THE DOHA ROUND: SETTING A DEADLINE, DEFINING A FINAL DEAL

Interim report – January 2011

HIGH LEVEL TRADE EXPERTS GROUP

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The present interim report focuses specifically on the Doha Development Agenda. The final report will be released in spring 2011 and will cover other pressing issues facing the world trading system beyond the current WTO negotiations.

PREFACE

In November 2010 the heads of government of Germany, Great Britain, Indonesia and Turkey created an Experts Group to report on the priority actions that have to be taken to combat protectionism and to boost global trade. The urgency of this task was underlined by a request for the completion of an interim report on the completion of the Doha Development Agenda by January 2011. The reason for this urgency is readily apparent. Even by the standards of earlier trade rounds, many of which took years to complete, the DDA has been particularly disappointing in the progress of the negotiations taking ten years to reach this point. If the DDA is not completed by the end of this year it will at best lie in the doldrums for a prolonged period and such an outcome will be greatly damaging to the global economy.

This failure has occurred notwithstanding the great efforts of Pascal Lamy, the Director General of the WTO. It reflects a failure of global leadership in some quarters that is difficult to comprehend for various reasons. For one thing, even though there is a real need for a final push, the finishing line is close and much has already been achieved. Indeed what is already on offer is a package that would provide a global economic stimulus of hundreds of billions of dollars in new trade annually. Everyone would gain - both developed and developing countries alike and the latter particularly so. Apart from the opportunity that will be lost should the DDA not be satisfactorily concluded, such a failure would cause serious damage to the credibility of the WTO and this would damage multilateralism more generally. And yet compromise on specifics seems to inhibit decision making in the general national and international interest.

This state of affairs demands active intervention at head of government level. It also demands an absolute deadline for the negotiations. As the Interim Report states, this deadline should be the 31st December 2011.

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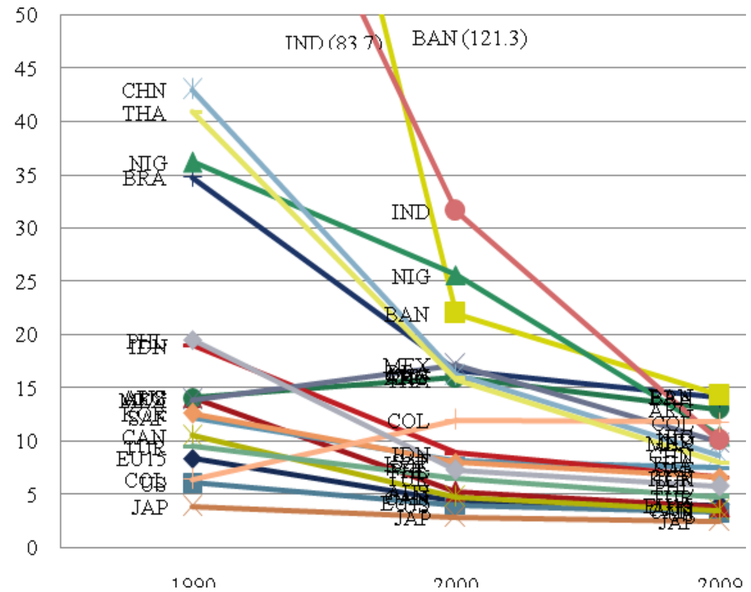
1 WHY HAS DOHA STALLED?

1.1. One of the most striking features – arguably the defining feature - of the global economy over the last two decades has been its progressive liberalization. For thirty years, between 1960 and 1990, the number of people on the planet living in economically open societies was largely steady at one person in five. Today with China and India in the WTO and Russia partially integrated into global trade it is more than nine in ten. For the last two decades the ratio of global trade to global GDP, which can be taken as a rough measure of global economic integration has not fallen below 40%, and had risen as high as 55% before the downturn. Applied tariffs at national borders have fallen, in many cases dramatically, and the dominant trend in markets for services and investment has been greater access for foreign funds and foreign competition.

Fig 1: The liberalizing decades: major economies average applied manufacturing tariffs (%) 1990-2009



Source: UNCTAD 2004, WTO 2010

1.2. The GATT/WTO has very successfully accompanied this process, in particular in comparison to other international cooperation efforts on climate change, human rights, development assistance, nuclear proliferation, etc. The GATT/WTO has established a rule-based trading system based on norms that are almost universally accepted. Disputes are adjudicated by an international court whose rulings are almost universally implemented. Its membership is now almost universal and it makes decision by consensus. In short, the GATT/WTO achieved its mission – the establishment of an open and rules-based trading system.

