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Georg Koopmann\*

## Doha Development Round Perspectives

*The Doha round got back on track in the summer of 2004. Where does it stand today? Has market access policy gained predominance over market regulation policy? Is the promotion of economic and social development becoming the "mainstream" of negotiations? What role does trade facilitation in developing countries play in this context? Is multilateral liberalisation compatible with the regional and bilateral opening of markets? Is further institutional reform of the WTO beyond the Doha agenda necessary? If so, what form could this take?*

Developing countries have moved from the periphery of the international trade order to its centre. When GATT was founded in 1947, developing countries were still in the minority; in the WTO they command a "qualified" (four-fifths) majority. Their share of world trade has increased from about one quarter in the mid-1980s to its current level of almost one third.<sup>1</sup> Trade between developing countries has seen especially strong growth, expanding from less than five per cent to well over ten per cent of world trade. The dynamism of North-South and South-South trade went hand in hand with a dramatic shift in export structures, away from agricultural and mineral commodities towards manufactured goods and, increasingly, services. Industrial products now make up four fifths of developing countries' goods exports, and the share of services in their total exports is growing. This paradigm shift in the international division of labour is considered to be the main reason for the more active participation on the part of developing countries in WTO negotiations, and for their predominant interest in improved market access.<sup>2</sup>

### Negative and Positive Regulation

The removal of barriers to market access ("negative regulation") was at the centre of the first five GATT rounds, which primarily dealt with reducing tariffs. In the sixth and seventh GATT rounds (the Kennedy and Tokyo rounds), non-tariff barriers to market access and trade-related aspects of domestic economic policy ("positive regulation") also came into focus. While tariff cuts, for example, can be implemented "with the stroke of a pen", trade policy in these areas often encompasses measures requiring institutional change and substantial resources (for which there

is competition from other areas). The trend towards resource-intensive and "intrusive" trade policy regulation with a direct impact on domestic economic policy came to a peak during the eighth and final GATT round (the Uruguay Round), which also saw the creation of the WTO.

In the Doha Round, which is the first WTO round, the pendulum appears to be swinging back the other way. The negotiations framework elaborated last summer for the main phase of the Doha Round, known as the "July 2004 package", has placed clear emphasis on market access, forcing the new trade policy agenda to take a back seat. In Cancún, the linking of a market access agenda with questions of domestic economic regulation proved to be highly divisive and contributed substantially to the failure of the conference. Of the regulation agenda, as characterised by the "Singapore issues" (competition, investment, public procurement and trade facilitation), only trade facilitation remained.

World Bank research has demonstrated that improved market access for agricultural products, industrial goods, and services promises greater welfare gains than could be expected from new multilateral sets of regulations in the (for now) "banished" Singapore areas.<sup>3</sup> For example, considerable scope exists for economically advantageous liberalisation in those segments of world trade in which developing countries currently or potentially hold a comparative advantage. This applies not only to North-South but also to South-South trade; the greatest barriers to trade have been erected by the developing countries

<sup>1</sup> In 2004 the developing countries had a share of global goods trade of 31%. Cf. WTO Press Release (Press/401), 14.4.2005.

<sup>2</sup> Cf. W. Martin: Developing Countries' Changing Participation in World Trade, in: The World Bank Research Observer, Vol. 18, No. 2, 2003, pp. 193-199.

<sup>3</sup> Cf. B. Hoekman, M. OIarrega: Economic Development and the WTO: Back to Basics?, in: INTERECONOMICS, Vol. 38, No. 5, 2003, p. 233.

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themselves.<sup>4</sup> Empirical evidence on trade policy in developing countries demonstrates in this context that a policy of self-sufficiency is detrimental as a rule, particularly given that excessive protection of domestic markets also undermines the relevant country's export capability.<sup>5</sup>

**Market Access in the Agricultural Sector, for Industrial Goods and for Services**

In the agricultural sector, "classical" market access issues (tariff protection, domestic and export subsidies) dominate the multilateral agenda. Suppliers from developing countries would probably derive greater benefit from a tariff reduction in industrialised nations than from a reduction in subsidies. In both cases however, some developing countries would emerge as winners and others as losers. Where tariffs are dismantled, countries that previously enjoyed preferential treatment would lose out, since their benefits would be eroded by tariff reductions. In the case of subsidy cuts, importing countries would suffer. This raises the question of compensatory solutions in the multilateral negotiations.

