Unclassified **TD/TC(2006)16**

Organisation de Coopération et de Développement Economiques
Organisation for Economic Co-operation and Development **08-Dec-2006**

English text only

TRADE DIRECTORATE
TRADE COMMITTEE

TD/TC(2006)16
Unclassified

Cancels & replaces the same document of 28 November 2006

OECD GLOBAL FORUM ON TRADE: A TRADE POLICY DIALOGUE ON THE MULTIPLE DIMENSIONS OF MARKET ACCESS AND DEVELOPMENT

Rapporteur's Report

Mexico City, 23-24 October 2006

This report is being issued as part of the follow up to the Global Forum on Trade conference. It was prepared by Professor Simon Evenett, University of St. Gallen, Switzerland.

Contacts:
Mr. Simon Evenett, Tel: +41 71 224 2315, e-mail: simon.evenett@unisg.ch;
Mr. Raed Safadi, Tel: +33 1 45 24 19 09, email: raed.safadi@oecd.org

JT03219481

Document complet disponible sur OLIS dans son format d'origine
Complete document available on OLIS in its original format

English text only

A Report on the OECD Global Forum on Trade on

A TRADE POLICY DIALOGUE ON THE MULTIPLE DIMENSIONS OF MARKET ACCESS AND DEVELOPMENT

held in Mexico City, Mexico, on 23-24 October 2006

by

Simon J. Evenett, Rapporteur[1]

Executive Summary

WTO members have attached considerable importance to improving market access during the course of the Doha Round of multilateral trade negotiations. Reciprocal improvements in market access are expected to yield substantial gains to participating nations. This Global Forum was convened to examine important aspects of market access and its liberalisation and also provided an opportunity for taking stock at a critical juncture of the Doha Round.

After the introductory and welcoming remarks by senior Mexican and OECD officials, this OECD Global Forum was organised into five panels which examined market access in its three principal forms (agricultural products, industrial products, and services), the relative importance of trade between similar and different levels of development, liberalisation in the context of regional trade agreements (RTAs), and the relationship between the market access negotiations and the status of the Doha Round negotiations. In addition, a number of observations were made about the latter during this two-day long OECD Global Forum.

The participants who attended this OECD Global Forum were drawn from OECD Member governments, non-member governments (a good number of which were represented by their Ambassador or Permanent Representative to the World Trade Organisation, WTO), officials from other international organisations, representatives of business associations and non-governmental organisations, and academics. This Global Forum was organised in partnership with the World Bank and with the generous support of the Government of Mexico.

This report is organised into seven sections. What follows next is a summary of the opening remarks. Then the principal matters raised in each of the five panels are described in separate sections. The seventh and final section contains a few concluding observations.

---

[1] Professor of International Trade and Economic Development, University of St. Gallen, Switzerland. Email address: simon.evenett@unisg.ch. Further contact information can be found at www.evenett.com. The contents of this report need not necessarily represent the views of the OECD, its Member States, or any of the participants in this Global Forum. All errors and the like are solely my responsibility.

I. The Opening Remarks made at this OECD Global Forum

1. This OECD Global Forum was inaugurated with remarks given by Mr. Alberto Ortega, Head, Office of Public Policy, Office of the President, Mexico, and by Mr. Richard Hecklinger, Deputy Secretary-General, OECD. After welcoming the Forum's participants to Mexico City and thanking the organisers and sponsors of this event, Mr. Ortega began by describing the considerable benefits that Mexico had enjoyed from opening its borders and then dwelt on the trade strategies of Mexico and other developing countries. During the last 20 years Mexico has joined the General Agreement on Tariffs and Trade (GATT) and concluded 12 RTAs with trading partners. These latter agreements have given Mexican exporters preferential access to over a billion consumers, some of whom have the highest levels of spending power in the world. Mexican firms have capitalised on these opportunities and currently exports are growing twice as fast as national income. Exports now account for 30% of Mexican national income, a level which is well above the average for Latin America. Mexican workers have also benefited from this opening and the fact that exporting firms pay 38% higher wages than domestic firms was offered as evidence of this. Lower prices and greater choice were important sources of gains for Mexicans too. Trade, however, is a two-way street, Mr. Ortega remarked. Foreign direct investment into Mexico has provided commercial opportunities for trading partners, as have lower Mexican tariffs.

2. Mexico remains fully committed to the multilateral trading system and to the completion of the Doha Round, Mr. Ortega said. In addition to negotiating improvements in market access, the WTO was the only forum where discussions on certain subjects, including agricultural subsidies and antidumping, could take place. Mr. Ortega urged WTO members to overcome the present impasse and reminded participants of World Bank estimates on the income gains and the number of millions of people that are likely to be lifted out of poverty should the Doha Round be concluded.

3. The importance of devising a coherent trade strategy for developing countries was stressed. Mexico had pursued unilateralism, regionalism, and multilateralism. The expansion of the European Union as well as the proliferation of RTAs are processes that countries like Mexico could not ignore, it was said. Developing countries, like Mexico, need to harness these regional dynamics to their own ends. Information is an important input into strategy formulation and Mr. Ortega noted the useful work that the OECD has done on non-tariff barriers and on services. Trade and domestic reform should, therefore, not just be a phenomenon unique to industrialised countries, much is to be gained by developing countries from their own reforms and from liberalising South-South trade.