1.3. So why is it that against the backdrop of a global economy that has been liberalizing at an unprecedented rate over the last twenty years that a multilateral negotiation dedicated to consolidating and accelerating precisely that process has stalled? What is regarded as sound economic policy when it is conducted unilaterally or bilaterally becomes intensely difficult when it is reframed as a series of political concessions of market access to be traded in a multilateral setting. This is especially so given the fact that this is done under the close scrutiny of both the media and defensive domestic constituencies. This has been the basic dynamic of the Doha Round since it was launched in 2001.

1.4. However, the reasons for Doha's slow progress are also tied to the changing nature of the WTO and the states it represents as much as to any specific detail of the negotiation. From the 1960s, developing nations formed a majority of GATT membership, but divergent views between developed and developing nations did little to hinder progress. GATT negotiations up to the 1980s were between self-identified 'liberalizers', mainly industrialized nations. Developing countries were not expected to cut their own tariffs, yet they had a stake in success; the GATT's MFN principle meant their exporters benefitted 'for free'. As these poor nations were also small economically, their lack of tariff-cutting had little impact on the value of Rounds to the developed nation liberalizers. This systemic free riding – which was critical to building consensus in earlier Rounds – was justified under the legal principle of 'special and differential treatment' and economically under the now discredited theory that high tariffs fostered industrialization. 21st century economic realities, however, changed this.

1.5. The rapid growth of emerging economies – due in no small measure to the GATT's success at lowering industrial nations' tariffs – has changed the relationship between poor and small. Emerging markets are now big enough to rule out free riding. China, for example, is the world's largest exporter and second largest importer, and the ranks of India, Brazil and other emerging nations are rapidly rising.

1.6. The expansion of negotiations into areas such as agriculture – which is important to many developing countries and highly sensitive for many developed countries – has complicated this picture. The expectation that in most cases developing countries should be entitled to flexibilities in the application of tariff cuts that are not available to developed WTO states has also followed from the widening of the membership and the development of a body of thinking about the pace and depth of liberalization that is appropriate for developing countries. This assumption – that a development friendly trade deal must demand less of countries in a way that is proportionate to their state of development - permeates the Doha Round and the final package will rightly have to be measured against it.

1.7. This means that developed countries have to accept that the outcome will be asymmetrical, even vis-à-vis large and competitive exporters like China and Brazil who remain in development. This makes the Doha Round a difficult proposition for some domestic constituencies, even if it does not in itself imply a reduction in the economic value of the package for developed economies, due to the beneficial impact of new access for imports. The EU in particular has had to accept that the price of the Doha Round is the complete renovation of its system of agricultural supports and tariffs with no expectation of proportionate action from developing countries. It also recognizes that such reform will be the price of similar reform in the US, Japan and Switzerland, and that its competitiveness in processed agriculture products means that reform of its primary farm goods regime can be offset to some extent against new access to markets for these goods.

1.8. So the Doha Round's development mandate will be delivered in two key ways: 1) complete exclusion of all Least Developed Countries from any obligations except binding their tariff schedules at the current level - the so called 'Round for Free' and 2) the concept of agreed 'modalities' for tariff cuts (and in the case of agriculture, subsidy reductions) in principle agreed by all members, but in practice tempered by various forms of 'flexibility' for developed and developing countries. Defensive interests have been exploiting the relative imprecision of the end result due to the flexibilities to block further progress. It was in defining one of these flexibilities – a special safeguard mechanism for agricultural exports to developing countries – that the last serious push to close the negotiation stalled in 2008.

1.9. The use of formulae plus flexibilities to define cuts in both agriculture and manufactures has two key implications, one positive, one negative. The first is that even after agreed flexibilities are employed, the tariff landscape will be compressed across the board, with the highest tariffs cut most. This is particularly important for farm tariffs in the developed world, where the compressive formulae will suppress some of the highest tariffs in the world for the first time. It is also crucial for industrial tariffs in developing countries, some of which remain very high.

1.10. The second is that while the modalities provide a basic level of ambition, the devil is in the detail: until it is clear where all countries will exercise their flexibilities to shield tariff lines from cuts through exclusions or where the special safeguard mechanism will apply, it is impossible, or at least very difficult, to value a final package in a way that makes it possible to sell to domestic constituencies. The formula plus flexibility system is both the greatest potential strength of the Doha Round, and potentially its fatal weakness.

