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WTO Doha Round and Special Measures for Less Developed Countries

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Background

Integrating Least Developed countries (LDCs) into the multilateral trading system remains one of the biggest challenges for the WTO members. LDCs comprises of approximately one-fourth of the total membership of the WTO. However its share in the world merchandise trade has still not reached 1 percent. Moreover, it is commodities and not manufactured goods, which account for substantial portion of exports of the majority of LDCs, particularly from Africa. Out of the total exports from LDCs more than half comes from a handful of Asian LDCs: Bangladesh and Cambodia. Nevertheless, international trade is important for LDCs to achieve higher economic growth and address the issues of creating jobs and eradicating poverty.

Given the situation of LDCs at the time of the launch of the Doha round of trade negotiations in 2001, it was thought that a concerted effort is required to integrate LDCs into the multilateral trading system. As a result, the Doha Development Agenda included many LDC-specific provisions such as TRIPs and Public Health, Duty and Quota Free Market Access, establishment of Working Groups on Trade, Debt & Finance, and Trade & Transfer of Technology and enhanced technical assistance for LDCs to overcome their supply side constraints (establishment of the Global Trust Fund). Later in the course of negotiations, in September 2003, a separate modality to address their concern in services trade negotiations was adopted. This has been underscored in the Hong Kong Ministerial Declaration as well.

The Hong Kong Ministerial Declaration added some new provisions for LDCs, which includes Aid for Trade, preference erosion as a result of multilateral tariff reduction, adding a separate annexure elaborating the implementation plan of duty free & quota free market access for LDCs, and the issue of cotton subsidies.

Erosion of trade preferences is one of the major concerns for LDCs and poor developing countries in the on-going efforts to further liberalization of multilateral trade in the Doha Round. Tariff reductions under agriculture and non-agricultural market access (NAMA) are expected to lead to lowering of most-favoured nation (MFN) tariffs. The reduction of MFN tariffs is expected to adversely affect countries, which are beneficiaries of preferential agreements. Reflecting this concern, the text of the Hong Kong Ministerial Declaration made explicit reference to preference erosion, recognizing it as an issue that needs to be addressed in the Doha Round. However, preference erosion per se cannot be arrested, as it is the natural fallout of multilateral trade liberalisation. However, WTO members are trying to find ways how this loss could be compensated. Enhanced aid package is one of the ways to provide some relief to these countries.

This Briefing Paper focuses upon four specific issues, which have occupied the centre stage in Post-HK trade negotiations. They are:

- Duty-free and quota-free market access
- Aid for trade
- Cotton subsidies
- Operationalisation of modalities for the special treatment of LDC members in the negotiation on trade in services

Duty-free and quota-free market access

The proposal on DFQF market access was so germane to the LDCs' participation in the global economy that this issue was first raised in 1992 during the Eighth Session of the United Nations Conference on Trade and Development (UNCTAD VIII) held in Cartagena. The Cartagena Commitment urged that exports from the LDCs be guaranteed duty-free access to major markets, but the idea was stillborn. Traversing through the First Ministerial Conference of the WTO (Singapore, December 1996), to UNCTAD X (Bangkok, February 2000), UN Millennium Summit (New York, September 2000), Third United Nations Conference on LDCs (Brussels, May 2001), the proposal received a major boost during the Fourth Ministerial Conference of the WTO (Doha, November 2001). Here, ministers committed themselves to the objective of DFQF market access for products originating from LDCs as a part of Doha Development Agenda (DDA).

Due to the much-hyped promises for "early harvest" on the DDA for the LDCs, they were hopeful of achieving a major breakthrough during the Hong Kong Ministerial Conference of the WTO. However, their hopes have been belied because developed countries can legally exclude

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Box 1: 100 Percent Duty-Free Quota-Free Market Access for LDCs Would Not Adversely Impact U.S. Industry

