

Building a Development-Friendly World Trading System



The continued impasse in the Doha Round of multilateral trade negotiations suggests that all is not well with the present system of multilateral trade negotiations. In particular, developing countries tend to view these negotiations as occasions orchestrated by industrialized countries to extract trade concessions from them and as an instrument used to circumscribe their development policy space. Although the Doha Round was launched with the promise of addressing the development concerns of poor countries, and was sold to the world as a 'Development Round', the emerging patterns in the negotiations over the past six years suggest that development was deployed as mere rhetoric to persuade developing countries to concede to an agreement on launching the new round as they were feeling shortchanged from the implementation of the Uruguay Round commitments. The spirit of Doha is barely visible in the ongoing negotiations and the modalities under discussion. Developing countries are being pushed to accept commitments to provide market access in agriculture and non-agricultural products on a more than full reciprocity basis. There has been little progress if at all on the development issues such as making the special and differential treatment (SDT) 'precise, operational and effective.'

As weaker partners in the trading system, developing countries have a stake in the multilateral rule-based trading system but they have problem with the way the process of rule-making in the system operates today, viz. the way the agenda is set, or the way the decision-making process takes place. The process of rule-making is dominated by a handful of industrialized countries, viz. the US and the European Union who have conventionally set the agenda of multilateral trade negotiations in a manner that not only disregards developing countries' genuine developmental concerns, but has actively impaired their ability to conduct development policy. By squeezing the policy space, the WTO agreements have actually disrupted the development process in poor countries leading to growing discontent among them.

The present impasse offers an opportunity to take a pause and reflect on the broader issues concerning the processes of agenda-setting and decision-making in international trade negotiations, argued RIS in its *World Trade and Development Report 2007*. Members

could consider how to make developing country participation more effective and broad-based to ascertain a development-friendly outcome of the Doha Round of trade negotiations. This policy brief summarizes some of these issues and some options in this context.

1. Emerging Multilateral Trading System, Policy Space and Development

The *WTDR07* begins by questioning the assumption of multilateral trade negotiations that trade liberalization is always good for every country irrespective of their level of development. The evidence summarized in the Report provides no basis for such assumption. Export expansion can help in expediting growth but the same cannot be said of the import liberalization. Cross-country studies find no systematic relationship between countries' average level of tariff and non-tariff restrictions and their subsequent economic growth. There is some evidence suggesting import liberalization adversely affecting balance of payments and worsening growth. Evidently developing countries such as China, Vietnam, India following sequenced industrial and trade strategies have had much greater success in expediting growth and reducing poverty compared to Latin American and Sub-Saharan African countries that followed orthodox structural reform agenda under structural adjustment programmes administered by the IMF and the World Bank. Indiscriminate trade liberalization, as the case of African countries suggests, may in fact lead to deindustrialization and further marginalization of poorer economies in the international division of labour. Only a calibrated and managed trade policy seeking to aggressively promote export-orientation as pursued by East Asian countries may produce favourable outcomes rather than one that only passively liberalises imports.

A compelling case is also made for the continued relevance of the infant industry protection and other policy interventions for industrialization and development. The major developed countries of today have extensively used the infant industry protection in the stages of their underdevelopment. The US economy, for instance, was the most protected and was also one of the fastest growing economies of the

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world until the World War II. The evidence presented also covers other aspects of development policy spaces such as industrial policy and soft patent laws which have been used by the developed countries including the US and Japan. Similarly, all the major developed countries had been using local content regulations extensively for deepening their industrial structure in their process of development by Australia, Canada, France, Japan, the UK, among other developed countries. The US and the European Union among developed countries continue to provide a variety of industrial subsidies and investment incentives to foster industrialization under different forms and programmes.

In more recent times some of these policy interventions have been successfully employed to build competitive industrial capabilities by newly industrializing countries despite apparent lack of comparative advantage in East Asia and other regions such as dramatic transformation of South Korea and Taiwan as industrial powers, emergence of China as a leading manufacturing hub and exporter, rise of Malaysia's electronics exports, emergence of Thailand as the third largest exporter of automobiles in Asia, emergence of India as competitive exporter of generic medicines and computer software, or Brazil's success in building a competitive aircrafts industry. Each of these success stories have their lessons that point to the fact that infant industry protection and active state intervention can be instrumental in building industrial capacities and development of poor nations.

