

# How Can the Doha Negotiations Promote Development?



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National Board of Trade

# The National Board of Trade

The National Board of Trade is a governmental agency and the central administrative body in Sweden dealing with foreign trade and trade policy. The Board provides the Government with analyses and recommendations.

Within the framework of the European Union, the Board works for an effective Internal Market, an open trade policy in the EU and a strengthened multilateral trading system within the WTO. The Board also acts as ombudsman for free trade and free movement within the EU as partners of the SOLVIT network. This connects governmental agencies across Europe helping companies and individuals caught between differing regulatory systems.

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# Preface

The ongoing trade negotiations in the World Trade Organization (WTO) should promote development and benefit the developing countries. The results must reflect this purpose, to live up to the expectations of a "development round".

In a development round developing countries must have a real influence - and they must consider themselves influential. In the negotiations, the developing countries are stronger and more influential than ever before. Of course, the developed countries still have a greater capacity to participate and make themselves heard in the negotiations, and are therefore in a far better position to get their will through.


A real development round requires progress and reforms in the areas prioritized by the developing countries. This would confirm as well as document their influence. Agriculture is the most obvious example. Even if other areas could be as important for developing countries' development, their own priorities make agriculture key.

All countries are more or less protectionist in the negotiations, despite a broad recognition of the fact that liberalization primarily benefits the reforming country itself. As reforms which benefit the public interest often put specific interests at a disadvantage, they can be uncomfortable and unpopular with the public. One advantage of the negotiations this is for a country to commit itself to economically sound (though uncomfortable) reforms, in return for increased export possibilities.

In other words, a result with positive development effects for developing countries must necessarily contain reforms also for them, though of course adapted to the conditions in each individual country. Otherwise, the gains will *de facto* be reaped by the developed countries.

In this report we examine the results which must be obtained in the negotiations for them to foster development. This report is a synthesis of two larger studies by the National Board of Trade in 2005. As the majority of the areas of negotiation have been analyzed in these studies, a large part of the Board's experts have been involved in the work. Senior Adviser Per Altenberg and Analyst Ingrid Jegou have been responsible for the two studies and for this report. The report has been translated by Maria Linder.

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# Contents

Preface .....	1
1. What is a Development Round? .....	3
2. How can Trade Policy Foster Development? .....	5
2.1 The role of trade policy in Sweden's policy for global development .....	5
2.2 The view of research on trade and development .....	5
3. The Doha Negotiations in the WTO .....	8
3.1 Agriculture .....	8
3.2 Industrial goods .....	9
3.3 Services .....	9
3.4 Negotiations on the WTO regulatory framework .....	10
3.5 The Development Dimension .....	11
4. How can the Doha Round Foster Development? .....	13
4.1 Agriculture .....	13
4.2 Industrial goods .....	18
4.3 Services .....	20
4.4 Intellectual property rights .....	20
4.5 The financial effects of the negotiations .....	22
4.6 Effects on poverty, growth, and environment .....	23
5. Developing Country Participation in the Doha Round .....	25
5.1 How do the developing countries negotiate in the WTO? .....	25
5.2 The possibility for developing countries to participate in the negotiations ....	26
6. Conclusions: Ten Steps for the Doha Round to Promote Development .....	29
References .....	31

# 1. What is a Development Round?

In November 2001, the members of the World Trade Organization (WTO) agreed in Doha, Qatar, to start a new round of global trade negotiations. Historically the WTO and its predecessor, the GATT, had been dominated by the developed countries. By the Doha Ministerial Conference, the organization was primarily made up of developing countries. For this reason, it was necessary for a new round to have a clear development focus.

The negotiation agenda agreed upon by the WTO members was named the *Doha Development Agenda* and contains several wordings which make clear that the negotiations shall have a strong development dimension. The question remains; what does this actually mean? What is a development agenda?

Established trade theory generally advocates openness as a strategy to foster development. At the same time many developing countries in the WTO often emphasize the possibility to protect their markets and the importance of being allowed to make derogations from certain rules. Other developing countries, which have strong export interests, instead advocate a policy of free trade. These differences are emphasized by the developing countries in the WTO being a very heterogenous group. For this reason it is just as impossible to listen only to the demands of developing countries as it would be only to rely on economic research in order to decide what measures foster development.

