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CONCLUDING THE DOHA ROUND: AN IMPERATIVE*

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Introduction

Much water has flowed under the bridge since ministers failed to conclude world trade negotiations in July 2009. The world underwent an historical recession brought about by the U.S. financial toxic asset scandal. Global trade has declined sharply and is forecasted to decline by 9% in real terms in 2009. World economic growth rates have declined dramatically. There have been several cases of covert (and some overt) protectionism by both developed and advanced economies. Despite declarations from world leaders on several occasions for the need to refrain from protectionist measures and the need for the resumption and conclusion of the Doha Round of trade negotiations over the past nine months, no such action has materialized. The two major contestants in the July 2008 ministerial meetings have concluded their elections and politics have been the significant factor in the failure to conclude the Round. Though the one has grown in strength to afford it greater flexibility in its negotiating position, the U.S. has reportedly considered some new issues and changes to its earlier positions. Fortunately other influential players seem to remain committed to trade liberalization and a successful conclusion of the Doha Development Agenda.

This article is a follow up to my commentary on these trade negotiations in Volume 2 of the *Commodity Vision*, Oct-Dec 2008.¹ From the Indian perspective the emphasis is on still the Agriculture Package though Services and Non Agriculture Market Access (NAMA) are critical to India's success in world trade.

World Growth and World Trade

The world has undergone the most serious economic recession since the Second World War: the decline is dramatic starting with September 2008 when the U.S. financial crises hit the media headlines. Global GDP growth declined by over 50% from 2006 to 2008, with the steepest reduction in North America, followed by the E.U. and negative growth in Japan. These countries accounted for almost 60% of world exports and almost 70% of world imports. China, India and South Central America, with growth rates between 6.5% - 11.9%, also witnessed a decline to 5.3% - 7.9% over the same period. The proverbial engine of growth—trade—grew by 15% in 2008 compared to 16% in each of 2006 and 2007. This interaction between the growth in world economic activity and world trade is dramatically illustrated

¹ Rosario, J.A. (2008) *Commodity Vision, Volume 2 Issue*, pp. 17-24.

by the events following the onset of the recession in September 2008. World trade grew from \$13.8 trillion in 2007 to \$16.9 trillion in 2008, however having increased an average of \$4.2 trillion in each of the first three quarters of 2008, it fell to \$3.4 trillion in the fourth quarter -- well below that of the same quarter in 2007. Growth in world GDP is forecasted to decline for the first time in over three decades to anywhere between 1 to 2 percent in 2009 compared to an average of 3.5% in 2007 and 3.7% in 2006. This has severe consequences for the growth in world trade. The World Trade Organization (WTO) has estimated that world trade will decline by 9% in real terms and in turn devastate the economic well being of millions around the world. True, the degree of dependence on trade and relative currency values has affected different countries in varying magnitudes, nonetheless the trade -- growth linkages hold for the vast majority of both developed and developing countries.

Economic and political realities have forced countries to intervene in the free market system on a scale never witnessed in the post war period as a result of the financial crises. The United States, the bastion of the free enterprise system, has undertaken monetary, fiscal, and commercial measures that one could hardly have envisioned; several other countries, both developed and developing, have been forced to follow suite in varying degrees depending on the magnitude of the failures of their own financial institutions or the consequences of interdependence. While much political and economic debate has followed on the merits of these actions by national governments, the reality of globalization and interdependence must be addressed. International trade has been one of the critical casualties of this financial crisis. This reality has been reflected in the declarations of world leaders to conclude the Doha Round of trade negotiations in several forums, including the G20 November 2008 meeting in London, the Davos gathering in December, the G8, the World Bank and others