Unfortunately, the space to employ a number of policy instruments of the type employed by developed countries is being squeezed by the multilateral trade negotiations. In particular, the Uruguay Round (UR) Agreements on industrial tariffs, Trade Related Intellectual Property Rights (TRIPs), Trade Related Investment Measures (TRIMs), General Agreement on Trade in Services (GATS), Subsidies and Countervailing Measures (SCM), among others, have circumscribed valuable development policy space without addressing a number of distortions in the developed country policies. Insofar as the WTO negotiations are squeezing the space for pursuing such policies, they are actually hampering the process of industrialization and development. It is this space for pursuing development policy that needs to be preserved and retrieved in the ongoing Doha Round if it is to be a real Development Round.

2. Agriculture: Addressing the Clashing Interests of Rich and Poor Farmers

Agriculture has emerged as the central and most contentious area of negotiations in the Doha Round. The Doha Declaration provided for "substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade distorting domestic support." But so far the progress has been limited in achieving these objectives. The Hong Kong Ministerial reached an agreement to end agricultural export

subsidies by the end of 2013. Other than this relatively small step towards reducing distortions in agriculture sector, significant disagreements continue to prevail, over the nature of the balance between discipline and flexibility, among the three major coalitions of members, represented by the European Union, the G-20 group of developing countries, and the United States, which led to the impasse.

The major source of distortions is the massive agricultural subsidies that are given by the developed countries are cornered by major agribusiness corporations and rich farmers. EU's own studies have shown that the EU should be the biggest importer of sugar but thanks to the subsidies it is now the biggest exporter thus curtailing the opportunities for developing countries. Another study finds that if there was no subsidy, OECD countries would export 48 per cent less agricultural products thus increasing the opportunities for developing countries to participate in the international trade. Because of these subsidies developing countries cannot exercise their comparative advantage in an area where they have natural comparative advantage.

Lost opportunities for exports create particular hardships for developing countries where 54 per cent of the economically active developing country population is dependent on agriculture for livelihood. Agricultural subsidies on the other hand are cornered by a rather small section of their population. Less than 5 per cent of the population in developed countries is dependent on agriculture for their livelihoods. Furthermore, a small proportion of large farmers comprising some of the largest corporations and wealthy individuals account for the bulk of the agricultural support extended by developed country governments. Therefore, agricultural subsidies in the developed countries are political rather than economic or livelihood issue benefiting privileged and pampered large agribusinesses and rich individuals.

Among the three pillars of the agricultural negotiations, substantial improvements in agricultural market access is an important item on the agenda of the current round with a potential of substantial gains to developing countries. The Uruguay Round Agreement on Agriculture (URAA) resulted in little reduction in agricultural protection. Many developed countries used highly protected base period (1986-88) protection levels and "dirty tariffication" to set tariff rates way above the prevailing rates of applied protection and made extensive use of non-transparent tariff instruments, such as specific tariffs and tariff rate quotas (TRQs) especially on products exported by developing countries. The average tariff on agricultural imports from developing countries in high-income markets was found to be twice as high, at 15.9 per cent, than the average tariff, at 8.4 per cent, in these markets on imports from other high-income economies. The July Framework for negotiations on agricultural market access, provides for tariff reductions within a tiered approach requiring steeper cuts in tariff rates classified in higher bands.

