



Trade and development.

Making the development round a reality in Cancún

Heidemarie Wieczorek-Zeul

German Federal Minister for Economic Co-operation and Development

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Secretary-General Ricupero,

Ladies and gentlemen,

I would like to begin by **expressing my thanks to Secretary-General Ricupero.**

Secretary-General, it was with great pleasure that I accepted your invitation to speak on the topic of “Trade and development. Making the development round a reality” at today’s special meeting of UNCTAD.

Introduction: Trade and poverty reduction; Monterrey and Johannesburg

The topic of trade and development is certainly not a new one. It has long occupied policy-makers in both fields and, indeed, has given UNCTAD its name. Nonetheless, the **topic is more relevant now than ever.**

I would like to highlight **one key aspect** in particular:

The Doha development round must be seen as part of efforts to shape globalisation in such a way that it is socially just and also involves the developing countries. Social, ecological and economic considerations must all come together in our shaping of the trade system. Global poverty reduction is vital to global sustainable development. Trade must be harnessed for the

purposes of poverty reduction. These are the criteria the development round must live up to. The current progress in negotiations is, however, disappointing. No substantial steps forward have been taken on the road from Doha to Cancún.

In November 2001, the 4th WTO Ministerial Conference culminated in the launching of a new and all-embracing round of negotiations, which has now come to be generally known as the “**development round**”. The negotiating mandate for this new round, as formulated in the Doha Ministerial Declaration, put development policy at the top of the WTO agenda. That Declaration states unequivocally that the interests and needs of the developing countries are to be placed at the heart of the next round of negotiations. The imperative of coherence between trade policy and development policy has thus been made a central issue.

Without world-wide trade for all, there can be no development for all. Access to world markets, the opportunity to trade processed products – these are key to prosperity and growth in developing countries. Attention has been drawn to the close **link between economic growth, trade and poverty reduction** on numerous occasions, not least at the Conference on Financing for Development in Monterrey in March 2002 and the World Summit on Sustainable Development in Johannesburg in August and September 2002. Trade can play an important role in sustainable poverty reduction. Yet if trade liberalisation is to have an impact on poverty, it is vital that it should be an integral component of comprehensive national development and poverty reduction strategies in the developing countries.

That is why, particularly since 1998, we have turned our attention in German development policy to the topic of trade and, as part of the issue of “justice in globalisation”, have made it into one of our three main focuses. This is also reflected in the “**Programme of Action 2015**”, which outlines Germany’s contribution to the goal of halving global poverty by 2015 and was adopted by the German government in April 2001.

The **Monterrey Consensus** underlines the importance of trade as one of the cornerstones of financing for development. It also correctly notes that trade is often

the most important external source of financing for development. **The Johannesburg Plan of Implementation** places trade policy within the context of the overarching goal of sustainable development. It describes poverty eradication as the greatest global challenge facing the world today and an indispensable requirement for sustainable development, particularly in developing countries.

We have there **two of the key concepts**: firstly, trade liberalisation in the developing countries must serve to **reduce poverty**. And, secondly, the guiding principle for international trade policy is the concept of **sustainable development**.

This means that free world trade, too, must be socially and ecologically compatible. **Free trade does not override global sustainability policy!** Implementing the commitments made under the WTO must not mean neglecting our other commitments, for example with regard to the environment or social rights. **Trade liberalisation is not an aim in itself**. Its aim is economic and social development and a reduction of poverty in the developing countries

Complete **realisation of the Doha development agenda can only be one step** on the road towards sustainable poverty reduction and achievement of the development goals set out in the Millennium Declaration. Of equal importance is the realisation of the Monterrey Consensus and the Johannesburg Plan of Implementation. These three, Doha, Monterrey and Johannesburg, must be seen as a whole. What links them, in development terms, is their desire **to shape globalisation in such a way as to involve the developing countries and make it socially just and ecologically viable**.

The Doha Ministerial Declaration recognises that a great deal of work must be done on the world economic system if it is to take adequate account of the interests of the developing countries. The international trade system still tends to favour stronger economies and is disproportionately biased against the developing countries. In developing the WTO rules, the great challenge facing us is to design them in a way that will foster more **equitable global economic relations**, thus enabling developing countries to participate more in the multilateral system of trade. Looked at in this

broader context, the Doha development round can be seen as part of the efforts to bring justice to globalisation.

