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# The Doha Round

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## I. Introduction

The "Doha Round" may be finished in 2011, more than ten years after having been officially launched.[2] A detailed description of the negotiations over such a long period goes far beyond the scope of a chapter, and would require a book.[3] Rather, this chapter focuses on the four key questions faced by the Doha Round, and indeed by every future Round.

Firstly, what is the "value" of a Round? The long negotiating process has fueled the wide perception that the Doha Round is not worth it. Section I shows that this perception is wrong by looking at the three alternative dimensions capturing the value of a Round; (1) a Doha Round concluded by 2010−2011 would be as productive as the previous Rounds; (2) the existing draft texts of a Doha Agreement would bring welfare gains amounting to roughly USD 300 to 700 billion if one includes all the topics under negotiation; and (3) the Doha Round has this unique capacity to deliver legally binding commitments, that is, to provide the certainty so crucial to the business community (Wallenberg, 2006). This capacity is reflected by the costs that a definitive failure of the Doha Round would impose on world trade (a fall of 8 to 10 percent) and on the world GDP (a loss of USD 900 billion).

[1] Forthcoming in A. Lukauskas, R. M. Stern, and G. Zanini (eds.), Handbook of Trade Policy for Development, Oxford University Press.

[2] Strictly speaking, there is no Doha Round as such. The negotiations are being held under an awkward title—the "Doha Development Agenda" (DDA)—as explained below. However, for simplicity sake, this chapter will use both the terms DDA and Doha Round.

[3] See, in particular, Ismael (2009) from an insider perspective and Blustein (2009) from an outsider perspective. See also the huge amount of detailed information provided on a regular basis by a few websites, in particular of the WTO and ICTSD.

Secondly, should one tightly link trade negotiations with broader concepts—development in the case of the Doha Round (it could be climate change in the next Round)? Section III argues that this is a costly and ultimately disappointing approach. It has absorbed the first four years of the Doha Round (from the 1999 Seattle Ministerial to the 2003 Cancun Ministerial) with little, if any, result. It has generated excessive expectations ending up in unnecessary disillusionment. Last but not least, it is still imposing costly constraints on the current negotiations. A Round is above all a negotiating process. That does not mean that development (or climate change) concerns should not be present in the minds of the trade negotiators. But the multilateral trade framework has enough means to address such concerns, without injecting them directly into the core of the negotiations.

Thirdly, which is the objective of a Round? The answer looks obvious: trade liberalization. But the Doha Round shows that this answer is not precise enough. In sharp contrast with the previous Rounds, the Doha Round has been preceded by years of unilateral and preferential liberalization. Should then the Round deliver additional liberalization, or should it mostly consolidate ("bind" in the WTO jargon) the huge stock of past liberalizations? Section II shows that this question puts the focus on the "technology" to be used by trade negotiators. Developing such a technology has been the main task of the trade negotiators from the July 2004 Framework and the 2005 Hong Kong Ministerial to the July and December 2008 mini-Ministerials. The resulting 2008 "draft texts" are generally seen as the "best estimates" of a possible Doha Round Agreement.[4]

Fourthly, how could one negotiate on services, a still largely uncharted territory of the Doha Round despite the fact that services represent 50 to 70 percent of the GDP of the WTO Members? Section V argues that there are good reasons—the specificity of protection in services and, more importantly, the political economy of liberalization in services—to believe that multilateral negotiations in services will be largely confined to binding unilateral liberalizations undertaken before a Round. Taking into account these

[4] For simplicity sake, this chapter refers to the draft texts of the July and December mini-Ministerials as the 2008 draft texts.

factors suggests that a plurilateral approach involving only the ten or so largest WTO Members may be the necessary pre-requisite for concluding a Doha deal in services.

The concluding section addresses briefly two issues which are likely to dominate the world-trade debate after a successful conclusion of the Doha Round. Firstly, to what extent has the current global economic crisis strengthened the chances to conclude the Doha Round? Secondly, which improvements does the crisis suggest for the WTO machinery itself—as distinct from a Round?

## II. The "Values" of the Doha Round

How should the "value" of the Doha Round (as of any Round) be assessed? There are several dimensions—complementing each other—to this question. First is to compare the outcome of the Doha Round with the outcomes of the Rounds held under the aegis of the General Agreement on Trade and Tariffs (hereafter GATT) during the last 60 years. Such a long term comparison shows a surprisingly good performance of the Doha Round on the one issue that is common to all these Rounds, that is, tariff cuts on industrial products. A second dimension is provided by the estimated impact of a successful Doha Round on world welfare, the traditional measure of economists. This approach shows that most of the gains from the Doha negotiations come from its wide scope of issues, much broader than the scope of its GATT predecessors. Lastly, the value of the Doha Round mirrors another specific feature. As it occurs after a long period of unilateral liberalization by many countries, its capacity to deliver "certainty" by legally binding all these unilateral commitments in a multilateral setting is a source of potentially huge benefits.

### The Value in "Productivity" Terms: The Doha Round and Its Predecessors

Most observers give a low value to the Doha Round because of the endless negotiations. However, using as an input, the length of the negotiations, for assessing an outcome in terms of the value of the Doha Round is not appropriate. Rather, one needs to have some sense of the "productivity" of the Doha Round. The most obvious, albeit crude, measure of a "Round productivity," is the average worldwide tariff cut agreed on during a Round divided by the number of year of negotiations for the Round (Messerlin, 2007a). This measure has the additional merit to allow a comparison with all previous Rounds.

Table 1 provides the length of the negotiations (in months) of the nine Rounds, the average tariff cut agreed during each of these Rounds, and the productivity for each Round defined as the average tariff cut by year of negotiations. It assumes that the Doha Round would be concluded by December 2010, and that the worldwide tariff cut that it would deliver would be the lowest tariff cut mentioned in the December 2008 draft text (like the Swiss25 coefficient, see Section IV).

Table 1 provides three key results. Firstly, the Doha Round would deliver roughly the same average tariff cut by year of negotiations (5 percentage points) compared to all its predecessors but the Geneva I and Kennedy Rounds. This result is remarkable all the more because large tariff cuts at the start of a trade liberalization process (as in the Geneva-I Round) seem much easier than cutting, 60 years later, the remaining tariffs of industrial sectors which have been able to develop the political clout to keep their protection largely intact during all these years. [5]

**Table 1. Comparing the "Productivity" of the Rounds, 1947-2010**

| Rounds | Dates | Length | Tariff cuts | "Round | Number of Members | |
|---|---|---|---|---|---|---|
| | | (months) | [a] | Productivity" | All | G77 |
| Geneva-I | 1947 | 8 | 26,0 | 39,0 | 19 | 7 |
| Annecy | 1949 | 8 | 3,0 | 4,5 | 20 | 8 |
| Torquay | 1950-51 | 8 | 4,0 | 6,0 | 33 | 13 |
| Geneva-II | 1955-56 | 16 | 3,0 | 2,3 | 35 | 14 |
| Dillon | 1960-61 | 10 | 4,0 | 4,8 | 40 | 19 |
| Kennedy | 1963-67 | 42 | 37,0 | 10,6 | 74 | 44 |
| Tokyo | 1974-79 | 74 | 33,0 | 5,4 | 84 | 51 |
| Uruguay | 1986-94 | 91 | 38,0 | 5,0 | 125 | 88 |
| Doha [b] | 2001-10 | 120 | 50,0 | 5,0 | 146 | 98 |

Notes:

(a) Average cuts in bound industrial tariffs.

[5] That said, the welfare gains provided by the tariff cuts of the Doha Round are likely to be smaller than those provided by the tariff cuts of the first Rounds because the latter were mostly imposed on high tariffs. This aspect is taken into account with the second way to define the value of a Round.

(b) Assuming that the Doha Round will conclude in December 2010, with the implementation of a Swiss25 tariff reduction for the emerging economies and a Swiss10 for the developed countries (for details, see Section IV).

Source: Updated from Messerlin (2007a).

Secondly, the size of the WTO membership or its structure (the share of developing countries in the total WTO membership) has no visible impact on the productivity of a Round. Leaving aside the Geneva-I and Kennedy Rounds, the Round productivities are surprisingly stable over the years.[6] Such a result, confirmed by experienced negotiators (Groser, 2007), reflects the fact that GATT Rounds are dominated by large countries. Up to the Uruguay Round concluded in 1995 once the United States and European Community were close to agreement on the key issues at stake, the other Members were strongly induced to join the emerging agreements, though of course they tried their best to influence the final outcome (if only at the margin).

Lastly, two Rounds (Geneva-I and Kennedy Round) have an outstanding productivity. The case of Geneva-I is easy to explain. The immediate post-WWII years witnessed redundant tariffs, pervasive quotas, exchange-rate constraints, all factors that made it easy to decide a first set of large tariff cuts. By contrast, the high productivity of the Kennedy Round is puzzling at a first glance, and seems mostly due to improved negotiating "technology" (see Section IV).

### The Value in Terms of Welfare Gains: The Wider Scope of the Doha Round

The preceding assessment of the value of a Round has two limits. It does not reflect necessarily well the welfare gains (the preferred measure of economists) delivered by a Round. And it ignores that the Doha Round has a much wider scope of issues than its GATT predecessors since, in addition to tariffs imposed on industrial goods (an issue dealt with by all the Rounds), it also covers tariffs imposed on agricultural products, non-tariff barriers imposed on industrial goods, barriers to trade and investment in services, and trade facilitation—to mention the most important topics.

[6] The Kennedy Round witnessed a doubling of the GATT membership and was the first Round with a majority of developing Members—and yet, it was the second most productive Round.

The potential world welfare gains to be delivered by the Doha Round are thus a combination of the welfare gains of all these various components (and of improved rules, if any). As of today, no modeling exercise is able to take into account all these components, if only because of a lack of adequate data. Available estimates are limited to the tariffs in the goods sector, hence substantially underestimate the value of the whole Doha Round. Before leaving this narrow context of tariff cuts in agricultural and industrial goods, it is worth mentioning two studies (Laborde, Martin, and van der Mensbrugghe, 2009a; 2009b), which suggest global welfare gains amounting to US dollars 160 billion from trade liberalization in goods alone, even after allowing for all the exceptions to liberalization (see Section IV). Such gains are substantially larger (up to twice) the gains generally mentioned. The reason is that these two exercises use much more disaggregated trade and tariff data. Hence, they take into account high tariffs as compared to the previous exercises, since cutting high tariffs is the main source of welfare gains.[7]

Getting a better sense of such a value thus requires an *ad hoc* approach that calculates the welfare gains associated with each of the four components covered by the Doha Round, without trying to integrate them into one global and interactive approach. Such a piecemeal approach provides the following results (Adler et al., 2009). Tariff cuts in agricultural and industrial goods would have an estimated impact of trade gains on GDP amounting to roughly USD 100 billion. Full liberalization (tariffs and non-tariff barriers) in three industrial sectors (chemicals, electronic and environmental goods) would generate an impact of similar size (USD 100 billion). A modest liberalization in services would also have an impact of similar size (USD 100 billion).

Lastly, the potential gains from improvement in trade facilitation (which covers all the trade costs, such as transit, border fees and formalities, trade regulations, etc.—all issues related to the Doha Round because they have a substantial component of services) would amount to USD 385 billion of gains. An alternative way to express the importance of trade facilitation in the Doha Round context is to say that reducing trade costs by 2 to 4

[7] Economic analysis shows that welfare losses are a function of the square of the tariffs.

percent would have the same effect on trade volumes as a successful Doha Round (Hoekman, Martin, and Mattoo, 2010; Hoekman and Nicita, 2010).

In sum, the welfare gains from a successful Doha Round (defined on the basis of the 2008 draft texts) would range from USD 300 to 700 billion.

### The Value in Terms of Certainty: The Doha Round as a "Binding Round"

Coming back to the context of trade in goods, looking at the applied tariffs for assessing the value of the Doha Round overlooks another aspect of the value of a Round—indeed, the most important aspect of GATT for its founding fathers. GATT/WTO negotiators conclude agreements in terms of "bound" tariffs. WTO Members can apply tariffs that are lower than their bound tariffs, but the bound tariffs are the only ones that, according to WTO rules, an importing country cannot raise without compensating its affected trading partners. In short, bound tariffs are the only ones that deliver the legal certainty that the business community values so much.

Table 2 shows that the average applied tariff of the 34 countries that account for roughly 90 percent of world trade and GDP under WTO rules is roughly 7 percent in the manufacturing sector in 2007.[8] Such a moderate level mirrors the substantial unilateral tariff cuts that were implemented in the 1990s and early 2000s by many developing and emerging countries, following China's successful liberalization. To a much smaller extent, it also mirrors the tariff cuts generated by preferential trade agreements.[9] In short, there are less and/or smaller tariffs to cut left to the Doha Round (and to its successors, see the concluding section).[10]

[8] These numbers leave aside only three large economies: Algeria (not yet a WTO Member); Russia (still negotiating WTO accession, but imposing an average tariff of 10.5 percent), and Vietnam (still implementing WTO accession, with a targeted average bound tariff of 10.4 percent at the end of its accession period).

[9] Preferential agreements have a limited impact for a host of reasons: most of them are recent, are on a bilateral basis, have complex rules limiting their impact on trade flows, etc. Such agreements are estimated to amount to 10 percent only of the liberalization effort (World Bank, 2005).

