NEW DEVELOPMENTS IN THE DOHA ROUND NEGOTIATIONS

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Outline

- GATT and Trade Rounds: Brief Review
- Doha Round: Background
- Latest Proposals and Their Impact:
  - Agriculture;
  - Non-Agricultural Market Access (NAMA);
  - Other areas (services, trade rules, others)
- Gains from the Doha Round

GATT and Trade Rounds (1)

- General Agreement on Tariffs and Trade (GATT):
  - established a framework for rules-based multilateral trade system;
  - provided for subsequent multilateral trade negotiations (rounds) to liberalize trade further.
- Eight liberalization rounds.

GATT and Trade Rounds (2)

- The Tokyo Round (1974-79):
  - disciplines over non-tariff barriers and GATT rules;
- The Uruguay Round (1986-94):
  - binding of tariffs (100 percent in agriculture);
  - rules on trade in services and trade-related intellectual property;
  - phase-out of textile and clothing quotas;
  - tighter disciplines on agricultural trade policies;
  - transform GATT into the WTO.

GATT and Trade Rounds (3)

- The rounds have become more complex, longer, and less frequent.

GATT Trade Rounds

Name	Months to conclude	Countries
Geneva	7	23
Annecy	5	13
Torquay	8	38
Geneva II	5	26
Dillon	11	26
Kennedy	37	62
Tokyo	74	102
Uruguay	87	123
Doha	? 77	151

Source: WTO.

Doha Round (2001-?)

- Launched in November 2001 (the Fourth Ministerial Conference);
- Referred to as Doha Development Agenda;
- 151 participants accounting for 97 percent of the worlds exports;
- Cancun (2003), Geneva(2004), and Hong Kong (2005) Conferences.

Negotiation Principles

- Single undertaking on all items:
  - Nothing is agreed until everything is agreed;
- Special and differential treatment for developing and least-developed countries;
- Universal coverage;
- Transparency.

Special and Differential Treatment

- Small vulnerable economies (SVEs) and recently acceded members (RAMs) take moderate commitments;
- Least developed countries (LDCs), very RAMs, and small low-income RAMS with economies in transition are generally exempted from commitments;
- 97% of products from LDCs to be granted duty- and quota-free access.

Country classification

- SVEs: 45 countries based on their share in the world trade (overlap);
- RAMS: China, Kyrgyz Republic, Mongolia, ...
- very RAMs: Saudi Arabia, Vietnam...
- small low-income RAMS with economies in transition: Albania, Armenia, Georgia, Kyrgyz Republic, Moldova.
- NFIDCs: LDCs plus 27 countries (incl. Mongolia).

Key subjects

- Agriculture:
  - agricultural tariffs and quotas;
  - domestic and export subsidies;
- Non-agricultural market access (NAMA):
  - Import tariffs;
- Services: market access (four modes);
- Rules (on subsidies, antidumping measures);
- Trade facilitation.

July 2007 Modalities

- Proposals from the chairs of the negotiating groups on agriculture and NAMA;
- Key parameters were left undefined or specified as ranges, but the drafts were sufficiently specific to give a broad sense of the likely agreement.

Latest Developments

- Draft text on Rules circulated Nov, 2007;
- Revised proposals (Feb, 2008):
  - Agriculture: fleshed out many ambiguities and gaps of the July 2007 draft;
  - NAMA: Limited Progress; backtracking on the definition of flexibilities for developing countries subject to formulas.
- Report on services (Feb, 2008):
  - some convergence; too early to draft proposals.

Agriculture

Market access: Tariffs

- Developed countries:
  - reduce tariffs over 5 years by 48-73 percent according to a tiered formula;
  - minimum average cut is 54 percent;
- Developing countries:
  - 2/3 of tariff cuts required of developed countries implemented over 8 years;
  - do not have to go beyond the overall average cut of 36 percent.

Market Access: Flexibilities (1)

- Sensitive products subject to shallower cuts:
  - developed countries can designate 4-6 percent of lines as sensitive, but will have to expand tariff rate quotas to ensure new access opportunities;
  - developing countries can designate more products, but few are expected to use.
- Special products:
  - developing countries can designate products with lower or no cuts out of food security, livelihood, or rural development considerations.

