



INTERNATIONAL CENTRE FOR
TRADE AND SUSTAINABLE
DEVELOPMENT

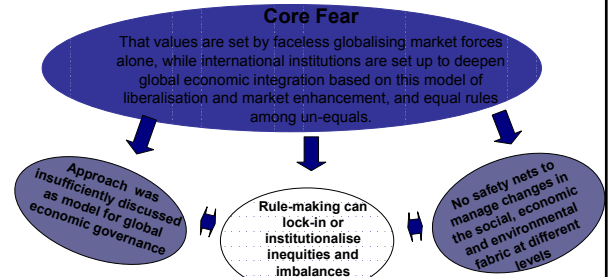
Trade and... Sustainable Development and Prospects for Hong Kong

Ricardo Meléndez-Ortiz

WTO's Contribution to Sustainable Development Governance:
Balancing Opportunities and Threats
CAT&E - IDDRI - Science Po
20 October, Paris,

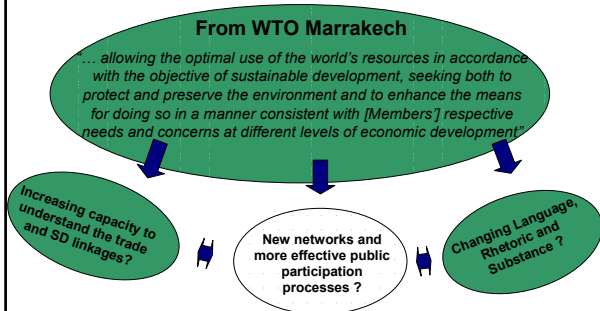
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What's Bothering Us?



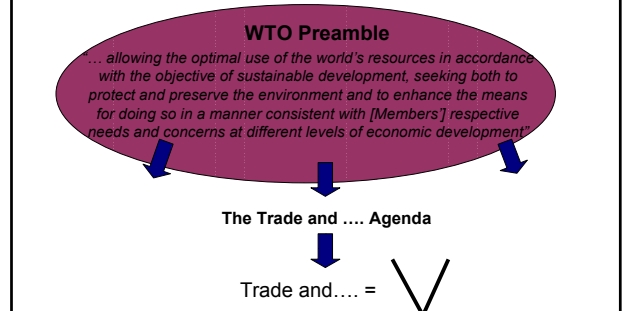
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Insertion of Sustainable Development in the Multilateral Trading System



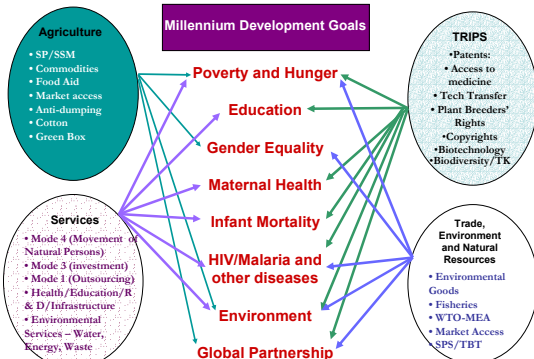
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The Trade And ...Agenda



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Trade Negotiations and Internationally Agreed Sustainable Development Targets



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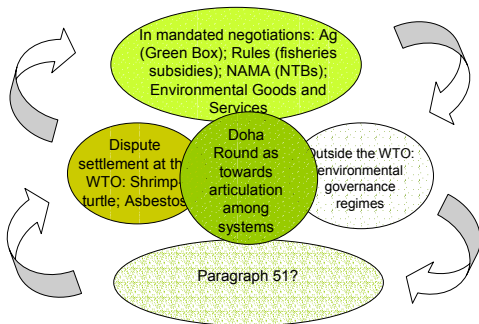


Sustainable Development Policy Objectives of Trade

- social refer to the issues to human development (Health, Nutrition, Education) + Justice and Equity (Livelihoods, Poverty Elimination, Income distribution, Gender) + Social capital)
- environmental refer to the range of perspectives on the need to maintain the integrity of the ecological systems, including the conservation and sustainable use of natural resources.
- economic refer to the generation of income (macroeconomic and microeconomic conditions with both domestic and external dimensions) and the correlated trade policy agendas (productivity; competitiveness; innovative capacities as well as market openings and defence).
- governance basics such as fair-play in the design and implementation of policy (transparency, participation, access, recourse to justice) as well as effective integration of all stake-holders.

