

Conclusions

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8. Conclusions

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Gains and losses

The reduced expectations on reforms to agricultural and non-agricultural trade, and the pessimism about possible access under Mode 4 on services suggest that most of the market effects, whether positive or negative, of any agreement will be small, even if a settlement is reached. It is still unclear how much effect the TRIPS/health agreement will have.

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

As the chapter on trade and poverty points out, explicit policy to help development through trade has up to now been implemented through preferential agreements. As these do not offer major benefits to many of the poorest countries, it could not have had major effects. Broader liberalisation would have more benefits, and the analysis of how agricultural liberalisation in particular can increase incomes and security of the poor suggests that these could be important. There will be costs to some countries, including some where dependence of poor people on agriculture is particularly important. Services liberalisation, particularly on Mode 4, could have important effects, with less risk of negative consequences (because there has been less preferential liberalisation up to now). The effects of the TRIPS/public health agreement are less clear because to be effective they need significant increases in other public expenditure to secure effective provision of treatment.

Brazil

Brazil could receive major aggregate gains from significant reform to agriculture, but, as the chapter points out, the lack of mechanisms to redistribute income and land would limit the poverty effects. There is some concern about the environmental effects (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 potential to export could stimulate the demand for education: again, the problem here is not lack of national resources, but their distribution. The health agreement is likely to improve Brazil's exports, increasing national income. All its gains 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 it unimportant: unless we accept loss of sovereignty, the international system cannot do more than enable countries to take action against poverty; trade reform would achieve this for Brazil.

India

India could gain from agricultural access, particularly if this was applied differentially, with more access by it to developed markets, and only limited offers by it. Its principal gains would come from major reductions in non-agricultural tariffs, notably those on textiles. Here, it fears loss of markets from the growth in regions and other preferential arrangements which put it at a disadvantage in access. It sees increasing these exports as particularly important for poverty, including gender effects. 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 to any formula to reduce developing country tariffs. (The government opposes this, although the chapter sees benefits.) On services, it has liberalised its own services, so it has less to gain by its own actions, but 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). Its agenda is therefore perhaps the nearest of the four countries to a conventional 'developing country' position, of seeing only gains from increased liberalisation by the developed countries but showing caution on its own policy. (Alternatively, as India until the Uruguay Round was the clear leader of developing countries in GATT negotiations, the conventional position reflects India's interests.) Given its size, this remains 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 had experience of 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. It expects any increase in market access to reduce poverty because it is taking complementary measures, but that this effect will weaken because of the weak linkages between trading sectors and some parts of the country. Interestingly, 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 barrier to its trade. As long as copper is its principal export, it expects little effect from multilateral negotiations. It has special trading arrangements with both the main regions to which it expects to expand new exports, the EU 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 multilateral liberalisation that affected these privileges. It is a cotton producer, and has supported the

West African initiative, but again supply constraints and lack of competitiveness are the main barriers. It still has high protection of its own imports, but, as a Least Developed country, it would not be asked to reduce this in any WTO agreement. 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.

8.1 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 effects from increasing the prices of food. In some countries, however, the aggregate effects would be negative, so that international transfers would be necessary to ensure gains for all. The losers include some of the African countries most at risk of failing to reach the income poverty reduction goal.

On the partnership goal, it is the nature of the WTO negotiations: that they have to achieve consensus, not majority vote or weighted voting, as in other international institutions, that has made it possible for all countries to have an effective voice. On the sub-targets actually defined in the 8th MDG, however, which are about outcomes, not about ‘partnership’ and process (see appendix), the verdict is much less certain. A settlement would have no effect on the financial goals. It in principle will improve access to affordable drugs, but the ‘cooperation with pharmaceutical companies’ is considered a disadvantage, not a part of the goal, because it may shift the profits from doing this away from countries like Brazil and India and towards the traditional pharmaceutical exporters.

Three of the other MDGs (child mortality, maternal health, and HIV/AIDS and malaria) are also about health. Trade access is not likely to have direct effects on these, but clearly increased income would make better provision potentially available. There is a risk that the health provisions could divert medical resources from basic targets, but they seem unlikely to be this significant. 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 (like the 8th), has targets which do not reflect the goal. Shifting production, particularly agricultural production, from countries where it exists only because of protection or preferences to those where it is most suitable will improve global environmental sustainability, so to that extent it meets the target of integrating the principles of sustainable development, at least into those developed countries which currently violate them. Increased income, as with the other goals, will allow improvements in water supplies and slums.

