

**"Importance of WTO system for Development"**



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## **Importance of WTO system for Development"**

I am very happy to be with you today, a few months before the LDC IV meeting in Istanbul, an immensely important meeting. In the WTO, Bangladesh is the coordinator of the LDC Group and thus especially with respect to international trade, it has to play a major role for all least-developed countries, and through that, for the process of development itself.

The issues emphasised in the context of trade and development have kept evolving with experience. We have come a long way from the days of dependency theory when trade was seen as a binding rather than a liberating factor. Far from the days of intense focus on import substitution behind high protectionist walls. Also the days when developing country exports faced major tariff escalation in all product areas, and when industrialization was seen as the normal progression from an agrarian economy in the process of development thus under-estimating the value of services in economic growth. And of course the days when the entire focus for seeking export markets was on large developed country markets.

All this has changed in a fundamental way. The experience of developing countries with their development process has shown that international trade plays a major role in promoting development through access to larger markets, cheaper and better quality inputs and technologies, ideas, designs, emerging trends, incentives for greater efficiency, and multiple sources for product diversification and growth stimulus, they are all provided by international trade. The crucial significance of trade for a smaller country is even more evident.

Thus, we can see the evident high value of any system which maintains and augments stability and predictability in the international trade markets, avoid arbitrary policy changes and disruptions, and provides credible dispute settlement system to address difference. The WTO is such a system. In addition, the WTO is a system which has kept evolving to reflect the concerns of its Members. World leaders have called WTO an insurance mechanism which also provides a stimulus to growth and peace.

Development has traditionally been addressed as an aggregative concept. However, for each country, development has implied specific and individual efforts and emphasis, while the underlying aspiration and supply side constraints have been broadly similar. Therefore, any desirable system to address the development aspirations of a large number of developing countries has to provide the flexibility and mechanism for dealing with the major diversity among developing countries, which may be agriculture exporters, net food importing countries, defensive in their agriculture trade policy, relying more on services to provide the economic stimulus, land-locked, facing different kinds of constraints, different population size and income levels, and so on. The WTO is such a system with flexibility and focus.

As we have evolved today into an era of communication age, a new sense of pride and potential among developing countries with a better informed population about international relations, fairness in trade has become a major emphasis. This implies a need for a system which is inclusive and responsive to different perspectives to sustain opportunities for development. The WTO is such a system.

The WTO, which is also referred to as the multilateral trade system, provides stability and predictability in international trade. In addition to its disciplines, this system provides a forum for:

- greater transparency and information on trade related policies;
- sharing concerns and perspectives on appropriate responses;
- working on reducing major distortions in global markets so that appropriate incentive mechanisms are in place;
- keeping markets open and thus enhancing opportunities, together with the possibility of flexible response in specified, justified situations; and,
- Aid for Trade, i.e. assistance to promote supply side capabilities for poorer countries to better integrate in the International Trading System and benefit from additional opportunities.

Before considering the importance of WTO in some detail, let us see some emerging insights into the evolution of international trade opportunities that have led to greater development of all.

### **Emerging insights**

One of the strongly emerging insights is that trade involves multiple parts of a value chain, which means that the final product includes components from various countries. The value chain concept shows many countries are inter-linked in trade of any specific product and they benefit together through these linked international trade transactions. To preserve and promote such supply chains, it is crucial to have a system which preserves stability and predictability across all the countries concerned. This task can be performed only by the WTO or the multilateral trading system.

Another important recent experience is that economic development is no longer a sequential progression where industrial growth is absolutely necessary for development of the economy. Countries can have their main stimulus for development also from growth of agriculture or services. India is a good example of development led by services sector, an area which more and more developing countries now examine as a possible source for providing quick growth. Today we have the vision of Digital Bangladesh, an important initiative to strongly progress in the area of services, providing additional areas of services revenues in addition to the remittances that are received from Bangladeshi workers abroad. An important experience to bear in mind in this context is that trade in services is better promoted when a country develops regulatory capacity in the relevant sectors. The multilateral trading systems can make a positive contribution for such efforts.

