BRIDGES NETWORK

BRIDGES AFRICA

Trade and Sustainable Development News and Analysis on Africa

VOLUME 2, ISSUE 8 – NOVEMBER 2013

What should LDCs pack in their suitcase for Bali?

EXCLUSIVE INTERVIEW
Nepalese Ambassador and LDC group coordinator at the WTO, Shanker D. Bairagi

AGRICULTURE
Yonov F. Agah weighs in on the stakes and challenges for African countries

POST-BALI
The way forward for LDCs

TRADE FACILITATION
Why is Trade Facilitation important for LDCs?

ICTSD
International Centre for Trade and Sustainable Development

BRIDGES AFRICA

VOLUME 2, ISSUE 8 – NOVEMBER 2013

BRIDGES AFRICA
Trade and Sustainable Development News and Analysis on Africa

PUBLISHED BY
ICTSD
International Centre for Trade and Sustainable Development
Geneva, Switzerland
www.ictsd.org

PUBLISHER
Ricardo Meléndez-Ortiz

EDITOR-IN-CHIEF
Andrew Crosby

MANAGING EDITOR
Kiranne Guddoy

ADDITIONAL SUPPORT
Stefan Oliva

DESIGN
Flarvet

LAYOUT
Oleg Smerdov

EDITORIAL PARTNER FOR THIS ISSUE:

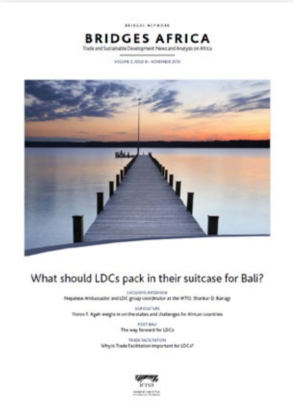
iDEAS centre Geneva
Partnership for development

Special thanks to: Nicolas Imboden, Executive Director and Anne Sophie Nivet, Project Manager at IDEAS Centre.
http://www.ideascentre.ch/

To join the Bridges Africa Editorial Advisory Board write to us at bridgesafrica@ictsd.ch

BRIDGES AFRICA welcomes all feedback and is happy to consider submissions for publication. Guidelines are available upon request. Please write to bridgesafrica@ictsd.ch

LDCs: All roads lead to Bali



This issue is published jointly with IDEAS Centre Geneva and aims at taking stock of the issues of special interest to the least-developed countries (LDCs) on the eve of the WTO's Bali Ministerial Conference.

No one can deny that the rhythm of the negotiations has increased since the end of the summer break. Bali will show whether this was "too little, too late" or sufficient to ensure both a balanced package and a stimulus for the post-Bali era. Three new draft decisions on LDC issues (on rules of origin, cotton and the implementation of the services waiver) have been released recently and will allow still needed discussions. An eighteenth version of the draft agreement on trade facilitation has also been provided, showing significant progress as well as a problematic status quo. Although there has been a recent step back on special and differential treatment (S&D) monitoring mechanism negotiations, it can be assumed that discussions on the overall package have accelerated.

However, the same cannot be said yet on post-Bali issues. For Bali not to be considered a failure, some decisions, or at least declarations of good will, accompanied by work plans on the technical issues will be required. For Bali to be seen as a success, members will have to engage rapidly in a likely thorny, but necessary debate on a long list of subjects that are all inter-related: governance, ways of negotiation, single undertaking, Doha issues versus non-Doha issues, global value chains (GVCs), mega deals, plurilaterals, etc.

This special edition of Bridges Africa is dedicated to LDCs, meaning that it is not limited to LDC issues but addresses a broad range of topics taking into account LDCs concerns and challenges. The edition, therefore, encompasses three types of analyses on: LDC-specific issues; other non LDC-specific negotiating items of importance for the group, such as trade facilitation and to a lesser extent some topics in agriculture ; and post-Bali systemic issues for which LDCs will need to sharpen their positions.

We hope you enjoy reading this issue and invite you to consult our Doha Round Briefing Series prior the Conference as well as ICTSD's Bridges Daily Update during the conference.

In addition to our renowned on-the-ground reporting, ICTSD will also organise a Trade and Development Symposium on the sidelines of the Ministerial Conference in Bali. The aim of the event is to provide a forum for discussion among governmental and non-governmental stakeholders on issues at the interface of trade and sustainable development, with a view to identifying policy options to address key challenges facing the multilateral trade system.

As usual, we invite readers to participate in future issues of Bridges Africa by helping to identify emerging issues and relevant research. We welcome your participation and contributions. Write to us at bridgesafrica@ictsd.ch.

The Bridges Africa Team

EXCLUSIVE INTERVIEW

LDC issues for Bali

Shankar D. Bairagi
Ambassador and Permanent Representative of Nepal to the World Trade Organization. He is also the Coordinator of LDCs consultative group in WTO.

He led the group of 77 and China at the expert level as a coordinator during the intergovernmental negotiations on the Istanbul Program of Action for the LDCs, adopted by the Fourth United Nations Conference on the LDCs in 2011.

The LDC package to be harvested at the World Trade Organization (WTO) Ninth Ministerial Conference (MC9) to be held in Bali, Indonesia in December 2013 includes four elements of interest to least developed countries (LDCs): duty-free, quota-free (DFQF) access for LDC exports; more favorable rules of origin (RoO) for their goods; the operationalization of the services waiver; and the cotton issue. So far, three proposals were tabled by the LDC group: one related to the preferential RoO, another to operationalizing the LDC services waiver, and the last to the cotton issue. This interview was conducted on the 11 November 2013.

At this stage, what are the LDCs main challenges for Bali? Which strategies should they follow to give traction to their proposals?
Let me start with a general answer. Success in Bali is critical to pave the way for the conclusion of the Doha Round and also for the future of the multilateral trading system. Everyone has a vital stake in this process. So, bearing that in mind and in order to facilitate a successful outcome in Bali, LDCs have shown maximum flexibility in the negotiations on all issues of the package. This does not mean that we do not want a more meaningful and binding outcome on all LDC issues!

We have been guided by the sense of optimism and realism. For us, all LDC issues are doable because they are not new and do not require much technical work. Basically, most of our issues are waiting for implementation. What we need more is political will than anything else to address them in a meaningful way.

While we discuss a three-pillar package for the 9th Ministerial, it is our principled position that delivery on LDC issues should not be linked to the progress or the lack of progress in other areas of negotiations. LDC issues have been termed as the best candidates for an early harvest, and there is general understanding among members on this. Now the time has come to translate this understanding into action. The international trade community will have nothing to celebrate as success if vital development issues of LDCs are not addressed in Bali. We want to send this message and hope it will be understood by all in its true sense.

We have very little time left for Bali. Negotiations are progressing well in recent weeks but not at the pace that is required to accomplish them within the time that is available.

The small package for Bali contains three parts: trade facilitation, agriculture and development issues of particular concern for LDCs. The first two pillars seem to have advanced more than the development pillar. Would the results for LDCs be like a non-binding declaration of goodwill?
We are concerned over the fact that a proper balance is lacking across all pillars in Bali package. This is a development round and naturally development issues must remain at the centre of negotiations. LDCs issues are vital for the livelihoods of nearly a billion people who are still grappling with the dehumanizing conditions of poverty, hunger and overall backwardness. Meaningful outcome on all LDC issues is therefore not a desire but a compulsion, if the international community is genuinely concerned about their wellbeing and progress.

So, how could the LDC group press for greater substance?
As you know, we have three pillars in Bali package: agriculture, trade facilitation and development. Having binding decisions TF pillar and neglecting two others would not be acceptable. There should be proper balance in terms of outcome for all three pillars. We should be mindful that LDCs need proper attention in the multilateral trading system, since their development imperatives are greater than those of any other group of countries. Therefore, we should think of balance more in terms of addressing the genuine development needs of LDCs. This should be the overarching objective. So, we will not be in a position to accept the imbalance created by only non-binding sort of guidelines or the declarative language for LDCs and something concrete in other pillars. How the global trade community would justify the outcome of Bali if it lacks concrete deliverables for the LDCs, the poorest and most vulnerable countries? We will have to wait how the Bali package takes its final shape.

We do not yet have proposals on all LDCs issues. What can be done to improve getting common proposals on issues emphasized by LDCs?
It is not true that LDCs have not submitted proposals.

But, there is no one proposal on all the LDCs issues, right?
We have submitted proposals. In fact we submitted proposals on 31 May. The LDC package for Bali consists of four core areas: DFQF market access, operationalisation of the services waiver, RoO and cotton. The cotton group (C-4) has resubmitted a proposal, and consultations are currently taking place on this issue. Negotiations on two LDC proposals namely the operationalisation of services waiver and the preferential rules of origin have resulted in draft decisions to be endorsed by the Ministers. The only remaining issue is DFQF market access, and this is not a new issue! We submitted a proposal on DFQF, and based on that — and taking into account the members concerns and aspirations as well as the sensitivities attached to it — we have been working on possible elements that could be agreed on. We are very much engaged in the process, and I am hopeful of reaching reach a meaningful conclusions in Bali.

What progress has been made on the WTO proposals made by LDCs in the area of services and RoO?
The draft decisions on services and preferential RoO have been stabilized and they now will go to the Ministers for endorsement. The outcome on these two proposals is not optimum but we have accepted them in a spirit of compromise to advance the process of overall negotiations with a view to having an outcome in Bali.

Pascal Lamy called the cotton issue the 'litmus test' for the Doha Round. A proposal was tabled by the C-4 at end of October, asking for the implementation of DFQF market access for cotton originating from LDCs as of 1 January 2015. What should C-4 countries do to give traction to that proposal?
This is another long-standing issue for some of fellow LDCs. The LDC group supports this proposal, which, we believe, is a reasonable one. This is an important development issue and a meaningful outcome is essential in Bali to address this. The C-4 countries are trying their best to seek an outcome in a constructive way. The point is that, without addressing the core issue of cotton, I do not think anybody would claim that the Round has given a true development result! We should bear in mind that this is also an issue related to LDCs, and will have negative impact on the livelihoods of poor people living in these countries, if not addressed in a meaningful way.

Some studies have shown major benefits of trade facilitation. How do you see the negotiations on trade facilitation evolving, including the modalities of implementation of such agreement for LDCs?
The trade facilitation agreement has two components: Section I relates to the commitments and Section II contains special and differential (S&D) treatment provisions. We are still not sure in what form the overall outcome will be delivered. We believe that the trade facilitation agreement in itself is not properly balanced between section one and section two. There are more binding commitments in section one, while under section

two it is not clear as to what extent our partners will provide the required technical and financial assistance for LDCs to help them acquire sustainable capacity. Our position has been that notification and the implementation of the category C provisions will very much depend on the acquisition of implementation capacity through technical and/or financial assistance. If you don't acquire capacity, you should not be asked to notify the dates and implement it. We want S and D provisions built on the parameters contained in Annex D of July package as well as Annex E of the Hong Kong Ministerial Declaration. The provisions of these two documents clearly state that LDCs are required to undertake only those commitments that they can and that are in line with their development needs and priorities as well as their institutional, administrative and financial capacities.

