

Meyer, Matthias

**Article**

## A New Trade Deal For Developing Countries? Comments on the Doha Declaration

Aussenwirtschaft

**Provided in Cooperation with:**

University of St.Gallen, School of Economics and Political Science, Swiss Institute for International Economics and Applied Economics Research

*Suggested Citation:* Meyer, Matthias (2002) : A New Trade Deal For Developing Countries? Comments on the Doha Declaration, Aussenwirtschaft, ISSN 0004-8216, Universität St.Gallen, Schweizerisches Institut für Aussenwirtschaft und Angewandte Wirtschaftsforschung (SIAW-HSG), St.Gallen, Vol. 57, Iss. 2, pp. 151-160

This Version is available at:

<https://hdl.handle.net/10419/231001>

**Standard-Nutzungsbedingungen:**

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

**Terms of use:**

*Documents in EconStor may be saved and copied for your personal and scholarly purposes.*

*You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.*

*If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.*

## A New Trade Deal For Developing Countries? Comments on the Doha Declaration

Matthias Meyer\*

Staatssekretariat für Wirtschaft (seco)

In November 2001, at the Fourth Ministerial Conference at Doha (Qatar), the World Trade Organization launched a new round of multilateral trade negotiations. Many have called it a “Development Round”, referring to the declaration adopted at Doha itself. Ministers declared: “*We seek to place [developing countries’] needs and interests at the heart of the Work Programme*”<sup>1</sup>. References to developing countries can be found in all parts of the document.

There are good political reasons for this emphasis. After the previous Seattle Ministerial Conference failed, a new trade round was in doubt. Many developing countries opposed it because they were disappointed by the results of the Uruguay Round and were not convinced that their demands could be taken into account in a new round. They also questioned their capacity to implement WTO rules they had agreed to (e.g. intellectual property regulations, customs valuation) and wanted the WTO to agree to revise these obligations or the rhythm of their implementation. At the same time, the WTO had been identified by the emerging anti-globalization movement as one of the main culprits for increasing poverty and exploitation. The legitimacy of the institution, as a tool leading to greater welfare in all parts of the world, has been put into question. The criticism coming from these quarters is evolving. A recent book by OXFAM<sup>2</sup> gives many examples of how international trade has been instrumental in reducing poverty. It projects how trade could become a motor for development better than aid and complementary to it. Yet, this would only be possible if the process of trade negotiations and some of the WTO rules were amenable to change.

---

\* Ambassador Matthias Meyer directs a task-force of the Swiss Government on trade and Development. He was an Executive Director at the World Bank, representing Switzerland and seven transition countries, from November 1997 to March 2002.

1 Ministerial Declaration adopted at the WTO Ministerial Conference on November 14, 2001; para. 2. WT/MIN(01)/DEC/1.

2 OXFAM INTERNATIONAL (2002)

The Doha Declaration anticipates a comprehensive agenda to be negotiated over the next years. It includes improved market access, a review of major trade disciplines and a better sequencing of the phase-in of rules in the case of very poor countries. Investment and competition rules, public procurement and trade facilitation should be negotiated in a second stage. Are these political intentions realistic? Will it be possible for developing countries, under the established negotiation rules, to attract the attention of industrialized countries in areas that are of particular development interest?

## **Market access is essential**

For many developing countries, except for some of the poorest, the traditional give-and-take negotiations will be high on the agenda. In the three main areas of negotiations (industrial goods, agriculture, services) the potential welfare gains are substantial. Making some bold assumptions, the World Bank estimated the effective tariffs faced by the world's poor as against the non-poor<sup>3</sup>. Trade of the poor is represented by agricultural products and labor-intensive manufactures, the share of the non-poor by exports of all goods of a country. Tariffs faced by the poor reach close to 15 percent, tariffs faced by the non-poor about 6 percent. Of course, developing countries do not only face tariff walls from high-income countries but, often at higher rates, from emerging markets as well. One of the tests of the Doha Round will be whether it will help to increase trade significantly among developing countries.