Domestic support is largely a developed country phenomenon. The European Union, United States, the European Free Trade Area (EFTA) countries, Japan, and Republic of Korea accounted for over 97 per cent of the US\$ 81 billion notified aggregate measure of support (AMS) during 1999. Implementation of the URAA led to little disciplining of domestic support to agriculture in major OECD countries. AMS was the least binding element of the URAA because of an extremely high base period (1986-88) support to which reduction commitments applied and other circumventions. Not all production-coupled support was included in the reduction commitments, due to the exception made in the form of blue box support. Cuts were to be made in total spending, not on a product-by-product basis. As a result, sensitive products could be provided even increased protection. The July Framework in line with the Doha Development Agenda provides for “substantial reductions in trade-distorting domestic support” under a tiered approach requiring larger cuts in higher bound levels of permitted support. The Framework proposes new limits be put on *de minimis* support, blue box support and product-specific AMS. It also calls for limiting total support, measured as the sum of permitted AMS, *de minimis*, and blue box support.

Besides the elimination of agricultural export subsidies by the end-date of 2013 agreed at the Hong Kong Ministerial, the other forms of export support such as official export credits, subsidies implicit in the activities of the state trading enterprises (STEs), and food aid need to be also disciplined.

In recognition of the critical position of agriculture in developing countries, the July Framework specified that developing countries would be permitted to designate an appropriate number of products as special products (SPs) based on the criteria of food security, livelihood security and rural development. These products would be subject to more flexible treatment. The Special Safeguard Mechanism (SSM) provides protection to import-competing sectors against import surges and price variability and thereby reduce risks. The Hong Kong Ministerial agreed that developing country members would have the flexibility to self-designate their to-be-negotiated number of SPs guided by indicators based on food security, livelihood security and rural development and to use a new SSM to address price volatility and import surges by raising tariffs beyond bound levels. In recent proposals, the developed countries such as the United States are seeking to limit the special and differential treatment (SDT) for developing countries, to “slightly” less reductions and longer phase-in periods for developing countries and far fewer number of tariffs lines allowed to be designated as Special Products. Developing country access to SPs and SSM is important in view of the increasingly circumscribed policy space, which was available to developed country policymakers in the past through instruments such as import quotas and licences. The effective implementation of these provisions is crucial to contain the disruptive effects on the livelihoods of small and marginal farmers

constituting the bulk of populations from cheap and often subsidized imports.

Sanitary and Phytosanitary (SPS) measures pose significant potential for restricting trade, especially for developing countries. Differences in standards and institutional capacities among member countries, the recent proliferation of private codes of supply chain governance, increased stringency in application present major challenges for developing country exporters. Many developing countries lack the administrative, technical and scientific capabilities to comply with stringent industrial country requirements. The investment and compliance costs can diminish the competitive edge of developing country agricultural exports based on price factors alone.

3. Non-agricultural Market Access (NAMA) and Developing Countries

A major concern of developing countries with the process of trade liberalization for non-agricultural products in the Uruguay Round has been the persistence of high peak tariffs, specific tariffs, tariff escalation and non-tariff barriers in developed countries on goods of export interest. The Doha Ministerial sought to address this asymmetry by proposing to ‘reduce or eliminate tariff peaks, high tariffs, and tariff escalation as well as non-tariff barriers, in particular on products of export interest to developing countries’ with less than full reciprocity in reduction commitments for developing countries. However, the experience of the NAMA negotiations over the past 4-5 years suggests that developed countries are trying to use the Doha mandate as an opportunity to obtain major market access commitments from developing countries through use of Swiss formula based approaches for tariff reduction. This has implications in the context of the Doha mandate of “less than full reciprocity”. The choice of the coefficient in this formula is crucial in determining the extent of tariff reduction. Unless the coefficients used are widely different, the Swiss formula will actually lead to a situation of developing countries cutting their tariffs by a higher percentage than the developed countries, i.e. contrary to less than full reciprocity. The most appropriate manner in which the principle of “less than full reciprocity” can be followed is by developing countries opening their market for the developed countries less than the developed countries opening their markets for the developing countries. The use of formulae and coefficients tend to make the negotiations and their impact non-transparent. The way out would be to agree to the extent of reduction by developed and developing countries and work backwards to find a coefficient that would deliver the same outcome.