In future, **the economic and social dimensions**, for example the ILO's work on core labour standards and the work of the WTO, will need to be better **co-ordinated**. In this context, I would like to affirm my support for the work of the World Commission on the Social Dimension of Globalisation, which has been constituted by the ILO.

What must the development round achieve?

What, then, **are my expectations of the current world trade round?** Greater trade liberalisation must have a payoff for developing countries. If these countries have products suitable for export, they must be given a fair chance to trade them. Within the OECD, there is, above all, a need to make development policy and trade policy more coherent. Where this is not the case, developing countries must be helped to overcome their supply-side constraints, thus opening up new trading opportunities. This is where development co-operation is needed.

The **opening of markets** and **eradication of trade-distorting measures** must also be extended to those sectors in which developing countries have export potential. The EU was a pioneer in this field, with its decision at the beginning of 2001 to guarantee quota- and tariff-free access for all products from the least developed countries under its Everything but Arms Initiative. It is regrettable and to be criticised that sugar, rice and bananas have been exempted from this initiative for the time being and that transition periods have been set. The most important thing, as provided for in the Doha Ministerial Declaration, is for all forms of **export subsidies for agricultural products** to be abolished. **Export subsidies for agricultural products are a permanent slap in the face for development countries** and are particularly detrimental to the prospects of African countries. It is not right to preach free trade whilst at the same time barring developing countries from engaging in it as soon as it is no longer convenient. That is why I am demanding that, as a first step, a **moratorium**, a lifting of all subsidies on agricultural exports, be declared for the duration of the negotiations.

Cotton trade; the West African cotton producers' WTO initiative

World **cotton** prices are currently at their lowest level for 30 years. One of the major causes is subsidies. It is estimated that in 2001/2002, the subsidies paid to their cotton producers by the USA, the EU and China alone amounted to some US\$6 billion. That is exactly equivalent to the value of global cotton exports over that period! The International Cotton Advisory Council puts the losses suffered by developing countries as a result of subsidisation of cotton production at US\$ 23.5 billion over the last four years.

The slump in cotton prices caused by these subsidies has driven many cotton producers in developing countries **into poverty**. One of the worst hit regions is **West and Central Africa**. Although the countries produce high-quality cotton and have cost-effective structures, the current price offered on the world market means it is hardly worth their while cultivating cotton any more. This is threatening to negate the decades of hard work put into building up the sector. A lifting of subsidies would, according to figures from the International Cotton Advisory Committee, raise producer prices by 31 US cents per pound, thus boosting the cotton producers' income. It would then become profitable once more for the countries of West and Central Africa to produce cotton. Higher producer prices translate into higher incomes and less poverty.

Burkina Faso, Mali, Benin and Chad have now brought the issue onto the WTO agenda with their **initiative “Poverty Reduction: Sectoral Initiative in Favor of Cotton”**, which is aimed at a rapid phasing-out of subsidies for cotton production. **I support this initiative**; it is a step in the right direction. To the four countries behind this important initiative I would like to say: We are willing to lend very concrete support in this area as part of our co-operation with you and would be glad to begin talks at any time.

Current status of negotiations in the Doha round

I have expressed some very high expectations of the development round. Tough negotiating will be needed. There is no denying that **progress** in the current

negotiations, particularly with regard to the concerns of the developing countries, **has been inadequate**. The Doha Ministerial Declaration promised a greater focus on the needs and interests of developing and newly industrialising countries; this promise must be made a reality in the form of substantial concessions to the poorest countries. These have so far failed to materialise.

The deadline set in the Doha Ministerial Declaration for the implementation of the “Declaration on the TRIPS agreement and public health”, which regulates access to affordable medication to treat pandemics, has not been met and nor has the deadline for negotiations about special and differential treatment and market access for non-agricultural products or about the modalities of a new WTO Agriculture Agreement. **There is therefore a massive amount of work to be done before we can truly call this a development round.**

Special and differential treatment for developing countries

It is regrettable that negotiations on special and differential treatment for developing countries have so far produced no tangible results. Over 90 separate proposals are being negotiated and I cannot go into all of them in detail. What can be said, however, is that the Doha Ministerial Declaration expressly affirmed the principle that **special and differential treatment is an integral part of all WTO agreements**. It is a means of promoting integration of the developing countries into the multilateral trade system. In the current development round, particular attention should be focused on special and differential treatment for developing countries.