These dimensions interact in varied ways in all public policy areas. It is in the interaction among the three dimensions that the true manifestations of the potentials and challenges for sustainable development emerge.

Environmental Interface of the Multilateral Trading System



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Trade & SD

where are we coming from

- Trade & investment > drivers of growth
 - 80/90s trade (mostly Xs) / fdi as development strategies
 - Presumption of automaticity: $X/I > Y$ (GNP) > development
 - > Locking (reforms)-in (Uruguay Round)
 - shrinking of spaces for strategic development policy (TRIMs; TRIPs; GATS; SCD)
- Development, growth (PIB) and SD
 - 90s/2000s evidence contradicts presumption
 - WTO Implementation; Asian crisis; NAFTA's decade
 - Policy or Institutions? Or Geography?
- From liberalization to integration
 - The adjustment challenge
 - Review/ rethink 'development' notion?
 - Add adjustment means to trade rules/ agreements?

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Trade & SD (& Environment)

15 years into the debate, where are we

- A WTO that incorporates SD (Preamble/jurisprudence) and environment
 - (however, operational desarticulation :TBT; SPS; SCD AoA; TRIPs)
- An specialized, if highly politicized and diminished, WTO forum: CTE
- Introduction of unilateral preferential schemes (SGP) with social policy and environmental conditionalities.

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Trade & SD (& Environment)

15 years into the debate, where are we

- Exogenous introduction of economic instruments in domestic environmental management
 - Proliferation of MEAs with STOs and other economic-related obligations
 - Proliferation of FTAs (RTAs & BTAs) (with increasing incorporation of provisions for the management of the t&e interface)
- Exogenous introduction of market/economic instruments (and new power relations) for the management of the t&e relationship in the private realm
 - Introduction/consolidation of market mechanisms and « off track » norms/ standards
 - Reorganisation of international production and of relations between providers, distributors, buyers (GVCs and DVCs)

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Environment in some selected areas of DDA and WTO on-going negotiations/mandates

- **Agriculture**
 - Green box (expiration of exception of env. programmes in commitments of reduction of internal support)
 - Credit and exceptions on tariff cuts
 - Tariff differentiation for organic/ bio Ag EPP
 - Differentiated X subsidies
 - SP/SSM
- **Services**
 - GATS Art. XIV; exceptions along GATT XX (b) but not (g) on non-renewal resources
 - Multilateral disciplines on subsidies
 - Ministerial Decision on GATS & Env
 - Sectoral annexes: i.e. tourism
 - Maritime services: MFN derogation
- **Intellectual Property**
 - Art. 27.3(b) : open
 - Traditional knowledge and folklore : open
 - CBD & TRIPs: EC Acceptance of flexibility on sui generis; disclosure of origin of resources: national mechanisms for CBD implementation.
 - Forum-shopping
 - Geographical indications
- **Subsidies**
 - Revision of Art.8.2(c): assistance for upgrading of production facilities to meet environmental requirements: re-open in DDA
- **CTE**
 - Mandate on relations between regimes
 - Recommendations for negotiations

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Emerging terms: Mutual Respect?

- The Kyoto Protocol text:
 - Parties should "strive to implement policies and measures...in such a way as to minimize adverse effects...on international trade...";
 - FCCC features similar language
- WTO regime is equally solicitous of environment:
 - Article XX allows exceptions for health & conservation
 - Preamble to 1995 Marakesh Agreement establishing WTO seeks "to protect and preserve the environment;"
 - 2001 Doha Communique starting new round of negotiations: "the aims of ... open and non-discriminatory trading system, and acting for the protection of the environment ... must be mutually supportive."