There is also contention regarding the treatment of SDT in NAMA. The Doha mandate specifically provided for taking care of special needs and interests of developing and least developed countries. The Paragraph 8 of July 2004 Framework agreement contained flexibilities to be made available to developing countries such as longer implementation

periods for tariff reduction and exclusion of some tariff lines separate from the principle of less than full reciprocity in reduction commitments. Developed countries are resisting such flexibilities being made available to developing countries. These flexibilities are clearly important to developing countries for protecting their domestically sensitive and strategic sectors.

In the NAMA context, it is important for developing countries to ensure that the main objective of the Doha Declaration, that is to address the tariff escalation and tariff peaks prevailing in developed countries for their products, is addressed through the choice of appropriate tariff reduction modalities such as a Swiss formula with lower coefficient for developed countries or limiting the tariff peaks to a maximum of twice of average tariffs.

Along with discussions on the tariff reduction formula, the issue of complete elimination of tariffs in certain specified sectors is also being taken up under the aegis of the NAMA negotiations. Here the choice of sectors is of critical importance: whether the sectors selected are of export interest to developing countries or not. Second, the less-than-full-reciprocity enshrined in the Doha Agenda in the context of the sectoral approach implies that developed countries will cut their tariffs to zero while developing countries reduce their tariffs to a level they are comfortable with. At the Hong Kong Ministerial, the issue of making sectorals a voluntary initiative was put up. In the meetings held thereafter among the member nations a number of sectors to be negotiated under this issue are being discussed. A careful scrutiny of all these sectors is required to examine the sensitivities of these sectors and the relative gains of market access expected before they join the voluntary sectoral approaches for tariff elimination.

There has been little progress on addressing the non-tariff barriers (NTBs) on products of export interest to developing countries. It has assumed importance in view of proliferation of NTBs in the form of stringent food safety and environmental standards adopted by developed countries often in a discretionary and non-transparent manner. Any market access negotiations without addressing the issue of speedy elimination of NTBs are not complete.

4. Trade in Services and Development

The Doha Agenda emphasized the objective of negotiations on trade in services as an instrument for promoting economic growth and development of developing and least developed countries. Members were required to make requests for commitments and their offers by certain deadlines. In the July 2004 Framework, members agreed to pay special attention to sectors and modes of supply of interest to developing countries, especially Mode 4 (services supplied through temporary movement of natural persons). Barriers to movement of natural persons have emerged as a distortion causing staggering welfare losses in the world economy. Even a limited liberalization of labour

markets covering just 3 per cent of the work force has the potential to generate welfare gains of US\$ 156 billion according to recent studies. Furthermore, temporary movement of natural persons benefit developing countries and directly spread the gains of global integration among people in developing countries. A significant liberalization of movement of natural persons has the potential for increasing the development balance of the Doha Round.

The experience, however, suggests little forward movement in the direction of exploiting these potential efficiency gains. Developed country offers are lopsided as they are concentrated in the sectors which are of interest to them. To infuse new momentum in the slow moving services negotiations, the Hong Kong Declaration introduced the plurilateral method of negotiation. A look at these plurilateral requests shows that while developed countries are making heavy demands on developing countries in Mode 3, they are reluctant to make bold commitment in the modes that are of interest to developing countries, viz. Mode 4. In fact, a wave of protectionist trade policy is emerging in the North which is creating additional barriers to such trade. This is apparent from the recent protectionist backlash in developed countries against outsourced service activities, even though the efficiency-gains accrue largely to the developed world. Furthermore, commitments made under Mode 4 are limited to the higher level personnel, which hardly take care of less-skilled workers – an area in which developing countries have a comparative advantage. Furthermore, there is also an issue of domestic regulation and need to strike a balance between the Members' right to regulate while not making these disciplines as unreasonable barriers to trade. There is also an issue of SDT to the developing countries in streamlining their domestic regulations and in rule making with respect to Emergency Safeguard Measures, government procurement and subsidies, etc. to provide them necessary policy space for developing their services sector.

