



The Doha Round, regionalism, and challenges to the international trading system

Robert Teh, WTO
OREI Seminar
25 June 2010

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Outline

- Introduction
- What do we need trade agreements and trade negotiations for?
- What is involved in the DDA?
- What is the state-of-play in the negotiations?
- Does the Doha Round still matter?
- Is regionalism the answer?

What do we need trade agreements and multilateral negotiations for?

- Modern rationale for trade agreements
 - Avoid the prisoners' dilemma of a terms of trade war (Bagwell and Staiger, 2002)
- Rationale for periodic rounds of negotiations
 - Trade cooperation is dynamic and characterized by continuing negotiations (Klimenko, Ramey and Watson, 2008)
 - Continuing negotiations involving deeper commitments and expansion of areas of trade cooperation

Government motivation

- Several assumptions are possible:
 - Governments maximize economic welfare
 - Governments are mercantilistic (“exports are good and imports are bad”)
 - Governments are hostage to vested interests (Helpman and Grossman, 1994)
- Approach taken
 - Governments try to maximize economic welfare but face political constraints - need to alleviate concerns of import competing sectors and to cultivate support of export sector (Baldwin and Baldwin, 1996)
- Implications
 - Delicate balancing required (“offensive” and “defensive” interests) but not in all cases

Background to Doha

- Multilateral round of negotiations launched in November 2001 in Doha
 - Doha Declaration (WT/MIN/(01)/DEC/1)
 - - > Negotiation mandates + other work = Doha Development Agenda
- Ninth round of negotiations since founding of GATT in 1947
- Background: limits of Built-in-Agenda, Seattle failure (in 1999) and attacks of 9/11

What is involved in the Doha Round?

- Greater liberalization, strengthening of WTO rules and inclusion of new areas of cooperation
 - Agriculture (cotton subsidies added in 2003)
 - Non-agricultural Market Access (NAMA)
 - Services
 - Trade Facilitation (added in 2004)
 - Special and Differential Treatment for developing countries
 - WTO Rules (anti-dumping, countervailing duties, safeguards and fishery subsidies)
 - TRIPS (Register for GIs on wines and spirits)
 - Trade and Environment
 - Dispute Settlement Understanding (outside single undertaking)
- DDA is a “single undertaking”

Single undertaking and “balance”

SECTORS	US	EU	Japan	China	India	Brazil	South Africa
Agriculture	D	D	D	D	D	O	O
NAMA	O	O	O		D	D	D
Services	O	O				D	D
Facilitation	O	O					
Development				O	O	O	O
Rules	D		O	O			
Environment		O					

Legend: O – offensive

D – defensive

Blanks - neutral

... but not always

- LDCs – require flexibility in undertaking new commitments but want more market access for their exports (“duty free, quota free”)
- Africa, Caribbean and Pacific (ACP) countries – concerned that preferences received from EU may be eroded by DDA
- Recently acceded members (RAMs) – feel that they have already opened up considerably in their accession to the WTO and do not want to make more concessions under the DDA
- Duty-free city states Singapore and Hong Kong are strong supporters of DDA

Agriculture - Key Issues

- Reform in three principal areas:
 - Domestic support (tiered reduction in support)
 - Market access (tiered reduction formulas)
 - Export subsidies (elimination of all export subsidies)
- The fundamental trade-off:
 - Cuts in domestic support (advanced countries) in return for market access (developing countries)
- Flexibilities from tariff reduction commitments:
 - Sensitive Products (largely for developed countries)
 - Special Products exclusively for developing countries
- Special Safeguard Mechanism (SSM) for developing countries
- The magnitude of the cut in cotton subsidies

Special safeguard mechanism

- Allows a developing country to increase its duty on agricultural imports if there are import surges or price falls:
 - Import volume trigger: if import volume increased by at least 110% of base level
 - Price trigger: if c.i.f. import price falls below a price equal to 85 per cent of the average monthly MFN-sourced price
- Key disagreement:
 - by how far can the duty be increased (could it breach pre-Doha rates)?

