

The Doha Round after Hong Kong

A preliminary evaluation of progress made at the Hong Kong Ministerial

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Forecasts that trade ministers would be able to forge at least a facing saving deal in Hong Kong proved correct. But that doesn't mean the agreement is good, either for the developing countries or the world trading system. At Doha in 2001, members of the World Trade Organization launched a new round of trade negotiations which promised to focus on the problems of the developing countries and redress some of the imbalances of the past. The new 'Development Round' would, in the words of the top US trade negotiator, Robert Zoellick, deliver "growth, development and prosperity"¹. However as the Doha Round agenda begins to take its final shape, it is now clear that the 'development' aspect of the round has come to refer almost exclusively to agriculture. This is, in our view, a missed opportunity to make progress on a broad set of issues which would deliver benefits to developing countries.

Even within the narrow scope of agriculture, the Doha Round has been disappointing. World Bank estimates of the potential welfare effects of full agricultural liberalization are of the order of hundreds of billions of dollars. However the gains from the emerging Doha Round agenda established in Hong Kong will be substantially smaller because the promises of all countries fall far short of full liberalization.

The declaration at Hong Kong, of course, was not a deal, but an agreement about the way forward. What happens in the next few months will determine the scope of the gains from the Doha Round and whether, in the end, developing countries are better or worse off as a result. For now, what is clear is that more attention has been focused on the image of progress than on the reality of enhancing incomes and opportunity in the developing world.

¹ Quoted in "Seeds sown for future growth", *The Economist*, November 15th 2001.

Agricultural Export Subsidies

The decision to phase out export subsidies by 2013 was quickly trumpeted as a major achievement of the Hong Kong meeting, but it is in fact a largely symbolic commitment. In terms of their effect on world agricultural markets, or their share of total government support, export subsidies are a minor component of agricultural protection.

Little progress can be expected in the near term. The G20, the US and the Cairns Group had been demanding an end to export subsidies by 2010, but after intense negotiations in the chairman's consultative group in the final hours of the negotiations, the G20 agreed to accommodate Europe's compromise offer of 2013 provided that "the substantial part is realized by the end of the first half of the implementation period". This language is worryingly vague given the rich countries have previously exhibited a preference for delaying promised liberalization until the final deadlines approach (e.g. the 'backloaded' implementation of the WTO textile and clothing agreement). Certainly this wording is sufficiently uncertain to foster pessimism about the prospects for quick reductions in export subsidies.

Of course the more serious problem is that agricultural export subsidies only correspond to a small share of the overall support given in OECD countries (roughly 4 per cent). Unfortunately the vast majority of production support is almost as fully trade distorting. Subsidies lead to more production, and unless consumption is increased in tandem, prices fall. But consumption of agricultural goods is very insensitive to price, so almost all of the production increases translates into more exports. And there appears to be little progress in eliminating production subsidies. Thus the commitment at Hong Kong, while important, will really only have a small impact on the effect of government subsidies on world agricultural markets.

Agricultural tariffs

There has been little progress in the agriculture negotiations in Hong Kong since the July 2004 Agreement. The Hong Kong declaration enshrined some convergence on formulae, namely that four bands would be used for the tariff cuts envisaged in the market access negotiations and the richer countries will be in the bands requiring the highest cuts. However the substantive details including the thresholds for the bands and the size of the cuts remain to be agreed. Developing countries will also be able to avail themselves of a special safeguard mechanism to maintain protection on some special products guided by the criteria of "food security, livelihood security and rural development." Again, the details of this mechanism are yet to be decided.

The problem is that while the developing countries may not have gotten much in terms of concrete progress on agricultural tariffs, they have come under pressure to lower their industrial tariffs—something of enormous benefit to the advanced industrial countries, most of whom themselves in their earlier stages of development made extensive use of them. Now, the developed countries wish to kick away the ladder, to make it more

difficult for developing countries to catch up. And nothing is being done about the real problem, the structure of the tariffs which is design to inhibit the movement of developing countries into higher value added activities like food processing (through what are called escalating tariffs—higher tariffs on, for instance, canned foods than on raw foods, so that the effective tariff on canning can be very high.

