The Doha Development Agenda Impacts on Trade and Poverty

October 2004

A collection of papers summarising our assessments of the principal issues of the WTO round, how the outcome might affect poverty, the progress of the negotiations, and the impact on four very different countries.

Papers in the series

1. Trade liberalisation and poverty
2. Principal issues in the Doha negotiations
3. How developing countries can negotiate
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6. Doha and poverty: preliminary assessment
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Overseas Development Institute
111 Westminster Bridge Road
London SE1 7JD, United Kingdom
Tel: +44 (0)20 7922 0300
Fax: +44 (0)20 7922 0399
iedg@odi.org.uk
www.odi.org.uk

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1. Trade liberalisation and poverty reduction

Tim Conway

Defining poverty

In part, the differences between those who see trade as good for poverty reduction and those who see it as bad can be attributed to different understandings of what is meant by poverty and how it should be measured. The definition of poverty in academic and policy discourses on international development broadened considerably in the 1990s. The first strand of the debate is fundamentally philosophical and concerns the meaning of poverty, in particular the distinction between means (e.g. income) and ends (e.g. life expectancy, substantive freedoms). Depending on outlook, some components (e.g. expenditure, assets, or literacy) can potentially be classified as either means or ends in the definition of poverty. The second strand is more prosaically methodological, and revolves around the accuracy of different approaches to the measurement of poverty: even if it is accepted that poverty is defined as falling below a minimum acceptable level of consumption, there is room for debate as to whether this level can be accurately captured in surveys of expenditure, or whether analysis also needs to take account of access to common property resources, assets, and so on. While relative poverty lines are often used in rich countries, research and policy in the developing world almost always uses an absolute poverty line.

Consumption/expenditure poverty lines are indispensable for comparing levels and degrees of poverty between areas or groups and monitoring changes over time. But there are a number of methodological problems inherent in measuring expenditure (or income) during household surveys, given the complexity of inflows, outflows and stores in household economies in the developing world. Recognition of these limitations suggests that poverty line-based analysis needs to be complemented with other definitions and measures of poverty in order to produce fully-informed policies.

The DFID variant of the livelihoods approach analyses the well-being of households in terms of their control over assets (equivalent to forms of 'capital' in other approaches). During the 1980s and 1990s there emerged calls for lack of power to be made not just an explanation of poverty but part of its definition. Along a related line, it was suggested that social exclusion or lack of social capital was often at the core of what it meant to be poor.

Many actors who accept the principle of multidimensionality commonly revert to using a simple, unidimensional measure of poverty for practical purposes. The Millennium Development Goals (MDGs) constitute a well-known example of a multidimensional approach to defining and measuring poverty (see box), and provide a useful point of reference by which to frame discussion of the potential impact of trade liberalisation upon various dimensions of poverty.

An important body of micro-level work, deriving from fields such as anthropology or sociology as well as empirical microeconomics, has focussed on household welfare dynamics, the distinction between chronic and transitory poverty, and the importance of vulnerability. Empirical work, much of it in the field of food security studies, revealed that the poor often make trade-offs between poverty and vulnerability. Over the long term, minimising their exposure to shock in this way keeps them trapped in low-investment, low-risk, but low return activities, with investment of time and money spread across a number of activities rather than concentrated upon the most promising. This has important implications for understanding the link between trade policy and the welfare of the poor, as it implies that poor producers will often not respond to new opportunities created by liberalisation, or will respond only after a considerable lag.

A conceptual framework for analysing trade-poverty linkages

Liberalisation may raise private incomes and expenditures for poor groups, but in some circumstances these gains are offset by declines in the level or effectiveness of state spending, or by increased insecurity of employment or income. Trade liberalisation may contribute towards some MDGs, while having a negligible or even potentially negative impact on others.

The poor may be affected by liberalisation policies pursued either by their own government or by the governments of countries that are or might become trading partners or competitors. Some argue that the barriers against pro-poor growth in the South are overwhelmingly due to trade distortions created by Northern protection; given this past record of trade rules weighted against developing countries, it is reasonable to demand that developed countries liberalise earlier and faster, while allowing developing countries to retain protectionist measures for an extended period to safeguard the incomes and food security of the poor against the shocks of rapid market opening. The gains that a developing country and poor groups within it stand to make from liberalisation, their own or others', depend on i) the nature of their current insertion into international markets and trade agree-

Box: MDGs Goals and Targets

Goal 1:	**Eradicate extreme poverty and hunger**
Target 1:	Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day
Target 2:	Halve, between 1990 and 2015, the proportion of people who suffer from hunger
Goal 2:	**Achieve universal primary education**
Target 3:	Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling
Goal 3:	**Promote gender equality and empower women**
Target 4:	Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015
Goal 4:	**Reduce child mortality**
Target 5:	Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate
Goal 5:	**Improve maternal health**
Target 6:	Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio
Goal 6:	**Combat HIV/AIDS, malaria and other diseases**
Target 7:	Have halted by 2015, and begun to reverse, the spread of HIV/AIDS
Target 8:	Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases
Goal 7:	**Ensure environmental sustainability**
Target 9:	Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources
Target 10:	Halve, by 2015, the proportion of people without sustainable access to safe drinking water
Target 11:	By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers
Goal 8:	**Develop a Global Partnership for Development**
Target 12:	Develop further an open, rule-based, predictable, non-discriminatory trading and financial system (*Includes a commitment to good governance, development, and poverty reduction – both nationally and internationally*)
Target 13:	Address the Special Needs of the Least Developed Countries (*Includes: tariff and quota free access for LDC exports; enhanced programme of debt relief for HIPC and cancellation of official bilateral debt; and more generous ODA for countries committed to poverty reduction*)
Target 14:	Address the Special Needs of landlocked countries and small island developing states (*through Barbados Programme and 22nd General Assembly provisions*)
Target 15:	Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term
Target 16:	In cooperation with developing countries, develop and implement strategies for decent and productive work for youth
Target 17:	In cooperation with pharmaceutical companies, provide access to affordable, essential drugs in developing countries
Target 18:	In cooperation with the private sector, make available the benefits of new technologies, especially information and communications

ments; ii) their capacity to respond to new market opportunities and to mitigate adjustment costs (see Trade Issues paper); and iii) national institutions which govern the links from trade to poverty.

McCulloch et al (2001) identifies three channels by which trade policy change might affect poor individuals and households, namely those of enterprise (through profits, wages and employment), distribution (the transmission of changes in border prices to consumers), and government (in which trade reform affects government revenues and thus the scope for pro-poor expenditures). Bird (2004) similarly uses a household-focussed, livelihoods analysis-inspired approach to draw out the micro-level determinants of whether or not a given trade reform benefits different groups amongst the poor.

It is possible to distinguish both static and dynamic components to the linkage. Static effects include the reallocation of resources towards sectors in which the country in question enjoys comparative advantage. Dynamic effects are those achieved through economic growth if the more efficient allocation of resources increases growth. Either might reduce poverty. Short- to medium-term adjustment costs (as, for example, jobs lost in industries rendered uncompetitive) could increase it. A more open economy can be expected to allocate new investment more efficiently, create opportunities to realise economies of scale, increase entreprises' exposure to technological improvements in productivity, and intensify competition. This analysis suggests four channels by which the Doha Round could affect poverty.

Consumption: prices faced by poor households for the goods they purchase. Even in 'subsistence' rural economies, certain goods (notably food, but also manufactures such as clothing) must be bought. Own liberalisation is likely to exert downward pressure on the prices of basic consumption goods, as barriers to cheaper imports are removed and competition is increased. The liberalisation of other countries' trade regimes may increase prices, as domestic producers find it possible to obtain higher prices through exporting to newly-opened markets. Food is obviously pre-eminent in consumption by the poor; it is highest for those in extreme poverty, and for the food-purchasing rural poor. But inputs into household-level economic activities: for example, seeds or fertiliser for poor agricultural producers also affect the poor.

Income: returns to the labour, assets and/or products of the poor. The primary asset of the poor is in most cases their own labour, typically unskilled or semi-skilled. Thus, trade reform which results in increased access to overseas markets and increases the prices paid for exports, may increase the demand for unskilled labour and is likely to have a positive effect on poverty reduction, through increased employment, or increased wages, or both.

Liberalisation by poor country governments themselves will affect different social groups differently. Sectors which had previously been protected may experience job losses and/or falling incomes, while other economic activities in which the country has comparative advantage and which had been constrained under previous trade regimes (e.g. export controls on agriculture or barriers to the import of essential inputs such as fertiliser) expand.

The provision of public goods: government expenditures on health, education, sanitation, and social protection, accessible to the poor. In countries in which government revenue is heavily dependent upon tariffs (which are much easier and cheaper to collect than other taxes), own trade liberalisation may result in a significant reduction in total revenue. In most cases, political realities suggest that the poor rather than the rich will suffer most from reductions in public spending. In principle expanding volumes of trade at lower tariff levels may offset this fall (as seen for example in India). Linking the reduction in tariffs to the removal of tariff exemptions may help to offset the fall in tariff revenue. Least Developed states with low levels of income and limited administrative capacity are most heavily dependent on tariffs. Developing country governments may gain if liberalisation in other countries leads to expanding export volumes and rising incomes. Like losses, gains in revenue may not feed through into increased spending on the poor.

Security: improved capacity to sustain long-term welfare through reduction and mitigation of risk, and increased capability to cope with the consequences of a shock. To a considerable extent, all of these are a function of changes in average values of the three variables already mentioned. Variability in any of them imposes the costs of risk-management strategies. The consequences of risk are particularly serious when they strike large numbers of individuals or households simultaneously on the basis of some common characteristic. If greater trade integration reduces vulnerability to local-level misalignment of supply and demand, it may help to smooth income and consumption, and encourage investment in productive assets. Integration also, however, brings exposure to price movements in international markets. Diversification – both within the household economy and between households within a community – can help to reduce the probability and magnitude of simultaneous shocks to production, income and/or employment.

Implications for non-trade policy

The way in which a change in border price arising from liberalisation is transmitted to different groups of producers and consumers within the country is determined by a number of intermediary factors and institutions, including the level of education and skills amongst the poor; their ability to obtain access to credit (in order to finance investment in new export market opportunities) or to communications and transport (in order to know about and reach export markets); and the existence of affordable mechanisms to mitigate production or consumption risk. The degree to which developing countries and poor groups within them gain or lose from liberalisation thus depends crucially upon a range of policies with regard to service delivery, infrastructure provision and the regulation of financial markets. Trade barriers may not be the most important constraint upon the livelihoods of the poor. Complementary policies may be critical in maximising the benefits and minimising the losses that the poor experience from trade liberalisation. In some circumstances, the adequacy or inadequacy of these complementary policy measures may determine not only the size but even the direction of the effect of trade liberalisation on poverty. The pace and sequencing of moves towards liberalisation may affect how well complementary policies can harness the effects of liberalisation for poverty reduction.

Generally, policies designed specifically to recompense those disadvantaged by liberalisation are to be avoided: these groups are not always the poor, or poorest, and compensating groups on the basis that they have been affected by government policy change can create a cumbersome long-term budget commitment (and an awkward precedent). Governments are better advised to make use of social protection (or safety net) schemes provided on the basis of need, including retraining and assistance in finding new employment. If trade policy is to contribute to poverty reduction, this is best framed as part of an overarching national strategy for poverty reduction.

At the global level, preferences have not been an efficient way of targeting poverty. 70% of those currently living on less than $1/day are not located in the 49 Least Developed Countries, but large low income countries (India, Pakistan and Nigeria) and a number of middle-income countries (China and highly unequal Brazil) In 1999, India and China alone accounted for almost 50% of the world's $1/day poor.

Potential Doha reforms and poverty reduction effects

Agriculture

Liberalisation by developed countries in agriculture might be expected to affect the livelihoods of the poor as follows:

- Increasing demand in previously protected markets would result in higher profits for those who own or rent land; increased demand for agricultural labour should increase the price of labour and labourers' incomes benefiting the landless poor.
- Increasing exports may increase the prices paid by poor households for agricultural goods, most notably food.
- Increasing the diversity of international markets to which poor producers have access may reduce the degree of variability and uncertainty in agricultural income and consumer prices.
- Removing developed-country policies designed to stabilise prices in their own economies, by putting more of the burden of adjusting to shocks onto other market participant, will also reduce instability, and thus vulnerability.

Higher and more dependable agricultural incomes in developing countries would:

- Increase ability to purchase inputs such as fertiliser or irrigation which increase average yields and/or decrease production variability.
- Increase demand for other goods and services, with positive effects on the employment and incomes of the poor.
- Increase household investment in human capital development – education and health care – which broadens opportunities, increases the returns to household labour and reduces the potentially pauperising costs of a serious illness.
- Increase ability to diversify by investing income in alternative crops and/or off-farm activities, reducing the vulnerability of not only the households concerned but also communities and the country as a whole.
- Shift investment from non-agricultural sectors into agriculture.

The impact of agricultural growth in terms of reducing poverty is greatest at the lowest income levels because a greater percentage of the population are engaged in agriculture and because the agricultural poor in least developed countries have fewer alternatives to agriculture in the form of off-farm income.

The poor in non-preferred countries, notably India and China, would gain, but for those Southern farmers currently dependent on preferences these price effects would be largely reversed. Another group of countries in which the poor might lose out from agricultural reforms are those that are net importers of agricultural goods. Amongst the 58 low-income countries, 29 were classified as net agricultural importers in 2000/01; amongst the 89 middle-income countries, 51 were net agricultural importers. The most significant of these (in terms of the numbers affected) are Bangladesh, Pakistan and North Korea.