Market Access: Flexibilities (2)

- Special Agricultural Safeguards:
  - options to eliminate safeguards mainly used by developed countries against import surges;
- Special Safeguard Mechanism:
  - would allow developing countries to temporarily exceed new tariff bindings on 3-8 products, not exceeding 4-6 6-digit tariff lines.

Market Access: Impact (1)

- All agricultural tariffs are bound, but there is a large tariff overhang in some countries;
- Developing countries:
  - average applied of 21% vs. bound of 48%;
  - in LDCs, 78% vs. 13 %.
  - this overhang from the Uruguay Round implies limited market access from the proposed cuts.

Market Access: Impact (2)

- Developed countries:
  - average applied tariff of 14% vs. bound of 27%, but varies across countries;
  - U.S.: significant, but not dramatic (93% of agricultural imports are subject to <10% tariff);
  - EU: large access (the world's largest agricultural goods importer); about 20% of agricultural tariff lines are subject to >25% tariff.

Market Access: Current Status

Agricultural Import Tariffs of the Largest Agricultural Product Importers, 2005 1/

	Imports billion $	Average bound tariff	Average applied MFN tariff 2/	% lines with bound tariff >50	% lines with applied tariff >50
European Union	82.9	15.4	15.1	8.5	7.4
United States	63.5	5.2	5.3	1.3	1.3
Japan	52.0	28.4	24.3	8.4	6.4
China	26.0	15.8	15.7	2.5	2.3
Canada	15.3	16.9	17.3	6.2	6.4
Mexico	14.6	43.7	18.2	7.4	4.2
Korea	9.9	59.3	47.8	19.1	10.0
Hong Kong, China	8.4	0.0	0.0	0.0	0.0
Taiwan, province of China	7.1	18.3	17.5	4.5	3.5
Switzerland	6.1	57.2	43.8	30.4	20.9
Malaysia	5.5	79.7	12.3	15.2	3.0
Indonesia	5.3	47.0	8.2	11.8	2.1
India	5.2	114.2	37.6	89.2	12.1
Turkey	4.7	60.1	42.0	40.0	25.1
Saudi Arabia	...	21.4	7.8	1.5	1.3

Source: World Tariff Profiles (WTO, ITC, UN).

/1 For 2006, when data are available.

/2 May exceed average bound tariff by a small margin because of different aggregation methodology.

Domestic Support

- Developed countries:
  - reduce overall trade-distorting subsidies by up to 85% over 6 years (frontloaded);
  - reduce most trade-distorting subsidies by up to 70%;
  - set strict subsidy limits on individual crops, based on the past spending levels.
  - steeper and more accelerated cuts in cotton production subsidies.

Special and Differential Treatment

- Developing countries:
  - some are exempt; while others can opt out for shallower and slower subsidy reductions;
  - but all should schedule their base overall subsidies;
- LDCs, very recently acceded RAMs, small low-income RAMs with economies in transition, and net food importing developing countries are exempt from cuts.

Domestic Support: Impact

- Reduce allowable overall subsidies:
  - EU: from €110 billion to €16.5-27.5 billion;
  - U.S.: from $48 billion to $13-16.4 billion;

  actual average spending in 2002-05: $15.8 billion;
- Reduce most trade-distorting subsidies:
  - EU: from €67 billion to €20.1 billion;
  - U.S.: from $19.1 billion to $7.6 billion;

  actual average spending in 2002-05: $10.3 billion;
- Other developed countries: similar reductions.

Export Subsidies and Competition

- Eliminate all export subsidies:
  - developed countries by 2013, but in cotton at the outset;
  - developing countries by 2016 (with exemptions);
- Tighter rules for export credits (repayment terms, self-financing constraints) and non-emergency food aid (fully in grant form, not tied to commercial exports or donor’s market development objectives, not re-exported).

Non-Agricultural Market Access

NAMA

- Covers all non-agricultural products trade, accounting for over 90% of world trade;
- Negotiations are almost entirely focused on tariffs;
- Cuts in tariff bindings are based on a “Swiss formula” which yields disproportionately higher cuts on higher rates.

The Swiss Formula

$$T_1 = \frac{A * T_0}{A + T_0}$$ where A is the formula parameter and T_0 is the initial tariff.