The Urgency to Conclude the Doha Trade Negotiations

The urgency of concluding the Doha Round is two fold: to stem the flow of nationalistic protectionist measures to allay political pressures, and to promote the growth of international trade which greatly contributes to economic prosperity. Though the magnitude of the contribution that liberalization could make towards global economic growth and its division between developed and developing countries have been much debated, there is consensus that it does make a very significant contribution. Indeed the linkage between trade and economic growth was the *raison d'être* for the creation of The General Agreement on Tariffs and

Trade (GATT) in 1947. The WTO recently claimed, “Just on agriculture and NAMA current proposals on the table could result in savings of US more than 150 billion, with developed countries contributing two thirds and with two thirds of the benefits flowing to developing countries.”²

The World Bank has identified 47 trade restriction measures by countries with varying impacts on trade between October 2008 and February 2009 alone. As admittedly these measures may have only marginally impacted world trade, nonetheless they are a reflection of concerns of the economic and political exigencies. All of the measures undertaken by developed countries were in the form of subsidies including the most egregious in the form of export subsidies, whereas measures undertaken by developing countries were in the form of import restrictions through tariff increases, non tariff barriers and import bans. The most significant distortion by far has been the “Buy America” clause in the US stimulus package of over \$750 billion; while this has adverse effects on signatories to the Procurement Code and shelters State and local government tenders from WTO remedial actions, and it sends a chilling signal of protectionism. Other countries such as the U.K. and France have initiated such measures conditional to government financial bailouts. Clearly these subsidies (for example in the automotive sector) will have serious long term consequences for NAMA. In the agricultural sector, existing limits on support (subsidies) allow for increases over existing levels, whereas bound levels of import tariffs are high enough to legally raise the effective rates. Other protectionist measures, such as the contingencies afforded by antidumping and subsidies and countervail, have increased sharply. Whereas, “compared to 2007, antidumping initiations grew by 15 percent and findings with imposition of duties grew by 22 percent.”³

Given that the full impact of the global recession is yet to come in terms of employment and business failures, political, social and economic pressures to undertake import restrictive measures are bound to increase. Rejuvenation of the Doha negotiations would likely discourage imposition of new barriers; a successful conclusion would enhance trading opportunities and create greater certainty. Given that the full impact of the global recession is yet to come in terms of employment and business failures, political and economic pressures to undertake import restrictive measures are bound to increase. A rules based discipline could pre-empt such actions and improved market access would increase trade and

² WTO Director General Pascal Lamy, December 13, 2008.

http://www.wto.org/english/news_e/sppl_e/sppl98_e.htm

³ Trade Note #37, World Ban, March 2 2009, p.3.

http://siteresources.worldbank.org/NEWS/Resources/Trade_Note_37.pdf

increase economic activity. Hence the urgency to resume and conclude the negotiations.

One of the most commonly acknowledged reasons for the failure to conclude Doha was the disagreement on the Special Safeguard Measure in the Agriculture package between the U.S. and India, supported by China and representing a number of developing countries. Despite protestations, clearly political factors were an important consideration in both countries. Both countries have now concluded their elections. Both have new trade leadership, Ron Kirk—the new Trade Representative for the U.S. and a new Commerce Minister for India—Anand Sharma. There is also new leadership in the E.U. Commission on both agriculture and trade.

Though the Congress Party in India did not have a specific manifesto on the WTO negotiations, the prime Minister has consistently supported the need for a successful conclusion of the Doha Agenda. Indeed the Party's success at the elections likely allows for greater flexibility in India's reform process. Reportedly India was acceptable to a modified trigger for invoking the Special Safeguards Measure (SSM) floated by the E.U. at the Mini-Ministerial of December, 2008 but which was rejected by Susan Schwap, former US Trade Representative.

