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Through the Window: Beacons for a Pro-Poor World Trading System

Richard Newfarmer

While enormously beneficial for most people in developing countries, globalization has bypassed many of the poorest countries and poorest people.[1] Domestic policies and obstacles matter, but inequities in the world trading system also put developing countries at a disadvantage. Three forces have the potential to open global markets to more people: the current round of multilateral trade negotiations, regional trade negotiations, and the prospect of new "aid for trade" to help the poorest countries invest in infrastructure and institutions necessary to participate more effectively in the global marketplace.

The Doha Round hangs precariously in the balance. Even if there is an agreement in Hong Kong (China), a pro-poor outcome is not automatic. Results depend critically on the details of any trade agreement. This book peers through the mass of complexity—in agriculture, nonagricultural market access, services, and trade facilitation—to see what really matters for poor people.

Even as multilateral negotiations continue, many developing countries are engaged on a second front of negotiations, regional trade agreements. Some 75 countries are negotiating so-called Economic Partnership Agreements (plurilateral free trade agreements) with the European Union. The United States, having just completed a free trade agreement with Central America and the Dominican Republic as its seventh FTA, has a half-dozen new agreements in train. Many developing countries are following a similar path; consider Chile's recent free trade agreement with China.

Regional trade agreements can widen markets, deepen integration, and promote economies of scale in regulation and investment. However, they also are inherently discriminatory. Often the weakest countries are excluded; in effect, they pay for the preferences received by others. So how can these new arrangements minimize the disadvantages of preferential agreements and maximize advantages? A section of this book sets out guideposts for evaluating the development effects of upcoming regional negotiations.

Even with greater access to markets, many of the poorest countries may be unable to seize the opportunities that come with more open markets, either because of inadequate infrastructure, poorly performing trade-related institutions (such as customs), or domestic policies that create disincentives or impediments to trade. Still other developing countries may need additional help in adjusting domestic, regional, or global policy reforms to take advantage of new trade opportunities. For these reasons, the G-8 summit in Gleneagles in July 2005 supported calls for additional "aid for trade." A final section of this book discusses aid for trade related to standards, trade facilitation, and managing any adjustment costs from the erosion of preferences or from higher food prices that developing countries may experience as a consequence of a trade deal.

This introduction, drawing on the chapters of this volume, highlights the key decisions that will mean the difference between the success and failure of current efforts to open markets for products of the poor. In that sense, it provides "policy beacons" to assess outcomes in the three broad areas: multilateral negotiations, regional negotiations, and aid for trade.

Realizing the development promise of the Doha Agenda

A Doha Round agreement that slashed trade barriers would stimulate trade and raise incomes around the world, leading to a substantial reduction in global poverty. Although any agreement is not likely to be ambitious enough to generate the $290–460 billion in annual income that full liberalization might bring to the global economy, it could realize part of this potential and lift incomes of poor countries—and poor people—over the long term. The opening chapters by Anderson, Martin, and van der Mensbrugghe use quantitative methods[2] to assess where the main pay-offs are to be found in merchandise trade liberalization, with the conclusion that agriculture is the key to the Doha Round.

Agriculture is the locomotive of the development round

Agriculture is central to the development promise of this trade round. First, some 70 percent of the world's poor live in rural areas. Second, most of the world's trade protection is applied to agricultural products. Agriculture alone would produce roughly two-thirds of the gains that could be anticipated from full liberalization of merchandise trade. Progress can be made in increasing access to markets, reducing trade-distorting domestic support, and export subsidies.

Market access

Protection facing developing-country exporters in agriculture is four to seven times higher than in manufactures in the Organisation for Economic Co-operation (OECD) countries, and two to three times higher in developing countries. *Tariff peaks* against products from poor countries are particularly high in rich countries. *Tariff escalation* that discourages development of further processing is more pronounced in agriculture than in manufactures in both rich and poor countries. And hefty *specific duties* are common in rich countries. Because they automatically increase protection when commodity prices fall, specific duties throw the burden of adjustment onto global prices and poor countries. Forty-six percent of agricultural tariff lines in Europe contain such duties.

Tariff- and budget-based support to agriculture in OECD countries amounted to $350 billion in 2004—of which some $280 billion went directly to producers (roughly one-third from the budget and two-thirds from border measures).[3] Nontariff measures—including antidumping and other forms of contingent protection, sanitary standards, and technical barriers to trade—augment formal barriers. In fact, such measures may restrict trade more than border barriers (World Bank 2005). The combined effect of all of these forms of support is to stimulate overproduction in high-cost rich countries and shut out potentially more competitive products from poor countries. As Mitchell's chapter shows, the European Union went from being a net importer of sugar in the early 1980s to being a net exporter today.

The chapters by Anderson, Martin, and van der Mensbrugghe and by de Gorter set out important benchmarks of success in overcoming the problems posed by restrictive trade policies in agriculture. Increasing market access is by far the most important element of success. Their chief findings are as follows:

- *Tariff cuts must be deep to have effect.* This is true because WTO-agreed ceilings (bound tariffs) are well above today's applied rates, so negotiators will have to agree on cuts of 70 percent or more to ensure that applied rates decline (or at least do not rise).
- *Exclusions for sensitive products have to be extremely limited.* Exempting even 2 percent of tariff lines is enough to render virtually meaningless any deal that is likely to emerge from Doha. Why? Because most countries rely on tariff peaks in just a few product lines, but those lines account for a significant share of trade.
- *Capping all tariffs at 100 percent would help.* In many countries, very high tariffs, often in combination with tariff rate quotas, keep out products. Establishing binding caps can prevent or limit this effect. Steps should be taken to limit the application of specific duties, reduce tariff escalation, and curb nontariff barriers.
- *All countries have to contribute.* While agricultural protection is highest in rich countries, many developing countries also have high protection.[4] It is in the interest of all countries—and of great interest to the world's poor—to reduce protection everywhere.

Domestic support

Domestic support, while less damaging to developing countries than border barriers, greatly distorts trade in particular commodities and for particular countries.

Sugar is illustrative. In the European Union, Japan, and the United States a combination of quotas, tariffs, and subsidies allows domestic sugar producers to receive more than double the world market price. OECD governments support sugar producers at the rate of $6.4 billion annually—an amount nearly equal to all developing-country exports of sugar.[5] Prices are so high that it has become economic to grow sugar beets in cold climates and to convert corn to high-fructose corn syrup. Sugar imports in the OECD have shrunk to next to nothing.

Similarly, U.S. subsidies to cotton growers totaled $3.1 billion in 2003, about 1.5 times higher than U.S. foreign aid to Africa (see chapter by Baffes). These subsidies depress world cotton prices by 10–20 percent, reducing the income of thousands of poor farmers in West Africa, Central and South Asia, and other poor countries. In West Africa alone, where cotton is a critical cash crop for many small-scale and near-subsistence farmers, annual income losses for cotton growers surpass $150 million annually.

More than 70 percent of subsidies in rich countries are directed to large (often corporate) farmers. These farmers have incomes that are higher—often substantially so—than average incomes in Europe, Japan, and, to a lesser extent, the United States. Subsidies make the rich richer and the poor poorer. What should be done about domestic support in agriculture?

