18

The Potential of the Doha Development Agenda

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This book is a highly laudable attempt to contribute to the ongoing debate and the search for a "new development agenda". The time is ripe to enhance international financial stability and promote faster and more equitable economic growth. The financial turmoil of 1997, its aftermath and what is perceived by critics of the existing Bretton Woods system as a "marginalisation" of many developing countries have started a debate about the current system and about how it could be changed or improved. Admittedly, there is a great deal of concern about our repeated inability to prevent the emergence of financial crises, and there is equally a concern about how financial crises have been managed. Hence, many experts and governments are looking for new ways of preventing financial crises and for more efficient instruments to deal with financial instability. To paraphrase a more colloquial expression, many observers are beginning to look for a "post-Washington Consensus" as a new approach to these challenges.

Without much fanfare or a prior announcement, a major contribution both to the debate and to the actual practical way in which we will address problems of global markets was made on the platform of the World Trade Organization at the fairly recent Ministerial meeting in Doha. The meeting resulted in an agreement on the new agenda for negotiations of WTO Members in the next multilateral round. The agenda known as *Doha Development Agenda* can potentially make an enormous difference to how international trade is regulated and disciplined. I say

[1] The views expressed are those of the author and do not necessarily represent those of the WTO Members or the WTO Secretariat.

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"potentially" because the Agenda is still only an agenda, and it remains to be seen whether the negotiations will be taken to a successful conclusion. Nevertheless, the potential is there, and it makes, a great deal of sense to analyse the contribution of Doha to the debate about a "new development agenda".

The purpose of my contribution to this debate is focused on a brief assessment of Doha. I shall also briefly comment on the post-Doha developments in the WTO in order to see how the contribution of Doha is put to actual work by negotiators. In order to understand what has actually happened in Doha and what has been happening since then, it is important to go back somewhat in history to the previous meetings in Singapore and, mainly, in Seattle.

I structure my note along four lines. First, I identify issues that tarnished multilateral negotiations prior to Doha. Second, I outline what I consider to be the main achievements at Doha. What happened thereafter has not been all "smooth sailing". As it is well known, Doha was followed by a fiasco at Cancún, which has dramatically changed the perspectives on multilateral negotiations. I summarise my views of the reasons for the failure in Cancún, and, finally, I outline few ideas on the lessons that we can learn from the collapse in Cancún.

Reasons for Tensions in Multilateral Negotiations

The multilateral negotiations in the WTO have been under a great strain in recent years, and there were various origins to this strain. The critics have criticised the WTO on several grounds. The Uruguay Round agreements have been seen as promoting interests of developed countries since some of the agreements brought no tangible benefits to developing countries. Examples of those agreements are the Agreement on Services (GATS) and, in particular, the Agreement on Trade Related Intellectual Property (TRIPs). Issues of critical importance to developing countries have been either addressed in an unsatisfactory fashion or not at all. Again, examples include the Agreement on Agriculture, which is seen by defenders of *status* quo as feeble in terms of poor concessions given by highly protected developed countries. The Agreement on Textiles and Clothing (ATC) was also initially seen as an instrument of protecting markets of rich countries but the criticism is now much more muted in view of concerns of many developing countries to lose out in competition with China and India. The Uruguay Round agreements have also not addressed satisfactorily the interests of developing countries in markets for sensitive industrial products and in

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the area of public health and emergencies.

In addition to problems with Uruguay Round Agreements, developing countries had also criticised before Doha the new agenda proposed for the new Round. First of all, they vehemently opposed the introduction of the so-called Singapore issues for negotiations. They also opposed the attempt by some countries to introduce trade and labour as additional element to be negotiated. They complained about the excessive burdens put on their administration by the implementation of the Uruguay Rounds Agreements, and they complained about the WTO rules that they find biased.

Let us pause briefly and review the problems related to the Singapore issues as an example of the criticism. The Singapore issues have four components: (i) foreign investment, (ii) trade facilitation, (iii) competition policy, and (iv) government procurement. They are called Singapore issues because they were first brought on the agenda at the Ministerial Conference in Singapore.