Jeffrey Frankel

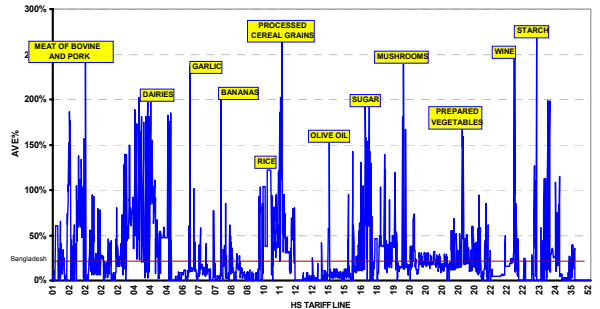
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Special and Differential Treatment

- Cross-cutting issues
- Differentiation: The hard nut
- The case of Bangladesh:
 - Tariff payments to US in 2001: USD 331 million for USD 2.1 billion exports to the US
 - France paid USD 330M in tariff payments to the US, for USD 20 billion exports to the US

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Divergent Tariff Structures: European Union applied agro tariffs and Bangladesh average tariffs



Source: Mario Jéles, ICONE, Brazil

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Heterogeneity among countries Tariff structures for non-agricultural goods

	South Africa		Kenya		Malaysia		Bangladesh		Brazil		Cuba		Ecuador		EC	
	Bound	Applied	Bound	Applied	Bound	Applied	Bound	Applied	Bound	Applied	Bound	Applied	Bound	Applied	Bound	Applied
% of bound tariffs	96.0	-	1.6	-	81.2	-	3.0	-	100.0	-	20.4	-	99.7	-	100.0	-
average tariff	15.8	5.3	54.8	15.7	14.9	9.1	35.7	18.3	30.8	12.7	9.5	10.9	21.0	11.4	3.9	4.0
% of duty-free HS sub-headings	13.9	52.3	0.0	21.4	5.1	49.0	0.8	6.0	0.3	3.0	8.4	5.3	0.0	2.3	23.9	24.0
% of tariff peaks	2.7	10.4	0.0	0.0	0.0	7.6	3.1	0.0	0.0	0.0	3.2	0.0	0.0	0.0	7.1	7.1

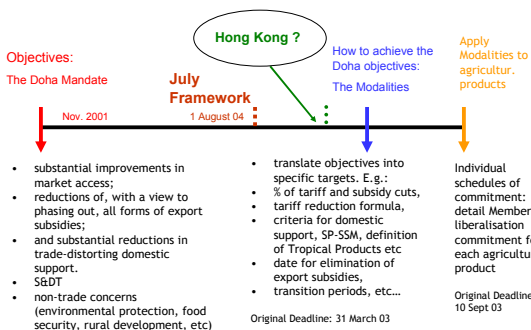
Source: WTO

Selected Technological development indicators (1997-98)

Country	Patents per 100'000 people	R&D per capita (USD)	Technology Licence Payments as % of GNP
United States	320	465.9	0.143
Japon	240	858.4	0.219
Brazil	0.5	13.7	0.140
S Africa	3	12.8	0.121
India	0.1	0.4	0.047
Venezuela	0.13	2.3	Neg.
Thailand	0.2	0.2	0.610
Morocco	0.1	0.1	0.498
El Salvador	0.001	0.01	0.061
Senegal	0.001	0.01	0.047
Bangladesh	0.001	0.01	0.012

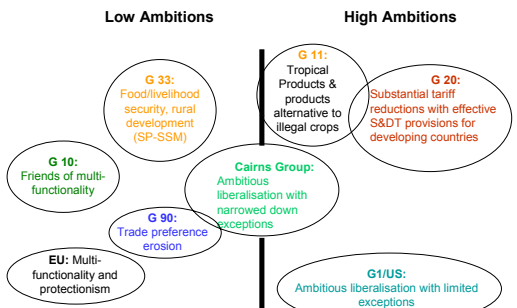
ICTSD, IPRs and Sustainable Development Project

Enter Agriculture: A slippery timeline allowing introduction of SD-type differentiation: Special Products (SP)/Special Safeguard Mechanism (SSM) and Tropical/Alternative Products (T/AP)...



