Can Doha Still Deliver on the Development Agenda?

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The Doha Round of multilateral trade negotiations, so named because it was launched in the Qatari capital, is in deep trouble. Negotiators have yet to meet any of the interim deadlines for completing the talks, and they missed another at the end of April 2006. While it is still possible to finish the round by early 2007, the odds are diminishing by the day, and this deadline matters more than most. Trade promotion authority (TPA) in the United States will expire in June 2007, and if the round does not make significant progress before then, TPA might not be renewed, and the round would likely drag on for several more years.1

Agriculture is the key to untangling the knot strangling the trade talks, as it was in the last multilateral negotiation. But this round, formally called the Doha Development Agenda, is also supposed to focus on the needs and interests of developing countries, and disagreements over what this focus means are contributing to the impasse. Developing-country governments have been holding back formal liberalization offers on nonagricultural market access and services until industrialized-country negotiators improve their offers on agriculture. Some development-focused nongovernmental organizations and analysts are also encouraging developing countries to hold out for better offers. Oxfam International, for example, recently stated that “unless offers change significantly in the next three months, poor countries would be better off continuing to negotiate, rather than signing a deal this year.” Timothy A. Wise and Kevin P. Gallagher (2006) are of a similar opinion: “As the Doha negotiations limp toward an ill-defined finish line, it is not surprising that many developing-country negotiators are asking themselves if the emerging deal is better than no deal at all.”

In contrast, this policy brief argues that developing countries, especially the poorest, have the most at risk if the Doha Round is not wrapped up this year. It also challenges the conventional wisdom that agricultural liberalization by rich countries is the key to making this round a development round. A deal on agriculture is critical to the round’s success because high tariffs and subsidies in that sector are essentially what the rich countries have left to contribute to a reciprocal trade bargain. But many developing countries are more interested in access for labor-intensive manufactured goods, such as clothing. And far more than just access is needed to ensure that poorer countries, and poor farmers within them, can take advantage of any new market opportunities that emerge.

WHO WINS AND LOSES?

Recent estimates of the potential gains from free trade are lower than previous estimates, and plausible Doha Round scenarios produce modest gains at best. Moreover, the gains from free trade are not evenly distributed, and the models show that some countries could suffer net losses from trade liberalization. It is important to understand why more recent calculations are lower,

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1. Under TPA, the US Congress agrees to vote on eligible trade agreements up or down, without amendment and within certain deadlines. Without TPA, US negotiators would find it more difficult to make credible commitments to reduce trade barriers because Congress could amend agreements to delete provisions it did not like. For a review of likely scenarios for the round, see Hufbauer and Schott (2006).

why many studies underestimate the potential gains, and why some countries could lose.

**Are the Gains from Free Trade Lower than Previously Believed?**

The short answer is yes but not for the reasons that people often think. The economists producing reports that show lower gains than in previous studies have not concluded that the benefits from a given amount of trade liberalization are lower than previously thought. Rather, the decline in projected gains across otherwise comparable studies is due mainly to a reduction in the measured level of remaining trade barriers. Antoine Bouet (2006) surveys a number of recent studies that use computable general equilibrium (CGE) models to estimate the gains from trade and explores the differences in assumptions and behavioral parameters that contribute to differences in results.

Two World Bank studies have attracted particular attention because the later one finds the gains from global free trade to be $100 billion lower than the earlier study, even though they use the same model and make similar assumptions (Anderson, Martin, and van der Mensbrugghe 2006; World Bank 2002). The principal reason for the difference in the World Bank results is that the baseline level of protection to which the free trade scenario is compared is lower than before. The change in the baseline results from both the inclusion of recent episodes of trade liberalization and improvements in the measure of protection used in most CGE models. The baseline reflects the phasewout of textile and apparel quotas after 2004, implementation of other Uruguay Round commitments, and China’s accession to the World Trade Organization (WTO).\(^4\) In addition, scholars at the Centre d’Etudes Prospectives et d’Informations Internationales (CEPII) in Paris invested considerable effort to incorporate in the new MacMaps database lower, preferential tariff rates applied by rich countries to eligible developing-country exports. Most trade modelers, including Anderson, Martin, and van der Mensbrugghe (2006), now use this new database.\(^5\)