The "other" market access issues (health, hygiene, animal and plant protection) deal with non-trade concerns, such as the precautionary principle or environmental protection. In this context, protectionist abuse must be prevented. However, the main problem facing developing countries in these areas is their insufficient capacity to comply with the high standards demanded by their trading partners. To ensure that market access in industrialised nations is not denied on the basis of consumer, animal or environmental protection requirements, effective institutions would need to be established in developing countries. This is an area in which technical development cooperation is of primary importance.

Despite the high profile of the agricultural sector in the Doha Round, it is the industrial sector that accounts for the lion's share of international trade in goods. Trade in manufactured goods is almost ten times as high as trade in agricultural products. Following the extensive removal of non-tariff trade barriers (especially licensing procedures), it is tariffs that currently represent the main barrier to trade in the industrial sector. In the industrialised countries, tariffs on industrial products have also reached a very low

level on average. In contrast, the industrial sector in a large number of developing countries continues to be surrounded by high tariff walls.

Multilateral negotiations on non-agricultural market access (NAMA) have become bogged down in discussions on possible formulae for the harmonisation of tariff structures. Behind such technical details lie fiscal interests, since tariffs often represent a significant and comfortable source of revenues for the state budget, as well as an interest in protecting domestic industry from foreign competition. In developing countries, the incentive to remove industrial tariffs is diminished by the fact that, as mentioned above, there is little scope for reciprocal measures in the industrialised countries due to already low tariff levels. This would be one reason to link NAMA negotiations to talks in other areas. Thus, for example, the willingness of developing countries to reduce tariffs on industrial products could be "bought" by means of "concessions" on the part of the industrialised countries with regard to agricultural tariffs and subsidies.

However, such linkage strategies are hindered by the different levels of negotiations dynamics in the various sectors. This is exacerbated by the problem of comparability between liberalisation demands and liberalisation offers. Both relate to the service sector in particular, where negotiations are lagging far behind. Here, typically, complex and highly intransparent regulatory issues are up for debate, the "value" of which can hardly be expressed in "tariff equivalents".<sup>6</sup> Developing countries, and India in particular, have nonetheless switched from a previously foot-dragging position to become protagonists of multilateral market opening. The main focus here is on Mode 4 of the international exchange of services, i.e. the temporary posting of workers to provide services abroad. The liberalisation offer so far made by the industrialised nations is very limited for this form of service provision, which is regarded as being particularly sensitive.

**Special and Differential Treatment**

For developing countries, Special and Differential Treatment (SDT) is a central negotiating topic in each of the three sectors. This principle is laid down in the Enabling Clause, which was agreed to by the GATT contracting parties towards the end of the Tokyo Round in 1979, and which codifies the special position of developing countries in the multilateral trade system. As a result, developing countries enjoy privileges

<sup>4</sup> Cf. G. Koopmann: Der Trade Policy Review Mechanism der WTO – eine entwicklungspolitische Perspektive, in: Nord-Süd aktuell, Vol. 18, No. 1, 2004, p. 143.

<sup>5</sup> Cf. R. E. Baldwin: Openness and Growth: What's the Empirical Relationship?, in: Challenges to Globalization: Analyzing the Economics, Chicago etc. 2004, pp. 499-521.

<sup>6</sup> Cf. S. Mildner, W. Werner: Progress or Stagnation? Services Negotiations in the WTO Doha Development Round, in: INTERECONOMICS, Vol. 40, No. 3, 2005, pp. 158-168.

relating to the protection of their domestic markets (infant industry protection), to export market access (tariff preferences) as well as at the negotiating table, where they are not obliged to reciprocate on a quid pro quo basis.

SDT increased significantly during the Uruguay Round. This development reflects the extension of multilateral rules to sectors (agriculture, textiles and clothing, services) and to policy areas (the granting of subsidies, anti-dumping, the protection of intellectual property) that were previously covered either not at all or only partially. Developing countries were thus faced with a wide range of new disciplines, with which they were in many cases simply not equipped to comply. This led to a twofold gap:

- The assumption of wide-ranging obligations stands in contrast to the limited capacity of developing countries to meet the related conditions (compliance gap).
- While the commitments entered into are binding, the necessary assistance with their implementation is usually based on non-binding declarations of intent (commitment gap).

