



UNITED NATIONS

ECLAC

Division of International Trade and Integration

Notes on International Trade

THE HONG KONG CONFERENCE: AN ASSESSMENT

Overview

1. The Sixth WTO Ministerial Conference in Hong Kong achieved the goals that had been set by Pascal Lamy when he assumed his new responsibilities as Director General of WTO in September 2005: a stocktaking meeting and the setting of guidelines for completing the work of the Doha Round in 2006.

2. These were not, however, the original goals for this Sixth Ministerial Conference of WTO. It had been hoped, in particular, to reach agreements on “modalities” for liberalization, which did not occur. The main achievement was thus to keep the negotiations going. The meeting in Hong Kong began by considering a comprehensive draft which was based on the guidelines of the “July package” of 2004, but non of the political and technically complex decisions required were taken. In the days prior to the Conference some agreements of potential benefit for developing countries were reached in the area of intellectual property (see paragraph 18 below), which lightened the ministers’ agenda.

3. Lamy inherited a troubled scenario and a very poor outlook for the Hong Kong meeting. It is therefore not a bad result to have produced a declaration and a plan of work with specific dates for 2006. The original goals of the ministerial meeting were more ambitious, but Lamy managed to reduce expectations, postpone major decisions and, most importantly, keep the process going while maintaining the commitment of the main actors. As the negotiations continue, it is increasingly difficult to maintain the

consensus between them: the United States, the European Union, Brazil, India, Japan and Australia.

4. Of the three agricultural issues –market access, export subsidies and domestic support- export subsidies was the most easily dealt with, as the United States uses relatively few direct export subsidies and the European Union had already made a domestic commitment to eliminate them in 2013. The most difficult is market access, an area where the European Union has the most problems. Its proposal excludes 8% of agricultural tariff lines from the negotiations and although it claims to be flexible in this area, the gap with the demands of the developing countries is excessive. The World Bank notes that the exclusion of just 2% of such items is sufficient to reduce by 75% the potential benefits of this round for developing countries.

5. The difficulties are not minor. In agriculture, progress needs to be made simultaneously in market access, ending export subsidies and a substantial reduction in domestic support. With regard to market access, in addition to substantial tariff reductions, the number of exclusions must be limited, with compensation in those sectors in the form of large quotas; in relation to domestic support, the reduction must be based on current amounts, and not on the substantially higher amounts that

are authorized by WTO. This reduction must be made without loopholes that enable the same resources to be allocated by other means, by broadening the definition of the so-called “blue box”, as suggested by the industrialized economies. This delicate balance on agriculture must be weighted against the negotiation on industry and services, where there are other difficulties that are significant, but fewer than in agriculture. The United States,



International Trade flows.

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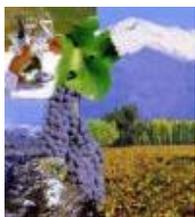


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the European Union and Japan are of course determining the extent of the agricultural opening that they will concede conditional on the level of opening that the developing countries can offer in industry and services.

6. Tensions in the group leading the negotiations will increase in the course of 2006. In fact, although the United States and the European Union share difficulties of varying degrees in dismantling their domestic agricultural subsidies and support, the United States is showing more flexibility in responding to this challenge, as it sees that greater opportunities for agricultural exports either to the European Union or to developing countries will follow from the progress made on the three pillars of the agricultural negotiation. In turn, the Group of 20 (G-20) includes countries with very different potential levels of agricultural competitiveness, so that when the final decisions are taken, the offensive or defensive sensitivities of the developing countries will become apparent. As the degree and coverage of agricultural liberalization offered by the United States, the European Union and Japan will also have a negotiating link with the depth of the opening offered by the developing countries in industry and services, this will create more tension in the group of developing countries, depending on their greater or lesser willingness to opening up these sectors.

