Implications of WTO Developments for Market Integration

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INTRODUCTION

Trade negotiations follow tortuous and unpredictable paths. Therefore accepting assignments to analyze impacts of agreements before they are concluded is fraught with danger. Yet some authors seem frequently to be trapped by their willingness to agree to give an assessment of the outcome of GATT/WTO negotiations well in advance of their scheduled conclusion, only to have the negotiations delayed or suspended, perhaps never to be concluded. It has happened to this author now three times. First in 1993 before the conclusion of the Uruguay Round (McCalla 1993), again in 2003 when Doha was supposed to be well along before the Cancun Ministerial (McCalla 2003) and in 2006 when he agreed to do this paper just days before Pascal Lamy, the Director General of WTO, recommended an indefinite time-out in WTO Doha negotiations (McCalla and Nash). So for a third time, in this chapter, speculation is required on whether there will be an agreement, on what might it look like, as well as on its potential impacts on NAFTA.

But, the task faced by this chapter is even more challenging. Given that there is currently no agreement and prospects do not seem promising, it needs also to explore the consequences for market integration (NAFTA) if there is no Doha Agreement.

The chapter begins by reviewing what appears to be the current status of the Doha Development Round as of July 2007. This is followed by a

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discussion of why an agreement seems so elusive – is it simply a continuation of long-standing problems on agricultural trade negotiations which have dragged out previous Rounds? Or is the new WTO ungovernable given its rapid expansion in membership and its old decision modality of consensus? Or are there new developing country forces/negotiating blocs at work which are challenging traditional developed country hegemony? Or have opponents of globalization so trumpeted trade skepticism that anti-liberalization forces are winning, or has an era of bilateralism and regionalism become the new global mantra? The answer probably involves pieces of each explanation, but no doubt the growing power of developing countries is key. Therefore the third section of this chapter is devoted to exploring how they could benefit from an agricultural agreement that would be the minimally acceptable agreement to them. The fourth section contains wild speculation about what an agreement might look like. Then the final two sections look at consequences of the scenarios – "DEAL" or "NO DEAL" – in Doha for market integration in NAFTA.

APPARENT STATUS OF THE DOHA ROUND AGRICULTURAL NEGOTIATIONS

The Uruguay Round Agreement on Agriculture (URAA) committed WTO members to initiate further negotiations before the end of 1999 (or early 2000). Thus, discussions of further agricultural trade reform were initiated in March of 2000 despite the Seattle debacle in December 1999. They were given a significant boost by the Doha Ministerial decision in November 2001 to initiate a new round of general trade talks, the Doha Development Agenda. The agriculture timetable was ambitious – an agreement on modalities for determining further commitments no later than 31 March 2003, submission of comprehensive draft schedules to the Fifth Ministerial in Cancun, September 2003 and a completed agreement by 1 January 2005. As is well known, none of these mileposts were accomplished. The Cancun Ministerial ended in disagreement rather than progress. The explicit issues which split developed and developing countries were the so called Singapore issues of adding items such as investment, competition rules, and procurement transparency to the trade agenda. Nevertheless, the lack of any agreement on how to move forward in agriculture greatly troubled delegates before the breakdown occurred (WTO 2003).

Despite the Cancun breakdown, agricultural discussions continued, and on 1 August 2004, after an all-night session, the delegates agreed on a framework/outline to be used to complete the "modalities" on agriculture. Discussions of modalities started in October 2004 with the hope of an agreement by July 2005 and a presentation to the December Hong Kong Ministerial. Again, modalities were elusive and in the Declaration of the Hong Kong Ministerial the only firm agreement was one to eliminate export subsides by the end of 2013 and the only other progress reported was agreeing to three bands for reductions in Aggregate Measures of Support (AMS) but no further details. The negotiators did, however, reaffirm commitments to complete the mandate on agriculture set out in the Doha Declaration (WTO 2005).

But 2006 turned out to be no better and on 24 July 2006, Director General (DG) Pascal Lamy issued a statement.

> The situation is now very serious. Without the modalities in Agriculture and NAMA, it is clear that it will not be possible to finish the Round before the end of 2006… I believe the only course of action I can recommend is to suspend the negotiations across the Round as a whole… I do not intend to propose any new deadlines or a date for resumption of activities… And let me be clear: there are no winners and losers in this assembly. Today, there are only losers (WTO 2006).

After a six-month period of reflection and informal consultations, DG Lamy announced on 7 February 2007 "We have resumed negotiations fully across the board" (WTO 2007e). On 9 May 2007, DG Lamy further laid down the challenge, underlining "…my belief that a successful outcome to the Round is possible, even in the small amount of time remaining until the end of this year. I have warned governments that if they do not compromise soon, they will be forced to confront the unpleasant reality of failure. This would mean foregoing the very significant package of trade opening and rule-making that the Round represents, and breaching the commitment which was taken to work for a more developing-friendly world trading system (WTO 2007d)." In the same report he underlined the critical importance of establishing modalities in agriculture if any progress was to be made.

Finally, it can be noted that the Chair of the Agriculture Negotiating Group, Ambassador Crawford Falconer of New Zealand, circulated a "Challenges" paper on 30 April 2007 (WTO 2007a) which was a rambling discourse on the many divergences and few convergences of opinions on issues in agriculture. He did, however, attempt a first pass at setting the boundaries within which any agreement would be required to fit and tried to identify any "centers of gravity" that might be emerging. On 7 May 2007, he reported that member's comments showed they were starting to negotiate content rather than rejecting it (WTO 2007c). He circulated a second installment on 25 May 2007 which further elaborated on the wide differences that existed on special and differential treatment for developing countries but reported no further convergence on other issues (WTO 2007b).

