

# Conclude Doha

It Matters!

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## Abstract

The Doha Round must be concluded not because it will produce dramatic liberalization but because it will create greater security of market access. Its conclusion would strengthen, symbolically and substantively, the WTO's valuable role in restraining protectionism in the current downturn. What is on the table would constrain the scope for tariff protection in all goods, ban agricultural export subsidies in the industrial countries and sharply reduce the scope for distorting domestic support—by 70 per cent in the EU and 60 per cent in the US. Average farm tariffs that exporters face would fall to 12 per cent (from 14.5 per cent) and the tariffs on exports of manufactures to less than 2.5 per cent (from about 3 per cent). There are also environmental benefits to be

captured, in particular disciplining the use of subsidies that encourage over-fishing and lowering tariffs on technologies that can help mitigate global warming. An agreement to facilitate trade by cutting red tape will further expand trade opportunities. Greater market access for the least-developed countries will result from the “duty free and quota free” proposal and their ability to take advantage of new opportunities will be enhanced by the Doha-related “aid for trade” initiative. Finally, concluding Doha would create space for multilateral cooperation on critical policy matters that lie outside the Doha Agenda, most urgently the trade policy implications of climate change mitigation.

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## Conclude Doha: It Matters!

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## Executive Summary

The WTO membership can contribute to a more robust recovery from the global recession by rapidly concluding the Doha Development Agenda (DDA). This will help by: (i) reducing the probability that governments will resort to protectionism; (ii) assisting governments to reduce fiscal expenditures once economies recover by allowing them to credibly pre-commit to lowering agricultural subsidies; and (iii) bolstering the prospects for cooperation in other critical areas – such as climate change, aid for trade and services regulation.

### What's on the table?

Skepticism about what Doha offers is based primarily on a perception that proposals now on the table do too little to reduce applied average levels of protection. This is misconceived: the Doha round is first and foremost about creating greater *security* of market access.

**Improved security of market access.** Estimates of the value of the trade or income gains of the DDA completely ignore what is arguably its greatest benefit: enforceable and thus credible commitments by governments not to raise protection/support for domestic industries above certain levels *and* to abide by certain rules of the game for trade-related policies. For example, apart from constraining the scope for tariff protection in all goods, Doha would ban agricultural export subsidies in the industrial countries and sharply reduce the scope for distortionary domestic support—by 70 per cent in the EU and 60 per cent in the US – precluding the re-emergence of price-depressing subsidies in the future. Issues of profound trade significance, such as agricultural subsidies, can only be negotiated multilaterally and not regionally. The resulting restraint, e.g. on subsidies for products such as cotton, peanuts and sugar, is of particular importance for many developing countries. Expanded coverage of services policy commitments would provide greater certainty to trading firms regarding the conditions of competition they will confront in foreign markets.

The value of such policy commitments has been demonstrated in the global downturn. Although a number of countries have put in place some protectionist measures, there has not been a major reversal of liberalization. Concluding Doha would strengthen the valuable role the WTO is already playing in restraining protectionism.

**New market access.** The DDA offers some new liberalization and there will be significant market access benefits from what is now on the table. The average farm tariffs that exporters face would fall to 12 per cent (from 14.5 per cent); and the tariffs on exports of manufactures to less than 2.5 per cent (from about 3 per cent). As important for developing countries, tariff peaks for labor-intensive manufactures would be reduced significantly. New analysis using the World Bank model suggests global income gains from improved market access for goods resulting from what is now on the table – taking into account exceptions for sensitive products – could be as large as \$160 billion.

**Improving environmental sustainability.** Agricultural support programs have led to the use of production methods that are excessively polluting and depleted natural resources. Over 75 percent of global fish stocks are over-exploited – the resulting annual loss for the world economy is US\$50 billion. Many small island states and poor coastal regions in developing countries depend on fisheries for livelihood and food security. Phasing out fishery subsidies would be an important part of the solution. Similarly, removing policies that restrain trade in efficient environmental goods and services could foster a greener quality of growth.

**Expanded opportunities for poor countries.** Enhanced market access for the least-developed countries (LDCs) as a result of implementation of the “duty free and quota free” proposal and an

agreement to take concrete actions to facilitate trade (lower red tape type border crossing costs) will help poor countries expand trade opportunities. Significant reductions in tariff escalation (tariff peaks) will be beneficial for many developing countries. No less important, the aid for trade initiative is already playing a valuable catalytic role in mobilizing trade-related assistance. While aid for trade is not linked to the negotiations, concluding Doha would help translate existing aid for trade commitments into additional resource transfers.

### **Contentious issues should not be allowed to prevent a deal**

Standing in the way of these substantial benefits are disagreements over – among other things – the design of a Special Safeguard Mechanism in agriculture, and whether there should be a movement to free or freer trade in specific sectors.

*Safeguards.* The principle of safeguard mechanisms is firmly embedded in the WTO. While the details matter, in particular the criteria that need to be satisfied to justify invocation of a safeguard mechanism, experience suggests that the welfare cost of imposing such actions has typically been far less than the trade barriers that were removed. The experience with safeguards of different types suggests that a key principle in implementing multilateral disciplines is to ensure that all domestic interests are heard in the process of deciding to apply temporary protection.

*Sectorals.* Sectoral agreements can increase the incentives of the relevant export industries to support multilateral trade negotiations. Experience with “zero-for-zero” agreements indicates that such deals require a “critical mass” – in practice a set of countries that account for 90% or so of trade in the relevant product. This constraint can be satisfied with the participation of a much smaller set of countries than the entire WTO membership, which suggests that sectoral agreements could be pursued in the future, based on a Doha commitment to pursue sectoral talks after the conclusion of the DDA.

### **Grasp the bird in hand**

What is now on the table does not meet the expectations that many countries had when the round was launched in 2001. There are important gaps – for example, 100% duty-free, quota-free access for LDCs would be much better than a minimum of 97%. There are also substantial opportunities for the DDA to deliver more enhanced security of market access for services activities.

But the key message of this paper is that the deal that is likely to emerge is a valuable one. Most important is the additional security of market access from new policy bindings and new disciplines on subsidy programs. Even taking into account the likely product exceptions, the current modalities would create some new market access that would boost real income for the world. The opportunity to agree to new rules in areas like fisheries and environmental goods and services could reduce global environmental spillovers. Gains would also arise from actions to facilitate trade (reduce red tape) and to use aid for trade to improve the capacities of firms and farmers in developing countries to exploit profitable trade opportunities. Finally, concluding Doha would create space for multilateral cooperation on critical policy matters that lie outside the DDA, most urgently the trade policy implications of climate change mitigation.

## Conclude Doha: It Matters!

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### DOHA: THE CHANGING CONTEXT

The world is in the middle of a severe global economic crisis. The World Bank expects global GDP will decline by 2.9% in 2009.<sup>1</sup> Excluding China and India, developing nations' economies will shrink on average by -1.6%. Net private capital flows to developing countries will likely turn negative in 2009 – a more than US\$800 billion drop from the peak of 2007. The decline in global foreign direct investment (FDI) flows that started in 2008 will deepen and spread to the developing world – with overall inflows projected to fall some 30% compared to 2008, the first time FDI has fallen more than 10% in a year since 1986. The value of remittances, another key source of external financing for many developing countries, will drop by over 7% this year.

Trade has been hit hard by increases in risk premia on lending (which raise the cost of finance) and the sharp fall in aggregate demand. Global trade volumes are expected to decline by some 10% in 2009 and values by closer to 20%. Many developing economies have been hit as hard as the high-income countries. While an unavoidable consequence of the collapse in demand, trade will be a critical dimension of the recovery, especially for the many developing countries that have small domestic markets and rely heavily on external demand as a source of employment in the formal sector and foreign exchange.

Maintaining an open trade regime and removing policies that impose negative spillovers on trading partners is an important part of the path for getting out of the crisis, in particular for developing countries. Given that a central focus of the Doha *Development Agenda* is to promote the trade prospects of developing nations, the WTO membership can collectively make an important direct contribution to supporting a more rapid exit from the crisis by concluding the Doha Round. Concluding Doha can help by: (i) reinforcing policy stability and reducing the probability that governments will resort to protectionism – of paramount importance to developing countries given their reliance on trade as a driver of growth and a key mechanism to exit the crisis;<sup>2</sup> (ii) assisting governments to reduce fiscal expenditures once economies recover

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<sup>1</sup> All data reported are from World Bank, *Global Development Finance, 2009*.

<sup>2</sup> Research shows that the elasticity (or responsiveness) of trade to income has increased over time, from under 2 in the 1970s to over 3 in recent years (Freund, 2009). Rapid drawing down of inventories in response to a revised outlook is part of the explanation. In addition, a large part of GDP is services which contract less than

by allowing them to credibly pre-commit to lowering agricultural subsidies – a significant expenditure item in many OECD countries; and (iii) bolstering confidence and the prospects for multilateral cooperation in other critical areas – such as aid for trade and the trade dimensions of climate change.

