
Overview

In September 2000 the UN Millennium Declaration was adopted by all the presidents and prime ministers present at the Millennium Summit, and it was endorsed unanimously by the members of the United Nations General Assembly. It grew out of a set of “international development goals” of 1996 and reaffirmed the commitment of UN members to achieving significant, measurable improvements in people’s lives (see the list of Millennium Development Goals on pages xviii–xix).

Millennium Development Goal 8 is the topic for this task force. Fundamental to this Goal is contributing to and upholding an open, equitable, rules-based, predictable, and nondiscriminatory multilateral trading system. Upholding such a system is also important for achieving other Goals. The mandate of this task force is to explore how the trading system can be improved to support developing countries, with special attention to the needs of the poorest of them.

This overview presents our main conclusions and recommendations.

Main conclusions

Trade openness can be a powerful driver of economic growth, which is indispensable to reduce poverty and foster development. Trade, however, is not a silver bullet for achieving development. There is no way around the other institutional, macroeconomic, and microeconomic conditions that, along with well designed social policies, must also be met to attain development. Yet it is very likely that if developed countries open their markets significantly more to developing countries and developing countries also become more open, poverty would fall faster worldwide, including in most of the poorest countries, if the needed complementary policies are in place.

Achieving more open and fair markets for the promotion of development is the mission of the multilateral trading system. This system has evolved

progressively since the end of the Second World War and has delivered impressive results for many countries, particularly those now fully industrialized.

Throughout most of its existence, however, the trading system has mainly served the interests of developed countries. Sometimes by their own decision and other times by explicit exclusion dictated by richer countries, developing countries have not been influential in the design of the multilateral trading system. Moreover, most of the existing multilateral rules, through respective rounds, emulate to a great extent the policies, the practices, and most important, the laws and regulations of a few developed countries.

The system is thus unbalanced against the interests of developing countries. Balancing the system will give developing countries greater economic growth potential, a major stake in developing multilateral trade rules and disciplines and in pursuing trade liberalization, and a more effective capacity to expand trade and defeat poverty.

That balancing goal was the *raison d'être* of the Doha Development Agenda (DDA) Round of trade negotiations launched in November 2001, at least according to the rhetoric.

But this sense of purpose was short-lived. With key deadlines missed and progress practically nil on every issue contained in the DDA, the WTO Ministerial Conference of September 2003 collapsed amid acrimony. There is no single reason to explain this; however the failure of the US, the EU, and Japan to lead by example is a major one.

WTO Members have since made a courageous effort to revive the Doha Round, but a lot more will be required. The 2004 Doha Work Programme framework, while necessary to prevent the collapse of the Round, is far from sufficient to sustain it.

The real work remains to be done, and a sense of urgency is required if the Round is to be completed by the end of 2006 or very early 2007 at the latest. If this narrow window of opportunity is missed, it is hard to see how the Round can be completed in time to contribute to achieving the Millennium Development Goals by 2015.

All WTO Members must identify the core priorities of a real “Development Round” and make concrete political and financial commitment to achieving them. What must be done in the Doha Round and beyond?

Agriculture—the biggest and costliest aberration

The biggest and most costly aberration of the trading system is to be found in agriculture. Farm producers in rich countries receive support in excess of \$250 billion, thanks to which their farmgate prices are almost one-third higher than world prices. Consumers in those countries pay for that protection through higher taxes and higher food prices. It's their choice, but it must be stressed that by doing so they also impose a heavy burden on other agricultural producers, particularly in developing countries. Agricultural protection in both

developed and developing countries is most assuredly a cause of poverty in poor countries.

That rich countries should lead farm liberalization is beyond question. They should deliver substantial liberalization under all three pillars of the agricultural negotiations. They should shift their farm policies to income support—helping the poor and small farmers in rich countries adjust to more open farm markets. Export subsidies should be totally and definitively eliminated, as agreed in the DDA framework of August 2004. This will send a powerful signal to developing countries, which will follow suit with their own deeper market opening without the danger of trade and competition being greatly distorted by export subsidies. Negotiations on farm trade liberalization should also broaden their focus beyond elimination of export subsidies to stress reductions in tariffs—themselves a powerful discipline on export subsidies—and reduction in domestic support. Market access negotiations must address both the unacceptably high peaks (often called tariff peaks) that remain in agriculture and tariff escalation, which continues to frustrate developing country efforts to move up the value chain.

