Statement by The Hon. Mr. Donald J. Johnston, Secretary-General of the OECD

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It may seem trite to declare that the Doha Development Agenda offers major opportunities for growth and economic development through trade. But it is a message worth repeating. With over one billion people living in poverty, this is a compelling challenge – and a challenge we must meet.

Nature abhors a vacuum. If multilateral action stalls, other initiatives will fill the gap. Bilateral and regional trade deals will proliferate even more than in recent years. And plurilateral agreements, covering just specific sectors or areas of activity, will be reached. There will be other negative consequences as well in terms of opportunities forgone, most importantly, a failure to bring much of the developing world out of abject poverty.

I would remind you of the wisdom of Shakespeare:

> *"There is a tide in the affairs of men,*
> *Which, taken at the flood, leads on to fortune;*
> *Omitted, all the voyage of their life*
> *Is bound in shallows and in miseries."*

To use this analogy, we are now at the flood and must act, but the tide of opportunity may well recede quickly if the potential provided by the Doha Round is not seized. And if not seized, what would be the consequences? What shallows and miseries would a failure portend?

Departing from the multilateral process would be particularly costly for developing countries. Many – especially smaller and poorer developing countries - would be excluded from bilateral deals and risk being marginalised. Moreover, those developing countries which are offered bilateral arrangements are hardly likely to emerge as the net beneficiaries when negotiating with a major power.

The opportunities forgone from a lack of progress on the multilateral front will be considerable. Take trade facilitation as an example. We calculate that developing countries would capture two thirds of the worldwide income gains from a DDA agreement in this area, which would be forgone with no agreement. Furthermore, if trade facilitation reforms are restricted to OECD countries, we estimate that the resulting trade diversion would cause a 3% income drop in developing countries.

In addition, some $68 billion which would accrue to developing countries from full tariff liberalisation would be forfeited.

In the area of agriculture, a failure to improve market access would seriously prejudice farmers, as well as consumers, throughout the world, including in developing countries.

The striking gains on offer from further liberalisation of trade in services would be forgone and again, developing countries would be among the principal losers.

Developing countries' own liberalisation is a key element in all these areas; a failure to move forward here would result in the huge opportunities arising in South-South trade being compromised.

Beyond the gains forgone, there would be serious systemic risks arising from stalled multilateral reform. Existing distortions to trade and economic activity would become entrenched, making it increasingly difficult for developing countries to compete fairly in world markets. We have a clear example in agriculture, where 30% of OECD farmers' receipts come from a combination of government interventions in markets and budgetary payments. Even more importantly, fully three-quarters of this support comes via the most trade–distorting types of policy instrument such as import tariffs and export subsidies.

If the momentum of multilateral rule making is not maintained then the risk of resorting to dispute settlement procedures will be heightened, further eroding the effective functioning of the trading system.

Moreover, the continued growth of regional and bilateral deals, in the absence of strong multilateral disciplines, would impose further heavy burdens on business, through the complexity of proliferating rules of origin and technical standards with which firms have to deal.

Clearly failure of the DDA round would result in billions of dollars of potential benefits being forgone, especially for the developing world. I have mentioned agriculture, but here we should specifically identify cotton, of vital importance to many of Africa's poorest countries. But we should also add industrial tariffs; services; rules in anti-dumping; subsidies; countervailing measures and fisheries subsidies, which are so damaging to developing countries.

How do we ensure that there is sufficient political will to avoid these pitfalls and so realise the full promise of the WTO-based system? First, we must, collectively, foster a deeper appreciation among our publics of the benefits of multilateral market opening. And by "we" I cast the net wide. This activity must embrace government, civil society and international organisations.

The second track, without which the first would simply be more empty rhetoric, requires us to pursue coherent and mutually supportive policies in other fields. Trade policy needs to be placed in a broader domestic framework which recognises that market opening works best when it is backed by sound macroeconomic policies, flexible labour markets, a culture of competition and strong institutions. Market opening will yield its biggest fruits in a policy environment which facilitates the movement of labour and capital from declining to expanding areas of activity.

Through this lens we can see and promote trade reform as a necessary tool of growth and development rather than as a concession paid to others. And through this lens it might then be possible to agree on a mechanism whereby once a country's trade under regional deals reached a certain level, preferences embodied in those deals would be multilateralised on an MFN basis.

Policies at the national level must acknowledge that globalisation does result in a decline in certain areas of activity, and that measures are needed to smooth the necessary adjustment for the people concerned. In some cases targeted measures may prove effective in correcting for market failure, but when used such measures should be transparent and cost-effective. In particular, should it be considered necessary to use safeguard measures, it should be on the basis that their potential benefit in providing breathing space for – and public acceptance of – structural adjustment exceeds the costs they entail.

Nowhere is policy coherence more important than at the interface between trade and development. According to the joint OECD-WTO trade capacity building database, since the launch of the DDA, the total volume of trade related assistance has increased steadily to reach $3 billion in 2004. And aid for infrastructure, which can have major direct and indirect effects on trade competitiveness, is now over $10 billion.

It is clear that as part of the DDA, there needs to be a strengthened aid for trade component. In terms of the supply of aid, and assuming that the commitments given by Heads of State since Monterrey are fulfilled, the OECD projects the biggest ODA increase ever over the next five years – from $80 billion in 2004 to $130 billion in 2010. Clearly there is scope for more investment in aid for trade, as broadly defined.

However, aid for trade is not just a question of more money. In fact, the development community has greatly improved its effectiveness in the pursuit of its key underlying principles: local ownership, alignment around national systems and strategies, harmonised donor efforts and management for results.

The Integrated Framework embodies these principles and it should be carried further, with more financial support for boosting policy and implementation capacities of programme countries. The scope, definition and instruments of a wider aid for trade agenda will clearly require more work. The OECD aid and trade communities stand ready to contribute to this debate.

If, to consider the converse, we are seeking an example of policy incoherence, we need look no further than cotton. As I mentioned a few minutes ago, something clearly has to be done to address African concerns in this sector; but not in isolation. Technical and financial assistance to the cotton sub-sector should comply with general aid effectiveness practices. And the pursuit of a DDA outcome on cotton that is more ambitious and more expeditious than that sought for other commodities should be built on the foundation of an ambitious result for agricultural liberalisation more broadly.

Bringing the DDA to a successful conclusion will help address some of the critical challenges presently facing the international economy: including the persisting global imbalances, population ageing and poverty. Our shared task must remain to complete the DDA by the end of 2006. This in turn may require countries to leave behind mercantilist thinking founded on offers and concessions and recognise that the economic interest of every country is furthered even through unilateral liberalisation on a Most Favoured Nation (MFN) basis. This has been demonstrated through OECD analysis.

As Director General Lamy suggested in his opening remarks, let us be courageous and be willing to take some risk for the benefit of all.

OECD members must recognise that they have a particular responsibility. They also must recognise that there is too much at stake to allow this venture to fail. As the Shakespeare quote continues:

> *"On such a full sea are we now afloat;*
> *And we must take the current when it serves,*
> *Or lose our ventures."*