) Domestic support

Commitments by countries to cap and reduce domestic support are often considered to be the most innovative element of the Uruguay Round. Negotiators established an “amber box” for domestic policies that distort trade and a “green box” for minimally trade-distorting policies, which are exempt from reduction commitments. The vast majority of “amber box” support is provided by Organisation for Economic Co-operation and Development (OECD) countries. The European Union, Japan and the United States account for almost 90 per cent of the total support. Products that account for the bulk of support are milk, meats, grains and sugar.[19]

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[19] Trade Note: “Domestic support for agriculture – agricultural policy reform and developing countries”, Washington, D.C., World Bank, September 2003.

Support is increasingly shifting from trade distorting "amber box" measures to reduction exempted measures and particularly to decoupled income support "blue box", in other words support that is not linked to current production. It is believed that this type of support (as opposed to production-linked payments) is not trade-distorting, or only minimally so. The economic effect of production-encouraging support is that it alters price incentives, distorts supply and eventually distorts trade. A major concern with this view is the lack of a definition of what is trade-distorting.

A second concern is that despite efforts by developed countries to decouple payments, from an economic perspective all support measures (income or otherwise) that encourage production by non-competitive producers would appear to be de facto production- and trade-distorting. Further research is needed to understand more precisely the extent to which decoupled support distorts production and trade.

A third concern of a more general nature is the imbalance in the rules under the current Agreement on Agriculture, because developed countries with greater resources are allowed to continue to provide farm support within their total Aggregate Measures of Support commitments, while developing countries with budgetary constraints or those that were not subsidizing agriculture during the Uruguay Round base period have de facto zero Aggregate Measures of Support levels. The commitment in the Doha Round that countries with higher subsidy levels will reduce much more than those with minimal subsidies is thus an important advance in bringing about a more equitable multilateral trading system. Developed countries would need to demonstrate their willingness to reduce substantially the value of subsidies they provide to their farmers with cuts in domestic subsidies for each major product sector (from actual subsidy disbursements over 2000-2002, not "bound" levels).

(iii) Export competition

Export subsidies significantly distort agricultural trade because they give a direct price advantage to the exporters receiving them, thus directly undercutting export competitiveness of products from non-subsidizing countries. The level of export subsidies fluctuates. It is countercyclical and depends on harvests, world food prices and exchange rates. The subsidies tend to lead to declining food prices hurting agricultural exporters from non-subsidizing countries. Between 1995 and 2000, on average, US$ 6.2 billion worth of export subsidies were provided worldwide. Special and Differential Treatment (SDT) provisions allow certain subsidies by developing countries, such as marketing costs and internal transport and freight charges. Also exempt from reductions are export subsidies related to international food aid and subsidy components in export credits.

The use of export subsidies is concentrated in a limited number of countries – currently 25 WTO members. They all made reduction commitments under the Uruguay Round.[20] The further commitment reached during the Doha Round negotiations to

[20] Some exceptions for developing countries exist, and LDCs have no restrictions.

eliminate export subsidies is important. Elimination of agricultural export subsidies, including the subsidized component of official export credits, with accelerated phase-outs for products of export interest to developing countries, would be important from a development perspective. A meaningful date for a phase-out would be one that is in line with major agricultural reform programmes in developed countries as well as the completion dates of free trade areas and integrated zones of production between the Association of South East Asian Nations and China, as well as India. Notwithstanding the desirability of a complete elimination of export subsidies, since they apply to temperate products such as dairy products and cereals (wheat), they have implications for food aid programmes and prices of food import bills in net food-importing developing countries. The effect of a possible increase in food prices needs to be factored into the final outcomes.

(b) Special concerns of the region: The need for a paced and sequenced liberalization process in developing countries

Developing countries of the ESCAP region have diversified needs in agriculture, as reflected by the large number of divergent proposals put forward by ESCAP developing countries. The two main differences concern the degree of liberalization, and the level of special and differential treatment.

Major agricultural exporters from the region are demanding an ambitious liberalization outcome. At the same time, it would also entail reforms that are more meaningful by middle-income developing countries of their farm trade restrictions, which could all have an important impact for Asian agricultural producers such as rice growers in Bangladesh, Cambodia, Myanmar and Nepal.

On the other hand, net food-importing developing countries that are concerned about rising world food prices as a result of liberalization, hope to significantly increase their own production and become less dependent on imports. LDCs and developing countries that benefit from preferential access are concerned about preference erosion once the most favoured nation (MFN) tariffs are reduced; they are thus less keen on deep liberalization.

Overall, in the majority of developing countries in the ESCAP region a high proportion of the population is dependent on agriculture as an employer of last resort. Therefore, they demand a high degree of special and differential treatment in the form of significant improvements of market access to developed country markets while being allowed to protect their own vulnerable and sensitive markets in order to ensure rural development and food security. To this end, special product (SP) and special safeguard mechanism (SSM) provisions have been proposed, whereby a limited number of sensitive products would be exempt from reduction commitments, or commitments would be lower, and special measures (tariffs in excess of bound rates) would safeguard sectors undergoing rapid liberalization from sudden and exceptional import surges. The primary objectives of the SP and SSM provisions is to protect and enhance developing countries' domestic food production, particularly in key staple products, and to safeguard livelihood opportunities of poor farmers who would be particularly vulnerable to sudden shifts in market conditions. Depending on the agreement reached, SP and SSM provisions could prove to be a useful instrument for governments to shield poor farmers from unfettered competition as well as facilitate a paced and sequenced process of liberalization.

2. Industrial products: Unfinished business

(a) The way forward

As illustrated in the previous section, applied industrial tariffs are modest; however, tariff peaks and escalation remain key problems that affect exports from developing countries, and hinder their efforts to expand and diversify their production and trade. Given their comparative advantage in this sector, developing countries of the region thus have a strong interest in comprehensive and deep liberalization in this sector.

Having said this, some developing countries are concerned that deep concessions could limit the scope of their industrial development programmes. This concern is heightened by the fact that developing countries and LDCs in particular have only limited capacity to prepare adequately for these complex tariff negotiations. This is despite the significant implications that the tariff regime has for their industrial policies and the competitiveness of their products. Importantly, the Doha Ministerial Declaration provides some leeway for these countries, noting the provisions of Article XXVIII *bis* of the General Agreement on Tariffs and Trade 1994 for less than full reciprocity by developing countries. Moreover, there is frequently a substantial gap between their applied and bound rates, which is due to the cuts made in MFN tariffs under unilateral or autonomous reforms made by developing countries in the past 10 to 15 years. Since reductions will be based from bound rates, it provides some protection against any significant new concessions.

Another issue of concern to a number of developing countries is the erosion of tariff preferences such as those granted under GSP, other special arrangements and regional trade agreements. These negative effects are likely to fall more heavily on beneficiaries of more substantial preferences, such as African, Caribbean and Pacific Group of States members and LDCs. Therefore, the possible negative effects resulting from the implementation of the results of the new negotiations have to be taken into consideration.

Finally, LDCs and other low-income countries with limited opportunities for raising government revenue through domestic taxation are concerned about the impact that reductions in tariffs would have on their revenues. This would require additional support to these countries that may go beyond the current scope of multilateral negotiations, but that need to be considered. This point is taken up again in the final section of this paper.

The tariff reduction formula selected should remove tariff peaks in developed countries on key products of interest to developing countries. Developing countries and LDCs should increase binding coverage for the benefit of transparency and predictability, but with flexibility for implementation and compensatory assistance for those countries that currently are heavily dependent on import duties for government revenue. In some sectors, this goal should be achievable in an accelerated manner. Of particular interest to many developing countries would be the reduction of tariffs and other trade barriers on textiles and clothing to be kept to a level at least close to the average level of tariffs on all other commodities initially, and to be phased out completely over an agreed time period. Developing countries should also use the current round to accelerate liberalization on products of interest in their own South-South trade, where tariffs remain 4 to 5 times higher on average. Anti-dumping duties can sometimes reach 10 times the value of applied tariffs, so a further contribution of the Doha Round could be to ensure that the market access gains promised to developing countries are not eroded by increased use of contingent protection, especially anti-dumping measures.

3. Trade facilitation: An opportunity for a win-win partnership

(a) *The way forward*

Trade facilitation has always been a priority for developed countries seeking fast, reliable, predictable and cost-effective access to developing countries markets. It should also be a priority for developing countries of this region, thus representing an area of negotiations in which an enhanced global partnership that benefits both could emerge. First, it holds the potential to help domestic developing country exporters, including micro-entrepreneurs, become more competitive by reducing transaction costs at the border (both for their imported inputs and for export shipments), thus taking full advantage of the hard-won openings in developed country markets. This is of particular importance for developing countries of the region that have built up their comparative advantage in labour-intensive assembly operations.

In a vertically integrated global supply chain, rapid, efficient and cost-effective customs clearance of raw materials and other parts is of critical importance. For example, OECD has calculated that transaction costs can vary between 2 and 15 per cent of trade transaction value.[21] An estimate in 2000 by the Asia-Pacific Economic Cooperation (APEC) group found that its own trade facilitation programme would add 0.25 per cent to GDP of its members (about US$ 46 billion at 1997 prices) by 2001.[22] A World Bank study estimated that an increase of around US$ 280 billion could be gained if improved trade facilitation measures were implemented in those

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[21] See *Business Benefits of Trade Facilitation*, Working Party of the Trade Committee, Organisation for Economic Co-operation and Development, TD/TC/WP8(2001)21/FINAL, April 2002.

[22] See *Cutting Through Red Tape: New Directions for APEC's Trade Facilitation Agenda*, APEC, 2000.

APEC members with facilitation capacity below the average for the group. The study argued that investment in trade facilitation would provide gains that would be greater than tariff cuts on manufactured goods.[23] WTO estimates that, at present, the number of days needed for customs clearance in a representative group of least efficient countries is 30 times more than in the representative most efficient country.[24] Second, the loss of national income due to the declaration of lower volumes or values of trade can be significant.

The WTO July Package[25] clearly takes into account some of the major concerns of the developing countries, particularly the least developed among them. It recognized the need for SDT beyond the granting of transition periods, taking into account the implementation capacities of countries. Annex D, particularly paragraphs 5 and 6, contain more concrete obligations for donor countries. Support and assistance are to be extended during negotiations, as well as in the implementation phase. This approach is unique in the history of WTO negotiations, as it contains concrete obligations on the part of donor countries to provide the necessary technical assistance and accepts that, lacking such assistance, developing countries may not be required to implement negotiated commitments. This is likely to be an important precedent for future negotiations that might point the way forward for less acrimonious and more balanced outcomes, even in areas that extend beyond trade facilitation. However, a number of challenges arise.

The immediate challenge facing developing countries is to identify their needs and to prioritize them, given the institutional complexities of national governmental structures and responsibilities. A further challenge is how to measure the costs of such reforms and the financial assistance that would be required. The architecture of an eventual agreement on trade facilitation will also need further thought. In particular, pro-development aspects (one size does not fit all) need to be worked out, and in this regard, the bottom-up principles embodied in the GATS architecture might be worthy of further consideration. Finally, on the part of international organizations, a key challenge is how to coordinate and rationalize the myriad technical assistance programmes in this area. Although Annex D recognizes the need for collaborative efforts, a more structured framework, perhaps using a variant of the Integrated Framework, would lessen the likelihood of duplication of efforts, conflicting initiatives and waste of financial resources. The limited absorptive capacity of developing countries to deal with disparate technical assistance efforts highlights the need for targeted and well thought out approaches.

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[23] See *The Economic Impact of Trade Facilitation Measures: A Development Perspective in the Asia-Pacific Region,* World Bank, October 2002.

[24] World Trade Organization, *World Trade Report,* 2004.

[25] It launched negotiations that focus on three General Agreement on Tariffs and Trade 1994 Articles, namely Article V on "Freedom of transit", Article VIII on "Fees and formalities connected with importation and exportation" and Article X on "Publication and administration of trade regulations".

4. Services: A key sector for development with future potential as a source of wealth creation

(a) Complex sector

Maximizing development benefits from the international liberalization of trade in services is the key to pro-poor outcomes. Increasingly, the ESCAP region is gaining comparative advantage in the export of services while greater access into developing country markets (imports) can lead to well-documented economy-wide efficiencies. However, a pro-poor development approach needs to be grounded in an understanding of the role of services, not only in terms of these efficiencies but also in terms of the well-being of their people and the current domestic availability of services. The current Round should therefore ensure that:

(a) Liberalization for essential services (i.e., water, health and education) does not lead to the adoption of a particular economic model, such as privatization, but gives necessary attention to domestic regulatory reform and the expression of local collective preferences;

(b) Low-cost access to essential services, including high-speed telecommunications infrastructure and the Internet, is readily available in rural communities;

(c) There are no restrictions on the ability to cross-subsidize the provision of services to rural areas where large segments of the population continue to live;

(d) Measures are in place to increase lending to small and medium-sized enterprises and poor producers; and

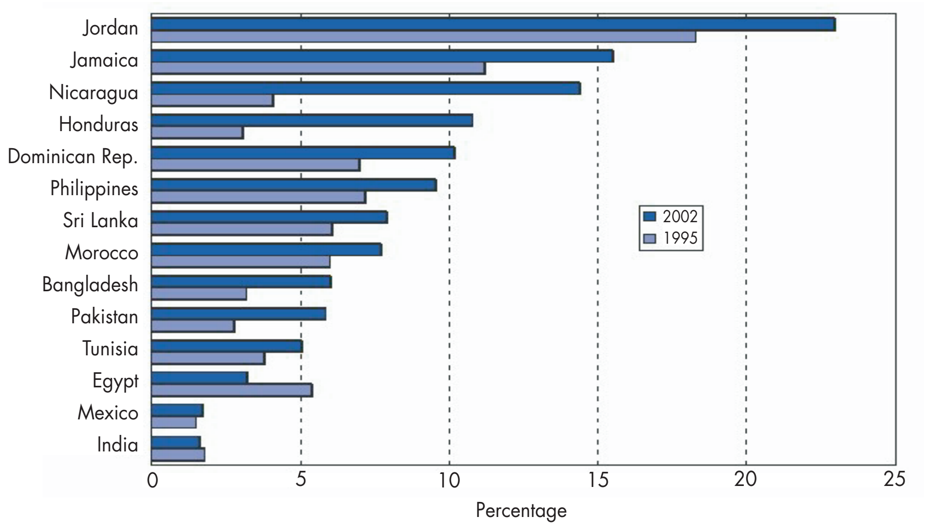
(e) Initiatives directed at attracting foreign direct investment (FDI) do not crowd out local service suppliers.

In this regard, developing countries have encountered great difficulties in identifying their specific sectoral interests, the barriers to their exports or the impact of requests by developed countries on their services sectors. Of particular concern to developing countries are the evaluation of requests received and the formulation of their own requests and offers, which is a particularly complex task as they need to determine their national policy objectives and the competitiveness of each sector or subsector. They also need to determine (a) the optimal sequencing of the steps involved in liberalization, (b) the capacity of domestic firms to provide the services in question, and (c) whether this capacity would be positively or negatively affected by further competition in the market.

(b) The link to employment

The impact on employment is particularly important from a pro-poor perspective. Of special interest to developing countries are commitments by developed countries for the temporary movement of service suppliers (Mode 4). By providing employment opportunities abroad, this can be an effective tool in addressing unemployment in the domestic economy and supporting the income of poor households, thereby directly contributing to poverty reduction. Repatriated earnings of workers in the form of remittances can accelerate development of the domestic economy by augmenting consumption, savings and investment. Remittances have clearly emerged as one of the most stable, steady and rising sources of development finance for many developing countries, while knowledge acquired abroad stimulates entrepreneurship and assimilation of new technologies when workers return home (see figure VII). In the Asia-Pacific region, such flows constitute the second largest source of private funding after FDI. In Bangladesh, remittances have attained the level of 70 per cent of net foreign exchange earnings from goods exports.

Figure VII. Ratio of compensation of employees' and workers' remittances receipts to GDP, 1995 and 2002



Source: World Trade Organization, *World Trade Report,* 2004.

Commitments under Mode 1 are also of increasing interest to developing countries. Services supplied under Modes 1 and 4 are often substitutable or complementary for many of the types of business activities that are commonly outsourced. In the context of securing increased Mode 1 market-opening commitments from developed countries, developing countries are seeking to gain parallel Mode 4 openings needed to supply services related to these activities. Such linkages imply changes in the need for movement of natural persons at the middle level (in that it reduces the duration of stay and the numbers of personnel). However, as countries move up to higher value business process outsourcing activities, their need for mobility of natural persons will not diminish; instead, it shifts towards higher level service providers. Developed countries should therefore make commitments for categories of professionals in the area of computer-related services.

Mode 1 also depends on the availability of telecommunications services as the basic infrastructure for cross-border trade across all service sectors. Therefore, developing countries could offer more ambitious liberalization of computer-based and related services under Mode 3 for trade in all modes of supply in a win-win manner. There are also interesting linkages to Mode 2. For example, China is increasingly making use of India's software industry. India's largest software training company, NIIT, is reported to have provided training for more than 250,000 Chinese students in India, in addition to having established 106 education centres in China.

(c) The way forward

Multilateral liberalization of trade in services through Mode 4 constitutes an unfinished development agenda of the Uruguay Round. It is also an essential element of a balanced and development-oriented outcome of the current multilateral trade negotiations. Multilateral liberalization of Mode 4 must be buttressed by a reduction and streamlining of market-entry conditions if substantive development gains are to be assured by the international trading system. Furthermore, substantial benefits could be derived by both developed and developing countries from the liberalization of restrictive measures hampering the ability of workers from poor countries to take jobs in wealthier countries on a temporary basis. Hence, market access for services, including the large pool of semi-skilled labour from this region, and other sectors of export interest to poor countries should be liberalized.

There is also a need to separate the Mode 4-related supply of services from immigration-related matters so as to avoid needless political and cultural complications, including xenophobia, that hamper realization of the full potential of temporary Mode 4 trade for home and host countries alike. Furthermore, liberalized but regulated movement of temporary workers from developing to developed countries would help resolve the problem of clandestine and illegal migration.

Important commitments by major developed countries in this area would include:

(a) Broadening the categories of service providers covered to include independent and contractual service providers;

(b) Allowing for lower-skilled levels and occupations;

(c) Eliminating economic needs tests, or reducing their coverage and making them more predictable through establishment of transparent criteria;

(d) Simplifying, streamlining, easing and making more transparent visa, work permit and licensing requirements and procedures; and

(e) Facilitating the recognition of professional qualifications, including through mutual recognition agreements as well as horizontal application of GATS guidelines on accountancy to other professions.

The Doha Round also provides an opportunity for developing countries to achieve commercially meaningful market access commitments in sectors and modes of interest to them, particularly labour-intensive services, and to devise effective benchmarks for the implementation of Article IV (Increasing Participation of Developing Countries). Actions by developed countries to grant enhanced market access (i.e., non-reciprocal preferential access for developing country exports) as well as support investment and technology flows in key services sectors of developing countries that may improve the supply capacity and competitiveness of services, are important elements of a pro-development outcome.

At the same time, developing countries should be given the space to maintain policy discretion regarding their own markets. They should attach specific conditions to their new schedules of commitments such as:

(a) The unique situation in each country in relation to the pace and path of liberalization most suitable to domestic circumstances;

(b) The need for flexibility in addressing problems that cannot be anticipated when undertaking liberalization commitments;

(c) The lack of meaningful concessions, critical barriers to exports and supply constraints preventing developing countries from reaping benefits;

(d) The fact that benefits from privatization and liberalization do not accrue automatically but require certain preconditions, including an appropriate regulatory framework, entrepreneurial and technological capacity-building, and complementary policies; and

(e) Adjustment costs, including those entailed by the need to ensure access to universal and essential services, in particular for the most vulnerable segments of the population.

5. Special and differential treatment

SDT has its origins in the mid-1960s. It centres on the principle that developing countries should not be expected to take on concessions at full reciprocity with developed countries. The Uruguay Round yielded more SDT provisions than ever before in the General Agreement on Tariffs and Trade negotiating history, but disenchantment with the implementation of such provisions rose quickly in the post Uruguay Round period.

(a) What are the systemic issues?

Uruguay Round SDT comprises 145 provisions, of which 22 apply only to LDCs.[26] They can be divided into three main types. First, developing countries are granted longer time frames than developed countries for implementing WTO Agreements.

[26] "Implementation of Special and Differential Treatment Provisions in World Trade Organization Agreements and Decisions", Note by the Secretariat, WTO Document WT/COMTD/W/77, 25 October 2000, p. 3.

These vary considerably ranging from two years (in the case of SPS and those on import licensing) to 10 years (in the case of the Agreement on Agriculture). Second, developing countries are accorded greater flexibility, which take the form of exemptions from, or, in many cases, a reduced level of commitments otherwise generally applicable to members. Third, developing countries are "promised" technical assistance in several areas, including SPS, technical barriers to trade, customs valuation, services and intellectual property. For all of these categories, additional provisions for more favourable treatment apply specifically to least-developed countries.

One of the major problems with SDT is that the majority of provisions were worded as "best-endeavour" rather than legally-binding clauses. Furthermore, the Uruguay Round may have paradoxically resulted in an erosion of special and differential treatment, because provisions were addressed piecemeal, in each of the separate negotiating groups of the Round. Thus, there was no underlying consensus or unified approach on the trade measures that developing countries needed for their development process. Unsurprisingly, in the face of rising controversies in 2001, WTO ministers agreed at Doha that: "all special and differential treatment provisions shall be reviewed with a view to strengthening them and making them more precise, effective and operational".[27] On the basis of this mandate, developing countries made over 85 suggestions to strengthen SDT provisions in various WTO Agreements. Despite intensive talks, however, no concrete outcome has emerged.

A wide range of proposals have been considered, which call for improved preferential access to developed country markets, further exemptions from specific WTO rules and binding commitments by developed countries to provide technical assistance to help implement multilateral rules. Some proposals sought to rebalance some provisions of the Uruguay Round. Many proposals posed significant systemic challenges.

A number of new approaches to SDT have been advanced by various trade analysts. These are generally based on the recognition that there is a need to differentiate between developing countries if meaningful SDT provisions are to be achieved. In order to do so, the formation of new country groupings has been suggested.[28] Specifically, this would mean that WTO members would cease to self-select their developing country status and that they would be categorized into a larger number of subgroups than is currently the case. Each new grouping would then be eligible for the same SDT across all agreements. Eligibility for a subgroup would be subject to decision-making by all WTO members based on a set of criteria agreed to by the membership, e.g., per capita income, size of economy etc. Alternatively, an agreement-specific approach,

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[27] See Doha Ministerial Declaration, WTO Document WT/MIN(01)/DEC/1, 20 November 2001, para. 44.

[28] Bernard Hoekman, Constantine Michalopoulos and L. Alan Winters, 2004, "Special and Differential Treatment of developing countries in the WTO: Moving forward after Cancún", *World Economy 27,* 4 April, pp. 481-506.

tailoring the SDT provisions to the needs of individual countries, has been proposed. This would be based on the assessment of the costs and capacity of countries to implement WTO Agreements, so that implementation of transition periods and tailor-made programmes of technical assistance and capacity-building could be set out.[29] The merit of this approach rests largely on the (legal) nature of the technical assistance commitments that donor countries would make.

An even more fine-tuned approach consists of providing SDT on a provision-specific basis.[30] Applicability of SDT would depend on the fulfilment of a number of criteria. As a result, the group of eligible countries would be open and might differ for each SDT measure, as would the criteria determining eligibility. A provision-specific approach would allow for the automatic (i.e., not subject to the acceptance of other members) application of SDT to additional countries with similar needs and fulfilling the same criteria. However, the challenge of defining the appropriate and development-relevant criteria that are relevant to specific development needs remains enormous. At best, more intensive research and policy analysis would be required.

(b) The way forward

SDT remains an important horizontal negotiating issue for developing countries due to the flexibility it provides for trade protection under specific conditions. The region's experiences (e.g., the 1997 Asian financial crisis) point to the need for developing countries to liberalize in a manner paced with their development path rather than in a sweeping, one size fits all, manner. In future, attention may need to focus on the specificities of individual countries, notably in terms of compliance costs and the capacity to implement WTO Agreements. Transition periods could be determined to allow for the execution of appropriately funded programmes of technical assistance and capacity-building. Elements of this approach have already been encompassed in the trade facilitation negotiating mandate. Furthermore, additional flexibilities, including in the area of subsidies, should be allowed to enable developing countries to tailor economic and social policies to their specific needs and priorities.

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[29] Zhen Kun Wang and L. Alan Winters, 2000, "Putting 'Humpty' together again: Including developing countries in a consensus for the WTO", Centre for Economic Policy Research (CEPR) Policy Paper 4, London, CEPR; and Susan Prowse, 2002, "The role of international and national agencies in trade-related capacity building", *The World Economy* 25, 9, pp. 1235-1261.

[30] An existing example of this approach is that of the fast-track procedures for extending transition periods under Article 27.4 of the Agreement on Subsidies and Countervailing Measures. Members fulfilling specific economic criteria and adopting defined programmes may continue to use certain kinds of export subsidies for a limited amount of time. The choice of criteria limiting eligibility to relatively poor and small countries – a share of world merchandise export trade not greater than 0.10 per cent and total gross national income for the year 2000 as published by the World Bank at or below US$ 20 billion – effectively allows export subsidies to be used only by countries without the ability to influence world market prices and trigger subsidy competition. See C. Stevens, 2002, "The future of Special and Differential Treatment (SDT) for developing countries in the WTO", Institute of Development Studies Working Paper 163, Brighton, Sussex, United Kingdom.

6. Technical assistance and capacity-building in negotiations and implementation

An important aspect of SDT, and a corollary of the balance of concessions and obligations that will form part of the Doha package, is the role of technical assistance and capacity-building. Commitments by developed countries in these areas should, whenever feasible, take the form of legally-binding obligations, not best endeavours. Furthermore, in the context of achieving MDG8 and in consonance with the objectives of the Monterrey Consensus, technical assistance and capacity-building should be understood in a wider context of providing support to efforts by developing countries to increase their supply response capacities, competitiveness and ability to attract FDI in both the goods and services sectors. This is discussed in more detail in the section below.

Within the context of the DDA negotiations, two areas in which there continues to be a compelling case for further attention is in human resources development for developing country negotiators and institutional capacity-building. While clearly there has been a remarkable growth in technical skills among developing country trade officials, developing countries still lack depth of expertise. Post-liberalization reforms are focused on regulatory reform. Improvement in the regulation of markets is a highly technical and complex policy area. It requires expertise in human resources and institutional capacity, both of which are highly resource-intensive areas. It also requires a concerted effort by developed countries (as providers of financial as well as human resources), competent international and national agencies (as executing entities), and the recipient countries. Developed countries should provide sustained institutional and human capacity-building assistance involving long-term partnership arrangements between counterpart ministries, supervisory and regulatory agencies as well as labour unions, chambers of commerce, industry associations and non-governmental organizations. Key areas that should be focused on are auditing, accounting, competition policy, technical and SPS regulations and standards, utility and other services regulation, administration of justice, consumer protection, social and environmental policies. The role played by domestic research institutes in providing analytical support and advising government decision-makers should also be strengthened. In response to this growing need, ESCAP set up a network of trade research and policy analysis called ARTNeT.

D. Potential of South-South trade: the task of developing countries

1. Asia-Pacific as the future economic growth engine of the world

While not a substitute for North-South trade, market access barriers and the high cost of entry in developed countries increase the attractiveness of the South as an export destination for developing countries. A discussion on the elements of an enhanced global partnership would thus be incomplete without consideration of the potential of intraregional trade. The ESCAP region in particular stands out as a global producer, trader and consumer in its own right. As such, it is evolving into its own best source of future trade growth and future engine of dynamism for the global economy. In 2003, developing countries in the ESCAP region contributed more than two-thirds of world South-South trade. More importantly, 40 per cent of developing country exports were to other developing countries of the region, with this trade growing at 11 per cent per year (nearly twice the growth rate of total world exports). Exports of manufactures are a particularly fast-growing component of intra-developing country trade. While much of this dynamism is led by China and India, they are by no means the only countries with increasing importance in regional and international trade and investment. Other countries, such as the Republic of Korea and Singapore, have contributed significantly while an increasing number of other developing countries from the region are entering or consolidating their position in many dynamic sectors in world trade.

Another important area where interdependence among developing countries of the region is likely to deepen is related to commodities, both fuel and non-fuel, which constitute 46 per cent of intra-South trade. The ESCAP region has vast resources, particularly in Central Asia. At the same time, the region has rising energy needs, particularly in its fastest-growing economies. It therefore represents opportunities for developing countries of the region to secure access to, and presence in resource markets on an intraregional basis. South-South trade in services is also on the rise and offers substantial possibilities for further expansion.

The growing importance of the South in the global economy is not confined to trade relations alone. Similar patterns are also emerging in international investment flows. Negligible until the beginning of the 1990s, developing countries' outward FDI accounted for over one-tenth of the world stock and some 6 per cent of world flows in 2003 (US$ 0.9 trillion and US$ 36 billion, respectively). In the 1990s, many developing countries emerged as significant sources of FDI in other developing countries. China and India joined Malaysia, the Republic of Korea, Singapore and Taiwan Province of China as significant sources of FDI, with the result that the rate of intraregional investment is growing faster than investment from developed to developing countries, with services accounting for a growing share of international investments (about two thirds).

Another aspect of an enhanced global partnership is the growing trade between developing countries from different regions; however, its potential remains underutilized. For example, 27 per cent and 12 per cent, respectively, of intra-South trade in agriculture and manufacturing are conducted on an interregional basis. As distance and transport costs continue to decline and impinge less on export competitiveness, significant developments in interregional trade can be expected.

2. The need for a deeper and more streamlined process of regional integration

Yet for these opportunities to bear fruit, developing countries will need to revisit their own structure of protection, the incidence of which has often been shown to weigh more heavily on developing country exporters than on those from developed countries. Regional economic and trade cooperation, including through bilateral trade and investment agreements, is a central mechanism employed by most, if not all, developing countries to expand mutual trade and investment flows. The regional elimination of tariffs and non-tariff barriers to trade offer important possibilities to build economies of scale, attract FDI to the region on better terms, and pool economic, human, institutional, technological and infrastructural resources and networks. However, many regional arrangements have been slow to take off (this is still the case) or have proven to be outright unsuccessful, particularly when liberalization proved too narrow to offer significant complementarities.

The recent proliferation of agreements has added further concerns. Deep-seated political difficulties and historical paths among countries are at least partially responsible, and Asia-Pacific countries are entering into BTAs with countries with which they share common political objectives. This is giving rise to a dense thicket of BTAs as countries race to strategically align themselves with like-minded dominant trading nations. The risk is high that without an operational common framework, an irreconcilable fragmentation of trading relations will evolve. If regionalism is to continue to evolve as a building block of an enhanced global partnership, an essential but perhaps underestimated condition is the need for a deeper and more rational process of regional integration.

Present economic circumstances are uniquely opportune for the region to emerge as an integrated zone of efficient production and trade growth for the world. Economic dynamism has seen complementarities deepen, which has raised confidence in opening up markets to one another. Economic opportunity should therefore override political conflicts. This is no easy task, but it is not insurmountable.

The Asia-Pacific Trade Agreement, as the only RTA with a truly region-wide coverage and as the only RTA that links East and South-East Asia, could contribute to this process. Because the Agreement has been beset by many of the problems discussed above, it would need to be strengthened by a long-term commitment among members that would bring about an expansion of its membership that is truly region-wide. A political vision of an integrated Asia-Pacific region should see trade preferences deepen and widen to include services and investments, as well as improvements in the method of negotiations. Particularly important in this context could be the liberalization contribution of not only an advanced economy such as the Republic of Korea, but also middle-income developing countries such as China and India.

E. Increasing the contribution of trade liberalization to poverty reduction

1. From reciprocity to equity: A need for realism

Harnessing the DDA negotiating process to the realization of the MDGs would require a reorientation of the multilateral trading system from a reciprocity-based system to an "equitable" one, as called for by the Millennium Declaration. This is a long-term objective that, as laudable as it is, needs to be balanced with a dose of realism. WTO remains primarily a forum for the exchange of concessions based on the principles of reciprocity and mercantilistic bargaining. It is increasingly recognized that trade liberalization may have complex effects on growth and development that are specific to country situations. However, the manner in which trade agreements continue to be negotiated, especially in WTO, consists of package deals of concessions and rules extended on an MFN (non-discriminatory) basis, with only limited country-specific exceptions, modifications or carve-outs. The extent to which developing countries manage to shape the package into an optimal (and pro-poor) set of liberalization commitments varies enormously, with trading size and influence in WTO, availability of resources as well as skills of domestic negotiators being deciding factors.

While this does not contradict the economic case for further trade liberalization between developed and high- and middle-income developing countries, it requires approaches that go beyond the exchange of concessions (even as corrected through special and differential treatment commitments). Innovative steps need to be taken that include more effective multilateral redistributive mechanisms that take into account the implementation burden and adjustment costs, both across countries and between different groups of people within countries. At the same time, as mentioned above, there are limits on the extent to which trade negotiations within the existing institutional setup of the Round can fully dedicate themselves to these objectives. Mechanisms beyond the multilateral trading system therefore need to receive more systematic and serious attention. The design of these policies is a challenging task, given the marked differences in individual country contexts.

2. The need for complementary policies and instruments: Policy coherence and sequencing through trade mainstreaming

One concept that has assumed importance is trade mainstreaming.[31] It refers to the integration of trade into country development plans and poverty reduction strategies. In principle, trade mainstreaming should further the goal of policy coherence by incorporating trade policy into a country's overall development framework, so that it complements a country's other economic and social priorities. There is a risk, however,

[31] Doha Declaration, para. 38.

that trade policy analysis and recommendations could simply be inserted in a national development plan or poverty reduction strategy without any effort made to ensure that the trade policy furthers the country's poverty reduction goals. It is important, therefore, for trade mainstreaming to not only identify opportunities for trade liberalization and export promotion, but also identify through poverty impact analysis, the opportunities to address poverty through trade policy. It requires a systematic assessment of the development impact of new trade proposals within WTO, including the distributional effect of trade and trade policies, their potential impact on vulnerable groups and how losers should be compensated. In this regard, although diagnostic trade integration studies have been carried out in selected LDCs under the Integrated Framework, they have generally been geared towards identifying opportunities for trade liberalization and export promotion. More needs to be done in terms of analysing the possible poverty and social impacts of the trade options.

A complementary policy instrument is presented by social impact assessments (SIAs), such as the Poverty and Social Impact Analysis (PSIA) developed by the World Bank. PSIA is defined in the User's Guide as the "analysis of the distributional impact of policy reforms on the well-being or welfare of different stakeholder groups, with particular focus on the poor and vulnerable".[32] In the area of trade negotiations, an SIA can play a useful role in creating an informed judgement of its development needs. It would also assist in devising an approach to trade negotiations so that negotiating positions and agendas are formulated with greater context specificity, more balanced sensitivity to individual countries' needs, and time frames that take into account analyses of the likely effects of alternative packages of rules and concessions. Having said this, SIAs are difficult policy instruments to use because they may be captured by vested interest groups, e.g., monopolistic suppliers, who stand to lose from wide-scale reforms. Policy makers should therefore carefully analyse results and adopt a pro-poor interpretation of the results, if they are to promote a national consensus for long-term economic reform and development.

3. Policies to reduce adjustment costs

Importantly, SIA-type tools can be a means of identifying more concretely the mitigating or flanking measures that are needed to avoid certain negative social effects arising from the "losers" of trade, such as displaced workers or real wage decreases that risk pushing some households into poverty. Other losses could include lower government revenues from tariffs, which could reduce their ability to fund much needed social safety nets. Losses could also arise when other domestic policies, such as environmental regulations, need to be introduced or adjusted in the wake of liberalization.

The aim would thus be to explore (a) the consequences of a country accepting a package of trade concessions and rules of which it may, to a great extent, be

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[32] See *A User's Guide to Poverty and Social Impact Analysis*, 2003, World Bank; *Evaluating the Poverty and Distributional Impact of Economic Policies (Techniques and Tools)*, Francois Bourguignon and Luiz A. Pereira da Silva (eds.), 2003, http://poverty.worldbank.org/files/12995_toolkit.pdf.

a "taker", and (b) how the losers should be compensated so that the reforms are politically palatable for society as a whole. A growing consensus is emerging at the multilateral level that development-friendly approaches to trade liberalization need to be matched by complementary policies that will assist developing countries with structural adjustment. While agreement on the need to address these problems exists, consensus seems to dissipate rapidly when the time comes to determine how best to make the necessary resources available.