At the time this chapter was written, negotiations had restarted, an ambitious timetable had been laid out and leaders were professing optimism of having some kind of a deal before the end of 2007. Based on past performance, one cannot help but be pessimistic, but maybe facing a real possibility of failure will focus governments' attention and get things moving. Time will tell but at the moment it seems to be a very steep path.[2]

On top of the situation in Geneva, of course, is the fact that Fast Track negotiating authority in the United States, the world's largest trader, expired on 30 June 2007.[3] Given that any deal had to be submitted by April first, there will be NO DEAL unless that authority is renewed. At this point, it is foolhardy to hazard a prediction. Conversations with some usually reliable sources in Washington say an extension may be possible despite the Democratic takeover of Congress last November and point to a recent agreement including labor and environmental issues in trade discussions (Weisman) as evidence that something may still be possible.[4]

WHY IS AN AGRICULTURAL AGREEMENT SO DIFFICULT?

It would be easy to argue that the problems in Doha are simply a continuation of the problems caused by entrenched agricultural protectionism in rich countries. After all, declaring an agricultural impasse was all that saved the Kennedy and Tokyo Rounds from failure and agriculture delayed the completion of the Uruguay Round by three years. But this is history (McCalla 2003). In the end, there was some progress in the Uruguay Round, at least in bringing agriculture under the same rules as other sectors in the new WTO. But the second part of the URAA was to actually begin to liberalize, and in this there has been limited progress. But one could also argue that negative outcomes in Seattle, Cancun, and Hong Kong were not the sole, or even, major responsibility of failures in agriculture. Therefore, we need a longer list of potential suspects.

Agriculture, of course, has to remain on the suspects list, but others should be added. Some make the case that the new WTO with 150 members cannot use the old GATT modality of consensus for decision-

[2] Indeed, G-4 ministers meeting in Potsdam in late June failed to narrow differences and revive the Doha Round (The Economist).
[3] Democratic leadership in the US House of Representatives at the end of June "…quietly scuttled the president's authority to negotiate trade agreements (Broder)."
[4] Later Democratic leaders in both houses indicated restoring "fast track" was not high on either of their agendas.

making. Others have argued it is a result of new power blocs involving the growing number of developing country members who are challenging the hegemony of OECD. Yet others contend that the opponents of globalization are winning as more people believe freer trade is a bad thing, not a good thing. Finally, since the last WTO Agreement in 1994 there has been a proliferation of regional and bilateral trading agreements. Perhaps this is the new way of doing business. Let us explore each quickly because each may be part of the problem.

Agriculture Is Still a Problem

There is no question agriculture remains a difficult nut to crack. Much of the progress that took place in the Uruguay Round of bringing agriculture under the regular rules of GATT/WTO can be attributed to factors that were different in that Round – The United States was a very strong advocate for agricultural liberalization and there was a new power bloc – the Cairns Group of agricultural exporters – who refused to agree to other parts of a Uruguay outcome until there was progress in agriculture. The EU also was moving in the direction of less costly and less trade-distorting policies, not necessarily because they loved free trade but because, with EU expansion, the continuation of the old Common Agricultural Policy (CAP) model was unsustainable from a budget perspective. The other big subsidizers of agriculture like Japan, Korea, and Norway focused on making sure there was enough flexibility in how the three pillars were implemented (e.g., the ingenious tariff-rate-quota which turns out to be a pretty effective quantitative restriction) so that they could continue to have very high levels of protection.

Since the Uruguay Round was completed, several things have changed. The United States has reverted back to high levels of coupled subsidies, starting with ad hoc bailouts in the late 1990s which were locked in permanently with the 2002 Farm Bill. There is nothing to suggest in the current debate leading up to the 2007 Farm Bill renewal that things will change much. In fact, the big push seems to be for more commodities to get access to the money spigot than before rather than closing off the subsidies. Therefore, the US is no longer a credible advocate for liberalization despite the periodic rhetoric of the US Trade Representative advocating a more liberal trade regime in agriculture. The Cairns Group has experienced some fractures, in part, because the Canadians can't decide which side they want to be on, and, in part, because some developing country members are being pulled into new more powerful mixed groups of developing countries who are less sure they want to liberalize their agricultural policies in exchange for better access to developed country markets. So, if anything, there seems to be fewer forces within the agricultural sector pushing for reform. Given internal reforms in the CAP, the EU is less strident about keeping protection, but certainly is not yet a flaming reformer. Thus, given the power of farm groups in developed countries, there is still strong resistance to major changes.

Expanding Membership - Is the WTO Ungovernable?

The number of countries participating in GATT negotiations never exceeded 38 up to and including the fifth Round, the Dillon Round (1960-61). The number "participating" increased to 62 in the Kennedy Round (1964-67), 102 in the Tokyo Round (1973-79) and 123 by the end of the Uruguay Round (1986-94). However, participation included a lot of observers. Further, given the dominant modality was first, bilateral offer-response negotiations by tariff line between the two major traders, and second, generalization to all members (MFN), numbers "participating" were not a big issue. Within this model, the decision mode of GATT was consensus which appeared to work.

When WTO came into being on 1 January 1995 there were 76 members. Over the course of 1995, 36 more joined and by 11 January 2007, there were 150 members and an estimated 30 more are negotiating for membership. With the creation of WTO, a more formal governance structure was codified which involved a hierarchical structure with the "Ministerial Council" meeting every two years as the highest body, with day-to-day decision-making done in the second tier by the "General Council," made up of resident ambassadors or representatives of all members in Geneva. At the third level, there are three Councils: 1) Trade in Goods; 2) Trade-Related Aspects of Intellectual Property Rights (TRIPS); and 3) Trade in Services. Under the Council for Trade in Goods, the dominant modalities are 11 "sector/topical committees," including agriculture and nonagricultural market access (NAMA). Each of these committees is open to all members and decisions are by consensus. Only in specific cases is there provision for voting by qualified majority. The bottom line is this: an agriculture agreement will require a consensus of 150 countries and four levels of agreement before it can go out for country ratification.