NAMA – key issues

- Tariff reduction principle: highest rates get cut more (use of Swiss formula)
- Flexibilities to deviate from formula, e.g.
 - Proposed coefficients of 20, 22 and 25. At 20, countries apply half the formula cut on 14% of tariff lines or no cut to 6.5%. With 22 it would be 10% with half cut and no cut with 5%. No flexibility with 25
 - Additional flexibilities to some countries (e.g. South Africa)
- Sectorals for deeper market access– voluntary, but some see as potential solution to higher coefficients. Basically creating duty free sectors
 - automotives, bicycles, chemicals, electronics/electrical, fish and fish products, forest products, gems and jewellery, hand tools, healthcare, industrial machinery, raw material, sports equipment, textiles, clothing & footwear, toys)



Services - Key Issues

- Limited traction in negotiations
 - done bilaterally or request-offer method (around 30 countries active in the negotiations)
- Not a North-South Issue
 - Mode 4 demands by developing countries in such areas as IT, accounting, etc.
 - Developing country financial institutions increasingly global
- Given the importance of services in the world economy, this area seen by many as integral part of a break-through package
- Sequencing/links with Agriculture and NAMA modalities

CURRENT NEGOTIATIONS



Pre-history
(before UR):
only goods

1995 Uruguay Round agreements,
new WTO: goods, services, intellectual property

Now: revised rules
new commitments

2000 Agriculture, services talks start March

2001 Doha Agenda launched November

2003 Cancún ministerial fails September
2004 Frameworks 1 August

2005 Hong Kong ministerial Dec
2006 talks suspended 24 July ...
2007 talks resume 31 January

2008 – July Mini-Ministerial fail
2009 – Global Economic Crisis,
Geneva Ministerial Conference.

Future: rules revised again,
more commitments

2010 March stocktaking



From Doha to today

- 2002 – 2005 A tale of missed deadlines with negotiations behind schedule.
- After Hong Kong Ministerial Conference little appetite for another negotiation style meeting.
- While important results at Hong Kong on agriculture, TRIPS etc. Members only inching slowly closer to agreement. Some negotiating fatigue.
- July 2008 mini-ministerial nearly produced an agreement on “modalities” but stumbled over the issue of the special safeguard mechanism in agriculture.
- World Leaders at G20 meetings have called for 2010 conclusion. Now longest multilateral negotiation ever.

Why has it been so difficult?

- The issues
 - large number of issues
 - complexity
- The level of ambition
 - Too much for some
 - Too little for others
- Decision-making process
 - Consensus is required (153 members)
 - Single Undertaking
- Complications arising from economic crisis

The political economy of Doha: US

- New administration has many important issues on its plate: health reform, financial reform, immigration and climate change
- Mid-term elections coming up
- International economic front
 - China currency issue
 - A number of already concluded FTAs have stalled in Congress (Colombia, Panama and Rep. of Korea)
 - Welcome (?) sign of trade interest is Pres. Obama's announced goal (State of the Union speech) to double US exports in five years

Developing country interests - not one size fits all

- Solidarity among developing countries, but differences clear: LDCs, SVEs, emerging economies, newly acceded countries.
- Divide among developing countries :
 - Preference erosion (e.g. ACP countries)
 - Agricultural exporters (Brazil) vs Importers
 - Those seeking ambitious outcome in manufacturing/services versus those who take a more defensive position
 - Newly acceded countries

What Next?

- 80% of technical negotiation done, but Agricultural and NAMA “Modalities” still bogged down; Services also progressing slowly.
- Economic crisis in 2008-9 saw deepest contraction (12%) in global trade for 50 years, some protectionist measures;
- ...but crisis focused minds of WTO Members on other roles of the Multilateral Trading System – e.g. monitoring;
- Ministerial Conference in Nov/Dec 2009 discussed crisis, but not specific outcome;
- AT MC7 WTO Members focused on 2010 as deadline, but will be difficult;
- March 2010 stocktaking – some technical progress, but key political will absent.
- G20 in Canada June 26-27 – focus likely on international financial system and reform

Does the Doha Round still matter?

