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**For Discussion  
Committee of Whole  
Tuesday, September 6, 2005**

FROM: The Acting Corporate Secretary

**DEVELOPMENT COMMITTEE MEETING - SEPTEMBER 25, 2005**

**Trade Progress Report:  
Doha Development Agenda and Aid for Trade**

1. Attached is the paper entitled "Trade Progress Report: Doha Development Agenda and Aid for Trade" which will be discussed by Executive Directors in a meeting of the Committee of the Whole scheduled for **September 6, 2005**. This report provides an update on progress in the WTO Negotiations under the Doha Development Agenda and presents proposals on Aid for Trade from the Staff of the Bank and the Fund, as requested during the Spring Meetings. The report is to be submitted to the Development Committee and International Monetary and Finance Committee in September.
2. Following the discussion, this paper will be revised as necessary, issued as a Development Committee document and publicly disclosed.
4. Questions on this report may be addressed to Mr. Panzer (ext. 31938) or Ms. Nielson (ext. 89576).

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INTERNATIONAL MONETARY FUND  
AND THE WORLD BANK

**Trade Progress Report: Doha Development Agenda and Aid for Trade**

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August 18, 2005

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1. This Trade Progress Report updates the Board on progress in the WTO negotiations under the Doha Development Agenda in the run-up to the Hong Kong SAR Ministerial in December, and presents proposals on aid for trade to be submitted to the Development Committee and International Monetary and Finance Committee in September as requested during the spring meetings.

## I. THE DOHA DEVELOPMENT AGENDA (DDA): STATE OF PLAY

2. 2005 is a critical year for the Doha Round. After the failure of the WTO Ministerial in Cancun, Mexico, in September 2003, the August 1, 2004 WTO General Council decisions—the “July Framework Agreement”—helped to put the DDA back on track. The negotiating framework on agriculture, which included a provision to eliminate export subsidies by a date certain as an outcome of the negotiations, plus the decision on the Singapore Issues (i.e., to take up only trade facilitation and drop investment, competition, and transparency in government procurement from the negotiating agenda) were important steps in the right direction. Since then, however, progress has been limited and considerable work remains to be done if the DDA is to deliver on the promise of its name in a timely fashion.

3. At the WTO Ministerial meeting to be held in Hong Kong SAR on December 13–18, 2005, WTO members will need to reach agreement on negotiating modalities (i.e., reduction formulas and liberalization targets) for agriculture and manufactured products, and to make concrete progress on negotiations on services, rules, trade facilitation and on the development dimension of the round. To this end, “first approximations” of the modalities in the key areas of agriculture and non-agricultural market access (NAMA) were expected by the end of July 2005.

4. At the WTO General Council meeting of July 27 and 29, 2005, however, negotiators recognized that no consensus had been reached on first approximations. Moreover, several other targets (e.g., with respect to services and special and differential treatment) were also missed, further endangering the prospects for substantive results in Hong Kong SAR. Progress at the 6th WTO Ministerial, however, remains critical if the round is to be completed by the end of 2006.

5. Achieving an ambitious outcome from the Doha Round thus requires a renewed commitment and sense of urgency from all WTO members. The state-of-play in the main areas of negotiations is briefly reviewed in what follows.

### A. Agriculture

6. A round that does not begin to tear down barriers in agriculture will not be a development round. From the standpoint of the gains to developing countries, improved **market access** is by far the most important of the three pillars of the agricultural negotiations (the other two being domestic support and export competition). There has been some progress in this area, with negotiators reaching agreement on the threshold technical issue of the tariff base on which

to negotiate tariff reductions in May.<sup>1</sup> While this is welcome, the difficulty in resolving this technical issue suggests that agreement on negotiating modalities for Hong Kong SAR will be a significant challenge. With average bound tariff rates (the basis for WTO negotiations) often well above currently applied rates—around double in developed (27 percent versus 14 percent) and developing countries (48 percent versus 21 percent), and six times higher (78 percent versus 13 percent) in least-developed countries (LDCs)—meaningful increases in market access will require large cuts in bound rates.

7. The key points of contention at this stage are the formula for tariff cuts and the flexibilities allowed, particularly with respect to the treatment of sensitive and special products.<sup>2</sup> Most recently, discussions have concentrated on the proposal on market access presented by the G20 at the recent informal Ministerial meeting in Dalian, China (July 12–13, 2005).<sup>3</sup> Although seen by many as an important step toward achieving consensus in this pillar, important points of contention remain with respect to the approach for tariff cuts proposed by the G20, the treatment of sensitive products and the adoption of tariff caps.