Skepticism about what Doha offers is based primarily on the limited extent to which proposals will reduce applied average levels of protection. As an assessment of the outcome of negotiations this dimension is important but far too narrow – even when certain analyses project significant welfare or income gains from the likely liberalization that is implied by what is now on the table. The Doha round is first and foremost about creating greater *security* of market access, through the negotiation of rules of the game (e.g. prohibition of discrimination against foreign services) and policy disciplines (e.g., outlawing agricultural export subsidies and placing tighter limits on the level of permitted tariffs and production subsidies). The main outcome of a multilateral trade negotiation is not and has never been dramatic liberalization of access to markets. On the contrary: the primary deliverable of GATT/WTO trade rounds is policy *bindings*: a set of enforceable (and thus credible) commitments by governments that they will not raise protection/support for domestic industries above levels that they have often reduced unilaterally, and will not apply certain policies that are detrimental to trading partners.<sup>3</sup> As noted by Martin and Messerlin (2007), some two-thirds of tariff reductions between 1983 and 2003 were the result of unilateral decisions – what the GATT did was mostly to lock in these autonomous trade reforms.

The value of such commitments has been demonstrated in the global downturn that started in early 2008. The last time the world economy went through a global downturn, following the second oil price shock and the winding down of inflation at the end of the 1970s, large trading nations resorted fairly widely to protectionism, including in the form of ‘voluntary’ export restraints for cars and quantitative restrictions on trade in textiles and steel. NTBs came to apply to over one-third of all developing country exports in the early 1980s (Nogues, Olechowski and Winters, 1986), on top of average tariffs that were significantly higher than they are today. So far, significant reversals of policy have largely been avoided in the current downturn. Assessments reveal that a growing number of countries have put in place some protectionist measures, but that

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goods, and so the effect of downturns on goods trade tends to be relatively sharper. On a positive note, the rebound in trade is also very sharp when income growth recovers.

<sup>3</sup> For elaborations of this argument, see Hoekman and Vines (2007) and Messerlin (2008). Hoekman and Kostecki (2009) provide an extensive discussion and references to the literature. Francois and Martin (2004) show that even bindings well above historical average rates of protection can have substantial value by ruling out costly cases of high protection.



there has not been a large scale increase in the level of discrimination against foreign suppliers of goods and services by major trading states (Evenett and Hoekman, 2009; Evenett, 2009b; WTO, 2009). Concluding Doha would strengthen, substantively and symbolically, the valuable role the WTO is already playing in restraining protectionism.

Regional trade agreements are only an imperfect substitute for a multilateral agreement. It is true that many countries frustrated by the slow progress of WTO negotiations are turning to bilateral or regional trade agreements, which are only weakly constrained by multilateral rules. It is also true that certain issues, such as the mutual recognition of standards or the liberalization of air transport, may be easier to deal with bilaterally or regionally. But issues of profound trade significance, such as agricultural subsidies, can only be negotiated multilaterally – no country would accept significant restraints in a narrow regional context without the assurance that other large countries were accepting similar disciplines. As important, it should be recognized that there are no preferential trade agreements between the large trading nations (with the exception of NAFTA): the political challenges of obtaining parliamentary approval of any such agreement may not be much less than that of passing a multilateral trade deal. Furthermore, even in a world where preferential agreements are assuming greater significance, multilateral trade rounds are needed to reduce the extent of discrimination against nonmembers of such arrangements – and each country is an outsider with respect to at least some economically significant preferential agreement.

Finally, there are potentially important systemic implications of not concluding Doha in the near future. First, there is the possibility of negative knock-on effects on the WTO's highly-valued dispute settlement mechanism (e.g. greater recourse to unilateral retaliation; non-compliance with rulings). Second, there is likely delay and difficulty in dealing with new trade challenges, such as the possibility of resort to trade policies in the context of divergent responses to climate change, preferential government procurement in the context of economic stimulus programs, and new nationalistic export restrictions in the context of food and financial crises.

#### **REVISITING WHAT IS ON THE TABLE**

Martin and Mattoo (2010) have summarized what was on the table in the Doha negotiations in July 2008 when talks broke down. What was on the table implied five key benefits:

- More secure market access in goods
- Some new market opening in agriculture and manufacturing
- New or stronger disciplines to prevent negative policy spillovers
- Somewhat greater security of access in services
- Initiatives to expand exports of poor countries

## 1. Reduced scope for protection

WTO members have offered to reduce significantly legally bound levels of protection in goods and services. These cuts in bound rates are valuable because they limit the scope for future restrictive measures. Proposals under discussion would reduce the world average bound tariff for agricultural products from 40 to 30 percent and that for non-agricultural goods from 8 to 5 percent (Table 1).

**Table 1: Weighted Average Applied and Bound Rates Levied by WTO members**

|   | Applied Rates |                |                          | Bound rates |                |                          |
|---|---------------|----------------|--------------------------|-------------|----------------|--------------------------|
|   | <i>Base</i>   | <i>Formula</i> | <i>Formula plus flex</i> | <i>Base</i> | <i>Formula</i> | <i>Formula plus flex</i> |
| <b>Total</b>  | %             | %              | %                        | %           | %              | %                        |
| All countries   | 3.7           | 2.5            | 2.9                      | 9.9         | 5.7            | 6.9                      |
| High income countries   | 2.5           | 1.4            | 1.7                      | 5.2         | 3.1            | 3.8                      |
| Developing - non LDC  | 6.9           | 5.3            | 6.2                      | 21.8        | 12.6           | 14.4                     |
| LDCs  | 11.1          | 8.7            | 11.1                     | na          | na             | na                       |
| <b>Agriculture</b>  |               |                |                          |             |                |                          |
| All countries   | 14.5          | 8.9            | 11.8                     | 40.3        | 20.7           | 29.9                     |
| High income countries   | 15.0          | 7.5            | 11.0                     | 31.9        | 13.5           | 20.2                     |
| Developing- non LDC   | 13.4          | 11.5           | 13.3                     | 53.9        | 33.0           | 45.4                     |
| LDCs  | 12.5          | 12.2           | 12.5                     | 94.1        | 51.6           | 94.1                     |
| <b>NAMA</b>   |               |                |                          |             |                |                          |
| All countries   | 2.9           | 2.1            | 2.3                      | 7.8         | 4.7            | 5.3                      |
| High income countries   | 1.7           | 1.1            | 1.1                      | 3.5         | 2.5            | 2.7                      |
| Developing- non LDC   | 6.4           | 4.8            | 5.6                      | 19.1        | 10.9           | 11.8                     |
| LDCs  | 10.9          | 8.0            | 10.9                     | na          | na             | na                       |
| Source: Martin and Mattoo (2010).                                 |               |                |                          |             |                |                          |
| Note: Country groups defined using World Bank and UN definitions. |               |                |                          |             |                |                          |

The tiered formula under discussion for liberalization in agriculture involves larger cuts in the higher tariffs, and would, if implemented without exceptions, cut average bound tariffs almost in half—from 40.3% to 20.7%. But exceptions for “sensitive” and “special” products reduce the tariff cuts and allow many higher tariffs to be subjected to smaller cuts. For most developing countries, bound rates would, on average, still be much higher than currently applied rates. For

example, in agriculture the larger developing countries would still have a margin of about 30 percentage points (compared to the actual tariff of 13%) to deal with any unexpected consequences of liberalization; in manufacturing this margin would be 6.2%, slightly higher than the actual tariff.

Agricultural export subsidies in the industrial countries—a longstanding concern of developing countries—will be banned. This is important because it rules out the re-emergence of wasteful and price-depressing export subsidies in the future. The re-imposition of export subsidies in mid 2009 for dairy products by the EU and the US illustrates the relevance of a ban on export subsidies.

The proposed rules on domestic agricultural subsidies involve sharp reductions in maximum allowed levels of support—by 70 per cent in the EU and 60 per cent in the USA. New rules may not lead to significant cuts in actual subsidies which are at historically low levels because commodity prices remain at levels substantially above those prevailing in the late 1990s and early 2000s. But the rules are likely to constrain industrial country subsidies, especially for products such as cotton, peanuts and sugar, which are of particular export importance for many developing countries.

## **2. Some new market opening**

Today's legal tariff ceilings are in many cases much higher than applied levels of protection—so even drastic cuts in bound rates frequently result in only modest cuts in applied protection. There are, however, likely to be some real benefits for developing country exporters: the average farm tariffs they face would fall from 14.2 to 11.5 per cent; and the tariffs on their exports of manufactures from 2.9 to 2.1 per cent. Exporters of agricultural products from industrial countries would see the tariffs they face fall from 14.9 to 12.1%. Tariffs facing high income country exporters of non-agricultural products would fall from 3 to 2.4%.