Prospects for a settlement

Short term prospects for the Doha Round

The EU's only major changes from its pre-Cancún position are the delinking of all the Singapore issues from the rest of the negotiation, and the willingness to stop, at least temporarily, negotiations on two of them, and the willingness to negotiate an end to export subsidies on agricultural products of interest to developing countries. It has not moved forward on non-agricultural goods, and has even moved slightly back, rejecting the Cancún draft and seeking to impose new controls. It still has a target of achieving a negotiating agenda, i.e., the Cancún objective, by March/April 2004 (Lamy 27 January 2004). The US has not offered more on agriculture, including cotton, and its 2004 initiative (Zoellick 2004), in trying to focus on 'the core market access topics: agriculture; goods; and services', repeated the focus of Zoellick's opening speech at Cancún. The G20 has not changed its position on agriculture. The countries which want preferences preserved have not changed their positions (see Appendix table summarising differences on agriculture).

In addition to this lack of substantive progress, there was little evidence until January 2004 that either the US or the EU wanted to take initiatives to restart the negotiations. Both suggested that other avenues were open (see below), and both criticised all other participants for the failure,¹ with no effective recommendations for avoiding a repetition. In October, the EC opposed any 'rush' to restart (Jonquieres, 29 October 2003). The Zoellick initiative (Zoellick 2004) and the cautious response by the EC (Lamy, 2004, Strasbourg) suggest a partial reengagement, but both are still waiting for concessions by others. The only active search for agreement was by the Chair of the General Council, Pérez del Castillo. He found, on 15 December when there was a meeting to assess progress as agreed at Cancún, that 'we have witnessed little real negotiation, or movement towards accommodation among positions, or searching for common ground, with some limited but welcome exceptions' (Pérez del Castillo, 15 December 2003). His term ends in February 2004, and it is not clear who will replace him. (Under normal procedures, it should rotate to the Japanese ambassador; Zoellick has proposed finding a developing country delegate.) Until all the new chairs of WTO committees are in place, the negotiations cannot start formally.

¹'There were 'can do' countries here and there were 'won't do' countries....Some larger developing countries...spent too much time with tactics of inflexibility and inflammatory rhetoric before getting down to negotiate', Zoellick, 14 September 2003.

There are some potential changes that could bring countries to offer more. Countries may have thought that their pre- and at Cancún offers were sufficient, and that others would accept them. They must now realise that this is not the case, although it is worrying that the EU and its members continue to argue that the 2003 reforms to the CAP were more significant than others realise, and therefore it is just necessary to clarify their position. There are also potential pressures. Under the Uruguay Round Agreement, countries could not challenge agricultural export subsidies (as they could non-agricultural subsidies) until the expiry of the 'Peace Clause'. This expired at the end of 2003 (Fasan in SAIIA 2003, for discussion of date). The disputes in 2003 that were starting to challenge some subsidies (on the grounds that they did not meet the terms covered by the Peace Clause) could become much more numerous. There are several grounds on which actions might be taken, with varying prospects for success (Steinberg, Josling, 2003). If the subsidies can be shown to have caused 'adverse effects' on trade, then they are actionable. If the complainants succeed, subsidisers will need to reform or to compensate. The cases themselves will force them to consider the costs and benefits of the regimes. The advantages of negotiation may start to outweigh the costs. There is an interaction between use of the Peace Clause and the negotiations: threats to take actions can be used to bring countries back to negotiations. Actual cases can make negotiations difficult. As Cancún was unusually confrontational between developed and developing countries, however, even without a surge of cases (although Brazil had brought complaints against both the US and the EU), absence of cases does not necessarily imply a better atmosphere for negotiations.

Arguably, it was security in the months after 11 September 2001 that helped achieve agreement to begin the Doha Round in December 2001. Some now suggest that security still offers a reason to secure a settlement (NATO, 2003).