- *Deep cuts in bound levels of support are required to discipline actual levels.* As with tariffs, the bindings in the Uruguay Round were exceedingly generous, and applied levels of support have usually fluctuated well below the ceilings. Therefore, cuts in excess of 70 percent are required to have positive effects—and to protect against the temptation to raise applied levels of support. At the same time, loopholes that allow relaxation of disciplines on trade-distorting subsidies have to be closed.

Export subsidies

Although export subsidies distort world trade less than border barriers and domestic support, they are not trivial. Of the $280 billion in support to farmers, some $10–12 billion takes the form of export subsidies. The WTO's July 2004 Framework on agriculture contained a commitment to phase them out upon successful conclusion of the round. At issue is the timetable.

- *Phasing out of export subsidies by 2010, mentioned by some G-8 leaders at the Gleneagles summit in July 2005, would promote development.*

Nonfarm trade is important to growth in poor countries

Having grown at nearly twice the rate of agricultural exports, exports of manufactures now constitute nearly 80 percent of all developing-country exports. Tariffs on manufacturing in high-income countries are on average lower than in developing countries. But the tariffs that rich countries charge developing countries are about twice those they charge other industrial countries, in the aggregate. Exporters of manufactures from industrial countries face, on average, a tariff of 1 percent on their sales to other industrial countries; exporters in developing countries, by contrast, pay anywhere from 1.2 percent (if they are from Latin America, where NAFTA weighs heavily) to 5.4 percent (if they are from South Asia). However, the problem is not solely a North–South issue. Latin American exporters of manufactures, for example, face tariffs in South Asia that are thirteen times higher than in industrial countries. Similarly, Sub-Saharan African exporters face tariffs in South Asia that are nearly six times higher than the tariffs they face when exporting to industrial countries. Tariffs that East Asian exporters pay to Latin America are three times higher than those they face in high income countries.

Protection takes forms other than tariffs—among them quotas, specific duties, and contingent protection measures such as antidumping duties. As with tariffs, both rich and poor countries tend to use these measures more frequently against labor-intensive products from developing countries, particularly textiles and clothing. Average antidumping duties are seven to ten times higher than tariffs in industrial countries, and around five times higher in developing countries (World Bank 2005).

Textiles and clothing are particularly important for developing countries. The good news is that the quotas under the Agreement on Textiles and Clothing (ATC) ended on January 1, 2005; the bad news is that behind those quotas remains a wall of high tariffs. As Brenton and Hoppe point out in their chapter, the feared takeover by China of textile and clothing exports with expiration of the ATC quotas has been overblown. With increasing trade volumes in general, many developing countries, including least developed countries (LDCs) such as Bangladesh, have expanded their market share in the European Union and United States in the half-year since the end of quotas. At the same time, exports especially of some relatively high-wage exporting regions, such as Hong Kong (China), Taiwan (China), and Republic of Korea have declined. Some adjustment is sure to be required, and the international community should be ready to help those countries that experience difficulties—a challenge taken up in the aid-for-trade discussions.

Martin and Ivanic point to guideposts for reform of nonfarm trade:

- *The tariff ceilings chosen and the formula for cutting the highest tariffs will determine how much new access to markets Doha will provide.* As with agriculture, exempting a large number of tariff lines from cuts could easily eviscerate the gains from any cutting formula adopted.

Services liberalization could raise productivity

Services are the fastest-growing component of the global economy. Even in developing countries, services exports grew more rapidly than manufactures in the 1990s (World Bank 2001: chapter 3). More efficient backbone services—in finance, telecommunication, domestic transportation, retail and wholesale distribution, and professional and business services—improve the performance of the whole economy through broad linkage effects. Estimates suggest that, after controlling for other determinants of growth, countries that fully liberalized trade and investment in finance and telecommunications grew on average 1.5 percentage points faster than other countries over the past decade (Mattoo and others 2001).

So far, however, the Doha Round has fallen far short of its potential to unlock access to foreign markets for services exports. While many countries have made ambitious requests, the responding offers are said to be disappointing. This is despite the fact that many developing and industrial countries have an interest both in liberalizing their own services markets and obtaining improved access to the markets of their trading partners.

Mattoo, in reviewing the lack of progress to date, suggests a set of negotiating goals with which both the business and the development community could identify: locking in the current openness of cross-border trade for a wide range of services; eliminating barriers to foreign investment, either immediately or in a phased manner if regulatory inadequacies need to be remedied; and allowing greater freedom of international movement at least for intra-corporate transferees and for service providers engaged to fulfill specific services contracts.

Three types of actions might pave the way to these goals.

- *First, self-selected groups of WTO members could articulate their broad liberalization goals in model commitments and regulatory principles for specific modes or sectors*—along the lines of the Understanding on Financial Services and the Telecommunications Reference Paper. Once a critical mass of members sign up, they could extend the benefits to all WTO members on a most-favored-nation (MFN) basis; others could join later when they felt it in their interest to do so. An individual member's incentive to participate in a particular sector or mode would, of course, depend on the willingness of its trading partners to make commitments in modes and sectors (within and outside services) in which the member had an export interest.
- *Second, the international community should establish a mechanism to provide policy advice and regulatory assistance for developing countries at their request,* helping them to identify services that they can comfortably liberalize without fear of dislocation or macroeconomic turbulence and others that may require improvements in regulation and supervision prior to liberalization.
- *Third, to spur progress on labor mobility, governments in countries that supply labor could assume responsibility for screening and selecting workers, facilitating and verifying their return, and for combating illegal migration.* Immigration authorities in member countries would be requested to define a set of obligations that source countries would have to fulfill to be eligible for an allocation of temporary-presence visas; these could be limited, at least at the outset of the program, to just a few categories of individuals, such as intra-corporate transferees and service providers engaged to fulfill specific services contracts.

The larger services framework advanced by Mattoo would allow members, on the basis of greater confidence in their regulatory frameworks and the scope for

regulatory cooperation, to respond more meaningfully to the requests for liberalization made by their fellow WTO members.

Regional trade agreements and unilateral preferential regimes

Regional trading agreements constitute a second front of trade negotiations for many developing countries. With the expiration of the European Union's Cotonou Agreement with the African, Caribbean, and Pacific countries (ACP), some 75 developing countries are undertaking complex negotiations with the European Union to establish new Economic Partnership Agreements. The United States, meanwhile has opened discussions of free trade with the Andean countries, the Southern African Customs Union, and others. Developing countries, too, are engaged in a quickening pace of negotiations: China with the ASEAN countries, India, and Brazil; and Chile with Republic of Korea, to name a few examples. All in all, regional trade agreements (RTAs) are proliferating rapidly, now covering more than 40 percent of world trade.

As many as half of all RTAs are counterproductive: they divert trade and end up depriving countries of income. RTAs are most likely to increase national incomes over time if they pursue a strategy of "open regionalism" (World Bank 2004). For that reason, regional negotiators should follow a few basic rules.