Which of the proposals on the table have the potential to contribute to LDCs' trade growth in the most significant way?

Well, I believe all four proposals are important. For LDCs, all three components- commercially meaningful market access; simplified and facilitative rules of origin; and supply-side capacity- are crucial for them to grow and expand international trade. LDCs remain grossly marginalized in the world economy with around 1 per cent share in global trade. Our proposals on DFQF, on the services waiver, and on cotton seek to enhance market access opportunities that will eventually help LDCs to benefit from the multilateral trading system. The proposal on the rules of origin seeks to help LDCs to utilize existing and future preferences through simplified, transparent and easy process.

Considering that the productive capacities among LDCs have played an important role in enhancing opportunities through trade, what can be done at the Bali ministerial meeting to address LDC supply side constraints?

LDCs' productive capacity is very low. They confront structural challenges that impede their growth and development. Addressing their supply-side constraints and overcoming infrastructure bottlenecks should remain a priority agenda for all of us. In this context, we need to continue to emphasise the importance of aid for trade and its increased share going to LDCs as well as the continuity of the Enhanced Integrated Framework (EIF) with adequate resources and longer term perspective. Therefore, the Bali ministerial declaration should contain important commitments in these areas.

Do the LDCs have any proposals in mind on how to invigorate the overall negotiating process?

The LDC group is one of the recognized groups in the WTO. Like other groups, we also have vital interests and a stake in the process. As I said in the beginning, the core issue here is how to devise a credible and balanced package. Failure to do so will jeopardise both the process and an outcome. In any case, LDCs issues should receive priority; our issues should remain beyond the balancing exercise. LDCs, which have a negligible share in world trade, have nothing to trade off and our partners also should not expect that. We believe there is a general understanding that LDCs should be treated with priority. We should really move forward and deliver something in Bali that will help us maintain the credibility of the system and the WTO as a negotiating forum.

What is the potential outcome of the ministerial meeting that could unleash the power of trade to promote sustainable and inclusive development?

Clearly for LDCs, development issues are at the centre of our discussion. We have engaged in trade facilitation negotiations with the understanding that our core issues are also taken on board and addressed in a meaningful way. In a nutshell, development issues, including agriculture, have the potential to unleash the power of trade to promote sustainable and inclusive development. Without eradicating poverty and hunger and addressing other core development issues we cannot think of erecting an edifice for sustainable and inclusive development for all. The Bali Ministerial must not miss the opportunity to be a milestone in our development endeavours.

DOHA ROUND

Bali, the Doha Round, and the multilateral legal framework

Nicolas Imboden

What are the changes that have occurred since Doha? What impact have they had on the LDCs and on the inclusive multilateral trading system?

The Doha Development Round, launched in 2001, has not yet been able to produce substantial results. With little prospects for a breakthrough in the negotiations, the following strategy was defined for Bali: Agreeing on some so-called "low-hanging fruits" to show that the WTO is able to come to a consensus, at least on some issues" and exploring new and more efficient negotiating mechanisms.

These two measures are intended to revitalize the Round and lead to its successful conclusion. The so-called "small package" consists of an agreement on trade facilitation, and some agreement on three agricultural issues, and on the so-called development component. It is likely that some degree of agreement covering the three components is attainable.

Agreeing on a small package will not however be enough to revive the Doha negotiations. To save the multilateral system, it is essential to establish a credible way forward for the negotiations after Bali. Any "new" approach to the negotiations will have to address the causes of the present stalemate.

Major, rapid and alarming changes inside and outside WTO

First and foremost, the situation in LDCs and their position in the world have fundamentally changed. The decade before Doha was a period of relative stagnation in most LDCs. In the past ten years, LDCs have experienced sustained economic growth and have become coveted partners both for their resources and as a destination for investments. However, this remarkable development has made it more difficult for LDCs to agree on a common position, as their economies have become more diverse and their needs have increased.

Second, the organization of the world's production processes, and hence the content of the trade relations, are changing rapidly. Trade in goods and services is progressively replaced by trade in tasks through global value chains (GVCs). Value chains need what is called deep integration as opposed to "only" free trade. Deep integration can be much more easily negotiated within a small and voluntary group of countries that share similar interests than by an inclusive process where any member can block the whole process. It is thus not surprising that the framework conditions for GVCs are negotiated in smaller groups, normally in relation to a consumption centre and the related production centres (e.g. USA with Asia and Latin America, EU with Eastern Europe; and Japan with Asia).

Third, there has been a tectonic change in the distribution of economic power and thus in negotiating power within the WTO. Developed countries can no longer impose their solutions on the rest of the world. The BRICS are now major trading powers and formidable competitors for the developed countries.

What do these changes mean for the Doha Round and the WTO?

All these changes have had an important impact on the multilateral trade framework and on the negotiating process: The willingness to make concessions to maintain the system has decreased;

Special and differential treatment has to be redefined; The various groups need to adapt to the economic evolution of the last twenty years; A new balance between rights and obligations among the major trading partners has to be defined; Negotiating topics have to be adapted to the requirements of an ever changing economic environment; Bigger powers have alternative ways to achieve their trade objectives: WTO no longer has the monopoly to define the multilateral trade framework.

Most important, a common purpose of the negotiations, in which each country sees its interest to make concessions so as to receive concessions, has to be established.

In the present negotiations, some countries perceive the *status quo* as sufficient and acceptable (BRICS), whereas others fear that they may actually lose in an agreement (the LDCs). A third group of countries (the big powers) are convinced that they can get a much better deal for themselves outside the system (mega-deals, EPAS, plurilaterals). In such a situation, it is not surprising that the required political will to come to an agreement is simply not there; agreement on a small package will not be enough to reinvigorate the process. Bali needs first and foremost to define a credible way forward that ensures deliverables by mobilizing the political will of all parties concerned to make the necessary concessions.

There are three possible outcomes in Bali:

1 There is no agreement in Bali. In such a case (fortunately rather unlikely), not only the Doha Round but also the negotiating function of WTO would most probably be abandoned in favour of bilateral, regional, plurilateral and mega deals, in which developed and emerging trading parties will dictate the functioning of the global system. LDCs and other small economies have the most to lose in such a scenario.

2 There is an agreement on a small package that is not really credible, but sufficient for the participants to pretend that Doha is not dead –a scenario that is not unrealistic. In such a case, the negotiations will most probably continue officially. However, the big powers–and their economic clientele, representing about 80 to 90 percent of world trade–will put their energy and resources into mega deals and plurilaterals, where results are more easily attained.

3 The Bali Ministerial concludes with a small package and a credible way forward for the negotiations. This may well be the only way to preserve the Doha Round and an inclusive multilateral framework. LDCs should endeavour to do anything in their power to bring about this third solution, given their fundamental interest in a functioning inclusive trading system.

What does this mean for LDCs and other smaller, poorer nations?

First, the change in the international division of labour and the global production processes (GVCs) requires a rethinking of how LDCs want their special situation addressed. Exemptions from rules are not the solution. LDCs have to make sure that the rules that are agreed multilaterally are in line with their development needs and can be implemented according to their development priorities and with the assistance of the developed world. In this respect, the Trade Facilitation Agreement is a very good example on how future rules should be negotiated.

Second, LDCs have to accept that all parties are required to do their part to come to an agreement. The concept of a "round for free" is an illusion. LDCs may consider proposing concessions (i.e. reforms) in line with their development needs. This requires a more pro-active position.

Third, LDCs have to acknowledge that their interests will diverge once the negotiations advance to specific concessions. They need to find ways to negotiate among themselves to come to common positions. Unless the LDCs have the structures and capability to come to such compromises, they will not be able to negotiate pro-actively and will be limited to reacting (in most cases defensively) to proposals from their partners.

Fourth, LDCs' main interest in Bali is the survival of the Doha negotiations and, more importantly, the survival of an inclusive multilateral system. The content of the small package is of secondary importance. As the main beneficiaries of an inclusive multilateral system, LDCs should be unequivocally vocal about their attachment to the multilateral system.

Fifth, LDCs may want to put heavy emphasis on the way forward after Bali. They have to take into account the fact that major powers have already shifted their interest towards other trade forums: mega deals, RTAs, and plurilaterals. They are, however, aware that politically an inclusive multilateral system has to remain the main objective of the world community. The WTO at Bali has to show that the multilateral system can deliver.

Sixth, the system has not been able to deliver and there is no reason to believe that it will deliver, unless substantive changes in its functioning are proposed. The bigger powers are already unilaterally redefining the way rules are made through mega deals and plurilaterals, i.e. non- inclusive systems. Let there be no doubt: once essentially all interested and interesting parties participate in a non-inclusive deal, other countries will have no choice but to abide by the rules thus defined, or be marginalized in the world economy.

These new non-inclusive approaches are game changers. Development issues are not central to these approaches; the single undertaking is gone and the themes negotiated will be those of interest to the big powers, not to the LDCs. While LDCs are right to be against these new approaches, they cannot stop them. Unless LDCs come up with credible alternatives, those approaches will be used with or without LDCs' agreement.

Seventh, LDCs therefore have to identify ways to combine the legitimate request of the big powers to have efficient negotiating structures with the legitimate goal of LDCs to maintain an inclusive multilateral system. Such a consensus on the way forward can be found: On the one hand, the bigger powers have a political interest to maintain an inclusive multilateral system, and should be willing to pay a certain price to maintain it. On the other hand, LDCs know that deeper integration agreements among a group of countries willing to do so cannot be avoided and therefore should be willing to make concessions so as to bring these agreements into the WTO.

Eighth, a new multilateral trading system may well be based on the comparative advantage of the two negotiating processes, i.e. the advantage of plurilaterals and FTAs in the efficiency of negotiating deep integration and the advantages of inclusiveness of the WTO system. A possible approach maybe to:

- Define within WTO, and inclusively, the basic principles any FTA or plurilateral agreement should follow when negotiating exclusive deeper integration agreements;

- Accept those agreements (through Annex 4 procedures) within WTO's legal structure and submit them to the supervision of the WTO.

Clearly, such a new system would require time to be negotiated and can certainly not be ready for Bali. However, a Ministerial Declaration in Bali could give to the WTO a mandate to work out such an approach, to be submitted to a Ministerial Conference to be convened within a year.

Nicolas Imboden
Executive Director of IDEAS centre

POST-BALI

Challenges facing LDCs in Bali and beyond

Christophe Bellmann

What is the way forward for LDCs in a post-Bali and post-Doha context?

Because of their structural handicaps reflected in low income levels, high economic vulnerability and weak human assets, least-developed countries (LDCs) face particular challenges in integrating into the global economy. As the weakest players on the international scene and given their high dependence on international trade, LDCs have – almost by definition – a strong interest in a well-functioning, rule-based multilateral system to govern economic interdependencies, provided cooperative arrangements account for LDCs special handicaps and vulnerabilities.

