WTO: Toward the Hong Kong, China Ministerial and Beyond

CARLA A. HILLS

A successful Doha Development Round has the potential to raise standards of living worldwide, alleviate grinding global poverty, remove inequities in the trading system, and enhance international stability. With it, the well-being of Asia, which is home to most of the world's poor, would be substantially enhanced. Yet there are huge risks that the prospective benefits will not be achieved. Over the past 4 years governments from 148 nations have been negotiating whether and how to open markets for agricultural products, industrial goods, and services. On 8 July 2005 in addressing the heads of country delegations Director General Supachai Panitchpakdi declared, "these negotiations are in trouble", primarily for lack of political support. That suggests that people worldwide are unaware of the tremendous gains that would be captured from successfully concluding the Doha negotiations and the worrisome implications if they fail. Governments need to get the message out regarding why the Doha Development Round is absolutely vital to our future economic growth and political stability.

I. INTRODUCTION

As we move toward the Sixth WTO Ministerial Conference in December 2005 in Hong Kong, China, five questions must be asked as to what is at stake in the Doha Round of multilateral trade negotiations:

(i) Why should individuals representing nations that are members or prospective members of the World Trade Organization (WTO), care very much about the state of the negotiations in the Doha Round?

(ii) Since trade liberalization and economic interdependence—sometimes called globalization—have advanced so dramatically over the past couple of decades, is it really necessary to do more now?

(iii) What is the current status of the Doha negotiations?

(iv) Are there risks that the Doha Round of Trade Talks might actually collapse?

(v) Finally, what, if anything, can we do to maximize the prospects for Doha's success?

Ambassador Carla Hills is former US Trade Representative, and Chair and Chief Executive Officer of Hills & Company International Consultants. This Keynote Speech was delivered during the ADB High-Level Meeting on WTO Key Doha Round Issues held 3-5 August 2005 in Osaka, Japan. The informal style of presentation has been preserved.

II. WHY SHOULD YOU CARE?

Our experience since World War II persuades that increased economic interdependence boosts economic growth and encourages political stability. For nearly 60 years, trading nations have worked together to open global markets and to establish a series of international organizations, including the General Agreement on Tariffs and Trade (GATT) and WTO to promote global trade.

Just 23 nations participated in the first round of global trade negotiations in 1947; today 148 nations are participating in the ninth round—the Doha Development Round. The results achieved in the intervening half century have been spectacular.

World trade has exploded and standards of living have soared. Developing as well as industrialized countries have benefited. Poor countries that opened their markets to trade and investment on average grew five times faster than those that kept their markets closed.

Those who say that open trade will exacerbate poverty are simply wrong. In the words of economist Paul Krugman "every successful example of economic development this past century… has taken place via globalization; that is by producing for the world market rather than trying for self sufficiency."

Faster national growth is closely correlated with significant poverty reduction. Studies conducted by David Dollar, an economist with the World Bank, show that globalization over the past 20 years has raised 375 million people out of extreme poverty, and amazingly this was done while the world's population grew by 1.8 billion (Dollar 2004).

III. WHY IS IT NECESSARY TO DO MORE NOW?

Since economic interdependence has advanced so dramatically over the past couple of decades, it is necessary to do more now. One reason is that disparities have been injected into the trading system. As developing countries joined successive rounds of trade negotiations, a number of them began to focus their negotiations on obtaining special and differential treatment to avoid opening their markets, rather than on securing permanent market access for their own products.

As a result, tariffs on many products, which never became the subject of a negotiation, to this day remain frozen at levels generally prevalent decades ago.

Similarly little effort was made to abolish tariff escalation that imposes higher tariffs on value-added products than on their inputs, discouraging both foreign and domestic investment up the value chain.

These disparities have significant effects. Even in the United States (US) where tariffs average less than 2 percent, tariffs on products that poor countries produce—footwear, vegetables, fruit juices, peanuts, sugar—range from 40 to over 100 percent. Other countries impose higher tariffs.