8. Large cuts in currently bound levels of **domestic support** are also needed to generate reductions in actual support. A cut as large as 75 percent would be required to get substantial reductions in applied support in some cases—and even this would cut domestic support in only four economies (the United States, the European Union, Norway and Australia). More modest cuts would have a limited impact in terms of expanding markets for developing countries that are competitive agricultural exporters. Moreover, disciplines on the Blue Box<sup>4</sup> also need to be clarified if this box is going to serve the purpose of facilitating movement by countries away from more distorting practices, rather than resulting in box-shifting without significant liberalization effects.

9. While export subsidies are the smallest component of protection in dollar terms, they are highly distorting and the decision in the July Framework Agreement to eliminate them within an agreed timeframe as a part of the outcome of the Doha Round is welcome, if long overdue. The actual development impact of this decision will depend critically on the transition period for the elimination of the subsidies and other details still to be negotiated

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<sup>1</sup> The issue in this instance was how best to calculate ad valorem equivalents of specific duties.

<sup>2</sup> It should be borne in mind that if even only 2 percent of bound tariff lines covering the most protected heavily traded products deemed “sensitive” were subject to smaller cuts, of say around 15 percent, the benefits of the package would be sharply reduced. Unless the agreed list of exceptions is quite limited and the cuts in tariffs are substantial, the new opportunities provided by the round will be minimal.

<sup>3</sup> The G-20 encompasses 21 members: Argentina, Bolivia, Brazil, Chile, China, Cuba, Egypt, Guatemala, India, Indonesia, Mexico, Nigeria, Pakistan, Paraguay, Philippines, South Africa, Thailand, Tanzania, Uruguay, Venezuela, and Zimbabwe.

<sup>4</sup> The Blue Box covers payments based on fixed area and yields, number of head for livestock and base level of production. Blue Box support is aimed at constraining production and was not subject to reduction commitments in the Uruguay Round.

over the coming months. Further elaboration on issues of parallelism (i.e., the treatment of export credits, exporting state trading enterprises, and food aid) will also be required for the deal on the pillar of **export competition** to be completed. Of particular interest from a developmental perspective will be the debate on how to define where genuine food aid ends and commercial displacement begins.

10. Finally, any successful outcome of the agriculture negotiations must include a substantive outcome on the trade aspects of cotton, which the July Framework Agreement confirmed should be dealt with "ambitiously, expeditiously, and specifically" in the context of the negotiations on agriculture.<sup>5</sup> African countries are expressing a growing frustration at what they perceive as a lack of response from trade partners to their proposals in this area. The EU has indicated its willingness to "front load" cotton-reforms in the context of an eventual agricultural deal and the United States, in turn, is underscoring actions taken to comply with a recent WTO ruling that required reform of its subsidies and credit programs for cotton. Still, cotton may become a major point of friction at the Hong Kong SAR Ministerial. The World Bank and IMF will continue to work with others to address the development dimensions of this topic.

### **B. Non-Agricultural Market Access (NAMA)**

11. Work on negotiating modalities for NAMA, covering both tariff cuts according to a nonlinear formula (i.e., which cuts higher tariffs more)<sup>6</sup> and the reduction or elimination of nontariff barriers, also failed to result in a first approximation of negotiating modalities by the end of July. The announcement (June 3, 2005) that the APEC Trade Ministers had endorsed a Swiss formula approach for NAMA was considered a positive development for the negotiations, but major divisions on the details of the formula remain amongst WTO members.<sup>7</sup> This matters, as the choice of formula can result in significantly varying levels of liberalization. Moreover, there is broad recognition that progress in the NAMA negotiations will require substantive movement on agriculture.

12. Another major issue in the negotiations is the degree of flexibility to be granted to developing countries, including in terms of their participation in sectoral negotiations (for example, on chemicals, wood products, fish, pharmaceuticals, jewels, electronics and environmental goods). LDCs are only expected to increase the proportion of their tariff lines that are bound (at present, that proportion stands at 48.8 percent, versus 85.5 percent for

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<sup>5</sup> The cotton initiative, launched in the context of the DDA by Benin, Burkina Faso, Chad, and Mali in 2003, stresses the damage caused to cotton-producing developing economies by OECD subsidies and seeks the establishment of a compensation fund.

<sup>6</sup> Cutting higher tariffs more addresses both tariff peaks and tariff escalation (where the tariff level increases with the degree of processing).

<sup>7</sup> A Swiss formula cuts higher tariffs by more and sets a limit on the highest post-liberalization tariff.

developing countries as a whole, and 98.8 percent for industrial countries),<sup>8</sup> however, they (and other small, poor countries) remain concerned about the erosion of their preferential access to other markets from MFN tariff liberalization. Bank and Fund staff research indicates that preference erosion is likely to affect significantly only a small number of developing countries in selected sectors, notably sugar, bananas, tobacco, garments. Further, preference erosion raises both bilateral and multilateral issues.