[10] This evolution explains that the successive estimates of the welfare gains to be delivered by the Doha Round negotiations in goods have declined as time went on. The gains calculated in the mid-2000s are smaller than those calculated a few years before. For instance, they would amount to an increase of world welfare of 0.5 percent (Polanski, 2006) compared to a 1,5 percent increase

## Table 2. Bound and Applied Tariffs of the 34 Largest WTO Members, 2008

Notes: (a) at current exchange rates. (b) at purchasing power parity exchange rates. (c) annual growth rates of real GDP over the 2000-2006 period. (d) the tariff water is the difference between the average bound and applied tariffs. (e) EU27 is counted as one WTO Member. (f) in percent of the World total.

| | Gross Domestic Product | | | Total | Industry | | | | Agriculture | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| WTO | billions | billions | Real | imports | simple average | | average | imports | simple average | | average | imports |
| Members | US$ | US$ | growth | US$ | bound | applied | tariff | US$ | bound | applied | tariff | US$ |
| | [a] | [b] | [c] | [a] | tariff (%) | tariff (%) | water [d] | [a] | tariff (%) | tariff (%) | water [d] | [a] |
| **The 8 largest "true" WTO Members** | | | | | | | | | | | | |
| EU27 [e] | 14554 | 12634 | 2.1 | 1697 | 3.9 | 3.8 | 0.1 | 1016 | 15.1 | 15.0 | 0.1 | 124 |
| United States | 13202 | 13202 | 2.7 | 1918 | 3.3 | 3.2 | 0.1 | 1348 | 5.0 | 5.5 | -0.5 | 104 |
| Japan | 4340 | 4131 | 1.6 | 580 | 2.4 | 2.6 | -0.2 | 297 | 22.7 | 22.3 | 0.4 | 65 |
| China | 2668 | 10048 | 9.8 | 791 | 9.1 | 9.1 | 0.0 | 579 | 15.8 | 15.8 | 0.0 | 51 |
| Canada | 1251 | 1140 | 2.5 | 358 | 5.3 | 3.7 | 1.6 | 280 | 14.5 | 17.9 | -3.4 | 24 |
| Taiwan | 365 | n.a. | 2.8 | 203 | 4.8 | 4.6 | 0.2 | 138 | 18.4 | 17.5 | 0.9 | 10 |
| Hong Kong | 190 | 267 | 4.7 | 336 | 0.0 | 0.0 | 0.0 | 305 | 0.0 | 0.0 | 0.0 | 12 |
| Macao | 14 | 20 | 12.9 | 5 | 0.0 | 0.0 | 0.0 | 3 | 0.0 | 0.0 | 0.0 | 1 |
| | [f] | [f] | | [f] | | | | [f] | | | | [f] |
| **All** | 78.1 | 66.8 | 2.9 | 67.1 | 4.1 | 3.9 | 0.3 | 67.1 | 13.1 | 13.4 | -0.4 | 62.7 |
| **The next 26 largest WTO Members** | | | | | | | | | | | | |
| Brazil | 1068 | 1708 | 2.9 | 96 | 30.8 | 12.5 | 18.3 | 66 | 35.5 | 10.3 | 25.2 | 6 |
| India | 906 | 4247 | 7.3 | 175 | 36.2 | 11.5 | 24.7 | 85 | 114.2 | 34.4 | 79.8 | 7 |
| Korea | 888 | 1152 | 4.6 | 309 | 10.2 | 6.6 | 3.6 | 178 | 59.3 | 49.0 | 10.3 | 19 |
| Mexico | 839 | 1202 | 2.2 | 268 | 34.9 | 11.2 | 23.7 | 222 | 44.1 | 22.1 | 22.0 | 19 |
| Australia | 768 | 728 | 3.1 | 139 | 11.0 | 3.8 | 7.2 | 106 | 3.3 | 1.3 | 2.0 | 8 |
| Turkey | 403 | 662 | 4.6 | 140 | 16.9 | 4.8 | 12.1 | 93 | 60.1 | 46.7 | 13.4 | 8 |
| Indonesia | 364 | 921 | 4.9 | 80 | 35.6 | 6.7 | 28.9 | 53 | 47.0 | 8.6 | 38.4 | 7 |
| Norway | 311 | 202 | 2.2 | 64 | 3.1 | 0.6 | 2.5 | 50 | 135.8 | 57.8 | 78.0 | 5 |
| Saudi Arabia | 310 | 384 | 3.4 | 70 | 10.5 | 4.7 | 5.8 | 56 | 20.0 | 7.6 | 12.4 | 9 |
| South Africa | 255 | 567 | 4.1 | 77 | 15.7 | 7.6 | 8.1 | 55 | 40.8 | 9.2 | 31.6 | 4 |
| Argentina | 214 | 618 | 3.1 | 34 | 31.8 | 12.3 | 19.5 | 30 | 32.6 | 10.2 | 22.6 | 1 |
| Thailand | 206 | 604 | 5.0 | 131 | 25.5 | 8.2 | 17.3 | 87 | 40.2 | 22.1 | 18.1 | 7 |
| Venezuela | 182 | 203 | 3.8 | 34 | 33.6 | 12.7 | 20.9 | 29 | 55.8 | 16.4 | 39.4 | 4 |
| Malaysia | 149 | 301 | 4.7 | 131 | 14.9 | 7.9 | 7.0 | 101 | 76.0 | 11.7 | 64.3 | 9 |
| Chile | 146 | 208 | 4.2 | 38 | 25.0 | 6.0 | 19.0 | 23 | 26.0 | 6.0 | 20.0 | 3 |
| Colombia | 136 | 363 | 3.9 | 26 | 35.4 | 11.8 | 23.6 | 22 | 91.9 | 16.6 | 75.3 | 3 |
| Singapore | 132 | 144 | 4.6 | 239 | 6.3 | 0.0 | 6.3 | 175 | 36.5 | 0.1 | 36.4 | 7 |
| Pakistan | 129 | 406 | 5.1 | 30 | 54.6 | 13.8 | 40.8 | 17 | 95.6 | 15.8 | 79.8 | 4 |
| Israel | 123 | 179 | 1.6 | 50 | 11.5 | 5.0 | 6.5 | 36 | 73.3 | 19.7 | 53.6 | 4 |
| Philippines | 117 | 463 | 4.6 | 54 | 23.4 | 5.8 | 17.6 | 40 | 34.6 | 9.6 | 25.0 | 4 |
| Nigeria | 115 | 169 | 5.5 | 22 | 48.5 | 11.4 | 37.1 | 18 | 150.0 | 15.6 | 134.4 | 3 |
| Egypt | 107 | 352 | 4.2 | 21 | 27.7 | 9.2 | 18.5 | 10 | 96.1 | 66.4 | 29.7 | 5 |
| NewZealand | 104 | 110 | 3.2 | 26 | 10.6 | 3.2 | 7.4 | 19 | 5.7 | 1.7 | 4.0 | 2 |
| Peru | 93 | 188 | 4.7 | 15 | 30.0 | 9.7 | 20.3 | 10 | 30.8 | 13.6 | 17.2 | 2 |
| Kuwait | 81 | 67 | 5.5 | 16 | 100.0 | 4.7 | 95.3 | 13 | 100.0 | 4.0 | 96.0 | 2 |
| Bangladesh | 62 | 320 | 5.6 | 16 | 34.4 | 14.2 | 20.2 | 10 | 192.0 | 16.9 | 175.1 | 3 |
| | [f] | [f] | | [f] | | | | [f] | | | | [f] |
| **All** | 17.5 | 26.5 | 4.1 | 26.2 | 27.6 | 7.9 | 19.7 | 27.1 | 65.8 | 19.0 | 46.8 | 24.8 |

Source: WTO Secretariat, Trade Profiles, (http://www.wto.org). Author's computations.

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calculated a few years before (World Bank, 2002). This decline largely reflects two decades of unilateral industrial tariff cuts by many countries.

Delivering certainty is particularly important in the case of the Doha Round because the 1990s and 2000s have witnessed substantial liberalizations that are not yet bound. Table 2 shows that, out of the 34 largest economies, only eight impose applied tariffs at their bound level (Messerlin, 2008). The 26 other largest economies—more than one fourth of world trade and GDP, and growing at rates twice those of the U.S. or the EC—have bound tariffs higher than their applied tariffs, often by 20 to 40 percentage points. Hence, these economies are potential major defaulters in tariff matters at any time and with no penalty. Moreover, the "tariff water" (the difference between bound and applied tariffs) is likely to be higher for the high tariffs, meaning that binding such tariffs would bring even greater welfare gains in terms of certainty.

It is difficult to estimate the "value of binding" aspect of the Doha Round because it requires to define the "default" policies that the 26 countries listed in Table 2 could implement, if these countries would decide to increase their applied tariffs up to their bound rates. World trade is estimated to decline by 8 to 10 percent (Bouët and Laborde, 2009; Australian Productivity Commission, 2009) and the world GDP by US$ 900 billion (2 percent)—strongly suggesting that the value of binding of the Doha Round is its most outstanding contribution to the world trade regime.

This conclusion is reinforced by the fact that such estimates do not take into account two key factors. First, they do not reflect the fact that the unexpected magnitude of the current economic crisis has increased the value of binding of the Doha Round to the extent that it has substantially increased the risks of default. Second, the above estimates ignore the opportunity costs imposed on the world trade regime by the fact that trade officials are so busy with the Doha negotiations that they have no time to look at other pressing major issues, such as the relations between climate change and trade policy (a point briefly evoked in the concluding section).

## III. Wasted Early Years (2001-2004) and Long-lasting Mistakes

The Doha Round is generally seen as very similar to GATT Rounds. This apparent continuity hides major differences that have made very difficult the launch of the Round, and are still imposing costs on its negotiating process.

The core of these differences is as follows. GATT was deeply conscious of the fragility of the world trade regime that it established, and of its many limits—a narrow membership, a scope limited to industrial goods, the absence of a robust litigation process, etc. In sharp contrast, the WTO was conceived with a boundless confidence in the new regime. It seemed that no issue could escape the WTO reach—services, trade-related intellectual property rights, strong litigation, the principle of linking together all the topics discussed during a Round (the so-called "Single Undertaking"), etc. Including new topics and new disciplines was simply seen as a matter of time.

These major differences reflect the very different environments prevailing when the two fora were conceived. The GATT birth witnessed a deep fragmentation of the world economy, divided between market-oriented (not necessarily free trade-inclined) countries, autarkic centrally planned economies, and developing countries fascinated by import-substitution policies. By contrast, the WTO birth was witnessing the fall of the Berlin Wall, the unilateral liberalization of former centrally-planned Central European economies (in such a very bold way, as in Czechoslovakia or Estonia, that it eroded the reluctance to more liberalization that characterized the EC approach until the Uruguay Round) and, last but not least, the even bolder market opening of China that led a notable group of developing countries to become supporters of the GATT "liberal" trade regime, including its traditional leading opponents (Brazil and India).

This boundless confidence in the WTO machinery has been the source of severe difficulties for launching the Doha Round. It largely explains the failure of the Seattle Ministerial (1999). It induced the WTO Members to link trade negotiations and "development" in a tight rhetoric during the 2001 Doha Ministerial. After a short-lived success, this rhetoric has been a source of bitter disillusionment at the 2003 Cancun Ministerial. Finally, it has imposed costly constraints that the Doha negotiators have still to abide by, as explained below.

## Launching a New Round: The Failure of the Seattle Ministerial (1999)

During the GATT years, launching a Round was done on an *ad hoc* basis, if and when a leading GATT Member (*de facto* the U.S.) felt that time was ripe for making further progress in opening markets. In sharp contrast, the launch of the Doha Round was pre-committed by the 1995 Uruguay Agreement that explicitly scheduled the launch of talks on agriculture and services by 2000. The choice of the year 2000 deserves a remark. It was before the full implementation of two highly contentious Uruguay Round agreements—the opening of developed country markets in clothing and textiles by 2005, and the enforcement of the developing country obligations in trade-related intellectual property rights (hereafter TRIP) by 2010. Opening a new Round when key concessions of the previous Round are not even close to be fully enforced was a sure recipe for serious troubles.

Troubles were fast to emerge, with the collapse of the Seattle WTO Ministerial in 1999. During this Ministerial, the U.S. and the EC were still in the mid-1990s mood, and wanted to expand the WTO to new topics, particularly trade and labor. At the same time, developing countries became increasingly divided. At one end of the spectrum, the emerging economies were building an offensive agenda adapted to their mounting export capacities, targeting in particular the U.S. and EC reluctance to open their markets in agriculture, in some industrial sectors (those still highly protected against goods exported by the developing countries), and in services (including labor movement). At the other end of the spectrum, the least-developed economies (LDC) were hanging on to their exemptions from GATT/WTO disciplines. These divisions were increased by the rapidly fading hopes of many developing countries to benefit from the scheduled increased openness of the textiles and clothing markets in developed countries, because of the fast and strong rise of China's productive capacities in these products.

All these difficulties were greatly magnified when non-governmental organizations (NGOs) discovered the WTO's capacity to attract media, a feature ignored by the GATT. Many NGOs appointed themselves as champions of the developing countries, often advocating for simplistic solutions to such complex issues as the true impact of the Uruguay Round TRIP Agreement on drugs, or the need of more "policy space" for the developing countries (see below). It took a few years for the trade negotiators of developing countries to reassert themselves, and make clear that they did not need help from NGOs often based in, or funded by developed countries.

## Development: The Rallying Cry at the Doha Ministerial (2001)

Following the Seattle debacle, the WTO negotiators put the negotiating process back on track in less than two years.[11] Such a haste had a price. The 2001 Doha Ministerial felt short to launch a fully fledged "Doha Round." Rather, it launched a "Doha Development Agenda" (DDA) with an initially very ambiguous status—for a long time, it was not even clear whether the DDA discussions were mere exploratory talks or true negotiations. More crucially, injecting the "development" term directly into trade negotiations created serious problems. It was driven by two very different reasons.

First was a quite usual feature of the GATT negotiating process that consists in including in a Round all the topics of interest for all the participants, before dropping some of them and concluding the deal with the "surviving" topics. The rationale for such an approach is to enlarge the possibilities of trade-offs among participants in order to facilitate the final shaping of the deal.[12]

The second reason was quite new. It was the realization of how it has become easy for developing countries to block WTO negotiations, as illustrated at the Seattle Ministerial. This capacity was generated by the principle of a "Single Undertaking" much more than by the sheer number of developing country WTO Members.[13] The Single Undertaking principle states that concluding a Round requires the agreement of all the Members on all the topics under negotiations. Ironically, this rule was imposed by the developed countries (most notably, the U.S.) during the Uruguay Round in order to

[11] This rapidity was in part related to the 9/11 terrorist attacks. But, it was also (mostly?) pre-determined by the WTO approach, much less conscious of the fragility of the trade regime than GATT. In this respect, it is worth noting that four years were necessary to recover from the failed attempt to launch a Round in 1982 and to launch what becomes the Uruguay Round at the 1986 Punta-del-Este conference.

[12] This negotiating technique reached a climax when the Uruguay Round negotiators "traded" better access to the textile and clothing markets of the developed countries with the implementation by developing countries of stricter laws and regulations in TRIPs.

[13] That the number of development countries is not a key parameter is suggested by the fact that, as soon as by late 1960s, developing countries represented more than half the GATT membership. By the way, it should be reminded that there is no official list of developing countries in the WTO. Being such a country is a decision left to each WTO Member. Proxy lists are the membership of the G77 Group of non-aligned countries, or of the countries with medium or low GDP per capita. Both lists do not include developed countries that still tend to consider themselves as developing countries in the WTO forum (Singapore, Korea, etc.).

force developing countries to make commitments on new trade issues (services and TRIPs) as a trade-off for the commitments in textiles, clothing, and agriculture that developed countries were ready to take. A few years later, this principle was backfiring and working in favor of the developing countries—now in the position to force the developed countries to take into account the developing countries' requests if they wanted to see their own requests accepted.[14]

### Development: Bitter Disillusionment at the Cancun Ministerial (2003)

The success of "development" as a rallying cry for the Doha negotiations was short lived. Before explaining the reasons for such a fate, it should be made clear that the ultimate objective of countries is growth and development, not trade *per se*. Trade policy is a necessary instrument for achieving such objectives, but not a sufficient one: many other domestic policies are needed. That said, trade policy has many ways to take on board development concerns (as illustrated in Section III). Explicit and multiple references to a broad development goal may then be more harmful than helpful, as illustrated by the first years of negotiations.

The main reason is that, behind the apparent consensus on the words "Development Agenda," WTO Members were quick to re-discover their disagreements on the relative role of trade policy and other policies in development.