4. After thanking the Government of Mexico for their hospitality and support for this OECD Global Forum, Mr. Hecklinger urged participants to undertake a risk assessment of what would happen if the Doha Round is not completed soon. It being understood that good economics, such as Mexico's embrace of the multilateral trading system, alone is no guarantee of good policies being adopted. Trade reform, like many other areas of public policy, has distributional consequences and this can slow down reform. Why? The costs of reform, it was argued, are borne immediately and the benefits are often diffused and reaped over the longer term. Even adjustments can appear very costly to decision-makers. Innovative solutions need to be found, especially in sensitive sectors such as agriculture. Means should be found to attain social goals without distorting trade or the benefits of important liberalising initiatives, such as the successful conclusion of the Doha Development Round, will not come to pass. The stakes involved are not small. OECD studies have shown that the welfare gains from improved market access in goods alone could be worth up to USD 68 billion. Moreover, Mr. Hecklinger noted, the gains from service sector liberalisation could be five times larger, suggesting there is a substantial opportunity costs from deferring trade reform.

5. Mr. Hecklinger pointed to some of the risks should the Doha Round not be completed. First, there might be the temptation to bring some very sensitive dispute settlement cases which might end up

undermining support for the rules-based system. Second, any erosion of the WTO might presage a backlash against globalisation. And, third, being unable to complete the Doha Round would mean the international community effectively forgoing a tool to raise many people out of poverty. A grand bargain is needed to avoid this fate, it was argued. This Global Forum could provide an opportunity for OECD and non-OECD countries to engage in a broad-based dialogue about what that bargain might entail and on market access-related factors in particular.

II. Multilateral Liberalisation: A Summary of Session One

6. This session began with some remarks from its chairman, Ambassador Crawford Falconer. (Ambassador Falconer also serves as Chairman of the OECD's Trade Committee.) He reminded participants that the Doha Round negotiations were formally suspended and that trade diplomats were supposed to be engaging in open-ended diplomacy. Participants were urged to avoid reiterating known positions, to take risks and, if necessary, to articulate what where the real challenges facing the multilateral trading system lay.

7. Ambassador Falconer offered a number of observations on the state of the Doha Round negotiations. The suspension of the negotiations in July 2006 had made clear that the Round could fail. Even though no such Round has failed in the past, there was no guarantee of success. This observation should shake anyone out of complacency about the state of the Doha Round. The possibility of failure and its consequences (which he said would include the erosion of the multilateral trading system) requires sober reflection. That said, he doubted that the fear of failure could be effectively used to persuade all WTO members to conclude a deal. Indeed, from a political perspective, the choice appeared to be between the cost of the additional steps necessary to complete the Doha Development Agenda (DDA) and the costs of failure that would become more prominent three to five years from now.

8. The need to align the underlying reality of reforms by WTO members with their multilateral obligations was stressed. Leading trading partners, such as the European Union and Japan, were undergoing reforms of their agricultural sectors, although not necessarily at the pace that others might like. The U.S. administration has repeatedly stated its wish to reform agricultural arrangements there. Many developing countries have, or are in the process of, reforming their agricultural sectors. Similar patterns of reform can be found in services and industrial tariffs. WTO members, then, appear to be willing to reform but not to codify those reforms in legal bindings. In the light of these circumstances the critical question is what can be done to conclude a deal? Deadlines and the like are not helpful. Instead, room for manoeuvre by leading WTO members should be identified and used to clinch an agreement. He acknowledged that this might be easier in some negotiating areas than in others.

9. The first presenter in this panel was an official from a multilateral development bank. This speaker started by putting multilateral trade liberalisation in its appropriate context, especially from the perspective of developing countries. Tariff cutting in trade rounds had been very successful in reducing tariffs on trade in non-agricultural products between industrial countries. Special and differential treatment provisions and the like, which have applied in differing degrees in most prior rounds, allowed developing countries to avoid making significant commitments to liberalise. This outcome also accounts for the relatively higher average tariffs that developing countries' exporters face, as only those nations prepared to cut their own tariffs found trading partners willing to cut trade barriers on goods of interest to their export interests. Bystanders, it was argued, effectively paid a price.

10. While developing countries may not have been prepared to lower tariffs in multilateral trade rounds, they have engaged in substantial amounts of unilateral trade reform. Since 1982 the average tariff applied to imports entering developing countries has fallen 23 percentage points. Moreover, 65% of tariff

liberalisation during the years 1982 to 2005 was said to be due to unilateral liberalisation (sometimes as part of International Monetary Fund or World Bank programmes.) In contrast, 25% of the liberalisation occurred due to multilateral trade accords coming into force, and 10% as a result of signing RTAs. In sum, liberalisation by developing countries of trade barriers started before the Doha Round and has been continuing since 2001. Like the Chairman of this session, this speaker agreed that there was a disconnect between trade policy developments in WTO members and those in Geneva.

11. With respect to completing the Doha Round, this presenter argued that it was important to consider what was currently "on the table" in July 2006. He argued that, compared to the Uruguay Round, what has already been agreed in the Doha Round was a substantial advance, especially in agriculture. Conceding that the current package paled in comparison to global free trade, nevertheless it represents an important move in the right direction. He cited evidence of the total benefits of implementing the current package of approximately USD 110-120 billion, which is about a third of the estimated benefits of moving to global free trade. Having said this he noted, however, that the former benefits collapse to USD 67 billion if many flexibilities for special and sensitive products and for exemptions and exceptions are introduced. The latter would reduce the gains to developing countries to USD 20 billion. This is still positive but, it was argued, far less than multilateral trade negotiations can accomplish.

12. Whether it was worth completing the Doha Round was the final topic that this speaker dwelt on. It was important to recall the so-called bicycle theory of protectionism, which asserts that forward momentum of cutting trade barriers must be preserved so as to keep protectionist interests at bay. The alternative to concluding the Doha Round is not, therefore, the status quo. Complacency could be very dangerous and the recoveries from previously failed WTO Ministerial Conferences should not offer any comfort. This speaker argued that circumstances had changed, with new and important players joining the negotiations for the first time. The cost of failure would be very high indeed.