2 DOHA: THE CASE FOR COMPLETION

2.1. The decision to sacrifice the gains embedded in the current Doha texts or plausible with a final concerted push by negotiators has far-reaching consequences for the global economy and should be treated commensurately. At present it is largely being made by default. The Doha Round is dying of political neglect. It is impossible to overstate the fact that no increment in value will close the deal in the absence of political will. Because of the political concessions involved, the Doha Round cannot be completed solely by trade negotiators; it needs a much stronger and direct involvement of political leaders. The protestations of commitment offered periodically by G8 and G20 leaders have consistently translated into little new impetus in Geneva.

2.2. The renewed leaders' commitment during the Seoul G20 meeting last November would have this time to translate in the coming weeks into genuine new engagement in Geneva and concrete signs of flexibility.

2.3. So why a final effort to revive and finally complete the Round, given the political capital it will require? There are four basic arguments for completing the Doha Round:

- **An insurance policy against future protectionism.** Doha would act as a consolidation agreement for the large amount of unilateral liberalization that has occurred since the end of the Uruguay Round in 1994. In this sense by binding this openness into an international agreement it acts as an insurance policy against possible reduction of market access. The "water", in negotiating parlance (i.e. the difference between the current level of tariffs and their WTO bound ceilings), is found in the tariff schedules of developing countries, and is especially high for India and Brazil. This water is also found in the subsidies of developed countries and in services.

- **Reform of farm trade.** A Doha Agreement would have the same constraining effect on the subsidization of farming in the developed world. It would make the 2003 reform of the European Union's Common Agricultural Policy irreversible, and while it would not bite into current levels of US counter-cyclical price support – because farm commodity prices are high – it would seriously constrain any future US Farm Bill from increasing supports should commodity prices fall. A Doha agreement would also eliminate all export subsidies for agricultural goods.

- **New market access.** It would provide new market access through tariff reductions and the contraction of market share of those countries whose agriculture subsidies will be withdrawn. Even in its current unfinished form the Doha Round represents the most ambitious package of trade liberalization ever negotiated multilaterally.[1] Estimates point to $360bn new trade as a result of the current Doha modalities[2], and this would be substantially increased by a proper package of new market access in services and trade facilitation[3]. These numbers are small when set against current trade volumes but they could be substantially increased by a final and ambitious push by WTO states, and they are not insignificant when set against the wider benefits of the Round.

- **The reinforcing of the WTO system.** It would protect the WTO and the multilateral trading system itself, which could be seriously damaged by the failure of a Round, especially a Round explicitly designed to integrate the emerging economies into the multilateral trading system and give many developing countries a stake in the system's success. The permanent collapse of the Doha Round is likely to provoke a wave of preferential trading agreements that would fragment rather than integrate the multilateral trading system. The WTO's function as a legitimate mechanism for resolving trade disputes is also to some extent contingent on its wider credibility as a forum for trade negotiation. If it fails in this wider mandate, it will be weakened in its judicial function.

2.4. Much of world trade is more complex than it was during the last GATT/WTO talks (the Uruguay Round). The most dynamic part of 21st century trade comes from the internationalization of supply chains. As today's WTO rules are based on the results of earlier rounds including the Uruguay Round which started in 1986, a growing gap is emerging between 20th century trade governance and 21st century trade. While the WTO is focused very much on the legitimate and necessary objective of concluding the Doha Round, this gap is being filled by advanced industrialized nations and emerging economics. They make more and more use of the possibility in the GATT of signing regional trade agreements with disciplines going well beyond multilateral rules. These deals are often complemented by bilateral investment treaties (BITs) and through the discretionary and inventive use of the existing gaps in the multilateral rulebook to regulate bilateral trade relations. Three sets of deep RTAs and networks of BITs have arisen – those signed by the US (NAFTA-type agreements), those signed by Japan (EPA like agreements) and those signed by the EU (Association Agreements and EPAs).

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[1] *Overall applied protection would be cut by 26% (trade weighted average based on the assumption that countries will use the whole range of flexibilities in the most restrictive way). IFPRI Issue Brief 61 Nov. 2009, Eight Years of Doha Trade Talks - Where Do We Stand?*
[2] *Ibid.*
[3] *Hoekman, Martin and Mattoo (2010), "conclude Doha – It matters!", World Trade Review, IX 03, 505-530.*

2.5. To date, the development of the gap-filling governance seems more like a challenge than a threat. The key players seem to believe that the world trade system would continue to be anchored by the WTO's shared values. This allows each member to view its own policies as minor derogations. Yet, at some point derogations could become the new norm. In this case the steady erosion of the WTO's centricity could sooner or later bring the world to a tipping point – a point beyond which expectations become unmoored and nations feel justified in ignoring WTO norms since everyone else does. This would put the world trade system back to power politics as usual – a 19th-century-style "Great Powers" trade system. The GATT/WTO would go down in future history books as a 70-year experiment where world trade was rules-based instead of power-based. This is an extreme scenario that all WTO members should have an interest in avoiding.

