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Macroeconomic policy questions: international trade and development

International trade and development

Report of the Secretary-General**

Executive summary

The present report reviews recent trends in international trade, which manifest considerable diversity in trade performance across regions and countries. Particular emphasis is placed on the importance of developing countries in the trade of the North, and the silent transformation in South-South trade as a growing positive trend. At the same time, in all countries, trade in services is gaining importance. Commodity prices recovered slightly in 2003 in nominal terms, while the combined commodity price index in terms of current dollars rose by more than 19 per cent in 2003.

The report analyses the implementation of two major events in the international economic agenda in 2004: the outcomes of the eleventh session of the United Nations Conference on Trade and Development (UNCTAD) (São Paulo, Brazil, 13-18 June 2004) and the World Trade Organization multilateral trade negotiations under the Doha work programme resulting in the reaching of framework agreements by the General Council of the World Trade Organization on 1 August 2004. The results of the eleventh session of UNCTAD in São Paulo clearly reconfirmed and strengthened the role of UNCTAD as the focal point in the United Nations system for the integrated treatment of trade and development. The World Trade Organization framework agreement was a product of difficult negotiations on the basis of two consecutive draft texts presented by the Chair of the General Council and the Director-General of the World Trade Organization. In the World Trade Organization resumed multilateral trade negotiations, in sharp contrast with the Fifth Ministerial Conference of the World Trade Organization, held in Cancún, Mexico, in 2003, a political will of all participants to reach consensus was demonstrated.

* A/59/150.

** The present report was submitted on 27 August 2004 in order to take into account the 1 August 2004 decision of the General Council of the World Trade Organization.

The agreement set frameworks for a future negotiating package in five core areas: agriculture, market access on non-agricultural products, services, development issues and trade facilitation. It is expected that in the months ahead, members of the World Trade Organization will develop these frameworks into concrete, detailed and specific modalities for concluding negotiations. The agreement also recognized that the original deadline of January 2005 for completion of the Doha round was not realistic, and it is expected that negotiations will continue well after the Sixth Ministerial Conference of the World Trade Organization decided to be convened in December 2005 in Hong Kong Special Administrative Region of China. Developments with regard to regional trade arrangements, a major component of the evolving international trading system, are also discussed.

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I. Introduction

1. The present report was prepared pursuant to General Assembly resolution 58/197 of 23 December 2003, in which the Assembly requested the Secretary-General, in collaboration with the secretariat of the United Nations Conference on Trade and Development (UNCTAD), to report to the Assembly at its fifty-ninth session on the implementation of that resolution and on developments in the multilateral trading system. Other UNCTAD reports provide additional information.

II. Recent trends in international trade

2. International trade seems to be rebounding; growth of international trade increased from 3 per cent in 2002 to 4.7 per cent (13 per cent in dollar terms) in 2003. UNCTAD estimates suggest that growth¹ will increase to 7 per cent in 2004. Besides the major developed countries, the developing countries made a significant contribution, with robust 9 per cent growth. Much of this improved performance was attributable to increased import demand in developing and, to a lesser extent, transition countries. China led Asia's impressive trade growth with a 30 per cent increase, while Africa and Latin America and the least developed countries recorded modest growth. Developing countries had increased their share in international trade to 31 per cent by 2001. Today, manufactures represent nearly 70 per cent of developing countries' exports of goods, indicating a trend towards greater diversification. World merchandise exports rose by 16 per cent to a new record level of \$7.3 trillion. More than two thirds of this increase has been, due however, to dollar price changes.²

3. However, there are important performance variations among developing countries. A large number of developing countries, particularly least developed countries and commodity-dependent countries, continue to remain marginalized in international trade and the trading system and are still vulnerable to external shocks.

4. In all countries, the services economy has been gaining importance over the last two decades and has contributed a growing share to gross domestic product (GDP) and employment. The services sector encompasses a fundamental economic activity, with a key infrastructural role and important implications for poverty reduction. There are, however, differences in the development of the services economy and infrastructural services across countries and regions. Services account, on average, for 50 per cent of GDP in developing countries, while for developed countries this share is about 70 per cent. Trade in services represents 16 per cent of the total trade of developing countries and is expanding at the same pace as trade in goods. The share of workers employed in services activities has reached 70 per cent in most of the developed countries and 50 per cent in many developing economies. Most of the firms in services activities — including government, which retains its role in providing services in many developing countries — are traditional employers of women.

5. An important manifestation of the emerging new trade geography is the growth in the South's share in world trade, which now stands at 30 per cent, compared with 20 per cent in the mid-1980s.³ The share of manufactures in developing countries' exports grew from 20 per cent of their exports (\$115 billion) in 1980 to nearly 70 per cent (\$1,300 billion) in 2000. In 2003, for the first time ever, the United States

of America imported more goods from developing countries than from developed countries, while the share of its exports to developing countries increased to over 40 per cent. The South is the destination for nearly half of Japan's exports and for one third of those of the European Union (EU) (excluding intra-EU trade).

