WORLD TRADE ORGANIZATION

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"Is the DDA a Development Round ?"

Check against delivery.

1. When a child is born in some of our traditional societies, the family only gives it a name seven days after its birth. On the seventh day, the parents throw a big party and the relatives collectively decide on the name of the child. Then the eldest man of the family holds the baby in his lap, turns his face to the South, and whispers the name into the ear of the baby three times. Thus a name has been given to the child.

2. Giving a name to a round of trade negotiations is also a complex business. As in our traditional societies, there is a collective decision, a celebration and quite a lot of movement and whispering amongst the WTO family. What trade negotiators have not yet learnt from the wise people of our villages – is to wait a while until they give a name. The current round of trade negotiations – the Doha Development Agenda, or DDA in our jargon, bears the name of the city of Doha, the capital of Qatar, where the round was launched in the WTO Ministerial in 2001. It also has the word "Development" in it – meaning that this round should be focused on, or aimed at, development.

3. The decision by WTO Members in 2001 to designate the Doha Round a *development* Round was a recognition that there remain, in today's multilateral trading system's rules and disciplines, imbalances that penalise developing countries – and this must be corrected. The intention, therefore, is to try to improve the multilateral disciplines and the commitments by all Members of the WTO in such a way that they establish a more level playing field and provide developing countries with better conditions to enable them to reap the benefits of opening trade.

4. Several imbalances in the multilateral trading system were not addressed during previous rounds -- including the last one, the Uruguay Round. When the current round was launched in Doha in 2001, developing countries made it a

condition that these imbalances should be addressed with the priority of reforming and improving the trading system.

5. What are these imbalances ? I will give you one example: if one looks closely at the structure of industrial tariffs, especially in developed countries, there remain oddities like tariff peaks or tariff escalation. This means that, very often, the highest import tariffs in **developed** countries are applied on products in which, as if by coincidence, **developing** countries have a comparative advantage.

6. Let me give a concrete example of the tariff escalation issue: it has come to our attention that the United States collects more tariffs on goods imported from Cambodia than it does on goods imported from France. It this possible ? In January 96, the US imported three billion dollars worth of French goods – and collected roughly 30 million dollars in import tariffs. In the same month, the US imported only 200 million dollars worth of goods from Cambodia – that is less than 10% of US imports from France – but the amount of import duties paid was the same -- 30 million dollars ! How can you justify a country exporting only one tenth of what another country exports, but paying the same amount in duties ?

7. The crunch of the problem is the type of goods that each country exports. In the United States most tariffs on technology and heavy-industry goods have been eliminated. In contrast, tariffs on textiles, clothing and footwear are still higher – even if employment, production and trade patterns have changed dramatically. Thus, if a country exports technology or luxury products, it pays very low duties – this is what rich countries trade with each other. But if a country exports low value-added products, like textiles, clothing and footwear – usually produced by poor countries – then it pays high duties. The same is true in the European Union and in Japan in the case of cocoa, and many other

products. Imports of raw cocoa are subject to very low import tariffs to enter the EU and Japan, but processed cocoa pays high import tariffs. These imbalances basically stem from past – but sometimes also current – political and economic factors. Much as there are many new players, new products and new patterns of export and import in today's world market, trade relations are still tainted by history, by a heritage of production choices and trading flows formed during colonial times. These imbalances have to be corrected.

8. Another imbalance in the current disciplines is Agriculture. This sector is several trade rounds behind industrial goods. The Agreement on Agriculture only came into force in 1995 – only ten years ago. In other words, the agricultural sector has not been able to benefit from the 50-year process of trade liberalization that we have witnessed in industrial goods. There is clearly a backlog in this area.

9. In order to rebalance the multilateral trading system in favour of developing countries, this Round has to deliver improved market access, reduce tariffs and remove quantitative restrictions on products where developing countries have a comparative advantage – and here we are talking about the two problems identified above: increased access into the markets of developed countries for both industrial <u>and</u> agricultural products exported by developing countries.

