Putting development back in the WTO

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Global trade talks collapsed in July for the third time in seven years. Heroic efforts since to revive the moribund negotiations have succeeded in keeping the process alive, giving hope for new life for talks that came surprisingly close to agreement. Still, the patient remains in stable but critical condition awaiting new leadership in the EU, US, and India. Just as well. The so-called Doha development round should be maintained on life support until the world's most powerful nations can remember why they agreed to dedicate the negotiations to improving the prospects of developing countries.

Such a respite is not a crisis. It's an opportunity to bring development back into the negotiations. Nor does the breakdown demonstrate the failure of the WTO. Just the opposite. In a system of one country, one vote, developing countries were, for the first time in global trade talks, able to defend their economic interests.

The elements of a deal have been in place for a while: modest cuts in agricultural tariffs and subsidies by developed countries in return for modest cuts in manufacturing and services barriers in the developing world.[1] The developed world's refusal to grant poorer nations sufficient exceptions to such cuts so they have the "policy space" to build competitive national industries and protect their economies from unfair or unequal competition is ultimately what doomed the negotiations.

Indeed, one of the deal breakers when the talks collapsed in July was a developing country demand for a "special safeguard mechanism" – the right for developing country governments to raise tariffs in the event of sudden or large increases in imports that threaten to undermine domestic producers. The measure is exactly the kind of policy space that the poorest countries have sought from this so-called development round. The US refused, and India, backed by a large number of developing countries, walked away.[2]

The other reason the Doha Round has lost momentum is that developing countries now realize that most of them have little to gain and potentially a great deal to lose. With projected gains of less than 0.2%, poverty reduction of just 2.5 million people (less than 1%), tariff losses of at least $63 billion, and projected declines in the relative value of exports, developing countries have little to gain from rushing to conclude Doha.

1 Specifically, the US and other developed nations would have cut applied agricultural tariffs from 15% on average to 11%. On agriculture, the US offered to cut its trade-distorting subsidies to $14.5 billion (well above current levels). Regarding manufacturing tariff reductions, developed country members agreed to apply an across-the-board "Swiss formula" coefficient (the lower the coefficient the deeper the cut) of 7 to 9 and developing countries agreed to three different ranges between 19 and 26 (the lower the coefficient the more exceptions each country can enjoy). Finally, many developing countries agreed in principle to liberalize their financial service sectors.

2 India proposed that if imports rise above 115% over a base period, developing nations should be allowed to impose safeguards that are 25-30% over its bound duties on products taking zero cut. The Bush Administration, however, refused to come down below a 140% trigger, a level India and other countries argued would make the mechanism virtually useless in most circumstances.

According to studies by the World Bank and other institutions, the benefits for the developing world were paltry. Under the World Bank's "likely Doha" modelling projections, global gains for 2015 are just $96 billion, with only $16 billion going to the developing world. The developing country benefits are 0.16 percent of GDP. In per capita terms, that amounts to $3.13 per year, or less than a penny per day per person for those living in developing countries.[3] Not surprisingly, such an agreement promised only a negligible reduction in global poverty, with just 2.5 million of the world's 622 million poor lifted above the $1-a-day poverty line (see table).

Doha's limited poverty impact

Projected drop in $1/day poverty from "likely Doha" deal

	Baseline (millions)	Decrease (millions)	Decrease (%)
East Asia & Pacific	19	0,3	1,6
Latin America & Caribbean	43	0,4	0,9
South Asia	216	1,4	0,6
Sub-Saharan Africa	340	0,5	0,1
All Developing Countries	622	2,5	0,4

Source: World Bank, Agricultural Trade Reform and the Doha Development Agenda, chapter 12, Table 12.19, p. 382, column 5, Doha scenario 7 for 2015.

Of the benefits that will flow to developing countries, only a few countries will receive those benefits. Half are expected to flow to just eight countries: Argentina, Brazil (which stands to receive 23 percent of the developing country benefit), China, India, Mexico, Thailand, Turkey, and Vietnam.[4]

3 New research by the Carnegie Endowment for International Peace using similar modelling exercises puts the potential gains to developing countries at $21.5 billion. See Sandra Polaski, "Winners and Losers: Impact of the Doha Round on Developing Countries" (Washington, DC: Carnegie Endowment for International Peace, 2006), Figures 3.1-3.8.

4 Kym Anderson, William Martin, and Dominique van der Mensbrugghe, "Global Impacts of the Doha Scenarios on Poverty," in T. W. Hertel and L. A. Winters, eds., *Putting Development Back into the Doha Agenda: Poverty Impacts of a WTO Agreement* (Washington DC: World Bank, 2005), Chapter 17.

Hidden in the World Bank's modelling were significant costs to developing countries. According to UNCTAD, the deal on the table would cost the poor up to $63 billion in lost tax revenue just on manufacturing imports. Add to that projected terms of trade losses – a decline in the relative value of their exports compared to their imports (see table).