6. Trade among countries of the South, by offering manifold opportunities to developing countries to increase their profile in international trade, is and can continue to have a decisive influence in shaping the new trade geography. Today, South-South trade accounts for just over one tenth of total world trade, but it is growing significantly. Importantly, over 40 per cent of developing-country exports are destined for other developing countries, and trade among them is increasing at the rate of 11 per cent per year. South-South trade in services is also on the rise and has substantial possibilities. This silent transformation is further underlined by investment, transfer of technology and enterprise-level interaction at the intraregional as well as interregional level.

7. After a prolonged period of falling commodity prices from 1995 to 2002, when the UNCTAD combined commodity price index in terms of current United States dollars had fallen by 31 per cent, most commodity markets experienced some increase in demand and higher prices in 2003 and the first half of 2004. This was due to the general, albeit uneven, recovery of the world economy, and to fast-increasing commodity demand in Asia, especially China. The UNCTAD combined price index rose by 12 per cent over the course of 2003 and by 6 per cent during the first half of 2004. Industrial raw materials, benefiting from the economic upturn, were the principal gainers. The continued exceptionally high growth of Chinese demand was probably a more important factor behind the price increases. However, if the depreciation of the United States dollar is taken into account, the price improvements were considerably less impressive, as shown by the modest increase of 2.5 per cent of the index in terms of special drawing rights (SDRs) in 2003. In the first half of 2004, however, the increase in the SDR index was equivalent to that of the dollar index, providing some justification for optimism about medium-term demand prospects.⁴ Improvements in food prices in 2004, although substantial, should be judged against the background of the prolonged period of very low prices. In June 2004, the UNCTAD price index in current dollars for all food remained at a level almost 20 per cent below the average for 1995, partly the result of continued supply overhangs.

8. Probably the most important recent trend has been the extraordinary development of oil prices (in nominal terms) which had started to mushroom in 2003 and continued rising in 2004. A major part of the price increase can be explained by the economic recovery and the increasing demand from countries such as the United States and China as well as some newly industrialized countries. However, overreactions and speculative positions in relation to potential instability in the Middle East, as well as political turbulence in Venezuela and corporate developments in the Russian Federation, also played a part. These high prices are hurting the economic growth of oil importers, particularly developing countries which are more energy-intensive (per unit of output) than developed ones, and tend to spend a large part of their export revenue on oil imports. In large low-income developing countries like China and India, this trend can have the effect of decreasing high growth rates required for poverty reduction. Particularly hard hit are landlocked countries, which not only pay more for their oil, but are also confronted with strongly increased transport costs. According to International Monetary Fund (IMF) estimates, a sustained US\$ 10 per barrel increase would, after one year,

reduce GDP in highly indebted poor developing countries by 1.6 per cent (and within this group, for countries in sub-Saharan Africa, the figure is 3 per cent).

III. Outcomes of the eleventh session of UNCTAD

9. The eleventh session of UNCTAD (São Paulo, Brazil, 13-18 June 2004), was the first major international trade event after the setback of the Fifth Ministerial Conference of the World Trade Organization, held in Cancún, Mexico, in September 2003. Within its overall theme of “Enhancing coherence between national development strategies and global economic processes towards economic growth and development, particularly of developing countries”, the eleventh session of UNCTAD addressed specific issues relating to four sub-themes: development strategies in a globalizing world economy; building productive capacity and international competitiveness; assuring development gains from the international trading system and trade negotiations; and partnership for development.

10. The eleventh session of UNCTAD had a unique architecture in respect of its organization and management. It embraced three interrelated pillars: an intergovernmental pillar; a second pillar encompassing a series of conference events, including parallel and side events; and a third pillar consisting of a civil society track in the shape of a civil society forum. Cutting across the lines of these three pillars were exhibitions and fairs with a thematic content. Moreover, there were more than 60 Conference events conducted with a very diverse scope, in respect of problematique. These were organized in such a manner as to feed into the Conference process, enrich the debate and impact on the final products of the Conference. A significant number of organizations and entities — such as the Department of Economic and Social Affairs of the United Nations Secretariat, the United Nations Industrial Development Organization (UNIDO), the Food and Agriculture Organization of the United Nations, the International Trade Centre, the United Nations Development Programme (UNDP), the regional commissions, the World Trade Organization, the World Bank, IMF, the Global Compact, the Common Fund in Commodities, the International Chamber of Commerce, the Global System of Trade Preferences among Developing Countries (GSTP) and the International Tropical Timber Organization (ITTO) — partnered with UNCTAD in delivering these events or round tables and workshops. The special ministerial meeting to commemorate the fortieth anniversary of the Group of 77 was also held, upon which occasion a ministerial declaration (A/59/115, annex) was adopted.

11. The Conference also addressed three interrelated and integrated issues of particular concern to developing countries, namely, trade and gender, trade and poverty, and trade and the creative industries, through the organization of events covering those three issues.

12. In addressing the overall theme and its related sub-themes, the major objective was to establish linkages and identify positive interrelationships between enhancing the supply capacity and competitiveness of developing countries, and their potential gains arising from the Doha round. This involved linking closely UNCTAD activities in the field of trade negotiations and trade policies with those related to enhancing productive capacity and competitiveness, namely, investment, technology and information and communication technologies (ICT), enterprise development and entrepreneurship, trade logistics and trade facilitation, and capacity-building.

