



Doha Development Agenda (DDA) state of play

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Trade Research**

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Outline

- Introduction
- Principal elements of the DDA
- State-of-Play in the negotiations
- The process ahead
- Why we need a successful Doha Round
- Beyond Doha
 - Future challenges to the international trading system

What do we need trade agreements and multilateral negotiations for?

- Modern rationale for trade agreements
 - Avoid the prisoners' dilemma of a terms of trade war (Bagwell and Staiger, 2002)
- Rationale for periodic rounds of negotiations
 - Trade cooperation is dynamic and characterized by continuing negotiations (Klimenko et al, 2008)
 - Continuing negotiations involving deeper commitments and expansion of areas of trade cooperation

Government motivation

- Several assumptions are possible:
 - Governments maximize economic welfare
 - Governments are mercantilistic (“exports are good and imports are bad”)
 - Governments are hostage to vested interests (Helpman and Grossman, 1994)
- Approach taken
 - Governments try to maximize economic welfare but face political constraints - need to alleviate concerns of import competing sectors and to cultivate support of export sector (Baldwin,)
- Implications
 - Delicate balancing required (“offensive” and “defensive” interests) but not in all cases

Background to Doha

- Multilateral round of negotiations launched in November 2001 in Doha
 - Doha Declaration (WT/MIN/(01)/DEC/1)
 - - > Negotiation mandates + other work = Doha Development Agenda
- Ninth round of negotiations since founding of GATT in 1947
- Background: limits of Built-in-Agenda, Seattle failure (in 1999) and attacks of 9/11

Principal elements of the DDA

- Greater liberalization, strengthening of WTO rules and inclusion of new areas of cooperation
 - Agriculture (cotton subsidies added in 2003)
 - Non-agricultural Market Access (NAMA)
 - Services
 - Trade Facilitation (added in 2004)
 - Special and Differential Treatment for developing countries
 - WTO Rules (anti-dumping, countervailing duties, safeguards and fishery subsidies)
 - TRIPS (Register for GIs on wines and spirits)
 - Trade and Environment
 - Dispute Settlement Understanding (outside single undertaking)
- DDA is a “single undertaking”

Single undertaking and “balance”

SECTORS	US	EU	Japan	China	India	Brazil	South Africa
Agriculture	D	D	D	D	D	O	O
NAMA	O	O	O		D	D	D
Services	O	O				D	D
Facilitation	O	O					
Development				O	O	O	O
Rules	D		O	O			
Environment		O					

Legend: O – offensive

D – defensive

... but not always

- LDCs – require flexibility in undertaking new commitments but want more market access for their exports (“duty free, quota free”)
- Africa, Caribbean and Pacific (ACP) countries – concerned that preferences received from EU may be eroded by DDA
- Recently acceded members (RAMs) – feel that they have already opened up considerably in their accession to the WTO and do not want to make more concessions under the DDA
- Duty-free city states Singapore and Hong Kong are strong supporters of DDA

Agriculture - Key Issues

- Reform in three principal areas:
 - Domestic support (tiered reduction in support)
 - Market access (tiered reduction formulas)
 - Export subsidies (elimination of all export subsidies)
- The fundamental trade-off:
 - Cuts in domestic support (advanced countries) in return for market access (developing countries)
- Flexibilities from tariff reduction commitments:
 - Sensitive Products (largely for developed countries)
 - Special Products exclusively for developing countries
- Special Safeguard Mechanism (SSM) for developing countries
- The magnitude of the cut in cotton subsidies

Special safeguard mechanism

- Allows a developing country to increase its duty on agricultural imports if there are import surges or price falls:
 - Import volume trigger: if import volume increased by at least 110% of base level
 - Price trigger: if c.i.f. import price falls below a price equal to 85 per cent of the average monthly MFN-sourced price
- Key disagreement:
 - by how far can the duty be increased (could it breach pre-Doha rates)?