- Under current proposals:
  - developed countries: A=[8-9];
  - developing countries: A=[19-23];

Illustrative Examples		
Initial Tariff	Final Tariff developed	Final Tariff developing
2	1.6	1.8
5	3.1	4.0
10	4.6	6.8
20	6.0	10.2
50	7.3	14.8
100	7.8	17.4

NAMA: Flexibilities

- Developing countries: three options...
  - ½ of the required cuts on 10% of tariff lines not exceeding 10% of NAMA imports; or
  - exempting from any cuts 5% of tariff lines not exceeding 5% of NAMA imports; or
  - adding 3 to the agreed Swiss formula parameter;
- However, these parameters were dropped from the most recent text.

Impact: Developed countries

- Formula cuts (A=8-9, over 5 years):
  - because bound and applied rates are generally the same, cuts will determine the change in applied rates;
  - in general, bound and applied tariffs will be reduced to less than 3%;
  - maximum tariff on any item will not exceed 9%;
  - greatest reductions on generally labor-intensive items.

Impact: Developing Countries (1)

- Formula cuts (A=19-23, over 9 years):

  Implications are complex because:

  - several country groups are exempt from cuts;
  - there is a substantial tariff overhang;
  - tariff schedules are unbound in many countries (51% of the tariff lines for the LDCs, 15% for developing countries as a whole).

Impact: Developing Countries (2)

- 31 countries will have to cut their bound rates
  - but the impact on applied tariffs will be cushioned by flexibilities and tariff overhang;
  - almost a third of this group will be able to keep the applied rates practically unchanged;
  - large differences in outcomes due to differences in tariff structure and tariff overhang (examples).

Impact: Developing Countries (3)

Average Reductions in Applied Tariffs
of Selected Large Nonagricultural Goods Importers /1

Country	Average tariff rate (in percent)		Difference (percentage points)
	Current	New	
Brazil	11.0	9.3	-1.7
China	9.0	6.2	-2.8
India	19.4	16.8	-2.6
Korea	6.5	5.9	-0.6
Malaysia	8.6	5.8	-2.8
Mexico	12.2	10.2	-2.0
Taiwan POC	5.3	3.9	-1.3
Thailand	10.1	7.2	-2.9

/1 Formula cut parameter 19; members choose flexibility that provides for the highest average tariff level.

Impact: Developing Countries (4)

- 82 countries will be exempt from formula cuts:
  - 32 LDCs are expected to increase their tariff binding commitments;
  - 32 SVEs and 12 countries with tariff binding coverage less than 35% of lines to bind all or substantial number of tariff lines at specific levels;
  - 6 very RAMs exempt from the formula entirely.

Other Areas

Services: Status

- Developed countries advocate an ambitious liberalization (except for migration-related service commitments);
- Developing countries are largely resisting to even commit to maintain the current levels of access;
- Members are participating in the request-offer negotiations;
- Not sufficient progress to produce text.

Trade Rules: Fisheries, Anti-dumping and Countervailing Measures

- The November 2007 text:
  - eliminates direct and indirect subsidies in fisheries;
  - allows “zeroing” which artificially inflates antidumping duties (opposed by most countries, except the U.S.).

Gains from the Doha Round

Doha Round: Gains

- Anderson et al.(2005) and Decreux et al. (2006) show large real income gains:
  - liberalization in agriculture and NAMA according to the proposals would yield income gains of $120 billion (40-50 percent of gains from a hypothetical case of global free trade in goods);
  - services liberalization would double gains from goods-only agreement;
  - estimates are higher if dynamic gains and gains from economies of scale are included.

Dispelling Two Misconceptions

- Developing countries have much to gain from reducing their own barriers to trade (50% of gains would come from own liberalization)
- In agriculture (except for cotton), market access is far more critical than domestic support:
  - Hartel and Keeney (2006) show that removal of all agricultural tariffs would account for 93% of the global gains in real income from eliminating all forms of agricultural support.

Doha Round: Revenue Losses

- Tariff cuts can lead to revenue losses;
- Elborgh-Woytek et al.(IMF, 2006) show that potential losses from multilateral tariff cuts are small:
  - only 10% of developing countries would face a tariff revenue loss exceeding 1% of GDP;
  - the magnitude will be mitigated by second-round effects, such as reductions in non-tariff barriers and exemptions, and a shift to domestic taxes.