The growth of the poorest countries depends crucially on a more dynamic farm sector—coming from increased domestic production for import substitution and/or exports. The fragility of these countries, however, suggests that, as a result of the Doha Round, they should reduce only their bound tariffs—since most of their applied tariffs are moderate—and also their applied tariff peaks, which cost their poor consumers dearly without bringing public revenue. Additional complications for the few poor countries that may be hurt by this modest liberalization could be dealt with by a substantial increase in international aid—to provide the necessary means for a new wave of Green Revolutions and to ensure adequate food security.

Nonagricultural market access—developing countries should also liberalize

Although not as severe as in farm products, trade barriers in nonagricultural products continue to be significant and particularly detrimental to developing countries. For example, developing countries' exports to developed countries face tariffs that are, on average, four times higher than those faced by the exports of other developed countries. Developing countries' exports suffer from tariff peaks, tariff escalation, and quotas imposed by rich countries on goods of great export potential. Although over the last few decades developing countries have undertaken an unprecedented level of trade liberalization, both on an autonomous basis and in the context of multilateral and regional negotiations, they still suffer, of course, from their own protection, which not only reduces their competitiveness in world markets, but also cancels enormous opportunities of increased trade among themselves.

While developed countries bear a special responsibility to liberalize in this Round, developing countries should also do so—in their own interests

and because they are important markets for each other and for the poorest countries. While still achieving less than full reciprocity, the poorest countries should nonetheless bind their tariffs at uniform and moderate rates in their own development interests. Adjustment costs should be economically and socially sustainable in developing countries, for example, by phasing in tariff reductions and providing international technical and financial assistance.

The Uruguay Round Agreement on Textiles and Clothing (ATC) mandated the progressive phasing out of quotas by January 1, 2005. But phase-outs were heavily backloaded, with more than 50 percent of quotas—covering the most commercially valuable products—left to be removed by January 1, 2005. Backloading robbed developing countries of one of the major expected gains from the Uruguay Round and gave rise to legitimate doubts about the willingness of the major importers to honor the agreement. It also undermined any chance of gradual and orderly adjustment in the sector; the abrupt removal of the remaining quotas on January 1, 2005, may create adjustment problems for importers and exporters alike, and is likely to unleash powerful protectionist forces. These must be effectively contained—for example, by restraining the proliferation of contingency protection measures. The correct answer lies not in pursuing protectionism by other means, but in providing adjustment support to the poorest countries and small suppliers highly dependent on this sector through trade and development measures.

This has led some to call for an extension of quotas, but this would be a mistake. “Temporary” textile and clothing protection has been around for 40 years; continued protection is likely only to prolong and further distort the adjustment process. Addicts always promise that they will quit tomorrow—the difficult process of adjustment must be started now. Given the role that developed countries have played in creating the scale (if not the fact) of the adjustment challenge, they must now be prepared to contribute to covering its costs. Assistance could help developing countries move into niche markets or up the value chain and strengthen their networks of suppliers and clients to meet just-in-time production deadlines. Removal of trade barriers and domestic distortions by developing countries themselves would also help increase competitiveness. Tariff preferences may ease adjustment for some countries in the short term, though restrictive rules of origin will need to be addressed. More helpful and less distortionary temporary breathing space could be provided by all developed countries extending duty-free and quota-free access to all products from the poorest developing countries no later than January 1, 2006.

Services—a major source of gains for developing countries

Liberalization of trade in services, especially of mode 4 (the temporary movement of people to supply services), has been recognized as a major source of gains for developing countries, capable of bringing more benefits to them than perhaps any other part of the Doha Agenda. Services liberalization promises

real development gains—in terms of the efficiency and growth potential of the economy as a whole, the export of goods and other services, and access to basic services to improve the lives of the poor. Done right, services negotiations offer developing countries an opportunity to act in their own economic interest and get paid for it.

But services gains are not automatic, and producing an outcome that supports development can be a challenge, given the need for regulation to address complex issues of market structure, market failures, and noneconomic objectives. Ensuring that services liberalization results in competition and increases access to services by the poor are key regulatory challenges—and will require increased assistance and regulatory creativity. But with appropriate care to the nature, pace, and sequencing of reform, adjustment—including that related to increased imports of labor-intensive services—can be managed.