- Doha no longer matters
 - DDA has languished for nearly a decade now
 - Deepest economic crisis since the great depression
 - New challenges are emerging
 - Time to move on
- Doha matters (!?)
 - There are welfare gains globally, although they are not particularly large (Emerging Asia appears to be a winner)
 - Positive boost to global economic recovery
 - Antidote against protectionism

Estimates of welfare gains

- Some latest estimates from major institutions
 - IFPRI (Mirage): \$59 billion (0.09% change)
 - CEPII (Mirage): \$57 billion (0.08% of GDP)
 - Peterson Institute: \$114 billion
 - World Bank (Linkage): \$96.1 billion (0.23% of GDP)
 - Carnegie: \$58.6 billion (0.14% of GDP)
- Bottom line: there are global gains but they are not spectacularly large
- However, these estimates do not include gains from services, trade facilitation and strengthening of WTO rules
- Furthermore, these estimates may understate the true gains from the DDA since a successful round can constrain protectionism
 - IFPRI calculates that if countries resorted to protectionism (by increasing their applied tariffs to the bound rates), global welfare falls by \$353 billion.

Impact on Emerging Asia

USD Billions

Country	(A)	(B)	(C)
ASEAN	-	-	5.7
Asian NIEs	-	3.8	-
Bangladesh	-0.1	-0.1	-
China	1.7	14.5	-0.8
India	2.2	3.1	2.4
Indonesia	1.0	0.9	-
Japan	23.7	8.0	11.1
Korea	-	-	3.4
Korea & Taiwan	15.0	-	-
Rest of ASEAN	-	2.6	-
Rest of South Asia	-	0.4	0.4
Singapore & Hong Kong	1.5	-	-
Taiwan	-	-	1.5
Thailand	2.0	-	-
Viet Nam	-0.5	2.4	-

Sources:

- (A) Anderson, Martin and van der Mensbrugge (2005), Table 12.10.
- (B) Polaski, S. (2006), page 98.
- (C) Decreux, Y. and L. Fontagné (2006), page 27.



initiatives. DDA implementation will eliminate a potential rise in the protection facing their exports: based on the maximum protection faced during 1995-2006, the protection facing LDC exports increases from 4.6 to 6.4 percent if the DDA is not implemented, but only by 4.8 percent if the DDA is applied. Of course the FTA-HICs scenario only benefits HIC countries (a 14 percent decrease in faced protection) but to a lesser degree than the DDA scenario.

Economic Impacts

The MIRAGE model is used to assess the economic impacts of these different tariff and domestic support scenarios to 2025.

Economic Impacts at the Global Level

Table 4 indicates the global results for all scenarios for the world economy in 2025 compared with the baseline. Under the DDA scenario, focusing only on part of the DDA agenda (the tariff liberalization and domestic support discipline), we see that world trade increases in 2025 by a mere 1.9 percent (US\$363 bn), and real world income by US\$59 bn. This confirms the findings of other studies (see Decreux and Fontagné 2006 and Bouët, Mevel, and Orden 2006), except that the gains here are slightly lower, mainly because the baseline includes numerous RTAs that already reduce applied tariffs without DDA implementation. Nevertheless, these numbers are driven by the assumption that no major political shock will occur if the DDA is not signed; this assumption should be considered carefully.

Table 4. Global changes in exports and welfare by scenario, 2025

Country category/sector	Scenario						
	1	2	3	4	5	6	7
	DDA	Up-to-the-Bound	Bound & DDA	Up-to-the-Max	Max & DDA	FTA-HIC	Max & FTA-HIC
Change from baseline in 2025 (percent)							
Global goods and services exports by volume	1.90	-9.93	-5.70	-4.23	-1.19	0.56	-3.48
Agrifood sector	5.47	-20.26	-13.42	-9.36	-4.52	0.62	-8.53
Industry	1.96	-9.77	-5.07	-4.36	-0.95	0.66	-3.50
Global welfare	0.09	-0.51	-0.25	-0.19	-0.04	0.01	-0.19
North	0.07	-0.32	-0.20	-0.14	-0.08	0.02	-0.12
South	0.13	-1.00	-0.35	-0.32	0.06	-0.02	-0.35
Change from baseline in 2025 (value in constant 2004 US\$ bn)							
Global goods and services exports by volume	363	-1,899	-1,090	-808	-227	108	-665
Agrifood sector	73	-269	-178	-124	-60	8	-113
Industry	279	-1,389	-721	-621	-135	94	-497
Global welfare	59	-353	-169	-134	-26	4	-128
North	33	-156	-100	-70	-37	-9	-59
South	26	-197	-69	-64	11	-5	-69