Historically, some difficult decisions have required an initial breakthrough. Early on this involved prenegotiations by a small group called the "Quad"– Canada, the EU, Japan, and the United States – but since the turn of the century this group has been expanded to include Brazil, India, and Australia representing the Cairns Group. In agriculture, since 2005, four, five, or six of the following group – Australia, Brazil, the EU, India, Japan, and the US – have met as "the new Quad" (Brazil, the EU, India, and the US); the "Quint' also called FIPS or five interested parties (Australia, Brazil, the EU, India, and the US); or the "G-6" (the Quint plus Japan). The Doha Round was suspended in July 2006 when the G-6 could not agree on a way forward (WTO 2007g). In addition, there are proliferations of other groupings which have emerged which are discussed in the next section.

Some, such as Jeffrey Schott of the International Institute of Economics (IIE), have argued that the WTO is ungovernable because a committee of the entire 150 members makes for a cumbersome and inefficient decision process. He argues for a World Bank/International Monetary Fund (IMF) form of governance with an Executive Board to direct the organization, permanent participation of the major industrial countries, and weighted voting (WTO 2007h). Further, it is clear that rigid adherence to a consensus model leads to the tyranny of the minority. The WTO has yet to produce a serious trade agreement. Therefore, the jury is still out as to whether it is functional in making decisions in difficult areas such as agriculture.

New Groupings Emerge as Developing Countries Organize to Check Rich Country Hegemony

Prior to the creation of the WTO, the GATT was largely a rich countries' club, dominated by the old "Quad" (the US, the EU, Japan, and Canada). As argued above, the creation of the Cairns Group in the late 1980s had a significant impact on the outcome of the Uruguay Round regarding agriculture. The creation of the WTO in 1995 which formalized a decision structure of ministerials, councils, and committees, which coupled with rapidly expanding membership provided enticing opportunities for new groups to form. The failure of the Seattle Ministerial in 1999 signaled the end of business-as-usual, and the initiation of a new Round in Doha in 2001 was a turning point which encouraged new groups beyond the Cairns Group to form. As Wolfe states, "the group process has been evolving since the creation of the WTO, especially after the 1999 Seattle ministerial conference, and new patterns of coalition activity were in evidence at the Doha ministerial, but the 2003 Cancun ministerial was a shock because it seemed to mark a clear break from the conventional pattern."

There are two excellent papers (Wolfe; Kaukab) which analyze the new groupings in agricultural trade negotiations. Wolfe argues that three groupings of developing countries influenced the agenda for the Doha Development Round. These were the African Group, The African, Caribbean, and Pacific (ACP) Group of States (77 countries given preferences by the EU) and the Least Developed Countries Group.[5] At Cancun, these groups acted together as the G-90 to block discussion of the Singapore issues, and a new group of larger developing countries, the G-20, rejected an EU/US paper on agricultural market access. These actions essentially derailed the Cancun Ministerial. The G-20 (not always

[5] Descriptions of these and other groups discussed below are contained in Appendix 1.

Table 7.1: Small Groups Relevant to Agriculture.

Regional Groups	Offensive Coalitions	Defensive Coalitions	Cross-Coalition	Managerial
ACP African Group LDCs G-90	C-4 G-11 Cairns Group (NS) G-20 (S/S)	G-10 G-33 RAMs SVEs	G-4 FIPs G-6 FIPs Plus	Mini-ministerials Green Room "Senior Officials"

Source: Wolfe.

exactly 20) contains many developing countries that were members of the Cairns Group and includes major agricultural players like Brazil, Argentina, India, and South Africa. Kaukab notes that it has become a major player in agricultural negotiations.

Kaukab argues that it would be a serious mistake to think that all developing countries have the same interests. Some have strong interests in opening and liberalizing markets (i.e., many developing country members of the Cairns Group), and therefore focus on reforming the three pillars,especially market access. The G-11, a coalition of Latin American countries, pushes for liberalization of tropical products. Others, he says, have defensive interests in terms of special treatment for developing countries like the G-33. But Kaukab concludes that a majority of developing countries have interests both ways.

Other groups have also formed such as the G-11, rich country importers like Japan, Norway, Switzerland, Korea, and Taiwan, who wanted to protect their right to subsidize their farmers. But this is enough to demonstrate that the political economy of agricultural negotiations has become much more complicated. Wolfe classifies the various groups into five categories – regional, offensive, defensive, cross-coalition, and managerial. His classification is presented in table 7.1.

Wolfe argues that in a group of 150 members, who must make decisions by consensus, coalitions are essential if progress is to be made. He defines two kinds of power that groups seek. One is the power to "block" things the group doesn't want. Here the group can be small. However, the more useful power is the power to "influence" outcomes, and this kind of power requires lots of partners. Given that developing countries now predominate in terms of the number of members, they have the potential to form coalitions that can influence outcomes, not just block things they don't want. Clearly, the developing countries are now in the driver's seat and will demand that any agreement meets their highest priorities. The traditional rich country leaders will have to learn this and live with it before any new WTO agricultural agreement can be forged.

Are the Opponents of Globalization Going to Kill Freer Trade?

A further possible explanation for Doha difficulties is the continuing chorus of anti-globalization, anti-trade rhetoric that comes from many NGOs; most labor unions; any remaining adherents of Marxian/dependence-dominance paradigms, such as Fidel Castro in Cuba; and newly emerging voices of a growing number of developing country leaders, such as Hugo Chavez of Venezuela, who rail against rich country, and particularly US, hegemony. As we all know, economic change/progress creates winners and losers and it is always easier to motivate losers to act collectively. Thus, every government participating in the WTO must deal with strong differences of view at home. High oil prices, negative threats about global warming, loss of forests and biodiversity, imports of contaminated food, and apparent increases in the power of mega-multinational corporations, all feed the fears about opening ones borders and "allowing market forces to determine my destiny." Agriculture, as a producer of an essential ingredient of life, and being made up, in developing countries, of many small, generally poor farmers, obviously becomes a very sensitive topic. In the absence of compelling evidence that developed countries will fully reform, open their borders, and stop subsidizing big farmers, and that this in turn will lead to significant gains for developing countries, will make completing Doha difficult. Clearly, the need for significant concessions is in the developed countries' court.

