

trade hot topics

Doha Round and Securing a Development-Friendly Istanbul Programme of Action for LDCs: A WTO Perspective

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Background

The United Nations member states will meet in Istanbul, Turkey, from 9 to 13 May 2011, for the LDC-IV Conference, culminating a two-year preparatory process at national, regional and global levels. The Conference will take place against the backdrop of an assessment of the Brussels Programme of Action (BPoA) adopted ten years ago at the LDC-III Conference in Brussels, Belgium, and will draw up an action programme — which will provide the blueprint of international co-operation in the coming decade (2011-20), in support of least developed countries' (LDCs) growth and development. The events in the run-up to the LDC-IV have underscored the critical importance of trade in development, and have accordingly called on the international community to undertake all measures necessary to expand LDC trade.

In the BPoA, trade was recognised as an important vehicle for accelerating economic development and in achieving the overarching goal of poverty alleviation in the LDCs. Most of the trade-related deliverables of the BPoA — for example, duty-free and quota-free market access for LDC products, enhancing market access opportunities for services exports from LDCs, facilitating speedy accession of LDCs to the World Trade Organization (WTO),

strengthening assistance for trade capacity-building, etc.—have also been the priorities of the LDC work programme in the WTO. The Doha Development Agenda (DDA) too promises dividends for LDCs, be it enhanced market access opportunities or increased and targeted technical assistance or greater flexibility in the implementation of trade rules. A successful conclusion of the Round would consolidate what is on the table for the LDCs and address some of the outstanding concerns they have. Importantly, the conclusion of the DDA would also correct many of the distortions in world trade, and make the multilateral trading system more fair and predictable for all WTO members.

Development is the *raison d'être* of the DDA, as economic and development interests of developing countries, and in particular that of the LDCs, are at its core. The DDA is committed to address the marginalisation of LDCs in global trade and to integrate them to the global economy. LDCs have already started to benefit from some of the decisions taken under the DDA, most notably the Decision on duty-free and quota-free (DFQF) market access for LDCs' products taken at the WTO Hong Kong Ministerial Conference in 2005. There are other important decisions that have already been agreed to by members, but which will come into

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force with the conclusion of the Round. In fact, all areas of current negotiations to protect the interests of LDCs with special carve outs. This issue of *Commonwealth Trade Hot Topics* provides a brief WTO perspective on the benefits that would accrue to the LDCs with the successful conclusion of the DDA, and as a result show how important it is to call for its expeditious conclusion at the LDC-IV Conference at Istanbul.

LDC issues in DDA

Achieving DFQF market access has been one of the key elements of the development dimensions of the DDA. In fact, the call for such access was made both at the Millennium Summit Declaration in 2000 as well as in the BPoA. However, the real breakthrough came at the 2005 WTO Hong Kong Ministerial Conference, where a comprehensive decision was taken to provide DFQF market access for all products from all LDCs, and as a first step asked developed members to provide such access to at least 97 per cent of products from LDCs by 2008 or by the start of the implementation of results of the DDA. Despite the decision, in a way, getting linked to the single undertaking principle, most of WTO developed members have already undertaken necessary steps to comply with the DFQF Decision. During the period 2002 to 2009, Australia, Canada, the European Union, Japan, New Zealand, Norway and Switzerland made additional improvements to their preferential market access schemes for LDCs, and today all of them grant either 100 per cent or close to 100 per cent DFQF access to LDC products. And most of them also provide such access on a lasting basis. However, some important gaps remain. There still exists high tariffs on certain items (e.g. apparels, leather) of export interest to LDCs in some markets. The conclusion of Doha will require all developed members to fully implement the Hong Kong DFQF Decision, and it will also lead to the establishment of a monitoring procedure to oversee the implementation of the DFQF Decision.

A key component of the Hong Kong DFQF Decision is that it also asks, albeit in a less mandatory manner, developing countries to extend DFQF access to LDC products. And this, too, has delivered results. While preferences are provided through a variety of bilateral, regional and multilateral initiatives and the coverage of such preferences varies from one developing country to another, some emerging countries like Brazil, China and India now grant, or are in the process of granting, a

significant degree of market access to LDC products. In fact, the geographical landscape of LDC exports increasingly exhibits a growing dominance of developing countries; their share in LDC exports has increased rapidly during the last couple of years and today account for close to half of LDC exports.