The role of multilateral and regional financial institutions assumes importance. There is, accordingly, much that can be done to provide developing countries with a level and form of financial assistance likely to raise their short- to medium-term comfort levels in undertaking market opening policies. Compensatory financing mechanisms have thus received increased attention, with a number of RTAs and BTAs encompassing such a package.

IMF launched the Trade Integration Mechanism (TIM) in May 2004, as "a policy designed to make resources more predictably available under existing IMF facilities" when a country experiences certain trade-related losses.[33] While potentially useful in some cases of balance-of-payment problems arising from displaced exports or higher food imports, TIM does not provide additional concessional and easy-to-access resources; therefore, it may have the undesirable effect of pushing liberalizing countries into deeper levels of external debt. At the regional level, compensation packages embedded in trade liberalization programmes are uncommon. Nevertheless, newer trade agreements have been devoting much greater attention to the issue. A case in point is the proposed South Asia Free Trade Area revenue compensating mechanism. Nevertheless, even here, consensus on how it should be made to work is dissipating. Who should fund it? How should losses be calculated? Should only LDCs have access to such a fund? What would trigger its use?

At the international and regional levels, thrashing out and agreeing on financing mechanisms is no easy task, but certainly worthy of further analytical scrutiny. An issue that deserves further consideration is how to gear them towards compensating for the costs involved in implementing WTO trade agreements, revenue losses or the eventuality of the increased cost of services after liberalization. Another challenge is how compensatory financial measures should compensate workers and other stakeholders who bear the direct cost of trade liberalization initiatives. It is important to ensure that the "losers" from trade liberalization, and not other interest groups, are the actual beneficiaries of such financing.

4. Supply-side responses

Enhancing supply-side responses by reducing the constraints that inhibit export responsiveness of developing countries is the key in the trade and development linkage. It is an essential condition, if developing countries are to use gains from global trade

[33] See "The IMF Trade Integration Mechanism (TIM)", fact sheet, September 2004, International Monetary Fund. Available at: www.imf.org/external/np/exr/facts/tim.htm. See also chapter VII of this publication.

liberalization and reform productively. The list of constraints is well known. Similarly, there is no lack of policy advice on how to tackle such constraints, with domestic macroeconomic stability, a favourable legal and regulatory framework, and institutional strengthening, among others, featuring prominently; yet, the problems persist.

The same consensus that has emerged in terms of minimizing the adverse distributional consequences of trade liberalization through appropriate adjustment policies also exists with regard to building supply capacity. However, in the latter case, a stronger and more immediate consensus appears to have emerged on the need to prioritize additional development assistance. The need for ODA is recognized in a wide range of supply side areas (e.g., increased agricultural productivity, improved infrastructure such as roads, ports and telecommunication networks, private sector development and the building up of skilled human resources) that create the conditions for trade. Currently, trade-related technical assistance accounts for only 4.2 per cent of total ODA. Although a draft proposal of the Millennium Taskforce for an "aid for trade" fund of US$ 5 billion per year never saw the light of day, the rationale for providing large-scale ODA to jump-start vulnerable economies into export-led growth remains valid.

Similar efforts are necessary at the regional level. The share of trade-related technical assistance of the ESCAP region as a percentage of total ODA is only 2.8 per cent. At the same time, the region has US$ 2.2 trillion worth of foreign reserves. A small percentage of this could be dedicated to establishing a region-wide facility where geographical, cultural and historical commonalities would promote a regional solidarity for the region to emerge as a major building block of enhanced global partnership for development.

F. Conclusion

There is little doubt that the region has emerged as a major global consumer, investor and trader in its own right, thus playing an important role as a building bloc of a global partnership for development. Therefore, more can and should be done in the context of the DDA to help trade play its part in achieving the MDGs. Measures taken to date to promote pro-poor trade liberalization have been of limited effectiveness, not least because the DDA itself has not made sufficient progress. In order to realize forward movement, it will be necessary to open developed country markets to products, services and workers of developing countries. In particular enhanced market access should be given to those products that have employment- and income-generating effects, in which the region has a comparative advantage, but which continue to be disproportionately affected by tariff and non-tariff barriers. At the same time, developing countries should identify areas in which they can make bolder liberalization commitments, particularly in the services sectors. At the same time, developing countries need to pursue bolder liberalization strategies to promote South-South trade.

In the poorest countries, particularly LDCs, a paced liberalization process with domestic reforms should be encouraged. Proposed new commitments and rules need to be assessed in detail from a sustainable human development perspective. Flexibility – the need to preserve adequate policy space – is important to poor countries in the pursuit of their specific development strategies.

In order to increase the export capacity of developing countries so that they can more readily take advantage of improved market access conditions in developed country markets, it would be desirable to ensure that technical assistance and capacity-building commitments (to support regulatory reform and fund implementation costs) are included as legally-binding obligations in the outcome of the current negotiations. The same applies to technical assistance and capacity-building and other support measures needed to help countries tackle their adjustment costs resulting from new trade commitments. Policy coherence requires that, in parallel to trade liberalization efforts, the supply constraints of developing countries – particularly those of LDCs – are addressed, and that greater and more adequate forms of adjustment assistance are made available. Only a broader approach to trade liberalization of this type will deliver some significant advances towards the realization of the Millennium Development Goals, and an enhanced global partnership for development in particular.

III. MULTILATERALIZING REGIONALISM: TOWARDS AN INTEGRATED AND OUTWARD-ORIENTED ASIA-PACIFIC ECONOMIC AREA

*By Tiziana Bonapace and Mia Mikic**

A. Regional trade agreements:[1] through the back door to centre stage?

When the drafters of the General Agreement on Tariffs and Trade (GATT) 1947 worked on Article XXIV, they could not have imagined that in 60 years' time more than half the world trade would be taking place within actual or prospective regional trade agreements (RTAs) such as free trade agreements (FTAs) and customs unions (CUs). They would also have believed it impossible that only one member of the multilateral trade organization would not be a member of any RTA.[2] Since the establishment of the World Trade Organization (WTO) in 1995, an average of 11 RTAs have been notified annually to WTO compared with less than three during the GATT era (Crawford and Fiorentino, 2005). This upsurge in the number of RTAs notified and/or negotiated between WTO members (figure I) can be partly explained by the domino effect and competitive regionalism.

The domino effect (Baldwin, 1993) refers to the desire of countries (or rather their governments) to avoid marginalization as more and more countries become members of (multiple) RTAs. In other words, no country wants to be left outside without being able to share in the benefits of belonging to RTAs, as the presumption of net gains is the one that made others join RTAs in the first place.

Competitive regionalism, on the other hand, refers to countries seeking "to secure their trade interests as well as establish spheres of influence that include but also go beyond trade policy" (Majluf, 2004). Whether membership in RTAs is sought

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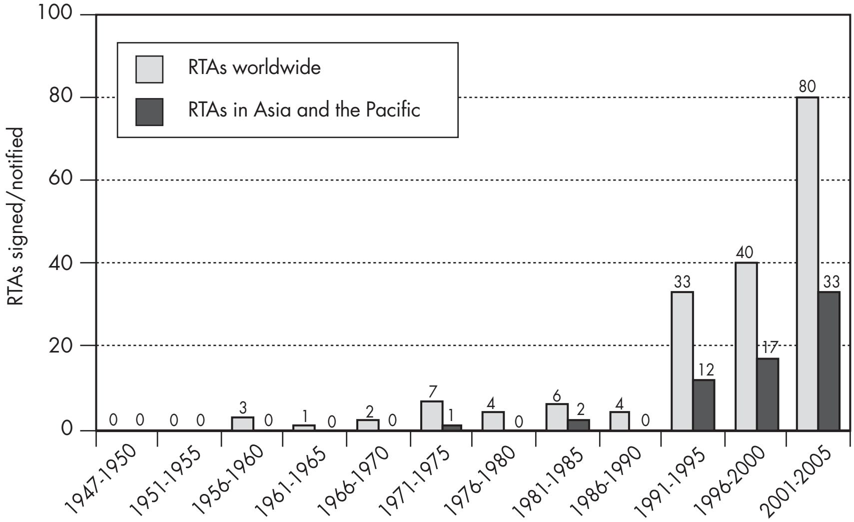
[1] In modern history, the early stages of preferential liberalization saw countries extend trade preferences to countries in geographical proximity with the result that this path became known as regional liberalization or regional integration and the agreements themselves called regional trade agreements (RTAs). With time, the "regional" feature became weaker giving way to cross-continental/global "integrative" coverage of preferential liberalization. In this paper, RTAs and preferential trade agreements (PTAs) are used interchangeably to refer to any type of preferential trade liberalization.

[2] This member is Mongolia, which apparently believes that this is not such an advantageous position as evidenced by the fact that it is exploring the possibility of negotiating several FTAs with China, the Republic of Korea, the United States, the European Union and the Russian Federation (based on an informal discussion at the Ministry of Industry and Trade of Mongolia). It is also considering the option of seeking membership of the Asia-Pacific Trade Agreement (formerly the Bangkok Agreement).

Figure I. RTA upsurge: Asia-Pacific trailing the world



Sources: "RTA Facts and Figures", 2005, World Trade Organization, downloaded on 14 November 2005 from http://www.wto.org/english/tratop_e/region_e/summary_e.xls and ESCAP RTA/BTA Database, October 2005.

in order to escape from marginalization or to bolster a country's influence, in general it cannot be done on a unilateral basis; rather, it is dependent on acceptance by the remaining RTA member(s) of a new member. Opening an RTA to a new member, or signing an RTA with a "hegemony seeker" has to be perceived as bringing economic, political and other benefits to the other parties involved, without which no new members would have shown interest, nor would that RTA have been signed in the first place.

The literature is replete with numerous supplementary explanations for the explosion in RTAs, which, inter alia, include:

(a) A rise in a number of WTO members (from 123 in 1995 to 149 in 2005);

(b) More demanding notification obligations that, since 1995, have also included services, political and security concerns; and

(c) A desire to help developing countries integrate into a world market. However, none goes far enough in providing a sound clarification for this phenomenal explosion.

Furthermore, just as there is no single reason that can explain regionalism, it is no less true that this reliance on RTAs will not disappear any time soon; they have, in fact, become a permanent feature of the trading environment. The focus should thus turn to ways in which RTAs can be combined with multilateral efforts of WTO to make trade liberalization and economic integration beneficial to all.

This paper begins with a review of regionalism in the Asia–Pacific region. It maps the existing RTAs with respect to their type and coverage. The second section offers a brief analysis of various configurations and forms of regional ties, with particular focus on "hubs and spokes". The final part is a discussion on some of the possible mechanisms that could disperse benefits enjoyed by parties in RTAs to members of the multilateral system, so that the ESCAP region evolves as a key building block of an enhanced global partnership for development.

Snapshot of regionalism: Comparing the world and ESCAP, 2005

Feature	World	ESCAP
Total number of RTAs notified	312	47
Number of RTAs in force	170	62
Number of RTAs in operation but not notified	65	15
FTA notified	109	40
CU notified	11	1
Notified RTAs having commitments in goods and services	27	5
Bilateral agreements	234	43

Sources: Crawford and Fiorentino, 2005, and ESCAP RTA/BTA Database, October 2005.

B. Regional trade integration in Asia and the Pacific – adding noodles to spaghetti bowl?[3]

As indicated in figure I and box 1, countries in the ESCAP region are no different from the world when it comes to forming RTAs.[4] In 1994, a year before the establishment of WTO, there were less than 13 RTAs in this region, of which less than half were FTAs – the ASEAN Free Trade Area (AFTA), Australia-New Zealand Closer Economic Relations Trade Agreement (ANZCERTA), Armenia-Russian Federation, European Free Trade Association-Turkey, Georgia-Russian Federation, Kyrgyz Republic-Russian Federation FTAs and the Commonwealth of Independent States (CIS). At the last count, there were more than 80 bilateral trade agreements (BTAs) and RTAs at various stages of the negotiation process, involving UNESCAP members and associate members, of which 47 had been notified to WTO (box 1 and annex table 1). More than half of

[3] This term, which describes a mixture of overlapping and intersecting preferential agreements with frequently inconsistent provisions, originally linked to the European Union, is credited to Bhagwati, 1992.

[4] Member countries of ESCAP include East Asian and South-East Asian countries, which have been very active in pursuing RTAs, as well as Pacific island or Central Asian countries that are still grappling with the membership in the World Trade Organization. Analysis in this paper most directly applies to East Asia and South-East Asia as well as, in many cases, South Asian countries. With respect to the Pacific countries, most of which still focus on non-reciprocal trade preferences, the discussion in this paper applies less directly.

them were signed in the past five years, while many more are under negotiation. The region has thus seen an explosion of various forms of preferential trade agreements (PTAs).

1. Brief history of regional trade integration in Asia and the Pacific

Asia is a region of trading nations. The history of international trade as an activity of economic importance stretches back to the times of the Silk Road, Venetian traders and Alexander Macedonian. Trade made regents and communities powerful, and conversely the lack of trade led to their demise. This long experience with trade as an irreplaceable economic activity eventually led in the early 1970s to the adoption of economic policies that were centred on a liberal trading regime. Integration of the region into global markets and reliance on export-led growth accelerated. The pursuit of unilateral liberalization, with variations to accommodate industrial policies, emerged as a first best policy and the world witnessed the rise of Japan, followed by the "Tigers of Asia" (the Republic of Korea; Taiwan Province of China; Singapore; and Hong Kong, China). A decade or so later came the "new exporters" (Thailand, the Philippines and Malaysia) and finally China. None of these economies, at the time of their emergence, was clearly involved in any regional trading agreement of significance.[5] Most but not all were contracting parties to GATT, although not influential in setting the multilateral trade negotiating agendas.

The first coordinated, widespread and trade-focused action on regional integration among the countries in the region came with the Asia-Pacific Economic Cooperation (APEC) during the eighth round of GATT negotiations (the Uruguay Round). This coincided with the deadlocked multilateral negotiations on the issue of agriculture in the late 1980s. By design, APEC was based on "open regionalism" (extension of regionally agreed preferences to all GATT/WTO members) and was meant to boost the objectives of multilateralism. With the conclusion of the Uruguay Round Agreements shortly afterwards, multilateralism and regionalism entered a golden period of mutually reinforcing liberalization in Asia and the Pacific. The allure of trade-spurred prosperity led other non-WTO developing and transition countries to continue to liberalize trade regimes while seeking WTO membership. Overall, however, the exploration of the regional route to liberalization was tentative, bordering on the experimental, and generally restricted to partial scope agreements among developing countries of the region.

This had changed dramatically by the end of Millennium. Regionalism in Asia and the Pacific took on an entirely "new role" and since then it has not looked back. The key triggering factor appears to have been the 1997 Asian financial crisis, which

[5] It is true that some of these countries were members of the Association of South-East Asian Nations (ASEAN) established in 1967. However, at that time, the bloc had no trade preferential arrangements. The founding document, the Bangkok Declaration, included announcements of active collaboration and mutual assistance in the field of economics, but it focused primarily on political and security issues. This changed more recently, stimulated by the formation of AFTA in 1992.

jolted countries of the region onto a path that was much more focused on regional affinities and self-reliance. Shortly thereafter, the APEC process of liberalization stumbled and came to a virtual halt. The largest APEC trading nations, led by the United States and Japan, when pushed to make liberalization commitments in sensitive sectors, decided that they would be willing to liberalize only within the context of the negotiated reciprocity of WTO and traditional preferential RTAs. Sensitive sectors, most notably forestry and fisheries, were transferred to WTO. At the same time, and perhaps even more importantly, erstwhile stalwarts of multilateral liberalization such as Japan and the Republic of Korea abandoned their earlier reticence with preferential trade agreements and, in a major trade policy shift, turned their attention to regionalism. Regionalism however, took on a new form in so far as it saw developed countries much more engaged than in the previous decades. It moved away from the earlier tentativeness of partial scope agreements and moved into much broader negative-list based negotiations, thus seeking compliance with WTO provisions contained in Article XXIV. Negotiations also covered a wider scope of issues going beyond traditional tariff negotiations of FTAs. A key characteristic of this new age regionalism was that most of these negotiations took place, and still are taking place, on a "one-on-one" bilateral basis.

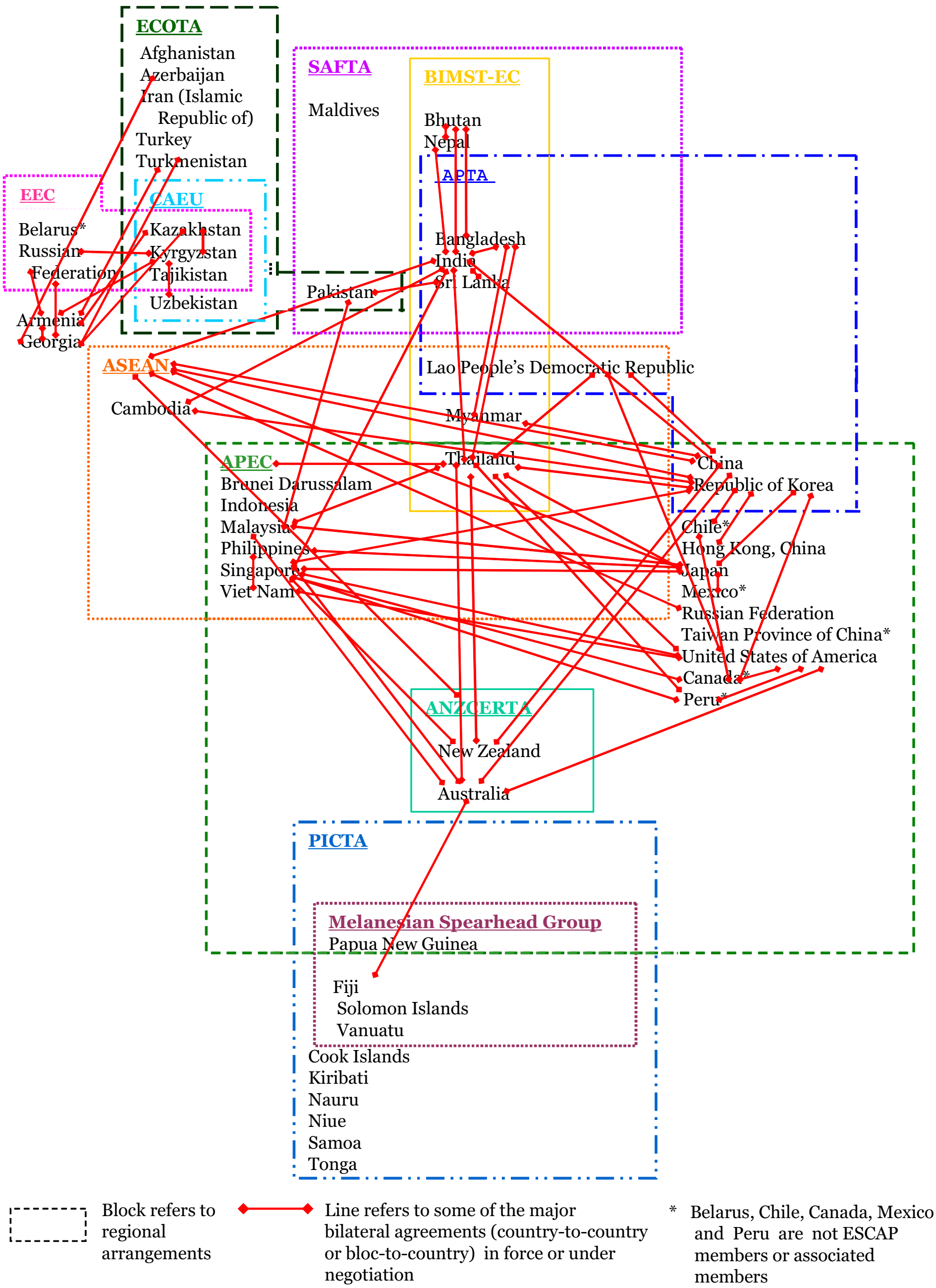
2. Current status

Bilateral and regional trade agreements of the new millennium vary considerably in membership, style, design and effectiveness, in line with the diverse and heterogeneous nature of the political affinities and economic landscape of the ESCAP region. Many agreements are grounded in clear regional political alliances. Some appear to have common cultural affinities as a driving force, but most do not. Some have well-developed institutionalized rules of interaction, while others have a more informal structure based on voluntary cooperation. Some are open to new members, while others have placed a moratorium on new members. The breadth of coverage also varies (annex table 2), with services covered in a few agreements; however, most do not cover services in any meaningful way. Agriculture may be wholly or partially excluded, while movement of factors of production, depth of tariff cuts, coverage of non-tariff measures and decision-making processes also vary widely. Likewise, the results achieved vary tremendously.

This surge in the number of various RTAs led to the Asian and the Pacific region starting to assume the "spaghetti bowl" look of the European Union or (to a lesser extent) the Americas (figure II). The message is the same for all three regions. The multiplicity of RTAs with their own liberalization paths, sets of rules of origin and diverse approach to dispute settlement and other issues still outside the scope of WTO (so-called WTO-plus issues) make the trading environment non-transparent, with no clear path of integration emerging from one trading nation to another. Instead of making trade easier and smoother, the multiple layers of agreed rules increase costs of compliance to traders. Consequently, traders are known to often ignore RTA preferences and rely on the multilateral most favoured nation (MFN) trading environment instead.[6]

[6] This is particularly true in the case of the non-reciprocal generalized system of preferences schemes making the "utilization rate" of these schemes low.

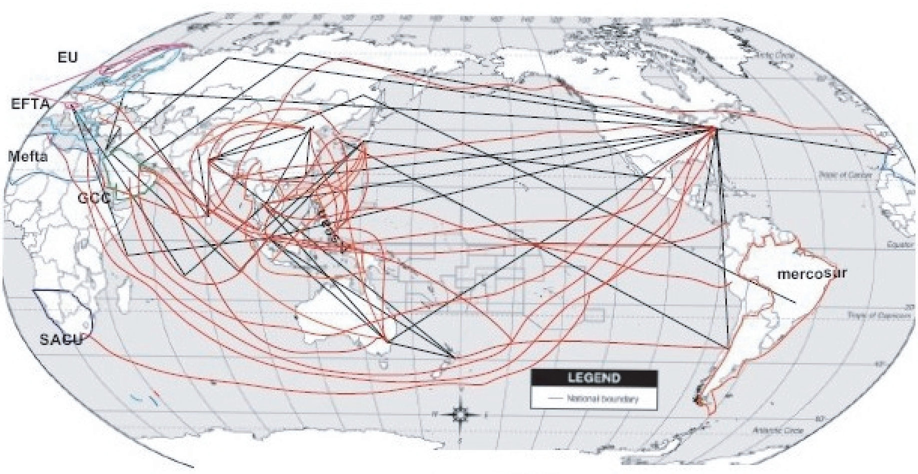
Figure II. The noodle bowl



Source: ESCAP, 2005.

Figure III includes only the agreements that were negotiated as bilaterals, even in those cases where they have more than two partners (e.g., ASEAN and ANZCERTA, ASEAN and China, India, Republic of Korea, or European Union and Turkey). Most are negotiated under the format of FTAs while some are in the form of economic partnerships, with unclear distinctions as what the differences are, in effect. More often than not, these bilateral agreements raise doubts as to the extent to which they are consistent with GATT (1994), Article XXIV. While they do comply in terms of liberalization timetable (typically up to 10 years as envisaged by WTO),[7] the extent to which they meet other criteria is unclear. At the same time, WTO rules are also unclear, thus further adding to the fuzziness of the objectives of such agreements. For example, in terms of coverage of trade ("substantially all trade"), reciprocity (full reciprocity or symmetry) and intensity of liberalization (elimination of tariffs), these bilateral agreements appear to offer too little, but in the absence of quantifiable benchmarks at the WTO level, most such assertions remain untested.

Figure III. Bilateral agreements among ESCAP members*



Red lines – Framework Agreements under negotiations

Black lines – Existing Bilateral Agreements

Shapes – RTAs that negotiate as a block (borders in ASEAN not represented and MEFTA is a United States initiative Borders represented are note authoritative

Note: * This map includes bilateral FTAs and negotiations that involve at least one member country of ESCAP plus the United States.

[7] Except that often, when the agreement is between countries at different level of development, there is an asymmetry in timetable of liberalization, with the less developed partner being awarded with a longer transition period to implement agreed liberalization.

Furthermore, when these RTAs have more than two partners, rarely do they agree on harmonized preferences for all partners. Instead, the liberalization is driven by a number of bilateral agreements between the partners (with the number of these bilateral agreements being $p(p-1)$, where p is the number of partners in the RTA). Thus in the case of three partners, there could be six bilateral preferential relationships (agreements); however, in the case of six partners, there could potentially be 30 different bilateral deals.[8] This crisscrossing web of preferential deals could eventually evolve into a "hub-and-spoke" structure of trading environment.

3. Emergence of "hub-and-spoke" structure in Asia and the Pacific

A "hub-and-spoke" structure consists of one large market (hub) that enters into one-on-one (bilateral) trade agreements with a number of other countries (spokes). Spoke countries are typically smaller and have no market access agreements among each other. The spokes form a periphery and become marginalized, as the hub enjoys improved market access to all spoke countries. Baldwin (2003) emphasizes two levels of problems with this type of trading environment. First, at the economic level, hub-and-spokes with their criss-crossing arrangements increase the costs for both governments and private sectors through negative allocation, location and accumulation effects. Second, at political level, the hub-and-spokes system could introduce divisiveness in what otherwise could be a relatively homogeneous region. It gives economic and political advantage to a hub; in regions where there is more than one "natural" hub, this could induce division of the region into several hub-and-spoke systems, allowing for little cooperation among them.

(a) Implications of liberalizing on a geographically discriminatory basis

Allocation, location and accumulation effects are standard static and dynamic effects expected upon integration of national markets that were previously separated by various tariff and non-tariff barriers imposed at the border. Removal of these border barriers allows freer flows of goods, services and/or factors of production (capital, labour and technology). These flows are not freed fully because of the remaining existence of barriers that are not directly trade-related, even though they are increasingly the subject matter of discussions on trade liberalization, e.g., adjustment of exchange rates, social and/or environmental labeling, minimum native language content in radio and television programmes, minimum wages, various direct taxes, recognition of qualifications etc. However, even partially freer flows allow for a more efficient global allocation of resources if there were no other distortions but these trade barriers.

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[8] As emphasized in Crawford and Fiorentino (2005, pp. 17-18) separate liberalization schedules are maintained as members prefer to maintain exclusions for sensitive products that are different across members, most often in agricultural products.

The problem is that although globally the allocation effects bring welfare improvements, at the national level positive outcomes are not guaranteed. They depend on the interplay between so-called trade creation, trade diversion, trade modification and, in some cases, trade deflection effects that all arise with the reallocation of resources in the aftermath of trade liberalization. Trade creation occurs when an RTA, by removing trade barriers, also replaces high-cost domestic production with low-cost imports from other members of that RTA. This is a welfare-increasing effect. In contrast, trade diversion also switches supply, but it replaces low-cost imports from non-members with high(er)-cost imports from members of the RTA and thus produces negative welfare effects. The trade modification effect is based on the assumption of complementarities, rather than perfect substitutability of trade flows between countries in the agreement and third countries. Therefore, when preferential liberalization stimulates trade between partners, it might positively affect trade with third countries if such trade mostly contains products that are complementary to the intra-agreement based production and trade. Of course, this effect can also be negative depending on the actual degree of complementarity versus substitutability. The net effect is what an individual country harvests first from entering an RTA.

Although there are some "rules of thumb" for forming a net-trade creating RTA[9] (as opposed to a net-trade diverting one), they do not necessarily work in every case and it becomes all but impossible to predict if that RTA will be trade creating or trade-diverting. The result is complicated by a potential impact on tariff revenues through the trade-deflection effect, which arises in the case of FTAs but not in CUs. A further layer of complications arises through dynamic effects – location and accumulation effects – that are set in motion because of the increase in market size.

(b) What configuration is emerging in the Asia-Pacific region?

It would appear that the current criss-crossing of bilateral FTAs could evolve, and organize itself into a more systematic hub-and-spoke configuration. Both proactive and defensive trade strategies appear to be driving this process. On the one hand, the two or three major trading countries or trading blocs appear to be competing to establish trade hegemony in the region. At the same time, there are a number of smaller middle-income trading countries that are equally active in forging bilateral trade deals and appear to be competing in establishing dominance as a hub. This, however, may be more symptomatic of a defensive trade strategy, designed to avoid finding themselves at the spoke end of another major hub. A multilayered constellation is thus emerging, made up of a dominant hub-and-spoke arrangement with substrata of other hub-and-spoke arrangements in which smaller economies may be trying to establish alternative hubs.

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[9] Based on empirical and theoretical literature, it is recommended that entry should be into RTAs: (a) that have many rather than few members; (b) where the members have more developed economies than the new entrant; (c) where a great deal of trade already existed before the formation of the RTA; (d) where the borders are shared; (e) with countries that are engaged in multilateral liberalization etc. These and other "criteria" for a beneficial RTA are explored in World Bank, 2000.

To take this emerging scenario further, the question arises as to whether, under the current network of criss-crossing hub-and-spoke arrangements, the gravitational force of one large trading country will eventually prove to be strong enough to allow it to emerge as the dominant hub. In this scenario, alternative minor hubs dissolve and become tied to the hub by a separate agreement, each tailored to the particular and separate interests involved between the hub and the spoke. Preferential treatment between the hub and spoke is not necessarily extended to other spokes in an MFN manner. This is the least liberalizing of the configurations, as each spoke is likely to have comparative advantages in a different set of sectors, with the result that liberalization is tailored to fit the particular needs of each individual spoke. This bilateralism, based on exclusivity rather than the inclusiveness of MFN, is a major departure from WTO rules and principles. It is also driven much more by the political relationship between the hub and the spoke, rather than a multilaterally agreed body of norms, rules and principles that apply equally to all. Furthermore, import-competing industries in the hub country will insist on including wide-ranging safeguard clauses and stringent rules of origin. Vested interests may become firmly entrenched and more difficult to dislodge in future liberalization attempts, while the more spokes that are added to the hub, the more diluted will be the benefits for each of the spokes. Finally, if a hub country conducts freer trade with spokes that, in turn, are not involved in reducing trade barriers among each other, the outer-rim trade – which typically consists of South-South trade – is displaced and spokes turn into "spikes" as the hub continues to suck trade and investments towards itself.

(c) Centrifugal forces: Much ado about nothing?

The option of developing countries collectively establishing themselves through ASEAN, as the alternative hub, stands out in particular. At the same time, more sceptical analysts question whether, given the slow progress that ASEAN has made in deepening integration and in evolving into an integrated and seamless production base, it can ever evolve into this role.

Trade and foreign direct investment liberalization has, of course, continued in ASEAN since the Asian economic crisis of 1997. Progress has been made in the sense that the Common External Preferential Tariff was brought forward with tariffs on the original ASEAN-6 inclusion list reduced to between zero and 5 per cent by 1 January 2002 (and complete elimination by 2010 except the exclusion list). Furthermore, 95 per cent of tariff lines are covered, with unprocessed agricultural products now included. This reform, however, appears to have been more gradual, shallower and less resolute than the pacesetter China, and the "tigers" of East Asia two decades ago. Little progress has been made on the ASEAN Investment Area and the ASEAN Framework Agreement on Services (AFAS), thus resulting in a mismatch between the speed at which deeper (behind the border) and shallower (border) integration is progressing. Given the increasing interlinkage between foreign direct investment and trade (almost two thirds of the trade in services comprises capital flows), the two dimensions of liberalization should be in proceeding in tandem if ASEAN is to emerge as an integrated area that is more attractive to foreign investors, and which will reap the benefits of integrating between East Asia and South Asia in global markets.

ASEAN is, at the same time, being courted by every major trading power as well as lesser trading powers. The United States, Australia, New Zealand, Japan, Republic of Korea, China, India, MERCOSUR and, more recently, the European Union are at various stages of considering or involvement in FTA negotiations with ASEAN. Given the slow progress in economic integration in ASEAN, especially when compared to its trading partners, it would seem that ASEAN is at the centre of a centrifugal force. The question is to what extent will the force gather momentum and attract more and more countries to its centre? How can the 2020 vision be turned into reality? The JACIK[10] group may provide the energy needed for this expansion. A part of the answer lies in the extent to which the ASEAN members can overcome their differences.

C. Consolidating and globalizing regionalism in Asia and the Pacific

Theoretical and empirical evidence support the claim that the outcome of globally maximized welfare achieved by multilateralism cannot be replicated by a complex network of bilateral and regional trading agreements in lieu of the Multilateral Trading System (MTS). It is beyond the scope of the paper to make an in-depth analysis of these arguments. Suffice it to say that the sum of welfare-maximizing interests of a number of RTAs falls short of the collective interest of all.

Are there any avenues that would allow a transfer of self-interest of RTAs into a collective interest of many (all), thus replicating the outcome of multilateralism? In this confusing scenario, one thing is certain: a timely conclusion of the Doha Round, with sufficient depth and scope that universalizes perceived benefits in BTAs would be essential to bringing about some order. The more WTO negotiations achieve significant reductions in trade barriers that are extended to all its 148 members on a non-discriminatory basis, the weaker the rationale for pursuing alternative discriminatory, more preferential FTAs, be they regional or bilateral. As Panagariya (2000) noted, "Once external tariffs drop to zero, tariff preferences and the spaghetti bowl created by them will automatically disappear". This is, however, politically unrealistic, given the complexities involved in forging consensus at the multilateral level.

The question thus returns to the regional level. How should the myriad bilateral, regional and cross-continental initiatives coalesce and provide a fast track to global free trade under the multilateral trading system? Three possible options through geographic, functional and institutional integration of RTAs are explored.

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[10] Japan, ASEAN, China, India, and Republic of Korea, as proposed in Kumar, 2004.

1. Geographic integration

Perhaps intuitively, the obvious way of coalescing and fast tracking these initiatives would be for one RTA to fold into another, geographically larger RTA that, in turn, would fold into ever-larger geographic spaces until global trade is fully encompassed. This idea was central to the design of APEC and its principle of open regionalism. For such a process to occur requires an inner dynamic. What conditions trigger this dynamic? Basically, two conditions would need to be met. The first one relates to creation of added benefits from an increase in size of an RTA (the "domino effect"). This means that each country joining an agreement would need to increase the incentives for other countries to join. In a static sense, a growth in membership would increase the likelihood of a net trade creation, as there would be a higher chance that the most efficient suppliers do indeed become part of the RTA, thus minimizing or eliminating the effects of trade diversion.

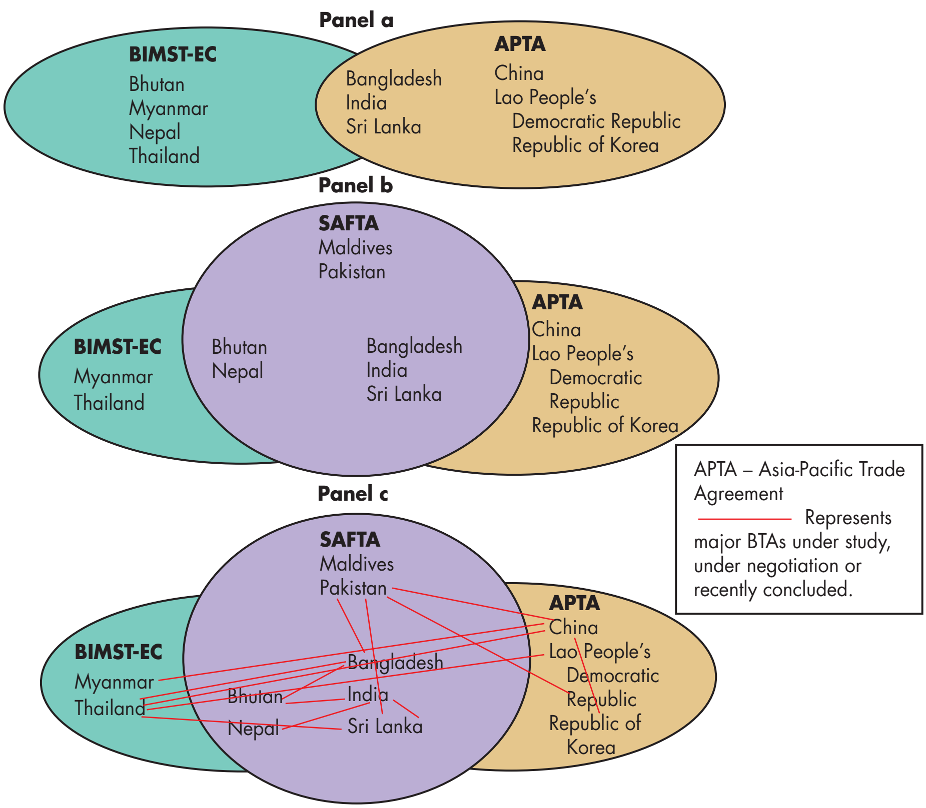
In a more dynamic sense, adding a country to an RTA would create a larger market, thus allowing for better utilization of economies of scale and providing incentives for firms to locate to that market, i.e., for foreign direct investment to be redirected from other markets to this enlarged market. This is in line with the creation of positive network externalities as an increased number of firms join the market, leading to additional incentives for more producers to join, thus further increasing the costs of those remaining outside. Evidence from the expansion of the European Union market to 25 members suggests that this effect does occur – if a country is left out of the enlarged market, it loses firms. A second condition requires that existing members show willingness to allow unrestricted entry. There is no guarantee that this will, in fact, be achieved. One reason is the uncertainty over whether the volume of net benefits will increase with a larger number of partners. There will thus be reluctance to share benefits. Perhaps more importantly is the role played by other political, historical, social and cultural considerations, and the fear that deep-seated and irreconcilable differences among countries may make harmonization of policies all but impossible.