Cotton

The commitment to eliminate export subsidies by 2006 is another gesture which is more symbolic than substantive. The commitment refers of course to the US, since it is the only developed country granting such subsidies. But the cotton provisions in the Hong Kong declaration cannot be presented as a new concession since the US would have to eliminate its export subsidies in any case in view of the WTO case that it lost against Brazil. Moreover promises to reduce US tariffs on cotton are of dubious value since America is a major cotton exporter. For a country exporting, it does little good to allow imports. The real knot in world cotton markets remains to be unpicked. The US' domestic subsidies, which make up 80-90 percent of total US support for cotton (estimated around USD 3.8 billion in 2004) remain intact. For these reasons the four West African cotton producing countries mentioned that the text did not "go to the heart of the problem". In short, America, to great fanfare, has made an offer worth essentially zero to the developing countries.

Duty-free and quota-free access for LDCs

The agreement to offer duty free and quota free access for the least developed countries was celebrated after Hong Kong as a win for the poorest WTO members. However again, the fine print of the deal undermines much of its value.

The limited success of existing preferential schemes such as the US's AGOA and the EU's EBA, has already indicated that the impact of preferential market access schemes may be limited by complex rules of origin and by limited supply capacity in developing countries. The standard rules of origin clauses which restrict the utilization of preferences have remained essentially unchanged for the last 30 years despite the increasing fragmentation of production and falling MFN tariff rates. Unfortunately the Doha Round has made little progress on changing rules of origin. The Hong Kong Ministerial text addresses rules of origin only in passing: "Developed members shall, and Developing countries members in a position to do so should: [...] (b) Ensure that preferential rules of origin applicable to imports from LDCs are simple and transparent, and contribute to facilitating market access". However the wording of the decision is of course not legally enforceable and provides no concrete roadmap for reform.

Nonetheless a full and comprehensive preferential agreement for LDCs at Hong Kong would have been an important step towards increasing their dismal share of world trade. Least developed countries had demanded duty-free and quota-free market access on a

lasting basis for 100% of products originating from LDCs by 2008. Unfortunately some countries (particularly the US and Japan) refused to offer 100 per cent coverage of products because of their sensitivities in particular products. A compromise was reached in which developed countries would give LDCs free access to 97 per cent of products. The US and Japan have around 10,000 tariff lines, the 97% figure allows them to exclude around 300 products. While this compromise appears small, it is in fact enough to significantly diminishes the value of the deal for LDCs. Since LDCs are only competitive in a small range of exports, this gives developed countries scope to leave out the majority of LDC exports.

Aid for trade

Finally it appears that the Doha Round has begun to get serious about 'aid for trade'. In recent years, the European Union and the United States have slashed tariffs to the world's poorest countries under special schemes granting them free market access. Yet despite the good intentions behind these schemes, we have witnessed almost no increase in the volume of exports from beneficiary countries. This experience belies the rhetoric of politicians who espouse the virtues of trade over aid. For the poorest countries in the world, market access is not enough. Without assistance to overcome gaps in infrastructure, boost product quality and connect to international supply chains, tariff cuts have little effect on trade from the very poorest nations.

The last twelve months have brought substantial increases in aid commitments and aid-for-trade issues received considerable attention in Hong Kong. This is certainly a welcome development as it represents a recognition that many of the least developed countries need assistance to turn increased market access into increased exports and that developing countries may face adjustment costs associated with liberalization. In Hong Kong members agreed to create a task force on aid for trade and require it to report to the WTO General Council by July 2006.

A successful Development Round will be defined partly by how it is implemented. Trade reform can be costly, especially for developing countries with scarce funds and weak institutional structures. The adjustment costs can be thought of as the price to be paid for the benefits of multilateral trade liberalization. It is these costs and the trade benefits that determine the net effect of trade reform for each country. If the Round is to bring widespread benefits, the developed world must make a stronger commitment than it has in the past to help the developing world not only to bear the costs, but also to avail itself of the opportunities provided by a more integrated global economy.