### What is a developing country in the WTO?

Officially three categories of countries are members of the WTO: developed countries, developing countries, and countries classified by the United Nations as least-developed countries (LDC). There are 50 LDCs, out of which 32 are members of the WTO. Other countries can decide themselves whether they should be classified as developed or developing countries. A country can even decide to call itself a developing country in one WTO agreement but be classified as a developed country in another. This makes it impossible to say how many of the WTO's 148 members actually are developing countries.

The fact that no definition of a developing country exists makes the group of developing countries extremely heterogenous. Very poor countries such as the Ivory Coast, Papua New Guinea, and Mongolia belong to the group, as do large, competitive countries such as Brazil, China, and India. Furthermore, some countries which are richer than many developed countries, such as Singapore and South Korea, are classified as developing countries.

The reason for differentiating between developed and developing countries in the WTO is that developing countries are granted more favourable treatment in the agreements. Examples of such special treatment is that developing countries are allowed exemptions from certain commitments or are granted longer transition periods to implement them. They also receive special support in the form of technical assistance.

In 2005 the National Board of Trade completed two studies on how the development dimension has been observed in the Doha negotiations so far (see National Board of Trade 2005a and b). Our ambition has been to identify the elements necessary for the Doha Round to be a development round, based both on theory and experience, but also on the demands made by the developing countries in the negotiations. This report summarizes the results of both of these studies, which in their turn are the follow-up of a study conducted in co-operation with Sida (the Swedish Development Cooperation Agency) in 2002, which resulted in the report "En samlad ansats för att uppfylla utvecklingsdimensionen i Doha-deklarationen" (A concentrated effort to achieve the development dimension in the Doha Declaration).

In an introductory chapter, we will briefly present the academic view on trade and development. After that we will examine the Doha negotiations and discuss what results they may bring developing countries. Finally, we will analyze the developing countries' possibilities to participate in the negotiations. The discussion will be summarized by a list of points which describe what we would consider a development-fostering negotiation result in the Doha Round.

## **2. How can Trade Policy Foster Development?**

### **2.1 The role of trade policy in Sweden's policy for global development**

The governmental bill 2002/03:122 (Shared Responsibility: Sweden's Policy for Global Development) states that "a free and open trade with agreed rules is a powerful instrument to achieve development and spread economic development". According to the bill, border obstacles and other barriers to trade should be removed to promote sustainable development in the developing countries. Furthermore, developing country access to the markets of the OECD countries should be improved. Their ability to live up to technical and sanitary requirements (requirements which concern food safety, animal health, and plant protection), as well as the capacity to produce and sell goods and services should also be strengthened.

The government also emphasizes that Sweden shall work to make the WTO rules on favourable treatment of developing countries more trade promoting and adapted to the needs of developing countries.

### **2.2 The view of research on trade and development**

The view of research on trade and development provides the basis for the National Board of Trade's assessments. The report conducted by the National Board of Trade and Sida, "En samlad ansats för att uppfylla utvecklingsdimensionen i Doha-deklarationen", describes the view of both agencies on trade, growth, and poverty alleviation:

"Open trade promotes economic growth, which in its turn promotes the economic dimension of poverty alleviation."

(National Board of Trade and Sida, 2002, p. 13)

What is this assessment based on? In an annex to the Swedish parliamentary Globkom report (Globkom, 2002), which provides the basis for the government's policy for global development, the economist Håkan Nordström (presently Chief Economist at the National Board of Trade) examines the academic literature on the relationship

between trade and development. Nordström's conclusion is that an open trade policy generally promotes economic growth and that trade liberalization is, in this respect, as advantageous for developing countries as for developed countries (Nordström, 2000).