At a more practical level, the ongoing expansion of political and economic integration in the European Union offers a useful example of geographic consolidation. When 10 new members joined the European Union on 1 May 2004, 65 WTO-notified RTAs were abrogated. The 10 new members terminated BTAs between themselves and the European Union, between themselves and third parties, and among themselves.

Moving to the Asia-Pacific region, an example of the type of geographic integration envisaged is given in figure IV, panel c. In this case, the Bangkok Agreement as the only trade agreement that currently links South Asia and East Asia, with three of its members sharing common membership with BIMST-EC (panel a), might eventually coalesce into an initiative that promotes a wider East, South-East and South Asian FTA. A third circle encompassing the South Asian Free Trade Area (SAFTA) could be added, particularly since Bangladesh, India and Sri Lanka belong to all three RTAs (panel b). An agreement open to all countries of Asia-Pacific, for example, the Asia-Pacific Trade

Agreement (APTA), could thus serve as a useful vehicle for laying some of the foundation for this framework. APTA has the advantage of being a relatively evolved text, which is the product of a long history of negotiations. Furthermore, APTA members represent a widely diverse development spectrum (with the Republic of Korea at one end, and Bangladesh and the Lao People's Democratic Republic at the other end), and thus encompass true and tried rules across a representative group of the development cross-section of the region. Furthermore, a number of developing countries have expressed interest in joining APTA, notably Mongolia, which, as mentioned above, is the only WTO member that is not yet part of any RTA. Bhutan, Cambodia, Nepal and Pakistan are also among the countries that are considering joining the agreement. The potential for this agreement to evolve further as a modal South-South agreement should thus be further explored. This will be taken up in the next section.

Figure IV. Consolidating RTAs: An example of a geography-based consolidation

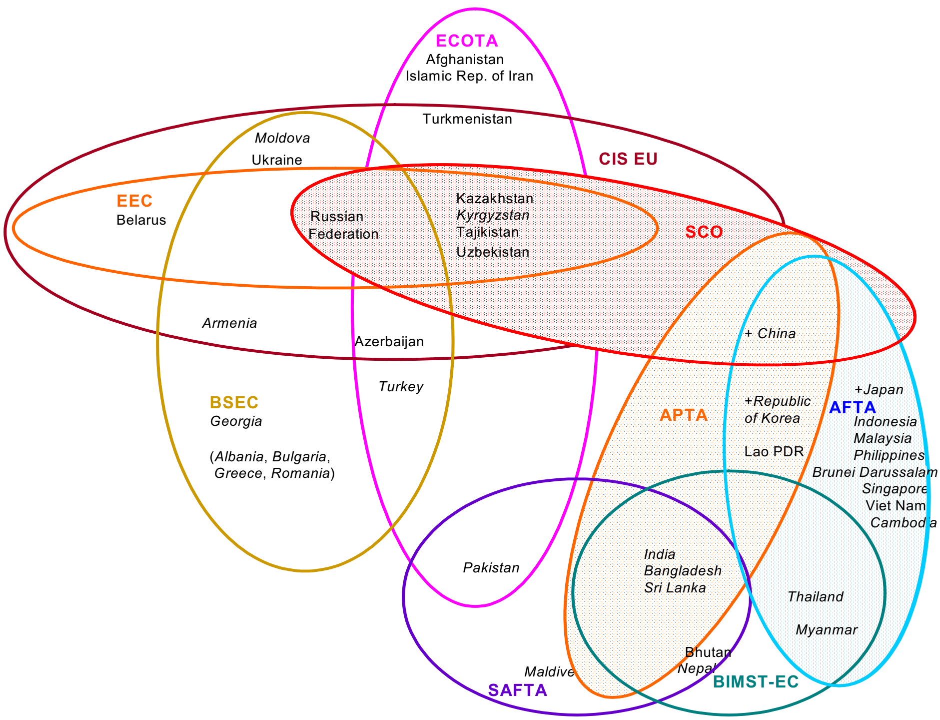


Source: ESCAP RTA/BTA Database, 2005.

In East Asia, the current axis of integration is centred on the ASEAN + China + Japan + Republic of Korea process, with each of the +3 countries negotiating separately with ASEAN. More recently, India signed an FTA with ASEAN that could have a significant impact on the western expansion of the latter. Although at a preliminary stage, Australia and New Zealand have also indicated interest in joining this axis, thus bringing about a cross-continental expansion.

Yet another potential axis of geographical consolidation draws the Central Asian region into the wider Asian and Pacific regional cooperation frameworks. Figure V shows the current configuration of the main RTAs in Central Asia and the Caucasus. Here again, it is clear that overlap and disparate initiatives provide scope for consolidation, both within the subregion, and with other RTAs in the Asian and

Figure V. The need for consolidation of RTAs in the Commonwealth of Independent States



APTA: Asia-Pacific Trade Agreement; AFTA: ASEAN Free Trade Area; BIMST-EC: Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation; BSEC: Black Sea Economic Cooperation; CIS EU: Commonwealth of Independent States Economic Union; ECOTA: Economic Cooperation Organization Trade Agreement; EEC: Eurasian Economic Community; SCO: Shanghai Cooperation Organization; SAFTA: South Asian Free Trade Area; +: ASEAN Plus Three

Source: ESCAP, 2005.

Note: World Trade Organization members are in *italics*.

Pacific region at large. The Russian Federation is a member of many RTAs involving former Soviet republics, such as the Central Asian Cooperation Organization (CACO) and the Eurasian Economic Union (EEU). At the same time, there is a weak link between the economies of the former Soviet Union and those of the rest of Asia.

Traditionally, Russia and its history were intertwined with that of the rest of Europe while for most of the twentieth century, ideology drove its economic relations towards like-minded countries of the Council for Mutual Economic Assistance (Comecon). Relations with Asia thus remained tentative at best. However, in the wake of the reform process, the Russian Federation has increasingly looked east, while not ignoring its relations with the Western world. The linkages are evolving, driven in part by complementarities between supplies of natural resources in Central Asia and needs of energy-deficient, rapidly growing countries in East Asia and South-East Asia. The Russian Federation is linked to Asia through groupings such as APEC and, more recently, the Shanghai Cooperation Organization (SCO), which brings together the Russian Federation, China and selected Central Asian countries, although it has yet to formulate a regional trade agreement. Given the membership of China, India and the Republic of Korea in APTA, an interesting option might be for the Russian Federation to join APTA in a closer integration between Central Asian economies and other parts of Asia.

Notwithstanding these opportunities for geographic consolidation, realities linked to political economy compulsions have often held back such developments. The European Union has shown that it is not impossible for such consolidation to rise above historical differences. Nevertheless, a key difference between the European Union and the trade configuration of the Asia-Pacific region is that the European Union is a CU, with a common external trade policy, and a far greater degree of harmonization among members on other policies, notably monetary policies. Geographic consolidation is thus of more relevance to a CU than a free trade area, where members maintain a more independent policy stance vis-à-vis third countries. There has thus been no example of such geographical consolidation having taken place in the Asia-Pacific region apart from the APEC attempt, which has since faltered.

2. Functional integration

Other forms of integration must be considered. Functional integration may proceed based on consolidating and harmonizing differing commitments under various existing BTAs and RTAs of which one or various countries are members. Initially, efforts should focus on the adoption of a common framework of Rules of Origin (RoO).

It is already clear that the current proliferation of agreements in force, and those under negotiation are spinning a complex RoO web. Not only does each agreement have its own RoO; in addition, a bewildering array of product-specific RoO is emerging. Adopting the less restrictive RoO could result in significant trade deflection and redundancy of a trade agreement, while adopting the most restrictive RoO may result in no trade taking place under the agreement. This is an area that needs further analysis and the ESCAP secretariat plans to give it much more critical attention than has been the case up to now. This all increases the urgency for an overarching, region-wide common framework of principles, guidelines and procedures to which BTAs and RTAs would be anchored. In this regard, mention should be made of APTA, which recently agreed to a common RoO that are simple, general and liberal – namely a flat rate of 45 per cent of local value content (35 per cent for LDCs).

On the investment side, there are currently some 1,800 bilateral investment treaties in place and, as evidenced by new-generation economic partnership agreements, trade and investment issues are often being treated increasingly in an integrated manner. The prospects for consolidation could thus go further to encompass closely related issues such as trade in services, competition policy and wider forms of economic cooperation, such as financial and monetary cooperation. In the long term, these initiatives could serve as the building blocks for a common understanding on the international architecture that is needed to support and anchor these regional efforts.

Another interesting issue worthy of further study in the specific context of the ESCAP region is that of financial packages. Contrary to examples from other agreements around the world (e.g., Euro-Mediterranean partnership, African Growth and Opportunity Act, Central American Free Trade Agreement etc.), in the ESCAP region trade liberalization and financial/aid packages in all their varieties and forms have remained separate entities. New-age regionalism, however, is bringing with it a convergence between financial compensation packages and trade liberalization programmes. Newer agreements are devoting much greater attention to so-called flanking issues that encompass trade liberalization. Furthermore, under special and differential provisions to LDCs, SAFTA foresees the establishment of a revenue compensation mechanism to assist in recovering revenue lost from SAFTA trade liberalization. The modalities on how this mechanism will work have not been agreed to, and by current indications, there are doubts on whether this mechanism will ever come to fruition.

Nevertheless, the principle of compensating revenue loss from tariff reduction can be a facilitating factor in determining the success of an eventual free trade area, if designed properly. One problem that arises when setting up such a facility among a restricted group of developing countries is that many are grappling with poverty reducing challenges and fiscal constraints as LDCs, and can ill afford extensive compensatory packages.

This raises the question as to whether a regional financing facility that encompasses a wider set of countries should be set up, and whether linking such a facility to trade liberalization could be made to work at the regional level. A region-wide facility involving a much larger set of countries, both developed and developing, would have clear advantages. The region now has US$ 2.2 trillion in unutilized foreign reserves. Region-wide mechanisms offer benefits such as scale economies in pooling resources, spread of risk, enhanced credibility and access to supplementary sources of financing, including private sources. Furthermore, a regional facility is linked by geographical, cultural and historical factors that can provide a further stimulus for a cohesive approach to these issues.

How such compensatory mechanisms would work, as indicated in the SAFTA case, remains an open question. For example, should a common fund be set up? Who should fund it? Should only the more advanced countries provide financing? Should a portion of export income be used, and if so, what percentage? On the import side, how should "losers" be compensated? Should a proportion be calculated according to import volumes? What would trigger its use? Should it be revenue compensation, as under SAFTA, balance of payments shortfalls as under the International Monetary Fund/TIM, or should it provide only technical assistance to facilitate structural adjustment arising from trade liberalization? How should it be monitored? LDCs face particular vulnerabilities, as they do not have the resources to set up social safety nets; worse, they do not have the resources to endure long-term structural unemployment. Should only LDCs have access to such compensatory financial resources? What about other developing countries? India and China, despite their remarkable export and economic growth, account for almost three quarters of the world's poorest people. Should sector-specific special credit schemes on a region-wide be evolved that would allow some enterprises to invest in upgraded production for competing in an increasingly competitive global trading environment, the abolition of the Multi-fibre Arrangement being a case in point?

3. Institutional changes and integration

The simplest way of multilateralizing the benefits of regional agreements would be to speed up the MFN-based liberalization negotiations under the umbrella of WTO. This, however, may be politically unrealistic. Therefore, if multilateralism is to remain the centrepiece of international economic policy, alternative institutional strategies need to be put in place. This may require changes in rules, particularly by clarifying not only RTAs, but also more fundamentally the type of membership.

One possibility is to allow RTAs themselves to become negotiating parties. This, of course, would make more sense if all RTAs were CUs (similar to the European Communities [EC]) because a common external trade policy for all the members requires a harmonization of national policies that enables CU secretariats to negotiate with one voice on behalf of all members. This would reduce the number of negotiating parties and, if decision-making remains based on consensus, would hopefully simplify processes and shorten the time taken in reaching agreements.

There are only 11 CUs in the world today, of which only one involves a member of ESCAP.[11] Some of the CUs appear to have more form on paper than in actual operability. Nevertheless, as a start, one option would be for WTO to extend

[11] Turkey-European Union customs union, effective from 1996.

the same recognition to these CUs as it does to the EC. In future, CU members would not be separate negotiating parties even though they would retain their individual membership in WTO.

Yet, it is not certain whether such a type of institutional change at the global level would be relevant for all regional blocks. Regionalism in Asia-Pacific has followed its own path, characterized by a more flexible and fluid cooperation than is the case in other parts of the world. A focus on outward orientedness with the rest of the world is another key distinction. Regionalism was never intended to be inward looking, in a fortress-like manner, nor are there indications that this is a likely trend. Pragmatism, based on market forces, has prevailed over more institutionalized forms of cooperation. Nevertheless, given the current disorder and the increasing concerns this is creating, questions have been raised as to whether a more structured approach embedded in a supranational structure of governance is necessary, with the European Union model providing the most concrete examples.

Countries are, however, still spread too far across the spectrum of political systems, and regulatory differences among them are perhaps too wide for a European-style, institution-driven process of integration. Asia is perhaps better off evolving its own process, starting with policy coordination focused on pragmatic forms of functional cooperation. In the absence of European Union-style institutions, an intergovernmental organization with region-wide outreach like that of ESCAP, in collaboration with development partners such as the Research and Information System for Developing Countries (RIS), the Asian Development Bank and subregional organizations, are all in an excellent position to promote a set of common and cohesive principles, practices and operational frameworks that establish the foundations for regional economic integration. Ultimately, vision should be tempered by realism and cost effectiveness.

D. Further work

A key task, therefore, is to draw out commonalities among agreements and promote their consolidation with a view to achieving a more rational process of Asia and Pacific-wide integration. In addition to the areas of work outlined above under geographic and functional integration, the ESCAP secretariat has developed a “one-stop” database that collates descriptive information on more than 80 RTAs/BTAs applicable to the ESCAP region. The database will be expanded to include trade flows and the development of indicators to assess the implications of RTAs/BTAs on such flows.

In order to provide stakeholders (governments, researchers and policy analysts) with a tool to monitor and analyse these initiatives, the ESCAP secretariat is in the process of developing a database of these initiatives. This new database has a “one-stop” searchable function that, when fully developed, will contain:

(a) Detailed descriptive and updatable information on the provisions of bilateral and regional agreements; and

(b) Statistical data sets on trade flows, commodity composition and services trade by individual agreements.

The first phase in developing this database has been completed.[12] The current phase focuses on:

(a) Adding information related to the coverage of each agreement (contingent protection, standards, services and other areas) by each agreement;

(b) Developing statistical data sets related to each agreement and developing analytical measures and indicators; and

(c) Preparing the database for online use.

The database will provide the information and analytical basis for further work to be carried out on the design of a modal trade agreement for developing countries, using existing agreements including APTA.

The modal agreement is intended to provide government negotiators with a practical tool that comprises guidelines and principles in the negotiation of PTAs between developed and developing countries. The modal agreement will be developed through an analysis of the data sets (component 1) and an in-depth study of the texts of trade agreements between developing countries.[13] The APTA text will be used as a platform, while for those between developed and developing countries more advanced PTAs (e.g., United States-Singapore FTA) will be studied as a possible platform.

E. Conclusion

New patterns of regional cooperation are emerging, driven by increased resources that have been made possible through spectacular growth in trade and investments. As countries continue to grow, and become increasingly integrated into regional and global trade flows, the prospects look favourable for the region emerging as a key building block of an enhanced global partnership for development. At the same time, the current process of regional and cross-continental fragmentation, as evidenced by the largest proliferation of regional and bilateral trade agreements (RTA/BTAs) in history, is of concern. Because these agreements contain inconsistent provisions, they are fragmenting the region's trade and investment integration process. Furthermore, poor countries are effectively being excluded from this process, thus falling through the cracks.

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[12] The current version (available on CD) encompasses 85 agreements. It covers all the agreements reported to the World Trade Organization to this date, in which at least one party is in the ESCAP region. It also includes other agreements that have not been notified but for which there is official information readily available as well as those agreements under negotiation for which there has been at least a first formal negotiation round.

[13] Those notified to the World Trade Organization under the enabling clause.

Fresh efforts are needed to prevent new divisions between rich and poor, between aligned and non-aligned States, with trade being carved out along lines determined by political affinities – the so-called coalition of the willing – rather than economic efficiencies. At the regional level, deep-seated historical conflicts – the coalition of the unwilling – also appears to be preventing further integration of the region.

New economic opportunities should enable the region to rise above past political conflicts, as confidence in opening up to each other increases. This will require the mobilization of political leadership for an enhanced regional integration process. The interplay between bilateralism, regionalism and multilateralism needs to be managed so that the region can continue to consolidate its role as the key building block of an enhanced global partnership for development. Delivery on the Doha negotiations for a strengthened open, rules-based, non-discriminatory, predictable and universal multilateral trading system is the centrepiece, supported by an integrated ESCAP region featuring a regional framework for the consolidation of BTAs/RTAs into one region-wide and deeper WTO-consistent trade agreement.

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Annex

Annex table 1. RTAs notified to GATT/WTO and in force in the ESCAP region, by date of entry into force

(As of 4 January 2005)

Agreement	Date of entry into force	GATT/WTO notification			Document series	Examination process	
		Date	Related provisions	Type of agreement		Status	Ref.
Bangkok Agreement	17-Jun-76	2-Nov-76	Enabling Clause	Preferential arrangement	L/4418 L/ 4418/Corr.1	Report adopted	25S/109 14.03.78
PATCRA	1-Feb-77	20-Dec-76	GATT Art. XXIV	Free trade agreement	L/4451 L/ 4451/Add.1	Report adopted	24S/63 11.11.77
SPARTECA	1-Jan-81	20-Feb-81	Enabling Clause	Preferential arrangement	L/5100	Examination not requested	…
CER	1-Jan-83	14-Apr-83	GATT Art. XXIV	Free trade agreement	WT/ REG111	Report adopted	31S/170 02.10.84
CER	1-Jan-89	22-Nov-95	GATS Art. V	Services agreement	WT/REG40 S/C/N/7	Consultations on draft report	…
GSTP	19-Apr-89	25-Sep-89	Enabling Clause	Preferential arrangement	L/6564/ Add.1	Examination not requested	…
Lao People's Democratic Republic – Thailand	20-Jun-91	29-Nov-91	Enabling Clause	Preferential arrangement	L/6947	Examination not requested	
AFTA	28-Jan-92	30-Oct-92	Enabling Clause	Preferential arrangement	L/4581	Examination not requested	…
ECO	not available	22-Jul-92	Enabling Clause	Preferential arrangement	L/7047	Examination not requested	…
EFTA – Turkey	1-Apr-92	6-Mar-92	GATT Art. XXIV	Free trade agreement	WT/REG86	Report adopted	40S/48 17.12.93
Armenia – Russian Federation	25-Mar-93	27-Jul-04	GATT Art. XXIV	Free trade agreement	WT/REG174	Factual examination not started	…
Kyrgyz Republic – Russian Federation	24-Apr-93	15-Jun-99	GATT Art. XXIV	Free trade agreement	WT/REG73	Under factual examination	…
MSG	22-Jul-93	7-Oct-99	Enabling Clause	Preferential arrangement	WT/COMTD/ N/9WT/ COMTD/21	Examination not requested	…
Georgia – Russian Federation	10-May-94	21-Feb-01	GATT Art. XXIV	Free trade agreement	WT/REG118	Under factual examination	…
CIS	30-Dec-94	1-Oct-99	GATT Art. XXIV	Free trade agreement	WT/REG82	Under factual examination	…
Kyrgyz Republic – Armenia	27-Oct-95	4-Jan-01	GATT Art. XXIV	Free trade agreement	WT/REG114	Under factual examination	…
Kyrgyz Republic – Kazakhstan	11-Nov-95	29-Sep-99	GATT Art. XXIV	Free trade agreement	WT/REG81	Under factual examination	…
SAPTA	7-Dec-95	22-Sep-93	Enabling Clause	Preferential arrangement	WT/ COMTD/10	Examination not requested	…

Annex table 1 *(continued)*

Agreement	Date of entry into force	GATT/WTO notification			Document series	Examination process	
		Date	Related provisions	Type of agreement		Status	Ref.
Armenia – Moldova	21-Dec-95	27-Jul-04	GATT Art. XXIV	Free trade agreement	WT/REG173	Factual examination not started	…
EC – Turkey	1-Jan-96	22-Dec-95	GATT Art. XXIV	Customs union	WT/REG22	Under factual examination	…
Georgia – Ukraine	4-Jun-96	21-Feb-01	GATT Art. XXIV	Free trade agreement	WT/REG121	Under factual examination	…
Armenia – Turkmenistan	7-Jul-96	27-Jul-04	GATT Art. XXIV	Free trade agreement	WT/REG175	Factual examination not started	…
Georgia – Azerbaijan	10-Jul-96	21-Feb-01	GATT Art. XXIV	Free trade agreement	WT/REG120	Under factual examination	…
Kyrgyz Republic – Moldova	21-Nov-96	15-Jun-99	GATT Art. XXIV	Free trade agreement	WT/REG76	Factual examination concluded	…
Armenia – Ukraine	18-Dec-96	27-Jul-04	GATT Art. XXIV	Free trade agreement	WT/REG171	Factual examination not started	…
Israel – Turkey	1-May-97	18-May-98	GATT Art. XXIV	Free trade agreement	WT/REG60	Factual examination concluded	…
EAEC	8-Oct-97	6-Apr-99	GATT Art. XXIV	Customs union	WT/REG71	Under factual examination	…
Kyrgyz Republic – Ukraine	19-Jan-98	15-Jun-99	GATT Art. XXIV	Free trade agreement	WT/REG74	Under factual examination	…
Romania – Turkey	1-Feb-98	18-May-98	GATT Art. XXIV	Free trade agreement	WT/REG59	Factual examination concluded	…
Kyrgyz Republic – Uzbekistan	20-Mar-98	15-Jun-99	GATT Art. XXIV	Free trade agreement	WT/REG75	Under factual examination	…
Georgia – Armenia	11-Nov-98	21-Feb-01	GATT Art. XXIV	Free trade agreement	WT/REG119	Under factual examination	…
Bulgaria – Turkey	1-Jan-99	4-May-99	GATT Art. XXIV	Free trade agreement	WT/REG72	Factual examination concluded	…
Georgia – Kazakhstan	16-Jul-99	21-Feb-01	GATT Art. XXIV	Free trade agreement	WT/REG123	Under factual examination	…
Georgia – Turkmenistan	1-Jan-00	21-Feb-01	GATT Art. XXIV	Free trade agreement	WT/REG122	Under factual examination	…
Turkey – Former Yugoslav Republic of Macedonia	1-Sep-00	22-Jan-01	GATT Art. XXIV	Free trade agreement	WT/REG115	Factual examination concluded	…

Annex table 1 *(continued)*

Agreement	Date of entry into force	GATT/WTO notification			Document series	Examination process	
		Date	Related provisions	Type of agreement		Status	Ref.
New Zealand – Singapore	1-Jan-01	4-Sep-01	GATT Art. XXIV	Free trade agreement	WT/REG127	Factual examination concluded	…
New Zealand – Singapore	1-Jan-01	4-Sep-01	GATS Art. V	Services agreement	WT/REG127 S/C/N/169	Factual examination concluded	…
India – Sri Lanka	15-Dec-01	26-Jun-02	Enabling Clause	Free trade agreement	WT/COMTD/N/16	Examination not requested	…
United States – Jordan	17-Dec-01	18-Oct-02	GATS Art. V	Services agreement	WT/REG134 S/C/N/193	Under factual examination	…
United States – Jordan	17-Dec-01	5-Mar-02	GATT Art. XXIV	Free trade agreement	WT/REG134	Under factual examination	…
Armenia – Kazakhstan	25-Dec-01	27-Jul-04	GATT Art. XXIV	Free trade agreement	WT/REG172	Factual examination not started	…
Bangkok Agreement – Accession of China	1-Jan-02	29-Jul-04	Enabling Clause	Accession to Preferential arrangement	WT/COMTD/N/19	Examination not requested	…
Japan – Singapore	30-Nov-02	14-Nov-02	GATS Art. V	Services agreement	WT/REG140 S/C/N/206	Factual examination concluded	…
Japan – Singapore	30-Nov-02	14-Nov-02	GATT Art. XXIV	Free trade agreement	WT/REG140	Under factual examination	…
EFTA – Singapore	1-Jan-03	24-Jan-03	GATS Art. V	Services agreement	WT/REG148 S/C/N/226	Under factual examination	…
EFTA – Singapore	1-Jan-03	24-Jan-03	GATT Art. XXIV	Free trade agreement	WT/REG148	Under factual examination	…
ASEAN – China	1-Jul-03	21-Dec-04	Enabling Clause	Preferential arrangement	WT/COMTD/N/20WT/COMTD/51	Examination not requested	…
Turkey – Bosnia and Herzegovina	1-Jul-03	8-Sep-03	GATT Art. XXIV	Free trade agreement	WT/REG157	Factual examination not started	…
Turkey – Croatia	1-Jul-03	8-Sep-03	GATT Art. XXIV	Free trade agreement	WT/REG156	Under factual examination	…
Singapore – Australia	28-Jul-03	1-Oct-03	GATS Art. V	Services agreement	WT/REG158 S/C/N/233	Under factual examination	…
Singapore – Australia	28-Jul-03	1-Oct-03	GATT Art. XXIV	Free trade agreement	WT/REG158	Under factual examination	…
China – Macao, China	1-Jan-04	12-Jan-04	GATT Art. XXIV	Free trade agreement	WT/REG163	Factual examination not started	…

Annex table 1 *(continued)*

Agreement	Date of entry into force	GATT/WTO notification			Document series	Examination process	
		Date	Related provisions	Type of agreement		Status	Ref.
China – Macao, China	1-Jan-04	12-Jan-04	GATS Art. V	Services agreement	WT/REG163 S/C/N/265	Factual examination not started	…
China – Hong Kong, China	1-Jan-04	12-Jan-04	GATT Art. XXIV	Free trade agreement	WT/REG162	Factual examination not started	…
China – Hong Kong, China	1-Jan-04	12-Jan-04	GATS Art. V	Services agreement	WT/REG162 S/C/N/264	Factual examination not started	…
United States – Singapore	1-Jan-04	19-Dec-03	GATT Art. XXIV	Free trade agreement	WT/REG161	Factual examination not started	…
United States – Singapore	1-Jan-04	19-Dec-03	GATS Art. V	Services agreement	WT/REG161 S/C/N/263	Factual examination not started	…
United States – Chile	1-Jan-04	19-Dec-03	GATT Art. XXIV	Free trade agreement	WT/REG160	Factual examination not started	…
United States – Chile	1-Jan-04	19-Dec-03	GATS Art. V	Services agreement	WT/REG160 S/C/N/262	Factual examination not started	…
United States – Israel	19-Aug-85	13-Sep-85	GATT Art. XXIV	Free trade agreement	L/5862 L/ 5862/Add.1	Report adopted	34S/58 14.05.87
Republic of Korea – Chile	1-Apr-04	19-Apr-04	GATT Art. XXIV	Free trade agreement	WT/ REG169	Factual examination not started	…
Republic of Korea – Chile	1-Apr-04	19-Apr-04	GATS Art. V	Services agreement	WT/REG169 S/C/N/302	Factual examination not started	…
Thailand – Australia	1-Jan-05	5-Jan-05	GATT Art. XXIV	Free trade agreement	WT/REG185	Examination not requested	…
Thailand – Australia	1-Jan-05	5-Jan-05	GATS Art. V	Services agreement	WT/REG185 S/C/N/311	Examination not requested	…
US – Australia	1-Jan-05	23-Dec-04	GATT Art. XXIV	Free trade agreement	WT/REG184	Examination not requested	…
US – Australia	1-Jan-05	23-Dec-04	GATS Art. V	Services agreement	WT/REG184 S/C/N/310	Examination not requested	…

Source: WTO website.

Note: The Bangkok Agreement was renamed as the Asia-Pacific Trade Agreement on 2 November 2005.

Annex table 2. Some features of the RTAs in the ESCAP region

Number of agreements within subregions/ percentage in total of 83 agreements as of August 2005 (%)	Notified by Article XXIV: Total number (%)	Notified by Enabling Clause: Total number (%)	In force: Total number (%)	Including coverage of:				
				Services: Total number (%)	Investment: Total number (%)	Labour mobility: Total number (%)	Dispute settlement: Total number (%)	Rules of origin: Total number (%)
East and North-East Asia 2/83 (2.4)	2 (2.4)	0 (0)	2 (1.2)	2 (2.4)	0 (0)	0 (0)	0 (0)	2 (2.4)
North and Central Asia 14/83 (16.9)	13 (15.7)	0 (0)	14 (16.9)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)
South and South-West Asia 5/83 (6.0)	1 (1.2)	1 (1.2)	5 (6.0)	0 (0)	1 (1.2)	1 (1.2)	2 (2.4)	4 (4.8)
South-East Asia 2/83 (2.4)	0 (0)	2 (2.4)	2 (2.4)	0 (0)	0 (0)	0 (0)	0 (0)	1 (1.2)
Developed economies of the ESCAP Region 1/83 (1.2)	1 (1.2)	0 (0)	1 (1.2)	1 (1.2)	0 (0)	0 (0)	0 (0)	1 (1.2)
Cross subregional (within the ESCAP region) 30/83 (36.1)	8 (9.6)	4 (4.8)	16 (19.3)	14 (16.9)	14 (16.9)	6 (7.2)	9 (10.8)	12 (14.5)
Cross regions (linking with non-ESCAP countries and regions) 29/83 (34.9)	14 (16.9)	0 (0)	21 (25.3)	12 (14.5)	6 (7.2)	4 (4.8)	8 (9.6)	6 (7.2)

Source: RTA/BTA ESCAP Database, August 2005, includes 83 agreements in total (signed or in negotiation).

Note: Agreements among the countries that belong to the particular subregion, that is: **East and North-East Asia:** China; Hong Kong, China; and Macao, China; **North and Central Asia:** Armenia; Azerbaijan; Kazakhstan; Kyrgyzstan; Russian Federation; Turkmenistan; and Uzbekistan; **South and South-West Asia:** Bangladesh, Bhutan, India, Nepal, Maldives, Pakistan and Sri Lanka; **South-East Asia:** Brunei Darussalam, Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Philippines, Thailand, Singapore and Viet Nam; **developed economies:** Australia, Japan and New Zealand.

IV. LIBERALIZATION IN AGRICULTURAL TRADE: ISSUES AND CONCERNS

*By Biswajit Dhar**

Introduction

Policies of trade liberalization adopted by the developing countries during the couple of decades in particular, have brought considerable challenges for their agriculture sectors. While most countries had embraced the open-door policies either unilaterally or as a part of their structural reforms programmes, the strengthening of this process was sought through the Agreement on Agriculture (AoA), which became effective following the establishment of the World Trade Organization (WTO) in 1995. More importantly, AoA can be perceived to have introduced an element of inevitability in respect of agricultural trade liberalization, which was in keeping with the overall objectives of WTO.

Liberalizing markets through the lowering of tariffs and non-tariff barriers that have traditionally been used by countries to restrict trade in agricultural commodities was but one of the AoA objectives. Equally significant was the attempt that was made in that Agreement to address the market distortions caused by the plethora of subsidies that distorted the markets for agricultural commodities. Disciplines were introduced in AoA for reining in subsidies that supported agricultural production and identified as domestic support in the Agreement as well as those that promoted exports. Additional discipline was also proposed for dealing with international food aid transactions to ensure that such transactions did not become vehicles for the disposal of surpluses.

Apart from the above-mentioned focus of AoA, which was largely on reforming the markets for agricultural commodities, the Agreement took note of the imperative of realizing the objective of food security. The AoA preamble states that the "reform programme" should take into consideration the "non-trade concerns, including food security" as well as the "possible negative effects of the implementation of the reform programme on least-developed countries (LDCs) and the net food importing developing countries". The latter intent was, in fact, strengthened through a Ministerial Decision adopted at the conclusion of the Uruguay Round negotiations, which delineated the measures that could be taken for obviating the possible negative effects on the most vulnerable group of countries of the agricultural reforms programme initiated by AoA.

Although it was recognized that AoA would be the first step towards reforming the distortion-ridden agricultural markets, there was nonetheless considerable expectation

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among developing countries about the benefits that the Agreement would bring them. Several studies conducted in the past indicated that the results of the Uruguay Round in the agricultural sector would bring significant welfare gains for a number of developing countries. In various scenarios worked out by analysts, developing countries as a whole were expected to witness major welfare gains[1]. It was argued that the reduction of subsidies, coupled with lowering of market access barriers, would benefit the low-cost producers in the developing countries through major gains in the AoA-determined policy regime. However, in the decade since AoA was implemented, not only have developing country expectations remained largely unmet, there have also been several instances where developing country agriculture has suffered as international prices of major agricultural commodities have faced a downward pressure. This was due to the burden of subsidies imposed by the members of the European Communities (EC) and the United States, in particular. These emergent market conditions have assumed considerable importance in the ongoing negotiations for the review of AoA.

This paper looks at the dynamics of the agriculture negotiations in WTO. As indicated above, the backdrop for these negotiations was provided by issues arising from the implementation of AoA. At the outset, therefore, some of the critical problems of implementation of the Agreement are highlighted. The second section of the paper briefly considers the concerns that have been raised in some countries arising from agricultural trade liberalization. In the third section, the prominent issues raised in the negotiations are discussed. Finally, the paper looks at the way forward for countries in the Asia-Pacific region in the ongoing negotiations.

A. Implementation of the commitments

The implementation of the commitments made by the WTO members, which is attempted in the sections below, would focus on the disciplines introduced in the three areas of the agricultural sector by the AoA, i.e., domestic support, export subsidies and market access. As will be clear from the discussion below, making the disciplines introduced by AoA effective remains a major challenge for the multilateral trading system.

1. Domestic support commitments

The implementation of the discipline on domestic support has to be seen largely from the perspective of the United States and the EC, two of the larger players in the market for agricultural commodities. The analysis presented below is based on data obtained from the notifications on domestic support to WTO Committee on Agriculture (annex tables 1-3).

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[1] See for example, A. Brandao and W. Marlin, 1993, "Implications of agricultural trade liberalization for developing countries", World Bank Working Paper, No. WPS 11/6.

The data provided by the United States and the EC in their notifications to the Committee on Agriculture shows that domestic support extended by these two WTO members to their agricultural sector remained the highest among all WTO members between 1995 and 2000/2001. In 2000/2001, for example, the EC provided domestic support close to US$ 79 billion while in case of the United States, the figure was more than US$ 72 billion in 2001. However, while the former had decreased their domestic support by more than 30 per cent in US dollar terms in five years,[2] the latter had increased this form of subsidies by almost 20 per cent.

Apart from the difference in the overall trends as stated above, the allocation of subsidies by the United States and the EC was also at variance. The United States increased its spending on subsidies exempt from reduction commitments, i.e., Green Box measures, quite considerably during the first two years of implementation; as a result, Green Box spending accounted for around 88 per cent of its domestic support. In the subsequent years, however, the share of Green Box spending came down to about 70 per cent of total domestic support. In case of the EC, the share of "exempt" subsidies, i.e., Green and Blue Boxes together, went up from nearly 44 per cent in 1995 to more than 50 per cent 2001. This, in other words, implies that both the United States and the EC had considerable flexibility in their use of production-related subsidies in WTO because of the high proportion of the subsidies that are not subjected to reduction commitments.

The large volumes of domestic support granted by the United States and the EC have two interesting dimensions. The first is the extremely high levels of subsidies that farmers in these countries enjoy vis-à-vis compared with their counterparts in the developing countries. The second is the fact that these countries have exercised considerable flexibility in the granting of subsidies, with a view to enhancing their market dominance.