The results are perverse. Last year Mongolia paid the US $13 million more in duties on $240 million worth of exports than Norway paid on $6.5 billion in exports. Bangladesh and France paid roughly the same amount of duties, about $350 million, but Bangladesh's bill covered $2 billion in exports whereas France's covered $30 billion.

According to recent studies by economists Kym Anderson and Will Martin (2005) at the World Bank, the problem is not limited to the restrictions left in place by industrialized countries. More than half the burden on poor countries' exports results from restrictions imposed by other poor countries. That is because developing countries as a group have higher tariffs than industrial countries, and a substantial number of developing countries trade primarily with other developing countries. These facts underscore the importance of opening markets globally. A two-tiered trading system creates distortions.

The Doha Round provides an unparalleled opportunity to address the inequities in the global trading system, stimulate growth, and dramatically reduce poverty. In launching this Round in 2001, trade ministers subscribed to the Doha Development Agenda, which explicitly recognizes that trade can help poor nations grow their way out of poverty and that with integration into the WTO, a rules-based system can encourage growth and stability.

Never before have multilateral trade talks focused so clearly on the need to alleviate poverty and to integrate poor nations into the global trading system. This new emphasis was driven by two facts. First, trade ministers met in Doha two months after 11 September 2001, when there was widespread agreement that poverty creates conditions hostile to peace. Second, by focusing on the alleviation of poverty, ministers were able to persuade leaders of a number of developing countries, who were not convinced the benefits from a new trade round were worth the effort, to join the Doha negotiations.

A successful completion of the Doha negotiations gives us the chance to take giant and much needed steps to correct past discrepancies and further open world markets, which will fuel global growth and encourage political stability.

According to the WTO, a simple agreement among member states to cut barriers in agriculture, manufacturing, and services by merely one third would boost the global economy by $600 billion.

There are estimates that elimination of agricultural supports would result in a 24 percent gain in the value of poor countries' farm exports, which account for one quarter of their total exports and employ roughly half their population.

The United Nations has made universal primary education for poor countries its core Millennium Development Goal, the cost of which is said to be $10 billion per year. Yet a successful Doha Round could give those countries 15 times that amount.

IV. WHAT IS THE CURRENT STATUS OF THESE IMPORTANT NEGOTIATIONS?

Progress has been grudgingly slow. There is a “bizarre disconnect” between the enthusiastic rhetoric from the July 2005 G-8 meeting in Scotland on advancing the trade negotiations, and the intransigence from negotiators that has brought the Doha Round almost to a halt. As WTO Director General Supachai Panitchpakdi recently put it, “It is sobering to pass from the high level of expectations and hopes that I have encountered in Scotland to the reality of the negotiating process here in Geneva” (Panitchpakdi 2005).

In the 4 years since the Doha negotiations were launched, trade ministers have repeatedly missed self-imposed deadlines in reaching agreements on how they intend to open the agriculture, industrial, and services sectors. Ministers are scheduled to meet in Hong Kong, China in December, a meeting initially set to conclude the Doha negotiations.

At the beginning of 2005, members committed to a revised plan that called for them to agree by 1 August 2005 to a “first approximation” of how liberalization will occur, so that a final negotiating plan could be agreed to at the Hong Kong, China Ministerial, enabling the Doha Round to be completed in 2006.

Ministers are far behind that amended schedule. There remain huge gaps in positions on a long list of issues, and there is no agreed “approximation” of how liberalization will occur.

With respect to agriculture, in July 2004, WTO members agreed to a framework that contemplates an elimination of export subsidies, cuts in domestic support, and increases in market access, but they remain far from agreeing on how any of this will be done.

1. How will Agricultural Export Subsidies be Phased Out?

Negotiators could agree to link the elimination of export subsidies and the increase in market access by adopting a similar time line for the completion of both, but as yet they have no agreement.

