Why can't the Doha Round find closure?

This year marks 10 years since the launch of the Doha Round of the World Trade Organization (WTO). While these negotiations were supposed to finish December 31, 2004, numerous difficulties have prevented the parties reaching an agreement and there is still no sign of them doing so in the near future.

Last April 29, the ambassadors of the WTO member countries supported a plan proposed by Pascal Lamy, the organization's Director General, to consult various authorities on how to break the deadlock in the negotiation. Next May 31, at a meeting of the Trade Negotiations Committee, we will see just how successful this procedure has been. This article reviews some of the difficulties faced by the closure of the Round, analyzes the motivation behind concluding it and the costs of not doing so, and sets out the main aspects of specific negotiations.

Origin and current state of the Round

The Doha Round was launched in 2001. It was called a "Development Round," because its goal was to help close the gap between the developing countries (DGCs) and the developed countries (DDCs) by encouraging trade to generate economic growth and help alleviate poverty.

This emphasis on development is largely a product of the results of the Uruguay Round (1986-1994), disappointing for many DGCs. At this Round, the DGCs had agreed to include issues of interest to the DDCs in the talks, such as liberalization of trade in services and protection of intellectual property rights, in exchange for moving forward in opening up key sectors for the least developed economies, such as agriculture, textiles, and clothing.

However, as mentioned above, the results of the Round's agreements were not what the DGCs had hoped for. For example, the way in which norms were laid down for tariff cuts and subsidies in the agricultural sector (on the basis of averages and taking a period of relatively low international prices as a benchmark)[1] allowed no progress in the liberalization of certain products and, in certain cases, even left room to increase the levels of protection. Against this background, the DGCs have hardened their stance at the Doha negotiations and increased their requirements regarding the DDCs' openness.

At the same time, the DGCs have, since the launch of the Doha Round, been the most buoyant economies in the international arena, increasing their share of both world trade and production. Global imbalances have also deepened since then and many DDCs—especially the United States—have been accumulating significant negative balances in their balance of payments

[1] The use of averages has made it possible to maintain high tariffs in certain key products, while the benchmark prices for basic foods guaranteed a very high starting level for subsidies, which could have risen even further with subsequent price falls in the 1990s, and between 1998 and 2004.

current account, largely as a result of their trade deficit with DGCs, particularly China and other emerging Asian economies. The last international crisis has exacerbated these conditions and had more of an impact on DDCs (they were at the epicenter of the crisis, they recover more slowly, and they have higher levels of unemployment), whereas DGCs have performed better. The application by many DGCs—especially the Asian ones—of exchange rate policies aimed at preventing the appreciation of their currencies and the expansion of their exports and activity levels makes the elimination of global imbalances difficult.

These conditions have contributed to enhancing DGCs' bargaining power in different international forums—including the WTO—while also motivating DDCs to demand greater concessions from them (especially from a group of emerging economies including China (which is taking part in a GATT-WTO negotiating round for the first time), Brazil, India, South Africa, and Saudi Arabia) on the grounds that they are in a better position to open their industrial markets—particularly in certain areas—than other DGCs. These countries reject the argument, claiming that the DDCs' offer of liberalization is inadequate in sectors where they have the greatest interest. The discussion has intensified since the last international crisis, as an unbalanced liberalization favoring DGCs could have positive effects on development, but would contribute to deepening the global macroeconomic imbalances and problems of employment mentioned above.

The Doha Round's slow progress can be attributed to changes in the international context, but it is also to a large extent linked to the WTO's negotiating process,[2] because economic developments and shifts in the balance of power have outstripped their capacity for adaptation. It should be remembered that, until the Kennedy Round (1964-1967), the GATT negotiation rounds were far shorter. The greater number and complexity of issues covered, as well as the increase in the number of members in the organization after many DGCs joined, meant that negotiations became more complex, with shifting, and therefore more extensive alliances after the Tokyo Round (1973-1979), and, especially, the Uruguay Round (Table 1). This phenomenon contributed substantially to the obsolescence of certain aspects of the WTO. For example, the organization in many areas reflects the reality of the time at which it was created (1995) and negotiations are based on an agenda designed when the Doha Round was launched in 2001. As a result of these changes, the current world scenario is very different.

[2] Schwab, Susan, C., "After Doha," Foreign Affairs, May/June 2011, Vol 90, No. 3, pp. 104-117, 14 pages.

