

WORLD TRADE ORGANIZATION

WT/COMTD/30
2 May 2001

(01-2248)

Committee on Trade and Development

WTO MEMBERSHIP CONTRIBUTION TO THE INTERNATIONAL CONFERENCE ON FINANCING FOR DEVELOPMENT PREPARATORY COMMITTEE

I. THE CONTRIBUTION OF TRADE TO FINANCING FOR DEVELOPMENT

1. The World Trade Organization, consisting of 140 Members, is pleased to be actively involved as a major institutional stakeholder in the preparatory process for the forthcoming International Conference on Financing For Development and to make an input from the perspective of the membership of the Organization. The WTO has and will maintain a deep interest in this issue, especially given that eighty per cent of its growing membership comprises developing countries.

2. The WTO is the forum for negotiating multilateral trade liberalization and rules and the guarantor of these rules through monitoring, surveillance and dispute settlement. It contributes to enhancing financing for development through the dynamic linkages between trade, investment, growth and development.

3. The WTO membership welcomes the statement made in paragraph 14 of the Secretary-General's Report that trade policy is one of the foremost policies affecting the development prospects of developing countries. We also agree with the statement in the same paragraph that the potential impact of expanding market access can be many times greater than direct financial assistance, provided that it is combined with successful efforts to increase and diversify developing countries' productive capacity.

4. There are strong and significant linkages between trade and financing for development. These come through the role that trade can play in mobilizing domestic resources and generating foreign exchange earnings, and the role of trade liberalisation in promoting economic growth through increased efficiency and the removal of distortions.

5. In the Preamble to the Marrakesh Agreement establishing the WTO, Members recognized that "their relations in the field of trade and economic endeavour should be conducted with a view to raising standards of living, ensuring full employment and a large and steadily growing volume of real income and effective demand, and expanding the production of and trade in goods and services, while allowing for the optimal use of the world's resources in accordance with the objective of sustainable development, seeking both to protect and preserve the environment and to enhance the means for doing so in a manner consistent with their respective needs and concerns at different levels of economic development."

6. All WTO Members recognize the value of open trade policies as a critical element of a policy framework which can contribute to growth and assist in poverty alleviation. However, it is recognised that the linkages between trade liberalization, economic growth, development and poverty alleviation are complex. It is also recognized that some developing countries, including the least developed among them, face serious challenges in meeting the short- to medium-term adjustment costs of trade liberalization, including employment and fiscal costs, and that appropriate support policies and compensatory measures may be required. Open trade policies can play a significant role in

encouraging inflows of foreign investment in both goods and services. In this regard, while overall flows of foreign direct investment to developing countries have been growing, not all such countries have benefited equally.

7. The principles of non-discrimination (as applied through the MFN and national treatment clauses), predictability (through binding commitments), transparency, equity and provisions for special and differential treatment are fundamental to a trading environment conducive to growth and development. The Marrakesh Agreement, to which all our Members subscribe, recognizes that "there is need for positive efforts designed to ensure that developing countries, and especially the least developed among them, secure a share in the growth in international trade commensurate with the needs of their economic development." At their meeting in Geneva in May 1998, WTO Ministers also expressed their deep concern "over the marginalization of least-developed countries and certain small economies, and recognize the urgent need to address this issue which has been compounded by the chronic foreign debt problem facing many of them".

8. The WTO is not a development finance organisation and currently has the capability to provide only limited funding for technical assistance to Members through its regular budget and Trust Funds. Although the contribution made by WTO Members both through the WTO Secretariat and directly for trade policy training and technical assistance is important, many Members consider that there is a pressing need to better co-ordinate and increase the trade-related technical assistance available to developing countries, whether through the Organization's budget, the Trust Fund, other multilateral donors, or bilaterally.