In the Doha Round, the 155 SDT provisions of the Uruguay Round are up for review. Many proposed amendments have been tabled. However, negotiations are making only slow progress; a large number of the proposals appear to be incapable of achieving consensus. A fundamental policy reform would have to address both the market access and the regulatory dimension of SDT:

- As regards market access, possible alternatives to the deviation – as legitimised by SDT – from most favoured nation treatment might be considered. Such an alternative could be, for example, the accelerated dismantling of import restrictions in respect of “typical” goods from developing countries, i.e. those produced in a labour- and resource-intensive manner. These sectors of world trade are often characterised by “reverse SDT”: such products are effectively discriminated against, since they face higher than average trade barriers in the industrialised nations. The elimination of these trade barriers – the root of which lies not least in the low level of integration of the developing countries in earlier multilateral negotiations – on a most favoured nation basis, would bring developing countries’ sustainable comparative advantages to bear. In contrast, the comparative advantages arising from preferential treatment are on a far less stable footing, particularly in view of the

foreseeable erosion of these preferences through multilateral liberalisation.

- As far as regulation is concerned, the country selection criteria should be redefined. In the main, the least developed countries (LDCs) and certain other low-income countries with a weak institutional infrastructure should be eligible for a relaxation of trade policy disciplines. In principle, a stronger differentiation *among* the developing countries should be accentuated rather than between “North” and “South”, and appropriate solutions should be developed that are tailored to fit the various bodies of multilateral rules and regulations. In order to close the above-mentioned commitment gap, the poorest developing countries could also be granted a statutory entitlement to technical support with regard to fulfilling the commitments they enter into. This demand is made for example by the WTO’s Consultative Board in its report on the future of the organisation.<sup>7</sup>

In this context, the discussion on Special and Differential Treatment is criticised for often disregarding the underlying development dimension of the multilateral trade system. According to this criticism, the developing countries have a fundamental interest in fair trade, balanced trade rules, transparent and participatory decision-making procedures, as well as in institutional, human and financial capacity building. Such mechanisms should enable the developing countries to comply with multilateral rules, to participate in shaping the body of regulations and the liberalisation process, and to take advantage of their integration into world trade. Consequently, new sets of regulations should reflect development interests – and the developing countries’ weight of numbers in the WTO – from the outset.<sup>8</sup>

### Trade Facilitation

One example could be a set of multilateral rules designed to facilitate trade. Trade facilitation aims to improve the international trade infrastructure, to simplify and internationally harmonise customs procedures, and to enhance cooperation between customs authorities and other government offices such as certifying or licensing bodies. Trade barriers of this kind often have a much greater quantitative impact than tariffs and other conventional trade restrictions. The costs accruing to affected companies are estimated to account for up to 15 per cent of the transaction value of the goods traded.<sup>9</sup> This being the case, the economic

<sup>7</sup> Cf. Consultative Board: The Future of the WTO. Addressing Institutional Challenges in the New Millennium, Geneva 2004, p. 67.

<sup>8</sup> Cf. F. Ismail: Mainstreaming Development in the World Trade Organization, in: Journal of World Trade, Vol. 39, No. 1, 2005, pp. 11-21.

benefits of trade *facilitation* are clearly comparable with the advantages of trade *liberalisation*.

The costs of adopting and implementing corresponding measures depend on a wide range of factors and country-specific conditions. Definite figures often cannot be ascertained due to the integration of trade facilitation efforts into broader-based reform projects. Nonetheless, it can be assumed that many developing countries are faced with heavy burdens, which they are unable to cope with on their own. For this reason, technical assistance to help build resource capacities is essential, as is the efficient coordination of relevant activities between the international organisations involved. In addition to the WTO, these would primarily include UNCTAD, the World Bank, the OECD and the World Customs Organisation. At the same time, trade facilitation would provide a practical example of the LDCs' above-mentioned statutory entitlement to technical support.