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

As we point out in our just published book *Fair Trade for All: How Trade can Promote Development* there was in fact a broad agenda beyond agriculture that would deliver benefits to the poorest countries, but which has been almost entirely ignored in the Doha

Round. For example, there is much that could be done to reduce tariffs on industrial goods. The structure of rich countries' tariffs is heavily biased against the goods exported by poor countries, particularly labour-intensive industrial goods and processed foods. Rich countries collect tariffs four times higher on their imports from poor countries than imports from other rich countries. And very little has been done about the real problem, the *structure* of the tariffs which is designed to inhibit the movement of developing countries into higher value added activities like food processing. Escalating tariffs impact heavily on value-added activities: higher tariffs on, for instance, canned foods than on raw foods, mean that the *effective* tariff on canning can be very high.

There is also much that could be done to increase the mobility of workers. Migration – particularly temporary schemes to allow workers from developing countries to work on short-term projects in rich countries – would enable workers from poor countries to fill labour shortages in rich countries and send part of their pay back to their families. Demographic changes will inevitably force immigration policy in rich countries is to shift toward temporary guest-worker schemes, but there is much that could be done at a multilateral level to facilitate these schemes and the flow of remittances they create. Remittances from migrant workers in rich countries is an important source of development finance and now exceeds total aid flows from rich countries.

For the Doha Round to be a success there will have to be some progress on the question of services liberalization. Some advances could quickly be made by liberalizing labor-intensive service sectors and sectors of export interest to the developing countries.

South-South liberalisation has progressed slowly. Attempts at preferential market access agreements have been made outside the WTO under the auspices of the Global System of Trade Preferences among Developing Countries (GSTP). Unfortunately, the GSTP is based on reciprocity—one reason for the low participation of the least developed countries among its members—and it has struggled to make significant progress. Bilateral and regional free trade agreements between developing countries are increasing in number, but it should not be assumed that South-South free trade agreements are unequivocally good for development since they discriminate against third party developing countries and the margin of discrimination is higher than is the case in North-North free trade agreements because developing country 'most favoured nation' tariffs tend to be higher. Thus, there may be a strong case for introducing a development dimension into South-South agreements. There are schemes being considered by some larger developing countries including Brazil, China and India, which would give special access to the least developed countries. While additional market access would be welcome, these schemes, like the existing 'generalised system of preferences' schemes operated by the advanced industrial countries, would be a patchwork of discretionary and conditional promises rather than clear legal rights enforceable within the WTO.

Evaluation

In Doha in 2001, the developing countries were promised a “development round”, one that would redress the imbalances of the past and create opportunities for the future. But what has emerged since clearly does not deserve that epithet. There was a collective sigh of relief when the Hong Kong meeting avoided a repeat of the embarrassing collapse at Cancun. There had been warnings that a failure at Hong Kong would have ended any prospect of completing the Doha Round in a reasonable timeframe. But as the parameters of a possible deal are hammered out in back-room meetings in the coming months, we should remember that the content of the agreement matters more than the agreement itself.

Unfortunately there are several reasons to be pessimistic. One is the increasingly hard-line approach taken by the European Union. The EU Trade Commissioner, Peter Mandelson, continues to demand that the developing countries make reciprocal concessions in return for access to the EU’s market. He said recently "anyone coming to the negotiating table empty handed must expect to leave empty handed". Mandelson treats the negotiations as a bargain between equals, but impoverished African countries can hardly be expected to negotiate on equal terms with the giant advanced economies.

The second threat to the Doha Round is the increasing detachment of the US, which continues to plough ahead with special trade agreements with its friends and allies outside the WTO. These bilateral agreements threaten to create a spaghetti-bowl of trade deals which hamper multilateral progress and leave the poorest countries out in the cold.

The meeting of trade ministers in Hong Kong in December was a chance to make major changes to the world trading system and give hundreds of millions of people the opportunity to trade their way out of poverty. At the end of the meeting, WTO director-general Pascal Lamy described the accord as a landmark document that managed to break the deadlock in global trade talks. This may be true but, after a year of unprecedented political and public attention on the problems of the third world, it is the smallest of achievements. As it stands, the Doha Round is heading towards a conclusion that would do very little for the poorest countries.