The Doha Development Agenda: Asian Challenges and Prospects after the Ministerial Meeting in Hong Kong, China

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The Doha Development Agenda: Asian challenges and prospects after the Ministerial Meeting in Hong Kong, China

The Doha Development Agenda is the first "round" of multilateral trade negotiations under the World Trade Organization and is also the first time that multilateral trade talks have explicitly sought to focus on the interests of developing countries. Developing Asia therefore has much at stake in the talks and has a strong interest in a positive and ambitious outcome. The key areas of market access negotiations are in industrial products, agriculture, and services. Each area raises distinct issues and nuances for various groups of developed and developing countries. In addition, the Doha Agenda includes the rules governing contingent forms of protection and regional trade agreements. Finally, "aid for trade" and trade facilitation are part of the agenda. Asia has a vital interest in multilateral liberalization prospering in the Doha talks.

Introduction

The Doha Development Agenda constitutes the ninth trade "round" since the founding of the General Agreement on Tariffs and Trade (GATT) in 1947, and the first under the aegis of the GATT successor, the World Trade Organization (WTO) (Box 1.5.1). It is also the first set of multilateral negotiations that are intended to focus on issues of interest to developing countries.

There is a great deal at stake for Asia at Doha. First, given the outward-oriented policy strategy that essentially all Asian countries now embrace, the region relies increasingly on a vibrant, open international marketplace. All sectors currently being negotiated under the Doha Development Agenda are relevant to the economic prosperity of the region, including manufactures, agriculture, services, and trade facilitation measures. Many of these areas have hitherto been neglected or ignored completely in earlier rounds of negotiation, suggesting a unique opportunity for the region. Bringing down peak tariffs (known as "mega-tariffs" at Doha) in manufactures and pervasive obstacles to trade in agriculture are particularly important to Asia. Better rules governing the comportment of WTO member states in regulating trade will also be extremely useful. Developing member states have often been the target of contingent protection (i.e., antidumping duties, countervailing duties, and the like). The People's Republic of China (PRC) has recently been the most obvious target of such actions, but it certainly is not alone: practically all developing member states have been subject to antidumping duties. Better rules are even more important now that Asia has become extremely active in creating its own web of free trade areas, for improved rules could lead to better agreements and less policy distortions.

Second, the potential negative effects of the recent surge in free trade

1.5.1 A brief history of the World Trade Organization: From GATT rounds to Doha

The General Agreement on Tariffs and Trade (GATT) was signed in 1944, with the immediate objective of preventing future trade wars and inconsistent commercial policies that had plagued international trade in the 1930s. It was originally intended to be a temporary body: the International Trade Organization (ITO) was supposed to replace it as a permanent body with international legal status, on par with other Bretton Woods institutions, such as the International Monetary Fund and the World Bank. ITO was never ratified; however, GATT came into effect on 1 January 1948 as an ad hoc organization that would only have its existence enshrined in a permanent, legal form in 1994, with the creation of the World Trade Organization (WTO).

The *raison d'être* of GATT was to reduce international barriers areas, discussed at length in Part 3 of *Asian Development Outlook 2006*, will be amplified in the case of a Doha failure. This is likely for two reasons: (i) the more liberalized the global economy, the less the potential impact of discrimination inherent in free trade areas; and (ii) a failure at Doha could (and, most likely, will) lead to considerable disillusionment with the multilateral system, and starting a new set of negotiations would probably only be possible in the medium or long term. Regionalism and bilateralism will continue to be important with or without a successful conclusion to Doha. However, if there is no progress at the multilateral level, these preferential trade agreements will no doubt fill the void. This scenario could create spheres of influence and trade blocs that could easily work to the region's detriment.

Third, since a country will generally gain more from its own liberalization, a positive outcome at Doha would facilitate domestic reform and restructuring, as well as open foreign markets and create a more level trade "playing field." Negotiators consider offering tariff reductions as a bargaining chip that is only to be given in exchange for something in return. It is, therefore, ironic that almost all simulations of trade liberalization in a global context show the more protected economies gaining much more than the more open ones. Hence, a successful Doha Round would show greatest gains in agriculture for the European Union (EU) and the United States (US), whereas developing countries would generally gain more through their own liberalization of manufactures (Anderson and Martin 2006). One can expect that ultimately Asian countries with the highest trade barriers will tend to gain the most through liberalization.

A fourth and related point regards support for the national economic reform programs of Asian countries. The linking of a broad array of sectors in a concerted, international framework of liberalization negotiations under WTO tends to give greater political clout to those favoring more open trade. Hence, WTO sets in motion a political-economy dynamic that makes liberalization easier than, say, on a unilateral basis.

Finally, like GATT/WTO negotiations before it, the Doha Development Agenda will be critical in setting the stage for deeper liberalization in future rounds.

However, Doha negotiations have not been smooth sailing. Indeed, the waters have been more frequently choppy than smooth. In large part, this is a reflection of the complicated nature of the WTO talks, at which a wide variety of sensitive issues have been put on the table, including such areas as agricultural export subsidies; domestic support for agriculture; tariff reductions; and harmonization in labor-intensive manufactured goods, trade in services, antidumping duties, and rules governing regional trading agreements.

Indeed, the oft-cited difficulties of Doha are in part a reflection of previous successes in multilateral negotiations: earlier GATT rounds were able to reduce considerably tariffs on nonsensitive manufactured goods, leaving the most difficult items to be tackled. Moreover, the nonuniformity of cuts in tariffs and nontariff barriers resulting from compromises in earlier GATT rounds has been problematic because they can create their own distortions.[1] Further, the exigencies of globalization

to trade on a nondiscriminatory (or "most-favored nation") basis. The modality to do this would be through concerted, multilateral negotiations called "rounds." Since the creation of GATT, there have been eight rounds, i.e., Geneva, Switzerland, 1947–48; Annecy, France, 1949; Torquay, United Kingdom, 1950–51; Geneva, 1956; the Dillon Round, 1960–62; the Kennedy Round, 1963–67; the Tokyo Round, 1973–79; and the Uruguay Round, 1986–93. The ongoing WTO negotiations have been dubbed the Doha Development Agenda, with the intention of underscoring the importance of developing countries in this series of talks.

Earlier GATT rounds were successful in reducing tariffs on manufactured goods. The Uruguay Round began to address more complicated issues, from quantitative restrictions in sensitive areas like agriculture and textiles and clothing to trade-related areas such as investment measures and intellectual property protection. The Doha Development Agenda was initiated to go further down the road of "deep" integration. The process has been difficult, given the political sensitivity of many of the key areas being addressed. In fact, the 2003 Ministerial Meeting in Cancun ended without any agreement.

The Ministerial Meeting in December 2005 held in Hong Kong, China was successful in keeping the Doha negotiations alive. WTO members agreed to undertake liberalization negotiations generally under four pillars: Non-Agricultural Market Access; Agriculture; Services; and Rules (such as those pertaining to administrative actions, e.g., antidumping and countervailing duties, and regional trade agreements). This meeting reemphasized the primacy of the "development dimension" to the talks. The leaders have set April 2006 as the deadline for the Doha package.

require far more extensive liberalization packages than in the past.

No doubt another complicating factor concerns the necessary emphasis on developing countries, which are extremely diverse and often have different priorities and interests. The least-developed countries (LDCs), in particular, face a complicated situation. The LDCs require open international markets in order to boost growth and reduce poverty—and, so, a successful Doha Development Round would help achieve this. However, as they benefit from preferential access to developed-country markets for the lion's share of their exports, a good Doha deal will inevitably have the effect of reducing this advantage ("preference erosion"), a process that is being exacerbated by the trend toward regionalism. Doha is seeking a way to compensate them for this (under the "aid for trade" rubric).

In any event, the going has been tough, and at some points, it seemed as if the talks would fail. The successor to the Uruguay Round was originally intended to be launched in Seattle in December 1999, rather than in Doha in November 2001. The Seattle debacle is well known. The Cancun Ministerial Meeting in September 2003 ended in failure as well, and the negotiations were saved only in July 2004 when a framework agreement for negotiations (the "July Package") was finalized. Hence, while many believe that the Ministerial Meeting in Hong Kong, China in December 2005 could have gone much further in terms of ambition and progress in defining modalities of liberalization, others were relieved that the talks are at last moving forward.

Asia can serve as a key protagonist at Doha. Given the less than stellar progress in negotiations, leadership in fostering a proactive approach in all areas under discussion is essential. As one of the most open regions in the world whose outward-oriented development strategy has been highly successful, Asia can contribute significantly in this regard. Moreover, active participation of Asian countries will ensure that the sectors and rules deemed most important to the region will be included in the final package. In addition, Asia is able to overcome the (usually counterproductive) division between "north" and "south." Most countries in Asia subscribe to the same types of outward-oriented policies, and while the region does have divergent interests, differences are not generally drawn along north-south lines.

