

Major Issues in the DDA Negotiations: The Central Place of Market Access for the WTO's Development Round

The WTO at 10: Dispute Settlement, Multilateral Negotiations, Regional Integration

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Introduction

The Uruguay Round Agreements that established the World Trade Organization and the rules-based system as a single undertaking represented a quantum leap forward in GATT-WTO history. It was an immensely complicated undertaking to simultaneously negotiate and reach agreement in such complex areas as intellectual property protection, designing a workable approach to governing trade in services, developing an agreed approach to measuring support to agriculture and disciplining trade-distorting investment measures. It was also not a simple task to elaborate the structure of the WTO as an institution. Of course, the crowing jewel was the new understanding on dispute settlement which, over the past ten years, has proven to be the most effective system of international dispute settlement the world has ever seen. With all of that on the table, in addition to more traditional market access and trade regulation issues, no one was surprised that the Uruguay Round took an extra three years to conclude and that the subsequent implementation of the many different agreements has sometimes presented special problems to the Members of the WTO.

I begin my discussion of major issues in the Doha Development Agenda negotiations with this brief recollection of the Uruguay Round in order to drive home a very important point at the start of my presentation. The Doha negotiations are very different from the Uruguay Round. This is a market access round, not a round involving the introduction and elaboration of complex new rules like the last round. Because it is a market access round, and because market access is the oldest and most traditional of GATT-WTO topics, we have all the more reason to be deeply concerned about the current state of play in this negotiation. Whether we are talking about agriculture, industrial tariffs, services negotiations or trade facilitation, WTO Members are on solid, well-known, ground. If reaching agreement in a market access round is as difficult as it seems to be, we need to be very worried and we need to try to understand the reasons for the problems of the Doha Round. The complex Uruguay Round took an extra three years to conclude, but this more straightforward round is already nearly three years behind schedule. Results that were targeted for agreement in March 2003 and on the table as objectives for the Hong Kong meeting at the end of 2005.

Market Access

If this is the market access round, we need to know where we are starting from and where we want to go to in order to understand the major issues in the negotiations. The Uruguay Round produced some impressive results, but apart from the additional progress made in cutting industrial tariffs, it was only the

first real multilateral access negotiation for trade in agricultural products and services. WTO Members are left with a substantial job ahead of them if our objective is to significantly improve market access opportunities through the Doha Round.

Industrial Tariff Negotiations

At the end of the implementation period for Uruguay Round tariff reduction commitments, the simple average level of bound tariffs for industrial goods in developed countries stands at around 6.5%, but there are significant peak tariffs in sensitive sectors like textiles and clothing. One estimate of the simple average bound tariff level for industrial goods in Latin America is 35%, although much of this is due to the use of "ceiling bindings", with applied rates relatively lower. In Asia, average rates range from around 60% for India to zero for Hong Kong, China and Singapore. The WTO Secretariat estimates that average bound tariff levels in Africa are generally lower than in developing Asia, but there is evidence that the average rate is somewhere above 30%. Given that the share of intra-developing country trade in manufactured goods increased from 29 to 34% between 1990 and 1999, it is clear that enhanced market access for industrial goods in developing country markets is important to developing as well as to developed countries.

Overall, the Uruguay Round negotiations produced a 40% cut in developed countries' average tariffs on imports from all sources, and a 37% average cut on imports from developing countries. Developing countries cut industrial tariffs by an average of 21% on imports from other developing countries and 25% on imports from developed countries. The Uruguay Round also produced important forward movement in tariff bindings.

When the Doha Round was launched, WTO Members' stated objective for this Round was "to reduce or as appropriate eliminate tariffs, including the reduction or elimination of tariff peaks, high tariffs and tariff escalation, as well as non-tariff barriers, in particular on products of export interest to developing countries". Product coverage in the negotiations was to be comprehensive and without a priori exclusions.