Arguably one of the most difficult, controversial and, to some extent, paradoxical proposals was the suggestion to negotiate an agreement on foreign investment. I say paradoxical because a large number of developing countries have rejected these negotiations despite the fact that they have already taken a great deal of commitments in the WTO on FDI. It should be recalled that the WTO already has a number of agreements and disciplines that cover foreign investments. These include agreements on services – GATS, TRIMS (Trade-Related Investment Measures), TRIPS, and a number of other core WTO agreements such as Agreements on Subsidies and on Countervailing Measures, on Safeguards and others.

Developing countries have resented the incorporation of FDI on the agenda for a variety of reasons. When the proposal was originally made, they saw it as an attempt to move the negotiations to the WTO from OECD where an agreement had been negotiated for years without success. But the opposition soon turned to more substantive arguments. Some countries saw the agreement as an instrument of rich countries to dominate foreign markets, other countries worried about foreign control over manufacturing and service industries while other countries conditioned the negotiations on the premise that the negotiations must be not only about the rights and obligations of host countries but also those of home countries.

Similar "turmoil" surrounded the debate about the fourth Singapore issue: government procurement. The main aim of attempts to discipline procurement of government services and contracts was based on the

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idea that we needed rules governing the procedures and mechanism for awarding government contracts. Governments' contracts represent a significant commercial opportunity in virtually all countries. Yet, they can be highly discriminatory and thus inefficient, they may be poorly administered and they may also be the origin of corruption. Developing countries have nevertheless been resisting negotiations on the grounds that government contracts must provide an opportunity for local businesses to develop.

Turning to the second component of the Singapore issues, the idea of trade facilitation is essentially to help developing countries to establish disciplines to accelerate and facilitate the process of trade administration. There are many developing countries in which trade does not move primarily because of enormous bureaucratic and administrative constraints that exist between producers and the final consumers or users. These may relate to problems of customs administration, trade information, or to problems of licensing, government administration and, once again, they may also be the result of corruption. For reasons that are not entirely clear, developing countries were once again reluctant to accept the topic of trade facilitation as a negotiating issue.

Finally, developing countries have also been highly reluctant to the third Singapore issue: rules of competition. The idea of those who were supporting the inclusion of competition was to mitigate the market imperfections arising from excessive market power of companies and to ensure that this power does not translate into cross-border distortions in trade and investment. However, developing countries saw this attempt as a tool that would considerably weaken their abilities to promote national "champions" and to protect domestic industry.

Considerable tension arose about a separate issue of agriculture. As it is well known, agriculture has been out of GATT until the successful conclusion of the Uruguay Round. As a result, agriculture remains a highly protected sector in the developed countries, and the protection comes from three different types of measures: border measures, i.e. tariffs and quotas; domestic support in the form of various transfer payments; and, export subsidies. When one attempts to measure protection to include the effects all three "pillars" it is, of course, necessary to consider the impact of all three types of measures – tariffs and quotas, domestic support in the form of subsidies and transfer payments and export subsidies.

I am noting this simple fact only because it is not always evident that the point is well understood and accepted. In one of his interesting speeches on the status of negotiations, our Director General referred in

good faith to the fairly high rate of protection in many developed countries and in the European Union in particular. He used a sophisticated methodology that attempts to capture the effects of all those three types of measures. The methodology, which was worked out and the estimates provided by the OECD Secretariat, became very controversial. The figures showed, for example, that the EU was protecting agriculture to the tune of some 300 billion dollars per year as opposed to 40 billion that would come out of the calculations based on tariff incidence. The speech was strongly criticised by the EU, which found the figures misleading. Whatever the right estimate of agricultural protection might be, the important point is that agricultural negotiations must incorporate far broader issues than tariffs or quotas (which are still permitted under the existing WTO Agreement on agriculture). It is necessary to include negotiations about all three "pillars" of protection – border measures, domestic support and export subsidies.