13. The eleventh session of UNCTAD assisted in building consensus on the major themes of the Doha round falling under the competence of UNCTAD. Positive impulses were sought aimed at reinvigorating the stalled Doha process and restoring viability of the multilateral trading system. For the first time, the Conference was also used as a platform for conducting several ministerial meetings among leading members of the World Trade Organization (for example, the ministerial meetings of the Group of 20 (G-20) and the Non-Group of 5) to advance the negotiations so as to meet the end-of-July deadline.

14. The eleventh session of UNCTAD concluded with the adoption of a political declaration, entitled “The Spirit of São Paulo”,⁵ and an analytical, policy action and programmatic statement, the São Paulo Consensus.⁶ The outcome of the Conference was conceived as a contribution to the achievement of the Millennium Development Goals, in particular Millennium Development Goal 8, target 12,⁷ and to the implementation of the agreements reached and the commitments made at United Nations conferences and summits, in particular in the areas of trade, investment, commodities, debt and ICT. The outcomes of the Conference provide a substantive input to the preparation of the 2005 comprehensive review of the implementation of the objectives of the United Nations Millennium Declaration (see General Assembly resolution 55/2).

15. The main outcomes of the eleventh session of UNCTAD are set out directly below.

16. In the area of **international trade**:

- By focusing on the development dimension of the international trading system, including the Doha negotiations, the eleventh session of UNCTAD reinforced the consensus that trade is not an end in itself but a means to growth and development; and that it is not only the “quantitative” but also the “qualitative”, in other words, the “beneficial” integration of developing countries into the international trading system that is important.
- By building on and strengthening the implementation of the Plan of Action adopted at the tenth session of UNCTAD, held in Bangkok from 12 to 19 February 2000 (TD/390, part II), UNCTAD was requested to continue its programmatic activities to monitor and assess the evolution of the international trading system and of trends in international trade from a development perspective; to help develop capacities in developing countries to establish their own negotiating priorities and negotiate trade agreements, including World Trade Organization accessions; to assist developing countries in integrating trade and development concerns into their national development plans and poverty reduction strategies; and to monitor and analyse the impact of trade-related policies on developing countries, particularly the policies of their major trading partners.
- The mandates and specific areas of work of UNCTAD have been broadened to include sectoral reviews of new and dynamic sectors in international trade to foster increased participation by developing countries in these sectors, and focusing on the positive links among supply capacities, export competitiveness and market access; and elaborating development benchmarks to assess how effectively developing countries are integrating into and deriving gains from the international trading system.

- UNCTAD was also requested to support the positive interface between development and regional trade agreements of the South and North-South agreements to foster mutual cooperation; and carry out regular reviews of regional trade agreements and their impact on multilateralism. A new task is to analyse the evolving new trade geography of the South focusing on (a) the importance of the South as an engine of growth and development, (b) South-South trade at the intraregional level and increasingly at the interregional level, particularly via support for the third round of GSTP negotiations launched at the Conference and (c) increasing North-South trade relations. The third round of GSTP negotiations will start in November 2004 and is scheduled to last two years.
- Another specific new task is to initiate a consultative task force on environmental measures and market access as a practical way of raising awareness about such measures and promoting international cooperation in addressing the issue of those measures.
- UNCTAD also should help to increase the local participation of developing countries' enterprises in provision of goods and services in the oil and gas sector; and support a network of export-import banks to facilitate trade and investment finance cooperation among developing countries and also other countries.
- UNCTAD should strengthen its analytical and capacity-building activities to assist developing countries on issues related to competition law and policies, including at the regional level.
- UNCTAD was also requested to launch national services assessment on the development impact of services sector reforms, and elaboration of services policies and strategies, including for trade negotiations.

17. With regard to **development strategies**:

- The Conference explored the various dimensions of trade and development in a globalizing world. In this context, it highlighted the need to enhance coherence and consistency in the international economic system with development at the centre of the international economic agenda. Enhanced coherence is needed between national development strategies, on the one hand, and international obligations and commitments, on the other, with a view to the creation of an enabling economic environment for development. It is also required in terms of the links between the monetary, financial and trading systems and global economic governance. Thus defined, enhanced coherence should broaden and strengthen the participation of developing countries and countries with economies in transition in international economic decision-making and norm-setting.
- The need for a "policy space" in pursuing development strategies was recognized and constitutes an important policy outcome of the eleventh session of UNCTAD. The increasing interdependence of national economies in a globalizing world and the emergence of rule-based regimes for international economic relations have meant that the space for national economic policy, that is to say, the scope for domestic policies, especially in the areas of trade, investment and industrial development, has often been framed by international disciplines, commitments and global market considerations. The São Paulo

consensus emphasized that it was for each Government to evaluate the trade-off between the benefits of accepting international rules and commitments and the constraints imposed by the loss of policy space. It was particularly important for developing countries, bearing in mind development goals and objectives, that all countries take into account the need for appropriate balance between national policy space and international disciplines and commitments.

- UNCTAD's role with respect to debt analysis and debt management was also reinforced.

18. On **trade facilitation**, the Conference discussed the security measures recently introduced by some countries and their implications for developing countries. UNCTAD was requested to assess their economic cost and examine appropriate measures to help limit their negative implications for developing countries.

