



Trade and Multilateral Negotiations

POLICY NOTE

August 2002

Contents

1. Introduction
2. Trade and Sustainable Human Development
 - 2.1 Trade as a means not an end
 - 2.2 The two-way relationship between Trade and Human Development
 - 2.3 A pro-human development multilateral trade regime
 - 2.4 Capacity Strengthening
3. UNDP's Position on Future Multilateral Trade Negotiations
 - 3.1 WTO Agreements
 - 3.2 Governance and other cross-cutting issues
4. UNDP Support
 - 4.1 The Trade and Sustainable Human Development Report
 - 4.2 The joint UNCTAD and UNDP programme on Globalisation, Liberalisation and SHD
 - 4.3 The Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries
 - 4.4 The Asia-pacific Regional Initiative on Trade, Economic Governance and Human Development
5. Support from Headquarters
6. Links to Resources

Only through broad and sustained efforts to create a shared future, based upon our common humanity in all its diversity, can globalisation be made fully inclusive and equitable.

Millennium Declaration

1. Introduction

The rapid globalisation of production and finance, the spread of digital information technologies and the expanding reach of transnational corporations are leading to radical changes in patterns of trade and investment. Together with the creation of the World Trade Organisation (WTO), the trading regime confronting developing countries has grown in scope and complexity, providing both new opportunities and challenges.

While the choice made in Marrakech by the international community in favour of a rules-based system holds the promise of a more equitable trading regime, in reality many developing countries lack the capacity to effectively participate in the current system. Moreover, by moving the trade domain from border to non-border issues, such as intellectual property rights and environment, the new multilateral trading regime imposes sets of obligations on the developing countries which are often challenging to track and costly to implement.

As the Human Development Reports of 1999 and 2001 have emphasised, adaptation to this new competitive international environment and its governance structure has generated a need for enhanced technical assistance for upgrading legal and regulatory institutions, governance systems and supply-side capacities of developing countries. At the global level, UNDP needs to play a part in ensuring that the multilateral trading system is fair, transparent and participatory. At the country level, UNDP should play a more active role than it has in the past in assisting programme countries to derive the maximum developmental benefits from trade, while minimising the costs which are also associated with more openness.

The growing significance of trade.

- Rising trade and Foreign Direct investment (FDI) have contributed powerfully to the world's growth for much of the 1990s.
- While the world GDP has grown at 1.1% per annum during 1990-99, the share of exports of goods and services in GDP has grown faster, rising from 19% in 1990 to 27% in 1999. This means that more than one fourth of goods and services produced each year is traded on the international markets.
- The growth in FDI has been even faster, topping US\$ 637 billion in 1998, of which US\$ 155 billion were directed towards developing countries.
- While official development assistance (ODA) decreased from US\$ 45 billion in 1992 to US\$ 34 billion in 1998, FDI flows to twenty developing countries, in particular, have quintupled during the same period, opening new development perspectives for these countries.

Sources: HDR 1999 and UNCTAD Trade and Development Report, 2000.

2. Trade and Sustainable Human Development

2.1 Trade as a means not an end

Trade policy should therefore not be based on a market access perspective alone, since without strengthening supply capacities, developing countries will not reach a competitiveness threshold that will enable them to gain market shares and move into higher value added activities. Furthermore, while enhanced access to industrialised country markets for goods and services of particular interest to developing countries can be considered an important component of a sustainable human development strategy, such a strategy must also be supplemented by a mix of domestic policy measures that create an enabling environment and increase competitiveness. Likewise at the global level, reforms to ensure a fairer and more equitable multilateral trading regime are needed.

2.2 The two-way relationship between Trade and Human Development

The relationship between human development and increased international trade and the revenues it brings should be perceived as a two-way process. The role of trade revenue should be to contribute to human development strategies and outcomes but a minimum human development threshold is also a prerequisite for a country to integrate into the global economy and benefit from it. From this perspective, sustainable and “decent work” opportunities, minimised wage differentials across different social (e.g., gender) categories, equity in asset distribution and equitable access to health and education are therefore, ideally, both a prerequisite and tangible outcome of appropriate and successful international trade strategies and policies.