Developing country trade policies are less of an issue in agriculture (relative to both developed world agricultural policies and to developing-country policies in other sectors, such as manufacturing), but some developing countries still operate trade or other policies which in effect impose constraints on the expansion of agricultural exports, sometimes in the name of food security. In many cases, to ensure that the agricultural poor can benefit from international trade, developing country governments must reduce protection of inefficient industrial sectors and the associated over-valuation of the exchange rate, which draw investment away from agriculture.

Manufactured goods

Liberalisation of trade in manufactured goods is likely to have significant pro-poor effects in fewer countries than in agriculture (albeit including some with very large poor populations, such as India). In most developing countries far fewer are employed; wages are generally higher than in agriculture, so increased wages or employment for industrial workers will not necessarily benefit the poor; and manufactures account for a much smaller proportion of the total household expenditure of poor households than does food. Of these, the most important are probably clothes and agricultural inputs.

Liberalisation by market countries will increase incomes. But a number of developing countries (including large countries such as India) have significant policy barriers of their own. Tariffs that protect inefficient manufacturing tends to result in a preference for capital-intensive rather than labour-intensive activities. Whether changes from a country's own liberalisation will be good or bad for the poor will depend on the existing structure of enterprises and employment in the sector and the institutional environment of laws and regulations. One effect may be a switching of employment from the formal sector to the informal sector (with fewer labour rights) as companies seek to lower their costs and improve their flexibility in response to competitive pressure from imports. The result may be an increase in the level of employment, but at lower wages, less security of employment, and less protection. If the formerly protected workforce are able to respond to new opportunities, then transitional unemployment may be relatively short-lived. If, however, few alternatives exist, the negative effects may be large and persistent. In the absence of alternative manufacturing or service sector jobs, the effects of liberalisation-induced manufacturing in small uncompetitive and undiversified economies are thus likely to include increases in rural poverty rates through loss of remittances and return migration to rural areas.

Services

A number of countries have succeeded in creating service sector jobs serving developed world markets. Tourism may create significant demand for unskilled and semi-skilled labour. Back-office business services and call centre operations in India; or software in India and China have employment and spillover effects on the demand for goods and services from the poor.

Other developing countries have specialised in the provision of temporary migration to provide services in higher-income countries. While much of this movement is of non-poor professionals, in some countries (e.g. the Philippines, Sri Lanka or Pakistan) large numbers of unskilled and semi-skilled workers are involved in migration for temporary employment, and state policies and institutions have been developed to facilitate this movement. Earnings brought back from a period of work abroad, or sent back as remittances, may provide a significant injection of capital into poor, often rural communities. Labour out-migration in low-wage fields in a labour-abundant economy may also have an indirect positive effect by reducing labour supply relative to demand, exerting an upward pressure on the wages of those remaining. Finally, returning labour migrants may bring back with them newly-acquired skills.

Competition in service provision induced through trade liberalisation might also reduce the prices the poor must pay for health and education services that directly enhance welfare (and, via human capital formation, indirectly affect incomes). More efficient 'backbone' services – in finance, telecoms, domestic transportation, retail and wholesale distribution, and business services – have the potential to improve the performance of the economy as a whole. They may however result in the elimination of unskilled jobs, and successful liberalisation of services requires an appropriate regulatory framework.

Trade-related intellectual property rights and public health

The implications of rules on trade-related intellectual property rights (TRIPs) for poor country access to affordable pharmaceuticals were a high-profile issue in the Doha round. The protection of pharmaceutical patents, it was argued, prevented the under-resourced health services of developing countries badly affected by HIV/AIDS (particularly in sub-Saharan Africa) from obtaining access to cheaper generic versions of key anti-retroviral drugs; and, more generally, increased the prices that health services must pay for drugs for diseases which constitute major threats to public health. The counter-argument, put forward primarily but not only by the pharmaceutical industry, is that providing exemptions from intellectual property protection for drugs of relevance to the world's poor reduces the profitability of such drugs and thus the incentives for research into cures for these diseases (research which is already markedly skewed towards the health problems of the developed world).

In August 2003, an agreement confirmed that developing countries with a pharmaceutical industry could sell generic drugs cheaply not only in their own countries but also in Least Developed Countries and other developing countries which face a 'public health emergency' and lack the capacity to produce themselves. Although the gains from this declaration are potentially significant, it is important to place them in context. The majority of drugs on the WHO Essential Drugs List (EDL) are already out of patent, and therefore not affected by TRIPs; they remain beyond the reach of the poor for other reasons. Pharmaceuticals may account for a large proportion of public health spending (e.g. around 20% in Mali, Tanzania, Vietnam and Colombia), but this often amounts to a microscopic level of spending. At these levels of spending, even drastic reductions in the price of pharmaceuticals will leave them beyond the reach of the poor. In most countries the health sector faces a number of other fundamental problems with resourcing and institutional capacity which cheaper drugs will not solve, and most developing country governments have not made full use of the provisions that already exist (because of capacity constraints and lack of familiarity with international patent laws). The potential effect is likely to be greatest in large middle income countries in which the size of the public health budget is such that patent-affected drugs do constitute a significant proportion of total spending, and do become affordable at lower prices.

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For further information contact Sheila Page (s.page@odi.org.uk)

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2. Principal issues in the Doha negotiations

Sheila Page

The WTO negotiations cover trade in agriculture and other goods, trade in services, access by developing countries to medicines, protection of indications of geographical origin, strengthening or clarifying WTO rules, and a new subject of trade facilitation.

Agriculture

The Doha declaration aimed at:

> *substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade-distorting domestic support…special and differential treatment for developing countries…to enable developing countries to effectively take account of their development needs, including food security and rural development…non-trade concerns will be taken into account in the negotiations…We commit ourselves to the objective of duty-free, quota-free market access for products originating from LDCs.* (Doha Mandate 2001)

What developing countries want

This is the central issue of the negotiations. Agriculture remains the most protected sector, with a complex system of interventions, to protect production, and then to counter that protection through countervailing barriers and mitigate it through preferences. Any reform will have complex effects, both positive and negative, on those who lose or gain from the current arrangements with significant impact on poverty (see paper *Trade liberalisation and poverty*). The average bound tariff (the tariff agreed in negotiations) is 62%, compared to 29% for industrial products. Although some countries apply rates below those bound, the average applied rates are also twice as high for agriculture: 17%, compared to 9%.

The most protected products are sugar, dairy products, and tobacco. For the US, the highest tariff is 350% on tobacco products; for the EU, 470.9% on milk and cream. For developing countries, this depresses potential export earnings and the income of domestic producers. Sugar is a special case because both the US and the EU have combined protection with quotas for imports. These allow selected developing countries to export limited amounts at prices well above the world price (about a factor of 3 in the EU market).

The structure of tariffs makes negotiations difficult: while the average tariffs of developed countries are normally substantially lower than the averages of developing, the structure tends to be flat in developing countries, while there are high peaks in developed countries. Any formula that targets high averages will hit developing countries; one which focuses on peaks will hit developed countries.

The fact that agricultural products are a declining, and now in some cases small, share of developing country exports does not mean that this is a declining issue. While higher income elasticities would be expected to cause faster growth in manufactures trade than in agriculture, the differences observed are much greater than this could explain: the protection has held agricultural trade down. And for sub-Saharan Africa, the Caribbean, and some Latin American countries, agriculture remains important. Agriculture also has symbolic importance: agriculture and access to medicines were the two central development issues in the negotiations.

All developing countries want improved access and reduction or elimination of subsidies, although with different specific targets. Those with preferences want these preserved. Some are concerned to secure access to food, and proposed a 'Development Box' to give developing countries flexibility on import controls and permission to use some restricted subsidies for domestic production. The Africa, Caribbean and Pacific (ACP) region and Least Developed Countries (LDC) asked for duty and quota free access for the LDC, and elimination of export subsidies.

The framework for negotiation agreed in July 2004 suggests a 'tiered formula that takes into account' the different tariff structures of developed and developing countries, with exemption of LDCs from cuts, 'differential provisions for developing country members', 'deeper cuts in higher tariffs' but 'flexibilities for sensitive products'. It thus recognises all the issues raised by developing countries. It rejects the formula proposed by the US and EU, under which only some goods would have been subject to minimum levels of cut; others could have been grouped and subject to average cuts, allowing countries to avoid cutting peaks, if they made deeper cuts elsewhere. The provision for sensitive products could protect some peaks, but these would need to be explicitly declared, not part of a group. Tariff escalation is mentioned, but with no provision; it is not now a major issue for most developing countries.

Subsidies

The continued permissibility of subsidies to exports and production makes agriculture different from other sectors in the WTO. The question of whether the eventual elimination of subsidies should be declared an objective helped to break up the Seattle Ministerial Meeting, and nearly caused failure at Doha. The Uruguay Round Agreement on Agriculture classified subsidies into three types: those defined as being clearly distorting: amber box, including production or export-related payments; those which might be distorting because they are related to production, but which were intended to limit production: blue box; and those defined as having little trade distorting effect: green box.

In developing countries, subsidies by developed countries help consumers of those products, but hurt competitors. Table 1 shows the countries whose exports are most seriously affected by other countries' subsidies (above 40% of exports).

Table 1 Countries dependent on exports of goods subsidised in other WTO members

Country	Share of exports affected (percentage)
Benin	85
Mali	84
Chad	82
St Kitts and Nevis	78
Burkina Faso	76
Malawi	76
Burundi	73
Tanzania	68
St Lucia	64
Uganda	63
Sudan	60
Zimbabwe	59
Rwanda	59
Dominica	58
St Vincent	57
Paraguay	55
Cuba	51
Cote d'Ivoire	49
Guinea-Bissau	40
Nicaragua	40

Source: Hoekman, B., F. Ng, and M. Olarreaga, (2002) 'Reducing Agriculture Tariffs Versus Domestic Support: What's More Important for Developing Countries' World Bank Working Paper, No. 2918, Washington, DC: World Bank: p30.

If the subsidies were removed, some might still be uncompetitive, and most of the sugar producers gain from the subsidies because of quotas, but most would face less serious barriers, and some would gain significantly. They are concentrated among the poorer African countries, Central America and the Caribbean, with some agriculture-dependent South American countries. On the import side, where subsidies could be an advantage, only two have more than 20% of imports affected by subsidies: Comoros 24%, Algeria 20%. All the official positions of groups of developing countries asked for the end of export subsidies.

In mid-2003, four West African cotton exporters, Benin, Burkina Faso, Mali and Chad cited the cost to them of subsidies, and placed this as a separate item on the agenda for Cancún. Cotton is between 5 and 10% of their GDP, and more than 60% of exports. They requested a new type of agreement: in addition to any negotiations on subsidies in the Doha context (which could not take effect until at least 2005) an interim settlement reducing subsidies to cotton by a third a year in 2004-6 and, until then, compensation for Least Developed cotton producers. This would be paid by the subsidisers, falling in line with reduction in subsidies.

The initiative has been supported by other African and ACP countries. Some of the benefit would go to developed country producers. The proposal was targeted principally at the US, whose subsidies are quantitatively the most important; the EU and China also have subsidies which may be damaging to some exporters.

The July 2004 framework recognised 'the development aspects of the Cotton Initiative' and asked that it be 'addressed ambitiously expeditiously, and specifically'. Although it did not make any commitment to a separate settlement, the general commitments on agriculture required that all domestic subsidies in the 'Amber' and 'Blue' boxes be reduced by 20% in the first year of implementation.

All export subsidies (except those by Least Developed countries) including certain export credits and insurance programmes ('export measures with equivalent effect') are to be ended, with new controls also on food aid. Non-LDC developing countries will have extra time, but not exemption. Larger domestic subsidies will be subject to larger reductions on higher levels through a tiered formula and the first cap on total support, including a cap on total 'blue' box support. Green box support remains uncapped, but the rules are to be 'clarified' and the results monitored.

Subsidies could also be reduced or eliminated as a result of the WTO's disputes procedure. In 2003, Brazil complained about both US subsidies to cotton and EU subsidies to sugar, and in 2004, won both cases (both are still subject to appeal). In both, the complaint dealt with only a narrow range of subsidies, but from 2004 the Peace Clause, which restricted challenges to most agricultural subsidies, ceased to apply; more cases could be brought.

Effects

For Least Developed countries, none of the proposals would mean any cuts in their own tariffs; for other African and Latin American countries, tariffs are normally low (Nigeria is an exception), and applied rates are much lower than the bound rates, so that few cuts would be required. A few Asian developing countries, notably India and Pakistan, do have high tariffs, which would need to be reduced.

On access, for African and most Least Developed countries, most exports already face either 0 rates, or preferential rates, and so would not be directly affected by any reductions agreed in the WTO. This applies also to other ACP countries in EU markets. A significant proportion of agricultural exports occur within African or Latin American regions, again under preferential rates or 0 tariffs. There would, however, be significant benefits to non-LDC developing countries in Latin America and Asia exporting to developed countries because, even where there are preferences, these tend to be of minor importance in their exports. For Brazil, there would be significant gains in access relative to, for example, the African countries with preferences (trade 'undiversion'), as well as any trade creation effects.

The elimination of export subsidies would benefit some LDC and developing country producers of non-food products (notably cotton). For a few food importers, including some LDCs, there could be an increase in costs. The reductions in domestic subsidies would have major effects only in sugar. They would reduce the benefits countries with quotas currently receive (see Paper on Preference Erosion). The provision for designation of 'sensitive products' gives part of what was requested as a Development Box, the right to restrict imports, but not any relaxation of controls on domestic subsidies. As most countries at risk of food insecurity do not have the resources to subsidise, this may not be a major defeat.

As low cost food and imports are important to the urban poor (see paper *Trade liberalisation and poverty*), any gains from import controls for the rural poor would need to be offset against losses to the urban.