One unique feature of the DFQF Decision is that it brought the issue of preferential rules of origin to the multilateral platform. Preference giving countries have been somewhat reluctant to discuss preferential rules of origin in a multilateral forum as they essentially view this as an autonomous matter. However, there has been a growing appreciation for the need of simple rules of origin for the LDCs. A large body of research points to the fact that stringent rules of origin hinder the development of an integrated production structure and the promotion of backward linkages in the LDCs. Given the dynamics of global supply chains, a pragmatic approach is needed; one which would enable the LDCs to source inputs, efficiently and in a cost-effective manner. The Canadian rules of origin (lower threshold for value addition) or the new EU rules of origin (single transformation requirement with no percentage) are definitely more conducive to LDCs' exports. The sooner there is a consensus on a multilateral set of rules of origin framework for the LDCs, the sooner will LDCs be able to fully benefit from the preferential market access schemes undertaken in their favour.

Second, there is no denying the fact that a multilateral agreement is the only way to correct some of the prevailing distortions in agricultural trade. A fair and market-oriented agricultural trading system has not only been an overriding objective of the DDA negotiations, but has also been clearly articulated in the BPoA. The DDA is expected to lead to substantial reductions in high levels of protection and domestic support in agriculture, together with elimination of all forms of export subsidies. This will accrue without compromising the existing policy space for LDCs in agriculture, since LDCs are not required to undertake any reduction commitments. Here one could recall that the LDCs also did not undertake tariff reduction commitments in the previous round of multilateral trade negotiations — the Uruguay Round — even though the average tariff reduction that developing countries undertook was 24 per cent. And the current binding levels for the LDC Group as a whole (78 per cent) represent a much higher tariff flexibility as compared to other developing countries. Moreover, other special and

differential treatment provisions that are being negotiated in the negotiations on agriculture will help cushion LDCs from any sudden import surges.

In addition, the litmus test of the development dimension of the DDA is its promise to deliver on cotton. The sectoral initiative on cotton was not initially part of the DDA mandate, but was later taken on board at the initiative of four LDCs in 2003, known in the WTO as C-4: Benin, Burkina Faso, Chad and Mali. A Committee on Cotton was established in 2004 which is looking at all trade-distorting policies affecting the sector. The reduction of support for cotton production would be done more ambitiously than the general reduction of subsidies as part of the DDA negotiations, and that this reduction for cotton would be implemented over a shorter period of time than generally applicable. LDC cotton exports will also start to receive DFQF market access from the start of the implementation period of the Doha Round, if not earlier. All these measures would allow the cotton-producing LDCs to fully benefit from a better level playing field in cotton trade. At the same time, the WTO Director-General's consultative framework on cotton is providing greater focus to promote development assistance in this sector.

Third, the promises from the NAMA (non-agricultural market access) negotiations are no less significant than that in the area of agriculture. Here, too, the LDCs are not required to make any cuts in their bound tariffs and will enjoy considerable freedom in deciding the extent and level of their binding coverage. More than half of the WTO LDC members have bound less than 35 per cent of their non-agricultural tariff lines, thereby retaining significant policy space in devising their tariff policy in the non-agricultural sector. The implementation of DDA would also bring some important NAMA products under the DFQF coverage. There are also provisions being considered for addressing any erosion of preferences from MFN (most favoured nation) tariff cuts as well as to encounter any disadvantageous situation with the delay of MFN liberalisation.

Fourth, the conclusion of the Round will help the LDCs enhance their participation in global trade in services. Although the average annual growth rate of LDC services exports was in double digit figures in the last decade, the share of LDCs in world trade in commercial services has been stubbornly stagnant (around half of one per cent), with tourism and

transportation services accounting for the bulk of LDC services exports. To advance LDCs interests in services negotiations, special modalities were adopted in 2003. Tradeable services in the LDCs are extremely limited, with considerable dearth of skills endowment. The implementation of the special modalities could bring in resources to build domestic services capacity in the LDCs, and could also open up an avenue for the LDCs to seek access for natural persons supplying services under mode 4, and other modes of supply of export interest to LDCs. It is also worth noting that the Hong Kong Ministerial Declaration exempted LDCs from undertaking any new commitments in trade in services, in addition to the existing commitments that they have in their General Agreement on Trade in Services (GATS) schedules which average 24 sectors where commitments have been taken out of a possible 155 (as compared to an average of 52 sectors for developing countries and 105 for developed countries).

