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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.

This paper—a joint product of the International Trade Department, Poverty Reduction and Economic Management Network; and the Trade and Integration Team, Development Research Group—is part of a larger effort to assess the development implications of multilateral trade agreements and cooperation. Policy Research Working Papers are also posted on the Web at http://econ.worldbank.org. The authors may be contacted at Bhoekman@worldbank.org; Amattoo@worldbank.org and Wmartin1@worldbank.org.

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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!

Bernard Hoekman, Will Martin and Aaditya Mattoo

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.[1] 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;[2] (ii) assisting governments to reduce fiscal expenditures once economies recover

[1] All data reported are from World Bank, *Global Development Finance, 2009.*

[2] 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.[3] 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.

[3] 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		
	Base	***Formula***	***Formula plus flex***	***Base***	***Formula***	***Formula plus flex***
Total	%	%	%	%	%	%
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
Agriculture						
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
NAMA						
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,[4] 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).[5] 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

[4] 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.

[5] 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.