The U.S. President has also committed to the successful conclusion of these negotiations. However, there have been some troubling developments: some influential industry organizations reportedly do not favour the continuation of the negotiations on the basis of existing texts (presumably the texts emerging from the Geneva, Mini-Ministerial in December, 2008). The U.S. floated a new idea for the negotiating process without changing the underlying mandate for the Doha Round. The U.S. wants to cut through the chase by directly engaging in the scheduling of the Agriculture and NAMA commitments, which would enable bilateral or even some plurilateral request-offer negotiations to achieve specific outcomes. This process could derail the modalities approach (i.e., the formula cuts in tariffs and specific flexibilities, exceptions applicable to all members), which has been the basis of these negotiations over the past seven years of hard effort. This would enable the U.S. (and presumably others) to seek greater concessions say from large emerging markets such as China, India, Brazil, South Africa and others to satisfy certain domestic constituents. It is reflective of narrow vested interests.

Clearly such a change in the negotiating process would be unacceptable to the vast majority of the WTO membership as reverting to the pre-Uruguay process of request-offer which left the bulk of the membership with marginal say and

marginal benefit, and which aptly made the GATT, “the rich man’s club”. The modalities approach of formula cuts and exceptions, equally applicable to all members does not preclude bilateral negotiations on the sidelines on specific trade matters, but the peripheral nature of these must be recognized. India should reject such a change in the process in its own interests as well as its representation of emerging and other developing countries.

The urgency to conclude the negotiations is also to pre-empt other such emerging issues; climate change and the environment, volatility and changes in currency values, the impact of Government ownership of assets following the financial crises (state trading enterprises), food crises and trade restrictions that followed from the speculative boom in 2007/2008, etc. As it stands, existing texts and their scope are already burdensome. Expanding the scope would render it even more difficult to manage and cut to the chase in concluding the agreement.

India, Agriculture and Doha

As it stands, the Revised draft modalities for agriculture of 6 December 6, 2008, circulated by Ambassador Falconer⁴ is the best guide to what might emerge as the final package for agriculture. Some of the changes to the July 2008 text include single numbers for tariff reductions, rather than ranges; criteria for selecting sensitive and special products and domestic support. Others include tariff simplification, creating new tariff quotas and the SSM for developing countries. However as noted earlier, Ministers failed to reach agreement at the mini ministerial in December. The aim was to get as much technical consensus as possible for ministerial consideration. The new Chairman, Ambassador Walker, has continued consultations in Geneva to advance the texts on the SSM, (the main contention between India and the U.S.), on preference erosion, cotton, sensitive and special products, etc.

On 15 Jan. 2001, India submitted proposals to the WTO Negotiations on the Agreement on Agriculture⁵, in the areas of (i) Food Security, (ii) Market Access, (iii) Domestic Support, and (iv) Export Competition. India laid out its broad position on the agriculture negotiations on its own behalf and that of developing countries.

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http://74.125.155.132/search?q=cache:XX39y2EPS4kJ:www.miti.gov.my/cms/storage/documents/20fcom.tms.cms.document.Document_ce12ace8-c0a81573-7a7e7a7e-c5973c25/1/w5.doc+revised+draft+modalities+dec+6+2008&cd=4&hl=en&ct=clnk

⁵ http://commerce.gov.in/wto_sub/Agri/sub_102.htm

The primary issue since then has been food security. Given that agriculture still employs almost 60% of the workforce and large numbers are still subsistence farmers, this is a socially and politically a sensitive sector of the economy. The document states, "their participation in international trade is quite marginal" suggesting protection is of greater concern than export trade. The threat to the livelihood of these farmers by import surges of subsidized products from developed countries, and as well the price and income effects of such subsidies, should allow for higher degrees of protection. These still remain the principal objectives for India in these negotiations.

The issue of food security is clearly of great political and social significance in India, considering poverty levels in vast segments of its population. This is also an issue for many developing countries, not to mention the least developed countries. However trade can be an alleviating rather than obstructive factor in solving food problems. This was recently illustrated in 2007-08 when some countries' export-restrictive actions (including those of India) led to even greater price increases. World trade in food accounts for a small proportion of world food production. Indeed, the vast bulk of the value of global trade in food is in the form of processed products rather than basic grains and oilseeds. Even greater multilateral disciplines are needed on export restrictive actions. Despite relatively low productivity levels, Indian agriculture is globally competitive in most commodities; exports can be and are a source of higher income for a vast array of agricultural producers and products.

