

TEN YEARS AFTER DOHA

A new “Ministerial” of the World Trade Organisation (WTO) will be held in Geneva 15-17 December 2011. Usually, such meeting of member countries at the ministerial level is supposed to unlock the ultimate details before a deal is concluded. The achievement of this ministerial will be more modest. The current Round of multilateral trade negotiations that was launched in Doha on 14th November 2001 has reached a critical point and the question now is how to salvage a decade of infructuous negotiations. Even an interim agreement dedicated to poor countries and trade facilitation is out of reach.

■ Stepping stones to the failure

In the aftermath of the September 11 attacks, a new Round of multilateral trade negotiations was launched at the fourth Ministerial conference of the WTO in Doha, Qatar, in November 2001. This Round has been referred to as the Doha Development Agenda (DDA) since then, as a fundamental objective was trading opportunities for developing countries. No agreement was found in Cancun in September 2003. Agreement was reached in 2004 on a general “framework” (the so-called “modalities”). Commitment to conclude was reaffirmed in December 2005. On 19 May 2008, Crawford Falconer, Chairman of the agriculture negotiations, circulated revised draft modalities, and on the same day Don Stephenson, Chairman of the non-farm talks, released the revised draft negotiating text for Non-Agricultural Market Access (NAMA). Following a Ministerial meeting in July 2008 that came close to reaching agreement on modalities for NAMA and agriculture, work has continued in Geneva. The collapse in world trade induced renewed interest in re-visiting the DDA deal. However, the political willingness to conclude negotiations seemed very uncertain, possibly due to the world financial crisis. In mid-2011 the whole process looked to be very much at risk as the negotiating group on NAMA was confronted by the seemingly irresolvable

problem of sectoral initiatives in NAMA. By June 2011, it was clear that completion of a comprehensive agreement on all topics was impossible by the end of this year, but it was hoped that agreement could be reached on an “Least Developed Countries (LDC) plus” package including trade facilitation. Currently, this looks to be in doubt as well, and the 8th WTO Ministerial Conference in December 2011 is expected to discuss a more productive way forward in the negotiations.

In order to understand the reasons for the impasse, the CEPII has simulated the economic impact of a deal integrating the most recent proposals circulated in the arena of the multilateral trade negotiations, including sectorals in NAMA.¹

■ What’s on the negotiation table

The negotiation is addressing a long list of topics, but mainly agriculture (comprising three pillars: domestic support, market access and export subsidies), NAMA and services. Trade facilitation is also often seen as a low-hanging fruit.²

1. See Y. Decreux & L. Fontagné (2011), Economic Impact of Potential Outcome of the DDA, *CEPII working paper*, No 2011-23.

2. Trade facilitation is defined as “the simplification and the harmonization of trade procedures, i.e. activities, practices and formalities related to the collection, the presentation, the communication and the treatment of data required for the movement of goods in international trade”, WTO (2002), Review, Clarification and Improvement of GATT Articles V, VIII and X Proposals Made by Delegations, Council for Trade in Goods, G/C/W/434, November.

Most of the details of a possible final deal are known. However, the related sources are highly technical and complex, reflecting the difficulties involved for negotiators to find a politically acceptable deal.

Regarding agricultural products, export subsidies must be phased out by 2013.³ In relation to internal support, reductions apply to measures in the orange box, with caps defined in nominal terms. Accordingly, inflation (and economic growth) will make these commitments tighter: with 2% inflation, and according to our baseline economic growth, the rate of support will have to be reduced by 40% in Europe and in the USA by 2025 to respect the commitments. Agricultural tariffs will be reduced in bands, using two different schemes depending on the development level of importers. The higher the initial bound tariff, the larger will be the cut. For developed countries, tariff cuts range from 50% (for tariffs up to 20%) to 70% (for tariffs above 75%). For developing countries, tariff cuts range from 33% (for tariffs up to 30%) to 47% (for tariffs above 130%).⁴

Applying systematic formulas necessarily leads to severe cuts for the most protected products. However, exceptions arise due to internal resistance among negotiating countries. Sensitive products can accordingly be selected: countries can choose tariff lines that will be less subject to liberalisation provided that multilateral tariff quotas at a limited tariff rate are open. The tariff reduction can be reduced by one-third, one half or two-thirds. Developed countries are conceded 4% of sensitive products. The more protected countries are conceded 2% additional sensitive lines.⁵ Canada and Japan also asked for more lines in exchange of more generous tariff quotas.