An unusual though positive recent experience has been the relatively quick turn-around of the global economy after being affected by the largest economic decline in the past seventy years. The special contribution of the WTO to the relative stability of

the external markets was especially evident during this recent period of global economic downturn in 2009. The system of WTO rules and its monitoring of various actions by its members helped to keep markets open during the 2009 major economic decline. The monitoring Reports of the Director General which were discussed by all Members were an instrument of peer pressure to maintain open markets.

The WTO not only provides an impetus to keep markets open but during the 2009 crisis it has also emphasis continued easy availability of trade finance. Concerted efforts were made to highlight the fact that trade finance is different from other types of finance, being more short duration and with very high rates of recovery. Thus, the regulatory restraints on trade finance should be more liberal than for other types of finance. This emphasis of the WTO Director General was provided together with other international institutions, which provided impetus for the G20 Leaders to make special allocations for such funding. World leaders, including the G20 leaders, have recognized the high value of this insurance provided by the WTO to the recovery process.

This experience has also shown that the WTO is not just a fair weather friend; it is especially valuable when we face difficult times.

Regarding international trade and an agriculture, an area of particular importance to large number of developing countries, I would like to quote Mr. Jaques Diouf, Director General of the FAO. He said regarding international trade, that we must *"devise agricultural development policies, rules and mechanisms that can forge an international trade system that is not only free but also equitable"*. He elaborated further that, *"We must correct the present system that generates world food insecurity on account of international market distortions resulting from agricultural subsidies, customs tariffs and technical barriers to trade, but also from a skewed distribution of resources from official development assistance."* His reference to customs tariffs here is as a barrier to trade which needs to be reduced, not as a policy which should raise further barriers. The efforts he is talking about improving the system are the focus of the Doha Round negotiations at the WTO.

Historically, the experience of LDCs shows that available opportunities can be adequately achieved only with capacity improvements. Such capacity augmentation is required also because now, more than ever before, changes in the economic environment take place due to developments far beyond the control of individual nation and countries need considerable ability to respond to the changing circumstances. Any co-operative international system such as the WTO, which helps to maintain greater stability and predictability in global markets contributes in a major way to help make common positive response to reduce market risks. For this reason the multilateral trading system has been referred to as an international public good.

Addressing the supply side constraints of LDCs requires improving:

- infrastructure and skills;
- facilitating growth of the private sector;

- financial assistance from abroad; and
- promoting Foreign Direct Investment because this helps augment funds, skills, technologies and export market linkages.

The Members of WTO are importantly making major efforts through Aid for Trade, and within that framework through the Enhanced Integrated Framework, to focus on these objectives, to add to the several benefits provided by the multilateral trading system. I must congratulate Bangladesh for its recent membership of the EIF.

The WTO system and the Doha Round negotiations can contribute for Bangladesh potential gain in terms of all these trade-related aspirations which in summary form can be seen in the points which LDCs have emphasised in the context of the forthcoming LDC IV meeting, namely to:

- diversify trade and production bases into dynamic new products and services;
- diversify export products and markets to non-traditional destinations;
- integrate trade and trade capacity building policies into national development strategies;
- maximise the benefits through development of effective labour market standards and institutions;
- strive to conclude the Doha Round of trade negotiations as soon as possible with an ambitious, comprehensive, balanced, equitable and development-oriented outcome.

### **The WTO or the Multilateral Trading System**

The WTO system, also called the multilateral trading system, has 153 members. Of these 32 Members are LDCs. Presently 30 countries are in the process of accession to the WTO of which 12 are LDCS. Thus, the system has a strong place and attraction for the least-developed countries, as it enhances the available economic opportunities.

The WTO is based on the principles of non-discrimination and agreement by Members to abide by disciplines which give stability and predictability to the international trade regime. Let me recall quickly that the system includes:

- disciplines which prevent arbitrary or discriminatory behaviour,
- notifications by Members to provide transparency to their actions,
- exceptions to the rules for justified reasons, subject to specified procedures being followed by the Member,
- credible dispute settlement process,
- Committees or Councils through which implementation of the Agreement is overseen by all Members.

