The Doha Development Agenda: Risks After Hong Kong

Uri Dadush
Director, International Trade department
The World Bank

George Washington University
Washington, D.C. February 23, 2006
OUTLINE

World Trade: Some Key Trends

The Doha Round

Objectives

Hong Kong

Risks ahead

Outcome Scenarios

Concluding remarks
World trade trends: developing countries are exporting more manufactures...

Composition of exports: 1981-2001

Middle-income countries

Manufacturing exports (%)
Resources exports (%)
Agricultural exports (%)

Low-income countries

Manufacturing exports (%)
Agricultural exports (%)
Resources exports (%)
Developing countries are moving up the technology ladder...

Low income countries: Share of exports, 1981-2001 (percent)

Middle income countries: Share of exports, 1981-2001 (percent)
And there has been significant trade reform in the last two decades.
But autonomous liberalization has been the main driver...

Av. Tariffs in Developing Countries

Source: Martin and Ng, 2004

Share of tariff reductions

Multilateral Agreements 25%
Regional Agreements 10%
Autonomous Liberalization 65%
And not all news are good...

- Roughly one-third of developing countries have not benefited significantly from growth in international trade (43 countries had no expansion of exports between 1980 and 2000).
- Some countries with solid export growth have not translated that into significant poverty reduction.
- There is growing anxiety in OECD countries with respect to the effects of globalization (agriculture/Brazil; manufactured products/China; services/India);
- Developing countries could have done better if protection did not discriminate against products in which they have comparative advantage (particularly, in agriculture).
- And many developing countries face significant supply constraints and infrastructure bottlenecks that hamper their integration into the world economy.
Trade negotiations can be an important lever to advance trade reform

- They offer scope for exchange of market access offers (and more so the larger the number of countries taking part and the broader the product and issue coverage) leveraging the political support for trade liberalization;
- WTO negotiations offer the most scope, but bilateral and regional negotiations (preferential trade agreements) may allow faster and deeper integration - but at the risk of trade and investment diversion;
- 2006 will be a critical year for the Doha Development Agenda (DDA) negotiations and for the WTO.
The Doha Development Agenda

- The 4th WTO Ministerial was held in Doha, Qatar in November 2001. The “September 11” effect influenced the decision to launch a new major multilateral trade effort;
- The development dimension was emphasized in view of concerns from developing countries with the “unbalanced” results of the Uruguay Round;
- Ministers adopted a wide-ranging work program known as the Doha Development Agenda (DDA). Under the DDA the topics for negotiations include: agriculture; non-agricultural market access (NAMA); services; system of notification and registration of GIs for wines and spirits under TRIPS; WTO rules; the Dispute Settlement Understanding; trade and environment; special and differential treatment (S&DT); and outstanding implementation issues.
Why the focus on agriculture in the DDA?

- ... even though it provides less than 4% of global GDP and 9% of int’l merchandise trade
- OECD manufacturing tariffs have fallen by 9/10ths over the past 60 years to <4%, while agricultural protection has risen
  - Agric. applied (bound) tariffs now average nearly 5 (10) times manufactures tariffs globally
- A strong coalition of developing countries (G20) has kept the pressure to keep agriculture as the “locomotive” of the round;
- Also, the vast majority of the world’s poor rely on farming for a living, and are often hurt by agricultural protectionist policies of rich countries.
Services: developing countries continue to lag behind rich countries in services competitiveness

Improving trade logistics can be as important as cutting tariffs...ports, customs, transport

Average number of days to clear customs for sea cargo

<table>
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<tr>
<th>Region</th>
<th>Average Days</th>
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<tr>
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<tr>
<td>Latin America and Caribbean</td>
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<tr>
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<td>10.0</td>
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<tr>
<td>South Asia</td>
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Development assistance is key to improving ports, customs and trade infrastructure

Source: International Exhibition Logistics Associates, based on a sample of countries in each region (http://www.icla.org)
High transport costs erode competitiveness and the benefits of trade integration: the case of Africa

- Freight charges absorb about 15% of African export value;
- For landlocked African countries the freight proportion in export value is a whopping 30% (transport costs are 50% higher than coastal);
- Landlocked countries on average have only 30 percent of the trade volume of coastal economies: e.g., a container shipment from Baltimore to Durban costs around $2,500, while from Baltimore to Mbabane (Swaziland), via Durban, it costs $12,000 (a 380 percent “landlocked penalty”);
- Relative to other low income countries freight charges on African exports to USA are 20% higher;
- Raising infrastructure density and investing in trade facilitation can significantly ameliorate this problem. This, in turn, underscores the importance of aid for trade in the context of African countries.
The Hong Kong Ministerial

The 6th WTO Ministerial meeting (December 13th-18th) achieved modest progress. There is, however, a generalized sense of relief that WTO Members managed to avoid another "Cancun-style" confrontation.