As indicated in my earlier comments,⁶ India has some of the world's highest import barriers in agriculture. Fully 100% of India's agricultural tariffs remain bound, the vast majority at 150%. It recently renegotiated some bindings from 0% to an average of 86.3% for cereals. Though effective tariffs are lower than bound rates in some commodities, the uncertainty from budgetary changes is hardly conducive to business. In fact certain anomalies in the tariff structure are difficult to appreciate from an economic perspective, for example, higher tariffs on raw products than on semi-processed, and higher tariffs on semi-processed than final agriculture products. It is important to understand the implications of these high tariffs that go beyond protecting inefficiencies. Tokarick has shown that an analysis of import tariffs on agricultural products in 26 low income countries "on average import tariffs in these countries were equivalent to about a 12 1/5% tax on their exports

⁶ Rosario, J.A. (2008) *op.cite*. <http://www.taerindia.com/archives/october2008/17--24.pdf>

and four of these countries had export-tax equivalents between 26 and 3%.”⁷ The WTO in its review of Indian trade policy states, “Based on 2001 data, India’s import tariffs were equivalent to an export tax of 31%, one of the highest among the 26 developing countries covered by the study.”⁸ Tokarick has also shown that agricultural subsidies by developed countries are less important to the trade of developing countries than are their import tariffs.

As indicated in my earlier comments, India has generally supported the disciplines and liberalization of trade in agriculture consistent with the Texts on agriculture negotiations in July 2008 and that of the mini ministerial of December. In my view, export opportunities should be the primary goal and priority of the Indian position in the Doha negotiations. World trade in agricultural products just about doubled between 2000 and 2007, from \$553 billion to \$1128 billion, and its share of merchandise exports declined from 8.8% to 8.3%. India’s agriculture exports tripled over the same period, from \$5.9 billion in 2000 to \$16 billion in 2007, and its share of total merchandise exports from India fell from 14% to 11%. This is an impressive growth by historical standards and relative to most other countries. Opportunities in some commodity sectors and in particular processed, packaged foods in world markets could result in even more significant gains for India’s agricultural exports. While tariffs restrict market access for agriculture and food products, non tariff barriers are a serious hindrance for exports from India and developing countries in general. Technical barriers and sanitary-phyto sanitary (SPS) standards, testing and certification etc. are far less transparent; their resolution is both time consuming and expensive, individual and small businesses can hardly afford the time and costs.

Unfortunately these do not loom large in the current negotiations, but can be approached on the sidelines in specific instances. The U.S. and others have made effective use of such bilateral agreements in access negotiations. As a matter of trade policy, India should seriously initiate an inventory of such restrictions in specific developed countries where access has been denied in comparison to others where access has been allowed; for example access into the U.S. versus that into Europe. (The case of access for mangoes from India into the U.S. is a case in point, reportedly it took over 20 years of discussion). This may be a useful counterpoint to the U.S. ITC investigation of restrictive practices by India against their agriculture and food products.

⁷ Tokarick, S. (2006) “Trade Issues in the Doha Round: Dispelling Some Misconceptions”. IMF, Policy Discussion Paper, PDP/06/4. <http://imf.org/external/pubs/ft/pdp/2006/pdp04.pdf>

⁸ Tokarick, S. (2006). WT/TPR/S/182, p.47.

The compromise required of India on the SSM could be used as coinage for an even more liberal trading regime in commodities with increased export opportunities for India. The more recent issue of participation in the cotton negotiations (given that India is the world's second largest producer) is, in my view, more symbolic given the substance of these negotiations. India should aggressively pursue a swift and ambitious conclusion of the Doha round of trade negotiations.