Among international organizations, the WTO has the most democratic system. Each Member, big or small, has one vote. Decisions however are usually taken by consensus and like-minded members join together and form groups to express their concerns or aspirations. This process gives greater strength to smaller countries.

The value of the multilateral trading system is high for all countries, small and big, but it is far greater for the smaller nations. It provides a powerful platform to small countries so as to ensure relatively more fair and objective treatment, greater market opportunities, and assistance with capacity augmentation.

The fundamental contribution of the WTO system is the **stability and predictability** provided by it to the global markets. This positive feature cannot be over-emphasised, especially for a small economy. In present circumstances when the Bangladeshi economy is making a strong successful transition from aid dependence to reliance on trade, this is a very important component of its growth and development initiatives. However, capacity augmentation remains necessary for achieving higher and better development results, and the WTO process focus importantly on this aspect.

**(a) Capacity Augmentation**

Developing countries have benefited from a large number of national activities organised by the WTO. For example, between 2008 and 2010, Bangladesh benefited from several workshops on a variety of topics covering the Enhanced Integrated Framework ; Non Agricultural Market Access Issues and Negotiating Matters; WTO Agreement on Sanitary and Phytosanitary Measures; WTO and the GATS; WTO Trade Remedies and Subsidy Disciplines; Trade-related Intellectual Property Rights; Upgrading of the WTO Reference Centre, in partnership with the International Trade Centre.

Officials were invited to participate in over 30 Regional Seminars and training events, as well as Geneva based activities. Subjects covered included: Trade and Environment, TBT, SPS, Agriculture, Dispute Settlement, Government Procurement, NAMA, Regional Trade Agreements, Services, Trade and Development, TRIPs, DDA, Trade Negotiation Skills, the WTO outreach workshop for Parliamentarians, the Workshop on Market Access Issues; Introduction courses for Least-Developed countries; Advanced Thematic Course on WTO Dispute Settlement, Joint WTO/WIPO Advanced Thematic Course on TRIPs, Specialized Course on Trade and Environment, Specialized Courses on TBT and SPS, WTO/WIPO Workshop on Priority needs for technical and financial cooperation, Workshop on Environmental Goods and Services, Workshop on Private Standards, workshop on the role of international standards in economic development, TBT workshop on Good Regulatory Practices, the Geneva TBT Sixth Special Meeting on Procedures for Information Exchange for Officials Responsible for Notifications and Enquiry Points and Trade Facilitation workshop.

35 officials completed several eTraining modules. Bangladesh operates a WTO Reference Centre. Bangladesh participated in the Singapore Regional Trade Policy Course for Asia and Pacific economies in 2008-10. The importance of higher capacity for development policy process is evident.

For 2011 the priority areas of Bangladesh for trade-related assistance are network infrastructure; increasing competitiveness; trade facilitation; adjustment costs; and exports diversification. Specific sectors include improvement and modernization of

telecommunications; capacity enhancement for the power and water sectors; development of non-traditional exports; further infrastructural sectors improvements and modernization of ports and customs facilities.

All these activities illustrate the extensive support which Bangladesh has got in the WTO, which will help it provide several opportunities through trade to progress in its objectives for development. Capacity augmentation programmes will continue taking account of the areas that have been emphasized by Bangladesh itself. International trade is a very important part of the new Poverty Reduction Strategy Paper of Bangladesh.

### **Aid For Trade**

Regarding capacity augmentation, the Aid for Trade initiative of the WTO has provided a platform for developing countries with trade related projects to approach development funding agencies for assistance, and for donors and beneficiaries to exchange experiences, address concerns and move forward with positive efforts to make trade more of an integral part of both development planning as well as the funding mechanisms. Through this initiative, the WTO brings together various development project funding agencies such as the World Bank, Regional Development Banks, and bilateral donors to consistently and positively focus on the trade-related capacity improvement projects identified by developing countries. The very high political profile given to these activities by the Aid for Trade initiative has helped achieve efficiency through co-ordinated response on development funding. This has also helped countries to mainstream international trade in policy making and facilitated a comprehensive focus on the trade-related activities and funding required for both software and hardware that remove supply constraints.

