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## **Leveraging Trade for Development: An Agenda for the Nairobi WTO Ministerial**

By Bernard Hoekman and Joakim Reiter. Professor Bernard Hoekman is the Robert Schuman Chair and Director of the Global Economics programme at the European University Institute. Joakim Reiter is the Deputy Secretary General of UNCTAD.

In December, the tenth Ministerial Conference of the World Trade Organisation (WTO) will take place in Nairobi. Celebrating its twentieth anniversary, it will be the WTO's first Ministerial on African soil – on the continent where the case for trade as contributor to development is critically important. Taking the perspective of trade and development, there is in fact much to celebrate. Since 1995, the share of developing countries in world trade has increased to some 50%. South-South trade now accounts for over a quarter of global trade. The group of Least-Developed Countries (LDCs) still suffers from very low levels of trade, but it had trade expanding faster than average trade growth in the world, doubling its share of world trade. Furthermore, the WTO has vastly expanded its membership, with no less than 33 countries acceding to the organization since 1995, even if Liberia will be the first African LDC to complete the accession process by the time of the Nairobi Ministerial.

On WTO negotiations, the Bali Agreement on Trade Facilitation is a milestone for boosting the role of trade for development, embodying a new approach to assist developing countries to improve customs procedures and transit regimes. Implementing that agreement and, more importantly, using it to lower domestic trade costs more generally – for example, by improving infrastructural services as well as hard infrastructure – is likely to have very high development payoffs. On trade-capacity building, the 2005 Aid for Trade initiative has mobilized substantial additional development-assistance funding to boost trade and reduce supply-capacity constraints. There is also more focus on the regional integration of markets. Such integration is often a precondition for increasing the ability of firms and farmers in developing countries, especially landlocked LDCs, to benefit from wider trade opportunities. Today, trade is much more of an integral element of national development strategies than it was at the birth of the WTO and, vice versa, development ambitions are more prominent in WTO activities.

Yet while much has been done to make the WTO more supportive of economic development, the membership has not been able to conclude the current round of trade negotiations, the Doha Development Agenda (DDA). Nor will the Nairobi Ministerial resolve the major issues of the DDA. Deep differences remain between the key players and may have increased because of the economic crisis. The absence of results has a real cost. Households and firms around the world, not least in poorer countries, would benefit from reduced trade-distorting subsidies, lower barriers to trade, and less policy uncertainty. What is more, the lack of progress in addressing deep-rooted and long-standing concerns that developing countries have with the current rules governing global trade undermine their trust in the WTO, its membership, and proposals for trade negotiations in the future.

However, there is a silver lining to the Nairobi meeting: targeted trade initiatives to assist the poorest countries in the world, the vast majority of which are African countries. The key elements of these initiatives centre upon implementing commitments agreed at previous Ministerials. Specifically, these commitments are: (1) providing LDCs with duty-free, quota-free (DFQF) access to markets; (2) applying preferential rules of origin that are simple and transparent, allowing firms to utilize DFQF access; and (3) granting LDCs preferential access for their export of services. Essentially, these initiatives are about fulfilling past promises. If anything, they have become all the more important and timely after the adoption of the Sustainable Development Goals.

On DFQF, the goal for the Nairobi meeting is to achieve at least 97% coverage of tariff lines. Unfortunately, DFQF is contentious. While many countries have achieved this target, some have not. The focal point is the United States, with coverage of only 82.5%, according to the WTO secretariat. The reason is that US programmes target African LDCs and Haiti, some of which fear preference erosion if other LDCs get equal access. The zero-sum nature of trade preferences is a perennial problem; a preference for one country is a tax on other countries, and giving the latter equal preference is seen as

detrimental to the former. Current controversies around the coverage have prevented consensus in the LDC group and, thereby, the broader WTO membership.

That split is a great pity and should be directly addressed. The Trans-Pacific Partnership agreement should be recognized as a potential game changer for the economic significance of unequal preferences. The TPP will gradually offer Vietnamese firms DFQF access to TPP markets, eroding AGOA preferences and giving far better treatment to Vietnam than Asian LDCs. With the TPP, there is really no compelling reason any more for discriminating against Bangladeshi, Nepalese or Cambodian textile exporters. African LDCs and Haiti will anyway have to face tough competition from Vietnam. Instead of preserving the discrimination against Asian LDCs exporters, the focus should be on measures to address the losses for African LDCs and Haiti arising from the TPP and full DFQF.

This can be done in different ways, including measures in the other areas that are the focus of the Nairobi Ministerial. First, there should be a concerted effort, in the context of DFQF, to remove all tariff-rate quotas on agricultural products in which African LDCs have a comparative advantage. That would generate new export opportunities. Similarly, AGOA itself is not all encompassing; a number of remaining exclusions (mainly agriculture), product-specific quotas, or other restrictions still limit its potential. Improving AGOA would unleash new trade.

Second, an agreement to simplify and relax preferential rules of origin will benefit African LDCs by permitting firms to connect to regional and global value chains, and import the inputs they need to export. Since these countries often do not have domestic industries that produce needed inputs, liberal rules of origin could help offset disadvantages they have vis-à-vis Asian LDCs, making their products more competitive. There are already good ideas by LDCs on the table: to base preferential rules of origin on the notion of a “single transformation” and to permit adequate value of materials to be sourced from third countries. The bottom line is that rules of origin for LDCs should encourage – not discourage, which is often the case today – the use of international value chains. Operationalizing this core principle will entail serious technical work, and requires concrete benchmarks to be established that properly take into account the realities and needs of exporters in African LDCs, improving their capacity to use and benefit from DFQF access to markets.

Third, action is needed to implement and enhance the market access preferences identified under the services waiver – and, as part of that, improve the capacity to utilize the preferences. Such actions would support the diversification of exports in African LDCs. UNCTAD research has shown that, since 2009, Africa's services sector has grown twice as fast as the world average and was the most important driver of growth in 30 out of 54 African countries. Hence there are reasons for optimism. However, more efforts are needed to unleash LDCs services export potential. They should include a serious effort to monitor the use of the preferences that importing countries make available. Moreover, it is important to identify and resolve obstacles to the effective utilization of preferential market-access opportunities. Targeted technical assistance and capacity building are needed.

All of the LDC priorities should be doable at the Nairobi meeting. While the three trade-policy initiatives on the table are no panacea, they are important for LDCs and for the credibility of the membership's commitment to the WTO, especially the promise on trade and development. They are all part of the universally agreed targets of goal number 17 of the Sustainable Development Goals. And they play a role in tackling the broader and stubborn problem of persistently high trade and operating costs in LDCs. There are many sources behind these costs, and they are substantially higher in low-income countries than in other nations.

High trade costs prevent LDCs from effectively participating in international supply chains and production networks. At current levels, trade costs inhibit LDCs from spurring dynamic and regional cross-border trade and investment flows of the kind that have driven income and employment growth in Asia and other parts of the world. This makes the rapid implementation of the Trade Facilitation Agreement particularly important. While it appears that the required threshold for ratification of the agreement (three-quarters of the membership) will not be attained in Nairobi, it should not stop LDCs from making trade facilitation a development priority and working with development partners to reduce trade costs for their firms at home. Action on this front should include a focus on integrating regional markets in order to support intra-regional trade and specialization. Lowering trade costs is a critical and necessary condition for making LDC exports more competitive and enhancing the ability of firms and farmers to benefit from the LDC market-access initiatives on the table at the Nairobi meeting.

For LDCs, fully leveraging trade for development is long overdue. At the very least, the Nairobi Ministerial should deliver on past market-access promises for LDCs – complementing what was achieved on trade facilitation in Bali.