#### **Social Impact of the Doha Development Agenda**

Given that development has been declared the "mainstream" of the Doha Round,<sup>10</sup> the question arises as to what contribution the WTO can make to fighting poverty in particular. A general equilibrium analysis recently carried out for the World Bank examines the social consequences of the Doha Development Agenda for individual countries (Bangladesh, Brazil, Cameroon, China, Indonesia, Mexico, Mozambique, the Philippines, Russia, Vietnam, Zambia) as well as various market segments.<sup>11</sup> The study takes the contents of the "July 2004 package" as its point of departure and arrives at the following main conclusions:

- To have a lasting effect on poverty development, trade liberalisation must be "ambitious" and cover not only goods trade but also the service sector.
- The short-term effect is mixed: poverty increases slightly in some countries, but declines markedly in others. Overall, poverty is reduced.
- The net positive effect increases in the long run.
- Sustainable poverty reduction calls for complementary reforms that stimulate economic growth and put private households in a position to actually be able to take advantage of the new market opportunities

made available through the Doha Development Agenda.

These findings imply the possible existence of a virtuous circle between trade, growth and poverty reduction. In this respect, the Doha Round could make a significant contribution to attaining the Millennium Development Goal of halving extreme poverty in the world by 2015 (compared to 1990).

#### **Multilateral Versus Regional and Bilateral Integration**

In addition to the multilateral trade system, regional and bilateral integration blocs have also been established. The number of preferential trade agreements on which these alliances are based has increased sharply over the past few years. The dynamic element in this context has been provided by agreements with and between developing countries (North-South and South-South agreements).

In principle, the two levels of integration may complement one another with respect to both market access and domestic regulation:

- In the area of market access, for example, agricultural subsidies (and domestic subsidies in general) can be dismantled more easily on a multilateral level than on a regional or bilateral level, since within a multilateral framework external effects, from which third countries would otherwise benefit, can be internalised. This type of free riding reduces the incentive to liberalise. With regard to tariffs (and other barriers erected on national borders), on the other hand, regional and bilateral liberalisation – being unhindered by such political blockades – can progress more rapidly than within a multilateral process.
- Regional and bilateral integration projects could also play a pioneering role in the development of new, trade-related bodies of rules and regulations (e.g. in such areas as the definition of technical standards, social and environmental protection, competition rules or investment promotion). Emphasis on "deep integration" of this kind is a key characteristic of "new regionalism". However, the extent to which such an integration model would benefit the participating developing countries is contentious. The general view is that the advantages will tend to be on the side of the industrialised countries.<sup>12</sup>

At the same time, the strong expansion of preferential trade agreements means that they increasingly overlap one another. In a growing number of countries

<sup>9</sup> Cf. OECD: Trade Facilitation: The Benefits of Simpler, more Transparent Border Procedures, Paris 2003, p. 3.

<sup>10</sup> Cf. F. Ismail, op. cit.

<sup>11</sup> Cf. T. W. Hertel, L. A. Winters (eds.): Putting Development Back into the Doha Agenda: Poverty Impacts of a WTO Agreement, Washington DC (forthcoming).

<sup>12</sup> Cf. W. J. Ethier: The New Regionalism, in: The Economic Journal, Vol. 108, No. 449, 1998, pp.1149-1161.

this is leading to the emergence of parallel trade policy regimes, with a variety of liberalisation modalities, rules of origin, exemptions, etc. Most prominent among the developing countries in this respect are Mexico, Chile and Singapore. The plethora of regulations is driving up the transaction costs of international trade (information and administrative costs), as well as providing a breeding ground for protectionist measures against third countries. At the same time, the extent of liberalisation resulting from these agreements has on the whole tended to be relatively modest to date. For example, the proportion of tariff cuts achieved on the regional or bilateral level amounts to only ten per cent of total tariff reductions in developing countries, while unilateral liberalisation accounts for two thirds and multilateral liberalisation for one quarter.<sup>13</sup> One reason for the modest pace of liberalisation in preferential trade agreements is to be found in the fact that – *de facto* – Special and Differential Treatment is practised on this level of trade policy too, and the developing countries involved are thus largely excluded from liberalisation, although – *de jure* – the above-mentioned enabling clause is not applicable to bilateral preferential trade regimes between industrialised and developing countries.