A serious “Development Round” must make progress on mode 4. Developing countries should seek to expand access for groups of interest to them (such as contractual service suppliers, and intracorporate transferees) and improve the transparency and usability of existing access. Bilateral or plurilateral agreements could also be considered as an interim step. These cover a broader range of workers than mode 4 and provide scope to develop trust and complementary policies, (such as on brain drain, remittance transfer, return, and recognition). Over time, recruitment of workers under these schemes could be opened on a most favored nation (MFN) basis to any country that can implement the requirements. Agreements would be notified to the WTO, and interested WTO Members would have the opportunity to indicate their interest in joining or negotiating similar agreements. An MFN waiver would likely be necessary. Although a potentially useful interim step, bilateral or regional agreements are no substitute over the longer term for bound multilateral commitments under the WTO. WTO commitments remain the best and most effective way to deliver gains to developing countries, and commercially meaningful market access commitments on mode 4 are essential to fulfill the development dimension of the services, and Doha, negotiations.

Keeping markets open—not adding costs and uncertainties with new barriers

Hard-won gains in market access in agricultural and nonagricultural products are increasingly eroded by other policies that recreate trade barriers and/or create transaction costs and uncertainty.

Antidumping is used disproportionately against the exports of developing countries, with a severe chilling effect on their actual and potential trade—though some developing countries are now also becoming major users of antidumping measures. The Doha Round could help in several ways. The *de minimis* threshold below which developing country exports are immune from antidumping could be raised—currently, as soon as imports from developing

countries emerge from being insignificant, they can be restricted by high anti-dumping barriers. Additionally, national antidumping laws could be required to treat all affected domestic interests—import-competing industries, consumers, and users—equally.

Many developing countries are being denied effective market access by their inability to meet ever more—and ever higher—OECD standards or similar market-entry conditions. Exemptions are unlikely to help, serving only to brand developing country exports as inferior or unsafe, and providing no incentive to raise national standards for the benefit of domestic consumers. Where standards are imposed by private buyers, there is even less scope for—or point in—seeking exemptions. Two things are essential if developing countries are not to be left behind: assistance to make effective use of the Technical Barriers to Trade (TBT) and Sanitary and Phytosanitary Measures (SPS) disciplines to ensure that standards are not abused for protectionist purposes; and significant assistance to construct the institutional frameworks and infrastructure required to meet legitimate standards. Further, developing countries must be assisted to become more substantively involved in standard-setting processes and those standard-setting activities themselves need to be oriented toward issues of greater interest to developing countries.

Preferences—to be replaced with equivalent development assistance

Rich countries have used preferences to divide developing countries and promote their narrower regional, sectoral, and political objectives, often establishing complicated regulations that exclude exports from otherwise eligible countries. The poorest countries have often received limited benefits from preference schemes, including because preferences do nothing to address their multiple supply-side constraints. Benefits are also often at the expense of other developing countries, and they are smaller than would be the case with either direct transfers or multilateral liberalization. But the price of preferences is continuing protection in rich countries. MFN liberalization—plus appropriate compensation for countries that may suffer adjustment problems—is likely to be a better path.

Although preference erosion is generally less than often thought, some countries may confront possible large losses and will require concrete assistance. Given the history of preference programs, developed countries as a group should pay. They should replace preferences with equivalent development assistance, which could be used by the recipient governments to fund adjustment costs. Operationalizing this deal should be an explicit part of the Doha Round. Any such assistance should be seen as part of a broader effort that is needed to help poor countries build and strengthen their ability to use trade beneficially. However, specifically in the context of a Doha deal, there is a need to accompany global commitments to implement far-reaching trade reforms on an MFN basis with a temporary program to transfer additional

resources to developing countries, especially those that will experience preference erosion losses.

Free trade agreements—imposing high transaction costs

Likewise, free trade agreements have a mixed record in achieving real liberalization, especially on the hardest nuts (such as agricultural subsidies or sensitive products). Benefits may be limited (or achieved at the expense of others) but costs can be high. Unlike at the WTO where developing countries can form effective coalitions, in free trade agreements (FTAs) they are at a disadvantage in resisting the inclusion of nontrade issues or erosion of their WTO rights (such as TRIPS+ on patents, especially pharmaceutical patents, and other WTO+ provisions). Multiple FTAs with differing rules of origin impose high transaction costs, particularly on small traders, and divert the limited negotiating resources of poor countries from the pursuit of multilateral liberalization.

Singapore issues—trade facilitation promises gains

Three out of the four so-called Singapore issues (competition, investment, transparency in government procurement) have rightly been left off the Doha Round. None meets the essential tests of whether rules on regulatory issues should be included in the WTO: Are they trade related? Are they in line with broader development priorities? And what is the specific value of a WTO agreement? These issues are not priorities for poor countries and could divert scarce resources from other issues with higher development payoffs. Even where there are development benefits, they may not be best pursued through a WTO agreement.

