

House of Commons International Development Committee

MAKING TRADE WORK FOR DEVELOPMENT: THE WTO HONG KONG MINISTERIAL

Memorandum submitted by Colin Kirkpatrick and Clive George, Institute for Development Policy and Management (IDPM), University of Manchester

About IDPM

The Institute for Development Policy and Management (IDPM) is a multidisciplinary centre in the School of Environment and Development at the University of Manchester, specialising in research, postgraduate education and consultancy work in the field of international development policy. The Institute, which was established in 1958, currently hosts two major Research Centres for the UK Department for International Development, in Regulation and Competition and in Chronic Poverty, and an Impact Assessment Research Centre (IARC), working on the impacts on sustainable development of national, regional and international policies.

Since 1999 IDPM has played a leading role in the European Commission's programme for Sustainability Impact Assessment (SIA) of trade negotiations and agreements. In association with numerous partner organisations¹, IDPM has been the lead institution for developing the SIA methodology for global and regional trade agreements², for subsequent SIA studies carried out for DG Trade on the WTO negotiations, and for the SIA of the Euro-Mediterranean Free Trade Area (EMFTA) being undertaken for DG EuropeAid.

The WTO and Sustainable Development

At the recent WTO Symposium on Trade and Sustainable Development (10-11 October 2005), The WTO Director General, Pascal Lamy, stated that 'we must remember that sustainable development is itself the end-goal of this institution. It is enshrined in page 1, paragraph 1, of the Agreement that establishes the WTO'. He went on to say:

'So what does all this mean for the WTO? It means that while the WTO has the capacity to open borders – and to thereby switch on an important engine of growth – for the benefits of that growth to show, Members will need 'accompanying policies'. On the social side, these will be needed to ensure that a fair and equitable distribution of the benefits of trade takes place. On the environmental side, they will be needed to ensure that trade – which has the capacity to help the environment – does not end up going the other way.'

The impacts on sustainable development of the WTO Doha Development Agenda

1. It is widely agreed that international trade can make a major contribution to the economic development of developing countries. This is borne out by the Sustainability Impact Assessment (SIA) studies that have been carried out for the European Commission. However, these studies also show that the actual effects of specific trade liberalisation measures depend on the details of the agreements that are made, and vary significantly between countries. In those countries where an economic gain can be expected, it may be accompanied by adverse social and environmental effects. For consistency with sustainable development and the achievement of the Millennium Development Goals, these factors must be taken into account in the forthcoming Ministerial conference in Hong Kong, in the detailed implementation of its conclusions, in corresponding domestic policy measures in individual countries, and in the development of parallel global mechanisms for social and environmental governance.
2. The SIA process combines public debate with technical analysis, to provide information on the likely impacts of potential trade agreements on sustainable development, both in the EU and for its trading partners. The process gathers different views and evaluates them in the light of available evidence, to provide objective information that is intended to inform the negotiations and contribute to the design of national and international measures to enhance beneficial impacts and mitigate adverse ones.

3. A preliminary overview SIA has been carried out for the entire WTO Doha agenda³, along with more detailed sectoral SIAs for specific aspects of the WTO negotiations⁴. The following discussion is based on a review of these studies, with further information from regional SIA studies⁵. The European Commission has itself published position papers on several of the sectoral studies, describing how the findings have been or will be taken into account⁶.