- *Negotiators in North–South plurilateral arrangements should work with partners to ensure that intraregional obstacles to trade are phased out and that a competitive external MFN regime is in place before trade preferences for the northern trade partners are introduced*, a suggestion elaborated in the chapter by Hinkle, Hoppe, and Newfarmer.
- *Liberal rules of origin can make the difference between genuine market openings and illusory ones.* The Blair Commission recommended a 10 percent value-added rule or a change in tariff heading for transformed goods. Rules would be less burdensome if they were uniform across agreements (see Brenton's chapter).
- *Rules and regulations governing investment and intellectual property rights must be appropriate to the development context in which they are promulgated*, as Fink and Hoekman argue in their respective chapters.
- *Openings in services should be introduced with adequate regulation, permit entry on an MFN basis and, where possible, encourage competition.*

Even RTAs based on open regionalism grant preferences to some while discriminating against others. The best way to minimize those effects is to bring down the high tariffs that create the discriminatory benefits offered to preferred countries. That can be done only through multilateral agreement.

Unilateral and voluntary preferential regimes—such as the U.S. African Growth and Opportunity Act and the European Union's Everything But Arms program—are a prominent feature of some countries' trade regimes. Each has different rules and exemptions that have the effect of limiting market access. As Brenton shows in his chapter, the actual value of trade preferences is remarkably low for all but a few developing countries. One reason is that rich countries grant preferences voluntarily rather than as part of a binding multilateral negotiation; those preferences often come laden with restrictions, product exclusions, and administrative rules that prevent beneficiaries from taking full advantage of them. For example, only 39 percent of potentially preferred imports into the Quad countries—Canada, the European Union, Japan, and the United States—under the Generalized System of Preferences (GSP) actually took advantage of preferential access, and usage rates are declining.

To make preferences more effective, especially for LDCs:

- *Programs in the Quad countries should be expanded to cover all exports of LDCs, with an indefinite time period.*
- *Restrictive rules of origin that raise the cost of taking advantage of preferences should be replaced with a simple rule that facilitates access and use of globally sourced competitive inputs.* A nonrestrictive rule of origin, as with RTAs generally, would require no more than 10 percent value added or a change of tariff heading (see Brenton's chapter).

Aid for trade

Market access is not the whole development story. Even if developing countries succeed in obtaining access to new markets, they will have to adopt complementary policies—removing obstacles to private investment, improving public investment in infrastructure, and providing education—to ensure that domestic firms respond to the new opportunities and that benefits are transmitted to the poor. Said differently, liberal trade policies must be embedded in a coherent development strategy—they are not a substitute for it. Aid for trade, as Nielson shows in her chapter, can play an important role in helping countries design complementary trade policies.

The cost of moving goods across international borders is often as important as formal trade barriers in determining the landed cost of goods—and ultimately market share. Every day spent in transit because of poor roads or delays in customs adds nearly one percent to the cost of goods on average (Hummels 2001). In developing countries, moreover, transit costs are routinely two to four times higher than in rich countries.

Additional aid for trade through investments in roads, ports, logistics, and through policy advice on reforms of trade-related institutions such as customs can play an important role. Eliminating delays in developing countries would lower trading costs very significantly, particularly if accompanied by liberalization of transport and telecommunications and streamlined regulations to promote domestic competition. As Jaffee's chapter makes clear, adapting to standards set in the high-income countries can be costly and prevent access to markets, although the effort

to adapt usually brings rewards. Multilateral efforts are under way outside the WTO to promote—and in some cases finance—institutional changes to facilitate trade and meet rising food-safety standards. Key players include the bilateral donors, the World Customs Organization, the regional development banks, and the World Bank. Newfarmer and Nowak in their chapter describe how the World Bank is increasing its aid-for-trade efforts and how those efforts have moved away from the policy conditionality of the 1980s. Even with these increased efforts, however, resources are likely to fall short of demand.

- *Greater development assistance for much-needed trade infrastructure, help with standards and compliance, and support for policy reforms could help overcome impediments to exports.* Abundant examples come from the 20 or so trade diagnostic studies undertaken as part of the Integrated Framework, as described in the chapter by Newfarmer and Nowak.

The inclusion of trade facilitation in the WTO General Council's decisions of July 2004 is appearing increasingly felicitous. Many countries now share the view that reforms to lower the costs of trading make good development sense. McLinden's chapter reviews progress to date in negotiations on trade facilitation, noting that discussions on binding disciplines have taken a back seat to the dissemination of best practice in institutional reforms. McLinden offers recommendations on how to make the most of the opportunity presented by the launch of negotiations:

- *High-income countries should make disciplines flexible enough to accommodate countries that have low capacity to implement accords, and developing countries should view the WTO negotiations as an opportunity to advance their domestic reform agenda* and accelerate the implementation of best practices. On the basis of close consultations between negotiators in Geneva and specialists at home, governments should secure agreement on practical measures that will enable their traders to compete better in regional and international markets.

Aid for trade can also help in managing adjustment to a new world of incentives. A Doha Round agreement may precipitate a terms-of-trade loss for *a few* developing countries, as Hoekman, Martin, and A. Primo Braga show in their chapter. Likewise, Mitchell and Hoppe show that if Doha succeeds in reducing rich-country subsidies to food production, *a few* countries may experience terms-of-trade losses. Such losses are likely to be limited for several reasons. The value of preferences for most countries is actually quite small (see Brenton), and these are eroding under pressure from regional trade agreements and domestic adjustment in the US and EU. Similarly, only a few food importers are likely to suffer income losses from terms of trade. First, any upward price movement is estimated to be less than half the average adjustments these economies experience *annually* as a result of normal cyclical fluctuations in prices (see the Mitchell and Hoppe chapter). Second, many food importers also export other agricultural products that will benefit from liberalization;

moreover, some food importers will gain access to new markets in nonagricultural products and be able to export. Third, countries that now impose tariffs on food imports can lower those tariffs to offset any increase in global prices on poor domestic consumers. Fourth, since prices will change relatively slowly, some food importers will increase domestic production in response to higher prices and become self-sufficient or even net exporters. All these caveats notwithstanding, some countries nonetheless may require help and need additional resources, and that should be forthcoming.

- *Donor countries and development institutions should make additional resources available to support internal and external adjustment in countries that clearly stand to suffer from a Doha agreement.* To be effective, these have to be supportive of a coherent program of domestic reform to promote growth rather simply dedicated to maintaining unsustainable consumption without resource reallocation.

The world's trading system at the crossroads?

A. Primo Braga and Grainger-Jones in their chapter consider differing views on the evolution of the WTO negotiations, including the possibility that the world trading system is entering a systemic crisis. Ultimately they discount that notion, in part because all countries have an interest in maintaining and strengthening the system. The expansion of global trade at nearly twice the rate of world GDP growth has fueled an unprecedented prosperity, for which the multilateral system, by lowering trade barriers and preventing endemic trade wars, can claim much of the credit. At the same time, Primo Braga and Grainger-Jones also caution against complacency.

Complacency and unwillingness to tackle domestic forces of protection could well spell the demise of the Doha Round. However, positive action is the antidote, and now would be a good time to act in all three of the policy arenas discussed here: doing a pro-poor Doha deal, designing trade-creating regional agreements, and augmenting aid for trade. High-income countries could take the lead by, among other things, moving forward with assertive new steps to open agricultural markets, offering less restrictive rules of origin in regional accords, and providing additional aid for trade. Middle-income countries, with their now established interest in the global system, could contribute through assertive new proposals in manufactures and services. Low-income countries, which have a new interest in and responsibility for the emerging global system, could contribute by accepting core disciplines consistent with their development interests, crafting proposals in regional negotiations that link domestic reforms to trade reforms, and working with donors to use aid for trade effectively. In the event the Doha agenda were to founder, the regional trade agenda and aid for trade effort will assume an ever greater importance for developing countries. Here too both rich and poor countries have a responsibility to design these agreements so they create trade and reinforce domestic reforms rather than preempt them. The challenges are daunting. But the rewards are substantial.