**Are the Potential Gains Being Underestimated?**

Estimates of the gains to developing countries from global free trade generally fall in a range from $50 billion to $90 billion, roughly comparable to global aid flows in recent years. Estimated gains from various Doha Round scenarios are obviously smaller than those from completely free trade, especially those scenarios that try to replicate realistic scenarios based on the relatively modest offers currently on the table. But most developing countries do still gain, and recent studies show that they gain more as a share of national income than do rich countries. Some of these studies also suggest specific ways that offers could be improved to benefit developing countries.

For example, a new analysis by the International Food Policy Research Institute (IFPRI) estimates the gains from a scenario based on what is currently being discussed in Geneva and what observers believe is likely to emerge (Bouet, Mevel, and Orden 2006). While the gains are small, consistent with the apparently low level of ambition in Geneva, developing countries gain nearly twice as much as rich ones: 0.23 percent of real income for middle-income countries, 0.17 percent for low-income countries, and 0.10 percent for high-income countries.

Moreover, the analysis shows that the gains for least-developed countries (LDCs) could be substantially enhanced if rich countries offered free access for LDC exports. At the WTO ministerial in Hong Kong in December 2005, member countries agreed that LDCs should receive duty- and quota-free treatment for their exports under at least 97 percent of tariff lines. According to the IFPRI study, in the central (realistic) scenario, going to 100 percent of tariff lines would raise the projected gains for LDCs from $1 billion to over $8 billion! The analysis also shows that allowing rich countries

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\(^3\) In studies using the same basic data and baseline level of protection, Bouet (2006) finds that that the key sources of differences in results derive from different assumptions about how demand and supply respond to changes in prices (especially the so-called Armington elasticities) and whether productivity effects are included.

\(^4\) When adjusted for differences in model structure, the new World Bank figures are about $100 billion lower than William Cline’s (2004) estimate of the gains from global free trade, probably due to similar differences in data and baseline scenarios to those in the two World Bank studies mentioned above.

\(^5\) Information on the new database is available at the CEPII Web site, www.cepii.fr.
Developing countries, especially the poorest, have the most at risk if the Doha Round is not wrapped up this year.

measuring barriers. Also, many economists believe that the greatest gains from increased trade come when it stimulates higher rates of productivity growth. But modeling of these gains is less developed, and they are difficult to measure, and many studies do not estimate them.6

Why Do Some Countries Lose?

Recent studies underscore the heterogeneity of developing countries and the unequal distribution of potential gains and losses. In particular, free trade could result in (small) net losses for two groups of countries: those that have preferential access to rich-country markets, especially for certain agricultural products and textiles and apparel, and those that are net food importers.

Preference erosion occurs when most favored nation (MFN) tariffs applied to most countries are reduced, thereby resulting in a smaller gap between the MFN and preferential tariff rates granted to eligible developing countries. The reduction in MFN tariffs reduces the competitive advantage that developing countries gain from preferential access and could result in lower market shares and export prices for them. This is especially the case for LDCs, which often receive more generous preferences than other developing countries.7

At the same time, lower agricultural tariffs and subsidies tend to lower domestic prices, production, and exports and could raise world prices for agricultural products, which could lead to higher food import bills for net food-importing countries.

These two so-called terms-of-trade effects explain the losses suffered by Mexico, Bangladesh, some countries in the Middle East and North Africa, and parts of sub-Saharan Africa.