For developed WTO Members, development was seen as requiring all the aspects of modern governance, from market opening to the so-called Singapore issues—competition law and policy, transparency in public procurement, disciplines in investment—and to issues such as labor and environmental regulations. In particular, the EC was pushing hard for making the Singapore issues part of the final Doha deal. The 2003 Cancun Ministerial resulted in the abandonment of this approach.

By contrast, most developing countries interpreted "development" as a way to restore and reinforce the notions of "special and differential treatment" (SDT) and

[14] At the end of the Uruguay Round, developed countries were able to impose the Single Undertaking to developing countries by creating a new institution (the WTO), leaving to the developing countries willing to benefit from the opening of the developed country markets in textiles and clothing, no other option than to join the WTO. Such "blackmail" is not an available option in the Doha Round.

"policy space." The Uruguay Round negotiations on GATT Article XVIII (the key legal basis for SDT) almost succeeded in reducing the notion of SDT to the narrow dimension of longer periods of implementation. By contrast, the late 1990s witnessed the increasing recognition that development does require some policy space.

The key question is then: which type of policy space? Economic analysis insists on a policy space centered on domestic policies, such as regulatory reforms, domestic taxes and subsidies in markets of goods, services and factors of production. It repeatedly shows that policy space narrowly defined as trade barriers (tariffs or non-tariff barriers) is rarely the appropriate instrument to deal with the vast majority of development issues.

Despite this clear message, the Doha negotiators of most developing countries have continuously pushed the notion of policy space to provide the freedom to impose trade barriers. This has led them to build "negative" coalitions, the main objective of which was not to get market opening concessions from other WTO Members, but to get exceptions from the ongoing negotiations and future WTO disciplines on access to their own markets.

**Table 3. Negative Coalitions: The Doha Round "Gruyère"**

| | Negotiations in | |
|---|---|---|
| | Agriculture | NAMA |
| Least-Developed Countries (LDC) | 32 | 32 |
| Small and Vulnerable Economies (SVE) [a] | 38 | 37 |
| New Recently Acceded Members (N-RAM) | 10 | 10 |
| Other groupings with wide exceptions [b] | 4 | 11 |
| Total | 84 | 90 |
| All WTO Members [c] | 127 | 127 |
| Core negotiating countries [d] | 43 | 37 |

Notes: (a) excluding N-RAM and other groupings. (b) Countries with Low Binding Coverage in NAMA and Net Food Importing Countries in agriculture. (c) Counting the EC as one WTO Member. (d) The WTO Members not pertaining to a negative coalition.
Source: WTO NAMA and Agriculture Chair texts, TN/MA/W/103/Rev.3, TN/AG/W/$/Rev.4, 6 December 2008.

Table 3 presents these negative coalitions: the more than three-decade old "least-developed countries" (LDC) and the new "Small and Vulnerable Economies" (SVE) and

"New Recently Acceded Members" (N-RAM).[15] In addition, several to a dozen of Members have succeeded in creating groupings with wide exceptions in manufacturing and agriculture. Altogether, these negative coalitions include roughly 84 to 90 Members which are totally or substantially exempted from the possible results of the Doha Round.

In short, the current Doha negotiations are fully involving only 40 Members or so, half of them being developing and emerging economies (out of a total WTO membership amounting to 127 Members, the EC being one Member). As these 40 Members represent more than 80 percent of world trade and GDP, the Doha Round looks like a "gruyère" full of small holes.

The Doha negotiators often claim that this situation does not create sub-categories of negotiating Members among developing countries. But, of course, it does. Negative coalitions reduce or eliminate the incentives of small developing countries to participate actively in the Doha negotiations, hence to block them since most of these small countries are wary of further liberalization. Ironically, they can be seen as a pragmatic solution to the Single Undertaking constraint offered by the small countries to the large WTO Members.

From a development perspective, negative coalitions have two opposite faces. For their own members, they are disastrous. They impose self-inflicted damages on the "opting out" countries since they substantially reduce potential trade among all their members and between them and the rest of the world. By contrast, negative coalitions are positive for the large developing and emerging economies. From a diplomatic perspective, such coalitions represent a large reservoir of small allies while, at the same time, they leave the large developing and emerging economies free to focus their offensive interests on trade with developed economies, without harming much their economic interests since negative coalitions represent too small a share of world trade and GDP.

[15] SVE are developing WTO Members that, in the period 1999-2004, had an average share of (a) world merchandise trade of no more than 0.16 percent, (b) world trade in NAMA of no more than 0.1 percent, and (c) world trade in agricultural products of no more than 0.4 percent.

## Development: A Source Of Long-Lasting Constraints On The Doha Negotiating Process

Amidst all these expectations and disillusionment, the WTO negotiators have defined four concrete guidelines defining "development-friendly" negotiations.

Firstly, paragraph 16 of the 2001 Doha Declaration states: "*The negotiations shall take fully into account the special needs and interests of developing and least-developed country participants, including through less than full reciprocity in reduction commitments* (..)" (author's emphasis). The "*less than full reciprocity*" provision does not make economic sense from a development perspective if one remembers that the Doha negotiations deal with bound tariffs. Almost all the developing countries—with the notable exception of China—have much higher bound tariffs than developed countries. If they want to boost their growth by guaranteeing access to their markets, developing countries should thus cut their bound tariffs more than the developed countries. Cutting bound tariffs more severely than developed countries does not necessarily mean that developing countries would cut their current applied tariffs, or that they could not have longer implementation periods than the developed countries—two simple and usual ways to take into account the relative fragility of the development process within the trade negotiating framework.

Secondly, paragraph 24 of the 2005 Hong Kong Declaration states: "(..) *we instruct our negotiators to ensure that there is a comparably high level of ambition in market access for Agriculture and NAMA.*" This statement links the liberalization of the industrial markets of the developing countries to the liberalization of the agricultural markets of the developed economies. From a purely economic perspective, this second criterion seems neutral. But, combined with the "*less than full reciprocity*" provision, it could constitute a strong incentive for creating a large and powerful "unholy coalition" between developed countries reluctant to liberalize their agriculture and developing countries reluctant to liberalize their industry.

Thirdly, the Doha negotiators have imposed on themselves a "sequencing" in the timing of the negotiations: agreements on agriculture and NAMA should precede serious negotiations in services. This sequencing reflects the widely held view among developing countries that development is associated with the growth of the goods sectors and not the services sectors. It also mirrors the intrinsic difficulties in negotiating liberalization in services (in the WTO forum or elsewhere). For instance, how to measure the concessions that a country is ready to give in some services and those that the trade partners are ready to offer in other services? In goods, the technique is well oiled: it is generally based on comparing the country's trade-weighted tariff cuts with the trade-weighted tariff cuts offered by the country's trading partners. In services, such an approach is impossible because there are no tariff equivalents of the barriers to trade in services. The constraint on sequencing has greatly contributed to put services on a sideline, a counter-productive situation for the whole Doha Round since services are such a large share of domestic GDP in all the countries.

Lastly, development has been an excuse for not requesting any commitment from the LDC—the so-called "Round for free" for the LDC. Sadly, developed countries led by the EC have supported such a view as a way to get LDC support for their own agenda. A "Round for free" imposes a heavy cost on the LDC. From an economic perspective, it deprives them from the progressive liberalization that they need for increasing their growth and development. From a negotiating perspective, the "Round for free" has allowed developed countries not to offer to the LDC a fully free access to their own markets, but to limit their commitments to offer a "duty free-quota free" (DFQF) to only 97 percent of their tariff lines (at the 2005 Hong Kong Ministerial). Such a proposal is of very limited interest for the LDC that export only a few goods, often covering less than 3 percent of the tariff lines.

## IV. At Last on Track (2004-2008) and Improving the Negotiating Technology

The Doha negotiators have spent endless hours on trying to define the "modalities" of the negotiations—that is, the broad framework of the Doha Agreement in terms of cuts in trade barriers, exceptions to agreed cuts, time schedules of the cuts, etc. Such a debate has often been confused and seen as a waste of time. This criticism is justified only to a limited extent. It ignores the fact that the Doha negotiators have faced two unprecedented challenges.

First, they have had to relax tight initial constraints—the constraint subjecting every aspect of the trade negotiations to a divisive "development" goal, and the constraint of the Single Undertaking. They needed four years to do these tasks—by eliminating some topics ("Singapore issues") by generating some broadly agreed criteria for taking into account the development goal, and by progressively allowing "negative" coalitions of many small WTO Members.

Second, and even more crucially, the Doha Round has been preceded by years of unilateral and preferential liberalization undertaken by many countries, mostly in industrial goods. This situation, unknown by previous Rounds, raised a key question: how to take into account these liberalizations in the Doha Round?

Both unprecedented challenges must be addressed to improve the technology of multilateral trade negotiations in order to address the following question: how to liberalize and make exceptions in a forum as large as the WTO that makes country-specific solutions inadequate, hence requires generic solutions under the form of "formulas." It took four years to provide answers to this question—starting from the early efforts to design the (imperfect) liberalization formula in agriculture in the 2004 July Framework and the 2005 Hong Kong Ministerial (both events were the turning points of the Doha Round, and witnessed the return to the pure logic of trade negotiations) to the 2008 mini-Ministerials "draft texts," which provide a complete set of formulas, often presented as the "best estimates" of what could be a fully-fledged outcome of the Doha Round in trade in goods.

The remarkable productivity of the Kennedy Round (see Table 1) reveals the importance of the negotiating technologies in a Round. Before the Kennedy Round, GATT negotiations on tariff cuts relied mostly on offers and requests expressed on a tariff line by tariff line basis, a very cumbersome process. The Kennedy Round made a technological leap-frog by substituting a liberalization formula to the offer-and-request approach undertaken until then, enabling the Kennedy negotiators to be the most productive of the GATT history (Baldwin, 1986).

But, liberalization formulas require exception formulas that provide to each negotiating country the degree of freedom needed by its government in order to get the domestic political support necessary for the signature and the ratification of the agreement. [16] The Kennedy Round did not generate such exception formulas for two reasons. First, exceptions against exports from other developed countries have been provided *ex post* under the form of many non-tariff barriers (voluntary export restraints, subsidies or antidumping measures) forcing the following Round (the Tokyo Round) to try to discipline all these measures. In addition, the Kennedy Round negotiators did not need to discuss exception formulas against developing countries' exports simply because, in sharp contrast with the current Doha Round, these countries were not interested in defending their offensive interests, while the then emerging economies (Japan, Hong Kong, Korea, Singapore and Taiwan) realized quickly the large rents they could get from voluntary export restraints and similar measures imposed *ex post* on their exports by developed countries.

The Doha negotiators have thus been the first to have to look for a whole set of liberalization and exception formulas acceptable to the whole WTO membership. If they could rely on the previous Rounds for designing the liberalization formula in manufacturing, they are the pioneers for the liberalization formula in agriculture and for the exception formulas for all the goods. In this respect, the future WTO Rounds will have to draw lessons from the Doha negotiating technology—its successes and its failures.

## Negotiations in Manufacturing (NAMA)

Contrary to a wide belief, the discussions on "non-agricultural market access" (NAMA) have been as difficult as those on agricultural products. (NAMA is an awkward expression allowing to exclude the food industry from negotiations on industrial goods and to include it in the "agricultural" negotiations.[17]) But, contrary to the case of agriculture, the Doha negotiators have benefited from the use of an efficient liberalization

[16] In the Doha Round parlance, exception formulas are described as "deviations" from the liberalization formula or as "flexibilities." This section uses the term "exception formulas" for deviations defined in a systematic way and for a broad range of WTO Members. It keeps the term "flexibilities" for exceptions specific to a very small group of countries or to individual countries.

[17] Note that fish products are part of the NAMA negotiations, not of those on agriculture.

formula tested by previous Rounds. Difficulties were thus concentrated on defining the desirable role of the Doha Round since this definition determines, to a large extent, the type and magnitude of the exception formulas.

### *The choice of an efficient liberalization formula*

The 2005 Hong Kong Ministerial confirmed the use of the "Swiss formula" as the key liberalization formula in NAMA. A Swiss formula defines the post-Round tariff (T) for a product as a function of two parameters only: the initial tariff (t) imposed on the product and the reduction coefficient (c, hereafter the "Swiss coefficient").[18] More precisely, it takes the following form: $T = (ct)/(c+t)$. The Swiss coefficient has an interesting feature: it gives the highest possible post-Round tariff. For instance, a Swiss formula with a coefficient of 25 implies that the highest possible post-Round tariff will be 25 percent.

The efficiency of the Swiss formula has three dimensions: economic (items 1 to 3 below) domestic politics (item 4) and negotiating tactics (items 5 to 8).[19] More precisely, the Swiss formula:

1. Cuts high tariffs more deeply than small tariffs, hence delivering most of the gains to be expected from freer trade (such gains come mostly from cutting high tariffs).
2. Reduces the dispersion among tariffs, hence the magnitude of the distortions generated by tariffs in the domestic economy—contributing to a more efficient allocation of resources of the country.
3. Enlarges the tax base (when high tariffs are high enough to prevent or sharply inhibit imports), hence can maintain or even increase public revenues.

[18] For simplicity sake, what follows uses the term tariff as equivalent to tariff rate.

[19] An interesting variant of this basic formula is $T = ct/(c^{\alpha} + t^{\alpha})^{1/\alpha}$ where 'α' is a "political" coefficient (to be negotiated) aiming to reduce tariff cuts in the low tariff range, hence to boost political support—a feature that could be particularly useful for negotiating on agricultural products (see below). I would like to thank Jean Messerlin for having suggested this variant.

4. Does not change the ranking of the existing tariffs (since it cuts all of them by the same factor), hence minimizing the conflicts among domestic firms about the new tariff schedule under negotiation.
5. Makes the Swiss coefficient the only element to be negotiated since initial tariffs are given, except in case of specific tariffs (see next item).
6. Requires to shift from specific tariffs (tariffs in the domestic currency by physical quantities of the products in question) to *ad valorem* tariffs (tariffs in percent of the world price), which are much more transparent, especially when world prices are volatile.
7. Makes easy to calculate the post-Round tariff structure, hence reducing uncertainty for foreign and domestic negotiators and operators.
8. Allows a differentiated approach to trade liberalization by offering the possibility to modulate the Swiss coefficients according to countries' specific needs.

All these points present the Swiss formula as a good illustration of the intrinsic capacities of trade negotiations to be pro-development, without the need to make multiple specific references to a "Development Agenda." For instance, the Swiss formula combines cuts of the high tariffs (high welfare gains for the liberalizing country) and the capacity of public budget to support the domestic policy space (public investment, domestic subsidies, etc.). It removes an implicit bias against developing countries that tend to export products with lower unit values than developed countries' exports, a bias magnified when importing countries are using specific tariffs instead of *ad valorem* tariffs. By providing an immediate, almost costless information on post-Round tariffs, the Swiss formula is friendly to the small negotiating teams of most developing countries. Last but not least, the possibility to have different Swiss coefficients for different countries allows to take easily into account the various level of development of the WTO Members.

That said, it took several years for many Doha negotiators from developing countries to recognize these pro-development features and to back up the use of the Swiss formula.