II. TRADE LIBERALISATION, TRADE POLICY REFORM AND GROWTH IN NATIONAL INCOME, DOMESTIC CAPITAL FORMATION AND THE GENERATION OF FOREIGN EXCHANGE

9. By trade liberalisation and policy reform, we refer both to the lowering of trade barriers, leading to improved market access in all sectors, and to the elaboration of balanced and equitable rules for the conduct of international trade in goods and services. Lower tariffs and trade facilitation are elements conducive to encouraging foreign and domestic investment alike, as inputs become cheaper and production can become more competitive. In addition, liberalisation can help reduce the anti-export bias of import protection, as the resulting increase in import demand puts downward pressure on the exchange rate, making exports more competitive on international markets.

10. However, the highly variable trade performance of a large number of developing countries, and in particular the falling share of the LDCs as a group, indicates that strengthened performance and increased competitiveness of developing countries' production are dependent on a number of other elements, notably stable macroeconomic policies, measures to address supply side constraints, attention to infrastructure and human resource development, the resolution of debt problems, and access to technology. More account thus needs to be taken of the cross-linkages among trade, macroeconomic policies, such as fiscal, monetary and exchange rate policies, and structural or micro-economic policies.

(a) Trade in Goods

11. Improved market access for goods in certain critical areas is crucial to many developing countries. Generally, average tariff rates on manufactures are low to moderate, and binding coverage, particularly in developed countries, is high. However, many Members consider that reduction of high tariffs, tariff peaks and tariff escalation would benefit a number of areas of export interest to developing countries, including, for example, in textiles and clothing, where in addition the main liberalisation agreed in the Uruguay Round has yet to take place. Members consider that market

access would also be enhanced through tariff reductions in agriculture, including in specific and mixed duties, and the reduction of domestic supports and export subsidies, which is also part of the ongoing reform process¹. Non-tariff measures relating, *inter alia*, to standards and quality continue to be of deepening concern to many developing countries owing to their trade-restrictive effects, including in sectors where tariffs may have been significantly reduced. Some Members have also emphasized their concern about negative effects on development of contingent measures such as anti-dumping and safeguards, as well as, in some cases, other unilateral measures.

12. In the past decade, many developing countries have made great strides in reducing their levels of external protection. The evidence suggests that liberalization has often contributed to faster growth in trade and output. However, there are questions about the appropriate pace and sequencing of liberalization, and the scale of short-term adjustment costs. Moreover, there is concern about the effects of trade liberalization on the government revenues of trade revenue-dependent economies and those with a large informal sector. We emphasise that it would be a mistaken response to seek to halt trade liberalisation. The answer must be to draw upon the lessons of the past regarding pace, sequencing, and the critical support measures that are required, so as to ensure that all developing countries can, in the shortest time possible, join the ranks of efficient and expanding trading economies.

13. Against this background, we would draw attention to the room for further trade liberalization, especially where high average nominal tariffs still prevail. Cutting tariffs and locking-in such cuts through binding commitments in the WTO would not only help the domestic economies of the countries undertaking liberalization, but could also benefit all suppliers, including developing countries. At the same time, some developing Members consider that there is an ongoing need for flexibility in their trade policies. Finally, there is recognition that appropriate credit for autonomous liberalization should be given in multilateral negotiations.

14. It is particularly important that market access for the least-developed countries be improved significantly, and speedily, while avoiding distortions to the trade of other developing countries. This is part of the necessary process of "mainstreaming" trade into development for these countries. In this context, recent market access initiatives announced in favour of least-developed countries by both developed and developing trading partners are very welcome.