These cuts in average applied tariffs substantially understate what is on the table for highly-protected products like textiles and clothing, as the formula will bring down peak tariffs much more. The modalities would cut the highest tariffs the most. This is important from a welfare perspective as the social cost of protection rises with the square of the tariff. And it is important for many developing countries as tariff peaks are concentrated in products in which they have a comparative advantage, such as clothing, footwear and agriculture.

### **3. New rules**

A key, if underappreciated, function of the WTO is to offer a mechanism to countries to negotiate collective disciplines on policies that impose negative spillovers. Two important examples of the “public goods” that the system provides are greater stability of prices in world food markets and enhanced environmental sustainability. In both cases, Doha promises some strengthening of the relevant rules.

#### ***World food markets***

In addition to lowering somewhat applied average levels of protection and constraining the ability of government to raise barriers in the future, a Doha deal would also help address some of the factors that have contributed to severe volatility of food prices on world markets. Given the potentially large impact of changes in staple food prices for poverty (Ivanic and Martin 2008), policy makers in developing countries are deeply concerned about the sharp spikes in prices that are a feature of world markets for staple foods (Deaton and Laroque 1992). Trade policies in OECD countries in particular have helped to reduce the amount of food that is traded internationally, and have acted to stabilize domestic prices to the detriment of developing countries who are confronted with greater instability of world prices and the consequent adjustment burdens. The welfare costs of price volatility can be significant, as was illustrated during 2007-08, when world prices of key staples such as rice doubled. National efforts to insulate markets made matters worse at the global level. A trading system that disciplines the ability of governments to insulate domestic markets and hence make world markets thicker would be a major source of welfare gain for developing countries.

Significant progress was made on this issue in the Uruguay Round, with the introduction of a double penalty (through market access and domestic support disciplines) on protection provided under administered price arrangements, and a ban on variable import levies. These provisions resulted in a number of industrial countries reducing their use of high and inflexible administered prices that automatically required import barriers and/or export taxes to offset the effects of changes in world prices on domestic markets. Additional disciplines on price insulation associated with lower tariff bindings in the industrial countries under the DDA proposals would further reduce the importance of industrial country policies as a source of instability in world food markets.

While Doha will usefully limit the scope for using import restrictions to insulate national markets, proposals have also been made to limit insulating action on the export front. These have

not yet borne fruit. During the recent food crisis, many exporting countries imposed export restrictions and many importing countries lowered their import barriers in attempts to insulate themselves from the price spike. Unfortunately, these attempts to insulate national markets from the initial price increase substantially increased the magnitude of the resulting price spike. This illustrates a serious collective action problem that might potentially be addressed through actions to reduce the extent of price insulation, combined with measures to reduce other sources of instability, such as biofuel mandates,<sup>4</sup> and to ensure the availability of food for vulnerable consumers (Wright 2009).

### ***Improving environmental sustainability***

Trade policies can have adverse consequences on the environment. Agricultural support programs have led to the use of production methods that are excessively polluting; as have fossil fuel subsidies and policies to restrict imports of the most environmentally efficient biofuels. Subsidies have also encouraged the over-exploitation of natural resources. Doha can help limit the negative environmental externalities.

Over 75 percent of global fish stocks are underperforming—they are over-exploited or significantly depleted – resulting in an annual loss for the world economy of US\$50 billion, equivalent to more than 60 percent of the landed value of the global catch (World Bank and FAO, 2009).<sup>5</sup> Many small island states and poor coastal regions in developing countries depend on fisheries for livelihood and food security. Taking action to reduce the losses from unsustainable exploitation of fish resources would benefit both developing country producers and consumers around the world.

The global welfare loss associated with over-fishing is the result of policy. Sharp and Sumaila (2009) calculate that direct federal and state subsidies to US commercial fishing averaged \$700 million annually (in 2007 dollars) in the 1996-2004 period, equivalent to 21 percent of the value of the commercial fish harvest during those years. Although some types of subsidies may encourage conservation of fishery stocks, Sharp and Sumaila estimate that at least three-fifths of all support went towards expansion of production, the largest being fuel subsidies and state sales

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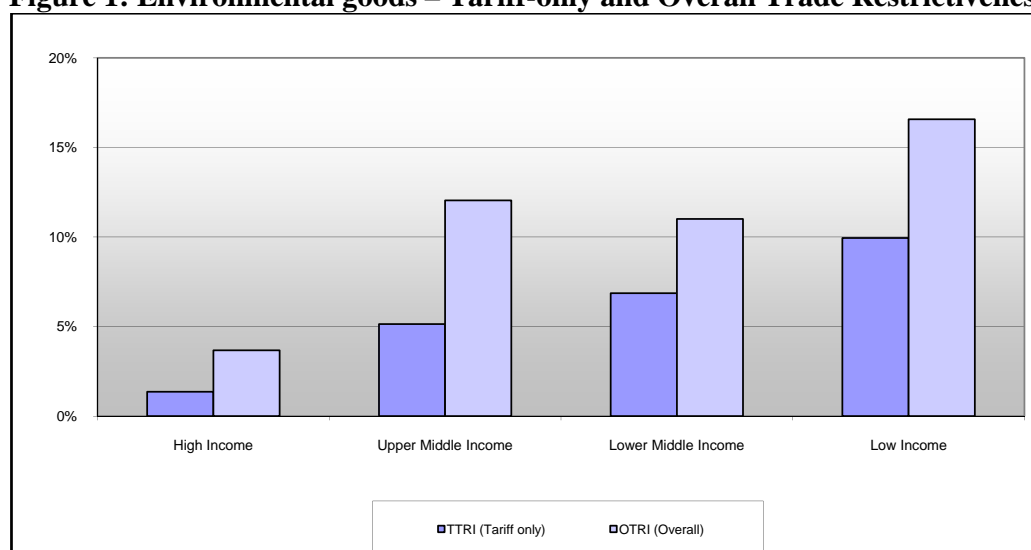
<sup>4</sup> Biofuel demand could potentially create additional supplies of food that would help ensure availability of food. However, biofuel mandates mean that demand for food for biofuels does not decline when food prices rise. If fuel prices rise, biofuel producers can exceed the mandated quantities, contributing to instability in food markets. See Mitchell (2008) for an analysis of the impact of biofuel production incentives.

<sup>5</sup> This is a conservative estimate that excludes consideration of losses to recreational fisheries and marine tourism, losses due to illegal fishing, the second-order losses in terms of fish processing, distribution and consumption, and the value of biodiversity losses.

tax exemptions. Subsidies in the EU are of the same order of magnitude as in the US, with the majority of subsidies having the effect of supporting production (e.g., subsidies for vessel construction and improvements of port and processing facilities) (Mulvad and Thurston, 2009). Overall, subsidies that enhance fishing capacity of developed countries were some \$7.8 billion in 2000 (World Bank and FAO, 2009).

The Doha Ministerial Declaration called for negotiations to “clarify and improve WTO disciplines on fisheries subsidies, taking into account the importance of this sector to developing countries.” Although disciplines on the use of production-expanding subsidies must be complemented by improvements in the property rights to fish stocks – a matter that lies outside the purview of the WTO – phasing out fishery subsidies is an important part of the solution, and is one where the WTO can deliver. The draft text of a new WTO agreement on subsidies for fisheries put forward by the Chair of the Negotiating Group on Rules in July 2008 represented a major potential advance in terms of using the trading system to pursue both environmental and development objectives. It suggested prohibiting a wide range of subsidies while recognizing the need for flexibility in the application of subsidy disciplines to small-scale, labor intensive fishing in developing countries. While many specifics remained to be agreed, this element of the DDA is an example of how ignoring the rule-making dimensions of the negotiations results in greatly underestimating the value of what is on the table.

**Figure 1: Environmental goods – Tariff-only and Overall Trade Restrictiveness**



*Note:* Data pertain to high efficiency and clean coal, efficient lighting, solar photovoltaics, and wind power technologies and products. See World Bank (2007). The overall measure of trade restrictiveness includes the tariff equivalent of nontariff measures.

*Source:* World Bank and IMF (2008).

A similar observation applies to the negotiations aimed at reducing barriers to trade in environmental goods and services. Trade policy has a role to play in mitigating and adapting to global climate change by increasing incentives to use the most energy efficient environmental goods and services. Removing policies that restrain trade in energy efficient environmental goods and services – which tend to be the highest in developing countries (Figure 1) – and ensuring that production or consumption of products using inefficient technologies is not supported through subsidies can help both to harness the potential of trade to enhance sustainable growth and to improve environmental outcomes.

#### **4. Somewhat enhanced security of access in services**

Services are a puzzling aspect of Doha. In principle, the stakes are huge for the key protagonists. Some 80 percent of GDP in the US and the EU originates in services. Together they account for over 60 percent of world services exports. The business service exports of India, China and Brazil have grown by well over 10 percent every year for the last decade, and India may soon export more services than goods. But in practice, negotiating attention has been focused mostly on agriculture and manufactured goods rather than on services.

