2006 High-Level Segment Preparatory Meeting

Roundtable 2:
"An integrated global agenda to achieve full employment and decent work"

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REMARKS

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The September 2005 UN Summit Outcome document reflects the consensus of the largest-ever Heads of State meeting in world history. It raised hopes that 2005 would be a year during which significant progress would be made on the interrelated issues of aid, debt and trade in a policy coherent manner.

While much still remains to be done, pledges/commitments were made on both aid and debt cancellation in 2005. However, with the sluggish pace of the Doha Round of trade negotiations, the contribution of trade, arguably the most important leg of the development tripod, has lagged. Hence my comments, while touching on debt, aid and capital flows, will particularly focus on trade.

(1) DEBT

Progress is slowly being made to bring international policies on debt in line with national efforts to promote development and employment.

The reasons for high levels of indebtedness in developing countries are varied. Internal and external shocks have prompted servicing problems for many countries that have led to debt levels becoming unsustainable, but often these shocks have simply compounded inappropriate lending or the misuse of borrowed resources. Some of the debts would be classified by some as odious or illegitimate.

High levels of debt servicing have been a factor preventing countries from making the necessary investments in full employment and decent work to a sufficient degree. Where this occurs and debt servicing takes priority or sometimes even the primary toll on government revenues, debt levels are inconsistent with MDG achievement and should be reduced.

Once fully implemented, debt relief programmes, such as HIPC or the recent Multilateral Debt Relief Initiative, will reduce debt levels and free up resources for investment in a select group of low income countries. However, more needs to be done to broaden relief to other indebted countries currently outside of these initiatives, including highly indebted middle income countries, More also needs to be done to reduce the transaction costs of debt relief [negotiation, excessive or inappropriate conditionality], and to make debt relief additional to aid flows.

(2) DEVELOPMENT ASSISTANCE

Even after debt relief, many countries will require increased levels of development assistance to enable investment in full employment and decent work. Donors will need to be held to account for the increased aid commitments they have made in the years up to 2010.

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These aid flows must be at an appropriate degree of concessionality to ensure that further problems do not develop with unsustainable levels of debt, and much more effort should be made to ensure that potential recipients receive stable and predictable flows.

Aid should continue to be disbursed in support of country-derived priorities as outlined in national development strategies. Innovative financing mechanisms may prove a useful complement to the main bilateral contributions.

External finance provided through development assistance and debt relief can be used to support domestic investment in job generation and decent work. This includes investment in:

Human capital to increase welfare and enhance productivity - through basic education, skills and better health

Physical infrastructure – transport, communications technologies and power

Policies and institutions both to support entrepreneurship and effectively regulate n the public interest – functioning legal systems, effective regulation, business councils, trade and standards bodies, access to financial services, as well as social protection systems for those unable to find employment in the short or longer terms.

(3) CAPITAL FLOWS

Policy and practice on capital flows needs to be consistent with supporting full employment and decent work. Longer term flows through FDI potentially have more benefits for recipients if there is a complementary policy set to encourage horizontal and vertical linkages in the domestic economy, knowledge and skills transfer, and re-investment of profits.

Shorter financial flows often create instability and risk for developing countries as they can move quickly and be drawn out depending on a change in policy or priority on the part of the investor, or a change in the host environment. Moreover, they can fuel investment bubbles that are unsustainable in the longer term, with associated costs of correction.

(4) TRADE – POST HONG KONG

The Outcome document of the September Summit clearly states that there is a need to "work expeditiously towards implementing the development dimensions of the Doha work programme." This urgency underscores the importance of trade, which stands at the core of the interdependence that binds countries together.

Global multilateral trade rules have the potential to benefit both industrialized and developing countries. It is widely recognized that when properly harnessed, international trade can make a substantial contribution to economic growth, by raising productivity, creating employment opportunities, increasing exposure to new technologies and disseminating knowledge, thereby creating opportunities to spur growth, and assist poverty reduction and human development.

But none of this is inevitable. Current patterns of liberalization and globalization, while creating new opportunities and prosperity for some, have simultaneously exacerbated inequalities between both rich and poor people and countries. It is, therefore, imperative that the Doha Round should lead to an expansion of trade and economic growth which particularly benefits developing countries and their more vulnerable population groups.

Yet, the difficulty of reaching agreement on the Outcome document wording in New York, and the failure of Trade Ministers in Hong Kong to agree on any of the issues of high economic or development value that were on the negotiating table, are poignant reminders of the unfulfilled promise of both Doha, and the global partnership for development agreed in the UN Millennium Declaration and the Monterrey Consensus.

Hong Kong did not become the third WTO ministerial collapse since 1999 only because of the strategy of "downwards recalibration" of its expectations. This however does not change the fact that hardly any progress was recorded on all of the major negotiating issues (eg. domestic support in agriculture, market access in all three major areas – agriculture, non-agricultural market access or NAMA and services – as well as Special and Differential Treatment for non-LDCs).

Annex C of the Ministerial declaration on services was perhaps the most controversial of the "big" issues and the initial draft sent to Ministers in Hong Kong had the entire Annex in square brackets, meaning there was no agreement on any of it. The Services Annex was later endorsed but only with reservations officially put on record by a couple of developing country WTO Members.

The duty and quota free market access package of 97 per cent of LDC exports was hailed as a great development-oriented outcome of the Hong Kong meeting, but it could actually exclude most if not all product lines that LDCs have a comparative advantage in.