2.6. One thing is however clear at this stage. For the time being the momentum is behind the RTA solution. Unless the WTO membership finishes the Doha Round and moves on to 21st century trade issues, the WTO will find itself stuck with out-dated disciplines while deeper disciplines are established by the EU's, the US's and Japan's deep RTAs, with new sets added when China, India and Brazil internationalize their own supply chains.

2.7. In weighing the benefits of the Doha Round it is also necessary to attempt to assess the opportunity costs of failure at this point. Would equivalent gains be achievable in other negotiating formats or through other channels? The simple answer is no. Abandoning the Doha Round and attempting to re-launch a WTO agenda around new negotiating objectives would be extremely unlikely to succeed. The Doha negotiation represents a delicate balance of issues and interests that make up a 'Single Undertaking'. Pick apart that careful balance and the chance of consensual agreement retreats rather than advances. While tariff reductions and the dismantling of non-tariff barriers can of course be achieved in bilateral negotiations, the multiplier effect of a multilateral agreement is considerably higher. Agricultural subsidy reform will be agreed multilaterally or not at all.

2.8. In time when the world is facing huge economic, social and environmental challenges, the fate of the Doha Round can have defining consequences on the capacity of nations to act cooperatively or not on more difficult issues like environment, poverty and peace-keeping. These other fields of complex international cooperation would be seriously affected by the failure of such a crucial deal for development and global growth. The shock-waves of the failure would be felt durably and in many different areas, with immeasurable consequences. New multilateral trade negotiations would not be re-opened anytime soon, leaving an increasing gap between the reality of international economic relations and their governing rules. The WTO itself could be dangerously affected by such a serious blow.

3 THE CASE FOR A DEADLINE

3.1. What will focus minds sufficiently to break the deadlock? The lesson of the last two years is that the prospect of ‘deferred success’ is clearly not enough. Political leaders are unwilling to invest the required political capital to salvage and ultimately save the Round in part because they do not understand or are not being asked to bear the immediate costs of failure. No individual player is willing to be the first to declare the Round moribund, knowing that they will then be accused of precipitating its demise. At the same time, there is not sufficient political momentum to push for a final deal. The only way to change this is to make the prospect of failure concrete, collective and unavoidable. At the G20 level political leaders should set themselves a deadline within 2011 by which the Round must be completed or declared a failure. This deadline should be inflexible and bind all players at the level of Heads of Government.

4 THE STRUCTURE OF A FINAL PACKAGE

4.1 Creation of new trade opportunities would take place in the Doha Round as a result of the negotiations in three main chapters – agriculture, industrial goods and services. Other areas for negotiations conceal great potential for improving the rulebook for international trade, reducing distortions and fostering development. The modalities of the Round accept that the ultimate balance of the outcome, taking into account the privileged treatment of developing countries, will be sought across the chapters, not within individual chapters.

Agriculture

4.2 For many years the Doha negotiations were focused chiefly on the difficult issue of reductions of world **tariffs and subsidies in agriculture**, as this was rightly perceived as an area sheltered from previous trade negotiations. It was also regarded as disproportionately important for developing countries, many of which competed both domestically and internationally with subsidized farm goods from the developed world. The reality is that increased market access will benefit developed and developing country agriculture exporters and the proposed disciplines on subsidies will help level the playing between the two groups.

4.3 This focus has made agriculture the most developed part of the Doha negotiation. On all criteria, negotiators have been extremely successful in this area. To take only one example, under current draft texts the EU would reduce its MFN duties on agricultural imports by close to 60%.[4] Because of the compressive nature of the tariff formula in the agriculture chapter, the highest and most distorting tariffs will be cut proportionally more, with only 4% of tariff lines treated as sensitive and therefore subject to smaller cuts. As a compensation for these partial exemptions import quotas amounting to 4% of domestic consumption must be opened and subjected to zero or very low duties.

4.4 This is the most radical opening of a market of this size ever negotiated in GATT history. It would transform the EU's farm trade profile. Other protected markets like Norway, Switzerland, Canada and Japan would also undergo radical market opening. Unlike in many other negotiating areas, these concessions constitute genuine market openings because the tariffs effectively levied are very close to the WTO ceilings under negotiation. Therefore, a reduction of the bound tariff will translate into real new market access opportunities from day one of implementation.