It would not be necessary for any settlement to produce equal gains for all: the use of formulas for tariff cutting (based on the height of the tariff, not on quantifying the gains of access for partner countries), and of course the theoretical contradiction between every country's acceptance that increasing trade improves welfare and the mercantilist nature of WTO negotiations are strong evidence that while an agreement needs to offer some gains for all, because any country or group of countries can block it, these need not be equal.² It was the perception that the EU was not offering any sacrifice that was particularly damaging in reactions to its limited agricultural offer combined with strong demands on the Singapore issues.

² As Finger, et al, note in Bhagwati, ed, 2002, p. 111, 'None of the delegations [in the Uruguay Round] we interviewed had attempted to calculate for themselves the extent of concessions *received*....We found that the surplus or deficit of concessions received over concessions given varied widely among countries.' They interpret the model as more one of 'individual sacrifice for the common good' than a simple mercantilist one. This is also consistent with the growing theoretical evidence of the importance of 'fairness' in determining the acceptability of economic outcomes.

Alternatives to multilateral negotiations

Both the US and the EC suggested after Cancún that they could achieve their trade objectives through bilateral and regional negotiations. This suggests a misunderstanding of the basis of most of the existing negotiations. The FTAA (US-Latin America/Caribbean) and the EU-MERCOSUR negotiations explicitly, and most of the others implicitly, were based on the assumption that some of the most difficult issues in their bilateral relations (notable agriculture) would be settled at multilateral level. Since Cancún, therefore, negotiators have had to rethink the basis for the negotiations, and progress seems likely to be slower, if it is possible at all. Where the major countries are negotiating with much smaller countries, who find themselves without the large and experienced allies that they have in multilateral negotiations (Page, 2004, in IDS Bulletin), they may achieve agreements, but agreements with small countries will have small benefits for the larger countries. Brazil, in MERCOSUR, has been as hesitant to accept the agricultural proposals of the US and the EU in bilateral negotiations as in multilateral, and the EU does not seem more accommodating to the US in bilateral disputes. US-FTAA and US Morocco negotiations have had problems since Cancún. The initiatives by developing countries, the G20 (discussed in the first chapter) and Asia (China, Japan, South Korea, India and the 10 south East Asian countries) are more symbols of concerted action than steps towards free trade areas.

Long-term prospects for multilateral integration

For those countries which see the protection given by international rules as an important element of the institutions, like India and Vietnam, regions are not a substitute. As happened during the slow periods of the Uruguay Round, countries will try to find alternative ways of gaining the access that they (and their economic interest groups) 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.

The EU Trade Commissioner has argued that deeper integration, particularly in rules of the type reflected by support for the Singapore issues, while necessary, is increasingly difficult because it comes up against a problem of different 'collective preferences', different approaches to policy, or different fundamental beliefs, and therefore that integration may need to be different. There are, however, still substantial opportunities for 'old-fashioned' trade integration in goods: for reducing tariffs, non-tariff barriers, and subsidies; and in services, there has still not been a negotiation round to reduce barriers (the Uruguay Round concentrated on identifying and binding existing barriers). Therefore, pessimism about the need or demand for future negotiations can be overdone.

A Hong Kong Round?

It is unlikely, in spite of the apparent efforts by the US to ensure that some negotiations continue, that the various pressures for renewed negotiations will prevail over the same obstacles and national interests that prevented compatible offers before and at Cancún in the near future. The well-signalled obstacles of internal political changes in all the major countries and in leadership in the WTO would slow progress, even if more concessions

were on the table. The combination of the end of the Peace Clause, the limits of the US negotiating authority (2007) and the timetables of various regional negotiations (which will highlight their dependence on multilateral agreements) suggest 'serious' negotiations by 2006-7, after the next ministerial meeting in Hong Kong. This delay is itself a process benefit to developing countries (countries with limited resources and limited previous experience benefit from longer negotiations, Page, 2002) and may be an economic benefit if the time is used to give them more resources both to improve trade competitiveness in general and to prepare for changes in tariffs and subsidies.