Most services liberalization around the world has been undertaken unilaterally. In all regions of the world, actual policy is substantially more liberal than the policy commitments (bindings) made by WTO members in the GATS during the Uruguay Round. The latter on average are 2.3 times more restrictive than currently applied policies – i.e., countries could more than double their average levels of restrictiveness without violating their commitments. As they stand today, Doha offers on services do not offer any liberalization of actual policy.<sup>6</sup> Furthermore, two of the currently most protected areas, transport and professional services, are either not being negotiated at all or not with any degree of seriousness.

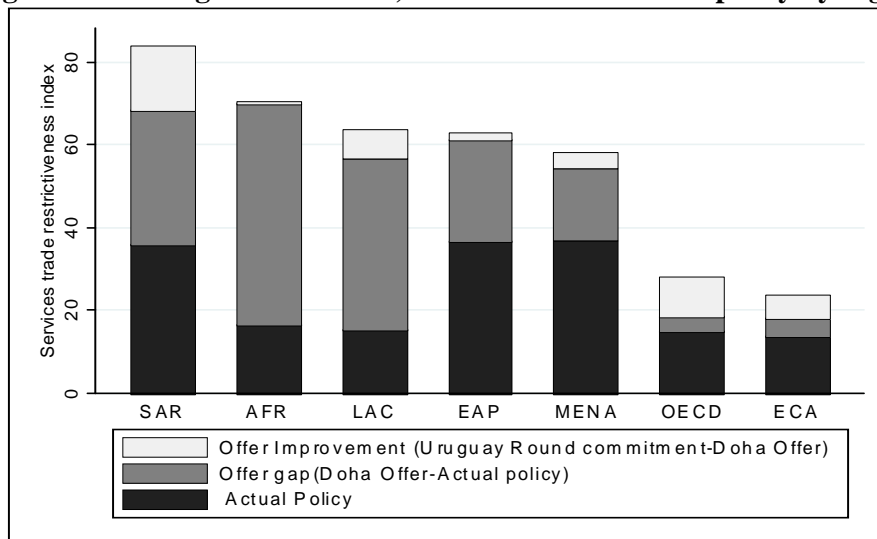
Doha offers improve on GATS commitments, but at this stage the gap between offers and actual policy is still large: the best offers submitted so far improve on current GATS commitments by about 13 percent, but remain on average 1.9 times more restrictive than actual policies (Figure 2). There is a reasonable prospect that offers will be improved. A report on the status of the services negotiations noted that further discussion was needed on issues relating to participants' level of ambition, their willingness to bind existing and improved levels of market access and national treatment, as well as specific reference to Modes 1 and 4 with respect to the treatment of

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<sup>6</sup> Gootiiz and Mattoo (2009) examine in some detail the Doha offers on a range of services sectors and modes of supply and compare these to existing GATS commitments.

sectors and modes of supply of export interest to developing countries. In 2008 the chair of the Trade Negotiations Committee also held a “signaling exercise” among a group of ministers, at the time that “modalities” in agriculture and non-agricultural market access were being discussed. At the signaling exercise, participating ministers indicated that they might significantly improve their services offers.

**Figure 2: Existing commitments, Doha offers and actual policy by region**



Source: Gootiiz and Mattoo (2009).

Note: If countries have not made a Doha offer, existing commitments are used.

## 5. Initiatives to expand exports of low-income countries

Key elements of the Doha Round from a development perspective are enhanced market access for LDCs; actions to facilitate trade (lower trade transactions costs); and the aid for trade initiative.

### *Better market access for least developed countries (LDCs)*

The proposed “duty free and quota free” (DFQF) initiative will improve existing access to foreign markets for the LDCs. But the initiative will add significantly to existing access only if industrial and more advanced developing countries do not exclude vital products such as garments or agricultural products. In most of the potential major markets that do not already offer 100% DFQF access, limiting such access to at least 97% of tariff lines – as called for in the 2005 Hong Kong ministerial declaration – implies that a large share of all exports may continue to be subjected to



restrictions.<sup>7</sup> For example, over 70 percent of Bangladesh's exports to the US are covered by only 70 tariff lines, which together account for less than 1% of all US tariff lines.<sup>8</sup> Only 39 tariff lines account for 76% of Cambodia's exports to the US. Nonetheless, Carrere and de Melo (2009) estimate that if the US were to apply DFQF access for 97% of lines, LDCs could expand exports by 10%, or \$1 billion.<sup>9</sup>

The utility of preferential access depends significantly on the rules of origin that are applied by the importing jurisdiction. Experience has shown that liberal rules of origin – those that allow for cumulation and significant use of imported inputs sourced from third countries are a critical determinant of a large export supply response by firms located in LDCs. Such rules are not on the negotiating table – they remain at the discretion of importing economies. Recent initiatives by the US and the EU demonstrate a willingness to address this constraint and offer an opportunity to make a specific commitment to the LDCs in this area.

Of particular importance for LDC exporters of cotton is that the complete removal of tariffs and quantitative restrictions on their exports be complemented by deeper cuts in trade distorting support programs maintained by high-income countries than for agricultural support more generally, and that this is implemented more expeditiously (Baffes, 2005). This is widely regarded as a litmus test for the Doha Development Agenda to live up to its name. Global support to the cotton industry, including direct subsidies, border protection, crop insurance subsidies, and minimum support price mechanisms have risen more than twofold from \$2.7 billion in 2007/08 to an estimated \$5.9 billion in 2008/09, more than half of which will be provided by the United States (International Cotton Advisory Council, 2009).<sup>10</sup> The recent increase in support again

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<sup>7</sup> Australia, the EU (as of the end of 2009), New Zealand, Norway, and Switzerland (as of end 2009) offer 100% DFQF access. Canada's DFQF program for LDCs spans 99% of products, excluding some sensitive agricultural products (dairy, poultry, and eggs); Japan offers about 98% product coverage, with exclusions for fish, footwear, rice and sugar. South Korea offers duty-free access for LDCs for some 75% of tariff lines. The US does not currently have a program specifically targeting LDCs. Although many African LDCs have duty free access to the US under AGOA, LDCs such as Bangladesh and Cambodia do not. In 2006, the combined \$800 million tariff bill on imports from these two countries was seven times larger than the US aid these countries received, and roughly the same as the amount collected on exports from the United Kingdom and France (Elliott and Soderquist, 2009; Hoekman, Martin and Primo-Braga, 2008).

<sup>8</sup> The total number of tariff lines at the 8-digit level is 10,500. The calculation was done at the 8-digit level.

<sup>9</sup> However, if all OECD countries were to offer 100% DFQF, exports could increase by up to \$2 billion more than they would under a 97% scenario (Bouët et al., 2009). Gains would be greater still if major middle-income nations were to offer DFQF access to LDCs—by up to \$5 billion – reflecting higher tariffs in developing countries.

<sup>10</sup> Subsidies averaging 14 cents per pound were provided by some 10 countries in 2008/09, up from an average 8 cents in 2007/08. The share of global cotton production receiving support rose from an average of 55 percent during 1997/98–2007/08 to an estimated 84 percent in 2008/09. Total direct US support to cotton production, including crop insurance, increased from \$888 million in 2007/08 to \$3.1 billion in 2008/09, or an equivalent of 50 cents per pound of production. The 2008 farm bill extended counter-cyclical payments and marketing loan

illustrates the value of commitments to bind (cap) permitted levels of support – lower levels of permitted subsidies and other forms of support would have constrained the ability of governments to increase assistance levels.

### *Trade facilitation*

Trade facilitation is a critical dimension of leveraging the market access dimensions of the DDA: if a focus on the trade costs agenda stimulated by a Doha agreement catalyzes a reform program in this area, it can have large positive trade effects. Pursuit of trade facilitation is particularly important for lower-income countries, especially LDCs, that otherwise may not benefit significantly from the Doha market access negotiations – because they have duty-free, quota-free access to major markets and will not be asked to reform their own trade policies. Negotiations on a trade facilitation agreement have been progressing well. An agreement offers great prospects for real income gains – indeed, as discussed below, analysis suggests that this is an area where the potential gains for developing countries are higher than what might emerge from any other part of the DDA. The reason is that domestic trade costs in many countries constitute a major tax on firms (Djankov, Freund and Pham, 2006). This agenda is of particular importance to landlocked developing countries, as their trade costs depend critically on the efficiency and cost of transit through neighboring states.