13. The second presenter in this session was an Ambassador to the WTO from a Least Developed Country (LDC). This speaker offered his perspective on the effects of trade liberalisation and argued that he was not against trade reform *per se*, just when such reforms go too far and too fast. He noted that countries might not even gain from trade reform in the long run and cited a relatively recent article by Professor Paul A. Samuelson in support of his position. Moreover other factors, such as large unanticipated terms-of-trade changes, could swamp the benefits of trade reform. It was also argued that a country cannot benefit from trade reform unless it had internationally competitive export sectors, which take time to nurture.

14. With respect to multilateral trade rules it was noted that they were put in place after the major trading powers had industrialised. The latter, it was argued, still set the rules to meet their own needs. Developing countries have now come forward, most effectively in the context of the G20, to stop the domination by these trading powers. Developing countries are looking after their defensive and offensive interests and recognise that this may not lead to trade reforms. The addition of development to the WTO's agenda in this trade round represents a change but it was proving hard to fulfil this mandate.

15. Non-tariff barriers and trade in services were two other subjects that this presenter spoke about. He argued that it was better to refer to non-tariff barriers as non-tariff measures, a far more neutral term. This was appropriate given that work on such measures was still in its infancy and could not support strong judgements. (He noted that even today no satisfactory taxonomy of such measures has been developed.) More generally, methodologies to assess measures should be developed. This would be of interest to developing countries, not lead because, according to a recent WTO study, LDCs faced a number of non-tariff measures when exporting to industrialised countries.

16. Reform to mode four, which concerns the temporary movement of persons across borders, have the potential to substantially benefit developing countries, it was said. Gains of USD 150-300 billion could be obtained if OECD nations allowed up to 3% of their labour force needs to be supplied by developing countries. As this estimate was far in excess of the gains from other forms of multilateral trade liberalisation, more effort should be spent on mode four reforms, even though it was a difficult subject for some. In sum, greater emphasis on these matters plus a deeper understanding of the circumstances facing developing countries would advance deliberations on the multilateral trading system.

17. A wide-ranging discussion among participants followed. One Ambassador to the WTO from an African country argued that this was a government-driven negotiating round and not a business-led one. Moreover, the difficulty in concluding the Doha Round lay at home as certain governments were unwilling to jeopardise the support of some influential constituencies. Another participant asked if the alternative to the Doha Round was more RTAs and whether one challenge the WTO faces arises from the fact that its decision-making procedures had not been adapted to its larger and more diverse membership. One Ambassador from a Central American nation felt that the G20 had introduced unnecessary North-South disagreement into the negotiations, that bore no relation to the underlying trade flows. Some developing countries, it was noted, were demandeurs of this Round, recognising that free trade been beneficial for them. Moreover, concerns about proliferating regionalism provided yet another reason for concluding the Doha Round, so as to narrow preference margins.

18. Some participants considered what steps might take the Doha Round negotiations forward. Positions on this matter were, perhaps unsurprisingly, not aligned. One Ambassador called for much more flexibility from the United States and the European Union on agriculture, and that developing countries should move further on market access in goods. An enormous effort was needed, it was argued, on special products, the special safeguard mechanism, and on non-agricultural market access. Another Ambassador from a developing country agreed that the U.S. and European position on agricultural matters must change. He also argued that negotiation on trade in services needed to accelerate, although codification of unilateral opening is the most likely final outcome. One representative from a leading industrial country argued that it was incorrect to view a smaller deal as necessarily easier to conclude. Moreover, discussions in Geneva were sometimes upside-down in that exceptions were emphasised rather than liberalisation. Even so, he felt that a deal was still possible if the hard and quiet work (as he put it) was done now. Finally, one participant argued that WTO members should conclude the negotiations with what had already been agreed, so preserving the multilateral trading system and, possibly, allowing for new negotiations to commence at a later date.

19. The Chairman of the OECD Trade Committee made a number of observations as he concluded this session. First, one theme implicit in the discussion in this session is whether the reciprocity-based system of trade negotiations still works. Any eventual failure of this Round would cast this system in a negative light. Second, he noted that few participants were prepared to discuss the costs of failure and wondered whether that was because WTO members think they could live with failure. After all, the world economy is growing quickly as is international trade. Such optimism is misplaced, he asserted, as there was the potential for some dispute settlement cases to polarise trading relations. Moreover, any erosion of the credibility of the WTO is not trivial. The fact that political leaders do not discuss these potential costs and related matters in itself raises interesting questions about process and procedure.

20. Thirdly, in terms of concluding the Doha Round, much depends on whether the current and expected agricultural programmes in the European Union and in the United States are in fact fixed points, as he put it. If so, much will depend on how much these programmes will actually change agricultural policies, on how others react to this and, by implication, on how far developing countries are prepared to open their industrial and agricultural goods markets. He did not feel that this was an overly complicated process. Yet,

he conceded that some may find these parameters too constraining and prefer to wait. In which case, in his view, negotiations are unlikely to resume before 2011, by which time circumstances may have changed markedly.

III. The Relative Importance of North-South and South-South Trade: A Summary of Session Two

21. The chairman of this session argued in his opening remarks that South-South trade was an important subject that had been under-researched and whose significance has not been fully appreciated by policymakers. A quarter of developing country exports go to other developing countries, and this proportion is growing over time despite the fact that, on average, poorer countries impose higher tariffs on each other's trade than richer countries do. The distortions created by these higher trade barriers are likely to become more important as the developing countries' combined share of the world economy grows. It was further argued that trade facilitation and logistics were important determinants of South-South trade and that reforms to them could have significant payoffs. Finding the right reform vehicle, however, was important as RTAs between developing countries had tended to produce disappointing results. Multilateral trade negotiations seem to have better prospects in this respect. Following these introductory remarks were two presentations, the first from an official from a developing country non-governmental organisation and the second from two OECD staff members.