NAMA – key issues

- Tariff reduction principle: highest rates get cut more (use of Swiss formula)
- Flexibilities to deviate from formula, e.g.
 - Proposed coefficients of 20, 22 and 25. At 20, countries apply half the formula cut on 14% of tariff lines or no cut to 6.5%. With 22 it would be 10% with half cut and no cut with 5%. No flexibility with 25
 - Additional flexibilities to some countries (e.g. South Africa)
- Sectorals for deeper market access– voluntary, but some see as potential solution to higher coefficients. Basically creating duty free sectors
 - automotives, bicycles, chemicals, electronics/electrical, fish and fish products, forest products, gems and jewellery, hand tools, healthcare, industrial machinery, raw material, sports equipment, textiles, clothing & footwear, toys)

NAMA – formula approach

- Agreed Swiss formula for (bound) tariff reductions:

$$t_1 = 8 * t_0 / (8 + t_0) \quad \text{for developed countries}$$

$$t_1 = a * t_0 / (a + t_0) \quad \text{for developing countries}$$

Where:

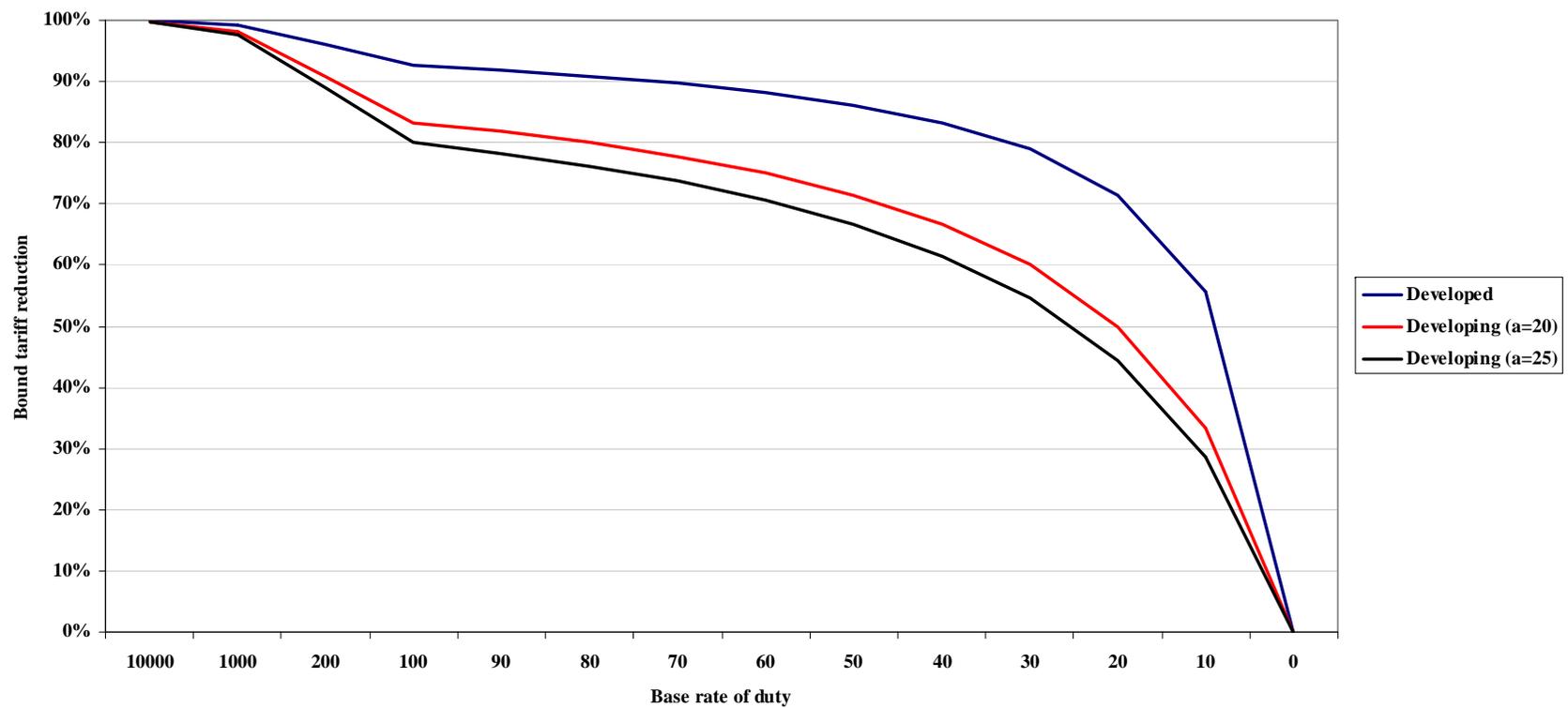
t_1 = final bound duty

t_0 = base rate of duty

a = coefficient applicable to developing countries (choice of 20, 22 or 25)