5. Trade Facilitation and Developing Countries

Trade facilitation is the only area of negotiations in the Doha Round in which consensus has been achieved in almost all the key areas. The current mandate of the negotiations is to clarify and improve the three GATT Articles, viz. V, VIII and X. There is a general agreement that the simplification of trade procedures has potential for considerable savings in time, money, as well as human and other resources and may result in substantial benefits for every economy provided that the initial costs are absorbed effectively. The estimates of possible gains from implementation of the TF are equivalent to 15 per cent of value of trade gains seem to be a gross exaggeration. There is an urgent need to check tendency among some of the developed countries to expand scope of current negotiations and enhance the listed contents of the three articles. For instance, the Article X envisages publication of rules

related information to help out traders well in time but the some developed countries have sought publication of not only the rules and regulations but also the judicial decisions and administrative rulings pertaining to those regulations.

In case of trade facilitation, there is a need to acknowledge that SDT provisions should extend beyond the granting of longer transition periods for implementing commitments. In particular, the extent and the timing of entering into commitments should be related to the implementation capacities of developing and least-developed members. For this technical capacity building initiatives assume key importance. South-South Cooperation may also help in avoiding additional costs and sharing of expertise which is well suited to the requirements of developing countries. Development of alternative packages to ASYCUDA by Mongolia and other countries with the help of fellow developing countries is a case in point.

6. TRIPs, Indigenous Knowledge, and Geographical Indications

The Doha Declaration had proposed to address three issues concerning the Intellectual Property Rights (IPRs), viz. TRIPs and public health, extension of the protection of geographical indications to products other than wines and spirits, and review of Article 27.3(b) and the relationship between TRIPs Agreement and the Convention of Biodiversity. Among these issues a considerable progress has been made on TRIPs and public health with the amendment of the TRIPs incorporating a waiver, to enable developing countries to issue compulsory licenses to obtain cheaper generic versions of patented medicines.

In context of Convention on Biological Diversity(CBD) it is well documented that there are conflicts between CBD and TRIPs and that there is a need to review TRIPs from that perspective. In order to achieve this, developing countries are seeking a disclosure of source and country of origin of any biological resource or traditional knowledge used in an invention mandatory while a patent application is being filed and guidelines for Access and Benefit Sharing (ABS). It is also suggested to obtain prior informed consent (PIC) from a competent authority in the country of origin and enter into fair and equitable benefit sharing arrangement. In this context, it is also important to delineate the key issues from the extensive debate on Article 27.3(b). This Article basically allows national governments to exclude certain inventions from the patent regime especially ones based on plants, animals and biological processes including micro-organisms. Several developing countries have demanded that the current exceptions as provided in this Article should be retained but definitions of some of the key terms used must be clarified especially related to the differences between plants, animals and micro-organisms. This would help in prohibiting patenting of life forms particularly plants and animals.

In the debate on geographical indications (GI) the issue of extension of higher level of GI protection currently accorded to wines and spirits to other products is at the centre stage. Several members, who initiated this like the EU, Switzerland, and Bulgaria, have stepped up their demands for text-based negotiations on this while few other like Switzerland have made efforts to specifically link the negotiation on the disclosure requirements to progress on GI extension.

The emergence of TRIPs plus regime, as evident through various FTAs signed by USA has posed major challenges before the developing countries. There is need for a moratorium on strengthening of IPRs through FTAs. At the same time, developing countries would also have to launch some pro-active measures to protect biodiversity and interest of indigenous communities. This may be attempted through establishing databases for genetic resources and prior art. Issues related to data exclusivity and open sourcing of biotechnology are also of key importance.

7. Dispute Settlement Understanding and Developing Countries

The Dispute Settlement Understanding (DSU) is one of the most important developments in the WTO. Although the conflict resolution provision was provided in the GATT, the DSU introduced number of other effective provisions for the setting up of trade disputes. The DSU provides for panels to examine complaints from member countries, appellate review of panel decisions, and the ability to render binding decisions. The DSU mechanism has gained credibility among the members countries. However, the participation of developing countries and LDCs in the DSU has not improved due to some existing lacunae in the current dispute settlement procedure. For example, the lack of effective sanction in DSU system, owing to which the complaining party is largely left alone in its struggle against violator. Consequently countries that are economically and politically weak stand at a relatively disadvantageous position.