Source: Authors' calculations based on MIRAGE simulations.

Notes: Welfare changes are computed as the equivalent variation. Export volumes are defined using a Fisher index. Intra-EU trade flows are excluded.

These long term gains in GDP are presented at the regional or country level in Table 2 (see the country aggregation in Appendix). In dollar terms, the EU reaps 27% of world gains from a goods-only scenario, 31% when goods and services are liberalised, and 24% in the trade facilitation scenario. When agriculture, industry and services are liberalised, all regions or countries record an increase in the volume of their GDP, with the exception of Sub-Saharan Africa. For the latter region, only trade facilitation will make it possible to reap gains from this Round. The next regions gaining the most to the scenario combining liberalisation in agriculture and industry are the United States and ASEAN, with 10% of world gains. Korea-Taiwan and Latin America follow with 9 and 8% respectively. The EU is the region reaping the lion share of the liberalisation in services (50% of the world gains accrue to EU27). Sub-Saharan Africa (SSA) is gaining USD 15.6 bn of GDP from trade facilitation.

Table 2: Long run deviation from the baseline, GDP, USD mn (base year 2020)⁸

Region	Goods + Services + Trade facilitation		
Australia & NZ	1632	1763	2292
ASEAN	5425	6025	14225
Canada	353	577	801
China incl. Hong-Kong	3245	4370	8020
EFTA	3600	3872	4340
EU27	15477	20873	39490
Japan	3676	4148	6378
Korea & Taiwan	5011	5372	7458
Mexico	1047	1103	1140
North Africa	1627	1610	3598
Rest of World	3517	3744	21797
Russia	-5	49	391
Sub-Saharan Africa	-129	-84	15486
South America	4332	4561	11018
South Asia	2285	2818	18049
Turkey	493	448	778
US	5465	6572	10130

Source: Author's calculation using MIRAGE

Beyond changes in the volume of GDP, countries may individually be affected by terms of trade changes and by benefits or losses in terms of efficiency. This can be examined using the decomposition of welfare changes proposed in Table 3. For instance, Korea and Taiwan will benefit from sizeable gains in terms of allocative efficiency, due to specialisation in activities for which the two countries are advantaged. However, adverse terms of trade effects will reduce their gains. As a consequence, welfare gains in percentage terms will be lower than gains in terms of GDP for these two countries (0.12% and 0.15% welfare gains in 2025 without and with liberalisation of services, as opposed respectively to 0.23% and 0.25% GDP gains at the same horizon). Two countries currently

WTO monitoring contributed to (so far) muted protectionist response

- Overall assessment of trade policy response to crisis (WTO-OECD-UNCTAD) :
 - “There has been no indication of a significant intensification of trade or investment restriction since the last Report to the G20 in September 2009. .” (March 2010)
 - “We have not observed widespread resort to trade or investment restrictions as a reaction to the global financial and economic crisis” (September 2009)
- This is not to say that there has been no increased trade restrictions
 - AD initiations increased by 28% between 2007-2008
- Rising unemployment suggests the need for vigilance

Why?