22. The first speaker noted that South-South trade was rising but argued that it was lop-sided and that some small countries, in particular the LDCs, trade little with each other. Even so, there was a growing recognition of the need for greater cooperation among developing countries. Yet the provisions of South-South RTAs were neither deep nor comprehensive and the Indian-ASEAN RTA was given as an example. It was contended that this agreement contains many exemptions, some of which came at the prompting of influential Indian farmers groups. The rules of origin (ROO) in this agreement were said to be particularly restrictive, limiting market access gains. Little had been done to tackle non-tariff barriers and the specific example of measures to test fish imported into Calcutta was given. The end result of such measures was that higher prices were paid for fish by Indian consumers. Much South-South cooperation was in fact primarily motivated by diplomatic considerations, it was argued.

23. In contrast, RTAs between developing countries and industrial countries tended to go further. The future European Union-Indian negotiation on a RTA was likely to cover, in addition to traditional market access matters, competition policy, intellectual property rights, investment policies, trade facilitation measures, and public procurement policies. India, it was said, is likely to advocate liberalising mode four in services, although considerable political will would be needed to liberalise services in general in this RTA negotiation and in the others that India was involved with.

24. The first speaker argued the multilateralism remained the best option for developing countries. These countries should also promote coherence between their domestic policies and their trade policies, and this can probably be best accomplished by a coordinating unit in their Prime Minister's or President's office. This speaker concluded by stating that RTAs involving developing countries should include the liberalisation of the service sector.

25. Two OECD staff members then shared with participants the findings from their research on South-South trade in goods and services. The results of certain OECD studies circulated at the Global Forum were summarised. The first finding was that the impact of tariffs and transportation costs on trade flows between developing countries was greater for low income and lower middle income developing countries. A 10% fall in tariffs increases exports between developing countries by 1.6%. Similarly, a 10% cut in the distance between trading partners (which can effectively come about through improved transportation and trade facilitation infrastructures) would raise South-South trade by 17%. (The comparable increase in

North-North trade was estimated to be 10%, a noticeable difference.) It was argued that these findings implied that the "death of distance" in the global economy was much exaggerated. There was plenty of scope for reducing transportation costs between developing countries.

26. Estimates from Computable General Equilibrium models of the benefits of tariff reduction were offered too. Worldwide tariff elimination would raise world welfare by a total of USD 68 billion and 28% of those gains would come from the liberalisation of South-South trade. More than half of the gains from South-South tariff elimination would be captured by developing countries in Asia. More generally, 68% of these gains were realised from trade within each region (although this estimate falls to approximately 40% for Latin America and Africa.)

27. With respect to trade in services between developing countries, it was noted that less data of high quality is available. OECD data sources suggest that 10% of world services trade (mode one) is South-South, while 13% is North-South in nature. Data on tourist flows (which provides some indication of mode two service flows) indicate that a fifth relate to movements between developing countries. Data on foreign direct investment suggests that 36% of the world total refers to investments by developing countries in other developing countries (mode three). It was noted that there are no internationally comparable data to estimate South-South movements of natural persons (mode four). Estimates of the barriers to services trade have been undertaken by the OECD and suggest that developing countries are in general higher than their industrial country counterparts, with Asian nations and Russia having higher barriers than the Latin America and Caribbean nations.

28. The impact of barriers to service sector trade was then discussed. The third mode of trade in services, whose magnitude is proxied by foreign direct investment flows, appears to be less sensitive to international transportation costs than trade in industrial goods. The most important impact of service sector liberalisation was said to be on the performance of goods exporting firms, who buy plenty of services. The example of improved logistics was given and its beneficial effect on the exports of industrial products noted. Empirical studies imply that the effect of service sector reforms depend on the height of the initial barriers to trade and on the degree to which those barriers were cut. Small cuts in high trade barriers were found to have no effect; with these initial conditions only sizeable cuts generated a impact. This latter finding is of considerable policy importance given the high average level of developing country service sector barriers to trade mentioned earlier.

29. In the ensuing discussion several participants referred to the relative importance of North-South and South-South trade. One Ambassador from a developing country to the WTO noted that there was important variation across developing countries in the gains from South-South trade reform, according to the OECD study circulated at the Global Forum. A representative of a fast growing WTO member in East Asia made this point too. Another Ambassador said it was important to take into account non-tariff barriers (such as antidumping) when making these welfare calculations and was not sure that the OECD study did this. One Ambassador from an African country wondered if the discussion of South-South trade sought to divide developing countries at the WTO. He asked if the intention was to lower the defensive ambitions of developing countries in the Doha Round.

30. The service sector provisions in RTAs among developing countries attracted comment. One participant from a Middle Eastern country said these provisions and their effects were not well understood in his region. Another conceded that the omission of provisions on the temporary movement of persons in South-South RTAs was undesirable, especially given remittances between developing countries were so large. Other participants agreed that services were an important determinant of the export competitiveness of goods and that services embedded in goods were not counted towards the total level of services trade.

31. With respect to RTAs among developing countries some questioned whether they had all been unsuccessful. It was noted by one participant that Mexico's RTAs with seven Latin American countries had resulted in a four-fold increase in goods trade. Market size, it was said, was an important factor determining export response but so was the quality of national and regional infrastructures. The latter was also stressed by other Latin American participants.