Note: coefficient is equal to maximum level of final bound duty

Swiss formula



Services - Key Issues

- Limited traction in negotiations
 - done bilaterally or request-offer method (around 30 countries active in the negotiations)
- Not a North-South Issue
 - Mode 4 demands by developing countries in such areas as IT, accounting, etc.
 - Developing country financial institutions increasingly global
- Given the importance of services in the world economy, this area seen by many as integral part of a break-through package
- Sequencing/links with Agriculture and NAMA modalities

Development Dimension - Key Issues

- Agreement specific S&D proposals totalling 88. Three categories -- 32 agreed.
- Special and Differential Treatment – included in every segment of the negotiations;
- Capacity Building/Aid for Trade
- Trade Facilitation formula for linking implementation to reception of technical assistance

From Doha to today

- 2002 – 2005 A tale of missed deadlines with negotiations behind schedule.
- After Hong Kong Ministerial Conference little appetite for another negotiation style meeting.
- While important results at Hong Kong on agriculture, TRIPS etc. Members only inching slowly closer to agreement. Some negotiating fatigue.
- July 2008 mini-ministerial nearly produced an agreement on “modalities” but stumbled over the issue of the special safeguard mechanism in agriculture.
- World Leaders at G20 meetings have called for 2010 conclusion. Now longest multilateral negotiation ever.

CURRENT NEGOTIATIONS



Pre-history

(before UR):
only goods

1995 Uruguay Round agreements,
new WTO: goods, services, intellectual property

Now: revised rules
new commitments

2000 Agriculture, services talks start March

2001 Doha Agenda launched November

2003 Cancún ministerial fails September

2004 Frameworks 1 August

2005 Hong Kong ministerial Dec

2006 talks suspended 24 July ...

2007 talks resume 31 January

2008 – July Mini-Ministerial fail

2009 – Global Economic Crisis,
Geneva Ministerial Conference.