7. The Declaration specifies three points in time for 2006: (i) 30 April for agreeing on the modalities for the main negotiating topics (tariff reduction and treatment of subsidies); (ii) May-July, the period in which the revised lists of offers for liberalization should be presented, possible provisions for implementation and recommendations on aid for trade; and (iii) the second half of 2006, in which the



activity will depend on (i) and (ii), and also include the final offers of services, plus some responses and recommendations for decisions in the context of special and differentiated treatment, small economies and the least developed countries (LDC). In addition there is a renewal of the resolve to

conclude the Doha Round successfully in 2006 and it is implied that application will begin during 2008.

8. A reading of the Declaration confirms that the negotiations of the Doha round are fundamentally negotiations on market access and to a much lesser degree on the strengthening of disciplines such as antidumping or subsidies. The Declaration continues with a developmental rhetoric as a key aspect of maintaining the involvement of most of the developing countries. Nevertheless, the recommendations and decisions are increasingly concentrated in the LDCs, a category in which Haiti is the only Latin American country. There is also relatively greater attention to the Work Programme on Small Economies which could bring benefits to a greater number of such countries in the region, especially in the Caribbean.

Specific Issues

Agricultural and Non-agricultural Products

9. The Declaration confirmed issues that had been previously agreed but required approval by the Ministers. These include the elimination of export subsidies for agricultural products in 2013 (the date is to be confirmed when the modalities have been completed), and commitments for a substantial reduction "by the end of the first half of the implementation period" (the date of which is not specified). It also contains specific issues relating to cotton, including the elimination of export subsidies in 2006. The main issue concerning this product, however, is the domestic subsidies applied in the United States, some of which were recently challenged in WTO panels.

10. Although the practical effects of the decision on export subsidies may be minor, as the United States applies relatively few direct subsidies to its agricultural exports and the European Union has already planned to eliminate them in 2013 as part of its internal reform process, the value of the decision lies in consolidating this commitment in an international treaty.

11. In the aspects relating to access to both agricultural and non-agricultural markets,

(NAMA), there was confirmation of the type of element that should be contained in the specific modalities for the holding of the negotiations. For example, the bands of tariff cuts (4) and the use of a "Swiss formula", respectively, but there are no specific figures to focus the negotiations on access during 2006. A number of qualifications were also included, at the request of some of the developing countries, which could serve to moderate the NAMA reductions.

12. Meanwhile, and with a view to meeting the development goals of the Round, the Declaration refers to the balance between agriculture and NAMA in relation to market access. That is, not only is a global balance sought in the result of the negotiation, but a specific link was also established between the negotiations for agricultural and non-agricultural products. The Declaration indicates that "To that end, we instruct our negotiators to ensure that there is a comparably high level of ambition in market access for Agriculture and NAMA." This will enable the developing countries to resist current pressures for significant reductions in their tariff protection for non-agricultural products in return for the reductions they obtain in agriculture. Nevertheless, it may work out differently: as a justification for some developed countries to be less ambitious in agriculture if there are no equivalent "concessions" in NAMA.

13. Also in relation to domestic support for agriculture, the ministers decided that they would be guided by three bands of subsidies, on which the reduction targets would be based. There is a provision which, while ensuring the overall reduction of these subsidies, is also concerned to limit the possibility of reallocation among the different boxes, especially between the amber and blue boxes. But there is still much work to be done in working out the specific details of the reductions in these measures.

14. It is clear that all of the elements needed to complete the modalities exist (and have been discussed on many oc-

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casions) and so the possibility of making progress as scheduled depends exclusively on political decisions that have been postponed. In this context, the pertinent question is whether the Hong Kong meeting was able to generate the climate needed for these substantial decisions on trade opening in agriculture, industry and services to be taken in the next few months. The previous course of events does not offer much reason for optimism.