The conventional wisdom about the accomplishments of the Ministerial can be summarized as follows:

- Secured an end date for elimination of export subsidies (2013);
- An agreement on how to proceed on a fast-track approach with respect to cotton;
- Adoption of the duty-free/quota-free proposal for LDCs;
- Fleshed out the framework for full modalities in agriculture and non-agricultural market access (NAMA);
- Services: a text that can serve as a platform to move forward.
Challenges ahead....

- Credibility of the commitment to complete the round by the end of 2006 will be under growing stress if these ambitious target dates are not respected;

- No major player seems to be willing to exert leadership in promoting the global public good of multilateral trade liberalization. Post-HK dialogue at high level has continued (e.g., Davos) and the “atmosphere” is characterized as positive, but no concrete movement yet;

- Agriculture:
  - the criteria for selection of sensitive products (and special products) - the greater the flexibility on this front, the smaller the potential for substantive improvement in market access through tariff cuts;
Challenges...

🔹 **Cotton:** expectations from LDCs of quick solutions and significant financial transfers to cotton producers as “compensation.”

🔹 **NAMA:** wide range of proposals concerning the coefficients for the Swiss formula, the scope of sectoral negotiations, policy space ...;

🔹 **Services:** excessive focus on temporary labor movement and lack of interest in using the negotiations to leverage domestic reform by developing countries; offers so far deliver limited additional liberalization;

🔹 **Rules:** up to now limited progress in the discussions on anti-dumping and new disciplines on RTAs;
Challenges...

- The **S&DT** debate is increasingly focused on the concept of policy space and preferences. This can significantly debase the value of a rules-based trade system.

- Claims about the benefits of unilateral preferential regimes are often exaggerated, not considering the burden of complex rules-of-origin regimes and exceptions to preferential coverage.

- The duty-free/quota-free decision has a symbolic value, but one cannot dismiss the danger of “preference illusion.” For example, 70% of Bangladesh’s exports to the US are covered by less than 1% of all US tariff lines (at 8 digit level).
Potential scenarios

- An ambitious outcome:
  - A Doha agreement that promotes significant cuts in WTO-agreed tariff ceilings (bound rates) could deliver roughly one-third of the static global welfare benefits of a move toward merchandise free trade (roughly $290 billion in additional world income by 2015). This scenario would involve cuts of 75 (60) % for the top band of agricultural tariffs for developed (developing) countries and on average of 50 (33) % for NAMA tariffs in developed (developing minus LDC’s) countries;
  - At the global level, nearly two-thirds of the gains of merchandise trade liberalization would be derived from agriculture and food liberalization, with 14 % generated by removal of remaining protection on textiles and apparel and only 23 % to removing protection in all other manufacturing sectors.
  - About 50 % of the gains to developing countries come from removal of barriers to trade among themselves, a result that highlights the importance of engagement in the round.
A bad/minimalist outcome:
- Limited increase in agricultural market access with broad scope for selection of sensitive/special products;
- NAMA and services outcomes essentially bind status-quo of existing liberalization;
- S&DT explored to the limit as a mechanism for developing countries to opt out from multilateral disciplines;
- Loopholes in duty-free/quota-free initiative for LDCs promote “preference illusion;”
- Aid for trade used mainly as a lever to minimize resistance from developing countries and at odds with “aid effectiveness” principles.

In such a scenario, the multilateral trade system “survives” the round. The development impact of the DDA, however, is limited and skepticism about the benefits of a rules-based trading system (particularly among developing countries) increases.
Potential scenarios

Drift:
- Modalities for agriculture and NAMA (plus a critical mass of services offers, progress in rules and on the development dimensions of the round) are not reached by the end of December 2006;
- The round will enter a phase of drift with end-game negotiations being delayed by several years (depending on an eventual renewal of the US Trade Promotion Authority and political changes in major political players);
- Delay will feed skepticism about the benefits of the multilateral trade system, foster the search for alternative options (e.g., preferential trade agreements) and is no guarantee that a bad outcome will not emerge in the end.
Concluding remarks:

- Agriculture is the main potential source of welfare gains in the DDA; Market access provides the bulk of the gains.
  - Sensitive (and special products) greatly diminish the benefits of agricultural liberalization;
- All countries participate: a balanced outcome (that goes beyond agricultural liberalization) is required not only because it makes economic sense, but also because it is needed to strike a deal;
- Aid for Trade as a critical complement and not a substitute for market access and subsidy reforms.