In this respect, the current impasse of the Doha Round poses a set of interrelated challenges to the LDCs. As we move towards the Ninth Ministerial Conference in Bali (MC9), such challenges can be broadly divided into three categories: (a) issues around the Bali package itself and particularly the balance among its various components, namely trade facilitation, some elements of agriculture and development concerns; (b) systemic issues in the post-Bali context, including concerns about plurilaterals and the notion of a single undertaking; and (c) the need for the system to respond to a set of pressing "non-Doha" development issues that have emerged in recent years.

The way in which WTO members respond to these three sets of issues will ultimately define success in Bali and beyond. The general sense is that a failure to deliver on the so-called small package would constitute a major setback, putting *de facto* an end to the Doha negotiations. But, the extent to which members succeed in defining a credible post-Bali road map to address unresolved issues might be as important as the package itself. In this respect, agreeing on a small deal – as significant as it may be – will constitute only a necessary, but not a sufficient condition for success. From an LDC perspective, while several elements of the package are LDC specific, all three areas highlighted above are of critical importance to the group.

The Bali package

Paradoxically, the largest benefits for LDCs in Bali might result from a possible agreement on trade facilitation – an area where LDCs are not the main *demandeurs*. In a world increasingly dominated by global value chains, the gains accruing from simplified customs procedures and lower transaction costs are well established. But, the most significant gains are likely to arise from a possible boost in intra-regional trade, where a considerable growth potential remains untapped. Granted, some countries will have real difficulties in implementing certain elements of the proposed agreement in the absence of technical assistance and capacity building. These concerns have largely crystallised around the need to balance section I and II of the draft. But, the proposed deal potentially contains a set of landmark provisions, allowing for flexibility in the scheduling and sequencing of implementation and linking commitments to acquired capacity resulting from technical assistance.

The other elements of the Bali package are less likely to result in tangible gains, at least in the immediate term, as illustrated by the establishment of a monitoring mechanism on special and differential treatment, which constitutes a welcome development but remains a rather procedural issue. The proposed decision on rules of origin, as important as it is, constitutes only a best-endeavour agreement. Similarly, there is little to expect on the joint proposal by Mali, Chad, Benin and Burkina Faso (C4) on cotton, which came late in the process or on duty-free quota-free market access, where LDCs themselves have not managed to overcome their internal divisions. On a more positive note, the proposed decision on the services waiver constitutes a significant step forward in the establishment of unilateral preferences in services, even if it essentially constitutes a process outcome. Finally, agreements on agriculture, improvements in tariff rate quotas administration or the possibility to increase government subsidies as suggested by the G33, will do little to address LDCs food security concerns, not least because most of the LDCs do not have the financial resources to benefit from such flexibilities. This is not to say that LDCs do not have stakes in food security. As net food-importing countries, LDCs have been hit hard by recent price spikes further accentuated by policy responses, such as export restrictions or biofuels policies. As a result, they have seen their food import bills growing to worrying levels while productivity growth has remained stagnant, putting large segments of their populations at risk. These concerns, largely associated with the new price environment prevailing in agriculture, will require targeted responses from the system. While they will not be resolved in Bali, LDCs might consider addressing them as part of a post-Bali work programme on food security.

Systemic issues in the post-Bali context

Beyond the intrinsic value of the Bali package, reaching an agreement at MC9 will demonstrate that the system is able to deliver. Under this scenario, the next step will consist in capitalising on the Bali success to move forward and ultimately close the Doha Round. Yet, in the absence of a significant change in the border policy environment, a "business as usual" approach is unlikely to yield results that are radically different from what WTO members have achieved so far. Mindful of this reality, several members are exploring new ways of conducting negotiations as already hinted at by Ministers at the December 2011 Ministerial Conference. Under this scenario, the single undertaking principle is likely to be further questioned, and pushes for plurilateral approaches will probably intensify. The proposed plurilateral on services, – the so-called Trade in Services Agreement (TiSA) – is symptomatic of this trend, but plurilaterals might also be initiated in areas such as environmental goods and services (EGS) or even concluded in Bali, for example, on information technology (IT).

From the perspective of LDCs, which essentially remain "deal takers" in multilateral negotiations, the prospect of plurilaterals outside of the WTO realm is of particular concern. This is both because such agreements tend to be exclusive and because removing certain elements from the Doha equation would result in fewer trade-off opportunities for LDCs to advance their priorities in areas such as food security or market access. Under such a scenario, the risk is therefore high that LDCs specific concerns will retain less attention and become increasingly marginalised, as larger trading powers focus their attention on their own priority issues. While the LDCs are not in a position to stop plurilaterals from happening, they should use their limited influence to ensure that such agreements remain as much as possible under the purview of the WTO, while devising strategies to advance their priorities under the new negotiating configuration.

Beyond Doha, the need to address 21st century issues

The third challenge lying ahead for LDCs relates to the need to look beyond Doha. Today's world is quite different from the one we had in 2001 when the Doha Round was launched. And, many of the challenges LDCs face today were not even in the minds of negotiators at that time. The emergence of greater public policy concerns – including climate-change mitigation and adaptation, natural resource scarcity, food security in times of high and volatile prices, or the need to scale up renewable energy production and diffusion – requires coordinated responses from the trade regime. The fragmentation of production through highly complex global value chains and the revival of industrial policy pose further development challenges at the policy level. Alongside those new issues, preferential trade agreements continue to proliferate and are increasingly converging into "mega-regionals" from which LDCs remain largely excluded. Many of these issues will not be discussed at MC9, but they won't go away and will only grow in importance in the post–Bali environment. A first step might consist in providing a space to explore such emerging challenges in a non-negotiating setting to assess whether the WTO rule book is properly equipped to deal with them or whether existing disciplines need to be clarified or amended. Given that LDCs have major stakes in all these areas, it will be in their interests to articulate their needs and priorities in a proactive manner and rather sooner than later.

Christophe Bellmann
Programmes Director at ICTSD.

AGRICULTURE

Agricultural trade issues at the WTO ministerial conference in Bali: Stakes and challenges for African countries

Yonov Frederick Agah

Negotiations for the progressive liberalisation of global trade in agriculture under Article 20 of the WTO Agreement on Agriculture (AoA) remain an important objective for African countries, which would also need complementary domestic policy reforms to enhance productivity and competitiveness.

One of the major outcomes of the Uruguay Round of multilateral trade negotiations was the integration of international trade in agriculture into the multilateral trading system. Although this significant development involved WTO members undertaking commitments to reduce tariffs, domestic support and export subsidies in agriculture, it merely represented a 'stepping stone' towards the long-term objective of substantial progressive and comprehensive reform of world trade in agriculture. It is in this context that the envisaged continuation of the reform process was started in 2000 and was subsequently clarified under the Doha Ministerial Declaration in 2001.

Despite the overall stalemate in the Doha Round negotiations, Ministers at the Eighth WTO Ministerial Conference (MC8) in 2011, further committed to advance negotiations, where progress can be achieved. It is based on this understanding that members have been engaged in shaping the post-MC8 agenda, including advancing the work towards a package of 'deliverables' at the Ninth WTO Ministerial Conference (MC9) in Bali.

The three core areas of such a package include a binding agreement on trade facilitation, as well as elements related to agriculture and development with specific priority devoted to issues of special interest to least-developed countries (LDCs).

Elements of the agriculture component of a possible Bali package

The quest for free trade in agriculture through the reform of global rules is at the heart of the 'development' mandate of the Doha Round for both developed and developing country members of the WTO. The significance of agriculture is clearly demonstrated by the existing 'like-minded coalitions' in the negotiations, such as the Cairns Group, the G20, the G33, the G-10 and the net food-importing developing countries (NFIDCs). In spite of the diverse interests of these groups, their overarching objective has been to promote the liberalisation of global agricultural trade markets as an important driver of international economic growth and development through, *inter alia*, substantial reductions in trade-distorting domestic support; elimination of export subsidies; as well as deep cuts to all tariffs, expansion of tariff quota access and improvements in tariff quota administration.

Various African countries are members of these different groups, reflecting their broad long-term interests and objectives in the Doha Round agriculture negotiations that bring together the three pillars of market access, domestic support and export competition. However, it is only three elements out of the broad long-term agriculture dossier that are under discussion for the Ministerial Conference in Bali: public stockholding for food security purposes, export subsidies and tariff rate quota (TRQ) administration.

G33 proposal on public stockholding for food security purposes

The G33 proposal seeks to amend the AoA by modifying the 'green box,' a category of spending that is believed to be minimally trade distorting and is without limits. The objective of the modification, if adopted, is to increase the list of policies and services related to farmer settlement, land reform programmes, rural development and rural livelihood security. Also, against the background of the significant increases in food prices and the number of resource-poor farmers in need of support in developing countries since the AoA was put in place, the G33 proposal seeks to remove limits on public stockholding and food aid.

G20 proposal on tariff-rate quota administration

This proposal seeks tighter disciplines for administering tariff-rate quotas (TRQs) - which are presently being used by some members to charge higher tariffs on goods being imported after an initial quota has been filled. Some countries argue that the way the quotas are managed can be too cumbersome and hamper exporters' ability to access markets. However, apart from a few minor changes aimed at adapting the text of the proposal to more suitable 'treaty language', no substantive changes have been introduced.

G20 proposal on export competition

Based on the recognition that export subsidies are the most distortive form of agricultural support, the export competition element of the agriculture component of a possible Bali package is contained in the proposal by the G20 for a Ministerial Decision requiring developed country members to amend their export subsidy reduction commitments by the end of 2013 as follows: (a) budgetary outlay commitments shall be reduced by 50 percent, and (b) export quantity commitments shall be reduced to the actual average of quantity levels in the 2003-2005 base period. The proposed Ministerial Decision on export subsidies also provides that "developing country members with scheduled export subsidy commitments shall reduce them by 25 percent by the end of 2016."

Other commitments contained in the proposal include flexibility for developing countries to continue to benefit from the provision of Articles 9.4 of the AoA for five years after the end-date for elimination of export subsidies; the prohibition of exports subsidies for cotton; reductions by developed and developing country members in the volume of subsidised exports; and disciplines on export financing. The proposed disciplines, however, would not be applicable to export finance operations in which LDCs and NFIDCs are recipients.

Stakes and challenges for African countries

Although only a few African countries are members of the G20 and the G33, it is important to note that the current proposals by these groups reasonably address some of the agriculture trade issues on which a positive outcome at the Bali Ministerial Conference should be of interest to all African countries.

Agreement on the TRQ proposal in Bali should result in increased transparency, simplification of procedures and monitoring of tariff quota fill rates through the adoption of new mechanisms for consultation, redistribution of unused licences and new tariff quota administration methods. Although members are reportedly finding agreement on the transparency elements of the proposal relating to TRQ administration, convergence on the special and differential treatment component is yet to be achieved.

From a long-term policy perspective, the G33 proposal has the potential of addressing some of the internal and external challenges, which have been critical to the underdevelopment of the agricultural sector of African countries. While the internal challenges relate to the lack of infrastructure and insufficient production by poor small-scale farmers, the external challenges are mostly centred on the vulnerability of the resource-poor farmers and the acquisition of foodstuffs at administered prices for food security purposes. Overall, the proposed changes to agriculture trade rules would enable developing countries, including African countries, to use agriculture as a development policy tool to achieve the core objectives of livelihood security, poverty alleviation and rural employment.