[4] *Own computation using data from http://www.ifpri.org/gatt/doha/*

4.5 Two main groups of countries are likely to benefit the most from this opening up of new market access: agricultural exporters in developing countries, in particular Brazil and Argentina, and those in developed countries, in particular Australia, New Zealand and the US. For instance, it would mean for Brazil a reduction of 27% of agricultural tariffs levied on its agricultural exports by all foreign governments - $2.3bn of tariffs saved annually5. This figure is based on current export volumes, and will be even higher when the increase in Brazilian exports triggered by tariff reform is accounted for. US exporters would see the amount of tax levied by foreign governments on their agricultural exports reduced by $2.2bn6. Countries exporting farm goods into the United States would see the tariffs levied by the US falling by $1.5bn - or 38% of current levels - to just 3% of the value of US agricultural imports.

4.6 In the part of the negotiation focused on **trade distorting domestic support** to agriculture, developed countries have accepted the need to reduce substantially the ceilings currently applied: by up to 80% in the case of the EU and up to 70% in the case of the US. For both countries, the reduction in the ceiling would impact only modestly the level of support currently granted to their farmers, but in both cases would force them to change the design of farm policy to reduce its adverse impact on farm trade. To be sure, additional disciplines in this area are needed given the increase in recent years of the use of domestic price support by the US in particular.[7]

4.7 More specifically, the overall level of supports to some key products like cotton and sugar in the US would be severely constrained as a result of the deal, in particular in the event of a fall in international food prices. In the case of the EU, new international disciplines have the considerable value of locking in recent reforms which could otherwise be reversed in future. EU farm policy is due again for reform in 2013 and in the absence of more stringent international disciplines brought by a successful Doha Round, nothing would prevent EU policy makers from changing their farm policy in a way detrimental to international trade.

4.8 Other areas for negotiations in agriculture have also seen substantial progress and sizeable commitments are already included in the draft Doha modalities. For instance, the current text foresees the complete elimination of all forms of **export subsidies** by 2013 by developed countries, and by 2016 by most developing countries, with the remainder by 2021. The EU has been among the main offenders here. As was again experienced in the aftermath of the financial crisis, countries tend to resort to export subsidies when world prices are falling, accentuating the depression of prices, increasing price volatility and harming developing world producers and those dependent on stable food prices, chiefly the world's urban poor. The complete elimination of this type of particularly distorting trade instruments would therefore constitute a very valuable legacy of the Doha Round.

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[5] *Ibid.*
[6] *Ibid.*
[7] *Blanford, Laborde and Martin (2008), "Implications for the US of the May 2008 Draft Agricultural Modalities", ICTSD.*

4.9 Negotiators still have to tackle the reduction of subsidies on **cotton**. Work also remains on the form and functioning of the **special safeguard** measure for developing countries, as well as in the designation of where flexibilities of both developed and developing countries will apply.

4.10 What can be said is that the agriculture chapter of the Doha Round constitutes a substantial package of considerable importance to the global economy and to developing countries in particular.

Industrial Goods

4.11 In the **industrial goods** chapter negotiators have also achieved substantial commitments to further market opening. Among developed countries, which represent more than two third of the worlds final demand, tariffs would be virtually eliminated, with no tariff remaining above 6%. Duties levied by the EU on its total imports of industrial products would go down by 44%, more than in any previous round, amounting to $12.5bn saved on exports to the EU. On the US market, the amount of duties paid on imports would go down by $12bn[8], almost halving the current amount of duties paid. Given the large number of preferential trade agreements that the US and the EU have in place, the rate applied to those partners not covered by preferential arrangements such as Japan or China would go down even more steeply, and be proportionately even more valuable.

4.12 Here the onus is on the emerging economies to demonstrate a willingness to make some contribution to a trading system from which they have been key beneficiaries. To some extent this has been achieved. In the current modalities package China would contribute substantially, largely because the duties it currently levies are very close to those bound in its WTO schedule. China has relatively low levels of duties – currently around 5.6% of the value of imports, well below India and Brazil at 12.9% and 8.5% respectively. However, as the world's largest exporter and as such one of the largest overall beneficiaries of the Doha Round, China has a particular responsibility here. The current draft modalities would lead to a 22% reduction of duties levied on imports, well below the 36% cut that Chinese exporters would face on foreign markets.[9]

4.13 Other big emerging economies would undertake much less new market opening, chiefly because their current applied tariffs are much lower than the rates they bound into their WTO schedules in the previous Uruguay Round. Brazil would cut its current level of duties by just 8%, from 8.5% to 7.8% of the value of imports. It would also be an 8% reduction on the part of India, from 13% to 12% of the value of imports of industrial products. India can argue that it has reduced its tariffs substantially over the last decade, and it deserves some credit for this. Brazil however currently levies duties at almost the same level as at the end of the Uruguay Round.