32. In concluding the session the chairman drew five messages from the discussion. First, than an important part, indeed as much as half, of the gains from tariff liberalisation comes from liberalising trade among developing countries. This finding, it was said, was just as important for goods as it was for services trade. Second, over the next 10-20 years South-South trade will grow in importance. Third, although tariffs are important determinants of South-South trade, so are infrastructure, trade facilitation, and product standards. The next message is that, as North-South trade barriers are falling and transportation services between these countries operate well, there was a growing risk of hub-and-spoke relationships between certain industrialised and developing countries emerging. Finally, even though RTAs between developing countries could in principle free South-South trade, their record of doing so is on the whole quite weak. Progress, then, at the multilateral level becomes all the more important.

IV. Promoting Efficiency in Services: A Summary of Session Three

33. The chairman of this session noted that services were an important input to the manufacturing process and as a result influence export competitiveness. Logistic services were particularly important in this regard and the focus on these services in this session was appropriate. He noted that a Boeing 747 aeroplane contained approximately six million components which were supplied by 130 or so companies on a just-in-time basis, deliveries that must be supported by advanced logistics infrastructures. A Ford Motor Company factory in Canada that receives 300 deliveries every day was given as another example. This company requires deliveries within a 10 minute window, indicating just how important time has become as a determinant of corporate competitiveness. While outsourcing parts and components has provided companies in developing countries with a chance to join international supply chains, these potential suppliers can be frustrated by poor national logistics and other infrastructures. Reforms to administrative barriers to export (to speed up clearance procedures and to lighten regulatory burdens) are important too. The need for progress in this area contrasts poorly, the chairman said, with the quality of offers on logistics-related matters made in the service sector negotiations at the WTO.

34. The first speaker in this session, an OECD official, began by presenting estimates that showed that service sector barriers and inefficiencies effectively taxed the manufacturing sector in many developing countries. He referred to a study of 30 sectors in 17 developing nations, which included calculations of the Effective Rate of Protection of each sector once service sector barriers were taken into account. India's textile industry was found to be highly taxed (that is, its total value-added was considerably reduced) by service sector barriers and inefficiencies. These findings imply that a uniform reduction in tariffs on final goods would result in some sectors being effectively taxed and possibly shrinking compared to others.

35. This speaker also developed another theme, that is, as far as exporting is concerned “time is money.” Specific reference was made to the time it takes to import and to export a good. Evidence was cited from the World Bank's *Doing Business* survey. In Sub-Saharan Africa the average time taken for a good to leave a production facility and arrive at a port is 48 days (the comparable average for industrialised countries is 12.6 days.) It also takes on average 60.5 days to get goods through customs houses and ports in Sub-Saharan Africa. In total, then, a Sub-Saharan firm needs approximately 110 days on average to get a product to a port and through customs, which effectively excludes them from international production chains which emphasise timely delivery. Evidence from an empirical analysis of four industrialised countries was presented. It showed that a 10% reduction in a corruption index bolstered developing

country exports to these four destinations by between 10% and 45%. A 10% reduction in the time taken to export a good was estimated to raise trade by 8-28%. Price, then, is not the only determinant of competitiveness. Time-to-delivery and very narrow windows of acceptable variation in delivery times are important too.

36. Drawing together these findings the speaker noted there was an urgent case for logistics and associated reforms in developing countries. This was one reason why the trade facilitation agenda was important. The services negotiations at the WTO provide an opportunity for countries to make reforming commitments on logistics and this chance should not be lost. Bottlenecks that emerged should be addressed through Aid for Trade, it was said. Even if these steps cannot be taken on a nationwide basis, they should be implemented initially in special economic zones that are devoted to promoting exports. The speaker noted that logistics reform could be undertaken unilaterally but that there were also advantages to binding reforms within a WTO agreement.

37. The second speaker was a trade negotiator from a leading industrialised economy. He started by reiterating the importance of logistics and the supply side of economies to developing country export performance. In fact, logistics are part of an infrastructure suite (as he put it) comprising financial, communications, transportation, and energy services. For the best results all of these services should be liberalised. Yet there was opposition to doing precisely this. Such opposition, he argued, was based on two myths: first, that a shift to services was somehow an economic step backwards (perhaps from manufacturing-led growth) and that, secondly, that services sector liberalisation was tantamount to deregulation. Both misconceptions were belied by experience. The speaker gave the example of intra-Sub-Saharan African trade which was retarded by poor trade facilitation measures and associated services. The average time to ship a product from China to the United States of America was five days. In contrast, it takes 17 days and 49 days to ship a good from South Africa to Kenya and to Tanzania, respectively. These outcomes impede the development of South-South trade. More generally, he argued, countries with inefficient infrastructure suites are being more and more heavily penalised by the world economy.

38. The significance of the above factors were not appreciated in Geneva in multilateral trade negotiations, it was said. Express delivery services, for example, are not confined to urgent documents; micro-electronics producers ship their goods this way too. As well as facilitating the export competitiveness of a nation's companies, the express delivery sector is a major employer in its own right. In 2005 1.5 million people were employed in this sector in over 200 countries. The job-related impact of further investments in trade facilitation and in the liberalisation of this service sector is potentially very large. The current negotiations in the WTO provide an excellent opportunity to undertake and lock-in reforms in trade facilitation and in associated services, such as logistics. Indeed, he noted that these negotiations were going well and that interesting alliances between developing and industrialised countries had emerged. This was not a matter upon which the WTO membership divided along Northern and Southern lines.

39. In the discussions that followed the importance of logistics and the view that time-is-money was not questioned. Instead, several participants wondered why the presentations emphasised the trade facilitation negotiations at the WTO, potentially at the expense of the service sector talks. One participant asked why countries appeared reluctant to liberalise in the context of the General Agreement on Trade in Services (GATS). An Ambassador from a developing country argued that services are complex and heterogeneous and that inter-agency coordination was necessary for countries to come up with a negotiating position. Another WTO Ambassador noted that the positive list approach to service sector negotiations required governments to know in detail all of the regulations that apply in a given sector and that this was a particular problem in certain customs unions and in countries with multiple levels of government. Another

experienced trade negotiator wondered why the momentum acquired in the service sector negotiations in the WTO after the Hong Kong Ministerial Conference in December 2005 appeared to be lost.