The use of a "peace clause" as a potential interim solution to the controversial G-33 proposal on public food stockholding and domestic food aid has continued to feature prominently in the agriculture negotiations, particularly with regards to transparency, as well as safeguards to minimize any possible trade distortions.

Cotton remains an important issue in the agriculture negotiations. The Cotton-4 countries (Benin, Burkina Faso, Chad and Mali) have indicated that they would be submitting an updated proposal for the Ministerial Conference in Bali[1].

Although there is no proposal and no on-going discussions on issues related to technical standards and sanitary and phytosanitary measures in export markets for Bali, they present significant policy challenges to African countries' agriculture. This is more so as it is increasingly difficult to meet not only the public standards, but also the private standards being demanded by retailers in developed country markets.

Finally, with respect to policy options, it is very important to recall that historical patterns of agricultural production and trade have clearly locked most African countries in primary commodity exports. This situation has been exacerbated by critical challenges arising from infrastructural bottlenecks, inadequate public investment in agriculture, distortive import-substitution and food self-sufficiency policies, as well as shortages and over—dependence on imported inputs.

Consequently, there is a great need for domestic policy reforms to ensure an internationally competitive African agricultural sector by addressing challenges related to infrastructural facilities, pricing policies, promotion of regional trade and capacity building for African farmers. Policy measures to enhance agricultural productivity in Africa should also pay special attention to the interlinkages between demographic growth projections and the requisite solutions to employment, livelihood security and self-sustenance for rural populations and communities. There is also a need to address the dynamics related to climate change, including the associated secondary stress of increased competition for resources, biodiversity losses and spread of pests.

Conclusion

Although the Uruguay Round AoA generally marked an important step towards the progressive liberalisation of international trade in agriculture, the successful conclusion of the Doha Round agriculture negotiations, including a possible small package at the Bali Ministerial Conference, would serve as only a part of the desired solutions. For African countries in particular, domestic policy reforms would be required to fully take advantage of reductions in trade-distorting subsidies and domestic support measures in other parts of the world. It is critically important that such domestic policy reforms comply with both public and private standards on addressing the challenges related to agricultural productivity and competitiveness, rationalisation of agricultural trade and pricing practices, promotion of regional trade integration, and the building of technical capacities.

[1] The C-4 proposal on cotton TN/AG/GEN/33 has not been tabled yet when this article was drafted.

Yonov Frederick Agah
WTO Deputy Director-General, having assumed that role in October of this year. He previously served as Nigeria's Ambassador and Permanent Representative to the WTO from 2005 to September 2013.

This article was originally submitted in June 2013, prior to his taking on the Deputy Director-General position. It exclusively reflects the author's views in his capacity as the then-Nigerian Ambassador.

AGRICULTURE

How does the G-33 proposal address LDC concerns in the area of food security?

Nicolas Imboden

This article assesses the G-33 proposal with regards to the food security issues faced by the LDCs.

The Agreement on Agriculture (AoA), which was negotiated during the Uruguay Round, addressed the trade issues that agricultural crops faced on the world market at that time, i.e. oversupply of food products and low international prices. The Agreement therefore rightly regulates primarily market access restrictions and trade distorting subsidies.

The last few years have seen a sharp increase both in the price level and in the price volatility of foodstuff, as well as in the occurrence of food shortages. This situation is expected to continue: we seem to have entered into a situation of supply-constraints in the agricultural commodities markets. It is thus normal that international attention has passed from price support measures (subsidies) and market access issues (import barriers) to issues of access to food in times of shortages, as well as to rules addressing price volatility in the name of food security. The G-33 text is part of this evolution and proposes to address the issue of food security. It is supposed to provide developing countries the policy space required to deliver financial incentives to low income, resource poor farmers through the purchase of food crops for public food stocks at administered prices. LDCs are the most food-insecure group of countries in the WTO and suffer regularly from major food shortages. Therefore, any proposal on food security should be geared primarily toward the issues faced by the LDCs.

What do LDCs need to ensure food security?

Food security in poor countries essentially means two things: (i) the physical availability of food where it is needed in times of local shortages; and (ii) the ability to afford the food at both the macro- and micro-levels.

Most LDCs have large areas of underutilised land and technological resources in agriculture. Increasing food production, on the basis of this potential, is therefore the first and foremost task of a government when addressing the issue of food security. Food security does not, however, mean self-sufficiency. The latter is best ensured by producing what a country produces best and by relying on the international market to ensure food security. Farmers – even largely self-sufficient producers – are price-sensitive and willing to specialise. To have the option to integrate their agricultural economies into the world economy, both LDC governments and farmers have to be assured that in times of local shortages they do have access to affordable supplies of basic food products from the outside. LDCs cannot allow themselves to be exposed to either export restrictions or high fluctuations of prices. If the multilateral trade framework fails to guarantee that, LDCs are forced to aim at self-sufficiency – even if this is clearly a sub-optimal approach. Thus, the multilateral trade rules that allow LDCs to implement a rational food security policy are rules that guarantee their access to basic food staples in times of shortages at prices that they and their consumers can afford.

Does the G-33 proposal address the constraints of LDCs in the area of food security?

The G-33 has requested the extension of the content of the green box for developing countries by including into the green box the financing of development projects and, most

See related ICTSD Note: G-33 Proposal: Early Agreement on Elements of the Draft Doha Accord to Address Food Security


G-33 proposal: early agreement on elements of the draft Doha accord to address food security

I C T S D F A O

1. Introduction

This short information note produced by ICTSD looks at how rules, policies and practices in this area can affect trade and food security, in the run-up to the global trade body's ninth ministerial conference this December.

importantly, the possibility to buy – at subsidised prices – staple food crops from low income, resource poor farmers for the purpose of creating public stocks.

These proposed changes are of limited interest to LDCs: (i) development programs for rural small farmer communities are uncontroversial and have been so in the past and (ii) LDCs already have the possibility to use 10 percent of the value of their agricultural production for subsidising their agriculture under the de minimis clause – a privilege they cannot fully utilise given their limited financial resources. Therefore, the extension of the policy space to subsidise food prices to producers is of very little interest to most of them.

More importantly, the G-33 proposal, while potentially useful for some of the LDCs, is not responding to the main issues of LDCs: (i) physical access to food at times of shortages; and (ii) availability of food at prices they can afford both at the macro and at the household level.

Options to ensure that Bali constitutes a step towards LDCs' food security.

It is expected that Bali will deal with the G-33 proposal in the following way: The approval in Bali of some intermediate measures, such as a peace clause allowing developing countries to finance stocks at administered prices without risking that other member countries will attack these measures; and an agreement on a road map to negotiate a longer-term solution to the food security problem identified and recognised by all WTO members.

This development provides the LDCs the opportunity to insert their specific concerns into the post Bali work program on food security.

A possible request from the LDCs could include the following elements:

- Some short-term measures to be decided in Bali to facilitate LDCs' access to food in times of shortages. They could consist of a clarification of existing disciplines concerning export-control measures, possibly through a Ministerial declaration;
- Recognition by the Ministers that LDCs need a preferential access to world food production and stocks in times of shortages at prices they and their consumers can afford in order to be able to address their food security concerns and to implement an agricultural policy open to the world;
- A road map for the negotiations of such a multilateral framework with concrete timetables; and
- The definition of some principles that should be followed in those negotiations.

The way forward

To guide future negotiations on food security, LDCs might propose the following principles to be adopted in Bali: In terms of physical availability of basic food, WTO members will define rules that guarantee LDCs preferential access to food in times of shortages. Such measures could include the exemption of the World Food Program and LDCs from any export restrictions imposed by any country - including net food exporting developing ones - for reasons of food security; In terms of price volatility and affordability of food in periods of high prices, WTO members will explore and define multilateral mechanisms that limit the price volatility of staple food products to LDC consumers and producers to a predetermined level. The purpose of such mechanisms would be to ensure minimum revenue to LDC farmers in times of low prices and a maximum price for LDC consumers at times of high prices. Such a mechanism, which should respect longer-term market signals, would allow LDCs that do not have the resources to provide farm insurance and food stamp programs as exist in developed countries to nevertheless protect their populations from short-term variations in world market prices of basic staple foods.

Nicolas Imboden
Executive director of IDEAS Centre, Geneva, Switzerland.

TRADE FACILITATION

Trade facilitation: A forward agenda

Shree Baboo Chekitan Servansing

The trade facilitation deal needs to be reached with the required internal balance and a mix of some other development gains at the 9th Ministerial Conference in Bali.

Trade facilitation (TF) is at the heart of the current negotiations ahead of the World Trade Organization (WTO) Ministerial Conference to be held in Bali in early December this year. WTO members agree that a result on TF alone will not be sufficient without a mix of other deliverables. It will also be important to ensure that an agreement on any additional element does not jeopardise the overall balance of the DDA deal to be agreed upon.

With pressure mounting on members of the WTO, rigid posturing on TF has now given way to real negotiations and an attempt to find substantive solutions. Returning empty-handed from the Bali Ministerial this time may sound the death knell for the Doha Development Agenda (DDA) and deal a terrible blow to the WTO's credibility in normative rule-making for the multilateral trading system (MTS). Small and vulnerable economies, particularly least developed countries (LDCs), for whom these consequences would be most catastrophic, deeply need both the "insurance policy" that a rule-based MTS would provide against discriminatory practices as well as a participative voice in determining what those rules should be in the future to avoid marginalisation. Moreover, beyond systemic concerns, the Small and Vulnerable Economies (SVEs) have a more direct stake in the content of the TF negotiations for their own development and should not allow tactical considerations or other trade-offs to divert them from securing a good deal on TF.

The need for a deal on trade facilitation

Most SVEs and LDCs are more or less open economies and very dependent on international trade for survival. Because they do not have large internal domestic markets that can sustain demand on a national scale and they cannot produce all their requirements, most LDCs are net food-importing countries. Exports, therefore, are an important factor for their development, and their strategy is essentially based on capturing as much value as possible in global production chains.

Their aim, however, is not only to integrate emerging global value chains (GVCs) but also to take advantage of the increasing globalization of production. The fragmentation of global production into various tasks represents an opportunity for LDCs to upgrade their participation in higher value- added segments of the production chain and/or to position themselves in niche markets. In this context, the ultra-defensive narrative of some developing countries on trade facilitation that it facilitates imports against exports does not make real sense both in the context of their trade strategies and the globalization of production. Integrating GVCs warrants a more proactive agenda, rather than the traditionally defensive approach LDCs have taken toward special and differential treatment (S&D). It also means a more discerning approach towards imports, which could include imports as inputs for their own future exports. One must get used to the idea that one country's imports are another's exports, as the composition of global trade is increasingly dominated by intermediary products, and individual states are now connected in a chain model as opposed to the traditional one of pure production/consumption.

The composition of imports is also important to consider. Imports, in fact, may contain capital goods, like equipment, or necessities for consumer welfare, the facilitation of which would be in the interest of any developing country. Therefore, TF does not only confer efficiency and welfare gains for LDCs, but also it is strategically important for them to integrate and upgrade in GVCs.