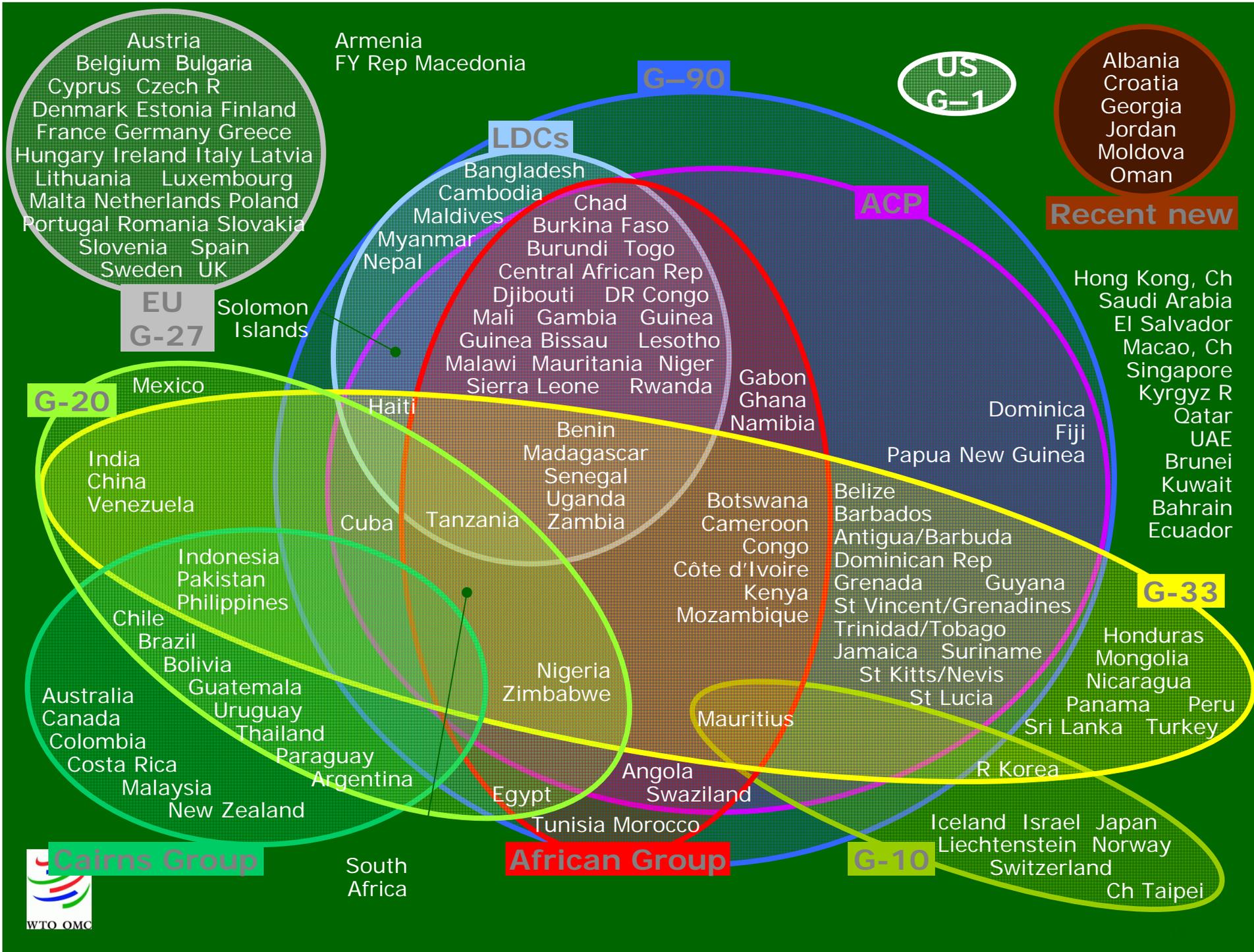
Future: rules revised again,
more commitments

2010 March stocktaking



Why has it been so difficult?

- The issues
 - large number of issues
 - complexity
- The level of ambition
 - Too much for some
 - Too little for others
- Decision-making process
 - Consensus (153 members)
 - Single Undertaking
- Complications arising from economic crisis



The political economy of Doha: US

- New administration has many important issues on its plate: health reform, financial reform, immigration and climate change
- Mid-term elections coming up
- International economic front
 - China currency issue
 - A number of already concluded FTAs have stalled in Congress (Colombia, Panama and Rep. of Korea)
 - Welcome (?) sign of trade interest is Pres. Obama's announced goal (State of the Union speech) to double US exports in five years

Developing country interests - not one size fits all

- Solidarity among developing countries, but differences clear: LDCs, SVEs, emerging economies, newly acceded countries.
- Divide among developing countries :
 - Preference erosion (e.g. ACP countries)
 - Agricultural exporters (Brazil) vs Importers (India)
 - Those seeking ambitious outcome in manufacturing/services versus those who take a more defensive position
 - Newly acceded countries

What Next?

- 80% of technical negotiation done, but Agricultural and NAMA “Modalities” still bogged down; Services also progressing slowly.
- Economic crisis in 2008-9 saw first contraction (12%) in global trade for 50 years, some protectionist measures;
- ...but crisis focused minds of WTO Members on other roles of the Multilateral Trading System – e.g. monitoring;
- Ministerial Conference in Nov/Dec 2009 discussed crisis, but not specific outcome;
- AT MC7 WTO Members focused on 2010 as deadline, but will be difficult;
- March 2010 stocktaking – some technical progress, but key political will absent.
- G20 in Canada June 26-27 – focus likely on international financial system and reform

Why is it necessary to successfully conclude the Round?