Trade in Services

15. The text of the Declaration shows an imbalance in the treatment of the topics, which was strongly resisted by the developing countries. In fact, the Ministers “take note” of the reports of the Chairmen of the negotiating groups on agriculture and non-agricultural products (annexes A and B of the Declaration). Yet at the same time, in relation to services, paragraph 27 of the Declaration specifically states that:



“We are determined to intensify the negotiations in accordance with the above principles and the Objectives, Approaches and Timelines set out in Annex C to this document with a view to expanding the sectoral and modal coverage of commitments and improving their quality. In this regard, particular attention will be given to sectors and modes of supply of export interest to developing countries.”

16. Annex C referring to the services sector contains a precise number of negotiating objectives, lists in detail the type of restrictive measures that should be eliminated and the specific points which would serve to

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guide the negotiations on new and existing commitments in relation to services, including timelines other than those on which agreement had been reached.

17. An attempt is clearly being made to define a trade-off in this negotiation between

access to the goods market and trade in services. This trade-off may turn out to be disadvantageous for the developing countries, as this is a very dynamic activity and very little is known about the legal consequences of making international commitments. The adoption of international commitments on this issue should therefore be carefully evaluated. This does not mean that the developing countries should not move forward in opening up the services sector, as this would bring significant competitiveness gains, but their commitments may involve significant institutional changes and regulatory approaches that require a strengthening of their capacities.

Intellectual Property

18. Of particular interest is the formalization of the public health amendment made to the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement) one week before the beginning of the Conference. This amendment confirms the agreement’s flexibility in relation to medicine patents in specific circumstances and an extension for LDCs of the implementation period for the provisions of the agreement.

Market Access for the Least Developed Countries

19. Another positive result for LDCs are the specific decisions adopted in relation to market access for their products, which indicate that:

“developed-country Members shall, and developing-country Members declaring themselves in a position to do so should: (a)(i) Provide duty-free and quota-free market access on a lasting basis, for all products originating from all LDCs by 2008 or no later than the start of the implementation period in a manner that ensures stability, security and predictability.”

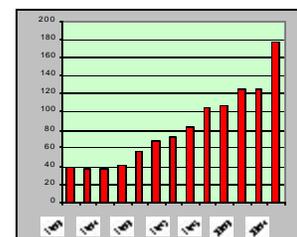
20. Even though most of these countries already have preferential treatment for access to the markets of the developed countries, there are three significant aspects to this decision: (i) it includes the developing countries in the initiative to benefit LDCs; (ii) an attempt is made to establish this preferential access “on a lasting basis”; and (iii) free from quotas, a particularly important aspect.

21. The practical impact of this measure, however, may be limited, as Canada, United

States and Japan included wording that allow them to exclude sensitive sectors (in particular, dairy products, chicken, textiles, sugar, rice and fisheries products). Many of the products of LDCs do not comply with health or other regulations, which means that despite the benefit of preferential treatment, they could still be excluded from access to those markets. Another major restriction in this area is the unilateral establishment of rules of origin, an issue which also reduces the magnitude of this concession to LDCs. This is why development aid linked to trade should be focused on supporting the physical infrastructure and development of the competitive export offer of those countries.

Trade Facilitation

22. With regard to trade facilitation, including the problems of the landlocked countries, it is important to note that this was the only negotiating group report presented at the Ministerial Conference in Hong Kong that was agreed by consensus. In this area, the negotiations have moved forward with specific identification of initiatives which could be implemented. Nevertheless, the problems of technical and financial assistance for developing countries remain a key element for implementation and the actual level of resources available for such assistance will only be known at the end of the Round. This issue, according to various estimates, could bring significant gains in terms of



World exports, 1980-2004(1995=100)

welfare, especially for LDCs. This is what leads ECLAC to propose that efforts be made in the region to move forward with a certain degree of independence from the deliberations in WTO, by implementing those initiatives that the Latin American countries are supporting in the Doha Round. At this level, a special contribution from the regional financial organizations would be welcome, so that the

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principle of linking the coverage and depth of commitments to the level of financing available could also be implemented, on the understanding that there is a large number of administrative measures which could already be promoted, in view of both their beneficial impact and their low cost.