The rationale to develop a more positive approach on TF is more pronounced for African countries in view of their professed ambitions in terms of their trade and development agendas. Through the creation of multiple regional economic communities (RECs), Africa has strongly pursued the continental integration outlined in the 1991 Abuja Treaty. Moreover, with most RECs having a free-trade agreement (FTA) in place, a lot of progress has been achieved in terms of systemic progress towards integration. Unfortunately, the full desired results of integration have not been realised yet, and the volume of intra-regional trade has stagnated at a low level of 10-12 percent, while much higher performances have been achieved in other regions of the world. For deeper integration to happen, however, it is necessary to address both border and behind-the-border measures; simply lowering and eliminating tariffs is not enough.

One must get used to the idea that one country's imports are another's exports

African leaders have realised this deficit in their strategy. At the African Union (AU) Summit in June 2011, AU Member states complemented their approach on integration by outlining the dual objectives of fast-tracking continental integration and boosting intra-African trade as priorities for Africa. This ultimately provoked serious re-thinking at different levels of decision-making in Africa to recalibrate approaches to integration.

Foremost among these approaches is the need for a transformational agenda that will empower drivers of growth and connect the engines of growth to achieve broader integration. This transformational agenda permeates all areas and sectors from achievement of the Millennium Development Goals (MDGs) to trade and other areas of the economy. If trade is to serve this transformational agenda it has to promote deeper integration, and thus create positive linkages between trade and development. This implies that Africa must go further in the design of FTAs by addressing behind-the-border non-tariff barriers (NTBs) to trade that hinder exchanges. Conscious of this fact, RECs in Africa are now deploying programmes in the fields of quality infrastructure and TF to deliver on the dual objectives set at the AU Summit.

African trade negotiators need to be aware that TF is now a priority for Africa, as determined by Africans themselves, and for which they must have a proactive agenda at the multilateral level as well. TF is not an area where there can be extensive differential treatment, and the most-favoured nation (MFN) principle will be applied to most measures decided. So, why not wisely trade off what is objectively now an imperative for Africa's trade development and which is being pursued at the level of the continent for better concessions at the WTO?

This is where the trade negotiators of African countries in the WTO have a responsibility to bring home a deal on TF.

Blending TF with other development gains

This deal, however, needs to be reached with the required internal balance and a mix of some other development gains, which could both save the credibility of the WTO and help SVEs and LDCs utilize TF as a useful tool for trade and development. Such an approach would reinforce the credibility of SVEs and LDCs and project them as positive players in future multilateral negotiations.

So, which elements could constitute a take-home deal for SVEs and LDCs in TF? In reality, most of the elements are already on the table. To start with, much of this outcome was already foreseen and conceptualized in the mandate which conditions acceptance obligations with S&D in the form of technical assistance and phased implementation. In fact, these obligations enable LDCs to stagger commitments over a self-selected calendar in three categories namely, obligations that could be implemented immediately, obligations that only require longer time-frames and finally those that need both longer time-frames and technical assistance. The negotiators, as it is understood, are fine-tuning the details of the modalities of implementation and the scheduling of TF commitments.

So, which elements could constitute a take-home deal for SVEs and LDCs in Trade Facilitation? In reality, most of the elements are already on the table.

It should be noted, however, that the nature of these S&D modalities is unique in WTO negotiating history and may well be the harbinger of a new approach to S&D. The current approach breaks from the past in two respects. First, it overcomes the systemic difficulty of having to extend S&D to all developing countries indiscriminately, which is what the current architecture related to the division of rights and obligations in the GATT/WTO prescribes and which is a major bone of contention in the DDA stalemate. Second, as a consequence of the above, it avoids the politically sensitive issue of differentiation of developing countries; instead, it proposes a menu-driven, tailor-made S&D for each developing country.

However, the means of delivering technical assistance, and for some, the difficulty of assuming definite scheduling commitments under TF even with long time frames if technical assistance is not guaranteed or monitored, remains an issue. For others, it is not only capacity building that is required, but also the recurrent cost of ensuring these services on a sustained basis as yet another fiscal burden on their budgets. While these are genuine problems faced by LDCs and one must not give up prematurely on one's position in a negotiation it is important for SVEs and LDCs to keep in mind the strategic objectives underpinning TF for development and ultimately weigh tactical and other considerations against this imperative.

Conclusion

Experience has shown that WTO negotiations are not the venue where you can negotiate the creation of global development funds. Aid for Trade is a case in point. Nevertheless, the commitment that technical assistance through traditional channels will prioritise TF in the future must and can be secured. A monitoring exercise through the TF committee to be created will be a powerful political tool to remind the WTO membership of its responsibilities and assess the flow of technical assistance. Multilateral funding agencies, like the World Bank and the African Development Bank, could report on TF programmes and also on where there are bottlenecks or other problems. One possibility for articulating a concrete vehicle for delivery of technical assistance would be the European Union (EU), which could consider setting up an African, Caribbean, and Pacific Countries (ACP) Programme Management Unit (PMU) on TF. Such special-purpose vehicles for technical assistance already exist under the European Development Fund for the ACP. Thus, avenues exist to secure an outcome that is acceptable to SVEs and LDCs. Ultimately, it is more important to get something, even if it is not as ambitious as originally sought, than to risk losing everything.

Shree Baboo Chekitan Servansing
Presently in charge of the ACP-EU TBT capacity –building programme based in Brussels, Belgium. He was the former ambassador of Mauritius in Geneva and Coordinator of the ACP group for over ten years.

TRADE FACILITATION

Boosting SME competitiveness through trade facilitation

Arancha Gonzalez

A Trade Facilitation Agreement, whether reached in Bali or later, will create the conditions for businesses in LDCs to join value chains and benefit from export-led growth.

An agreement on trade facilitation will bring benefits to developed and developing countries alike. By making it easier for companies, including small and medium-sized enterprises (SMEs), to integrate into regional and global value chains, such an agreement has the potential to become a vital development tool for LDCs. Building capacity to export and trade is the key to unlocking the potential of SMEs, the world's largest potential source of jobs.

Trade must be at the heart of the post-2015 development agenda

Benefiting from rising foreign direct investment and urbanization in the last decade, many LDCs have registered important economic growth, and many of their citizens have escaped abject poverty. Still, far too many continue to face extreme poverty and low levels of human and social development. Even where growth is impressive, it is starting from a low base, and there is almost always a degree of economic vulnerability that inhibits the sustainability of this growth. Even the more successful LDCs still face massive obstacles to ensure that the benefits of development are equitably distributed and that the economic growth model is on a strong and robust footing.

The recent report by the United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States, State of LDCs 2013, noted that over the last couple of years, only limited progress has been made towards meeting development targets in the areas of health, water, sanitation, secondary education and gender equality.

Recognizing the need for sustainable growth, the 2011 Istanbul Programme of Action noted the importance of developing productive capacities to deliver development outcomes. Increased productive capacity will lead to more trade and increased earnings and in turn improved healthcare, education and welfare. The Millennium Development Goals (MDGs) have allowed LDCs and the international community to benchmark progress. There has been tremendous progress, but 'tremendous' is still too little. What the MDG process has taught us is that multilaterally endorsed, measurable and monitored objectives can raise global awareness of the development gaps that exist and – more importantly – also serve as a call to action around these common objectives.

We must learn from the MDGs and improve on them. One important way to do this is to ensure the right place for 'economic empowerment' and trade in the post-2015 development agenda. Trade plays a key role in this process. Trade is a conduit for growth and development and is especially critical for LDCs as a means to increase export production and to strengthen the local market.

SMEs: generating jobs through joining value chains

LDCs need to increase not only exports, but also their labour intensity. It is only through increased entrepreneurship and employment that sustainable, large-scale improvements in living standards can be achieved. In recent years, the need to generate sustainable employment through trade has become a central trade policy goal in many countries. Increasing the trade of SMEs, which typically constitute the most labour-intensive sector of economies, plays a key role in any economic development plan. SMEs are the inclusive growth vehicles of the future and the world's largest potential source of new jobs.

In fact, the growing importance of regional and global value chains in international trade provides a unique opportunity to increase SMEs' exports through their integration into these value chains. SMEs can now engage in global trade without the need to be competent in all aspects of the production of a final output. Developing countries can thus move towards industrialization through vertical specialization in a narrowly defined segment of activities.

SMEs are the world's largest potential source of jobs, and to capitalize on that, we must first build capacity to export and trade.

However, the fragmentation that lies at the core of global value chains requires goods to cross borders several times during the production process. Therefore, a country where inputs can be imported and exported within a quick and reliable time frame is an attractive destination to foreign investors looking to build value chains. As such, trade-facilitation measures are crucial to foster participation in production networks and global markets – and they are necessary for creating sustainable, export-led growth in LDCs. In a world of production chains, a Trade Facilitation Agreement, adopted multilaterally at the World Trade Organization (WTO), is of particular importance to LDCs and landlocked developing countries (LLDCs). Landlocked countries will draw particular benefits from a new agreement, since rules are expected to bring more predictability to transit through neighbouring countries' ports. Since many developing countries and LDCs are landlocked, these rules could lead to a significant improvement in their export competitiveness.

Effective trade-facilitation measures are in the interest of all WTO members and countries in accession. At the local level, the private sector has identified procedural and regulatory barriers to trade as one of the key obstacles in developing the export base. At the regional level, regulatory elements addressing non-tariff measures and customs cooperation are increasingly becoming part of the discourse. And, at the multilateral level, a potential deal on trade facilitation at the Ninth Ministerial Conference to be held in Bali is seen as an important signal that the international rules-based system works, and it could open the door to address other issues of importance on the negotiating agenda and provide new energy into the process that began in Doha.

LDCs bargaining power as individual states is limited by their lack of capacity. The multilateral system offers them opportunities to cooperate and pool their negotiating resources and increase the leverage they will have in interacting with their counterparts. In essence, multilateralism provides an extra edge to LDCs that they would not ordinarily have in trade discussions at the regional or bilateral level.

Conclusion

LDCs will need adequate technical assistance and capacity building to turn opportunities into tangible benefits for increased exports. At the same time, SMEs have to keep up with new requirements stemming from the ever-closer integration among value chains' multinational lead firms and their suppliers. SMEs need information, financial means and skills to integrate into these supply chains. In anticipation of Bali and in consultations for the post-2015 development agenda, the private sector has increasingly been calling for improved trade facilitation measures. As mentioned before, SMEs are the world's largest potential source of jobs, and to capitalize on that, we must first build capacity to export and trade.

Arancha Gonzalez
Executive Director of the International Trade Centre, Geneva, Switzerland.

DUTY FREE QUOTA FREE

Protecting and improving US market access for the poorest countries

Kimberly Elliott

How could the United States provide duty-free, quota-free market access to Asian LDCs while protecting current preference beneficiaries? Support from the Obama administration for a compromise along these lines would help to ensure a positive outcome at the upcoming WTO ministerial meeting in Bali.