Notes

1. The author is Economic Adviser, International Trade Department, World Bank. He gratefully acknowledges comments from Carlos A. Primo Braga, Bernard Hoekman, Aaditya Mattoo, and Julia Nielson.
2. These models are necessarily limited because, as described in the chapter, they do not take into account services liberalization; they assume all preferences are utilized; they do not account for increasing returns to scale, and they cannot account for the effect that new market opportunities have in spurring new products and diversification; all of these tend to underestimate the effect of trade liberalization on income. On other hand, it is assumed that all countries will be able to respond to shifts in relative prices and demand, an assumption that will not hold in some countries because of inadequate infrastructure and/or other supply side constraints.
3. The difference goes to spending on research and development, food programs for low-income consumers, and other programs that indirectly benefit agriculture.
4. The WTO has a wide definition of "developing countries" that includes some members of the OECD, such as Republic of Korea.
5. This figure includes transfers from consumers associated with border barriers.

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The Multilateral Trading System: Mid-Flight Turbulence or Systems Failure?

2

Carlos A. Primo Braga and Elwyn Grainger-Jones

The current round of multilateral trade negotiations, the first since the founding of the World Trade Organization (WTO), was launched in November 2001 in Doha, Qatar. Organized around the so-called Doha Development Agenda (DDA), it is intended to enhance the development relevance of the WTO. Expectations for its successful conclusion remain mixed. The failure of the WTO Ministerial in Cancun, Mexico, in September 2003 underscored the difficulties faced by negotiators. The August 1, 2004, WTO General Council decisions, by contrast, were hailed by many as an important achievement that helped put the DDA back on track after the "detour" in Cancun. The agreed negotiation frameworks—particularly on agriculture—were an important step in the right direction. As the limited progress achieved since then suggests, however, negotiators still face major challenges in bringing this round to a successful conclusion.[1]

This cyclical pattern of good and bad news on the multilateral trade system (as exemplified by the "downs" in Seattle (1999) and Cancun (2003) and the "ups" in Doha (2001) and Geneva (2004)) has motivated an ongoing debate about its health.[2] 2005 will be a critical year for the DDA. Many expect the Hong Kong Ministerial (December 13–18, 2005) to be a harbinger of the fate of the "development" round. Moreover, the outcome of the Doha Development Agenda—a first for the WTO—is considered an important factor in shaping the future of the institution.

Are the WTO and the multilateral rules-based system facing a serious crisis, or are the problems experienced so far in the DDA the usual turbulence that characterizes complex trade negotiations? More specifically, can the multilateral trading system deliver a "development round"? In summarizing the debate surrounding these questions, this note presents three stylized perspectives on the health of the multilateral trade system. The first sets out the business-as-usual view, according to which current difficulties are nothing new and, as in previous rounds, will be resolved when the time for a deal is right. The second focuses on the lack of progress in the negotiations and argues that current circumstances conspire against the capacity of the system to deliver an ambitious outcome. The third paints a bleaker picture of "systemic crisis."

The note starts with a brief historical review of the system. It goes then into an analysis of the evolution of the DDA and the main obstacles to a successful conclusion of the round. It concludes with an evaluation of the dangers of failure in the negotiations. This discussion led us to conclude that claims of a systemic crisis may well be exaggerated, but that complacency about the health of the multilateral trade system is not warranted.

A bit of history

The modern multilateral trade system, with its emphasis on nondiscrimination, was born in 1948, when the General Agreement on Tariffs and Trade (GATT) entered into force. The GATT era witnessed eight rounds of multilateral trade negotiations. The last, the Uruguay Round (1986–94), culminated in the establishment of the World Trade Organization on January 1, 1995. The Uruguay Round led to the most comprehensive set of multilateral trade agreements to date. It not only extended multilateral rules to services and trade-related aspects of intellectual property rights but also brought agricultural trade back under GATT disciplines. Not surprisingly, there was unfinished business. Some 30 items in the Uruguay Round included a "built-in agenda" for further negotiations. There also was a large unfinished agenda in agriculture, as evidenced by the desire of some WTO members (particularly the European Communities, EC) to extend the scope of WTO disciplines to new themes such as competition, investment, transparency in government procurement, and trade facilitation, themes that became known as the Singapore issues. The unfinished agenda led to calls for a new round of negotiations in the late 1990s.[3]

The DDA was launched in Doha, Qatar, at the Fourth WTO Ministerial (November 2001) amid much optimism about the ability of the multilateral system to transcend national differences. The tragic events of September 11, 2001, weighing heavily on national capitals in the run-up to that meeting, encouraged major trading nations to build bridges in multilateral forums. Optimism was fueled by a sense that the major players would not allow a repeat of the failed Seattle Ministerial. Many developing countries, particularly Asian and African countries, agreed to launch negotiations on the understanding that the new round would be a "development" round. The DDA would cover most of the core elements of the WTO—agriculture, services, and nonagricultural market access. The decision on the Singapore issues was left to the Fifth WTO Ministerial (Cancun) with the proviso that it would require explicit consensus.

The early momentum was soon lost. The Doha mandate established a series of interim deadlines on a variety of subjects with a view to concluding the round by the end of 2004. All major deadlines were missed and extended, fueling cynicism about the ability of the WTO process to deliver negotiations within the original timetable. WTO members failed, for example, to meet the self-imposed deadline of March 31, 2003, to agree on general terms for a deal on agriculture—an issue seen by most as the deal breaker for the round. Members also failed to meet a similar deadline for negotiations on manufacturing tariffs. Deadlines were extended twice in discussions on special and differential treatment (SDT), but members still failed to reach agreement before the Cancun Ministerial. The end-December 2002 deadline for a compulsory-licensing solution to problems faced by countries with no pharmaceutical manufacturing capacities was also missed, although a solution was subsequently found prior to Cancun.

The Cancun WTO Ministerial meeting in September 2003 was mandated from Doha as a "mid-term review" to provide guidance on moving negotiations forward and to make decisions in several areas—most importantly how to proceed with respect to the Singapore issues. Missed deadlines meant that what was envisaged as a mid-term review was bound to become a forum for divisive confrontations. Ministers failed to agree on the text prepared in advance of the meeting, thus relegating negotiations to further months of drift.

There were three key trigger points that, at least on the surface, precipitated the collapse of negotiations at Cancun: agriculture, cotton, and the Singapore issues.

- On agriculture, developing countries—in particular, the coalition known as the G-20—refused to accept the limited ambitions on subsidy cuts, market access, and elimination of export subsidies by northern countries.[4]
- Cotton was chosen by nongovernmental organizations as the poster child of the unfairness of the multilateral trade system, with subsidies in industrialized countries tilting the playing field against developing countries. In mid-2003, Benin, Burkina Faso, Chad, and Mali proposed the elimination of cotton subsidies worldwide and the establishment of a compensation fund to reimburse the least developed countries (LDCs) for revenues lost because of subsidies in industrialized countries. There was no agreement in Cancun on this request.
- On the Singapore issues, the European Union offered to unbundle the four issues at the eleventh hour and to begin negotiating on one or two (starting with trade facilitation). However, the countries that objected to negotiations on these topics saw too few concessions on agriculture to agree to proceed, with most advocating that all four subjects should be dropped entirely or relegated for further clarification by WTO working groups.