The flexibility that the countries doling out large volumes of subsidies have under AoA appears in the most striking manner in the case of product-specific support. These countries benefited in two ways: (a) they were allowed to include product-specific support in the Aggregate Measure of Support (AMS) in aggregate terms; and (b) they could exclude product-specific support that was below the *de minimis* level[3] from AMS. The implication of the latter is that the United States could exclude more than US$ 7 billion of trade-distorting support from its total AMS between 1999 and 2001 (the corresponding figure for the EC was between € 1 billion and 2 billion). In 2001, the *de minimis* spending was as much as 32 per cent of the Amber Box subsides that the country had provided (annex table 4).

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[2] The decrease was steeper in US dollar terms because of depreciation of the euro. In terms of the euro, the European Communities reduced domestic support by a mere 3 per cent between 1995 and 1999.

[3] Article 6 of AoA provides that World Trade Organization members will not be required to include in the calculation of current total AMS or reduce product- and non-product-specific domestic support that does not exceed 5 per cent of that member's total value of production of a basic agricultural product during the relevant year.

This flexibility was used to good effect by the United States to heavily subsidize products in which they had substantial export interests. Producers of four commodities in which the country has the largest share in the total exports, i.e., corn, cotton, soybeans and wheat, benefited from very large increases in domestic support after 1997. This was particularly evident in corn and soybeans, commodities in which the share of United States in the total global exports exceeded 50 per cent in the late 1990s; the increases in domestic support between 1995 and 2000 were nearly 8,500 per cent and 22,000 per cent respectively.[4] Support for soybeans continued to increase in the following year, while that for corn declined by more than 50 per cent.

The largest proportionate increase in domestic support during the second half of the 1990s was witnessed in case of wheat, a commodity of which the United States is the second largest producer having a 25 per cent share of global trade. Support for wheat increased from just under US$ 5 million in 1995 to nearly US$ 974 million in 1999. Subsequently, however, support for wheat was reduced to below US$ 200 million.

In the case of cotton, the product-specific support increased from just over US$ 32 million to US$ 2.8 billion in 2001. In addition to the commodities mentioned above, product-specific support granted to rice, a commodity in which the United States has started to emerge as a leading exporter, went up from US$ 11.6 million in 1995 to US$ 763 million in 2001.

In case of the EC, the product-specific support was at high levels for a range of products, including beef, sugar, butter and wheat, ever since AoA discipline was introduced. In all these products, however, product-specific support declined in terms of US dollars between 1995 and 1999[5]. Beef received product-specific support of US$ 10 billion in 2000/2001; this high level of support was recorded after the level of support extended in 1995 was reduced by almost 44 per cent. However, in euro terms, support for beef declined by less than 20 per cent. Sugar, which was the largest recipient of product-specific support after beef, also saw a decline in the level of support, although the level of reduction was much less in proportion to beef. Support for dairy products showed mixed tendencies, with butter registering an increase of more than 5 per cent in euro terms, while for skimmed milk powder a decrease of almost 17 per cent was registered.

The EC increased domestic support for common wheat by € 500 million, the largest increase for any single crop in absolute terms, between 1995/1996 and 1998/1999. This works out to an increase of 20 per cent since the EC started meeting its commitments under AoA. Domestic support extended to maize increased

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4 In terms of US dollars, product-specific support for corn increased from US$ 32 million in 1995 to US$ 2.8 billion in 2000, while for soybeans the corresponding figures were US$ 16 million in 1995 and US$ 3.6 billion in 2001.

5 In two of these products, i.e., wheat and butter, the product-specific support went up in euro terms.

by nearly 28 per cent from 1995/1996 to 1999/2000 in euro terms. In both the commodities referred to above, prominent EC members, including France and Germany, have large trading interests. However, during 2000/2001, the levels of support for both these commodities were reduced.

The above discussion indicates that the two dominant players in the global market for agricultural commodities were targeting subsidies in a manner that provided them with additional advantage during a phase when markets have been opening in many countries. Product-specific support in several countries increased substantially, which increased the level of distortions in their markets.

2. Analysis of the implementation of commitments related to export competition

Disciplines in the area of export competition are intended to ensure that WTO members are prevented from taking recourse to mechanisms for disposing of their surpluses in the international market. Accordingly, AoA principally looks at three issues under the rubric of export competition: (a) export subsidies; (b) international food aid; and (c) export credit and guarantees. Currently, AoA provides clear disciplines in respect of export subsidies, while the other two dimensions of export competition are not covered by an effective discipline. This has resulted in several problems, which are discussed below.

Data on export subsidies presented in annex tables 6 and 7 for the two largest players in the global agricultural trade show that the EC has used export subsidies relatively more extensively to gain additional market access in agricultural commodities compared to the United States. However, while the EC decreased the use of its export subsidies by more than 60 per cent during 1995-1996 and 2000-2001, the United States has increased this form of subsidy. The latter targeted the use of export subsidies in respect of three products, i.e., poultry meat, skimmed milk powder and cheese, which went up from US$ 28,000 in 1995 to US$ 15 million in 2000. The wide fluctuations in the use of export subsidies for each of the products were the common feature. Thus, the subsidy on skimmed milk powder varied between nearly US$ 17,000 and US$ 133 million, while that granted for poultry meat was between zero and US$ 6 million. This implies that the use of export subsidies by the United States had the potential to cause very large uncertainties in the international markets since the surplus that it was disposing varied quite considerably across years.

Surplus disposal had become an easy option for the WTO members in the absence of an effective discipline on food aid. Data presented in annex table 8 show the extent to which the United States and the EC were using food aid. The United States used food aid as an instrument for disposing of its farm output most extensively. Food aid in the form of wheat, rice and vegetable oils increased substantially from 1995 to 1999. Although wheat was the largest component of food aid throughout that time, rice and vegetable oils given out as food aid registered the sharpest increases during the same period. However, the wide fluctuations displayed by the United States in the granting of food aid are the major source of problems for the markets. Food aid granted in the form of wheat fluctuated between 1.5 million and 5.3 million metric tons (mt). This trend in rising food aid has also been maintained in the subsequent years, given that the United States Department of Agriculture continued to increase allocations for those activities (annex table 9).

A number of developing countries have challenged the position held by some of the industrialized countries that subsidized food grain exports are beneficial to the net food-importing developing countries (NFIDCs), since the beneficiaries have access to cheap imports.[6] These countries have argued that trade promotion through export subsidies causes increasing food insecurity in developing countries. This argument, according to the countries presenting this viewpoint, is fallacious, as heavy dependence on imports of subsidized food can cause serious financial difficulties due to a more vulnerable balance-of-payments situation, regardless of the price of food. These countries have argued that effective solutions to the food security problem of NFIDCs can be achieved only if domestic production capacities are strengthened in the import-dependent countries. For this to happen, paragraph 3(iii) of the "Ministerial Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least-Developed and the Net Food-Importing Developing Countries" has to be put into effect. The paragraph in question instructs WTO member countries to facilitate technical and financial assistance to LDCs and NFIDCs in order to "improve their agricultural productivity and infrastructure".

It has been pointed out that the food aid mechanism mainly protects the immediate objectives of the donor countries while ignoring the longer term interests of the recipient countries. Thus, food aid may adversely affect the incentive to carry out the policies that would foster agricultural development in the recipient countries. The inability of countries to reduce their food insecurity could in fact be attributed to the international food aid mechanisms.[7]

Apart from food aid there is another interesting aspect of United States foreign trade policy that is aimed at promoting exports. In accordance with AoA, only the funding and scope of direct subsidy programmes are subjected to the limits; therefore, the export credit and credit guarantee programme, which is an important area and needs to be given more attention, seems to be neglected or underestimated.

The Export Credit and Export Credit Guarantee Programmes provide support for agricultural exports to other countries though the provisions of credit guarantees to importers who seek to defer payments for the goods received. The credit provided by the exporter or the third party thus boosts exports by creating more incentive for the importing country to import. Available data show that agricultural exports valued at

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6 See, for example, World Trade Organization, 2000a.

7 See Huff and Jimenez, 2003, and Barrett and Maxwell, 2004.

close to US$ 34 billion were shipped from the United States during 1993-2002, which were covered under the Export Credit Guarantee Programme.[8]

Two issues need to be pointed out in the context of the foregoing discussions. The first is that the major players have taken recourse to domestic support for providing their producers with favourable conditions for exploiting the global agricultural markets. Export subsidies have become a less favoured option for even the EC, the largest user of export subsidies. The second issue is that the lack of an effective discipline in respect of international food aid, and export credit and guarantees have been used by the United States in particular for disposing of their surpluses. This has drawn the attention of several countries that have asked for a review of the food aid programmes and those related to export credit and guarantees during the ongoing review of the AoA.

3. Market access commitments

As in the case of the subsidies discipline, the market access commitments made by countries in the agricultural sector represent a considerable degree of variation across countries. Although the Uruguay Round negotiations took a major step to rein in the tariffs, it remains only a small first step as explained below.

There are two reasons for this situation. The first is that tariffs in agricultural sector have remained at relatively high levels in many WTO member countries, even after the enforcement of the AoA discipline. The second factor relates to the implementation of the tariff rate quotas, which has been a problem area as far as the AoA discipline is concerned.

(a) Tariffs

At least three concerns regarding the tariff structures that have emerged after the Uruguay Round negotiations need to be flagged: (a) the existence of tariff peaks; (b) tariff escalation; and (c) the use of non-ad valorem tariffs. The last-mentioned has a particular influence on market access prospects due to its inherent non-transparent nature. The following discussion provides the explanation.

With regard to the bound tariffs, the problem of peaks appears to be bigger in the case of the advanced developing countries. South Africa's tariff peak of 597 per cent and India's peak of 300 per cent resulted in an average of the peaks of more than 210 per cent for these countries, which was much above the 177 per cent observed for the Organisation for Economic Co-operation and Development (OECD) countries. This is notwithstanding the fact that the Republic of Korea had a bound tariff of 887 per cent, while the United States and Canada had maximum bound tariffs of 350 per cent and 238 per cent, respectively (annex tables 10-13). It is interesting to note in this context that in most OECD countries the average agricultural tariffs are

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[8] Oxfam, 2003.

higher than non-agricultural tariffs, with rates on some agricultural products exceeding 500 per cent.[9]

However, in case of applied tariffs, the average of the peaks for the OECD countries was considerably higher. Peak tariffs retained by the Republic of Korea, Poland and Norway, in addition to the United States and Canada, influenced the high average peak for this set of countries compared with the advanced developing countries.

Tariff escalation seems to be a problem that exists across WTO members, irrespective of their stage of development.[10] This observation can be made by looking at the levels of tariff protection that countries provide to products as they go up the processing chain. Thus, while for the North American countries tariff escalation was observed in animal and animal products, vegetable and vegetable products, sugar and sweeteners, and tobacco and tobacco products, in the South Asian countries, grains and grain products, and oil seeds and related products are the two most affected groups in terms of tariff escalation. With regard to the product groups most affected because of tariff escalations, meat and meat products, and grains and grain products were among the more prominent.

It has been observed that the structure of agricultural tariffs has become more complex, especially in the case of the developed countries, because of an increase in the number of tariff lines to accommodate different tariffs applicable to the same product, such as seasonal, in-quota and above-quota tariffs, and the more frequent use of non-ad valorem tariffs.[11] Annex table 14 shows the use of non-ad valorem tariffs in respect of agricultural products for a select set of WTO member countries. It is interesting to note that most of the countries with a very large reliance on non-ad valorem tariffs are from the developed world. In fact, the United States and the EC use non-ad valorem tariffs in just under half of the total agricultural tariff lines while in Switzerland, 89 per cent of the agricultural tariff lines have non-ad valorem tariffs. There are a number of reasons for the use of non-ad valorem tariffs. These include the increased protection that a non-ad valorem tax can provide against large drops in import prices and the lack of transparency associated with these rates, which helps conceal the level of protection being provided.[12] The use of non-ad valorem tariffs has been identified by several developing countries as one of the key problems in securing additional market access in the major markets.[13]

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[9] Organisation for Economic Co-operation and Development, 2001.

[10] Tariff bindings were taken for the exercise. For details, see *Profiles of Tariffs in Global Agricultural Markets*, United States Department of Agriculture, AER-796.

[11] United Nations Conference on Trade and Development, 1999.

[12] Gibson and others, 2001.

[13] See, for example, Indonesia's statement to the Committee on Agriculture, World Trade Organization, 2000b.

(b) Tariff rate quotas

The implementation of the tariff rate quotas (TRQs) from 1995 to 2000 revealed that countries resorted to two types of TRQ allocations: a global TRQ or a country-specific TRQ. Under the global TRQ, all WTO members are free to compete for access to the quantity offered by the importing country. Since there is no predetermination of where the commodity to be imported will originate, the importing country administers the quota. The country-specific quotas, on the other hand, provide a degree of predictability to both the importing and the exporting countries involved in the transactions. In this case, however, either of the countries can administer the quotas in order to obtain the quota rents. This form of TRQ administration was used by most of the major industrialized countries. However, only 10 of the 37 countries that opened TRQs for 1995 opted to offer the quotas to specific countries.

The more controversial among the methods of implementation of import licensing provisions is the one that is based on auctioning. One of the major disadvantages of the auctioning system stems from the ease with which it can be manipulated. Producer groups can conceivably purchase all or part of the available licences with the intention of ensuring that imports do not take place.

The implementation of TRQs was beset with two sets of problems. The first arose from the fact that countries were been transparent in establishing the basis for their quota commitments. The second, and possibly the more significant, was the fact that a sizeable proportion of the quotas remained unfilled. For all commodities taken together, the average fill rate was 64 per cent in 1995 while in 2000 it had fallen to 44 per cent (annex table 15). Among the major countries that showed tardy implementation of the quota commitments was the United States from the industrialized world, and Malaysia and Thailand from the developing world.

One of the features of TRQ implementation was that unfilled quotas were the largest in case of commodities in which the importing country had a strong domestic interest. In 1997, for example, the EC filled only about 8 per cent of its quota commitment in wheat, while Thailand met 0.07 per cent its quota commitment in rice.[14] Considering that in several developing countries, including the Philippines, domestic farmers faced unfair competition arising from TRQ imports, the non-fulfilment of its quota commitment by Thailand may well have been beneficial to the domestic rice producers.

The foregoing clearly points to the fact that AoA is beset with two sets of problems. In the first instance, the Agreement has an inherent imbalance, the reflection of can be seen in the fact that the countries using large volumes of subsidies (largely belonging to the industrialized world) can maintain subsidies at much higher levels compared with those that do not use subsidies much. Most of the developing countries find themselves in the latter category. The second and perhaps the more important

[14] In 2002, Thailand's fill rate in the case of rice was 0.2 per cent.

dimension is the tardy implementation of their commitments by the larger players such as the United States and the EC. As a result, the primary objective of AoA, i.e., getting rid of the market distorting policies, has not been met. Developing countries, many of which were anticipating significant gains for their farming communities at the end of the Uruguay Round negotiations, now find that not only have they been unable to reap any benefits; in addition, domestic agriculture in those countries faces a threat from cheap imports as international prices for major commodities have been stuck at low levels since the mid-1990s. In several countries in the Asia-Pacific region, the threat to food security and livelihood has emerged as an area of concern following the lowering of tariff protection. The following section discusses this aspect of the problem.

B. Key concerns of countries in the Asia-Pacific region

Agricultural trade liberalization has brought in its wake concerns about food security and livelihood in the farming sector in developing countries. Many of these countries have articulated these concerns in the WTO negotiations through the various proposals that they have tabled. It can be pointed out that views of the developing countries have been influenced by the problems of adjustment faced by a few countries as they undertook trade liberalization in the past decade. Two of the most affected in the region have been Indonesia and the Philippines. It would be useful to examine the experience of these two countries in order to understand the dimension of the problems that other countries need to take into consideration while pursuing similar policies in respect of their agricultural sector.

In case of Indonesia, rice production has, in particular, borne the brunt of import liberalization. The rice trade was liberalized at the beginning of 1998, following which Indonesia became more dependent on imports for meeting its domestic consumption. Rice imports, which were 5 per cent of domestic consumption during 1995-1997, increased to an average of 10 per cent in 1998-2002. As a result of this dependence on imports, Indonesia has become the largest importer of rice.

Two implications of this nature of dependence by Indonesia on rice imports need to be highlighted. The first is that the country had increased its import dependence on a product for which the international market is very thin – on average, only about 6-7 per cent of total rice production is traded annually. The increased demand by Indonesia meant that in 1998-2002, the country had absorbed some 13 per cent of the total volume of rice trade in the international market. The second and a more significant problem of rising rice imports arose from the fact that imports were taking place at prices that were considerably below those of domestically produced rice. Increasing levels of imports have consequently put at serious risk the livelihood of more than 15 million farmers who are dependent on rice production. A majority of these producers are poor, operating on holdings that, on average, are less than 0.5 hectares. Trade liberalization has thus put at serious risk not only Indonesia's food security but also the future livelihood of the poor rice farmers.

Policy changes in the agricultural sector following the acceptance of the commitments by the WTO member countries affected the Philippines to a considerable extent. Agricultural trade in the Philippines was liberalized from 1996 when the quantitative restrictions that had been maintained in the past for balance of payments reasons were phased out. TRQs replaced the quantitative restrictions, which required the Philippines to give additional market access in the designated commodities. For example, in the case of corn the corresponding figures were 65,000 mt and 227,000 mt. In case of rice, import quotas were established in keeping with the requirements of Annex 5 of AoA, which required the country to increase its imports from 30,000 mt in 1995 to 227,000 mt in 2004.

Actual imports of rice and corn were, however, far above quota commitments that the Philippines had taken under AoA. Rice imports exceeded 2.1 million mt in 1998, and even though there was a decline in the subsequent years, the level at which imports took place was nearly three times above the quota commitments. Corn imports, on the other hand, were negligible in 1993-1994; but by 2000, corn imports had increased to nearly 450,000 mt, a level that was almost twice the quota commitments.

Increased import dependence in two of its main cereals since the liberalization of agricultural trade undertaken by the Philippines was accompanied by a considerable impact on the livelihood of the farming population. The expectation that farm employment would increase annually by 500,000 persons following the country's accession to WTO was subsequently belied, as employment in the farm sector fell from 11.29 million persons in 1994 to 10.85 million in 2001. Increased imports of rice and corn have put at serious risk the livelihood of 2 million farmers involved in the production of these crops; even worse, in Mindanao, the principal corn production area of the country, corn farmers have been wiped out.

Much of the loss of livelihood suffered in the agriculture sector of the Philippines since the mid-1990s has been attributed to the unfair competition from cheap imports of the country's two principal cereals, rice and corn. The flood of imports has kept domestic prices depressed, thus rendering production of these cereals unattractive for domestic producers. Yet another factor that contributed to the sustained downward pressure on domestic prices was imports of rice and corn under the P.L. 480 programme of the United States.

Reverberations from the problems that afflicted the Philippines and Indonesia after undertaking agricultural trade liberalization have been felt in the agriculture negotiations in WTO. What is important to note in this context is that Indonesia, in fact, took the lead in the formation of the G-33 grouping, which has argued that food security and livelihood concerns should be the core elements of the revised AoA. The following section focuses some of the key issues that have arisen in the course of the agriculture negotiations in WTO.

C. Negotiations for the AoA review

This section has two parts. At the outset, a brief account of the mandate, which spells out the guideposts for the ongoing negotiations for the review of the AoA, is provided. In the second part, an attempt is made to capture the negotiating dynamics, as it has been unfolding since the post-Doha negotiations have been initiated.

1. Negotiating mandate

The negotiations for the AoA review are part of the built-in agenda, the mandate for which is provided in Article 20 of the Agreement. The negotiating mandate provided in Article 20 of AoA was further elaborated in the Doha Ministerial Declaration (DMD) of November 2001. In the first instance, the mandate was set in the backdrop of the "long-term objective" of the AoA, which, as stated in the preamble of the Agreement "is to provide for substantial progressive reductions in agricultural support and protection sustained over an agreed period of time, resulting in correcting and preventing restrictions and distortions in world agricultural markets".

DMD reflects the commitment of WTO members to engage in "comprehensive negotiations aimed at: substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade-distorting domestic support". It was further agreed "that special and differential treatment for developing countries shall be an integral part of all elements of the negotiations and shall be embodied in the Schedules of concessions and commitments, and as appropriate in the rules and disciplines to be negotiated, so as to be operationally effective and to enable developing countries to effectively take account of their development needs, including food security and rural development".[15] Members had thus clearly expressed their intent to rid agricultural markets of the distortions while at the same time recognizing the need to respond to the imperatives of food security and livelihood, the two key concerns for the developing countries.

2. Negotiating dynamics

The negotiations on agriculture have witnessed two clearly identifiable phases since the post-Doha discussions began. The first phase was the period up until the end of July 2003, which saw negotiations taking place between two groups of countries whose alignment was based on clearly defined positions. In the subsequent period, four groups of countries have figured prominently in the negotiations.[16] With the groups being equally divided between the developed and developing country members, this represents the differentiations in the interests that exist in both sets of countries.

In the first phase of the post-Doha negotiations, countries with defensive interests were aligned with the European Union. This group of countries, the prominent among

[15] World Trade Organization, 2001a, para. 13.

[16] See Annex I for details.

which were Japan, Republic of Korea and Switzerland, were supported by a number of significant developing countries led by India. These countries were primarily interested in keeping their agricultural markets protected by using reasonably high levels of border protection. Some among this group were also keen to maintain their relatively high levels of subsidies already in place. In other words, the countries having defensive interests were not looking for significant changes in the prevailing policy regime governing the agricultural sector, particularly in relation to tariffs. They favoured the Uruguay Round approach of average cut and a minimum cut per tariff line. That a number of developing countries were willing to be in this group appeared to have struck a discordant note with many observers on account of two compelling reasons:

(a) The first reason arose from the fact that most of the developing countries had posited to the Committee on Agriculture that the high subsidies granted by the developed countries, in particular the United States and the European Union, had prevented them from realizing the projected gains from the agriculture sector since the AoA discipline was introduced; and

(b) The fact that developing countries had little access to developed country markets on account of the market access impediments. Existence of high tariffs and tariff escalations in areas of export interest to developing countries, coupled with the discriminatory implementation of TRQs were among the evidence that those countries were able to produce in support of their views. However, the fact that they were receiving the consolation of lower levels of tariff cuts themselves appears to have eventually kept the group together.

The second group of countries represented those that were primarily interested in obtaining additional market access through a rapid decline in the levels of tariffs. As witnessed in the past, this group was informally led by the United States, with the Cairns Group countries providing active support. These countries argued that the tariff reductions should follow the tariff harmonization approach (better known as the "Swiss formula") with the United States proposing that a coefficient of 25 should be adopted. A number of the Cairns Group countries had argued that the Article 20 review of AoA should be aimed at reduction and an eventual elimination of trade distorting forms of subsidies. Yet, interestingly, in most of the post-Doha discussions, these countries showed considerable reluctance to address the issue of distortions caused in the market for agricultural commodities by the large volumes of subsidies granted by the two largest players as negotiations progressed.

Market access was thus the only issue on which the negotiations on the review of AoA focused. Comprehensive reforms in the agricultural policies worldwide remained nothing more than a reference point for conducting the negotiations. This focus was, in fact, reinforced by the chairman of the Committee on Agriculture in the draft modalities paper that he had prepared under his own responsibility. The Harbinson modalities made considerable effort to ensure that more than the minimal changes are effected in the tariff regime. The developing countries were provided with an additional dispensation, which would have allowed them to provide higher levels of protection to commodities that were critical from the point of view of food security, livelihood and rural development. Yet, at the same time, the subsidies regime was left largely unaffected. While on the one hand, developed countries were allowed to maintain the existing levels of agricultural subsidies, the developing countries were also allowed the space to provide assistance to the resource-poor farmers.

With the extreme positions taken by the United States and the European Union becoming the sticking point not only for the agricultural negotiations but also for the Doha Development Agenda, the WTO membership urged those two members to find a common ground in order that an efficacious solution could be found before the Cancun Ministerial Conference was held.[17] A common ground was worked out by the United States and the European Union on the market access issue as well as the issue of subsidies.[18] While the United States and the EC preferred a combination of the Uruguay Round approach of average tariff cuts and the tariff harmonization approach in case of market access, with regard to the domestic support discipline both members proposed that the existing discipline would not undergo major changes.

This compromise between the United States and the European Union signalled coalition-building efforts among the developing countries, resulting in the formation of the G-20. The base paper, which marked the emergence of this group of developing countries, had one important feature – it looked at the agriculture negotiations in WTO for bringing about comprehensive reform in the agriculture sector worldwide.[19] The focus of the interventions made by the prominent members of this group, including China, Brazil, India and South Africa, has been that the major distortions created by the subsidies' regime in some of the more prominent members of WTO have to be reduced and eventually removed. On the issue of market access, the G-20 proposed that developing countries adopt the Uruguay Round approach of average tariff cuts. One of the key elements of the G-20 proposal is that the special needs of the developing countries need to be addressed in the revised AoA. These include designating a set of products as Special Products (SPs), which would be subjected to lower tariff cuts and the introduction of a Special Safeguard Mechanism (SSM) aimed at allowing developing countries to counter anticipated or actual import surges.[20] SPs and the SSM were seen by the developing countries as measures that would help them in addressing the twin problems of food security and livelihood concerns in the face of mounting pressure to lower agricultural tariffs.

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[17] This mandate was given, at the conclusion of the Montreal World Trade Organization mini-ministerial meeting in late July 2003, to the two trading partners to work out a joint paper on agriculture. For details, see European Commission 2003.

[18] World Trade Organization, 2003a.

[19] World Trade Organization, 2003b.

[20] Support for SPs and the SSM was lent by the G-33. It should be pointed out that some of the more prominent developing countries have lent their support to both the groupings.

It may be argued that the proposal of the G-20 countries on the modalities of the agricultural negotiations stands to reason because the tariff reductions of the type that the United States and the EC have been expecting will be possible only after distortions caused by the subsidies are substantially reduced in the markets for agricultural commodities. The large doses of subsidies provided by the United States and the EC in particular, discussed at length above, have given rise to uncertainties in the markets in respect of price movements. At the same time, the proposal insisted that concrete measures such as lower tariff cuts, SPs and the SSM had to be provided for in the revised AoA so that some of the key concerns of the developing countries, particularly those related to food security and livelihood, were addressed effectively.

The most pertinent question that arises in the context of the position taken by the G-20 countries is related to the influence that this group of countries have had in shaping the course of the negotiations. This question has assumed more strength since the WTO General Council adopted the Framework for Establishing Modalities in Agriculture (the Framework) that detailed the elements based on which the modalities for the negotiations on agriculture could be developed.[21]

The Framework had two key features. In the first place, broad indications were provided in respect of the new discipline on farm support (domestic support and export competition). The second part of the text provided the initial elements the market access discipline.

More recently, the G-20 and the G-33 countries took several initiatives to ensure some progress before the Hong Kong Ministerial Conference.[22] The specific proposals made by the G-20 on domestic support and market access are particularly significant in the context of the negotiations.

The proposals on domestic support are aimed at a drastic reduction of high levels of trade-distorting Amber Box support and the introduction of additional discipline on Blue Box support. In addition, the G-20 sought clarifications on several forms of Green Box support to ensure that the measures, as stipulated in Annex 2 of AoA, are indeed "minimally or non-trade distorting".

Trade-distorting Amber Box support is sought by putting in place a mechanism which would (a) AMS, (b) total trade-distorting support, and (c) *de minimis*. Reduction of the first two elements is proposed by establishing "domestic support-bands", which would ensure that steeper reductions of high levels of domestic support can be ensured. In addition, the G-20 proposal provides for extra cuts in domestic support by WTO members whose AMS is more than 40 per cent of the value of agricultural production. Furthermore, the proposal favours capping of product and non-productive-specific support at their respective average levels according to a methodology to be agreed.

[21] World Trade Organization, 2004a.

[22] During the past few months, the G-20 has held two meetings, while the G-33 countries met in Jakarta in June 2005.

In respect of the Blue Box support, the G-20 proposed capping this form of support. Additional disciplines have been proposed that includes, among others, the determination of effects of production-limiting programmes so as to ensure that those programmes are indeed non-trade distorting in nature.

In its proposals on market access, the G-20 put forth a "banded-approach" to tariff cuts for both developed and developing countries. In the case of the former, four bands have been proposed while in case of the latter it is three bands. In order to address the problem of high tariffs and tariff peaks, the capping of tariffs – at 100 per cent for the developed countries and 150 per cent for the developing countries – has been proposed.

With regard to special and differential treatment to developing countries, the G-20 proposals included both domestic support and market access pillars. Although the group insisted that those developing countries which allocated all or substantially all their *de minimis* support to resource-poor or subsistence farmers should be exempt from reduction commitments, in respect of market access G-20 emphasised that the concepts of SPs and SSM should be integral elements of the new discipline. However, the mechanism for identifying the SPs as well as the nature of the SSM mechanism and its product coverage was not dealt with in the proposal.

It is clear from the above discussion that agricultural negotiations in WTO are far from reaching a phase when the modalities for further commitments can be given a final shape. While the G-20 has been arguing strongly in support of a parallelism between subsidies and tariffs, indicating thereby that progress on tariff reduction can only be made if there is a substantial commitment from the large subsidy-granting countries to rein in their subsidies, the latter have not been quite as keen to accept additional disciplines on subsidies. The experience of implementation of AoA, described above, does support the view that the developing countries have taken in the negotiations.

D. A way forward

This paper has attempted to provide a perspective on the issues related to trade and agriculture that are currently under close scrutiny in WTO negotiations on agriculture. These negotiations have assumed considerable significance given that the progress towards reform of agricultural markets, the promise with which AoA was ushered in, has remained largely unfulfilled.

The paper has also attempted to highlight the point that there are significant differences between the various groups of countries that have been actively participating in the agriculture negotiations. The participation of a very large number of developing countries has added a dimension that was not witnessed in multilateral trading system before the post-Uruguay Round discussions began. It is this dimension that raises immense possibilities for the developing countries to negotiate in a coordinated manner as they try to make AoA work better to meet their interests.

It may be argued that the discussions that have taken place among developing countries during much of the past two years, particularly in G-20 and G-33 forums, can be the basis for a much wider consensus on issues affecting the developing countries. The developing countries and LDCs need to adopt a twin strategy to meet the challenges that they face in a global regime that is focusing on opening of markets to agricultural commodities.

In the first instance, they would have to insist that the large players in the agricultural markets reduce and eventually eliminate the subsidies that they are granting to their farm sectors. As indicated above, such a measure would get the "prices right" and this would, in turn, enable developing country producers to secure a larger share in the global markets. In fact, many developing countries such the Philippines and Indonesia, where the agriculture sector has suffered because their farmers cannot compete with the low-priced imports with the consequence that they have become net food importers, can reverse their fortunes in markets that are be free from the distortionary policies.

While many developing countries are likely to benefit from the distortion-free agricultural markets which will take shape if "effective" trade liberalization is ensured, there are several other countries whose farming sector may need a degree of protection to address concerns related to food security and protection of livelihood. Countries that would otherwise gain from the distortion-free markets as indicated above may also have to adopt similar measures before the subsidies are eventually eliminated. In other words, in the short term, developing countries will have to ensure that the revised AoA addresses their core concerns of food and livelihood security.

One of the most pertinent issues arising in the context of the negotiations is the capacity of the developing countries to engage in what is an exacting process. Although the current round of negotiations has seen a greater degree of participation by the developing countries, there nonetheless remain a significant number of developing countries and LDCs that do not have the capacity to participate as effectively as is necessary. There is thus a case for ESCAP to provide technical assistance to these countries that encompasses a number of critical areas. The following is an indicative list of those areas:

(a) Capacity-building for empowering various stakeholders, particularly farmers/farmers' organizations;

(b) A continuous process of dialogue between the stakeholders with a view to developing a well articulated/argued position of the countries concerned;

(c) Countries that do not belong to one and/or another developing country grouping, i.e., G-20 and G-33, need to develop better interaction with some of the active members of these developing country groupings with a view to finding common ground; and

(d) The likely problems of NFIDCs arising from the liberalization of agricultural trade needs to be addressed. Withdrawal of subsidies by the United States and the European Union, in particular, may lead to the firming of global commodity prices, which, in turn, could destabilize the balance of payments situation of the countries concerned.

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Annex

Annex table 1. Domestic support granted by the United States, 1995-2001

(Unit: US$ billion)

Subsidies/products	1995	1996	1997	1998	1999	2000	2001
Green Box	46.03	51.83	51.25	49.82	49.75	50.06	50.67
Blue Box	7.03	0.00	0.00	0.00	0.00	0.00	0.00
Product-specific	6.31	5.98	6.49	10.57	16.89	16.70	14.63
of which							
Corn	0.03	0.03	0.15	1.53	2.55	2.76	1.27
Cotton	0.03	0.00	0.47	0.93	2.35	1.05	2.81
Dairy	4.66	4.69	4.46	4.56	4.66	5.07	4.48
Peanuts	0.41	0.30	0.31	0.34	0.35	0.44	0.30
Rice	0.01	0.01	0.01	0.02	0.43	0.62	0.76
Soybeans	0.02	0.01	0.05	1.28	2.86	3.61	3.61
Sugar	1.09	0.91	1.01	1.06	1.21	1.18	1.06
Tobacco	0.00	0.02	0.01	0.01	0.92	0.52	0.00
Wheat	0.00	0.01	0.04	0.52	0.97	0.85	0.19
Non-product-specific	1.39	1.11	0.57	4.58	7.41	7.28	6.83
AMS (notified)	6.21	5.90	6.24	10.39	16.86	16.80	14.41
Total subsidies	60.76	58.92	58.31	64.97	74.05	74.04	72.13

Source: Centre for WTO Studies database.

Annex table 2. Domestic support granted by the European Union, 1995-2001

(Unit: US$ billion)

Subsidies	1995/1996	1996/1997	1997/1998	1998/1999	1999/2000	2000/2001	2001/2002
Green Box	23.84	25.08	20.32	20.42	18.37	19.56	19.47
Blue Box	26.46	24.39	22.86	21.85	18.24	19.90	22.36
Total product-specific	63.54	58.01	56.20	49.75	44.11	39.10	37.23
of which							
Common wheat	3.29	3.36	3.20	3.29	2.69	2.03	1.17
Barley	2.85	3.04	3.02	2.86	2.34	1.97	1.55
Maize	1.00	1.06	1.17	1.01	0.92	0.63	0.36
Rye	0.40	0.34	0.35	0.35	0.27	0.21	0.20
Triticale	0.19	0.22	0.26	0.27	0.21	0.19	0.17
Rice	0.64	0.61	0.57	0.47	0.36	0.35	0.37
Dried fodder	0.38	0.34	0.34	0.33	0.29	0.27	0.30
Sugar	7.58	6.68	6.56	6.19	5.31	5.20	5.40
Olive oil	1.75	2.12	2.54	1.92	1.91	1.85	2.52
Bananas	0.26	0.23	0.23	0.19	0.22	0.29	0.20
Skimmed milk powder	2.29	1.88	1.70	1.61	1.26	1.35	1.29
Milk	0.00	0.00	0.00	0.00	0.00	0.00	0.20
Butter	5.34	4.77	4.71	4.49	4.09	3.98	4.19
Beef	17.72	15.62	15.13	14.25	12.06	10.02	9.15
Citrus fruit for processing	0.00	0.00	0.17	0.12	0.16	0.12	0.20
Tobacco	1.32	1.14	0.97	0.97	0.91	0.86	0.90
Potatoes for processing to starch	0.00	0.19	0.23	0.16	0.14	0.17	0.20
Apples	3.20	2.38	2.18	2.04	2.02	2.01	1.94
Pears	0.94	0.67	0.68	0.59	0.56	0.56	0.51
Peaches/nectarines	0.57	0.53	0.26	0.43	0.54	0.45	0.45
Table grapes	0.48	0.25	0.26	0.24	0.20	0.19	0.20
Lemons	0.29	0.44	0.46	0.31	0.39	0.38	0.26
Clementines	0.21	0.18	0.20	0.20	0.21	0.18	0.16
Oranges	0.42	0.51	0.47	0.30	0.40	0.38	0.30
Cucumbers	0.83	0.49	0.68	0.63	0.53	0.48	0.50
Courgettes	0.00	0.28	0.18	0.19	0.15	0.14	0.16
Artichokes	0.29	0.24	0.25	0.24	0.10	0.10	0.18
Tomatoes	5.95	5.53	5.07	2.24	2.32	2.38	1.83
Wine	2.17	2.20	2.17	1.95	1.89	0.72	0.84
Seed for sowing	0.12	0.10	0.10	0.12	0.10	0.09	0.09
Cotton	0.99	0.88	0.91	0.76	0.57	0.71	0.54
Non-product-specific	0.99	0.83	0.54	0.37	0.27	0.50	0.54
Total subsidies	114.82	108.30	99.93	92.39	80.99	79.07	79.60

Source: Centre for WTO Studies database.