### *The Painstaking Definition of the Target of the NAMA Negotiations*

Should the Doha Round focus on currently applied tariffs, and cut those tariffs in order to provide “new additional market access”? Or should it focus on cuts in bound tariffs (bringing them down to the level of the existing applied tariffs) and consolidate the substantial cuts of applied tariffs already delivered by the unilateral and preferential tariff liberalizations of the 1990s and 2000s?

Negotiators from the developed countries favor the first target, while those of the developing countries favor the second goal. However, the business community of the developed countries has been more ambivalent than their own negotiators. In the early years of the Doha Round, the European business community issued a statement saying that post-Doha tariffs should not exceed 15 percent (Businesseurope, 2001) a position *de facto* consistent with the second goal since this figure is often lower than the average current applied tariff on industrial products in many developing countries. By contrast, the U.S. business community has been insisting on cuts in currently applied tariffs. As years went on, the European business community has been increasingly less comfortable with its initial position. The reason was the slowness of the negotiating process which implied that tariffs lower than 15 percent would be enforced only by 2020 (would the Doha Round be concluded by 2010) and not by 2010, as initially expected by the European business community.

That said, the 2008 mini-Ministerial draft text on NAMA appears clearly tilted towards the second target—a “binding Round.” This outcome was quite predictable (Messerlin, 2007a) and it would bring substantial welfare gains (see above Section III). However, as of January 2010, the question of the ultimate goal of the Doha Round is not yet completely settled because there is still a strong opposition in some quarters, in the U.S. mostly.

Table 4 summarizes the main components of the current draft text. There are four Swiss coefficients, one for the developed countries and three for the developing countries (leaving aside the LDC which have no commitment). It is important to underline that the higher the Swiss coefficient chosen by the developing countries is (the more limited the liberalization is), the more likely trade between developing countries is hurt. This is because the pre-Doha high tariffs of most developing countries protect mostly domestic industries that operate also in other developing countries because of similar comparative advantages. In short, the Swiss formula allows each developing country to make a policy choice that can be "development friendly" or not (developed countries have a pro-development Swiss coefficient).

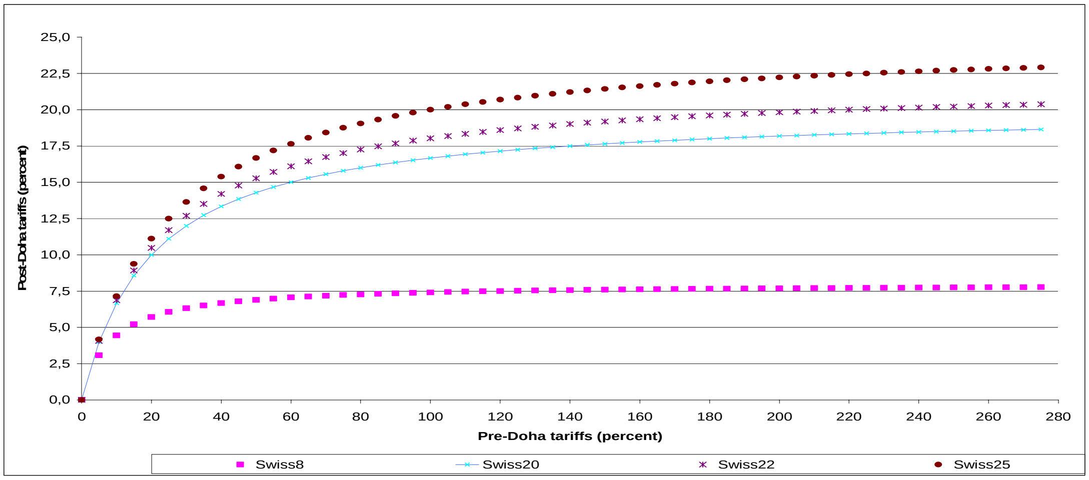
**Table 4. The Liberalization and Exceptions Formulas in NAMA, December 2008**

|  | Developed Members | Developing Members shall chose one of the three following Swiss coefficients |  |  |  |  |
|---|---|---|---|---|---|---|
| **A. Liberalization formula** |  |  |  |  |  |  |
| Swiss coefficient | Swiss8 | Swiss20 |  | Swiss22 |  | Swiss25 |
| **B. Exception formulas** | No | Option A | Option B | Option A | Option B | No |
| coverage (tariff lines) | exception | 14% max | 6,5% max | 10% max | 5% max | exception |
| coverage (trade value) | allowed | 16% max | 7,5% max | 10% max | 5% max | allowed |
| tariff cuts |  | half of the agreed formula | keeping tariffs unbound or no cut | half of the agreed formula | keeping tariffs unbound or no cut |  |

Source: WTO NAMA Chair, TN/MA/W/103/Rev.3, 6 December 2008.

Figure 1 provides a graphic illustration of the various agreed liberalization formulas. The horizontal axis gives the range of the pre-Doha tariffs (from 0 to 270 percent, the highest tariff observed in the six emerging economies analyzed in more detail in Table 5). The vertical axis gives the corresponding post-Doha tariffs for the various Swiss coefficients. It shows that the target of the European business community (no tariffs higher than 15 percent) will not be met only if the pre-Doha tariffs in the developing countries are very high—higher than 40 percent (with a Swiss25) or than 60 percent (with a Swiss20).

**Figure 1. Comparing the pre- and post-Doha tariffs, December 2008**



Note: The horizontal axis illustrates the pre-Doha tariffs and provides the post-Doha tariffs for the four Swiss coefficients agreed in the December 2008 draft text (see Table 4).

This observation raises the following questions: how frequent and how high are the "peak" tariffs—defined as tariffs higher than 15 percent? Answering these questions requires more detailed information provided in Table 5 for five major emerging economies and Korea.

Before looking at peak tariffs, Table 5 sheds some light on the average post-Doha tariff by country, a crude indicator of the global impact of the Doha draft text. The average post-Doha bound tariffs would be smaller by 1 to 2 percentage points than the currently average applied tariffs. In short, the view of the Doha Round as a "binding" Round should not hide the fact that the current draft text provides notable additional access to the markets of the major emerging economies. To put this result into perspective, the post-Doha average bound tariffs would range from 7.5 to 14.5 percent, meaning that a couple of emerging economies noted would have caught up to the level of bound openness of the developed WTO Members in the mid-1990s—in 1995, the EC average bound NAMA tariff was 6.5 percent (WTO Trade Policy Review 1998).

**Table 5. Pre-Doha and Post-Doha Bound and Applied Tariffs, Selected Emerging Economies**

| | Current tariffs | | Post-Doha bound tariffs | | | | Current tariffs | | Post-Doha bound tariffs | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | [a] | | Swiss | Swiss | Swiss | | [a] | | Swiss | Swiss | Swiss |
| | bound | applied | 20 | 22 | 25 | | bound | applied | 20 | 22 | 25 |
| **India** | | | | | | **South Africa** | | | | | |
| Average tariff | 36.5 | 15.4 | 12.7 | 13.5 | 14.5 | Average tariff | 15.6 | 7.7 | 7.5 | 7.9 | 8.4 |
| Maximum tariff | 150.0 | 100.0 | 17.6 | 19.2 | 21.4 | Maximum tariff | 60.0 | 43.0 | 15.0 | 16.1 | 17.6 |
| Number peaks [b] | 4544 | 4375 | 70 | 178 | 2176 | Number peaks [b] | 2579 | 1201 | 5 | 118 | 265 |
| Average peaks [b] | 36.8 | 16.1 | 17.0 | 16.5 | 15.6 | Average peaks [b] | 23.3 | 23.6 | 15.0 | 15.3 | 16.3 |
| **Mexico** | | | | | | **Indonesia** | | | | | |
| Average tariff | 34.8 | 13.3 | 12.7 | 13.4 | 14.5 | Average tariff | 35.3 | 6.7 | 12.4 | 13.1 | 14.2 |
| Maximum tariff | 50.0 | 50.0 | 14.3 | 15.3 | 16.7 | Maximum tariff | 100.0 | 80.0 | 16.7 | 18.0 | 20.0 |
| Number peaks [b] | 4564 | 1988 | 0 | 76 | 175 | Number peaks [b] | 4411 | 713 | 8 | 20 | 2976 |
| Average peaks [b] | 35.0 | 20.3 | -- | 15.3 | 16.0 | Average peaks [b] | 36.6 | 16.5 | 15.7 | 16.2 | 15.4 |
| **Brazil** | | | | | | **Korea** | | | | | |
| Average tariff | 30.8 | 12.6 | 11.9 | 12.6 | 13.6 | Average tariff | 9.7 | 6.7 | 5.5 | 5.7 | 6.0 |
| Maximum tariff | 55.0 | 35.0 | 14.7 | 15.7 | 17.2 | Maximum tariff | 262.3 | 259.8 | 18.6 | 20.3 | 22.8 |
| Number peaks [b] | 4526 | 1793 | 0 | 5 | 5 | Number peaks [b] | 566 | 80 | 2 | 2 | 2 |
| Average peaks [b] | 31.1 | 18.3 | -- | 15.7 | 17.2 | Average peaks [b] | 25.9 | 25.8 | 18.4 | 20.1 | 22.5 |

Notes: (a) Year 2001 for bound tariffs, 2004 or 2005 for applied tariffs, except for India (2001). (b) Peak tariffs are tariffs higher than 15 percent at the HS6 digit level.
Source: WITS data for the years 2004 or 2005. Author's computations.

Turning to peak tariffs, Table 5 provides two key results. First is in terms of frequency of the peak bound tariffs. Today, such tariffs are very common in the tariff schedules of all the countries examined, except Korea. By contrast, peak-bound tariffs would become a rarity with a Swiss20 coefficient, and barely notable (less than 200 tariff lines) with a Swiss22 coefficient. They would remain a substantial factor with a Swiss25 coefficient only for India and Indonesia. Second, the peak tariffs would be drastically cut. The average peak tariff for these six countries would decrease from 25-35 percent before the Doha Round to 15-18 percent once the draft text would have been fully implemented. Even more dramatically, maximum-bound tariffs would be slashed from 55-150 percent to 15-23 percent. Finally, the average of the post-Doha bound peak tariffs for these countries would range from 15 to 17 percent, except for Korea (but only for two tariff lines). In other words, the Businesseurope target of "no tariff higher than 15 percent" is largely achieved.

The last liberalization formula targets a specific group of countries—the LDC. In 2005, the Hong Kong Ministerial has called upon developed countries (and developing countries on a voluntary basis) to grant, on an autonomous basis, duty-free and quota-free (DFQF) market access for NAMA products originating from least-developed countries. Although the draft text opens the possibility that this DFQF access should cover all the products originating from all the LDC, it makes the DFQF a mandatory commitment for only 97 percent of all the LDC exports—a threshold that would still easily allow the maintenance of high tariffs on the few key exports of most LDC thanks to the exception formulas.

### *The Exception Formulas: Building "Sanctuaries" of Highly Protected Products*

The Doha negotiators have been much less well inspired when designing the exception formulas. As shown in Table 4, such formulas are available only for the developing or emerging countries choosing the Swiss20 or Swiss22 coefficients. In each case, there are two options having the same structure—reduced tariff cuts on a notable range of products (options A) or no cuts on a narrower range of products (options B). How to assess these two options from an economic perspective?

Options A open the door to the use of Swiss40 or Swiss44 coefficients, meaning that the highest post-Doha tariffs on the products under options A would be 40 or 44 percent. Such tariffs are very high. But, one should also recognize that developed countries, such as the EC or the U.S., still apply similar tariffs, but on a relatively limited number of products (textiles, clothing, leather and footwear in the U.S., and chemicals and photographic products in the EC). The risk generated by options A thus flows essentially from their relatively wide coverage in terms of products (450 to 650 tariff lines in HS6 terms).

Options Bs allow unbound tariffs or no tariff cuts. As a result, they create much more severe risks of highly protected "sanctuaries." Since tariffs under options B remain untouched while the rest of the tariffs will be substantially cut, tariff dispersion (possibly escalation) will be amplified—making, from an economic perspective, options B much more costly than options A for the country adopting them (and for the exporting trading partners). From a political economy perspective, such exceptions will be very difficult to eliminate in the next Rounds because vested interests will have huge incentives to keep such high barriers—sanctuaries of highly protected sectors in largely liberalized economies are very hard to eliminate, as best illustrated nowadays by the agricultural sector in developed economies).

The 2008 mini-Ministerial draft text tries to limit such risks with the so-called "anti-concentration" clause that aims at avoiding the exclusion of entire sectors from tariff cuts. This clause imposes that at least 20 percent of tariff lines (9 percent of the value of imports) in each HS tariff chapter would be subject to the full formula tariff reduction. However, the impact of such a clause is ambiguous to say the least for two reasons. First, HS chapters vary a lot in terms of number tariff lines and economic importance. Second, this clause makes it easier for developing countries protecting a wide range of inefficient economic activities to continue to protect them compared to countries protecting a narrow range of industrial activities.

In addition to these exception formulas, the draft text provides for five country-specific exceptions. However, these exceptions are much less important for the world-trade regime than the above mentioned exception formulas because they involve mostly the "negative coalitions" of small countries—hence cover a very small share of world trade. That is:

1. LDC shall be exempt from tariff reductions (the "Round for free"), and they are only expected to substantially increase their level of tariff bindings.
2. SVE (the largest is the Dominican Republic) shall bind all their tariff lines, with an average bound tariff level not exceeding 30 percent or being less, depending on the current average bound tariff of the country.
3. The New RAM (the largest ones are Ukraine and Vietnam) shall not be required to undertake tariff reductions beyond their accession commitments. This exception has no serious negative impact because the accession negotiations have imposed on these countries moderate to low bound tariffs (for instance, the average bound tariffs after full implementation of the accession protocol will be 5.1 and 10.4 percent in Ukraine and Vietnam, respectively).
4. The developing countries with initial low binding coverage (the largest one is Nigeria) would be exempt from making tariff reductions through the formula, but they would be requested to bind 75 to 80 percent of their tariff lines, at an average level that does not exceed 30 percent.
5. In order to soften the impact of multilateral tariff cuts on the exports of developing countries benefited from preferences (in other words, in order to minimize the consequences of preference erosion), the EC and the U.S. would cut more slowly a limited number of tariffs on products of key interest for a few developing countries (Bangladesh, Cambodia, Nepal, Pakistan, and Sri-Lanka).

### *Major Pending Issues in NAMA: Sectoral Initiatives and Non-tariff Barriers*

NAMA negotiations are dealing with two other main issues. First, "sectoral initiatives" aim at full liberalization in well defined industrial sectors. Sixteen sectors have been initially listed: cars, bicycles, chemicals, electronics, fish, forestry products, gems and jewels, raw materials, sport equipment, healthcare, pharmaceuticals and medical devices, hand tools, toys, textiles, clothing and footwear, and industrial machinery. Many of these sectors face serious problems, from many NTBs to addiction to antidumping cases to sharp downturns during the great economic crisis. As a result, in most of these sectors, the current negotiations would seem to have a hard time to reach the “critical mass” needed for concluding a deal. The sectors for which a deal seems still possible are chemicals, electronic and electric products, and environmental products.