- U.S. imports from LDCs in 2006 were only 1.2 percent of total imports and just 7.8 percent of apparel imports. According to empirical research, a 100 percent duty free quota-free initiative might reduce U.S. production of textiles and apparel by roughly one half of one percent, while increasing U.S. exports of cotton by 0.2 percent. Providing duty-free quota-free access to the U.S. market for LDCs would thus have negligible effects on the U.S. economy.
- Increased duty-free quota-free market access also stands to enhance the savings many small and large U.S. importers and retailers have experienced as a result of the current system of preference programs. For example, GSP, which is estimated to have saved U.S. businesses $923 million in 2005, has been the key to the success of a number of smaller companies that import fertilizers and herbicides for farmers and Households.
- It is also key to the sourcing strategies for a number of nationwide U.S. retailers of household wares. Current preference programs have supported U.S. jobs in a wide variety of manufacturing industries, and enhanced market access for products not produced in the United States would only increase these gains.

Source: Memorandum submitted to the office of the US Trade Representative by a Group of US based NGOs, March 156, 2007, http://www.cgdev.org/doc/commentary/Market_Access.pdf

products like textile, clothing, footwear, sugar and banana - the products in which LDCs are competitive - from the "covered list". This will more or less nullify the positive effect of DFQF market access, which the Hong Kong Ministerial has offered to the LDCs. The Hong Kong Ministerial Declaration has the provision for 'members with difficulties' to cover 97 percent of products, defined at the tariff line level, originating from the LDCs for DFQF consideration, and the developing countries are allowed to enjoy 'appropriate flexibility'.

Furthermore, in accordance with commitment made in the Doha Ministerial Declaration, at Hong Kong Members shall take additional measures to simplify rules of origin requirements and also to make them more transparent. Stringent rules of origin requirements have become major hurdles for less developed countries in exploiting the benefits of preferential market access.

It is, however, important to note that pressure from the US to exclude some of the products from DFQF facilities may jeopardise the whole initiative. Some LDCs argue that to be effective, all countries and all commodities should be under DFQF provision. Realizing their own strengths, LDCs have started demanding a non-discriminatory universal treatment for "all the products originating from all LDCs" on a "lasting basis". Any unqualified acceptance to such a proposal at Hong Kong would have meant that developed countries could no more make use of "pick and choose" or "divide and rule" tactics. Therefore, there was a general tendency among the developed countries not to support the LDC proposal in its totality.

The idea of offering generous preferences to the LDCs, due to their economic status as well as trade, development and financial needs, has been a well established practice in the multilateral trading system ever since the adoption of the Enabling Clause in 1979 during the Tokyo Round of multilateral trade negotiations. This was done with a view to better integrating the LDCs into the multilateral trading system. The Uruguay Round further institutionalized these practices, at least on paper, by making different provisions for developed countries, developing countries and the LDCs in most WTO agreements.

No developing country was envious of such practices, and developed countries also seemed genuinely interested in seeing to it that the LDCs get the fair opportunity of participating in and benefiting from the multilateral trading system. Most derogations from the trade rules granted to the LDCs in the past were out of sheer sweet will on the part of the other members of the WTO, i.e., without LDCs being active demandeurs. However, the LDCs, which have considerably increased their negotiating capacity in the past few years and realized the value of consensus-based decision-making process of the WTO, are becoming increasingly demanding.

The LDCs were never competitive in any sector and perceived as a threat either to the developing countries or to the developed countries. For instance, if US provides duty and quota free market access on all LDCs products it would not come at the expense of US' firms (See Box 1). However, of late some LDCs like Bangladesh and Cambodia are doing so well in the textile and clothing (T&C) sector that they are perceived as threats by developing as well as developed countries. The textiles and clothing lobby is one of the most powerful lobbies in the developed world, particularly in the US, and this very lobby was actively engaged in thwarting the LDCs' proposal. Their major fear is that countries like Bangladesh and Cambodia, which are competitive in T&C products, could flood the US market with their products if zero tariff access is provided to them.

LDCs for quite some time have been putting pressure on larger developing countries like Brazil, India and China to provide duty free and quota free market access to their products. Some efforts were made in the past through GSTP (Global System of Trade Preferences among Developing Countries) by UNCTAD but without any meaningful outcomes. The Hong Kong Ministerial Declaration, therefore, made provisions that those developing countries who are capable should provide DFQF market access to LDCs. While doing so developing-country Members shall be permitted to phase in their commitments and also enjoy appropriate flexibility in coverage.