An important focus of LDC interest in the services area has been the negotiation of a mechanism that would allow other members to provide special priority to sectors and modes of supply of export interest to LDCs. Trade in services lacks an instrument like the Enabling Clause, which provides the legal cover for the preferences that LDCs receive in the goods area from their developed-country trading partners. Discussions are ongoing in the WTO to adopt a waiver under the GATS which will enable members to provide preferential treatment to services and services suppliers from LDCs without being in contravention of the MFN principle. This waiver would be a very important step forward in the multilateral trading system, creating an avenue for increased participation by the LDCs in services trade.

Fifth, the conclusion of DDA would also result in a Trade Facilitation Agreement, improving an entire gamut of customs rules and export procedures. For example, 16 out of 48 LDCs are landlocked and face enormous freight and insurance costs, as well as other cross-border bottlenecks. Any improvement in the movement of goods in transit would make a higher impact than tariff cuts alone for these landlocked LDCs. Other trade facilitation measures, such as faster clearance times, lower administrative costs and improved revenue collection, would not only enhance competitiveness in trade, but also increase transparency and predictability of the multilateral trading system. One unique feature about the trade facilitation negotiations is that the implementation of some of the trade facilitation

measures would be linked to the availability of technical assistance and other forms of support. This would provide another opportunity to the LDCs to garner necessary support and resources to build up facilities and remove inefficient customs procedures, which could hinder their trade efficiency.

Sixth, it would be remiss if we were to conclude without mentioning the progress made in the negotiations on special and differential treatment (S&D) provisions, where LDC proposals have received special priority. The adoption of five LDC proposals at the Hong Kong Ministerial Conference in 2005 is a testimony to this special attention. These decisions, including the decision on DFQF market access for LDC products mentioned earlier, provide LDCs with greater flexibility, including through simplification of the waiver process from WTO obligations, a longer time-frame to phase out TRIMS-inconsistent trade-related investment measures (until 2020) and improved coherence with international organisations to ensure more targeted technical assistance for LDCs. In addition, there are 28 proposals which have been agreed to in principle at the WTO's Ministerial Conference in Cancún, Mexico, in 2003, and which will become part of the DDA package once the Round is concluded. These 28 proposals encompass a broad range of improved provisions under goods, services and TRIPS (trade-related aspects of intellectual property rights), which would give LDCs further leverage to pursue their development objectives and assistance to adjust to a more competitive global environment, following MFN liberalisation. The current discussion on a monitoring mechanism to regularly review the S&D provisions will also be an important step in ensuring that flexibilities provided to developing countries and LDCs work in practice.

Seventh, the conclusion of DDA would further strengthen the basis for providing greater trade-related assistance to the LDCs. Market access opportunities are meaningless without concomitant capacity. WTO has been a party to some major international initiatives to help LDCs build trade capacity. The Integrated Framework for trade-related technical assistance — which was born out of a high-level meeting in the WTO in 1997 — has evolved over the years. With stronger national and global governance structure and additional financial resources, the Enhanced Integrated Framework (EIF) became operational in 2009 providing much needed resources to assist LDCs mainstream trade into their national development strategies, and also providing

the link to access broader resources from initiatives such as Aid-for-Trade. The programme is currently helping 47 LDCs worldwide.

The Aid-for-Trade Initiative, launched in the WTO in 2005, has gathered significant pace in the last five years. Advocating assistance to developing countries and LDCs to address their supply-side constraints is now at the forefront of the WTO, which is providing a global spotlight, including through analysis and debate, on the needs of LDCs in order to help them mobilise adequate resources to meet those needs. The WTO organises Global Reviews of Aid for Trade, the third of which will be held in July 2011, with the objective of taking a closer look at the impact that Aid-for-Trade flows are having on economic growth and development. The momentum created by the conclusion of DDA would be pivotal in rallying international support towards mechanisms that assist LDCs in overcoming their production and supply bottlenecks. In fact, the LDC-IV would also be an important occasion for the international community to pledge additional resources for trade capacity-building in the LDCs.