In short, Asia has a strong interest in a positive outcome at Doha. The goal of this section of *Asian Development Outlook 2006* is both to summarize the ongoing Doha negotiations, which should be completed in 2007 at the latest, and to consider the negotiations' implications for the developing member countries of the Asian Development Bank (ADB). First, the evolution of the Doha negotiations is considered, followed by a review of the liberalization

1.5.1 ADB developing member countries and WTO

	Joined WTO	2005 population (million)	2005 GDPpc1 (US$)	2005 GDPpc2 (US$)
WTO members, as of December 2005				
Myanmar	1995	54.80	1,417.0	106.8
Nepal	2004	25.30	1,471.2	247.5
Cambodia	2004	13.80	2,116.0	371.2
Bangladesh	1995	137.00	1,997.9	401.2
Kyrgyz Republic	1998	5.14	2,061.0	455.5
Solomon Islands	1996	0.48	1,922.5	583.6
Papua New Guinea	1996	5.66	2,414.2	585.5
Mongolia	1997	2.55	2,045.5	671.3
India	1995	1,107.00	3,315.7	686.6
Pakistan	1995	153.96	2,549.3	777.3
Armenia	2003	3.22	4,048.1	1,077.6
Sri Lanka	1995	19.68	4,144.7	1,110.8
Philippines	1995	85.24	4,770.2	1,111.2
Indonesia	1995	221.26	3,939.5	1,232.5
PRC	2001	1,310.00	6,193.4	1,461.6
Maldives	1995	0.30	7,639.5	2,465.9
Thailand	1995	65.30	8,542.4	2,562.8
Fiji Islands	1996	0.83	6,282.1	3,206.5
Malaysia	1995	26.70	11,159.6	5,110.4
Taipei,China	2002	22.65	27,512.8	14,447.0
Korea	1995	48.29	22,665.7	16,492.9
Hong Kong, China	1995	6.94	32,292.2	24,714.9
Singapore	1995	4.35	28,228.0	26,252.7
Observers				
Tajikistan		6.77	1,373.3	368.6
Lao People's Dem. Rep.		5.61	2,049.0	456.5
Uzbekistan		26.00	1,834.4	419.3
Viet Nam		83.10	2,782.2	567.5
Bhutan		0.77	3,329.8	801.9
Azerbaijan		8.44	4,500.3	1,434.9
Vanuatu		0.21	3,415.4	1,487.1
Samoa		0.19	6,389.9	1,820.9
Tonga		0.10	7,689.9	2,141.7
Kazakhstan		15.17	8,252.4	3,592.3
Afghanistan		24.70	-	-
Non-WTO Members				
Timor-Leste, Dem. Rep. of		0.83	-	371.6
Kiribati		0.10	2,590.9	686.7
Turkmenistan		6.59	7,854.0	3,516.3
Marshall Islands, Rep. of		0.06	-	-
Micronesia, Fed. States of		0.11	-	-
Palau		0.02	-	-
Tuvalu		0.01	-	-
Cook Islands		0.02	-	-
Nauru		-	-	-

Notes:

GDPpc1 = GDP per capita at purchasing power parity; GDPpc2 = GDP per capita at current exchange rates.

Sources: World Trade Organization, available: http://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm; International Monetary Fund, available: http://www.imf.org/external/pubs/ft/weo/2005/02/data/dbginim.cfm; *Asian Development Outlook* database.

strategies currently being discussed. The subsequent section offers some estimates of the economic effect of Doha on the region's economies. Finally, prospects for the global system after Doha are considered.

Key issues in the Doha Development Agenda

The majority of ADB developing member countries are WTO members. Of the rest, a little over half have applied to join and are at various phases in the accession process; Viet Nam should join in 2006. Table 1.5.1 presents ADB developing member countries by increasing order of per capita gross domestic product (GDP)[2] and offers details regarding when (or if) they joined WTO. These countries are quite dispersed among the many existing coalitions, a reflection of the diversity in trade regimes in the region (Table 1.5.2). Columns 1 to 5 of Table 1.5.2 present the coalitions that are centered on developing countries' role in WTO. These countries tend to seek exemptions from various WTO disciplines and commitments for their members, e.g., the "Least-Developed Countries" (LDC) group, the "Small and Vulnerable Economies" (SVEs) coalition, and the "Like-Minded Group" (LMG). Columns 6 to 9 focus on coalitions ranked by their position on agricultural liberalization, from a group that opposes liberalization (G10) to one that promotes open global markets (the Cairns Group).[3]

There follows a brief survey of the key issues articulated at the Ministerial Meeting in Hong Kong, China, namely Non-Agricultural Market Access (NAMA), Agriculture, Services, and Rules. Select aspects of the Doha Development Agenda of particular interest to developing Asia, i.e., aid for trade and trade facilitation, are stressed.

Non-Agricultural Market Access

As noted above, trade in manufactures has been the traditional area of focus at previous multilateral rounds, with considerable success: developed-country tariffs tend to be quite low on average in this area. However, tariff levels in developing countries continue to be quite high (though they also have come down considerably over the past 10 years); hence, there is considerable asymmetry in tariff levels between countries, as well as across sectors within countries.

An important facilitating format established at the Ministerial Meeting in Hong Kong, China was the agreement to use the "Swiss formula" (Box 1.5.2) as the main vehicle of liberalization and harmonization under NAMA. The beauty of the Swiss formula lies in its simplicity: negotiators need only to agree on one element of the formula (the reduction factor); the rest of the process is automatic and completely transparent. And there is no need to have a common reduction factor for all economies; several reduction factors could be used, with such indicators as per capita GDP determining which reduction factor could be applied to which country group. It allows the process to eschew the definition of what is a "developing economy" and to apply "special and differential treatment" (SDT), a concept that was not only accepted but emphasized at the Hong Kong, China meeting. The Swiss formula's transparency and simplicity also empower even the least-developed member states to participate actively in the negotiations.

From an economic point of view, the Swiss formula cuts higher tariffs

1.5.2 The "Swiss formula" and Doha

The process of reducing tariff discrepancies between countries, as well as within countries, is known as tariff harmonization. As the main goal of Non-Agricultural Market Access is to reduce and harmonize tariffs between countries, the Ministerial Meeting in Hong Kong, China approved the adoption of the "Swiss formula," which was first introduced by Switzerland and subsequently adopted during the Tokyo Round (1973–79). Such harmonization is effective not only in reducing global tariffs and making them more even across the board but also in avoiding unintended distortions stemming from divergent tariff levels within countries (the "effective rate of protection" problem).

The simple Swiss formula is expressed as $T = [rt/(r+t)]$ where t refers to initial tariff rates, T the post-negotiation tariff rates, and r the reduction factor (there is also a "weighted" version of the Swiss formula that combines each country's tariff average with the reduction factor, but the Ministerial Meeting in Hong Kong, China did not specify which type should be used).

An example might illustrate how the Swiss formula would both harmonize and reduce tariffs. Suppose there are two countries, A and B, who apply tariffs on automobiles of 150% and 10%, respectively. Further, suppose that the reduction factor (r) is 25 ("Swiss 25") and the period of adjustment would be over 6 years. At the end of the tariff reduction period, country A would have a 21.4% (= 150x25/150+25) tariff on automobiles, whereas country B would have a 7.1% (= 10x25/10+25) tariff. Hence, while there would continue to be a discrepancy, the country A tariff would fall to only three times that of country B, whereas before liberalization the corresponding difference was 15 times. Moreover, tariffs have fallen across the board.

The key question, of course, relates to what the reduction factor should be. Doha Development Agenda negotiators are currently working out possible options.

1.5.2 Membership of ADB member countries in WTO coalitions and other country groupings

	G77	LDC	G90	SVEs	LMG	G10	G33	G20	Cairns	ACP	CIS
WTO Members, as of December 2005											
Nepal	1	1	1								
Cambodia	1	1	1								
Bangladesh	1	1	1								
Kyrgyz Republic											1
Solomon Islands	1	1	1	1						1	
Mongolia	1			1			1				
Pakistan	1				1		1	1			
India	1				1		1	1			
Papua New Guinea	1		1	1							
Sri Lanka	1				1		1				
Philippines	1						1	1	1		
Armenia											1
Indonesia	1				1		1	1	1		
PRC	1						1	1			
Maldives	1	1	1								
Thailand	1							1	1		
Fiji Islands	1		1	1					1	1	
Malaysia	1				1				1		
Taipei,China						1					
Korea						1	1				
Hong Kong, China											
Singapore	1				1						
Myanmar	1	1	1								
Observers											
Tajikistan											1
Lao PDR	1	1									
Uzbekistan											1
Viet Nam	1										
Bhutan	1	1									
Azerbaijan											1
Vanuatu	1	1								1	
Samoa	1	1								1	
Tonga	1									1	
Kazakhstan											1
Afghanistan	1	1									
Non-WTO members											
Timor-Leste, Dem. Rep. of	1	1									
Turkmenistan	1										
Kiribati		1								1	
Marshall Islands, Rep. of	1									1	
Micronesia, Fed. States of	1									1	
Palau	1									1	
Tuvalu		1								1	
Cook Islands										1	
Nauru										1	

ACP = African, Caribbean and Pacific countries; Cairns = a group of agricultural exporting nations lobbying for agricultural trade liberalization; CIS = Commonwealth of Independent States; LDC = least-developed countries (as defined by the United Nations); G10 = a coalition of countries lobbying for agriculture to be treated as diverse and special because of nontrade concerns; G20 = a coalition of countries pressing for ambitious reforms of agriculture in developed countries with some flexibility for developing countries; G33 = a group of countries advocating that developing countries be granted flexibility to self-designate a number of "special products" on which they would not have to make any tariff reduction or tariff-rate quota commitments; G77 = a coalition of developing countries G90 = coalition of African, ACP, and least-developed countries; LMG = Like-Minded Group (a loose coalition of WTO members with similar concerns about the WTO agenda); SVEs = small vulnerable economies.

Source: World Trade Organization, available: http://www.wto.org/english/thewto_e/minist_e/min05_e/brief_e/brief25_e.htm.

by more than the smaller tariffs. By doing so, it enhances economic benefits from trade liberalization in two ways: it delivers higher welfare gains than in the case of, say, a straight-line approach,[4] and it may improve tariff revenues.[5] Moreover, from a political point of view, the Swiss formula tends to reduce domestic bickering regarding post-liberalization tariffs between domestic vested interests because it does not change the *ranking* of the domestic protection by industry, though it does reduce differentials.