The 2013 deadline for the phase-out of agricultural export subsidies was perhaps the most important achievement, but these account for less than 4% of all EU subsidies. These export subsidies will largely be phased out by 2013 anyway, as a result of the current EU Common Agricultural Policy (CAP) reform process. Moreover, the phase-out of these export subsidies is contingent on modalities in agriculture being agreed by 30 April 2006 and agreement on the broader 'single undertaking' package. April 2006 will thus be extremely important since April 30th has been designated as the deadline for agreeing modalities in agriculture and industrial tariffs.

Despite some steps forward, including consensus on aid for trade and an enhanced Integrated Framework package, much in the development agenda of the Doha Round clearly remains unfinished. The fact that so many poor countries are struggling to cope with balance of payments and other difficulties associated with rising global oil prices, is one additional good reason for prioritizing and placing emphasis on the development dimensions of the Doha Round after Hong Kong.

For this to happen, global trade rules will need to shift their primary concern from the promotion of liberalisation and market access to enabling or at least not constraining the already existing national policy space for human development. While recognising that trade liberalisation and market access can make an important contribution to human development in specific situations and for specific sectors, the global trading system must not constrain the domestic policy space and flexibility for fostering MDG progress within member states. A step in that direction in the current negotiations would require significant progress from a developmental perspective in at least five areas which are of vital interest to developing countries. These are agriculture, including cotton subisidies; industrial tariffs; services; special and differential treatment; and aid for trade.

Given the short time available I would like to focus this last part of my intervention on a few important trade areas, where policy coherence at the global level is urgently needed.

AGRICULTURAL SUBSIDIES

The impasse in agricultural trade talks was the major deadlock in Hong Kong and continues to inhibit progress in other areas of negotiation. Intractable obstacles stand in the way, however. Led by the world's farm subsidy superpowers, the European Union and the United States, OECD countries spend almost $1billion a day in support to agricultural production. The incoherence is clear when this amount is compared with what is spent over a full year --- just over $1billion --- on aid to developing country agriculture!

INDUSTRIAL TARIFFS – trade and industrial policy

Retaining policy flexibility on industrial tariffs is of crucial, strategic importance at this stage in international trade negotiations, especially for developing countries who have not already ceded policy autonomy in this area, either unilaterally, as a result of loan conditionalities or because of a bilateral or regional free trade agreement.

While it is true that tariff protection may not always be the most efficient way to promote technologically dynamic industries, many effective first best options used for industrial upgrading in the past (eg. by the Republic of Korea and Taiwan, province of China) are either no longer available to developing countries or much more costly for them because of their multilateral commitments in the areas of subsidies, TRIMs and TRIPS.

The NAMA negotiations thus take on a far greater significance for policy space in the Doha Round than they otherwise would have for many developing countries, especially late industrializers. It is also worth recalling here that the objectives and principles espoused by the advanced OECD countries on NAMA do not conform to their historical experience since protectionism was the rule and free trade the exception during the early stages of their development and industrialization.

SERVICES - GATS Mode 4

Considerable importance has recently been placed on the importance and development impact of individual remittances from workers and the diaspora for many developing countries. While these can be useful, their value in terms of financing and otherwise contributing to national development strategies will remain greatly underutilized unless there is significant progress in fashioning an inter-governmental agreement on the short-term movement of people, especially semi-skilled workers, at the multilateral level, specifically through Mode 4 of the WTO's General Agreement on Trade in Services (GATS).

Such an agreement can help correct the glaring asymmetry between the mobility of capital and labour in the current globalization process in addition to becoming a huge win for human development in developing countries if it is appropriately designed and integrated into national development strategies.

Unfortunately, Mode 4 discussions at the multilateral level are moving at a glacial pace, have focused primarily on skilled, not semi-skilled workers, and have been further complicated by security concerns in the post September 11, 2001 period.

It is important to clarify that the temporary short-term movement of workers does not imply that host governments open up to permanent migration from developing countries. It does, however, imply the implementation of a "GATS visa" for temporary workers, under guarantees from source country governments that these workers will return to their country of origin within a specified period.

The development potential of such measures is the greatest of any area under current negotiation in the Doha Round. According to one estimate, such a movement of workers from developing countries, even if equivalent to only 3% of the industrial country workforce, could generate gains of $156 billion for the developing world, more than twice the projected gains in agriculture and industry combined. While these computable general equilibrium (CGE) model based estimates have their problems, the direction and orders of magnitude of the projected gains are indicative of what is possible from a genuine Doha Development Round. Moreover, the possible gains go far beyond income increases and include gains in learning, knowledge acquisition and organizational skills, which are hard to quantify accurately, but are vital for domestic industrialization and growth.

AID-FOR-TRADE

Many of the elements of 'aid for trade' are not new. They entail a re-packaging of mechanisms that have been part of both national development expenditures and external development assistance during the post-World War II period, while bringing renewed emphasis to trade-related development infrastructure and supply side constraints. There are elements, such as the fiscal and terms of trade adjustment, preference erosion and implementation costs associated with trade agreements, which could potentially be treated differently in terms of financing sources and given more attention than they have thus far received as a result of a revitalized 'aid for trade' concept.

Despite a number of developing country concerns, many of which are clearly reasonable, it is possible to argue that renewed emphasis on 'aid for trade' is legitimate and, if handled appropriately, can be beneficial for developing countries as a whole, not just LDCs. However, there will need to be explicit consensus on the fact that even an ambitious 'aid for trade' package cannot and should not be viewed as a substitute for the development dimensions of the Doha Round, even though it can be an important complement to it. There is also a need to shift away from a conditionality mindset of 'aid for trade' for trade liberalization and integration to aid for trade for trade development.