Overall, some developing countries will gain, on both access and reduced export competition, although a few may also need to reduce their own controls. Most LDCs will see little effect, but those which face competition from subsidised exports (e.g. the cotton exporters) will gain, while those dependent on special access to subsidised markets (e.g. the sugar producers) and those who import subsidised food will lose.

Non agricultural market access (NAMA)

Doha aimed:

> *by modalities to be agreed, to reduce or as appropriate eliminate tariffs, including the reduction or elimination of tariff peaks, high tariffs, and tariff escalation, as well as non-tariff barriers, in particular on products of export interest to developing countries. (Doha Mandate 2001)*

This is a less important issue than agriculture because barriers are lower; the current structure of protection is less restrictive and less complex. Although most exports from developing countries are non-agricultural, these do not excite the same pre-conceptions about livelihoods and poverty that agricultural exports do, and no developed countries would now admit to having industries that are protected for social reasons.

The outcome will be defined in terms of the modalities of tariff cuts, any differential treatment of developing countries, and the rules on binding. While in agriculture, most countries have 'bound'*their tariffs as part of the Agreement on Agriculture, in manufactures, there are still countries which have not bound all tariffs.

Non-Least Developed African developing countries put the emphasis on reduction in peaks and escalation. The highest peaks, in both developed and developing countries, are in textiles and clothing. Other highly protected goods are fish, rubber, and leather goods. Specific duties (fixed, rather than percentage) are also important in some non-agricultural goods, notably textiles and garments; their effect has increased because prices have fallen. Least Developed Countries have concentrated on ensuring that the commitment to provide them with duty and quota free access is met. Developing countries in Africa opposed any commitment to increase binding substantially.

Proposed tariff cuts

The initial proposal in 2003 used a formula designed to produce maximum reductions for tariffs which were high relative to a country's own average. This did not directly meet the objective of reducing peaks (high in absolute terms), did not put higher cuts onto countries whose general level of tariffs are high and did not favour developing countries (its objective), because the levels of bound tariffs does not correspond to levels of development. Least Developed Countries were to be exempt from making cuts, although another provision called for eliminating all tariffs by all countries in some sectors.

The July 2004 draft was qualified as only 'initial elements for future work', because concentration on agriculture had meant little discussion. It supported the idea of a formula, but did not define its structure. There would be sectoral negotiations to reach 0 tariffs, but with 'flexibility for developing-country participants'. Least developed countries would be exempt from both the formula reductions and the sectoral cuts.

* Notified to the WTO, and therefore impossible to alter upwards without renegotiation.

Effects

Most LDCs have no gains. They do not face tariffs in their major markets (including their regional markets for non-agricultural goods), so they have little to gain on access, and would not be expected to reduce their barriers. The draft mentions the risk of loss of preferences, but does not deal with it. Developing countries might gain, if the formula gives substantial cuts on high tariffs in products such as clothing and footwear. Asian countries (which have smaller margins between their bound and applied rates) might have to liberalise.

Services

Neither the Doha mandate nor the July 2004 framework has specific aims for services. Negotiations on services use a system of countries 'requesting' specific trading partners to open specific activities in particular sectors, and then countries 'offering' to open sectors, with the opening on an MFN basis (to all countries). Special treatment for developing countries has taken the form of asking for less opening, not offering preferential access as in goods. There is no exclusion of Least Developed countries from commitments, and the developed countries have issued requests to them.

Services, including some where negotiations are in place such as tourism, are very important to some developing countries, including both Least Developed and small island countries: the 25 countries with the highest dependence on tourism are all small islands, and it is the principal export for a third of developing countries. Many services rely on semi-skilled labour, and are often in regions of the country where other activities are not possible, so that there can be direct effects on incentives for education and on rural poverty.

Movement of labour (called 'Mode 4' of services) remains the most restricted part of services, so potential gains are high. Worker remittances are already a significant source of income for developing countries (on average more than 1% of GDP).

Many countries' applied regimes substantially more liberal than they have bound. Developing countries, in particular, had difficulty in the Uruguay Round in knowing what type of offer to make and were cautious in the face of lack of experience. This means that many could make offers or respond favourably to requests without substantially altering their actual regimes. This could give them negotiating 'credit' to use in services or in other sectors where they are making requests.

As most developing countries have a cost advantage in labour, many, including the Least Developed and the ACP, are trying to gain increased access to developing countries for temporary workers. There have been unofficial proposals for a WTO visa that would give limited rights to move for specific occupations. India has supported the visa as well as asking for removal of economic needs tests (the restriction of visas when local labour is available) and sectoral commitments. The risks of terrorism have increased resistance in some developed countries to any form of migration, so that such opening may be difficult to achieve.

Developing countries, particularly those which are landlocked or with limited transport resources, also have strong interests in more efficient and less restricted transport and communication services. Some developing countries, e.g. South Africa, India, and some in the Caribbean, can provide health services, but find these obstructed by barriers from government health services or insurance.

The EC offer was principally in sectors such as telecommunications, financial services, transport, courier services computer services, environmental services, distribution, construction, tourism, news agencies and entertainment. It excluded education, health, social services, and audiovisual, and made only minor offers on movement of labour, restricted to professionals and graduate training.

Immediately before Cancún, agreement had been reached on a text for Special Treatment for Least Developed Country Members, but the July 2004 text did not explicitly call for this to be implemented. It would not have imposed clear differentiation of the type proposed for the formulae for goods. It had merely asked that least developed countries be given more flexibility to open 'fewer sectors, liberalizing fewer types of transactions' and that other countries give them priority in market access opening. Least Developed would not be exempt from opening.

Most developing countries still have not participated actively in making offers and requests, and the July 2004 text only requests these by May 2005. The WTO has offered technical assistance in making offers, but the barrier is probably in doing the analysis of what existing legal regimes are, and then the implications of binding them, rather than on the technicalities of turning this into an offer.

Effects

The scope for very specific opening means that general conclusions about the effects are impossible. Any liberalisation is likely to benefit both developing and least developed countries, and there are no preferences in services to lose. But it seems unlikely that they will gain in their principal demand, for fewer restrictions on movement of labour. The form of the negotiations is an obstacle for them.

Intellectual property

Trade Related Aspects of Intellectual Property were added to the coverage of the WTO in the Uruguay Round and the effect of this on developing countries has been a major issue. The questions most prominent in the Doha negotiations are related to production and trade in generic pharmaceutical products; extending the controls on the use of 'geographical indications' (Bordeaux wine, Blue Mountain coffee; currently only wines and spirits are regulated by the WTO); some issues in patenting life forms; and traditional knowledge. All raise important issues of principle, but only the results on pharmaceuticals seem likely to have major effects on poverty in the short term.

A declaration at Doha made it clear that developing countries could license production of medicines for public health crises within their own countries; it left to negotiation what rights could be given to countries which do not produce these, which include many of the poorest, to import under the same circumstances. A compromise was agreed on 30 August 2003, which met the request of the LDCs. It allows the same broad definition of threats to public health as is used for allowing manufacture of generics, so there are no restrictions on diseases covered. It requires countries to 'take reasonable measures' to prevent re-export, but does not require them to prevent it. Except for Least Developed countries, other developing countries can import only after showing that they lack capacity to produce, and 11 advanced developing countries have said that they will use imports only 'in situations of national emergency'.

The agreement could increase exports, and therefore income, in some of the major developing country producers of generic pharmaceuticals, including Brazil and India. Some of this might replace existing arrangements for special prices from non-generic producers to Least Developed countries, but there could also be larger and more certain supplies, leading to health improvements in LDCs. To be fully effective, any arrangement would need complementary measures to improve the delivery of health services, as inadequate resources to distribute medicines is a major barrier.

Trade facilitation

The EU, with varying degrees of support from other developed countries, suggested that investment, competition policy, transparency in government procurement, and trade facilitation be added to the WTO agenda, and that agreements on them be negotiated in the Doha Round. The Doha declaration was unclear (deliberately, to secure a deal) on whether it had placed them on the agenda or was merely suggesting that they be negotiated after Cancún. Most developing countries strongly opposed all of them, as unnecessary extra burdens to an already crowded negotiation, and the first three as potentially damaging to their development strategies. At Cancún, the EU eventually agreed to remove the first two from the agenda, and indicated potential agreement to remove the third. By the time of the July 2004 draft, these changes were irrevocable, so only trade facilitation remains (or has been placed) in the negotiations.

Some developing countries had seen merits in securing progress on this issue, although preferring that it should be done through technical assistance rather than new rules. It is a mixed area of negotiations. It includes increasing regulation and standardisation of customs rules and practices, with the objective of simplification. It attempts to improve the performance of customs administrations and port or transport facilities in developing countries either by setting targets or by providing technical assistance. It can include both laws, whether border measures or internal administration, and rules, procedures, and technical equipment. To the extent that it increased the efficiency of trade, any progress would improve the income of developing countries in trade sectors, but it is not clear how much WTO rules can contribute to this.

The costs of trading are higher in developing countries whose customs services lack technology, training, or good administration, especially in land-locked countries, whose access to markets is through a second developing country, and can be as costly as tariffs. Most of the efficiency effects, however, are obtainable by countries' unilateral action (with aid), and are not really WTO issues. Many require increased investment in infrastructure, which can conflict with other spending priorities for development. Increased regulation of procedures would take away this choice and to the extent that the 'inefficiencies' are intentional barriers to imports, new rules would reduce countries' policy freedom.

The July 2004 draft emphasises clarifying existing provisions on customs and 'enhancing technical assistance and support for capacity building'. Developing and least developed countries will have not only longer transition periods, but differential requirements on the extent of commitments (unusual in a provision on rules). It recognises that there will need to be investment in infrastructure, and exempts developing countries from meeting requirements which depend on these if the 'required support and assistance for such infrastructure is not forthcoming'. If the agreement follows this framework, it may impose lower costs on developing countries than they feared, and could offer some benefits.

Reference

WTO (2004) Doha Work Programme, Draft General Council Decision of 31 July 2004, WT/GC/W/535 (revision of JOB(04)96).

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Overseas Development Institute
111 Westminster Bridge Road
London SE1 7JD, United Kingdom
Tel: +44 (0)20 7922 0300
Fax: +44 (0)20 7922 0399
iedg@odi.org.uk
www.odi.org.uk

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3. How developing countries can negotiate

Sheila Page

The negotiations shall be conducted in a transparent manner among participants, in order to facilitate the effective participation of all. They shall be conducted with a view to ensuring benefits to all participants and to achieving an overall balance in the outcome of the negotiations. (Doha Mandate 2001)

WTO negotiations should have begun in 1999, but no agreement was possible between the US and EU or between the developed and developing countries. In 2001, at Doha, a compromise was reached, partly because of the security crisis, and partly by leaving key issues unsettled. A meeting to review progress at Cancún in 2003, however, broke down. A framework for negotiation was finally agreed in Geneva in 2004 (see paper *Principal issues in the Doha negotiations*).

If the Doha Development round is to contribute both to reducing economic poverty (see paper *Trade liberalisation and poverty*) and to increasing the power of by developing countries, the process of negotiation is important, as well as the outcome. The short period initially allowed for the Doha Round (three years) put severe pressure on countries with few resources. The extension and removal of the target date for completion have improved their prospects. The history of the first three years of negotiations shows that they have used the time effectively. The proposal at Doha to add four new issues, the 'Singapore' issues (because they were first raised at the Singapore Ministerial meeting in 1996) of investment, transparency in government procurement, competition policy, and trade facilitation, both risked adverse economic impacts and brought further negotiating pressure.

Negotiating groups

At Doha, the Least Developed secured a range of special mentions. The Africa Group, which had started to meet in the run-up to Seattle, became increasingly important in coordinating positions. It has worked closely with the LDC and ACP (African, Caribbean and Pacific) groups, with which it overlaps. At Cancún this alliance became known as the G90, and, by the July 2004 negotiations, it was the principal group for the smaller developing countries.

Among the larger developing countries, the long-established leadership of India and Brazil was extended at Seattle and Doha to include Egypt, Nigeria, and South Africa. All have a common interest in continuing liberalisation, although with different particular interests. Their interests are in some respects different from those of the smaller economies. In the weeks before Cancún, this evolved into a new group, the G20, now joined by China.

There are now virtually no 'bystanders'. Most of the smaller countries participate actively in at least some issues. The fact that many spoke against the Chair's draft at Cancún was not a rejection of the negotiation process, but proof that there had been success in securing broad participation.

Negotiating process up to Cancún

The negotiating process in 2003 combined meetings and papers submitted in the formal processes in Geneva with 'mini-ministerial' meetings, of 20-30 trade ministers from developed countries plus 'key' developing countries chosen for their size or special interests. There is no official recognition of the mini-ministerials in the WTO process. The mini-ministerial draft on intellectual property was rejected by the US in the formal procedures, although it was represented at the mini-ministerial. The US-EU draft on agriculture, requested by a mini-ministerial, and then embodied in the chair's draft text, was rejected at Cancún. These procedures are neither participatory nor effective.

Even formal proceedings still have large uncertain or informal elements. On both agricultural and non-agricultural goods, the chairs of the negotiating groups drafted detailed proposals in their own names, not based directly on the negotiations. The choice of which proposals to cite in the text sent to the ministers was the chair's. The proposal by the four West African countries on cotton subsidies, however, was put on the agenda as a new item at their request.

The greater participation by developing countries led to the first semi-formal recognition of groups among the developing countries. Countries presented positions, but on behalf of the groups. The chairs of the groups represented developing countries both in the informal consultations on various issues during the conference and in the final stages. There were explicit arrangements for them to be represented in the 'Green Room', the group of 30 key countries responsible for finding a compromise, and to 'report back' to their 'constituencies'. Individual groups had regular consultation, among themselves and with other groups.

