Doha Can Achieve Much More than Skeptics Expect

William R. Cline

IF ALL global trade barriers were eliminated, approximately 500 million people could be lifted out of poverty over 15 years. Developing countries would gain approximately $200 billion annually in income and at least half of this amount would stem from the removal of protection against their export products in industrial countries. The current Doha Round of multilateral trade negotiations in the World Trade Organization (WTO) provides the best single chance for the international community to achieve these gains. How far can Doha reasonably be expected to go toward global free trade? I believe it can go a relatively long way, if the political leaders of the United States, the European Union (EU), and the major developing countries press hard for such an outcome.

It is easy to be skeptical. The remaining areas of high protection in industrial countries—agriculture and textiles and apparel—are widely regarded as the most difficult politically. Some argue that past liberalization of manufactures in developing countries, often unilaterally, has reduced the remaining interest of industrial country manufacturers in pushing for further liberalization. Similarly, it is argued that the financial services and intellectual property interest groups in indus-

Photo shows workers assembling cars on a production line in Brazil.

trial countries obtained much of what they sought in the previous Uruguay Round, and so are less keen to exert pressure in the Doha Round. Yet, without pressure from the export interests, the import-competing interest groups tend to preserve protection. Moreover, Doha Round negotiations are complicated by their structure, which seeks consensus on a "single undertaking." There is some risk that the least developed countries, for example, might seek to block broad liberalization for fear of erosion of their existing preferential treatment.

The Doha Round may in fact achieve much more than the skeptics expect, however. First, ***the negotiations come at a historical moment when conditions are no longer "business as usual."*** The terrorist attacks on New York, Washington, Madrid, and elsewhere have heightened awareness that progress in reducing global poverty is critical both to eliminating conditions that can help breed alienation and to removing any scintilla of legitimacy of such acts. It was in this environment that the Doha Round was officially designated as the Development Round, even as major new international assistance efforts were ramped up. Successful multilateral talks require strong political pressure from the top. The Group of Seven heads of state are well aware that the stakes are high in delivering on the promise of a Development Round. There is also growing awareness that open trade is an efficient means of conveying benefits to the global poor because it also benefits consumers in rich nations instead of imposing a fiscal burden on them.

Second, ***plenty of protection remains to be negotiated downward through the traditional dynamics of reciprocity.*** Despite their new recognition of the merits of open trade, developing countries continue to have relatively high protection in manufactures—albeit far lower than during the 1970s peak of import-substituting industrialization. Manufacturing tariff rates actually applied by developing countries average about 15 percent (weighted by trade and GDP), and "bound" rates (to which protection could legally revert) are even higher. Industrial country tariffs average only 3 percent on manufactures outside textiles and apparel (for which the average is 12 percent). So industrial country manufacturers have a strong interest in successfully negotiating a further reduction in global protection. To mobilize this kind of pressure for reciprocal reduction of industrial country protection (including in agriculture), the major developing countries should be prepared to negotiate cuts in their bound rates that leave bound tariffs well below current applied rates. Seeking merely to cut "water in the tariff"—very high rates that provide excessive protection of domestic production—by reducing bound rates but leaving them above applied levels will fail to spur major breakthroughs.

For their part, developing countries have a strong interest in obtaining reductions in industrial country protection in agriculture and in peak tariffs in industry (including textiles and apparel). I have estimated that when both tariffs and the tariff-equivalent of domestic subsidies are taken into account, agricultural protection amounts to about 20 percent in the United States, 50 percent in Canada and the EU, and 80 percent in Japan. Other parts of a reciprocal deal involve further opening in a range of services, possibly including some progress in temporary labor market access.

Third, ***budgetary pressures make the time ripe for meaningful commitments to phasing down output-distorting subsidies in agriculture in the United States and Europe.*** The enormous challenge of cutting the U.S. budget deficit will mean constant pressure on the limited range of discretionary expenditures, including agricultural subsidies, at a time when the dollar's decline should boost world dollar prices of agricultural goods and hence tend to curb the size of the subsidy base. The recent WTO ruling on U.S. cotton protection, if confirmed as expected, will also pressure the United States to reform agricultural subsidies. In the EU, the accession of new states means that the linkage of subsidies to production will be increasingly costly, exerting strong pressure to further decouple subsidies from output. Developing countries were right in Cancún, Mexico, in September 2003 to insist on agricultural liberalization in industrial countries. The latter have already made a good start with a commitment in Geneva in July 2004 to eliminate export subsidies and make a down payment on reducing other agricultural subsidies by cutting them at least 20 percent in the first year after conclusion of the Round. The goal should be much deeper cuts thereafter and rigorous decoupling of subsidies from incentives to produce. There should be scope for such cuts in a deal providing the attraction of overall reciprocity.

Fourth, ***there are encouraging signs that major developing countries are assuming an important leadership role in helping the Doha Round succeed.*** The Group of 20 developing countries insisted on a better deal at Cancún. And Brazil and India joined the United States, the EU, and Australia in a group called the Five Interested Parties, which worked out key elements of the 2004 Geneva Framework Agreement. The major developing countries could usefully go the extra mile by offering, as part of a Doha deal, preferential entry into their own markets for imports from the least developed countries. This would provide a major new market opportunity for the poorest countries, thereby helping to offset any potential losses in their exports to industrial countries that might result from preference erosion. After all, reduction in most-favored-nation tariffs in industrial countries squeezes the advantage to duty-free suppliers. The central point is that the major developing countries recognize that an open world trade regime is crucial for their development. Brazil, China, and India, in particular, have much to gain from freer world trade and can spearhead reciprocity dynamics in the Doha Round by putting their own protection on the table.

The Doha Round effectively has another two years to go before the U.S. negotiating authority runs out. Much work remains. But with forceful leadership by heads of state in the major industrial and developing countries, there is good reason to believe that the Doha Round can move the world substantially further toward global free trade. ■

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