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Doha and the global crisis

The preservation of the multilateral trading system is vital in the current international climate

When the financial crisis broke, many commentators suggested that low-income countries, with relatively unsophisticated financial markets and little international integration, would be 'immune' to the western credit crunch. This somewhat sanguine outlook has been proved wrong.

The deepening of global supply chains, higher commodity prices and a continuous increase in private sector investment and net capital inflows to developing countries had driven more than a decade of sustained growth, contributing to significant progress on the Millennium Development Goals (MDGs) and poverty reduction. Paradoxically, concluding a multilateral trade agreement was seen by many as unnecessary. The insufficiency of new market access offers on the table, and negotiations in sensitive domestic sectors (notably agriculture), left many feeling that the best alternative to no agreement was the status quo of ever stronger trade and investment flows.

The financial and economic crisis has changed all that. Bringing closure to the Doha Development Agenda (DDA) needs to be seen in this context. The multilateral trading system represented by the World Trade Organization (WTO) is a vital part of our global trade and financial architecture. It should not be left in isolation and the DDA should not be left in long-term abeyance. This paper examines the current international macroeconomic environment and pressures for non-market intervention, and what the DDA can offer, in terms of bindings, market access and benefits for poor countries.

Out of macroeconomic ammunition

As the financial crisis translated into an economic one in western markets, the corresponding collapse in commodity and manufacturing export earnings, alongside reduced access and availability of trade finance, reduced inflows from overseas remittances and a reversal of net private capital inflows, has resulted, inevitably,

Time to move on and leave Doha behind?

in a sharp economic slowdown and, in several cases, a contraction in activity in many developing countries (ODI, 2009). Recent projections by the International Monetary Fund (IMF, 2009) forecast developing country growth as low as 1.6% in 2009, compared to 8.7% in 2007, and the 6% needed to continue to reduce poverty.

Almost every country has introduced countercyclical macroeconomic policies. However, this macroeconomic approach is just about exhausted – for advanced G-20 countries as well as low-income developing countries. The latter cannot easily replicate the countercyclical measures of the advanced countries, given their balance of payments constraints and lack of access to foreign savings. A policy of fiscal and domestic demand expansion would reduce reserves, increase exchange rate pressures and undermine external and financial stability. For low-income countries, the policy response will depend on access to international liquidity.

Monetary policy action has been unconventional in this crisis. With short-term interest rates close to zero in many countries, central banks have gone further by undertaking quantitative easing (purchases of government securities) to reduce longer-term interest rates, and credit easing has involved purchases of private sector assets to counter a widening of credit spreads in specific markets. In some countries,

Key points

- Trade and growth have been key drivers in reducing poverty
- Leaving the Doha Development Agenda (DDA) hanging and the WTO in isolation is not the best policy strategy in the current economic environment
- Concluding the DDA is central to enhancing multilateral cooperation and future prospects.

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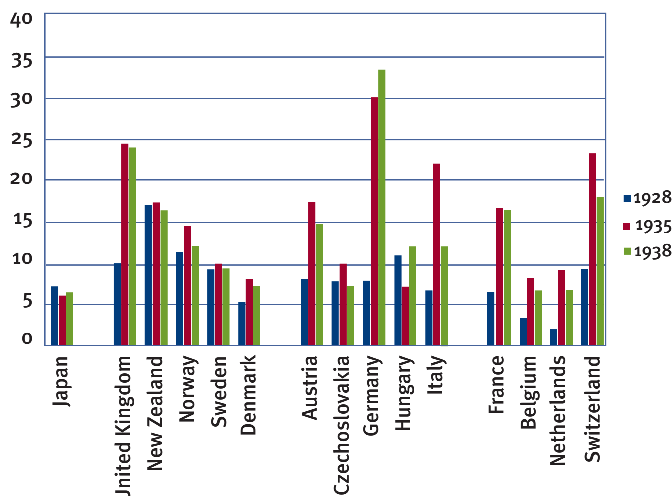
Figure 1: Average tariff on imports, 1928-1938 (%)



Source: Eichengreen and Irwin (2009)

the combined impact of quantitative and credit easing on central bank balance sheets has been large – from September 2008 to the first half of 2009 it amounted to an increase in balance sheet totals of 5% to 10% of GDP in several advanced economies. Central banks must now decide when and how to tighten policy (Cottarillis and Vinals, 2009).

The average unemployment rate in OECD countries reached 8.5% in July 2009, the highest level in the post-war period. By 2010, OECD unemployment is forecast to approach 10% – an 80% increase since 2007. This compares with an increase of 50% during the first two years of the oil price shock of the 1970s (OECD, 2009).

Non-market intervention – protectionism

With little room for manoeuvre offered by macroeconomic policy, rising unemployment, and limited access to foreign savings for low-income countries, the medium-term policy response may well be non-market intervention.