Are Bilateral and Regional Trade Agreements the Wave of the Future?

Finally, as we are all aware, there has been an explosion in the number of bilateral and regional free trade agreements, both completed and under negotiation. Is this being driven by: 1) fear of global approaches; 2) lack of progress in the Doha round; 3) the belief that more limited liberalization with like-minded neighbors is a safer way to go; Or 4) by the belief by producers of import sensitive products that this approach provides greater possibilities for protecting their interests? We know that sensitive agricultural products are often excluded from bilateral and regional preference schemes. Thus, embattled commodity interests may prefer smaller agreements as the lesser of two evils. Clearly, the willingness of major traders like the United States and the EU to actively pursue these arrangements in recent years has spurred their growth. For whatever reason, the growth has been rapid.

Members of the GATT/WTO are required to notify the GATT/WTO of their entry into a Regional Trading Agreement (RTA). Under WTO definitions, a RTA may be bilateral or plurilateral. In the 44 years of the GATT's existence (1948-1995), it received 124 notifications, of which only 38 remain in force. Since the WTO was formed in 1995, over 240 additional arrangements have been notified. Every member of WTO except one (Mongolia) is involved in at least one RTA. The rate of notification is accelerating. For example, under GATT it was less than three per year, while in the first ten years of the WTO, it averaged 11 per year, and in the period January 2004 to February 2005, a record 43 were notified. (Crawford and Fiorentino) As of December 2006, the WTO reported that 215 were in force and that by 2010 they estimate close to 400 will have been implemented (WTO 2007f). The whole process is in a state of constant change so these numbers must be seen as approximations only.

The characteristics of RTAs are instructive. Of those in force, under negotiation, and proposed, 96 percent are free trade agreements (FTAs). Seventy-five percent of all RTAs, and almost 90 percent of those under negotiation, are bilateral agreements. An interesting characteristic is that while early RTAs were predominantly regional in nature, a rising number of new proposals are cross-regional. Europe, as a region, is the most heavily engaged. The EU, (known in WTO now as the European Communities (EC)), entered into 17 bilateral RTAs between 1995 and 2005 and Europe, as a region, is projected to average 30-35 RTAs per country/regional association by 2010. The United States, in the early going, was a reluctant participant, signing only four agreements between 2001 and 2005, but recently has switched strategies and is aggressively engaged in negotiations. These statistics and many more interesting tables and maps are contained in an excellent working paper by Crawford and Fiorentino. They do not, however, estimate one number which would be very interesting, namely, the share of world trade conducted under RTAs. It must be growing rapidly.

The bottom line is that as more and more RTAs come into force it puts increased pressure on those not so engaged, to be so. The implications seem clear. In the absence of major progress in the WTO, the rate of proliferation in the number of RTAs seems likely to continue. The complexity is mind-boggling. How many bilateral pairing are possible between potentially 180 WTO members? One hundred and eighty factorial is a big number.

Conclusion

The answer to the question as to why agricultural negotiations are so difficult in Doha is likely a combination of all the possible reasons just discussed and probably more, but the most important new contributing factor is clearly the emerging power of developing countries.

WHAT CAN DEVELOPING COUNTRIES GAIN FROM A DOHA DEAL?

If, as argued in the preceding sections, developing countries are in the driver's seat in WTO, what could they gain from a Doha Agreement? This question has probably had more attention over the past six years than any other. Many papers have been written and many modeling results reported. Bouët, in his wide-ranging paper, compares no less than 16 different general equilibrium modeling efforts since 1999 and reaches some provocative conclusions. First, on balance, they show gains for the aggregate of all developing countries, but these gains are very small as a percentage of GDP. They range from 0.2 to 3.1 percent over the period to 2015 and the most recent estimates show smaller gains. The variation between models in terms of the magnitudes of the gains is huge –15 times difference between the largest and the smallest – and there are also wide differences in the distribution of gains between developed and developing countries and between regions.

Huff, Krivonos, and van der Mensbrugghe compare results of six earlier modeling exercises – three using partial equilibrium approaches, two using general equilibrium, and one using both. Again, results vary significantly in magnitude and in their distribution between developing and developed countries. These findings are consistent with those reviewed by Bouët in that the magnitudes of welfare gains are really quite small. The US Congressional Budget Office has also produced a survey paper on the effects of agricultural trade liberalization which provides further insights.

Bouët spends considerable time trying to uncover why there is so much variability, and why more recent papers produce magnitudes of gain that are consistently smaller than earlier estimates. All exercises are essentially static and therefore cannot capture dynamic effects often attributed to trade liberalization in terms of increasing productivity and increasing the stock of capital. But even if coefficients for growth in productivity are added, the impacts projected seem very small.

No group has done more analysis on these issues than the trade group at the World Bank. Extensive results are published in Anderson and Martin. In a subsequent paper, Martin and Anderson present summary results under the very relevant title for this section of "The Doha Agenda Negotiations on Agriculture: What Could They Deliver?" Using the World Bank's LINKAGE model which builds on version 6 of the GTAP Model (Hertel, McDougall and Itakura), their projection of gains from full global reform is $287 billion per year. Agricultural reform would contribute 63 percent of the gain despite agriculture's small share (seven percent) in global production and trade, demonstrating how heavily distorted

Table 7.2: Benefits of Agricultural Trade Reform under the Three Pillars.

Benefiting Regions	Tariffs	Domestic Subsidies	Export Subsidies	All
Developing Countries	106	2	-8	100%
High-Income Countries	89	6	5	100%
World	93	5	2	100%

Source: Martin and Anderson.