#### Trade and development in the United Nations report "Trade for Development"

" Trade openness can be a powerful driver of economic growth, which is indispensable to reduce poverty and foster development. Trade, however, is not a silver bullet for achieving development..." "...Openness to trade is associated with higher incomes and better economic performance. While there are differences of view about the magnitude and strength of this relationship, the general direction of effect is not in doubt: no closed or isolated economy has performed better than those integrated into the world economy." (UN Millenium Project, 2005, pps. 1 and 12 respectively)

However, certain researchers, including Harvard professor Dani Rodrik, question the methods used in studies which show a relationship between an open trade regime and economic growth. Rodrik's criticism is primarily based on the difficulties in classifying countries according to their openness. His criticism also concerns the problem with isolating the degree of openness in a country's trade regime from other variables which affect growth, variables which "open" economies often have in common, for example low corruption and stable political conditions.

### **How are different groups in developing countries affected by trade reforms?**

Even if openness to trade can have positive effects in the form of economic growth and increased levels of income in developing countries, it does not automatically mean that all parts of the population benefit from it. Trade liberalization results in the change of price levels in a range of markets. These changes in price enable trade policy reforms to create economic gains for society. At the same time, they contribute to structural changes in the economy which benefit certain groups (for example in the export sector) and harm others (for example in the import competitive sector). They also bring social adjustment costs such as lost jobs, altered conditions on the labor market and insecurity about the future. The general conclusion to be drawn is that all countries most likely benefit from an open trade regime, but that the gains naturally will not be spread evenly within a country.

Just as for developed countries, developing countries generally benefit from an open trade policy. At the same time, more is required to start and maintain a development process. Developing countries which lack institutional preconditions in general – political stability, good governance, rule of law, macroeconomic stability, education,

good health care, infrastructure, etc. – are in a poorer position to benefit from trade liberalization.

Economic growth is furthermore not the same as development. Studies show a positive relationship between economic growth and other development variables such as increased life expectancy, education and literacy; variables which combined with income development provide the basis of the United Nations agency UNDP's so-called *human development index*. In other words, there is much supporting the theory that improved economic prosperity, in combination with increased external economic integration, results in societies being able to afford things such as more education and improved healthcare.

### **How are the poor affected?**

A question which is frequently discussed in connection to the debate on trade and development is whether free trade and/or economic growth benefits the poor to the same extent as the wealthy.

To begin with, economic theory supports the assumption that low-skilled labour in developing countries benefits more from opening up to trade with developed countries than highly skilled labour. The reason for this is that the surplus of low-skilled labour on the labour market decreases once it is possible to produce for the global market. In reality the picture is more complex. Trade liberalization can result in changed patterns of production which mainly benefit highly skilled labour. Not all developing countries have an abundant supply of low-skilled labour in comparison with other productive factors. Many countries in Latin America and Africa are instead considered to have a rich supply of raw materials and land.

#### **How does economic growth affect the poor?**

The researcher which has been most closely associated with studies in trade and development in recent years is Alan Winters at Sussex University in the United Kingdom. Winters and his colleagues summarize their conclusions on how economic growth affects poverty in the following words:

”Despite the methodological challenges... ..there is no evidence to overturn the traditional conclusion that growth, on average, benefits the poor, nor to suggest that growth generated by greater openness is any worse than other growth in this respect (and may even be better). It is quite clear, however, that on occasions growth has been accompanied by worsening poverty and the challenge is to identify why (Winters et al, p. 80).

# 3. The Doha Negotiations in the WTO

At the Ministerial Meeting in Doha, Qatar, in November 2001, the WTO member states adopted the so-called Doha Development Agenda. The Ministerial declaration from Doha provides the basis for the ongoing round of negotiations on trade liberalization in the WTO.

The Doha negotiations can be divided into five areas:

1. Agriculture
2. Industrial goods
3. Services
4. WTO rules
5. The development dimension

## 3.1 Agriculture

Agriculture is the most controversial area in the Doha negotiations. This is because many developed countries, including the EU, have considerable protectionist interests in the agricultural area, while the majority of the world's poor are dependent on agriculture for a living. Agriculture only became a part of global trade negotiations in the last round (the Uruguay Round, 1986-93). In the Doha Declaration member states agreed amongst other things to negotiate on tariff cuts, decreased domestic agricultural support, and a phasing out of export subsidies.