The tariff structures of 18 countries actively involved in the Doha negotiations are summarized in Table 1.5.3. As these countries together account for over three fourths of world GDP, a deal between them has the potential to trigger a successful outcome of the Doha Development Agenda. Table 1.5.3 is based on the detailed tariff rates available at the Harmonized System six-digit level (HS6) of disaggregation, usually including some 4,000 products. It differentiates "bound" tariff rates,[6] above which a country cannot raise its tariffs, from "applied" tariff rates, i.e., those that were in effect as of 2001. Negotiators focus on bound tariffs; to the extent that the bound tariffs exceed the applied tariffs, there is said to be "water" in the tariffs. Water in the tariffs is spread widely across WTO member states. This is problematic; if a formula has a country reduce its (bound) tariff to a level that is above the actual applied tariff, it will have no effect on trade.

Table 1.5.3 shows that the developed countries have little to offer in the NAMA negotiations, as their tariff structures are characterized by low bound and applied tariffs, with the exception of "mega-tariffs," i.e., products with tariffs of 20% or higher. The developed countries also tend to have far less water in their tariffs. Hence, it is clear that the developed-country *negotiators* are keen to promote liberalization in NAMA (as "*demandeurs*," in WTO-speak) and certain developing countries' *negotiators* are less anxious to do so (as "*demandées*"). The compromise would have to be in the developed countries offering up more in agriculture, services, and certain aspects of "rules" (discussed below).

As previously noted, the compromise is an ironic one. Developing Asian countries resisting NAMA cuts have the most to gain from an ambitious Swiss formula, as liberalization would lead to greater welfare gains due to their higher levels of protection. Such a "sacrifice" is the economic equivalent of "crocodile tears." Still, negotiators view "concessions" as negotiating chips, which they hope will be successful in eliciting "sacrifices" from developed countries under agriculture. Successful negotiations lead to a "prisoner's delight" scenario in which all countries gain, though not due to the intentions of the negotiators (who tend to focus on the interests of producers alone).

In the 2004 July Package, negotiators agreed on "flexibility" provisions, with the intent to take into account the "special needs and interests of developing countries." A first provision refers to longer implementation periods; this approach is traditional in GATT/WTO negotiations and so is not particularly controversial. The two other provisions are much more complicated, that is: (i) the possibility of excluding a certain percentage of total import value from the formula cuts; and (ii) the possibility of excluding a certain percentage of tariff lines from the formula cuts. Critics stress that these two flexibility

1.5.3 Uruguay Round tariffs, selected countries

	Total number of tariff lines (HS6)	All tariffs			Mega tariffs (higher than 20%)				Maximum tariffs			
		Average applied tariff	Average bound tariff	Average tariff water	Number of tariff lines	Average applied tariffs	Average bound tariffs	Average tariff water	Maximum applied tariff	Maximum bound tariff	Maximum tariff water	Number of prohibitive tariffs[a]
Industrial economies												
Japan	4,327	1.6	2.3	0.8	16	17.1	23.8	6.7	25.0	28.5	13.3	0
US	4,428	2.6	3.4	0.8	47	20.7	26.0	5.3	33.1	38.6	21.3	0
EU	4,441	3.9	4.0	0.0	17	23.1	24.1	1.0	42.8	57.5	14.7	1
Canada	4,427	3.3	5.3	2.0	25	14.9	21.3	6.5	20.1	25.0	25.0	0
Australia	3,911	3.5	11.0	7.4	506	13.7	34.7	21.0	25.0	55.0	45.0	101
New Zealand	4,095	3.1	11.1	8.0	1,208	8.2	26.5	18.3	40.0	45.0	40.0	0
Developing economies												
PRC	4,330	9.1	9.2	0.1	286	24.4	24.6	0.2	50	50	5.9	3
Korea	4,347	6.7	10.2	3.5	336	13.2	30.4	17.3	30.0	36.8	28.8	0
Singapore	4,306	0.0	4.1	4.1	0	n.a.	n.a.	n.a.	0.0	10.0	10.0	2
Taipei,China	4,266	4.5	4.7	0.2	50	25.4	27.4	1.9	40.0	60.0	22.5	0
South Africa	4,247	8.3	11.0	2.8	1,082	24.7	29.1	4.4	60.0	60.0	32.1	72
Malaysia	4,247	8.6	11.2	2.6	1,467	21.4	25.9	4.5	215.6	300.0	100.2	18
Philippines	4,053	9.2	16.7	7.4	1,877	13.9	26.5	12.6	40.0	50.0	47.0	127
Thailand	3,522	13.4	20.2	6.8	2,247	17.1	27.0	9.9	80.0	80.0	50.0	24
Brazil	4,233	15.1	29.4	14.3	3,768	16.1	31.4	15.3	35.0	85.0	72.5	1
Mexico	4,374	17.2	34.8	17.6	4,316	17.4	35.1	17.8	50.0	50.0	47.0	76
Indonesia	4,229	8.3	35.0	26.6	3,861	8.7	37.6	28.9	80.0	125.0	125.0	21
India	3,736	33.9	37.0	3.1	3,504	35.9	39.2	3.2	52.0	150.0	108.0	715
Least-developed countries												
Bangladesh	4,437	21.7	22.7	1.0	2,391	31.6	33.4	1.9	37.5	200.0	200.0	62

[a] Defined as tariff rates higher than 50%; n.a. = not applicable. HS6 = Harmonized System six-digit level.

Note: Country classification is based on the Integrated Tariff Analysis System.

Source: Australian Government Productivity Commission, 2004, An Integrated Tariff Analysis System: Software and Database, Productivity Commission Staff Working Paper, available: http://www.pc.gov.au/research/swp/itas/itas.pdf.

provisions could undermine the negotiating, economic, and political advantages of the Swiss formula.[7] It certainly would not be to the advantage of developing Asian countries.

Without a successful conclusion to NAMA talks, the Doha negotiations will not progress. Also, the ultimate substance of NAMA will be critical to the effectiveness of Doha and in setting the stage for future WTO negotiations. While NAMA needs to be ambitious in cutting tariffs, it is essential that it be symmetric in its applications. It could absolve the system of many of its past sins by creating a far more uniform tariff structure within and between countries. The structural adjustment that will result from such a process will make future WTO rounds that much easier. The Swiss formula approach offers an excellent opportunity to do this. However, a "flexible" compromise in which sectors are excluded could significantly reduce the potential gains from Doha, postpone once again liberalization in key sectors, and set another bad precedent for future rounds.

Agriculture

Agriculture has traditionally been one of the most difficult sectors to liberalize, for reasons familiar to both developed and developing countries. In the main, this is due to various political and political-economy-related issues. Politicians will often resist liberalization on the basis, among other things, of "food security," "national security," cultural preservation, the need to maintain a beautiful countryside (the "multifunctionality" of agriculture), and health-related issues. While some of these arguments may be legitimate in theory, in practice they tend not to be. Instead, they are often merely finely wrapped excuses hiding old-fashioned protectionism.

Farm lobbies are extremely strong in most developed countries, especially the EU, US, and Japan. It is an easy application of the political economy of protectionism (see, for example, Baldwin 1982); farmers tend to be geographically concentrated, have a well-defined producer interest, and can use politically popular slogans to mask the higher prices, fiscal cost, and other distortions created by agricultural protectionism. Less than 5% of the labor force is employed in agriculture in developed countries. Yet protection of this sector in the Organisation for Economic Co-operation and Development (OECD) costs over $300 billion a year (a multiple of the value of development assistance, for example) and has often caused modest results in trade negotiations of all kinds. Disputes pertaining to trade in agriculture almost scuttled the Uruguay Round; it was in part responsible for the failure at Cancun in 2003, and experts who are skeptical about the future of Doha generally point to the powerful protectionist forces in this area.

The Uruguay Round was not particularly successful in liberalizing farm trade. Today, the level of agricultural protection in the OECD countries is still close to its level in 1986–1988, the reference years used by the Uruguay Round negotiators. Nevertheless, the Uruguay Round was instrumental in introducing the minimal level of transparency necessary to prepare for profound future changes in OECD agricultural markets.[8] In particular, it helped to place farm liberalization at the forefront of the Doha negotiations and reinforced the steady decline of OECD public support for a highly subsidized farm sector.

Moreover, the emergence of developing countries as key negotiators at Doha has also helped place agriculture at the top of the agenda. Net exporters of farm products with a long-term comparative advantage in agriculture, such as Brazil or Thailand, have been effective in applying and organizing pressure at Doha for agricultural liberalization. And many other developing countries have realized that they are at the stage where farm exports are essential to their development because their farm sector is large and labor intensive. Agriculture accounts for 40% of GDP, 35% of exports, and 50–70% of total employment in LDCs (12%, 15%, and 15–40%, respectively, in the other developing countries). Three quarters of the world's poorest people live in rural areas, with the proportion in LDCs as high as 90%. This being the Doha *Development* Agenda, agriculture must be part of a final package.

Farm negotiations in the Doha Round are taking place under three pillars: (i) rules on export subsidies; (ii) rules on domestic support; and (iii) tariff cuts. This structure is a source of difficulty in negotiation because the use of these instruments is asymmetrical. Most OECD countries use all three instruments, while developing countries protect their farm sector only behind tariffs. Negotiating on the combined effects of these instruments would be ideal, but is not technically possible.