The explanations for the failure of Cancún indicate why it was possible to reach an agreement a year later. A compromise on agriculture might have been achieved if negotiations had continued. Most countries were prepared to accept the compromise on the Singapore issues which emerged in July 2004: restricting them to trade facilitation. The disagreements in other topics were large, but negotiable. There were, however, serious procedural obstacles. The parallel processes of ministerial statements (reflecting pre-Cancún positions, and aimed at least as much at national audiences as at the negotiators) and negotiations to alter positions are increasingly incompatible as both public scrutiny and the need for bargaining increase. There was a serious breakdown in trust when some developing countries expressed resentment and frustration, not simply disagreement, with the Cancún draft. And the approach of the EU (and many of the developing countries), of expecting negotiations to overrun, with concessions held back until the final and past-final moment and hints of flexibility being taken as negotiating offers, was not acceptable to the US and others.

The new alliances did not yet have either the experience or the mutual trust to develop 'fall back' positions, a problem intensified by concentrated and very public negotiations. There were no formal means or time for the groups to adjust their negotiating positions. (Even the most experienced group, the EU, did not have a clear fall back position either on the Singapore issues or on how to react when the meeting was abruptly terminated.) The presence of a large number of representatives of national interest groups in delegations (675 African delegates compared to 423 at Seattle) represented a commitment to provide informed participation across a range of issues, but it also constrained quick responses in negotiations. If country representatives and then the groups are to represent interests and be accountable back to them, then more formal structures will be necessary.

Some groups and countries have tried to put the procedures on the agenda, e.g. the ACP asked 'that the decision-making process ...in Cancún is transparent and inclusive, through the adoption of procedural rules. Those rules should ensure...that (a) proposals of the various members or groups of members are reflected in draft texts that form the basis of negotiations, (b) appointment of the Chairpersons of working groups is made by a decision of all WTO members; (c) all WTO members are informed of all meetings and are entitled to participate in them, and (d) issues of importance, including consideration of a proposal to extend the length of the Conference, should be put before all WTO Members for a decision.' That these need to be proposed indicates the weakness of current procedures. Informal procedures could only be justified if all countries had the same objectives; a skilled individual or group could then try to achieve these. But the WTO exists to negotiate different interests.

The conflicts on agriculture and the 'Singapore issues' meant that, unusually, the divisions were almost uniformly between developed and developing countries. Developed-developing alliances, like EU-ACP alliance of Doha or the Cairns alliance of all efficient agriculture countries, were no longer important. This divide was emphasised and aggravated by the contempt with which the EC and US delegations discussed the G20 and the G90: the G20 was an ad hoc group, formed for ulterior motives, without agreement on agriculture, and with no effective positions on other matters. The African and Least Developed countries were unable to understand the negotiating issues or procedures.

Geneva July 2004

After Cancún, as had happened between Seattle and Doha, the Chair of the General Council was able to calm some of the resentments and clarify countries' positions. He secured general recognition that most of the Cancún draft was an acceptable basis for negotiation, and that two EU concessions made during the meeting, to end subsidies to agricultural exports and to reduce the Singapore issues to one, remained on offer. He was not, however, able to find an agreed formula for a new ministerial declaration. This indicates the limited usefulness of the current informal procedures, even when well handled.

There has been one success in the Round. One of the clearest 'development' outcomes at Doha was that members were instructed to find a solution to the problem of countries that could not produce their own drugs, and therefore could not use the concessions that allowed developing countries to produce generic drugs for major health hazards. When it was finally agreed in August 2003, it was the result of negotiations in Geneva, although these followed pressure from outside groups and direct negotiations among countries.

This 'success' for the Geneva negotiating processes was repeated for the rest of the Doha agenda in July 2004. In January 2004, the US attempted to restart negotiations, and the EU responded. There were then detailed negotiations, particularly on agriculture and the Singapore issues, principally in the negotiating groups, although supplemented by small groups outside Geneva. The US, EU, and WTO officials switched from criticising the G20 and G90 to attending their meetings, and accepting them as negotiating partners. In July, the negotiating group papers, with a much clearer relationship to the consultations and negotiations up to then, were used to draft a proposal. After two weeks of negotiations on this, using the formal Geneva procedures (although some ministers chose to attend), a revised draft was adopted (Doha Work Programme 31 July 2004).

Although small groups were used, including a smaller version of the Green Room, the Five Interested Parties (US, EU, India and Brazil from the G20 and Australia from the Cairns Group), the longer process of negotiation before the draft was presented and then two weeks instead of a four day conference gave sufficient time for countries and groups of countries to assess the proposals and make informed responses. The absence of both formal ministerial presentations and large official and unofficial delegations of interest groups gave negotiators the opportunity to make their own judgements of how to balance different interests.

The outcome itself represented a major shift towards developing country positions compared to the Doha mandate or the Cancún proposals (discussed in more detail in the paper *Principal Issues in the Doha negotiations*). Of the four 'Singapore' issues opposed by developing countries, only one remained, Trade Facilitation, and on this there was a significant innovation: it was agreed that capacity limitations would be accepted as an allowable reason for non-compliance with the requirement, if assistance was necessary, but not forthcoming. The Least Developed countries were exempt from tariff reductions on all goods, although they only achieved an exhortation, not a commitment, that other countries would remove barriers to their exports. On agriculture, there were reduced requirements for other developing countries in the timing and scale of reduction of subsidies. Cotton was promised accelerated, though not separate, negotiations. The problem of preference erosion was 'recognised'.

Lessons from the negotiations

Many developing countries have learned to use the current processes effectively, so that both the process and the outcome are more conducive to development than in the past. The way in which developing countries have operated in the negotiations, including the achievement of progress on TRIPS and public health and the improved July 2004 draft, suggests that there has been an improvement in the level of participation and therefore an approach to the 'partnership' included in the Millennium Development Goals, but it has been achieved by developing country efforts, not by concessions from the developed.

There have, however, been no formal changes. There are still no formal rules requiring time and a consultative process. Although there appears to be some willingness to move more of the negotiations to Geneva, rather than to Ministerial meetings, there is no commitment to this, and under WTO rules there must be another ministerial in 2005 (in Hong Kong, in December). The evidence of the last five years suggests there needs to be a crisis (whether outside the WTO, as in 2001, or in it, as with the Seattle and Cancún failures) to make the developed countries take the requests by developing countries seriously.

For further information contact Sheila Page (s.page@odi.org.uk)

The Doha Development Agenda Impacts on Trade and Poverty

October 2004

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Overseas Development Institute
111 Westminster Bridge Road
London SE1 7JD, United Kingdom
Tel: +44 (0)20 7922 0300
Fax: +44 (0)20 7922 0399
iedg@odi.org.uk
www.odi.org.uk

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4. South-South trade

Sheila Page

The EU, US, and other developed countries have repeatedly insisted that the advanced developing countries should offer preferences to the Least Developed (and possibly others) as part of any Doha deal. In particular, they suggest this as offering compensation for preference erosion (see paper *Preference erosion: helping countries to adjust*)or in return for better access to developed countries.* The demands have been directed particularly at the G20, the negotiating group of major developing countries. This suggests that the targets are China, India, and Brazil, although these are not the highest income countries in the developing category. To exclude China and India from some preferences could be justified because their size increases the 'cost' (in mercantilist terms) of offering access to them. It is possible, if they consent, that even arrangements which impose costs on them (through trade diversion by favouring other low income countries) would be acceptable, if their size makes external markets less important to them. But asking them to open their markets is justifiable only if this would be a significant benefit to other developing countries.

Some estimates (notably those by the World Bank) of effects of trade liberalisation do emphasise the impact of liberalisation by developing countries towards other developing countries. If barriers in other developing countries are a major part of the problem for developing countries, then proposals in the Doha Round to allow reduced and no liberalisation, by developing and Least Developed countries respectively, could backfire. But in fact the principal markets for Least Developed countries' exports (both agriculture and non-agriculture) are the developed countries. Least Developed countries themselves take less than 1% of total Least Developed exports. Table 1 shows that most LDC exports go to developed countries in particular to the US and the EU; within this the EU share has fallen, although it recovered in 2001 and 2002. (EBA, Everything But Arms, duty free entry for all LDCS, began in March 2001.) None of the other areas approaches these shares. Exports to China, although low until the 1990s, rose rapidly in the late 1990s, but the peak of 11% was about half the level to the US. India began to rise in the 1980s, and overtook the share to Japan in the 1990s, but is still only 4%. Brazil is not a significant market for LDCs. The regional markets are important; even Africa shows a high share, but much of this trade already takes place on low-tariff terms, under regional arrangements. For all developing countries, China, Korea, and Thailand are the most important developing country markets.Total south-south trade has risen from just over 6% in 1990 to under 11% in 2001. The share of developing countries in developing countries' exports rose from 28% in 1990 to 37% in 2001.

The data on trade barriers do not suggest that these are a major barrier to LDCs, as only India has very high applied tariffs (around 30%). It is a major market for some developing countries (Kenya, Mauritius and Vietnam of those surveyed here), but not for LDCs. China is, actually or potentially, a major market for all developing countries, but its average applied tariff is only 12%. The countries which are in fact the advanced developing countries, e.g. Mexico, Chile and Singapore, do not have high tariffs, and many already offer preferences to the LDCs. The MERCOSUR countries as a group (Argentina, Brazil, Paraguay, Uruguay), Egypt, Korea, Mauritius, and Thailand offer preferential access, and Chile, Indonesia, Malaysia, and Morocco are reviewing the possibility. The UNCTAD XI conference, in June 2004, decided to revive the GSTP, Global System of Trade Preferences, which dates from 1989 and covers preferences among developing countries. These preferences are limited, however, and apply to low shares of trade.

Overall, about a third of South-South trade is agricultural, rather higher than the share of such trade in total. South-South trade is important in some manufactures (southern Africa into South Africa, for example) and in machinery and transport in Latin America and Asia. Here, however, regional arrangements have already lowered most tariffs below MFN (WTO registered) levels, so that there are no direct interests in the WTO nego-

* In renewing AGOA in 2004, the US Congress (US, AGOA 2004) said, 'some of the most pernicious trade barriers against exports by developing countries are the trade barriers maintained by other developing countries'.

Table 1 Least Developed Countries' exports by markets (1980–2002)

	US	EU	Japan	Other developed	All developed	India	Brazil	China, with Hong Kong
1980	9.0	49.6	5.9	2.1	66.6	1.5	0.4	2.1
1985	18.6	45.9	4.4	0.9	69.8	1.8	1.3	1.4
1990	20.7	43.2	5.0	5.9	74.8	2.1	0.6	1.9
1991	21.8	43.7	5.4	3.3	74.2	2.8	1.2	1.8
1992	23.8	40.7	5.7	1.5	71.7	2.1	0.5	2.3
1993	23.6	33.1	6.5	1.2	64.4	2.4	0.9	3.8
1994	22.3	36.6	5.7	1.0	65.6	2.5	0.8	2.9
1995	19.8	35.2	5.8	1.5	62.3	2.8	1.6	5.2
1996	20.6	32.9	5.7	1.9	61.1	2.6	2.7	5.3
1997	22.5	32.5	4.2	2.4	61.6	2.6	1.2	7.7
1998	23.2	35.4	3.5	1.7	63.8	3.4	0.6	4.0
1999	21.9	30.2	3.1	1.7	56.9	3.8	0.4	6.2
2000	23.7	29.1	3.0	1.4	57.2	4.2	0.8	11.1
2001	22.9	31.7	2.6	1.2	58.4	4.4	0.7	7.7
2002	21.2	31.4	3.7	1.3	57.6	4.2	0.1	9.3

tiations. (There are a few examples of extra-regional trade, but here there are often bilateral agreements, for example between several of the southern and eastern African countries and India.)

South-South trade is most important in Asia, which accounts for two thirds of it, although this was hit by the Asian financial crisis. This is higher than the share of GDP accounted for by developing Asia (about a half) reflecting the faster growth in that region. The leading traders are China, Korea, Singapore, Taipei, and Malaysia. As was found for the Uruguay Round (completed in 1993), therefore, liberalisation by developing countries, and in particular by the more advanced East Asian economies, is likely to be important for the Asian countries, not for African or Latin American, and liberalisation by African and Latin American countries is unlikely to have a major effect even in their own regions, partly because of low trade shares and partly because of the existence of regional arrangements.

There was some interest in India and Brazil in early 2004 in developing the G20 from a negotiating group into a trading area (see papers *Poverty impact of Doha: Brazil* and *Poverty impact of Doha: India*). This was partly influenced by the preparations for the UNCTAD XI conference, which brought South-South trade to policy makers' attention (UNCTAD has always supported it, and the EU suggested it as a priority for 2004, as part of its effort to divert UNCTAD's attention from the WTO agenda). It was also part of a general search for alternative trading arrangements after the failure of Cancún.