Agriculture is the area given top priority by the developing countries in the negotiations. Basically there is a strong convergence surrounding the demand that developed countries' export subsidies and domestic support, such as market price support to agriculture, shall be phased out or reduced. The reason is that the developing countries find that their own agricultural sectors have difficulties in competing with subsidized developed country production.

Developing countries are less united when it comes to the question of cuts in agricultural tariffs. Countries with considerable agricultural export interests to defend want to see a liberalization of border protection, whereas net importers of food often do not want to open up for international competition.

## 3.2 Industrial goods

Ever since the General Agreement on Tariffs and Trade (GATT) was created in 1948, negotiations on market access for industrial goods have been a central part of global trade negotiations.

In the Doha Round, negotiations on industrial goods are conducted in the name of *non-agricultural market access (NAMA)*. According to the Doha Declaration, these negotiations should result in tariff reductions, including a reduction of tariff peaks and tariff escalation. Tariff peaks are defined as tariffs above 15 per cent. Tariff escalation means that tariffs increase in accordance with the product's degree of processing.

According to the Doha Declaration, the negotiations shall focus on products for which developing countries have an export interest. These are products such as electronics, textiles and clothing, fisheries products, footwear, and raw materials. The Declaration further emphasizes the importance of taking the needs of the developing and least-developed countries' situation into consideration, and that tariff reductions must be made with less than full reciprocity. This means that the developing countries are not expected to reduce their tariffs as extensively as the developed countries.

The negotiations on market access for industrial goods shall also lead to other trade barriers than tariffs, such as technical rules or subsidies (so-called *non-tariff barriers*) being reduced or eliminated. These negotiations shall also focus on products for which developing countries have an export interest.

## 3.3 Services

The importance of the services sector in the global economy is growing. Private services already make up about 50 per cent of many developing countries' GDP. The General Agreement on Trade in Services (GATS) entered into force in 1995. So far it has not resulted in any considerable market openings neither in developing nor in developed countries.

In the Doha Declaration, member states have committed themselves to negotiate on further liberalization of the services trade. The negotiations follow three main tracks:

- Horizontal questions: for example how to improve the participation of the least developed countries in services trade
- Market access questions
- Rules questions, which means negotiations on

- How domestic regulations can become less bureaucratic,
- Including public procurement in the GATS,
- Introducing temporary emergency safeguards,
- Regulating negative effects of distorting subsidies in the services area.

The GATS structure requires that member countries make active commitments in order for the agreement to lead to increased market access. This means that the agreement has a built-in flexibility with the effect that member states, especially developing countries, can open up their services markets at the pace they wish to. Furthermore, the Doha Declaration negotiation guidelines contain several wordings which grant developing countries more favourable treatment.

### **3.4 Negotiations on the WTO regulatory framework**

A special negotiations group, which has been given the collective name rules, has been created in the WTO to negotiate rules concerning anti-dumping, subsidies, and regional agreements.

In this report we have chosen also to mention other areas in the Doha negotiations which primarily affect the regulatory structure under the heading "Negotiations on the WTO Regulatory Framework". They concern trade related aspects of intellectual property rights (TRIPS), trade facilitation, trade and environment, as well as dispute settlement.

#### **TRIPS**

The Doha mandate for TRIPS primarily concerns three issues: TRIPS and public health, protection of geographical indications, as well as a clarification of the relationship between the TRIPS Agreement and the the Convention on Biological Diversity and the protection of traditional knowledge.

#### **Trade facilitation**

A new rules area in the WTO is the simplification of trade procedures, in other words all information flows and all the administration necessary when companies export or import. According to the Doha Declaration, the purpose of the negotiations is to improve the efficiency of transport and clearance of goods, including goods in transit. The member states further agree upon the need to increase technical assistance and capacity building in this area. The decision to start negotiations was made in July 2004.

## **What is excluded from the negotiations?**

The Doha Declaration opened up for the preparation of negotiations in three other new areas; trade and investment, trade and competition, and transparency in public procurement. In July 2004, however, the member states agreed not to enter into negotiations in this area.