Export subsidy elimination

The Ministerial Meeting in Hong Kong, China confirmed the need to eliminate farm export subsidies by 2013 (2006 for cotton export subsidies). This decision has received considerable publicity, despite the fact that export subsidies only represent roughly 5–6% of total farm subsidies, and that it simply binds the reduction of export subsidies unilaterally undertaken by the EU since the late 1990s.[9] Nevertheless, economic calculations, e.g., Anderson and Martin (2006), have shown that eliminating export subsidies without cutting tariffs and domestic support will generate noticeable welfare losses in many of the developing countries that are net importers of subsidized farm products. These calculations have also consistently shown that the only way to (more than) counterbalance this negative impact is to reduce domestic support and tariff rates in order to boost world production.

In the export subsidies domain, the Hong Kong Ministerial Declaration may prepare for future WTO negotiations by expanding the definition of export subsidies to include the export subsidy elements of export credits, food aid, and state trading enterprises. These instruments are currently of marginal importance (Hoekman and Messerlin 2006); nevertheless, such disciplines are significant in inhibiting their intensive use in the future, perhaps to fill the void left by the elimination of existing export subsidies.

Domestic support

Domestic support is an area where the OECD countries have de facto benefited from a "reverse" special and differential treatment (SDT) under the Uruguay Round. Whereas there is an outright legal prohibition against trade-distorting subsidies in manufacturing (and countries importing subsidized goods are allowed to impose countervailing duties), in agriculture domestic support is only disciplined by rules against highly distorting subsidies and practices. These tend to be extremely expensive, which explains to some extent why only developed countries tend to use them. The US and EU together represented over three fourths of global farm domestic support in the early 2000s (Anderson et al. 2006a).

Table 1.5.4 presents the reform proposals put forward by the EU, G20, and US at the Ministerial Meeting in Hong Kong, China, focusing on the two largest subsidizers, the EU and US. It shows that the proposed subsidy cuts (applied to Uruguay Round commitments) may look huge in percentage terms, but in effect they reflect a good deal of "water" in the subsidies. For instance, the EU has made a proposal, which is a mere binding at WTO of its already-completed reforms of the Common Agricultural Policy (CAP) undertaken since 2000 (Kutas 2006).

The EU approach in particular has been very much criticized for several reasons. First, there is a long WTO tradition (that the EU has always supported) that unilateral liberalization should not be credited as WTO concessions. Second, the EU proposal in farm tariff cuts is viewed as weak (see below) whereas its requests for tariff cuts in NAMA are substantial (see above). Last, but not least, the 2003 CAP reform did not really liberalize the EU farm sector. All other things being constant, the overall level of EU protection has decreased marginally from 57% to 56% after the 2003 reform (OECD 2004).

1.5.4 Farm domestic support in the United States and European Union

	Unit	US	EU
The Amber Box (the most trade-distorting subsidies)			
Uruguay Round commitments	$ billion	19	89
Effective amounts in 2004	$ billion	13	42
Estimated amounts in 2006–2010 (EU CAP)	$ billion	—	26
Doha proposals			
EU proposal	% cut	60	70
US proposal	% cut	60	83
G20 proposal	% cut	70	80
EU proposal	$ billion	8	27
US proposal	$ billion	8	15
G20 proposal	$ billion	6	18
Overall trade-distorting support (sum of AMS, de minimis and Blue Box)			
Uruguay Round commitments	$ billion	55	149
Effective amounts in 2004	$ billion	23	74
Estimated amounts in 2006–2010 (EU CAP)	$ billion	—	40
Doha proposals in terms of subsidy cuts			
EU proposal	% cut	60	70
US proposal	% cut	53	75
G20 proposal	% cut	75	80
EU proposal	$ billion	22	45
US proposal	$ billion	26	37
G20 proposal	$ billion	14	30

— = not available; CAP = Common Agricultural Policy.

Notes:

Amber box—contains a list of subsidies that WTO members have agreed to reduce under the WTO agriculture negotiations.

Blue box—a category of domestic subsidies specific to the Agreement on Agriculture permitted only because thay are believed to distort trade less than amber box subsidies.

AMS—Aggregate Measure of Support. An index that measures the monetary value of the extent of government support to a sector.

De minimis—minimum threshold below which spending on domestic support does not need to be included in AMS classification.

Sources: EU, US, and G20 proposals at the Ministerial Meeting in Hong Kong, China; Penn 2005; Jales and Nassar 2006; Kutas 2006.

Tariff cuts and the "Big Bargain"

Tariff cuts are crucial to agricultural liberalization because they are the best way to reduce and control subsidies, as lower tariffs make existing subsidies more visibly expensive.[10] Unfortunately, the ongoing Doha negotiations on farm tariff cuts face a much more complicated format than did the NAMA negotiations, with the risk they will reduce the level of ambition in farm liberalization, already fragile because of the political importance of the farm sector to almost every WTO member.

First, complicated modalities in farm negotiations flow from the fact that the proposals on tariff cuts for the Ministerial Meeting in Hong Kong, China have adopted a tiered format, with four ranges of tariffs, each range being subjected to a different percentage cut, as shown in Table 1.5.5. These proposals differ with respect to the figures defining the various ranges and percentage cuts. As a result, negotiators need to strike deals on the three thresholds defining the four tariff ranges, on the four percentage cuts for each range, and on the use and definition of a tariff cap. If there are different cuts for developed and developing countries (an almost certain situation), negotiators have to agree on 16 figures at least, which is no mean feat. The fact that "specific tariffs" (i.e., a tariff based on a fixed value and/or quantity, rather than a

Table 1.5.5 Tabled proposals on farm tariff cuts, 2005

	EU proposal		G20 proposal		US proposal	
	Definition of the tiers (%)	Tariff cut (%)	Definition (%)	Tariff cut (%)	Definition (%)	Tariff cut (%)
Tariff cuts to be imposed on developed countries						
Highest tier	>90	60	>75	75	>60	85–90
Medium high	60–90	50	50–75	65	40–60	75–85
Medium low	30–60	45	20–50	55	20–40	65–75
Lowest tier	0–30	35	0–20	45	0–20	55–65
Tariff cuts to be imposed on developing countries						
Highest band	>130	40	>130	40	>60	[a]
Medium high	80–130	35	80–130	35	40–60	[a]
Medium low	30–80	30	30–80	30	20–40	[a]
Lowest band	0–30	25	<30	25	0–20	[a]
Other elements of tariff rates						
Cap tariff (developed countries)	n.a.	100	n.a.	100	n.a.	75
Cap tariff (developing countries)	n.a.	150	n.a.	150	n.a.	100

n.a. = not applicable.

[a] Reference to “slightly lesser reductions” without more precision.

Source: The EU, G20, and US proposals at the Ministerial Meeting in Hong Kong, China.

percentage-based “ad valorem” tariff, which are almost always applied in manufactures) exist on agricultural products complicates matters, as they would likely need to be converted to an ad valorem equivalent in order to be liberalized. This presents a problem in that the conversion can lead to greater protection.[11]

Such a difficult format for negotiators could prove counterproductive. Thus, there is a strong incentive to look for more simplified parameters for negotiations, keeping in mind that the Hong Kong Ministerial Declaration (paragraph 24) says: “[..] *we instruct our negotiators to ensure that there is a comparably high level of ambition in market access for Agriculture and NAMA*.” Importing the Swiss formula from NAMA to the farm negotiations seems a first condition to ensure a comparably high level of ambition by using the same instrument for tariff cuts in farm and NAMA negotiations. There is no extra cost for such a move; the Swiss formula requires that specific tariffs be transformed into ad valorem tariffs, but this exercise will be necessary anyway for the tiered proposals articulated at the Ministerial Meeting in Hong Kong, China. A Swiss formula approach would have the same advantages of transparency and symmetry as in the case of NAMA, to much greater effect given the greater divergence in tariff rates within and between countries in agriculture. It would also be instrumental in setting the stage for effective future WTO rounds and would reduce the “exceptionalist” mentality regarding agriculture that has always accompanied WTO negotiations. Finally, the Swiss formula opens the possibility of a clearer linkage between the NAMA and farm negotiations; that is, it opens the door to a transparent “Big Bargain” with trade in goods.

In sum, Doha negotiations particularly in the areas of domestic support and tariff cuts continue to be controversial, and the outcome is unclear. However, past experience has shown that developing countries in particular are placing a high priority on this area. An underestimation of the seriousness of developing countries in this regard was in evidence at the Cancun Ministerial Meeting, at which a compromise agreement between the EU and US in agriculture was rejected by developing countries (under the leadership of the G20). This should not happen again. These three areas of agriculture will also have to be an important part of a final Doha package.

Still, agriculture is complicated and faces strong resistance at the local level in developed and developing countries. As farm interests in the EU, for example, attempted to keep any commitments at the Ministerial Meeting in Hong Kong, China as modest as possible, Korean farmers also actively sought to influence their country's position. However, WTO has matured such that it needs to tackle trade in agriculture seriously, unlike in the past. Doha presents an opportunity to do this, that is, to treat agricultural trade more like trade in manufactures, in which trade-distorting subsidies are eliminated and tariffs are lowered and made more uniform. The adoption of the Swiss formula to agricultural tariffs would help to achieve this.

Trade in services

Globally, services represent more than 50% of the GDP of any country, and more than 70% of many developed economies. International trade in services is becoming commensurately important; in 2003, it came to $1.8 trillion, about one quarter the value of merchandise trade (WTO, *International Trade Statistics*, 2004, Table 1). Although data on barriers to trade in services are notoriously rare and often incomplete, in-depth studies on specific services sectors suggest that protection in this sector is much higher than is the case for trade in goods, suggesting that trade liberalization in services has significant potential for all WTO member states.