- Use of macroeconomic policies
 - Reduction in aggregate demand are better addressed by fiscal and monetary policies
 - Study by Eichengreen and Irwin (2009) suggest that protectionism during Great Depression arose because of constraints on use of macroeconomic policies
- Existence of multilateral rules
 - WTO agreements rule out wholesale protectionism
 - Members are reluctant to jeopardize 60 years of multilateral cooperation
- Monitoring mechanism
 - Established in early 2009, it has monitored trade policy response of WTO Members
 - It can act as a communication device to solve a coordination problem

Discretionary fiscal stimulus in 2009

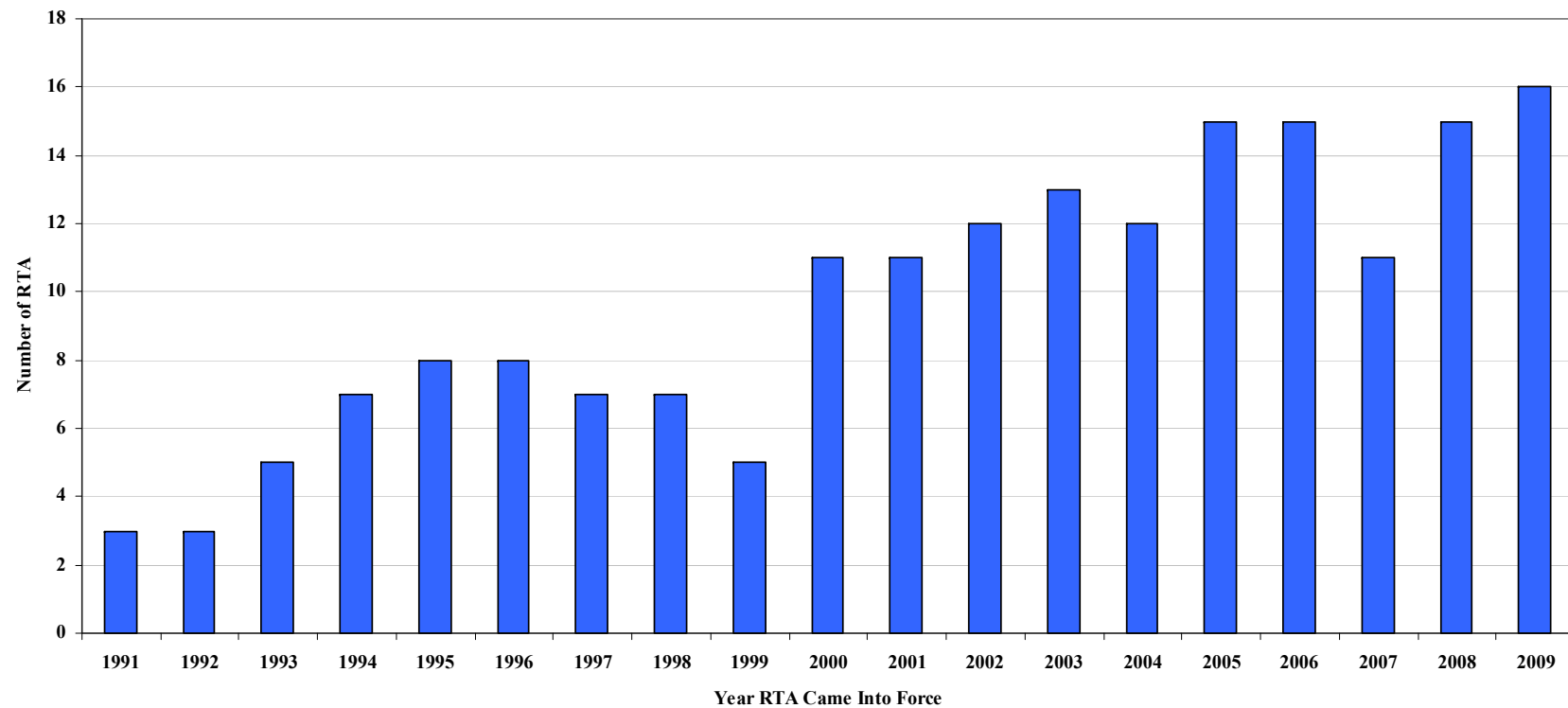
Country	Percent of GDP	Country	Percent of GDP
Argentina	1.4	Korea	3.7
Australia	2.2	Mexico	1.4
Brazil	0.5	New Zealand	2.0
Canada	1.7	Norway	1.2
China	2.6	Poland	0.8
Czech Republic	1.6	Russia	2.9
France	0.6	South Africa	2.2
Germany	1.5	Sweden	1.4
India	0.6	Switzerland	0.6
Indonesia	1.4	United Kingdom	1.5
Italy	0.1	United States	2.0
Japan	2.4		

Source: Romer, Christina (2009).