The second major pending issue in NAMA focuses on the elimination of NTBs such as technical barriers to trade, sanitary measures, etc., or at least on the creation of procedures capable to solve the NTB-related trade conflicts. The 2008 mini-Ministerial draft text includes legal texts submitted by various WTO Members. Some of these texts focus on horizontal (non-sectoral) solutions, such as the procedures for the facilitation of solutions to NTBs. Other texts are “vertical” (*de facto* sectoral) solutions, such as how to handle NTBs in the chemical sector or how to manage labeling in textiles, clothing, footwear & travel goods.

However, a decision on whether all these proposals on sectoral initiatives and NTBs would move forward to fully-fledged text-based negotiations remains to be taken, and probably will be taken only at the extreme end of the negotiations.

### The Negotiations in Agriculture[20]

The term “agriculture” in the Doha Round is a (deliberate?) misnomer. It hides the fact that the products covered by the Doha negotiations are of two very different sorts: the farm products produced by farmers, and the food products produced by manufacturing firms, be cooperatives or private firms. This misnomer raises a crucial—always tucked away—question: who will be the ultimate beneficiary of the post-Doha protection—the farmers or the food industry? It is an important question because the interests of these two groups of producers are divergent in trade-policy matters. An increase (in relative terms) of the protection of farm products would reduce the profits of the domestic food producers (it increases the relative costs of their farm inputs). A relative decrease of the protection of farm products would increase the profits of the food producers and their ability to substitute foreign farmers for domestic farmers.

Tensions between these two sectors are the most visible in the developed countries where the food sector is well developed. Evidence provided below suggests that, in such countries, the major beneficiaries of the Doha Round would be the food

[20] See the companion chapter on agriculture by T. Josling (2011).

producers—not the small farmers despite the fact that such farmers are the only group in agriculture that public opinion in developed countries would like to see protected. This is not so surprising: the farm sector represents barely 2 to 4 percent of the GDP in developed countries while the share of the food sector is more than double.

By contrast, the tensions between domestic farm and food sectors are more limited in many developing countries if only because the domestic food sector is less developed. Agriculture defined as the farm sector is the major item of the Doha negotiations for most developing countries. It represents 40 percent of GDP, 35 percent of exports, and 50-70 percent of total employment in the poorest developing countries (12, 15 and 15 to 40 percent, respectively, in the other developing countries). Three-quarter of the world's poorest people live in rural areas, the proportion in the poorest countries being as high as 90 percent.

That said, only a minority of developing countries is likely to specialize in agriculture in the long run. But most of them need to go through a period where they could accumulate wealth and skills in farm-related activities, before shifting to manufacturing and services. In other words, agriculture in the Doha Round is not solely a problem for major farm exporting countries such as Argentina, Brazil or Thailand. It also is critically important for the poorest developing countries, which are often dependent on a very small number of farm commodities, such as sugar, cotton or rice, highly subsidized and protected by developed countries.

### *The Uruguay Round Heritage*

The Uruguay Agreement on Agriculture was a breakthrough because it brought the farm and food sectors back into the WTO legal framework, after five decades of a general waiver. But it has had two severe limits.

First, it did not significantly lower the effective level of OECD farm support below the mid-1990s. The estimated share of total support (from consumers and taxpayers to farmers in OECD countries) in farm value added was 84 percent in 1986-1988 and still 78 percent in 2000-2005.[21] The years 2007-2008 witnessed a significant

[21] These calculations rely on the assumption that value added amounts to 60 percent of production at farm gates.

drop of this share to 60 percent. But, this mirrors largely the boom in world-farm prices during these two years, an evolution that has already been reversed. Meanwhile, the number of active OECD farmers has declined more sharply since the mid 1980s, and it will continue to do so in the coming years because of the age structure of farmers. As a result, the total support per farmer has risen in OECD countries, sending the wrong signal to the remaining farmers.

Second, the Uruguay Agreement on Agriculture has *de facto* granted a reverse "special and differential treatment" (SDT) to developed WTO Members by allowing many exceptions for agricultural products in WTO disciplines that are routinely enforced for industrial products. The Agreement imposed generous caps on export subsidies (such subsidies were not even countervailable until the so-called Uruguay "Peace Clause" lapsed in January 2004). It allowed production subsidies having a notable impact on trade flows in amounts much greater than the amounts effectively disbursed, creating a phenomenon of "subsidy water" quite comparable to the "tariff water" observed in industrial tariffs. The Uruguay Agreement also allowed a wide use of "specific" tariffs (denominated as a fixed sum of money per unit of product, contrary to the *ad valorem* tariffs expressed as a percentage of the world price). Specific tariffs are automatically more protective when world prices decrease, that is, precisely when protection is sought after by farmers. Finally, the Uruguay Agreement has introduced a generous use of tariff-rate quotas (restrictions combining a lower (in-quota) tariff for a specified volume of imports and a higher (out-quota) tariff for imports above this volume) despite the many shortcomings of this instrument (see below).

### *Initial Mistakes: From the 2001 Doha Mandate to the 2004 Framework*

The Doha negotiators have split their discussions into the same three components as used by the Uruguay Agreement: tariff cuts (market access), domestic support (subsidies, whether direct or indirect, such as those through guaranteed prices) and export subsidies. From 2001 to August 2003, the WTO Members spent most of their time on bickering how to define an export subsidy, which kind of formula to use for tariff cuts and for cuts in domestic support, whether the existing "boxes" (defining acceptable and non-acceptable domestic support) should be kept unchanged or redefined. Very little came out of these discussions, except the choice of an inefficient liberalization formula (the "tiered" formula) for cutting tariffs that happened to be a major flaw (see below).

In August 2003, a few months before the Cancun Ministerial, the EC and the U.S. tabled a joint paper that was expected to start the real negotiations by providing figures on the cuts in tariffs, domestic support and export subsidies that these two countries were ready to envisage. The paper did not provide these figures, and it was badly received. This EC and U.S. tactical mistake has had two consequences. In the short run, it disbanded the U.S. and EC coalition, led to the collapse of the 2003 Cancun Ministerial, and, more generally, put a severe blow to the U.S. and EC leadership in the WTO. In the longer run, it changed the dynamics of the negotiating process by solidifying the "Trade G20" coalition around three major developing economies (Brazil, China and India).[22] The various attempts by the U.S. and EC negotiators to disband this coalition by discouraging actual or potential members to join it were short-lived, and they were counter-productive because they could not really change the coalition size (almost entirely dependent from the three core countries and their few natural allies) while raising deep resentments among the countries on which pressures were exerted.

The collapse of the U.S.-EC coalition was the starting point of a long negotiating process leading to concrete proposals, starting with the so-called July 2004 Framework. It is beyond the scope of this chapter to describe the tortuous path between the 2004 Framework and the draft text of the 2008 mini-Ministerials. Rather, what follows presents the 2008 draft text that includes solidified figures in terms of liberalization and exception formulas.

### *Tariff Cuts (Market Access)*

Tariff cuts are the most crucial aspect of the negotiations in agriculture (Anderson, Martin, and Valenzuela, 2005). By limiting the wedge between world and domestic prices, small tariffs impose strong disciplines on domestic support (they make such a policy very expensive) as well as on export subsidies (they reduce incentives to provide them).

[22] That made the WTO forum the first official witness of a process that culminated in 2009 with the emergence of the "Leaders G20" at the level of Presidents and Prime Ministers.

Unfortunately, the potentially high disciplining effect of tariff cuts has been impaired by the Doha negotiators' choice of a "tiered" liberalization formula. Table 6 summarizes the Doha draft text on market access. It shows the four tiers and the respective cutting formulas for two groups of countries (developed and developing).[23]

Such a formula is much less efficient than a Swiss formula from the three perspectives of international negotiations, domestic politics, and economics. From a negotiating perspective, the tiered formula requires defining many parameters (the thresholds defining the various "tiers," the tariff cuts to enforce in each tier, etc.) compared to one Swiss coefficient. This complexity is mirrored by the fact that it took as much time to define one formula in agriculture for the developing countries compared to three in NAMA. From the point of view of domestic politics, a tiered formula has awkward discontinuities that can displace the pre-Doha and post-Doha ranking of domestic activities in terms of tariff level. Such a feature is very likely to trigger strong conflicts among the involved vested interests at the very final stage of the negotiations.[24]/

[23] For simplicity sake, Table 6 does not show the five-tiers liberalization formula for the RAM.

[24] Such discontinuities appear at the points connecting two different tiers. For instance, a pre-Doha tariff of 49.9 percent would be cut to a post-Doha tariff of 21.4 percent, whereas an initial tariff of 50.1 percent would be cut to a post-Doha tariff of 18.0 percent. The respective figures for initial tariffs of 74.9 and 75.1 percent would be 26.9 and 21.4 percent.

**Table 6. Liberalization and exceptions formulas in agricultural tariffs, December 2008**

| Developed countries | | Developing countries [a] | |
|---|---|---|---|
| definition of the tiers | tariff cut (%) | definition of the tiers | tariff cut (%) |
| **A. Liberalization formulas** | | | |
| 1.- Time period: 5 years | | 1.- Time period: 10 years | |
| 2.- tiers | tariff cuts (%) | 2.- tiers | tariff cuts (%) |
| >75% | 70.0 | >130% | 47.0 |
| 50-75% | 64.0 | 80-130% | 43.0 |
| 20-50% | 57.0 | 30-80% | 38.0 |
| 0-20% | 50.0 | <30% | 33.5 |
| 3.- Target: a minimum average cut of 54% taking into account exceptions. | | 3.- Target: a maximum average cut of 36% taking into account exceptions. | |
| 4.- Applies to "old" recent Members (RAM) | | 4.- Target for 45 small Members: a maximum average cut of 24%. | |
| **B. Exception formulas** | | | |
| **Sensitive products** | | **Sensitive products** | |
| 1.- coverage [b] | 4,0% | 1.- coverage [b] | 5,3-8,0% |
| 2.- tariff cuts | normal cuts reduced by 33, 50 or 66% | 2.- tariff cuts | normal cuts reduced by 33, 50 or 66% |
| 3.- sensitive tariffs are allowed to have tariffs above 100 percent. | | 3.- sensitive tariffs are allowed to have tariffs above 100 percent. | |
| 4.- "paid" by opening tariff-quotas amounting to 3-4% of domestic consumption. | | 4.- "paid" by opening tariff-quotas amounting to 3-4% of domestic consumption. | |
| 5.- coverage could be extended by 2% if more than 30% of the products are in the top band of the liberal. formula. | | 5.- Country-specific flexibilities for a dozen of countries (plus LDC, SVE, N-RAM). | |
| 6.- No country-specific flexibilities. | | | |
| **Special products** | | **Special products** | |
| not available | | 1.- coverage [b] | 12% in 2 tranches of 7% (min) & 5% (max) |
| | | 2.- tariff cuts | none for 5% tranche |
| | | 3.- Target: an average tariff cut of 11% | |
| | | 4.- Specific conditions for SVE and N-RAM | |
| **Special safeguard (SSG)** | | **Special safeguard mechanism (SSM)** | |
| to be scrapped | | new instrument still under discussion. | |

Notes: (a) RAM have their own liberalization formulas based on five tiers. (b) Coverages are defined in terms of tariff lines.

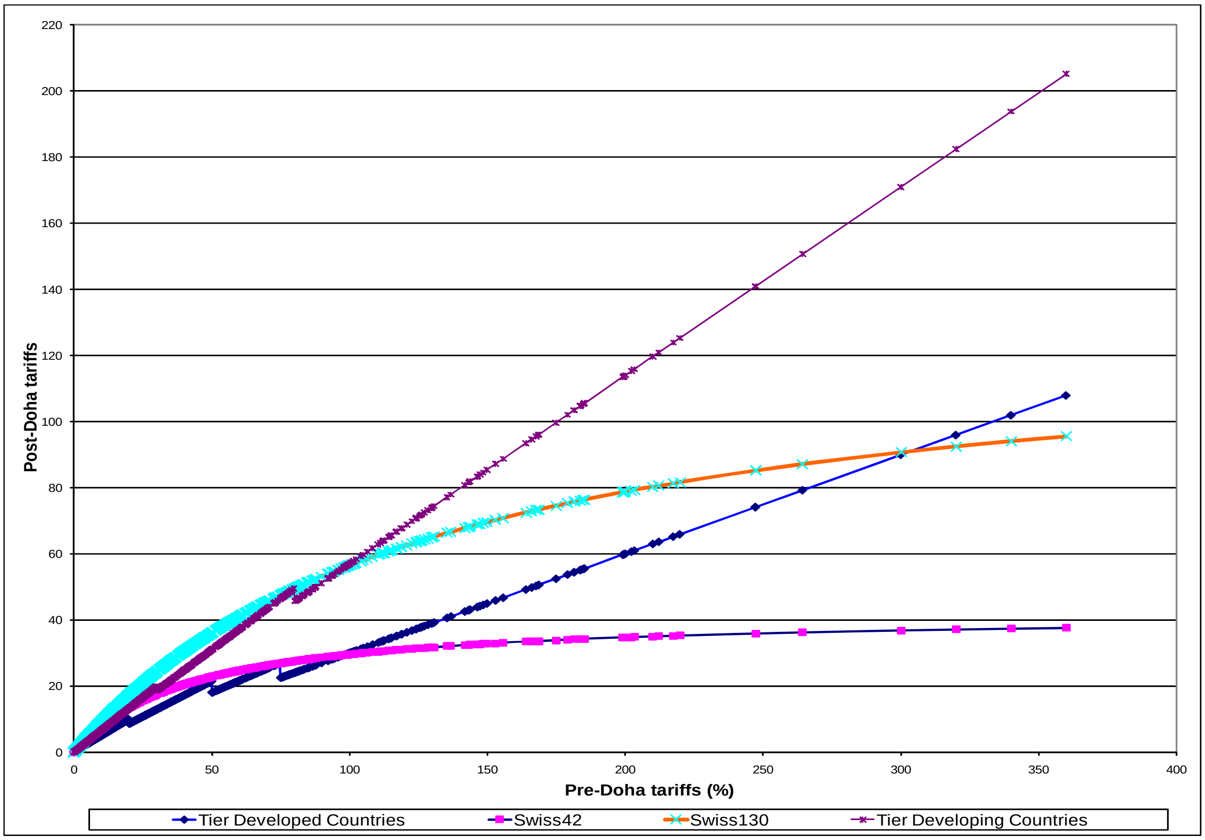
Source: WTO Agriculture Chair text, TN/AG/W/$/Rev.4, 6 December 2008.

Last but not least, from an economic perspective, a tiered formula cuts (much) less deeply peak tariffs and more strongly small and moderate tariffs than a Swiss formula, hence generating (much) smaller welfare gains than a Swiss formula. This is illustrated in Figure 2 that uses the EC tariff schedule for farm and food products as an illustrative schedule.[25]

[25] Figure 2 relies on the *ad valorem* equivalents of the specific tariffs, particularly numerous in agriculture. The 2008 draft text provides the detailed procedure to be followed for calculating such equivalents since they are very sensitive to many factors, particularly the reference period

Figure 2 shows that most of the post-Doha tariffs in the fourth tier will remain (much) higher than those allowed by a Swiss42 (in the hypothetical case of a developed country) or by a Swiss130 (in the hypothetical case of a developing country). The opposite situation is observed for the three first tiers. In short, a tiered formula would leave bigger distortions in domestic and world agricultural markets, hence would allow the survival of more numerous and powerful lobbies fighting for high tariffs in Rounds following the Doha Round.