G-20 leaders have pledged not to resort to protectionist measures. Where multilateral disciplines exist, there is little evidence of substantial recourse to protectionism to date (Messerlin, 2009). Assessments suggest that a growing number of countries have put in place some protectionist policies, although there has been no 'large scale increase in the level of discrimination against foreign suppliers of goods and services by major trading partners'. (Evenett, 2009; WTO, 2009). However, given the extent of macroeconomic policy intervention it would be alarming if protectionism had been applied simultaneously on a 'large scale'.

One concern has been the steady rise of 'murky protectionism' (Evenet, 2009a): protectionism permitted under WTO rules, and measures that are not covered by multilateral disciplines. Examples of the former are: tariff increases up to bound limits; state aid (especially in the auto and financial sectors); and anti-dumping actions. The latter include: export subsidies for dairy products; unilateral action to (re-) introduce local employment of foreign professions; and, in the absence of multilateral rules on public procurement, governments may require stimulus funds to be spent on domestic producers.

Protectionism tends to be applied later in a severe downturn. During times of severe external shocks and long periods of suboptimal growth, non-market policy interventions come later but escalate rapidly, when other policy instruments and options are exhausted and there is no room for manoeuvre. After a prolonged global downturn in the 1970s resulting from two oil price shocks, non-tariff barriers were being applied to over one-third of all developing country exports by the early 1980s taking eight years to peak (Nogues, Olechowski and Winters, 1986). As figure 1 shows, average trade tariffs following the crash of 1929 did not hit their peak until 1935-1938 (Eichengreen and Irwin, 2009), when other policy options were thought to have reached their limit. The fiscal challenges now facing advanced economies are unprecedented, at least in peacetime. At the time of the 1929 crash, public debt was far lower, and demographic trends were more favourable, with lower demands for health and pension entitlements.

The DDA: an enabling environment

Proponents of concluding the DDA stress the merits of improved market access through trade reform and liberalisation applied on a most favoured nation (MFN) basis. But the benefits of deepening multilateral trade cooperation are as much, if not more, to do with the rules, disciplines, dispute settlement, and the monitoring and development of environments that enable developing countries to engage in international trade – all vital elements of the role of the WTO that are far less emphasised. The formation of the General Agreement on Tariffs and Trade (GATT), for example, was largely the result of the lack of multilateral trade disciplines in the 1930s.

Based on what is being negotiated under the DDA, the benefits can be categorised as follows: (i) a significant narrowing in bindings from bound to applied rates, implying more security of access in goods and services and, therefore, less potential for protectionism, (ii) significant new market access gains and (iii) increased market access and support for the least developed countries.

Bindings matter. On the basis of current negotiations, WTO members are committed to reduce bound levels by a large margin. While the commitments mean less in actual (i.e. applied) tariff rates, in this economic environment what is on offer is significant. The proposals under discussion would reduce the world average bound tariffs by a third. For agricultural products the reduction would be from 40% to 30% and that for non-agricultural goods from 8% to 5%.

For agriculture the formula under negotiations would involve larger cuts in the higher tariffs and, if implemented without exceptions, average bound tariffs would be halved (from 40.3% to 20.7%). However flexibilities for 'sensitive' and 'special' products are calculated to cut this margin from 40.3% to 29.9%. Agricultural export subsidies applied by industrial countries, a major concern for developing countries, are to be banned. The EU and USA re-imposed export subsidies in summer 2009 for dairy products. If implemented, these rules will limit industrial country action to support sensitive products – notably cotton, peanuts and sugar – which are vital for developing countries (Hoekman et al., forthcoming).

Global economic models on the potential gains from a Doha trade agreement are based on the likely and proposed agreements for applied levels of protection. They do not take any account of the value of bindings. One study (Bouët and Laborde, 2008), however, did assess the potential economic costs of a failed Doha Round and potential increase in protectionism, through various scenarios. The results were sobering. For example, if major trading partners would raise tariffs to the highest levels applied during the past 13 years, world trade would decline by 3.2% per annum and world welfare by $134 billion; if applied tariffs where to increase nearer to bound levels (as legally permitted), world trade would decline by 7.7%, with net global welfare losses of $353 billion.

The proliferation of bilateral and regional trade agreements, in the absence of a Doha deal, increases the potential for endogenous trade distortion (rather than trade creation) brought about by these arrangements, and increases discrimination against non-members. A key role of the multilateral trading system is to reduce discrimination, particularly against non-members of preferential, bilateral and regional arrangements through MFN objectives.

But market access benefits also apply. As shown in Table 1, significant reductions in bound tariffs are envisaged, with less reduction in applied rates. These are not insignificant and will offer market access benefits for developing countries. The average farm tariffs would fall from just over 14% to 11.5% and tariffs on exports of manufactures from 2. 9% to 2.1%.