Opening their markets to the exports of poor countries was part of the global partnership that is at the core of the eighth Millennium Development Goal. Countries recognised that development is about more than aid and that the poorest countries needed to be more integrated with the global economy to help them create jobs and opportunities for growth. In 2005, the World Trade Organization embraced this goal, and developing country members agreed that those of them "in a position to do so" should also open their markets to the least developed countries (LDCs). Since then, most developed countries have removed barriers on at least 98 percent of all goods for LDC exporters, while China and India have adopted less expansive programs to improve market access for these countries.

With the 2015 deadline for the Millennium Development Goals looming just over the horizon, the United States is the only developed country that is well short of the goal of duty-free, quota-free market access for all LDCs. Over the past decade, the United States increased its efforts to promote trade as a tool of development and lowered barriers to imports from developing countries in Africa and the Caribbean, including 35 LDCs in those regions. Under the African Growth and Opportunity Act (AGOA) and various special programs for Haiti, trade in the liberalised sectors increased sharply. In Asia, however, there are 14 LDCs that fall outside these regional preference programs. These countries still face high trade barriers because the US Generalized System of Preferences (GSP) omits key products.

A positive outcome at the upcoming World Trade Organization (WTO) ministerial meeting in Bali would provide key support for the multilateral trade system at a time when so much attention is on the regional negotiations across the Pacific and Atlantic oceans.

The challenge of extending trade preferences to all LDCs

Clothing is an important sector for many poor countries because it is labor-intensive and most of them have an abundance of labor. Moreover, trade preferences are particularly important for clothing exports because tariffs in this sector remain stubbornly high. In the United States, the average tariff on apparel is 15 percent, which is more than 10 times higher than the average for all imports. The AGOA program and special preferences for Haiti under the Caribbean Trade Partnership Act include duty-free access for apparel exports from eligible "lesser developed" countries. GSP does not. Lesotho and Kenya were big beneficiaries of AGOA, realising three-fold increases in exports to the United States from 2000 to 2012. Haitian apparel exports in 2012 were 60 percent higher than in 2000 as a result of expanded preference programs.

Bangladesh and Cambodia are also LDCs that are important apparel exporters to the American market, despite having to face a 15 percent import tax. The major apparel exporters under AGOA—Lesotho, Kenya, and Mauritius—as well as Haiti, fear that expansion of duty-free, quota-free market access to all LDCs, including Bangladesh and Cambodia, would negatively affect their exports. The US textile industry is concerned that increased imports from Asia would reduce demand for US fabrics and yarn among Western Hemisphere trading partners. That is because US trade agreements with Mexico, the Central American countries, and others in the region grant duty-free access for many

apparel imports only if producers use US inputs. But Bangladesh and Cambodia remain very poor, and reducing or eliminating high US tariffs on exports from these countries would create many more jobs for poor people.

This proposal aims to increase trade opportunities for Asian LDCs while addressing the concerns over preference erosion. The proposal is rooted in the fact that exports from AGOA and Haiti are relatively concentrated in a few clothing categories. Excluding just those categories from the duty-free, quota-free initiative would protect existing preference beneficiaries while opening important opportunities for other LDCs.

This proposal aims to increase trade opportunities for Asian LDCs while addressing the concerns over preference erosion.

Details of the proposal

The first step towards a compromise is to establish clear criteria to identify competitive LDC exporters that would remain subject to some restrictions under the LDC market access initiative. There are two main apparel sectors under the Harmonized Tariff System—apparel that is knitted or crocheted (HTS 61), and woven apparel, such as denim jeans or men's tailored shirts (HTS 62). China is by far the largest foreign supplier of these goods, accounting for roughly 40 percent of US apparel imports overall. The market shares of other suppliers are dramatically smaller, and only two LDCs, Bangladesh and Cambodia, account for as much as 2 percent of US imports in these two apparel categories. Therefore, 2 percent offers a feasible threshold for defining competitive exporters that would not receive full duty-free, quota-free market access under the initiative.

The second step is to identify particular apparel items that are important for AGOA countries and Haiti that might be excluded for competitive exporters—in this case, Bangladesh and Cambodia. There are 38 detailed (10-digit) tariff lines that account for at least 85 percent of Lesotho and Haitian clothing exports to the United States, 70 percent of Kenyan exports, and 88 percent of those from Mauritius. The analysis focuses on these three because they account for 87 percent of all AGOA apparel exports. These "safeguard" items are dominated by t-shirts, sweatshirts, jeans, and certain other shorts and trousers. In US dollar terms, these tariff lines account for all items with exports greater than $10 million for Haiti and $5 million for Kenya, Lesotho, and Mauritius. A lower threshold is used for AGOA exporters because each has apparel exports that are less than half the value of Haiti's.

The WTO ministerial meeting in December is the last chance to salvage something meaningful from the long, frustrating Doha Round experience.

US producers do not compete directly with any of these countries, as more than 97 percent of apparel in the US market is imported. Rather, US textile producers want to protect the captive markets for their fabric, yarn and other inputs that US negotiators created through complex rules of origin in regional free trade agreements. The 38 safeguard categories also shield more than half of US imports from Mexico and the Dominican Republic-Central America Free Trade Agreement.

The items not on the safeguards list are in most cases very different from the items liberalized. That means it would be difficult for Bangladesh or Cambodia to make slight adjustments to excluded products with the aim of displacing the exports of current beneficiaries. For example, the protected t-shirt categories are mostly crew-neck and other short-sleeve shirts, while those open to competition from Asian LDCs would be tank tops, singlets, and thermal shirts. In the woven garments sector, denim trousers (jeans) are protected while some corduroy pants not produced in Africa and overalls would be open to other LDCs. Bangladesh and Cambodia export a range of products that are not exported at all from Haiti or Africa. Moreover, Haiti and the Western Hemisphere trade agreement partners would retain the benefits of proximity.

Excluding these selected tariff lines for competitive LDC exporters would still allow roughly half of clothing exports from Bangladesh and almost 60 percent from Cambodia to receive duty-free access in the US market. To ensure its eligibility, however, Bangladesh would also have to take credible and sustainable steps to improve working conditions in the garment sector. The other Asian LDCs, including Afghanistan, Laos, Nepal, and Yemen, could also see new opportunities open up. If concerns about close substitutes persist, the excluded categories could be covered at the broader 8-digit level; that safeguard expansion would raise the share of AGOA exports covered to 96 percent for Lesotho and 86 percent and 94 percent, respectively, for Kenya and Mauritius. However, the expanded coverage would come at substantial cost to Bangladesh and Cambodia, lowering the share of exports with duty-free access to a third for the former and 40 percent for the latter.

Conclusion
The WTO ministerial meeting in December is the last chance to salvage something meaningful from the long, frustrating Doha Round experience. The WTO would survive a failure in Bali, but it would be significantly weaker as a result. US willingness to open its market to the poorest countries in the world could contribute importantly to a positive outcome, which in turn would contribute to strengthening the rules-based trade system for everyone. And, of course, it would also create opportunities for increased growth and job creation in some very poor countries. A bit of compromise would be a win-win all around.

Kimberly Elliott
Senior Fellow at the Center for Global Development, Washington, USA.

RULES OF ORIGIN

Preferential multilateral rules of origin for LDCs

Mark Pearson

A look into the least-developed countries (LDCs) proposal on preferential rules of origin

Rules of origin (RoO) define how much local processing takes place before a good can be considered to be a product of the exporting country.

Rules of origin underpin FTAs

Preferential RoO are the cornerstone of any free-trade agreement (FTA) and are meant to at least minimise trade deflection – which takes place when goods are shipped via the customs territory of a country having more favourable market access to the destination country.

However, a number of FTAs' RoO are used primarily as a means of protection and so are often stricter than they should be if the purpose was only to deter trade deflection and promote inter-FTA trade.

Rules of origin are also sometimes viewed as a way to promote industrialisation. The argument used is that if RoO are too liberal this will promote screwdriver operations; where there is limited job creation and insufficient processing to confer origin. However, as Brenton and Imagawa have noted in "Rules of Origin, Trade and Customs": "There is no evidence that strict RoO over the past 30 years have done anything to stimulate the development of integrated production structures in developing countries."

A similar perspective is given by Stefano Inama in WCO News, where he states that "No matter how RoO are designed or drafted, they should respect global value chains. If not, trade will not be created and FTAs will be underutilised. RoO should not be used as a disguised regional integration policy or as a vehicle for infant industries."

The LDC preferential RoO were part of the 2005 Hong Kong Ministerial Declaration that committed developed country members of the WTO, and developing countries declaring themselves in a position to do so, to provide preferential market access to LDCs and to do this by using simplified and transparent RoO.

Recent LDC position on RoO

There has been a lot of discussion on both the provision of duty-free quota-free (DFQF) market access and the RoO that should govern DFQF market access. The latest position is contained in the draft decision on preferential RoO for LDCs (JOB/TNC/24) that was discussed at an informal Trade Negotiation Committee meeting on 24 October 2013.

This draft decision is in the form of non-enforceable guidelines. It states that "Members should endeavour to develop or build on their individual RoO arrangements applicable to imports from LDCs in accordance with the following guidelines. These guidelines do not stipulate a single set of RoO criteria. Rather, they provide elements upon which members may wish to draw for preferential RoO applicable to imports from LDCs under such arrangements." This implies that developed country members are at liberty to choose to adopt these guidelines or not, as they wish.

The draft decision has, as elements for preferential RoO, the following provisions: The text reiterates the Hong Kong Ministerial Declaration by stating "Preferential RoO should be as transparent, simple and objective as possible."

It is recognized that other than wholly obtained products, origin may be conferred by substantial or sufficient transformation, which can be defined in a number of ways, including through: (a) ad valorem percentage criterion; (b) change of tariff classification; and (c) specific manufacturing or processing operation. It is assumed that the ad valorem percentage criterion includes the value of local materials and of non-originating materials.

Also the draft decision proposes that "the value addition threshold should be kept as low as possible", but it suggests allowing foreign inputs to a maximum of 75 percent of value. It should be noted that ≤75 percent non-originating material (or ≥25 percent originating material) is still prohibitive, given modern manufacturing methods based on global value chains. As an example, only about 4 percent of the value of an iPad is added in the country of manufacture.

It is also recognised that the methods for the calculation of value should be as simple as possible, but there is no guidance given on what calculation of value should be used. This clause would be greatly strengthened if it stated that, if a percentage calculation is used, a method based on the value of materials, whether originating or non-originating, should apply.

A positive aspect of the guidelines is that they recognise that members may exclude costs related to freight and insurance as well as international transportation costs and recommend that, in case of methods used for calculation of local content, members may include national or regional inland transportation costs.

The draft decision also makes provision for the use of change of tariff classification (CTC) criterion in appropriate cases. It is not always appropriate to use CTC, as this criterion does not always imply substantial or sufficient transformation has taken place or, conversely, substantial or sufficient transformation can take place without a concomitant change in tariff classification.

The text suggests that specific manufacturing or processing operation rules should take into account the productive capacity in LDCs and members should apply specific processing rules when they are beneficial to the LDCs, such as would be the case for articles of apparel and clothing.