19. Regarding **partnerships**, the eleventh session of UNCTAD launched four partnerships in the areas of ICT for development (open source software, e-tourism, e-measurement), commodities (setting up of an international task force on commodities involving all partners interested in the commodity problematique and commodity market operation, including the private sector), investment and capacity-building, and the UNCTAD Virtual Institute on Trade and Development. The Trade and Development Board will review the implementation of partnerships annually, on the basis of a report of the Secretary-General of UNCTAD. The participation of civil society, in particular non-governmental organizations and academia, the private sector and other organizations of the United Nations system, should be made more systematic and should be better integrated with the UNCTAD intergovernmental processes.

20. The results of the eleventh session of UNCTAD in São Paulo clearly reconfirmed and strengthened the role of UNCTAD as the focal point in the United Nations system for the integrated treatment of trade and development. All member States expressed confidence that UNCTAD would continue to make a major contribution to the objectives of development, especially by focusing on development gains from international trading system and trade negotiations and by promoting coherence between national development strategies and global economic processes. UNCTAD will maintain and strengthen its important role as a forum for consensus-building on trade and development and the interrelated issues in the areas of finance, technology, investment and sustainable development. UNCTAD is well placed to present strategic perspectives on the interface between the multilateral and regional trade processes and to help developing countries cope with the multitude of challenges involved. It has a clear supportive and complementary role in relation to the Doha work programme and regional/bilateral trade negotiations through research and policy analysis, intergovernmental consensus-building, and technical assistance and capacity-generation activities. UNCTAD will also provide a forum for advancing a comprehensive dialogue with various stakeholders, including Governments, the private sector and civil society, on a development-related interface between trade and cross-cutting issues of trade and environment, trade and competition, trade and gender, and trade and poverty.

IV. Developments in the multilateral trading system

A. Overview

21. After the setback of the Cancún Ministerial Conference in September 2003, unprecedented diplomatic efforts have been undertaken to resume the multilateral trade negotiations under the Doha work programme. Thus, a rather positive atmosphere was created by several initiatives, such as the letter dated 11 January 2004 from the United States Trade Representative, R. Zoellick, to all World Trade Organization members; the letter dated 9 May 2004 from the EU Trade Commissioner, Pascal Lamy, and the EU Agriculture Commissioner, Franz Fischler, to ministers responsible for trade in all members of the World Trade Organization; several meetings between EU, the United States and G-20 developing countries; and several ministerial meetings (the third meeting of the Ministers of Trade of the least developed countries, held at Dakar in May 2004; the Organization for Economic Cooperation and Development (OECD) Ministerial Council Meeting in May 2004; the meeting of Ministers of Trade of the member States of the African Union, held at Kigali in May 2004; the meeting of Ministers of the G-20 in São Paulo on the eve of the eleventh session of UNCTAD; the meeting of Ministers responsible for agriculture and Senior Officials of the Group of Ten (G-10) held at Geneva on 5 July 2004; and the meeting of Trade Ministers from the Alliance of African, Caribbean and Pacific (ACP) Group of States, the African Union and the Least Developed Countries (G-90)) (Mauritius, 11-13 July 2004), as well as a considerable number of informal “mini-ministerials”.

22. As a result, participants agreed to resume work in all negotiating bodies. The nature of their meetings can be qualified as constituting a cautious and gradual process in the direction of rebuilding consensus and mutual confidence. A more constructive working environment emerged, including the openly demonstrated desire of members of the World Trade Organization to listen to positions and concerns of others, especially in crucial areas such as agriculture.

23. The ultimate objective was to agree on specific negotiating frameworks and modalities in core negotiating areas by the end of July 2004 and thus put the Doha negotiations back on the right track. This objective was formally achieved in the early hours of 1 August 2004 after five days of practically non-stop negotiations within the framework of the World Trade Organization General Council, when the General Council decision was finally adopted.⁸

24. This agreement was a product of difficult negotiations on the basis of two consecutive draft texts presented by the Chair of the General Council and the Director-General of the World Trade Organization. In the resumed multilateral trade negotiations under the Doha work programme, in sharp contrast to the Cancún Ministerial Conference, there was a political will of all participants to reach consensus.

25. The agreement sets frameworks for a future negotiating package in five core areas: agriculture, market access on non-agricultural products, services, development issues, and trade facilitation. It is expected that in the months ahead World Trade Organization members will develop these frameworks into concrete, detailed and specific modalities for concluding negotiations.

26. The agreement adopted seems to have entailed a more flexible and realistic decision for completion of the Doha round by dropping the original deadline of January 2005, while it was also decided to hold the Sixth Ministerial Conference of the World Trade Organization in December 2005 in Hong Kong Special Administrative Region of China.

B. Agreed frameworks in core areas

Agriculture

27. The framework agreement on agriculture (document WT/L/579, annex A) is of a central importance and probably represents the biggest result of the Doha process so far. The agreement achieved a concrete step forward in terms of the commitment to substantially reduce if not eliminate subsidies given to farmers in developed countries, although the issue of exact time-lines in terms of base periods, commencement, duration and completion of implementations is left open. The clear commitment to eliminate all forms of agricultural export subsidies “by the end date to be agreed” has been regarded by many as “historic”. In addition to the existing subsidies, the framework aims to set up a modality to eliminate other export competition measures, such as trade-distorting types of export credits, guarantee and insurance programmes and export subsidy elements in programmes of State-trading enterprises. Furthermore, rules would be developed to ensure that food aid does not displace commercial trade, and the negotiations will also consider whether all food aid could be provided in grant form. Under the agreement, developing countries would be allowed to maintain certain export subsidies to market and transport their products “for a reasonable time” even after other export subsidies were eliminated.