Is regionalism the answer?

- Yes and no.
- While RTAs are likely to continue to grow, there are limitations and risks to bilateral/regional liberalization
- No substitute for multilateral rules and institution
 - Surveillance of trade response to crisis
 - Legacy issues from the crisis: How to manage trade effects of bailouts and subsidies
 - New challenges: climate change and border adjustment measures, export restrictions and natural resources, etc.

Notified RTAs by year, 1991-2009



Positive things about RTAs

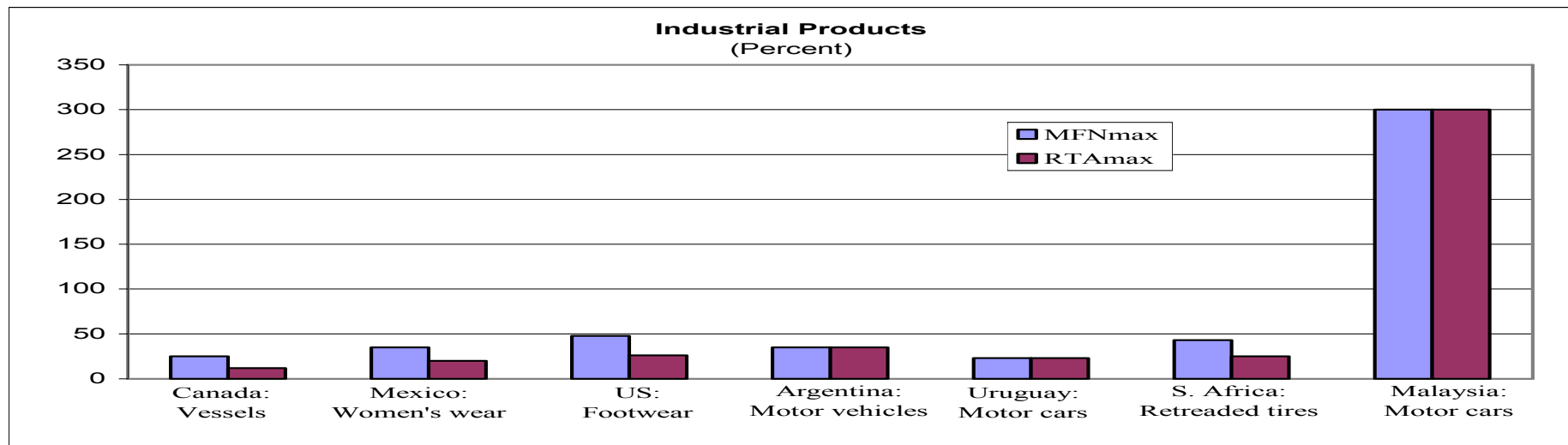
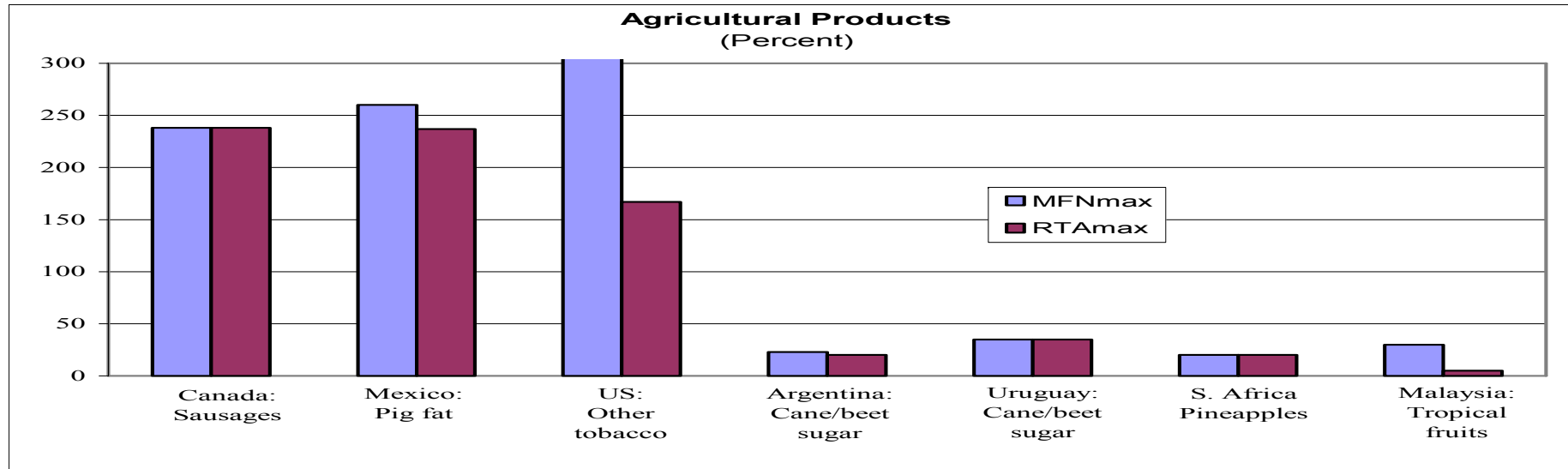
- RTAs can contribute to the expansion of world trade (recognized in the GATT - Article XXIV)
- RTAs accelerate reduction in trade barriers
 - By year 10 of implementation, more than 90% of intra-RTA trade is duty-free (Estevadeordal, Shearer and Suominen, 2009)
- RTAs adopt rules (not present in the WTO) that further promote competition and increase economic efficiency
 - Competition policy provisions in RTAs: the requirement to apply competition law, or to subject state aid and public monopolies to disciplines, all improve the conditions of competition in the marketplace and benefit firms who operate in the market, whether they are from an RTA member or from a country which is not a party to the regional agreement (Teh, 2009)