Empirical studies suggest that the benefits of new market access (i.e. the implied reduction in applied rates achieved through existing negotiations) ranges from $60 to 160 billion per year. Decreux and Fontagne (2009) assessed world GDP gains of $59 billion per year from market access improvements associated with what was on the negotiating table on trade in goods liberalisation in July 2008. If gains from trade facilitation were added this could rise to $99 billion. Recent work by Laborde, Martin and van der Mensbrugge (2009) uses more disaggregated trade data, and suggests overall global gains of up to $160 billion for both agricultural and non-agricultural market access agreements. Other studies (Adler et al., 2009) based on what is now being negotiated tend to arrive at similar figures. Obviously the potential gains would be far larger if liberalisation went beyond that currently under discussions. Even so, gains of between $60-$160 billion per annum are not insignificant.

Additional benefits for the poorest. Currently on the table is the 'duty free and quota free' (DFQF) market access initiative for least developed countries (LDCs). At present the initiative looks to cover 97% of tariff lines. This would be helpful to LDCs. Carrere and de Melo (2009) assess, for example, that if the US were to apply DFQF access for 97% of lines, LDCs could increase their exports by some 10% (around $1 billion). However, given the very narrow export base of many LDCs, it remains the case that even at 97% of tariff lines a large proportion of LDC exports will continue to be subject to restrictions. Also many of the major trading partners already provide preferential access to LDCs and notably through the Everything but Arms initiative (EBA) and the African Growth and Opportunities Act (AGOA), as well as other arrangements. Therefore to maximise the potential benefits from this initiative, would require 100% coverage of tariff lines by both industrial and

Table 1: Weighted average applied and bound rates levied by WTO members

	Applied rates			Bound rates		
	Base	Formula	Formula plus flex	Base	Formula	Formula plus flex
Total	%	%	%	%	%	%
All countries	3.7	2.5	2.9	9.9	5.7	6.9
High-income countries	2.5	1.4	1.7	5.2	3.1	3.8
Developing countries (not Least Developed Countries)	6.9	5.3	6.2	21.8	12.6	14.4
Least Developed Countries (LDCs)	11.1	8.7	11.1	na	na	na
Agriculture						
All countries	14.5	8.9	11.8	40.3	20.7	29.9
High-income countries	15.0	7.5	11.0	31.9	13.5	20.2
Developing (not LDC)	13.4	11.5	13.3	53.9	33.0	45.4
LDCs	12.5	12.2	12.5	94.1	51.6	94.1
Non-Agricultural Market Access (NAMA) negotiations						
All countries	2.9	2.1	2.3	7.8	4.7	5.3
High-income countries	1.7	1.1	1.1	3.5	2.5	2.7
Developing (not LDC)	6.4	4.8	5.6	19.1	10.9	11.8
LDCs	10.9	8.0	10.9	na	na	na

Note: Country groups defined using World Bank and UN definitions. Source: Laborde et al. (2008).

advanced emerging countries (notably the BRICS).

The export supply response to preferential access depends on two factors: the rules of origin that are applied by the importing countries; and the capacity to make use of market access opportunities. On rules of origin these need to permit cumulation, and apply low value added criteria, allowing imported factor inputs to be widely sourced. As the aid for trade initiative made aware (Prowse, 2006), market access without sufficient supply capacity and an enabling business and investment environment is of little use. Improving competitiveness to include trade facilitation is increasingly seen as vital for low-income countries. For many, transport and logistical costs are often a more important component of total costs to trade than tariff barriers. Many developing countries with appropriate support could reduce the price of imported goods and enhance export potential through trade facilitation measures. This is particularly true for landlocked countries, and notably those in Africa, where land transportation adds significantly to logistics costs (typically $10 cents per ton and kilometre).

Assistance to the trade and productive side of the economy has increased as a result of the aid for trade programmes with total new commitments from bilateral and multilateral donors exceeding $25 billion, (and an additional $27 billion in non-concessional trade related financing). For the future, with aid budgets coming under fiscal constraints in donor countries, bringing closure to the trade round may well encourage donors to maintain their Aid for Trade commitments.

Policy options

In the current economic environment, the conclusion of the Doha Trade Round would be a global public good. Successive rounds of the GATT have provided progressive and incremental advances to multilateral trade reform, and supported the expansion of global trade and investment integration.

With macroeconomic policy responses to the crisis exhausted for many countries, and unemployment rising, there will be increased pressure to resort to non-market interventions and private sector investment will need to fill the gap left by reduced public sector activity. The multilateral trading system is as much about establishing the rules, regulation, and predictability of engagement in international commerce as it is about market access and is a central part of our global trade and financial architecture. To continue to leave the DDA in abeyance, largely as a result of minor issues, is highly irresponsible and could have serious spillover effects on multilateralism in other areas. There is no doubt that the trade agenda is changing, particularly in relation to trade and climate change, trade and energy, and trade and food security. But these large issues cannot be addressed until the DDA is completed. Once that happens, we can all move on.

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