## **3.5 The Development Dimension**

All the areas of negotiation mentioned above have a large impact on development. Beyond these a number of issues are of special interest to developing countries, such as

- Special and differential treatment of developing countries,
- Problems with implementing existing agreements,
- Trade-related assistance,
- The situation of small economies and the least developed countries,
- The risk of eroding developing countries' trade preferences in developing countries.

### **Special and differential treatment**

Special and differential treatment means favourable treatment of developing countries. This can take the form of exempting developing countries for a certain period of time from requirements that more developed members of the WTO are obliged to fulfil, that lower levels of commitments are made by developing countries, or that developed countries make special commitments in favour of developing countries. The Doha Declaration states that provisions on favourable treatment shall be reviewed, with the purpose to strengthen them and make them more precise, effective, and operational.

### **Implementation of existing agreements**

Before the WTO Ministerial conference in Seattle in 1999, which preceded Doha, a discussion arose which focused on the imbalances perceived by the developing countries to result from the agreements of the Uruguay Round. The imbalances partly concerned the fact that developed countries had not implemented certain commitments and obligations, partly that the developing countries had difficulties fulfilling their commitments.

A decision was made in Doha on how to handle some of these implementation issues, but they affected barely half of the problems then brought up by the developing countries. The remaining questions are being dealt with in the current negotiations.

### **Trade-related assistance**

The Doha Declaration emphasizes the importance of trade-related technical assistance and capacity building for developing countries, which amongst other things means support for countries when adapting to rules, to implement commitments, and to be able to benefit from the multilateral trading system. Apart from several general statements, commitments relating to aid policy are made in the area of industrial goods and trade facilitation.

### **Small economies and the LDCs**

The Doha Declaration states that the WTO shall identify small and vulnerable economies' trade related problems and propose measures to solve them.

The WTO member states shall work for tariff and quota free market access for products from LDCs and should consider other measures to improve market access for LDC exports. Finally the developed countries are called on to increase their technical assistance to the LDCs

### **Preference erosion**

Preferences mean that developing countries are granted advantages in the form of lower tariffs than other countries for their exports. Erosion is what happens when the tariff which applies for other countries is lowered, for example through WTO negotiations, and the difference between the preferential lower tariff and the ordinary tariff also decreases. The work program of the Doha Round states that the negotiating groups for industrial goods and agriculture shall pay regard to the special needs which preference erosion will result in for these developing countries.

# 4. How can the Doha Round Foster Development?

In this chapter we will examine some of the most important areas of negotiation in the Doha Round and analyze what is necessary for the results to foster development.

Apart from the three main areas agriculture, industrial goods, and services, we will also examine the negotiations on the rules for intellectual property law (TRIPS). With the exception of the question of trade-related assistance we will not deal with the negotiations that fall under the development dimension. The most important development aspects are found in the negotiations on agriculture, industrial goods, services, etc., which is why we choose to emphasize these areas.

## 4.1 Agriculture

The negotiations on agriculture are divided into three areas:

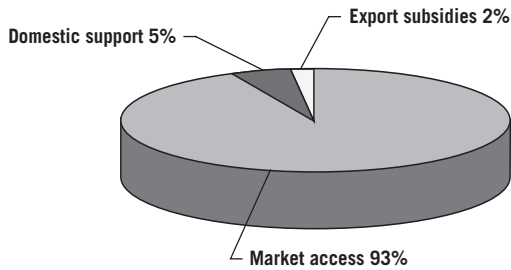
- Market access
- Domestic support
- Export subsidies

Rules on more favourable treatment of developing countries (called special and differential treatment in the WTO context) are integral parts of the negotiations in all three areas.

### Market access

The market access negotiations, which include negotiations on tariff reductions, is the area in which the least progress has been made so far. At the same time, market access is the area in which the greatest development gains can be found. According to one study, over 90 per cent of the welfare gains associated with a full liberalization of agricultural products can be found within the framework of market access (Hertel and Keeney, 2005).