The G20 was in its inception a clear example of a group formed only for negotiations, cutting across income levels, from several regions, both formal and geographical, and including countries with very different approaches to trade policy and different positions, even on agriculture its nominal focus. Since Cancún, however, the principal members, Brazil, China, India, and South Africa, have been emphasising their common interests, their extensive trade among themselves, and thus their potential to become more than a negotiating alliance (see paper *Poverty impact of Doha: India*). All four began discussing trade agreements with each of the others and exchanging official visits; in January 2004, India and MERCOSUR agreed a framework to negotiate trade preferences; and Brazil has proposed a G20 trade agreement. Their trade among themselves has increased in the last 20 years, but this is principally because the trade of each of the others with China has increased. China is now Brazil's second export market, or third if the EU countries are counted together, and it is important for both India, at 9%, and South Africa. The other three, however, take less than 1.8% of China's exports. The highest observed share, however, Brazil's exports to the sum of the other three, is only 6% of its trade. The G20 as a whole takes about a quarter of Brazil's exports and imports, but this is because of the weight of other Latin American countries. The G20 accounts for under 10% of the trade of India and South Africa. These developments are interesting if they reflect a belief that negotiating alliances 'ought' to be more substantial than that, but it is difficult to see them becoming real, unless there is a severe breakdown in developed-developing country relations. The difficulties of ensuring that groups formed for other purposes, with other administrative arrangements, are also 'good' negotiators suggest that such integration might weaken the G20, not strengthen it, as may have been the objective.

India is the only developing country which both is an important market for other developing countries and has high tariffs, but it remains a poor country which would not normally be expected to lead in taking on obligations to help other countries. China is becoming an important market for all developing countries, but its tariffs are already relatively low. Other developing countries may be important markets within their own regions, but usually trade on favourable terms already. There seems no reason yet to alter the assumption that the principal gains for developing and Least Developed country exports will come from opening US and European markets.

For further information contact Sheila Page (s.page@odi.org.uk)

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Overseas Development Institute
111 Westminster Bridge Road
London SE1 7JD, United Kingdom
Tel: +44 (0)20 7922 0300
Fax: +44 (0)20 7922 0399
iedg@odi.org.uk
www.odi.org.uk

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5. Preference erosion: helping countries to adjust

Sheila Page

The problem

The very high levels of some tariffs and the restrictions on levels of imports for some goods mean that countries that do not pay those tariffs or that have quotas on the restricted goods, because of preferential access, will suffer 'preference erosion' if tariffs and restrictions are removed or reduced. Not surprisingly, they oppose change, while the non-preferred want reform (see paper *Principal issues in the Doha negotiations*). The original purpose of preferences was to give new exporters an opportunity to increase sales, but some of the quotas are of fixed amounts, at high prices, and seem intended to give poor countries additional revenue, either to relieve poverty directly or to finance development. Both the EU and the US give quotas to some sugar exporters, which offer access and high prices. After 2008, Least Developed Countries (LDCs) will have unlimited entry to the EU. Both also have had quotas on clothing from major exporters (under the Multi-Fibre Arrangement), and the EU has allowed free entry to LDCs. The moves since 2000 to improve preferences, particularly for Least Developed Countries, have increased the potential loss. Countries now giving duty and quota free access for all or essentially all LDC exports include Canada, the EU, New Zealand, Norway and Switzerland. Japan offers free access to about 63% of their exports. The US offers special access to some LDC exports, to most African and Caribbean countries, and a growing number of countries under FTAs. The EU has the Cotonou arrangements plus FTAs. For some countries, with high concentrations of exports in heavily protected commodities, the gains from preferences are very large. The role of concentration means that it is mainly small countries who gain. The exception is Bangladesh whose massive response to the special concessions for LDCs exporting clothing during the period of the MFA now makes it vulnerable to the end of the Arrangement.

It is in manufactures that there was first awareness of preference erosion. The potential impact on those who gain from the MFA has been known since its end was negotiated in 1994. The effects, however, are still largely in the future because full liberalisation was postponed until 2005. Calculations of the effects of the end of the MFA suggest that Mauritius, Bangladesh, Sri Lanka, and the Maldives were likely to be the most serious losers. The major gains would go to India, China, and Pakistan.

In February 2003, the IMF (IMF, 2003) presented striking results, confirmed in their more recent calculations (IMF, 2004, Alexandraki, Lankes, 2004). The major losses are expected to be to Malawi, Mauritania, Haiti, Cape Verde, and Sao Tome and Principe. The actual value of the exports lost was in total $530 million (of which $222 million was for Bangladesh), so that the numbers are not large on a world economy scale (Table 1). The largest effects from preferences are in sugar (42% of the effect for middle-income countries), bananas (19%), and clothing (12%).

WTO response

The first WTO drafts which recognised the problem, in 2003, suggested maintaining 'to the maximum extent technically feasible' nominal margins of tariff preferences and some LDC, ACP, and African positions have supported this (see Zambia Paper). It is clearly impossible when preferred countries already face 0 tariffs, and unacceptable to countries like Brazil and India which are attempting to increase their access, and where access will reduce poverty.

Mauritius, the most affected country, on both sugar and clothing, had suggested in January 2003 a compensation mechanism. In mid-2003, the Least Developed and the ACP repeated this, specifying that there should be technical assistance to improve infrastructure, productivity and diversification. The EU and US suggested that it was a problem for the IMF and World Bank.

The July 2004 framework still assumes it can be resolved within the existing agenda. For the worst affected, however, any gains on services, trade facilitation or public health are likely to be smaller than the losses on trade in goods. But for the world economy as a whole and for most poor people living in developing countries, trade liberalisation by developed countries is likely to be strongly positive (China, India, and Brazil will be clear gainers). There is, therefore an international interest in finding a way of transferring some of these gains to the losers, not only as a matter of equity and to ensure a 'development' round, but to avoid blocking by the losers; the WTO requires consensus.

Losses as a result of other types of trade policy change, for example when a regional trade area is formed or if a country wins a dispute, and the 'offending' country does not change its policy, have always been recognised as suitable for compensatory action in the WTO. 'Compensation' in these contexts, however, means some other trade action. There is no WTO provision which allows monetary compensation, although it has been proposed in the disputes procedures, when there are no obvious retaliatory actions to take. Financial compensation for negative consequences of trade liberalisation was implied in the agreement in the Uruguay Round that Net Food Importing Developing Countries (NFIDC), who were expected to be hurt by a rise in food prices as a consequence of the agricultural reforms, should get special consideration. In practice, no action was taken, by either the WTO or financial and donor institutions, partly because the reforms have not had clear consequences for prices, but also because of the lack of clear allocation of responsibility. The cotton exporters raised the possibility of financial compensation for subsidies.

The question is how to implement compensation, and in particular whether it should be within the scope of the WTO. The failure of the NFIDC provisions (and other parts of the Uruguay Round Agreement which were left to discretion) means that an enforceable mechanism is essential if developing countries are to agree.

Table 1 Percentage decrease in average export unit values following a 40% cut in preference margins as a result of multilateral tariff reduction (estimate)

Least developed countries		Other developing countries			
Malawi	6.6	Mauritius	11.5	Albania	3.3
Mauritiana	4.8	St Lucia	9.8	Nicaragua	3.2
Cambodia	4.1	Belize	9.1	Swaziland	3.9
Bangladesh	3.9	St Kitts & Nevis	8.9	Serbia & Montenegro	2.9
Maldives	3.5	Guyana	7.9	Tunisia	2.2
Haiti	3.3	Fiji	7.8	Côte d'Ivoire	2.2
Cape Verde	3.3	Dominica	5.5	Morocco	2.1
São Tomé e Príncipe	2.7	Seychelles	4.2	Dominican Republic	2.1
Tanzania	2.4	St Vincent & The Grenadines	3.4		
Comores	2.0	Jamaica	3.3		

Source: IMF, 2004

Developing countries and protected producers remain divided on whether compensation is a satisfactory substitute for preferences. Many prefer trade mechanisms, as more likely to be durable, and some believe that it would be possible to hold back reform and maintain some of the special arrangements.

Responses from the IMF and World Bank

The IMF saw a need for intervention as soon as it realised the scale of the losses. It first suggested that the losses should be taken into account as part of the normal assessment of balance of payments needs, but in March 2004, it established the Trade Integration Mechanism (TIM) (IMF 2004) designed to 'mitigate concerns that implementation of WTO agreements might give rise to temporary balance of payments shortfalls'. It will provide funding within existing facilities, based on estimates of expected losses from preference erosion, with simplified procedures if these estimates prove too low. The examples given use the same partial equilibrium calculations of losses as in Table 1. It would be on normal IMF terms (i.e. interest bearing). The (normal IMF) criterion of balance of payments difficulties means it is not directly tied to either a country's total loss from preference erosion or its net loss from a WTO settlement (see below).

The World Bank was less convinced that there was a problem, or that it had a responsibility. It (World Bank 2003) emphasised that most poor in developing countries were not in the preference dependent countries or the LDCs, so that measures to help these did not meet development needs. Although it noted the IMF results, it thought that preference erosion could be largely compensated by expansion in other exports (partly because it did not allow properly for sugar quota effects), while trade facilitation and more liberal rules of origin would 'attenuate the impact' (p. 218).

Although it temporarily reversed its position and joined the IMF before and at Cancún in offering to help, it has now returned to opposing special measures. Any needs, including those arising from preference erosion, should be considered as part of general support for countries' development. Providing support for countries on the basis of a particular difficulty would not be consistent with its development criteria, and would leave it open to external pressure for other, non-developmental, concerns. It has still not recalculated the expected outcome of trade liberalisation taking full account of preferences. Both, therefore, have responded in line with their institutional mandates.

Designing a response

It could be argued that there is no case for adjustment assistance: the countries knew that their income depended on preferences, and knew that trade policies could change, so their losses could have been anticipated. There is nothing special about trade losses compared to other impacts on poverty (cf the paper *Trade liberalisation and poverty*). There are two reasons for rejecting this, one practical, one developmental: the first is that if the losers are not offered something, they will have every incentive to delay or frustrate a settlement, which will damage other countries' welfare. The second is that they are developing countries and need favourable support, in order to be able to make the investments in physical and human infrastructure and in productive capacity to permit alternative production, although this should not disadvantage those who need aid by traditional criteria. The increase in world welfare suggests that there is scope to find funding for them. The relevant 'loss' would not be the total effect of losses from preferences, but the net effect (if negative) from all parts of any WTO settlement, offsetting the preferences lost by any gains; all WTO deals are a mix of losses and gains.

The normal WTO answer to how to set up such a scheme would be that this is a negotiation question: the countries which are requesting trade liberalisation, in this case principally the non-preferred developing countries, such as Brazil and the G20, along with some efficient developed country producers, like Australia and the Cairns Group, have to make an offer that will secure agreement. They can either offer to fund adjustment in the losers themselves or demand that the developed countries do so.

The rhetoric of the Development Agenda suggests that the developed countries should fund it as this would secure gains for the majority and meet the developmental objective of helping the losers increase other exports, not dependent on preferences; it would provide a substitute for the assistance function of preferences. Members could be asked to make 'offers' to contribute to a fund with the amount subject to negotiation and eventual binding, like any other offer in the Round. Although the loss from preference erosion is permanent, adapting to permanent changes in trade patterns or trade policy is normal, so any funding would be for a transition period, like that for the MFA.

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Overseas Development Institute
111 Westminster Bridge Road
London SE1 7JD, United Kingdom
Tel: +44 (0)20 7922 0300
Fax: +44 (0)20 7922 0399
iedg@odi.org.uk
www.odi.org.uk

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6. Doha and poverty: preliminary assessment

Sheila Page

The primary purpose of trade negotiations in the past was to reduce barriers to all trade, expected to benefit all countries, while providing a predictable and enforceable system of rules. To the extent that developing countries might have special needs for development, 'special and differential treatment' was designed to increase the benefits or reduce the costs to them of the general measures. The implication of a 'Development Round' might be different: to direct the negotiations primarily at the needs of development, with modifications for other purposes. It is clear that this has not been the purpose of the Round, and to that extent it is not a 'Development Round' (see paper *Principal issues in the Doha negotiations*). There has been no special procedure to make it more favourable to developing countries (see paper *How developing countries can negotiate*). But the analysis of the relationship between trade and Poverty (see paper *Trade liberalisation and poverty*) suggests that trade is not in itself a sufficient instrument for development, and that for many countries it may not even be the one most needed at the moment. On the other hand, there is still strong evidence, not least from the refusal to admit failure in the Doha negotiations, that most countries see a need for a trade promoting and regulating body. Diverting the WTO to development purposes may have been neither necessary nor desirable. But development and meeting the Millennium Development Goals remain targets, for developed and developing countries, and it is therefore legitimate to ask whether the Round is likely to contribute to these, and what lessons there are for linking trade and development policy.

Gains and losses

Aggregate

The paper on *Principal issues* found potential benefits for some countries. The improvements in market access in agriculture are still uncertain, and may be small, but they will benefit efficient exporters, especially those not receiving preferences. These would be primarily middle income Latin American and Asian countries, but could also include India, where as the Trade and Poverty paper points out, a high proportion of the world's poor population live. For countries with preferential access, including most Least Developed and African countries, there would be few benefits.

The elimination of export subsidies in agriculture would benefit some LDC and developing country producers of non-food products, notably cotton. For a few food importers, there could be an increase in costs, with damaging effects on poverty. This includes some LDCs. The reductions in domestic subsidies in agriculture would have major effects in sugar because they would reduce the benefits countries with quotas currently receive (see paper *Preference erosion: helping countries to adjust*).

Overall in agriculture, some competitive developing countries will gain, on both access and reduced export competition, and these gains could have important effects on poverty. Those LDCs which face competition from subsidised exports will gain, while those dependent on special access to subsidised markets and those who import subsidised food will lose. These include some where dependence of poor people on agriculture is particularly important. Most, along with other low income countries in Africa are likely to see little net change but face potential uncertainty until the net effects of access, subsidies, and special treatment can be calculated and observed. This uncertainty itself is a serious risk for poor people and poor countries. Therefore a development focus requires policy to reduce the uncertainty.