Annex table 3. Domestic support granted by the European Union, 1995-2001

(Unit: € billion)

Subsidies	1995/1996	1996/1997	1997/1998	1998/1999	1999/2000	2000/2001	2001/2002
Green box	18.78	22.13	18.17	19.17	19.93	21.84	20.66
Blue box	20.85	21.52	20.44	20.50	19.79	22.22	23.73
Total product-specific	50.06	51.19	50.25	46.69	47.87	43.66	39.50
of which							
Common wheat	2.59	2.96	2.86	3.09	2.92	2.27	1.24
Barley	2.25	2.68	2.70	2.69	2.54	2.19	1.64
Maize	0.79	0.94	1.05	0.95	1.00	0.71	0.38
Rye	0.32	0.30	0.31	0.33	0.29	0.24	0.21
Triticale	0.15	0.20	0.23	0.25	0.23	0.21	0.18
Rice	0.51	0.54	0.51	0.44	0.39	0.39	0.40
Dried fodder	0.30	0.30	0.31	0.31	0.31	0.31	0.32
Chick-peas, lentils and vetches	0.07	0.07	0.07	0.07	0.07	0.07	0.07
Sugar	5.97	5.90	5.87	5.81	5.76	5.81	5.73
Olive oil	1.38	1.87	2.27	1.80	2.07	2.07	2.68
Bananas	0.20	0.21	0.21	0.18	0.23	0.33	0.21
Skimmed milk powder	1.81	1.66	1.52	1.51	1.37	1.51	1.37
Milk	0.00	0.00	0.00	0.00	0.00	0.00	0.21
Butter	4.21	4.21	4.21	4.21	4.44	4.44	4.44
Beef	13.96	13.79	13.53	13.38	13.09	11.19	9.71
Citrus fruit for processing	0.00	0.00	0.15	0.11	0.18	0.13	0.21
Tobacco	1.04	1.01	0.87	0.91	0.98	0.96	0.95
Potatoes for processing to starch	0.00	0.17	0.20	0.15	0.15	0.18	0.21
Apples	2.52	2.10	1.95	1.92	2.19	2.25	2.06
Pears	0.74	0.60	0.61	0.55	0.60	0.63	0.54
Peaches/nectarines	0.45	0.47	0.23	0.40	0.59	0.50	0.47
Table grapes	0.38	0.22	0.23	0.22	0.22	0.21	0.22
Lemons	0.23	0.38	0.41	0.29	0.42	0.43	0.28
Clementines	0.17	0.16	0.18	0.18	0.23	0.21	0.17
Oranges	0.33	0.45	0.42	0.28	0.43	0.42	0.32
Cucumbers	0.66	0.44	0.61	0.59	0.58	0.54	0.54
Courgettes	0.00	0.25	0.16	0.17	0.17	0.16	0.17
Artichokes	0.23	0.21	0.22	0.22	0.11	0.11	0.20
Tomatoes	4.69	4.88	4.53	2.10	2.52	2.66	1.94
Wine	1.71	1.94	1.94	1.83	2.05	0.81	0.89
Seed for sowing	0.09	0.09	0.09	0.11	0.11	0.10	0.10
Cotton	0.78	0.77	0.81	0.72	0.62	0.80	0.58
Non-product-specific	0.78	0.73	0.49	0.35	0.29	0.56	0.57
Total subsidies	90.46	95.57	89.35	86.71	87.88	88.29	84.46

Source: Centre for WTO Studies database.

Annex table 4. *De minimis* spending by the United States

Year	*De minimis* spending (US$ billion)	*De minimis* spending as percentage of trade distorting domestic support
1995	1.5	19.3
1996	1.2	16.4
1997	0.8	11.4
1998	4.7	31.3
1999	7.4	30.6
2000	7.3	30.4
2001	7.0	32.8

Source: Centre for WTO Studies' database.

Annex table 5. *De minimis* spending by the EC

Year	*De minimis* spending (€ billion)	*De minimis* spending as percentage of trade distorting domestic support
1995	0.8	1.6
1996	0.9	1.7
1997	0.5	1.1
1998	0.4	0.8
1999	0.3	0.6
2000	0.6	1.3
2001	0.8	2.0

Source: Centre for WTO Studies database.

Annex table 6. European Union: Outlays on export subsidies

(Unit: US$ million)

Major products	1995-1996	1996-1997	1997-1998	1998-1999	1999-2000	2000-2001
Incorporated products	623.7	639.5	613.9	607.8	661.9	368.5
Other milk products	924.1	827.2	839.6	804.4	833.0	365.0
Beef	1 913.3	1 725.2	933.2	681.5	668.0	341.1
Sugar (5)	481.3	593.3	864.7	842.5	432.5	331.7
Butter and butter oil	325.4	623.5	344.7	302.8	306.7	300.7
Cheese	555.8	306.6	195.4	158.0	216.9	211.8
Coarse grains	385.3	439.6	303.3	809.9	671.8	170.4
Wheat and wheat flour	150.7	358.8	197.2	530.3	468.6	96.4
Alcohol	65.0	133.9	117.1	128.5	201.1	85.1
Poultry meat	147.2	82.5	84.5	95.1	69.1	50.6
Pork	127.6	80.3	82.6	377.5	223.6	30.1
Rice	38.5	81.6	36.2	27.1	24.3	28.7
Fruit and vegetables, fresh	89.4	69.8	28.9	33.5	34.2	24.0
Skimmed milk powder	178.9	192.2	129.2	203.2	310.8	23.3
Total	6 203.8	6 288.5	4 841.0	5 656.4	5 164.6	2 459.2

Source: Centre for WTO Studies database.

Annex table 7. United States: Outlays on export subsidies

(Unit: US$ '000)

Major products	1995	1996	1997	1998	1999	2000
Poultry meat	5.2	0.0	862.5	1 399.8	1 643.5	6 823.3
Skimmed milk powder	16.8	93.8	88 798.4	133 284.3	45 333.0	6 727.5
Cheese	2.1	2.5	3 905.2	4 164.2	5 564.4	1 760.7
Total	27.6	123.5	112 229.2	146 709.9	80 165.6	15 313.5

Source: Centre for WTO Studies database.

Annex table 8. Food aid provided by the United States and the European Union

(Unit: mt)

Product	United States					
	1995	1996	1997	1998	1999	2000
Wheat	1 531.3	1 449.1	1 075.2	3 202.2	5 315.1	2 364.7
Coarse grains	73.6	129.5	116.2	111.7	78.2	45.3
Rice	149.7	188.5	111.3	382.7	935.6	303.3
Vegetable oils	173.6	175.1	157.3	0.0	1 440.4	365.3
Skim milk	3.4	0.0	0.0	0.0	260.6	24.2
Product	**European Union**					
	1995-1996	**1996-1997**	**1997-1998**	**1998-1999**	**1999-2000**	**2000-2001**
Wheat and wheat flour	1 536.9 (wheat eqv.)	775.6 (wheat eqv.)	711.1 (wheat eqv.)	630.8	1 186.1	436.4
Coarse grains	285.3	205.0	215.5	136.5	119.3	44.8
Rice	91.8 (July 95-June 96)	42.5	110.2	63.5	125.5	21.2

Source: Centre for WTO Studies database.

Annex table 9. Agricultural export and food aid programmes of the United States, 1995-2002

(Unit: US$ million)

Programme	1995	1996	1997	1998	1999	2000	2001 (Est.)	2002 (Budget)
Export Enhancement Programme	339	5	0	2	1	2	478	478
Dairy Export Incentive	140	20	121	110	145	77	34	42
Market Access Programme	110	90	90	90	90	90	90	90
Foreign Market Devt. Programme	–	–	–	–	28	28	28	28
CCC Export Credit Guarantees	2 921	3 230	3 876	4 037	3 045	3 082	3 792	3 904
P.L. 480 Food Aid	1 286	1 207	1 054	1 154	1 796	1 076	1 107	995
Section 416(b)	4	84	2	0.5	428	504	565	–
Food for Progress	146	84	91	111	101	121	94	94
Foreign Agricultural Service	159	167	191	181	178	200	183	207
Total	5 105	4 887	4 425	5 790	6 271	5 310	6 390	5 838

Source: Charles E. Hanrahan, 2001, Agricultural Export and Food Aid Programmes, Congressional Research Service Issue Brief, the National Council for Science and Environment, Washington.

Annex table 10. MFN bound tariffs for agricultural products for Organisation for Economic Co-operation and Development countries

(Unit: %)

Country	Binding coverage	Simple average	Maximum ad valorem	Duty-free	Non-ad valorem
Australia	100.0	3.2	29.0	32.2	2.1
Canada	100.0	3.5	238.3	41.8	26.0
Czech Republic	100.0	10.0	125.0	38.7	0.0
European Union	100.0	5.8	74.9	26.7	40.8
Hungary	100.0	27.0	127.5	7.7	0.0
Iceland	100.0	43.4	229.0	18.6	24.5
Japan	100.0	6.9	61.9	28.7	22.7
Korea, Rep. of	99.1	52.9	887.4	2.2	4.7
Mexico	100.0	35.1	72.0	0.3	7.5
New Zealand	100.0	5.7	35.2	51.3	0.7
Norway	100.0	1.2	25.5	21.4	75.2
Poland	99.9	32.9	230.0	2.3	36.5
Slovakia	100.0	10.0	125.0	38.7	0.0
Switzerland	100.0	0.0	0.0	17.4	82.6
Turkey	100.0	60.2	225.0	0.0	0.0
United States	100.0	6.9	350.0	28.7	49.6
Average	99.9	19.0	177.2	22.3	23.3

Source: World Trade Organization, 2003, *World Trade Report,* pp. 196-217.

Annex table 11. MFN applied tariffs for agricultural products for Organisation for Economic Co-operation and Development countries

(Unit: %)

Country	Year	Simple average	Maximum ad valorem	Duty-free lines	Non-ad valorem
Australia	2001	1.1	5.0	76.5	0.7
Canada	2001	3.0	238.0	49.8	19.9
Czech Republic	2001	10.0	125.0	38.8	0.0
European Union	2002	5.9	74.9	25.8	39.9
Hungary	2001	25.8	127.5	8.6	0.0
Iceland	2000	7.0	78.0	57.8	21.1
Japan	2001	7.1	50.0	29.2	23.2
Korea, Rep. of	2001	45.5	917.0	1.9	3.1
Mexico	2001	23.4	260.0	2.1	5.6
New Zealand	1999	1.7	7.0	66.9	0.3
Norway	2002	8.4	555.0	26.9	70.3
Poland	2001	41.9	676.7	3.0	26.0
Slovakia	2001	9.9	125.0	38.8	0.0
Switzerland	2001	0.0	0.0	18.9	81.1
Turkey	2001	42.2	232.5	14.3	8.1
United States	2001	4.7	350.0	28.5	1.8
Average		14.9	238.9	30.5	18.8

Source: World Trade Organization, 2003, *World Trade Report,* pp. 196-217.

Annex table 12. MFN bound tariffs for agricultural products

(Unit: %)

Country	Binding coverage (%)	Simple average	Maximum ad valorem	Duty-free tariff lines	Non-ad valorem
Argentina	100.0	32.6	35.0	0.1	0.0
Brazil	100.0	35.5	55.0	2.2	0.0
China	100.0	15.8	65.0	2.8	0.0
India	100.0	114.5	300.0	0.0	0.3
Mexico	100.0	35.1	72.0	0.3	7.5
South Africa	99.7	39.8	597.0	22.4	0.0
Average	100.0	45.6	187.3	4.6	1.3

Source: World Trade Organization, 2003, *World Trade Report,* pp. 196-217.

Annex Table 13. MFN applied tariffs for agricultural products

(Unit: %)

Countries	Year	Simple average	Maximum ad valorem	Duty-free tariff lines	Non-ad valorem
Argentina	2001	12.3	22.5	3.0	0.0
Brazil	2001	12.5	55.0	3.0	0.0
China	2002	19.2	71.0	2.5	0.6
India	2001	37.0	210.0	2.6	0.3
Mexico	2001	23.4	260.0	2.1	5.6
South Africa	2001	8.7	55.0	42.4	13.3
Average		18.9	112.3	9.3	3.3

Source: World Trade Organization, 2003, *World Trade Report,* pp. 196-217.

Annex table 14. Use of non-ad valorem tariffs by selected World Trade Organization members

WTO member	Total no. of tariff lines in agriculture	No. of non-ad valorem tariff lines	Percentage of non-ad valorem tariff lines
Australia	725	14	1.9
Canada	1 341	404	30.1
Egypt	823	14	1.7
EC (15)	2 205	1 010	45.8
Iceland	1 604	363	22.6
India	697	2	0.3
Japan	1 344	247	18.4
Korea, Republic of	1 500	68	4.5
Malaysia	1 320	346	26.2
Mexico	1 083	83	7.7
New Zealand	1 004	10	1.0
Norway	1 060	722	68.1
Switzerland	2 179	1 940	89.0
Thailand	774	339	43.8
United States	1 777	755	42.5

Source: World Trade Organization, 2004b.

Annex table 15. Simple average fill rates of tariff quotas, 1995-2000

Principal administration method	Simple average fill rates (%)					
	1995	**1996**	**1997**	**1998**	**1999**	**2000**
Applied tariffs	71	65	65	71	70	67
First-come, first-served	56	61	47	51	63	NA
Licences on demand	59	57	55	54	52	40
Auctioning	30	38	60	39	24	NA
Historical importers	91	81	76	71	65	44
Imports by state trading enterprises	81	83	90	91	100	NA
Producer groups/associations	74	53	85	78	NA	NA
Other	37	38	39	45	44	94
Mixed allocation methods	75	84	85	84	74	100
Non-specified	100	44	57	44	41	NA
Overall	**66**	**63**	**62**	**63**	**62**	**44**

Source: World Trade Organization, "Tariff quota administration methods and tariff quota fill", Background Paper by the Secretariat, May 2001.

Note: Fill rates are calculated for 1,033, 1,081, 1,166, 1,134, 827 and 136 tariff quotas in the respective years, 1995-2000.

Annex table 16. EC: Domestic support figures and implications of the July "Framework"

(Unit: € billion)

Years	Final Bound AMS	Current Total AMS	Amber Box	Level of support permitted under para. 7 of July package
1995/1996	78.7	50.0	50.8	90.8
1996/1997	76.4	51.0	51.9	90.1
1997/1998	74.1	50.2	50.7	88.3
1998/1999	71.8	46.7	47.0	85.8
1999/2000	69.5	47.9	48.2	83.7
2000/2001	67.2	43.7	44.2	82.7
2001/2002	67.2	39.3	40.1	83.6

Source: Centre for WTO Studies database.

Annex table 17. United States: Domestic support figures and implications of the July "Framework"

(Unit: US$ billion)

Year	Final bound AMS	Current total AMS	Amber Box	Level of support permitted under para. 7 of July package
1995	23.1	6.2	7.7	41.4
1996	22.3	5.9	7.1	42.4
1997	21.5	6.2	7.0	41.8
1998	20.7	10.4	15.1	39.4
1999	19.9	16.9	24.3	38.0
2000	19.1	16.8	24.1	38.0
2001	19.1	14.4	21.5	39.1

Source: Centre for WTO Studies' database.

V. SERVICES: IMPORTANCE OF FURTHER LIBERALIZATION FOR BUSINESS AND ECONOMIC DEVELOPMENT IN THE REGION

*By Christopher Findlay**
*and Alexandra Sidorenko***

Introduction[1]

Developing countries have considerable interests in export markets for services and they stand to gain significantly from reform of their own services sectors. Despite these interests, and the complementarities between developed and developing countries in these markets, negotiations in the World Trade Organization (WTO) on services are proceeding slowly. This is due, in part, to the two-way linkages across broad negotiating areas, particularly the linkage with the agricultural negotiations. The focus of this paper, however, is restricted to aspects of the services negotiations themselves, developing country interests in commitments in those sectors, and the ways in which those commitments contribute to economic and business development. This includes especially the use of those commitments to support unilateral domestic reform that is not directly connected to offers of market access made by trading partners.

The next section provides a brief overview of the main characteristics of world trade in services. The paper then reviews the links between trade and development, with special attention being given to studies of the effects of services liberalization. These general points are illustrated by reference to a number of sectoral case studies, and by remarks about the effects of the liberalization of the movement of labour, a key interest of developing countries. The paper then reviews current state of the WTO negotiations and concludes with some remarks on options for their acceleration and the regional interests in those options.

A. World trade in services

World services exports grew from about 17 per cent of total world trade in 1987 to 20 per cent of total trade in 2003.[2] The growth rate of goods and services exports for high-, middle- and low-income countries has persistently outpaced income

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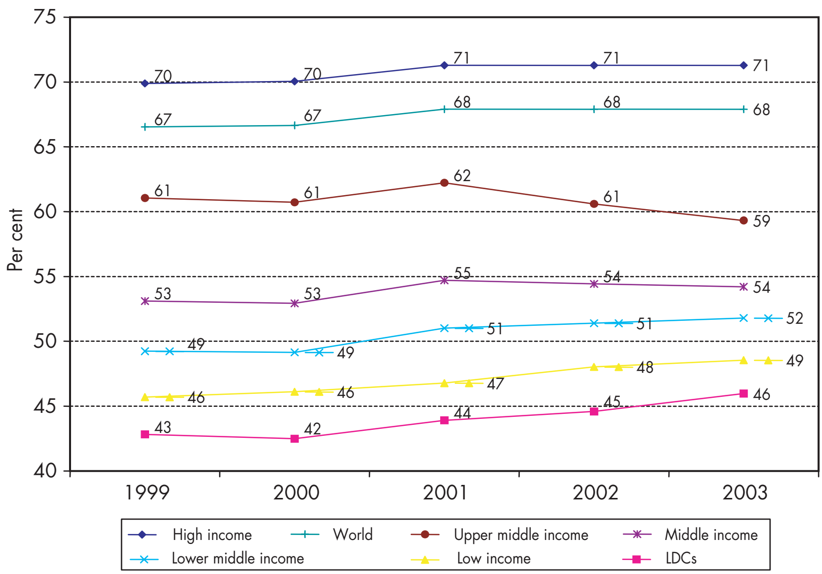
[1] An earlier version of this paper was presented at the Griffith Asia Institute workshop, 12-13 August 2005, Brisbane, Australia.

[2] United Nations Conference on Trade and Development online database, accessed July 2005.

growth. According to the World Bank, the average annual growth rate of gross national product (GNP) from 1965 to 1998 was 3.2 per cent for the world, and 5.9 per cent, 3.7 per cent and 3 per cent for the low-, medium- and high-income countries, respectively. Corresponding growth rates of exports are 5.7 per cent, 7 per cent, 6.1 per cent and 5.7 per cent, respectively.

Services are the more important components of high-income economies. The share of services in gross domestic product (GDP) ranges from 46 per cent in least-developed countries (LDCs) to 54 per cent in middle-income countries, 59 per cent in upper middle-income countries, and 71 per cent in high-income countries, according to the World Bank definitions (figure I). Developed countries are also the largest exporters and importers of services (tables 1 and 2). The share of services trade attributed to the developing countries is small. A significant part of international services transactions are linked to the movement of people, or its substitute (in some cases) involving cross-border transactions; the share of developing countries in cross-border exports of services fluctuated between 22 and 23 per cent during 1998-2003 (figure II). At the same time, the shares of services in total exports dwindled on average from 17.5 per cent in 1998 to 14.5 per cent in 2003 among the developing countries, and from 21.3 per cent to 15.9 per cent in LDCs (figure III). Some services export areas are of more interest to developing countries as export markets, including maritime transport, tourism, health services and construction services (Nielson and Taglioni, 2004).

Figure I. Share of services in GDP versus per capita GDP, 1999-2003



Source: World Development Indicators database: 2002 and 2003 values for high income and world aggregates, which are not available, are plotted at the 2001 level.

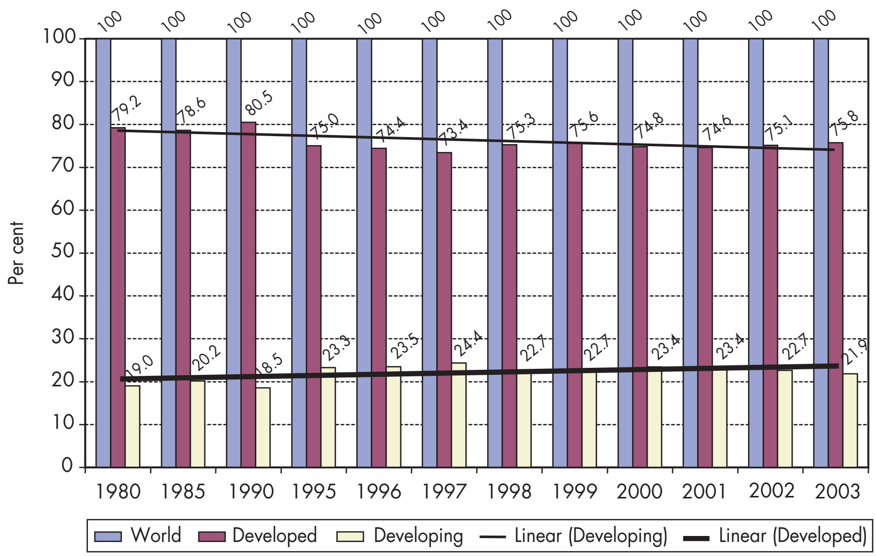
Table 1. Top 20 exporters of commercial services, 2000

(Unit: US$ million)

Rank	Country	Total services	Transport	Travel	Other services
1	United States	296 347	50 490	97 944	147 913
2	United Kingdom	119 542	19 058	21 769	78 715
3	Germany	83 095	19 955	18 555	44 586
4	France	80 917	18 546	30 981	31 390
5	Japan	69 238	25 599	3 373	40 267
6	Italy	56 556	9 291	27 493	19 772
7	Spain	53 540	7 843	30 979	14 718
8	Belgium-Luxembourg	49 789	10 665	7 447	31 676
9	Netherlands	49 318	16 786	7 197	25 335
10	Canada	40 230	7 539	10 778	21 912
11	Hong Kong, China	38 736	12 772	5 906	20 057
12	Austria	31 342	4 354	9 998	16 990
13	Korea, Republic of	30 534	13 687	6 834	10 012
14	China	30 431	3 671	16 231	10 529
15	Singapore	29 099	11 879	5 202	12 017
16	Switzerland	28 881	4 538	7 777	16 566
17	Denmark	24 107	14 232	4 058	5 817
18	Turkey	20 429	2 955	7 636	9 838
19	Luxembourg	20 301	1 331	1 686	17 283
20	Sweden	20 252	4 359	4 064	11 829

Source: United Nations Conference on Trade and Development.

Figure II. Share of developing countries in world trade in services, 1980-2003



Source: United Nations Conference on Trade and Development.

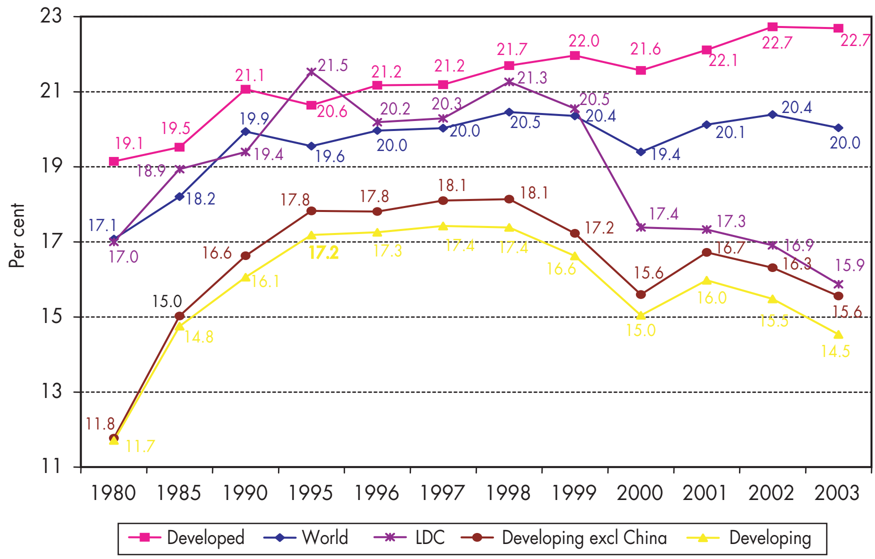
Table 2. Top 20 importers of commercial services, 2000

(Unit: US$ million)

Rank	Country	Total services	Transport	Travel	Other services
1	United States	224 908	65 699	67 043	92 166
2	Germany	137 253	25 541	52 824	58 889
3	Japan	116 864	35 096	31 884	49 883
4	United Kingdom	99 134	24 132	38 262	36 740
5	France	61 044	17 979	17 906	25 159
6	Italy	55 601	13 140	15 685	26 776
7	Netherlands	51 337	12 886	12 191	26 260
8	Canada	44 118	9 373	12 438	22 308
9	Belgium-Luxembourg	41 868	8 386	10 182	23 300
10	China	36 031	10 396	13 114	12 521
11	Korea, Republic of	33 381	11 048	7 132	15 201
12	Spain	31 283	8 172	5 476	17 636
13	Ireland	31 272	2 627	2 525	26 121
14	Austria	29 653	2 995	8 463	18 195
15	Singapore	26 938	12 478	4 547	9 913
16	Taiwan Province of China	26 647	6 247	8 107	12 293
17	Saudi Arabia	25 262	2 247	–	23 015
18	Hong Kong, China	24 584	6 241	12 502	5 841
19	Sweden	23 440	3 640	8 048	11 752
20	Denmark	21 488	11 021	5 101	5 366

Source: United Nations Conference on Trade and Development.

Figure III. Share of developing countries in world trade in services, 1980-2003



Source: United Nations Conference on Trade and Development.

B. Trade and development

A positive link between trade liberalization and economic growth has been established in trade literature. Statistical work finds a positive relationship between income per capita and the ratio of trade to the GDP,[3] yet the trade share itself may be endogenous and the direction of causality may not be in one direction.[4] Adding measures of countries' trade openness also does not rectify the problem, for countries with more liberal trade policies may also have free-market domestic policies as well as stable fiscal and monetary policies in place, which in turn would explain their higher level of income.[5] A gravity model of trade demonstrates that geographic location is one of the determinants of volumes of bilateral trade.[6] Nevertheless, the generally accepted wisdom is that a quantitatively large and robust positive effect exists between trade and income.[7]

Growth in trade through trade liberalization has been found to induce a significant increase in productivity.[8] Pressure on domestic industries by competing imports stimulates technological innovations and increased productivity. The significant contribution of trade openness to productivity gains and its impact on the risk premium attached to the country is another effect to be taken into account.[9] The major gains to the developing countries from trade liberalization accrue, according to Dornbusch (1992), through the following channels:

(a) Improved allocative efficiency;

(b) Access to superior technology and intermediate inputs;

(c) A greater variety of goods;

(d) Advantages of economies of scale and scope;

(e) Increased domestic competition; and

(f) The creation of growth externalities through knowledge transfers.

Studies of the benefits of reform generally show large, but varying, values. The Organisation for Economic Co-operation and Development (OECD) has estimated that welfare benefits of full implementation of Uruguay Round commitments will exceed US$ 200 billion. According to the Global Trade Analysis Project model,[10] cutting the level of protection in agriculture, manufacturing and services in half would deliver an

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3 D. Rodrik, 1995b.

4 E. Helpman, 1988 and D. Rodrik, 1995a.

5 X. Sala-I-Martin, 1991.

6 H. Linnemann, 1966 and J.-A. Frankel, 1997.

7 J.-A. Frankel and D. Romer, 1999.

8 Ibid.

9 A. Stoeckel, K. Tang and W. McKibbin, 1999.

10 T.W. Hertel (ed.), 1997.

annual gain to the world economy of more than US$ 400 billion. Full elimination of all barriers would produce an annual gain to the global economy of US$ 750 billion.[11] Modelling work by the Australian Productivity Commission found that the net benefit to the world as whole from elimination of all post-Uruguay Round barriers to trade in goods and services would be in excess of US$ 260 billion, with half of this gain (US$ 130 billion) resulting from removal of impediments to trade in services.[12]

Trade-related reforms alone may not produce significant benefits without institutional capacity, including enforceable property rights, commercial codes and bankruptcy rules as well as sound corporate and public governance. Nevertheless, trade reforms and economic liberalization may help create a demand for the development of such institutions. These institutional questions are of special importance in services. Winters (2004) summarizes empirical evidence on the relationship between trade liberalization and growth, and concludes that in general, liberalization induces at least transitory but possibly also a longer-term increase in growth. A large component of this effect is caused by increased productivity, but other factors such as regulatory institutions, property rights and investment regimes, transparency and anti-corruption measures, and human capital development play an important role. Santos-Paulino (2005) surveys the literature on trade liberalization and economic performance in developing countries.

Availability of cheaper intermediate service inputs through the inter-industry input-output relations and the total factor productivity (TFP) growth through import-embodied technology transfer produce welfare gains to developing countries in the modelling analysis by Robinson and others (2002) using computable general equilibrium (CGE) with transport (international shipping) costs. Konan and Maskus (2004) found large gains from services trade liberalization using the CGE model of Tunisia's economy, with benefits accruing more evenly across factors than in the goods liberalization scenario, and with smaller adjustment costs. Modelling results for Egypt demonstrate that liberalization of services trade through foreign investment (commercial presence) was responsible for the largest share in estimated welfare gains (Konan and Kim (2004). Romer (1994) pointed out that trade restrictions resulted in the reduced supply of intermediate goods to an economy with an infra-marginal effect on productivity. The argument can be extended to services such as those provided in the infrastructure, communications and financial sectors.

Dollar and Kraay (2004) found that globalizing developing countries that implemented trade liberalization reform by reducing tariff barriers in the 1980s were enjoying higher per capital growth rates decades later, and were catching up with the developed economies. Developing countries that failed to open up to trade were lagging behind. Absolute poverty levels in the globalizing countries have also reduced, supporting the evidence for the pro-poor economic growth through trade liberalization.

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[11] *Global Trade Reform: Maintaining Momentum,* 1999, Department of Foreign Affairs and Trade, Canberra, Commonwealth of Australia.

[12] P. Dee and K. Hanslow, 2000.

The Australian Productivity Commission (using the multi-region FTAP model that includes foreign investment) found that completely liberalising trade in telecommunications and financial services would increase world real GNP by 0.2 per cent. The global gains from removing barriers to trade in these sectors come from three sources: (a) improvements in the allocation of resources; (b) increased returns to the world stock of capital; and (c) increased product variety. In essence, imposing a barrier to trade of any kind distorts primary factor markets, generating a "rent" (a mark up of price over opportunity cost) to the incumbent and a "tax" on local capital users. Liberalizing trade in financial services is estimated to increase world GNP by 0.1 per cent, with an additional 0.1 per cent GNP gain stemming from the liberalization of telecommunications (Verikios and Zhang, 2003 and 2004).

Whalley (2004) provides a critical review of the current body of literature on quantifying welfare effects of the services trade liberalization, including the problems associated with constructing measures of trade restrictiveness and modelling methodology. He concluded that liberalization of foreign establishment as well as the movement of people was of the greatest importance to developing countries. Whalley noted that "if service trade liberalization is a surrogate for improved functioning of global factor markers in which more capital flows to developing countries and more labour flows from them, developing countries could benefit in a major way".

Nielson and Taglioni (2004) reviewed the major studies of the effect of barriers to trade and investment in services. They pointed out the differences between types of barriers to trade, which could be rent creating and/or cost creating. Some impediments to trade and investment have the effect of limiting competition and raising prices, thereby adding to the profits of incumbent producers. Liberalizing these measures may create efficiency gains but will also lead to relatively large transfers between producers and consumers. Other impediments have the effect of adding to costs, and liberalizing those measures can provide gains to both incumbent producers and downstream consumers. Welfare gains from this reform will also be significant. These distinctions suggest the political economy of managing reform will differ between types of impediments.

A number of studies have attempted to assess the extent and impact of impediments between economies and across sectors. In their review of these studies, Nielson and Taglioni concluded that:

(a) On average, developing countries had more restrictive barriers than developed economies;

(b) Those economies were expected to gain more from liberalization; and

(c) The estimates were that gains from services liberalization were of the order of five times those of the gains from goods liberalization.

There is, however, considerable variation in the estimates of these gains, reflecting the methodology used to estimate the scale of the impediments and the nature of their effects (rent versus cost creating). The gains from reform are even greater when capital mobility and options for foreign direct investment are made explicit, and when the likely imperfectly competitive nature of services markets is recognized. Further comment is offered below on studies that focus on Mode 4 delivery.

The key point, however, from this review of studies is that "for most countries, including many developing countries, export-related gains from services liberalization are neither the only nor the largest basis of expected gains. A large portion of benefits from services liberalization derive, not from seeking better market access abroad, but from the increased competitiveness and efficiency of the domestic market" (Nielson and Taglioni, 2004). Thus, the greater gains are available not from removal of barriers to exports or establishment in foreign markets, but from domestic reform in ways that do not simply remove impediments to foreign entry but which remove impediments to entry by all firms (foreign or domestic) and which create more competitive markets.

C. Sectoral case studies

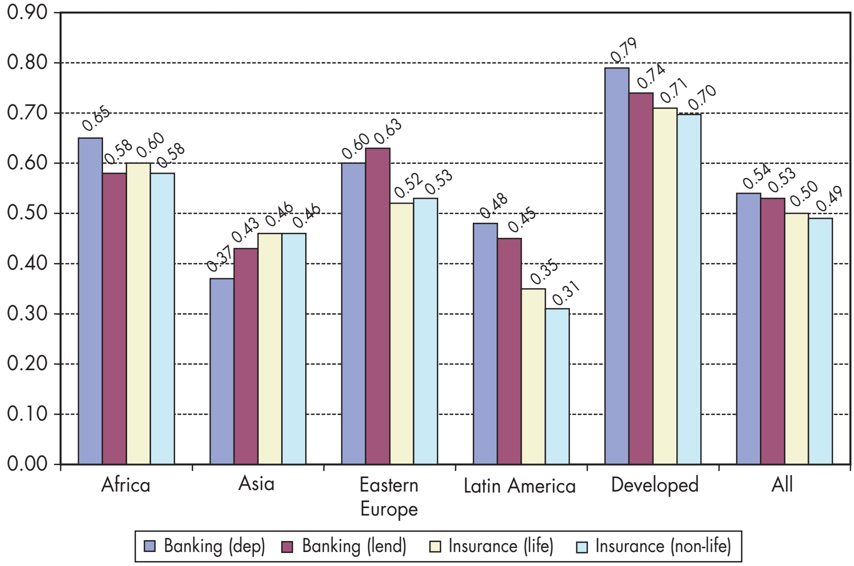
The following sections report on case studies of the effects of restrictions in banking, telecommunications and health services, and examine some of the key issues involved in the liberalization of restrictions on the movement of people.

1. Banking and financial services

Financial contracts are crucial in facilitating the settlement of trade and distributing resources efficiently across time and regions. Risk management and liquidity are very important to the smooth functioning of financial markets. The ability to access, process and use financial information more efficiently benefits providers of financial services, allowing them to respond faster and to expand the range of products and services they can offer. Allowing market access to foreign service providers creates extra competition in the market and leads to technology transfer.

Mattoo (1999) examined patterns of market access commitments in financial services (banking and direct insurance) made under General Agreement on Trade in Services (GATS) negotiations (the Financial services Agreement, FSA 1997 package of commitments). Developing economies of Asia and Latin America appeared to be lagging behind in liberalization of their financial sector compared to the Eastern European and African participants. The degree of financial sector protection in developing countries exceeds that in the developed countries as demonstrated in figure IV. Murinde and Ryan (2003) provide further discussion of the African banking sector performance in view of the potential entry of foreign service providers due to the market liberalization commitments made under GATS. Analysing the pattern of commitments in banking services, Harms and others (2003) found that agricultural and textile exporters scheduled fewer market access measures in banking services, raising the question of whether services negotiations were being used as a bargaining chip by developing countries with strong export interests in the protected markets of developed members.

