

Trade and Development: It's time to become more coherent



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OECD countries are committed to improving substantially the quality of life in the poorer regions of the world, beginning by achieving the Millennium Development Goals for the year 2015. In this regard, the Doha Development Agenda, the Monterrey Consensus and the World Summit on Sustainable Development have set the basis for a new partnership between developed and developing countries to address these great challenges of the 21st century.

The Millennium Development Goals (MDGs) for 2015

1. Eradicate extreme poverty and hunger
2. Achieve universal primary education
3. Promote gender equality and empower women
4. Reduce child mortality
5. Improve maternal health
6. Combat HIV/AIDS, malaria, and other diseases
7. Ensure environmental sustainability
8. Develop a global partnership for development

OECD countries play a major role in achieving these objectives by providing official development assistance of over \$50 billion annually. But, the development objectives of OECD countries are impeded by a range of other policies, most notably policies for trade in agricultural

and some manufacturing products. To realise the Millennium Development Goals, OECD countries will need to become more coherent by making these trade and other policies more development friendly. The policies OECD countries pursue should sustain and support the development process, not undermine it. There is little point, for example, in providing development aid to improve a country's ability to engage in trade if the donor countries then maintain trade barriers that keep the developing country's goods out. Developing countries rely on OECD countries for more than 60% of their trade.

Trade and development

Over 50 years ago, the major economic powers realised that reducing barriers to international trade and investment was vital to recovery from the Great Depression and the Second World War. Liberalisation of trade and investment, together with good governance, have been the basis of the unprecedented increases in prosperity and social progress in OECD countries, even though important barriers remain in a number of areas. A process of trade and investment liberalisation was launched through multilateral co-operation in organisations like the OECD (and its predecessor the OEEC), the WTO (and before

that the GATT), and the Bretton Woods institutions, to name just a few.

More open OECD markets have also enabled a number of emerging economies, most notably in East Asia, to follow the path of rapid economic development. These successful economies have of course liberalised their own trade, as well as improving domestic systems of governance and local capacities, especially through education and entrepreneurship policies.

For their part, OECD countries have benefited greatly from the emergence of these economies. OECD countries now depend on developing countries for a third of their export sales, a fifth of their primary commodity imports, and almost half of their petroleum consumption. As cheaper exports from developing countries flow into OECD markets, consumers benefit and resources can be channelled into higher productive uses. As developing economies grow and advance, their demand for higher value exports of goods and services from OECD countries will increase, providing necessary stimulus to OECD economies.

While a number of developing countries have seen dramatic economic development and poverty reduction, one in five of the world's population live in abject poverty, with a per capita income of less than one dollar a day.

Nearly three billion people live on less than two dollars a day. Certain societal groups and, indeed, entire countries are now being bypassed by the global economy. For example, Sub-Saharan Africa's share of world trade has fallen from 4% in 1987 to less than 2% in 2001. More effective domestic governance and capacities would certainly help these countries. But a critical piece in their development puzzle is to reduce their own trade barriers, in particular to the products of other developing countries, and to obtain better access to OECD markets.

Trade and coherence

OECD countries are committed to the Doha Development Agenda (DDA), the framework for the multilateral trade negotiations currently under way in the World Trade Organisation (WTO). These negotiations have been designed to ensure that all countries, and particularly developing countries, reap the benefits of more liberalised trade.

Making progress in agriculture is crucial to the success of the negotiations and to making the DDA a true development round. For developing countries, agriculture is a major source of income and potential poverty alleviation, but trade-distorting domestic support and protection of agriculture has

greatly limited access to OECD markets. A further problem is created when OECD countries dump agriculture surpluses in developing countries and drive local farmers out of their own local market. OECD support to agriculture in 2002 amounted to USD 318.3 billion, while official development assistance to developing countries in 2002 was USD 57 billion or 0.23% of GDP. For manufacturing goods, much has been achieved in reducing tariffs, yet high tariffs and tariff escalation persist for goods like textiles, clothing, footwear, and some processed products, for which developing countries have a comparative advantage.

Removing trade barriers in developed countries can also encourage foreign companies to establish production sites in developing countries; minimise recourse to special tax and other incentives which could unduly distort location decisions to the detriment of less developed countries; and promote the positive development contribution of multinational enterprises.

Not all coherence issues can be addressed at once - there are a great many other such issues that the OECD is working on, such as in the areas of migration or intellectual property rights. But, the Doha Development Agenda for negotiations at the WTO makes agricultural and trade policy issues the most urgent.

Developing countries need access to markets for those goods and services in which they have a comparative advantage.

The WTO Doha Round is a once-in-a-generation opportunity which cannot be missed. To this point, however, important deadlines in the negotiations have been missed. Real differences of views remain. The upcoming WTO Ministerial in Canc n will be an important staging post to the scheduled end of negotiations at end-2004. But there will be a clear need to shift into fast gear after Canc n.

Development co-operation also has an important role to play. Donors and developing countries need to work together to ensure, for example, that export-led growth policies are in line with international market developments; and that developing country exporters have the necessary capacities to comply with international regulations, norms, standards and practices. Developing countries must also be given an equitable role in developing appropriate instruments and approaches and in defining the rules of the game .

Multilateral trade - is there a choice?

When the multilateral trading system was conceived, the idea was that it should strengthen the weak and restrain the strong — for the benefit of all. And this philosophy has

never been more relevant than it is today. To realise the promise embodied in the DDA will require developed countries to take their development commitments more seriously - to ensure that their trade and other policies are more coherent with their development goals.

Over the decades, multilateralism has had its ups and downs. But despite temporary setbacks, especially in inter-governmental relationships, it has always survived and been reinforced. Why? Because it is essential to achieving long-term growth, development and prosperity, which are the basis for peace and security.

During my lifetime I have watched multilateralism evolve from relations between governments to be matched by strong relationships between people at all levels — business, investment, cross-border ownership on a massive scale, culture, education, science and so on. And very often, it is these other levels of international co-operation that remind governments of the importance of multilateralism.

The DDA holds promise for economic development through multilateral trade. At a time of economic uncertainty, it is critical that WTO negotiations move forward, that momentum not be lost, even if progress is not optimal. A failure in these negotiations could give rise to real dangers in realising the

potential of liberalised trade, the source of global prosperity and an important part of the answer to reducing poverty in the developing world.

The OECD can contribute by supporting the multilateral trading system. To help realise the promise of the DDA, the OECD is redoubling its efforts to strengthen the constituency for free trade, to build bridges between differing government viewpoints in sensitive areas, and especially to facilitate negotiations in the run-up to the WTO ministerial meeting in Cancun, Mexico, in September 2003. The OECD is also ensuring that development is an element in all aspects of our work on trade, and we discuss this work with developing countries and civil society. In support of the DDA, the OECD also recently published a comprehensive report on the role

of foreign direct investment in development.

Moreover, as requested by Ministers in 2002, the OECD is working to enhance understanding of the development dimensions of its Member country policies and their impacts on developing countries. To achieve the Millennium Development Goals, it will be critical for OECD country trade (and other) policies to stop undermining their commitments to poverty reduction and sustainable development in the developing world. It's time to become more coherent.

It is my hope that, as in the past, a combination of leadership, political will and good sense will prevail and success will be achieved for the Doha Development Agenda. This is the surest path toward economic prosperity, poverty reduction and political stability on a global basis. ☞ ●