2. What Types of Domestic Support will be Permitted and in What Quantity?

Again, commitments to reduce support programs could be linked to commitments to increase market access. The prospect of greater market access would help build the necessary political backing in countries called upon to reduce farm supports. Importantly, a broader opening of agricultural markets would give a welcome boost to the global economy.

3. Most Critically, Negotiators must Decide how Market Access will be Widened

(i) Agricultural tariffs are five times higher than tariffs on industrial goods and account for most of the distortion in agricultural trade, yet of all the issues in the agricultural negotiations, market access is the least developed.
(ii) According to a recent paper from World Bank (Anderson and Martin 2005) most of the benefit from agricultural reforms (they estimate 93 percent) is generated from increasing market access, as opposed to dealing with subsidies and supports.
(iii) Studies by William Cline, an economist with the Institute of International Economics (Cline 2004) show that each additional percentage in export growth is associated with an additional 0.15 percent increase in growth of gross domestic product.

Yet, for more than a year, the negotiations over market access have been at an impasse between countries favoring a uniform percentage reduction in all farm tariffs—whether they are 300 or 3 percent—and those insisting that higher tariffs should receive larger cuts. The European Union (EU), whose farm tariffs are relatively high, is particularly resistant in this area.

In July 2005, ministers from about 30 countries, which included Australia, Brazil, EU, India, Indonesia, Japan, Republic of Korea (henceforth Korea), and US gathered in Dalian, People's Republic of China (PRC) to see if they could bridge their differences, particularly with respect to market access for agriculture.

The ministers focused on a formula for cutting agricultural tariffs proposed by the G-20, led by Brazil and India in an effort to break the existing stalemate. They proposed creating tariffs bands (four for developing and five for developed countries) with linear cuts within each band. Higher cuts would occur in the band comprising the highest tariffs.

Tariffs on farm goods would be capped at 100 percent for industrialized countries and 150 percent for developing countries. The proposal suggested that tariff cuts by advanced developing countries would be two thirds those required of industrial countries. In addition it permitted members to designate an unspecified number of products as "sensitive" and to exempt them from the proposed cuts.

Although a number of countries, including the EU and the US, cautiously indicated that they were willing to use the Dalian proposal as a "starting point" for future negotiations, a number of governments opposed it. In succeeding days, support appeared to have fallen away. Even if some version of the G-20 proposal becomes the framework for farm tariff reductions, members still face a host of critical decisions. They will need to agree on the percentage and speed of cut within each band and whether cuts in farm tariffs will be made from levels that governments currently apply; or from levels they had previously agreed to be bound by, which are much higher.

India has said that it will cut only its bound rates. In the last Trade Policy Review Mechanism for India (2002), the WTO found that India's average bound tariff for agricultural goods was 116 percent whereas its applied rate was 42 percent.

To illustrate with a specific product, India's bound rate for soybean meal is 100 percent, while its applied rate is 30 percent. Even a 60 percent reduction of its high bound rate would create no additional market access. Many nations are similarly situated.

Likewise, members must decide what will be asked of "developing countries." Will they receive a longer transition before being asked to open their markets to farm goods? Or will they receive a complete pass, in which case there will be little additional market access?

If developing countries fail or only slightly open their markets for agricultural products, they will severely limit their own potential gains in light of the growing importance of south–south trade, given the fact that most countries predominately trade within their own regions.

According to David Dollar's economic studies (Dollar 2004, 41) 70 percent of tariff barriers that developing countries face are from other developing countries. Governments in South Asia should give particular attention to this issue because average tariff rates in this region exceed those of every other region in the world (Dollar 2004, 9).

Unfortunately, many low-income developing countries fear that lowering their agricultural protections will harm their rural farmers, when the opposite is true.

Studies show that high farm tariffs have a disproportionately adverse effect on the rural poor. A study of sub-Saharan African countries shows that a reduction from 40 to 10 percent in average tariffs brought income gains of 20 percent to rural farmers (Bannister and Thugge 2001).