On non-agricultural market access, the potential gains are smaller, although some developing countries might gain, if the still-undecided formula gives substantial cuts on high tariffs in products such as clothing and footwear. Again, most least developed and other 'preferred' countries have little to gain on access, but some will face loss of preferences, and more face uncertainty. Services should offer the most hopes of gain for the poorest people in the poorest countries, as liberalisation that allowed them to use their labour either in services where developing countries compete with developed (transportation, off shore financial services) or in those where labour can move to another country through temporary migration. The lack of significant offers in the services of interest to developing countries is therefore a major restraint on their potential benefits from the round. Any liberalisation could benefit both developing and least developed countries, and as there are no preferences in services, none should lose, but gains here are unlikely to have a major effect on the outcome.

Estimating the effect

Some estimates of benefits from a Round are very high. This is normally because they assume both very extensive liberalisation (e.g. full liberalisation of agriculture) and that current preferences, in particular those for sugar, and regional arrangements do not exist, or have no effect. As sugar preferences account for almost half of the gains from preferences (and therefore of the potential loss from removing them), this is a significant omission. They may also group countries together, and, as has been seen here, a net positive outcome does not mean that all countries have gains.

The direct effects of the TRIPS agreement on flexibility of patents on medicines for public health purposes and the proposed agreement on Trade Facilitation are likely to be small, for developing countries and for the poor within them. The achievement of the TRIPS agreement and the innovatory provisions of the Trade Facilitation framework, which allow countries to demand technical and financial assistance as a condition for complying, however, represent a major developmental achievement in terms of negotiations. They demonstrate that developing countries have learned to use the current processes effectively, so that both the process and the outcome are more conducive to development than in the past.

There have been no formal changes, however. There are still no formal rules requiring time and a consultative process, instead of compressed negotiations. Although there appears to be some willingness to move more of the negotiations to Geneva, rather than to Ministerial meetings, there is no commitment to this, and under WTO rules there must be another Ministerial in 2005 (in Hong Kong, 13–18 December). The evidence of the last five years suggests there needs to be a crisis (whether outside the WTO, as in 2001, or in it, as with the Seattle and Cancún failures) to make the developed countries take the requests by developing countries seriously.

Four countries were chosen to illustrate the range of impacts that the Round might have, nationally and on the poor within them. Brazil is a relatively advanced and diversified, but highly unequal country seeking liberalisation in its developed country markets. India is a much poorer country, but two of its major exports, clothing and services, face significant protection, so it is also seeking access. Zambia, a Least Developed Country, faces virtually no barriers for its exports because most are in goods with low barriers and all benefit from highly preferential terms in all its markets. Brazil and India are two of the principal countries which developed countries are encouraging to liberalise, while Zambia is typical of the countries the developed countries now treat as the focus of the 'development' round. Vietnam is negotiating entry to the WTO, and its decision to do so illustrates the rule enforcement role of the WTO.

The country reports suggest that the WTO's development and poverty impacts will be limited (see boxes): other actions besides trade are important (Zambia), and other fora for trade negotiations and preferences (Zambia, Brazil). In some cases reform will have negative consequences unless it is accompanied by complementary measures. Financial assistance could have a strengthened development effect if it can be designed to provide predictable funding, and if it is used to allow countries to use trade more effectively (the stress on diversification in the Trade and Poverty, and Zambia papers and on building infrastructure for trade in the Zambia paper).

Brazil

Brazil could receive major aggregate gains from significant reform to agriculture, but, as the Paper points out, the lack of mechanisms to redistribute income and land would limit the poverty effects. There is some concern about the environmental effects on Brazil (although it is clear that at world level there would be gains, because of relocation of agriculture from inefficient production in the EU), but these could be countered by national action. Gains in the returns to exporting could stimulate the demand for education. The health agreement is likely to improve Brazil's exports, increasing national income. All its gains, therefore, would increase the potential for poverty reduction in Brazil; whether this was realised would depend on national action. This should not be regarded as a reason for considering the gains unimportant: the international system can only enable countries to take action against poverty; trade reform would achieve this for Brazil.

India

India could gain from improved agricultural access. Its principal gains would come if there are major reductions in non-agricultural tariffs, notably those on textiles; these are uncertain until the formula is agreed. These exports are particularly important for the poor, including gender effects. Without significant gains, it fears loss of markets from the growth in regions and other preferential arrangements which put it at a disadvantage in access. It is therefore concerned to preserve the role of multinational negotiations. It also wants to strengthen WTO rules against actions like Anti-Dumping. It still has very high tariffs, so it is more vulnerable than most developing countries to demands to reduce these. (The government opposes this, although the India Paper sees benefits.) On services, it has liberalised its own services, so it has less to gain by its own actions, and given its large and relatively skilled labour force, it has a strong interest in expanding its access to other markets (and in avoiding protection that might affect its growing role in outsourcing). It therefore sees only gains from increased liberalisation by the developed countries, although it shows caution on its own policy. Given its size and leadership role, India's interests remain an important element of the developing country position.

Vietnam

Like India, it sees the regulatory function of the WTO as a central advantage. It is still applying to the WTO, and has experienced the difficulties of facing barriers to its imports without an effective institution, like the WTO dispute regime, to protect its interests against a major country. It expects any increase in market access to reduce poverty because it is taking complementary measures, in spite of weak linkages between trading sectors and some parts of the country. But the weak links also mean that while it expects to lose from general textile liberalisation (because of competition from China), it does not expect this to affect the poor directly because of the nature of production.

Zambia

Zambia is trying to use trade and trade agreements to diversify its economy away from copper, although it still identifies supply constraints as the main obstacles to its trade. As long as copper is its principal export, it expects little effect from multilateral negotiations. It has special trading arrangements with all the regions to which it could expand exports, the EU, US and its regional market. It has sugar quotas with the EU as both an ACP and a Least Developed Country. It could therefore lose from reductions in EU subsidies that affected these privileges. It is, however, a cotton producer, so it could gain from reductions in export subsidies, and has supported the West African initiative. It still has high protection of its own imports, but, as a Least Developed Country, it would not be asked to reduce this. It was one of the countries proposing special modalities for Least Developed Countries in services, although it has not yet itself made requests or offers. It does expect to gain from the TRIPS/public health agreement, although it will need additional resources to use this effectively. Both the public and the private sectors have been more involved in defining interests in the Doha Round than in the past, and influence its WTO positions.

Other developing countries

These four countries do not have examples of serious losses from preference erosion. As the paper on Preference Erosion and Compensation shows, however, there are some countries, such as Malawi, Mauritania, Cambodia, Bangladesh, Mauritius, and some island countries, for which the potential losses in sugar, bananas, and/or textiles are so large that no gains on other issues could produce a positive outcome. These are all countries with little to gain on access (because they already have highly preferential access). These countries will oppose reform, supported by those who do not know whether they will have small gains or small losses.

The WTO will need to find a way of providing, directly or indirectly, an assurance that financial compensation will be available to countries that lose which will allow them resources and time to restructure their economies. If this means adding financial payments to the WTO agenda, this is in principle no different from the efforts by the EU to expand the agenda to the Singapore issues to provide it with 'compensation' for what it might 'lose' (in the mercantilist sense) on agriculture. Without this insurance against the risk of loss, either some poor countries will lose or they will prevent a settlement, and then more poor people, in the large countries, will lose.

Prospects for a settlement

The decision by the US to restart negotiation in January 2004 and the eventual response by the EU, led to movements in the direction of the developing country positions, both those of the major countries, the G20, on agriculture and those of the smaller, the G90, on the Singapore issues, assistance, and preference erosion. This suggests that fears that the developed countries would withdraw from the multilateral system and reach their own arrangements or that developing countries were rejecting the system when they refused to accept the draft of the developed countries at Cancún were wrong.

Both the US and the EC suggested after Cancún that they could achieve their trade objectives through bilateral and regional negotiations. But most of these were based on the assumption that some of the most difficult issues in their bilateral relations (notably agriculture) would be settled at multilateral level. After Cancún, progress was slow. The major countries may achieve agreements with smaller countries, but these will have small benefits for the larger countries. The initiatives in South-South trade by developing countries are more symbols of concerted action than steps towards free trade areas. Promotion of South-South trade by developed countries ignores the real problems of small markets and lack of infrastructure (see Paper on South-South trade).

As happened during the slow periods of the Uruguay Round, countries will try to find alternative ways of gaining the results that they want. But it seems likely that, again as happened in the Uruguay Round (and of course in the foundation of GATT, itself), the advantages of multilateral agreements will eventually mean a return to multilateral negotiations. For those countries which seek the protection given by international rules, like India and Vietnam, there is no substitute for the WTO.

The new EU Commission in 2004, the new WTO Director General in 2005, probably, a new US Trade Representative in 2005, and, perhaps, a new US Administration mean that the negotiations must continue, without major political initiatives, for the next 6–12 months. The agreement of July 2004 provides a basis for technical negotiation. It includes recognition of the interests of all the major countries or groups. In agriculture, the guidelines are sufficient for serious negotiations. In non-agriculture, they are much vaguer, but developing a formula which will meet them is a technical questions, although strong pressure on developing countries (notably India) to reduce their tariffs without parallel concessions in agriculture or services could still lead to a breakdown. On services, there is a serious problem of capacity in many developing countries to make the 'requests' that would give them important benefits, or to define the 'offers' which they could make, given their existing liberalisation. The July settlement does not resolve

Trade prospects and the MDGs

On the 1st and 8th MDG, reducing the numbers falling below the poverty line and those suffering from hunger and developing a partnership for development, even a limited outcome of the Round would have favourable effects. Income of the countries with the largest number of poor people would increase, and in some, at least, this would feed through into poverty reduction. This would, in aggregate, outweigh any negative effects. But unless there are transfers to ensure gains for all, the losers will include some of the African countries most at risk of failing to reach the income poverty reduction goal.

On the partnership goal, the nature of the WTO negotiations: that they have to achieve consensus, not majority vote or weighted voting, as in other international institutions, has made it possible for all countries to have an effective voice. The alerting of developing countries to what they can lose in trade negotiations, even if their potential gains appear small, means that it is no longer possible for negotiations to leave them to one side. The MDG of 'partnership' therefore has become a practical requirement of the international trading system.

Three of the MDGs (child morality, maternal health, and HIV/AIDS and malaria) are about health. Trade access is not likely to have direct effects on these, but increased income would make better provision potentially available. This high weighting to health in the MDGs means that the single achievement of the Doha Round, the agreement on access to medicines for non-pharmaceutical producing countries, has a large weight.

On education, any improvements in access will increase the returns to education and therefore demand, as well as increasing national income, and therefore the potential supply. Improvements in non-agricultural access and in services access might be expected to be most important. These are also likely to be most important for the 3rd goal, of promoting gender equality, as it is tariffs and non-tariff barriers on textiles, often (although not always) with a predominantly female labour force, which are among the highest in this area.

The 7th goal, environmental sustainability could be assisted at global level, by shifting production, particularly agricultural production, from countries where it exists only because of protection or preferences to those where it is most suitable. Increased income has the potential to improve sustainability.

this. The most important unresolved issue is of preference erosion. This is merely 'recognised', with the solution to be found within the negotiations, although this seems impossible, except by limiting liberalisation to an extent incompatible with significant gains for the non-preferred countries. The disappointment of developing countries at the limited response by developed countries to the informal agreements of the Uruguay Round, to provide more technical assistance or special consideration, makes any similar arrangement unlikely to be an acceptable part of the Doha settlement. This is likely eventually to need a political, rather than technical, intervention.

There are some systemic pressures for agreement. The cotton and sugar disputes, won by Brazil, could be followed by more numerous challenges under the WTO Disputes Mechanisms. If the complainants succeed, subsidisers will need to reform or to compensate. The cases themselves have forced the EU and US to reconsider whether the advantages of negotiation may outweigh the costs.

Arguably, it was security in the months after 11 September 2001 that helped achieve agreement to begin the Doha Round in December 2001. Some suggest that security still offers a reason to secure a settlement.

There are still substantial opportunities for 'old-fashioned' trade integration in goods: for reducing tariffs, non-tariff barriers, and subsidies. In services, there has still not been a negotiation round to reduce barriers (the Uruguay Round concentrated on identifying and binding existing barriers). Therefore, there is no reason for pessimism about the need or demand for future negotiations, even if there is now likely to be hesitation about introducing new issues.

The US must renew its presidential negotiating authority in 2005: the July 2004 settlement may be enough to justify this. But it will then expire in 2007, so this is seen as the new 'target' date for the Doha Round. It gives time for negotiation, followed by political initiatives to reach a final settlement, the 'old' model of trade negotiations (before biennial ministerial meetings suggested more frequent ministerial intervention). It is possible, but not certain.

Linking trade negotiations and development

Is it possible to combine a basically mercantilist process, where offering access is a 'loss' and 'gains' are measured by access to markets, not by welfare (which would see both offering and securing access as gains), with a development objective? If not, does the WTO need to change or do we need to lower expectations from it? The WTO may need to change, even to promote world welfare without a development focus. Bargaining for access has worked for major trade barriers, but it is not easily adapted to negotiations on rules. This will not happen in the current Round, but the present structure can still produce useful results on both trade and security of rules for small or weak countries.

Altering the structure to promote development risks damaging what the WTO does do well, and may not offer high returns. The potential gains from trade are small for many countries, and many development and poverty problems, as argued in the country papers here, require national solutions, with international financial and technical assistance.

As is clear in the contrast in expectations for poverty in the different countries, whether an improvement in national income from trade is transmitted into poverty reduction depends crucially on national policies. The international trading system can only enable poverty reduction; it cannot ensure it. Trade is not always central to development.

An apparently simple criterion of evaluating each agreement's contribution to development begs the question of whose choices will determine how the different components of sustainable development will be weighted. It fails to distinguish between actual impact (given all a country's other policies) and potential impact (assuming the observer's ideal policies). Finally, it ignores the need to look not at 'each' agreement, but at the net effect of all initiatives.