By the time of the August 2004 Framework document, very little progress had been made on industrial tariff negotiations. Apart from reaching agreement on the desirability of a tariff cutting formula and eventual conversion of non-ad valorem tariffs to ad valorem equivalents, little progress toward agreed practical modalities was made by that point. At the same time, WTO Members recognized the "challenges" faced by non-reciprocal preference beneficiaries and those Members highly dependent on tariff revenues. More than a year later, when the Chairman of the negotiating group reported to the September 2005 meeting of the Trade Negotiations Committee, core elements remaining to be discussed remained the formula, flexibilities and treatment of unbound tariffs – not a very different picture from two years earlier in Cancun.

Market Access in Agriculture

Notwithstanding all of the attention given to trade distorting export subsidies and high levels of domestic support to agricultural producers, it is the market access "pillar" of the Doha Round negotiations that is proving the most difficult. This is no doubt due in large part to the very limited progress made in the Uruguay Round in providing real market access. In many ways, the Uruguay Round was focussed on setting rules and parameters for future negotiations in a way that the systemic architecture would be more amenable to market access opening. For example, although "tariffication" and the introduction of tariff rate quotas for many products led in the post Uruguay Round to some very high out of quota tariff levels, tariffs are inherently easier to liberalize than actual quantitative restrictions. The Doha Round is about what we are going to do with these opportunities.

The Uruguay Round succeeded in achieving the binding of all agricultural tariffs, but often at very high effective rates and in many circumstances with formulations which are far from transparent. The long argument earlier this year about the technical difficulties associated with translating specific or mixed tariff rates into ad valorem equivalent rates was a direct result of the messy aftermath of the Uruguay Round talks. Even where they are already expressed as an ad valorem rate, the rates of protection for agriculture tend to be much higher than for industrial goods. On top of that, there is a good deal of evidence of large amounts of “water” in the bound tariffs for agriculture trade. Even a cursory glance at some WTO Members’ tariff rates for farm trade seems to support this charge.

If we look at the percentage of all agricultural tariff lines with bound duty rates over 100% ad valorem, we can see some very protective regimes in Norway (45%) and Switzerland (7%). The degree of protectionism in Norway is equivalent to that for India on this scale (also 45%), while Bangladesh has 69% of its tariff rates for agriculture over 100%. For the 15 nations of the EU at the end of the Uruguay Round, more than one-third of agricultural tariffs exceed 15%, generally defined as “peak” tariffs. Tariff rate quotas (TRQs) that were supposed to establish minimum access opportunities or maintain current access levels where high tariffs are applied to out of quota quantities of imports have had disappointing “fill-rates” in the post Uruguay Round period, possibly in large part due to the fact that no harmonised system has ever been agreed by WTO Members to allocate in quota trade and many systems operate to actively discourage full fill-rates. In the late 1990’s the simple average fill rate for all TRQs for which information was available was only 62%. Even where the in-quota amounts are fully filled, the chances of exporting to countries operating agricultural TRQs once the in-quota amount has been reached are pretty dismal: out of quota tariff rates for dairy products exceed 100% ad val in the EU, 70% ad val in the USA, 200% ad val in Canada and 130% ad val in Mexico.

Finally, WTO Members were forced by the result of the Uruguay Round to launch the Doha Round agricultural negotiations against the presence in many countries of additional protection in the form of the special agricultural safeguard mechanism – available to some 38 countries for certain products. How the special safeguard has come to be used as a tool to frustrate competitive exporters of agricultural products is evident in the switch from volume-based to price-based special safeguard actions.

If all of this appears to result in a very protectionist environment for agricultural trade, it does. Recent research by World Bank economists has made clear that in the Doha Round, we will need to see *very large* reductions in bound tariff rates before we will see *any* real improvement in market access for many products. These researchers have calculated that bound rates would need to be reduced by at least 45 percent and up to 75 percent (for the highest tariffs) under a tiered formula before the global average agricultural tariff could be brought down by one-third.

In the Doha Declaration, WTO Members committed themselves to a negotiation that would lead to “substantial improvements in market access” – and this objective was confirmed in the 2004 Framework text. However, the same Framework text opens the way for WTO Members to designate a negotiated number of tariff lines to be treated as “sensitive” and presumably subject to smaller cuts. In addition, developing countries are to be offered special and differential treatment that would take the form of an appropriate number of agricultural products that could be designated as “special products” subjected to more flexible treatment. All of this should be cause for considerable concern in the Doha market access round.