**Figure 2. The tiered and Swiss formulas: a simulation based on the EC tariff schedule**



Note: The Swiss42 "envelops" the three lower tiers in the case of a developed country. The Swiss130 envelops the three lower tiers in the case of a developing country.

Source: Table 6 (formulas) and the EC tariff schedule used as an illustrative schedule. Author's computations.

and exchange rate chosen.

That said, which sector—farm or food—would remain the most protected in the post-Doha period? A precise answer requires calculations based on the countries' tariff schedules. Table 7 provides the result of such detailed calculations, again taking the EC tariff schedule as an illustrative case. It clearly shows the food sector as the winner. Such a result mirrors the tariff escalation solidified during the Uruguay Round, when high tariffs were granted to food producers for "compensating" them for their expensive sources of farm products. Hence, it should also be expected for the other (developed) countries.

Table 7 provides several other interesting results. Its section A covers all the farm and food products. It shows the Swiss coefficients that would provide the same average tariff as the tiered formulas described in the draft text. These coefficients are substantial (28.5 for developed countries and 87 for developing countries) with, interestingly, the Swiss coefficient for developed countries not too far away from the highest Swiss coefficient in NAMA for developing countries. As noted above, the Swiss formula would rebalance tariff cuts—cutting more food tariffs and fewer farm tariffs, a result more consistent with government pledges to protect small farmers than the Doha draft text. Section B of Table 7 focuses on the "peak" tariffs imposed on the farm and food products in the EC schedule of tariffs. It shows that peak tariffs are relatively similar for both types of products, but are much more frequent in the food sector than in the farm sector (65 percent of the number of tariff lines vs. 25−30 percent, respectively). Interestingly, the Swiss formula would have roughly the same rebalancing effect on the peak tariffs than on all the agricultural tariffs.

## Table 7. The Post-Doha Winners: The Food vs. the Farm Sectors

| | Number | Uruguay | Post-Doha bound tariffs [b] | | | |
|---|---|---|---|---|---|---|
| | of tariff | Bound | Developed country | | Developing country | |
| | lines | tariffs [a] | tiered | Swiss28.5 | tiered | Swiss87 |
| | | (%) | formula | | formula | |
| **A. All tariffs** | | | | | | |
| Farm commodities | 117 | 19.7 | 7.8 | 7.8 | 12.2 | 12.7 |
| Horticultural products | 273 | 13.6 | 6.0 | 7.3 | 8.7 | 10.2 |
| Semi-processed food products | 488 | 12.6 | 4.9 | 5.3 | 7.8 | 8.2 |
| Processed food | 1120 | 32.6 | 12.3 | 11.9 | 20.0 | 19.4 |
| All farm and food products | 1998 | 24.3 | 9.4 | 9.4 | 15.0 | 15.0 |
| **B. Peak tariffs (tariffs higher than 15 percent)** | | | | | | |
| Farm commodities | 42 | 48.9 | 18.8 | 17.3 | 30.0 | 30.1 |
| Horticultural products | 73 | 34.5 | 14.1 | 14.8 | 21.6 | 23.5 |
| Semi-processed food products | 93 | 51.9 | 18.5 | 17.0 | 31.6 | 30.1 |
| Processed food | 711 | 47.8 | 17.5 | 15.7 | 29.1 | 26.9 |
| All farm and food products | 919 | 47.2 | 17.4 | 15.8 | 28.8 | 27.1 |

Source: Table 6 (formulas) and the EC tariff schedule used as an illustrative schedule. Author's computations.

Turning to the exception formulas, Table 6 above summarizes the three main types of exception formulas included in the 2008 draft text: sensitive products, special products and the Special Safeguard Mechanism (SSM).

### *Sensitive Products*.

All WTO Members would be entitled to define "sensitive" products for political reasons, up to 4 percent (developed countries) to 5.3-8 percent (developing countries) of the tariff lines (roughly 80 to 160 tariff lines at HS6 digit). They are eligible for reduced tariff cuts, but these reduced cuts have to be "paid" by the introduction of tariff-rate quotas (TRQ) amounting to 3 to 4 percent of domestic consumption. It is hard to predict the tariff lines that will be selected. Those with the current highest out-quota tariffs seem good candidates. But, in developed countries, the competition between vested interests will be strong because the number of tariff lines under TRQ will decrease between the post-Uruguay and the post-Doha regimes (for instance, from 251 to 71 in the EC case). Things are even more complicated because there are additional constraints (for instance, the provisions on tariff escalation or on tropical products, see below) to be taken into account. Simulations for the EC suggest that the EC would still be able to achieve the target imposed by the draft text of a minimum average tariff cut of 54 percent, although the average tariff on sensitive products would only decrease from 112 to 86 percent (Kutas, 2010).

At first glance, TRQ look like a attractive device because they give the impression of allowing a careful management of the trade opening process. But the reality is quite the opposite, as already witnessed by the TRQ regime introduced under the Uruguay Agreement. The major flaw of TRQ is the difficulty of predicting their ultimate impact because it requires a knowledge of supply and demand reactions that are rarely available to market operators. This uncertainty is compounded by the lack of adequate data at the disaggregated HS6 level. For instance, negotiators have been forced to lay down a complex procedure to calculate the "domestic consumption" (the parameter on which to apply the thresholds of 3 to 4 percent) at such a disaggregated level when only imports and exports are available, whereas production figures are available at a much higher level of aggregation.

Such an uncertainty opens the door to surprising outcomes. First, TRQ could be a device-freezing market entry (contrary to their stated goal) as it has been observed under the Uruguay Agreement. Second, if the domestic demand becomes smaller than the TRQ quota, domestic prices reflect the low in-quota tariff, and domestic producers are more exposed to freer trade than expected by the negotiators. Third, TRQ could also favor an increase of imports, including (surprisingly) in the out-quota shares such as in the EC bovine or poultry meat under the post-Uruguay regime (Kutas, 2010). Lastly, if the domestic demand exceeds the quota, domestic prices reflect the high out-quota tariff, generating huge rents. But, who would get such rents? The answer depends on several parameters, but foreign exporting firms or domestic importing (food) firms—not domestic farmers—are the most likely recipients of such rents.

***Special Products*.**

Only developing WTO Members would be entitled to define special products when they feel that trade liberalization of these goods would affect the country's "food security, livelihood security and rural development." The potential coverage for such products is quite wide—up to 12 percent of the tariff lines, roughly 240 tariff lines at HS6 digit level. Special products are eligible for much reduced tariff cuts, or even no tariff cut at all. They are not to be "paid" by TRQ.

### *Special Safeguard Mechanism.*

Last but not least, the Doha draft text introduces a last type of exception formula under the form of a conditional "special safeguard mechanism" (SSM) made available only to developing and recently acceded countries. As any safeguard, the SSM requires the definition of the threshold allowed to trigger the measure and the type and magnitude of the safeguard measure. Discussions on these issues have failed (Wolfe, 2009), and have become the official reason of the collapse of the whole Doha negotiations in the July 2008 mini-Ministerial.

By contrast, the Doha draft text scraps the "special safeguard" (SSG) created by the Uruguay Agreement for developed Members, hence contributing to the elimination of the "reversed SDT" enjoyed by the developed countries under the Uruguay Agreement.

### *A Provisional Conclusion on Exception Formulas.*

Combined with the tiered formula, all these exception formulas would shape a very uneven Doha liberalization. Farm and food products with low or moderate pre-Doha tariffs and not subjected to one of the three exception formulas would be liberalized. But, a substantial number of products—those with pre-Doha high tariffs or subjected to one of the three exception formulas—would remain tightly protected, particularly in the case of the developing countries (because of the special products and SSM formulas). In short, the Doha Round Agreement based on the current draft text is unlikely to open markets of critical interest for the WTO Members. In particular, trade between developing countries will remain highly constrained.

### *Domestic Support*

The 2008 draft text introduces two layers of cuts in trade-distorting support. First are the cuts in the three different "boxes" inherited from the Uruguay Round Agreement, that is:

- The Amber Box ("aggregate measure of support" or AMS) covers the domestic support that is the most distorting because it is tightly linked to prices (price-support mechanisms) and/or to production,

- The *de minimis* Box covers measures of similar nature as those of the Amber Box, but in smaller amounts (they should not exceed 5 to 10 percent of farm production),
- The Blue Box includes domestic support considered as less distorting than the Amber Box because it is subjected to some restrictive conditions (such as imposing production limits curbing potential over-production on direct payments based on the number of animals or on the area planted).

All the cuts defined within each of these boxes are defined at two levels: the country's aggregate agricultural output, and the level of the country's outputs of specific products. This two-level system aims at preventing the circumvention of the Doha disciplines on the global domestic support through transfers between different products.

The second layer of cuts in domestic support is based on a new concept created by the Doha negotiators—the "overall trade-distorting domestic support" (OTDS), which is the sum of the Amber, *de minimis,* and Blue boxes. Hence, it defines cuts in the permitted amounts of the three boxes combined.

All these cuts are achieved by a mix of tiered formulas (the EC being the only country in the highest tier, the U.S. and Japan pertaining to the second tier, and the other developed and a few developing countries pertaining to the lowest tier) and caps not to go beyond. Rather than describing all these cuts and caps in detail (see the 2008 WTO Agriculture Chair text for a detailed description) it is more interesting to get a sense of the impact of the Doha draft text on the OTDS and on the Amber Box (which constitute the bulk of domestic support) in the case of the EC and of the U.S., the two major providers of subsidies.

Table 8 presents the bound commitments taken by the EC and U.S. in the 1995 Uruguay Agreement, the effective support granted in 2004, and the estimated support for 2013. It suggests three major observations. First, the base level used by the Doha negotiators are the Uruguay bound commitments, as in the tariff negotiations. Second, the applied level of support in 2004 is much lower (roughly half) than the bound level agreed in the Uruguay Round. In other words, the "water" in EC and U.S. domestic support to agriculture is as substantial as the "tariff water" of the core developing and emerging countries in NAMA. Third, the EC and U.S. Doha commitments defined by the 2008 draft text represent roughly a cut by half of the applied domestic support in 2004, but they are in line with the applied domestic support estimated for 2013. In sum, the Doha Round would essentially bind the EC and U.S. farm policies expected to prevail by 2013.

**Table 8 The Liberalization Formulas in Farm Support, December 2008**

| | Support in billion US dollars [a] | | Support in % of agricultural output [b] | |
|---|---|---|---|---|
| | U.S. | EC15 [c] | U.S. | EC15 |
| **1. Overall Trade Distorting Support** | | | | |
| The Uruguay bound commitments | 55.0 | 149.0 | 47.4 | 70.6 |
| Effective OTDS (2004) | 23.0 | 78.0 | 19.8 | 37.0 |
| Estimated OTDS (2013) [d] | 12.4 | 30.0 | 10.7 | 14.2 |
| The Doha draft text (December 2008) | | | | |
| Base levels | 48.2 | 149.0 | 41.6 | 70.6 |
| Formula cuts (in %) | 70 | 80 | -- | -- |
| Commitments | 14.5 | 29.8 | 12.5 | 14.1 |
| **2. Amber Box (Aggregate Measure of Support, AMS)** | | | | |
| The Uruguay bound commitments | 19.1 | 90.7 | 16.5 | 43.0 |
| Effective Amber Box (2004) | 13.0 | 42.0 | 11.2 | 19.9 |
| Estimated Amber Box (2013) [d] | 6.9 | 24.3 | 5.9 | 11.5 |
| The Doha draft text (December 2008) | | | | |
| Base levels | 19.1 | 90.7 | 16.5 | 43.0 |
| Formula cuts (in %) | 60 | 70 | -- | -- |
| Commitments | 7.6 | 27.2 | 6.6 | 12.9 |

Notes: (a) Figures for the EC are expressed in Euros in the Chair text, and are translated in US dollars on the basis of an exchange rate of 1.35 US dollar per euro prevailing in December 2008. (b) Average value added in agriculture for the years 1995-2000. (c) Past figures for the OTDS for the EC 27 are roughly 106 percent higher than those for the EC15. OTDS for 2013 is estimated for the whole EC27. (d) Support for 2013 are estimated by Kutas (2010) for the EC and by Orden, Josling, and Blandford (2010) for the U. S..

Source: WTO Agriculture Chair text, TN/AG/W/$/Rev.4, 6 December 2008. Author's computations.

This last observation requires an important *caveat*. It does not mean that the whole support to EC and U.S. farmers will be sharply cut, but only subsidies tightly linked to prices and quantities. The EC and U.S. remain free to shift Amber and Blue support to the Green box. Such a shift would be an improvement to the extent that Green subsidies have a smaller impact on agricultural trade than the Amber and Blue support.

But, the magnitude of this smaller impact remains a debatable matter. After all, Green subsidies would still induce farmers to produce more than in the total absence of support. In short, it is harder to assess the true liberalization impact of the Doha draft text on farm support that it is to assess the impact of the Doha draft text on NAMA.

Expressing domestic support in percentage of agricultural output is interesting because such an expression is relatively similar to a tariff. Based on the average value added in agriculture for the years 1995-2000, Table 8 shows that the Doha commitments would reduce the share of domestic support in agricultural output value to 12-14 percent in the U.S. and EC—a percentage close to the NAMA average tariff of emerging economies such as Brazil or India (see Table 5). These estimates suggest that the criterion of "a comparably high level of ambition in market access for Agriculture and NAMA" imposed by the negotiators in the context of a "Doha Development Agenda" has been met.

The December 2008 draft text includes many other provisions on domestic support, but examining them in detail goes beyond the scope of a chapter. What follows flags the most important ones.

- Almost all the commitments define precise time schedules for implementation and substantial downpayments for the first year of implementation. The implementation time schedule and downpayments differ greatly for developed and developing countries, mirroring the special and differential treatment enjoyed by developing countries.
- Caps on post-Doha support are defined with respect to the support actually provided in 1995-2000 (the product specific Amber boxes) or to the amount of production (*de minimis* box, Blue box).
- The Uruguay Blue box (direct payments based on the number of animals or on the area planted are subjected to production limits ensuring to curb somewhat over-production) would be complemented by a new Blue box (direct payments based on a fixed amount of production in the past).

The domestic support component of the draft text deserves three final remarks. First, the "Green" box (support deemed not to distort production or prices or, at least, to cause minimal distortions) provisions will be tightened for developed countries, but made laxer for developing countries in order to allow such countries to purchase farm products for stockpiling, fighting hunger, and rural poverty, and/or buying from low-income farmers (even at prices higher than market prices).