The difficulties of the nature of the current trade agenda, where liberalisation is sought in areas where there were previously preferences and other special arrangements, should lead to questioning whether development objectives should direct trade negotiations. The trade preferences used to promote development are now proving difficult to disentangle and an obstacle to poverty-reducing liberalisation. Distorting trade is rarely the first-best way of securing welfare gains. While trade can increase the income available to reduce poverty, how this is distributed among countries and within countries depends on other policies, both international and national. Only if we assume that these other policies are not feasible should we treat the direct poverty or MDG effects of trade policy as more important than the traditional calculus of their welfare effects.

The idea of 'development friendly' trade negotiations is not meaningless. The process of negotiations must take account of the interests of all countries, but take particular care of the developing who are now two-thirds of the members, although accounting for only a third of world trade. It is possible to analyse the need to reduce barriers to imports from some developing countries, combined with changes in subsidies and preferences, in a purely trade negotiation framework: if all countries are to accept the result, and thus give it the required consensus, then gains must be found both for those whose trade is restricted and for those who do not have sufficient gains on the normal trade agenda.

The developing countries have found their voices in the current round, and for that it can be called a Development Round. They have identified their interests, formed alliances where there are common interests, avoided being sidelined, and started to achieve some gains. These are important results for the Development Goal of promoting partnership between developed and developing countries.

Reference

www.wto.org

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7. Poverty impact of Doha: Brazil

Zuleika Arashiro* and David Waldenberg

Trade liberalisation and poverty in Brazil

As a relatively advanced country, Brazil will be expected to liberalise its own trade in the Doha Round, as well as making requests for market access to other countries. It has extensive experience of such liberalisation.

In the early 1990s, Brazil engaged in unilateral trade liberalisation by dramatically reducing tariffs and non-tariff barriers. At the same time, it experienced profound changes in its political life as result of a democratisation process. Therefore, any attempt to use evidence from the past to isolate the impact of trade liberalisation on development, and more specifically on poverty, must avoid underestimating other key policy changes that have influenced the country's economic and social performance.

The Brazil report is based on certain premises. First, it shares the view that poverty cannot be reduced to an income measurement debate and that a multidimensional approach to poverty is essential. Nevertheless, it recognizes that in a country where a large share of the population (about 34%) is still below the poverty line, income continues to be a basic minimum reference for poverty analysis. Another reason to use income-based measures when examining the affects of trade liberalisation, is that the welfare gains can be better assessed against effects on income than effects on education or health.

Most of the achievements in social indicators can be attributed to specific public policies adopted in Brazil, rather than resulting from the move towards trade liberalisation. But both trade and policy effects are distorted by the grossly unequal income distribution.

While Brazil spends large sums in social programmes, these have tended to benefit the middle and upper classes, more than the poorest. The high regional and social inequalities mean that growth deriving from trade liberalisation will not be distributed equally, much less directed towards the poor.

These factors do not mean that liberalisation will bring no gains to the poor. But they must be taken into account when estimating the effects of trade liberalisation on poverty.

Brazilian research suggests that the effects from border prices to consumer prices and domestic prices for agricultural goods are not automatic. The role of large businesses means that some can use differentiated pricing, offering lower prices (or different qualities) for domestic consumption. So higher prices for exports need not be translated into higher prices for consumers.

Brazil's experience in the nineties demonstrated that unilateral trade liberalisation without corresponding market liberalisation – particularly in developed countries – for the products in which Brazil holds a comparative advantage can result in net urban unemployment. Although poverty is proportionally higher in rural areas, it is numerically concentrated in urban areas. Therefore, improvements in services such as sanitation, health and education are an essential element of any pro-poor policy. Health has been one area in which active government policies have improved conditions. The HIV programme, for example, has combined preventative actions with a generics drugs policy that significantly reduced the price of antiretroviral drugs.

Potential gains in the negotiations

Brazil has been an active participant in GATT and WTO negotiations since the 1970s (and is a founder member of GATT).

* ICONE: Instituto de Estudos do Comércio e Negociações Internacionais

It was a leading member of the G20, the group of major developing countries pressing for agricultural trade liberalisation, both at Cancún and in the negotiations between Cancún and the July 2004 settlement, and then became a member of the FIPS, the Five Interested Parties, US, EU, Brazil, India and Australia who led the July process. It used the G20 both as an instrument to secure a better agricultural framework and as a way of ensuring that its own and developing country interests were not left to one side.

Brazil's competitiveness in agricultural goods means that the country will benefit greatly from any future liberalisation of international agricultural markets. Agricultural goods, including processed goods, currently represent about 42% of Brazil's total exports; in recent years, this sector has played a key role in reversing Brazil's trade deficit. Although the agricultural export sector is agribusiness, based on large-scale farming and modern production techniques, the sector's positive performance has generated regional development. Poverty reduction in the Centre-West, for instance, appears to be related to the growth of the agriculture sector which has created employment in both rural and non-rural activities. There is some concern about environmental effects from this, but these could be countered by national action.

The problem of rural poverty in Brazil will not be resolved through trade liberalisation only. Extensive research indicates that in order to address this issue it is necessary that the federal and local governments work in unison and adopt a multidimensional approach to poverty. Improvement to infrastructure (the irrigation system, distribution facilities, and transportation) and access to credit are essential to incorporate the poorest into the market.

The services negotiations are an area where increasing competition from imports could bring positive gains to the population in general. The sector already accounts for 66% of the occupied population, and its expansion could then provide new employment opportunities. Given an adequate regulatory environment, services liberalisation would increase access and by increasing competition would probably decrease prices. The government's ability to improve the provision of services will depend on improvements in the regulatory framework, as well as trade reform.

In June 2004, Brazil made an offer in the services negotiations, covering business services, construction and related engineering services, tourism, cultural, and sporting services, and management services. It emphasised that it did not want to include any public services in order to be able to provide these 'in the manner that would best meet Brazil's national policy objectives' (statement by the Ambassador in the negotiations).

The agreement in August 2003 to allow developing countries without pharmaceutical industries of their own to import generic drugs from other developing countries could improve Brazil's exports, increasing national income, although it has no direct poverty effects.

Technical cooperation with other developing and Least Developed Countries could be a step towards a full utilisation of the opportunities opened by the agreement on how the rules on intellectual property (TRIPs) would be applied. These now allow developing countries to export generic drugs to countries without their own drug industry for major public health needs.

Other negotiations

Brazil is a member of MERCOSUR and is negotiating in the FTAA with the US and with MERCOSUR in the proposed EU-MERCOSUR Free Trade Agreement. But MERCOSUR is too limited a market to be a substitute for multilateral liberalisation. Since Cancún, both the FTAA and the EU-MERCOSUR negotiations have broken down (in spite of US declarations of optimism in autumn 2003 and EU, in spring 2004). Brazil has not been willing to go further with either without much improved access for its agricultural goods.

The government has started to promote the idea of increased trade among Brazil, China, India and South Africa, but only China is a significant market for it (see paper *South-South trade*). The principal barrier to trade with India is seen as lack of complementary products, not tariffs.

Conclusion

In summary, the Brazilian case illustrates that international trade liberalisation, particularly of agricultural markets, will yield important aggregate economic gains. It can also provide more incentives to investment in education, through higher demand for skilled labour. However, owing to the unequal distribution pattern in Brazil, it is reasonable to assert that these gains will not be neutrally distributed. The ability of the poor to access a larger share of these gains will depend on domestic policies. The present government's policies, including its stress on preserving its public services, suggest that some redistribution is possible.

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8. Poverty impact of Doha: India

Veena Jha, James Nedumpara, Sarika Gupta*

Like Brazil, India will be expected to liberalise its own trade.

Past trade liberalisation

Trade liberalisation in India has consisted of tariff reductions, elimination of quotas, and also economic reforms. In India, trade reforms followed macroeconomic reforms. Stiglitz has referred to India as a successful case of globalisation. The average rate of growth in the twelve-year period since India initiated the process of economic reforms has been around 6% p.a. Part of this growth can be attributed to the substantial change in the composition of the Indian economy since the Uruguay Round; from import substitution to outward orientation. The Round resulted in trade gains as well as some poverty alleviation for India.

In keeping with the theoretical and analytical literature on trade liberalisation and poverty, studies on India show short term negative effects and long term dynamic positive effects. Although the overall picture for poverty reduction is generally favourable, sectoral studies show differing outcomes. For example, trade liberalisation is expected to lead to gains to the auto components sector, but losses to the machine tools sector.

India and jobless growth?

Trade liberalisation has been associated with an increase in employment, but also a slight deceleration in wages. This suggests workers are pulled into labour markets from a reserve army (infinite elasticity of supply in India), but wages do not rise. Trade liberalisation has also been associated with increasing use of casual labour (see paper *Trade liberalisation and poverty*), and most of the gains in employment are in the informal sector. India is one of the few countries which has a framework of legislation for the informal sector.

The relationship between trade and employment is tenuous at best, as the states which are better integrated into the global economy have had high unemployment rates. However, these states have higher non food expenditure suggesting higher consumption and living standards. It is now generally agreed, in the light of mixed evidence, that absolute poverty declined in the 1990s, with the headcount ratio falling by almost 1% per year. Attributing this poverty reduction to trade liberalisation is difficult, however, because of the amount of 'noise' surrounding such changes. The share of trade has risen to 20% of GDP.

Tracking the MDGs

India's performance in attaining the Millennium Development Goals is mixed. It is one of the few countries on track for reducing income poverty, and is also likely to achieve the target for enrolment in primary education, and access to improved water sources. However there are several areas of concern like maternal mortality, gender parity in secondary education, undernourishment etc. These can be achieved only through direct government expenditure and facilitation of private expenditure, not through trade liberalisation.

Poverty at centre stage of trade liberalisation

If poverty is to be made the central goal of Indian trade liberalisation strategy, a differentiated strategy, under which developed countries would liberalise to India, but India would cut its protection to developed countries by half, and offer free trade to imports from other developing countries, would yield maximum welfare gains. The welfare effects of this would be 20% higher than those of global free trade. This supports OECD calculations that 79% of total gains from liberalisation for developing countries would come from developed country liberalisation vis-à-vis developing countries. For this reason, it would be wrong to criticise the emphasis by the G20, the group of major developing countries in the WTO, on developed country liberalisation.

* UNCTAD India.

This study aims to map out the issues on which policy and negotiating approaches in the Doha Round of Trade Negotiations could maximize the benefits to the poor given the assumption that the negotiating mandate is completed. Three sectors were studied: services, agriculture and textiles and apparel. Although trade liberalisation has had growth effects in these sectors, the poverty implications have been modest. However, India has, because of its size, low levels of trade, so it is not easy to identify direct links between trade and poverty.

Services as a driver of the Indian economy

India's share in services trade is higher than its share in manufacturing trade. The service sector boom in India in the post Uruguay Round period shows that India has a competitive advantage in several service sectors. There is potential for poverty alleviation from services trade, although this has been largely ignored. While services may not employ people below poverty line directly, liberalisation has made a number of services accessible at economic prices to a large number of people, including the poor. In addition, the potential for employment of unskilled personnel in some services sectors such as telecommunication, tourism and audio-visual is very high. For example, nearly two-thirds of the employment in the telecommunications sector is of those with low or no skills. It is thus essential to lock in commitments on services liberalisation so that there is no backlash and increase in protection that would restrict outsourcing to India. India also wants to obtain assured market access commitments especially for labour movement. Internally, India needs to impose Universal Service Obligations on service providers to help ensure that rural and backward areas also benefit from the liberalisation of services.

High poverty alleviation potential of agriculture

In agriculture, barriers such as tariff peaks, tariff escalation, domestic support and export subsidies continue to restrict effective market access of Indian agricultural products to developed country markets. India's own tariffs have fewer peaks. Peak tariffs are applied to only 1.3% of tariff lines in India, versus 20% of tariff lines in developed countries. India has made reduction of subsidies by developed countries a condition for its own tariff reduction.

Domestic prices in general are not linked to international ones. Domestic prices of most agricultural commodities in India are higher than international prices, except in the case of rice and groundnuts. If there is full trade liberalisation in agriculture, India, as a net food exporting country, is likely to see significant welfare gains. India's exports are likely to increase by 13% if trade distorting domestic support in developed countries is reduced. The main sectors which would gain would be cereals, sugar and dairy products. Simulations show that roughly 100 million people could be lifted out of poverty by liberalisation in the developed countries in agriculture.

The poverty effects of multilateral liberalisation would be increased if adequate reforms are made at the domestic level. Capacity building initiatives are required to help Indian farmers integrate better into the international market and also to meet quality issues in order to overcome the exacting regimes of sanitary and phyto-sanitary measures. Consolidation of land holdings, better infrastructure, better use of IT, and marketing reforms are needed.

Textiles and trade protection

Textiles and apparel is a sector which has a high potential for poverty alleviation. More than 50% of the labour force are women and therefore expansion of this sector would have a significant effect on their conditions. It has a very high exposure to international markets; more than half of the textiles and garments produced in India are exported. This is a high growth sector and some simulations show a very high growth potential (especially in garments) with the removal of quotas. The end of the Multi-Fibre Arrangement was agreed in the Uruguay Round, but phased over 10 years, ending December 2004. After that, 310,000 people are expected to be removed out of poverty every year for the next 7 years. Simulations suggest that exports of garments from India could double after the quotas are removed. This could be increased if developed countries reduce their high tariffs in this sector. These gains are likely to be highest in the short-term, before China is freed of controls, because India is less competitive than China. India's competitiveness needs to be improved. The National Textiles policy of India has set very high targets on quality, exports, labour productivity and on timely delivery. Power costs and lack of stable supply are a major handicap for Indian textiles and garments which need to be addressed urgently. However, there is a trade-off between increased labour productivity and employment and so social safety nets need to be put in place. The large number of trade defence measures which developed countries apply in this sector casts serious doubts on whether there will be full trade liberalisation. Repeated antidumping investigations would lead to unemployment and closure of factories. Small firms face difficulty in defending anti-dumping cases because of the high costs. Regulating anti-dumping is therefore also an Indian negotiating goal.