[8] *Own computation using data from http://www.ifpri.org/gatt/doha/.*

[9] *The percentages presented in this section come from Laborde, Martin, van der Mensbrugghe (2010), Implications of the 2008 Doha Draft Agricultural and Non-Agricultural Market Access Modalities for Developing Countries, Mimeo.*

4.14 This is a critical area of the Doha negotiation, covering by far the largest area of global trade. Developed economies understandably expect a meaningful outcome here. Under the terms of the current package the protection faced by EU and US exporters would be reduced by 22%, but this is largely as a result of the reduction of other industrialized countries' protection. This drop in duties paid to foreign governments is sizeable, but faced with a reduction of their own duties in the range of 40% to 50%, their need to see more new market access in other large trading nations is understandable.

Sectoral Agreements

4.15 A further necessary complement to the current modalities package in industrial goods should come in the form of a set of sectoral agreements. These would further reduce or zero tariffs among the main trading partners in key defined sectors of goods. The WTO system already includes a number of voluntary agreements that pursue deeper levels of trade openness in individual sectors such as this. The 1994 Chemical Tariffs Harmonization Agreement and the 1996 Information Technology Agreement are the basic models for this. They offer considerable potential for new market access, and could increase the ambition and balance of the Doha Round.

4.16 14 industrial sectors are currently listed in the draft negotiating texts. They have all received various levels of support from WTO members. In 7 out of 14 sectors, the countries which expressly support the initiative represent at least a third of world trade in the sector. This is the case for chemicals, electronics and electrical products, industrial machinery, enhanced health care, forest products, gems and jewelry and sports equipment. For another sector (textiles, clothing and footwear), the official sponsor countries, namely the EU countries, represent less than 25% of world trade in the sector. Other sectoral proposals in fish and fish products, hand tools, raw materials, toys, bicycles and parts, and vehicles and parts all only have the official support of WTO members representing 10% of world trade or less. Realistically, these are unlikely to succeed as part of a final Doha package, although they may be included in the final list if sufficient support develops.

4.17 Among the 7 sectors having received substantial support, 3 sectors (chemicals; electronic and electrical products; and industrial machinery) cover 50% of world trade of industrial products and therefore represent considerable potential economic gain. If these sectoral initiatives were to go ahead the annual economic gains from the industrial goods chapter could double to an estimated $700bn[10].

4.18 The key challenge with sectorals lies in the need to respect the voluntary participation principle while ensuring they cover a critical mass of participants. This high threshold inevitably means that many countries representing a very small share of world trade in a given product would have to buy in. That seems likely to prove very difficult or even impossible in most

[10] *The figures quoted in this section comes from Laborde(2011),"Sectoral initiatives in the Doha Round", Mimeo.*

cases. Negotiators should consider an alternative or complementary criterion that countries representing less than 1% of world trade in a given sector would sign up to the sectoral agreement but not be required to participate until they account for more than 1%. This means that Chinese participation would be required for chemicals, electronic and electrical products, enhanced healthcare, forest products, and industrial machinery. The EU would have to participate in electronics and electronic products; enhanced healthcare; forestry; and sports equipment on top of the sectors the EU is already officially supporting. Brazil would be required to participate only in the initiative covering chemicals, and Japan in forest products and enhanced health care, on top of the sectors this country is already promoting.

4.19 The case is also strong for Doha to include a new package on **Environmental Goods and Services**. This would further reduce or zero the tariffs for a range of goods categorized as environmentally friendly or contributing materially to decarbonization. This would be hugely economically valuable – the global market for environmental goods is worth more than $150bn annually. It would also ensure that the Doha Round made a substantial contribution to the post-Copenhagen framework for addressing climate change. The World Bank has already defined a list of 45 Environmental Goods that can form the basis for negotiation, to be added to if the ambition is there. This package could also be extended to cover certain environmental services and possibly certain biofuels.

Services

4.20 The negotiations on **services** in Doha offer some of the largest potential gains for both developed and developing countries. The current public offers tabled by WTO members would improve on existing commitments in services trade schedules but would still fall short of the actual openness provided by states in practice, meaning that while the Round would consolidate a new level of openness, it would create only few new opportunities for trade. Given the fundamental role of services such as transport, telecommunications, construction, IT and financial services in the effective and efficient management of an economy, a strong outcome in services has huge potential spillover benefits for both developed and developing WTO members.