(b) Trade in Services

15. The GATS negotiations offer opportunities for developing countries. They stand to gain from enhanced market access in sectors and modes of supply in areas of services where they have a comparative advantage. Many developing countries recognize the value of opening up their services sectors and of making commitments under the GATS in order to attract foreign investment in areas critical for development. The GATS provides the multilateral framework for sequenced and flexible liberalisation of services trade and improvement of supply conditions in services sectors, consistent with development needs. Moreover, due to the infrastructural role of many services, the more a country's manufactures have access to competitively priced services, the more competitive will its exports be on world markets. The mechanism of scheduling binding commitments provides a means to lock-in policy reforms. In accordance with the guidelines for the mandated negotiations in service, account shall be taken and credit shall be given in the negotiations for autonomous liberalization undertaken by Members since previous negotiations. In services, as in goods, WTO rules improve the transparency, predictability and stability of the environment in which economic agents operate. This in turn is critical for encouraging both domestic and foreign private sector investment. In this

¹ See Article 20 of the WTO Agreement on Agriculture for the precise negotiating mandate, including issues to be taken into account.

connection some Members have expressed concern about measures to counter "unfair" fiscal competition.

III. NEED FOR EQUITABLE AND BALANCED INTERNATIONAL RULES

16. The Marrakesh Agreement was a major landmark in reforming international trade rules and contributing to the continuing growth of world trade. Nevertheless, since 1995, there has been a decline in the share in world trade of LDCs as a group, and many WTO Members, particularly developing economies, have experienced difficulties, including high administrative and financial costs in implementing the Uruguay Round Agreements. Thus, some Members consider that the distribution of gains from the WTO Agreements has been uneven. This concern is recognized and these difficulties are being addressed in an ongoing process. Efforts are also being made to build the capacity in least-developed and other developing countries to enable them to take fuller advantage of trading opportunities and the WTO agreements.

17. A number of WTO Members consider that there are imbalances in the WTO Agreements which need to be re-visited, and that there are areas in the WTO agreements in which more work is required to ensure that the widest distribution of benefits is shared by the greatest number of countries, including in agriculture, services, contingency measures, standards, TRIPS, TRIMs, and textiles and clothing. A number also believe that the existing Agreements should be complemented and strengthened in areas such as trade facilitation and rules, and that new issues such as competition and investment which are now at the analytical stage should be included.

IV. RELATIONSHIP BETWEEN REGIONAL AND MULTILATERAL TRADE LIBERALIZATION

18. WTO Members recognize that regional agreements and other free trade arrangements among Members can contribute to the development of trade and the coherence of the trading system as a whole, provided they are consistent with the rules and principles of the WTO, which seek to prevent increased discrimination against non-Members and trade diversion. Regional agreements are becoming an increasingly important factor in international trade relations.

V. COHERENCE AMONG TRADE AND OTHER COMPONENTS OF FINANCING FOR DEVELOPMENT

19. Effective development policies require measures in trade and other fields to be integrated in a consistent and mutually reinforcing policy framework at national, regional and global levels. The evidence suggests that a number of interrelated and supportive measures are necessary by the countries themselves, by bilateral donors and by international financial institutions. The contribution of trade to financing for development will be vastly enhanced through the mainstreaming of trade policies into the wider framework of development and poverty reduction strategies. This will be facilitated through greater coherence among national governmental agencies, both in developing and developed countries, and among international agencies in respect of trade and aid policies, including through the Integrated Framework under the aegis of the WTO and its co-sponsoring agencies.

VI. CONCLUSION

20. The WTO membership is convinced that trade can make a strong contribution to financing for development, and that strengthening the trade performance of all economies and, particularly,

developing countries can best be achieved through continued pursuit of an equitable, liberal and open rules-based multilateral system. This would comprise *inter alia*, open market access, measures to encourage implementation and facilitate trade, addressing concerns relating to non-tariff measures and appropriate design and implementation of provisions for special and differential treatment. To achieve this objective will require a range of mutually supportive and inter-related measures and policies aimed at enhancing the supply capability, competitiveness and diversity of developing countries' trade in both goods and services. A real value of strengthened trade performance in enhancing financing for development is that, when supported by structural improvements in productive capacity and predictable market conditions, the income flows generated will be sustainable over the longer term and will tend to be less volatile than other sources of foreign exchange earnings.