### *Aid for trade*

For many low-income countries, the binding constraint to export growth is a lack of competitiveness. This makes it particularly important that DFQF access be associated with liberal rules of origin, to allow firms to use imported inputs from the lowest cost source of supply anywhere in the world. But more generally, what is now increasingly recognized is that competitiveness is a function of the domestic business environment in the exporting countries. This is the major driver behind the “aid for trade” initiative, which is playing a valuable catalytic role in mobilizing trade-related assistance. Such aid has already increased – according to WTO/OECD figures and definitions, aid for trade grew by more than 10 percent in real terms in both 2006 and 2007, with total new commitments from bilateral and multilateral donors reaching US\$ 25.4 billion, with an additional US\$ 27.3 billion in non-concessional trade-related

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provisions while only marginally lowering the target price for upland cotton and creating a new cotton-user payment of 4 cents per pound. Although the latter applies to cotton of any origin, given that the US imports very little, in practice most payments will accrue to domestically sourced cotton (Schnepf, 2008).

financing.<sup>11</sup> Realism suggests that aid budgets will come under increasing pressure as OECD governments seek to reduce expenditures following the fiscal expansion of the last 18 months. While aid for trade is not linked to the DDA, concluding the round could help translate the aid for trade commitments into additional resource transfers.

#### **“QUANTIFYING” THE VALUE OF DOHA**

Much of the discussion and debate about the “value” of Doha has centered on the results of global modeling exercises. A serious problem with any effort to assess the value of what was on the table using empirical models is that these can only assess the implications of proposed agreements for *applied* levels of protection. Thus, they completely ignore the benefits of new policy disciplines and the effects of additional policy bindings. As a result, discussions of the value of the DDA that are based on numerical models will by definition be missing a big part of what is on the table.

Given this very important caveat it is nonetheless useful to briefly discuss what empirical studies suggest will be the impact of what is on the table on average levels of applied protection in trade in merchandise. Recent analyses by Laborde, Martin and van der Mensbrugghe (2009a, 2009b) that incorporates new methodological advances that allow much more disaggregated trade data to be used in general equilibrium simulation models – some 5,100 tariff lines/product categories – suggests that overall global gains would be up to \$160 billion for the agricultural and nonagricultural market access agreements alone, even after allowing for exceptions for sensitive and special products. Compared to recent models that use more aggregate data, the gains are about 65 percent higher for developed countries and some 100 percent higher for developing countries as a group. The reason disaggregation is important is that the analysis results in a better measure of the welfare effects of tariff peaks. As the welfare cost of protection goes up with the square of the tariff, using more aggregate data on the average level of the tariff for a broad group of products results in lower welfare cost estimates (because the average is by definition much lower than the peak tariffs that often apply to specific tariff lines).

Decreux and Fontagné (2009) identify a US\$57 billion world GDP gain as a result of implementing what was on the table in July 2008 in terms of liberalizing trade in merchandise, based on the modalities that had emerged and again including the likely exceptions and the differentiated nature of the commitments that will be made by different groups of countries. If the

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<sup>11</sup> These numbers are large because they include investments in infrastructure and span both low- and middle-income countries. However, even if a much more narrow definition of aid for trade is used, such assistance has approximately doubled between 2002-05 and 2008. See World Bank (2009).

potential gains from trade facilitation are also considered, the gains would rise significantly – in their preferred scenario by another \$99 billion<sup>12</sup> – giving a total gain associated with liberalization of merchandise trade of \$150 billion per year in additional income for the world as a whole. In another recent paper, Adler, Brunel, Hufbauer and Schott (2009) use a different approach to quantify the market access impacts of what is on the table, relying on a partial equilibrium, tariff-line by tariff-line assessment of the trade and tariff revenue effects of applying the July negotiating modalities to the trade of the 22 largest WTO members. Overall, they estimate that the associated increase in global exports would raise real GDP by some \$99 billion annually for the countries in their sample (which account for about three quarters of world trade). Adding sectoral agreements to reduce tariffs on chemicals, environmental goods and electronic and electrical goods beyond the formula cuts would roughly double this figure to \$200 billion. A trade facilitation agreement is estimated to generate the largest trade and real income gains – some \$385 billion. The implied reforms go well beyond what is being discussed in the negotiating group by including improvements in service-sector infrastructure and the domestic regulatory environment, though some improvement in these areas can be expected through the aid for trade initiative.

The model results illustrate that even if the focus is limited to reductions in applied levels of trade restrictions, taking into account likely exclusions for sensitive and special products, the associated trade expansion and real income gains are non-trivial – in the \$60 to \$160 billion range. They also illustrate that the non-market access parts of the DDA are very important. Quantifying these is extremely difficult, but the estimates of potential gains from improved trade facilitation illustrate that there is significant scope to generate more trade over and above what is on the table in narrow market terms, especially for many developing countries.<sup>13</sup>

***In good times all this may not have seemed worth enough...***

Historically, the multilateral trade liberalization process has been driven by corporate interests, notably in the United States and Europe, seeking better and more secure access to foreign markets. But the DDA has suffered from a deficit of private sector interest which trapped negotiations in a low level equilibrium. Private sector disengagement can be explained by the

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<sup>12</sup> This assumes that countries that are above the world median in terms of clearance times for exports and imports experience a 50 percent reduction in the clearance times that exceed the median.

<sup>13</sup> Hoekman and Nicita (2008, 2010) show that only a marginal reduction in trade costs will expand trade by more than what can be expected even from a relatively ambitious Doha Round outcome in terms of market access, narrowly defined to span only reductions in average applied levels of protection. Everything else equal, improving the logistics performance of low income countries to the level observed in middle income countries would increase their trade flows by more than 50 percent.

recent years of steady trade and investment growth, with industrial countries maintaining open markets, apart from pockets of protection in agriculture, clothing and labor services. At the same time, many developing countries have been unilaterally dismantling their trade barriers or doing so in the context of regional trade agreements. Since the early 1980s, most quantitative restrictions have been eliminated and tariffs have been lowered considerably. With this happening largely outside the WTO framework – with the exception of those countries that acceded to the WTO post-1995 – countries do not need to negotiate within the WTO to secure outcomes that their firms and people are obtaining without cost. Perhaps as important, the process of globalization may have come to be seen as irreversible, with a low perceived probability of re-imposition of higher barriers, thus resulting in serious discounting of the value of additional policy bindings and disciplines.

*... but in bad times, the value of what is on the table increases*

With a few notable exceptions, private sector apathy, as revealed by negotiating stances and positions taken by the business community pre-2008, contributed to the “equilibrium” of limited demands being placed on the multilateral trading system and the system producing limited results. However, the global financial crisis has disturbed this equilibrium. The economic downturn and the resulting under-employment of resources have created new macroeconomic sources of protectionist pressure. Furthermore, as countries inject demand into the economy via fiscal stimuli, pressures arise to not let this demand “leak” abroad.

To date there is little evidence that, where multilateral disciplines exist, there has been substantial recourse to protectionism (Messerlin, 2009). For example, in a sector that in the 1970s and 1980s became a bastion of protectionism, textiles and apparel, the liberalization negotiated in the Uruguay Round (the abolition of the Multifibre Arrangement) has been implemented and is being sustained. For the most part, we have seen only low-grade protectionism through a range of measures not inconsistent with WTO rules: tariff increases up to bound limits, state aid (especially in the auto and financial sectors), and anti-dumping actions have assumed greater importance in industrial countries because of the increased role of the state and higher government expenditures. While the trade policy measures are often discriminatory and inconsistent with the letter (and spirit) of the G20 declarations in 2008 and 2009, they are relatively transparent and are constrained by multilateral rules. Indeed, instruments of administered or contingent are often described as ‘safety valves’ that need to be included in trade agreements in order to give governments the assurance that in times of need – as is the case today – they will be able to re-

impose a certain level of protection if this is needed for political purposes. While the use of trade policy is second-best – fiscal and monetary policy is more effective and efficient – using instruments of contingent protection to manage pressures for restricting imports in specific sectors is typically superior to a government having recourse to nontariff barriers (such as VERs in 1980s—which were outlawed as a result of the Uruguay Round). So far, the amount of imports targeted by antidumping and safeguards remains relatively small: less than one half of one percent of the total merchandise imports of G20 countries (Bown, 2009b).