All NAMA products are affected by reductions of bound tariffs.⁶ Developed countries apply the Swiss formula with a coefficient of 8%; developing countries also apply this formula, but there is some room for manoeuvre.⁷ There are conceded sensitive products for a certain percentage of the lines, for which the tariff cut may be halved or zero and can choose a coefficient of 20%, 22% or 25% for their formula. Lastly, an anti-concentration clause must be introduced: developing countries must apply the general formula to at least 9% of the tariff lines and 20% of their imports in each of the HS2 chapters.⁸

Concerning trade facilitation, we assume a division by two of the processing time exceeding the median level, for each category of trade costs. Countries may incur some costs to implement trade facilitation, (e.g. the need to purchase modern equipment to cope

with customs procedures). These costs are not incorporated in our simulation because of the absence of data. However, the gains implied by a rather moderate scenario are quite significant and, thus, likely to outweigh any costs within a short period of time. Since industrialised countries also benefit from trade facilitation, they may contribute to the upgrading of developing countries' infrastructures through the "aid for trade" scheme.

A recent and rather contentious addition to the agenda, pushed by the US administration and partially endorsed by the European Commission, is the introduction of sectoral initiatives for chemical products, electronic products and machinery, as well as environmental products.

■ A simulation of the impact on the world economy

The consequences of such agreement cannot be assessed without recourse to quantitative and detailed representation of the world economy. We measure border protection at the most detailed level possible (product, importer, exporter), and through computation of the liberalisation resulting from a tariff-cutting formula. Bound and applied duties are measured at the most disaggregated level for which we have harmonised information (HS6 digit product level).

The data are from the Global Trade Analysis Project (GTAP) and Market Access Map (MACMap) concerning detailed tariffs, and describe the 2004 economy. We use the model MIRAGE and run a "pre-experiment" introducing the accumulated changes affecting the world economy in the period 2004 to 2010.⁹ In 2012 (and subsequent years depending on the timing of phasing out of the protection) our scenarios are implemented. Finally, we compare situations for the world economy between 2013 and 2025, with and without liberalisation.¹⁰

The first scenario depicts the joint effect of modalities for agriculture and the NAMA. The second scenario adds a 3% reduction to protection for trade in services. The third scenario should be considered the core scenario in this exercise: it combines liberalisation of trade in goods and services with a rather ambitious trade facilitation scenario. The remaining scenarios are benchmarked against this central scenario. The fourth scenario adds sectoral initiatives for chemicals, electronic products and machinery; the fifth adds a duty free initiative for environmental

3. Indeed, the evolution in world prices since the launching of the negotiations has reduced the impact of this commitment.

4. Details on the scheme are provided in Y. Decreux & L. Fontagné (2011) *op. cit.* Binding a tariff means committing on an upper limit that may be much above the currently applied tariff. Negotiated cuts are imposed to the bound tariffs.

5. These countries are defined as having more than 30% of tariffs are in the upper bound: only EFTA is concerned (Iceland, Switzerland and Norway).

6. Unbound tariff lines must be bound using the applied tariff and adding 25 percentage points. Countries with a very small proportion of bound tariffs will be conceded special treatment.

7. The Swiss formula imposes a non-linear reduction of tariffs cutting more severely the highest tariffs. The reduced tariff is computed as the ratio $a.t/(a+t)$ with a the coefficient of the formula and t expressed in percent. The coefficient in the formula is also the maximum tariff after implementation.

8. Small and vulnerable economies and LDCs are conceded a SDT similar to above.

9. The MIRAGE model is a dynamic Computable General Equilibrium model of the world economy, described in Decreux and Valin (2007).

10. *Working Paper CEPII*, No 2010-27. The corresponding database is available on line on the CEPII website.

goods.¹¹ In all scenarios, phasing out is applied linearly over a five-year period for developed countries (10 years for developing countries). Recently acceded countries will be granted respectively longer periods; here we make the simplifying assumption that these countries will have 12 years for phasing out of protection.

■ Gains and pains

The long run effect of the envisaged trade liberalisation in goods (only) amounts to 0.09% of world GDP annually, that is \$US70bn in 2025 (Table 1).¹² There is an overall increase in world exports of goods of only 1.25%, or \$US230bn. Given the very conservative assumption of a 3% liberalisation in certain services, limited to certain importers, is adding \$US15bn gains in world GDP. When we add the gains from trade facilitation we can expect a further \$US68bn annual increase in world GDP from 2025 onwards. This is a very important issue, in particular because a large part of the additional gains would accrue to developing economies. We discuss below the potential impact of sectoral initiatives.

