



## **ADDRESS TO THE SIXTH SESSION OF THE WTO MINISTERIAL**

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**Hong Kong, China**

**December 14, 2005**

Your Excellencies, Ladies and Gentlemen, I am pleased to be in Hong Kong, China attending this important gathering. I join others in thanking Secretary John Tsang, Secretary for Commerce, Industry and Technology, Hong Kong, China, and our host government, as well as Director General Pascal Lamy for organizing the meeting.

The World Bank supports your efforts in negotiating the Doha Development Agenda (DDA), not only because trade is important for growth, but also because the outcome of these negotiations can play an important role in the fight against poverty. Success will leverage ongoing efforts on increasing aid and debt relief with a view to achieving the Millennium Development Goals.

World Bank research shows that **full** liberalization of merchandise trade could bring significant gains to the global economy by 2015. Related effects on poverty could mean a drop of tens of millions of people living under \$2 per day. Needless to say, full trade liberalization is not going to be achieved at the end of this round, but combining the most ambitious elements of the various offers on agriculture and manufactured products currently on the table could still bring significant gains. And these gains can be multiplied as the benefits from services liberalization and trade facilitation are factored in.

2005 has been marked by a series of initiatives to increase overall development assistance and to provide debt relief. As pointed out recently by **World Bank President Paul Wolfowitz**, "important as debt relief is, the opportunities generated by trade are far more significant. It is the missing link to jobs and opportunity."

The outcome of this meeting will signal your commitment to the ambitious goals of the DDA. Your work can help shape a new global marketplace in which farmers in poor countries no longer have to accept prices in commodities – such as cotton and sugar -- depressed by the subsidized production of relatively well-off farmers in rich countries. It can also expand trade opportunities by removing barriers that prevail in the rich countries precisely in those sectors that are vital to developing countries. But the barriers to developing country exports are also prevalent in developing countries themselves, underlining the importance of the South-South dimension of these negotiations.

Progress is in our view also essential for the long-term health of the rules-based multilateral trade system. The alternative to a successful Doha Round is not the status quo, since such an outcome would negatively affect the credibility of the system. Let me focus now on the essential elements of a development-friendly outcome for the negotiations.

## **A Development-Oriented Outcome**

There are three essential elements in leveraging the development-impact of the DDA: 1) agriculture reforms, where the North has to lead; 2) broad participation - reflecting the importance of own reforms in developing countries and of NAMA and services to achieve these benefits; and 3) aid for trade to help the poorest countries improve capacity and infrastructure, as well as face transitional adjustment costs.

### *Agriculture*

Agricultural liberalization will reduce rural poverty in developing countries, pure and simple.

- Cotton subsidies cost West African producers \$150 million per year – equivalent to 10% of their total merchandise exports.
- Tariff levels and tariff escalation systematically discriminate against high-quality long grain rice producers in Vietnam, where per capita income is less than \$600 and poverty persists.
- Moreover, from a poverty perspective, research shows trade liberalization would not only benefit landless agricultural workers in Brazil, but it would also improve income distribution.

It is important to underscore that limiting trade-distorting domestic support to farmers and phasing out agricultural export subsidies are vital and necessary disciplines. Special attention, however, needs to be given to the market access pillar, where the largest distortions are found. In this connection, the treatment of “sensitive products” in the agriculture negotiations is critical. If even 2 per cent of agricultural tariff lines are considered “sensitive” and subject to lesser cuts, the gains for developing countries in the Doha Round could be significantly reduced. This reflects the concentration of support in relatively few commodities – rice, sugar and meat products alone account for just over half of the total global cost of agricultural protection. This concentration of protection is also why a cap on *all* tariffs is so important.

### *The importance of broad participation by developing countries*

High protection in developing countries is harmful to their own development, to other developing countries, and to the global system. One quarter of developing country exports already go to other developing countries and just under 40 per cent of exports from LDCs go to other low and middle income countries. Trade among developing countries is growing 50 per cent faster than world trade in general. Looking forward, this is why the World Bank supports broad participation by all who trade and stand to gain.

Least Developed Countries would benefit from duty-free/quota-free access in the world’s major markets. As it stands, LDCs often have some special preferences to some markets. But in many sectors these preferences have had only modest success because they are typically subject to complicated rules of origin and can be withdrawn at the whim of the granting countries. More liberal rules of origin are required if LDCs are really to gain from extended preference schemes. But let us remember that preferences are second-best interventions and cannot provide the same long-term benefits as multilateral liberalization.

Moreover, pursuit of special and differential treatment does not imply that liberalization should be avoided by poor countries. Developing countries can use WTO negotiations to improve their own domestic productivity by opening their markets in the context of well-designed growth and poverty reduction programs. Binding tariff commitments in the WTO offers further benefits in terms of increased investor confidence. The World Bank is committed to helping countries overcome regulatory bottlenecks that impede private sector development and limit their own growth potential.

## *Aid for Trade*

Momentum has been building for increased aid to help the poorest countries integrate into the global economy and use trade as an engine of growth and poverty reduction.

Many of the poorest countries lack the basic machinery for trade, such as roads and ports; lack efficient trade institutions, such as customs; and lack the support for export expansion, be it credit, technical laboratories, or marketing skills to take advantage of trade opportunities. And without the confidence that they can gain from more open markets, these countries are reluctant to support further liberalization. Support from the international community to address these constraints to trade, and to assist with transitional adjustment costs of liberalization – including in the case of preference erosion – is critical to underpinning further integration into the global economy.

In response to requests from the Development Committee, the World Bank and the IMF put forward a package of proposals on aid for trade at the Annual Meetings in September 2005. These proposals received strong support from Ministers. This proposal has three legs: (1) the enhancement of the Integrated Framework, (2) supply-side efforts, and (3) adjustment assistance.

The enhancement of the **Integrated Framework** of Trade-related Technical Assistance, via a significant expansion of its resources and actions to strengthen its governance, will help promote country ownership and catalyze additional support from donors for trade needs in national development strategies.

**Supply-side** constraints often affect the integration of poor economies. For example, regional or cross-country impediments may be particularly important for small, very poor, or landlocked countries that are dependent on action by neighbors. We will examine these needs.

The Bank and Fund also plan to further assess the nature and magnitude of **adjustment needs** of countries facing external shocks associated with multilateral liberalization. We stand ready to coordinate with other donors to bring complementary packages of assistance, in the form of grants or loans as appropriate, in these cases.

## **The Role of the World Bank**

The Bank has substantially increased its activities in the area of trade facilitation and trade-related infrastructure. There are currently 65 projects being implemented in 43 countries, representing a total portfolio of US\$3.9 billion, including a US\$1.1 billion trade facilitation component. Additionally, 48 projects are being prepared with a projected amount of US\$1.5 billion for trade facilitation. These projects take a crosscutting approach, focusing not only on customs modernization, but also investment in key trade-related infrastructure, inland transit, logistic services, information systems, ports efficiency and security. The Bank is also continuing an active research program to evaluate global trade reforms from the perspective of their development outcome. In a modest way, we hope this assists the voice of those not represented here today in realizing the development promise of the DDA.

We must not let this opportunity pass us by since the lives of millions of poor people are at stake.