Restrictions in industrial and in developing countries for *agricultural imports* are still high and, therefore, the potential benefits of tariff reductions for the poor is substantial. The share (in world exports) of developing countries' agricultural exports to high-income countries stagnated at around 20 percent during the 1990s<sup>4</sup>. But developing countries are not only penalized through high tariffs. Most industrialized countries provide substantial production and export subsidies to their farmers. Oxfam estimates that the United States and the European Union export at prices more than one-third below production costs<sup>5</sup>. There are still many instances where small-holders in poor countries compete with subsidized

---

3 WORLD BANK (2002), p.57, Box 2.8

4 WORLD BANK (2002), p. 39, Figure 2.1

5 OXFAM INTERNATIONAL (2002), p. 9

imports. This is probably the most egregious example of mismanagement of the world economy in the light of development policy. The sheer volume of the contributions by taxpayers and consumers to agriculture in OECD countries, estimated at about \$327 billion in 2000 by the OECD, attests to the task at hand<sup>6</sup>.

*Manufactures* represent about 70 percent of developing countries' exports<sup>7</sup>. Overall, tariffs for industrial goods have become insignificant in industrial countries as a result of previous trade rounds. Yet, they are markedly higher for labor-intensive manufactures such as textiles and clothing, footwear, leather-goods, paper and pulp, furniture, rubber products and metals. As "sensitive commodities" they are often imported at tariff peaks (tariffs higher than 15 percent)<sup>8</sup>. In textiles and clothing, tariffs will remain high even after dismantling quotas under the WTO Agreement on Textiles and Clothing at the beginning of 2005. Another concern is tariff escalation, an increase of tariffs following the steps of processing of a good. Industrial and developing countries alike use this device in varied ways. It discourages developing countries to diversify production and to export higher-value goods.

*Services* are the fastest growing sector in the world economy, yet most trade still takes place among industrial countries. The share of developing countries in service trade increased from 14 percent to 18 percent in the last decade<sup>9</sup>. Their interest is not only to accelerate their service exports but also to create a better service infrastructure at home. On the export side, it will be important to focus negotiations on sectors of comparative advantage for some developing countries e.g. construction, maritime services, tourism, transport, distribution, communication and internet technologies. A main stumbling block appears to be the fact that many of these services imply at least the temporary presence of foreign experts and employees in industrial markets (so-called GATS Mode 4). In many industrial countries, including Switzerland, this might clash with immigration policies.

Service liberalization can be a major instrument for developing countries to spur their growth process. The negotiations could lead to more foreign direct investment in crucial economic services and the private operation

---

6 Cited in WORLD BANK (2002), p. 47

7 WORLD BANK (2002), p.39, Figure 2.1

8 WORLD BANK (2002), p.46

9 WORLD BANK (2002), p. 71, Figure 3.1

of public utilities. In the case of Tunisia, a recent study indicates that welfare gains could reach 7 percent of GDP, if six service sectors were liberalized<sup>10</sup>. However, privatization and open policies are not enough to ensure success. Effective ground rules for each sector and competition are essential. Also, the privatization of social services (water, education, health) is often problematic unless improved access of the poor is guaranteed.

The negotiations in all three economic sectors will take place following the traditional reciprocity principle. In the case of services, developing countries have requested that unilateral liberalizing reforms, which they undertook since the Uruguay Round, be recognized as part of their negotiating concessions. Similar demands might be made in the other sectors. Such a give-and-take process is not realistic in the case of least developed countries<sup>11</sup>. Traditionally, industrial countries improved market access for the least developed countries, and, to a lesser degree, other developing countries, through unilateral trade preferences. The effectiveness of preferences has been questioned because of their often limited coverage and changing conditions. A new generation of duty-free and quota-free preferences for least developed countries was initiated by the European Union ("Everything But Arms" Initiative). Switzerland has announced that it will modify its preference scheme in a similar way over time. The Doha Declaration contains a (legally non-binding) commitment for industrial and other developing countries to follow this lead<sup>12</sup>.