Table 7.3: Potential Global Economic Gains from Liberalization by Sector.

Sector	Percent
Rice	20
Sugar	18
Meats (especially beef)	16
Other grains	11
Oilseeds products	7
Dairy products	5
Other (agriculture and food products)	23
Total	100

Source: Martin and Anderson.

agricultural trade is. Fifty-five percent comes from liberalization in developed countries, "and a still sizeable 45 percent from developing countries (Martin and Anderson p.1211)."

Looking only at developing countries classified as low and middle income by the World Bank, their total gain is $86 billion, which is 0.8 percent of their GDP, compared to the gain of the industrial countries of 0.6 percent of GDP. Further, 63 percent of the developing countries gain comes from agricultural trade liberalization. The authors also look at what components of agricultural liberalization benefit developing countries most. Here, the results are striking and consistent with most other studies. Their results are reproduced in table 7.2.

For developing countries, virtually all of their gains come from improved access/reduced tariffs. Just two percent of their gains comes from domestic subsidy reductions and removing export subsidies, in fact, costs them benefits. This outcome clearly suggests that the primary focus for developing countries should be on access, because reducing rich country subsidies doesn't help them much. This is clearly at variance with much of the rhetoric of the early Doha period that railed against the damage massive rich country subsidies to agriculture did to developing countries. In terms of sectors, the biggest gains are in rice, sugar, and meats, as is shown in table 7.3.

In summary, it appears that developing countries gain a larger percentage increase in their GDP from full liberalization compared to developed countries and all of the gains come from lower tariffs and better access. But no one in their right mind believes there will be full liberalization either in agricultural or nonagricultural (NAMA) goods trade. Therefore, it is necessary to look at what kind of deals for agriculture are currently under discussion. After that it will be appropriate to come back to Martin and Anderson to see what their model says about the benefits that might result from a possible deal.

WHAT MIGHT BE A MINIMALLY ACCEPTABLE "DEAL?"

What Is on the Table?

First, let us be clear about "what is not" on the table at Doha in terms of agriculture. We are not going back to square one. Everything agreed upon in the URAA is still in place:

- tariffs only, bound at announced levels;
- no nontariff barriers/quantitative restrictions (NTBs/QRs), old or new (although the tariff-rate-quota somehow snuck in);
- no new export subsidies, a cap on existing ones, and limits on expenditures;
- caps on tariff lines and limits on AMS (aggregate measure of support) spending in the amber box;
- Agreement on Trade-related Intellectual Property Rights (TRIPs);
- science-based sanitary and phytosanitary rules (SPS Agreement); and
- a much more robust dispute settlement mechanism that has been tested and works.

In sum, part one of the URAA about getting agriculture under the rules of the WTO and, part two, the agreed upon reductions in the three pillars and the capping of them at the reduced levels, are still there. The Doha Round is about further liberalization of the three pillars – domestic subsidies (AMS), export assistance, and market access.

But let's be honest, the agreed upon reductions in the URAA were not onerous and were open to multiple interpretations and self-definition. Two examples will suffice to indicate why actual liberalization was limited. First, while the URAA provided some general guidelines as to how to tariffy (i.e., convert quantitative and other administrative restrictions on trade to tariff equivalents), countries could exercise a lot of creativeness. The result was that many countries set their bound tariff rates very high and implemented actual tariffs below them, giving them the leeway to raise tariffs and still be WTO legal. The difference between the bound level and the actual is called "tariff overhang" or "water in the tariff." The result is that if, for example, India has its bound tariff set at 100 percent and its actual tariff is 50 percent, the bound tariff would have to be cut more than 50 percent to have any impact on India's trade. The second example is on the allocation of policies to the domestic support boxes – green (decoupled), amber (distorting/coupled), and blue (direct payments tied to land or historical production, therefore, in theory, decoupled). The way countries notified the WTO as to how they classified their policies has been contentious and some have been tested in dispute settlement cases (i.e., the US Cotton case). So there also was considerable flexibility regarding how a country's AMS commitment was determined. Finally AMS commitments are fixed and how binding they are is reduced by higher commodity prices as for example are US counter cyclical payments.

Current State of Play

This section explores what appears to be the current state of play on the three pillars, relying primarily on the Chairman's Text of 30 April 2007 (WTO 2007a) and his "Second Installment" of 25 May 2007 (WTO 2007b). He identifies several contentious areas where parameters/numbers here will be necessary to define a deal.

Domestic Support The issues here are the number bands of AMS support (apparently three have been agreed upon), their numerical boundaries, and the agreed upon reductions in each band. As these bands are multicommodity averages, there also is an issue of whether there should be commodity-specific caps on support. There is also a proposal to reduce and cap blue box expenditure. This would primarily impact the EC.

Export Assistance The need here is to confirm the elimination of export subsidies, decide whether to keep the target date of 2013, and agree on a revised schedule for phasing in implementation. Under this category, there are also issues of: 1) food aid and as to whether shipping surplus commodities is a form of export subsidy; 2) whether export credits and credit guarantees are export subsidies; and 3) whether State Trading Enterprises embody potential export subsidies. Apparently, little progress has been made on these three.

Market Access All that has been agreed upon in this area is to use a tiered formula with linear cuts to tariffs within each tier, as opposed to using average cuts or a Swiss formula that cuts high tariffs the most. There appears to be an agreement on having four tiers, but what the boundaries would be and how much would be required in terms of cuts is open and views are divergent. So, here the quantitative needs are the boundaries of the tiers and the magnitude of the reduction for each tier. These are very large issues given the critical importance of market access to developing countries and how much water is in current tariffs.

Special and Differential Treatment for Developing Countries
Here, there are three broad issues. First, should developing countries be required to make lesser reductions, over a longer time period? Remember, in the URAA, the agreement was two-thirds as much as developed countries and over a ten instead of a six year period. The consensus to date appears to be to continue the lesser requirement of two-thirds and the longer time frame.

