1

Will the Doha Round Deliver for Development?

Ivan Mbirimi

Introduction

The Doha Round was launched in 2001 without a great deal of enthusiasm among developing countries. From their perspective, the Uruguay Round outcome was unbalanced in two ways: the anticipated benefits fell far short of expectations and developed countries were the main beneficiaries. Developing countries also found it too costly to implement some of the agreements reached. Not surprisingly, they saw the new Doha Round in terms of removing asymmetries in Uruguay Round Agreements as well as ensuring that development became central to the negotiations.

The major developed countries clearly saw things differently, as their negotiating tactics subsequently demonstrated. To them, a development round was mainly a political response to the discontent expressed by developing countries – a discontent that had been exacerbated by the events of 11 September 2001. Thus, over the course of the negotiations, there was a progressive narrowing of the development agenda, so that when the sixth World Trade Organization (WTO) Ministerial Meeting took place in Hong Kong in December 2005, what was being considered as a 'development package' comprised essentially of four issues: a package which would give least developing countries (LDCs) duty-free and quota-free (DFQF) access to developed country markets, erosion of preferences and attention to the needs of small, weak and vulnerable countries, cotton and the new issue of aid for trade.

This book focuses on three of these issues, on which some modest progress was made at the sixth WTO Ministerial Meeting. The needs of the so-called small and vulnerable economies and preference erosion will continue to be addressed. Our main purpose in putting together these papers is to highlight how much remains to be done in order to deliver a development package on these issues. If there is one thread that runs through them, it is that failure to achieve meaningful outcomes is likely to mean that the Doha Round fails to deliver even a minimal development package for around 100 WTO members (the countries which belong to the G90 group). There is, therefore, an urgent need to ensure that further progress is made.

The Story So Far

At one level, development issues have become hostage to disagreements among the major players. The European Union (EU), in particular, has approached the negotiations in terms of a grand bargain involving an offer to open its agricultural market to imports in return for an agreement by developing countries to open their manufacturing and service sectors.[1] One consequence of this is that the specific concerns of least developed countries, small and vulnerable economies and the 'cotton four' have been used by the major players as bargaining chips in this grand bargain between agriculture, and manufacturing and services. The EU's position on development issues at the sixth WTO Ministerial Meeting in Hong Kong was viewed in this light.[2]

Aid for Trade

The first issue discussed here is aid for trade (AFT), in a paper by Nobel Prize winner, Joseph Stiglitz, and Andrew Charlton. They set out their ideas about what might constitute an effective aid for trade package. The AFT initiative emerged from the sixth WTO Ministerial Meeting in Hong Kong. The Ministerial Declaration makes it clear that the initiative aims to help developing countries, particularly LDCs, build their supply-side capacity and trade-related infrastructure so as to be able to implement and benefit from WTO agreements.

Stiglitz and Charlton provide a powerful narrative on the need for aid for trade, which in part is about making good the Doha Round's development promise, but is also about building the capacity of developing countries to trade. They see AFT as a necessary complement to the core market access issues in the Round.[3] They also view it in the broader context of increasing the volume and value-added component of exports, and diversifying export products and markets, as well as attracting foreign investment to create jobs and exports. However, approaching the issue in this broad context raises a number of questions, of which the most critical is: where do we draw the line between aid for trade and aid for development? It may be that there are no ready answers to this question.[4] But it is clear that where trade is important for development, this distinction may not be relevant. This also suggests that a 'one size fits all' approach is unlikely to work because developing countries face different economic circumstances.

Issues of definition and scope are not the only contentious area. Others include the volume and type of resources, country eligibility and future predictability of resources. The authors try to deal with these issues by suggesting a number of principles that could guide the establishment of an AFT package. These principles include *additionality of resources*, so that aid for trade does not come at the expense of aid for development budgets; *predictability*, so that there is a degree of certainty about funding; *country ownership*, as the only way to respond to the needs and priorities of a country; and *coherence* – essential in making trade part of the broader development agenda.

Turning to mechanisms for implementing aid for trade, Stiglitz and Charlton consider three options: continuation of existing mechanisms; creation of a new trade specific fund; and reform of existing mechanisms. Having analysed the merits and demerits of each option, they set out their proposal for a special Global Trade Facility (GTF), to be administered by the World Bank, similar to the Global Environment Facility (GEF), which is also administered by the Bank. The concept of an integrated facility would be retained, but the governance structure and location would be different. Where will the

WTO be in all this? The suggestion is that financial resources to be made available to the GTF would be treated as part of binding commitments written into the final Doha Round agreement.

The debate on aid for trade has only just begun and developing countries have only just joined it. Two considerations are paramount in developing countries' thinking: that the debate should not detract from a balanced outcome of the Doha Round that reflects their development concerns; and that an effective aid for trade package should help reduce the adverse effects of the Round, as well as enable them to take advantage of the opportunities it creates.

Duty-free and Quota-free Market Access for Least Developed Countries

Kennan and Stevens undertook an assessment of the implications of the Hong Kong Declaration on duty-free and quota-free access for least developed countries. The package that emerged from the Hong Kong Ministerial Meeting – offering DFQF for up to 97 per cent of tariff lines – fell short of what the LDCs wanted. The USA and Japan could not countenance 100 per cent product coverage for fear that countries such as Bangladesh and Cambodia, which are competitive in textile products, would create problems for their textile producers. It also argued that 100 per cent product coverage would undermine African preferential market access under the African Growth and Opportunity Act (AGOA).