Provisional Evaluation

23. The big question is still to what extent the Hong Kong meeting has managed to provide new impetus to the Round. It is too soon to give a definitive opinion, but one favourable signal is that so far there have been no negative statements from the developing countries. Some press reports, however, do seem to indicate a deterioration in the personal relationships of some of the key ministers involved. There also appears to be a favourable perception of the relatively participatory process of drafting the Declaration, which to some extent answered the calls for transparency and inclusion which have been made on previous occasions. The fact that Brazil and India were influential in achieving this result (mainly on behalf of G-20) means that they share in the responsibility and are thus obliged to continue their support for the process, although the specific progress achieved may still be small.

24. All things considered, the main beneficiary has been the Director General of WTO, Pascal Lamy, who took on the formal role just four months ago, although he had been working since June or July in preparation for the ministerial meeting. By defining the expectation for the Hong Kong meeting at an early stage, he managed to focus on achieving a declaration. Not having a declaration would have been a clear sign of failure. In contrast, achieving a comprehensive declaration (unlike the situation in Cancún), independently of its substantive contents, means that the meeting remains duly recorded in the history of the Organization. A meeting without results would mean an early loss of Lamy's political capital and perhaps structural damage to the credibility and prestige of WTO.

25. A smaller meeting is expected to take place in April, which would make it possible to have a second ministerial meeting without having to wait another two years, and prior to December 2006. Such a meeting would also be free of the heavy procedures of WTO ministerial meetings. Holding the meeting in Geneva helps to make it more flexible.

In short, the Hong Kong meeting did not produce major achievements but did maintain the dynamics of the process and defined a work agenda for 2006.

26. The history of the GATT negotiations, especially the Uruguay Round, shows that it is not in the context of the ministerial meetings –the highest decision-making body in this type of organization– that the negotiations have been concluded, nor is it where the greatest progress was made. The Uruguay Round was supposed to conclude at the meeting in Brussels in December 1990 but this was not possible. The Director of GATT (Arthur Dunkel) submitted one year later a document on his own responsibility that contained the essence of what the Uruguay Round had ultimately been. This document was the basis for the final agreement of the Uruguay Round adopted in December 1993 at a meeting in Geneva.

27. As on other occasions, Latin America did not come to this Ministerial Conference with a regional approach, but rather a number of countries from the region participated with proposals for agricultural liberalization (in the G-20, the Group of 33 and other groups) and smaller groups were active in relation to improving disciplines –antidumping, fisheries subsidies–, the link between the TRIPS Agreement and the Convention on Biological Diversity, and issues relating to their condition of

developing country.

28. Unlike in previous rounds, the developing countries and Latin America, in particular, are proving to be more informed and to have greater negotiating capacity. The G-20 has become a leader in the negotiations and Brazil, its main organizer, has become a central actor in the entire process. An issue that is still to be considered is the reluctance of developing countries, including many from the region, to participate in the efforts in WTO while they are enthusiastic about signing more ambitious and more complex bilateral and regional agreements which cover the same issues that they refuse to consider in the context of WTO.

29. In short, the Hong Kong meeting did not produce major achievements but did maintain the dynamics of the process and defined a work agenda for 2006. Various obstacles remain, and the main decisions have been postponed. Only at the beginning of the second half of 2006 there will be clearer signals of the hoped-for evolution of this round. For the moment, the outlook remains highly complex and the likelihood of success will depend on a stronger commitment from the main negotiating parties, in particular the United States and the European Union.



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The topic covered in this issue* is also considered in the following documents of the Division:

- Latin America and the Caribbean in the world economy, 2004 Trends 2005
- FAL Bulletin FAL No.232, December 2005

* The opinions expressed in this document, which has not been submitted for formal editing, are the sole responsibility of the author and do not necessarily coincide with those of the Organization.

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