28. With regard to domestic support measures, the framework aims at substantially reducing trade-distorting subsidies to domestic production, including capping the so-called Blue Box support,⁹ with a “tiered approach” (several different levels of reduction) that requires countries with the highest subsidy levels to make the deepest cuts. As an initial instalment, the total level of trade-distorting domestic support as bound under the Uruguay Round of multilateral trade negotiations commitments should be cut at least by 20 per cent in the first year of the implementation. The framework also aims to reduce the circumvention of the reduction commitments, for example, through switching of support between products which was possible under the structure of the Aggregate Measurement of Support (AMS). In order to take account of the special role of agriculture with respect to development, developing countries will not be required to cut certain domestic support provided to subsistence and resource-poor farmers.

29. In the market access pillar, “substantial overall tariff reductions” are to be achieved, with high tariffs subject to the biggest cuts. However, under the concept of “sensitive products”, developed countries can maintain a high level of tariff protection on specific products provided that they expand the tariff rate quotas on these products and that they compensate for this with greater liberalization for other products. Developing countries will face lesser tariff reductions, as a form of special and differential treatment, and will have the right to designate “Special Products” and to apply a “Special Safeguard Mechanism” for food security and rural development purposes. Despite the strong appeal from developing countries, however, the framework agreement does not foresee any provisions regarding non-

tariff-barriers. Incidence of non-tariff-barriers has been increasingly felt as tariffs are lowered thereby affecting their market entry conditions. For least developed countries, it is agreed that they would be exempted from any reduction commitment, and their concern for guaranteeing duty- and quota-free market access would be addressed in the negotiations.

30. On the cotton initiative of several African countries, it was decided that cotton would be dealt with as part of the agriculture negotiations, but that it would be “addressed ambitiously, expeditiously and specifically” under a newly established subcommittee on cotton. The negotiations will encompass all trade-distorting policies affecting the sector, from import tariffs, trade-distorting domestic support subsidies and export subsidization.

31. Special and differential treatment (SDT) is recognized as an integral part of all elements of future agricultural negotiations. It would be particularly crucial as regards the market access pillar. Commitments by developed countries to substantially reduce domestic support and to eliminate export subsidies are seen as serving only to correct the existing long-standing imbalance in the Agreement on Agriculture¹⁰ at the expense of developing countries. Therefore, effective SDT would to a large extent be an issue for the market access pillar in terms of both increased market access for developing countries and ensured flexibility to protect their sensitive sectors and Special Products.

Market access for non-agricultural products

32. On market access for non-agricultural products (see WT/L/579, annex B), participants have agreed on the “initial elements” of modalities for future negotiations. In fact, nothing from the previous texts, including the so-called Derbez text proposed and rejected in Cancún, has been changed much, except that the provision for the elimination of tariffs in sectors designated as being of “export interest” to developing countries is no longer mandatory, but exhortatory. The aims are kept ambitious, but the specifics of key elements such as the tariff reduction formula, the special terms for developing countries and the issue of preference erosion remain to be negotiated later.

33. The proposed elements of the framework for a reduction of tariffs are as follows:

- An ambitious formula to cut tariffs: a non-linear formula to be applied on a line-by-line basis, with deeper cuts for higher tariffs for all products, without a priori exclusions. The issue of a non-linear formula, which may result in deeper cuts for high tariffs, may represent a difficult policy option for some developing countries. These countries are concerned that a non-linear formula would require them to make greater tariff cuts, contrary to the provision of the Doha Ministerial Declaration (A/C.2/56/7, annex) for less than full reciprocity. The text also foresees possibilities for more ambitious tariff cuts/elimination for certain sectors (so-called sectoral initiatives), including those of interest for developing countries.
- Credit for autonomous liberalization by developing countries, but only since the end of the Uruguay Round (1994). This in effect excludes earlier — and hence the most substantial — liberalization by many developing countries.

- Conversion of specific and compound duties into ad valorem equivalents, an objective that is not envisaged in the market access part of the framework on agriculture.
- Special treatment of developing countries: developing countries would have longer transition periods and flexibilities in tariff cuts.
- Exemption of least developed countries from tariff reductions. They will be required only to substantially increase the level of their tariff bindings in order to enhance transparency and predictability of their trade. Developed countries and “other participants who so decide” are invited to provide least developed countries with duty-free and quota-free access to their markets to support diversification, and supply capacities and increase their integration into the multilateral trading system.
- Consideration of issues faced by non-reciprocal preference beneficiary developing countries, namely, erosion of preferences (for example, for ACP countries), but without providing any details. It will be important that this be addressed through the use of both trade and development instruments that not only provide adjustment support, but also help build sustainable supply capacity, especially in least developed countries.
- Provision of general guidelines for addressing the issue of non-tariff barriers to trade through notification, identification, examination, categorization and ultimate negotiations.