Trade facilitation promises trade and development gains, but a WTO agreement cannot be business as usual. It should not impose heavy obligations on developing countries and make light promises of assistance. The main value of a WTO agreement on trade facilitation would be as a mechanism for attracting and channeling international assistance. From a development perspective, the best model is one where implementation deadlines could be customized in negotiations with individual countries (along the lines of GATS precommitments), with technical and financial assistance negotiated and customized as part of a package. A review process, involving expert organizations and other developing countries with similar experiences, could identify problems early, and negotiated extensions would be possible. Flexibility on dispute settlement could be provided by a “peace clause.”

Trade-related intellectual property rights—some areas of interest to developing countries

Should intellectual property rights have been included in the WTO? From an economic point of view, probably not, because they require a very delicate

balance of market forces and public action—a balance unlikely to be the same for all countries. TRIPS obligations also tend to be “one size fits all,” taking no account of levels of development and varying interests and priorities. While the agreement tries to mitigate this to some extent by providing for differing implementation periods, countries acceding to the WTO may not even have access to these normal flexibilities.

That said, the TRIPS Agreement is not without areas of actual or potential interest for developing countries (although the balance of costs and benefits will vary among developing countries and according to the issue), nor is it without some flexibility in its provisions. However, the flexibility provided for implementation of TRIPS seems yet insufficient on paper, and even more so in practice, and the assistance provided is clearly inadequate. There is a clear case for revisiting more of the rules to determine their impact on developing countries and any additional flexibility required. In other cases, the agreement provides for flexibility, but certain WTO Members—the US on drugs, the EU on geographical indications—are trying to narrow unacceptably the scope of that flexibility.

Special and differential treatment—making it more effective and operational

While it is clear that developing countries benefit from freer trade, it is equally clear that their capacity to do so is different from that of developed countries. Developing countries generally have a more limited ability to take advantage of new opportunities and to bear adjustment costs. Special and differential treatment makes sense and should be made more effective and operational.

There is no compelling case for exemption for rules on traditional trade policies. Additional freedom to use bad policies promises few development gains and risks harming other developing countries (such as subsidy wars). For rules on domestic regulations requiring actual investment of resources, a cost-benefit analysis based on four factors should guide what special and differential treatment to grant and to whom: the extent to which the rules are related to trade (market access), the extent to which they are in line with broader development priorities, the costs of implementation, and the relative costs to others of nonimplementation. Assessments of costs and benefits will vary by issue and the level of development of the country concerned.

Where the costs are high and the trade and development benefits minimal, the issue should not be included in the WTO. Where the costs are high and development benefits only a longer term priority, there is a strong case for extensive—but not eternal—flexibility. Where development benefits are greater or more immediate, a model that calibrates commitments with assistance and gives greater flexibility to countries to determine appropriate implementation periods is appropriate. Where WTO rules promise real and short-term trade and development benefits, concrete technical and financial assistance should be

assured—say, through mandatory commitments subject to review and linked to implementation requirements of developing countries.

Coherence—adopting sound complementary policies and ramping up aid for trade

If trade liberalization is to contribute to economic growth, expanded trade, and poverty reduction, it must be coordinated with other policies at both the national and international levels. At the national level, policy coherence means the adoption of sound complementary policies by national governments to manage liberalization, as well as ensuring that trade policymaking is appropriately informed by expertise across a range of policy areas. At the international level, coherence calls for a significant ramping up of “aid for trade” by the development community (to negotiate, assess, and implement WTO agreements and to design and implement adjustment policies) and for a clear and realistic view of the WTO’s role in technical assistance. This assistance for increasingly deeper capacity building must be additional to, and not at the expense of, development aid. Trade liberalization requires international negotiations and international assistance, but its benefits and challenges remain fundamentally a question of domestic economic and policy reform.

Main recommendations

A real development round is achievable but will require some enlightened, albeit self-interested, leadership on the part of the major players in both developed and developing countries. Providing this leadership is not within the realm of trade negotiators’ capacities. Political leadership must be generated at a higher level, perhaps not even at the ministerial level but at the head of government level as part of a coherent policy approach—economic, political, and social—to meeting the development challenge.