The DSU is a principal tool which could potentially help developing countries protect and promote their interests. Reforms are needed to improve its effectiveness for developing countries.

8. Building a Development-Friendly Multilateral Trading System

A rule-based multilateral trading system is clearly important for the developing world. However, the existing structure and process of rule making suffers from asymmetries that need to be addressed. The current impasse in the multilateral trade negotiations provides an opportunity to the international community for rethinking on the process and an attempt to make it development-oriented and sustainable. In what follows, some proposals for reform and other recommendations made by the Report are recapitulated.¹

¹ Proposals for specific areas of negotiations are summarized in the *RIS WTDR 2007: Building a Development Friendly World Trading System*.

8.1. Reform of Decision-making Process

The inability of the MTNs to take into account the development concerns and address growing inequalities in the world economy is largely due to the asymmetric decision-making process that gives disproportionate weight to large players like the US and the EU who dominate the agenda setting and the decision-making. Developing countries constitute the bulk of the membership of WTO yet they remain peripheral players as far as the decision-making is concerned.

There is an urgent need for reform of the decision-making in WTO if it is to sustain itself in the long run. In an organization whose membership comprises of countries at varying levels of development, their concerns and interests are expected to be different. Obviously these differences limit the possibilities of arriving at a consensus. In order to arrive at the 'consensus' sometimes powerful members push relatively poorer members to accept their position by several means including coercive diplomacy and even arm-twisting. A more democratic system of decision-making based on secret voting and decision based on the majority would serve the organization better and make it more participatory. Draft Ministerial texts should contain all the proposals made by the member countries unlike those by the developed countries as has been the case. All negotiating texts and drafts should be introduced in open ended meetings and late night meetings. No decisions should be imposed on members without wide consultations and discussions.

8.2. Strengthening the Special and Differential Treatment (SDT) for Developing Countries

SDT has been an integral part of the multilateral trade rules right from the Havana Charter. The developing countries are at different stages of economic, financial and technical development and therefore have entirely different capacities as compared to the developed countries in taking on multilateral obligations. Hence, they need special advantages and flexibilities to adopt appropriate national policies to pursue their development policy objectives. Over time several initiatives were taken to provide flexibilities and non-reciprocal treatment to developing countries. The Uruguay Round Agreements, however, shifted the thrust from enhanced market opportunities for developing countries to transition periods and technical assistance. The few years of additional transition period allowed to developing countries for implementing the commitments does not cover the wide development gap between developed and developing countries. The SDT provisions in the Uruguay Round Agreement generally do not go beyond best endeavour clauses and are not legally binding. The lack of a mechanism to ensure effective implementation of SDT provisions in the WTO has been a major area of concern for developing countries.

The Doha Ministerial Conference attempted to address their concerns by reaffirming that 'SDT provisions are an integral part of the WTO Agreements' and agreed that all SDT provisions 'shall be reviewed with a view to strengthening them and making them more precise, effective and operational' (para 44). In addition, Ministers in their Decision on Implementation-related Issues and Concerns adopted at the Conference agreed to consider converting non-binding SDT provisions into mandatory provisions and report to the General Council for decision, examine additional ways in which SDT provisions can be made more effective, and how they could be incorporated into the architecture of WTO rules (para 12). In the pre-Cancun phase, developing countries had put forward 88 agreement-specific proposals for SDT. However, there has not been any progress on these mandates, despite the repeated extension of the deadlines except for an agreement on Duty-Free-Quota-Free market access for product of LDCs to developed countries for 97 per cent tariff lines and five LDC agreement specific proposals at the Hong Kong Ministerial Conference.