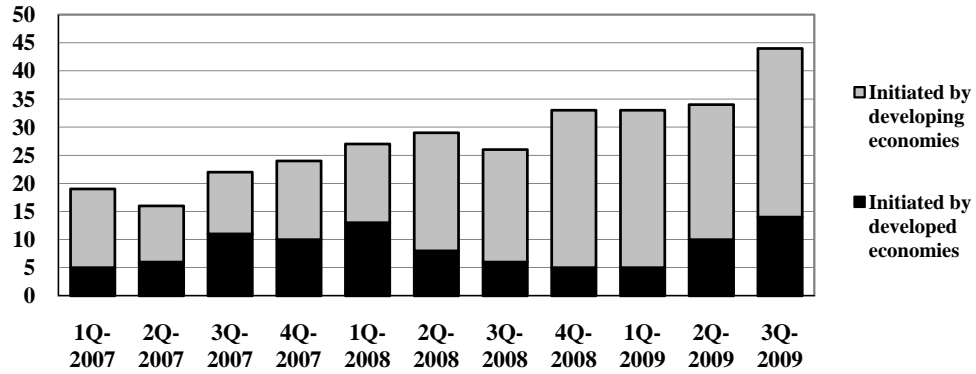
The cumulative number of new requests for protection through trade remedy instruments – antidumping, countervailing duties, and safeguards – in the first three quarters of 2009 was 30 percent higher than the number of such requests in the first three quarters of 2008 (Figure 3). However, the number of final measures imposed has not shown an upward spike to date (Figure 4) and the share of investigations launched that result in the imposition of final measures has been declining in recent months relative to the average observed in earlier years. The latter can be explained by the existence of WTO rules and criteria, in particular the need to show injury caused by imports, which is much harder to do given that trade was falling in 2009.

Where multilateral disciplines do not exist or are currently weak and/or have limited coverage, countries have been less able to resist protectionist pressures. The recent reintroduction of export subsidies for dairy products by the EU and the US is illustrative.<sup>14</sup> The lack of multilateral disciplines on the movement of natural persons providing services implies that countries are free to unilaterally redefine the rules of the game and (re-)introduce barriers to the local employment of foreign professionals. A number of countries have done just that in the past 12 months. The absence of any disciplines in the WTO on measures that affect the export of services implies that source countries are free to take actions that have the effect of raising the costs and/or reducing the flow of financial services. Climate change legislation has also been tabled in the US and EU that could lead to trade restrictions against countries that do not take measures that are perceived to be adequate. WTO rules need to be clearer on the scope for environmentally-motivated trade action. The temptation to discriminate against foreign suppliers in procurement will be strong if stimulus efforts are not coordinated and governments wish to reduce the spillover into import demand. The limited coverage of WTO disciplines on public purchasing (procurement) and subsidies mean that (certain levels of) governments may be free to require that stimulus funds be spent on domestic producers.

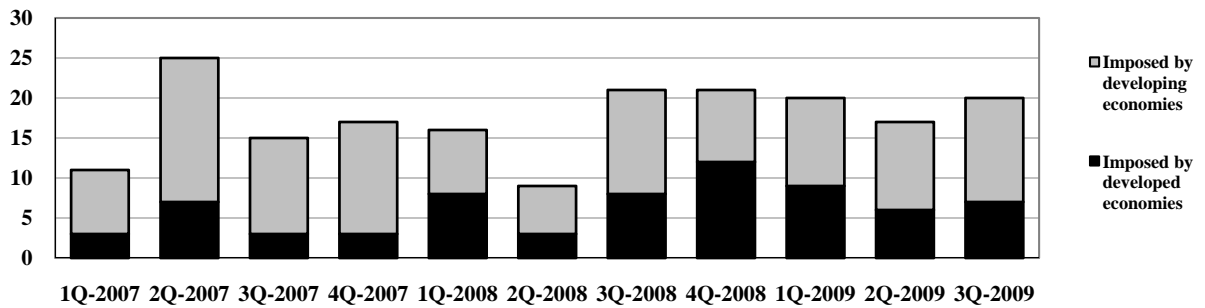
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<sup>14</sup> See <http://www.globaltradealert.org/>.

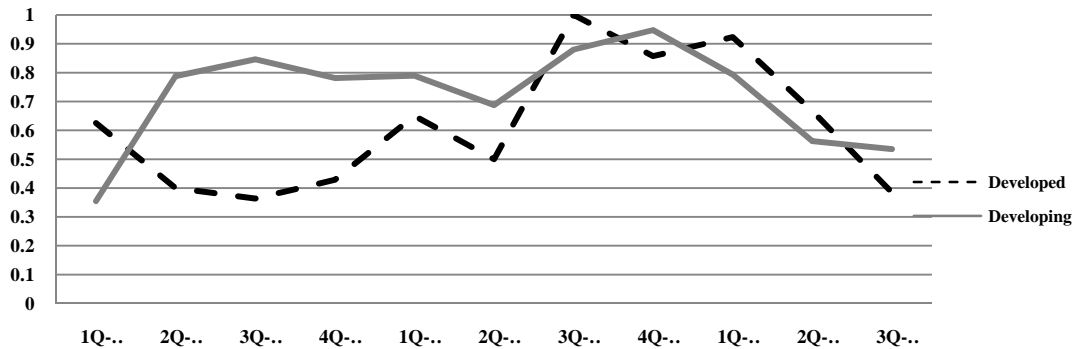
**Fig. 3. Newly-Initiated Trade Remedy Investigations, 1Q 2007 - 3Q 2009**  
(non-redundant AD, SG, CSG, CVD at the product level)



**Fig. 4. Newly-Imposed Trade Remedies, 1Q 2007 - 3Q 2009**  
(non-redundant AD, SG, CSG, CVD at the product level)



**Fig. 5. Share of Completed Investigations Resulting in Definitive Import Barriers, by Investigating Country Category, 1Q 2007 - 3Q 2009**



Source: Bown (2009a,c).

The general GATT national treatment rule does not apply to public procurement. Instead, nondiscrimination disciplines apply through the plurilateral Agreement on Government

Procurement (GPA). This binds only signatories – in practice mostly OECD members.<sup>15</sup> A number of examples of explicit discrimination can be found in the implementing regulations of the American Recovery and Reinvestment Act at the state and local level (Evenett, 2009). Similar provisions have been adopted in by the Australian state of New South Wales and by China – neither of which is bound by the relevant WTO disciplines on procurement because neither Australia nor China has joined the GPA.

McKibbin and Stoeckel (2009) examine the effects of a situation where most countries raise their protection in a beggar-thy-neighbor attempt to divert demand towards domestically-produced goods. They find that the welfare costs of a protectionist tussle in which most countries raise their tariffs by between 5 and 10 percent have major, adverse impacts, with GDP falling by between 1 and 3 percent in most countries. The reductions in output are larger in countries such as China, which are relatively open, than in countries like the United States that rely less on trade. While tariffs divert demand towards domestic goods, raising tariffs increases the cost of capital goods and lowers investment demand, with the result that total output falls, rather than rises. Increasing protection is not just beggar-thy-neighbor, it beggars the country itself.

The pattern of policy responses to the crisis demonstrates the value of multilateral disciplines and suggests (re-)engaging in negotiations to strengthen such disciplines will have longer terms payoffs that go beyond whatever reductions in applied policies are agreed. Bouët and Laborde (2008) conduct an implausibly pessimistic but nonetheless salutary exercise. Using the highest applied or bound rate imposed by countries from 1995 to 2008 as an indicator, this study presents several scenarios regarding the economic costs of a failed Doha Round and a subsequent rush into protectionism. For example, in a scenario where the applied tariffs of major economies would go all the way up to currently bound tariff rates, world trade would decrease by 7.7 percent and world welfare by US\$353 billion.<sup>16</sup> The plausibility of this extreme scenario arising is not very high, in part as the result of the increasingly globalized nature of production and value chains, which greatly reduce the incentive for firms to lobby for protection. However, the threat of greater pressure for protection should not be underestimated – as illustrated by the large increase in the use of antidumping and safeguards (Evenett, 2009b). As the recovery takes off – generating greater trade in the process – high levels of unemployment imply that such pressures will persist

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<sup>15</sup> This Agreement is one of two agreements in the WTO where participation is voluntary. Almost all developing countries and some OECD countries (e.g., Australia and New Zealand) have not signed the procurement agreement. See Hoekman and Kostecki (2009) for a discussion of the GPA.

<sup>16</sup> In a more modest scenario where countries would raise tariffs to the maximum rates applied during the past 13 years, world trade would decrease by 3.2 percent and world welfare by US\$134 billion.



for some time, increasing the value of additional multilateral disciplines for all exporters and consumers.

Resisting the protectionist temptation is not a matter of luck or chance. The crisis has revealed that rules matter: WTO disciplines have played a positive role in constraining recourse to protectionism. The monitoring of members' policies by the WTO secretariat and the Global Trade Alert initiative have been important instruments for transparency and accountability, but the impact of these initiatives would be greatly attenuated in the absence of WTO disciplines on the various trade-related policies. That said, concrete steps towards reinforcing the global trade system are needed. Rapid conclusion of the Doha Round will limit the ability of governments to increase tariffs or agricultural subsidies in the future, send a strong signal of the international community's commitment to keep trade and investment flowing and help countries resist pressures for protection as unemployment rates rise and when they begin to unwind their current expansionary policies. The crisis has made more visible that the value of the DDA and the WTO more generally should be measured on the basis of a counterfactual in which governments are under pressure to raise levels of protection.