Table 1 – World GDP and exports long run changes from the baseline (percent and \$US billion)

Scenario	(1)	(2)	(3)
World exports			
%	1.25	1.44	1.95
\$US bn	230	264	359
World GDP			
%	0.09	0.11	0.20
\$US bn	70	85	152

Note: Long run is 2025. Gains are in constant (2004) dollars, relative to 2025 economic values. Scenario: (1) agriculture + NAMA; (2) agriculture + NAMA + services; (3) agriculture + NAMA + services + trade facilitation. Source: Y. Decreux & L. Fontagné (2011).

Table 2 presents these long term GDP gains at regional or country level. In dollar terms, the EU and China reap each 22% of world gains from a goods-and-services scenario. US gains are less spectacular (7% of world gains) compared to its relative size in the world economy. The USA and the Association of Southeast Nations (ASEAN) also benefit (but to a lesser extent) from the scenario combining liberalisation in agriculture and industry, with 8% and 9% of world gains respectively. Japan draws most of its benefit from the liberalisation of trade in goods, reaping 15% of world gains in this scenario.¹³ The EU benefits most from liberalisation in services.

Two regions deserve additional comments. First, Mexico and Canada, that currently generally benefit from the North-American Free Trade Agreement (NAFTA) are facing preference erosion, but

Table 2 – Long run deviation from the baseline, GDP, USD mn

Scenario	(1)	(2)	(3)
China	15,981	18,443	36,465
European Union	11,847	18,571	30,731
Japan	10,194	10,703	13,772
ASEAN	6,492	7,319	12,973
USA	5,344	6,450	9,480
EFTA	7,289	7,669	7,669
India	3,821	4,328	6,932
SSA	-549	-394	6,024
Taiwan	2,498	2,622	4,524
Korea	635	887	4,512
Rest of South America	977	1,057	2,533
Brazil	366	456	2,044
Australia & New Zealand	1,401	1,545	1,714
Rest of South Asia	454	582	1,412
Canada	859	1,197	1,302
North Africa	1,062	1,150	1,279
Argentina	694	730	890
Rest of Mercosur	438	480	889
Caribbean	-718	-696	131
Mexico	-473	-353	-296
Rest of World	1,001	1,809	7,390
World	69,615	84,552	152,370

Note: Long run is 2025. Gains are in constant (2004) dollars, relative to 2025 economic values. Scenario: (1) agriculture + NAMA; (2) agriculture + NAMA + services; (3) agriculture + NAMA + services + trade facilitation. Source: Y. Decreux & L. Fontagné (2011).

Mexico is facing the most adverse evolution. Second, Sub-Saharan Africa (SSA) does not liberalise overall (or only to a very small extent), due to the combined presence of LDCs, Paragraph 6 Annex b countries and other flexibilities conceded to developing countries. Improved market access is usually more limited for SSA countries, which already benefit from preferential schemes in some important markets. This works to decrease some of the SSA countries' export prices, leading to terms of trade losses even in the absence of liberalisation. However, the introduction of trade facilitation yields very large gains for the SSA region (\$US6.4bn of GDP).¹⁴

As said above, in three broad sectors (chemicals, machinery, electronics) several WTO members are keen to open global markets further (excluding LDCs) through sectoral initiatives. There is also a separate initiative for environmental goods. These initiatives have overall a large impact on trade. For sake of comparison, the first four columns of Table 3 report long run changes in the volume of trade associated with the scenarios discussed above. Column (1)

Table 3 – Long run change in the volume of trade (bn USD)

Scenario	(1)	(2)	(3)	(4)	(5)
Agriculture	32.3	32.5	36.7	37.8	36.9
Industry	194.9	196.0	285.4	431.0	309.9
Services	2.6	35.2	36.4	36.4	36.3

Note: (1) agriculture + NAMA; (2) agriculture + NAMA + services; (3) agriculture + NAMA + services + trade facilitation; (4) scenario (3) + sectorals except environmental goods; (5) scenario (3) zero tariffs initiative on environmental goods. Source: Y. Decreux & L. Fontagné (2011).

11. This tariff cut concerns all developed countries (including Korea) and the following developing: Argentina, Brazil, Chile, Colombia, Peru, Paraguay, Uruguay, Mexico, China, India, Indonesia, Malaysia, Philippines, Taiwan, Thailand. As for environmental goods, we use the official list of corresponding products and implement a zero tariff initiative.