General findings of the SIA studies

4. The studies have assessed the economic, social and environmental impacts of a postulated scenario based on the strongest probable implementation of the trade liberalisation agenda agreed at the Doha Ministerial, in the absence of parallel measures for mitigation or enhancement. Potential measures are then identified which may be necessary to avoid or minimise adverse impacts and enhance beneficial ones.
5. *Economic impacts* differ between countries, and between short term, medium term and long term effects. Short to medium term impacts in a country arise primarily from increased imports of some goods or services and increased exports of others, with labour and other resources moving between sectors, without significant changes in production technology. Longer term impacts result from changes in investment and productivity that may be stimulated by changed market opportunities and greater exposure to international competition.
6. For most developing countries the short to medium term economic benefits are relatively small compared with those occurring through existing rates of economic growth. In some countries the impact is negative, but also relatively small. Greater increases in economic welfare may occur in the longer term, through productivity improvements and accelerated growth. These are however strongly dependent on other factors which influence a country's economic development processes. The trade liberalisation measures defined in the Doha agenda are not in themselves sufficient to accelerate long term growth in most developing countries.
7. Most developing countries experience beneficial *social* impacts for some sections of society, but significant adverse short term impacts on others, as employment moves between sectors. During the transitional period, the overall effect on employment is negative in most countries. The adverse effects will be particularly severe in countries with high initial levels of protection and little or no comparative advantage in sectors where other countries' markets become more open. Most of the adverse effects are likely to be short to medium term, but may be highly significant if liberalisation is rapid or not accompanied by effective social policies. These impacts may continue into the longer term in the absence of appropriate policies to facilitate the creation of new employment opportunities. Countries with high initial protection also experience a significant loss of tariff revenues, with consequent social impacts through reduced expenditure on health, education and social support programmes. Women tend to be among the most vulnerable to adverse impacts, although opportunities also arise for higher skilled jobs and improved working conditions.
8. *Environmental impacts* in developing countries are found to be negative in many cases, although with some positive effects. Environmental regulation in these countries tends to be insufficiently strong to counter the adverse effects automatically. Local effects occur for water, air and soil quality, water quantity, soil erosion and biodiversity, and are particularly significant in areas of high existing stress.
9. The impacts on *climate change* and *global biodiversity* are adverse overall, arising primarily through increased transport and pressures for increased agricultural production in biologically sensitive areas. Both of these scale effects, resulting from increased trade and increased production, can in principle be countered by technology or regulatory effects. In itself however, the trade negotiation scenario that has been assessed does not include measures which will strengthen these positive effects sufficiently to counter the adverse ones. The studies do however indicate an overall global economic gain, part of which could be directed towards parallel actions to achieve global environmental sustainability.

Impacts on the Millennium Development Goals

10. Impacts on the Millennium Development Goals (MDGs) are mixed. Trade liberalisation through the WTO can in principle contribute positively to the long term goal of eradicating extreme poverty and hunger (Goal 1), but with potential for significant adverse impacts in the short to medium term. Impacts for Goals 2 to 6 (primary education, gender equality and empowerment, child mortality, maternal health, and combating major diseases) include some that are beneficial, but with potential adverse effects resulting mainly from lower government revenues and expenditure. In the absence of effective regulatory measures, the overall impact on achieving environmental sustainability (Goal 7) is negative. The contribution to Goal 8 (developing a global partnership for development) is in principle positive, although developed country partners carry more weight in the WTO negotiating mechanisms than developing ones.

The need for inclusion of flanking measures in the WTO negotiations

11. The SIA analyses are consistent in showing that WTO trade liberalisation alone is unlikely to result in ‘win-win-win’ outcomes for sustainable development in the developing and least developed countries. Trade liberalisation needs to be accompanied by realistic commitments on the adoption, funding and implementation of effective flanking measures which can mitigate negative impacts (and enhance positive effects) on sustainable development. Flanking measures should be an integral part of the trade negotiations. Failure to give consideration to the implications of WTO-led trade liberalisation for the three pillars of sustainable development in the developing and least developed countries will mean that progress in achieving the DDA trade liberalisation targets will continue to be slow, that progress in advancing the WTO’s goal of sustainable development will be retarded, and that the likelihood of meeting the MDGs by 2015 becomes more uncertain.

Specific points raised in the inquiry announcement

12. The implications of differentiation between developing countries for the outcomes of the Ministerial. The impacts of Special and Differential Treatment are assessed in the preliminary overview SIA⁷. The study finds that strengthening SDT provisions can make a major contribution to enhancing the development of all developing countries, and by inference, that their removal or reduction would have the opposite effect.
13. To whom should Special and Differential Treatment be applied? The Doha Development Agenda (reinforced by the General Council Decision of August 2004) sought to strengthen SDT provisions for all developing countries, rather than reduce them. In doing so, it placed particular emphasis on the needs of the least developed countries. In accordance with the Declaration, SDT provisions should continue to be applied to all developing countries, with no reduction of the existing provisions, but with differentiation in favour of all LDCs in actions to strengthen them.
14. The extent to which tariff escalation and outdated rules of origin harm prospects for industrial development. The impacts of tariff escalation are assessed in the SIA on non-agricultural market access and in the preliminary overview SIA⁸. The studies find that the reduction or elimination of tariff escalation in high income countries would have significant positive impacts in developing countries, by giving greater freedom to move up the value chain in processing agricultural and other products in which they have comparative advantages. Rules of origin are assessed in the SIA on non-agricultural market access⁹. The study finds that failure to provide for cumulation under rules of origin means that countries exporting to the EU or US frequently can use raw materials originating only from the target country or region, and not from third countries. This limits their ability to develop manufacturing industries.
15. The degree to which liberalisation of industrial and manufacturing sectors threatens to undermine development. The impacts of industrial trade liberalisation are assessed in the SIA on non-agricultural market access and in the preliminary overview SIA¹⁰. The studies find that the poorest countries (especially in sub-Saharan Africa and small island states) are likely to be net losers for the Doha scenario, while the more industrialised developing countries (particularly in East Asia) should gain. Most countries will experience gains to consumers and potential

efficiency gains to the economy, but adjustment costs can be high. Many of the poorer countries have limited capacity to benefit from increased market access internationally, and domestic producers are likely to succumb to competition from imports, with consequent impacts on employment. Additionally, the loss of tariff revenues may lead to significant adverse social impacts through a reduction in social expenditure.