Two examples of this special and differential treatment for developing countries are the provisions we must make to ensure developing countries have access to essential medicines to combat HIV/AIDS and other pandemics and also the creation of a development box in the agricultural sector that allows developing countries to deviate from the general rules in the interests of food security, for example.

Agriculture

Agriculture negotiations, conducted on the basis the Uruguay Round mandate, have been underway since early 2000. According to the schedule set out at the 4th WTO Ministerial Conference, the plan had been for major preliminary decisions to have been reached by 31 March 2003 with regard to an **agreement on modalities** for the three negotiation issues of market access, export subsidies and domestic support and also on non-trade concerns, such as consumer protection, human health, animal welfare and plant protection. **This target has not yet been achieved.** Despite massive efforts, the negotiating positions still diverge widely. Compared with the progress that had been made hitherto, the process has in the last few months come to something of a standstill.

Let me note the following at this point. At the end of June, the agriculture ministers of the EU agreed on what shape Community agricultural policy is to take in future. I hope that, building on this **agreement on EU agricultural reform**, progress can also be made in the WTO agriculture negotiations. The important thing about the agreement was that it prepared the way for a severing of the link between production and grant funding, a particularly trade-distorting form of subsidisation, even though production-related subsidies will not be abolished in all areas and more improvements are needed. In taking this step, the EU has, however, shown that it has recognised the need to make concessions in the lead-up to the WTO negotiations in Cancún.

What I see as the key question in WTO agriculture negotiations is this: **have the negotiations been tailored towards the concerns of the developing countries** or are they too biased towards the aim of trade liberalisation?

Judging by the **current status of negotiations**, I think we can safely say that they are taking the concerns of the developing countries seriously and are pro-development, or at least moving in the right direction. The first draft of the modality paper, put forward by the chairperson of the Committee on Agriculture, allows developing countries to apply a special protection mechanism to what it terms “strategic products”, in other words important staple foods such as rice or maize. Compared with the industrialised countries, developing countries are to have a broader range of areas in which they are not obliged to remove export subsidies. The

developing countries are also to be allowed more time than industrialised countries to remove trade-distorting support mechanisms. And the least developed countries are to be exempted from this commitment completely.

Yet the **draft** still has some **shortcomings**. There is no justification, for example, for treating EU subsidies differently than **US export credits**. The draft treaty is much less strict in its treatment of the latter, thus discriminating not only against the EU but also the developing countries. It also **fails to distinguish sufficiently between developing countries, newly industrialising countries and least developed countries**. And finally, it fails to devote sufficient attention to **non-agricultural concerns** arising from the multifunctionality of the agricultural sector, such as protection of health and the environment or the development of rural areas. Sustainable production and health protection are fundamental goals for both industrialised and developing countries. In order to realise them, international standards must be enshrined in food production. If this is not to then present developing countries with new market barriers, however, they will require help in meeting the standards.

The negotiations must **culminate** in marked improvements in market access for agricultural products from developing countries and a clear reduction in trade-distorting subsidies. Above all, I demand that all OECD countries at last grant the least developed countries tariff- and quota-free access to their markets. There must be no exceptions.

Market access for non-agricultural products

Tariff negotiations in the non-agricultural sector are also of great importance for developing countries. Here, too, an initial draft has been prepared. It proposes lowering all tariffs using a general formula but giving special treatment to the developing countries. The formula is based on the bound tariffs. In some export sectors of particular importance to developing countries, such as textiles, clothing and shoes, it is to be possible to reduce tariffs even further. The **problems** that most need to be tackled, however, are those of **high tariffs and tariff escalation**. It is an absolute **scandal** that industrialised countries impose lower import tariffs on each

other's goods than on goods they import from developing countries. Just like subsidised agricultural exports, the imposition of high protective tariffs on developing countries represents an unacceptable injustice and deprives the countries most in need of our support of their chance of endogenous development.