#### **CONTENTIOUS ISSUES – SHOULD THEY PREVENT A DEAL?**

Much has already been agreed in the Doha Round, most notably the structure of the modalities to be used to reduce tariff bindings for agricultural and nonagricultural tariff lines for different groups of WTO Members. There are at least three broad outstanding issues. First, there is disagreement about the rules governing contingent protection, especially the design of a Special Safeguard Mechanism in agriculture. Second, there is divergence of views on the extent of actual liberalization commitments for merchandise trade, notably whether there should be a movement to free or freer trade in specific sectors. Third, the coverage of additional services policy commitments.<sup>17</sup>

We argue in what follows that Members need to make two broad judgments.

- First, how best to strike a balance between liberalization and security of access, i.e. how far to push for additional market-opening (e.g. via sectoral negotiations) rather than to be content with legally binding existing market access.

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<sup>17</sup> Of course, many other issues, such as reductions in support to cotton production, EU banana tariffs, and extensions/amendments to the TRIPS agreement concerning geographical indications and biological diversity also remain highly sensitive. We focus here on areas that have proven to be particularly controversial and that are of significance for the WTO membership generally (matter 'systemically'). While contentious, the outlines of a possible agreement on many of the other issues that must be settled is relatively clear – see e.g., Hoekman and Kostecki (2009).

- Second, how best to achieve security of access, i.e. how far and under what conditions to allow contingent protection (e.g. via safeguard type of action) in return for tighter and more comprehensive bindings.

*A. Contingent protection: safeguards and related mechanisms*

As was widely reported at the time, the proximate cause of the July 2008 breakdown was disagreement between countries on the specifics of a special safeguard mechanism (SSM) for agricultural imports. This became an issue in part because the Doha modalities would not reduce global average agricultural tariff bindings below 45 percent in non-LDC developing countries. Exporters therefore argued there was no need for a new SSM. They also objected to the specifics of the SSM proposal, arguing it made it too easy to raise levels of protection.

Whatever the specifics of a SSM, the principle of safeguard mechanisms is firmly embedded in the WTO (and trade agreements more generally). Safeguards are a common element of trade agreements – the price of getting agreement on tariff bindings and other policy commitments. As noted above the trade policy responses to the global recession have largely taken the form of instruments that were included in the WTO to allow governments to temporarily assist domestic import-competing industries. While the purported rationales for these instruments differ, the major ones all serve the same purpose: to provide a safety valve for protectionist pressure that is tied to import surges generated by external shocks or structural changes in the world economy. It is not only developing countries that want to have access to safeguards. OECD countries are regular users of antidumping, safeguards and countervailing measures. Many WTO Members – developed and developing – insisted on being able to use special safeguards against China upon its accession to the WTO; and high-income countries negotiated the right to use a special safeguard (SSG) during the implementation of the Uruguay Round commitments to reduce agricultural support. The scope to use a so-called ‘zeroing’ methodology in antidumping investigations is an important objective of the US in the Doha Round.

From an economic perspective safeguards are second best instruments to deal with shocks or the adjustment pressure generated by import competition, but the negotiated disciplines that apply to their use help reduce their incidence. Embedding such mechanisms in the WTO also provides a basis for multilateral surveillance of the type that has been a prominent feature of WTO activities in the past year. Getting a Doha deal done and reaping the gains from what is on the table is conditional on governments being able to demonstrate to constituencies that they have access to safeguard mechanisms if needed. While the details matter, in particular the criteria that

need to be satisfied to justify invocation of a safeguard instrument, transparency and regular scrutiny of the use of such instruments is arguably as if not more important. Studies have shown that the existence of instruments of contingent protection can help government both implement and sustain general trade liberalization (Finger and Noguez, 2008). In practice, contingency protection mechanisms offer the opportunity to re-impose protection on a selective and temporary basis. Insofar as this is costly to some groups in society – and inherently it will be – they will have an incentive to both contest the action and push for its removal over time. This suggests pro-active monitoring, analysis and reporting can play an important role in ensuring that actions, if taken, are subject to debate, and that they are periodically reviewed. Indeed, it suggests consideration be given to go beyond the valuable monitoring and reporting on policies done by the WTO and to assess and publish analyses of the incidence and impact of contingent protection. A first step in this direction is provided by the Global Trade Alert, which identifies the countries affected by trade measures (Evenett, 2009b).

As widely reported in the press, the proposed SSM for agricultural products was a major sticking point in July 2008. Subsequent analyses of the SSM proposal conclude that the suggested combination of price and quantity triggers to invoke the mechanism is unlikely to achieve the objective of food security (Finger, 2009; Hufbauer and Adler, 2008).<sup>18</sup> The proposed SSM may well be used much less frequently than its rules permit because, as shown by Finger (2009), the proposed criteria would frequently permit protection when it is unlikely to be sought after by policymakers—such as when imports “surge” because of a harvest failure, or prices fall from very high to normal levels.

While the use of safeguards of different types will increase in times of weak economic activity, the welfare cost of imposing such actions has been far less than the tariff and other trade barriers that were removed over time. At the end of the day the specific issues that are often very contentious and the subject of extensive analysis may not be that significant from an economy-wide perspective. The zeroing question – the practice of not including transactions at prices that do not generate positive dumping margins – is an example. There is a consensus among economists that this approach is analytically flawed. It has been deemed to be inconsistent with

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<sup>18</sup> One motivation for the SSM is to be able to offset reductions in world prices or import “surges” such as those resulting from harvest shortfalls. While this may benefit local producers, it will be at the expense of countries that are net consumers of agricultural commodities. Recent analysis indicates that a volume trigger-based SSM, if used, would likely contract world trade (make markets thinner) and destabilize, rather than stabilize, domestic prices (Hertel, Martin and Leister 2009). It would do this by reducing imports when domestic output declines, and, indirectly, by increasing the volatility of international prices. The price-trigger based SSM appears likely to have much less impact on price volatility.

the Antidumping Agreement by the WTO Appellate Body, and has been a high profile source of heated debate in the Doha Round. However, zeroing is only used by the US in a subset of cases where dumping margins are low to start with. That is, the technique is aimed at increasing the level of the dumping margin, something that is not needed when it comes to the majority of antidumping investigations directed at developing countries. Standard methodologies, including the ability to resort to “facts available” to construct dumping margins, provide significant scope to generate high margins, so there is no need to apply zeroing. The WTO disputes on zeroing are between the US and the EU and Japan. In the cases that have gone to dispute settlement, the average US antidumping duty imposed on EU and Japanese firms was 12%, compared to an average of some 75% for all US antidumping actions (including those against the EU and Japan).<sup>19</sup> Nye (2008) estimates that zeroing accounts for 2.5 percentage points of an average 47% antidumping duty imposed by the US in a sample of cases.

This is not to say that zeroing is innocuous. If many countries were to use it, the discipline created by multilateral rules would be eroded – and as mentioned above the rules appear to have played a role in constraining the use of trade remedies during the recent global recession. The same is true for the SSM: the specific criteria that are agreed as potential triggers for action do matter (Hertel, Martin and Leister, 2009). However, the experience with safeguards of different types, including antidumping, suggests that the key source of discipline on their use is domestic – countervailing pressure by groups that are negatively affected by higher trade barriers. This in turn suggests that what is most important in terms of multilateral disciplines is to ensure that instruments of contingent protection are not “mechanical” or “automatic” but require a judgment by policymakers regarding the net impact on the economy as a whole of taking action. This will be facilitated by all economic interests having the opportunity (legal standing) to be heard in the decision-making process whether or not to apply temporary protection to assist import-competing industries (Finger, 2002).

### ***B. Sectorals***

A perception that the formulae-based market access negotiating modalities would not generate “enough” actual liberalization of applied tariffs has generated a push for sectoral deals in specific sectors by some WTO members. What would be the implications of agreeing to sectorals?

For illustrative purposes what follows focuses on the case of the US. We compare a baseline scenario where all countries reduce bound tariffs by 40 percent and all tariffs are capped

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<sup>19</sup> These data were provided by Chad Bown and were derived from Bown (2009).

at 50 percent to one where tariffs are eliminated in six sectors where the US and other countries have indicated an interest from an exporting perspective – chemicals, electronics and electric equipment, forest products, jewelry, industrial machinery and sport equipment. These sectors are identified in WTO (2008). Under the baseline scenario, US exports are projected to increase 2.2 percent (export-weighted). Under a zero-for-zero deal for the six sectors, the overall change in US exports is 4.2 percent. Free trade in these sectors would therefore increase US exports by an additional 2 percentage points.<sup>20</sup> The marginal impact of zero-for-zero deals in the six sectors would roughly double the increase in US exports compared to the Doha baseline used for comparison purposes. Adler et al. (2009) come to a very similar conclusion: sectoral deals on chemicals, electronic and electrical goods, and environmental goods would double the trade and real income gains for their sample of 22 large countries.