- Positive welfare benefits
 - There are gains globally, although they are not particularly large
 - Emerging Asia appears to be a winner
- Positive boost to global economic recovery
- Antidote against protectionism

Estimates of welfare gains

- Some latest estimates from major institutions
 - IFPRI (Mirage): \$59 billion (0.09% change)
 - CEPII (Mirage): \$57 billion (0.08% of GDP)
 - Peterson Institute: \$114 billion
 - World Bank (Linkage): \$96.1 billion (0.23% of GDP)
 - Carnegie: \$58.6 billion (0.14% of GDP)
- Bottom line: there are global gains but they are not spectacularly large
- However, these estimates do not include gains from services, trade facilitation and strengthening of WTO rules
- Furthermore, these estimates may understate the true gains from the DDA since a successful round can constrain protectionism
 - IFPRI calculates that if countries resorted to protectionism (by increasing their applied tariffs to the bound rates), global welfare falls by \$353 billion.

Impact on Emerging Asia

USD Billions

Country	(A)	(B)	(C)
ASEAN	-	-	5.7
Asian NIEs	-	3.8	-
Bangladesh	-0.1	-0.1	-
China	1.7	14.5	-0.8
India	2.2	3.1	2.4
Indonesia	1.0	0.9	-
Japan	23.7	8.0	11.1
Korea	-	-	3.4
Korea & Taiwan	15.0	-	-
Rest of ASEAN	-	2.6	-
Rest of South Asia	-	0.4	0.4
Singapore & Hong Kong	1.5	-	-
Taiwan	-	-	1.5
Thailand	2.0	-	-
Viet Nam	-0.5	2.4	-

Sources:

(A) Anderson, Martin and van der Mensbrugge (2005), Table 12.10.

(B) Polaski, S. (2006), page 98.

(C) Decreux, Y. and L. Fontagné (2006), page 27.



Trade policy response

- Overall assessment of trade policy response (WTO-OECD-UNCTAD) :
 - “We have not observed widespread resort to trade or investment restrictions as a reaction to the global financial and economic crisis” (September 2009)
 - “There has been no indication of a significant intensification of trade or investment restriction since the last Report to the G20 in September 2009. .” (March 2010)
- This is not to say that there has been no increased trade restrictions
 - AD initiations increased by 28% between 2007-2008
- Rising unemployment suggests the need for vigilance

WTO monitoring mechanism: the coordination problem

- WTO monitoring solves a coordination problem.
- If all trade partners of a country resist protectionism, its best response is also not to restrict trade. (Outcome 1)
- If, however, all trade partners of a country are imposing trade restrictions, the country's best response is also to impose protection. (Outcome 2)
- For all countries, outcome 1 is preferable to outcome 2.
- If countries are unable to communicate or coordinate their actions, they may end up in outcome 2 instead of the preferred outcome 1.

Illustrating a coordination problem

Country 2

		Country 2	
		No protectionism	Protectionism
Country 1	1		
	No protectionism	2, 2	0, 0
Protectionism	0, 0	1, 1	

Lessons and questions for the future?

- Many new trade issues beyond Doha
 - Legacy measures from global crisis (bailouts, subsidies)
 - rising price of food, agriculture and natural resources; border adjustment measures and climate change, etc.
- Is this the last comprehensive multilateral negotiation?
- What if Doha does not conclude by 2010? Do we move on or do we continue with Doha negotiations?
 - Answer 1: A decade spent on Doha is enough. Let us move on to address new challenges.
 - Answer 2: If international cooperation to conclude Doha is lacking, why do we think we shall have enough to deal with more difficult future challenges

Research issues

- Doha related questions:
 - How can we model and measure the gains from Doha that involves changes to WTO rules?
 - How will countries in the Asia-Pacific region be affected?
- Crisis-related questions
 - Global rebalancing and Asia Pacific region (including exchange rate question)
 - What changes in trade patterns – intra-AP and extra-AP – are we likely to see in the aftermath of the crisis?
 - To what extent are the crisis responses likely to lead to trade conflicts in the future?
- Forward looking issues
 - Where to Asian regionalism?
 - Climate change and trade restrictions