The last point that deserves mention concerns cotton. Cotton got on the agenda in Cancún very late in the day and this happened primarily because cotton subsidies became a very big political issue before Cancún. The "battle" sparred four West African countries (and their supporters) against the United States (even though the EU has been also implicated). The political and economic issue is that the four African countries are almost exclusively dependent on production and exports of cotton. But cotton also happens to be produced – and heavily subsidised – in the United States. There are some 25,000 farmers engaged in cotton production in the United States and they received a total subsidy of about 3.5 billion dollars in 2002. While the subsidy was lower in 2003 (about $1.7 billion), the amounts are so large that they significantly distort prices at which cotton is traded in world markets. Given the dependence of these African countries on cotton, the issue naturally raised a great deal of sympathy and support among many WTO Members.

The cotton issue ultimately became the most visible, controversial and sensitive topic in the Cancún negotiations. The four African countries that put cotton on the agenda (with considerable help from the Director General and other countries) increased their stakes by demanding that all cotton subsidies be completely eliminated and that the four African countries receive a financial assistance for three years as compensation for their losses due to adjustment. These proposals turned out to be excessively ambitious. For a variety of reasons, the United States was obviously not prepared to move immediately and

offer significant concessions. In addition, the African countries' request for financial assistance was not accompanied with a proposal for a modus operandi for disbursements of the assistance. In brief, the debate about cotton broke down quickly because the African bets were placed far too high and there was very little to negotiate about.

Agriculture is undoubtedly the biggest negotiating issue – these tussles over cotton notwithstanding. With regard to agriculture, there is strong and in many respects justifiable pressure on developed countries to substantially reduce protection of their agriculture and particularly the export subsidies that seriously distort agricultural markets. But at the end nobody touched agriculture in Cancún because the meeting collapsed on cotton, and on the Singapore issues. In particular, developing countries were extremely hostile to the idea of negotiating foreign investment, a reaction that was actively shaped and pushed mainly by India, Malaysia, Brazil and South Africa.

Post-Cancún Rays of Optimism

While the negotiating mood immediately following Cancún was extremely sombre, to put it mildly, hopes for a successful conclusion of the Doha Development Round have been raised by more recent events. These culminated when the General Council of the WTO adopted the decision on the future conduct of negotiations on July 31, 2004. The decision consists of a general text and four specific annexes. The first of those annexes establishes a framework for negotiating modalities in agriculture. The second annex does basically the same regarding non-agricultural market access. The third annex contains recommendations for service negotiations. The fourth annex establishes modalities for negotiations of trade facilitation.

The decision was a pleasant surprise since it effectively restarted the negotiations. The "success" was possible because of concessions made by both developed and developing countries but it were the latter that clearly took far greater steps. The Round has already included an earlier agreement to tackle the problem of access of developing countries to cheaper medicine at times of emergency and medical crises. In the July 2004 decision, developing countries succeed in virtually "killing" the Singapore issues from the agenda, at least for the time being. The only component left in the package is trade facilitation. Cotton, which the United States insisted had to be treated as a part of the package on agriculture, received at the end a special attention in the text by asking

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Members to address the issue "ambitiously, expeditiously and specifically, within the agricultural negotiations".

But the biggest achievement was the decision concerning agriculture. The text includes a decision to completely eliminate export subsidies. The biggest related issue will only be the date by which the subsidisers will agree to terminate such subsidies. The decision also calls for a "substantive reduction" in the combined support provided through Final Total Bound Aggregate Measure of Support (AMS) – known as Amber Box. Members with higher total AMS are called to make the greatest reductions. The so-called *de minimis* support should be cut and the coverage of Blue Box (allowing exemptions from subsidy reductions for production-limiting schemes) will be expanded. Members also agreed to revise the criteria for Green Box payments (Green Box is perceived as having no or at most minimal trade-distorting effects).