10. In addition to improved market access for industrial and agricultural products, there should also be a rebalancing of the rules and disciplines that govern international trade – rules on trade-distorting agricultural subsidies on products such as cotton, and rules that provide developing countries with special and differential treatment.

11. And I can keep going on with a long list of imbalances which should be corrected. But let's look at what is already on the table. **In agriculture**,

Members have agreed on a date for the elimination of the most trade distorting agricultural subsidies – the export subsidies. This was a key negotiating demand by developing countries. Agricultural export subsidies must be eliminated by 2013, with a substantial part of them gone by 2010.

12. Members have also agreed to achieve "effective cuts" in trade distorting domestic subsidies to agriculture – another demand of developing countries. There will be three bands of reductions, with the EU, US and Japan undertaking the biggest of them. Furthermore, on the defensive side, a group of developing countries have made two key demands: one, that they have the flexibility to self-designate a number of Special Products on criteria of food security, livelihood security and rural development; and, two, that they have to be able to trigger a special safeguard to protect themselves against imports, based on import quantities and prices, which they need in order to cope with the volatility of farm products on international markets. These demands have already been addressed.

13. In the important area of **cotton** (considered a litmus test by many), rich countries agreed to eliminate all export subsidies in 2006; they also agreed to make deeper and faster reductions in trade distorting domestic subsidies for cotton than for the remainder of agricultural products. Finally, rich countries and developing countries wishing to do so, agree to provide duty free and quota free access to LDC exports of cotton.

14. Furthermore, during the Hong Kong Ministerial Conference last December, Members succeeded in addressing a long-standing demand of 32 of our poorest members (**the LDCs**). Rich countries agreed to provide duty-free and quota-free access to 97% of all LDC products on a lasting basis; with a view to eventually extending this treatment to 100% of their products.

15. As you can see, there are signs that this Round's achievements are already more than zero, but far from enough. Ensuring that the results of the DDA, in terms of market access, rules and disciplines, will be beneficial to developing countries is crucial to the success of the Round. But are market access and disciplines enough to promote development ? Are these conditions sufficient to increase the level of development for the poorest countries in the world ?

16. The answer to these questions, experience shows, is no. Why is it so ? The problem is that by addressing imbalances in market access and in the disciplines of the multilateral trading system, they do not, in and of themselves, generate the concrete results in terms of development that are so crucial for the majority of WTO Members.

17. Trade openness and improved disciplines play a vital role in growth and development (not much doubt about it if we look at the historical record), but they are not a panacea for all the challenges of development. **Development is not necessarily easy to accomplish, unless it is embedded in a supportive economic, social and political context and a coherent multi-faceted policy framework.** Trade opening and improved disciplines are a potential, a recipe – they are a necessary, but not a sufficient condition for development.

18. Governments need to adjust to new conditions, they need to ensure that a whole set of domestic conditions is put in place, so that trade opening and new rules can indeed result in development. If you allow me a simplistic metaphor, market access and new rules are seeds – they will only bear fruit if the land is prepared, if the right conditions are present to promote growth and fructify. Without certain necessary conditions, trade opening and improved rules will not suffice to promote growth and development. In some circumstances, premature opening can be harmful to the domestic economy.

19. What are these conditions? What are the areas where domestic policy activism, or at least attentiveness, is required, so that the results of this Round can bear fruit ?

20. *First*, sound macroeconomic policies. These are the basis, the minimum ground for any successful trade policy. *Second*, markets that function reasonably well. If price signals are not transmitted to markets – in such a way that markets remain rigid, unresponsive and often monopolistic – then benefits from opening to trade may be dissipated or appropriated, and in these situations trade opening can even be harmful. At worst, trade opening could end up impairing current economic activity and employment without opening up new and better opportunities. *Third*, the necessary infrastructure must be in place, be it human capital or physical infrastructure. If the infrastructure is missing, then there is a potential for problems which will not be solved by trade opening, but might be worsened by it. This is a matter both of investment and sound policy (e.g. de-monopolizing telecoms services). *Fourth*, as usual, good governance and functioning, reliable institutions. Whatever else happens in an economy, bad government and neglected institutions are a killer, perhaps the most profound force militating against progress.