The central question posed by Kennan and Stevens is whether duty-free and quota-free market access is likely to result in the removal of significant barriers to LDCs' trade. Their starting point is to note the two situations in which the initiative on DFQF might not have a significant impact. One is when few barriers to trade exist and the other is when, although barriers to trade exist, there is scope to restrict trade for sensitive products. Their focus was on the Quad markets (Canada, the EU, Japan and the USA). They conclude that in the case of the EU and Canada, the LDC package will not have a significant impact because there are very few existing barriers. Its principal effect would be to increase certainty and reduce the scope for regime dilution. Based on their analysis, the authors conclude that to make a difference, any new package would have to tackle specifically other barriers to imports from LDCs, such as unduly onerous rules of origin, health standards or other non-tariff barriers (NTBs).

In regard to the USA and Japan, Kennan and Stevens conclude that full implementation of the DFQF package would result in a significant removal of barriers to imports from LDCs. They therefore suggest that the main issue is whether the 3 per cent rule in the 'small print' could allow this effect to be diluted. They argue that if the USA concentrated its exclusions on the highest value items facing tariff peaks, the effect would be to exclude a substantial proportion of imports from Bangladesh, Cambodia, Nepal and Haiti. Otherwise, for the majority of LDCs, the scope for dilution is likely to be limited. In the case of Japan, Kennan and Stevens argue that the 3 per cent exclusion is unlikely to affect substantially the effect of the LDC package on current imports. This is because the country imports a narrow range of goods from LDCs.

Kennan and Stevens conclude by making several recommendations on issues to be followed up. One is that implementation of the LDC package should not be linked to the start of the Doha Round implementation period; another concerns the need for action to clarify and extend the Hong Kong Declaration, in particular in regard to how it might be enforced. Finally, the authors believe that action outside the scope of the Declaration (i.e. on measures other than border measures) may be required.

Addressing Global Cotton Subsidies

The last paper, by David Primack, deals with cotton. Primack discusses the problem of global cotton subsidies and their impact on poor developing country cotton producers. The issue came to prominence in the WTO in 2003, in the period leading up to the Cancun Ministerial Meeting, when four West African cotton producers argued for a speedy and expedited treatment of the problems faced by cotton exporters. They called for a mechanism to phase out cotton subsidies, with a view to eliminating all support to cotton production, as well as transitional financial compensation to offset injury during the period of elimination. They made a powerful case, which many observers saw as a test of the developed countries' preparedness to observe the rules, and of their seriousness in regard to levelling the playing field and allowing developing countries to reap the benefits of multilateral trade liberalisation.

Primack traces the development of the 'Cotton Initiative' from Cancun to Geneva, where in the July Framework package of 2004, agreement was reached to address the issue of cotton 'ambitiously, expeditiously and specifically', and finally to Hong Kong in December 2005, where only modest advances were made. The Hong Kong Declaration provides for the elimination of export subsidies in 2006 and DFQF for LDC cotton exports at the start of the implementation period. Any benefits flowing from these concessions are likely to be very modest. This is mainly because export subsidies constitute only a small proportion of the subsidies that the USA gives to its cotton producers every year. In the case of the EU, domestic subsidies make up almost all the subsidies provided to cotton producers.

Primack also analyses the impact of the Brazilian challenge to elements of the US cotton support programme, and although he sees some positive effects, he concludes that political economy considerations are likely to interfere with the pressure that Brazil and others are likely to exert on the USA through this avenue.

Conclusion

Taken together, these analyses show that the prospect of a balanced outcome to the Doha Round – one that responds to the development concerns of poor countries – is remote. In all three cases, there are serious issues and problems to be addressed. Already, there are some who are asking whether any deal is better than no deal at all.[5] It is not difficult to see why this view is taking hold in some quarters.

First, the pursuit of an agriculture for manufacturing and services deal, at the expense of other issues, is likely to produce an outcome that would be of little benefit to around 100 developing countries (essentially those belonging to the G90). Yet the costs of such a deal in terms of tariff losses (from opening their markets to industrial goods), adjustment costs and the loss of policy space are likely to be considerable.

Second, there remain several ambiguities in the agreements reached on the LDC package and the Cotton Initiative that may be carried forward into the final agreements, should an overall Doha Agreement be reached within the time-frame envisaged at Hong Kong. In other words, the risks of ending with very poor agreements on development issues are considerable, particularly if things are rushed in order to meet the Hong Kong timelines.

Third, political will, an essential ingredient for striking trade deals, is clearly in short supply. The change in personnel at the top of the US negotiating team is seen by many as an indication of the downgrading of the Doha Round by the USA.

What then is to be done? The authors of these papers make suggestions as to what needs to be done to achieve development objectives in the areas they have looked at, but the time and space to follow up these suggestions may be inadequate, particularly if a compromise is reached soon on an agriculture for manufacturing and services deal. That may then put pressure on developing countries to accept what is on offer. This is a major risk facing developing countries at this stage of the negotiations. It means that they must remain focused on their objectives and refuse to adopt agreements that do not serve their interests. They must also look at the detail of proposed agreements – the 'small print' – and seek clarity on ambiguous provisions in agreements reached at Hong Kong.

Notes

1 Andrew Charlton and Joseph Stiglitz, 'The Doha Round is Missing the Point on Helping Poor Countries', *Financial Times*, 13 December 2005.
2 Faizel Ismail, 'An Assessment of the Sixth WTO Ministerial Conference', December 2005
3 Although the authors are sympathetic to the concerns of preference-dependent economies, they do not think compensation is a good rationale for aid for trade.
4 Elizabeth Parsan, 'Reflections on the Aid for Trade Debate', April 2006 (unpublished paper for Commonwealth Secretariat).
5 'A Recipe for Disaster: Will the Doha Round Fail to Deliver for Development?', Oxfam Briefing Paper 87, April 2006.