The objective of the SDT provisions should be to retrieve the development policy space to developing countries that has been squeezed by different WTO agreements. In addition, SDT is required to neutralize the adverse impact on development of distortions in global markets caused by protectionist policies of developed countries. Furthermore, a far more important rationale for SDT arises from the fact that the multilateral trading system can be sustainable only when majority of its members, viz. developing countries feel confident that it is working to their benefit. In that direction, following proposals are made:

a) Towards a New Effective SDT Framework

Over the past few years the development community has come up with a number of proposals that need to be examined and adopted as appropriate to make world trading system promote rather than hamper development and industrialization of developing countries. Developing countries coalitions such as G-20 could set up a consultative group to examine these proposals and build consensus between themselves before putting them collectively on the agenda of the Round. They could also seek a negotiation of a Framework Agreement to provide a legally binding status to SDT provisions. Such an Agreement would provide for the notification requirements and for inclusion of commitments in country schedules and dispute settlement. Some of the SDT proposals made include:

- Giving policy flexibility to developing countries based on an objective economic criteria, such as a threshold of per capita manufacturing value added (MVA) for flexibility from commitments under different agreements with respect to trade in goods, or countries with a certain proportion of population dependent on agriculture, from

minimum market access commitments under the Agreement on Agriculture;

- Making SDT provisions respond to development situations rather than to country categories;
- Developed countries such as the US leading by example and allowing developing countries to reform at their own pace;
- Development Facilitation Tariff (DFT) and Development Facilitating Subsidy (DFS) to restore the ability of developing countries to promote development with infant industry protection while preserving the open trading system of the WTO; and
- Asymmetric Opt-out Provisions to enable developing countries to opt out of commitments on goods imported from richer countries, but will have to implement provisions for lower income countries.

b) Technical and Financial Assistance, Aid for Trade and Preference Erosion

Despite the provisions for technical assistance in different WTO agreements, the experience suggests that such assistance has not been provided in timely or adequate measure. The World Bank and IMF in response to the G-8 Summit in Gleneagles in July 2005 jointly proposed an aid for trade package. As observed earlier, trade liberalization could lead to substantial loss of revenue and job losses in developing countries. One adjustment cost relevant for least developed countries is on account of NAMA negotiations leading to erosion of preference enjoyed by them under programmes such as the Lome Convention or Everything but Arms (EBA) initiative, or Africa Growth and Opportunity Act (AGOA). Therefore, Aid for Trade packages should provide assistance to cover such adjustment costs also. Aid and technical assistance for developing countries has been recognized in the Doha Declaration and should be provided without any conditions. Secondly, it cannot be a substitute for SDT and a provision of policy flexibility that developing countries need to foster industrialization process.

c) International Funding of R&D Activity in Developing Countries

One of the ways of compensating developing countries for the adverse effects of the strengthened IPR regime is to provide increased technical assistance and R&D funding to local enterprises to help them build local capabilities. One possibility in this respect could be that governments of developed countries donate a sum equal to royalties and technology transfer fees collected from developing countries to a fund created in the respective countries to assist the inventive activities of domestic enterprises. This provision will neutralise the adverse balance of payment effects of the additional income transfers resulting from strengthening of the IPR regime. In addition it will moderate the adverse effect on the local technological activity of domestic

enterprises by providing additional financing for undertaking such activity.

d) Incorporating Effective Provisions for Transfer of Technology

Transfer of technology was included in the Doha Agenda at the instance of developing countries and a Working Group was set up under the auspices of the General Council to examine 'the relationship between trade and transfer of technology, and of any possible recommendations on steps that might be taken within the mandate of the WTO to increase flows of technology to developing countries'. Like other development issues in the Doha Round, very little work has been done so far within the framework of the Working Group on transfer of technology leading to operational provisions. The problem arises because a lot of policy mechanisms employed by developed countries and newly-industrializing countries to facilitate transfer, absorption and diffusion of technology in the process of their development have been already eroded under some of the WTO agreements concluded in the Uruguay Round, viz. TRIPs and TRIMs Agreements. The access to technology is increasingly becoming difficult for developing countries due to a stronger IPR regime, among other trends. There is need for defining conditions, norms and practices for facilitating transfer of technology to developing countries. A development-friendly outcome of the Doha Round could provide flexibility from the TRIPs and TRIMs obligations for transfer of technology to developing countries.