The second issue is about "sensitive products." These presumably are products that countries somehow define critical to national interests and are therefore sensitive. They likely are the currently highly protected products: rice in Korea, dairy and the feather industries in Canada, dairy and sugar in the US, wheat and rice in India, rice in Bangladesh, etc. The argument is that every country should have a numerical quota of tariff lines that would be subject to lower cuts (or, as some developing countries are arguing, no cuts at all). Apparently, the range of numbers that are on the table is one to five percent of tariff lines eligible. Bear in mind that tariff lines can be broad, or very specific – a country might have 2,000 tariff lines but have 95 percent of the value of its trade in ten lines or less. Thus, if this country were given a one percent special product exemption, it could place more than 95 percent of its trade in the sensitive product category.

The third issue is a new category called "special products", which would be limited to developing countries and would, in the extreme, be exempt from any discipline. This may be something akin to the "Development Box" discussed earlier in the negotiations. Numbers proposed here range from five to 20 percent of tariff lines and so far there appears to be nothing close to any understanding as to how to proceed on this issue. It is clear that for practical purposes, giving any country an exemption of 20 percent of their tariff lines is functionally equivalent to a total exemption. Where this comes out is critical, as will be evident in a minute, because even a small percentage of sensitive and/or special product exemptions drastically reduce trade disciplines and the benefits from liberalization. The whole thing remains a complicated can of worms, which left the Chairman asking if the whole process is fatally complicated.

Table 7.4: Proposed Cuts and Scenarios.

Proposal	Top Tariff Cut %	Sensitive Products %	EU/US AMS Cut %
US	85-90	1	83/60
EU	60	8	70/60
G-20	75	-	80/70
Chairman	70-80	1-5 5-8 (special)	(75-80)/(65-70)
Martin and Anderson	75	0-5	75/75

What Might a Deal Look Like?

Table 7.4 summarizes some of the proposals including those of the US, the EU, the G-20, the Chairman, and Martin and Anderson.

Given the argument that the developing countries are in the driver's seat, let's first look first at the G-20 proposal which is: 1) a 75 percent cut in the top tariff tier; 2) an 80 percent cut for the EU in their AMS; and 3) a 70 percent cut for the US in their AMS. This is very close to the one analyzed by Martin and Anderson, so their results can be used for guidance. They first tested the sensitivity of benefits to the percentage of tariffs lines allowed under sensitive/special products. For example, looking at EU average tariffs, they found that if there are no sensitive products permitted, the average EU tariff would be cut by 40 percent; with one percent of tariff lines permitted as sensitive, the reduction in average tariff is less than 20 percent; and with eight percent of lines exempted, the reduction in the average EU tariff is less than five percent. The bottom line is that even with very low levels of sensitive products exemptions, average tariff cuts are drastically reduced.

Martin and Anderson's overall model results are very interesting. Their first run featured a 75 percent cut to top level tariffs, and the same proportional cut in other tiers, a 75 percent cut in EU and US AMS subsidies and no sensitive products. This produced estimated welfare gains for developed countries of 0.2 percent of GDP (compared to 0.4 percent for full agricultural liberalization) and 0.1 percent of GDP for developing countries (compared to 0.5 percent for full agricultural liberalization). If developed countries are allowed to make smaller cuts of 15 percent on just two percent of their tariff lines, benefits drop to 0.05 percent for developed countries and nothing for developing countries. If developing countries do not get any special advantage and cut the same as developed countries, their GDP rises more than 0.2 percent, while developed countries rise 0.3 percent. The bottom line is that benefits are substantially reduced by the potential deal compared to full liberalization and that further lessening of disciplines for developing countries more than proportionally reduces their benefits. It is thus very clear that if there are to be large benefits to both developed and developing countries, substantially larger cuts than these will be necessary. One final note is that when Martin and Anderson disaggregate their model results by country, countries such as Thailand and Brazil get significant positive results (almost one percent of GDP for Thailand, over 0.5 percent for Brazil) in terms of benefits, but others, such as Bangladesh and Mexico lose marginally.

But these estimates of benefits are for developing countries on average. What about the poorest, least developed countries, most of whom are net importers of food? Panagariya, among others, has argued that the poorest countries lose from agricultural liberalization. Liberalization would cause world food prices to rise, therefore, net-importing countries would lose. Further, liberalization reduces poor countries' special preferences (preference erosion), such as under the the European Communities' Everything But Arms Program (EBA). Tangermann analyzes the question of developing country benefits and concludes that for each particular country it is an empirical question. Clearly, farmers in poor countries gain from higher prices and, overall, the country may gain from the stimulation of growth by market liberalization. Anderson and Valenzuela argue that if there is full liberalization of all trade and of services, then all developing countries have a positive net gain.

So where does the whole process stand? It seems clear that the G-20 proposal minus high levels of sensitive and special product exemptions is the absolute minimum for generating sufficient benefits to all to have any chance of countries selling the deal in national capitals. It further seems clear that anything less than this will have minimal impact on anything.

CONSEQUENCES FOR NAFTA

So now this chapter moves on to market integration and NAFTA. What are the implications of a minimal "DEAL" versus "NO DEAL" for the NAFTA members?

Consequences of a "Deal" for NAFTA Market Integration

A G-20 type deal would likely have minimal impact on NAFTA. Why? First regarding cuts in AMS, Producer Subsidy Estimate (PSE) levels in NAFTA are already quite low.[6] The 2003-05 average PSE for Canada was 22, 15 for Mexico, and 16 for the US (OECD), so even 60-80 percent cuts in AMS ceilings are not going to bite much, if at all, on Mexico both because

[6] Brink argues that a country's PSE measure usually includes support from a larger set of policies than does the current total AMS. Therefore the PSE number will generally be slightly larger than the AMS.

of the low level of support and because of its developing country status. Martin and Anderson argue that “the United States has relatively less of a buffer from commitment overhang and so would need to reduce actual support under any of the three proposals, most notably under the G-20 proposal for a 70 percent cut.” However, rising market prices, and modest changes in the 2002 Farm Bill forced by the cotton case ruling, would not make the impact on US agriculture onerous. The issue for Canada is less clear. Martin and Anderson argue that Canada has sufficient overhang to avoid serious impact. However, since Canada’s last WTO notification, Canada’s AMS has risen as a result of policy changes to compensate for BSE market impacts and the strong appreciation of the Canadian dollar. Thus, it would be possible with a very small sensitive product exemption that support to the dairy and feather industries could be impacted.

