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Article — Published Version

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Intereconomics

Suggested Citation: Koopmann, Georg (2005) : The Doha round in Limbo, Intereconomics, ISSN 0020-5346, Springer, Heidelberg, Vol. 40, Iss. 5, pp. 242-243, <https://doi.org/10.1007/s10272-005-0155-2>

This Version is available at:

<https://hdl.handle.net/10419/41869>

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The Doha Round in Limbo

In the World Trade Organisation, the Doha Round is at a critical stage. After the failure of its “mid-term” conference in Cancún in September 2003, it had regained momentum last summer through the “July 2004 Package”, which defined the contours of a possible final accord and the “modalities” by which to achieve a meaningful outcome of the negotiations in due time. However, the “first approximation” of this goal, envisaged for July 2005, with preliminary agreements on how the overall deal could be put together at the WTO Ministerial Conference in mid-December in Hong Kong, did not materialise. Negotiators were unable to agree on certain “concessions” from developed countries on agricultural subsidies and import barriers, to be balanced out by “concessions” from developing countries on market access more generally. Pascal Lamy, the former EU Trade Commissioner and Director-General of the WTO since September 2005, faces the challenge of leading the negotiations into the home straight. In view of 148 member countries with highly diverging interests, this is no easy task.

In order to re-energise the negotiations and to ensure that “Hong Kong” covers two thirds of the way remaining to complete the Doha Round by the end of 2006, Lamy aims to proceed in the following way. By mid-October, the progress made in the bargaining to date should be assessed to gain a clearer picture of what might realistically be achieved in Hong Kong. By mid-November, the negotiating groups should cast these ambitions into substantive and specific proposals, which would also include (in brackets) persisting points of contention, as well as options or trade-offs on which Ministers would have to decide in Hong Kong.

“Cancún” has taught two major lessons. First, the negotiations must concentrate on the WTO’s core role of opening trade. The rejection of the “Singapore issues” (competition, foreign direct investment, transparency in government procurement and trade facilitation) by the developing countries in Cancún and their removal (with the exception of trade facilitation) from the multilateral agenda in the “July 2004 Package” was a clear vote against any further extension of “positive regulation” in the WTO and in favour of a “small solution” with a focus on improving market access and eliminating trade-distorting subsidies. Trade facilitation, the only survivor of the Singapore issues, fits well into this approach of going back to the basics, as the stimulation of trade through cutting red tape etc. is at the heart of the trading order or, as Pascal Lamy put it, is part of the WTO’s *raison d’être*.

By contrast, the “big solution” or “grand design”, including the Singapore issues and other non-trade themes like social and environmental standards, would introduce into the WTO a variety of regulatory regimes with different objectives, each of which could theoretically be enforced with the threat of trade measures. Consequently, a mismatch would arise between (multiple) aims and (a single) means, thereby compromising the WTO’s central concern, which is the removal of trade barriers to market access. A major precedent in this context is the protection of intellectual property rights in the WTO. The corresponding TRIPs agreement has aptly been described to represent an income-transfer mechanism rather than an instrument to promote trade liberalisation, which is the fundamental premise of the WTO for its members.

The second lesson that can be taken from “Cancún” is the necessity of a North-South pact between developed and developing countries, in order to break the deadlock in the Doha Round. Any liberalisation agreement in this context must evenly comprise agriculture, industry and services, since a sole focus on the agricultural sector (and in this area on obligations for developed countries), with manufacturing industry and services provision as “attachments”, would not be feasible politically. For such an agreement to come forward, strategic linkages between the three sectors must be exploited. At the same time, intra-sectoral trade-offs are important. This is particularly true for agriculture.

In the agricultural sector, the elimination of direct export subsidies largely appears to be a foregone conclusion, even though the timing of the phase-out is still open, and the issue of tied food aid or dumping of (mainly American) farm surpluses abroad remains to be resolved. More controversial are the other two pillars of the agricultural chapter, i.e. import protection and the granting of domestic subsidies. In these areas, a transatlantic deal between the European Union and the United States could help to achieve a breakthrough in the Doha Round negotiations, similar to the way the Blair House Agreement of 1992 did in the case of the Uruguay Round. Accordingly, the EU would have to sharply reduce its agricultural import tariffs, a large number of which are extraordinarily high (over 100 per cent), in return for a drastic cut in US domestic agricultural subsidies, which are effectively a massive export promotion programme.

However, both the EU and the USA will only be prepared to make such “concessions” in agriculture if developing countries, and in particular the economically more advanced members of this country group, agree to remove market access barriers in manufacturing and services (as well as in agriculture) in exchange. On the whole, protection of these sectors is much higher in developing than in developed economies. This is true despite signs of resurgent industrial protectionism in the EU and the USA (witness the imposition of new textile quotas against China and calls for a new Community preference in public procurement), and resistance in developed countries against the opening-up of labour markets in those services industries where developing countries have comparative advantages. It has also been noted that poor countries are overtaking rich countries in the number of anti-dumping filings. In light of these observations, the new “Quad” – which now includes Brazil and India alongside the EU and the USA, thus reflecting a new balance of power in the WTO – might be a suitable platform to orchestrate a trade-policy “disarmament” between North and South.

A North-South pact could likewise include an aid-for-trade mechanism that would in particular enable – and motivate – less advanced developing countries to take part in trade liberalisation at home and abroad. At home, these countries need technical and financial assistance to cope with structural adjustment pressures and revenue losses caused by import liberalisation and the removal of tariff barriers. Abroad, many of them face the problem of preference erosion on export markets, as a result of multilateral liberalisation on a most-favoured-nation basis, which calls for compensation. In this context, poor countries also typically depend on foreign support in their attempts to overcome supply-side constraints which prevent them from taking advantage of new market-access opportunities that might be opened in the Doha Round. For donor countries and international finance institutions, especially the International Monetary Fund and the World Bank, all this could mean the provision of additional funds for developing countries, on top of existing official development aid, as a price for their closer integration in the multilateral trading system.

“Positive” adjustment assistance could also represent an improved form of Special and Differential Treatment for developing countries, as laid down in the Enabling Clause of 1979. Rather than indefinitely exempting these countries from multilateral obligations, they would be allowed some extra time to comply with new regulations, and in particular to receive support in abiding by the rules. In its report on the Future of the WTO, the Consultative Board to the Director-General even calls for granting the poorest developing countries a statutory entitlement to financial and technical assistance, with regard to fulfilling the commitments they enter into. This approach to the WTO’s heterogeneity could keep the train from increasingly falling apart while its wheels are still turning. It would also preserve the WTO’s character as a “single undertaking”, such as agreed in the Uruguay Round, in contrast to a “variable geometry”, where a number of separate clubs within the organisation would move ahead at different speeds.

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