While services are not included in the Doha liberalization scenario reviewed below using ADB's General Equilibrium Model of Asian Trade (GEMAT), Francois et al. (2003) do estimate the potential gains from various scenarios of liberalization in services trade. Assuming a 50% reduction in their estimated barriers to trade in services and increasing returns to scale, they calculate a $68 billion global gain, double that of a similar reduction in protection in manufactures and about one fourth more than in agricultural liberalization. Developing countries almost gain as much as the OECD countries, with the PRC and India accounting for over three fourths of this share. Clearly, the potential economic gains from services liberalization are high.

Nevertheless, negotiations under services have hitherto produced very little at Doha. As of July 2005, less than half of WTO's member countries had tabled proposals of any kind. Moreover, the content of these offers seems thin, especially in Mode 3 (commercial presence, see Box 1.5.3), which is of special interest to the industrial economies, and in Mode 4 (that is, trade in labor services), which is of special interest to some developing countries (for example, in Asia, Bangladesh, India, Pakistan, Philippines, and Sri Lanka).

A first reason for this deadlock is the negotiating process per se, which is complicated in part due to measurement problems. In trade in goods, negotiators balance the concessions granted to trading partners via tariff cuts at home with those they receive in return, a straightforward calculation. In services, it would make little sense to balance, say, the

1.5.3 The Four Modes of Services Liberalization

The complicated and diverse nature of trade in services explains why liberalization in this sector can be far more difficult than trade in goods. Services can be high tech or low tech; inputs and/or final products; publicly provided or privately provided; and closely related to other areas, such as foreign direct investment (FDI) and immigration. Trade in goods internationally tends to be almost always privately provided, with strong GATT/WTO controls on state intervention, including the technical prohibition against state subsidies and constraints in the form of state-owned enterprises having to abide by market principles (GATT Article XVII). Many services areas, however, still include government involvement, and state prerogatives in certain areas are recognized by the General Agreement on Trade in Services (GATS). Moreover, trade in goods tends to be separate from FDI, though clearly there exist indirect links between trade and FDI. In the area of services, however, trade can be intricately linked to FDI; in some subsectors, trade in services is impossible without FDI.

The Organisation for Economic Co-operation and Development defines four "modes" of trade in services: (1) cross-border supply, in which a company exports the service from its home country, e.g., by fax or email; (2) consumption abroad, in which the user of the service consumes it outside his/her home country, e.g., tourism; (3) commercial presence, in which a company directly supplies the service to foreign customers (this involves establishment of an affiliate abroad and constitutes over three fourths of all trade in services); and (4) presence of natural persons, in which the service-exporting country sends personnel abroad to supply services.

In the Doha Development Agenda, key areas of contention in trade in services relate to Mode 3 and Mode 4, which is no doubt why little has been offered. Mode 3 is a high priority for developed countries; in fact, after the "Singapore issues" were taken off the agenda after the 2003 Cancun Ministerial Meeting, Mode 3 is the main area in which facilitating FDI policies are being discussed. Liberalization in Mode 4 is an important priority for labor-exporting developing Asian countries, which are especially concerned about working visa policies and other immigration-related procedures in developed countries.

number of licenses granted to foreign insurance companies with the number of visas obtained for domestic nurses willing to work outside the country. Moreover, until the Ministerial Meeting in Hong Kong, China, negotiations were exclusively based on bilateral offers and requests, a cumbersome procedure that complicates the negotiations. So does the fact that substantial services liberalization can require behind-the-border changes (e.g., changing a law or bureaucratic regulations).

To simplify things, services negotiations under WTO in the past have focused on national treatment, that is, on the elimination of measures that discriminate against foreign service providers. Such an approach allows regulatory flexibility, but this comes at a price: there is no "forced" regulatory efficiency. The failure of countries to adopt "best practices" in this regard has been estimated to be high (OECD 2005, Estevão 2005). In order to allow for deeper integration in the services context, the Ministerial Meeting in Hong Kong, China decided that countries could pursue services negotiations on a "plurilateral," rather than the usual bilateral, basis. That is, more than two countries can negotiate a liberalization package in a certain sector, a result which would be extended on a most-favored-nation basis.[12]

Although there could be some breakthroughs in the less controversial areas, the paucity of proposals on services thus far does not bode well for a breakthrough in this area. Nevertheless, it is an increasingly important sector with great potential. A successful conclusion to the Doha negotiations would also likely produce a strong commitment to focus on services in future rounds of multilateral negotiations.

Rules

The Doha discussions on "rules" focus on several issues; for developing

Asia (and other developing regions) it is argued that the most important areas relate to contingent protection (antidumping and countervailing duties) and regional trading agreements. (Aid for trade, including trade facilitation, is handled in the next subsection.)

During the last decade, WTO has been unable to monitor effectively the use of nontariff barriers (NTBs). The success of the Uruguay Round to eradicate "gray measures" (such as quotas and voluntary export restraints) has been somewhat diminished by the increased use of contingent protection, especially antidumping measures. Hitherto there has been no major systematic effort by WTO to delineate and quantify major NTBs imposed by WTO member states. Table 1.5.6 provides an illustration of the use of antidumping duties and other NTBs gleaned from recent trade policy reviews[13] of selected WTO members. It suggests that the NTB problem continues to be important.

Doha discussions on reforms addressing antidumping and countervailing duty procedures have not yet reached the negotiating stage, but such topics tend to be handled in the final negotiating phase.

Contingent protection could represent a growing threat to open trade. While, technically, antidumping measures and countervailing duties are justifiable in certain cases, in practice they have been used as a protectionist tool, all the more problematic because applications are

1.5.6 WTO notifications of nontariff barriers, selected economies

	Year of trade policy review	Import nontariff barriers							Export prohibition, restrictions, licensing	State-owned enterprises
		Import prohibition, restrictions	Contingent protection			Technical barriers to trade	Sanitary, phytosan. measures	Government procurement		
			Safeguard	Antidumping	Countervailing					
Industrial economies										
Japan	2004	Low	Yes	0	0	Low	Low	Low	Low	Low
US	2003	—	Yes	85	23	High	High	High	High	Low
EU	2004	High	Yes	156	18	High	High	High	Average	Low
Canada	2003	—	No	43	10	High	Low	High	High	High
Australia	2002	Low	No	19	5	High	High	High	Average	—
New Zealand	2003	Low	Yes	0	0	High	Low	Low	Low	High
Developing economies										
Korea	2004	Low	Yes	21	0	Low	High	Average	Low	High
South Africa	1998	High	No	35	0	Low	Low	High	High	Low
Malaysia	2005	Low	No	12	0	High	Low	Low	Low	Low
Singapore	2004	Low	No	0	0	Low	High	Low	Low	High
Philippines	2005	High	Yes	5	0	Low	Low	Low	Low	Low
Thailand	2003	Low	No	26	0	Low	Low	Low	Low	Low
Brazil	2004	High	Yes	48	6	High	High	Low	Average	High
Mexico	2002	Low	No	90	1	High	Low	Low	Low	Low
Indonesia	2003	Low	No	7	0	Low	Average	Low	Average	Low
India	2002	High	Yes	131	0	Low	Low	Low	Low	High
Least-developed countries										
Bangladesh	2000	High	No	0	0	Low	Low	Low	Average	Low

Notes:

Country classification is based on the Integrated Tariff Analysis System.

— = no pages devoted to the particular NTB; Low = below average number of pages devoted to the particular NTB; High = above average number of pages devoted to the particular NTB; Average = equal to the average number of pages devoted to the particular NTB; Yes/No = has/has not applied safeguard measures.

For Singapore and Malaysia, state-owned enterprises refer to government-linked companies; for the columns referring to antidumping and countervailing measures, the figures refer to the number of measures in force.

Source: Trade Policy Reviews (various issues), available: www.wto.org/english/tratop_e/tpr_e/tpr_e.htm.

firm- or country-specific. Enforcement of rules governing contingent protection has also been relatively lax. Hence, discussions regarding the need to make contingent protection more transparent and symmetric between countries will likely become a significant issue at Doha, though it is not clear exactly what will be put forward. Still, the regulatory nature of this area, as well as the increasing use of contingent protection even by developing countries, will render progress difficult. Little progress is expected in this regard outside clarification of rules, as was basically the case during the Uruguay Round.

As is noted at length in Part 3, the trend toward the creation of preferential trade agreements (e.g., free trade areas or customs unions) has become increasingly important in driving international commercial policy over the past 10 years. By their very nature, these agreements discriminate in favor of partner countries, to the disadvantage of nonpartners. This is a violation of the heart and spirit of the GATT/WTO, i.e., most-favored-nation treatment, enshrined in Article I. However, Article XXIV allows for preferential trade agreements, provided that they meet certain general criteria. In GATT's early years, preferential trade agreements were relatively few in number. As of March 2006, however, almost 200 such agreements had been reported to WTO, double that of just a decade earlier. Many more are in the works; the vast majority of developing Asian countries are party to such agreements.

Recognizing that this trend poses an important challenge to nondiscrimination, WTO members have been discussing the need to revamp the organization's policies toward regionalism. The 1994 Understanding on the Interpretation of Article XXIV of GATT was an attempt to enhance the compatibility of regionalism with multilateralism at a time when the trend was beginning to grow, but it did little to clarify the issues. Under the Doha Development Agenda, further revisions of interpretations of Article XXIV were to be part of its "single undertaking." But little was accomplished at the Ministerial Meeting in Hong Kong, China in this regard, except a commitment to improve the transparency of free trade areas and encouragement to negotiators to arrive at "appropriate outcomes" by the end of 2006.