Under the Aid for Trade programme, the WTO collects periodic information from stakeholders through questionnaires to understand the priorities of specific countries and the areas where greater focus should be given. In terms of the self-assessment questionnaires, 111 have been received, including 70 from partner countries and 26 from LDCs.

This information will be relevant in the context of the third Global Review for Aid for Trade in July 2011, which is a major event to examine the effectiveness of Aid for Trade projects, and to learn and interact with each other to develop further projects and funding opportunities. The agenda of the July Review is still under preparation, but we know that the main themes will include trade facilitation, the role of the private sector, South-South co-operation, and regional integration, with a specific focus on Africa. Individual case stories will be discussed to examine the effectiveness of the Aid for Trade initiatives as implemented on the ground.

As of 10<sup>th</sup> February last week, almost 175 case stories had been received for the Aid for Trade Review in July. These include contributions from donors (including MDBs), partner countries, international organisations and the private sector. 27 case stories have been submitted by LDCs, including 3 from Bangladesh.

**(b) Examples of Best Practice and Better Information on Requirements to Access Markets**

The WTO provides an excellent opportunity to learn through interacting with other nations about their practices and success cases or even difficulties. The WTO's notification process and the possibility of seeking more information from countries concerned provide a one-stop base to learn about market conditions and policies in other markets. The discussions in WTO's Committees cover various issues and even developments in other related areas which may overlap with international trade issues. As a result, the likely market trends and concerns are known quickly, including the specific conditions that exporters may need to fulfil in other markets. WTO members have access to enquiry points in markets of interest, and individual concerns can be discussed with all countries which may be of interest either for exports, imports or investment. Meetings, conferences, seminars, and information sessions are organized to discuss emerging issues, and mechanism are provided to facilitate interaction between exporters and importers. Of particular interest may be information about emerging product markets which could provide useful ideas to policy makers at home.

The Secretariat of the WTO is always available to assist the Members in all these and other initiatives.

**(c) Be an active partner in shaping both the global developments in multilateral fora and those pertaining specifically for Least-developed countries**

In addition to information, best practices, and emerging products of interest, Membership of the multilateral trading system provides a basis to be actively involved in shaping the conditions of international trade that would affect one's interests. Without being a member of the WTO system, such an opportunity is not available.

An important concern faced by LDCs is that their export markets may be suddenly lost if a large importing country imposes some standards relating to technical barriers or health and safety concerns. The WTO system provides it with Committees to discuss such concerns, to get others who may be similarly affected to raise such issues, and use the meetings of the relevant Committees of the WTO to get more information from the importing country experts on the basis for the actions being taken. Once again, technical advice or assistance in clarifying certain issues can be provided by the WTO Secretariat.

In addition to specific, market related concerns, WTO also periodically provides possibilities of raising systemic priorities for getting high level attention at the WTO Ministerial Conferences. This year, the Ministerial Conference is scheduled to be held from 15<sup>th</sup> to 17<sup>th</sup> December. Bangladesh should prepare well for its participation, especially after having a prominent role in the group of LDCs.

**(d) Use the disciplined approach to policy-making as reflected in the WTO tool-kit**



The WTO framework of disciplines is about good governance. Good governance both at the level of the individual country as well as at the collective level of all 153 WTO Members. The WTO allows temporarily resorting to market restrictions when justified for specified transparent policy objectives. Even then, certain specific procedures should be followed if implementing market restrictions. This framework allows greater certainty and progressive opening of markets by various WTO Members in line with their capacities. Since this discipline is followed by 153 Members, the global markets are kept open and progressively can be opened further for the benefit of all.

This discipline of a stable policy framework under the WTO system is an insurance against arbitrary behaviour, and in this manner it provides a positive brand image which is a major assurance to investors and traders because it allows economic agents at home and abroad to perceive the conditions in Member countries with greater degree of certainty. This encourages higher interest in promoting economic activity through investment and private sector growth in the economy.