2.3 A pro-human development multilateral trade regime

A human development oriented multilateral trade regime should recognise that different countries are at very different levels and capacities of development and that the development needs and priorities of developing countries should be at the core. This will imply, among other things, that the already accepted cross-cutting principle of special and differential (S&D) treatment will need to be given substance and made operational. Standard setting at the international level will also need to take place with the full participation of developing countries, showing awareness of and catering to their very different levels of development. It is only under such a multilateral trade regime that developing countries will be able to genuinely participate in, rather than being uncritically integrated into, the global trading system.

2.4 Capacity Strengthening

Developing and industrialised countries have vastly different capacities, constraints and potentials to benefit from the current world trade regime. As such, a priority must be capacity strengthening of developing countries at the national, regional and global levels to mitigate this capacity imbalance.

At the national level, such an effort must simultaneously prioritise both the strengthening of a country’s human, institutional, productive and intellectual abilities and their equitable distribution across different social sectors. Such national level capacity strengthening efforts will need to be complemented by capacity strengthening at the extra-national level. For example, there is both a need to strengthen the collective negotiating capacities of developing countries at the regional and international levels, and to create or strengthen, as appropriate, regional or “like-situation” developing country groupings which are appropriate to their member’s needs. It is important to note that both national and extra-national capacity strengthening efforts will require an enabling multilateral trade regime which acknowledges the right of countries to design their own institutions, keeping in mind their particular development needs, history, culture and social arrangements.

3. UNDP’s Position on Future Multilateral Trade Negotiations

To establish a strong and broad-based commitment to a new development agenda, in which human development and the eradication of poverty are inherent, requires UNDP to address and re-formulate some widely accepted shortfalls in the current trading system. Broadly, it is important to:

- § Ensure that development objectives are the basis for the rules and principles of the multilateral trading regime.
- § Urge developed countries to fully implement the commitments made during the Uruguay Round on issues of interest to developing countries (i.e., abolition of agricultural export

subsidies and removal of tariffs on all goods and services of interest to the developing countries.)

- § Review and reformulate agreements on standards, customs, intellectual property rights, anti-dumping, and subsidies to make them more developmentally friendly.
- § Strengthen and operationalise the 'special and differential treatment' conditions, with a view to making them binding.
- § Assess the cost of implementation of prior agreements and of new agreements and solicit support – both technical and financial – which should be given to those countries that lack the resources to undergo the changes required of them.
- § Refrain from placing additional issues on the world trading agenda until the implementation issues from the Uruguay Round are adequately dealt with.
- § Advocate a change in the system and culture of decision-making at WTO, encouraging it to become more transparent and facilitate full participation by developing countries.

Specifically, UNDP should provide support to programme countries in building their negotiating positions in the following strategic areas:

3.1 WTO Agreements

3.1.1 Agricultural products. The Uruguay Round focused heavily on liberalising tariffs on manufacturing. However, it did little to reduce protection in agriculture, a sector in which many developing countries have a comparative advantage. For example, in advanced industrial countries, while the production-weighted average nominal rate of trade assistance to manufacturing and other primary industries is a mere 2 percent, that for agriculture remains at 33 percent.

To reverse current trends, UNDP urges for a discontinuation of the tariffication of agricultural quotas and a reduction of tariffs on all developing countries' agricultural exports; phase out of all agricultural export subsidies and domestic support; and provision of special and preferential treatment for developing countries, ensuring that the particular problems of predominantly agrarian, small island and net food-importing developing countries are captured within WTO rules.

3.1.2 Industrial tariffs. Since the Uruguay Round, while the average Most Favoured Nation (MFN)¹ tariff rate has declined to less than 4% in the major industrialised countries, the level and frequency of tariffs remains a matter of concern in a number of key sectors that are of export interest to the developing countries. For example, frequent tariff peaks and tariff escalation still apply to agricultural products, clothing and textile sectors, footwear, leather and leather goods and some capital-intensive goods originating from the developing countries.

Tariff progressions from raw materials to intermediate products, sometimes peaking for finished industrial products, restrict export opportunities and hamper vertical diversification and industrialisation in the developing countries. Therefore, the reduction and elimination of tariff peaks and tariff escalation is of the highest priority. Correspondingly, achieving punctual and complete removal of the Multi Fibre Agreement (MFA) by the end of 2004 and limiting the replacement of the MFA by other trade restricting measure, such as anti-dumping should not be overlooked.

¹ Under the Most Favoured Nation clause, contracting parties to the GATT agreement are bound to grant each other treatment as favourable as they extend to any other country regarding the application of import and export duties and other trade regulations.