The text also contains other measures to address the interests of developing countries in more specific terms. For example, even though the text decrees a "single approach" for tariff negotiations in non-agricultural market access, tariff reductions will be made through a "tiered formula that takes into account the countries' different tariff structure". This should help in addressing the issue of protection of "sensitive products". Additional flexibility has been also introduced. Members will be able to designate "an appropriate number" (to be negotiated) of sensitive products. In addition to special and differential treatment (S&D treatment), developing countries will be able to designate "an appropriate number" of Special Products based on criteria of food security, livelihood security and rural development needs. Developing countries will be also allowed to establish a Special Safeguard Mechanism.

Lessons

What lessons can we learn from the collapse of Cancún? There are four that should be singled out. The first lesson is that the politics of the WTO is changing quite dramatically. In contrast to what is happening in the IMF and the World Bank, developing countries have a considerably stronger voice in the WTO.

This is not only due to different systems of governance in the WTO relative to, say, the World Bank and the IMF, but also due to increased negotiating activity of developing countries. Clearly, the latter countries have become much more assertive than in the past. After all, the current Director General comes from a developing country.

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The second lesson, which is closely related to the first, is the increased polarisation in the WTO. We have seen a greater polarisation of interests between developed and developing countries, between Quad and non-Quad developed countries, and the emergence of several powerful groups of developing countries.

The third lesson is that developing countries have made significant inroads in the negotiations. They have achieved considerable success in securing concessions under the TRIPS Agreement with regard to the exceptions on compulsory licensing for medicine. In short, developing countries have been more *effective* in the WTO than in the past in pushing their interests. Even though the details of this provision will still have to be negotiated, the hopes are high that developing countries will obtain access to cheap medicine.

The list of "successes" is longer. The Singapore issues have been all but dropped from the current Round; additional flexibility has been introduced to facilitate the developing countries' implementation of WTO commitments. Most importantly, the issue of agriculture has been successfully brought into the picture even though we still have to wait for the final outcome from detailed negotiations. As we know, the difficulty and the crux of the matter often lie in the detail.

The fourth lesson concerns the reasons for the increased assertiveness of developing countries. The reasons are probably several. However, one of the most interesting factors was the fact that developing countries have become much better *organised* in the WTO than in the past. They have spoken with a greater force; they have acted with greater vigour and on several substantive issues they have increasingly spoken with one voice.

Whether these changes will lead to a significant improvement of conditions for developing countries remains to be seen. Obviously, we still have to wait for details of negotiated outcomes. However, there are questions whether all these changes will benefit all developing countries as a group or whether some of them may not again fall by the wayside. For example, agricultural liberalisation will undoubtedly favour the existing agricultural exporters. But will other developing countries equally benefit? After all, most of them are net food importers. In 2000, 105 out of 149 developing countries were net food importers. Many of these countries have been able to meet food requirements only through subsidised agricultural exports from developed countries. Similar worries of developing countries exist in the case of liberalised trade with textiles, which is likely to be dominated by more efficient producers from China and India.

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The resistance of developing countries to negotiate an agreement on foreign investment is also intellectually dubious and hard to understand. Around 80 percent of FDI flows today is directed to developed countries. The remaining 20 percent goes to ten developing countries at most. If most developing countries get no FDI to speak of, should they not strive for such an international agreement to attract FDI?

These are some of the remaining questions about substantive issues in the current negotiations. I am sure I have left many others[2] but they suggest that the benefits from the Doha Development Round will not be as significant and widespread as we would all wish.

[2] Stiglitz recently developed a comprehensive list of development-related issues for the agenda of multilateral trade negotiations. The list goes far beyond the current proposals under the Doha development agenda as well as the content of the July 2004 decision of the General Council. Stiglitz is also highly critical of the Doha's development record so far, taking a fundamentally different view than the one presented in this note. It goes without saying that his criticism far exceeds my own reasons for scepticism. See J. Stiglitz and A. Charlton: "*The Doha Round of Trade Negotiations: An Agenda to promote Development and Facilitate Adjustment*", The Commonwealth Secretariat, London, 2004.