Because the global trend toward bilateralism and regionalism is new and just about all WTO member countries are involved, it is unlikely that substantial progress will be made in this area at Doha, outside of some minor points on definitions and transparency. However, the problems that are being created by this trend—such as inevitable trade and investment diversion, "noodle bowl " (or "spaghetti bowl") issues, and the clear threat to the multilateral system—will become evident in time, and the threat to the multilateral system will be taken more seriously. This will no doubt be a key area of discussion in subsequent rounds, if not sooner.

Special and differential treatment and aid for trade

The 6 years between the ministerial meetings held in Seattle and Hong Kong, China witnessed an intense debate on whether and how developing countries should be granted special and differential treatment (SDT). Importantly, at the Ministerial Meeting in Hong Kong, China developed countries agreed to end tariffs and quotas on 97% of the tariff lines exported by the LDCs by 2008. This was hailed as an important success. However, it has been criticized as not being extensive enough.[14]

To begin, it should be noted that the pursuit of SDT has often been counterproductive for developing countries. As noted above, countries tend to gain most from their own liberalization, and the quest for exclusions, drawn-out timetables for the implementation of reform, and lack of active participation in global trade talks (meaning that protection remains relatively high in LDCs) have postponed or even stifled liberalization. The possibility of a "round for free" was discussed earlier in the Doha talks, ostensibly suggesting that LDCs should be exempt from everything at Doha. This approach, though well meaning, would have been highly detrimental to LDC development, as it would have precluded the need for domestic reform and restructuring. Moreover, active participation ensures that the issues they really care about will be addressed. Some aspects of SDT can be useful, but in no way should it serve to exclude LDCs and developing countries more generally from being true partners in the global trading system.

Since the 1970s, SDT has been mostly delivered through preferential (low or zero) tariffs granted to a limited number of developing countries defined on an ad hoc basis by developed countries (on an individual basis). However, the value of SDT preferences has been falling over time. For example, beneficiaries are currently suffering from "preference erosion" and associated adjustment costs. During the last decade, the differences between the most-favored-nation tariff rates and the preferential tariff rates have been reduced by a long series of trade agreements, under the GATT/WTO and in regional trade agreements.

"Aid for trade" has become a buzzword in the Doha negotiations, and as a result, deserves to be defined with some precision. The preference erosion issue, for example, is often included under the aid for trade heading. What follows limits aid for trade to issues increasingly related to governance in general (and not necessarily to trade directly).

First, aid for trade can be linked to "trade facilitation," that is, to the activities undertaken by customs and logistics procedures, e.g., improving the movement, release, and clearance of goods, including goods in transit. The Doha Development Agenda has a program of negotiations on trade facilitation intended to buttress developing-country capacity to implement trade liberalization and structural change in general. A particularly important aspect of this program relates to transit conditions (for example, fees, delays, and transparency), which is of prime importance to landlocked countries.

Second, as the above definition of trade facilitation is quite narrow (it covers only public governance at the borders), this approach could potentially be extended to all activities involved in the international movement of goods and services, such as building the corresponding infrastructure (ports, roads, and other transport facilities), or operating trade-related services (mail and parcels, telecoms, specialized legal and insurance services, storage, and the like). This "trade facilitation plus" concept is very close to services negotiations since de facto it relies on a cluster of services on which developing countries need to focus in order to reap effectively gains from trade liberalization.

Gauging the gains of Doha trade liberalization for the region

Viewed from a historical perspective, global free trade would appear an idealistic goal. As noted above, negotiations in the Doha Development Agenda have focused on a more modest agenda. To conjecture about the outcome in Doha, this section examines the economic impact in the context of a model that brings Asia into sharper relief. This exercise is conducted using an Asia- and trade-focused general equilibrium model (GEMAT), described more fully in Part 3.

Since the parameters (and, indeed, likelihood) of an agreement at Doha remains uncertain, the simulations adopt the ambitious assumptions about Doha outcomes that have been made by Anderson et al. (2006b) (Box 1.5.4). While a successful Doha package could spur further multilateral liberalization initiatives, these are not considered here.

Under the "Deep Doha" scenario, world income rises by $155.2 billion in 2025, measured in 2001 prices (Table 1.5.7). However, liberalization benefits developing Asia disproportionately. Around 70% of the estimated gains from Deep Doha accrue to Asia (including Japan). Box 1.5.5 compares ADB current estimates with those of earlier World Bank studies. Caveats about these exercises and their estimates are set out in Part 3. Importantly, as is further discussed in Part 3, the absolute values of these estimates tend to have a strong downward bias, and, of course, are a function of the assumptions and parameters underlying the model. Hence, the absolute values are arguably less important than the *rank ordering* of the results and the *relative* magnitudes.

As Table 1.5.7 shows, the estimated gains from Doha are not evenly distributed either globally or within Asia. The disproportionately large gains accruing to Asia follow from Asia's openness and larger initial trade shares, as well as the assumption of a significant reduction in Asian import protection, especially in agriculture. Japan and Korea, which are large economies in absolute size, capture the bulk of the gains. Relative to income, Korea and Thailand gain most. Korea benefits significantly from a sharp reduction in its own agricultural tariffs as well as from growing export opportunities in the PRC. Thailand benefits as its agricultural exports are boosted by reduced distortions in the global agricultural trading system.

Although Deep Doha is a positive sum game, there are prospective losers as well as winners. In Asia, Bangladesh and Viet Nam would appear to face the prospect of income losses. And Deep Doha would appear to offer no benefits to the Philippines and few to the PRC. As the possibility of prospective losses may impede or slow multilateral liberalization initiatives, it is important to look behind these results.

An important aspect of the Doha negotiations, reflected in this scenario, is that negotiations are about reductions in members' legally bound tariffs, not the actual tariffs that they apply. Therefore, where there is water in the tariffs, nominal reductions in bound tariffs may mean little or no reduction in actual levels. In the Deep Doha scenario assumptions presented here, this is the case for both Bangladesh and the Philippines. An important result from standard economic theory is that liberalization

1.5.7 Welfare gains from Deep Doha (change compared to baseline in 2025)

	Real income ($ billion)	Real income (% of GDP)
Japan	21.26	0.33
China, People's Rep. of	11.57	0.21
Korea	36.76	3.49
Hong Kong, China	4.90	1.19
Taipei,China	5.32	0.79
Indonesia	2.98	0.57
Malaysia	3.20	1.09
Philippines	0.22	0.09
Singapore	3.47	1.67
Thailand	8.47	2.14
Viet Nam	-0.79	-0.58
Bangladesh	-0.03	-0.02
India	12.50	0.67
Sri Lanka	0.24	0.54
Developing Asia	**88.81**	**0.76**
Asia including Japan	110.07	0.61
United States	8.13	0.04
Europe 19	32.56	0.24
Australia and New Zealand	3.43	0.38
Latin America	2.15	0.05
Rest of the world	-1.13	-0.02
World Total	**155.20**	**0.24**

Note: Europe 19 comprises 15 countries of the EU plus Iceland, Liechtenstein, Norway, and Switzerland.

Source: Staff estimates.

1.5.4 Various Doha scenarios

Deep Doha. This is essentially scenario 5 in Anderson et al. (2006).[1] It assumes significant agreement in Doha by 2006 in a number of areas: nonagricultural tariff bindings are cut by 50%, and agricultural tariffs are cut using a tiered formula. The marginal cut is set at 45% for agricultural tariffs below 15%, 70% for tariffs within the 15–90% bracket, and 75% for tariffs above 90%.[2] Agricultural export subsidies are eliminated for all countries. Domestic support for agriculture is also cut for the United States (by 28%), the European Union (by 16%), and Australia and New Zealand (by 10%). Special and differential treatment (SDT) is not applied and developing countries are assumed to liberalize to the same degree as developed countries. All these trade reforms are phased in over the 5-year period of 2007–2011. Possible reforms in services sector and trade facilitation are not incorporated in this scenario.

Doha-SDT. This scenario examines the consequences of including SDT. Specifically, there are four agricultural tariff brackets for developing countries, with inflexion points placed at tariff levels of 20%, 60%, and 120%. Their marginal rates of reduction are 35%, 40%, 50%, and 60% within each of the four bands. On NAMA, the cut in nonagricultural tariff bindings for developing countries is 33%. Least-developed countries are not required to undertake any reduction commitment. On the other hand, the required reductions in both agriculture and nonagriculture sectors for developed countries are the same as that in the Deep Doha scenario. The assumption regarding cuts in domestic support and export subsidies are also the same as those in Deep Doha.

Doha-SDT excluding sensitive agricultural products. Building on Doha-SDT, this "Doha Light" scenario further assumes a less ambitious agricultural agenda that excludes sensitive farm products. The developed countries are assumed to treat 2% of their HS6 agricultural tariff lines as sensitive and subject to just a 15% tariff cut. For developing countries, the corresponding figure is 4%.