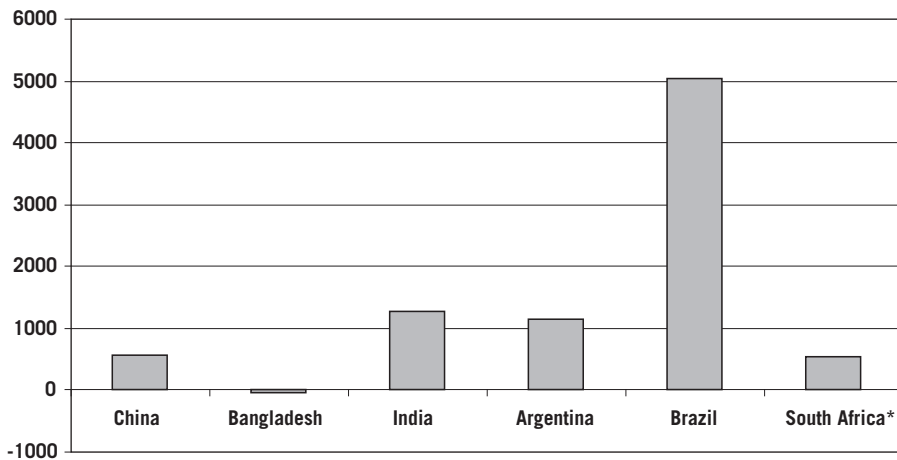
**Diagram 1. Global welfare gains from a full liberalization of agricultural trade**



Source: The World Bank/Hertel and Keeney (2005)

Geographically, winners amongst the developing countries are expected to be countries like Brazil, Argentina, China, India, and South Africa. The greatest winner, beyond comparison, is Brazil.

**Diagram 2. Welfare gains from a full liberalization of agricultural trade (millions of USD)**



Source: Hertel och Keeney (2005)

\*The estimation for South Africa comprises the whole SACU: South Africa, Botswana, Lesotho, Namibia, and Swaziland.

The negotiations on agricultural market access are a key issue for the whole Doha Round. For this reason it is of great political importance that the EU, which is a large actor on the market for agricultural products, and whose agricultural policy contains large distorting elements, acts in a constructive manner.

The prospects for making serious progress are not encouraging. This is partly due to the fact that the EU's most defensive interests concern market access, both with regards to the Union's own interests as well as the relationship with, above all, the ACP countries (ACP stands for African, Caribbean, and Pacific countries, and comprises close to eighty countries which traditionally have far-reaching trade relations with the EU). An example of the latter are the complex rules for importing bananas into the EU, which are briefly summarized below.

#### Bananas - a complex question of access to the European market

The EU has rules for imports of bananas which grant special advantages to around ten banana-exporting ACP countries. These rules disfavour other exporters of bananas, above all countries in Latin America. This is the background to a ten year old trade dispute between the United States, home to the companies Chiquita and Dole, and certain Latin American countries on one side, and the EU on the other side.

In 1997, the WTO Appellate Body ruled against the EU banana regime. The EU did not adjust its regulations to conform to the WTO ruling within the set deadlines, and faced sanctions in the form of punitive duties by the US. In 2001, the EU met an agreement with the US and Ecuador. According to the agreement, the EU committed itself to eliminate the current import regulations, which partly build upon tariff rate quotas reserved for the ACP countries in question, and to replace them with a uniform tariff solution to be introduced by 1 January 2006 at the latest. The same year the exception granted from normal GATT/WTO rules, called a *waiver*, which the EU had been given to grant preferential treatment to the ACP countries, was extended until the new tariff solution had been introduced.

Negotiations on a uniform tariff level have been conducted afterwards between the affected parties, without any results being attained. The EU has on two occasions during the summer and autumn of 2005 presented proposals for a new tariff level. None of the proposals have been approved by the WTO Arbitrator, for the reason that the suggested tariff level does not grant enough market access. The EU is now forced to find a tariff level acceptable to all parties in a very short period of time. Otherwise the EU risks that the exception for the preferential treatment of the ACP countries (the so-called *waiver*), will expire and the US punitive duties against EU exports recommence.

The EU Commissioner for Trade, Peter Mandelson, has declared that the EU is willing to negotiate seriously also on market access, on the condition that other countries meet the EU in negotiations on industrial goods and services. A number of countries in the EU, with France leading the way, resist this offer.