Services

34. The framework (“recommendations”) basically reiterates previous objectives for this segment of negotiations, while emphasizing the need to ensure high quality of offers. Revised offers are to be made by May 2005, though it is highly unlikely that all developing countries or least developed countries will be in a position to make their new or revised offers by then.

35. Although services did not attract much attention in the July framework negotiations, it remains a core agenda item under the Doha work programme. As of 1 August 2004, out of 147 World Trade Organization members, 44 had made their initial offers, of which 29 were presented by developing countries. Most developing countries are still in the process of identifying their specific sectoral (for example, tourism and professional services) and modal (for example, Mode 4: temporary movement of natural persons, Mode 1: transborder supply and Mode 2: consumption interests abroad), the barriers to their services exports, the impact of requests by developed countries on their services sectors, and ways and means of overcoming supply constraints through implementation of the General Agreement on Trade in Services,¹¹ articles IV and XIX, which call for efforts towards increasing participation of developing countries in the international trade in services. Progress needs to be made on the assessment of trade in services, which remains an integral part of the negotiations on services.

36. World Trade Organization members also agreed in general terms to pursue their services trade liberalization in sectors and modes of supply of export interest to developing countries. So far, among initial offers submitted, some major developed countries have made no improvements in their market access commitments for Mode 4. The new offers continue to cover measures regulating commercial presence

substantially more than measures regulating other areas. Furthermore, developing countries are seeking to prevent protectionist backlash, which could undermine continued growth of information technology (IT)-enabled services trade and affect expanding geography of cross-border trade in services. Locking in current liberal regimes regulating this type of trade would ensure that the interests of developing countries are reflected in the negotiations. Through the reconfirming of no a priori exclusions of services from these negotiations, developing countries will be able to pursue their interests in such services sectors as audio-visual and maritime services, sectors in which World Trade Organization members have made by far the smallest number of commitments.

37. The balanced outcome in negotiations would also depend on progress in General Agreement on Trade in Services rule-making. In particular, negotiations on Emergency Safeguard Measures remain one of the most contentious areas notwithstanding the strongest mandate to conclude them. Developing countries have emphasized the need for the disciplines on Emergency Safeguard Measures to allow them to address implications of liberalization, given the fact that trade in services liberalization has only recently been assimilated by most of them, including their private sectors. Little progress has been achieved in the discussions under article XV of the General Agreement on Trade in Services concerning the need for and possible scope of disciplines on subsidies in services. World Trade Organization members have not been forthcoming in contributing to the exchange of information mandated by article XV on subsidies, which may have trade-distorting effects. Article XIII of the General Agreement on Trade in Services provides for negotiations on government procurement of services, but these have not yet produced any concrete results. In addition, negotiations concerning disciplines on domestic regulation have also produced few results so far.

Singapore issues

38. Negotiations on trade facilitation (improving the movement, release and clearance of goods, including goods in transit) are officially launched, with reassurance for developing countries that they will not be required to take on commitments that they cannot implement, inter alia, for financial reasons, and promises to them of substantial support and assistance in implementing future commitments. Particularly important to developing countries is the recognition of the principle that the extent and timing of entering into commitments would be related to the implementation capacities of developing and least developed countries and that, in cases where they lacked the necessary capacity, implementation would not be required. The other Singapore issues — trade and investment, trade and competition policy, and transparency in government procurement — are completely dropped from the negotiating agenda. This will allow developing countries to focus on core development-oriented areas in the negotiations, without their having to be distracted from their scarce capacities and resources in order to address new and complex subjects.

Development issues

39. The agreement reiterates calls for the strengthening of World Trade Organization provisions on special and differential treatment in favour of developing countries and implementation issues. It instructs the Committee on Trade and Development in Special Session to complete the review of all categories

of special and differential treatment provisions with clear recommendations for a decision by July 2005. On implementation issues, the General Council should review progress and “take any appropriate action” no later than July 2005 on the basis of the report of the Director-General of the World Trade Organization to be submitted no later than May 2005. These deadlines seek to avoid the previous pattern of work on development issues since the launch of the Doha negotiations, characterized by the fact that set deadlines were not met, and minimal progress was achieved.

40. In addition, it was also agreed that special attention should be given to the specific trade and development-related needs and concerns of developing countries, including capacity constraints. In this context, the trade-related issues identified for the fuller integration of small, vulnerable economies into the multilateral trading system should also be addressed, without creating a subcategory of members, as part of the Doha work programme.

41. While recognizing the progress made since the Fourth Ministerial Conference of the World Trade Organization held at Doha in expanding trade-related technical assistance to developing countries and low-income countries in transition, the General Council decision affirmed that such countries, and in particular least developed countries, should be provided with enhanced trade-related technical assistance and capacity-building, to increase their effective participation in the negotiations, to facilitate their implementation of World Trade Organization rules, and to enable them to adjust and diversify their economies. In this context, the General Council welcomed and further encouraged the improved coordination with other agencies, including under the Integrated Framework for Trade-related Technical Assistance for the Least Developed Countries (IF) and the Joint Integrated Technical Assistance Programme (JITAP).