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..... with different levels of ambitions in market access



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The New Geography: Negotiating Dynamics/ POWER SHIFTS

Pre-Cancun :

Cairns Group/US as drivers > EU/NTC Groups/ non- Cairns developing Countries resistance // QUAD behind scene

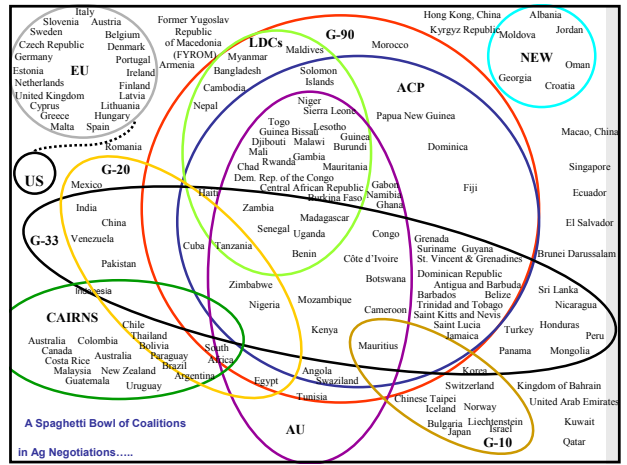
At & Post-Cancun:

G20(BSA, China & others) as drivers > G33 in between > US/EU moderated resistance/ lowering ambitious > G10(Korea, Japan, Switzerland, Norway, Mauritius & others), G90 resistance

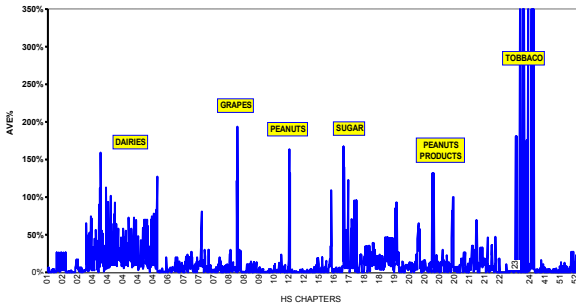
Currently at the table:

FIPs/NG5 (US, EU, Australia, India, Brazil)concerning action agenda

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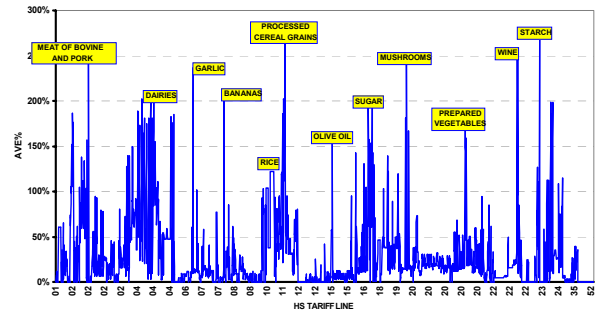
TARIFF STRUCTURE: United States



Source: Mario Jales, ICONE, Brazil

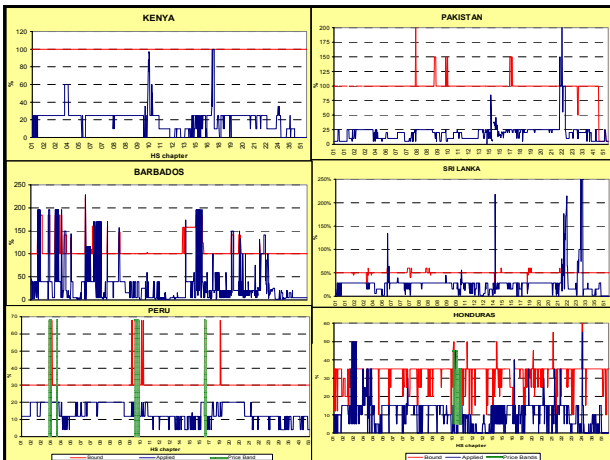
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Tariff Structures: European Union