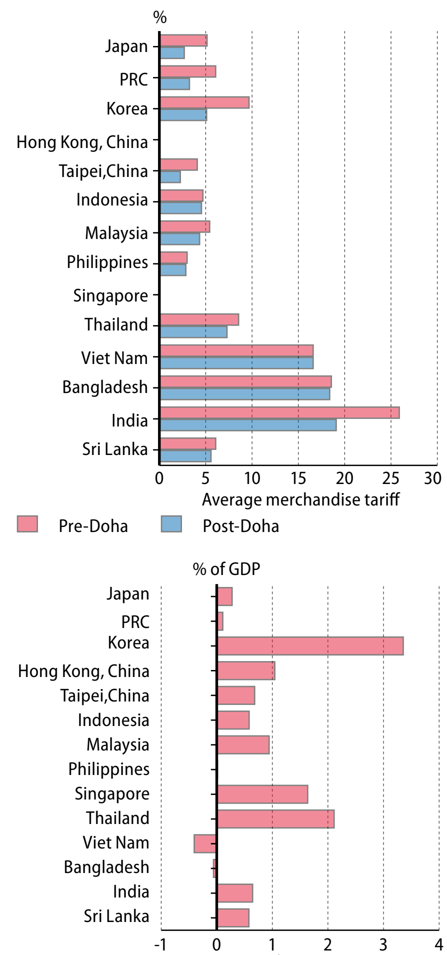
[1] See Anderson et al. (2006b) for the details of the design of this Doha scenario. The Doha scenario used here corresponds to their "Doha-All" scenario.
[2] Since the cut is applied on bound tariffs, the cuts in applied rate may be small for some developing countries due to binding overhang.

gains depend largely on the boosts to efficiency and productivity that occur when countries liberalize their own trade (Figure 1.5.1), not from tariff reductions by their trade partners. By volunteering cuts in bound tariff rates that would lower applied tariffs, countries such as Bangladesh and the Philippines would also benefit. The negotiating approaches of WTO obfuscate this fundamental point.

Of course, even if countries do reduce their own tariffs, multilateral liberalization may not lead to gains in all cases. If liberalization means that a country loses preferential access to important markets, or export subsidies are removed on goods that have a large weight in the import basket, or subsidized entry into other markets is halted (as, for example, in the case of the Fiji Islands' sugar exports to the EU), countries may face the prospect of significant losses. The model suggests that the erosion of preferential access for clothing and textiles to the EU, with the EU lowering its most-favored-nation tariffs, could dampen Bangladesh's exports, resulting in losses in income and terms of trade. Bangladesh also loses from terms-of-trade effects driven by higher agricultural prices (including cotton). Also, given that the PRC already has substantially reduced its tariffs on merchandise trade, a deterioration of its terms of trade may be needed to sustain fast export growth. The case of Viet Nam, which is not yet a member of WTO, illustrates another point. In the Doha scenario, levels of protection in nonmember countries are assumed unchanged. Consequently, as WTO member countries liberalize, nonmember countries such as Viet Nam suffer from a diversion of their trade to other locations where costs are now lower. If Viet Nam successfully concludes negotiations to enter WTO, it too would benefit from Doha, raising estimated impacts.

Under the scenario of Doha-SDT (Table 1.5.8), the global gain in 2025 shrinks by around 30% in comparison with the Deep Doha scenario, to

1.5.1 Tariff reductions and income gains



Sources: GTAP database 6.05; CEPII scenarios; staff estimates.

$110.6 billion. But for developing countries,[15] the gain would be only $56.4 billion, only 63% of that in the Deep Doha scenario. If higher-income Asian countries (Hong Kong, China; Korea; Singapore; and Taipei,China) are excluded, the gain of developing countries is only $19.3 billion, or less than half of that in the Deep Doha scenario (Figure 1.5.2). This exercise suggests that no regions (as defined) would be better off from the introduction of SDT, even for LDCs like Bangladesh. This result squares with the theoretical proposition that developing countries need to cut their own trade protection to reap the benefits of multilateral trade liberalization. SDT does not serve the interests of developing countries.

If the Doha-SDT scenario is further weakened by assuming that the sensitive agricultural products are subject to lower tariff cuts, global gains in 2025 would be reduced to $68.4 billion, reflecting the importance of agricultural liberalization in the Doha trade liberalization agenda. In Asia, the exception of sensitive agricultural products are important for Japan, Korea, Thailand, and, to a lesser extent, Viet Nam, given their high interests in agricultural trade liberalization. However, for other Asian economies, the exception of sensitive agricultural products only have marginal impacts on their welfare gains from Doha.

1.5.8 Welfare gains from two less ambitious Doha scenarios (change compared to baseline in 2025, real income)

	Doha-SDT		Doha-SDT excluding sensitive farm products	
	($ billion)	(% of GDP)	($ billion)	(% of GDP)
Japan	18.57	0.29	7.86	0.12
China, People's Rep. of	10.11	0.18	9.00	0.16
Korea	26.93	2.55	10.69	1.01
Hong Kong, China	3.52	0.85	3.42	0.83
Taipei,China	4.00	0.59	3.89	0.58
Indonesia	2.08	0.40	2.10	0.40
Malaysia	1.67	0.57	1.47	0.50
Philippines	0.15	0.06	0.11	0.05
Singapore	2.57	1.24	2.53	1.22
Thailand	5.87	1.49	3.71	0.94
Viet Nam	-0.71	-0.52	-0.48	-0.35
Bangladesh	-0.10	-0.07	-0.08	-0.06
India	6.32	0.34	6.25	0.33
Sri Lanka	0.13	0.29	0.06	0.14
Developing Asia	62.52	0.54	42.67	0.37
Asia including Japan	81.09	0.45	50.53	0.28
United States	6.81	0.03	6.82	0.03
Europe 19	26.09	0.19	19.61	0.15
Australia and New Zealand	2.74	0.31	1.69	0.19
Latin America	-0.45	-0.01	-1.14	-0.03
Rest of the world	-5.72	-0.08	-8.88	-0.12
World Total	110.56	0.17	68.64	0.11

SDT = special and differential treatment.

Note: Europe 19 comprises 15 countries of the EU plus Iceland, Liechtenstein, Norway, and Switzerland.

Source: Staff estimates.

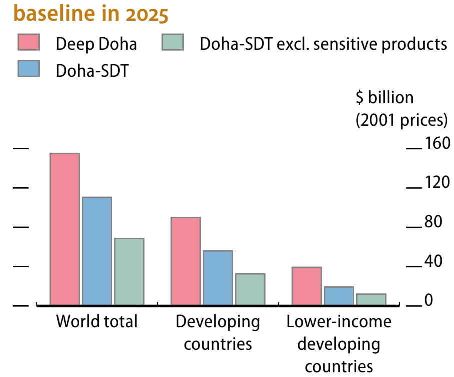
Beyond Doha

The outcome at Doha is uncertain. It is hard to predict at this point whether there will be a successful package that emerges in time for the April 2006 deadline, whether the deadline will be extended and subsequently completed, or whether the negotiations will fail. Moreover, it is unclear what the package will look like. Will it be a comprehensive set of liberalization initiatives or "Doha Light"?

In terms of economics, Doha Light could potentially be worse than a failure at Doha. For example, a "flexible" package under NAMA in which many sensitive products are excluded, minimal "value added" in terms of progress in agriculture, and mere rhetoric in services and "rules," with some compensation under "aid for trade," is not an inconceivable outcome. However, it would be regrettable. First, nonuniform tariff cuts could lead to distortions in the value-added chain that could potentially negate any gains from liberalization. Mere patchwork in agriculture would repeat the mistakes of previous GATT/WTO rounds, since it would thwart necessary structural reform in developed and developing countries, and would leave much for future rounds (discussed below). And lack of progress in reforming contingent protection rules would leave fully loaded an important (and increasingly dangerous) protectionist weapon.

From a political perspective, Doha Light might be considered preferable to no agreement at all, as it would at least be a "success"

1.5.2 Gains from Doha scenarios: Real income changes relative to baseline in 2025



Source: Staff estimates.

1.5.5 Gains from Doha: A Comparison with other quantitative estimates

Care needs to be taken in comparing different estimates of the potential benefits of the Doha Development Agenda. Over the years, the World Bank has revised its estimates of Doha benefits significantly downward. The estimate here is also lower than earlier World Bank estimates (2001 and 2004). An important reason for this is that use of the GTAP V6 (Global Trade Analysis Project) database implies a reduction in baseline trade protection compared to the earlier GTAP datasets used in the initial World Bank studies. The benefits of the cessation of quotas on textiles and clothing and the entry of the People's Republic of China into the World Trade Organization are now embedded in the baseline, so Doha assumptions now remove fewer distortions (van der Mensbrugghe 2006).

But there are also technical differences between the estimate of the General Equilibrium Model of Asian Trade (GEMAT) and more recent World Bank estimates. These differences illustrate the sensitivity of model estimates to differences in technological and behavioral specifications, and parametric assumptions. In particular, estimated benefits are sensitive to assumptions about trade price elasticities (Armington elasticities), returns to scale and product variety, and to sector and geographic aggregation.

The most recent World Bank estimates are based on trade price elasticities that are about one third higher than those used here. The elasticities in GEMAT are closer to the traditional GTAP values, which have been estimated econometrically (Hertel et al. 2003). This difference in parameter assumptions tends to boost the World Bank's estimates of trade benefits.

On the other side of the coin, GEMAT's assumption of increasing returns and imperfect competition generates larger benefits than those derived in a perfect competition model with constant returns technology, such as that used by the World Bank. Aggregation also matters. Higher commodity and geographic aggregation in GEMAT cuts estimated benefits. For essentially an identical scenario, GEMAT's construction trims about 15% of the global benefits reported in recent World Bank studies.[1]

A recent study by the International Food Policy Research Institute shows that ambitious Doha round trade liberalization can induce a global real income gain of $104 billion in 2019, around 0.19% of world GDP in 2019. This study was conducted using MIRAGE, a global computable general equilibrium (CGE) model which also incorporates scale economy and firm-level productivity variety (Bchir et al. 2002). The lower estimates, in comparison with the GEMAT results, may be due to its assumption about the imperfect mobility of unskilled labor between agricultural and nonagricultural activities, which limits the gains from more efficient resource reallocation.