Cancun was followed by a period of mutual recrimination in which the reasons for the failure of the meeting were extensively analyzed.[5] By March 2004, however, negotiations restarted in earnest. There was broad recognition that the political calendar in some of the main trading nations was not particularly conducive to bold commitments in the near future. At the same time, it was also recognized that if agreement on the negotiating frameworks could not be reached by mid-2004, the round would be in serious trouble.

In the early hours of August 1, 2004, the WTO General Council reached decisions on frameworks to continue with multilateral negotiations on agriculture and industrial products, on a series of recommendations concerning services and development-related issues, and on a text on modalities for negotiations on trade facilitation, which included a decision to drop the other three Singapore issues from the DDA. These decisions became known as the "July package".[6]

The framework for agriculture laid the foundations for reform of global agricultural trade.[7] It called for the parallel elimination of all forms of *export subsidies*, as well as all export measures with equivalent effect (export credits, export credit guarantees and insurance programs, trade-distorting practices of exporting state trading enterprises, and food aid). The end date for the elimination of all forms of export subsidies and the time profile for the implementation, however, remained to be negotiated.

The framework also committed member countries to substantial reductions of *trade-distorting domestic support*, encompassing the so-called Amber and Blue boxes, as well as *de minimis* subsidies. In the first year of implementation of the agreement, countries are expected to cut at least 20 percent of the overall level of trade-distorting support. The framework calls for substantial improvements in *market access* for all products. Tariff reductions are expected to be made from bound rates and expected to foster greater harmonization of tariff regimes, with deeper cuts in higher tariffs. In the case of sensitive products, "substantial improvement" is to be achieved through a combination of tariff-quota expansion and tariff cuts. The framework, however, leaves to the next stage of the negotiations the details of the tiered formula to be applied (for example, number of bands and type of tariff reduction in each band) and the criteria for selection of sensitive products. Market access remains the most controversial pillar of the agricultural negotiations. Finally, there was agreement that *cotton* would be dealt as a priority, but in the context of the overall agricultural negotiations rather than as a stand-alone issue.

The framework on nonagricultural market access set the stage for the pursuit of tariff cuts according to a nonlinear formula and the reduction or elimination of nontariff barriers. Many issues, however, remained open to debate, and some developing-country members (particularly African countries) have been vocal in criticizing what they perceive as the limited flexibility afforded to them. In the area of *services*, WTO members agreed to intensify their efforts with a view to ensuring a substantive outcome with respect to market access. A new date (May 2005) was established for presenting new and revised offers.[8] Concrete recommendations on how best to make *SDT* provisions more operational were also postponed to July 2005.[9]

The July 2004 package reinvigorated the Doha Round. Negotiations over the next 12 months, however, proceeded slowly. Limited progress was achieved in addressing some technical questions—such as the methodology for calculating *ad valorem* equivalents for specific duties in agriculture—but, overall, the negotiating targets often referred to as benchmarks for evaluating progress by July 2005 were

missed, [10] reigniting doubts about the ability of WTO members to reach a timely conclusion of the DDA. In what follows, we review different perspectives on the prospects of the current negotiations.

Just mid-flight turbulence?

Some analysts point out that current difficulties in the negotiations resemble the turbulence experienced in past negotiations. Moreover, they argue that with appropriate corrective actions, the DDA could still deliver a substantive outcome.[11] There are five main planks to their argument.[12]

First, failures and delays in trade negotiations are nothing new.[13] Multilateral trade rounds have always taken a long time and often have lasted longer than originally intended, with "failed" ministerial meetings preceding an agreement. Indeed, the predecessor to the WTO—the GATT—was a "provisional" agreement that lasted until 1994 because of the failure of the United States to agree on the establishment of the International Trade Organization (ITO) proposed in an ambitious draft charter in the late 1940s. A ministerial meeting in Geneva, intended to launch a new round, failed in 1982. Two years into the Uruguay Round, begun in 1986, negotiations on a mid-term review in Montreal ended in deadlock. A ministerial meeting in Brussels in 1990, in turn, was not able to bring the negotiations to a closure, with treatment of agriculture as the main sticking point. In the WTO era, the failed ministerial meeting at Seattle in 1999 was followed by a successful launch of negotiations at the next ministerial in Doha. In this light, some argue that highly publicized failures such as Seattle may be necessary to shock the system into action.

In the same vein, the fact that the original deadline for the conclusion of the round (December 2004) was missed does not constitute in itself a major indictment of the system. That deadline was always more of a target to keep the pressure on negotiations than a plausible end point. This short leash allowed the WTO to push for progress in what would otherwise have been a dormant period.

Second, the growing complexity and breadth of the negotiations means that, inevitably, negotiations will take longer than before. The duration of negotiations gradually extended from one year for the first four rounds up to eight years for the Uruguay Round (table 1). In parallel, the number of negotiating partners swelled from 23 in 1947 to 148 in the current negotiations. Further, the breadth of the negotiating agenda has expanded significantly. The first five rounds essentially covered market access (focusing on tariffs). The Kennedy Round added some nontariff measures and antidumping measures; the Tokyo Round added "plurilateral agreements"[14]; and the Uruguay Round covered all existing areas, plus rules, services, intellectual property, and dispute settlement, while strengthening multilateral disciplines for trade liberalization with respect to textiles and clothing and agriculture. The DDA covers most of the above plus so-called development issues (in particular, SDT), and, at least initially, a discussion of whether to launch full negotiations on the Singapore issues. These themes, in turn, are influenced by the continuous debate on the so-called implementation issues, reflecting concerns raised by some developing countries about difficulties in implementing Uruguay Round agreements.

Third, negotiations have already achieved some results. WTO members reached a deal on the compulsory licensing issue in TRIPS and health shortly before Cancun. At the technical level, WTO members have built up their understanding of each others' positions on all the main issues, as illustrated by the July package and, more recently, by the agreement on how to calculate *ad valorem* equivalents with respect to specific duties in agriculture. Moreover, one of the controversial Singapore issues (trade facilitation) became one of the most dynamic areas in the negotiations, with a large number of proposals on the table, including joint proposals by developed and developing countries. Less tangible but equally important is a change in negotiating dynamics: the WTO is becoming a truly *world* trading organization. Developing countries are increasingly assertive, leading many to argue that the silver lining of the failure of Cancun was that developing countries found their voice in the negotiations.

Fourth, there is a well-established tradition for trade negotiators to "talk up" and exaggerate their differences until the very last minute. Negotiators often engage in a game of "chicken" in which each tries to demonstrate its strength to the other by standing firm on its position.[15] These tactics can exaggerate the perceived gulf between country positions. There are numerous examples of apparently intractable differences falling away as trade negotiators are replaced by government ministers in the endgame of negotiations. For example, a deal on the Singapore issues seemed unlikely going into the Doha Ministerial, but, in the interest of securing the launch of the round, the European Union at the last minute moderated its proposals. For the same reason, the United States changed its position to agree to launch negotiations on antidumping in the DDA.