Table 1. GATT-WTO negotiating rounds

Year	Place/Name	Issues tackled	Number of member countries
1947	Geneva	Tariffs	23
1949	Annecy		13
1951	Torquay		38
1956	Geneva		26
1960-61	Dillon Round		26
1964-67	Kennedy Round	Tariffs and antidumping measures	62
1973-79	Tokyo Round	Tariffs, non-tariff barriers, legal framework	102
1986-94	Uruguay Round	Tokyo Round issues + services, intellectual property rights, dispute settlement, textiles, agriculture, creation of WTO, etc.	123
2001-?	Doha Round	Uruguay Round issues + investments, subsidies, transparency in public procurement, trade facilitation, etc.*	153

Note: * Some of these issues were left out of the negotiation at the Cancun Ministerial Conference (2003).
Source: Based on WTO data.

What reasons are there to rescue the Doha Round and what are the consequences of not reaching results?

For all its shortcomings, the multilateral trading system is an extremely valuable tool, especially for DGCs, for various reasons. First, the importance of consensus in decision-making in the WTO means that DGCs have more bargaining power than in other international forums, each country having one vote, which leads one to suppose that they could achieve more balanced agreements. Second, in the WTO compliance with agreed rules is more binding than in other international arenas. Notwithstanding its limitations, the WTO's dispute settlement system does work and, although the organization does not have the power to force countries to comply with agreements—retaliation authorizations aside—there are many cases where it do so successfully, even in disputes where DGCs win out over DDCs. Third, transaction costs are lower in multilateral than in bilateral or regional negotiations, as negotiations are simultaneous with all WTO member countries.

An agreement at Doha would consolidate any liberalization achieved since its inception in an international agreement, while protecting the international system from attempts at protectionism or to reduce market access. It would also strengthen the multilateral trading system and protect the institutions created in the framework of the WTO, in its legal function, as an arena for the settlement of trade disputes, and as a negotiating forum.

This does not mean that any agreement should be signed however, but that conditions of liberalization should be agreed upon that satisfy to all members in order to ensuring compliance.

In the current scenario, in order to achieve a final agreement, the DDCs would have to improve market access for agricultural products and limit subsidies in this sector. In other words, the reform of the Common Agricultural Policy (CAP) by the EU over the last few years would be enshrined in an international agreement and would limit any attempt by United States to raise subsidies, in the event of a fall in commodity price. An agreement at Doha would also imply the elimination of all export subsidies for agricultural products. Progress in this area would be crucially important, considering that the cuts and phasing-out of domestic support is only discussed in the WTO, that there is great pressure in the EU to raise protection levels in the CAP, which will run from 2013 through 2020, and that there is considerable uncertainty about the future of food prices.

The emerging economies, for their part, would have to make greater concessions in terms of liberalization of the industrial sector. In certain cases, this would force some countries to assume that, while they continue to be developing economies, their enhanced international role requires deeper commitments.

Failure at the Doha Round would deepen the proliferation of regional trade agreements that has been taking place in recent years due to lack of progress in the multilateral arena. The systematic erosion of the WTO's centrality would take the world to a point where nations, seeing their expectations disappointed, would find more and more justifications for ignoring WTO rules.[3]

Second, not concluding the negotiations in 2011 would mean that it may be difficult to resume the talks until the right international conditions reappear. Next year there will be presidential elections in United States, China, India, France, and Mexico, among other relevant players in world trade. Accordingly, it is highly likely that these countries will be unwilling to take any risky decisions.

There is then a risk of the multilateral system entering a regressive phase and, consequently, of wasting all the members' efforts toward liberalization over the last ten years. The WTO's declining credibility would leave the way open for increased protectionism, which would involve an enormous cost in terms of falling GDP at the global level and volumes of world trade.

Particular features of the negotiation

In the **agricultural** negotiations, growing access to markets would benefit exporters from both the DDCs and the DGCs, and proposed disciplines of subsidies will help to up the ante from both groups of countries, as the current drafts of modalities provide for the elimination by DDCs of all export subsidies by 2013 and by DGCs by 2016, leaving a schedule that would run to

[3] WTO High Level Trade Experts Group, Interim Report, 12 January 2011, 20 pages.

2021. There are still two points to be resolved: the reduction of cotton subsidies and the way in which the special safeguard will be applied for DGCs.[4] It must be remembered that reduced protection in the agricultural sector would result in a rise in food prices. This raises serious challenges in terms of inflation and food security, especially in poor countries that are net food importers. The challenge here will be to seek alternatives to mitigate the impact of higher oil prices.