To illustrate the point, I would like to quote an **example** recently published by the IMF. Whilst in 2001 the value of shoe imports to the USA was only just under 14% of the value of imported cars (US\$6.5 billion compared with US\$110 billion), customs revenue from the shoe imports outstripped that from the car imports, at US\$1.63 billion compared with US\$1.60 billion. This is a telling illustration of how seriously the industrialised countries take their global responsibility. I therefore call on all parties in the negotiations to put an end to this unacceptable state of affairs.

As well as the industrialised countries lowering tariffs for products from the developing countries, there is also a need for **developing countries to lower the tariffs imposed on trade with each other**. This would give a vital boost to South-South trade.

TRIPS and public health

Since the WTO ministerial conference in Doha, there has been discussion of how developing countries can gain access to affordable drugs to treat serious epidemics. The **Doha Declaration on the TRIPs Agreement and Public Health** commissioned the Council for TRIPS to develop, by the end of 2002, a solution for those developing countries that have no pharmaceutical manufacturing capacity of their own and are thus unable to take advantage of what is known as compulsory licensing. **So far, such a solution has been blocked** by the attitude of the US government. Attempts to arrive at a compromise have led to a consensus on all issues but that of disease coverage. The signs are, however, that the US is willing to soften its position, something I would greatly welcome.

We all share the responsibility for stopping the spread of AIDS, tuberculosis and malaria. The millions of deaths caused by AIDS, particularly in African countries, are causing untold human suffering. And hardest hit is the generation of people who

make up the labour force and who could, through their work, contribute to the development of their countries. **AIDS doesn't only kill, it also wrecks the future.** The entire international community must take resolute action to fight it.

That is why the German government has increased its **commitments to the Global Fund** to Fight AIDS, Malaria and Tuberculosis by €100 million to a total of €300 million.

Services

No decisions are due to be taken in Cancún on the ongoing services negotiations. It does, however, provide an opportunity to take stock.

GATS is the subject of public dispute. Many of the fears relating to globalisation and the injustices it causes centre around GATS. Many non-governmental organisations are critical of the entire GATS agreement or sections of it. It is, in my view, not only right that this debate should be conducted but utterly vital. The debate on GATS is an important element of the debate on how to bring justice to globalisation. That is why I advocate **transparency in WTO negotiations**, as this will allow for a successful debate.

The preamble to GATS states quite clearly that one of the aims of the Agreement is to facilitate the **increasing participation of developing countries, and particularly LDCs, in the international trade in services.** GATS expressly commits industrialised countries to open their markets in those service sectors that are of export relevance for the developing countries. The ongoing negotiations must honour that commitment.

GATS allows the developing countries to be flexible in the extent to which they liberalise trade. They are not expected to open their markets to the same degree as industrialised countries but can, instead, broaden market access gradually to keep pace with their level of development. The WTO Agreement on Services implies no commitment to open markets in certain sectors and certainly no commitment to privatise public services - nor must any pressure be exerted to move negotiations in

such a direction. We must give support and encouragement to the developing countries so as to prevent them from conceding to liberalisation demands that are not in their interests, perhaps because the necessary institutional and regulatory provisions are not in place or because liberalisation would not conform with national development goals.

Here, we should be clear on one thing from the outset: **core public services cannot and should not be on the table at the GATS negotiations** – not in Germany, not in Europe and not in the developing countries.

Singapore issues

I would like to turn to another point, namely the launching of negotiations on what are known as the Singapore issues, and in particular the issue of investment.

One point should be made at the outset: **the Monterrey Consensus sees foreign direct investment as a major aspect of financing for development.** The Plan of Implementation adopted at the World Summit on Sustainable Development in Johannesburg also emphasises the positive impact foreign direct investment can have on economic and social development in the developing countries. This should not be called into question. Yet the potential positive impact of foreign direct investment is only one side of the coin. The other question is whether now is the right time to begin negotiations on a WTO investment agreement.

The concerns expressed by many developing countries about the **launch** of negotiations on a multilateral agreement are something I take very seriously. These concerns relate in particular to their limited negotiating capacities and the resulting need to concentrate negotiating resources on the most important ongoing issues. In view of the current status of negotiations on implementing the Doha development agenda, I would certainly understand if the launch of negotiations on any further topics were to be postponed until substantial progress had been achieved on the key areas of the Doha development agenda – in particular TRIPS, agriculture and market access for non-agricultural products.