13. A meaningful Doha package on manufactures will require action by *all* WTO members: protection in high-income countries, while relatively low, is biased against the exports of poor countries, while protection in developing countries is some four times higher than in high income countries. While developed countries must act to remove their discrimination against poor country exports, developing countries should be prepared to lower—and bind—their NAMA tariffs, not only in their own economic interests but in the interests of their poor country trading partners. South-South trade now constitutes some one quarter of developing country exports (around 40 percent if the WTO definition of developing countries is applied), and just under 40 percent of exports from least developed countries (LDCs) go to other low and middle income countries. With this trade growing 50 percent faster than world trade in general, exempting it from further liberalization would undercut the development objectives of the round.

### C. Services

14. The services negotiations could deliver some of the greatest gains from the round, but progress so far has been disappointingly slow. By the end of July, 68 initial offers (representing 92 WTO Members, since the EC offer covers 25 member states), and 24 revised offers (representing 48 WTO Members), had been received. Notwithstanding the difficulty of establishing clear targets for a successful outcome, given the qualitative rather than quantitative nature of services barriers, the general perception is that the overall level of ambition in these offers is low. In the vast majority of instances, the offers bind liberalization at levels that are already exceeded by actual practice. This is a missed opportunity.

15. By and large, except for countries undertaking commitments under WTO accession, the General Agreement on Trade in Services (GATS)—introduced as part of the Uruguay Round—has generated little new actual liberalization to date. Yet, further market opening in services, in particular in key sectors in developing countries such as financial services, has the potential to remove important brakes on development. Given the importance of efficient and high quality services across the whole economy, as well as their importance for the competitiveness of exports of goods and other services, a meaningful Doha outcome should

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<sup>8</sup> Calculations based on 2005 WTO figures. LDC figures refer only to the 32 LDCs that are WTO members; developing country figures include economies in transition, Mexico, Republic of Korea and Israel. All are simple averages of the percentage of tariff bindings (binding coverage is calculated as the number of HS 6-digit subheadings containing at least one bound tariff line divided by the respective total number of HS 6-digit subheadings of the corresponding version of the HS nomenclature). These average figures mask wide disparities amongst countries in terms of percentage of tariff lines bound, most particularly for LDCs.

achieve tangible market opening in this sector, in line with the regulatory capacities of WTO members. Equally, further liberalization of the movement of natural persons as service suppliers (under GATS Mode 4) would entail large and ongoing gains for both developing and developed countries.

16. Parallel negotiations on services rules covering subsidies, government procurement, domestic regulation and an emergency safeguard mechanism (to enable suspension of commitments where imports threaten to harm local industry) are also proceeding slowly. Most of the focus is on the last of these, where there is a wide gulf among those that believe that such a mechanism is fundamental and others that dispute the feasibility and desirability of a safeguard for services. Domestic regulation has also received considerable attention, but the complexity and sensitive nature of this issue has resulted in limited progress.

#### **D. Trade Facilitation and Other Topics**

17. Negotiations on trade facilitation are proceeding well. Negotiations are focused on expediting the movement, release and clearance of goods, including goods in transit, with commitments by developing countries linked to implementation capacity and availability of technical assistance. The World Bank, along with a number of other international organizations, has been active in support of these negotiations, through the creation of regional networks of experts in developing countries to advise on negotiating proposals and issues.

18. Negotiations on rules (including topics as antidumping, subsidy disciplines and regional trade agreements, RTAs), in turn, have achieved limited progress to date—the exception being the work on new mechanisms to promote transparency of RTAs. There are concerns that the debate on anti-dumping rules may become a major point of contention in the final phase of the DDA. In the same vein, the extension of higher protection for geographical indications (GIs) for products other than wines and spirits and the amendment of the WTO Agreement on Trade Related Intellectual Property Rights (TRIPS) to accommodate the waiver vis-à-vis compulsory licensing of pharmaceutical products may add to the complexity of the ongoing negotiations.

#### **E. Development Issues and Aid for Trade**

19. Since the negotiations started, 88 agreement specific proposals on operationalizing *special and differential treatment* (SDT) have been made, of which 28 have been, in principle, accepted by WTO members. Concrete recommendations on the remaining proposals were expected by July 31 2005. SDT proposals cover requests for greater flexibility in terms of “policy space” for developing countries (i.e., greater flexibility on the application of WTO disciplines, for example, related to subsidies), preferential market access, support for institution and capacity building, and improved capacity of developing countries to benefit from dispute-settlement procedures. There are substantial differences of view on the appropriate scope and recipients of SDT, including an ongoing debate on the need for greater “differentiation” amongst developing countries and the desirability of characterizing some developing countries (e.g., small and vulnerable economies) as a distinct



group. Reflecting these differences, the Committee on Trade and Development was not in a position to make specific recommendations to the July 29 General Council meeting.