12. Here, "long run" implies year 2025 even though dynamic welfare/GDP gains will continue for longer, leading to slightly larger actual long term gains. Percentage deviations are translated into \$US on the basis of current year value (for GDP, exports, etc.) at constant 2004 prices. Hence, the long run gain in \$US is the annual deviation from the baseline in 2025, at constant prices.

13. Detailed analysis reveals a very significant increase of Japanese car production as a result of the DDA.

14. The Caribbean region faces the same problem.

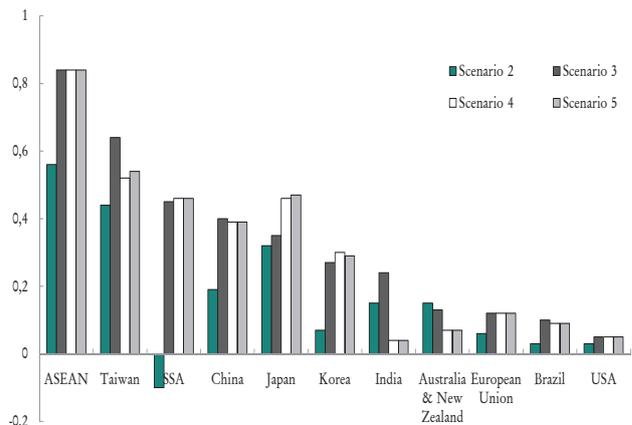
presents the changes in world trade of agricultural and industrial goods and services compared to the baseline, associated with the three pillars of the negotiation in agriculture and the NAMA.¹⁵ Column (2) includes limited liberalisation in services.¹⁶ Column (3) shows the central scenario. The impact of trade facilitation is shared among agricultural and industrial goods. The last two columns report the change in the volume of trade for the two sectoral initiatives. They must be compared with Column (3). Column (5) shows the \$US145.6bn increase in trade in industrial goods, when the first sectoral initiative (chemicals, machinery, electronics) is added. In Column (5), the first version of the sectoral initiative on environmental goods is added to the central scenario. Its impact on trade is negligible overall (\$US23.6bn or an additional 8%), compared to the central scenario. Gains are in line with the limited product coverage of this proposal. Unfortunately, these initiatives are associated with terms of trade losses for countries opening their markets quite unilaterally, in particular India.

■ Failure and success are not symmetric

The ultimate impact of the Round in welfare terms is shown in Figure 1 for a selection of influential players in the DDA. We compare the central scenario limited to agriculture, NAMA and services with the one including trade facilitation, and with the addition of the two sectorals. There are three main results. First, trade facilitation is clearly the condition of gains for SSA countries. Second big players like the US or to a lesser extent the EU gain little in percentage terms. Third, contrasting with the large increase in world trade they induce, sectorals hardly boost welfare gains (with the exception of Japan) and make countries like India worse of. Such combination of impacts is hardly creating the conditions of success. The most influential negotiating countries gain little and they may be reluctant to further open their markets in crisis times. Advanced economies' offensive interests in industry cannot be satisfied via sectoral initiatives clashing with the SDT for emerging countries. Even the perspective of an "interim package" that would

have addressed the specific needs of the LDCs, complemented with an agreement on Trade Facilitation, has been abandoned.

Figure 1 – Long run change in welfare for selected regions (%)



Note: see Table 3 for a description of the scenario.
Source: Y. Decreux & L. Fontagné (2011).

The consequences of a failure would be important for the world economy for three reasons. Firstly, the cost of not signing a final agreement is not just reversal of the gains computed here; an agreement around current proposals would significantly lower bound tariffs and would extend the consolidation coverage. In the case of failure, a resurgence of protectionism, either within the strict boundaries of WTO rules (e.g. an increase in tariffs up to their bounds), at the fringes of it (generalising contingent protection), or outside of it (unilateral increases in protection) would have a cost corresponding to a multiple of the gains considered here.¹⁷ Secondly, a move towards regionalism and bilateralism (already visible) would be unavoidable in the case of failure of the Round, with associated trade diversion effects. Thirdly, the credibility of the regulatory architecture developed under the umbrella of the WTO would be put at risk were negotiations to fail.

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15. The \$US2.6bn increase in trade in services is indeed a pure general equilibrium effect.

16. Again, we observe small general equilibrium effects on trade in goods.

17. A. Bouët & D. Laborde measure what would be the consequence of a Doha Round failure, materialising in a worldwide increase in tariffs (up to the tariff bound, for instance). Results show that, were that the case, trade would be reduced by 10%, and welfare would be down by 0.5% (The potential cost of a failed Doha round, IFPRI discussion papers 886, 2009).

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