Trade-related technical assistance

The Doha Ministerial Declaration pledges to provide assistance to the developing countries in all areas of negotiations. It expressly states that trade-related technical co-operation and capacity building for both human resources and institutions are **“core elements of the development dimension of the multilateral trading system”**.

The WTO's creation of **the Doha Development Agenda Global Trust Fund** to finance its technical co-operation goes a long way towards honouring this commitment to provide increased trade-related technical assistance. Germany contributed €525,000 to the WTO Fund in 2002 and €915,000 in 2003. We have also intensified our bilateral trade-related technical co-operation. Last year, my ministry provided a total of around €75 million for bilateral measures in the area of trade.

The important thing is for developing countries to be able to properly present and defend their positions in the negotiating process. Only then can the outcome of negotiations possibly reflect their interests. I cannot stress too highly the importance of **measures to strengthen the negotiating capacities of developing countries**, and in particular of course the least developed countries. This presents a real challenge to the WTO in its technical co-operation and also to other bilateral and multilateral institutions.

Further discussion will be required on the **shape the WTO's technical co-operation** should take. The most recent WTO evaluation report conceded that, since most support measures are very short in duration, they can only really hope to pass on information rather than build up capacities. The WTO itself recognises that it must therefore consider adopting a different approach. In addition to achieving improved sustainability, in other words building up capacities that can be maintained over the long term, the aim should also be to involve other international organisations in technical co-operation measures so as to prevent a duplication of structures.

I regard the **Integrated Framework for Trade-Related Technical Assistance** as being of particular importance. Germany will be making a direct financial contribution to it for the first time this year.

Role of UNCTAD

In this context, I would like to say a few words about the role played by UNCTAD. As **a focal point within the UN system for matters of trade and development**, UNCTAD plays an important role in **political dialogue** between both governments and experts and also in providing **support to developing countries**. Its work is much respected in all quarters, as evidenced not least by the Doha Ministerial Declaration's express mention of UNCTAD within the context of technical co-operation in the fields of investment and competition. At present my ministry is providing support of just under €1 million for UNCTAD programmes dealing with investments and services. In addition to this, I have been actively involved over the past few years in the work of the largely UNCTAD-sponsored Investment Advisory Council.

The 11th UNCTAD Conference is due to take place in the middle of next year in Brazil and will decide on the work programme for the next four years. The conference topic will be "Enhancing coherence between national development strategies and global economic processes". It is a good choice, and expresses one of the key challenges we face in development co-operation and the work of shaping international processes. However, it only provides a general framework, which must then be further fleshed out during preparations for the conference so that a detailed work programme can be developed.

The **work programme for the four years following the conference** in Brazil must outline the contribution UNCTAD will make to achieving the development goals formulated in the United Nations' Millennium Declaration and at the conferences in Brussels, Doha, Monterrey and Johannesburg. In Sao Paolo, it will be a case not only of analysing what demands the international development goals place on UNCTAD but deciding what this means in operational terms for its work programme and lending that programme **a clear focus**.

I feel it is particularly important that other international organisations, particularly the WTO, be involved just as closely in **preparations for UNCTAD XI** as UNCTAD is in preparations for the Ministerial Conference in Cancún. Increased co-operation and complementarity between these two organisations in particular is an important aim and deserves particular focus on the road to Sao Paolo.

Outlook

The global economy has lost its momentum. Certainly, the outlook seems promising, with the IMF forecasting 4% growth in the global economy. Yet poor economic growth in the industrialised countries is also having a severe impact on the developing countries, whose growth prospects are largely dependent on a burgeoning world economy. If **the Ministerial Conference in Cancún were to be a success**, it would send out **a positive signal**, which could give the ailing world economy a boost.

Cancún is more than a mid-term review. Important decisions are to be made there that will determine the success or failure of the Doha development round. Once Cancún is over, it will be 16 months until the planned close of the negotiation round on 1 January 2005. Only after Cancún can we take stock of where we stand.

Already we can safely say, however, that negotiations can only be successful if the concept of the development round remains more than just an empty phrase and adequate account is taken of the needs and interests of the developing countries.

Thank you for your attention.