Regional and bilateral trade agreements have a conflicting effect on the multilateral trade system:

- Countries belonging to free trade zones have an interest in preventing the erosion of negotiated tariff preferences, and could thus tend to block liberalisation negotiations at the WTO. Political support for the WTO's approach would thus diminish in this respect. Furthermore, there is a danger that developing countries in particular have too few resources available for multilateral negotiations, especially as the regional and bilateral agenda includes (complex) issues related to deeper integration.
- However, regional and bilateral negotiations also provide an opportunity to learn and gain experience that can be applied at the multilateral level. Indeed, one explicit aim of regional integration between developing countries is to strengthen negotiating power at the WTO. This type of institutional coalition-building comes in addition to the spontaneous formation of coalitions in the Doha Round, such as the G-20 (alliance of newly industrialised countries), the G-33 (alliance of developing countries for agricultural protection purposes) or the G-90 (alliance of

<sup>13</sup> Cf. World Bank: Global Economic Prospects. Trade, Regionalism, and Development, Washington DC 2005, p. 42.

poor countries, formed in particular to oppose the Singapore issues).

The WTO is thus increasingly faced with playing the role of mediator between trade blocs and various groups of countries.<sup>14</sup> There is a danger that this could lead to an institutional imbalance between the multilateral trade system and sub-multilateral bodies of rules and regulations.<sup>15</sup> In order to prevent this from happening the WTO needs to be strengthened as an institution.

### Institutional Reform of the WTO

Institutional reform would have to address the WTO's decision-making procedure in particular. The WTO sees itself as a member-driven organisation, with the delegate bodies typically making decisions by consensus. However, the procedure for settling disputes between WTO members (in the Panel and the Appellate Body) requires only a (simple) majority of votes. An institutional imbalance has thus also been created within this construction: the quasi-judicial dispute settlement mechanism – and the case law it generates – could ultimately supersede the diplomatic negotiating mechanism and thus supplant intrinsic WTO multilateral rule-making procedures. This is all the more so as dispute settlement at the WTO is considerably more effective than it used to be under GATT, and because the rising number of members is making it increasingly difficult to achieve consensus at the negotiating table.

Mechanisms to reduce the number of participants in the negotiations were already developed under the GATT of 1947. Thus, for example, a Consultative Group of Eighteen was created in 1975 with a function similar to that of the IMF Interim Committee. This group was empowered to make recommendations, but not to take any decisions, and was dissolved again in 1988. Since the Uruguay Round, "green room meetings" – named after a green-clad conference room near the office of the General Director – have gained a certain degree of notoriety. These meetings, at which important decisions were prepared to the extent of being effectively taken, were attended on a regular basis by the major industrialised countries (the European Community, the USA, Canada and Japan), a range of smaller industrialised nations and a handful of developing countries. However, this practice was perceived as "secret diplomacy" that created a loss of transpar-

<sup>14</sup> Cf. C. Hefeker, G. Koopmann: WTO und Internationale Handelsarchitektur, in: Wirtschaftsdienst, Vol. 83, No. 6, 2003, p. 406.

<sup>15</sup> Cf. T. Cottier: Zehn Jahre WTO: Eine Standortbestimmung, in: Wirtschaftsdienst, Vol. 85, No. 2, 2005, p. 68.

ency and effectively discriminated against economically weaker countries.

A possible solution to this problem could be the creation of a permanent steering committee at the WTO, in which all the regions in the world would be represented by a minimum number of representatives (e.g. two per region). Additional participation would depend on the countries' share of world trade. Individual countries could be permitted to "pool" their shares to form groups. The results of the steering committee's consultations would then be presented to the WTO as a whole for approval. The principle of consensus would be maintained.<sup>16</sup>

The WTO's further development as an institution could also potentially take the form of "variable geometry". This would mean that "like-minded" countries could establish new sets of regulations that would only apply to their "club". Such a WTO running at "different speeds" would, however, risk fragmenting the multilateral trade system and establishing a multiple class structure among the organisation's members. It would tend to result in policy areas becoming anchored in the WTO, the multilateral control of which would be rejected by a majority of its members.

<sup>16</sup> Cf. J. J. Schott, J. Watal: Decision Making in the WTO, in: J. J. Schott (ed.): *The WTO After Seattle*, Washington DC 2000, pp. 283-292.