However, except Brazil, no other developing countries so far have come out with any firm proposal to provide DFQF market access to LDCs. The Brazilian government plans to start granting duty- and quota-free market access to exports from 32 of the world poorest countries in early 2007. The move would make Brazil the first developing country to accord unimpeded access to goods from the 32 LDC Members of the WTO. Others like India are hesitant because they apprehend threats to their domestic manufacturers from more competitive LDCs such as Bangladesh and Cambodia. Therefore India has announced its intentions to create a similar scheme, but it will be tailored to ensure that its own textile and clothing sector is not affected adversely.

Even in case of Brazil, some business groups are anxious about the effects of fully liberalising all imports from all LDCs. The textile, electronics, chemical, and machine equipment sectors are most worried. They have asked for some 1300 products to be designated as sensitive, while the government wants to accept not more than 900. A major concern among Brazilian industry groups is that LDCs might become a conduit for Chinese exports to be assembled and exported duty-free to Brazil. Therefore, they are lobbying to toughen the rules of origin requirements, calling for at least 50 percent of the value of an eligible product to be added in an LDC, compared to the government's proposal of 40 percent. Nevertheless, Brazilian government did not rule out the possibility of excluding textiles from the list in response to industry demands. Brazilian textiles manufacturers are complaining that Brazil has little to gain by giving duty-free access to their Bangladeshi counterparts.[1]

Aid for trade

After the formation of the WTO, an initiative was adopted in 1997 for strengthening LDCs' trade capacities. This was christened as the *Integrated Framework* for Trade-Related Technical Assistance to the Least Developed Countries (IF) supported by six donor agencies: the IMF, ITC, UNCTAD, UNDP, the World Bank and the WTO, with OECD/DAC as observer. The amount of aid for trade-related technical assistance and capacity building has increased significantly from the beginning of the Doha Round in 2001. To make it really pro-developmental and binding, the Hong Kong Ministerial Declaration included AFT as a formal clause in Article 57.

In response to requests from G-7 and G-8 finance and development ministers, the World Bank and IMF jointly proposed the AFT package to assist developing countries, especially LDCs, in achieving the objectives of the Doha Round. The aim of the package was to help developing countries, particularly LDCs, to build the supply-side capacity and trade-related infrastructure that they need to assist them to implement and benefit from WTO Agreements and more broadly to expand their trade.

The rationale for aid targeted to trade expansion can be two fold:

- Aid flows in terms of international economic cooperation most of the times are unpredictable, attached to specific conditionalities, incorporate lack of coordination among the donors, and there are uncertainties relating to ownership of the recipient country; and
- International assistance in general has a small allocation for trade related projects.

Therefore, the objectives of the proposed aid for trade package are to mainly, address supply-side constraints in developing countries in taking advantage of the enhanced market access arising from trade liberalization. Secondly, to assist them in coping with the adjustment cost of trade liberalisation, including costs of preference erosion, of higher food prices, of implementation of WTO agreements, and of tariff revenue losses.

However, its effective operationalisation remains one of the most challenging tasks for the entire trade community including donors and recipients. The report submitted by the Task Force also placed recommendations for shaping and operationalising the AFT programme processed through strengthening 'demand' and 'response' from the recipients and donors. The report explicitly mentioned that sectors to be considered under the AFT programme should be included in the national development agenda of the country, such as in the Poverty Reduction Strategy Paper (PRSP). Therefore, the recommendations include that recipient countries should mainstream trade-related aspects separately in their development strategies.

The July 2006 Recommendations of the WTO Task Force have provided a framework to operationalise Aid for Trade, which highlights the importance of the Paris Declaration on Aid Effectiveness. The OECD is explicitly invited to provide input in making Aid for Trade an effective instrument in assisting developing countries to increase exports of goods and services, to integrate into the multilateral trading system, and to benefit from liberalised trade and increased market access.