**(e) Get access to new markets and develop new product areas; be in touch with possibilities of growth and diversification**

The work within the WTO Committees and negotiations provides a possibility to address market restrictions, seek new markets and develop new product areas. Let us see some examples of the various possible benefits.

The predecessor of the WTO, the GATT which was the multilateral trading system till it evolved into WTO, was the place where developed countries started to decrease their tariffs in a major way for a large variety of products. Since the WTO system provides most nation treatment, such benefits of increased market access are available to all Members. For certain products, however, tariffs have remained high and presently through the Doha Round negotiations, the focus is to reduce these tariffs in a major way.

Likewise, countries have better market access opportunities when WTO related training improves capacities to address sanitary and phyto-sanitary measures for agriculture products. This makes the relevant products more easy to sell abroad and also raises the domestic standards. Likewise, the Committees and Councils provide a forum to address standards related concerns through its mechanisms. In the case of standards, several instances have shown that process of discussions amongst the exporters and importers which results in better information can itself help address more than half of the perceived problems with respect to standards related market barriers.

Similarly, countries can better prepare for approaching export markets through the WTO database on standards, for both Technical Barriers to Trade and for Sanitary and Phytosanitary Measures.

Knowledge of the IPR related provisions can help develop geographical indications for goods and services, thus opening up new market opportunities.

A potential benefit arises also because of the credible dispute settlement process of WTO. In this process too, it is worth noting that more than half the disputes are address through the process of discussion and consultations amongst the parties concerned. It is therefore a very efficient process of dispute settlement.

Another possibility of gain could be from the WTO discussions of trade policy reviews of different countries. These also show experiences of other LDCs and provide a basis for seeking additional markets for newer products.

Another important aspect is that Members of WTO raise and discuss emerging problems. For example, when there are problems arising due to certain policy measures which limit markets or exacerbate an existing situation (such as food price rise), the WTO provides a forum to bring attention to these issues.

**(f) Extending the reach of small Members**

In the WTO, smaller countries with broadly similar interests, such as the LDCs, function as a group in several meetings. Their representative may attend the relevant meetings and provide a feedback to the whole group. This extends the scope and reach of small countries in effectively participating in the system.

Such co-ordination is also important because now trade issues are no longer based majorly on north / south or developed / developing countries. Market access is sought by certain developing countries from other developing country markets. Even the developed countries are now focusing on market access from certain developing countries. The economic powerhouse in the world is no longer the G8 countries. It has now extended itself to the G 20 group of countries. New concerns and possibilities have arisen as a result, emphasising the need for co-ordinated and consensual action, a hallmark of the WTO system. Several of these aspects are also being address in the Doha Development Agenda under the Doha Round Negotiations.

**(g) Doha Development Agenda**

I have noted earlier that one of the important objectives emphasised by the LDCs in the context of the LDC IV meeting is to "*strive to conclude the Doha Round negotiations as soon as possible with an ambitious, comprehensive, balanced, equitable and development-oriented outcomes.*"

I wish also to recall Target 2 of Goal 8 of the Millennium Development Goals or MDGs, which states as follows: "*Develop further an open, rule-based, predictable, non-discriminatory trading and financial system*". These are the same conditions as used to describe the WTO system. We can thus see the relevance of the WTO system for development. The focus here is not to devise a new System but to improve the existing one for better achieving the relevant objectives. Negotiations in the Doha Round are precisely an effort to do this.

Just as each of us tries to balance achieving greater opportunities and concerns, the Doha negotiations combine a balance between greater disciplines and providing

flexibilities to developing countries. Flexibilities are an integral part of the final deal, reflecting various types of equity concerns. Thus, in Doha negotiations, developed countries take greater obligations than developing countries, and within developing countries too there are different levels of obligations. For example, the levels of obligations differ between more advanced developing countries, small and vulnerable economies, least-developed countries, and recently acceded Members of the WTO.

Most of the issues in the Doha Round negotiations have been completed and some which are left are now being addressed in an intensive manner treating this year as a crucial window of opportunity to complete the negotiations.

The structure of the Doha Round results include three major aspects for LDCs:

- defensive negotiating interest of LDCs, which implies lower levels of obligations;
- other negotiating interests, which aim at getting others to open their markets for LDCs; and,
- steps to be taken for help with enhancing capacity.