20. It may be timely to think again about what kind of SDT makes sense from a development perspective. Maintaining exemptions and high barriers is not in the long-term interest of developing countries, nor in the interests of their developing country trading partners. Liberalization in the Doha Round is a matter of self-interest: present a supportive investment climate, trade openness contributes to higher productivity and faster technological adoption and thus to growth. Openness to trade has been a central element of successful growth strategies: in all countries that have sustained growth the share of trade in GDP has increased and trade barriers have been reduced. Rather than pushing exclusively for "policy space," developing countries should use the opportunity of the Doha Round to lower the barriers that sap the productivity of their economies, taking advantage of special treatment provisions that allow for longer implementation periods when necessitated by fiscal, capacity, and other constraints. This strategy is also the most likely to induce industrial countries to act more vigorously on trade policies that harm developing countries, most obviously in agriculture and labor intensive manufactures.

21. But while there are real gains for developing countries from active participation in the Doha Round, gains will not necessarily be automatic, and some countries may experience transitional adjustment costs. Increased international assistance is required to help countries to overcome supply-side constraints in order to take advantage of new trade opportunities from the Doha Round, or to address transitional adjustment costs from liberalization. This "aid for trade" is an essential element of a successful, pro-development Doha package.

## F. Conclusion

22. In sum, from a development perspective, a "good" outcome from the Doha Round would have 3 main elements:

- (i) *rich country action on agriculture*: rich countries must adopt the same ambitious market openings in agriculture that they long ago adopted in manufactures by eliminating export subsidies and substantially reducing applied tariffs and trade-distorting domestic support; market access is particularly important;
- (ii) *participation by all countries*: middle income countries and poor countries more selectively, contribute with offers to open services markets, bring down high tariffs in manufactures, and reduce barriers in heavily protected agricultural markets, while expressing willingness to trade away "special and differential treatment" for increased market access in agriculture and elsewhere to spur their own development; and
- (iii) *"aid for trade"*: provision of assistance by the international community to help countries address supply-side constraints to their participation in international markets and to cope with transitional adjustment costs from liberalization.

23. The 2005 Hong Kong SAR Ministerial will be a key test of the ultimate ambitions of the "development" round. If all countries stick to minimalist positions, there is little chance that the Doha Round will make a significant contribution to reducing global poverty. And an investment in a successful Doha Round is an investment in the future of a strong and effective multilateral trading system. To this end, the World Bank and IMF are intensifying their efforts in support of an ambitious outcome from the Doha Round. In addition to support for the trade facilitation negotiations (see paragraph 16), and increased lending for trade (see paragraph 31 below), the Bank has conducted an extensive program of research, seminars and outreach, including in Geneva, to help inform key issues in the negotiations. This work has focused on the impact of agricultural trade reform on all WTO members, including the poorest; preference erosion; services liberalization and the GATS; and trade liberalization and poverty. The IMF has introduced the Trade Integration Mechanism (TIM) (see paragraph 32 below), to provide financial assistance to members facing balance of payments pressures resulting from multilateral trade reforms by other countries, and is examining the use of floating tranches under Fund arrangements aimed at mitigating the balance of payments impact of own trade reforms. The Fund has also sharpened its surveillance of countries with trade-related vulnerabilities and is providing trade-related technical assistance for customs and tax reform.

## II. AID FOR TRADE

24. At their meeting of February 5, 2005 G7 Finance Ministers called on the IFIs to develop proposals for additional assistance to countries to ease adjustment to trade liberalization and to increase their capacity to take advantage of more open markets. In response, a joint paper from the Bank and IMF was tabled at the 2005 Spring meetings.<sup>9</sup>

25. At the Spring meetings, the Development Committee and the International Monetary and Financial Committee (IMFC) called on the Bank and Fund to work with others to develop more detailed proposals to help developing countries adjust to and take advantage of the round, for consideration at the Annual Meetings. These requests were echoed by the G8 in Gleneagles in July 2005.

26. In response to these requests, the Bank and Fund organized a consultation process with key stakeholders in Geneva, ably chaired at our request by the Ambassadors of Rwanda and Sweden. The outcome of those consultations is reflected in the cover letter and paper forwarded to us by the Ambassadors at Annex I.<sup>10</sup>

27. In line with the above request from the Development Committee and the IMFC, this note outlines proposals by IMF and World Bank staff to help developing countries adjust to and take advantage of the Doha Round, for consideration at the Annual Meetings.

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<sup>9</sup> "Aid for Trade: Competitiveness and Adjustment," DC 2005-0006, dated April 12 2005.

<sup>10</sup> Bank staff contributed to the drafting of this paper in a personal capacity.