Regarding tariff reductions, the issue would be the impact on tariff preferences within NAFTA vis-à-vis third parties, i.e., preference erosion. In theory, this is a real issue where commodities traded within NAFTA at zero tariffs could see more competition if external tariffs came down, but finding examples is hard. Perhaps US exports of tomato paste to Canada and Mexico would be subject to less protection against Chinese imports, or hot house tomatoes going from Mexico and Canada to the US would be more challenged by Dutch imports, but it is really hard to make the case that a minimal Doha deal would materially alter much in NAFTA regarding agricultural trade.

On the other hand, there would be several positive benefits. First, global tariff reductions are the only potential for real gains if NAFTA tariffs are already low or gone. This is the trade creation benefit. Second, given that the WTO addresses domestic subsidies and export assistance as well as border restrictions, Mexico and Canada may see a Doha Agreement as a benefit by putting further pressure on the United States to limit big subsidies to US farmers. Finally, a positive Doha outcome keeps the trading system in a dynamic movement, however slowly, towards a more freely functioning world market.

Consequences of “No Deal” for Market Integration in NAFTA

Now what are the consequences of “NO DEAL?” First, let’s be clear. Not having a Doha Round deal does not mean the end of the WTO. As noted earlier, everything that was in the URAA would still be in place. What would be lost is the opportunity for real reductions in agricultural protectionism. No doubt it would diminish any future prospects for more reduction. Also lost would be the already agreed upon abolition of export subsidies which clearly would have had positive benefits for NAFTA members, but not for NAFTA per se. Further, with no Doha Agreement, and with the Peace Clause expired, one would expect more and more trade disputes to be approached using the dispute settlement mechanism. This is costly to all parties.

Some have argued that a failure of Doha would increase pressure to broaden RTAs such as NAFTA. Would it, for example, improve the chances of a Free Trade Agreement of the Americas (FTAA) as NAFTA members seek bilateral and regional approaches to reducing trade barriers, even at the cost of greatly increased complexity of trade? This is by no means clear. For countries like Brazil, the absence of further WTO checks on US domestic subsidies would be seen as a barrier to the creation of the FTAA.

But there is a broader cost. Many have argued that trade regimes are never static. If they are not periodically kicked in the direction of liberalization they will inevitably retrogress in the direction of protectionism. It is always easier to organize specific losers or potential losers than to organize broad gainers like consumers who have, after all, benefited the most through lower prices and more buying choices. In the next and concluding section, a few other views on the consequences of failure are presented.

CONCLUDING COMMENTS

This has been a very difficult chapter to write. Preliminary analysis suggested that whatever, if anything, came out of the Doha Round in agriculture would have little impact on NAFTA. Further, no deal at all would similarly have little or no negative impact. So, why spend a lot of time trying to figure out where things are in Doha if, for the specific purpose, it doesn't seem to matter? However, overriding was a deep foreboding that a failure in Doha caused by an agricultural failure would have very severe consequences for the global economy.

Schott observes sagely that "it's fairly easy to classify risks of a failure of the Doha Round, even if it's difficult to quantify the extent of the losses." He lists six costs:

1. loss of welfare gains from new WTO reforms;
2. systematic erosion of the WTO, the "WTO would not implode, but rather, begin a slow descent into oblivion;"
3. increased regionalism;
4. increased protectionism;
5. precipitatation of adverse shocks in financial markets; and
6. opportunity costs to the poorest developing countries of foregone opportunities to use global liberalization as a catalyst for their own liberalization from which they have the most to gain.

"In sum, the costs of failure in the WTO talks would be substantial." Hufbauer and Pischedda consider several possible consequence scenarios of a Doha stalemate:

1. erosion of the world trading system and the rise in protectionism;
2. expanded regionalism on a big scale – Free Trade Area of The Asian Pacific (FTAAP) or Transatlantic Free Trade Area; or
3. proliferation of bilateral trade agreements, possibly including the US-Japan, the EU-Korea, etc.

They present a "Bold Forecast:" the above prospects are so dire that big countries, led by the US, would make some kind of a deal to keep the WTO in the game. To do this the US gets a six-month extension of Trade Promotion Authority.[7]

Where it will come out no one knows. All we know is that the clock has been ticking a long time and the fuse is getting very short.

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[7] We know to date this has not happened and seems very unlikely as of mid July 2007.

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APPENDIX

Appendix: Glossary of WTO Groups Relevant to Agriculture.