All the defensive interests of Bangladesh have been protected in the results that we have in the Round. Bangladesh does not have to undertake any additional obligation. It will be able to resort to the special provisions contained in agriculture special safeguard mechanism and the special products. Bangladesh 's concerns in each area of agriculture disciplines have also been covered by the results that are already on the table. It is noteworthy for example, that as LDC/NFIDC Bangladesh is entitled to additional flexibility with respect to export credits and food aid.

Bangladesh's interests are thus to work on opening the markets of others for its exports. Through Duty Free Quota Free or DFQF, LDCs will have zero duty for at least 97% of their products exported to developed countries. In effect, DFQF has been implemented in virtually all developed countries and the product coverage ranges from 97% to 100%. Certain developing countries have also provided DFQF covering large extent of the product coverage. Bangladesh together with several other countries is asking for higher coverage than 97% as a beginning point from a major developed country market. In this process of discussion, agreement has been reached to provide meaningfully enhanced market access for all LDCs. Bangladesh still has an issue regarding getting easier market access for some of its major export items under the faster tariff reduction provided to disproportionately affected countries. Work on this is continuing.

In addition, the Members are also addressing the issue of simplifying the rules of origin for preferential trade.

In the case of agriculture, development opportunities are provided in the Doha Round results in the text available till now, through greater tariff reduction for tropical products, from low tariff rate quotas provided in developed country markets for certain specified products, the decrease in tariffs escalation which helps with greater value addition of exports, and a more level playing field vis a vis the rich countries

because their exports subsidies will be phased out, and other subsidies will be curtailed.

The results from the negotiations on non-agriculture market access will address tariff reduction through DFQF which I just mentioned, as well as the overall reduction formula. It will also address to some extent the important concern relating to non-tariff barriers. Negotiations are going on to develop disciplines on non-tariff barriers, and some of these results will have direct relevance for addressing Bangladesh's concerns on standards used as trade barriers to their exports.

Similarly, in the area of services, an area with significant potential for Bangladesh and several other developing countries, the WTO Members are very close to developing the text of a Services modalities for LDCs under which preferential access will be provided to LDCs services exports. The benefits are obvious from this. Take for example the positive opportunities it will add to the major initiative of Digital Bangladesh launched by Bangladesh. The overall results in the services negotiations under Mode 1 will also mean a substantial increase in income generating opportunities.

I also want to emphasise the importance of Trade Facilitation and the results in this area under the Doha Round negotiations. Negotiations in this area provide a win-win opportunity, because better trade facilitation by all will make it easier for developing countries to access other markets and it will improve efficiency and reduce costs of own exports. It will also help Bangladesh rise up from its present 107<sup>th</sup> position in the list of countries covered by the World Bank to show the relative ease of doing business in the country. Trade Facilitations is an area where some studies have shown that the benefits of a successful conclusion of the Doha Round negotiations will be particularly high.

There will be other positive results in different areas of the negotiations with positive implications for growth and development, including a greater focus on helping with capacity augmentation.

Since we are dealing with changes which are system oriented, these benefits will be available to all Members, leading to a rise in economic activity and development prospects for all.

With the help of all these benefits, present and potential, from the multilateral trading system, Bangladesh will be in a better position to address the supply side constraints, achieve more market access, and help raise its domestic growth with greater equity. This will help increase the average growth Bangladesh above the 6.4 per cent annual growth rate which according to the Economist Intelligence Unit it is expected to achieve during the next four years.

As structural changes take place in the world, the emerging tectonic shifts will increase the pressures for taking protectionist steps. For world growth, and particularly for maintaining and augmenting developing country opportunities, these

pressures will create adverse conditions. The WTO is a major forum for addressing these systematically, and providing the insurance of a stable and valued system for all while doing so. We need to preserve and use this system, and also focus on a successful conclusion of the Doha Round in the very near future. The momentum of the energy which we can see in the context of the World Cup should continue this year to enhance the development opportunities that are inherent in this global public good, the WTO system.