Finally, some analysts argue that even though the negotiations are facing a series of difficulties, the political environment since September 11 is such that failure is not an option. According to this perspective, the "war on terror" will engender strong political support from the top to achieve a prodevelopment outcome when the time is ripe for the completion of the negotiations.[16]

According to those that embrace the "business as usual" perspective, the problems identified above can be surmounted as long as key trading nations keep their commitment to a liberal rules-based trade regime. There may be a need for some adjustment with respect to the governance structure of the WTO, and countries may need to show restraint in engaging in preferential trade agreements, but the multilateral trade system and the DDA, while confronting many challenges, are

experiencing in-flight turbulence, not systemic crisis.[17]

The DDA: a mismatch between expectations and reality?

Many commentators argue that the experience of the first four years of the Doha Round suggests little cause for optimism for significant trade liberalization. Doubts from developing countries about the benefits of multilateral liberalization, unrealistic expectations about the capacity of the system to deliver development outcomes, and lack of enthusiasm from traditional *demandeurs* are often mentioned in this context.[18] These concerns are well captured by Curtis and Ciuriak (2005) who point out that to launch "the Doha Round in late 2001, before completing and digesting the Uruguay Round results and China's accession to the WTO and integration into the global trading system, might well have been a great mistake." The following arguments support that perspective:

First, the Doha Round was an unwanted child for some members of the WTO. The European Union was its main champion, proposing an ambitious agenda that would extend the WTO's mandate further into domestic regulation. Many developing countries initially resisted the launch of a new round. Their main objections were that (i) they were still struggling to implement Uruguay Round agreements; (ii) they were not ready for more trade liberalization; (iii) they did not have the capacity to negotiate a new round at that point in time; and (iv) they were not convinced that developed countries would be prepared to offer enough in the way of subsidy and tariffs cuts in sensitive areas to justify the costs of new negotiations. It is also worth noting that many developing countries feared that MFN liberalization would worsen their competitive position by eroding preferences.[19]

Second, expectations were too high at the launch of negotiations. The current negotiations are often referred to as the "Development Round"—a term that was already being used in the late 1990s.[20] The communiqué of the Doha Ministerial framed the negotiating agenda in terms of its potential benefits for developing countries. The text was full of references to development, increasing technical assistance, cutting agricultural subsidies in the North, addressing developing-country concerns on SDT and implementation, lowering tariff barriers on products of interest to developing countries, providing duty- and quota-free access to products from LDCs, and addressing concerns about the impact of TRIPS on the capacity of developing countries to deal with health crises.

Third, some seemingly intractable issues were papered over at the Doha Ministerial only to resurface at a later date. This is not unusual in international negotiations. The DDA contained a number of early deadlines on issues of importance to those resisting new negotiations—among them an ambitious agenda to review Uruguay Round commitments on SDT. Those deadlines occupied a great deal of negotiators' time following the launch of the round, with limited results.

Overly high expectations and a difficult agenda were not a good start for the round. There was also little early progress on the core issue of agriculture, with the European Union and United States seen to favor a limited reform agenda.[21] In the absence of many early deliverables, the European Union's attempts to launch negotiations on the Singapore issues failed to garner support from most developing countries.

Fourth, there was no consensus on what a "Development Round" meant in terms of new concessions granted to, or offered by, developing countries. Widely varying views on the role of trade policy in the development process added to the complexity of the negotiations. To take one example, SDT proposals related to GATT Article 28 call for greater freedom to restrict trade to protect infant industries. This was seen as a development deliverable by some developing-country members. In stark contrast, many developed (and some developing) countries argued that greater exemptions to WTO disciplines would harm developing countries.

Underlying most SDT-related disagreements in the WTO is the concept of policy space, which has become synonymous with development for some commentators and some WTO negotiators.[22] To some extent it also has been an organizing theme for those challenging what they perceive as the established trade orthodoxy. Many developing-country negotiators argue that the more advanced countries used infant-industry protection to industrialize, hence WTO rules should allow developing countries to do the same. Further, many argue that the North should open their markets to products from the South and cut subsidies without asking for reciprocal market opening. In contrast, developed countries have sought to explain the benefits of "policy lock-in" through the WTO, questioning the ability of interventionist trade policies to promote growth and emphasizing the costs of not engaging in reciprocal bargaining in the WTO.[23]

Fifth, some observers have claimed that there is no clear leadership in negotiations from the major power blocs. Frequent comparisons are made to the Uruguay Round, where the United States was a driving force in negotiations. There is a perception that the United States is only half-engaged in current negotiations, devoting at least equal energy to the pursuit of new regional and bilateral trade agreements and often adopting unilateral decisions (on steel and agriculture, for example) that called into question its commitment to the multilateral process. The European Union, in turn, although also publicly committed to multilateralism, has been unable to come to terms with its own agricultural problems.[24] And major developing countries (notably Brazil), while effectively pursuing an offensive tactic in agriculture, have adopted a wait-and-see approach with respect to other themes such as services and nonagricultural market access.

Sixth, the private sector in industrialized countries seems lukewarm about the current round. This contrasts with the high level of engagement of business leaders and business organizations during the Uruguay Round. One possible reason for this lukewarm attitude is that the concept of the Development Round may have led

business to question the benefits to be gained from the negotiations. Moreover, with the acceleration of the business cycle and increased shareholder concerns with results, business has become more focused on the short term. In this context, it is not surprising that protracted multilateral negotiations have a lower priority in the allocation of resources for lobbying national governments.

All these considerations have been cited in predictions that the initial ambitions of the DDA will not be realized. There is growing concern that the Hong Kong Ministerial in December 2005 may not be able to deliver full-fledged modalities for negotiations in agriculture and nonagricultural market access. If the results of the upcoming ministerial are not significant, it is unlikely that the round will be completed within the lifetime of the current U.S. Trade Promotion Authority. As a consequence, the negotiations could linger on for several additional years.[25]

A systemic crisis?

The previous section outlined a series of arguments that put in doubt the ability of the DDA to deliver an ambitious liberalization outcome. It also underscored the lack of consensus on the meaning of a Development Round. Could these problems, however, reflect a deeper and more profound failure of the multilateral trading system associated with the WTO? There are those who believe that current problems in negotiations are a symptom of multilateralism in crisis.[26]

First, the "global commons" of ideas has swung from seeing trade opening as generally a good thing to something to be feared. In particular, skeptics question the ability of developing countries to compete in their own markets with competition from developed countries and to take advantage of new market opportunities because of weak supply capacity. At the same time, support from the traditional advocates of liberal trade, such as the United States, is being undermined by growing anxieties about the capacity of industrialized economies to compete in agriculture (the Brazilian threat), manufacturing (the Chinese threat), and even in services (the Indian threat).[27]

Second, the "mercantilist motor" of the multilateral trading system may have run out of fuel. The original logic of multilateral trade negotiations was that negotiators would trade tariff reductions. Even though theory tells us that unilateral liberalization is generally a good thing for small economies, the political economy of the process is such that reciprocity becomes a useful lever. Trade liberalization is then presented as the price to be paid for new access to other markets. This model, which served the multilateral trading system well in the past, is coming under pressure for the following reasons: (i) "mercantilist" calculations are much more complex when regulatory issues are involved; (ii) much of the low-hanging fruit was picked in previous rounds, and what protection remains is in sensitive areas where political risks of confronting concentrated vested interests are high (for example, would European governments be able to claim that new market access in the South is adequate compensation for the feared impact on the rural economy arising from liberalization?) and (iii) many developing countries have become increasingly risk-averse in agreeing to new concessions, reflecting the perception that they got a bad deal in the Uruguay Round. In short, the incentives to "free ride" on the public good of the multilateral rules-based system have increased, weakening the appeal of engaging in reciprocal concessions.