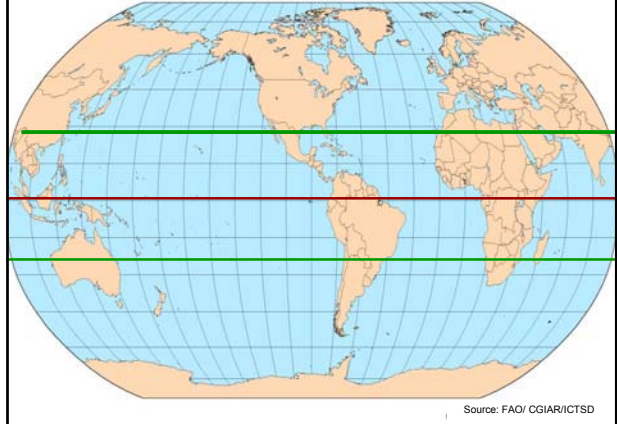


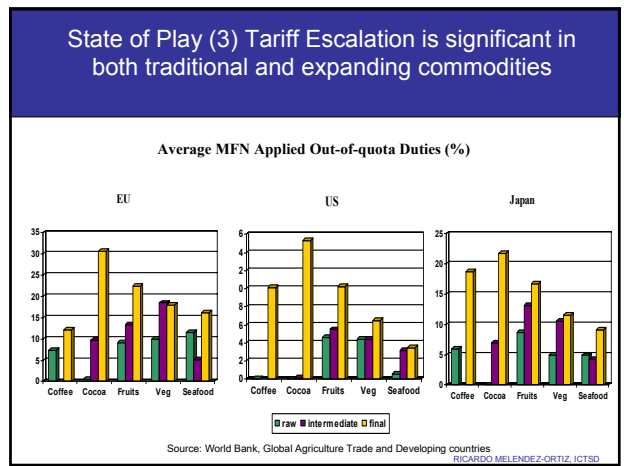
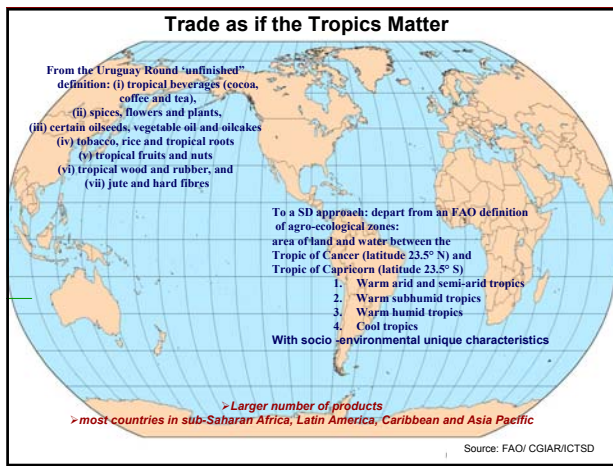
Source: Mario Jales, ICONE, Brazil

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Trade as if the Tropics Matter





I. Heterogeneity of developing countries Differences in Agro-ecological conditions

Regions	Arable land in use (million ha)	Arable land in use as % of potential
	1997 / 99	1997 / 99
Sub-Saharan Africa	228	22
Near East / North Africa	86	87
Latin America & the Caribbean	203	19
South Asia	207	94
East Asia	232	63

From: Hamon Thomas, FAO, Joint FAO/ICTSD experts dialogue on SDT in Agriculture
 Source: FAO, World Agriculture towards 2015 / 2030, 2003