AFT has generated a debate in both developing and least developed countries. Since AFT is still at a design stage, country-specific concerns have not been properly raised yet. However, there are some common concerns among the LDCs. They are interested to treat AFT as complementary rather than as a substitute to the development dimensions of trade. In other words, they want additional money rather than getting funding by cutting the existing development projects. Already in 2006 development aid from OECD countries fell by 5.1% from 2005 (See Box 2). LDCs also believe that instead of targeting any specific sector, AFT should be incorporated into the country's growth and development agenda. Moreover, to be pro-poor, the AFT should generate employment opportunities in the LDCs. Also, to ensure the maximum benefit, aid could be directly channeled to the sectors, such as infrastructure and human capital development.

More importantly, the rationale for avoiding the reallocation to trade of resources from other sectors, such as education, health, poverty reduction or governance, is that it would endanger an economy's competitiveness in the medium-term. In fact, competitiveness in a globalised economy is achieved through the interaction of numerous non-trade factors, such as the quality of the education

Box 2: Development aid from OECD countries fell in 2006

- The 22 member countries of the OECD Development Assistance Committee, the world's major donors, provided USD 103.9 billion in aid in 2006, down by 5.1% from 2005, in constant 2005 dollars. This figure includes USD 19.2 billion of debt relief, notably exceptional relief to Iraq and Nigeria. Excluding debt relief, other forms of aid fell by 1.8%.
- Sixteen of the DAC's 22 member countries met the 2006 targets for ODA that they set at the 2002 Monterrey Conference on Financing for Development. However, aid to sub-Saharan Africa, excluding debt relief, was static in 2006, leaving a challenge to meet the Gleneagles G8 summit commitment to double aid to Africa by 2010.
- The only countries to reach or exceed the United Nations target of 0.7% of GNI were Sweden, Luxembourg, Norway, the Netherlands and Denmark.

Source: Development Cooperation Directorate, OECD

system, a healthy working force, an efficient transport system, an impartial and efficient judicial system and other more subjective factors such as political stability and an enabling investment environment. In LDCs, where often the social objectives as defined by the Millennium Development Goals (MDGs) for 2015 are not yet reached, it would be a tragic mistake to reduce basic social expenditures to reallocate aid towards trade. Indeed, aid for trade and social expenditures are two different tracks that should receive adequate level of financing from the development community for fostering sustainable, vigorous and quality growth.

There also exists the question of the size of the cake. It is quite likely that there would not be enough funds to meet the demands of every developing and least developed country. One should argue that countries that have lesser abilities to absorb the adverse impact of trade liberalisation should be prioritised, while others might propose that countries with severe supply-side constraints should be given more emphasis. However, it has been observed that the allocation of AFT does not follow any simple rules.

One important issue, which needs to be emphasised is operationalising AFT through the trilateral development cooperation (TDC) mode. Under 'trilateral development cooperation' aid is channeled through institutions in third countries for being applied to development projects in poor countries. There are two major advantages in this approach. Firstly, it is cheaper. Secondly, learnings from one developing country for another are more relevant than from a rich country to a poor one.[2] WTO Task Force on AFT too has recognised the importance of TDC. The report recommends[3] :

"Technical cooperation among developing countries is a valuable tool to deliver effective results because of their common experience and understanding of the challenges they face. The valuable technical expertise of the South could be used to implement projects through triangular schemes of cooperation".

Another important issue in this context is "trade-related technical assistance". The WTO Secretariat (under the Global Trust Fund) and many other donors are providing this assistance to developing and least developed countries. The WTO-provided TRTA is based on the strategic objectives endorsed at Doha in the *New Strategy for WTO Technical Cooperation for Capacity Building, Growth and Integration* (New Strategy, 2001). Our analysis of the WTO-provided TRTA argued that the WTO Secretariat has strong comparative advantage (for the purpose of providing training) in knowledge and information about WTO rules and procedures. A majority of recipients of these training considered that the WTO-provided TRTA has generally been relevant.[4]