Figure IV. Financial services liberalization indices based on GATS FSA 1997 commitments



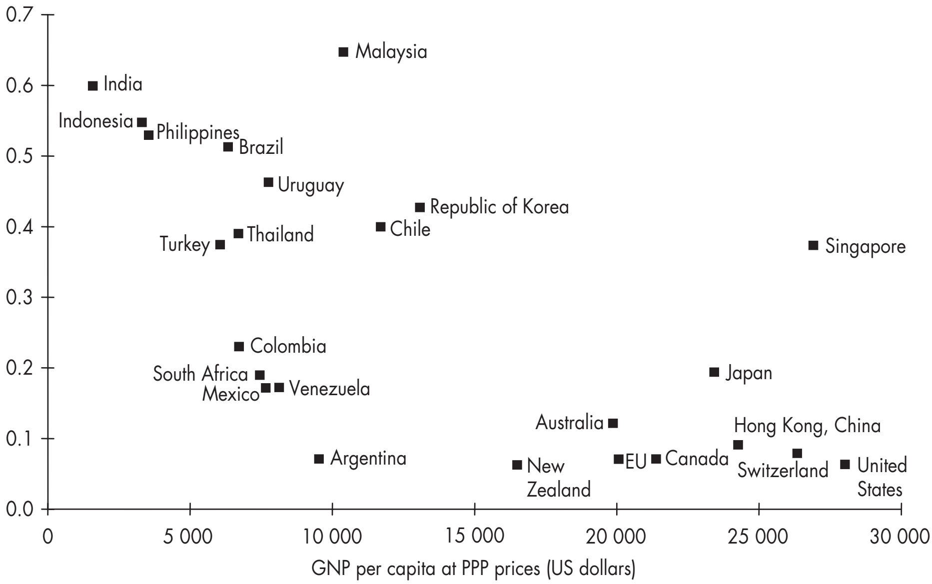
Source: A. Mattoo, 1999.

Dee (2005) reported an index of restrictions to foreign entry into banking; the index provides a measure of discrimination against foreign entrants embedded in the non-prudential domestic regulations and rules. Economies with more liberal market access provisions for foreign service providers are statistically associated with higher GNP per capita (figure V).[13]

Trade liberalization measures including market access commitments have to be coordinated with the state of development of domestic regulatory framework, with sequencing of reform and liberalization measures becoming an important issue. An empirical study by Fink and others (2003), encompassing 86 geographically dispersed developing countries, found that the gains from the simultaneous privatization and introduction of competition regulation in the telecommunications market were higher than those resulting from privatization followed by competition policy reform. Effective competition policies implemented in domestic markets are essential to ensure that liberalization of market access does not result in foreign service providers capturing monopoly rents and impeding entry of other players.

[13] The index was based on policy information up to 31 December 1997; hence, most of the recent unilateral liberalization activities in the financial sector are not reflected in the calculations.

Figure V. Banking foreign restrictiveness indices and GNP per capita at PPP prices, 1996



Source: P. Dee and D. Nguyen-Hong, 2003, based on G. McGuire and M. Schuele, 2000.

Restrictive public policy measures are not the only impediments to international trade in services. Private business practices in the markets exempt from application of the national competition laws (such as maritime transport conferences) result in higher prices to the consumer. Fink and others (2002b) demonstrated that restrictive business practices had a stronger effect on international shipping prices than public policies, and they proposed a set of measures to bring maritime shipping cartels under the umbrella of domestic competition law and strengthen multilateral disciplines using GATS Article IX.

2. Telecommunications and transport

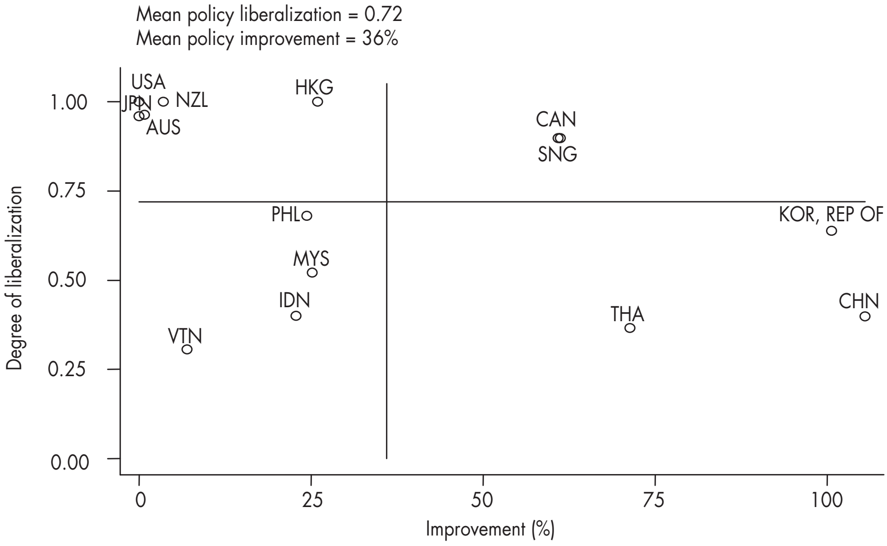
Infrastructure services such as telecommunications and financial services are intermediate inputs into production of all other goods and services. Availability of cheap and efficient financial and telecommunications services has also been demonstrated to facilitate international trade.

Fink and others (2002a) estimated a gravity model that included telecommunications costs. They found that international variations in communications costs influenced bilateral trade flows, with the larger impact on differentiated products whose production used telecommunications services more intensively than the production of homogeneous products. Fink and others (2001) analysed the state of telecommunications reform in

Asia and found evidence of a slow unilateral liberalization process since the adoption of the reference paper on basic telecommunications. Their econometric analysis confirmed that telecommunications reform (including privatization, competition and regulation) yielded higher market outcomes such as fixed lines penetration, service quality and labour productivity. The authors surmised that to stimulate further liberalization of the sector in the region, there would have to be other members with significant interest in telecommunications, willing to make concessions in other sectors of export interest to the developing countries such as agriculture, textiles and movement of individual service providers.

Findlay and others (2005) examined actual policy scores in the telecommunications sector for Asia-Pacific Economic Cooperation economies and found that actual policies have improved over 1998-2002 in a number of East Asian countries, including China, the Republic of Korea, Singapore and Thailand. Even so, a significant number of Association of South East Asian Nations (ASEAN) economies (those in the lower left quadrant of figure VI) show a less than average degree of openness of their telecommunications market, and have made only limited unilateral progress between 1998 and 2002.

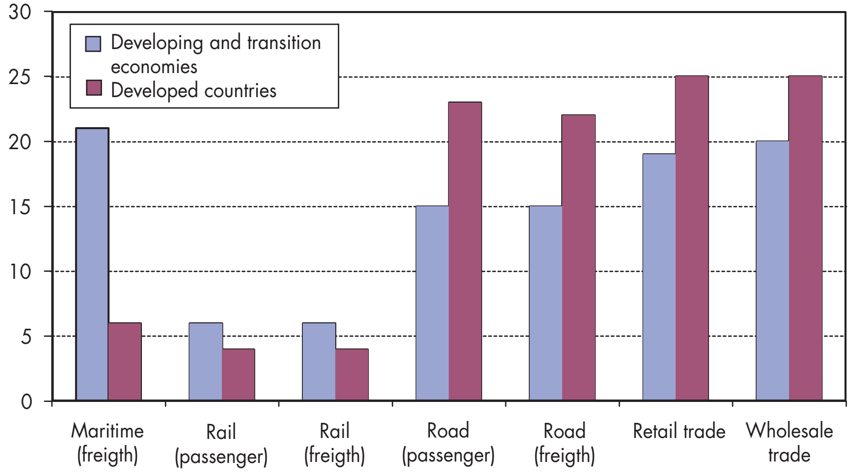
Figure VI. Telecommunications policy liberalization and the rate of liberalization, 1998-2002



Source: Findlay and others, 2005.

Benefits of trade openness in sectors such as transport and distribution were analysed by Robinson and others (2002) using a CGE model with transport costs (international shipping), Fink and others (2002b) and Findlay and Fink (2005). Figure VII demonstrates that developing countries are lagging behind in making market access commitments in transport and distribution sectors, with the significant exception of maritime transport.

Figure VII. Number of World Trade Organization members scheduling transport and distribution services



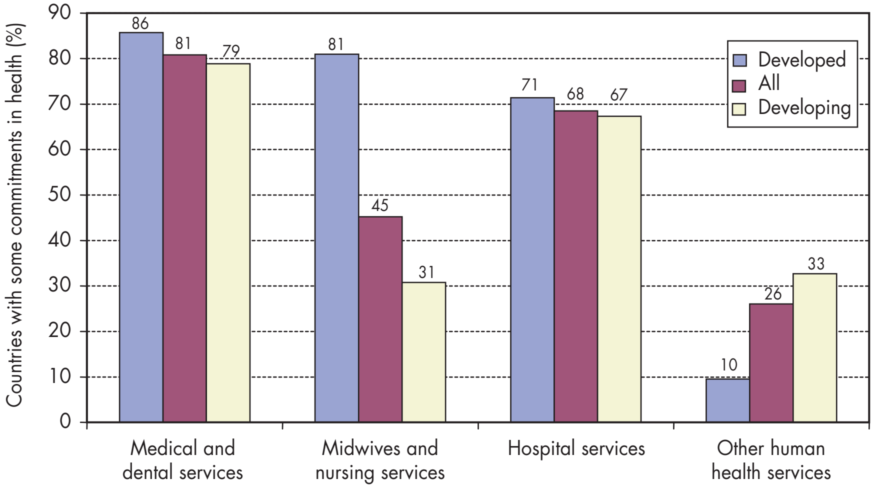
Source: C. Findlay and C. Fink, 2005.

3. Health services

Developing countries have recognized their cost advantage in providing health-care services to the ageing population of the developed countries. ASEAN member economies have included health care as one of the priority sectors for advanced integration. Competitive cost structures, the availability of skilled medical workforce, technological advancement along with the natural endowments, geographical position and cultural links all create a comparative advantage for several ASEAN economies to export health services.

The costs and benefits of liberalization of trade in health services are outlined in Sidorenko and Findlay (2003) and Sidorenko (2003). Notwithstanding the high level of protection of the health-care sector in most of the developed countries and the high share of publicly provided services in the total mix, developing countries have scheduled even fewer liberalizing commitments in several health-care related sectors, especially in those granting market access to foreign medical professionals and nurses (figure VIII). However, where some commitments are made, their depth is limited.

Figure VIII. Market access commitments in health services



Source: A. Sidorenko, 2003.

4. Movement of natural persons (Mode 4)

International mobility of workers has increased dramatically during recent decades, including both unskilled and skilled workers. A large share of this flow represents unregulated (illegal) migration between neighbouring countries, but there is also a growing mobility of professional skilled labour (OECD, 2001, 2002a, 2002b and 2003). Demographic shifts and the ageing of populations in developed countries have created domestic labour market imbalances and an increased demand for foreign labour.

There are potentially large benefits to both sending and receiving countries resulting from the increased mobility of workers. Gains to sending countries include remittances. Receiving countries benefit from satisfaction of the otherwise unfilled demand for certain skills.

Within East Asia, there has been a significant increase in cross-border flows of labour during the past two decades. Demand for skilled labour has also increased in countries such as Japan, the Republic of Korea, Malaysia, Singapore and Taiwan Province of China as they have advanced in the development of knowledge-based economies. It has been estimated that temporary skilled migrants accounted for up to a quarter of all higher level workers in Singapore, and around 5-10 per cent in Malaysia and Thailand in recent years (Manning and Bhatnagar (2004)). Regional opportunities to further facilitate mobility of professional services providers in ASEAN are further examined in Manning and Sidorenko (2005). The economic importance of international mobility of labour for ASEAN countries is illustrated by the growing share of workers' remittances in GDP of the labour-exporting members such as the Philippines and Cambodia (table 1). At the same time, countries such as the Philippines and India are taking advantage of their skilled English-speaking workforce endowment and exporting the "IT-enabled services" including computer-related services and business process outsourcing such as call centres, medical prescription services, payment systems and financial processing etc. (Mattoo and Wunsch-Vincent, 2004).

Table 3. Workers' remittances as percentage of GDP, selected ASEAN countries, 1995-2001

Country	Workers' remittances (% of gross domestic product)						
	1995	1996	1997	1998	1999	2000	2001
Cambodia	0.35	0.34	0.35	2.38	2.49	3.05	3.31
Indonesia	0.32	0.35	0.34	1.01	0.79	0.79	0.74
Lao People's Democratic Republic	1.24	2.42	2.34	3.89	0.04	0.04	0.04
Malaysia	0.13	0.16	0.19	0.26	0.41	0.38	0.42
Myanmar	0.36	0.51	0.57	0.50	0.38	0.25	0.23
Philippines	7.23	5.88	8.26	7.87	9.08	8.18	8.56
Thailand	1.01	0.99	1.10	1.27	1.19	1.38	1.09

Source: United Nations Conference on Trade and Development, June 2005.

Winters and others, (2003) estimated that an increase in the inflow of temporary skilled and unskilled foreign workers from developing countries (equal to 3 per cent of the developed countries' total workforce) would generate an additional US$ 156 billion per annum in world welfare (equivalent to 0.6 per cent of the world GNP). The gains would be shared between developed and developing countries, with most of the gains attributed to the liberalization of restrictions on unskilled rather than skilled labour.

The contribution of skilled professional migration and overseas graduate students to the knowledge economy of the United States has been evaluated in Chellaraj and others (2005). The authors found a strong positive impact of the number of foreign graduate students and skilled migrants on the number of patent applications, patents awarded to United States' universities and non-university entities. Amin and Mattoo (2005) in a game-theoretical model found that Pareto improvement can be realized not through increased liberal commitments by a host country to allow temporary entry, but rather to enable host countries to commit to repatriation. If the source country undertakes obligations such as pre-movement screening of temporary migrants, facilitation of their return and commitments to combat illegal migration, the joint outcome may correct the current problem of too little temporary and too much permanent migration.

Major impediments to movement of natural persons are lack of transparency in entry requirements an procedures, complicated visa application process, lack of recognition of previous training, qualifications and degrees, and labour market (economic needs) tests (Chanda, 2001).

Chaudhuri and others (2004) assessed the current state of GATS commitments on Mode 4 and proposed a framework for negotiating further liberalization of movement of natural persons. Concerns such as cultural identity, the drain on public resources and problems of assimilation are not nearly as relevant to the increased mobility of professionals as they are to unskilled foreign labour. What really worries policy makers, preventing them from making any binding commitments under Mode 4, are issues of national security and difficulties to enforce temporariness. If temporary workforce shortages filled by recruiting foreign labour correct themselves and the temporary entrants change their status to permanent in interim, a new labour market imbalance is created, with longer-term costs such as the need to retrain those temporarily unemployed. Chaudhuri and others (2004) proposed a model schedule on Mode 4 commitments based on broad horizontal commitments and supplemented by deeper sectoral commitments wherever possible. The schedule is supplemented by a Reference Paper that formulates measures to improve transparency in temporary entry requirements and procedures, and minimum disciplines for domestic regulation under Article VI:4 (qualification requirements and procedures, technical standards and licensing requirements). The proposal seeks the extension of current GATS commitments on Mode 4 to beyond the categories linked to commercial presence (such as intra-company transferees, managers and specialists) and the inclusion of individual service providers/contractual service suppliers.

D. Services in regional agreements

Liberalization of trade in services may advance in a unilateral, plurilateral or multilateral way. The major argument against a preferential trade agreement (PTA) as opposed to multilateral liberalization is its trade creation versus trade diversion effects. The relative welfare effects of the preferential trade arrangement depend on the relative magnitude of these effects. Apart from the trade creation and trade diversion phenomena, as a rule there is also some redistribution of the revenue within the newly created preferential trade area, with its winners and losers. The aggregate effect of the PTA on the total welfare thus is ambiguous, depending on the particular conditions.[14] To yield unambiguous welfare gains, a PTA must involve those sectors in which the partner economy is the sole source of imports. In such a situation, there will be no trade diversion effect and no associated welfare losses. Even if this is the case, multilateral liberalization will always provide even larger gains. The mercantilist rationale used to justify regional and multilateral bargaining over reduction of tariffs and non-tariff barriers in goods trade does not extend immediately to services trade, as pointed out in Dee and Sidorenko (2005). Several levels of product differentiation (by economy, firm and even individual consumer) are inherent in services. This high differentiation of

[14] See A. Panagariya, 2000, for an excellent discussion of the theory of preferential trade liberalisation and its welfare implications.

services along with the regulatory nature of barriers to their international tradability weakens the case for preferential liberalization and favours non-preferential and unilateral measures.

The potential liberalizing effect of the regional trade arrangement depends on the breadth of coverage and on the structure of the agreement. This is especially the case for services liberalization. A gap will often be found between the actual levels of policy openness/restrictions, and the level that is legally bound in the agreement. The legal structure of the agreement itself may be more or less liberalizing, depending on whether a negative or a positive list approach is used. The schedules of country-specific commitments in the ASEAN Free Trade Area follow GATS and are built upon the positive list approach. The schedule of commitments in the North American Free Trade Agreement and Australia-New Zealand Closer Economic Relations Trade Agreement (ANZCERTA), to the contrary, is constructed by the negative list approach, which is usually preferred on liberalization grounds. However, there are a number of difficulties associated with compiling negative lists and a permanent exclusion of sensitive sectors.[15]

Most of the modelling studies confirm that the benefits of multilateral liberalization exceed those resulting from regional liberalization. The benefits are very significant: for example, the FTAP model used by the Australian Productivity Commission demonstrated that the net benefit to the world as whole from elimination of all post-Uruguay Round trade barriers would be in excess of US$ 260 billion. Half of this gain (US$ 130 billion) comes from liberalization of services trade. Liberalization of agriculture contributes US$ 50 billion in benefits, with the remaining gain of US$ 80 billion attributed to manufactured goods.[16]

Dee and Gali (2003) made an ex-post evaluation of 18 recent PTAs (traditional and New Age) on merchandise trade and investment. They found evidence of trade diversion exceeding trade creation in all but six cases. The non- (goods) trade provisions of PTAs (in particular, those related to investment and services) were estimated to produce a more positive effect. The authors concluded that real progress might be achieved if regional negotiations were used to advance negotiations on investment, services, competition policy and government procurement, and the outcomes extended on a non-preferential basis. Stephenson (2002) examines recent regional agreements in services involving developing countries (including the ASEAN Framework Agreement on Services [AFAS], MERCOSUR, North American Free Trade Agreement and the Caribbean Community) and finds that such agreements may yield significantly higher degrees of market openness for member service providers. The challenge is to translate these achievements into progress in the multilateral setting as well.

Some regional forums have undertaken their own steps in advancing Mode 4 liberalization. AFAS, which was signed in December 1995, was conceived

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[15] P. Sauvé, 2000.

[16] P. Dee and K. Hanslow, 2000.

as a GATS-plus agreement. The ultimate objective is to achieve the free flow of services between the ASEAN member economies before 2020. By June 2005, four ASEAN packages of commitments on the liberalization of services trade were concluded, resulting from three rounds of negotiations under AFAS. Assessing achievements in the liberalization of Mode 4, Manning and Sidorenko (2005) found that those were mostly at the level of GATS, and the development of meaningful liberalizing measures had been slow. Among the priority sectors for advanced liberalization are "e-ASEAN" and health-care services.[17] The Roadmap for Integration of the e-ASEAN Sector schedule (Article XIV) and the Roadmap for Integration of Healthcare Services (Article XIX) both envisage facilitation of professional mobility in these sectors.

E. Current state of negotiations

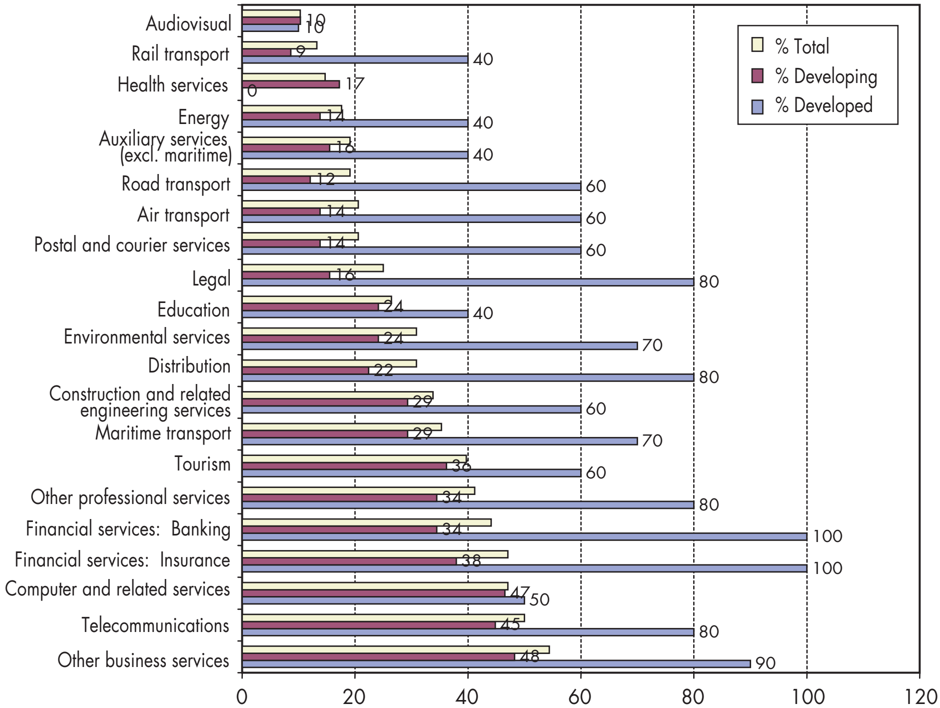
Recommendations to developing countries on the most beneficial way to advance GATS negotiations formulated in Mattoo (2000) remain relevant. They include eliminating restrictions to market access through improved Article XVI commitments, liberalization of Mode 4, developing pro-competitive principles for network sectors following the telecommunications Reference Paper, development of disciplines for domestic regulation and other rule-making objectives (safeguards, government procurement and subsidies).

With the mandate to enter the negotiations no later than 1 January 2000, most of the WTO members failed to meet the initial agreed deadline of 30 March 2003 to submit their services offers. By February 2005, only 47 offers had been received, 37 by developing countries, representing 71 members (the European Union offer counted as representing 25 member States). A new deadline of 31 May 2005 was proposed for submission of improved services offers. Based on the report by the chairman to the Trade Negotiations Committee of WTO (2005), the total number of initial offers by 1 July 2005 was 68, representing 92 members. Some 24 developing country offers remained outstanding, and if the LDCs (31) are added, there are 55 initial services offers still outstanding in this round of negotiations. Two ASEAN LDC members (Cambodia and Myanmar) failed to submit an initial offer.

The chairman of the Trade Negotiations Committee expressed his disappointment with the quality of the submitted offers, as the majority failed to provide any significant improvement. The average number of commitments as currently offered would improve from 51 to 57. Less than half have scheduled commitments in distribution, postal and courier services, or road transport, or have improved horizontal commitments under Mode 4. Sectoral analysis of the initial offers is represented in figure IX. Overall, there is a much smaller liberalization offered by developing countries in all sectors but health services (included 17 per cent of all developing countries' offers), and an equal reticence in making market-opening commitments in audiovisual services (only 10 per cent of both developed and developing members offered any commitments in this

[17] ASEAN Framework Agreement for the Integration of Priority Sectors, Vientiane, 29 November 2004.

Figure IX. GATS offers by sector as of July 2005



Source: World Trade Organization, 2005.

area). Sectors in which commitments show the most liberalizing activity include financial services, computer and related services, telecommunications and other business services.

The common assessment of the offers to date is that they offer little more than "standstill commitments" and, in the case of some developing countries including those in ASEAN, are not even committing those countries to policies that are already in place. This situation has prompted discussion of how more meaningful offers can be prompted from WTO members and, more specifically, how "meaningful" might be measured. The extent of sectoral coverage (either the absolute number of sectors or the percentage of heretofore-uncommitted sectors) of the offers made (even with reservations) is one indicator that is under discussion.[18] Some members have proposed

[18] In a speech before the Coalition of Service Industries, St Regis Hotel, Washington on 20 September 2005, United States Trade Representative Portman said that the United States would seek "high quality commitments from key developing countries" in financial services, telecommunications, computer-related services, express delivery, distribution and energy services. He mentioned "unrestricted direct investment and unlimited supply of cross border services" were listed as elements of the "quality" of commitments.

that scores be applied to commitments.[19] Others have suggested the benchmarking approach would facilitate linkages with other negotiations, particularly in agriculture.

These proposals also include suggestions to add plurilateral agreements to the multilateral approach. The proposals suggest that groups of interested members would make commitments to particular sectors as soon as the membership of the group accounted for an agreed proportion of world trade in services in those services. Developing countries have reported their opposition to this approach. Some developing countries have also opposed the overall benchmarking strategy with its focus on a common level of ambition, on the grounds that GATS was designed to provide members, especially developing countries, with flexibility.

The treatment of Mode 4 varies among these proposals. The European Union has linked its commitments on Mode 4 to commitments by others on rights of establishment (Mode 3). It has also suggested that its Mode 4 commitments would only apply to sectors covered by the benchmark approach. On the other hand, Taiwan Province of China has called for Mode 4 commitments to be "de-linked" from Mode 3.

F. Next steps

Research shows that the significant gains for developing countries are associated with domestic reform of the impediments to competition that affect both foreign and domestic suppliers. Reforms of this type create larger gains than those that remove impediments to foreign entry. Even in those cases, larger gains are available from commitments that are made multilaterally. Following the conclusion of Dee (2005), while there may be a few areas where PTAs can supplement a domestic regulatory reform programme, because they tend to be preferential, they also divert the efforts of reform away from the areas where the large gains are available.

In this context, what is the value of commitments in the WTO process? The earlier assessments were that the Uruguay Round commitments as well as current offers amounted to little more than standstill commitments. Disappointment with the WTO process continues to be reported. Nevertheless, it has much to offer a domestic reform process. Findlay and Fink (2005), drawing on Mattoo (2002), suggested the following:

> "First…an international agreement may provide an opportunity for domestic service providers to secure access to export markets (and the) market access opportunities that trading partners might provide as part of a package of commitments may be sufficient to shift the balance in the domestic policymaking process to support reform at home.

[19] More details of these proposals and the plurilateral agreements are reported in *Bridges Weekly Trade News Digest* 9 (31), 21 September 2005. Proponents of the benchmarking approach include Australia, the European Union, the Republic of Korea, New Zealand, Switzerland and Taiwan Province of China.

> Second, a trade commitment can add to the credibility of the policy change…A trade agreement has the potential to add value, as commitments are binding under international law – including those to be applied at a future date. If the policy change is not made, trading partners have recourse to dispute settlement and may impose trade sanctions.
>
> Third, trade agreements may offer a forum for regulatory cooperation. Such cooperation can…underpin market-opening commitments by assuring traders and investors that liberal market access will not be impaired by the imposition of regulatory barriers, (establish) regulatory principles that governments promise to fulfill,…aid the harmonization of regulatory standards and promote recognition of foreign regulations in order to open markets to international competition."

To this list could be added the contribution of commitments to the transparency of policymaking processes. Commitments also oblige members to apply the GATS principles of domestic regulation in the relevant sectors.

Developing countries have export market interests in services, which add to the contribution of these negotiations, but their main value is through their support for domestic reform. Success in that respect therefore requires the statement of a development plan, which includes an assessment of the priority areas for domestic reform (that is, an assessment of sectors in which restrictions on entry are relatively high and whose removal would create significant welfare gains), and the derivation of negotiating positions from that development plan.

Given these contributions of international commitments, Findlay and Fink (2005) identified contributors to progress in the negotiations. This includes further work to identify gains from exchange of commitments either within sectors (perhaps across modes) or across sectors. They also stressed the value of putting reform programmes together with capacity building. On the latter, they suggested that:

> "Developing countries, for example, may be cautious to commit to greater market opening in transport and distribution, fearing their regulatory systems are ill prepared for the additional complexities of international competition. …Commitments by developed countries to technical assistance and international enforcement of competition law could be explicitly linked to developing countries' market opening commitments."

To this list might be added the production of model schedules of commitments (freight logistics is an example of a sector where a group of WTO members have developed a model for others to follow). There is also the scope for all WTO members to at least bind current policy, which will add to the transparency of their policies and provide reassurance to trading partners, including those considering establishment as the best mode of supply.

Findlay and Fink observed that implementation of these steps would require careful preparation and coordination among different ministries (a feature of service sector impediments is the number of agencies involved in the administration of the various elements) and with the private sector (see OECD 2002b). It would therefore be valuable, they suggested, to establish procedures and institutional arrangements for consultation within government and with a range of private sector interests. The latter should include not just import competing firms but also those with export interests and those who are significant consumers of services.

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VI. TRADE FACILITATION: ISSUES AND NEGOTIATIONS

*By Donald J. Lewis**

Introduction

Trade facilitation recently moved to the top of the multilateral negotiations agenda at the World Trade Organization (WTO). As the only Singapore issue to survive the fifth WTO Ministerial Conference in Cancun, trade facilitation has attracted increasing interest and attention at the multilateral level as current WTO negotiations have intensified with the approach of the sixth Ministerial Conference in Hong Kong, China in December 2005. This paper aims to inform and deepen understanding among Asia-Pacific policy-makers concerning the current WTO trade facilitation negotiations and the implications that such negotiations will have for Asia-Pacific governments, domestic stakeholders and regional organizations such as ESCAP.

This paper addresses four principal areas:

(a) Assessment of the progress and status of the current WTO negotiations on trade facilitation, with primary emphasis on Articles V, VIII and X of the General Agreement on Tariffs and Trade (GATT) 1994;

(b) Major concerns arising from the multilateral negotiations among Asia-Pacific countries, particularly developing countries;

(c) The implications of delivery (or non-delivery) of trade facilitation liberalization on business and economic development in Asia and the Pacific; and

(d) Trade facilitation preparations by Asia-Pacific governments for the Hong Kong Ministerial Conference and beyond, including opportunities for regional collaboration and the pivotal role of ESCAP technical assistance.

A. Assessment of the progress and status of the current World Trade Organization multilateral negotiations on trade facilitation

WTO members agreed to launch negotiations on trade facilitation pursuant to a General Council decision adopted on 1 August 2004 (the so-called "July Package"). The agreed-upon modalities for WTO negotiations on trade facilitation are set forth in Annex D of that General Council decision.[1]

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1 See annex I for the full text of Annex D of the "July Package".

In Annex D of the "July Package", WTO members agreed that trade facilitation negotiations "shall aim to clarify and improve relevant aspects of Articles V, VIII and X of GATT 1994[2] with a view to further expediting the movement, release and clearance of goods, including goods in transit". According to Annex D, the WTO negotiations are also aimed at "enhancing technical assistance and support for capacity-building in this area," and at developing "provisions for effective cooperation between customs or any other appropriate authorities on trade facilitation and customs compliance issues". The results of such negotiations "shall take fully into account the principle of special and differential treatment for developing and least-developed countries". In addition, it was agreed that such "members would not be obliged to undertake investments in infrastructure projects beyond their means".

In October 2004, pursuant to Annex D of the "July Package", the WTO Trade Negotiations Committee (TNC) established the Negotiating Group on Trade Facilitation (NGTF). Since its inception in 2004, NGTF has adopted a work plan and an agenda for negotiations on trade facilitation. It has also held a number of meetings at which proposals submitted by WTO members have been discussed.

The NGTF agenda is:

(a) Clarification and improvement of relevant aspects of Articles V, VIII and X of GATT 1994, enhancement of technical assistance and support for capacity-building, and effective cooperation between customs or any other appropriate authorities on trade facilitation and customs compliance issues;

(b) Special and differential treatment for developing and least-developed countries (LDCs);

(c) Identification of trade facilitation needs and priorities, and addressing concerns related to the cost implications of proposed WTO measures; and

(d) Working collaboratively with relevant international organizations on trade facilitation issues.[3]

Three core aims or objectives form the basis of the current NGTF negotiations. They are derived from the Annex D (paragraph 1) modalities. These three aims or objectives are:

(a) The clarification and improvement of relevant aspects of Articles V, VIII and X of GATT 1994;

(b) Enhancing technical assistance and support for capacity-building; and

(c) Cooperation between customs administration and other relevant authorities on customs compliance issues.

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2 See annex II for the full text of Articles V, VIII and X of the General Agreement on Tariffs and Trade 1994.

3 TN/TF/1.

On 15 July 2005, the NGTF chairman issued an optimistic report on the progress of the negotiations.[4] The report made the following points:

(a) The negotiations on trade facilitation appear to be proceeding satisfactorily. The work of NGTF needs to continue its advance at a measured pace;

(b) Many proposals have been received to date from a broad range of developed, developing and least-developed WTO members, which focus on the clarification and improvement of relevant aspects of GATT Articles V, VIII and X. In the period up to the Hong Kong Ministerial Conference, it will be important to ensure that all the objectives of these negotiations contained in paragraph 1 of the mandate, and all the elements referred to in other parts of the mandate (in particular, S&D treatment, technical assistance and capacity-building) are addressed in a balanced way in the negotiations on the basis of further contributions by members; and

(c) Members who require technical assistance in identifying their trade facilitation needs and priorities are encouraged to make their requirements known to NGTF and the WTO Secretariat as early as possible.

On 29 July 2005, the TNC chairman submitted a further report to the General Council that highlighted the overall state of WTO negotiations, including an assessment of progress in the area of trade facilitation.[5] His assessment of the trade facilitation negotiations was even more positive than that of NGTF. The TNC chairman made the following points in his report:

(a) The negotiations on trade facilitation were progressing well and were on schedule. The aim was to produce all the main elements of a trade facilitation agreement for political endorsement by Ministers in Hong Kong, China and to complete the negotiations through legal drafting in 2006. He urged participants to make every effort to maintain the good atmosphere that had prevailed in the negotiations so far;

(b) The first phase of the negotiations involved tabling proposals on GATT Articles V, VIII and X, with the aim of having as clear a picture as possible by July (2005) of the scope of these negotiations. The result has been very positive, with about 35 proposals to date. More are expected before the [end of] summer, but delegations should already have a clear idea of the level of ambition for which the proponents are aiming;

(c) It was noted that developing countries had participated actively, with 13 of them sponsoring or co-sponsoring about half of the proposals on the GATT Articles. Reactions by developing countries to the proposals on GATT Articles had been generally very constructive. They indicated that

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4 TN/TF/2.

5 TN/C/5.

serious attention was being given to the negotiations in capitals, although at this stage not much was being given away about how acceptable the proposals might eventually turn out to be;

(d) The main challenge in Hong Kong, China would be to strike the right political balance between the level of ambition and the degree of political commitment to policy reform that would be acceptable in an eventual agreement; and

(e) S&D treatment and support for capacity-building would be important in that regard, and would need to be a particular focus of attention this autumn since an insufficient number of proposals had been tabled so far on these issues. The TNC chairman said he believed most developing countries were not looking for a free ride in the negotiations – they appreciated the economic and commercial benefits that improved trade facilitation rules and procedures could bring them – but many of them needed time as well as technical and financial support in order to implement reforms domestically.

To date, NGTF has received nearly 60 member proposals on pertinent trade facilitation issues and measures, primarily concerning the reform of Articles V, VIII and X of GATT 1994, but also with regard to the other two principal negotiating aims or objectives referred to above. The various WTO proposals have been wide-ranging, informed, focused and detailed. Two extremely important WTO Secretariat documents pertaining to these WTO member proposals were issued in July and September 2005. These documents are analytical, categorized compilations of all the various member proposals submitted to NGTF.

The first document[6] (hereafter referred to as Rev.1), issued on 20 July 2005, provided an update on an earlier compilation prepared by the WTO Secretariat on the same subject,[7] and incorporated certain new additional suggestions. The Rev.1 document not only contained the WTO members' proposals, as presented up to 4 July 2005, on how to clarify and improve the GATT Articles, but on how to approach S&D matters. It also listed related input on technical assistance and capacity-building (TA/CB). The second document[8] (hereafter referred to as Rev.2), issued on 15 September 2005, updates the Rev.1 document, incorporating new additional suggestions. This new input is related to the latest proposals on how to improve the relevant GATT Articles, and includes the first contribution on the third negoti[at]ing objective of Annex D.[9]

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6 TN/TF/W/43/Rev.1.

7 TN/TF/W/43.

8 TN/TF/W/43/Rev.2.

9 "The negotiations shall further aim at provisions for effective cooperation between customs or any other appropriate authorities on trade facilitation and customs compliance issues"; see TN/TF/W/57 (the United States of America and Indian proposal).

The structure and methodology of both of these WTO documents was organized so that the WTO members' proposals were reflected in a factual manner, highlighting the main elements of the proposals as well as the concepts of "built-in flexibilities", envisaged mode of operation and applicable S&D and TA/CB components. All inputs further listed the GATT Article(s) to which they were related. In addition, a section was added on S&D issues of a cross-cutting nature with no direct relation to any particular measure.