It also makes provision for cumulation but, again quoting Inama: "Cumulation is no substitute for liberal RoO. With liberal RoO, producers may source their inputs worldwide from the most competitive producer at the best price according to global value chains. The combination of restrictive RoO and cumulation bring about trade diversion whereby FTA partners use regional inputs instead of more competitive third country inputs."

With regard to "mutual customs cooperation and monitoring" it should be recognised that whatever the method of compliance used, the costs need to be kept to a minimum, with the trend in the rest of the world being the use of exporter declarations that are authorised by customs.

Finally, it is recommended that the Committee on Rules of Origin shall annually review the developments in preferential RoO applicable to imports from LDCs and report to the General Council.

Conclusion

The guidelines described in the draft ministerial decision (JOB/TNC/24) will have a positive impact on LDCs if they are adhered to by developed country members and developing country members in a position to offer DFQF market access. However, it remains to be seen whether WTO members will use these guidelines to design preferential RoO for LDCs or whether they will be largely ignored as they are not enforceable. Adherence to these guidelines will be greatly enhanced with the requirement to notify preferential RoO and because the Committee on Rules of Origin shall annually review the developments in preferential rules of origin applicable to imports from LDCs and report to the General Council, with the Secretariat reporting on the outcome of the review annually.

Mark Pearson
Programme Director at Trade Mark Southern Africa (TMSA).

SERVICES

The LDC service waiver beyond Bali

Sherry Stephenson and Anne-Katrin Pfister

Two years after the waiver, allowing WTO Members to grant trade preferences in favour of services and service suppliers from least-developed countries (LDCs), no request for such preferences has been put on the table and the waiver still needs to be operationalised. What is preventing countries from doing so? What will the next WTO Ministerial Conference bring?

At the Eighth WTO Ministerial Conference in 2011, trade ministers adopted a waiver, enabling Word Trade Organization (WTO) members to provide preferential treatment to services and service suppliers of LDCs. The waiver, which will last initially for 15 years from the date of adoption, releases WTO members from their legal obligation – under Article II of the General Agreement on Trade in Services (GATS) – to provide non-discriminatory treatment to all trading partners when granting trade preferences to LDCs. The decision provides a two-track approach. On the one hand, market access preferences of the type referred to in GATS Article XVI would be automatically covered by the waiver. On the other hand, non-market access measures are not automatic, but can be authorised by the WTO Council for Trade in Services (CTS). These can include, for example, regulatory preferences, preferential national treatment, exemptions for quotas or taxes, etc. All preferences granted will apply immediately and unconditionally to all services and services providers from LDCs and will be annexed to the waiver.

Since the waiver itself does not confer any direct economic benefit, it must be applied in ways that help create the conditions under which firms in LDCs can export services to a preference-granting country (but could not do so in the absence of preferences). This will require efforts from both LDCs themselves and their trading partners to identify commercially meaningful ways to operationalize the waiver to facilitate exports of services from the countries most in need.

The waiver - a tool for development

The services sector has become a key driver of growth and development, accounting for 47 percent of all LDCs' overall GDP in 2011. Leveraging the services sector not only assists in unlocking further growth potential, but also can help address poverty and enhance the quality of life through greater access to available services. However compared with the value of world services trade, LDC services trade is still marginal. Hence, over the coming years, the waiver can provide significant opportunities to further enhance the growth of service sectors in LDCs.

What is needed?

In order to operationalize the waiver, all trading partners – developed, developing and least- developed countries – would need to identify areas where LDCs could benefit from commercially meaningful preferences.

To do so, WTO members may review existing most-favoured nation (MFN) exemptions, the limitations in their schedules of commitments and other regulatory barriers across the many services sectors and identify potential preferences that could also be granted to LDCs, in the same, similar or more specific ways. Furthermore, given the recent proliferation of preferential trade agreements, members could review existing commitments within these agreements and explore the extent to which such commitments could be extended in an economically meaningful way to services and service suppliers of LDCs (for example, measures contained in the Cariforum-EU EPA etc.).

What has been placed on the table so far?
So far, no WTO member has either made requests for preferences or come forward with pledges. The difficulty lies in the detailed information needed to make the underlying assessments. Reliable economic data on LDCs services trade is scarce and designing trade preferences in services pose a number of conceptual challenges.

Efforts are currently underway to collect information about LDCs services exports, target markets and existing barriers as a first step in designing a possible LDC joint request for meaningful preferences. In the meantime, nothing should prevent LDCs and their trading partners to come forward with ideas and suggestions of their own on how to operationalize the waiver.

As the next WTO ministerial is just around the corner (scheduled for 3-6 December 2013 in Bali), WTO members are finalising a Ministerial Decision that acknowledges, *inter alia*, the importance that services trade can play in achieving LDCs' development objectives.

According to the terms of the draft decision (Job/TNC/25), the WTO's Council for Trade in Services (CTS) will be instructed to launch a process aimed at promoting ''the expeditious and effective operationalisation'' of the waiver, including a periodic review. A high-level meeting of the CTS would take place six months after LDCs submit a collective request to identify sectors and modes of supply of particular interest. Developed and developing countries ''in a position to do so'' would then be expected to indicate where they could provide preferential treatment to LDC services and services providers.

In the draft decision, LDCs are also encouraging members to extend to them any relevant commitments that they have already made in their respective preferential trade agreements and to eliminate market access limitations.

LDCs have also underlined the need for increased technical assistance and capacity building, such as through the Aid-for-Trade Initiative, to overcome supply side constraints in this area.

Based on this draft text, the Bali Ministerial itself will be a prime opportunity where trade ministers from all WTO member countries can support the LDCs in their current efforts and expedite the process to identify meaningful preferences for LDCs.

Beyond Bali
The process of identifying preferences in services for LDCs has started, and efforts are underway to define the interests of the LDCs – sector by sector, export market by export market. Given this process, it is hopefully only a matter of time until the first pledges and requests will be available. The waiver is a tool that gives countries the opportunity to foster services trade in LDCs through improved market access. The waiver should work hand in hand with the identification of supply side-related obstacles in the LDCs, so that their development partners can help address these constraints via initiatives such as aid-for-trade and the Enhanced Integrated Framework, which are both targeted at the development aspect of trade.

Sherry M. Stephenson
Senior Fellow at ICTSD. She is an expert in the area of international trade policy, particularly services trade, and has worked more than 30 years in this area.

Anne-Katrin Pfister
Programme Officer at ICTSD.

COTTON

Cotton: What's on the table for Bali and after Bali?

Anne Sophie Nivet and Ammad Bahalim

Cotton production, trade and support have changed dramatically since the issue was first introduced into trade talks and the WTO's Bali Ministerial may present an opportunity to lock-in some gains.

The context that prevailed for cotton when ministers first put the issue on the agenda at the WTO's Cancun Ministerial in 2003 has fundamentally changed: cotton prices have increased dramatically, patterns of trade have shifted and new subsidizers have emerged. India has moved from a net importer to the second largest exporter of cotton. China is now the largest producer, importer and consumer of cotton worldwide. Moreover, given the very high level of stocks China holds, it has an hand on world market prices. On the other hand, the market share of major subsidizers, such as the US and EU, has decreased and will probably continue to do so. Since world cotton prices have increased substantially, the pressure of subsidies on African cotton producing countries has diminished. The Bali Ministerial is poised at a critical juncture to adapt cotton negotiations to these new realities.

Long awaited C-4 text submitted in late October

In late October, the C-4, the West and Central African group of cotton producing countries submitted a proposal for Bali (TN/AG/GEN/33). The new text neither introduces radical new elements nor offers solutions to the current deadlock. It has (i) reiterated the need for Duty-Free Quota-Free access on cotton (ii) called for the removal of all export subsidies from developed countries and (iii) asked for reforms of domestic support programmes.

The group has also requested the WTO Secretariat to provide studies on cotton support and market- access measures and called for negotiations based on existing proposals to conclude the subject by fixed dates. Accordingly, export subsidies ought to be eliminated at the end of year and broader negotiations concluded by the end of 2014. Finally, the C-4 calls for a clear link between "the development aspect of cotton" and the aid for trade initiative. This proposal – which gives clearer indications on the work to be done – should at least ensure that the Bali package includes some language on cotton. In addition, a credible work plan will be essential to save the post-Bali cotton negotiation.

Taking advantage of the current situation?

Subsidies are far different today than they were in 2003. Payments in the US have declined from historical heights and are projected to be lower in the future and the EU has changed its support system by eliminating the worst sorts of subsidies. On the other hand, some developing countries, China and Turkey in particular, are now among the leading subsidizers.

The current situation of the cotton environment offers a good window of opportunity to make reforms as cutting subsidies that are currently not activated is easier for policy-makers. However, the C-4 proposal remains too ambitious and binding to have a chance to be accepted in Bali. Some negotiating partners may be tempted to "peck" in the text and discuss only elements of interest to them. There is a danger that some developed countries may consider domestic reforms already undertaken as sufficient to fulfil the Hong Kong mandate (as they might consider that the treat cotton ambitiously and specifically) and may no further discuss while new issues raised by the changes in emerging countries' practices remain not addressed.

Thanks to this proposal, the cotton issue has at least a chance to remain on the post-Bali agenda. In the very short term, a more consensual text could potentially come from the LDC facilitator.

Anne Sophie Nivet
Project manager at IDEAS Centre.

Ammad Bahalim
Programme Officer at ICSTD.

AID FOR TRADE

Aid for Trade: Future directions

Vinaye Ancharaz

Eight years later, with the Doha Round in an impasse, and world trade increasingly dominated by global value chains and dented by successive economic crises, it is useful to ask if the AfT initiative is on track, and to learn from its achievements and shortcomings.

According to OECD figures, global Aid for Trade disbursements increased significantly since the initiative was launched in 2005, but declined slightly in 2011.Conversely, AfT flows to LDCs have increased consistently since 2005 and have proved resilient to economic crises. LDCs have taken in 27 percent of the cumulative AfT flows since 2005. Given the ambitious goals of the initiative, one wonders if the amount of aid received by LDCs has been proportionate to their needs, and additional.

A flurry of recent research has sought to assess the effectiveness of AfT, with generally mixed results. ICTSD conducted eight country studies, including four in LDCs (Bangladesh, Cambodia, Malawi and Nepal) using a methodology based on the Paris principles of aid effectiveness. The findings from the case studies show that AfT is likely to be effective when the host country has the appropriate institutions and human resources to utilize aid; when the aid program enjoys broad local ownership, including political ownership; and when donor objectives are aligned with local priorities. To these, the country-direct experiences indicate that it is crucial that AfT flows are additional, and predictable.

Going forward, if the Aid for Trade initiative is to make a bigger impact, it must address local capacity constraints and institutional weaknesses in its very design, and tackle problems related to additionality and misalignment. Crucially, the initiative must promote itself and create awareness among key stakeholders about its goals and purposes, and its scope and limitations. Too often, the lack of a proper definition of AfT is the cause of misinformation – even among those in charge of implementing AfT projects – and it frustrates monitoring and evaluation efforts.