3.1.3 Services. Over the years, despite the many initiatives to open trade and capital markets, there has never been a comparable liberalisation with regard to the movement of persons between countries. While movement of skilled labour may exacerbate the so-called brain drain, however, in services where developing countries have a comparative advantage (such as, transport and construction) and where there is a surplus labour, seeking temporary free movement of labour can provide a large source of foreign exchange and employment for developing countries. Therefore, the General Agreement on Trade and Services should be expanded to include “the movement of natural persons” for short-term overseas employment.

Furthermore, given that in general developing countries are not as competitive as the developed countries in the services sector and are therefore demanders in this area, developing countries should seek trade-offs in other sectors – such as agriculture - for any concessions made in the services sector.

3.1.4 Reforming trade-related intellectual property rights (TRIPS). Under the current rules, almost all knowledge-based production from medicine to information communication technologies is subject to intellectual protection. Controls under the TRIPS agreement have raised the price of technology transfer constraining domestic policy choices and disproportionately impacting the poor and the most vulnerable. As the recent HIV-AIDS case has aptly demonstrated care should be taken to ensure the availability of technology and medicines without unduly affecting the incentive to innovate and introduce new products.

To balance the rights of patent holders with the development objectives of the developing countries requires judgement on several pending issues: First, agreement on the interpretation of broad terms (“social and economic development” etc.) used in the text as well as resolution of the ambiguities of the exceptions allowed for development and public health needs. Second, insurance of adequate assistance given to developing countries in their implementation of TRIPS. As part of this, the transfer of technology and the provisions allowing developing countries to prioritise their development objectives need to be encouraged and operationalized. Third, provision of protection for indigenous knowledge. Finally, a review of TRIPS with respect to sections on protection of life forms, public health issues, and access to new research, especially for the least developed countries.

3.1.5 Removing obstacles to the implementation of the existing agreements. Anti-dumping actions, the application of rules of origin and health and phytosanitary standards are increasingly used for protectionist measures. Future negotiations should introduce further disciplines to obviate the use of such practices and to preclude the introduction of other forms of non-tariff barriers to the exports of developing countries.

3.2 Governance and other cross-cutting issues

3.2.1 Improving the governance of WTO. UNDP supports the position of developing countries in making the WTO more responsive to their needs. To create an atmosphere of trust and confidence in the multilateral trading system, progress needs to be encouraged on several fronts: (a) improvement in overall representation and participation, in particular of LDCs in global trade policy making; (b) enhancement of accountability and transparency of decisions made; and (3) strengthening of the dispute settlement mechanism and the support given to the developing countries.

3.2.2 Special and Differential Treatment. Already in the Uruguay Round there was some recognition of the need to have different time-frames for countries at different stage of development (for e.g., in agriculture the implementation period for countries to adjust their domestic rules and regulations to conform to WTO agreements was 6 years for developed countries, 10 years for developing countries and the least-developed countries were exempt). Experience however shows that these categories are too narrow in their application. Many poor, landlocked, small islands, and heavily indebted countries are barely in a better situation than the least developed countries. In addressing the challenges faced by these and other developing countries, the principle of special and differential treatment will therefore need to

be more flexible and extended to all low-income countries. This could include for e.g., (1) itemising the special problems that low-income countries of various types face in integrating themselves more fully into the trading system; (2) assessing the implications for special treatment, for e.g., flexibility in terms of timeframes and modalities of implementation, as well as the financial and technical assistance needed for compliance; and (3) codifying and making binding the various forms of special and differential treatments agreed to in multilateral trading agreements.

3.2.3 Recognition of the costs involved. An accurate assessment of costs associated with implementation of current and future rules and standards should be calculated and support – both technical and financial – should be given to the developing countries in order to adjust their legal and institutional frameworks. To ensure that developing countries benefit from greater market access, consideration should also be given to supply side constraints that limit the ability of these countries to effectively participate in the current system.

Multi-donor programmes, such as the Integrated Framework (IF) for Trade-related Technical Assistance which help mainstream trade within poverty reduction strategies of the LDCs should be further strengthened and more resources made available. The geographical scope of the IF should also be redefined in order to include other developing countries, particularly countries of Africa, small island states, landlocked and transit developing countries.

4. UNDP Support

The following programmes are among the instruments that UNDP can use to strengthen developing countries' position in the multilateral trading system in a manner supportive of human development.