4.21 At a “signaling conference” organized in Geneva in July 2008, a group of 31 countries exchanged indications on their own new and improved commitments in this area, as well as the contributions expected from others. The report made public at the end of the conference and the impressions shared by the negotiators suggest clearly that a number of developed and developing countries showed real willingness to contribute substantially in this area. This ambition needs to be captured and capitalized on, and the services negotiation now needs to be the chief focus of the energies of all negotiators.

A package for Least Developed Countries

4.22 The 49 Least Developed Countries have an accepted privileged position at the centre of the Doha Round. They are not expected to implement any tariff reductions, and requested only to bind their tariffs at the level they currently apply. Because many of them currently depend on preferential market access to economies such as the EU, multilateral liberalization presents them with a short-term challenge. It erodes the preferential margin for their exports, sharpening the extent to which they compete with more advanced developing countries such as China and Brazil. For this reason the Doha negotiation has agreed the principal that for certain products implicated in this way tariff reductions will be staggered over extended periods. All developed economies can and should be expected to shoulder a share of the responsibility for generating a sizeable package. The most important addition to this should be the granting of **Duty Free Quota Free** market access for all exports from all LDCs to all OECD countries and a set of major emerging economies. While some economies such as the EU already offer such access, in most cases it excludes key exports or does not cover all LDCs, as for example in the US. If all developed and major emerging economies were to agree to eliminate all tariffs on all LDCs' exports, it would boost those exports by 44% or $7bn a year[11].

4.23 Of crucial importance for several LDCs, the Doha Round will also have to address trade distortions caused by subsidies to **cotton** farmers in developed countries. Here the US in particular has a responsibility to take the lead.

4.24 In addition to the Doha Round outcome for the LDCs, **"Aid for trade"** should be maintained as a necessary complement to boost their productive capacity and help them reap the benefits of the Doha Round. Crucially, the third Aid for Trade review is to take place in Geneva in July 2011.

Trade Facilitation

4.25 The **Trade Facilitation** negotiation is a clear success story of the Doha Round. WTO members have tabled more than 70 new proposals for improving the transit of goods between markets, charges levied for transit, penalties for minor breaches of customs regulations, the standardization of customs documentation and prompt publication of conditions for import and export. Even for a developed market like the US, the World Bank estimates that the costs of shipping a standard cargo container are about 5% of the average shipment value for exporters and 6% of average shipment value for importers. These costs far outstrip most US industrial tariffs. Additional costs in less efficient markets add a significant cost to trade[12].

[11] *Hoekman, Martin and Mattoo (2010), "Conclude Doha – It matters!", World Trade Review, IX 03, 505-530.*

[12] *Portugal-Perez A., J.-S. Wilson (2010), "Export Performance and Trade Facilitation Reform – Hard and soft infrastructure", World Bank Policy Research Working Paper No5261.*

4.26 Projections for increased trade due to the proposed improvements in trade facilitation are substantial – perhaps $130-$450billion annually[13]. These gains accrue disproportionately to developing countries. For Sub-Saharan Africa it is worth €10bn in additional economic activity each year (+2%), half the annual inflows of Official Development Assistance (ODA)[14]. In this area, the benefits for developing countries could by far exceed the gains in other areas for negotiation. It will however much depend on their own commitment to reform domestic policies and infrastructure to ease border-crossing for goods and services and the development aid that will be provided by developed countries to implement these reforms. These commitments need to be explicit in a final Doha package.

Remaining loopholes must be closed in other negotiating areas

4.27 The Doha negotiation also extends to a range of issues that relate to the WTO's core rulebook or which touch on important aspects of the international trading system. The discussions taking place in the negotiating groups on rules, fishery subsidies, non-tariff barriers, intellectual property rights, and dispute settlement understanding, are all of crucial importance to the finalization of a balanced final deal in which all members see value.