The Rev.1 and Rev.2 documents are much more detailed and developed documents than any WTO documents previously issued on trade facilitation, and are indeed indicative of the significant progress that the NGTF and WTO membership have made in just a few months. In particular, the Rev.2 document adopts a classification scheme for all WTO member proposals that have been received by NGTF to date. The headings in this classification scheme (implicitly beginning with GATT Article X and ending with GATT Article V categories, but with inevitable and identified overlaps between the GATT Articles) are:

(a) Article X – Publication and Availability Information; Period between Publication and Implementation; Consultation and Commenting on New or Amended Rules; Advance Rulings; Appeal Procedures; and Other Measures to Enhance Impartiality and Non-discrimination;

(b) Article VIII – Fees and Charges Connected with Importation and Exportation; Formalities Connected with Importation and Exportation; Consularization; Border Agency Coordination; Release and Clearance of Goods; and Tariff Classification; and

(c) Article V – Matters Related to Goods Transit.

Each of these major headings is broken down further into sub-headings or subcategorizations. For example, under Publication and Availability of Information, subcategories include, inter alia, Publication of Trade Regulations, Internet Publication and Establishment of Enquiry Points/Single National Focal Points/Information Centres. For each of these subcategories, there follows the main measures of the relevant WTO members' proposals, some of which are rather lengthy and somewhat haphazard. An important new feature of the Rev.1 and Rev.2 documents is that they also include a section entitled "Built-in exceptions/flexibility", which allows for divergence from potential WTO commitments in certain circumstances, and which is available to all WTO members. In addition, for many subcategories, there are S&D treatment and TA/CB sections for developing and LDC members.

Consequently, the Rev.1 and Rev.2 documents represent a major step forward in the collation and organization of a WTO negotiation package on trade facilitation. The Rev.2 document has now largely (although not entirely) circumscribed the totality of trade facilitation measures to be considered by the WTO membership.

However, clearly much remains to be done. There is still no apparent consensus within NGTF or among the WTO membership as to which specific TF measures should be included in the ultimate negotiation package. As is evident from the Rev.2 document itself, the "main measures" of the WTO members' proposals set forth in the various subcategories have yet to be clearly delineated, and currently represent more of a patchwork quilt or a "shopping list". Moreover, although S&D and TA/CB issues are addressed in most subcategories, they are not yet clearly linked to the assumption and implementation of specific WTO commitments by developing countries and LDCs. There are bound to be significant issues of S&D "conditionality" for certain potential TF commitments to be undertaken by developing and LDC members, which have not been adequately investigated to date. For example, which specific WTO TF commitments will be subject to transitional or grace periods, and how long will such transitional periods continue? Which specific WTO commitments will simply be open-ended for developing countries, if any? In what specific circumstances, and with relation to which TF commitments, will (or will not) developed country members and/or international organizations provide TA, and what will be the nature and extent of such TA? Some consideration is given to these "conditionality" issues is in the Rev.2 document, but much more focused detail will need to be forthcoming, particularly in the light of the requirements of the "July Package" modalities.

Notwithstanding the terms of the "July Package" as well as other recent WTO documents, the Rev.2 document does not address issues of implementation costs of the identified TF measures for developing countries and LDCs. In addition, no consideration is given to the priorities and needs of such countries in these NGTF documents, despite the issuance of relatively recent NGTF material providing for an in-depth treatment of such issues.[10] In particular, the vitally important task of prioritization and sequencing of potential WTO commitments, particularly for developing countries, has not been addressed. In this regard, it is of fundamental importance that a general scheme be introduced for the incremental implementat[ion] of WTO-compliant TF systems by such countries: in other words, a "building block" roadmap needs to be devised for the developing countries. In this sense, there still is no "architecture" evident in the Rev.2 document.

However, it should be appreciated that the Rev.2 document remains simply an analytical compilation of WTO proposals; it does not purport to constitute a master framework agreement on trade facilitation, and it does not accurately or fully reflect the ongoing work of the NGTF and WTO membership. This much is evident from a review of the NGTF Committee minutes over the past several months as well as from other relevant documents emanating from NGTF. Indeed, a review of recent NGTF Committee minutes reveals that the omissions raised above have been the subject matter of lively and informed discourse within the NGTF itself.[11]

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[10] See TN/TF/W/59, issued on 28 July 2005, which sets forth the NGTF Self-Assessment Questionnaire and Inventory concerning trade facilitation needs and priorities. See also TN/TF/W/5 on Technical Assistance and Capacity-Building in Trade Facilitation, and G/C/W/393 on Trade Facilitation Needs and Priorities of Members.

[11] See TN/TF/M/5, issued on 10 June 2005, which provides a summary of the minutes of the NGTF meeting on 2-3 May 2005.

At this stage, it may be safely stated that the greatest progress in the NGTF negotiations has been with respect to their first aim or objective; that is, to clarify and improve Articles V, VIII and X of GATT. However, that does not mean there has been an absence of divergences of opinion under this first aim, depending on the TF measure in question. Generally speaking, more complex and capital/technology-intensive TF measures tend to raise concerns among developing countries, such as the "single window" and Single National Focal Point (SNFP). Such measures may require more involved deliberations and, probably, stronger TA/CB and S&D packages. Conversely, other TF measures, such as those related to the publication and availability of information (with the exception of Internet publication), only require minor expansion of existing commitments and/or do not require any significant investments. This will certainly be viewed as a plus when deciding on their acceptance.

Although some proposals have been received to date, substantial additional and concerted work needs to be undertaken with regard to the second and third aims of the current TF negotiations. To some extent, however, the fact that very commendable progress has been made under the first aim should make it easier for WTO members to reach consensus on the substance of the second and third aims. In this regard, only when there is clarity on the types of GATT Article commitments each country will assume, may TA/CB issues be effectively tackled.

To date, NGTF deliberations have proceeded on a positive note with WTO member delegations approaching issues in a very business-like manner. The traditional North-South fault lines are not so pronounced in the current TF negotiations. For example, joint papers have been submitted by Uganda and the United States,[12] Paraguay, Rwanda and Switzerland,[13] and recently by the United States and India,[14] later joined by South Africa. Such cross-cutting solidarity demonstrates that, on many issues, WTO members at different levels of economic development have shared interests. An additional point is that most of the WTO proposals have not generally met with serious negative reactions from the developing countries. Indeed, a number of LDCs, particularly the landlocked countries, have taken a strong interest in advancing the TF agenda.

NGTF will soon be initiating another round of further assessment and analysis of various aspects of the negotiations (particularly with regard to the WTO proposals submitted so far), the outcome of which will be reflected in a report to the sixth Ministerial Conference in Hong Kong, China. Echoing the aspirations of the TNC chairman, it may be hoped that the sixth Ministerial Conference will yield broad agreement on the main elements of a trade facilitation package, or in other words, that the Ministers will arrive at a consensus on the adoption of essential TF measures

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12 TN/TF/W/22.

13 TN/TF/W/39.

14 TN/TF/W/57.

related to Articles V, VIII and X of GATT 1994. This should then open the way for agreement on TA/CB issues under the second aim of the negotiations, which, in turn, should lead to agreement on customs cooperation measures under the third aim.

B. Major concerns arising from multilateral negotiations among Asia-Pacific countries

The consensus among the countries of Asia and the Pacific has been, and continues to be, that trade facilitation is a "win-win" proposition for all concerned. Such sentiments have been reflected in the WTO proposals and views expressed in NGTF deliberations to date by a range of Asian and Pacific countries.

Nonetheless, as is evident from the terms of Annex D of the "July Package", developing countries and LDCs, including those from Asia-Pacific, have raised concerns about the implications of an eventual WTO Trade Facilitation Agreement. Despite general support for trade facilitation, such countries have expressed the view that the assumption of new, additional WTO obligations and commitments may exceed their implementation capacities. In addition, these countries are apprehensive that the commitments of WTO developed country members and international organizations to meet their capacity-building needs, through the provision of appropriate technical assistance, may prove to be insufficient, particularly in the light of the open-ended language in Annex D. Particular concern has been expressed that any new WTO commitments on the part of developing countries should not lead to possible non-compliance penalization. In this regard, certain developing countries have made it clear that they should not be subject to WTO dispute settlement before the Dispute Settlement Body (DSB) in the event of failure to meet the legal requirements of any new obligations and commitments. Because of such concerns, developing countries and LDCs have succeeded in negotiating, inter alia, transition periods for the assumption of new TF commitments, with the "conditionality" of such new commitments being predicated on sufficient provision of technical assistance for capacity-building purposes.[15]

Beyond issues directly related to Annex D itself, developing countries have also expressed concerns on specific TF issues and measures before NGTF. As mentioned above, more complex and capital/technology-intensive TF measures tend to raise concerns among developing countries, particularly measures such as the "single window" and Single National Focal Point (SNFP). Commitments on, and subsequent implementation of, ICT and automation measures are likely to be difficult from the perspective of some developing countries and, particularly, the LDCs. For such TF measures, it is clear that satisfactory TA/CB and S&D packages will need to be worked out. Other Asia-Pacific countries have indicated resistance to currently proposed TF measures, which potentially could:

(a) Produce strains on existing customs operations (for example, time limits on customs clearance);

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[15] See paragraphs 2, 3, 5 and 6 in Annex D of the "July Package".

(b) Have a negative impact on revenue collection (for example, separating release of goods from customs clearance and duty assessments); or

(c) Compromise systems of customs control for revenue and security purposes (for example, express shipments or operator freedom in choice of route for goods in transit).

China and Pakistan, in particular, have raised the importance of the need for assessments to be carried out by developing countries for the purpose of prioritization of TF measures.[16] Landlocked countries, such as Mongolia and the Lao People's Democratic Republic, have been active in pursuing liberalization with respect to Article V transit reforms.[17] Singapore and Hong Kong, China, which are developing countries with perhaps the most advanced and comprehensive TF systems in the Asia-Pacific region, have emphasized stricter tests for the application of fees and formalities by customs and trade authorities under Article VIII (Hong Kong, China).[18] They have also held up their own fully automated, ICT-based TF systems, especially that of Singapore, as models worthy of study by other Asia-Pacific developing countries.[19]

C. Implications of delivery (or non-delivery) of trade facilitation liberalization on business and economic development in Asia and the Pacific

At this stage in the WTO negotiations, it is premature to speculate on the specific TF measures that may be adopted by the Ministers at the Hong Kong Ministerial Conference in December 2005. However, as mentioned above, the current indications are that it is likely that the Ministers will agree on a "package" of basic or essential TF measures predicated upon the consolidated member proposals as set forth in the September Rev.2 document.

The delivery of a multilateral package of TF measures at the Hong Kong Ministerial Conference is likely to have positive implications for both business and economic development in the region. The extent of such positive impacts will depend ultimately on the nature, scale and scope of the TF measures adopted at that meeting.

WTO agreement on a trade facilitation liberalization package will focus the attention of government leaders of the Asia-Pacific region on the elements of the "package" and will provide governments with the incentive to expedite the implementation of WTO-prescribed measures. A focus on WTO trade facilitation implementation will

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16 TN/TF/W/29.

17 See, for example, TN/TF/W/28 and Add.1.

18 TN/TF/W/31 in which Hong Kong, China, proposes the application of a "necessity" test for fees and formalities under Article VIII, GATT.

19 TN/TF/W/58, which sets forth Singapore's experience in implementing its single window system via TradeNet.

also likely have a "ripple" effect in (a) engendering greater government interest, particularly at higher levels, in the importance of trade facilitation to their economies, and (b) motivating Asia-Pacific governments to expand their own trade facilitation efforts beyond the parameters of basic WTO commitments agreed upon at the Hong Kong Ministerial Conference. In other words, this should lead to a "WTO-Plus" environment for TF implementation in the Asia-Pacific region.

It is clear that future WTO trade facilitation commitments undertaken by developing countries and LDCs will be tied, to a significant extent, to the provision of technical assistance from a number of sources. These sources include WTO member donors, international organizations, such as the World Bank, The United Nations Conference on Trade and Development (UNCTAD) and the World Customs Organization (WCO) as well as the private sector. Public-private partnerships are certainly envisaged as an integral part of TF implementation efforts. The implementation of WTO-compatible TF systems should provide opportunities for a wide range of local and regional businesses, such as construction and engineering companies, ICT software and hardware providers, and utility companies, to name but a few.

Once WTO-compatible TF systems are put into effect, such improved TF systems should provide significant economic benefits to an even larger group of local and regional businesses. Forecasts by the Organisation for Economic Co-operation and Development (OECD) and the World Bank, among others, have predicted significant increases in cross-border trade flows.[20] The business beneficiaries of such increased trade flows include logistics and transport firms, freight forwarding companies, and small and medium-sized enterprises engaged in international trade (whose costs of doing business are projected to be reduced).[21] As a result, local goods and services providers will benefit. Consumers will also benefit from the provision of cheaper goods as a result of the reduction in current trade transaction costs associated with customs and other cross-border clearances. As OECD has pointed out, increasing the efficiency of border procedures through TF implementation lowers trade transaction costs, thereby shrinking the difference between domestic and international prices to the benefit of both domestic consumers and producers.[22] UNCTAD and Asia-Pacific Economic Cooperation (APEC) estimates of the potential medium-term domestic income gains from trade facilitation have centred around 2-3 per cent of the total value of traded goods, even though much larger benefits are likely to be obtained in particular countries or regions.[23] When relating such savings to the value of international trade, the reduction in trade transaction costs amount to an estimated US$ 60 billion annually for the APEC region.[24]

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[20] Walkenhorst and Yasui, 2003.

[21] Moise, 2002.

[22] See supra footnote 20.

[23] Ibid.

[24] Ibid.

The largest potential for improvements from trade facilitation appears to exist in developing countries. A business survey conducted for the APEC region found that traders expected the largest benefits from hypothetical trade facilitation measures that would reduce transaction costs by 50 per cent to materialize in the lower-income countries within the Asia-Pacific region.[25] The median responses to the related APEC questionnaire suggested that trade facilitation efforts would yield reductions in total trade transaction costs of 10.7 per cent in industrializing APEC economies, compared with 7.8 per cent in newly industrialized economies and 5.2 per cent in industrialized economies.[26] These results support previous OECD findings that less developed countries tend to have less efficient customs services and, accordingly, benefit more from TF implementation.

Governments should also be positioned to generate increased revenue from the collection of fees and duties on larger trade volumes. Recent OECD studies have highlighted a number of success stories in this regard.[27] As Evdokia Moise succinctly states:

> "For concerned countries, the most important and immediate success outcome seems to be the increase in customs revenue together with the reduction in operating costs, which often pay back relatively quickly the investments made for customs modernization. This sort of success usually feeds itself and allows for further improvements to be introduced, thus ensuring long-term sustainability of the reform process. Equally importantly, many of the internal efficiency-enhancing measures have a very clear positive impact on trade facilitation. The clarification and consolidation of customs legislation, the adoption of risk-based controls and the limitation of physical examination, the improvement of the quality of customs staff, to cite only a few measures, strongly facilitate trade because procedures are simplified and made more efficient, clearance times are reduced and undue transaction costs eliminated."[28]

Peru is among the recent success stories in generating increased government revenues from the implementation of trade facilitation reforms. Peru's customs reforms involved the combination of a reduction in tariffs and personnel with a very substantial increase in government revenues. Following implementation of its reforms, customs staff numbers were reduced by approximately 30 per cent, while customs revenue increased by 335 per cent from US$ 626 million in 1990 to US$ 2,726 million in 2000.[29] This revenue increase was primarily due to improved efficiency in customs

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[25] Ibid.

[26] Ibid.

[27] Moise, 2003.

[28] Ibid.

[29] Ibid.

control systems, as indicated by the fact that the percentage of increase in revenue was significantly higher than the percentage of import growth during the same period.[30]

One of the principal drivers of current TF reforms has been globalization in the sense that multinational corporations, including those from Asia-Pacific, have been forced to use different country locations for the assembly and manufacture of parts and components comprising end products. Time-consuming and inefficient customs procedures have direct and negative costs implications for such multinational production processes and have led to increasing demands on governments from business groups to implement trade facilitation reforms. Regional and bilateral free trade agreements have also introduced additional complexity to customs clearance procedures. Thus, a multilateral agreement on trade facilitation will be particularly welcomed by such outsourcing multinationals, and it will expedite the smooth operation of global supply chains throughout the Asia-Pacific region.

The delivery of a December trade facilitation package at the Hong Kong Ministerial Conference should lead to acceleration in the implementation of TF measures across the region. However, because of the current momentum generated by the WTO negotiations, there is bound to be an ongoing commitment to TF implementation, even if no definitive package of measures is delivered at the Hong Kong Ministerial Conference. The sixth Ministerial Conference will not mark the end of the Doha Round and it is likely that we will not only see, by the end of the current Round, significant amendments to Articles V, VII and X of GATT, but also quite conceivably a new WTO Trade Facilitation Agreement. With or without a WTO Agreement, substantial technical assistance and capacity-building programmes, such as those already initiated by UNCTAD and the World Bank, will continue apace.

At the same time, the Asia-Pacific region has long been a leader in the trade facilitation movement and continues to be committed to sustained TF liberalization. APEC, in particular, in its Bogor Goals, has been innovative and determined in its approach to TF issues; the APEC economies have, as a whole, already achieved significant levels of trade facilitation implementation when compared to other developing regions.[31] Indeed, APEC has committed to the implementation of broader and deeper trade facilitation measures than those contained in current WTO proposals. The APEC economies are estimated to be on target to achieve the APEC objective of a realized reduction in trade transaction costs of 5 per cent within five years (APEC Shanghai Declaration, 2001).[32] Nonetheless, APEC, as a regional organization without a strong institutional infrastructure, is no substitute for the multilateral cross-cutting disciplines and organizational clout of WTO.

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[30] Ibid.

[31] Yuan Pao Woo, "Assessment of APEC's Trade Facilitation Action Plan", presentation at the PECC XVI Trade Forum, Seoul, September 2005.

[32] Ibid. See also the Report of the APEC Trade Facilitation Working Group, first SCCP Meeting, Seoul, February 2005.

D. Preparations for the Hong Kong Ministerial Conference and beyond: opportunities for regional collaboration and ESCAP technical assistance

At present, there is still no consensus within NGTF or at WTO generally on which specific TF measures should be adopted by WTO members at the Hong Kong Ministerial Conference. At best, what currently exists is a consolidated menu of possible TF measures, centred on the clarification and improvement of Articles V, VIII and X of GATT, that could be adopted as exemplified in the Rev.2 document. At this stage, Asia-Pacific governments need to consider, on an individual and potentially collective basis, what specific TF measures in the Rev.2 document they are willing to support as well those measures that they may oppose. This exercise is particularly important for Asia-Pacific developing country and LDC members, given their concerns about implementation capacities.

Undertaking such an assessment is an involved process. The key to such an assessment is a national trade and development strategy that situates TF within the larger context of economic development interests and objectives. To accurately assess which TF measures are optimal, and to maximize their potential benefits, a national strategy needs to take into account the country's political and economic objectives and constraints, and its business culture and sectoral structure. A national strategy also needs to factor in existing infrastructural constraints and assess the extent to which technical assistance and capacity-building programmes can overcome such constraints. Such a national trade strategy must satisfactorily encompass the views and interests of government, business stakeholders and civil society.

There are other steps in the TF assessment process. Benchmarking of the current state of TF implementation in each country needs to take place. Such benchmarks may then be compared to the TF measures on offer in the current NGTF proposals. To date, many developing countries and LDCs have still not undertaken or completed such benchmarking. In the light of each country's national trade and development strategy, the respective trade facilitation needs of each country may then be ascertained. With respect to needs assessment, Asia-Pacific governments may wish to utilize the recently devised NGTF needs questionnaire,[33] developed in response to a proposal tabled by China and Pakistan.[34] The World Bank and WCO have also developed diagnostic tools to carry out needs assessments in countries, which may helpful in identifying appropriate country-specific trade facilitation measures. It should be noted that needs assessment is likely to be an ongoing process that changes over time and as TF measures are progressively implemented. Once a country's needs have been identified and agreed upon by all stakeholders, prioritization and sequencing of TF measures on the basis of the proposals set forth in the Rev.2 document should be undertaken.

[33] See supra footnote 10.

[34] See supra footnote 16.

Relevant at this stage of TF assessment will be the implementation costs associated with the identified TF measures as well as existing infrastructural constraints. For developing countries and LDCs, the nature and extent to which technical assistance may realistically overcome such costs and implementation capacity constraints should be considered at this stage. The sources of technical assistance, including WTO donor countries, international organizations and the private sector, should also be identified and matched to the particular TF measure to be implemented.

TF prioritization and sequencing are matters for each of the Asia-Pacific governments to determine on the basis of their own national needs, interests and implementation capacities. In this regard, there is no "one size fits all".[35] Notwithstanding this guiding principle, it should be noted that certain WTO members have suggested priorities in the sequencing of TF measures in the NGTF committee minutes. For example, the European Communities has suggested that proposals concerning transparency requirements under Article X of GATT, including the publication of trade regulations, should be accorded paramount importance among the TF measures to be adopted by WTO.[36]

Notwithstanding the guiding principle that each country should determine TF priorities according to its own national needs and interests, the WTO negotiations in the run-up to the Hong Kong Ministerial Conference will necessarily involve the crafting of a consensus among all WTO members with regard to a general package of approved TF measures. One proposed framework for such a package or packages was suggested by Switzerland:

> The first objective would be that all countries subscribed to a basic package (simple reforms that required essentially administrative measures). A limited number of additional packages would then be defined, each package containing a certain number of increasingly demanding and more efficient measures (e.g., advance lodging, risk assessment and special procedures for authorized traders) leading – in the last package – to more advanced measures such as [the] single window). Members would be asked to comply early with the basic package but would schedule over time the date of effectiveness of more advanced packages.[37]

However, this proposed framework still does not provide a road map of what specific TF measures should be considered among the basic and more advanced packages.

In this regard, ARTNeT, under ESCAP auspices, has recently created matrices and a checklist of key TF measures,[38] derived from the current NGTF proposals, which

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35 See the views of Kenya in TN/TF/M/5, issued on 10 June 2005.

36 TN/TF/M/5.

37 TN/TF/M/5.

38 These matrices and the checklist may be obtained upon request and with permission from the Trade and Investment Division, ESCAP secretariat.

may be of value to Asia-Pacific countries in crafting negotiating positions with regard to possible packages that may be adopted at the Hong Kong Ministerial Conference.

ESCAP has several constructive potential roles to play in the delivery of technical assistance related to trade facilitation in the run-up to the Hong Kong Ministerial Conference and beyond. At the UNDP/ESCAP Regional Consultation on Issues of Trade Facilitation and Human Development, held at Bangkok in August 2005, papers were tabled and discussions ensued on the possible contours of the ESCAP Trade Facilitation Strategy.[39]

The ESCAP Trade Facilitation Strategy would aim at strengthening regional cooperation by facilitating policy dialogues and establishing a regional forum to exchange national and regional TF experiences and strategies as well as to refine and promote TF measures suitable for the Asia-Pacific region. Central to this ESCAP role is the promotion of the establishment and strengthening of National Trade and Transport Facilitation Committees (NTTFCs) in each Asia-Pacific country. Such NTTFCs, characterized by strong public-private participation, are not only responsible for proposing, coordinating and implementing national TF strategies and implementation plans, but also for working collaboratively, through cluster arrangements, on regional TF issues. ESCAP will play the pivotal role of coordinating NTTFC activities. In this capacity, ESCAP may perform several, interrelated functions including:

(a) Assisting in identifying TF needs and priorities of member States and subregions;

(b) Promoting national and subregional TF strategies and TF measures (through recommendations, standards, tools and action plans);

(c) Organizing capacity-building programmes; and

(d) Providing advisory services.

The commitment by ESCAP to strengthening regional cooperation on trade facilitation has also led to the tabling of a proposal for the establishment of the Asia-Pacific Network for Efficient Trade (APNET). APNET would serve as a collaborative platform and network for NFFTC organs and other public and private stakeholders to facilitate dialogue and debate on TF policies, strategies, action plans and best practices as well as promote the implementation of TF measures suitable to country-specific and subregion-specific needs.

Certain key areas have been identified for focused ESCAP technical assistance on TF to be provided to Asia-Pacific countries. These areas include: (a) the assessment of TF needs and priorities; (b) the simplification and harmonization of trade documents

[39] The following discussion is derived from a draft ESCAP document circulated to participants at the United Nations Development Programme/ESCAP Regional Consultation on Issues of Trade Facilitation and Human Development, 16-17 August 2005, Bangkok, Thailand. See also the presentation by Xuan Zengpei, "How can UNDP and UNESCAP best assist Asia-Pacific countries in implementing trade facilitation measures?" Available on the ESCAP website at www.unescap.org/tid/projects/tfac.

and procedures; (c) the promotion of ICT for trade development; and (4) institutional capacity-building for landlocked and transit countries.

With regard to the assessment of TF needs and priorities, ESCAP will intensify and extend the scope of its current work programme to include benchmarking studies of current TF implementation conditions, impediments to trade, and TF performance indicators in countries of Asia and the Pacific. ESCAP will provide recommendations for improvements related to trade facilitation and efficiency as well as implementation priorities in particular countries or subregions. The ESCAP secretariat will coordinate with international organizations, such as WCO, UNCTAD and the World Bank, in the further development and refinement of needs assessment and auditing tools to be utilized by and for Asia-Pacific member States. At the same time, efforts will be undertaken to assist member countries in capacity-building for trade facilitation, including needs, "self-assessment" by conducting training, providing assessment and auditing tools, and assistance in the applications of such tools.

With regard to the simplification and harmonization of trade procedures, a trade simplification programme has been proposed in which ESCAP would assist member countries in the adoption of internationally-recognized and standardized trade-related documents and procedures by reference to United Nations/CEFACT recommendations, and the WCO revised Kyoto Convention, among others. In this regard, the standardized data set programme is an initiative to develop and gain a regional consensus on common data elements for trade, transport, transit, customs and regulatory documents by adapting the WCO data model, United Nations/CEFACT recommendations, and the United Nations Economic Commission for Europe (ECE) e-DOCs to regional circumstances. This project is viewed as a prerequisite to the widespread establishment of an ICT-enabled single window environment for Asia-Pacific.

The use of ICT is a major feature of the current WTO negotiations on trade facilitation. ESCAP recognizes that international trade and Asia-Pacific countries can derive substantial benefits by incorporating ICT into customs procedures and the regulation of cross-border transactions in general, through the implementation of paperless trade reforms. As a result, ESCAP has proposed an Asia-Pacific Paperless Trade Initiative to assist members in the creation of single-window paperless trade environments. This initiative would provide strategies and a road map for achieving the ultimate goal of an ICT-enabled single window for customs clearances and import/export authorizations. ESCAP would also coordinate with Asia-Pacific governments that have already deployed or are currently implementing single-window systems in order to promote the adoption of such systems throughout the region. The ESCAP secretariat, coordinating with experts associated with the APNET network and other organizations such as UNCTAD and ECE, would deliver capacity-building programmes to developing countries and LDCs as part of this major initiative.

Given the importance attached to transit issues in the current multilateral negotiations, as well as the economic development needs of Asian landlocked countries, the ESCAP Trade Facilitation Strategy also recognizes the importance of further building on the current secretariat work programme for such countries. The focus of this initiative is the Institutional Capacity-Building Project for Facilitating Trade and Transport in Landlocked and Transit Countries.[40] This ESCAP project is aimed at strengthening NTTFCs of the region's landlocked countries and at enhancing regional cooperation among such national committees. Consonant with other elements of ESCAP Strategy, this project emphasizes the importance of TF needs assessments and prioritization, simplification, harmonization and standardization of trade and transport documents and procedures, and the application of ICT for customs and trade procedures. At the same time, the project seeks to promote trade and transport facilitation liberalization through regional cooperation, such as the Almaty Programme of Action and harmonized legal regimes based on accession to international conventions and regional agreements on transport and transit issues, such as the GMS and SCO Agreements.

In summary, it is clear that the ESCAP Trade Facilitation Strategy is a well-conceived and comprehensive approach to contemporary issues of trade facilitation facing the Asia-Pacific region that deserves to be fully implemented and supported. The ESCAP Strategy is also very much in step with the current multilateral negotiations taking place in Geneva. Regardless of the outcome of the WTO negotiations and the delivery or non-delivery of a package (or packages) of TF measures at the Hong Kong Ministerial Conference in December 2005, it is also evident that there is much more to be done on trade facilitation in the Asia-Pacific region in the months and years ahead.

[40] See the presentations by Xuan Zengpei, "How can UNDP and UNESCAP best assist Asia-Pacific countries in implementing trade facilitation measures?", and Barry Cable, "Landlockedness and transit issues: overcoming constraints", reproduced on the ESCAP website at www.unescap.org/tid/projects/tfac.

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Annexes

Annex I. General Council decision (1 August 2004) – Annex D: Modalities for Negotiations on Trade Facilitation

1. Negotiations shall aim to clarify and improve relevant aspects of Articles V, VIII and X of the GATT 1994 with a view to further expediting the movement, release and clearance of goods, including goods in transit. Negotiations shall also aim at enhancing technical assistance and support for capacity building in this area. The negotiations shall further aim at provisions for effective cooperation between customs or any other appropriate authorities on trade facilitation and customs compliance issues.

2. The results of the negotiations shall take fully into account the principle of special and differential treatment for developing and least-developed countries. Members recognize that this principle should extend beyond the granting of traditional transition periods for implementing commitments. In particular, the extent and the timing of entering into commitments shall be related to the implementation capacities of developing and least-developed Members. It is further agreed that those Members would not be obliged to undertake investments in infrastructure projects beyond their means.

3. Least-developed country Members will only be required to undertake commitments to the extent consistent with their individual development, financial and trade needs or their administrative and institutional capabilities.

4. As an integral part of the negotiations, Members shall seek to identify their trade facilitation needs and priorities, particularly those of developing and least-developed countries, and shall also address the concerns of developing and least-developed countries related to cost implications of proposed measures.

5. It is recognized that the provision of technical assistance and support for capacity-building is vital for developing and least-developed countries to enable them to fully participate in, and benefit from the negotiations. Members, in particular developed countries, therefore commit themselves to adequately ensure such support and assistance during the negotiations.

6. Support and assistance should also be provided to help developing and least-developed countries implement the commitments resulting from the negotiations, in accordance with their nature and scope. In this context, it is recognized that negotiations could lead to certain commitments whose implementation would require support for infrastructure development on the part of some Members. In these limited cases, developed country Members will make every effort to ensure support and assistance directly related to the nature and scope of the commitments in order to allow implementation. It is understood, however, that in cases where required support and assistance for such infrastructure is not forthcoming, and where a developing or least-developed Member continues to lack the necessary capacity, implementation will not be required. While every effort will be made to ensure the necessary support and

assistance, it is understood that the commitments by developed countries to provide such support are not open-ended.

7. Members agree to review the effectiveness of the support and assistance provided and its ability to support the implementation of the results of the negotiations.

8. In order to make technical assistance and capacity building more effective and operational and to ensure better coherence, Members shall invite relevant international organizations, including the IMF, OECD, UNCTAD, WCO and the World Bank, to undertake a collaborative effort in this regard.

9. Due account shall be taken of the relevant work of the WCO and other relevant international organizations in this area.

10. Paragraphs 45-51 of the Doha Ministerial Declaration shall apply to these negotiations. At its first meeting after the July session of the General Council, the Trade Negotiations Committee shall establish a Negotiating Group on Trade Facilitation and appoint its Chair. The first meeting of the Negotiating Group shall agree on a work plan and schedule of meetings.

Annex II. General Agreement on Tariffs and Trade, Articles V, VIII and X

Article V
Freedom of Transit

1. Goods (including baggage), and also vessels and other means of transport, shall be deemed to be in transit across the territory of a contracting party when the passage across such territory, with or without trans-shipment, warehousing, breaking bulk, or change in the mode of transport, is only a portion of a complete journey beginning and terminating beyond the frontier of the contracting party across whose territory the traffic passes. Traffic of this nature is termed in this article "traffic in transit".

2. There shall be freedom of transit through the territory of each contracting party, via the routes most convenient for international transit, for traffic in transit to or from the territory of other contracting parties. No distinction shall be made that is based on the flag of vessels, the place of origin, departure, entry, exit or destination, or on any circumstances related to the ownership of goods, of vessels or of other means of transport.

3. Any contracting party may require that traffic in transit through its territory be entered at the proper custom house, but, except in cases of failure to comply with applicable customs laws and regulations, such traffic coming from or going to the territory of other contracting parties shall not be subject to any unnecessary delays or restrictions and shall be exempt from customs duties and from all transit duties or other charges imposed in respect of transit, except charges for transportation or those commensurate with administrative expenses entailed by transit or with the cost of services rendered.

4. All charges and regulations imposed by contracting parties on traffic in transit to or from the territories of other contracting parties shall be reasonable, having regard to the conditions of the traffic.

5. With respect to all charges, regulations and formalities in connection with transit, each contracting party shall accord to traffic in transit to or from the territory of any other contracting party treatment no less favourable than the treatment accorded to traffic in transit to or from any third country.*

6. Each contracting party shall accord to products which have been in transit through the territory of any other contracting party treatment no less favourable than that which would have been accorded to such products had they been transported from their place of origin to their destination without going through the territory of such other contracting party. Any contracting party shall, however, be free to maintain its requirements of direct consignment existing on the date of this Agreement, in respect of any goods in regard to which such direct consignment is a requisite condition of

eligibility for entry of the goods at preferential rates of duty or has relation to the contracting party's prescribed method of valuation for duty purposes.

7. The provisions of this Article shall not apply to the operation of aircraft in transit, but shall apply to air transit of goods (including baggage).

Article VIII

Fees and Formalities connected with Importation and Exportation*

1. (a) All fees and charges of whatever character (other than import and export duties, and other than taxes within the purview of Article III) imposed by contracting parties on or in connection with importation or exportation shall be limited in amount to the approximate cost of services rendered and shall not represent an indirect protection to domestic products or a taxation of imports or exports for fiscal purposes.

(b) The contracting parties recognize the need for reducing the number and diversity of fees and charges referred to in subparagraph (a).

(c) The contracting parties also recognize the need for minimizing the incidence and complexity of import and export formalities, and for decreasing and simplifying import and export documentation requirements.*

2. A contracting party shall, upon request by another contracting party or by the CONTRACTING PARTIES, review the operation of its laws and regulations in the light of the provisions of this Article.

3. No contracting party shall impose substantial penalties for minor breaches of customs regulations or procedural requirements. In particular, no penalty in respect of any omission or mistake in customs documentation, which is easily rectifiable and obviously made without fraudulent intent or gross negligence, shall be greater than necessary to serve merely as a warning.

4. The provisions of this Article shall extend to fees, charges, formalities and requirements imposed by governmental authorities in connection with importation and exportation, including those related to:

(a) Consular transactions, such as consular invoices and certificates;

(b) Quantitative restrictions;

(c) Licensing;

(d) Exchange control;

(e) Statistical services;

(f) Documents, documentation and certification;

(g) Analysis and inspection; and

(h) Quarantine, sanitation and fumigation.

Article X
Publication and Administration of Trade Regulations

1. Laws, regulations, judicial decisions and administrative rulings of general application, made effective by any contracting party, pertaining to the classification or the valuation of products for customs purposes, or to rates of duty, taxes or other charges, or to requirements, restrictions or prohibitions on imports or exports or on the transfer of payments therefore, or affecting their sale, distribution, transportation, insurance, warehousing inspection, exhibition, processing, mixing or other use, shall be published promptly in such a manner as to enable governments and traders to become acquainted with them. Agreements affecting international trade policy that are in force between the government or a governmental agency of any contracting party and the government or governmental agency of any other contracting party shall also be published. The provisions of this paragraph shall not require any contracting party to disclose confidential information that would impede law enforcement or otherwise be contrary to the public interest or would prejudice the legitimate commercial interests of particular enterprises, public or private.

2. No measure of general application taken by any contracting party effecting an advance in a rate of duty or other charge on imports under an established and uniform practice, or imposing a new or more burdensome requirement, restriction or prohibition on imports, or on the transfer of payments therefore, shall be enforced before such measure has been officially published.

3. (a) Each contracting party shall administer in a uniform, impartial and reasonable manner all its laws, regulations, decisions and rulings of the kind described in paragraph 1 of this Article.

(b) Each contracting party shall maintain, or institute as soon as practicable, judicial, arbitral or administrative tribunals or procedures for the purpose, inter alia, of the prompt review and correction of administrative action related to customs matters. Such tribunals or procedures shall be independent of the agencies entrusted with administrative enforcement and their decisions shall be implemented by, and shall govern the practice of, such agencies unless an appeal is lodged with a court or tribunal of superior jurisdiction within the time prescribed for appeals to be lodged by importers. provided that the central administration of such agency may take steps to obtain a review of the matter in another proceeding if there is good cause to believe that the decision is inconsistent with established principles of law or the actual facts.