The year 2005 offers a rare opportunity to harness the broader momentum of the “2000 plus 5” high-level review of the Millennium Summit to seek a major political consensus among the heads of government of a group of 20 or so countries on the Doha Development Round and other topics crucial for achieving the Goals.

Heads of state can agree on the major strategic criteria to shape the multilateral trading system for the future. This grand vision would keep the eyes of negotiators preparing for the Sixth WTO Ministerial Conference, in Hong Kong (China) in December 2005, on the prize of a real development round and the contribution it could make to achieving the Goals.

In this context it is recommended that leaders agree on the following ideals for the future path of the trading system:

- In a conveniently distant long term (2025) the multilateral trading system must deliver the total removal of barriers to all merchandise trade, a substantial and extensive liberalization of trade in services, and the

universal enforcement of the principles of reciprocity and nondiscrimination in a way that supports attainment of the Millennium Development Goals. This target is ambitious but not impossible, with political will and appropriate support for adjustment. And there is a base to build on: Asia-Pacific Economic Cooperation (APEC) economies have already committed to free trade by 2010 for developed Members and 2020 for developing Members.

- The most useful WTO would be one focused solely on trade and relieved of other global economic governance tasks, which could be better accomplished by other international instruments or entities.

Consistent with these criteria, more medium-term targets could be adopted. Greatly increased international technical and financial support for reform and adjustment by developing countries will be needed to ensure the achievement of those targets; in the absence of such assistance, more flexibility would be required. But given the potential benefits, it is in all countries' interests for substantial assistance to be forthcoming to underpin the following targets:

- By 2015, no bound farm tariff should exceed 5 percent for OECD countries, 10 percent for developing countries, and 15 percent for the poorest countries. All nontariff barriers, including tariff-rate quotas, should be removed by 2010.
- As soon as possible and no later than 2010, all export subsidies should be abolished, with comparable disciplines on similar instruments.
- Domestic support (such as price support, direct production subsidies) must be made both less trade-distorting (decoupled from production) and subject to an overall, significantly lower limit. All countries should decouple all support payments to farmers by 2010 and cap all domestic support measures at 10 percent of the value of agricultural production (on a by-product basis) by 2010 and at 5 percent by 2015. The Green Box (of minimally trade-distorting subsidies) should be maintained for the poorest countries—with clarifications or marginal additions such as support for diversification, transportation subsidies for farm products, consumption subsidies for domestic food aid, public assistance for establishing farm cooperatives, or institutions promoting marketing and quality control.
- Developed countries should bind all tariffs on nonagricultural merchandise at zero by 2015, the target date for achieving the Millennium Development Goals. A mid-term target could be for no tariff higher than 5 percent by 2010. Ideally, developing countries should all be at zero tariffs by 2025. As soon as possible, these countries should bind all their tariffs in coherence with their applied rates. The poorest countries should also aim to bind all tariffs at a uniform and moderate rate.
- Duty-free and quota-free access for all exports from the poorest countries should be extended by all developed countries no later than January 1, 2006.

- The liberalization of mode 4 of the GATS (temporary movement of labor to provide services) should be adopted as a high-priority item on the international agenda, considering its potential benefits for both developing and developed countries as well as the need to manage in a more orderly fashion the mounting migration pressures in the world. Developing countries' liberalization to foreign direct investment must be matched by developed country liberalization to foreign labor.
- The traditional approach to special and differential treatment must be revised away from the present, for the most part counterproductive, system of exemptions from obligations and complex webs of discriminatory preferences. A trading system limited only to agreements that are in the trade and development interests of all Members to implement under the framework of binding multilateral trade rules should be accompanied by special and differential treatment that affords appropriately long and flexible conditions to adjust to trade liberalization and real and substantial aid for trade. Poor countries must be supported in generating the sources of revenue needed to compensate for losses incurred as a result of lowering import duties, in building the human and physical infrastructure they need to benefit from increased market opportunities, and in adjusting to erosions of existing trade preferences stemming from multilateral negotiations.
- A temporary "aid for trade fund" commensurate with the size of the task, or significantly ramped-up contributions through such existing channels such as the Integrated Framework, is needed to support countries in addressing adjustment costs associated with the implementation of a Doha reform agenda. Such funding must be additional to current aid flows (and could be financed out of the tariff revenue that is presently collected by OECD and higher income developing countries on imports that will be subject to Doha reduction commitments). A priority task for the development and trade communities could be the identification of new and existing channels through which this additional funding could most efficiently be made available for relevant, targeted projects in developing countries.