Other issues

42. In the negotiating areas of rules, trade and environment, and trade-related aspects of intellectual property rights (TRIPS), the General Council took note only of the reports submitted to the Trade Negotiations Committee by the relevant negotiating bodies. The commitment to progress in all of these areas of the negotiations in line with the Doha mandates was reaffirmed.

43. On dispute settlement, the General Council also took note of the report to the Trade Negotiations Committee submitted by the Special Session of the Dispute Settlement Body and reaffirmed members’ commitment to progress in this area of the negotiations in line with the Doha mandate. Furthermore, the General Council adopted the recommendation of the Trade Negotiations Committee that work in this area should continue on the basis set out by the Chairman of that body in his report to the Committee.

44. The General Council decision also extended the moratorium on imposing customs duties on electronic transmissions up to the Sixth Ministerial Conference of the World Trade Organization, to be held in December 2005.

45. Finally, the General Council agreed that the decision and its annexes should not be used in any dispute settlement proceeding under the World Trade Organization Dispute Settlement Understanding¹² and should not be used for interpreting the existing World Trade Organization Agreements.

46. Working Groups on Trade and Transfer of Technology, and on Trade, Debt and Finance, will continue their activities, as foreseen in the Doha work programme.

C. World Trade Organization dispute settlement

47. The number of cases brought before World Trade Organization dispute settlement panels has continued to rise since 1995: a total of 312 cases have been filed with the Dispute Settlement Body (up to 16 June 2004). Of these, 125 have resulted in panels covering 155 disputes.¹³ The majority of dispute settlement cases involved developed countries (about 60 per cent of all cases), while the developing countries' share was some 40 per cent. The main areas of complaints are subsidies, anti-dumping, import licensing and safeguard measures.

48. Several recent dispute settlement cases may have significant direct or indirect implications both for the Doha negotiations and for wider systemic aspects of the multilateral trading system. These cases, among others, involved:

- United States Foreign Sales Corporations (FSCs): export subsidies (complaint by EU). EU was authorized to impose a record US\$ 4 billion of sanctions on United States exports, while the respective compliance legislation was still debated in the United States Congress.
- United States: Reviews of Countervailing Duty on Softwood Lumber from Canada. This case may have implications for refining methodology in calculating the amount of countervailing duties, in particular as regards comparison of prices.
- United States: Definitive Safeguard Measures on Imports of Certain Steel Products. In December 2003, the United States called off these measures, thus defusing this politically damaging dispute involving up to 20 World Trade Organization members.
- EU: Tariff Preferences accorded to developing countries (complaint by India). This dispute resulted in the conclusion in the Appellate Body's ruling that preference-giving countries may differentiate among various developing countries subject to objective criteria applied.
- Two ongoing cases: United States: Subsidies on Upland Cotton (complaint by Brazil); and EU: Export Subsidies on Sugar (complaint by Brazil, Thailand and Australia). Reportedly,¹⁴ in both cases, interim panel rulings recognized that the subsidies in question were not consistent with the United States and EU obligations under the World Trade Organization.

V. Regional arrangements and other developments

A. Regional arrangements

49. The proliferation, expansion and deepening of regional trade agreements have been one of the most remarkable developments during the past decade, in particular since the creation of the World Trade Organization. Today, a total of more than 210 regional trade agreements are in force. It has been estimated by the World Trade Organization secretariat that, if another 60 regional trade agreements that are

currently under negotiation and another 30 that are in a proposal stage are concluded, the total number of regional trade agreements in force would surpass 300 by 2007.¹⁵ Consequently, regional trade agreements altogether accounted for some 40 per cent of world trade in 2000 and are estimated to cover over 50 per cent in 2005.

50. A major development in the expansion of regional trade agreements has been emergence of North-South regional trade agreements (for example, between the United States and Jordan, the United States and Morocco, and as reflected in the ongoing negotiations on the EU-Southern Common Market (Mercosur) free trade agreement, etc.). Traditionally subject to various unilateral preferences schemes, a number of developing countries are in the process of transforming their trade and economic relations with previously preference-granting developed countries into reciprocal free trade areas, as is the case with the ACP-EU negotiations for an economic partnership agreement under the new Cotonou Agreement and the pan-American negotiations for the Free Trade Area of the Americas (FTAA). A challenge facing developing countries in these novel forms of regional trade agreements involves their need to design the appropriate degree and pacing of regional liberalization, as well as to retain policy space and special and differential treatment.

51. Regional integration agreements among developing countries (South-South agreements) are in no way excluded from the process of expansion, proliferation and reinvigoration as undergone by the regional trade agreements. A number of South-South arrangements have accelerated their internal liberalization programmes on trade in goods and embarked on the challenging stage of liberalizing trade in services. Global South-South trade cooperation through GSTP provides a substantial complementary means for developing countries to increase and expand their interregional trade, investment and economic cooperation. In this context, the decision reached at the eleventh session of UNCTAD to start the new GSTP round in November 2004 is quite timely and calls for the concerted efforts of participants, other Group of 77 countries and China to give it substance and momentum.

B. Other developments

52. UNCTAD continues to facilitate cooperation between commodity producers and consumers. In particular, UNCTAD is mandated to convene United Nations conferences for negotiating and renegotiating international commodity agreements. In 2003-2004, UNCTAD took an active part in preparatory processes for two United Nations renegotiating conferences (on tropical timber and on olive oil and table olives). The United Nations Conference for the Negotiation of a Successor Agreement to the International Tropical Timber Agreement, 1994, at its first session (Geneva, 26-30 July 2004) adopted the draft document for negotiations in 2005.