A number of recent developments point to the growing role of AfT in the years to come. First, the rise of global value chains presents opportunities for LDCs, but also significant challenges to specializing in 'tasks'. The AfT initiative will therefore need to (re)focus on specific constraints at various nodes of the supply chain to enable LDCs integrate effectively into GVCs or to upgrade along the same.

Second, the debate on the LDC services waiver has drawn attention to the role that services exports could play in LDCs' development. However, barriers to service exports are perhaps even more formidable than supply-side constraints to merchandise exports. Addressing those constraints will require a new role to be assigned to the AfT initiative, which has hitherto focused almost exclusively on trade in goods.

Last, but certainly not the least, a Trade Facilitation Agreement (TFA) has been slated as a key deliverable of the Bali Ministerial Conference. However, developing countries have made it clear that they would not be party to an agreement that would commit them to costly reforms without promising adequate technical assistance and aid. This means that if a TFA is to see the day at Bali, it will come with an augmented AfT initiative, providing additional funding for trade facilitation.

All of the above developments suggest that the AfT initiative, far from being scaled back, will actually grow bigger and branch out in several new directions. Perhaps for this reason, it may be useful to revisit the need for an institutional AfT mechanism that could bring all AfT operations under one roof, making it easier to manage, monitor and evaluate AfT programs – a growing wish of the donor community.

Vinaye Ancharaz
Senior Development Economist at ICTSD

ICTSD REPORTING

Azevêdo Extends WTO Negotiating Deadline in Bid to Secure Bali Deal

Director-General Roberto Azevêdo announced that he would be extending their original 12 November deadline to allow negotiators reach a "Bali package" ahead of next month's ministerial Conference.

The trade chief was originally expected to announce on 12 November at the Trade Negotiations Committee (TNC) meeting whether a deal in Bali would actually be achievable. While members are far closer to a deal than they were a few months ago, Azevêdo confirmed, they are still toeing a dangerously fine line between success and failure, with the outcome of the past two months of negotiating too close to call.

Instead, the Director-General announced that he would be giving negotiators an additional few days to sort out their differences, which traverse all three areas of the proposed Bali package - trade facilitation, agriculture, and development.

Sources say that meetings over the next few days are likely to take place in a range of configurations, from the recent "Room W" meetings of ambassadors led by the Director-General to informal TNC gatherings and small group consultations.

A meeting of the WTO's General Council, which is the organisation's highest decision-making body outside of the ministerial conference, has now been set for 21 November, at which point it should be clear whether or not Geneva-based officials will have a package to transmit to their ministers. A formal TNC is likely to be held before then, in line with WTO procedures.

Race to the finish

The Bali package, as proposed, includes a small subset of the Doha agenda. Its key feature would be an agreement on trade facilitation, a topic that was formally added to the Doha negotiating mandate in 2004. The proposed Bali deal would also include select elements relating to agriculture, along with a few issues of relevance to the organisation's developing and least developed country members.

As the December meeting has drawn closer, however, difficulties have emerged, leading the so-called "Bali package" to be slowly whittled down over the past few months as negotiators try to put together a "realistic" - though potentially less ambitious - outcome. Proposals relating to special and differential treatment (S&DT), such as the "Cancun-28" and six Agreement-specific S&DT proposals, were eventually dropped from the proposed deal. Meanwhile, other topics that initially looked easily resolved have met with unexpected hurdles, while long-standing disagreements in other areas have proven difficult to overcome.

Customs cooperation "closed," though broader TF difficulties remain

Negotiators have been working late into the evening, and through weekends, in an effort to reduce the myriad brackets remaining in the trade facilitation (TF) draft text, which has been billed as the pinnacle of the Bali package. Some of those efforts, sources say, have lately paid dividends, with members able to close the controversial issue of customs cooperation early this week.

Customs cooperation involves how to exchange information between importing and exporting authorities of member countries, in order to address fraud. The topic has been difficult because of concerns such as how to handle the increased volume of requests for such data. Given its sensitive nature, it has lately been treated as its own "pillar," even though it falls under the broader "Section I" heading of the trade facilitation draft text.

"It is not perfect, but the core of an agreement is there," Azevêdo said earlier this month in announcing the result. "This achievement is all the more notable for the fact that it was achieved so quickly." Various other hurdles remain in Section I, he added, though Section II - which deals with implementation flexibilities for developing countries - remains the "hardest nut to crack."

Developing countries have long said that they need definite assurances that they will receive the support needed to implement some of the new commitments being negotiated in Section I. Otherwise, they say, putting these into practice could prove both difficult and costly.

Developed countries, meanwhile, have stressed that Section I commitments must be binding in order for the deal to provide the hoped-for increases in trade flows.

Agriculture
The agriculture dimension of the Bali package involves three proposals: two from the G-20 coalition of developing countries, and one from a separate developing country group known as the G-33. With regards to the G-33 proposal, which deals with allowing food purchases at administered prices in developing countries as part of public stockholding programmes, members have spent the last several weeks fine-tuning the details of a so-called "peace clause." This legal mechanism would commit members to not bring legal disputes in this area against countries that wish to use the above-mentioned flexibility.

Though there has been a level of "constructive engagement" in recent discussions, Azevêdo said, questions remain over how long this "interim solution" will be in place and what safeguards other countries would be able to use in order to protect their own producers from trade distortions. A term of four years has been discussed by members, while others insist that this is too long, sources close to the talks told Bridges.

However, the G-20 proposal on how members manage their tariff rate quotas (TRQs) - which are used by some countries to charge higher tariffs on goods being imported after an initial quota has been filled - is "a different story," Azevêdo reported. The TRQ proposal had initially been welcomed as one of the more "calibrated" agriculture proposals on the table. Since then, a stand-off between the US and China has emerged on the special and differential treatment (S&DT) provisions for developing countries outlined in this proposal, specifically on how reforms will be enforced.

Members remain divided on the ambition sought by the G-20 in a proposal on export competition. The group has called for an elimination of export subsidies as envisioned in earlier Doha Round documents, while those providing the payments insist that these need to be dealt with as part of a broader trade deal.

Development issues
The Director-General had reported last month that convergence had emerged on two draft decisions regarding least developed countries (LDCs), specifically on how to "operationalise" the services waiver agreed at the previous ministerial conference in 2011, and on rules-of-origin.

Despite these advances, discussions on the C-4 cotton proposal are reportedly still ongoing, sources say, while the impasse on duty-free quota-free market access remains.

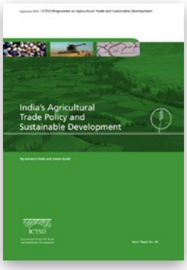
Negotiations have also continued on the Monitoring Mechanism, Azevêdo said, with only one or two paragraphs still left outstanding. Some delegates have cautioned privately, however, that whether the Mechanism will ultimately make it into the Bali package is still unclear, with some raising the possibility of it being treated instead post-ministerial, along with some of the other S&DT issues that did not make it into the package.

ICTSD reporting.

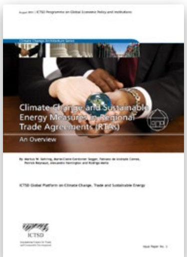
Publications and resources

Trade in Sustainable Energy Services – ICTSD – October 2013
Facilitating trade in goods that can promote sustainable energy is intuitive and potentially powerful in the search for energy security, the provision of access to energy, and the mitigation of climate change. Much less recognised, however, is that the global market in services related to sustainable energy is closely linked to the goods market and it is much larger. http://bit.ly/1exKIc2

G-33 Proposal: Early Agreement on Elements of the Draft Doha Accord to Address Food Security – ICTSD – October 2013
Some developing countries have proposed that WTO rules should be changed to allow them more flexibility to purchase food at subsidised prices under public stockholding or domestic food aid programmes. This short information note looks at how rules, policies and practices in this area can affect trade and food security, in the run-up to the global trade body's ninth ministerial conference this December. http://bit.ly/17vsx4M



India's Agricultural Trade Policy and Sustainable Development Goals – ICTSD – September 2013
During the last six decades, India has boosted food grain production five-fold, and - despite massive population growth - turned a food deficit into a surplus. This paper examines how India's farm trade policy could help achieve public policy goals such as overcoming poverty, ensuring food security and improving environmental sustainability, against the background of WTO rules and obligations. http://bit.ly/1eoon3b



Climate Change and Sustainable Energy Measures in Regional Trade Agreements (RTAs) – ICTSD – August 2013
Regional Trade Agreements (RTAs) are increasingly used for addressing sustainable development goals by including provisions on climate change and sustainable energy. This paper examines that trend and presents an overview of different categories of such provisions in a broad sample of recent RTAs, identifying current regulatory challenges and highlighting obstacles in addressing climate change. http://bit.ly/18g9WX8

Operationalizing the Services waiver for the LDCs - IDEAS Centre- February 2013
IDEAS Centre commissioned two studies on this issue of importance for LDCs: 1) Identifying the offensive interests of African Least Developed Countries (LDCs) in WTO Services Negotiations, by Matthew Stern and Natasha Ward; and 2) The CARIFORUM-EU Economic Partnership Agreement (EPA) Services and Investment Negotiations: Insights for Least Developed Countries (LDCs) in Operationalising the World Trade Organisation's (WTO) Services Waiver, by Natasha Ward. http://bit.ly/1csPoxY

EXPLORE THE TRADE AND SUSTAINABLE DEVELOPMENT WORLD FURTHER WITH ICTSD'S BRIDGES NETWORK

PASSERELLES
Analysis and news on trade and sustainable development
Francophone Africa focus - French language
www.ictsd.org/news/passerelles

BRIDGES
Trade news from a sustainable development perspective
International focus - English language
www.ictsd.org/news/bridges

BIORES
Analysis and news on trade and environment
International focus - English language
www.ictsd.org/news/biores

BRIDGES AFRICA
Analysis and news on trade and sustainable development
Africa focus - English language
www.ictsd.org/news/bridges-africa

PUENTES
Analysis and news on trade and sustainable development
Latin America and Caribbean focus - Spanish language
www.ictsd.org/news/puentes

МОСТЫ
Analysis and news on trade and sustainable development
CSI focus - Russian language
www.ictsd.org/news/bridgesrussian

PONTES
Analysis and news on trade and sustainable development
International focus - Portuguese language
www.ictsd.org/news/pontes

桥
Analysis and news on trade and sustainable development
International focus - Chinese language
www.ictsd.org/news/qiao

ICTSD

International Centre for Trade and Sustainable Development
Chemin de Balexert 7-9
1219 Geneva, Switzerland
+41-22-917-8492
www.ictsd.org

BRIDGES AFRICA is made possible through generous contributions of donors and partners including

UK Department for International Development (DFID)

Swedish International Development Cooperation Agency (SIDA)

Netherlands Directorate-General of Development Cooperation (DGIS)

Ministry of Foreign Affairs of Denmark, Danida

Ministry for Foreign Affairs of Finland

Ministry of Foreign Affairs of Norway

BRIDGES AFRICA also benefits from in-kind contributions from its contributing partners and Editorial Advisory Board members.

Price: €10.00
ISSN 1996-919