### **Should WTO rules become development-friendly?**

Representatives of developing countries have been critical of the cost of implementing certain WTO reforms. Costs are high when local institutions have to be built up and equipment bought as in the case of intellectual property rules, technical standards, sanitary and phyto-sanitary measures, and customs valuation. They also complained about the halting implementation of many disparate norms and "best-endeavor" rules that were introduced in WTO agreements and decisions to take account of developing countries' special interests. These rules, called "Special and Differential Treatment Provisions", were meant to increase export opportunities, to create flexibility in the application of general or specific WTO

---

10 WORLD BANK (2002) p.78, Box 3.3 referring to KONAN, D., and K.E. MASKUS, 2000. "Service Liberalization in WTO 2000: A Computable General Equilibrium Model of Tunisia." February. Processed.

11 A group of 49 countries recognized by the United Nations as being particularly poor.

12 Doha Ministerial Declaration, para. 42.

rules, to allow for longer transition periods in introducing new norms, and to provide technical assistance to facilitate reforms. The Ministers at Doha want this group of over 150 norms to become “precise, effective and operational” as a first priority in the forthcoming discussions<sup>13</sup>.

This raises the broader question about the rationale for treating differently specific categories of developing countries in the Doha Round. Certainly, the intention cannot be to create permanently two types of WTO members since this would hamper the chances of developing countries to catch up. Yet, particularly for low income countries it is often good policy to open their economies gradually:

- a) Besides the benefits of increased trade, there are also costs, some of which are more difficult to bear for inadequately diversified economies. The loss of enterprises and jobs (through more competitive imports) does not easily lead to more productive uses of capital and labor in other sectors. Time lags can be important. If a country does not have an adequate social safety net, poverty will increase.
- b) Small and open developing economies are more prone to volatile growth than other countries<sup>14</sup>. They are more exposed to external shocks.
- c) The lack of adequate regulatory agencies and competition can lead to the appropriation of benefits exclusively by the foreign investor. Privatization is not a good solution under those circumstances.
- d) More generally, the capacity of economic institutions in a country will be essential to determine the welfare impact of market opening. Market opening should always be preceded and accompanied by a decisive effort to upgrade the institutional framework.
- e) Some countries will lose from remaining international market distortions. Many net food importers in particular will be negatively affected by subsidized food imports and the in-kind “dumping” of food aid since their own agricultural potential will be held back.
- f) Finally, poor countries are often less able than other WTO members to discover and denounce trade practices that violate WTO rules. They also are less able, because of a lack of economic clout, to react when (abusively) accused of dumping or of using export subsidies.

---

13 Doha Ministerial Declaration, para. 44.

14 STIGLITZ (1999) p.11 referring to EASTERLY, W. ISLAM R. and STIGLITZ, J.E. (1999): Shaken and Stirred: Volatility and Macroeconomic Paradigms for Rich and Poor Countries; Michael Bruno Memorial Lecture, given at the XII World Congress of the International Economic Association, Buenos Aires (August 27th, 1999).

## Capacity building: a panacea for trade integration?

The Ministers at Doha referred repeatedly and emphatically to the need to strengthen trade-related institutions in developing countries through technical assistance. This recognition of the priority of capacity building is not new. It was the topic of a high-level WTO-sponsored meeting in fall 1997 that led to the Integrated Framework for Trade-related Technical Assistance, an effort to step up capacity building in least developed countries and give responsibility to the six main international agencies in this field. Bilateral agencies, and particularly the Swiss State Secretariat for Economic Affairs (seco), have always dedicated resources to trade assistance. What is new is that, apparently, the success of the Doha Round is made dependent upon extensive and multi-form capacity building.

Even if the need for more assistance is great, a “caveat” is in order when assessing this intention of the international community: Capacity building is not a panacea that can replace the search for balanced trade concessions and fair trade rules. Political “wishful thinking” will be difficult to transform into results.