Special and Sensitive products

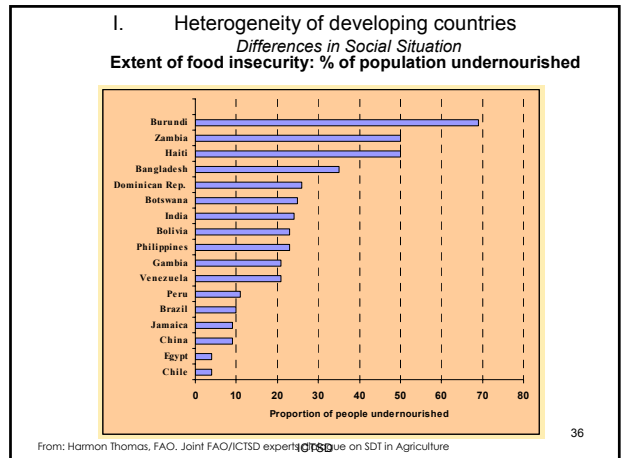
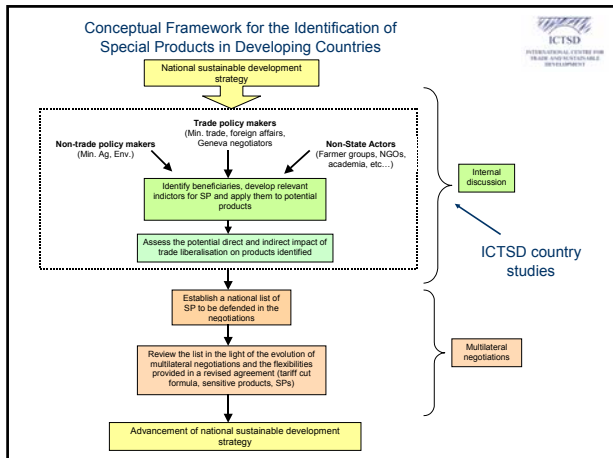
Special products

- Developing countries "will have the flexibility to designate an appropriate number of products as Special Products, based on criteria of food security, livelihood security and rural development needs. These products will be eligible for more flexible treatment. The criteria and treatment of these products will be further specified during the negotiation phase..." not the number, though.
- Although not explicit, understanding is that SP refer to defensive and not offensive interest. Remains to be specified whether productivity and competitiveness can factors in their determination.

Sensitive products

- Originated in treatment of 'rice' sensitivity during UR. All "Members may designate an appropriate number, to be negotiated, of tariff lines to be treated as sensitive..."
- Treatment is qualified by application of principle of 'substantial improvement' and details about mix of tariff quota commitments and tariff reductions to be applied to each product.
- Furthermore, "some MFN-based tariff quota expansion is required for all such products."
- Rules on deviation from the tariff formula "will be negotiated"

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I. Heterogeneity of developing countries

Differences in Social Situation

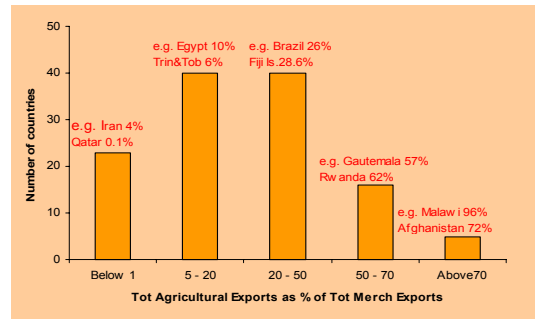
Extent of poverty: % population living on less than \$1 a day - Examples

Africa		Latin America & the Caribbean	
Nigeria	70.2	Honduras	40.5
Central African Republic	66.6	El Salvador	26.0
Madagascar	63.4	Ecuador	20.2
Burkina Faso	61.2	Paraguay	19.5
Sierra Leone	57.0	Venezuela	18.7
Gambia, The	53.7	Mexico	12.2
Zimbabwe	36.0	Brazil	9.0
Rwanda	35.7		
Botswana	33.3	Asia	
Ethiopia	31.3	India	44.2
Kenya	26.5	Nepal	37.7
Senegal	26.3	Pakistan	31.0
Tanzania	19.9	Bangladesh	29.1
South Africa	11.5	China	18.5

From: Harmon Thomas, FAO, Joint FAO/ICTSD experts dialogue on SDT in Agriculture
Source: World Bank, World Development Report 2000/2001