16. What aspects of the Non-Agricultural Market Access negotiations would benefit developing countries? As discussed above, reductions in tariff escalation would benefit developing countries.
17. The benefit of including GATS Mode IV, the temporary movement of labour, in the services negotiations for developing countries. The impacts of GATS Mode IV liberalisation are assessed in the preliminary overview SIA¹¹. The study finds that developing countries would in general benefit economically and socially from greater liberalisation by developed countries, particularly for low-skilled labour. However, the extent of developed countries' GATS commitments is limited primarily by domestic social concerns. It is not expected that more ambitious offers by developing countries would have a significant influence on this aspect of the services negotiations.
18. Whether or not developing countries should be making more 'ambitious' offers in the services sector. The impacts of services are assessed in the SIAs on environmental services, distribution services, and the preliminary overview¹². The studies find that services liberalisation would deliver economic benefits to developing countries, but with potential economic costs, and with a range of social and environmental impacts that are both positive and negative, varying according to the nature of the service. To achieve the intended benefits of many aspects of services liberalisation and avoid adverse social and environmental impacts, appropriate policy and regulatory frameworks need to be in place.
19. The extent to which developing countries will gain from agricultural trade liberalisation. The impacts of agricultural liberalisation are assessed in the SIAs of agriculture in general and of major food crops¹³. The studies find that *LDCs and other low income developing countries* derive few if any direct benefits from agricultural liberalisation, and some may lose, particularly in the short to medium term. In the longer term, domestic agriculture may benefit if producers can respond, but some LDCs are net food importers for structural reasons, with no domestic capability for food self-sufficiency. Most *major exporting developing countries* (such as Argentina, Brazil and Uruguay) are net economic beneficiaries, although the welfare gain is small. The impact may be adverse in countries that are significant exporters of specific products for which trade preferences are lost. *Highly protected developing countries* (such as India and Egypt) face mixed impacts. Domestic policy measures may be required in all countries to avoid adverse social and environmental effects.
20. The Committee proposes to examine these aspects of the negotiations with particular reference to case studies of trade in coffee, cotton, sugar and textiles and welcomes submissions which address these commodities. The impacts of liberalisation for coffee, cotton and sugar are assessed in the SIA for agriculture, and for textiles in the SIA for non-agricultural market access¹⁴.
21. The direct effect of the agricultural negotiations on *coffee* production is small. Greater potential benefits to developing countries may arise in the non-agricultural negotiations, through possible reductions in tariff escalation.
22. *Cotton* production will increase in less protected developing countries in East Asia, Latin America, and several West and Central African LDCs, which will gain economically. Textile producing developing countries that import cotton (including many Mediterranean ones) will lose. Domestic measures may be needed in many developing countries to avoid adverse social and environmental effects.
23. Some of the most important effects for *sugar* come from reform of the EU-ACP Sugar Protocol to meet existing WTO rules. The additional effect of any further liberalisation agreed under the Doha negotiations is expected to be small in comparison.

24. The *textiles and clothing* sector is experiencing major changes due to the end of the Multifibre Arrangement (MFA) in January 2005, and China's accession to the WTO. The elimination of MFA quotas has benefited exports from countries such as China and India, with a corresponding decline in market share in countries such as Bangladesh, Mauritius and many African and Middle Eastern producers. The tariff reductions currently being negotiated in the WTO will benefit some developing countries but disadvantage others, particularly least developed country exporters, whose preferential access to EU and US markets will be reduced in relative terms compared with India, China and other East Asian countries. Bangladesh is expected to be among the biggest losers. India and China both have highly competitive labour costs for textiles and clothing, but both will be under pressure to increase their productivity. Domestic policy measures will be needed in most developing countries to avoid adverse social and environmental impacts.