Doha's hidden price tag

Doha benefits vs. NAMA tariff losses, terms of trade losses (billions of 2001 US dollars)

	World Bank "likely" scenario*	NAMA tariff losses **	Terms of trade (%)***
Developed Countries	**79,9**	**- 38,0**	**- 0,12**
Developing Countries	**16,1**	**- 63,4**	**- 0,74**
Selected developing regions			
Middle East and North Africa	- 0,6	- 7,0	- 1,32
Sub-Saharan Africa	0,4	-1,7	- 0,83
Latin America and the Caribbean	7,9	- 10,7	- 1,12
Selected countries			
Brazil	3,6	- 3,1	- 0,18
India	2,2	- 7,9	- 1,62
Mexico	- 0,9	- 0,4	- 0,48
Bangladesh	- 0,1	- 0,04	- 0,58

* Anderson and Martin (2005), *Agricultural Trade Reform and the Doha Development Agenda*, Table 12.14, Scénario 7.
** De Cordoba and Vanzetti (2005), *Coping with Trade Reforms*, UNCTAD, Table 11.
*** Polaski, Sandra (2006), *Winners and Losers: Impact of the Doha Round on Developing Countries*, Carnegie Endowment, Table 3.4.

Ultimately, poorer countries walked away from the negotiations because they saw rich-country demands as hypocritical, tantamount to a prescription to "do as we say, not as we did." The US and Europe, and more recently, South Korea and China, all built their economies by moving into the world marketplace slowly, protecting their major exporting industries with tariff shields while they gained global competitiveness. Strong agricultural sectors were also critical to those earlier development processes.

The way forward

The organizing principle for revived global trade negotiations needs to be a recognition that the world economy consists of nations at widely differing levels of development. Developing countries need the policy space to retain, adapt and evolve the kinds of government measures that have been proven to work for development in the west and in other developing countries.

Any negotiation that claims to take development seriously must recognize these fundamental asymmetries and address them. One size does not fit all in an unequal world. To paraphrase Nobel economist Amartya Sen, equal rules with unequal partners constitute unequal rules. The Doha Round has floundered over just this issue, as rich-country negotiators demand that India and other developing countries open their markets to more Northern goods and services, failing to recognize that at India's stage of development its economy will not grow dynamically if its government cannot protect some markets.

To restart negotiations on a pro-development foundation, policy space should be guaranteed in five areas:

First, in agriculture, the US and Europe should agree to honour WTO rulings that have found their subsidies for cotton and sugar to be in violation of existing trade rules that forbid exporting products at subsidized prices. This would give a tangible boost to farmers in West Africa and Latin America and send a strong signal to developing countries that developed nations are willing to honour existing WTO rules.

What's more, the WTO should take seriously the proposals by many African nations to tame highly concentrated global commodities markets, dominated by agribusinesses that suck most of the value out of these value chains. Rich nations should also grant poorer countries extensive rights to exempt staples of their local economy such as corn, rice and wheat – so-called “special products” – from tariff cuts, and allow them to raise duties when imports surge – the “special safeguard mechanism” the US would not agree to in July.

Second, for manufacturing, the longstanding WTO principle of “special and differentiated treatment” should be re-enshrined for poorer nations. Developed nations should roll back patent laws that impede poorer nations from manufacturing cheaper generic drugs and allow selective industrial policy so governments can diversify their economies. What worked for the US, China and South Korea must not be prohibited by the WTO.

Third, the WTO needs to wake up to the climate crisis by leaving ample room for the transfer of clean technology to developing countries. Otherwise the diffusion of new technologies and mitigation strategies will get bogged down in global rules over intellectual property, investment and goods trade.

Fourth, for the measures that are agreed upon, developed country governments and international institutions should step in and help developing nations cover the costs of adjustment such as tariff losses and job retraining until the proper policies can be put in place on the ground. Current “aid for trade” schemes are woefully inadequate. The IMF’s Trade Integration Mechanism is already in place for such a task but is not ambitious enough and should not come with additional conditionality. The IMF plan also leaves little room for incorporating costs of adjustment and the Fund is often criticized for tying further reforms to their policies.[5]

5 See for example Joseph Stiglitz , *Globalization and Its Discontents* (New York: Norton, 2002).

No less than free-trade advocate Jagdish Bhagwati commented on this problem, saying, “If poor countries that are dependent on tariff revenues for social spending risk losing those revenues by cutting tariffs, international agencies such as the World Bank should stand ready to make up the difference until their tax systems can be fixed to raise revenues in other, more appropriate, ways.”[6] Economists have shown that tariffs may be preferable to consumption taxes for raising revenues in developing countries with large informal sectors that cannot be taxed efficiently.[7]

Finally, there should be a moratorium on North-South preferential trade agreements. These deals exploit the asymmetric nature of bargaining power between developed and developing nations, divert trade away from nations with true comparative advantages, and curtail the ability of developing countries to deploy effective policies for development.

Such organizing principles for reviving world trade talks would not solely be an act of charity. On the contrary, policy space, when seized by the countries that bargain for it, brings growth to developing countries, and such growth brings rising demand for Northern products. According to UN trade statistics, in 2006 58% of all trade from the EU, Japan, and the US was destined from or destined to the developing world. Not allowing the developing world to grow thus obviously hurts Northern economies too.

For now, though, keep the Doha Round on life support. Its condition is critical but stable. And let's hope that elections in the US, Europe and elsewhere bring a new commitment to equitable development.

6 See Jagdish Bhagwati, *From Seattle to Hong Kong*, Foreign Affairs (December 2005).

7 Emram, M.S., and J. Stiglitz (2004), *On Selective Indirect Tax Reform in Developing Countries*. Journal of Public Economics, 89, 599-623.