I. Heterogeneity of developing countries

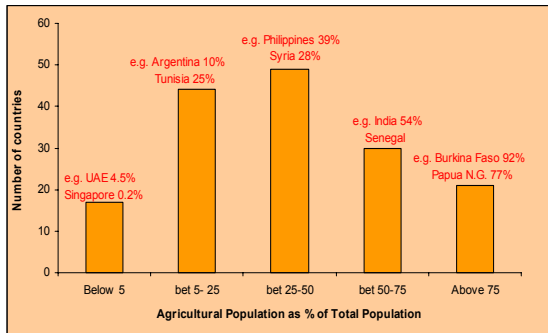
Trade structure: % agricultural products in total merchandise exports



From: Harmon Thomas, FAO, Joint FAO/ICTSD experts dialogue on SDT in Agriculture

I. Heterogeneity of developing countries

Structure of production: % population dependent on agriculture for livelihood



From: Harmon Thomas, FAO, Joint FAO/ICTSD experts dialogue on SDT in Agriculture

I. Heterogeneity of developing countries

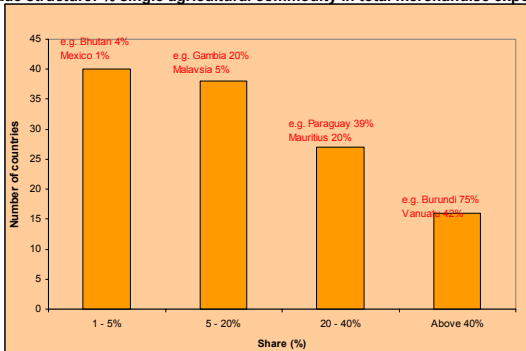
Stage of development/economic transformation: Per capita Gross National Income

Income classification	Income range	No. of developing countries	Examples of developing countries in the group
High Income	\$ 9076 and above	8	Top range – Hong Kong (China); Singapore Lower range – Bahrain; Macao (China)
Upper Middle Income	\$ 2936 - \$ 9075	28	At Upper range – Puerto Rico; Barbados In between – Brazil; Malaysia At Lower range – Botswana; Gabon
Lower Middle Income	\$ 735 - \$ 2935	44	At Upper range – South Africa; Turkey In between – Egypt; Peru At Lower range – China; Honduras
Low Income	Less than \$ 735	57	At Upper range – Eq. Guinea; Cote d'Ivoire In between – India; Indonesia At Lower range – Congo Dem. Rep.; Ethiopia

From: Harmon Thomas, FAO, Joint FAO/ICTSD experts dialogue on SDT in Agriculture Source: World Bank, FAOSTAT

I. Heterogeneity of developing countries

Trade structure: % single agricultural commodity in total merchandise exports



From: Harmon Thomas, FAO, Joint FAO/ICTSD experts dialogue on SDT in Agriculture

Implications for negotiating modalities on SP

- Diversity of situations calls for flexibility. A single definition will not do. Countries should be allowed to self-designate their SP within an agreed limit (eg. % of tariff lines).
- Indicators tested in the context of country studies should inform any discussion on indicators.
- While there might be an agreement on an illustrative list of indicators, there should be no uniform thresholds.
- Treatment: regardless of the size of the lists, there is a case for tariff reduction exemptions at least for some products.

Selecting SP: The Matrix Approach



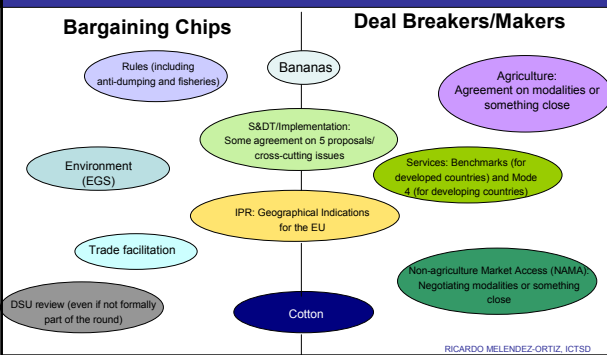
Product	Criteria											1.0		
	Food Security (0.35)			Livelihood Security / Rural Development (0.55)					Other Issues (0.1)					
Wheat														
Rice														
Maize														
Sugar														
Chicken meat														
Bovine meat														
Milk and dairy products														
Tomatoes														
Onions														
Potatoes														