But the projected losses may be exaggerated for several reasons. As noted above, the MacMaps database used in recent studies assumes that developing countries fully utilize the preferences for which they are eligible, but most countries are unlikely to do so. The models also ignore the economic distortions that preferential arrangements introduce. For example, many Caribbean nations import sugar to meet domestic needs and export domestic production to the European Union or the United States in order to sell it at a price as much as two to three times higher than world prices. A direct transfer of financial resources would be far more efficient and would allow exporting countries to reallocate resources to products in which they have a comparative advantage. It would also avoid the losses to developing countries that do not receive preferences and would allow them to reap the gains from multilateral liberalization. These models also show that the food price increases resulting from liberalization are likely to be quite modest, and the liberalization will be phased in over a number of years, further mitigating any impact. Trade liberalization is also unlikely to reverse the long-standing downward trend in agricultural commodity prices.

In addition, most of the scenarios showing losses for a number of countries are those involving partial liberalization under projections of what a Doha Round agreement might look like. Since it has been agreed that LDCs will not be asked to undertake liberalization commitments, the terms-of-trade losses described above dominate the results for these countries. These countries reap none of the potential benefits from doing trade reform themselves, which could offset the terms-of-trade losses. In general, scenarios based on more ambitious liberalization, including by the LDCs, tend to show greater gains and smaller losses for most countries.

6. Cline (2004) and Anderson, Martin, and van der Mensbrugghe (2006) estimate that the gains from global free trade would be 50 and 60 percent higher, respectively, if trade contributes to higher productivity growth.

7. The European Union provides duty- and quota-free access for imports from LDCs, except for sugar, bananas, and rice, which are being phased in under the Everything But Arms program. The United States provides mostly free access regionally, for countries in the Andean and Caribbean areas of the Americas and for African countries under the Africa Growth and Opportunity Act; non-African LDCs and other developing countries receive only the regular Generalized System of Preferences benefits, which exclude many agricultural products, textiles and apparel, and other labor-intensive sensitive products. Both the European Union and the United States have strict rules of origin and other administrative requirements, which lead to underutilization of these preferences.
A recent Carnegie Endowment for International Peace study has attracted a great deal of attention (Polaski 2006). Contrary to how it is frequently interpreted, this study finds roughly the same overall level of gains as other models do, with the share accruing to developing countries being substantially higher than in most other studies. The Carnegie study also finds that there are losers from trade liberalization, and while much has been made of this finding, it does not differ from most other studies and is rooted in the terms-of-trade effects described above. Nor does a scenario in which all developing countries are allowed to exempt all agricultural products from tariffs or subsidy cuts change the basic results—industrialized countries do not lose much from granting this additional flexibility, but neither do developing countries gain much. As discussed in greater detail below, the negotiating framework already provides a great deal of flexibility in agriculture for developing countries. Granting even more flexibility would likely render the agreement politically unacceptable in exporting countries.

EVALUATING THE OFFERS ON THE TABLE

Many critics argue that what the rich countries were offering on agriculture in early summer 2006, and demanding in return, would actually leave developing countries worse off. The outlines of a possible deal at the time of this writing suggest that the outcome will indeed be modest but that it would provide worthwhile benefits to developing countries. Areas of convergence and divergence on agriculture are summarized in Table 1, and some of the key issues are discussed below.

On nonagricultural market access, negotiators appear to be converging on a “Swiss formula” coefficient of around 10 for developed countries, which would force steep cuts in tariff peaks on labor-intensive products, such as textiles and apparel and footwear, and ensure that no manufacturing tariff remains above 10 percent. The coefficient for developing countries and how much flexibility they will have to depart from formula cuts are the major issues still under discussion. Services negotiations are lagging badly, and it is unclear what might emerge there.

Is Elimination of Export Subsidies Trivial?

The value of the remaining export subsidies, $2 billion to $3 billion annually, spent mainly by the European Union, understates the significance of its commitment to phase them out by 2013. This deadline is later than many countries would have preferred. But the true significance lies in the fact that, combined with increased openness to imports, the European Union will no longer be able to dump surpluses on world markets, which will also keep the pressure on to continue reducing price supports for domestic production.