Last, but not least, the expeditious conclusion of the DDA would give a boost to the accession process of those LDCs that are negotiating to join the organisation. The BPoA called for the streamlining of the WTO accession process and the concomitant requirements of the LDCs. The WTO members responded by adopting the LDC accession guidelines in 2002, which today provide the framework for their accession negotiations. It is in keeping with these guidelines that steps have been taken in the WTO to help expedite the accession process and to make it less onerous for the LDCs. Greater priority is accorded through technical assistance, policy advice, regular dialogues and outreach activities. Three LDCs have joined the WTO since the last LDC Conference (Cambodia, Cape Verde and Nepal, although Cape Verde graduated from LDC status in 2007), and a further 12 are at various stages of their accession process, a few of which — at least — are at a fairly advanced stage.

Conclusion

The DDA and the BPoA share common goals of integrating LDCs into the multilateral trading system. On many fronts, there has been concrete progress in meeting the targets set out at the BPoA. In fact, the time span of the BPoA (i.e. 2001-10) has also been the period during which the DDA negotiations have been going on, and this has been an important period for LDCs in the multilateral

trading system. The LDCs have witnessed an increase of their share in world trade during this period — the average annual LDC goods export has been in double digit figures. The share of LDCs in world merchandise trade moved up from less than half of one per cent to close to one per cent. Trade conditions too have improved, with LDCs enjoying duty-free and quota-free market access to many of its developed-country markets. But, concerns and constraints remain. If one excludes oil and minerals from the export basket of LDCs, the share of LDCs in world merchandise trade has mostly remained static. LDCs remain as vulnerable as ever to exogenous shocks, and their trade profile continues to be characterised by heavy reliance on a limited range of export products.

It is against this background that trade should be firmly positioned and profiled in the outcome document for the LDC-IV currently being developed in New York. While the importance of trade has

been acknowledged in the current draft, it lacks enough ambition, particularly in the policy-related deliverables. A greater appreciation of the DDA is warranted, since it will not only create export opportunities for the LDCs leading to accelerated growth and development, it will also strengthen the rules-based multilateral trading system. WTO members are committed to conclude the DDA by the end of 2011. Its ambitious and expeditious conclusion will provide them with fairer rules of global trade, and accompanied by more Aid-for-Trade flows, including through an Enhanced Integrated Framework, this will help LDCs in their quest for economic growth and in fulfilling the Millennium Development Goals (MDGs). Not pushing for an early conclusion of the DDA is thus not an option for the LDCs, and the Istanbul Programme of Action must recognise this and strongly urge all countries to work towards an expeditious conclusion of the Round.

International Trade & Regional Co-operation Section at the Commonwealth Secretariat

This Trade Hot Topic is brought out by the International Trade and Regional Co-operation (ITRC) Section of the Economic Affairs Division (EAD) of the Commonwealth Secretariat, which is the main intergovernmental agency of the Commonwealth — an association of 54 independent states, comprising large and small, developed and developing, landlocked and island economies — facilitating consultation and co-operation among member governments and countries in the common interest of their peoples and in the promotion of international consensus-building.

ITRC is entrusted with the responsibilities of undertaking policy-oriented research and analysis on trade and development issues and providing informed inputs into the related discourses involving Commonwealth members. The ITRC approach is to scan the trade and development landscape for areas where orthodox approaches are ineffective or where there are public policy failures or gaps, and to seek heterodox approaches to address those. Its work plan is flexible to enable quick response to emerging issues in the international trading environment that impact particularly on two highly vulnerable Commonwealth constituencies — least developed countries (LDCs) and small states.

Scope of ITRC Work

ITRC undertakes activities principally in three broad areas:

- It supports Commonwealth developing members in their negotiation of multilateral and regional trade agreements that promote development friendly outcomes, notably their economic growth through expanded trade.
- It conducts policy research and consultations increase understanding of the changing of the international trading environment and of policy options for successful adaptation.
- It contributes to the processes involving the multilateral and bilateral trade regimes that advance the more beneficial participation of Commonwealth developing country members, particularly small states and LDCs.

ITRC Recent Activities

ITRC's most recent activities focus on assisting member states in the WTO Doha Round and the Economic Partnership Agreement (EPA) negotiations involving the African, Caribbean and Pacific countries (ACP) the European Union (EU), undertaking analytical research on a range of trade policy and development issues, and supporting workshops/dialogues for facilitating consensus-building on issues of Commonwealth members' interest, exchange of ideas, and disseminating results from informed analysis.