Name (date formed)	Description	Membership
ACP	Group of 77 African, Caribbean and Pacific countries (56 WTO members) with preferential trading relations with the EU.	Angola, Antigua and Barbuda, Barbados, Belize, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Central African Republic, Chad, Congo, Cote d'Ivoire, Cuba, Democratic Republic of the Congo, Djibouti, Dominica, Dominican Republic, Fiji, Gabon, The Gambia, Ghana, Grenada, Guinea, Guinea-Bissau, Guyana, Haiti, Jamaica, Kenya, Lesotho, Madagascar, Malawi, Mali, Mauritania, Mauritius, Mozambique, Namibia, Niger, Nigeria, Papua New Guinea, Rwanda, St Kitts and Nevis, St Lucia, St Vincent and the Grenadines, Senegal, Sierra Leone, Solomon Islands, South Africa, Suriname, Swaziland, Tanzania, Togo, Trinidad and Tobago, Uganda, Zambia, Zimbabwe
African Group	Holds joint positions in many negotiating issues.	All African Union countries who are also WTO members, currently 41 countries
Cairns Group (1986)	Group of agricultural exporting nations lobbying for agricultural trade liberalization.	Argentina, Australia, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Guatemala, Indonesia, Malaysia, New Zealand, Pakistan, Paraguay, Philippines, South Africa, Thailand, Uruguay
C-4 (2003)	"Cotton Four" group of countries with specific interest in cotton.	Benin, Burkina Faso, Chad, Mali
FIPs (2004)	Five interested parties	Australia, Brazil, EU, India, USA
FIPs plus (2005)	FIPS plus friends	FIPs plus Argentina, Canada, China, Japan, New Zealand, Switzerland
G-4 (2005)		FIPs less Australia
G-4 plus Japan (2005)		G-4 plus Japan
G-6 (2005)		FIPs plus Japan
G-10 (2003)	Importers. Multi-functionality of agriculture and need for high levels of domestic support and protection	Chinese Taipei, Republic of Korea, Iceland, Israel, Japan, Liechtenstein, Mauritius, Norway, Switzerland
G-11 (2005)	Full liberalization in tropical products	Bolivia, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Panama, Peru, Nicaragua, Venezuela
G-20 (2003)	Elimination of export subsidies and domestic support and liberalization of market access in agriculture	Argentina, Bolivia, Brazil, Chile, China, Cuba, Egypt, Guatemala, India, Indonesia, Mexico, Nigeria, Pakistan, Paraguay, Philippines, South Africa, Thailand, Tanzania, Uruguay, Venezuela, Zimbabwe
G-33 (2003)	Developing country importers.	Antigua and Barbuda, Barbados, Belize, Benin, Botswana, China, Congo, Cote d'Ivoire, Cuba, Dominican

Appendix (continued): Glossary of WTO Groups Relevant to Agriculture.

	Differentiated treatment of developing countries on basis of food security, sustainable livelihoods and rural development needs- Special Products and Special Safeguard Mechanisms	Republic, Grenada, Guyana, Haiti, Honduras, India, Indonesia, Jamaica, Kenya, Republic of Korea, Mauritius, Madagascar, Mongolia, Mozambique, Nicaragua, Nigeria, Pakistan, Panama, Peru, Philippines, St Kitts and Nevis, St Lucia, St Vincent and the Grenadines, Senegal, Sri Lanka, Suriname, Tanzania, Trinidad and Tobago, Turkey, Uganda, Venezuela,
G-90 (2003)	Coalition of African, ACP and least-developed countries (currently 64 members of the WTO)	African Group, ACP, LDCs
Mini-ministerial	Regular participants at mini-ministerials in 2005.[1]	Argentina, Australia, Bangladesh, Benin, Brazil, Canada, Chile, China, Costa Rica, Egypt, EU, Hong Kong (China), India, Indonesia, Jamaica, Japan, Kenya, Korea, Malaysia, Mexico, New Zealand, Nigeria, Norway, Pakistan, Rwanda, Singapore, South Africa, Switzerland, Thailand, USA, Zambia
LDCs	Least developed countries according to the UN definition (currently 32 members)	Angola, Bangladesh, Benin, Burkina Faso, Burundi, Cambodia, Central African Republic, Chad, Democratic Republic of the Congo, Djibouti, Gambia, Guinea, Guinea Bissau, Haiti, Lesotho, Madagascar, Malawi, Maldives, Mali, Mauritania, Mozambique, Myanmar, Nepal, Niger, Rwanda, Senegal, Sierra Leone, Solomon Islands, Tanzania, Togo Uganda, Zambia
Quint (1989)		Australia, Canada, EU, Japan, USA
RAMs	Recently acceded members	Albania, Croatia, Georgia, Jordan, Moldova, Oman
Senior Officials	Regular participants at meetings of senior officials in 2005	Australia, Brazil, Canada, China, Egypt, Hong Kong (China), India, Japan, Kenya, Malaysia, South Africa, USA, Zambia
Senior Officials	New group in 2006	G-6 (Australia, Brazil, EU, India, Japan, USA) plus Canada, Egypt, Malaysia, Norway
SVEs (2003)	Small and vulnerable economies	Antigua and Barbuda, Barbados, Belize, Bolivia, Cuba, Dominica, Dominican Republic, El Salvador, Fiji, Grenada, Guatemala, Guyana, Honduras, Jamaica, Mauritius, Mongolia, Nicaragua, Paraguay, Papua New Guinea, Solomon Islands, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Trinidad and Tobago

[1] For an analysis of the principles of selection, see Wolfe.

Doha Development Round Agricultural Negotiations

Gloria Abraham

INTRODUCTION

The multilateral trading system has been bolstered since the conclusion of the Uruguay Round with the inclusion of agriculture, services, and intellectual property in its disciplines. The challenge undertaken in the current multilateral trade negotiations, better known as the Doha Development Round, has been dealing with a very ambitious agenda that will "allow for more equitable global distribution of the welfare gains of free trade, which, until now, have mainly benefited developed countries" (WTO 2001).

The opening of trade brings many benefits with it and, in the case of agriculture the greatest benefit is enhanced access to markets, because it provides consumers with cheaper products, while encouraging more efficient use of national resources. However, in the opening of markets, countries need to amend their domestic policies to phase out some policies that distort international markets.

The current negotiating process is extremely ambitious in that it establishes development as the central issue in the adoption of disciplines. This has led to countless disagreements and hindered the progress of the talks by adding a further dimension of complexity. Nonetheless, recent events have been encouraging and there are signs that the dialog will recommence.

The risks associated with another breakdown in the talks are many and diverse. Of particular concern is the potential loss of credibility of the multilateral trading system, which could lead to an intensification