

*Integration of least developing countries (LDCs) into the multilateral trading system remains one of the major challenges. LDCs need to increase their export earnings, promote industrialisation and accelerate their economic growth. In this regard the WTO (World Trade Organisation) Members have taken several initiatives which are discussed along with various other issues of the Doha Round of negotiations. They include duty-free and quota-free market access (DFQFMA) to LDCs and aid for trade (AfT).*

### Duty-free and quota-free market access

In 1996 this idea was initiated by the then Director-General of the WTO, Renato Ruggerio. In Singapore, at the first Ministerial Conference of the WTO Members, they endorsed it. At the Doha Ministerial Conference in 2001, the WTO Members reaffirmed their commitment to provide DFQFMA to the LDCs (Paragraph 42 of the Doha Ministerial Declaration). They also committed themselves to consider additional measures for progressive improvements in market access for LDCs.

On this issue, a significant discussion took place in Hong Kong in 2005 at the sixth Ministerial Conference of the WTO Members. Paragraph 47 of Hong Kong Ministerial Declaration states that “Building upon the commitment in the Doha Ministerial Declaration, developed country members and developing-country members declaring themselves in a position to do so, agree to implement duty-free and quota-free market access for products originating from LDCs as provided for in Annex F to this document.”

The developed countries and the developing countries in a position to do so, committed themselves in:

- Providing duty-free and quota-free market access on a lasting basis, for all products originating from all LDCs by 2008 or no later than the start of the implementation period in a manner that ensures stability, security and predictability;
- Members facing difficulties at this time to provide market access as set out above shall provide duty-free and quota-free market access for at least 97 percent of products originating from LDCs, defined at the tariff line level, by 2008 or no later than the start of the implementation period. In addition, these Members shall take steps to progressively achieve compliance with the obligations set

out above, taking into account the impact on other developing countries at similar levels of development, and, as appropriate, by incrementally building on the initial list of covered products; and

- Developing-country Members shall be permitted to phase in their commitments and shall enjoy appropriate flexibility in coverage.

There is not much progress since the Hong Kong Ministerial Conference. LDCs have tabled two submissions – one on market access and another on rules of origin. The issue has been a part of negotiations and is considered in the recent modalities draft of 20<sup>th</sup> May 2008. One of the important new elements of the Revised Modalities Draft relates to market access for LDCs, and the model ‘rules of origin’ which Members should apply to facilitate full utilisation of the existing preferential schemes by LDCs.

The Revised Modalities Draft reaffirms:

“the need to help LDCs secure beneficial and meaningful integration into the multilateral trading system. In this regard, we (Ministers) recall the Decision on Measures in Favour of Least- Developed Countries contained in decision 36 of Annex F of the Hong Kong Ministerial Declaration (the "Decision");

and recommit:

to ensure that preferential rules of origin applicable to imports from LDCs will be transparent, simple and contribute to facilitating market access in respect of non-agricultural products. In this connection, [we urge Members to] [Members shall] use the model provided in document, as appropriate, in the design of the rules of origin for their autonomous preference programs.”

However, there still remain a few issues regarding DFQFMA with respect to its coverage and rules of

origin. There are concerns that rules of origin can make it more difficult to achieve economies of scale since input requirements may vary according to destination markets of final products. Direct cost associated with meeting the rules of origin requirement of about 3 percent to 5 percent which reduce exports under preferential schemes, can be used as a means of protection in an importing country. Some studies have shown that the larger the difference in tariffs, the more restrictive the associated rules of origin.

The draft modalities further recommit to permit developing country Members to phase-in their commitments and enjoy appropriate flexibility in coverage, and also require the developed country Members to inform the WTO of products that will be covered under their commitment to provide DFQFMA for at least 97 percent of products originating from LDCs.

In this regard, Japan has implemented the decision with 98 percent tariff lines. Besides Japan, countries already providing more than 97 percent include Canada, Switzerland, Norway, New Zealand, members of the European Union and Australia. Amongst developing countries India, China and Brazil have declared their intention to provide duty-free quota-free market access to LDCs.

Major challenges facing the WTO Members are to immediately implement 100 percent DFQFMA for LDCs and to increase transparency by subjecting all countries to one set of objectives with clearly defined eligibility criteria. Creating simple and more permissible rules of origin for LDCs and providing a more targeted trade capacity building, including through programmes designed to address infrastructure gaps, financing shortfalls, beneficiary government policies that impede development and corruption, are the need of the hour.

Finally, it is essential to define a set of rules of origin which will assist LDCs to take advantage of improved market access conditions that they will be provided with so that they are able to translate this into improved living standards of their population through economic growth brought about by increased trade while minimising trade deflection.