Are the Domestic Subsidy Proposals Meaningless?

The negotiations appear to be converging toward an agreement that would reduce the most trade-distorting forms of domestic support by 70 percent or so in the European Union and 60 percent in the United States and Japan. This reduction would probably not reduce EU spending beyond what it is committed to do under recent reforms of the Common Agricultural Policy, but it would lock in those reforms. It would also limit the extent to which US policymakers could bail out farmers when prices drop, which would reduce price suppression and lower price volatility. How great the constraints would be depends on how any agreement is implemented, and further clarification of the rules is needed to prevent manipulation, which would minimize the impact.9

Is There Any Hope for Meaningful Market Access?

The least progress to date has been made on market access in the European Union and other rich-country markets. Negotiators appear to be converging on a formula that would cut average rich-country tariffs by roughly 50 percent. This average cut will be whittled down, however, through the various demands for flexibility to depart from the formula cut. Still, agreement on a framework that includes tiered tariff cuts, with higher cuts on higher tariffs, a tariff cap, and expansion of tariff-rate quotas (which have a lower tariff on imports up to a set level and then a higher tariff for overquota imports), would embed important principles in the trade rules. The new rules would help to reduce tariff escalation, which often prevents developing countries from adding value to primary commod-

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9. It is harder to assess the effect of the proposed cuts on US subsidies because they fluctuate with prices. In addition, because of oddities in how the WTO measures domestic support, the impact on actual US spending on the major crops—corn, wheat, soybeans, cotton, and rice—would depend on what happens to the sugar and dairy programs. If US policymakers decide to eliminate the official price floors for these products and rely purely on tariff-rate quotas to support domestic prices, it would free up more than $5 billion, which could be allocated to the ceilings for other products. Japan did something similar a few years ago on rice and reduced its officially reported “amber box” spending by nearly 80 percent. In the US case, removing sugar and dairy from the amber box would mean that a 60 percent cut would force only modest reductions in other subsidies in bad years and would have no impact in good ones, when prices are high.
Table 1 Key issues on agriculture in the Doha Round negotiations, as of mid-June 2006

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<thead>
<tr>
<th>Issue</th>
<th>Emerging consensus?</th>
<th>Continued divergence</th>
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<tbody>
<tr>
<td>Export competition</td>
<td>Export subsidies, both direct and indirect (related to food aid, export credits, and STEs) will be eliminated in 2013.</td>
<td>EU agreement on direct export subsidy elimination remains conditional on reaching agreement on “parallel” forms of subsidy.</td>
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<td>Export credits for terms of greater than 180 days will not be allowed, and these programs will be self-financing.</td>
<td>Over what period should export credit programs be self-financing (proposals range from 1 to 15 years)?</td>
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<td></td>
<td>Government financing of STEs will be eliminated.</td>
<td>Whether the monopoly powers of STEs should be eliminated.</td>
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<td></td>
<td>In-kind food aid will be allowed under certain circumstances in emergencies.</td>
<td>Whether nonemergency in-kind food aid should be allowed and under what conditions; whether “monetization” of in-kind food aid should be allowed; whether food aid should be in grant-form only.</td>
</tr>
<tr>
<td>Domestic support</td>
<td>An overall level of trade-distorting support, including AMS, amber box de minimis, and blue box, will be calculated and cut.</td>
<td>The exact numbers for caps and cuts.</td>
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<td></td>
<td>Developed countries with higher levels of support will have to make larger cuts in the most trade-distorting forms of support (the amber box AMS), with the European Union making cuts of at least 70 percent, the United States and Japan making cuts of at least 60 percent, and all others making lesser cuts.</td>
<td>How to calculate product-specific caps, what base period to use?</td>
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<td></td>
<td>Product-specific caps will be calculated for the AMS.</td>
<td>What base period to use for the value of production in setting the caps for de minimis and whether to further cut it to 1 percent of the value of production.</td>
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<td>Allowable de minimis payments in the amber box will be reduced by at least half, to no more than 2.5 percent of the value of production for developed countries and 5 percent for developing countries.</td>
<td>How quickly the blue box might be cut to 2.5 percent of production and whether additional cuts are possible.</td>
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<td>The blue box for moderately distorting subsidies will be capped at 5 percent of production in some historical period and perhaps cut to 2.5 percent.</td>
<td>Additional disciplines on US blue box allocations to ensure CCPs are less trade-distorting than amber box subsidies, for example, calculating product-specific caps.</td>
</tr>
<tr>
<td></td>
<td>The blue box will be redefined to accommodate US CCPs.</td>
<td>Disciplines to ensure that green box payments actually have minimal effects on trade.</td>
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*(table continues next page)*
ity exports, and would ensure at least modest increased access for sensitive products. The key to how much additional access is created depends on how many sensitive products are exempted, how those products are treated, for example, whether the tariff cap will apply to them, and whether the special safeguard for agricultural products is retained for rich countries.