40. Concerning trade facilitation, a number of speakers from developing countries were interested to learn more about the availability of aid to support the implementation of new multilateral commitments in this area. One speaker from an industrialised country said that he did not favour the creation of a separate fund. There was sufficient aid funds available for trade facilitation, this speaker argued, and the question was more one of improving coordination and coherence among donors so as to cover as many needs as possible. One developing country Ambassador to the WTO took a different view and argued that the status quo was unsatisfactory. The latter wondered if a review mechanism for aid commitments might be a step forward. An official from an international financial institution argued that, in his organisation's assessment, the funds needed to implement the currently proposed new multilateral commitments on trade facilitation was not unmanageable.

41. Before concluding the session, the chairman summarised what were for him the main points. The first was that time is not only money but it is becoming more expensive. Secondly, that export performance is markedly affected by the quality of logistics infrastructure seems widely accepted. However, the cost of improving such infrastructure should be taken into account and technical assistance and aid provided accordingly. Thirdly, the set of services that comprise logistics is defined widely and this is appropriate given the commercial realities on the ground. Yet he noted that some of the services involved are excluded from the GATS negotiations, such as air transport. Fourthly, that mode four remained an important priority for many countries and he hoped for a balanced outcome across modes in any eventual conclusion to the service sector negotiations at the WTO.

V. Regional Trade Liberalisation as a Complement to Multilateral Trade Reform: A Summary of Session Four

42. The chairman of this session began by posing a number of questions to the speakers and to the participants in general. Have RTAs yielded improved market access for developing countries to OECD markets, he asked. What were the experiences with RTAs between developing countries? He also asked if there were any adverse effects of RTAs, both for excluded trading partners and for the multilateral trading system as a whole. Turning to possible reforms, he wondered if anything could be done to improve the transparency of RTAs and to make them more complementary with the multilateral trading system.

43. The first speaker, an official from an international financial institution, advanced three principal arguments. First, that RTAs are proliferating and now may well cover up to a third of world trade. Second, that RTAs can create benefits for developing countries but this cannot be taken for granted. Developing countries must therefore carefully consider all of the provisions proposed for inclusion in a RTA. And, finally, that there are important systemic aspects of RTAs that should be given further consideration.

44. With respect to the proliferation of RTAs, it was argued that there are not the preserve of any one type of country. The proliferation of RTAs witnessed in recent years is due to some countries adopting a strategy of “competitive liberalisation,” the use of RTAs as a laboratory or precedent for multilateral rules, the ongoing contest to secure foreign direct investment (and the view that RTAs are a useful tool in this regard), the desire to lock-in reforms, and foreign policy considerations that encourage some nations to sign RTAs. This proliferation could in principal cover a sizeable proportion of world trade. However, participants were reminded that, once product lines with zero Most Favoured Nation (MFN) tariff rates were removed, only 20% of all trade was currently covered by RTAs. Moreover, the potential for RTAs to divert trade is greater in countries with larger MFN tariff rates, an observation that is relevant for certain developing countries.

45. In addition to tariff revenue losses and trade diversion, the tendency for many RTAs to include many other provisions alters the cost-benefit calculus for signatories, including developing countries. It was acknowledged that the coverage of non-tariff matters varied across subjects and RTAs. For example, as noted earlier, service sector provisions tended to be stronger in North-South RTAs than in agreements only among developing countries. The speaker cautioned that some provisions, in particular those relating to labour standards and to intellectual property, have more questionable value to developing countries. Stringent ROO were another potential source of concern. In all of these subjects, the details matter and negotiators need to pay careful attention to what their trading partners propose.

46. With respect to the systemic effects of RTAs, this speaker identified several factors at work in addition to the traditional concern about effectively discriminating against non-members to these agreements. Hub-and-spoke arrangements can develop to the detriment of weaker signatories, it was said. Complex ROO can overburden customs houses, with potential adverse knock-on effects for other trade. Finally, signing RTAs may discourage some countries from actively participating in multilateral trade liberalisation, perhaps motivated by the desire to preserve any preferential market access to major trading partners' markets. This speaker called on WTO members to complete the Doha Round and so reduce the value of preferential market access and to take steps to enhance the transparency of RTAs. He argued that industrialised countries had a systemic responsibility to lead on these matters and the RTAs that they sign should reflect this obligation.

47. The second speaker was an Ambassador to the WTO from a developing country that had signed many RTAs. The motivations for doing so included gaining better market access for their industrial and agricultural products, ease of negotiation (compared to a multilateral trade round), the desire to be rewarded for unilateral reforms and to minimise trade diversion against one's own exporters. This speaker went on to say that the disadvantages of the multilateral trading arena (its slow negotiations and the difficulties in agreeing new and stricter rules relevant to international commerce) meant that the cause of free trade needed other motors than the WTO and that RTAs were useful in this regard.

48. Making reference to his own country, which has signed over 50 RTAs, he noted that agreements do vary in comprehensiveness. Even so, trade with his country's RTA partners grows consistently faster than trade with other nations. Comprehensive RTAs, he argued, should include competition-related restraints on antidumping measures and steps to promote the temporary movement of business people, amongst others.

49. Concerning the systemic implications of RTAs, this speaker's starting point was that RTAs were a reality and it would stay that way. To avoid overburdening commerce it was suggested that common ROO be negotiated (perhaps at the WTO) and that clarification of the relevant multilateral provisions relating to RTAs should be undertaken. A best-practice or model provisions approach could be developed and be a useful way forward. Reforms in this area should seek to foster convergence in RTA provisions, it was said.