Third, the rapid proliferation of regional and bilateral trade agreements is undermining the core principle (nondiscrimination) of the multilateral trade system, raising several concerns. Regional trade agreements—RTAs—are absorbing scarce time and energy from negotiators. Many of the poorest WTO members are part of several regional and bilateral trade negotiations, distracting them from multilateralism. RTAs may also lock in competing and sometimes incompatible regulatory practices, making it harder to harmonize standards in the multilateral system at a later date. For example, some observers have expressed concerns that the imposition of TRIPs-plus rules on intellectual property rights will further erode flexibilities in the WTO TRIPS agreement—in particular in the area of compulsory licensing.[28] A related concern is that a new generation of RTAs contains dispute-settlement provisions that have the potential to conflict with WTO dispute settlement.

Fourth, slow progress in the DDA is increasing concern about whether the WTO is an effective place to do business. The economically advanced countries may conclude that WTO does not meet their constantly evolving business needs because of difficulties in negotiating and agreeing upon rigorous new standards in the multilateral context, thus hastening the trend toward regionalism. As the negotiating agenda extends into areas beyond tariffs, it has become more difficult to develop rules that reconcile the needs of the advanced trading nations with those of the less advanced countries. The WTO Customs Valuation agreement is a good example. An approach that suited the more advanced countries appears to be expensive and difficult for less advanced countries to implement.[29] Further differentiation in the application of WTO rules based on different implementation capacities appears to be difficult to reconcile in the face of an increasingly legalistic approach to rulemaking.

Moreover, some members came away from Cancun with serious doubts about the ability to reach agreement by consensus among such a heterogeneous and large number of countries, although no clear alternative has been presented.[30] There are therefore real challenges in making the mechanics of a truly representative trade negotiation work effectively.

Finally, there are those that point to a legitimacy crisis of the global governance regime associated with WTO agreements. Although the trade focus of the WTO is perceived by many analysts as a plus, critics emphasize that unless the multilateral trade regime is able to address other important goals—such as poverty and the environment—while promoting a fair distribution of outcomes in a transparent

manner, its political legitimacy will be increasingly contested in the streets and in parliaments around the world.[31]

Concluding remarks

These three perspectives are, of course, stylized summaries of the evolving debate on the future of the multilateral trading system. As already mentioned, we believe that claims of a "systemic crisis" may well be exaggerated, but this is not an invitation to complacency. After all, concerns about the DDA outcome become increasingly pertinent as time passes without substantive progress in the negotiations.

Action needs to be taken to avoid the erosion of the multilateral trading system. Renewed progress to meet the ambitious objectives of the DDA would provide a huge confidence boost to the multilateral trading system and make a significant contribution to the world economy.[32] On the other hand, a timid set of reforms and limited multilateral liberalization will generate not only small benefits, but it could also feed skepticism about the capacity of the multilateral trading system to contribute to economic development.

Even worse, a failed DDA would damage the WTO by eroding its relevance. This is not in the long-term interests of developing countries, which have a real stake in a strong rules-based multilateral trading system, irrespective of new market-access gains from the DDA. WTO rules lock in existing access on a nondiscriminatory basis, an increasingly valuable asset in a time of growing protectionist pressures, political tensions, and the potential reemergence of trade blocs. They also promote transparency and good governance. Moreover, the WTO dispute-settlement system provides for a rules-based mechanism that allows developing countries to defend their interests against larger and better-resourced trading partners, as the recent sugar and cotton cases attest.

As the number of WTO stakeholders grows and reciprocity increasingly requires complex trade-offs between greater market access in sensitive areas (such as agriculture) and rules (intellectual property rights), the capacity of the WTO to promote nondiscriminatory trade liberalization is under stress. This puts an additional premium on leadership dedicated to promote the global public good derived from credible multilateral rules.[33] Independently of the direct impact of the DDA on developing economies, the continued use of the WTO as a forum for negotiations is essential to the preservation of the multilateral trade system, which remains an important objective both for developed and developing countries alike. In sum, the answer to the original question posed in this paper—can the multilateral trade system deliver a Development Round?—is a qualified yes, but time is running out.

Table 1. Overview of GATT and WTO negotiating rounds

Round	Year	Number of contracting parties/members [a] Total [b]	Developing country share (percent) [c]	Negotiated items
Geneva	1947	23	48	Tariffs
Annecy	1949	23	48	Tariffs
Torquay	1950–1951	33	46	Tariffs
Geneva	1955–1956	35	46	Tariffs
Dillon	1960–1962	42	50	Tariffs
Kennedy	1964–1967	75	68	Tariffs, some nontariff barriers, antidumping measures
Tokyo	1973–1979	85	71	Tariffs, nontariff barriers, plurilateral agreements
Uruguay	1986–1994	128	77	Tariffs, nontariff barriers, rules, services, intellectual property rights, agriculture, textiles and clothing, institutional issues
Doha	2001–	148	76	Agriculture, nonagricultural market access, services, intellectual property rights, rules, further work on UR items and implementation-related issues, development, and trade facilitation.

Notes: a. Included in the list of contracting parties/members are those countries that were signatories to the GATT by the end of each trade round or became signatories in its immediate aftermath.
b. The European Communities, though an official WTO member in its own right, have been excluded for purposes of statistical continuity in the ratio of developed to developing countries.
c. Developing-country classifications are based on GATT/WTO practices and on Kasteng, Karlsson, and Lindberg (2004).
Source: Compiled by the authors based on WTO/GATT documents.

Notes

1. Elwyn Grainger-Jones is Principal Economist, European Bank for Reconstruction and Development (EBRD). This note was prepared while he was a consultant with the World Bank. Carlos A. Primo Braga is Senior Adviser, International Trade Department, World Bank. Comments and assistance from R. Newfarmer, B. Hoekman, K. Brokhaug, W. Martin, R. Sally, A. Mattoo, H. Corbet, J.P. Chauffour, and P. Reichenmiller are gratefully acknowledged. This note reflects solely the views of the authors. It does not necessarily reflect the views of the World Bank Group, the EBRD, or the Executive Directors of either institution.

2. See, for example, the series on "What's Holding Up Doha?" *Finance and Development* (March 2005).

3. These topics were first introduced in the debate at the Singapore WTO Ministerial of 1996. Accordingly, they became known as the "Singapore issues." Sir Leon Brittan, former EC competition and trade commissioner, was an early champion of the idea of a new trade round.