Where to now?

This study suggests that agriculture, services and textiles liberalisation, if properly structured, could have a high potential for poverty alleviation. Even if India must reduce some of its own high tariffs, this could have favourable effects on poverty. However, poverty alleviation would be much higher if appropriate domestic measures accompanied the trade liberalisation.

The importance of developed countries' providing appropriate market access to India to ensure higher welfare gains cannot be overstressed. Negotiating through a group such as the G 20 (see paper *How developing countries can negotiate*) offers the possibility of differential liberalisation.

India is also interested in the potential for South-South trade, including possible arrangements among the G20. But because of its vulnerability to protectionist use of anti-dumping, it has a strong interest in strengthening the WTO.

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iedg@odi.org.uk
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9. Poverty impact of Doha: Vietnam

Nguyen Thang*

Vietnam's trade negotiations

Vietnam is negotiating its entry to the WTO, so this paper concentrates on general questions of the relationship between trade and poverty and between a regulated international system and poverty, rather than the details of the Doha Round.

In Vietnam, it is commonly believed that by joining the WTO, Vietnam will be able to:

- gain much greater access to foreign markets with much larger export opportunities;
- attract much larger flows of quality foreign investments;
- get access to instruments for dispute settlements, the so-called 'protection against protection', which are only available for WTO members; and
- have stronger motivation for accelerating domestic reforms towards perfecting a market-based economy for the benefit of the country as the whole.

On the other hand, WTO accession also poses certain challenges. By liberalising its market, including sensitive and infant sectors, Vietnamese firms and households will face fiercer competition from foreign competitors. A number of enterprises in less competitive sectors may be forced to scale down or even close down, thus increasing short-term unemployment. Firms in service sectors may find it hard to compete with foreign firms who will have better access to Vietnamese markets. A number of agricultural sub-sectors that are currently heavily protected and do not have comparative advantage will be negatively affected. Households, including poor ones whose livelihoods heavily depend on these activities, will therefore be worse off. Sugar, corn, soybean etc. are sub-sectors perceived to be likely to be affected negatively; many poor households in these may find it difficult to absorb the shock. Vietnam may thus face a higher level of vulnerability in product and labour markets during the transition period. The adjustment process may be painful and costly for many poor households.

During the 1990s, Vietnam took major steps in unilateral trade liberalisation as a part of a comprehensive economic reform package. In the first decade of the 21st century, Vietnam continues to have a heavy agenda on trade reform, which may have important implications for economic growth and poverty reduction. Joining the WTO in 2005 is considered by the Government of Vietnam one of its top priorities. The ratification of the Bilateral Trade Agreement, BTA, with the US, the tightening schedule for implementing existing commitments under the ASEAN Free Trade Agreement in South East Asia, AFTA, the recently restarted new round of global trade liberalisation talks under the Doha Development Agenda, and China's accession to the WTO are the events that have given Vietnam's WTO ambitions new impetus. The opportunities and challenges that becoming a WTO member presents to Vietnam must be well understood to enable the country to maximise benefits and minimise costs associated with WTO accession.

Trade and poverty

After reviewing the evidence available to date, this study has found that up to the present trade liberalisation in Vietnam has aided growth. This, in turn, has been broadly shared, resulting in rapid poverty reduction. Recent trade liberalisation therefore appears to have been beneficial to poverty reduction. However, the evidence also suggests that whether the trade-poverty linkage can continue to be favourable in the coming years very much depends on whether there are appropriate complementary policies in place, and also on whether the existing members of the

* Centre for Rural Progress, Hanoi.

WTO who are Vietnam's major trading partners properly take into account the current level of development and poverty situation of Vietnam in the multilateral and bilateral trade negotiations linked with Vietnam's WTO accession.

The beneficial impact on poverty of further trade liberalisation under AFTA, the US BTA and accession to the WTO may diminish rapidly, unless serious domestic market-oriented economic reforms are carried out and deepened. The effect of joining the WTO will depend on these, but also on appropriate accession conditions in terms of the level of commitments and the length of transition period. Whether WTO accession will help Vietnam to achieve faster economic growth and poverty reduction depends on whether Vietnam's trading partners work in the spirit of the development focus of the Doha Round by not imposing WTO-plus conditions which are clearly harmful to poverty reduction in Vietnam. Trading partners should be very careful when formulating their requests to Vietnam on sectors where many Vietnamese poor households work.

Sectoral and regional differences

Internally, the goods and labour markets must be integrated across regions to enable the poor who live far from ports to benefit from trade liberalisation. The weak linkages between trading sectors and the poorer parts of the country make poverty reduction from trade difficult, but a corollary is that losses are also less likely to increase poverty.

Vietnam expects to lose from the liberalisation of textiles following the end of the Multi-Fibre Arrangement, because of competition from China, but this may not have direct effects on poverty. Adequate investments should be made in the areas of hard and soft infrastructures (education, health etc.) to raise the return to international economic integration and allow the poor to participate more fully. Reforms of state owned enterprises and banks should be further accelerated to ensure macroeconomic stability, and to comply with WTO's national treatment principle. The policy and business environment needs to be made more transparent and transactions costs must be reduced by all means to enable Vietnam to attract efficient investments which are associated with new technology, managerial and international marketing skills.

Entry into the WTO

Appropriate institutions should be set up to protect the poor and the vulnerable from the negative impacts of external shocks associated with Vietnam's further integration into the world economy. In general, the transition period should be managed to maximise benefits and minimise costs, thus guaranteeing the social and political stability which is the top priority of the Government of Vietnam.

Externally, as Vietnam presents a potentially large market, there are a large number of countries that have an interest in trade negotiations linked to Vietnam's accession. Vietnam will be the WTO's 'biggest' accession country since China joined. If there is progress in the multilateral trade negotiations under the Doha Round of the WTO, with a strong development focus, this would help Vietnam to join WTO in a timely manner, with terms that are in line with Vietnam's development objectives of rapid, sustainable and equitable growth, in order to achieve the MDGs (adjusted to reflect its specific conditions) by 2015.

Vietnam sees the regulatory function of the WTO as a central advantage. It has experienced the difficulties of facing barriers to its imports in a major country without an effective institution, like the WTO dispute regime, to protect its interests.

In short, both the internal and the external conditions under which Vietnam joins the WTO, are crucial for enabling the people of Vietnam in general and the poor in particular to reap fully the benefits while minimising costs associated with multilateral trade liberalisation.

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10. Poverty impact of Doha: Zambia

Sajeev K. S. Nair*

Zambia in the WTO

As a Least Developed Country, Zambia is one of those countries which might be expected to have most to gain from a Development Round. But its trade patterns and the preferential access which it already has to both developed countries and its regional markets limit the additional benefits for which it can hope. Many of the constraints on its exports come from national disadvantages, both natural, as a land locked country, and developmental, the lack of the infrastructure on which economic activity depends.

The WTO has had less impact than regional agreements, such as COMESA (Common Market of East and Southern Africa), SADC (Southern African Development Community), ACP-EU (African, Caribbean and Pacific – European Union) and AGOA (The U.S. Africa Growth and Opportunity Act). Zambia is trying to use all these to diversify its economy, away from copper, and must use the WTO as well. This paper examines how trade can reduce poverty.

The economic and trade liberalisation in Zambia since 1991 has brought a mixed bag of fortunes – some positive, but to a great extent negative too. The impact varied from sector to sector. Some benefited from external markets opportunities (e.g. cut flowers, sugar, etc) and economies of scale. At the same time, several firms in the manufacturing sector (textiles and clothing, glass, paper, wood and wood products, leather, rubber, etc) lost not only sizeable domestic markets but also their limited export markets. There was a rise in the value of imports. External debt increased and the currency depreciated.

Poverty in Zambia

Zambia has experienced economic stagnation since the early 1980s mainly owing to fluctuations in earnings from copper exports. In 1998, 73% of the total population was poor of which 58% were said to be extremely poor. Poverty in Zambia is worse in the rural areas which have 63% of the country's population. Rural poverty was 83%, of which 71% were extremely poor, compared to the urban figure of 56%. This had deteriorated during the 1990s, from 81% in rural areas and 32% in urban areas. The human development index also deteriorated, and Zambia has a high degree of social inequality. The lowest 10% of the population account for a paltry 1.1% of national income whereas the top 10% take 41%. Female-headed households are generally more vulnerable to poverty than male-headed households. There are, however, indications that poverty has decreased in rural areas where farmers have better access to markets for their agricultural produce, especially those who engage in out-grower schemes for commercial crops.

Zambia's interest in the Agriculture Negotiations

Since the decline of the copper mining sector, Zambia has taken initiatives to develop the agricultural and horticultural products sector as a key to its economic growth. The sector has a vast potential for providing much-needed resources for development and also for poverty reduction. The withdrawal of subsidies, state marketing and administered prices during the liberalisation era created pressures and adjustment problems for the farmers, which are yet to be overcome. Small farmers were badly hit by the speed with which structural adjustment programmes were implemented during the 1990s. As a result of the sudden withdrawal of subsidies and state marketing and procurement schemes, rural farmers did not benefit from the introduction of a market price mechanism. Zambia did not provide social safety nets when the country introduced fast track economic liberalisation and privatisation during the 1990s.

The agricultural sector employs 85% of the labour force compared to 6% and 9%

* CUTS-ARC, Consumer Unity & Trust Society (CUTS), Africa Resource Centre (ARC)

in industry and services respectively. Therefore, agriculture has the greatest impact on income earning potential, although agriculture exports (horticulture, floriculture, high value crops and primary agriculture) are only about 15% of total exports or GDP. In the post-liberalisation period the positive growth registered by the economy has largely been attributed to the good performance of the agricultural sector.

Except for a few horticultural products, which have markets in Europe, under preferential arrangements to the EU, governed by the ACP-EU Cotonou Agreement, or in the US, based on AGOA preferences, most exports go to regional markets such as COMESA and SADC. As a result, it is not a key player in agricultural talks at the WTO. Unlike many other LDCs, Zambia's interest in agriculture negotiations is not confined to a single product as export concentration is low. However, participation in the WTO agricultural negotiations is important for Zambia because of its large potential to enhance agricultural production and exports. It also receives food aid, so it has an interest in rules for that.

Zambia as a negotiator

As a member of the Least Developed and African groups, the position of Zambia is not always based on its own interest. For example, it supports special treatment for 'strategic products' for developing countries for food security and rural development, proposed by the Africa Group, although Zambia has hardly any strategic products. It supports exemption of LDCs from tariff reduction commitments, and preservation of existing preferences. Although Zambia benefits from agricultural subsidies in developed countries on two counts, the higher price for its sugar in the EU quota system and also food aid, it opposes such subsidies.

Although Zambia is a producer of cotton, it has not actively supported the cotton initiative led by cotton producers from West Africa, fearing that overemphasis on striking a deal in cotton could require costly concessions in other areas, such as the Singapore issues.

Non agricultural market access (NAMA) negotiations

Zambia has not been actively involved in NAMA negotiations at the WTO or at the Doha round as it is not a key exporter of manufacturing products and its principal exports, copper and cobalt, do not face tariffs. However, it has some interest in getting better access for textiles and clothing, leather and metal fabrications, copper cables, etc.

The textile and leather sectors have benefited from improved access to markets under COMESA and AGOA.

TRIPS and public health

The understanding achieved at the WTO just before the Cancún Ministerial on TRIPs reforms to address public health emergencies, was very important for Zambia. The country depends on imported drugs as it does not have own production facilities. The new rules will allow it to import cheap medicines, outside patent protection, from other developing countries.

Services negotiations

The share of the services sector in exports is relatively low. The major services exports are tourism, power and temporary movement of people in sectors such as health, etc. The importance of services in exports has not been well recognised.

Zambia could benefit by opening up key service sectors, such as telephony, email, hospital services, banking and insurance. This would also make the country attractive to FDI and reduce the cost of doing business.

It has not, however, been able to comply with the time frame to make initial requests and offers because of lack of both human and financial resources. Nevertheless, it has been active in the negotiations, participating in the request for special treatment for LDCs.

Trade facilitation

Zambia has not evaluated the pros and cons of trade facilitation. Being a land locked country, Zambia faces enormous difficulties in exporting and importing. At present those involve cumbersome procedures. It initially opposed negotiations on this because of the link to the other 'Singapore' issues, regulation of investment, competition policy, and government procurement, which it did not want to be included in the Round.

Other issues of concern in the Doha negotiations

Zambia has an interest in WTO rules for regional agreements, in making provisions for Special and Differential Treatment (SDT) for developing countries binding, and in ensuring that technical assistance programmes for LDCs are substantially increased.

Complementary measures

To take full advantage of any gains in access, domestic action is necessary to improve farmers' linkages to markets. Although market participation has begun to rise, less than half of farmers are selling to markets. Farmers should be helped to manage farming as a business and base production decisions on market information and trends. Interventions focusing on export markets and also domestic marketing have the potential to offer employment to a relatively large number of people in the rural areas, both directly and indirectly. Out-grower schemes, for example, offer low cost opportunities in the production of cotton.

For further information contact Sheila Page (s.page@odi.org.uk)