21. What I am saying is that trade opening can only be politically and economically sustainable if it is complemented by flanking policies which address, at the same time, capacity problems (whether human, bureaucratic or structural) and the challenges of distribution of the benefits created by freer trade.

22. The immediate test of our ability to respond to this challenge – the challenge of creating a coherent international policy for development – is an initiative called Aid for Trade – an idea advanced by Great Britain, and given impetus by the G8 and now the WTO.

23. Because trade is a complex economic activity, there are many different kinds of Aid for Trade. There is technical assistance – helping countries gain knowledge of trade opportunities and how to access them. There is institution building – strengthening customs authorities, tax systems, and product testing, to lower the cost of trading. There are infrastructure improvements – building the roads, ports, and telecommunications networks that are increasingly essential to linking exports to global markets. Then there is adjustment assistance – helping with any transition costs associated with tariff reductions, preference erosion, or declining terms of trade.

24. So the agenda is potentially very large. But the complexity of the details should not blind us to the "big picture". Aid for Trade is all about empowering developing countries to benefit from trade. It is about helping the private sector – entrepreneurs, traders, investors – to seize export opportunities. Above all it's about making the promise of international cooperation and coherence real – between the WTO, the World Bank, the IMF, and the UN at the global level, and between trade, finance and development ministries at the national level – because it is at ground level that policy coherence must begin.

25. Aid for Trade, in other words, is one part of the much larger challenge presented by the Development Round – ensure that trade is not just an end in itself, but works to raise living standards, improve health and education, and reduce poverty.

26. What is needed, as WTO Director-General Pascal Lamy has been saying, is need for a new consensus amongst international actors. He has called it the “Geneva consensus”: a new basis for the opening up of trade that takes into account the creation of the necessary conditions for benefiting from freer trade.

27. We need to ensure that market opening translates itself into real gains and benefits to public, by helping to put in place the necessary conditions for those

gains and benefits. The problems of freer trade have appeared in a striking and loud manner in the recent past. We cannot ignore them. The "Geneva consensus" combines the objectives of market opening with the establishment of conditions for benefiting from freer trade, whether you are rich or poor, weak or strong.

28. To me, therefore, the main question about this Round of trade negotiations is not a Shakespearean one, a Hamlet dilemma of "to be or not to be" a development round. The main question is actually whether the **results** of this round help poor countries increase their level of development or not.

29. What I can tell you is that, in terms of results, this Round has a concrete potential to achieve much for developing countries. I already mentioned progress achieved in agricultural export subsidies, in the duty-free quota-free commitment for LDCs, in promises in the area of cotton. As compared to previous negotiations, this Round is surely different. The old days when the QUAD (the group formed by US, EC, Canada and Japan) monopolized the driving seat are definitely over. Developing countries have gained both capacity and strength – just look at the G-20 group of countries, led by Brazil, India and China, among others, which has changed the landscape of main players in the WTO, or the G-90 group of poor countries. Three-quarters of the Members of the WTO are developing countries – this Round must necessarily meet their legitimate expectations. If it is to end successfully, this Round cannot but produce results that foster development.

30. So will this Round live up to its name? Will there be a discussion on whether or not it has attained the objective of promoting development? In fact, we will only know the answer to these questions when the Round is concluded – or even later, when its results are implemented.

31. What I can do – in conclusion – is raise another question: "If the DDA fails as a development round, what is the alternative? This Round is more than a negotiation, it is also a test. A test of the credibility of the WTO, and its ability to deliver on its promises to developing countries. A test of the global community's willingness to turning their talk of international cooperation and policy coherence into meaningful results. And a test of whether we can construct a truly "global" trading system, where all countries benefit.

32. What is the alternative? It is a more fragmented world, with greater marginalization, inequality and uncertainty. At a time when shared prosperity and peace depend more than ever on multilateralism, the cost of failure extends far beyond the trade system. The Doha Development Agenda is too important to fail. Millions are depending on it.

Thank you.