[13] *Hoekman, Martin and Mattoo (2010), "Conclude Doha – It matters!", World Trade Review, IX 03, 505-530.*
[14] *Decreux Y. and L. Fontagné (2009), "Economic Impact of Potential Outcome of the DDA", CEPII Research Report No 2009-1.*

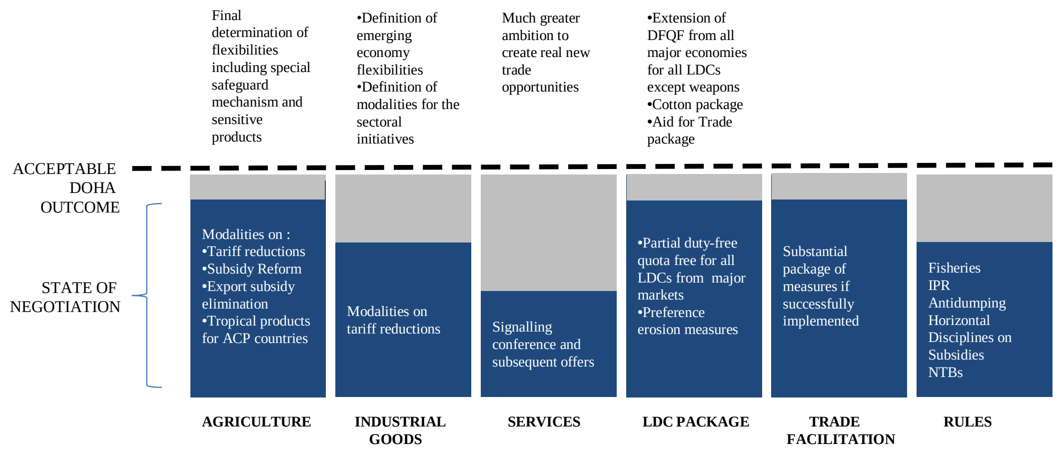
5 CONCLUSION: MOVING TO A FINAL DEAL

5.1. The current Doha package is substantial and a great deal has already been achieved. However, it is incomplete. To close the remaining gaps every member needs to be ready to make an additional contribution. The Doha package must be measured in terms of the balance across negotiating groups and in terms of developed, emerging, developing and least developed countries. It must weight both bound and consolidated unilateral liberalization and new market access. The task of achieving this is not as substantial as it may appear and, given good faith and a little more openness in the negotiation can undoubtedly be concluded in the first half of the year.

5.2. While the agriculture and trade facilitation chapters are very advanced, other chapters require either further advances or complementary additions in order to maximize their potential outcome. In industrial goods, the core of an ambitious agreement is already there. However, some further work is needed. Sectoral agreements seem achievable in at least the seven areas where momentum genuinely exists. Those should be negotiated and closed on a voluntary basis among the countries which have a stake in each of them. Adapted criteria could certainly be defined to accommodate the necessity of special and differential treatment for developing countries. A sectoral agreement covering genuine environmental goods should be added to this outcome, all countries should be ready to show flexibility to agree an ambitious list in an area where environmental necessity clearly aligns with growth objectives.

5.3. In services, both developed and developing countries need to produce a text that creates real new opportunities for exporters, building on the constructive engagement shown during summer 2008 at the Signaling Conference. This agreement would do more than any other element to significantly raise the value of the Doha Round and close the deal. Accompanied by agreement on duty free quota free access for all least developed countries from all developed and emerging economies, Doha would be by far the most ambitious multilateral trade deal ever negotiated and an important element in a new framework of multilateral economic governance. It would also help to spare the global economy at a time when fresh impetus is badly needed.

Fig. 2: 'Topping Up': completing the Doha negotiation in 2011



5.4. The contours of this package will not come as a surprise to Doha technical negotiators: something like it has been the only credible landing zone for the Doha negotiation since 2008 or earlier. Compared to what negotiators have already achieved, additional concessions needed are balanced, and they would lead to an outcome that is balanced relative to the starting point. Much of what needs to be done is of relatively small size, involving limited political pain. The key now lies with political leaders willing to mandate a deal on these terms. To focus their minds in a way that they have not been focused for the last two years it is now necessary to set a genuine deadline for completion of the Round against which the costs of failure can we very starkly weighed. It should bind all WTO members, at the level of Heads of Government.

5.5. Both in preparing the ground for this Doha agreement and in defending open trade more widely, politicians must be willing to explain the value of liberalization, not just in terms of new market access for exports but in terms of the value of imports to widen choice and competition and drive productivity and growth. This means breaking the habit that describes every new import as a concession, simply because it often comes with a price in adaptation. Without this willingness, the politics of open trade will always be hobbled and incompletely honest. Only this explicit political leadership will create the context in which negotiators feel able to move from defensive positions to deal-making.

5.6. The resulting deal would lock in the liberalization of the global economy over the last ten years and lay the framework for another decade of liberalization. It will not be perfect, but given the inherent compromises of negotiating multilaterally with a diverse WTO membership, and given the opportunity costs of failure, perfect cannot be allowed to be the enemy of unprecedentedly good.