## Aid for Trade

The Doha Ministerial Conference put the concerns of developing countries on the centre stage of the multilateral trade regime, among which was the challenge of addressing their core developmental concerns. Many developing countries and LDCs believed that they have very little to gain from

engaging in market access negotiations through the WTO. They felt that due to supply-side constraints and other infrastructure-related problems that they face it is difficult for them to reap advantages of trading opportunities and competing in global markets. They argued that preference erosion would have significant cost, which was recognised by the WTO. Hence, it became an imperative for the WTO Members to deliberate on how to assist developing countries and LDCs overcome their trade-related institutional, human resource and supply-side capacity needs.

Although the Doha Declaration of 2001 did not mention about Aid for Trade, the concern that preference erosion would have significant cost came to be recognised. In February 2005, G-7 Ministers called on the World Bank and the International Monetary Fund to develop proposals for additional assistance to countries to carry out adjustments due to trade liberalisation and also to enhance their capacity to take advantage of more open markets. The Hong Kong Ministerial Declaration of 2005 (Paragraph 57) endorsed the enhancement of the Integrated Framework (IF) and created a new WTO work programme on Aid for Trade (AfT).

In addition, the Hong Kong Ministerial Declaration mandated the WTO General Council to:

- establish a task force to provide suggestions on how to operationalise aid for trade; and
- consult with Members, international organisations and development banks on mechanisms to secure additional financial resources.

The Task Force was to explore the needs of the developing countries and LDCs and then make recommendation to be presented to the WTO Members. It submitted its report in July 2006. It said that AfT should seek to strengthen needs identification at country level and donor response, and bridge the gap between the needs and the donor response. It also recommended for the creation of a monitoring body, which will undertake a global periodic review of the reports of various stakeholders on trade-related capacity building. Besides directing the WTO Members to start implementing AfT without delay and to direct the WTO Director-General to lead such effort, it suggested that an initial review of AfT should be undertaken with the participation of stakeholders.

In September 2007, a review of AfT was carried out which involved regional reviews in Africa, Asia and the Pacific, and Latin America and the Caribbean. Main recommendations from regional reviews called for an increased awareness on AfT (especially in Africa), that countries, sub-region and regions should map out their priorities and develop action plans, and it endorsed the

constitution of an AfT Support Network (recommended from Latin America and the Caribbean) or create an Africa Aid for Trade Network.

Regional reviews were followed by a global review, which was hosted by the WTO in November 2007. It brought together WTO Members who took stock of what is happening on AfT (based on the outcomes of the regional reviews and on a joint OECD-WTO stock taking report) and to identify what next should be done and also how to improve WTO's monitoring and evaluation role.

In view of the recommendations of various stakeholders in the global review, the WTO has chalked out a roadmap, which is called as 'WTO 2008 AfT Roadmap'. It has an objective to increase developing country ownership of Aid for Trade, to shift emphasis to monitoring implementation with a focus on country, regional and sectoral priorities, to launch a work programme to develop performance indicators, and to strengthen self-evaluation process and mechanism.

## The Way Forward

Channeling aid to countries (aid policy) and/or providing preferential market access (trade policy) are chosen by the WTO Members to address the question: how the WTO Members can assist the economic

development of the developing and least developed countries? Contentious issues discussed under DFQFMA and AfT can be resolved if WTO Members demonstrate strong political willingness.

Some issues such as definition of AfT are still not determined. Measurement of AfT flows still needs to be worked out (including the question if AfT can really be accurately measured or proxies will have to be used). Recent slow-down in aid up-scaling suggests that limited funds will be available for AfT. It needs immediate attention of the WTO Members. Although at regional level strategies are evolving yet a major challenge that still exists is of governance and financing channels. The developing countries and LDCs need to identify their needs and make strong and effective demands based on trade-related adjustments that they are making as a result of their increasing involvement in the global trade regime. They must not adopt an aid for trade package, which does not suit their developmental requirements or address their concerns.

The challenge of translating the perceived and potential benefits of the Doha Developmental Agenda into reality for the people in poor countries is difficult but not impossible. It is clear that trade-related aid should be comprehensive, demand-driven, sufficient and incremental.

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This Viewpoint Paper has been written by Archana Jatkar of and for CUTS Centre for International Trade, Economics & Environment (CUTS-CITEE), D-217, Bhaskar Marg, Bani Park, Jaipur 302 016, India. Ph: 91.141.228 2821, Fax: 91.141.228 2485, Email: [citee@cuts.org](mailto:citee@cuts.org), Web Site: [www.cuts-international.org](http://www.cuts-international.org).