Linking trade negotiations and development

We need to consider the more fundamental question of whether it is possible to combine a basically mercantilist process, where offering access is a 'loss' and 'gains' are measured by access to markets, not by welfare gains (which would see both offering and securing access as gains), with a development objective, particularly in the sense of the outcome of the negotiation, where welfare (and its distribution) is the objective. Even if we assume an underlying world welfare objective, this is based on gains for all, not special needs. Is the development dimension of the Round to be seen as a constraint? Or as the central objective, which other negotiations may add to, but not obstruct or alter? As the IDC noted (IDC 2003a, pp. 13-14) 'Hard-bargaining between unequal players sits uneasily with the notion of a development round.... Hard-bargaining is an inappropriate way to deal with some issues. It may have been suitable for tariff negotiations [note: even this is true only in a mercantilist sense], but as WTO negotiations increasingly encompass complex 'behind the border' domestic issues, the adversarial concessions-trading format becomes less suitable.' If the potential gains from trade are small for many countries, and if the problems, as argued in the country papers here, require national solutions, with international financial and technical assistance, then imposing a 'development dimension', if it means targeting gains at particular countries, may risk losing the achievement of conventionally welfare-improving outcomes for the majority. The combination of the nature of the current trade agenda, where gains are now sought in areas where there were previously preferences and other special arrangements, with the growing recognition that poor trade performance is likely to be the result of supply conditions as well as barriers in markets, should lead to questioning not only whether trade should be the central issue in development policy, but whether development objectives should be central to trade negotiations. That the trade preferences used to promote development are now proving difficult to disentangle and an obstacle to poverty-reducing liberalisation does not offer support for a view that future trade policy should be guided by development. Distorting trade is rarely the first-best way of securing welfare gains.

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. The apparently simple criterion of 'evaluating each agreement and every progress from the point of view of its impact on sustainable development' (Tubiana 2003) begs the question of whose choices will determine how the

different components of sustainable development will be weighted for the evaluation. It also 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 because it is the complex of results of an agreement which determine the effect on national income.

This does not mean that the idea of 'development friendly' trade negotiations is meaningless. The process of negotiations must take account of the interests of all countries, including the developing. But it is possible to analyse the need for compensation for 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 some gains must be found for those who do not have sufficient gains on the normal trade agenda. 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. In reporting on progress in December, Pérez del Castillo (2003) tried to abstract from the generalities on development, and concentrate on specific issues.

Implications for trade and aid policy

The very different results of the same forms of trade liberalisation for different countries indicate that each country (and its advisers) must consider the implications for it individually, not according to general rules. If we attempt to target the broader elements of poverty, as discussed in that chapter, it becomes very hard to see the role of trade as a factor on its own. The effectiveness of helping developing countries to participate themselves in order to obtain their objectives will depend on how far we know how to increase their capacity, on the degree to which the negotiations allow their participation, and also on whether we give more weight to their defining their own choices of objectives, i.e., to partnerships, or to the externally defined MDGs, which they may or may not share. Forming interest or issue-based alliances is an effective instrument for developing countries, and developed countries should not try to obstruct this. Until all developing countries have acquired experience in negotiations, the process should not impose excessive demands in speed and content. The effectiveness of UK action depends on whether the UK can act effectively through the EU and whether the EU can act effectively with other developed countries to form pro-poverty alliances.

The evidence here also suggests that future trade policies by developed countries should consider the short term consequences for all countries, not only the target countries, but others, and the long-term consequences for the international system of introducing new forms of differentiation among developing countries which could create future problems for reform. As long as these special arrangements are small, it may be possible to 'buy' reform by finding financial compensation mechanisms, but the increasing use of special arrangements for Least Developed or other favoured countries raises the potential costs. Only if it is assumed that further multilateral liberalisation is not possible, and that

regional and preferential agreements can be an effective substitute, are these likely to be first choices.

Past protection and the measures taken to attenuate its effects on particular classes of countries have created a complex set of gains and losses from trade. Liberalisation will therefore have equally complex effects. To avoid freezing the current distortions in the international trading system financial transfers are likely to be necessary.

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 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. Proposals for a return to an effectively plurilateral system, in which the developed countries, with some major developing countries, reach agreements which are accepted by the others, are not feasible because almost all countries have reached a point where they will not accept exclusion. The MDG of 'partnership' therefore has become a practical requirement of the international trading system, as well as a goal.