November 2005

References

- EC (2005a) *Presentation of the SIA process: the case of Market Access, Environmental Services and Competition in the WTO negotiations*. http://trade-info.cec.eu.int/doclib/docs/2005/february/tradoc_121428.doc
- EC (2005b) European Commission Position: Sustainability Impact Assessment of DDA negotiations: *Sectoral study on Market Access: Pharmaceuticals, Non-ferrous metals, Textiles and Clothing*. http://trade-info.cec.eu.int/doclib/docs/2005/february/tradoc_121429.doc
- EC (2005c) European Commission Position: Sustainability Impact Assessment of DDA negotiations: *Sectoral study on Environmental Services*. http://trade-info.cec.eu.int/doclib/docs/2005/february/tradoc_121431.doc
- EC (2005d) European Commission Position: Sustainability Impact Assessment of DDA negotiations: *Sectoral study on Competition*. http://trade-info.cec.eu.int/doclib/docs/2005/february/tradoc_121432.doc
- George C and Kirkpatrick C (2003) *Sustainability Impact Assessment of Proposed WTO Negotiations: Preliminary Overview of Potential Impacts of the Doha Agenda*, Institute for Development Policy and Management, University of Manchester
- IARC (2003) *Sustainability Impact Assessment of Proposed WTO Negotiations: Sector Studies for Market Access (Pharmaceuticals, Non-Ferrous Metals and Textiles), Environmental Services (Water and Waste Management), Competition*. Impact Assessment Research Centre, Institute for Development Policy and Management, University of Manchester
- IARC (2005a) *Sustainability Impact Assessment of Proposed WTO Negotiations: Sector Studies for Agriculture, Distribution Services and Forests*. Impact Assessment Research Centre, Institute for Development Policy and Management, University of Manchester
- IARC (2005b) *Sustainability Impacts of the Euro-Mediterranean Free Trade Area: Final Report on Phase 2 of the SIA-EMFTA Project*. Impact Assessment Research Centre, Institute for Development Policy and Management, University of Manchester
- Kirkpatrick C, Lee N and Morrissey O (1999) *WTO New Round: Sustainability Impact Assessment Study*, University of Manchester
- Kirkpatrick C and Lee N (2002) *Further Development of the Methodology for a Sustainability Impact Assessment of Proposed WTO Negotiations*, University of Manchester
- Maltais A, Nilsson M, Persson A and Segnestam L (2002) *Sustainability Impact Assessment of WTO Negotiations in the Major Food Crops Sector*. Stockholm Environment Institute, Stockholm.

Notes

¹ The following people and organisations have contributed to the SIA studies on which this submission is based: Halima Noor Abdi, Balsam Ahmad, Sergio Alessandrini, Julian Arkell, C. Azzoni, Ron Bisset, Carol Chouchani Cherfane, Julian Clarke, Raymond Colley, Annie Dufey, Simon Evenett, Doug Flint, Ian Gillson, Kevin Gray, Maryanne Grieg-Gran, J. Guilhoto, E. Haddad, Rainer Herret, Michael Johnson, Marko Katila, Georges Landau, Maria Lima, Diana Mitlin, Oliver Morrissey, Elibaric Msuya, Rachid Nafti, Mdoe Ntengua, Lydia Richardson, F. Silveira, Markku Simula, Rejane Sales Stens, Dirk Willem te Velde, Kenneth Westlake, Steve Wiggins, BMT Cordah Ltd, Bocconi University, British Institute of International and Comparative Law, Centre International des Technologies de l'Environnement de Tunis, CUTS-CITEE India, Deloitte & Touche, Fipe Brazil, International Institute for Environment and Development, International Trade and Services Policy, Malaysian-German

Chamber of Commerce and Industry, Overseas Development Institute, Prismax Consulting Brazil, Savcor Indufor Oy, Sokoine University of Agriculture, Trades Centre in Kenya, Tripleline Consulting, University of Newcastle, University of Nottingham, UN Economic and Social Commission for Western Asia, Westlake Associates, World Trade Institute.

² Kirkpatrick, Lee and Morrissey (1999), Kirkpatrick and Lee (2002)

³ George and Kirkpatrick (2003)

⁴ IARC (2003), IARC (2005a), Maltais, Nilsson, Persson and Segnestam (2002)

⁵ IARC (2005b)

⁶ EC (2005a,b,c,d)

⁷ George and Kirkpatrick (2003)

⁸ IARC (2003), George and Kirkpatrick (2003)

⁹ IARC (2003)

¹⁰ IARC (2003), George and Kirkpatrick (2003)

¹¹ George and Kirkpatrick (2003)

¹² IARC (2003), IARC (2005a), George and Kirkpatrick (2003)

¹³ IARC (2005a), Maltais et al (2002)

¹⁴ IARC (2003), IARC (2005a)