However, in our (above-mentioned) analysis we have found that the continued inability of developing and least developed countries to understand and respond to the implication of WTO agreements and negotiate national interest and priorities have led to calls from beneficiary countries for a reorientation and rationalisation of the WTO's TRTA activities. In this regard, some incremental changes can be brought about and that include needs assessments at the national level, involvement of local resource persons, taking on board local case studies, etc. At the same time, even with these incremental changes, we have argued that the WTO's TRTA will not meet the strategic objectives of the New Strategy, 2001. A fundamental rethink is needed to broaden and deepen capacity building support, especially to least developed countries. The new approach could be developed by:

- Increasing decentralisation of courses to regional centres and national institutions
- Drawing from independent research, including from the Research Division of the WTO
- The ITTC (Institute for Training and Technical Cooperation, WTO Secretariat) should be responsible for collaborating with other organisations and, including country-based think tanks and non-governmental organisations, with a view to ensuring that the assistance which the WTO cannot provide due to its neutrality and other constraints is met from non-WTO sources.

Cotton Subsidies

Cotton trade and production are highly distorted by government support programmes in developed countries. More than one-fifth of world cotton producer earnings during 2001/02 came from government support to the sector. Support to cotton producers has been greatest in the US, followed by China and the EU. Cotton subsidies encourage overproduction, which is then sold on the world market. This has depressed world cotton prices, damaging those developing countries, which rely on exports of cotton for a substantial component of their foreign exchange earnings. A number of West and Central African countries raised the issue of the abolition of cotton subsidies at the WTO in May 2003. Cotton subsidies also form the basis of a WTO dispute brought by Brazil against the US in which the panel ruled, on 26 April 2004, in favour of Brazil.[5]

The Cotton Initiative under the WTO's DDA has not only the trade policy reform component, but also a development component aimed at boosting the international competitiveness of cotton producers in low-income (especially West African) countries. Developing country farmers are also being adversely affected because of the massive subsidies given to farmers in developed countries, particularly. For instance, many people in India blame import of cheap cotton as one of the major factors behind the growing miseries of Indian cotton farmers. Studies conducted in India reveal that the plight of the cotton farmers has worsened because they have been forced into an unfair global trading system. The unfortunate and unabated suicides by cotton farmers in India have made global headlines in recent years.

Several research studies have proved that removal of all cotton subsidies and import tariffs would enhance global economic welfare by millions of dollar per year. Anderson and Valenzuela (2006)[6] , for instance, estimate that the removal of all cotton subsidies and import tariffs would boost global economic welfare by $283 million per year, and would raise the price of cotton in international markets by an average of 13 percent. These estimates exclude the productivity gains, which might result from removal of subsidies and tariffs.[7]

The issue of cotton subsidies came up quite prominently at the HK Ministerial Conference in December 2005. However, the outcomes on cotton are disappointing in contrast to the pressure mounted by the cotton producing LDCs. There is no clear and firm commitment from the US on reduction of domestic subsidies on cotton. Also, with regard to the demand of creating a "special development fund" for the transition period, the US remained non-committal.

Even the US 2007 Farm Bill proposal does not promise much on cotton subsidies. In fact, the direct payments in the USDA proposal have been increased a little, but for cotton it is quite a lot. The direct payment programme remains basically unchanged from the 2002 Farm Bill. In the build up to the 2007 Farm Bill the expectation was that the administration would propose legislation that would include major policies compliant with their trade liberalization agenda and would be WTO compliant. Some in the US Congress have argued for minimal changes in farm legislation until they see what develops at the WTO.

LDCs Modalities on Services Trade liberalisation

The situation of LDCs in terms of their share in world commercial services trade is no different from its miniscule share in world merchandise trade. While LDCs account for only 0.4 percent of total exports of commercial services, their import share is about one percent of total world import. However, services share in total trade in individual LDC is important. LDCs' commercial services exports, as a percent of total trade (services and merchandise) is 18 percent on average, which compares favourably with the world average of 20 percent services trade in total trade.

The LDC members of the WTO put a request at the March 2002 Special Session of the CTS for the inclusion of a specific agenda item on the establishment of modalities for the special treatment of LDCs. Finally, in September 2003, the WTO Members adopted a document entitled "Modalities for the Special Treatment of LDC Members in the Negotiations on Trade in Services". However, the progress on implementation of special modalities has been poor till the Hong Kong Ministerial Conference in December 2005.