Second, there are special provisions for cotton, a product that has attracted significant media attention since the early 2000s. Trade distorting domestic support for cotton (Amber box) would be cut more substantially than for the other agricultural products while the Blue support for cotton would be capped at one-third of the normal limit for other farm products.

Finally, there are provisions in favor of the farmers of certain developing countries that have indirectly benefited from OECD domestic support via preferential access to protected OECD markets, as best illustrated by Mauritius (sugar) or certain African or Caribbean countries (bananas) in the EC markets. Such preferential access has allowed these farmers to sell their products on the EC markets at European prices that were much higher than world prices. The Doha draft text allows for a slower liberalization for products with such long-standing preferences. The list of the products concerned is still under discussion.[26] Such provisions are ambiguous, to say the least, from a development perspective. Ending past preferences by establishing a (transitory) preferential regime discards the crucial fact that the farmers of the developing countries free riding on OECD support have been favored for decades at the detriment of the competing farmers of the developing countries excluded from such OECD domestic support.

### *Export Measures*

Export measures have been among the least difficult topics to negotiate. A (incomplete) draft text imposing their complete elimination by 2013 was one of the main outcomes of the 2005 Hong Kong Ministerial. There are several reasons for such a situation. Firstly, export subsidies *per se* have been almost exclusively granted by the EC (85 percent of all export subsidies in the mid-1990s) hence putting a lot of pressures for reform on only one WTO Member. Second, export subsidies have a bad reputation in

[26] In the same vein, in December 2009, an agreement between the EC and the Latin American producers of bananas that did not have preferential market access to the EC during the last sixty years has put an acceptable end to this five decade-long dispute.

many corners: they are seen as a source of unfair international competition, as inefficient in terms of food aid, as tightly related to public monopolies (state trading enterprises, STE), etc. As a result, they have been under constant attack from all sides, from foreign exporters to NGOs to domestic and/or foreign consumers, to domestic competition authorities, etc. Finally, they are often perceived as subsidies targeted to large food multinationals—most observers forget that, in fact, the multinationals "pay back" these subsidies to farmers when they buy farm products at prices (much) higher than world prices.

Under all these pressures, the EC has undertaken a unilateral liberalization of its export subsidies since the mid-1990s. EC export subsidies have decreased from Euros 8 billion (the EC commitment in the Uruguay Round Agreement) to roughly 3 billion in 2003 and less than 2 billion in 2006—mirroring again a huge "subsidy water." In 2007-2008, EC export subsidies had almost disappeared because of the boom in world prices in farm products, while less than Euros 0.6 billion for 2009 (half the 2008 amount) have been included in the EC 2009 budget.

However, the 2008-2009 economic crisis has witnessed a reversal of this long term decline, particularly in dairy products where the EC accounts for a large share of international trade (from 20 to 35 percent, depending on the product). Another factor raises some doubts on the ease with which a total elimination of export subsidies would be achieved by 2013: if the total amount of export subsidies has declined, the quantities of exports still eligible has declined more slowly, suggesting the survival of a strong demand for such an instrument in some farm niches.

That said, the main difficulties met by the 2008 draft text were related to the definition and treatment of export measures deemed "equivalent" to export subsidies, such as food aid, export credits, guarantees and insurance, exporting state trading enterprises, export restrictions, and taxes. Until recently, such instruments do not represent a substantial amount of money. Available estimates suggest that the share of exports subsidized by such instruments represent 2 (EC) to 5 (U.S.) percent of total agricultural exports, and that the subsidy equivalent of all these instruments was smaller than 7 percent (Hoekman and Messerlin, 2006).[27]

The 2008 draft text confirms the elimination of export subsidies by 2013, and it imposes the same provisions on export credits with repayment periods beyond than 180 days. Moreover, it aims to ensure the progressive convergence of disciplines to be imposed on export credits, export credit guarantees, or insurance programs with repayment periods of 180 days or less (these programs should be self-financing, reflect market consistency, and be of a sufficiently short duration so as not to effectively circumvent commercially-oriented disciplines). It requires the elimination of the trade-distorting practices favored by the STE, with future disciplines curbing potential monopoly power (which could circumvent the disciplines on export subsidies) government financing, and underwriting of losses. Lastly, the 2008 draft text aims at eliminating commercial displacement beyond an adequate level of food aid through the creation of a "safe box" for *bona fide* food aid in case of emergency, and through the adoption of effective disciplines on in-kind food aid, monetization, and re-exports so that there can be no loopholes for continuing export subsidization.

### *Major Pending Issues in Agriculture*

The above description of topics included in the 2008 draft text is not exhaustive. There are, among others, specific provisions on tariff escalation (when tariffs on processed products are higher than those on raw materials, with a view to reduce such escalation when it is large enough to hinder processing for export in the country producing the raw materials) tariff simplification (with a view to minimize the number of specific tariffs) tropical products (with a view to have faster and deeper tariff cuts on such products), TRQ administration (shall TRQ be possible only for products already under a TRQ regime, and what would be the TRQ regime if it can be imposed on new products) and inflation (a topic covering price increases that could make void committed

[27] These small figures are explained by the fact that the subsidy equivalent of an export credit is not the total amount of credit granted, but only the subsidized component created by the difference between the market and preferential interest rates. Similarly, what is at stake with the exporting STEs is not their whole activities, but the export subsidy equivalent provided by government financing and/or underwriting of losses.

limits and those that could create difficulties for developing countries facing sharp rises in food prices). As these provisions deal with complex issues, they tend to be written in general terms that still remain largely open to discussion in the months to come.

Besides this host of provisions, there are two major pending issues. As noted above, the conditions for using the Special Safeguard Mechanism have not been agreed on yet. The reason why negotiations have failed—the possibility, or not, to impose a SSM duty higher than the post-Doha bound tariff for the product in question—does not make much sense. Such a possibility is routinely used in antidumping, antisubsidy and safeguard measures in NAMA. For instance, it is not uncommon that antidumping duties on industrial products are ten times higher than bound tariffs.

The other major pending topic is geographical indications (GI), which are ruled by the Uruguay TRIPs Agreement, but mostly concern agricultural products. [28] They witness the opposition of the WTO Members (the so-called W52 sponsors led by the EC) that favor a high level of GI protection based on a multilateral and mandatory register for wines, spirits, and an undefined number of additional products, and the WTO Members that favor a voluntary database on GI. Of course, the stricter the mandatory conditions imposed by the register, the stronger is the implicit degree of monopoly created by the register.

GI is a typical case of inertia in trade negotiations. This topic was already part of the Uruguay negotiations. It continues to be tabled by the EC even though it is questionable that a strong GI regime is in the EC's own interests. For instance, the last decade has given ample proof that a strong GI regime did not help the French wine sector. Under the French strong GI regime for wines, some French vineyards have performed very well, but others very poorly—suggesting that "something else" than strong GI is key for success in the modern wine business. Evidence from the last decade suggests that GI can have severe perverse effects (freezing the production technology,

[28] Article 22.2 of the Uruguay TRIPs Agreement requires Members to provide the legal means (i.e., GIs) to prevent the use of any means "*in the designation or presentation of a good that indicates or suggests that the good in question originates in a geographical area other than the true place of origin in a manner that misleads the public as to the geographical origin of the good*," as well as any use "*which constitutes an act of unfair competition*." In contrast with patents, GIs do not aim at promoting innovation, but at giving information on "reputation."

generating over-production, deteriorating quality, generating systematic misinformation, and ignoring changes in consumers' tastes).[29] By contrast, evidence suggests that what counts is the existence of large wine companies (such as in Champagne) capable of meeting an ever changing demand while delivering the required level of quality and reputation via trademarks.

## V. Uncharted Territory: Services

Until 2008, the Doha negotiations in services showed little progress, despite the fact that services represent 50 to 70 percent of the GDP of the WTO Members, and are of prime importance for running an efficient economy.

The one-day "Signalling Conference" during the July 2008 mini-Ministerial was the first event suggesting that things could move. Negotiators from 31 countries listed their offers to open domestic services markets, and their requests to get better access to foreign services markets. The day was unanimously considered a success, many participants showing an unexpected appetite for negotiating improved market access in services.

However, since then, negotiations in services seem to be back in limbo, a situation that raises two different questions. Are there some intrinsic difficulties in negotiating in services that could explain such slow progress, beyond the mere sequencing constraint? If there are such intrinsic difficulties, what then could be the role of a multilateral Round in opening markets in services?

### The Intrinsic Difficulties in Liberalizing Services

A frequently mentioned source of intrinsic difficulties is the fact that services are generally protected by regulations, rarely by tariffs or barriers that would be easily measurable such as tax differentials. A second source of differences, largely ignored but probably more crucial, is the relative weakness of the political economy of liberalization in services compared to what happens in goods.

[29] The negative consequences of strict GI have been recently illustrated by a fraud lasting over two years (on 18 millions of bottles), in which the over-production of syrah and merlot noir in Southern France (Aude) has been sold in the U.S. markets as pinot noir (Le Figaro, 20-21 February 2010, Cahier 2, page 1).

### *Regulations vs. Tariffs*

As services are rarely protected by measurable barriers, negotiations in services cannot be based on liberalization formulas comparable to those available for industrial or agricultural products. There are two additional difficulties.

First, protection in services is embedded in regulations the main initial objective of which was not to protect domestic services providers against foreign firms, but rather to protect certain domestic providers against other domestic providers. For instance, regulations limiting the entry of foreign retail firms running large outlets are the late by-product of the decision, taken two or three decades ago, to protect domestic small shop-keepers from domestic large stores. A corollary of this key feature is that most of the gains from more liberalization in services would come from non-discriminatory market opening, that is, liberalization with respect to foreign and domestic services providers.

Second, opening markets in services is rarely limited to the mere dismantlement of the existing barriers. Rather, it generally requires the adoption of a flow of pro-competitive regulatory reforms in the future. As a result, negotiating market access to foreign markets in services is a bet on the willingness and the capacity of the trading partners to deliver such a sequence of future reforms. This process is made even more complicated because countries compete with each other on regulatory matters in a dynamic way, with the improvement of the regulatory framework in a services sector by a WTO Member triggering improvements of the regulatory framework of the service in question by other WTO Members. Of course, all these future interactions cannot be easily written down in a schedule of concessions on a year by year basis. Rather, trust in the reform capacity of the trading partners becomes a crucial factor of the willingness of a country to negotiate.

WTO negotiations are not well equipped to deal with such a fluid and dynamic process. They are handicapped by the fact that the WTO is a wide forum where Members are extremely heterogeneous in their capacity to deliver credible flows of regulatory reforms in the future. In this context, unilateral or preferential liberalizations seem more suitable.

However, the WTO handicap in terms of negotiating new market access in services does not extend to the binding of existing market access since binding relies on regulatory reforms already in place, and on the proven willingness to open the markets in the past. In short, the dominant role of regulations seems simply to tilt WTO negotiations in services more systematically towards a "binding" approach that it is the case in goods.

### *The Political Economy of Liberalization in Services*

However, there is evidence that even the consolidation of past unilateral liberalizations has not attracted much attention from the Doha negotiators (Gootiiz and Mattoo, 2009; Messerlin and van der Marel, 2009). Which could then be the additional factor(s) inhibiting WTO negotiations on binding unilateral or preferential liberalizations?

What follows suggests that the usual political economy of export interests (eager to push for opening the domestic markets in order to get foreign markets more open) and import-competing interests (eager to keep domestic markets protected) is markedly weaker in services than in goods.

**Figure 3. Costs and benefits of market opening in goods and in services**

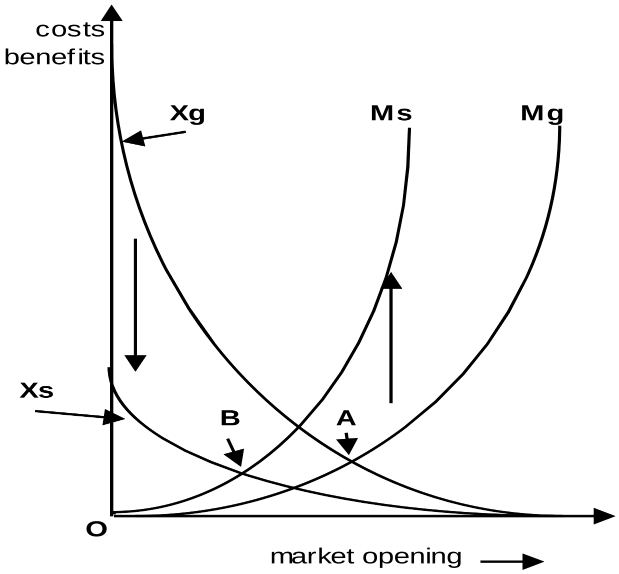


Figure 3 presents a very simple framework for comparing the political economy of the costs and benefits of trade liberalization—the balance of forces between domestic exporters and domestic import-competing interests—in the case of goods (g curves) and of services (s curves). The Xg curve shows the declining benefits that exporters of a product face as and when a market is opening. It illustrates net benefits, that is, the opportunities lost by the exporters when the market is closed minus the difficulties to be faced by these exporters when they get effective access to the market. The Mg curve illustrates the rising costs that the import-competing producers of a product face when their domestic market is opening. Hence, in the case of goods, the political "equilibrium" between the two lobbies (exporters and import-competitors) is A. What follows uses the Xg and Mg curves and the A point as benchmarks for assessing what happens in services.

In the case of goods, Figure 3 generally shows domestic exporters of certain goods (say steel) and domestic import-competing firms producing other goods (say clothing). In the case of services, Figure 3 would more often illustrate the situation within the same service sector for several reasons: services are more prone to differentiation than goods, services negotiations are more systematically sectoral than those in products (if only because it is easier to compare offers and requests in the same sector), etc.

Looking first at the export side, several reasons reduce net benefits from market opening in services, compared to goods (for a description of these reasons within a negotiating framework, see Adlung (2009)). These reasons prevail at the different stages of the opening process—negotiation, market entry, and comparative advantages.

First, negotiating costs tend to be higher in services than in goods. Trade negotiators have to invest in the knowledge of the service sector at stake and to learn about the regulations, contrary to goods where they need to know only the level of the bound and applied tariffs. In such a context, they often have to work with the agencies in charge of regulating and monitoring a service, and these agencies are unlikely to facilitate negotiations that could challenge their power or threaten their survival.

Second, the market entry phase requires from the exporters of the service to adjust their strategies to the regulations and practices in their export markets. The available empirical literature suggests that such costs are (much) higher in services than in goods (Shepherd and Miroudot, 2009) once again making exporters of the service less supportive of market opening.

Lastly, comparative advantages are fuzzier to grasp in services than in goods, even though services liberalization tends to be sectoral. For instance, liberalizing distribution services between France and Germany may induce German retailers, efficient in medium-sized outlets (such as Aldi), to enter the French retail market. For doing so, Aldi has to build medium-sized outlets in France, to hire French staff, and adapt to the whole French regulatory environment, meaning that Aldi may lose some of its comparative advantages in terms of capital costs, labor skills, favorable regulations in Germany. This is quite different from what happens generally in manufacturing, where exporting goods does not require building new factories and hiring workers in the export market, and adjusting its whole operations for abiding by foreign regulations (a German car exporter would expand its German units of production, increase its German workforce, and would continue to operate mostly under German law). All these risks are compounded by the fact that, services liberalization being often sectoral, Aldi may be exposed to counter-offensives from French competitors in another segment of the retail market (for instance, the French retailer Carrefour may try to enter the German hypermarket segment) precisely when Aldi tries to enter the French market.