These simulations suggest that sectoral agreements can be important in increasing the incentives of the relevant export industries to support multilateral trade negotiations. Zero-for-zero and sectoral agreements were a feature of the Uruguay Round. Examples of such agreements – under which subsets of (mostly) OECD countries agreed to eliminate tariffs, either immediately or following a transition path – included deals on agricultural, construction and medical equipment; beer; furniture; paper; pharmaceuticals; and toys (Mann and Liu, 2009). The most prominent example of a zero-for-zero deal that was incorporated into the WTO is the Ministerial Declaration on Trade in Information Technology Products, generally called the Information Technology Agreement (ITA), concluded in 1997 by 39 countries accounting for 90 percent of world trade in the products covered (Fliess and Sauv e, 1998). Signatories agreed to eliminate tariffs over a three-year period on a MFN basis.

A well-known feature of multilateral trade negotiations is that participants seek to limit free-riding by other countries. For example, internalization, defined by Finger (1974, 1979) as the sum of all imports originating in countries with whom a country exchanges concessions as a percentage of total imports of goods on which concessions are made, was about 90 percent for the US in the Dillon (1960–1) and Kennedy (1964–7) Rounds. A sectoral agreement that is applied on a MFN basis is basically a mechanism to formalize a high level of “internalization” among the largest traders in a given product. What is needed is a “critical mass” of countries – what Schelling (1978) has called a “*k*-group”, the minimum number of countries (*K*) out of a larger

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<sup>20</sup> This is an upper bound, as it assumed that tariffs are removed on all 2,138 tariffs lines that are mapped to these six sectors, rather than the much more limited subset of tariff lines that are listed for each of the six sectors in WTO (2008). These calculations were done at the 6-digit level of the Harmonized System by Marcelo Olarreaga, based on the model and database described in Hoekman and Olarreaga (2007).

set (“ $N$ ”) that internalizes enough of the total potential gains from cooperation to make free riding by the remaining  $N-K$  players irrelevant.

The ITA is an example of a critical mass agreement, as are the agreements on finance and basic telecoms concluded in 1997 after the end of the Uruguay Round negotiations. The Uruguay Round experience – and the general feature of GATT/WTO negotiations that an internalization ratio of some 90% is required by participants no matter whether the focus is on a small group setting or all members – suggests that the closure of the Doha Round need not be made conditional on specific sectoral agreements. In practice, as such agreements will require the participation of all the major traders in the relevant products, they can be pursued after concluding a Doha deal that harvests what is on the table. Agreement among the major traders to negotiate sectoral agreements could be part of a Doha deal – with the critical mass of countries that would need to participate in a sectoral arrangement to achieve a high ‘internalization’ ratio committing to engage in talks that would start after conclusion of the DDA. As argued by Gallagher and Stoler (2009), Harbinson (2009) and Abbott (2009) among others, an explicit shift towards ‘critical mass’ negotiations that aim at agreements that are applied on a MFN basis would move the WTO back towards a negotiating modality that has a proven track record of success.

### *C. Services*

Services have to date not been an area of disagreement and impasse. However, they are an area where opportunities for enhancing national and global welfare have only begun to be tapped and where much could be achieved in the DDA. They also constitute a part of the Doha Round that is of interest to a large number of major industries – recall that in OECD countries services account for 70 percent or more of total employment and value added.

Despite significant unilateral liberalization, most countries have so far been wary of engaging in multilateral negotiations on services. For one, it is difficult to make the deep legislative and regulatory changes needed to open services markets in the context of international trade negotiations. More importantly, scope for reciprocity within services has been drastically curtailed by the unwillingness of industrial countries to consider greater openness where developing countries have a comparative advantage – notably in the supply of services through the temporary movement of persons. As noted earlier, the wedge between the reality of present-day regulatory regimes and the level of bound commitments in the GATS often remains large. There is therefore considerable scope for improving commitments to lock in prevailing levels of

openness – that is, significantly reducing the “water” that is implied by current GATS commitments.

Rather than taking the view that the multilateral system is not very effective in delivering real opening of services markets worldwide and giving up on the WTO – which appears to be the position of many service sector firms – industries should recognize that this is an area where the WTO can deliver a lot in terms of greater security of market access. It should also be recognized that the interests of some service providers are on the table in other negotiating groups and there are opportunities to complement agreements in other fora with additional commitments under the GATS. Trade logistics is an example: efforts to improve trade facilitation-related regulation in the negotiations of trade facilitation can be leveraged by seeking greater locking in of existing levels of market access openness in the GATS. Substantially expanding services commitments is likely to be a pre-condition for concluding the DDA. It is also one area where greater ambition is feasible – what is implied is expansion of the coverage of the GATS to additional sectors and modes of supply, not further liberalization of applied policies.

#### **THE BIRD IN HAND: LOCKING IN EXISTING OPENNESS**

Instead of judging what is on the table in the DDA by the metric of significant new liberalization, it should be recognized that the WTO is primarily an institution that provides a mechanism for members to make policy commitments. This suggests that the aim should be as far as possible to bind the current level of openness in industry, agriculture, and services, and for industrial countries, current levels of subsidization in agriculture. As is always the case in multilateral trade rounds, countries are also seeking to negotiate limited exemptions and exceptions for certain products from the full application of the formula cuts, as well as the ability to invoke instruments of contingent protection. Even accounting for these flexibilities, there is a significant deal on the table – one that compares well with what was achieved in previous GATT/WTO rounds (Martin and Messerlin, 2007).

For the round to live up to its name, any outcome should address demands by developing countries for significant reforms in key areas such as cotton. What is now on the table will do less than many developing countries would like to achieve. For example, the inability to agree on providing 100% duty-free, quota-free access implies that the market access gains for LDCs are less than they could have been. Deeper cuts in agricultural production support by rich countries would be better than the 60 to 70 percent reduction in permitted support that is now on the table. Agreement to refrain from agricultural export restrictions would have enhanced the benefits for

net food importing countries. While there are clearly important ‘gaps’ between what would be desirable from a development perspective and what is feasible, an outcome that is largely centered on what is currently on the table would be a significant step forward for developing countries.<sup>21</sup>

The current economic situation has increased the value of reducing the scope for governments to raise levels of protection. As argued above, pressures to restrict imports are likely to continue to mount in the coming year, as a recovery in growth and associated trade flows will occur in an environment of high levels of unemployment in many countries. Similarly, the limits that will be imposed on agricultural subsidy programs are now more valuable as these will help governments in future efforts to reduce the deficits that have been generated as a result of fiscal stimuli programs. Since the major threats to the global economy come from actions by the large trading partners, it is these countries that must make deeper commitments to desist from protectionism. The G-20 has proven to be a natural forum for initiating commitments to refrain from beggar-thy-neighbor trade policy actions but the WTO provides the institutional infrastructure through which such commitments can be made enforceable.

Although in our view the primary benefits of the DDA will come from the reduction in policy uncertainty that is associated with greater binding of tariffs, subsidy ceilings, and specific commitments in services, it is important to recognize that there will also be benefits in terms of improvements in market access. Even though we have expressed some doubts over the ability to accurately quantify the true benefits of Doha, it is important to note that even taking into account likely product exceptions and sensitivities, the modalities on the table will generate increased trade that in turn could produce an additional US\$160 billion in real income for the world. This is particularly important in the current economic context, as it would provide a boost to world demand during a period when many governments will be seeking to reduce fiscal stimulus measures.

Apart from the benefits of the DDA itself, an important reason for concluding the negotiations is to create space for multilateral cooperation on critical policy matters outside the current negotiating agenda.<sup>22</sup> In particular, the lack of agreement on the Doha Round could crowd out the prospects for cooperating on initiatives that address large cross-border spillovers. Climate change is the most obvious example where there is an urgent need for governments to consider the implications for the trading system of concerted action to reduce carbon emissions and green

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<sup>21</sup> Mention can also be made here of the progress that has been made on addressing implementation concerns by developing countries and the possible establishment of a Monitoring Mechanism for special and differential treatment provisions.

<sup>22</sup> See e.g. Harbinson (2009); Hoekman and Kostecki (2009); Mattoo and Subramanian (2009).



house gas emissions. Other areas for negotiating rules of the game include public procurement, other non-tariff barriers, and subsidies, including investment incentives. The absence of international rules in these areas allows discrimination to be pursued with impunity. While many government policy responses to the crisis may be temporary, the effects of “buy national” or “buy local” could prove enduring if they result in emulation. It is noteworthy that some of the countries that are engaging in “buy national” policies are among those that have been most interested in seeing developing countries accede to the Agreement on Government Procurement. The signal that is being sent may have long term negative consequences for the realization of this objective. Finally, closure on Doha could also help launch a deeper reflection on how services trade negotiations could be pursued more fruitfully, and whether broader regulatory cooperation – e.g. on prudential regulation in finance and pro-competitive regulation in transport – is a necessary underpinning for market access negotiations at the WTO.

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