4.1 The Trade and Sustainable Human Development Report

The programme has three interrelated objectives: (1) To assist developing country governments and their organisations of civil society in ensuring that their countries can strategically seize the opportunities of global economic and trade integration for advancing national progress in human development and poverty eradication. (2) To strengthen the participation and substantive negotiating and advocacy positions of developing countries in both the debates and negotiations on the emerging global trading regime. (3) To present a UNDP position on the current human development outcomes of the global trading regime and the positive agenda of reforms needed in the global governance of trade to make it more inclusive and fair so that trade can serve as an instrument for enhancing human development and poverty eradication goals.

4.2 The joint UNCTAD and UNDP programme on Globalisation, Liberalisation and SHD

The main objective of the programme is to enhance the ability of developing countries, especially, low-income countries, to manage their economic integration into the global economy in a manner supportive of SHD. During the first phase of the programme, eight national diagnostic studies were carried out outlining the problems faced by these countries in their integration into the global economy. Building on these studies, during phase II, national programmes of action will be prepared and implemented. These action programmes will aim at strengthening national capacities for trade negotiation, improving competitiveness, and mitigating the negative impact of external shocks on the social sector. In addition, the programme will cover eight new countries.

4.3 The Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries

As manager of the Integrated Framework (IF) trust fund, UNDP works with the IMF, ITC, UNCTAD, the World Bank and the WTO to help upgrade the production and export capacities and capabilities of LDCs. Specifically, the programme aims at mainstreaming trade within national development objectives of the LDCs; accelerating the integration of these countries into the multilateral trading system and the global economy; and developing national capacities, e.g., improving knowledge and building expertise on the multilateral trading system, facilitating trade, developing skills for trade negotiation and trade policy formulation and regional integration in ways consistent with the multilateral trade system. To date, three pilot countries (Cambodia, Madagascar and Mauritania)

have undertaken trade diagnostic studies. The implementation of the IF Pilot scheme has been a valuable learning process. The IF experience has highlighted: (a) the importance of broad-based participation and ownership of trade policies and national development strategies, (b) the need to formulate a coherent policy and adopt a clear and focused strategic aim (i.e., a national vision), and (c) the significance of capacity-building, as well as, follow-up and funding. Meanwhile, sectoral projects are being developed in five countries (Bangladesh, The Gambia, Haiti, Tanzania and Uganda). For 2002, the IF work programme is expected to include eleven additional countries (Burundi, Djibouti, Ethiopia, Eritrea, Guinea, Lesotho, Malawi, Mali, Nepal, Senegal, and Yemen).

4.4 The Asia-pacific Regional Initiative on Trade, Economic Governance and Human Development

This programme is intended (1) to facilitate the cross-fertilisation of experiences and lessons learnt on trade, investment and economic governance in the Asia-Pacific region and to develop appropriate policy responses through a lens of sustainable human development and poverty reduction; (2) to help strengthen the negotiating and advocacy positions of these countries on issues emerging in regional and global trading debates; and (3) to advance the interests and priorities of the poor and marginalized and to further human development values and objectives for poverty reduction.

5. Support from Headquarters

After a phase of building our capacities, UNDP is now well equipped to advise programme countries on issues related to managing their integration in a rapidly globalising economy. We have the tools and the expertise. The above TA global programmes are fully operational. UNDP has been designated by the IF agencies as the manager of the IF trust Fund. And we have expanded our human resources: three trade economists are located in BDP; five regional trade policy advisors have just been recruited and will be out-posted to the SURFs before the end of 2001; and 26 economists are in place in the COs.

These economists as well as experts and consultants working in the above mentioned programmes are available to help COs in identifying entry points for UNDP support as well as designing national programmes and projects that are coherent and mutually reinforcing with global and regional programmes.

6. Links to Resources

- q Bureau for Development Policy, United Nations Development Programme, E-discussion on Trade, <http://groups.undp.org/lyris/helper>
- q The Global Programme for Globalisation, Liberalisation and Sustainable Human Development, <http://www.unctad-undp.org>
- q United Nations Conference on Trade and Development, <http://www.unctad.org>
- q World Trade Organisation, WTO Trade Topics, http://www.wto.org/english/tratop_e/tratop_e.htm
- q International Trade Centre, <http://www.intracen.org>
- q International Centre for Trade and Sustainable Development, <http://www.ictsd.org>
- q Third World Network, <http://twinside.org.sg/>

[More links will be forthcoming.]