

POLICY ANALYSIS

The Doha Round: Freer and Fairer Trade?

- Given the limited ambition that has been set for the Doha Round since the setback at Cancún in 2003, optimistic estimates of the likely gains from a successful agreement on world trade are around \$182 billion, of which \$90 billion may accrue to the developing countries.
- More than 60% of these gains will come from reform to agriculture, including a substantial cut in tariffs and subsidies. The European Union (EU) and the United States persist with agricultural tariffs, which account for almost 40% of the value of total agricultural output, and high tariffs remain on some products.
- The benefits of agricultural reform will not accrue uniformly to developing countries, with large agricultural exporters – notably the G20 group, which includes Brazil, China, India and South Africa – receiving a disproportionate share of the gains, and less developed countries (particularly the net food-importing countries) actually worse off as a result of the reduced subsidies on imported commodities. These adverse consumption effects will have particularly harsh effects on the urban poor.
- Although agriculture has dominated the Round, there is potential for large gains in other areas of the agenda. Tariffs on industrial goods are persistently high in some areas. Reform to labour-intensive services, temporary migration schemes and efforts to increase export capacity in developing countries are important issues, which have received insufficient attention.
- Developing countries are keen to avoid their mistake in the Uruguay Round, where they exchanged binding commitments to trade liberalisation for poorly defined promises of assistance that did not materialise. A firm programme of assistance with adjustment costs and supply capacity – ‘aid for trade’ – is yet to be agreed.
- The African, Caribbean and Pacific (ACP) countries have little to gain from the issues that remain on the agenda. Many of them already receive free market access through preferential schemes. Indeed, further multilateral tariff reductions will only reduce their existing preference margins. These countries could block progress in the Round if they feel they are not benefiting sufficiently.



Introduction

The purpose of the World Trade Organisation (WTO) Ministerial Conference in Hong Kong in December 2005 is to agree a broad outline of the final agreement of the 'Doha Development Agenda', which WTO members hope to complete by the end of 2006.

The Doha Development Agenda was launched in November 2001 at the WTO's Fourth Ministerial Conference in the capital of Qatar. The conference endorsed the Doha Declaration – a statement of purpose that launched the Round and focused its agenda on the concerns of the developing countries, including reform to agriculture (particularly reductions in subsidies and tariffs provided by developed countries), reductions in tariffs on industrial goods and special treatment of poor countries (through exemptions from burdensome commitments and promises of financial assistance). The declaration also promised to redress some of the imbalances from the previous Round, particularly in the area of public health and intellectual property rights.

This 'Doha Round' – the ninth of a series of such negotiations, and the first since the formalisation of trade negotiations under the WTO¹ – came to be referred to as the 'Development Round'.

The rocky road from Doha to Hong Kong

Less than two years after the Doha Declaration, it had become clear that the Round was seriously off track. In September 2003, the WTO convened another ministerial meeting in Cancún, Mexico, with the special task to 'take stock of progress in the [Doha Development Agenda] negotiations, provide any necessary political guidance and take decisions as necessary.' After four days, the meeting ended abruptly without agreement on any of the main issues. Many of the participants in the Cancún meeting felt that the European Union (EU) and the United States had reneged on the promises made at Doha, emblemised by the lack of progress in agriculture.

Many developing countries and non-governmental organisations viewed agriculture as the primary objective of the Round, and were disappointed that there had been little progress in the two years after Doha. The March 2003 deadline for agreement on agriculture 'modalities' was missed. When the EU and the United States finally presented a joint paper on agricultural issues in August, the framework was widely criticised by developing countries for ignoring their interests.²

At the same time, agricultural initiatives within OECD countries seemed to be undermining multilateral efforts. The US Farm Bill in 2002 increased the level of support to US farmers³ and strengthened the link between subsidies and production decisions.⁴ A year later, the European Union's 2003 Luxembourg reform of the Common Agricultural Policy (CAP) was also disappointing.

¹ The first round, held in Geneva in 1947, resulted in the General Agreement on Tariffs and Trade (GATT), which the WTO formally replaced in 1995.

² See the statements by Indian Ambassador K.M. Chandrasekhar, Brazil's Ambassador, Luis Felipe de Seixas Correa, and China's Ambassador Sun Zhenyu (TWN, 2003).

³ The US Farm Security and Rural Investment Act (FSRIA) of May 2002 has a value of about \$190 billion over the next ten years, about \$83 billion more than under previous programmes. It sets target prices that are lower than the pre-1996 levels, but the total effective support is larger because average world commodity prices have declined and the range of commodities included in FSIRA is larger than in the 1996 FAIR Act. That act was intended to phase out farm subsidies, but even before the passage of FSRIA, farmers had achieved additional support through emergency measures.

⁴ It provides counter-cyclical payments to US farmers who respond negatively to the world prices. This type of measure has allowed the United States to dump its farm surplus on world markets. For example, the United States

Doha Round Timeline

Seattle 1999	President Clinton attempts to launch a 'Millennium Round', but the meeting fails amid street riots
Doha 2001	Launches the 'Development Round' with the goal of completion in January 2005
Cancun 2003	Supposed to 'evaluate progress' but no progress was made in key areas, so the developing countries walked out
July mini 2004	Attempts to put the Round back on track by jettisoning controversial issues
Hong Kong 2005	Watch this space...

In addition to their disappointment on agriculture, developing countries were sceptical about the effects of the new items on the agenda – the so-called 'Singapore issues'.⁵

In the space of a month from early June 2003, 77 developing countries, including over half the WTO membership, made public statements urging that the Singapore issues not be included as part of the Doha Round.⁶

Since these issues are not priorities for developing countries, their emerging centrality in the agenda prior to Cancún was an incongruous feature of the Development Round.