The record of technical assistance is not very positive. Effectiveness is difficult to measure, methods used are often inefficient. One essential condition for success is that the concerned governments and local counterparts “buy into” the assistance programs. For this to happen, the assistance has to correspond to an urgently perceived demand and has to be integrated into national development priorities. Not all WTO rules are national priorities but have sometimes high implementation costs<sup>15</sup>.

Generally, institutions change at a slow and unpredictable pace. It cannot be assumed that a broad international effort will lead quickly to adequate institutions and well equipped trading partners. The international effort itself has not been convincing so far. The “Integrated Framework” has not yet led to many examples of assistance plans that mirror the trade priorities of developing countries. Efforts are only incipient to mobilize more resources and to coordinate efforts among agencies. Meanwhile the (theoretical) needs for assistance are almost without limits. They do not only concern the negotiating strategy and the implementation of the many trade rules, they also refer to the vast field of internal regulatory frameworks, competition policy and trade facilitation.

---

15 HOEKMAN (2001), p. 10

A useful suggestion by one observer is that better public access should be given to data bases on tariff bindings and data underlying WTO Trade Policy Reviews<sup>16</sup>. This would allow for a broader discussion of local policies and independent research on the results of trade policy.

## **Is Swiss international development policy relevant for the Doha Round?**

Since international trade and investment has been a lifeline for the Swiss economy, the Swiss Government has always given great importance to international trade negotiations, defending the long-term interests of its economy. Swiss development policy has been taken into account through the granting of trade preferences mainly to low-income countries and through technical assistance in trade-related areas. These forthcoming negotiations are considered a “Development Round” and touch upon the economic interests of many developing countries. How can the Swiss Government make sure that its positions are consistent with Swiss development policy?

Swiss development policy considers poverty reduction as the over-arching goal. Poverty is not restricted to least developed countries. In fact, most of the poor live in big low-income and in middle-income countries. Furthermore, based on Switzerland’s liberal credo, the integration of developing countries into the world economy has always been considered an important way to reduce poverty. In the context of the WTO negotiations, this leads me to suggest the following development criteria:

- a) The benefits of integration should concern all developing countries. Negotiations should be comprehensive and focus on remaining imbalances in tariffs and degrees of liberalization between developing and industrial countries and among developing countries.
- b) Special attention should be paid to the costs for smaller low-income countries to open further their economies since their supply-response is often much slower and since they are vulnerable to external shocks. An effort should be made to take into account these constraints in the rhythm of liberalization, in the formulation of trade disciplines and in the time schedule determined for developing countries to implement trade reforms. As these constraints are specific to each country, an

---

16 HOEKMAN (2001), p. 12



- exclusive reliance on country groups as a basis for exceptions is inadequate. A case-by-case approach should be considered.
- c) Capacity building should become an integral part of the negotiating process, tying in some cases the implementation of reforms to the technical support provided to be able to cope with the reforms.

## References

- HOEKMAN, B. (2001): Strengthening the Global Trade Architecture for Development: The Post Doha Agenda; The World Bank and CEPR, Washington DC, Revised November 15, 2001, mimeo, taken from the Internet: [www.worldbank.org/trade](http://www.worldbank.org/trade)
- OXFAM INTERNATIONAL (2002): Rigged Rules and Double Standards: Trade, Globalization, and the Fight against Poverty; taken from the Internet: [www.maketradefair.com](http://www.maketradefair.com)
- STIGLITZ, J. E. (1999): Two Principles for the Next Round or How to Bring Developing Countries in from the Cold; Geneva, September 21, 1999, mimeo. This article was published in 2001 in HOEKMAN, B. and MARTIN W. (Eds.): *Developing Countries and the WTO: A Pro-Active Agenda*; Oxford: Blackwell
- WORLD BANK (2002): Global Economic Prospects and the Developing Countries. Making Trade Work for the World's Poor.; Washington DC: World Bank