Selected Recent Meetings/Workshops supported by ITRC

9 March 2011: Consultative Meeting on Trade Effects of Rules on Procurement for Commonwealth ACP members held in London, UK.

8 March 2011: Consultative Meeting on Making Trade in Services Supportive of Development in Commonwealth Small and Low-Income countries, held in London, UK.

16-18 February 2011: Conference on Regional Integration titled 'Caribbean Community and the Commonwealth: Collective Responsibility in the Twenty First-Century', held in Kingston, Jamaica.

17-19 December 2010: 3rd South Asian Economic Summit titled, Regional Economic Integration, Climate Change and Food Security Agenda for the Decade 2011-2020, held in Kathmandu, Nepal.

25-26 November 2010: Regional Seminar on Trade Policy for Commonwealth Caribbean Parliamentarians, held in St. Kitts & Nevis.

24-26 November 2010: International Dialogue titled, Exploring a New Global Partnership for the LDCs in the Context of the UN LDC IV, held in Dhaka, Bangladesh.

15-17 November 2010: Workshop on Competitiveness Strategies with Special Reference to African and Indian Ocean Small States, held in Port Louis, Mauritius.

3 November 2010: Pre-LDC IV African Civil Society Forum, held in Arusha, Tanzania.

16 September 2010: WTO Public Forum Session on Africa in international trade: impediments and opportunities, in Geneva, Switzerland.

28 June 2010: Consultation Meeting on WTO Accession, held in Brussels, Belgium

26 June 2010: Workshop on Policy Barriers in Intraregional Trade in South Asia, held in Dhaka, Bangladesh

Selected ITRC Publications

Collier, P. (2011). *Catching Up: What LDCs Can Do, and How Others Can Help*, London: Commonwealth Secretariat.

Calì, M., Razzaque, M. A. and Te Velde, D. W. (2011). *Effectiveness of Aid for Trade in Small and Vulnerable Economies*, Economic Paper No. 91, London: Commonwealth Secretariat.

Calì, M with Kennan, J (2010). *The Global Financial Crisis and Trade Prospects in Small States*, Economic Paper, London: Commonwealth Secretariat.

Milner, C., Morrissey, O. and Zgovu, E. (2010). *Policy Responses to Trade Preference Erosion: Options for Developing Countries*. London: Commonwealth Secretariat.

Jones, E., Deere-Birkbeck, C. and Woods, N. (2009). *Maneuvering at the Margins: Constraints Faced by Small States in International Trade Negotiations*. London: Commonwealth Secretariat.

Razzaque, M. A. (ed) (2009). *Trade, Migration and Labour Mobility*. London: Cameron May.

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Milner, Chris (2008). *Trading on Commonwealth Ties: A Review of the Structure of Commonwealth Trade and the Scope for Developing Linkages and Trade in the Commonwealth*. London: Commonwealth Secretariat.

Turner, L (2008). *'Quantifying Aid for Trade: A Case Study of Tanzania'*. Economic Paper, London: Commonwealth Secretariat.

Qalo, Veniana (ed) (2008). *Bilateralism and Development: Emerging Trade Patterns*. London: Cameron May.

Grynberg, Roman and Bilal, Sanoussi (eds) (2007). *Navigating New Waters: A Reader on ACP-EU Trade Negotiations*. London: Commonwealth Secretariat.

Razzaque, Mohammad A and Laurent, Edwin (eds) (2007). *Global Rice and Agricultural Trade Liberalisation: Poverty and Welfare Implications for South Asia*. London: Commonwealth Secretariat.

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- Aid for trade in small states and Sub-Saharan Africa
- Trade and climate change issues for LDCs
- Rise of emerging developing countries and implications for Sub-Saharan Africa and small vulnerable economies (SVEs)
- Commonwealth Investment Framework Agreement
- Trade effects of Government Procurements on developing countries
- Development issues under EPAs
- Development aspects of trade-related issues and trade in services
- Regional trading arrangements in South Asia and their implications
- Trade in services issues for small states and low-income countries
- Fiscal implications of Pacific trading arrangements
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- The development impact of the Doha Round on least developed countries (LDCs)
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