4. The G-20 came to life on August 20, 2003, as a reaction to a joint U.S.-EU paper on agriculture. It has since become an influential voice in the agricultural negotiations, under the leadership of Brazil. The coalition encompasses both Cairns Group countries (which favor an ambitious liberalization agenda) and G-33 countries, which have defensive interests in agriculture (focusing on food security and rural development). The G-20 has positioned itself as the "pragmatic voice" of the South, aiming for elimination of export subsidies, substantial reductions of trade-distorting support, market access liberalization, and special and differential treatment for developing countries. In March 2005, the group included Argentina, Bolivia, Brazil, Chile, China, Cuba, Egypt, Guatemala, India, Indonesia, Mexico, Nigeria, Pakistan, Paraguay, Philippines, South Africa, Thailand, Tanzania, Uruguay, Venezuela, and Zimbabwe.

5. See, for example, Hoekman and Newfarmer (2003).

6. See WTO (2004).

7. For details see Primo Braga (2004).

8. That deadline was missed. By May 31, there were 62 initial offers (covering 86 members) and 9 revised offers.

9. This deadline was also missed and the Chairman of the Special Session reported to the WTO General Council in July 2005 that recommendations for a decision should be presented by the Hong Kong Ministerial Conference.

10. Speaking at the OECD Ministerial on May 4, 2005, Dr. Supachai Panitchpakti (then WTO Director General) identified the following items as required components for a "substantial breakthrough" at the ministerial: concrete modalities for agriculture and nonagricultural market access, a critical mass of market-opening services offers, significant progress in areas such as rules and trade facilitation, and a proper reflection of the development dimension. He also pointed out that time was running out for the negotiators to achieve these goals. His report, as chairman of the Trade Negotiations Committee to the General Council, further elaborated on these targets and stated that "progress made [since 2004] had been insufficient" (WTO 2005). See also http://www.wto.org/english/news_e/news05_e/dg_oecd_4may05_e.htm.

11. It is worth noting that full merchandise liberalization (ignoring potential dynamic gains associated with productivity increases) could add roughly $300 billion per year to the global economy by 2015. Even though agriculture and food processing account for less than 10 percent of world trade, trade liberalization of agriculture and food would account for 63 percent of gains (with textiles and clothing accounting for 27 percent and other manufactures 10 percent). An ambitious Doha outcome, featuring the elimination of export subsidies and significant cuts in domestic support and tariffs in developed and developing countries, could deliver roughly one-third ($96.1 billion) of the full-merchandise-liberalization scenario, with agricultural liberalization delivering roughly two-thirds of the gains. Services liberalization, particularly for the movement of people, could significantly expand those welfare results. See Anderson, Martin, and van der Mensbrughe

(2005) for detailed calculations of the welfare implications of different DDA scenarios.

12. See, for example, Srinivasan (2003), Cline (2005), and Messerlin (2005).

13. It is worth noting that the negotiations on the Free Trade Area of the Americas, for example, have been going on for more than 10 years and that the completion of the EU-Mercosur negotiations also missed its original target (2004).

14 The Tokyo Round "codes": subsidies and countervailing measures—interpreting Articles 6, 16 and 23 of GATT; technical barriers to trade—sometimes called the standards code; import licensing procedures; government procurement; customs valuation—interpreting Article 7; antidumping—interpreting Article 6, replacing the Kennedy Round code; bovine meat arrangement; international dairy arrangement; trade in civil aircraft.

15. The traditional description of the "chicken game" presents a situation in which two players drive their cars at each other on a narrow road. Each has the choice of swerving to avoid a collision or not swerving. The first to swerve loses face among his peers. If neither swerves, both die.

16. This point is made in Cline (2005).

17. See Sutherland and others (2004) for a detailed discussion on how best to address WTO's institutional challenges in the current economic environment.

18. See, for example, Mattoo and Subramanian (2005) and Curtis and Ciuriak (2005).

19. Mattoo and Subramanian (2004) review challenges faced by poor countries in engaging in WTO negotiations.

20. See, for example, Short (1999), a speech delivered at UNCTAD by the former British secretary of state for international development, the Rt. Hon. Clare Short (see http://www.gene.ch/gentech/1999/Mar-Apr/msg00068.html).

21. See Primo Braga (2004) for a description of the evolution of the agricultural negotiations and the role of different coalitions.

22. See Corrales-Leal, Sugathan, and Primack (2003).

23. These polar positions on the costs and benefits of SDT are well captured in Bhagwati (2004) and Oyejide (2004).

24. Critics cite the Franco-German deal on the mid-term review of the Common Agricultural Policy.

25. For a discussion of U.S. interests in the DDA and the U.S. legislative agenda affecting its trade policies see Schott (2005).

26. See Sally (2004) for a detailed presentation of this perspective.

27. The negotiations take place against a backdrop of significant debate on the benefits of globalization by governments and the public. The debate on the costs and benefits of international economic integration is well captured in Wolf (2004).

28. See Fink and Reichenmiller (2005).

29. See Finger and Schuler (2000).

30. See the discussion on "variable geometry" and plurilateral agreements in Sutherland and others (2004).

31. See, for example, Esty (2002) and Trotman (2004).

32. In October 2005, the U.S. made an important move by presenting a more ambitious proposal for agricultural liberalization. This was followed by a flurry of additional proposals and reactions from other WTO members and coalitions. At the time of writing, however, no consensus had yet emerged on market access with a wide gulf separating the more ambitious proposals from the U.S. and the G-20, for example, vis-à-vis the EU proposal.

33. This leadership is also required to advance the "aid for trade" agenda as discussed in IMF and World Bank (2005).

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Doha Policies: Where are the Pay-offs?

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The Doha Round could promote development.[1] But it will fall significantly short if it does not liberalize agriculture and include some effort by developing countries as well as high-income countries. The potential gains from full multilateral trade liberalization range from $290 to $460 billion (Anderson, Martin and van der Mensbrugghe 2006a). According to the simulations reported here, a Doha agreement that makes significant cuts in WTO-agreed ceilings (bound rates) for tariffs could bring those gains within reach.

The need for deep cuts in bound rates is especially acute in agriculture, where protection is far higher than in manufacturing and where bound rates exceed applied rates by especially large margins. Two measures are important for capturing potential benefits: (i) capping maximum tariffs and (ii) resisting the temptation to exclude a large number of products from cuts. Exempting even 2 percent of tariff lines could eviscerate the round.

But cuts in bound rates must be more than broad and deep; they must apply to developing as well as developed countries. The benefits to developing countries of an ambitious Doha agreement will come as much from reform in the South as from reform by high-income countries. For that reason, developing countries must participate fully in the round by offering larger tariff cuts and making real reforms rather than seeking shelter under the banner of special and differential treatment (SDT).

This note presents results from modeling five scenarios to assess the effect of different magnitudes and types of cuts in agriculture and nonagricultural products. Before presenting details of these scenarios, we survey the potential gains in both a dynamic and static sense, to provide an idea of what is possible from the right agreement and to lay down a benchmark against which to evaluate possible outcomes of the Doha Round. We then analyze the five scenarios to illuminate some of the major issues that will determine the success of the Doha Round.

The range of the possible: What could full multilateral liberalization deliver?

Full removal of protection—both domestic and at the border—on trade in goods would raise global real income by an estimated $287 billion in 2015, relative to a baseline scenario and assuming that trade reform has no impact on underlying productivity.[2] The gains would be higher for high-income countries in dollar terms,