The researchers from the World Bank tell us why. Welfare gains from global agricultural reform in the Doha Round would be reduced by three-quarters if developing countries designated just four percent of their agricultural tariff lines as either “sensitive” or “special” and developed countries classified two percent of their tariff lines as “sensitive”. Of course, one does not need to be an agriculture trade expert to imagine which products would be most likely to be so designated in the Doha Round. The case of sugar illustrates why we don’t want to see “sensitive products” excluded from meaningful results in the Round. Global protectionism in sugar and extremely high prices for sugar in protected developed country

markets has created a situation where 10 million tons of sugar consumption annually have been displaced by sugar substitutes.

Trade in Services

WTO Members addressed trade in services for the first time only in the Uruguay Round negotiations where a considerable percentage of the effort went into writing the rules to govern services trade. The complexity of that task is demonstrated by the fact that Members still have not been able to agree on how to write rules governing safeguards, subsidies and government procurement in a services context. In this context, it is not surprising that the degree of market access for services reflected in WTO Members' post Uruguay Round schedules of specific commitments is not very impressive. For the most part these schedules reflected the status quo of market access in the mid- 1990's rather than real liberalisation.

The very considerable scope for further sectoral coverage of services trade was highlighted in the WTO Secretariat's Special Study Number 6, published in 2001. That study noted that of the 160 possible service subsectors on which WTO Members could choose to schedule specific commitments, about one third of WTO Members have made commitments on 20 subsectors or less, one third between 21 and 60 subsectors and the remaining third by more than 61 subsectors. On average, across all schedules, a "typical" WTO Member has undertaken commitments on slightly more than 25 subsectors, thus covering only about 15% of the total possible.

The Doha Round is the "development" round. Today there is a very real relationship between services trade liberalisation and economic development. The WTO negotiations are not addressed to investment, but they are very much concerned with trade in services and there is today a very strong connection between the two. This is due in part to the fact that most services are still not easily traded cross-border and require a local presence in the economy in which they will be provided. Today, more than 2/3 of all foreign direct investment flows are services-related, with services industries accounting for more than 60 percent of world FDI stock – compared to about 25% in the 1970s.

In developing Asia, 2/5 of total FDI inflows are from other developing Asian countries, some of which now invest more abroad than developed countries – measured as a share of gross fixed capital formation. We know for a fact that services-related FDI brings with it important positive employment and technology transfer benefits and it can benefit the economy in other ways as well. Studies have shown that developing countries that liberalised telecommunications services and invited in foreign direct investment in the sector have grown by as much as 2 percent more per year than those countries that have not liberalised the sector.

Countries need investment for development. If today most of this investment is services-related, then it is clear that open services trade regimes will attract more investment. It doesn't take rocket science to see that the current failure to enhance market access through the WTO services negotiations can only impact negatively on countries' ability to attract investment and stimulate growth.

In the services trade negotiations, now under way for more than five years, just 68 initial and 24 revised offers are on the table. The WTO's 148 members were all to have had their offers on the table prior to the September 2003 Cancun meeting. More than two years later, less than half of the WTO's Member governments are participating in the negotiations. As with agriculture and industrial tariffs, this is essentially a market access problem.

Reasons for the Lack of Progress

WTO Members' apparent inability to come to grips seriously with the core market access issues of the Doha Round is cause for serious concern. We need to try to understand the possible reasons for lack of progress to date.

The title of this conference makes reference to regional integration and I believe that the enormously expanded level of activity in the negotiation of preferential trade agreements (PTAs) could be part of the explanation for the lack of progress on market access issues in the Doha Round. Unless a PTA is comprehensive, covering substantially all trade and eliminating substantially all forms of discrimination, the agreement won't satisfy the WTO conditions for legal departure from the MFN rule. This is, I think, a serious potential problem with PTAs, not because of non-compliance with a legal rule but because the systemic exclusion of large sectors from trade liberalisation in bilateral deals is very likely contributing materially to the Doha Round's problems with market access liberalisation. Why would a government agree to open a sensitive sector to all potential WTO trading partners if it was able to exclude it from liberalisation in a negotiation with just one partner?