Another recent study by Polaski (2006) (the "Carnegie model"), using a static global CGE model, estimates global gains of $58.6 billion, or 0.19% of 2001 world GDP, according to its Central Doha scenario. This gain is larger than the equivalent static impact in GEMAT. The difference may be found in scenario design and model specification. The Central Doha scenario in Polaski (2006) assumes relatively modest agricultural trade liberalization and more ambitious manufacturing trade liberalization, which would induce larger gains from manufacturing liberalization and smaller gains from agricultural liberalization. Moreover, Polaski (2006) assumes unemployment in the urban unskilled labor market and a rural-urban wage differential in developing countries. This further magnifies the gains of some developing countries from manufacturing trade liberalization, as their manufacturing sector expands following the increased export opportunities induced by trade liberalization, but may induce losses for developing countries from Doha agricultural liberalization, which diverts unskilled labor away from manufacturing and into agriculture.

Simulation approaches clearly have limitations and until there is better information, estimates of the benefits of trade liberalization will necessarily be subject to important qualifications. However, the relative magnitude of the welfare impacts and the sources of gains and losses obtained from these modeling exercises do provide useful insights for policy analysis.

[1] For Asian countries, the estimated income gains from GEMAT are generally larger than the World Bank estimates, reflecting that the impacts of low trade elasticities are more than offset by the introduction of scale and variety effects.

and could keep momentum going for the next round, an important consideration given the rise in regionalism. However, this is purported to be a *development* round; lack of progress in comparative-advantage areas for developing countries would reinforce the impression in some circles that the international trading system is rigged against the poor. Enthusiasm for global trade could wane, and the regionalism trend could actually be reinforced.

But a comprehensive Doha package would likely do wonders for the global trading system. What such a package would look like is outlined above: a balanced Swiss formula applied to both NAMA and agriculture with as few excluded sectors as possible; some progress in services, particularly in terms of Mode 3 and Mode 4; fairer and more transparent rules on contingent protection; better definitions and rules on transparency in regional trade agreements, as well as commitments to develop means to ensure that Article XXIV agreements will be consistent with multilateralism; and generous offers in terms of "aid for trade" and "trade facilitation plus." Certainly, this scenario is far more sensitive at the national political level.

Perhaps the negotiated outcome will be a combination of these two scenarios. Given the stakes for Asia, the region's WTO member countries should be proactive in molding the negotiations in favor of the latter scenario. Above it is argued that the unique situation of Asia suggests that it has strong leadership potential. Hopefully, the political will to assume such a role will be forthcoming.

What will the global trading system need to tackle in future WTO rounds? As the Doha outcome is still unknown, prediction is doubly difficult. However, it is suggested that the following six areas will be important features of the next round:

1. As the Swiss formula under NAMA will likely achieve a good deal of progress, it will be the least controversial area, at least relative to earlier rounds. Average tariffs are already quite low; Doha should reduce them further and create greater symmetry. Mega-tariffs should be a thing of the past. Hence, reductions in tariffs in manufactures will likely be on the agenda but will not be as important as in previous rounds. Could a complete phaseout of tariffs in developed countries be a goal? And perhaps 10% maximum tariffs in developing countries?

2. Regardless of the outcome of current negotiations, agriculture will still be important. How important will depend on progress made at Doha. Export subsidies will be gone, but tariffs will continue to be high and domestic support trade-inhibiting. The next round will seek to lower tariffs and put further constraints on domestic support. This sector will continue to be difficult; reform of the EU's Common Agricultural Policy will be particularly significant in defining the next round's potential.

3. Given the importance of the services sector and the fact that it will likely see modest progress at best at Doha, this will be one of the most important focus areas at the next round. It will require significant preparation, as trade in services is extremely complex. But as a priority, it should receive considerable attention. And its potential to stimulate trade appears to be even greater than that in agriculture and manufactures.

4. Trade and investment issues, trade and competition policy, government procurement, and trade facilitation will also be a high priority on the negotiation agenda. These were known prior to Cancun as the "Singapore issues." However, they proved too controversial for the Doha Development Agenda. Indeed, the failure at Cancun was blamed on them (and lack of progress in agriculture) and they were subsequently dropped, with the exception of trade facilitation. Look for them to be reincorporated, particularly since they continue to be a high priority for developed countries (as is evident by their incorporation in bilateral free trade areas with developing countries). Aid for trade, in particular trade facilitation, will also become a more salient feature of the global talks.

5. Contingent protection will also receive much higher priority in the future. Since there is not much hope that significant progress will be reached in controlling (particularly) antidumping and countervailing duties, countries will no doubt try to use them in order to protect sectors facing significant structural change due to liberalization in agriculture and manufactures. Moreover, by the next round, the PRC's transition period will be over (precluding the imposition of import quotas on its exports of textiles and clothing, recently applied so firmly by, especially, the EU and US) and new, labor-abundant, competitive economies like Viet Nam should be full-fledged members. The trend toward greater usage of contingent protection will surely continue, and its threat to international trade will become increasingly significant.

6. The most important area will probably pertain to regional and bilateral free trade areas. As noted above and more extensively documented in Part 3 of *Asian Development Outlook 2006,* regionalism has been growing rapidly, with Asia becoming an active and enthusiastic participant. This trend will likely continue for at least another few years. At that time, the trade effects of these agreements will start to be felt, and the costs associated with the "spaghetti bowl" will be increasingly recognized. The need for more effective rules and best-practices will become increasingly evident.

To conclude, much is at stake at Doha for Asia and the world. Much is riding on a successful outcome. The negotiators have their hands full, as the issues are complex and controversial in some quarters. But with the right leadership and political will, a successful conclusion to the Doha Development Agenda is certainly feasible.

Two final remarks on the strategies of developing Asia in Doha. First, there is no "round for free"; active participation is not an option but a necessary condition to reap the gains from multilateral negotiations. This is because offering to liberalize hitherto protected sectors allows not only for concessions in exchange but also for gains from trade. Countries tend to gain most from their own liberalization. Second, developing member countries of ADB that are not yet members of WTO need to focus on accession. Without WTO membership, they will never fully be able to take advantage of the new trade architecture that is being created. Even if they receive most-favored-nation status or even preferential treatment from key trading partners, they are still outside the system. And one cannot change the system from outside. Moreover, a focus on WTO accession means that negotiating capacities—often limited in the developing member countries—should not be diverted to other areas, for example, in negotiating bilateral and regional trade agreements. The opportunity cost is too high.

Endnotes

1 For example, tariff cuts on capital goods imports have been very successful in past rounds, whereas textiles and clothing remain highly protected in countries that do not have a comparative advantage in this area. Since textiles and clothing use capital goods in the production process, this reduction in input costs will have the tendency to increase the protection of value added in the textile and clothing industry, thereby creating an incentive

for additional resources to be allocated to this inefficient sector. This is known as the problem of the "effective rate of protection" in economics.

2 Per capita income will be the most likely criterion used to determine whether a country should benefit from "special and differential treatment."

3 More specifically, the G10 is opposed to substantial opening in agriculture; the G33 supports easy exceptions from liberalization, e.g., via the notions of special products or safeguards; the G20 focuses on the opening of the farm markets of developed countries; and the Cairns Group is dedicated to global opening of agricultural markets.

4 As the welfare costs of tariffs increase disproportionately as the tariff level rises, larger reductions in the highest tariffs have a more than proportional positive effect on efficiency and welfare.

5 In general, moderate tariffs provide larger revenues than high tariffs. This is in large part due to the decrease in import volume associated with high import prices generated by steep protection. The fiscal aspect of the tariff is particularly important for developing countries with a narrow domestic tax base.

6 "Bound" tariff rates for individual products are those that a WTO member has committed not to exceed in past GATT rounds or as part of their protocol of accession.

7 First, exclusions of sectors give an advantage to countries with better negotiators, creating an advantage for developed countries over many developing countries. Second, countries will likely exclude the sectors with the largest potential for trade creation. And third, the symmetry of liberalization imposed by the Swiss formula would be distorted.

8 It should be noted that Australia and New Zealand have liberal farm policies already in place.

9 The EU is by far the main user of this instrument; it accounts for more than 80% of all global export subsidies in agriculture.

10 Subsidies are used in order to maintain a certain standard of living for farmers. If tariffs are cut, either the country needs to increase subsidies to maintain those standards, or allow for a reduction in living standards. The former policy would in part negate any gains from liberalization, whereas the latter would help achieve the necessary structural adjustment. In any event, if the decision is made to maintain standards by increasing subsidies, this is more "transparent" than tariff protection because it comes at a quantifiable fiscal cost.

11 Arguably this happened in certain cases at the Uruguay Round, when import quotas had to undergo "tariffication".

12 Among other things, plurilateral negotiations facilitate negotiations by allowing a critical mass of like-minded countries to pursue liberalization in areas that would be difficult for other countries. This approach has already been used with success in the complex 1996 WTO Information Technology Agreement.

13 Trade policy reviews involve periodic assessments of the trade policies of WTO member states.

14 There are at least three major criticisms. First, it represents no additional commitment for the EU, as part of its Everything But Arms initiative has a 100% coverage, and a very marginal one for the US, which grants duty-free and quota-free access to its market for 83% of imports from LDCs. Second, the remaining 3% of tariff lines (roughly 300–400 lines) could easily cover all the crucial exports of most LDCs, which tend to have a limited range of exportable products. Third, the agreement covers only the LDCs, so excluding many poor countries that are not classified as LDCs.

15 Developing countries here refer to Asian developing economies, Latin America, and the rest of the world.

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