Importantly, increasing farm incomes has a positive multiplier affect on rural communities. Every $1 in farm income generates an additional $3 in rural wealth, as farmers spend their added funds for rural goods and services (Watkins 2003).

Trade serves as a catalyst for growth for the farm sector by extending the market, putting emphasis on products that farmers produce most efficiently, and encouraging investment that improves economies of scale and brings intellectual capital and technology.

Moreover, some developing countries incorrectly assume that they can best ensure their food security by protecting their farm sector. However studies show that the proportion of malnourished people and underweight children is higher in countries with weak access to and poor integration with international markets (FAO 2003). Isolation from global markets is indicative of vulnerability rather than self-sufficiency.

WTO members have yet to decide whether and how to differentiate the obligations of lower-income developing countries from the more economically advanced. Today, all but 24 of the 148 nations participating in the Doha negotiations claim to be "developing countries", which up to now has been a self-proclaimed status.

Members could agree to differentiate among developing countries. In 2003 the World Bank differentiated low-income ($765); lower-middle income ($3,035); upper middle-income ($9,385); and high-income countries on the basis of their annual gross income (World Bank 2005). If all countries that claim to be developing do little or nothing, the benefits from Doha will similarly be little or nothing.

Finally, WTO members need to decide how much they are willing to cut tariffs in their most protected sectors. If each member insists on taking an exemption for its politically sensitive sectors, or making only limited cuts, there will be very little market openings for a long list of products, including beef, dairy, poultry, rice, sugar, peanuts, vegetables, and fruits that constitute the sectors of greatest interest to poorer countries.

There are similar issues dealing with nonagricultural market access. While agriculture is regarded as key to a successful Doha negotiation, manufactured goods still account for three fourths of world merchandise trade.

Sadly, the negotiations covering manufactured goods are even farther behind those dealing with agriculture, and at Dalian there was even less progress regarding industrial goods than there was with respect to agriculture. Members still have been unable to agree on:

- (i) the formula for tariff cuts for manufactured goods (none of six proffered proposals have been accepted)
- (ii) whether cuts will take place from bound or applied rates
- (iii) whether and how to deal with nontariff barriers
- (iv) how to structure special and differential treatment for developing countries
- (v) how to define a developing country
- (vi) what will be asked of developing countries
- (vii) will the less advanced be treated differently than the more advanced

A number of developing countries, including the PRC and India have opposed efforts to differentiate among developing countries, insisting that all receive the same special and differential treatment.

Yet ministers cannot ignore the fact that much of the disparity that exists in today's trading system came from the past emphases on obtaining special and differential rules rather than focusing on broad reciprocal market access.

Governments enhance their nation's prospect for growth, not by bargaining for lesser ultimate obligations relative to other governments, but by obtaining the broadest possible market access for their own products, coupled with longer transitions to implement the commitments they make to other governments to get broader access.

Finally most WTO members have not seriously addressed the opening of services markets, which is key to industrialized members. Twenty-four nations, not counting the least developed nations, have failed to submit even an initial offer to start the process.

Negotiations were recessed in August 2005. Members will need to work very hard in the last two quarters of 2005 to develop an outline of how they are going to deal with all of these issues so that a detailed negotiating plan can be adopted at the Hong Kong, China Ministerial. The goal then would be to complete the negotiations in 2006 before the US is sidelined by the expiration of President Bush's trade negotiating authority in 2007.

V. ARE THERE REAL RISKS THAT THE DOHA ROUND OF TRADE TALKS WILL COLLAPSE?

Based upon the progress to date, it is difficult to be optimistic. The assessments of Director General Supachai as noted earlier, and those of the respective chairs of the major negotiation groups, are extremely pessimistic.

The big question in the countdown to December's Hong Kong, China Ministerial is whether our governments can muster the political will to take the steps necessary to break the logjams that block progress and to reach consensus on a negotiating plan that will ensure a successful outcome of the Doha Development Round.