Another issue arises out of many countries' evident commitment to preference maintenance and sectoral protectionism and their consequent unwillingness to participate in meaningful market access negotiations in the Doha Round. The wrong-headed nature of this approach was addressed in the 2004 World Bank publication "Global Economic Prospects and the Developing Countries – Realising the Development Promise of the Doha Round". That report noted that existing preference schemes are far from universal in their application and do not in fact benefit most of the world's poor. For example, a significant portion of the European Communities' low-tariff sugar quota benefits Mauritius, the richest country in Sub-Saharan Africa and half of the countries benefiting from American sugar quotas are net sugar importers. Trade under special preferences is made more problematic through complicated rules of origin. Seafood imports under the EC "Anything but Arms" preference scheme for LDCs have stricter rules of origin than do EC preferences under GSP or the Cotonou arrangement. Many of these problems have been addressed in dozens of studies and are well-known to economists and policy-makers; however, still we find WTO Members in the Framework documents willing to take into consideration the particular needs of preference beneficiary Members.

Finally, we have to admit that after more than fifty years of progressive liberalisation in areas like industrial tariffs, most of the developed countries have probably reduced or eliminated all of the "easy" tariffs and are now left with the task of dealing with politically sensitive sectors that were able to escape cuts in earlier GATT rounds. Where tariff peaks remain, they are there to attempt to protect sectors like textiles, clothing and footwear. With the end of the WTO-sanctioned quotas on textiles and clothing, these tariffs might be even more difficult to cut in the Doha Round.

The Need for Renewed Commitment

If the Doha Round is to succeed, we need to see a renewed commitment from WTO Members to meaningful progress on the central issues of market access for agriculture, industrial products and trade in services. This commitment needs to be evident in the modalities for the negotiations that will need to be agreed at the Hong Kong Ministerial Conference in December.

In agriculture, we need an approach that minimizes the number of "bands" in the tiered formula, broadens the upper bands as much as possible and uses a Swiss-type formula with the smallest possible coefficient. Because of the very significant amount of "water" in many of the highest agricultural tariffs, the negotiating modalities should provide for a down payment initial across-the-board cut that would eliminate the excess protection in the "overhang". The modalities need to be especially restrictive on possible resort to sensitive and special products and severely restrict the flexibility to be shown to such products.

For industrial products, we need to agree on a non-linear formula that makes significant further progress in cutting higher tariffs, tariff peaks and attacks tariff escalation. This should be combined with an approach that permits WTO Members to go further on a sectoral basis and supplement formula cuts with a request/offer procedure.

In services, there should be agreement in Hong Kong that all WTO Members, without exception, will table initial or improved offers by the end of the first quarter of 2006 and that these offers should demonstrably provide for actual improvements in market access.

If this Doha Round can be completed with substantial results in market access, global gains, in particular for developing countries are likely to be significant. A paper by Kym Anderson and Will Martin at the World Bank estimates that freeing all merchandise trade and eliminating agricultural subsidies could boost global welfare by \$300 billion per year by 2015. A study by the University of Michigan estimates that cutting market access barriers in agriculture, manufacturing and services by one-third – not an impossible task – would boost the world economy by \$613 billion. These numbers are too large to ignore.

Market access questions can seem tedious, with all the talk of linear formulae, tariff bands, ad valorem equivalents, etc. To many, this is not the “sexy” part of trade policy. But market access means real money in the pockets of real exporters and importers and ever since the majority of this Round’s rule-making negotiations were jettisoned in the August 2004 Framework package, market access has been the core of the Doha Round. Completing the DDA successfully should be a major priority for WTO Members. Realizing this objective will require a renewed commitment to market access results at the Hong Kong Ministerial Conference.

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