After Cancún, the Round was put back on track at a special meeting in July 2004, which agreed to restart the negotiations, albeit at a much lower level of ambition. Most of the Singapore issues were dropped from the agenda. It was agreed that the developing countries would not be asked to make new commitments in the Round – they would get the 'Round for Free'.

In agriculture, progress was made in several important areas. Developed countries promised to eliminate export subsidies, to increase regulation of production subsidies and to adopt a 'tiered formula' for tariff reductions whereby the highest tariffs would be reduced the most. These broad issues of the 'July 2004 framework' set the parameters for the ensuing negotiations.

What are the potential gains?

The projected gains from concluding the Round will be determined by the content of the final agreement. World Bank estimates suggest that full liberalisation of agriculture following the parameters laid out in the July 2004 agreements would lead to a total global welfare gain of \$182 billion. Developing countries are estimated to gain \$90 billion, of which:

exports corn at prices 20% below the cost of production, and wheat at 46% below cost. See Cassel (2002), 'The Great Trade Robbery', *Chicago Daily Law Bulletin*.

⁵ Ministers from WTO members decided at the 1996 Singapore Ministerial Conference to establish three new working groups: on trade and investment; on competition policy; and on transparency in government procurement. They also instructed the WTO Goods Council to consider ways of simplifying trade procedures, an issue sometimes known as 'trade facilitation'. Because these issues were introduced to the agenda at the Singapore ministerial meeting, they are often called the 'Singapore issues'.

⁶ CAFOD (2003), 'Singapore Issues in the WTO: What do developing countries say?'

<i>Percentage of developing country welfare gains due to reform by:</i>	Agriculture and food policies	Other manufacturing tariffs	All goods trade policies
High-income countries	29%	21%	50%
Developing countries	33%	17%	50%
All countries' policies	62%	38%	100%
Source: World Bank (2005)			

But these figures represent the most ambitious outcome: a complete reduction of export subsidies and removal of agricultural tariffs and elimination of all manufacturing tariffs. If the Round were more limited in scope, the gains would be significantly smaller. A 75% in tariffs would generate global welfare gains of about \$75 billion. Other limitations that are likely to be included in the agenda, such as continued protection for a small group of 'sensitive' products would also significantly reduce the projected gains.

The key message is that, in the most likely completion scenarios, the Doha Round will have a small impact on global welfare.

What else could be done to increase the gains to developing countries?

There is a broad agenda beyond agriculture that would deliver benefits to the poorest countries, but which has been almost entirely ignored in the Doha Round. For example, there is much that could be done to reduce tariffs on industrial goods. The structure of rich countries' tariffs is heavily biased against the goods exported by poor countries, particularly labour-intensive industrial goods and processed foods. Rich countries collect tariffs four times higher on their imports from poor countries than imports from other rich countries.

There is also much that could be done to increase the mobility of workers. Migration – particularly temporary schemes to allow workers from developing countries to work on short-term projects in rich countries – would enable workers from poor countries to fill labour shortages in rich countries and send part of their pay back to their families. The flow of remittances from migrant workers in rich countries is an important source of development finance and now exceeds total aid flows from rich countries. Finally, the Doha Round needs to get serious about 'aid for trade'. In recent years, the European Union and the United States have slashed tariffs to the world's poorest countries under special schemes granting them free market access. Yet despite the good intentions behind these schemes, we have witnessed almost no increase in the volume of exports from beneficiary countries. This experience belies the rhetoric of politicians who espouse the virtues of trade over aid. For the poorest countries in the world, market access is not enough. Without assistance to overcome gaps in infrastructure, boost product quality and connect to international supply chains, tariff cuts have little effect on trade from the very poorest nations.

South-South liberalisation has progressed slowly. Attempts at preferential market access agreements have been made outside the WTO under the auspices of the Global System of Trade Preferences among Developing Countries (GSTP).⁷ Unfortunately, the GSTP is based on reciprocity—one reason for the low participation of the least developed countries among its members—and it has struggled to make significant progress.⁸

⁷ The GSTP, established in 1988 and promoted by UNCTAD, provides trade preferences to developing countries without extending them to developed countries.

⁸ The two previous GSTP rounds, in the past two decades, were not as successful as expected, due to the economic situation of the poorest developing countries and the poor negotiating capacity of members.

Bilateral and regional free trade agreements between developing countries are increasing in number, but it should not be assumed that South-South free trade agreements are unequivocally good for development since they discriminate against third party developing countries and the margin of discrimination is higher than is the case in North-North free trade agreements because developing country 'most favoured nation' tariffs tend to be higher. Thus, there may be a strong case for introducing a development dimension into South-South agreements.

There are schemes being considered by some larger developing countries including Brazil, China and India, which would give special access to the least developed countries. While additional market access would be welcome, these schemes, like the existing 'generalised system of preferences' schemes operated by the advanced industrial countries, would be a patchwork of discretionary and conditional promises rather than clear legal rights enforceable within the WTO.

A successful Development Round will be defined partly by how it is implemented. Trade reform can be costly, especially for developing countries with scarce funds and weak institutional structures. The adjustment costs can be thought of as the price to be paid for the benefits of multilateral trade liberalisation.

It is these costs and the trade benefits that determine the net effect of trade reform for each country. If the Round is to bring widespread benefits, the developed world must make a stronger commitment than it has in the past to help the developing world not only to bear the costs, but also to avail itself of the opportunities provided by a more integrated global economy.

Evaluation

Many developing countries feel that the low ambition of the Round following the collapse at Cancún is disappointing and that the Round has failed to deliver on its development promise.

This situation is unfortunate and offers the possibility that no agreement will be reached at Hong Kong. This would be a missed opportunity since the world has much to gain from a Development Round. But achieving this will require major changes in the negotiating positions of the developed and developing countries.

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