Industrialized countries confront two substantial political risks in that regard:

(i) *First is decreasing public support*. It is ironic, but as the global benefits and opportunities have accumulated, public support for trade liberalization has waned, particularly in rich countries. Since the 1999 meeting of trade ministers in Seattle, organized protests-—many of them violent—have become a regular feature at every meeting of the World Bank, International Monetary Fund, and WTO.

We can agree with antiglobalists that trade liberalization is not a panacea for the world's ills. International trade by itself does not educate children nor eradicate disease. Governments, whether rich or poor, must allocate some of the economic gains that trade and investment create to address these social needs.

It is indisputable that broad trade agreements that lock in existing liberalization and encourage future reform help to create the resources necessary to deal with important social issues. And trade, based on a set of agreed rules, encourages rule of law, transparency, and respect for property that are key to attracting inward investment.

These truths need to be more broadly disseminated and more widely understood.

(ii) *A second risk is high and growing anxiety over the loss of jobs in industrialized economies.* High unemployment in Europe and increasing turnover in the US labor market has ignited very high worker anxiety, further fueled by media focus on the export of high-technology jobs to places like the PRC and India.

To enable governments to move forward on their trade agenda, a greater number of citizens—and their elected representatives—need to be persuaded that trade is the best tool to help generate economic growth, alleviate poverty, and encourage global peace and stability.

To be credible, governments must admit up-front that the gains from trade do not make every citizen a winner, and pledge to help those left out—not by closing down trade—but by allocating some of the gains derived from trade to help those displaced because of change driven by globalization and technology.

Achieving a successful outcome of the Doha negotiations will require governments of 148 very diverse economies to reach consensus on a balanced trade package, where market openings in the agriculture sectors are matched by openings in the manufacturing and services sectors, so that the new opportunities can be marketed.

The world is far from that consensus. The divisions among members are not only north–south but also north–north and south–south. The ambitions of Europe, Japan, and Korea with respect to market access for farm goods are extremely low. They have fought efforts, led by Australia and the US, to cut high tariffs more aggressively than lower tariffs.

The US has been unenthusiastic about limiting domestic farm supports, particularly counter-cyclical payments to farmers without assurance of new market access.

India insists on bargaining from its stratospheric bound rates that would eliminate prospects for increased market access, the area that offers most to developing countries.

Advanced developing countries like Brazil, a major exporter of agricultural goods, resist being asked to cut farm tariffs more than poorer developing countries.

Many other developing countries resist opening their markets.

The list could go on. It is clear that all of the negotiations are far behind schedule and critical segments remain at an impasse. Yet the path through is not so obscure.

As Director General Supachai stated after the July 2005 G-8 meeting:

> The crisis that threatens is all the more menacing because it is not a crisis in dramatic divergence [in negotiating positions] . . . It is a crisis of immobility.

VI. CONCLUSION

What could be done by countries to enhance the prospects for a successful outcome of the Doha negotiations?

Governments need to get the message out regarding what is at stake in the Doha negotiations. It is no exaggeration to say that the outcome of the Doha Round will have more to do with the fate of the global economy and the alleviation of world poverty during the first quarter of this century than any other policy initiative the world’s governments could undertake together.

According to Cline (2004), roughly 3 billion people, or half the world’s population, live below the international poverty line of $2-a-day figured on a purchasing power parity basis. Dr. Cline calculates that global free trade would convey about $200 billion annually to developing countries and raise 500 million people out of poverty.

Think of what that could mean to this region, which is where most global poverty is located. According to the Cline studies, the PRC and India together account for 1.5 million of the world’s poor (about half the total). Bangladesh, Indonesia, and Pakistan account for roughly 100 million each. Malaysia, Philippines, and Thailand together account for over 50 million poor, and a number of other countries in the region account for several millions more.

Whether our world can achieve the BIG BANG that could come from a successful Doha negotiation will depend entirely on whether the world has the political will to bridge its differences to realize the significant poverty alleviation, increased global prosperity, and enhanced stability that Doha offers.

The prize is worth a huge effort by all.

VII. SELECTED REFERENCES

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