50. A third speaker, from a non-governmental organisation based in Latin America, began his contribution by noting that vested interests were the biggest obstacle to development. In the context of negotiating RTAs the actions of such interests should be carefully watched. The speaker argued that, if poorly managed, the level of corruption may actually increase when an RTA comes into force. Governments should take steps to promote transparency during such a negotiation, involving a broad base of civil society in discussions about ends and means. Better accords are likely to result from participatory and inclusive negotiating processes. At a minimum, better information flow will reduce suspicions about a government's negotiating strategy and the factors responsible for it.

51. In the ensuing discussion the consequences of signing many RTAs and the systemic effects of RTAs received plenty of attention. Since a country was willing to sign over 50 RTAs, which covered 98% of the

current trade, one participant asked why that country should not take the extra step and declare unilateral free trade. (The speaker in question replied that this had been discussed in his country and that the remaining tariff revenues collected were still a consideration in decision-making.) Another participant wondered if negotiating RTAs became easier the more a nation signed of them. (The speaker in question replied that this was in fact the case.) Another speaker, a leading trade negotiator from a Middle Eastern country, noted that his country's RTAs evolved over time and that distinct generations of agreements could be identified. Later RTAs included intellectual property rights provisions and these supported the innovative industries in his country.

52. One concern raised about RTAs is that they may provide for alternative forums to “shop” (as it was put by one speaker) for the resolution of international commercial disputes outside of the WTO. Another participant responded that to the extent that a RTA's provisions go beyond the relevant WTO agreement, this was not a concern. Others reiterated the call for more global rules on RTAs. One participant suggested embedding certain MFN clauses in RTAs, so that any future concessions must be given to existing RTA partners. It was argued that this proposal would reduce some of the discrimination created by RTAs.

VI. The Closing Session: A Summary of Session Five

53. This session was chaired by Ambassador Falconer, Chairman, Trade Committee, OECD and comprised of a short summary of the Global Forum by the Rapporteur followed by closing statements from six senior officials. As this Report elaborates upon what was said by the Rapporteur, in what follows only the key remarks made by other speakers in this panel are summarised.

54. The first senior official to speak, a representative of a leading international financial institution, stated certain facts concerning the Doha Round and offered some interpretations of them. Global integration continues with many developing countries actively participating in this process, he said. Liberalisation of economies and trade regimes was being pursued using a number of vehicles, not just the WTO. Those alternative vehicles have generated deeper reforms than that accomplished in the WTO. In many respects, he argued, the WTO is the follower, the consolidator, of reforms and not its instigator and innovator. This is not to denigrate the accomplishments or potential of the WTO, whose functions in dispute settlement, transparency, and information exchange remain important. As far as the Doha Round negotiations are concerned, he is in favour of a modest deal which, it was argued, was better than no deal at all. A mind-shift away from mercantilism would facilitate reaching an agreement and he suggested that the more active involvement of finance ministries might be helpful in this respect.

55. The second senior official to speak was an Ambassador to the WTO from an OECD Member. This speaker noted that, for all the talk about agricultural trade reform, it was widely accepted that this alone will not reduce poverty in the developing world. A broader agenda of reforms, including trade in services and in industrial products, should be negotiated. Having said that, for this speaker's taste the so-called 20-20-20 proposal to conclude the Doha Round is too ambitious. Concluding the Round was still possible in his view. Finally, the Aid for Trade initiative should be implemented as soon as possible and independently of other developments in the Doha Round.

56. The next speaker was a former Ambassador to the WTO from an OECD Member. This speaker noted that during this Round not all WTO members were convinced of the need to expand multilateral trade rules. In his view, the loss of the Singapore Issues was unfortunate as it deprived the Round of one potentially balanced outcome. Relatedly, the level of liberalising ambition in this Round is far in excess of the Uruguay Round. Given the evident resistance to this level of ambition it will almost certainly have to be rethought, he said. Furthermore, the term “development round” has generated the wrong expectations

and it was said that some WTO members may have concluded that they could get something for nothing in this Round. Maintaining the principle of reciprocity in negotiations was desirable.

57. Concerning the current state of the Doha Round negotiations, he noted that the dynamic created by the events of 11 September 2001 had abated. Worse, the invasion of Iraq was said to have divided nations and sapped the cooperative spirit. The current inertia was not desirable and measures should be taken to overcome it. One measure at the international level that should be implemented is Aid for Trade. Domestically, however, it was incumbent on policymakers to promote efficiency through greater competition. Better resource use and higher productivity would make populations more comfortable with market forces. In this regard, pursuing unilateral domestic and trade reforms is critical. In short, the solutions to the current impasse are not just to be found in Geneva.

58. The fourth senior official to speak was an Ambassador to the WTO from a Least Developed Country. He noted that nations behaviour at the WTO was best thought of as advancing and defending their interests and not as seeking how to maximise the gains for the global economy. If it were the latter, he contended, then officials would have spent much more time on the service sector negotiations than on the agricultural trade negotiations. When thinking through their interests, he argued, countries realise that the capacity to export is an important determinant of whether the opportunities created by trade reform can be exploited. This capacity requires entrepreneurial talent and takes time to develop. Trade policy may, therefore, be important but other factors are too.

59. This speaker regarded the negotiation of RTAs between unequal partners as not terribly desirable. The interests of LDCs are best served by multilateral trade negotiations, especially given the development focus of this Round. Having said that, he felt that it was not apparent that every industrial country's trade negotiators is seriously committed to meeting the development mandate. More generally, he noted, these larger players dictate the Round's developments to LDCs, which are reduced to the sidelines.