Would Rich-Country Demands Impinge on Developing-Country “Policy Space”? Under plausible scenarios, developing countries are more likely to be given too much flexibility, than too little, especially in agriculture. LDCs are not being asked to undertake any liberalization commitments, and other developing countries will make lesser cuts in tariffs and subsidies than what the rich countries agree to do. Under plausible scenarios, these cuts would have modest effects on levels of protection because the rates that developing countries agreed to legally bind in past negotiations are generally well above the rates applied in practice. Moreover, in agriculture, developing countries will be able to designate special, as well as sensitive, products and will also have access to a special safeguards mechanism that will allow them to raise tariffs in the face of import surges. The idea behind policy space in general is to give developing countries the space to adopt infant-industry and other industrial policies to help them develop economically and, in agriculture, to protect subsistence farmers from import surges. Such loose disciplines in many developing countries are likely to perpetuate uncoordinated and costly protection against imports, driven primarily by corrupt insiders, to the detriment of poor consumers.

### Table 1 (continued)

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<tr>
<th>Issue</th>
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<th>Continued divergence</th>
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<tr>
<td>Market access</td>
<td>Use of four tiers with larger cuts for higher tariffs, perhaps ranging from 45 to 75 percent for the developed countries as proposed by the G-20; probably two-thirds less for developing countries. Overall, an average cut in the tariff of roughly 50 percent for developed countries (before exceptions). Cap tariffs, perhaps at around 100 percent for developed countries and 150 percent for developing countries. Countries will be allowed to depart from formula cuts for “sensitive products,” as well as special products in developing countries. A special safeguard mechanism will be created for developing countries, using both price and volume triggers. Least-developed countries will not have to undertake any tariff cuts.</td>
<td>Whether tariff cap will apply to sensitive products. How many sensitive products to allow, with offers ranging from 15 percent of tariff lines (G-10) to 8 percent (European Union) to 1 percent (United States, G-20), with 1.5 percent for developing countries. Whether to use domestic consumption or imports as the base for expanding market access for sensitive products under tariff-rate quotas. How to address tariff escalation, beyond the tiered cuts and tariff cap. Whether to retain the special safeguard mechanism for developed countries.</td>
</tr>
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AMS = aggregate measurement of support  
CCPs = countercyclical payments  
G-10 = Group of 10 mostly developed countries with defensive interests on agriculture  
G-20 = Group of 20 developing countries with offensive interests on agriculture  
STEs = state trading enterprises
country markets are mostly open to manufactured goods (with the important exception of textiles and apparel), and agricultural liberalization is the main thing rich countries can put on the table. Many developing countries also have a comparative advantage in agriculture, and the formation of the Group of 20 (G-20), led by Brazil, India, and South Africa, has given the talks a more pronounced North-South flavor than in past rounds. But not just developing countries are pushing for farm policy reform. US agricultural exporters have traditionally been an important part of the pro–free trade coalition, and they will accept reduced subsidies only if they get increased market access abroad. A successful conclusion to the Doha Round is thus unlikely without a deal on agriculture.