Industrial goods present the main challenge for the negotiation. The EU and United States would virtually eliminate their tariffs (leaving no tariff higher than 6%). Tariffs imposed by the EU on their total industrial imports would be slashed by 44%, while in United States they would be cut by almost 50%). For this reason, the DDCs would expect the emerging economies to demonstrate greater commitment.

In the current package of modalities, China would make substantial contributions, mainly because its tariffs are very close to those consolidated in the WTO. This country applies relatively low tariffs (5.6% of the value of industrial imports), compared to India and Brazil. However, China being one of the main exporters and one of Round's major beneficiaries, it is thought to be willing to share more of the responsibility and weight of achieving an agreement.

Brazil and India would have to perform a minor opening their markets, mainly because their applied tariffs stand at much lower levels than the consolidated tariff in the WTO. For Brazil, an 8% reduction in tariffs would mean moving from an average tariff of 8.5% in the case of industrial goods to 7.8%, while for India an 8% cut would be the equivalent of moving from a tariff of 13% to one of 12%. Although India has substantially lowered its tariffs in the last decade, Brazil is still at almost the same level as at the end of the Uruguay Round.

Here is the nub of the negotiation: DDCs expect greater commitment in this area because, while the emerging countries have reduced their tariffs, under the current drafts of modalities, the protection faced by exporters in United States and the EU would be slashed to 22%, yet this is mostly due to the cuts made by other DDCs.

The **services** negotiation could provide important gains for both DDCs and DGCs, it being estimated in one work that a 10% reduction in the tariff applied would boost world exports by about US$55 billion.[5] However, this achievement would require specific commitments from the G-20 countries, which have not been witnessed since July 2008.[6]

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[4] Unlike for comprehensive safeguards, higher safeguards duties can be activated automatically in the agriculture sector when the volume of imports grows above a certain level or if prices fall below a certain level, and it is not necessary to demonstrate that serious damage is being done to domestic industry. Source: WTO.

[5] Hufbauer, Gary C.; Schott, Jeffrey; Wong, Woang, "Figuring Out the Doha Round," Op-Ed, Peterson Institute for International Economics, February 22, 2010, 4 pages.

[6] "WTO Releases Reports from Negotiating Chairs," GSN Global Services Network, Washington D.C., 22 April 2011, 2 pages.

The Doha negotiations on **trade facilitation** are the ones that have been most successful. Members have submitted 70 proposals to improve and increase the movement of goods and freight between countries, and to ensure more transparency in the trading system. The potential increase in trading activity and the benefits that transparency and these improvements could bring to the trade, would result in profits for the DGCs that would outweigh those of any other area of negotiation. This, however, depends on members committing themselves with a wide-ranging, long-term agenda.[7]

Sectoral Agreements would complement any Doha agreement. Modalities cover 14 sectors: chemicals, electrical and electronic products, industrial machinery, improvements in health services, forest products, gems and jewelry, sports equipment, textiles and clothing, fishing, tools, raw materials, toys, bicycles, motor vehicles, and auto parts, with different levels of support among their members.[8]

The Round provides privileged treatment for the Least Developed Countries (LDCs): their tariffs are required to be consolidated at current levels, with no expected reductions. There are two crucially important points for this group of countries: the reduction of cotton subsidies by the DDCs, and the granting of tax- and quota-free market access for all exports from LDCs to OECD countries and the largest emerging economies.

Last, the Aid-for-Trade initiative was launched at the Hong Kong Ministerial Conference in 2005, with the aim of supporting the growth of DGCs and LDCs that do not have the capacity needed—in terms of information, policies, procedures, institutions, or infrastructure—to integrate and compete in global markets. While levels of aid-for-trade and technical assistance have risen, the objectives could be met via a greater increase in levels of Official Development Assistance (ODA), which donors had pledged to achieve by 2010.

By way of a conclusion

The Round is going through a key moment and there is a window of opportunity to close the negotiations in 2011. The context is such that the countries will very probably have to review their respective positions and balance the potential benefits of a successful agreement against the costs of missing out on such an opportunity. If the Doha Round fails to overcome this situation, there may be a shift in the trend toward consolidation in the multilateral trading system as we know it in recent decades.

[7] Martin, Will & Matoo, Aaditya, "The Doha Development Agenda: What's on the Table?," *The Journal of International Trade & Economic Development*, Vol. 19, No. 1, March 2010, pp. 81-107.
[8] Laborde, David, "Sectoral Initiatives in the Doha Round," Mimeo, 2011.

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