One of the most important developments at Hong Kong Ministerial was the decision to pursue full and effective implementation of the modalities for the special treatment for LDCs in trade in services. It means developing methods for effective implementation of the LDC modalities, including assisting LDCs to enable them to identify sectors and modes of supply that represent development priorities. The declaration has set out specific timeline for developing appropriate mechanisms regarding this, but there has been no attempt made as yet to meet the deadline of 31st July 2006.

In Annex C: 9(a) (See Box 3) of the Hong Kong Ministerial declaration, it has been clearly written that members 'shall' develop mechanisms for according 'special priority' to 'sectors and modes of supply of interest to LDCs'. Providing effective access of LDC services and services suppliers in the developed country markets, strengthening of their domestic services capacity,

Box 3: LDCs Specific Declaration under Annex C (Services) of WTO Hong Kong Ministerial Declaration

Members, in the course of negotiations, shall develop methods for the full and effective implementation of the LDC Modalities, including expeditiously:

- Developing appropriate mechanisms for according special priority including to sectors and modes of supply of interest to LDCs in accordance with Article IV:3 of the GATS and paragraph 7 of the LDC Modalities.
- Undertaking commitments, to the extent possible, in such sectors and modes of supply identified, or to be identified, by LDCs that represent priority in their development policies in accordance with paragraphs 6 and 9 of the LDC Modalities.
- Assisting LDCs to enable them to identify sectors and modes of supply that represent development priorities.
- Providing targeted and effective technical assistance and capacity building for LDCs in accordance with the LDC Modalities, particularly paragraphs 8 and 12.
- Developing a reporting mechanism to facilitate the review requirement in paragraph 13 of the LDC Modalities.

Source: WTO

efficiency and competitiveness through access to services technology on a commercial basis, providing information on 'registration, recognition and obtaining of professional qualifications'- all these were committed in the GATS article IV and followed up in LDC modalities and Hong Kong Ministerial declaration for implementation purposes.

In comparison to the goods market provisions for S&DT for LDCs, there is no such arrangement made under GATS negotiations as the achievements and documentations regarding the services trade mainly focus on the developed and developing countries wile LDCs are exempted. According to the GATS document, the rules and commitments made will be applicable for all the members as a whole on an MFN basis. The implementation of LDC modalities with S&DT provisions like in the goods market was one of the commitments of Hong Kong Declaration.

GATS LDC Modalities should be acted upon in parallel to NAMA and Agricultural market access negotiations, and Member countries should adopt measures accordingly and notify respective schedule of commitments on mode 4 within specific a period. In the ongoing WTO discussions, developed countries like, US, EU, Canada, Japan and Norway have indicated their intention for implementing the mechanisms for S&DT for LDCs regarding services. However, LDCs termed this as a vague and insufficient attempt to reach an agreement within the Doha round. Specifically, within the GATS document, there is no special provision for the LDCs like 'non-reciprocal special priority', and all the rules have their general applicability on a 'non-discriminatory' basis with Most Favoured Nation (MFN) treatment.

Conclusions

Multilateral trade liberalisation undoubtedly increases trading opportunities for all countries. However, given low levels of development and supply side constraints, LDCs and poor developing countries may not be able to avail the emerging opportunities. Major constraints faced by less developed countries are: small range of export products, low manufacturing capability, low capacity to meet the international product quality standards, poor transport and communication infrastructure, and governance distortions which often are the cause of many of these problems. There are numerous provisions in the WTO agreements, which could address some of these issues. But they need to be implemented fully so that developing countries, especially LDCs, can reap the benefits and restore their confidence in the multilateral trading system.

On the face of it, the multilateral trade negotiations under the aegis of WTO Doha round seems to have put the developmental issues on the trade negotiating agenda. But what is lacking is effective implementation and delivery. So far the WTO members have not moved beyond rhetoric when it comes to actually providing benefits to less developed countries. All the issues are complementary for the development of poor countries. It is not market access alone, which can help pull out the LDCs from their current miserable condition. All the identified issues are interlinked to each other and the trade community needs to deliberate on them as a developmental package.

Endnotes

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