To sum up, the three above-described forces go in the same direction—reducing the net benefits from market opening. As a result, the Xs curve for exporters in services lies below the benchmark Xg curve for goods.

Turning to the import side, the Ms curve for services would lie above the Mg curve for goods for reasons echoing those on the exporting side. First, import-competing service providers will need to face adjustment costs in their domestic market. But, because of the more frequent sectoral feature of services liberalization, they may also have to pay costs for entering some segments of the foreign exporters' market. Second, services often involve regulatory agencies that are likely to support the import-competing vested interests. Thus, the two forces described above go in the same direction: the Ms curve for import-competing services lies above the Mg curve for goods.

The political-economy global equilibrium in services would be located at the left of point A (say B) meaning a more limited market opening (see the horizontal axis) in services than in goods. Note that, on the vertical axis, the equilibrium level of costs and benefits in services associated with point B could be higher or lower than the level associated to the point A.[30]

[30] Interestingly, the fact that the political economy may be weaker in services than in goods has no clear-cut ex post impact on the adjustment costs to liberalization. For instance, the labor force that French distributors have to fire could be easily re-employed by the German distributors.

**What then could be reasonably expected from the Doha negotiations?**

The Report on the successful 2008 "Signalling Conference" does not provide any precise information on the offers and requests evoked (it does not even mention the names of the countries specifically interested in each service). However, it sheds some qualitative light on the intensity and scope of the services to be liberalized among WTO members that is summarized in the two first columns of Table 9.[31]

Column 1 gives a sense of how many participants manifested a serious interest in negotiations during the Signalling Conference. Column 2 focuses on the interest shown for two modes: mode 3 on the right of establishment and mode 4 on the movement of natural persons. These two modes were the most contentious during the Uruguay Round negotiations (WTO Secretariat, 2000) and, during the Doha Round negotiations, services providers have repeatedly underlined their crucial role. Altogether, the two columns reveal a willingness to negotiate, with a high number of participants interested in each service, a high occurrence of offers and requests on mode 3, and even a willingness to include mode 4 (by far the most contentious aspect of international negotiations in services because it is often misperceived as a source of illegal immigration).

Columns 3 and 4 rely on an older source of information, namely the EC and U.S. offers tabled in 2005 before the Hong Kong WTO Ministerial. These offers were notoriously limited, reflecting the highly uncertain state of negotiations in manufacturing and agriculture at this time. However, even if these offers do not provide adequate information on the magnitude of the offers tabled in 2008, they are useful because they give a first sense of the services in which the EC and the U.S. were already ready to move in 2005. This is particularly the case for the EC offers that tabled notable additional commitments, be it in terms of widening (binding the most recent ECMS at the level of EC 1995 commitments) or deepening (offering new commitments for the EC as a whole in terms on market access or national treatment).[32] The U.S. offers present a less clear

[31] Table 9 relies on Messerlin and van der Marel (2009).

[32] The information in columns 3 and 4 relies on calculated indicators measuring how much the EC and the U.S. were willing to move (in terms of widening and deepening and for the four modes of supply) for each service listed in their offers (WTO, 2005a; 2005b). Weights have been given to each mode of supply by service in order to reflect their relative economic importance when aggregating the various modes. These weights are those used by the World Bank's World

picture, with no notable proposals for two-thirds of the services sectors, as shown by column 4. Finally, it should be underlined that the market-opening moves in columns 3 and 4 would not necessarily occur in the entire broad sector: they may be observed in some sub-sectors only.

**Table 9: Revealing the Willingness to Negotiate in Services**

| | Signalling Conference 2008 | | 2005 offers: | | Size of | Crisis |
|---|---|---|---|---|---|---|
| Services | Nbr WTO | GATS mode | market opening moves | | sectors | resilience |
| | Members | underlined | EC | US | (US$ bn) | |
| | 1 | 2 | 3 | 4 | 5 | 6 |
| Business Services | Virtually all | 4 | yes | no | 4918 | High |
| Communication Services | Substantial | 3 | yes | yes | 737 | High |
| Distribution Services | Substantial | 3 | yes | no | 3809 | -- |
| Environmental Services | Substantial | 3 | some | no | -- | -- |
| Construction & Related Engineering | Substantial | 3 & 4 | some | no | 1715 | High |
| Transport Services | Substantial | 3 | some | some | 1282 | Low |
| Financial Services | Notable | 3 | yes | small | 1770 | Low to High |
| Educational Services | Notable | 3 & 4 | no | yes | 1444 | -- |
| Tourism and Travel Related Services | A few | | yes | no | 774 | Low |
| Health and Social Services | A few | 3 & 4 | no | no | 1483 | -- |
| Recreational, Cultural & Sporting | -- | -- | small | no | 1217 | -- |
| Energy | Substantial | 3 | -- | some | -- | -- |

Notes: Column 1 reports the number of WTO Members having expressed interests in negotiating the service mentioned. The TNC Chairman's Report includes a separate paragraph for audiovisuals, with two WTO Members expressing interest. Column 2 reports the explicit mention of modes 3 and 4 for the service at stake. Columns 3 and 4: see text. Column 5 gives the total size in billions of US$ (PPP) in the U.S., EC and Top 8 group markets by service. Note that Recreational services includes the Personal, Community and other Social sector, while Educational services include R&D services. Column 6 reports the resilience of services to the current economic global crisis as reported by Mattoo and Borchert (2009). Crisis resilience is low in financial services, and high in insurance.

Source: Columns 1 and 2: TNC Chairman's Report of 30 July 2008; Column 3: WTO (2005a); Column 4: WTO (2005b); Column 5: OECD (2006); Column 6: Mattoo and Borchert (2009).

Columns 5 and 6 provide important information from an economic perspective. Column 5 gives the market size of the services listed in billions of USD (at the

Trade Indicators for calculating the bound-level regulatory constraints.

purchasing power parity exchange rates) for a group of ten countries.[33] Market sizes are a key factor determining the magnitude of consumer welfare gains and of firms opportunities, hence the likelihood and magnitude of the negotiation success. That the size of the agricultural and industrial markets for the ten countries amounts to roughly US$7,900 billion and gives a good sense of the size of the market at stake in services.

In particular, Table 9 suggests three services sectors (business services, communications and distribution) as a particularly rich potential source of negotiating successes.

## VI. Concluding Remarks

Since 2007, the world economy has been under great stress—first because of burgeoning commodities prices, then because of the "great economic crisis" that started in September 2009. These turbulences raise two questions with a quite different time line.

### Short-term Perspectives: Concluding the Doha Round

What could be the impact of the economic crisis on the Doha negotiations in the short and medium term? It is often said that trade negotiations are easier during crises. But, the current crisis is so much more severe and global than the previous ones (Baldwin, 2010) and its exit phase may be so perilous that the past does not look to be a robust guide.

That said, the great fear prevalent in mid-2008 of a significant slippage in protection during the crisis did not materialize—so far (Messerlin, 2010). During the eighteen months, none of the key countries that could have easily (from a WTO legal perspective) increased its applied tariffs to the higher bound levels (see Table 2) has done so.[34]

[33] The ten countries (Brazil, Canada, China, EC, Japan, India, Korea, Mexico, Russia, and the U.S.) produce more than 80 percent of the value added in the dozen or so services sectors with available infomation in National Accounts. For details, see Messerlin and van der Marel (2009).

[34] The only country showing signs of reversal is Russia, not a WTO Member.

This happy surprise may have a positive impact on the Doha deal. By not increasing their applied tariffs up to their (much) higher bound tariffs during the current crisis, the key emerging and developing economies have shown their revealed preference: they have kept unchanged their applied tariffs for their own benefit. This behavior undercuts their claim that they provide a huge favor to developed countries when cutting their bound tariffs, hence that they should get generous exception formulas. Consequently, negotiators from the key developing and emerging countries should abandon such a claim, and agree on tightening somewhat the exception formulas, particularly the options B in NAMA.

However, it takes two to tango. Such a restraint on their current requests by the key developing and emerging economies should be met by a similar restraint by the developed WTO Members on their own requests. In particular, developed countries should abandon their claims for additional market access (deeper cuts in the applied tariffs than those already agreed by the developing and emerging economies) and agree on a "binding Round." If they do not make such a move, developed countries should be ready to face the collapse of the Doha Round (or its long hibernation), hence the risks associated to permanent huge "water" in the key developing and emerging markets of goods and services. The costs of such risks are likely to increase in the future, with the increasing economic size of the key developing and emerging countries (once bigger, these key countries may feel increasingly free to behave unilaterally).

It remains that restraints in agriculture and NAMA negotiations from both sides will not be enough to conclude the Doha Round. There is the need for an additional, mutually beneficial, booster that only services can provide. Services can attract the support of the business community much more than any other conceivable trade-related issue (such as intellectual property rights, norms, non-tariff barriers, public procurement, rules, etc.). They are the largest source of opportunities for firms for three reasons: their sheer size (50 to 75 percent of GDP), their ubiquitous presence (even manufacturing or agrobusiness firms have a significant share, often about 50 percent, of their turnover in services), and their high level of protection—services are on average twice more protected than goods (Shepherd and Miroudot, 2009). The sheer binding of the services liberalization of the last fifteen years would provide sizable gains for consumers all over the world.

The question then is: how to relax the constraints of the Doha sequencing (getting results in agriculture and NAMA before negotiating in services) and of the complexity of services negotiations. One possibility would be to start exploratory talks on services in a much smaller forum than the WTO, before repatriating them in the WTO if these talks are promising (Messerlin and van der Marel, 2009). For instance, such talks would be limited to the largest world economies—roughly ten, a group small enough to keep negotiations manageable and large enough to cover more than 80 percent of world production in services. Such talks could start by a transatlantic, transpacific (APEC) or Eurasian dialog—it does not really matter because as soon as such a dialogue starts, dynamic forces will expand it to the other, not yet involved, large economies. Alternatively, such talks could start directly under the aegis of the G20 Summits. If promising, the results of these talks would then constitute the embryo of Doha negotiations in services.

### Medium and Long-term Perspectives: WTO Reforms

Clearly, the nature of the WTO is changing. A successful Doha Round would make this evolution even clearer because it will leave developed countries with insignificant tariffs, key developing and emerging economies with moderate bound tariffs and often small applied tariffs. In short, the times of wide-ranging negotiations on tariffs would be almost over for 80 percent of the world trade—it is "death by success." The WTO current business as the key negotiating forum on tariff cuts in goods will be mostly limited to the large but fragmented group of small developing economies.

Does this mean that the WTO as it is has lost its centrality (Baldwin and Carpenter, 2009)? Not really, for three reasons. First, the WTO negotiating process in goods will remain central for the many small developing countries that have chosen to join negative coalitions in the Doha Round (see section II). The development impact of multilateral trade negotiations between these countries will thus remain high. Second, the WTO will remain the ultimate forum for all its Members for binding market access in services—once again by far the largest share of economic activity in every domestic economy. Last but not least, the WTO will keep its role of "rule guardian," based on its dispute settlement mechanism.

All this requires reforms of the way the WTO works. First, Rounds should be shorter and more frequent. This is not a new idea, but so far, it has been justified by unconvincing reasons, such as negotiator fatigue. It has a much firmer ground when it is understood that short Rounds would fit much better the agendas of the business community (which looks for quick results) as well as the political constraint imposed by the fact that, during the last three decades, democratically elected governments lack strong majorities, hence are unable to deliver grand visions (Messerlin, 2007b).

Second, the Single Undertaking principle needs to be reviewed. In the Doha Round, it has fuelled a process of systemic evasion through "negative coalitions." The inevitably *ad hoc* definitions of such coalitions generate an irrational, chaotic and ultimately unjust WTO forum (a coalition may be accessible to some Members, but not to other very similar countries). The Single Undertaking principle should be re-interpreted as enforceable at distant periods of time, not at every Round (as it was *de facto* the case under the GATT regime). Between two enforcements, Members should be allowed to "discriminate positively," that is, to open further their markets by participating to plurilateral agreements (Codes in GATT parlance) without waiting for an agreement among all the Members.

These two suggestions focus on WTO traditional roles. In order to increase its centrality, the WTO should also start to tackle activities that it has left aside so far because its whole energy was focused on negotiations. One of the most urgent tasks is an adequate monitoring of the Members' obligations. Today, such a monitoring is extremely poor. In this context, the current crisis has opened interesting perspectives. In 2009, the WTO (with the OECD and UNCTAD) has been asked by the G20 Summits to monitor changes in tariffs and measures that could become trade barriers.

That is an interesting start. But, such a monitoring is of little help if there is no reasonably informed benchmark of the changes in tariffs and other trade barriers that are routinely taken by the WTO Members. Interestingly, a first attempt to provide such an estimate suggests a non-negligible routine of 4 percent of tariff line changes every year (Bouet and Laborde, 2009).[35] Such benchmarks are crucial for assessing the true level of

[35] These estimates rely on tariffs alone at the HS6 level. According to Evenett (2009), this threshold has been reached during the last 18 months. However, Evenett's calculations are based

resilience to crisis of trade policies in the coming years. Another possible extension of the monitoring activities would be an economic analysis of the potentially most damaging trade barriers.

These tasks will keep the WTO central whether it has the direct capacity to do them or whether it has only the capacity to flag the issues. For instance, the WTO is the best equipped international institution for monitoring tariff increases, but it is not for monitoring increases in subsidies or for analyzing the most dangerous shifts in antidumping activity (likely to be seen beyond the WTO mandate by a large share of its membership). It remains that flagging these issues would be a robust contribution of the WTO to the world trade system.

Last but not least, the WTO could envisage a reform of international disciplines, for instance stricter rules in subsidies. However, such a goal requires serious analysis. The disappointing example of the EC rules in subsidies during the past years (these rules are much stricter and economically sound than the WTO rules) shows that enforcing strict international disciplines relies crucially on domestic institutions capable of raising a strong domestic voice supporting international disciplines. Such domestic institutions are essential for shifting the attention away from the costly and inefficient policy space offered by trade policies to the much wider, better targeted, and more efficient domestic policy space delivered by the many available domestic policies. All this is particularly true for the trade-related issues—adjustment policies, norms and standards in goods, regulations in services, climate change, etc.—that will make the WTO busy in the future.[36]

on HS4 data, and include many trade barriers other than tariffs. As a result, a rigourous test needs yet to be done.

[36] As of today, the best illustration of such institutions is Australia's Productivity Commission (2009). Such domestic institutions have two key additional virtues. First, by nature, they are very sensitive to the risk of attrition of competition in the markets of many goods and services often generated by deep crises. Second, their strength may allow taking some risks in the world trade regime and in the WTO—for instance, when opening or re-opening the thorny negotiations on the rules on contingent protection (particularly, safeguards).

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