8.3. Strengthening the Disciplines on RTAs/ FTAs

A concern has been expressed about the growing trend of erosion of non-discrimination through proliferation of RTAs/FTAs so much so that the most-favoured nation principle has become actually 'least-favoured nation' (LFN) principle. The trend of regionalism was promoted by the developed countries in Europe and North America which formed their strong trade blocs while preaching the virtues of multilateralism to others. Now more than half of world trade is conducted on preferential basis rather than on MFN basis. As a result many countries such as those in Asia that have remained faithful adherents of multilateralism are beginning to exploit the potential of regional economic integration. As the US and EU have employed regional trading arrangements, developing countries should not be stopped from forming such groupings as they find desirable to promote their mutual integration. There is a concern that some powerful countries such as the US are using bilateral FTAs with poor countries to evolve new TRIPs plus and TRIMs plus standards for IPR protection and investment measures. This tendency needs to be curbed by evolving a new discipline in WTO on RTAs/FTAs. Article XXIV needs to be amended to provide guidelines for FTAs/RTAs that all such agreements,

old or new should conform to these. The WTO could also evolve new harmonized rules of origin (ROO) to ensure that emerging RTAs do not increase transaction costs for businesses by conflicting and multiple rules of origin involved under different RTAs.

9. South-South Cooperation in Trade

There is an important role for SSC in assisting developing countries in enhancing their bargaining power in the multilateral trade negotiations. In the Doha Round, developing countries have strengthened their participation in international trade talks through issue based coalitions such as the G-20, and G-33 as well as the G-90. The success of these coalitions was evident in their ability to get three (investment, competition policy, and government procurement) of the four Singapore issues dropped off the negotiating agenda of the Doha Round. It is argued that more proactive SSC would be crucial in making the world trading system more responsive to the needs of the developing countries. They could also set up a consultative group to evolve a consensus on the nature and form of S&D provisions, and begin scrutinizing the implementation of WTO commitments by developed countries through a collective watch dog. They should begin assisting each other in implementation of WTO commitments and adjustment process.

Recent trends also point to the importance of promoting intra-South trade and investments for development. Development patterns of the past decades suggest that the South is no longer a single 'backward' group. Different countries and even sub-regions within the countries are at vastly different 'stages of development'. Thus, the complementarities within the group have increased tremendously. Because of complementarities in capabilities, the SS trade has grown at a rate that is twice as fast as the growth of

world trade. The emergence of the South with supply capabilities in a wide range of goods and services as well as its growth as a centre of final demand resulting from robust growth has made the focus on intra-South trade a viable trade strategy.

Similarly, promotion of SS investments and technology transfers is important for the development of supply capacities in the south particularly for industrialization of least developed and low income countries that are marginalized in the global FDI flows. Development of technological capability and entrepreneurship in a number of emerging and developing countries is now widely recognized. The SS FDI flows are also following the trend of growing SS trade as observed above. Intra-South flows of FDI and technology have grown over the past decade and accounted for nearly 37 per cent of global FDI inflows received by developing countries in 2006 compared to only 15.5 per cent in 1995.

To fully exploit the potential of South-South trade, developing countries could adopt a more ambitious approach towards ongoing GSTP (Global System for Trade Preferences) negotiations, with more comprehensive scope and coverage of commodities and countries. They could also evolve approaches under GSTP for linking regional groupings of developing countries for exchanging trade preferences and also extending its scope to trade in services, trade facilitation and NTBs. Developing countries also need to deepen their banking links and financing facilities for their trade and investment. With bulging foreign exchange reserves of emerging countries, the proposal of the South Bank seems feasible and may be revived. Besides developing countries should evolve South investment and double taxation avoidance treaties as useful adjuncts to the GSTP and promote business and information links.

Developing countries have a stake in the multilateral trading system. The challenge before them is to make it serve their needs better. These are some of the proposals for such a reform. Developing country policy makers could keep these proposals in mind in their approach at the multilateral trade negotiations and other relevant negotiations for building a more development friendly and sustainable world trading system. The opportunity provided by the impasse in the Doha Round talks should be used to do some rethinking and building a consensus among developing countries on development issues so that these could be effectively brought on the table at an appropriate occasion.

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