A world according to G-90, 33 and 20, SOME ELEMENTS

- X competition:**
 - Reduced X subsidies within five years;
- Support:**
 - De-minimis support at present level for poor farmers.
 - Export surpluses only from limited products in Amber and Blue boxes. Elimination of trade-distorting subsidies on cotton.
 - Better monitoring of subsidies and support which negatively affect export prices; (e.g. cross-subsidies highlighted in the EU sugar dispute).
- Market Access:**
 - Significant cuts in tariff peaks and tariff escalation in OECD markets.
 - Flexible rules and commitments that allow domestic policies to address poverty, food security and sustainability concerns.
 - But uncertainty with respect to
 - Tropical products liberalisation at global level (selected OECD?)
 - Extent of South-South liberalisation;
 - Access conditions in upper income developing country markets
- Technical Assistance/ Capacity Building:**
 - Significant provision of new and additional finance x compensation of preference erosion and aid x trade

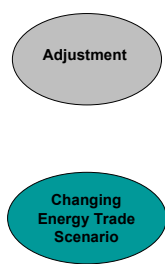
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Determining Success in Hong Kong: The Deal Breakers/Makers and the Bargaining Chips



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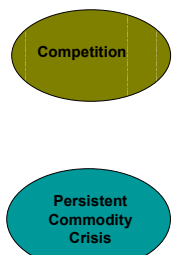
Unattended SD Challenges for the Multilateral Trading System...



- Anticipating economic, social and environmental **adjustment** associated with trade liberalisation - Lessons from textiles and RTAs/ US trade adjustment experience
- Potential for using the EU as a model for global economic integration - EU regional development funds • Key question: How can trade rules and agreements/negotiations support adjustment needs?
- Coverage of aid for trade
- Continuing volatility and high prices due in part to continuously high demand in US/Japan and increasing demand from China and India
- WTO Accessions of oil producers - Russia and OPEC. Implications for dual energy pricing and competition
- Carbon control (a) 2012 post-Kyoto scenario: border tax adjustment and other trade-related measures; (b) Gradual shift towards renewable energy: implications for subsidy regimes at the WTO

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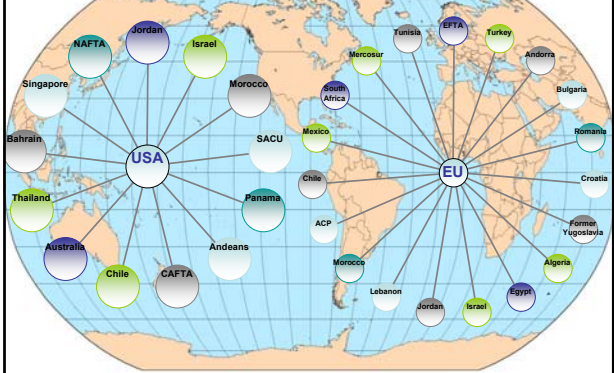
Unattended SD Challenges for the Multilateral Trading System...



- Market concentration in many WTO negotiating sector
- High market entry barriers for developing country producers and industries that are excluded from global/international value chains
- Anti-competitive effects of broad and deep IP standards - erosion of the public domain: obstacles to innovation/technological development
- Persistent inability of the global economy to deal with supply surges, long term decline and volatility of commodity prices.
- The role of STE and risk management instruments to reduce S-T volatility and promoting horizontal/vertical diversification and niche markets (e.g. fair trade, environmentally friendly products, certification, etc.)
- Re-introducing elements of supply management both at the national and international level.
- Tackle growing corporate concentration in commodity markets ensuring adequate returns to primary producers through competition policy, corporate accountability and improving bargaining powers of producers and workers.

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Unattended SD Challenges for the Multilateral Trading System: Rising tension within the trade regime



Source: USTR, EC

Unattended SD Challenges for the Multilateral Trading System: Rising tension within the trade regime

Evolution of FTAs since 1947