But a deal on agriculture is not enough to deliver on Doha’s promise to promote development in poor countries. Most trade models show that agriculture accounts for half or more of the gains to be reaped from global free trade. But the share is smaller in most Doha scenarios because of the assumption that rich countries will continue to insist on extensive exemptions. Moreover, most of those gains accrue to consumers and taxpayers in the rich countries with the highest barriers. For many countries outside Latin America, manufacturing liberalization, especially reductions in tariffs on textiles, apparel, footwear, and other labor-intensive light manufactures, is more important than agriculture. But agricultural trade is important for sub-Saharan Africa—an important caveat from the perspective of those concerned about poverty. While the numbers are small, World Bank scenarios of possible outcomes from the Doha Round suggest that sub-Saharan Africa could gain more from meaningful agricultural liberalization, as a share of national income, than any developing region outside Latin America (Anderson, Martin, and van der Mensbrugghe 2006).

In sum, agriculture is where the greatest potential global gains are. And rural development—connecting the poor to markets—can be important to ensuring that growth benefits the poor as development takes place. But agriculture is not the key for every developing country, and when it is important, market access alone is often not enough. Many rural poor live in remote areas that are isolated from national and international markets, and agricultural liberalization in rich countries might have little or no effect on them in the absence of complementary policies to address supply constraints. Developing-country governments and international donors thus also have to create an environment in which the poor can grasp new trade opportunities. This is what makes a meaningful aid-for-trade package so important.

**THE RISKS OF DELAY**

Insufficient political will certainly would delay the completion of the Doha Round. But in crafting a negotiating strategy for the short run, developing countries need to weigh the risks of delay carefully. Whether European and American concessions on agriculture are more likely after the French presidential elections in April 2007 and the US congressional elections in fall 2006 depend on the outcome of those elections and are not guaranteed. Moreover, if the negotiations make little progress over the next several months, the probability of renewing TPA in 2007 will be low, regardless of what happens in fall 2006. And if TPA is not renewed, then the negotiations are likely to languish at least until after the 2008 US presidential election.

The danger lies in what could happen in the interim. In the United States, Congress will have to pass legislation authorizing farm programs, perhaps for the next five years. Without the pressure of conforming to a Doha Round agreement, Congress might choose to simply extend existing legislation, with all the trade-distorting subsidies. An opportunity to further reform farm policy in the European Union in 2008 could also be lost. Litigation might result in additional successful rulings, but it carries the risk of a political backlash against WTO meddling. If that backlash is strong enough, it could imperil farm-sector support for renewal of Doha Round negotiations down the road.

At the same time, trade negotiators in key countries are unlikely to wait for the multilateral talks to resume, and the recent trend toward bilateral and regional negotiations will accelerate. This would hurt the smallest and poorest countries the most, since they are often excluded from these arrangements. Developing countries negotiating with larger, richer industrialized countries would also lose the negotiating leverage that they gain from negotiating as a group in the multilateral context. Proposals of particular interest to developing
countries, including aid for trade and duty- and quota-free treatment for LDCs, might also be pulled off the table.

Clearly the offers circulating in Geneva need to be improved before a bargain can be struck. US negotiators will have to improve their offer on domestic agricultural support, in particular by agreeing to disciplines that ensure some cuts in actual spending. The European Union has to improve its market access offer, by accepting both larger cuts and fewer sensitive products. But the emerging markets, led by Brazil, India, and China, need to call the rich countries bluff. Given the experience with the Uruguay Round, it is not surprising that developing countries are holding back to see whether developed countries are serious about reducing agricultural protection before making serious offers on nonagricultural market access and services. But developing countries must move—and they must move now.

REFERENCES


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