60. The next speaker, a trade negotiator from a leading industrialised country, asked what could be done about the apparent disconnect between the “outside world” and “Geneva”. The world economy is undergoing profound change at an accelerated rate, yet trade negotiations on the Doha Round are stuck. Much more needs to be done to reconnect commercial realities with negotiating priorities and outcomes.

61. After these remarks the Chairman offered a few thoughts of his own. The first was that the Doha Round is not over, but we may have to accept that it may be. Secondly. irrespective of the Round's outcome, liberalisation will continue, much of it taking place outside of the WTO. Even so it would be a shame, he argued, if countries did not consider getting multilateral credit for undertaking reforms. Next he contended, that whatever the outcome of the Round, considerable thought needs to go into how negotiations are conducted, how national and WTO priorities are set, and how to preserve and advance the multilateral trading system. However, he noted, these reflections alone will not generate negotiating momentum.

62. It was also important, the Chairman said, to reflect on the benefits derived from the multilateral trading system. Many important issues, he argued, would not have received the attention that they have gotten over the last few years were it not for the Doha Round negotiations. Moreover, these matters would not receive much attention elsewhere. These observations speak to one aspect of the power of the current multilateral trading arrangements. Finally he noted that, should the Round fail, some small and medium-sized trading nations should consider setting examples to other WTO members by liberalising completely and binding these reforms at the WTO. This would show that such a step can be done successfully and might encourage others to follow suit.

63. The final contribution to the OECD Global Forum came from Mr. Sergio Garcia de Alba, Minister of Economy, Mexico. In a speech that began by thanking the Forum's sponsors and organisers, he returned to a number of the themes discussed during the Global Forum. South-South trade liberalisation was important and, citing OECD studies, he noted that developing countries have much to gain from further liberalisation in the context of a multilateral trade round. Moreover, the experience of some developing countries, including Mexico's, had demonstrated how to make the most out of RTAs, increasing employment and furthering regional integration. He also reiterated the importance of completing the Doha Round, noting that failure would have a discernable effect on the multilateral trading system. Negotiating agricultural trade reforms in the Doha Round was of particular importance to developing countries.

64. Stepping back from the details of the Doha Round, the Minister shared with the participants his vision for successful development. Free trade policies are an important component, as were policies to ensure that the entire population benefits from reforms. This includes state bodies working with the private sector to develop productive capacities and innovative potential. He developed a theme of shared responsibility between the three branches of Mexico's government and others to make trade reform work. A vital component of this vision was to entrench competition in domestic markets. To accomplish all of this Mexico may request international assistance. In sum, for free trade to be successful, a number of factors must be balanced and a willingness to act is critical. Yet, free trade by countries alone is not enough, this must be supported by a system of international legal rules adhered to by all and overseen by international organisations. This was the Minister's vision for securing the benefits of free trade, which include better international competitiveness, more foreign direct investment and upgrading, employment growth, faster innovation, and better wages.

VII. Concluding remarks.

65. Coming relatively soon after the suspension of the Doha Round in July 2006, this OECD Global Forum provided an excellent opportunity for a broad range of interested parties to reflect on the causes of this impasse and what could be done about it, and to reacquaint themselves with the first principles and evidence on market access-related and trade reforms. Arguably participants at this OECD Global Forum seized this opportunity and a rich discussion ensued. Contributions were made from many different perspectives and the participation of a large number of Ambassadors to the WTO provided invaluable context and food for thought.

66. While few ways around the current negotiating impasse were proposed, it was clear that some consideration had gone into the costs of failure, that is, the cost of the Doha Round negotiations collapsing. Moreover, considerable thought has gone into analysing the events and circumstances that had lead to the suspension. It seems that the ongoing pace of unilateral and regional reforms, plus the fast growth of exports experienced by most countries since the Doha Round's launch in 2001, has attenuated the pressure to take the hard decisions necessary to complete the Round. In addition, it appears that some WTO members have carefully differentiated between the liberalisation and other functions of the World Trade Organisation, and see little threat to the latter from a failure to conclude negotiations on the former. Whether these judgements will stand the test of time remains to be seen.

67. The alternative to a Doha agreement is bleak. There is a danger that the WTO will proceed by litigation instead of legislation, meaning that dispute settlement will take the place of rule-making. This in turn would put even more strain on the trade relations and, without the underpinning of progressively strengthened rules, eventually undermine the authority of the multilateral process itself.

68. If the WTO were to be weakened, the backlash against an open trading system would gather momentum and protectionism would rise. Existing distortions to trade and economic activity could become

entrenched, making it increasingly difficult for developing countries to compete fairly in world markets. Bilateral and regional trade deals would proliferate. Without the anchor of a strong multilateral trading system, these deals would be more likely to introduce strains and inefficiencies, by diverting trade and investment, and through the increased costs imposed on business by the proliferation of rules of origin and product standards.

69. So how do we move forward? What is the way to avoid failure? Agriculture accounts for a small share of industrialised countries' economies, but is highly sensitive in political terms. OECD analysis shows that agricultural tariffs and price support mechanisms do a poor job of simultaneously providing income support for farm families, protecting the environment, and maintaining healthy rural economies. Political sensitivity need not translate into irrational economic policies.

70. Combining trade reforms with necessary domestic reforms and effective development assistance could create the scope for larger tariff and subsidy cuts, closing the gap between the Doha negotiators' positions in July. Once the agricultural divide is overcome, negotiations can progress in other areas where even greater benefits from more open trade can be reaped and where the more advanced developing countries should be prepared to go further in improving market access.

71. This is a decisive time for the multilateral trading system. In developed countries, and in the most advanced developing countries, politicians have a responsibility to start promoting the benefits of the Doha Round to voters. The Least Developed Countries, meanwhile, need to be guaranteed support in other areas, for example through development assistance to help them streamline their customs services and build the ports and other infrastructure that they need to export their products.