(c) The provisions of subparagraph (b) of this paragraph shall not require the elimination or substitution of procedures in force in the territory of a contracting party on the date of this Agreement that in fact provide for an objective and impartial review of administrative action, even though such procedures are not fully or formally independent of the agencies entrusted with administrative enforcement. Any contracting party employing such procedures shall, upon request, furnish the CONTRACTING PARTIES with full information thereon in order that they may determine whether such procedures conform to the requirements of this subparagraph.

VII. TRADE ADJUSTMENT AND BUSINESS DEVELOPMENT FINANCING

*By Jean-Pierre Chauffour**

Introduction

The International Monetary Fund (IMF) and the World Bank held their annual meetings in September 2005 during which the issue of aid for trade, including adjustment financing, featured prominently in the discussions. Ministers and governors "urged the (World) Bank and the Fund to better integrate trade-related needs into their support for country programmes." They also asked "the (World) Bank and the Fund to continue their global advocacy role on trade and development".[1] The reason for this call will be no surprise as 2005 is a critical year for the Doha Round; while trade is a major opportunity for development, it is no guarantee. This paper briefly discusses the opportunities and challenges stemming from multilateral trade liberalization and presents the instruments available at IMF to help members deal with the various challenges, including surveillance/research, financial assistance, technical assistance and broader aid for trade initiatives.

A. Realizing the development potential of trade

Multilateral trade liberalization has been a major contributor to the unprecedented growth of the world economy over the past half century. Indeed, the consensus on the development potential of trade has rarely been broader than it is today. It was expressed in Doha, Monterrey, Johannesburg and most recently at the Millennium Summit in New York. Trade is a powerful force for driving growth. In addition, growth has been lifting more people out of poverty than at any time in history. Estimates of the potential welfare gains from multilateral liberalization under the Doha Round have been well publicized. While estimates vary according to the models used, the orders of magnitude – in the hundreds of billions of US dollars – are compelling. A large share of the gains would accrue to developing countries, well in excess of annual aid flows. The gains would derive from simultaneous liberalization of trade in a broad range of countries, for which the World Trade Organization (WTO) offers the

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[1] Development Committee Communiqué, Washington, D.C., 25 September 2005. Available on the website http://www.imf.org/external/np/cm/2005/092505.htm.

most effective framework. A portion would derive from better market access in industrial country markets, including for services; more importantly, another large portion of the gains is associated with greater South-South trade if barriers between developing countries are reduced. An ambitious Doha Round settlement is therefore rightly considered a central plank of any strategy to meet the Millennium Development Goals (MDGs).

However, not all countries have been able to take full advantage of the opportunities offered by global trade. Some countries have chosen to remain wholly or partially closed. In fact, many of the countries with a below-average trade and growth performance continue to maintain relatively high trade barriers – least-developed countries (LDCs) as well as countries in sub-Saharan and North Africa and the Middle East have the highest average tariffs in the world and numerous non-tariff restrictions. Many other countries have embraced trade liberalization but have faced severe domestic policy and supply-side constraints. Clearly, the link between trade and long-term growth is not automatic, but requires a supportive environment. On the supply side, this means investment in infrastructure that is sufficient to ensure that products can reach global markets as well as institutions that do not artificially raise transaction costs and, in the longer term, investment in education. International efforts to help address such capacity constraints are looked at further in the discussion below on the emerging aid for trade agenda.

Furthermore, even in the presence of appropriate supply-side capacities, developing countries have expressed concern about the short-term adjustment costs related to greater trade openness. Under certain circumstances, these adjustments could indeed temporarily reduce export revenues, increase import bills, or cause other shortfalls in the external balance of payments. Some of the potential adjustment pressures derive from the more competitive conditions in a country's export markets. For example, the erosion of tariff preferences might lead to a reduction in the demand for a country's exports because other suppliers are now able to compete on more equal terms. Similarly, the expiry of quotas under the WTO Agreement on Textiles and Clothing (ATC) leads to more intense competition in textiles and clothing markets – resulting in higher imports and/or lower exports in some countries.

Another possible adjustment pressure is related to cuts in agricultural subsidies in Organisation for Economic Co-operation and Development countries. While benefiting a vast number of farmers in the developing world, such measures could nevertheless increase the price of food imports. In that regard, there have been worries – rightly or wrongly – about the impact on poor and vulnerable segments of the population; thus, livelihood and food security concerns have been prominent in the Geneva debate. There are also fears that liberalization in merchandise goods might lead to de-industrialization, or that more liberal trade in services might, for example, destabilize financial systems. Attention has also been drawn to the expected loss of fiscal revenue from tariff reductions. While these are all valid concerns, they call for the careful design and phasing of liberalizing reforms, not for avoiding them.

It is now widely acknowledged that increased international assistance can be a crucial complement to trade reforms if it helps countries to take better advantage of the new trade opportunities arising from the Doha Round, or to address transitional adjustment costs from liberalization. Guided by its mandate and main areas of responsibility, IMF has been focusing on four types of assistance in addressing the trade-related concerns of developing countries: surveillance and research; Trade Integration Mechanism (financial assistance); technical assistance; and the aid for trade initiative.

1. Surveillance and research

Surveillance is the regular dialogue and policy advice that IMF conducts with its members. As part of this process (also called Article IV surveillance), IMF staff engage with country authorities in identifying areas of opportunity and risk, devising appropriate policy responses to the challenges of international integration and, more broadly, discussing the policies that are most conducive to stable exchange rates as well as a growing and prosperous economy. Since the launch of the Doha Round, IMF has held repeated and frank discussions with its larger member countries about the systemic impact of their trade policies on other countries. In its bilateral surveillance, IMF has paid particular attention to potential macroeconomic vulnerabilities arising from trade reforms under the Round, and identified countries that are most vulnerable; e.g., in relation to the expiry of textiles quotas under ATC, those countries with relatively large exports to quota-constrained markets.

IMF has also strengthened its research capacity in the trade area, and is helping to develop methodologies for assessing the impact of trade reforms on member countries. Overall, IMF research suggests that difficulties arising from third-country liberalization will be temporary when they arise, and it does not expect them to be widespread. To take a prominent example, model simulations suggest that the impact of preference erosion is unlikely to be large for most countries, although it could be significant for a minority.[2] In a relatively ambitious liberalization scenario, a reduction in export unit values of more than 2 per cent would be limited to around 24 countries. The associated loss of export income would tend to be larger to the extent that export volumes would decline in response to the price competition. IMF also found that the problem of preference erosion was heavily concentrated in a subset of products. Reforms in preference regimes for just two products, sugar and bananas, might leave only a fraction of the current preference margins of some of the most vulnerable preference beneficiaries. Accordingly, assistance to help countries cope with preference erosion can be closely targeted to the countries at risk. Many of these are small island economies that may have serious difficulties in adjusting.

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[2] Katerina Alexandraki, and Hans Peter Lankes, 2004, "Estimating the impact of preference erosion on middle-income countries," International Monetary Fund Working Paper WP/04/169 and Subramanian, Arvind, 2003, "Financing of losses from preference erosion", communication from the International Monetary Fund to the World Trade Organization, WT/TF/COH/14.

2. Trade Integration Mechanism

IMF financial assistance is available to give member countries the breathing space they need to correct balance of payments problems, including when such problems stem from adverse trade developments. While balance of payments shortfalls resulting from an ambitious Doha Round outcome are unlikely to be large for most countries – and would eventually be dominated by the positive impact of more open trade – they could be significant in the short term for some countries. To mitigate concerns further about financing such balance of payments shortfalls, particularly in developing countries, IMF introduced the Trade Integration Mechanism (TIM) in April 2004.

TIM is not a special facility that will provide new resources under special terms. Financial support for balance of payments difficulties arising from trade-related adjustments is already provided under the existing IMF lending facilities. Rather, TIM is a policy designed to increase the predictability of resources that are available under existing facilities. TIM offers a kind of insurance service, which provides countries with a greater degree of certainty that IMF financing will be available to assist with larger-than-anticipated adjustments. In addition, the explicit emphasis on trade adjustments ensures that their impact is carefully estimated and incorporated into IMF-supported programmes.

The IMF Board paper on TIM provides background details.[3] In short, a member country can request consideration under TIM if it expects a net balance of payments shortfall as a result of measures implemented by other countries that lead to more open market access for goods and services. Such measures would typically be introduced either under a WTO agreement or in some other way that treats all countries on a non-discriminatory basis. Examples include those mentioned above, including the erosion of tariff preferences in export markets, increases in the price of food imports, and higher imports and/or lower exports from increased competition in textiles and clothing markets resulting from the expiry of ATC.

TIM does not cover the implications of "own liberalization" measures; for example, any deterioration in a country's balance of payments that results from a reduction in its own import tariffs. However, IMF will continue to assist its members in anticipating and managing the implications of domestic reforms, whether taken unilaterally or in the context of the Doha Round, including through financing under existing IMF policies.

So far, two countries have availed themselves of TIM in relation to the expiry of ATC. The first was Bangladesh in July 2004 in the context of a Poverty Reduction and Growth Facility arrangement, followed by the Dominican Republic in January 2005 in the context of a stand-by arrangement. Other countries in South Asia and Africa have expressed interest, but are monitoring developments with regard to safeguards on

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3 International Monetary Fund, *Fund Support for Trade-Related Balance of Payments Adjustments*, 2004. Website: http://www.imf.org/external/np/pdr/tim/2004/eng/022704.htm.

Chinese exports to the European Union and United States of America markets. As long as China's exports remain reasonably restricted, adjustment pressures on its competitors in those markets are less intense and there is less need for IMF support.

3. Technical assistance

IMF provides significant and long-standing technical assistance and training to help member countries strengthen their capacity to design and implement effective policies. Technical assistance is offered in several areas, including fiscal policy, monetary and exchange rate policies, banking and financial system supervision and regulation, and statistics. Perhaps the most relevant areas of technical assistance in the trade area involve assistance for data improvements, customs reform, and tax and tariff reform (including the mitigation of revenue implications of trade liberalization). Actually, the IMF Managing Director has written to WTO members to assure them that IMF assistance will be available, if they so request, in designing revenue reforms that may be necessary as a result of a Doha Round agreement.

Although many low-income countries and some middle-income countries have difficulty in replacing trade tax revenues lost because of trade reforms, experience shows that this need not be the case. There are success stories, and the central components of that success are clear. According to IMF research,[4] the difficulty is ultimately not so much technical – although the proper design and implementation of accompanying domestic tax reforms is not a trivial task – as that of political commitment to the reforms widely recognized as being necessary to strengthen domestic tax systems. Successful experience suggests, in particular, that:

(a) Revenue recovery requires a committed and continuous effort, over several years, to broaden tax bases by eliminating exemptions, simplifying rate structures and improving revenue administration;

(b) Strengthening the domestic consumption tax system, through excise and particularly by means of a simple, broad-based VAT, has a crucial role to play;

(c) In contrast to the standard theoretical prescription that consumption taxes assume the burden of revenue recovery, the strengthening of income tax can also make an important contribution; and

(d) Trade liberalization may need to be purposely sequenced with domestic tax reform.

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[4] Thomas Baunsgaard and Michael Keen, 2004, *Tax Revenue and (or) Trade Liberalization?* Website: http://www.imf.org/External/np/res/seminars/2004/tbmk.pdf.

4. Aid-for-trade initiative

At meetings of their governing boards in the spring of 2005, the World Bank and IMF were asked to develop detailed proposals, for consideration at the annual meetings, for helping developing countries to further adjust to, and take advantage of, the Doha Round. These requests were echoed by the G8 in Gleneagles in July 2005. In response to these requests, and after consulting with key stakeholders in Geneva, the staff of the World Bank and IMF made the following three-pronged proposal:

(a) To enhance further the Integrated Framework of Trade-related Technical Assistance, including endowing it with predictable, multi-year financing over an initial five-year period;[5]

(b) To review whether regional and cross-country trade needs, such as the regional infrastructure for landlocked countries, are satisfactorily addressed through existing financing mechanisms; and if not, to explore the desirability and feasibility of new schemes, including a multilateral fund to address such needs;

(c) To strengthen the framework further for assessing adjustment needs, so that existing assistance mechanisms in this area can be better utilized. In particular, where a country was found to be suffering especially severe adjustment costs, IFIs would coordinate with other donors to provide an additional package of assistance, in the form of grants or loans, as appropriate. IMF is now experimenting with the use of so-called floating tranches in its programmes to address possible adjustment financing needs related to trade reforms. Such financing tranches would be triggered when Most Favoured Nation trade liberalization is undertaken as a result of Doha Round commitments, regional trade agreements or unilaterally. Their timing would be under the control of the authorities, so that any delays would not jeopardize the rest of the IMF programme.

At the recent annual meetings, ministers and governors broadly endorsed these proposals and, over the coming months in the lead-up to Hong Kong Ministerial Conference and beyond, IMF will work with others to flesh them out and implement them.

B. Conclusion

The 2005 Hong Kong Ministerial Conference will be a key test of the ultimate ambitions of the "development" round. If all countries stick to minimalist positions, there is little chance that the Doha Round will make a significant contribution to

[5] The Integrated Framework of Trade-related Technical Assistance brings together multilateral agencies (the International Monetary Fund, International Trade Centre, United Nations Conference on Trade and Development, United Nations Development Programme, World Trade Organization and World Bank) as well as bilateral and multilateral donors to assist least-developed countries in strengthening the incorporation of trade reforms into national poverty reduction strategies and coordinating trade-related technical assistance.

reducing global poverty. In addition, an investment in a successful Doha Round is an investment in the future of a strong and effective multilateral trading system. To this end, the World Bank and IMF are intensifying their efforts in support of an ambitious outcome from the Doha Round. In particular, IMF has introduced TIM to provide financial assistance to members facing balance of payments pressures resulting from multilateral trade reforms by other countries. IMF is also examining the use of floating tranches under IMF arrangements aimed at mitigating the balance of payments impact of a country's own trade reforms. In addition, IMF has sharpened its surveillance of countries with trade-related vulnerabilities and is providing trade-related technical assistance for customs and tax reform.

However, there are limits to what IFIs can do. The Round will stand or fall on its trade content; aid can only play a subordinate, though complementary role. As we approach the crucial Hong Kong Ministerial Conference, now is the time for action by all WTO members to move the negotiations forward. Emphasis should also be placed on the pro-active role that the private sector can play to make their respective governments engage more actively in the trade talks. Key areas for action are:

(a) Increasing market access, especially for developing countries;

(b) Significantly reducing trade-distorting domestic support;

(c) Eliminating all forms of export subsidies in agriculture; and

(d) Making significant progress on services, including financial services.

In short, the importance of achieving a successful and ambitious outcome in Hong Kong, China, both for the global economy and for meeting the MDGs, cannot be over-emphasized.

Annex I

FOR PARTICIPANTS ONLY
6 October 2005

ECONOMIC AND SOCIAL COMMISSION FOR ASIA AND THE PACIFIC

Delivering on the WTO Round: A High-level Government-Business Dialogue for Development

4-6 October 2005
Macao, China

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Annex II

United Nations
ESCAP

ITC

RTNeT

經 濟 局
DIRECÇÃO DOS SERVIÇOS DE ECONOMIA

Delivering on the WTO Round: A High-level Government-Business Dialogue for Development

4-6 October 2005 (Macao Tower)
Macao, China

PROGRAMME

Tuesday, 4 October 2005

09:00 – 09:50 **Opening Session**

- *H.E. Mr. Edmund Ho Hau Wah, Chief Executive, Government of the Macao Special Administrative Region, China*
- *Mr. Kim Hak-Su, Under-Secretary-General of the United Nations and Executive Secretary of ESCAP*
- *Mr. Ramamurti Badrinath, Director, Division of Trade Support Services, ITC*

Election of officers

09:50 – 10:15 **Networking**

10:15 – 12:00 **Panel: "Delivering Doha Development Goals: Multi-stakeholders' Perspectives from Asia-Pacific"**

The ambitions of the Doha Development Agenda were set high. After four years of negotiations, it is clear that such goals are easier set than delivered. The session will consider trade and poverty linkages, particularly in the context of achieving development goals contained in the Millennium Declaration, and the role of UN, other multilateral organizations and the business sector.

Chair: *H.E. Mr. Thomas Aquino, Senior Undersecretary, Department of Trade and Industry, Philippines*

Panelists:

- *Mr. Kim Hak-Su, Executive Secretary, ESCAP*
- *Mr. Peter Pedersen, Counsellor, WTO*
- *Mr. Bernard Hoekman, Research Manager, World Bank*
- *Mr. Peter Naray, Former Ambassador of Hungary to the WTO, and Consultant, ITC*
- *H.E. Mr. Luong Van Tu, Vice-Minister, Ministry of Trade, Viet Nam*

12:00 – 13:30 **Working Lunch**

Business perceptions and expectations regarding the WTO Doha negotiations

Address by *Dr. Victor Fung, Li & Fung (Trading) LTD and ESCAP Business Advisory Council*

13:30 – 15:00 **Multilateralizing regionalism: towards an integrated and outward-oriented Asia-Pacific economic area**

This session includes brief historical overview of a build-up of regionalism in the Asia-Pacific region including the mapping of existing RTAs with respect to their type and coverage. It analyses various configurations and forms of regional ties, with particular focus on "hubs and spokes". It closes with a discussion on some of the possible mechanisms that could disperse benefits enjoyed by parties in the RTAs to members of the multilateral trading system. The focus is on the ESCAP region as a key building block of an enhanced global partnership for development.

Chair: *H.E. Mr. Thomas Aquino, Senior Undersecretary, Philippines*

Presenter: *Ms. Tiziana Bonapace, Chief, TPS, TID, ESCAP*

Respondent: *H.E. Mr. Damdinsuren Surenkhor, State Secretary, Mongolia*

Respondent: *Ms. Piyanuch Malakul Na Ayuthya, Committee on Trade Rules and International Trade, Thailand*

Respondent: *Mr. Saman Kelegama, IPS, Sri Lanka and ARTNeT*

15:00 – 15:30 **Networking**

15:30 – 17:00 **Liberalization in agricultural trade**

Agricultural trade liberalization is frequently seen as a stumbling block of the current multilateral negotiation round. Open dialogue among stakeholders will enable objective assessment of the progress and status of the multilateral negotiations. A discussion on implications of agricultural trade liberalization – or nonliberalization – on the region's business and development prospects should help identify areas around which like-minded groups could form.

Chair: *H.E. Mr. Thomas Aquino, Senior Undersecretary, Philippines*

Presenter: *Mr. Biswajit Dhar, IIFT, India and ARTNeT*

Respondent: *Ms. Shi Miaomiao, Department of WTO Affairs, China*

Respondent: *Mr. Jose Maria Tarraga Zabaleta, Philippines Sugar Millers Association, Philippines*

Respondent: *Mr. Jay Bandaralage, Griffith University, Australia and ARTNeT*

17:00 – 18:00 **Cocktail reception**

18:00 – 20:00 **Welcoming banquet hosted by Government of Macao, China**

Wednesday, 5 October 2005

08:30 – 10:00 **Implications of the NAMA negotiations for the Asia-Pacific region**

Implications of the current situation in the negotiations on NAMA for business in Southeast Asia, South Asia, PRC and Central Asia countries. Which are the most restrictive tariff and non-tariff measures that should be addressed to benefit countries in the region? Which could be "additional elements" for future work on modalities? Is NAMA suffering from lack of progress in agriculture negotiations? Countries' position regarding special and differential treatment provisions, including flexibilities, and the erosion of tariff preferences. The region's interests in the negotiations on NAMA and the role that the business communities can play in this context.

Moderator: *Mr. Peter Naray, ITC*

Presenter: *Mr. Jose Antonio Buencamino, Permanent Mission to the WTO, Philippines*

	Respondent: *Ms. Jenny Yip, Trade and Industry Department, Government of Hong Kong Special Administrative Region, China*
	Respondent: *Mr. Manab Majumdar, FICCI, India*
10:00 – 10:30	**Networking**
10:30 – 12:00	**Anyone wearing new clothes?**
	The textiles and clothing sector's economic role in the region. New challenges and opportunities for Southeast Asia, South Asia, PRC and Central Asia countries following the full integration of this sector into the WTO regulatory system from January 2005. Are trade preference schemes constructive responses to deal with major changes to come? How can smaller exporters maintain and/or improve their comparative advantages and compete worldwide?
	Moderator: *Mr. Ramamurti Badrinath, Director, Division of Trade Support Services, ITC*
	Presenter: *Mr. Matthias Knappe, ITC*
	Respondent: *Mr. Bunintreavuth Vong, Ministry of Economy and Finance, Cambodia*
	Respondent: *Mr. Bijendra Man Shakya, Garment Association, Nepal*
12:00 – 13:30	**Working Lunch**
	Business advocacy
	Address by *Mr. Suthad Setboonsarng, PricewaterhouseCooper, Bangkok, Thailand*
13:30 – 15:00	**Services: Importance of further liberalization for business and economic development in the region**
	The future of the WTO services negotiation. Business interests and participation in the request/offer process in the current round of negotiations. Business advocacy in the area of services trade liberalization in Southeast Asia, South Asia, PRC and Central Asia. Bilateral and regional approaches to services trade liberalization.
	Moderator: *Mr. Peter Naray, ITC*
	Presenter: *Mr. Manickam Supperamaniam, Former Ambassador of Malaysia to the WTO*
	Respondent: *Mr. Christopher Findlay, ANU, Australia*
	Respondent: *Mr. Sambuu Demberel, MNCCI, Mongolia*

15:00 – 15:30 **Networking**

15:30 – 17:00 **Trade adjustment and business development financing**

Multilateral liberalization can cause balance of payments shortfalls which in turn can create significant short-run problems, making developing countries reluctant to embrace broader and deeper trade liberalization. The IMF introduced the Trade Integration Mechanism (TIM) in 2004 to assist IMF members to bridge these balance of payments shortfalls. So far, only one country from this region, Bangladesh, has requested and obtained TIM support. Does this signal that the conditions under which TIM can be used are pitched to high for countries that need adjustment support? Options for wider use of TIM, other financial adjustment instruments and technical and financial assistance for business development.

Vice-chair: *Mr. Sou Tim Peng, Government of the Macao Special Administrative Region, China*

Presenter: *Mr. Jean-Pierre Chauffour, IMF*

Respondent: *Mr. Md. Mokhles ur Rahman, Ministry of Finance, Bangladesh*

Respondent: *Mr. Sayeeful Islam, DCCI, Bangladesh*

Respondent: *Mr. Pushpa Raj Rajkarnikar, Institute for Policy Research and Development, Nepal, and ARTNeT*

Thursday, 6 October 2005

08:30 – 09:45 **Trade facilitation**

WTO agreement on trade facilitation is expected to have serious implications for the developing countries and LDCs in the region, many of which lag behind in the implementation of trade facilitation measures already recommended by various international bodies. Are promises of benefits sufficient to keep these countries interested in the negotiations? How important are technical cooperation and capacity building initiatives in this respect? How could business sector help governments to focus on measures most likely to yield early benefits?

Moderator: *Mr. Xuan Zengpei, Director, Trade and Investment Division, ESCAP*

Presenter: *Mr. Donald Lewis, University of Hong Kong and ARTNeT*

Respondent: *H.E. Mr. Siaosavath Savengsuksa, Vice Minister, Lao PDR*

Respondent: *Mr. Mahinda Parakrama Dissanayake, Aitken Spense Shipping, Ltd., Sri Lanka*

Respondent: *Mr. Raymond Atje, CSIS, Indonesia and ARTNeT*

09:45 – 10:15 **Networking**

10:15 – 11:45 **Business advocacy in trade policy: representing Asia-Pacific interests in multilateral negotiations**

The role of business before and after Cancún in the shaping of trade policies and negotiating positions for the Doha Round. Business interests in the different bilateral and regional negotiation processes. Developments in business advocacy culture and institutions. Strategic options for business in Southeast Asia, South Asia, PRC and Central Asia in respect of the resumption of negotiations at multilateral level.

Moderator: *Mr. Ramamurti Badrinath, Director, Division of Trade Support Services, ITC*

Presenter: *Mr. Peter Naray, ITC*

Respondent: *Mr. Jason Tianchon Lao, DTI, Philippines*

Respondent: *Mr. Akber Sheikh, LCCI, Pakistan*

12:00 – 12:30 **Closing session:**

- *Chair: H.E. Mr. Thomas Aquino, Senior Undersecretary, Philippines*
- *Mr. Ramamurti Badrinath, Director, Division of Trade Support Services, ITC*
- *Mr. Xuan Zengpei, Director, Trade and Investment Division, ESCAP*

12:30 – 14:00 **Lunch**

15:00 – 18:00 **Local tour (for non-ARTNeT participants)**

Second ARTNeT Consultative Meeting of Policymakers and Research Institutions

6-7 October 2005

University of Macau, Macao, China

The purpose of the Asia-Pacific Research and Training Network on Trade (ARTNeT) annual meeting is to discuss and present recent and ongoing trade research studies of the network and its members to participating policy makers and researchers, and to finalize and approve the ARTNeT research programme 2005-2006. This event will be preceded by a High-level Government-Business Dialogue for Development (4-6 October 2005) in which representatives of ARTNeT member institutions are invited to participate.

PROGRAMME

Thursday, 6 October 2005

14:00 – 14:15

Welcome message

Mr. Iu Vai Pan, Rector, University of Macau

Opening statement

Mr. Xuan Zengpei, Director, Trade and Investment Division, ESCAP

Introductory remarks

Mr. Ramamurti Badrinath, Director, Division of Trade Support Services, ITC

Mr. Evan Due, Senior Regional Programme Specialist, IDRC, Canada

14:15 – 15:30

Session 1: Improving trade research capacity and dissemination for policymaking

Moderator: *Mr. Evan Due, IDRC*

Report of the ARTNeT study on capacity building needs of research institutions for trade research
Mr. Larry Strange and Mr. Vutha Hing, CDRI, Cambodia

	Introduction to ITC Trademaps, Marketacess maps *Ms. Helen Lassen, Market Analysis Section, ITC* UNCTAD contribution to ARTNeT and trade research *Mr. Sven Callebaut, Regional Expert, TrainForTrade, UNCTAD* Presentation of the artnetontrade.org website *Mr. Yann Duval, TID, ESCAP*
15:30 – 15:45	***Coffee Break***
15:45 – 16:45	**Session 2: ARTNeT Study on Supply Side Constraints to Export-Led Growth in the Pacific Island Countries and other short-term studies** Moderator: *Mr. Peng Bin, Division Director, Ministry of Commerce, China* Supply Side Constraints to Export-Led Growth in the Pacific Island Countries *Mr. Biman Chand Prasad, USP, Fiji* Discussants: *Ms. Dang Nhu Van, VIE, Viet Nam* *Mr. Chang-In Yoon, KIEP, Republic of Korea* Overview of other short-term studies *Ms. Mia Mikic, TID, ESCAP*

Friday, 7 October 2005

08:30 – 9:45	**Session 3: ARTNeT Regional Study on Preferential Trade Agreements and Agriculture** Moderator: *Mr. Manickam Supperamaniam, Former Ambassador of Malaysia to the WTO* Agricultural Liberalization trends in Asia-Pacific: Overview of the Study and preliminary findings in South Asia *Mr. Parakrama Samaratunga, IPS, Sri Lanka* Mapping and analysis of East and Southeast Asian agricultural trade liberalization efforts *Ms. Gloria Pasadilla, PIDS, Philippines* Agricultural trade liberalization in Asia-Pacific: Scenario analysis using GTAP 6.0 *Mr. Jay Bandaralage, Griffith University/IPS* Agricultural trade liberalization: a Chinese perspective and analysis *Mr. Shunli Yao, Peking University, China*

9:45 – 10:00	***Coffee Break***
10:00 – 10:45	**Session 3 (cont'd):** Related studies by member/partner institutions: ● *Mr. Anthony Kleitz, OECD* Discussants: *Ms. Deunden Nikomborirak, TDRI, Thailand* *Mr. Biswajit Dhar, IIFT, India and ARTNeT External Advisor*
10:45 – 11:30	**Session 4: ARTNeT Thematic Study on Trade Facilitation: WTO Negotiations and Beyond** Moderator: *Mr. Florian Alburo, University of Philippines and ARTNeT External Adviser* Need for and Cost of Selected Trade Facilitation measures negotiated at the WTO ● in Bangladesh *Mr. Debapriya Bhattacharya, CPD, Bangladesh* ● in China *Mr. Chen Wenjing, CAITEC, China* ● in Nepal *Mr. Pushpa Raj Rajkarnikar, IPRAD, Nepal*
11:30 – 12:45	***Lunch***
12: 45 –13:45	**Session 4 (cont'd)** Need for and Cost of Selected Trade Facilitation measures negotiated at the WTO ● in Indonesia *Mr. Yose Rizal Damuri, CSIS, Indonesia* ● in India *Mr. Sachin Chaturvedi, RIS, India* Related studies by member/partner institutions ● *Mr. Anthony Kleitz, OECD* Discussants: *Mr. Donald Lewis, University of Hong Kong, and ARTNeT External Adviser*
13:45 – 15:45	**Session 5: ARTNeT Research Programme 2005-06*** Moderator: *Mr. Jason T. Lao, Director III, Department of Trade and Industry, Philippines*

	Presentation of the research programme 2006 *Ms. Tiziana Bonapace, TID, ESCAP* ● Small groups discussion ● Plenary reports Approval of the ARTNeT research programme by government representatives * This session is for researchers and policymakers/government officials only. Five to six private sector participants will be invited to join the small group discussions.
15:45 – 16:00	**Closing**
14:00 – 17:00	**Local tour (for non-ARTNeT participants)**
16:15 – 17:45	***ARTNeT Institutional Advisory Board (IAB) Meeting**** Chair: *Mr. Xuan Zengpei, TID, ESCAP* * *Closed meeting for IAB members and partners only; exact timing, agenda and location to be communicated separately.*
19:00 – 21:00	**Dinner hosted by University of Macau**

ESCAP STUDIES IN TRADE AND INVESTMENT

No.

1. *Strengthening Capacities in Trade, Investment and the Environment for the Comprehensive Development of Indo-China* (ST/ESCAP/1482)
2. *Regional Cooperation in Export Credit and Export Credit Guarantees* (ST/ESCAP/1438)
3. *Expansion of Manufactured Exports by Small and Medium Enterprises (SMEs) in ESCAP Region* (ST/ESCAP/1457)
4. *Towards a More Vibrant Pepper Economy* (ST/ESCAP/1494)
5. *Sectoral Flows of Foreign Direct Investment in Asia and the Pacific* (ST/ESCAP/1501)
6. *Review and Analysis of Intraregional Trade Flows in Asia and the Pacific* (ST/ESCAP/1506)
7. *Prospects of Economic Development through Cooperation in North-East Asia* (ST/ESCAP/1472)
8. *An Analysis of Fiji's Export Potential to Asia* (ST/ESCAP/1511)
9. *Development of the Export-Oriented Electronics Goods Sector in Asia and the Pacific* (ST/ESCAP/1512)
10. *Assessing the Potential and Direction of Agricultural Trade within the ESCAP Region* (ST/ESCAP/1517)
11. *Benefits and Challenges Facing Asian and Pacific Agricultural Trading Countries in the Post-Uruguay Round Period* (ST/ESCAP/1526)
12. *Trade Prospects for the Year 2000 and Beyond for the Asian and Pacific Region* (ST/ESCAP/1516)
13. *Electronic Commerce Initiatives of ESCAP – Role of Electronic Commerce in Trade Facilitation* (ST/ESCAP/1557)
14. *Promotion of Investment in Countries in the Early Stages of Tourism Development: Mongolia, Myanmar, Nepal, Viet Nam* (ST/ESCAP/1597)
15. *Implications of the Uruguay Round Agreements for the Asian and Pacific Region* (ST/ESCAP/1535)
16. *Implications of the North American Free Trade Agreement for the Asian and Pacific Region* (ST/ESCAP/1627)
17. *Prospects for the Textile and Clothing Sector of the ESCAP Region in the Post-Uruguay Round Context* (ST/ESCAP/1642)
18. *Trade and Investment Complementarities in North-East Asia* (ST/ESCAP/1640)
19. *Myanmar: Trade and Investment Potential in Asia* (ST/ESCAP/1671)
20. *Promoting Exports of Fish and Fishery Products in Selected Island Developing Countries of the ESCAP Region* (ST/ESCAP/1677)
21. *Enhancing Trade and Environment Linkages in Selected Environmentally Vulnerable Export-Oriented Sectors of the ESCAP Region* (ST/ESCAP/1704)
22. *Asian and Pacific Developing Economies and the First WTO Ministerial Conference: Issues of Concern* (ST/ESCAP/1705)
23. *Inter-networking through Electronic Commerce to Facilitate Intra-regional Trade in Asia* (ST/ESCAP/1721)
24. *Tea Marketing Systems in Bangladesh, China, India, Indonesia and Sri Lanka* (ST/ESCAP/1716)
25. *Private Sector Development and ODA in Indo-China* (ST/ESCAP/1723)
26. *Implications of the Single European Market for Asian and Pacific Economies: Opportunities and Challenges* (ST/ESCAP/1744)
27. *Trade Effects of Eco-labelling* (ST/ESCAP/1792)
28. *Assistance to Small and Medium-sized Enterprises for Enhancing Their Capacity for Export Marketing* (ST/ESCAP/1816)
29. *Border Trade and Cross-border Transactions of Selected Asian Countries* (ST/ESCAP/1824)
30. *Market Prospects for Pulses in South Asia: International and Domestic Trade* (ST/ESCAP/1825)

31. *Electronic Commerce Initiatives of ESCAP: Business Facilitation Needs* (ST/ESCAP/1854)
32. *Assistance to Economies in Transition in Export Promotion* (ST/ESCAP/1808)
33. *Implications of the APEC Process for Intraregional Trade and Investment Flows* (ST/ESCAP/1886)
34. *Enhancement of Trade and Investment Cooperation in South-East Asia: Opportunities and Challenges Toward ASEAN-10 and Beyond* (ST/ESCAP/1882)
35. *Trade and Investment Complementarities among the South-western Member Countries of ESCAP* (ST/ESCAP/1932)
36. *Trade and Investment Scenarios and Liberalization Agenda for Asia and the Pacific* (ST/ESCAP/1965)
37. *Implications of General Agreement on Trade in Services (GATS) for Asia-Pacific Economies* (ST/ESCAP/1926)
38. *Electronic Commerce Initiatives of ESCAP – Alignment of the Trade Documents of Cambodia, Myanmar and Viet Nam* (ST/ESCAP/1892)
39. *Electronic Commerce Initiatives of ESCAP – International Trade Transaction (ITT) Models as an Aid to the Process of Harmonization (India, Malaysia, Philippines and Sri Lanka* (ST/ESCAP/1963)
40. *Non-tariff Measures with Potentially Restrictive Market Access Implications Emerging in a Post-Uruguay Round Context* (ST/ESCAP/2024)
41. *The Future WTO Agenda and Developing Countries* (ST/ESCAP/2047)
42. *Private Sector Perspectives in the Greater Mekong Subregion* (ST/ESCAP/2065)
43. *Interregional cooperation in trade and investment: Asia-Latin America* (ST/ESCP/2069)
44. *Enhancing export opportunities through environmentally sound business development* (ST/ESCAP/2120)
45. *Export promotion for Economies in Transition* (ST/ESCAP/2107)
46. *Export competitiveness and sustained economic recovery* (ST/ESCAP/2150)
47. *Regional Perspectives on the WTO Agenda: Concerns and Common Interests* (ST/ESCAP/2161)
48. *Accession to the World Trade Organization: Issues and Recommendations for Central Asian and Caucasian Economies in Transitions* (ST/ESCAP/2160)
49. *Facilitating the Accession of ESCAP Developing Countries to WTO through Regional Cooperation* (ST/ESCAP/2215)
50. *Foreign Direct Investment in Central Asian and Caucasian Economies: Policies and Issues* (ST/ESCAP/2255)
51. *The Doha Development Agenda: Perspectives from the ESCAP Region* (ST/ESCAP/2278)
52. *Trade and Investment Policies for the Development of the Information and Communication Technology Sector of the Greater Mekong Subregion* (ST/ESCAP/2336)
53. *Prospects from the ESCAP Region after the Fifth WTO Ministerial Meeting: Ideas and Actions following Cancún* (ST/ESCAP/2338)
54. *Harmonized Development of Legal and Regulatory Systems for E-commerce in Asia and the Pacific: Current Challenges and Capacity-building Needs* (ST/ESCAP/2348)
55. *The Role of Trade and Investment Policies in the Implementation of the Monterrey Consensus: Regional Perspectives* (ST/ESCAP/2363)

For more information, please contact:

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