But there are risks associated with the proliferation of RTAs

- RTAs may divert trade (trade pattern no longer correspond to comparative advantage)
 - preferential tariff liberalization
 - Rules adopted in RTAs:
 - Anti-dumping provisions in RTA agreements have decreased the number of AD disputes between RTA members by 33-55% but have led to a 10-30% increase in AD actions against countries outside the PTA (Prusa and Teh, 2010)
 - Technical barriers to trade: Harmonization of standards can lock in RTA partners to a single set of standards hampering trade with non-RTA partners (Piermartini and Budetta, 2009)
- Create vested interest against further multilateral liberalization (Grossman and Helpman, 1995)
- Appear not to be a solution to some issues (tariff peaks, sensitive sectors)

Not a solution to tariff peaks or subsidies

Chart IB.13
Peaks in WTO (MFN) and RTAs Tariff Schedules
 (Selected countries and product groups)



No substitute for multilateral rules

- Multilateral effort to nip protectionism in the bud
 - WTO monitoring/surveillance
- Future challenges:
 - Legacy measures from the crisis
 - Bailouts and subsidies (banks and other financial institutions, auto industry)
 - Buy “domestic” provisions in stimulus programmes
 - Trade remedies
 - Climate change
 - inability to arrive at binding international agreement to reduce CO₂ emissions
 - Unilateral or regional (e.g. EU) efforts will continue to be main vehicle
 - Differential implementation of climate change measures will raise competitiveness concerns
 - Countries will be tempted to use border adjustment measures (tariffs) or subsidies to “even the playing field”

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Annex 1 NAMA – Swiss formula

- Agreed Swiss formula for (bound) tariff reductions:

$$t_1 = 8 * t_0 / (8 + t_0) \quad \text{for developed countries}$$

$$t_1 = a * t_0 / (a + t_0) \quad \text{for developing countries}$$

Where:

t_1 = final bound duty

t_0 = base rate of duty

a = coefficient applicable to developing countries (choice of 20, 22 or 25)

Note: coefficient is equal to maximum level of final bound duty