53. With regard to the special needs of small economies, small island developing States and landlocked developing countries, the São Paulo Consensus emphasized that priority should be given to the full and timely implementation of the Almaty Declaration¹⁶ and the Almaty Programme of Action: Addressing the Special Needs of Landlocked Developing Countries within a New Global Framework for Transit Transport Cooperation for Landlocked and Transit Developing Countries,¹⁷ adopted by the International Ministerial Conference of Landlocked and Transit Developing

Countries and Donor Countries and International Financial and Development Institutions on Transit Transport Cooperation, held in Almaty on 28 and 29 August 2003. All efforts should also be made to ensure a successful outcome of the International Meeting to Review the Implementation of the Programme of Action for the Sustainable Development of Small Island Developing States,¹⁸ to be held in Mauritius from 10 to 14 January 2005.

VI. Conclusions

54. **The positive outcomes of the eleventh session of UNCTAD and the recent developments in World Trade Organization negotiations have underscored the shared interests of the international community in advancing the multilateral trade negotiations under the Doha work programme and in identifying practical and tangible inputs for achieving the Millennium Declaration Goals, and the objectives of the Monterrey Consensus of the International Conference on Financing for Development¹⁹ and the Plan of Implementation of the World Summit on Sustainable Development (“Johannesburg Plan of Implementation”).²⁰ The eleventh session of UNCTAD, in particular, should be credited for having provided concrete policy analysis and actions for “upholding and safeguarding an open, equitable, rule-based, predictable and non-discriminatory multilateral trading system” (TD/410, para. 67). New confidence has emerged testifying that this objective is within reach, provided that the political resolve and positive spirit of cooperation will prevail, particularly in the Doha negotiating process. In this respect, UNCTAD will keep and strengthen its important role in facilitating consensus on the international trading system in respect of development convergence and solidarity and in accordance with the São Paulo Consensus.**

Notes

¹ See background note by the UNCTAD secretariat for the eleventh session of UNCTAD, entitled “Assuring development gains from the international trading system and trade negotiations” (TD/397), 4 May 2004.

² See World Trade Organization, *Annual Report, 2004* (Geneva, 2004).

³ See document entitled “New geography of international trade: South-South cooperation in an increasingly interdependent world” (TD/404), 4 June 2004, prepared for the high-level segment of the eleventh session of UNCTAD.

⁴ For a more detailed review of the recent situation in commodity markets, see the report of the Secretary-General to the General Assembly on world commodity trends and prospects (A/59/304) of 27 August 2004.

⁵ Document TD/L.382 of 17 June 2004.

⁶ Document TD/410 of 25 June 2004.

⁷ The commitment “to an open, equitable, rule-based, predictable, and non-discriminatory trading and financial system”.

⁸ Doha Work Programme: decision adopted by the General Council on 1 August 2004 (WT/L/579) of 2 August 2004.

⁹ Support under production-limiting programmes.

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- ¹⁰ For the full text of the Agreement on Agriculture, see http://www.wto.org/english/tratop_e/agric_e/agric_e.htm.
- ¹¹ For the full text of the General Agreement on Trade and Services, see http://www.wto.org/english/tratop_e/serv_e/gatsintr_e.htm.
- ¹² For the full text of the Understanding on Rules and Procedures Governing the Settlement of Disputes (annex 2 of the Agreement Establishing the World Trade Organization), see http://www.wto.org/english/tratop_e/dispu_e/dsu_e.htm.
- ¹³ See “Overview of Developments in the International Trading Environment: Annual Report by the Director-General” (WT/TPR/OV/9), 20 February 2004; and document WT/DS/OV/21 of 30 June 2004 entitled “Update of WTO Dispute Settlement Cases”.
- ¹⁴ *Financial Times*, 18 June and 4 August 2004.
- ¹⁵ “Overview of Developments in the International Trading Environment: Annual Report by the Director-General” (WT/TPR/OV/9), 20 February 2004.
- ¹⁶ *Report of the International Ministerial Conference of Landlocked and Transit Developing Countries and Donor Countries and International Financial and Development Institutions on Transit Transport Cooperation, Almaty, Kazakhstan, 28 and 29 August 2003 (A/CONF.202/3)*, annex II.
- ¹⁷ *Ibid.*, annex I.
- ¹⁸ *Report of the Global Conference on the Sustainable Development of Small Island Developing States, Bridgetown, Barbados, 25 April-6 May 1994* (United Nations publication, Sales No. E.94.I.18 and corrigenda), chap. I, resolution 1, annex II.
- ¹⁹ *Report of the International Conference on Financing for Development, Monterrey, Mexico, 18-22 March 2002* (United Nations publication, Sales No. E.02.II.A.7), chap. I, resolution 1, annex.
- ²⁰ *Report of the World Summit on Sustainable Development, Johannesburg, South Africa, 26 August-4 September 2002* (United Nations publication, Sales No. E.03.II.A.1 and corrigendum), chap. I, resolution 2, annex.
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