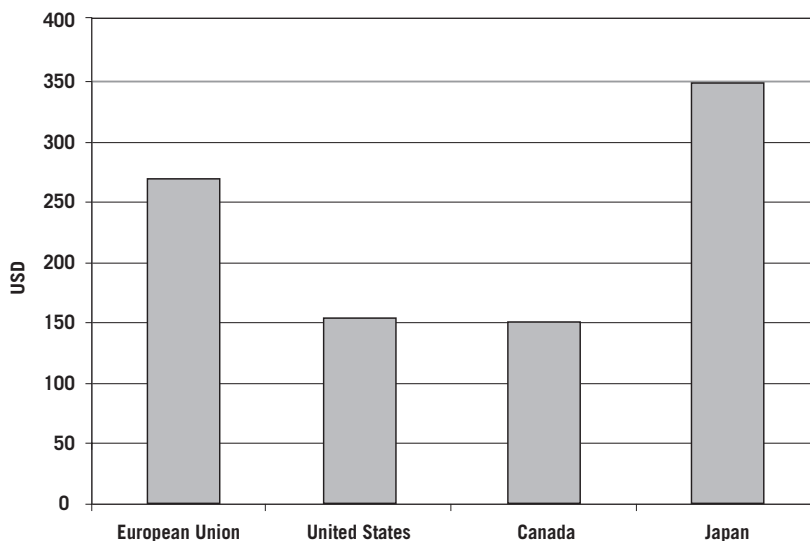
## Domestic support

The negotiations on domestic support concern the reduction of subsidies affecting trade which farmers, mainly in developed countries, receive. One effect of these subsidies is that prices of food decrease, thus making competition more difficult for, above all, developing countries. Only ten per cent of the welfare gains associated with developed countries reducing domestic support is expected to benefit the developing countries. In other words, 90 per cent of the welfare gains are expected to benefit the developed countries themselves (Hertel and Keeney, 2005).

If a comparison is made with the other two areas in the agricultural negotiations (market access and export subsidies), it is worth noting that only five per cent of the welfare gains from a full liberalization of agricultural trade come from a phasing out of the developed countries' domestic support.

One risk in the negotiations on domestic support is that there will be too much "water" in the commitments made. By "water" is meant the difference between the maximum level of support allowed (what countries have committed to in earlier negotiations) and the support actually being given. According to the World Bank, only six WTO members are expected to lower the applied domestic support. These six are Australia, the US, the EU, Iceland, Norway, and Thailand. This means that Japan, for example, which applies considerably higher levels of support per capita than both the EU and the US, will not need to lower its support.

**Diagram 3. Agricultural support per capita (average 2001-2003)**



Source: OECD (2004) and FAOSTAT

Despite the fact that the welfare gains resulting from developed countries reducing their domestic support are expected to be small overall, the effects can be considerable for individual countries and for specific products. This is especially the case for the four cotton exporting countries in West Africa which launched the so-called cotton initiative: Benin, Burkina Faso, Chad, and Mali. It is therefore important that the reductions of domestic support are concentrated on goods which are or can potentially be of export interest to the developing countries.

#### The cotton issue in the WTO

The negotiations on cotton are of great importance for the success of the Ministerial Meeting in Hong Kong in December 2005. Four West African countries; Benin, Burkina Faso, Chad, and Mali, launched the so-called cotton initiative in 2003. The countries could show the considerable disruption of the world market price caused by the rich countries' cotton subsidies. The four countries demanded a complete dismantling of the cotton subsidies. They also demanded financial compensation. The cotton initiative was supported by many countries, including the EU.

In 2004, the WTO member states agreed to eliminate all export subsidies. A final date has not yet been established. It was also agreed that cotton negotiations are a priority and a special sub-committee was created to deal with the cotton question. Burkina Faso has since then declared its dissatisfaction with the lack of results in the negotiations. A new African proposal was presented in the spring of 2005, in which the countries, amongst other things, demanded that the export subsidies be eliminated as of 1 July 2005. No such phase-out has yet occurred.

According to the World Bank, the elimination of subsidies on cotton could have a huge economic impact on the cotton exporting countries. The US has just lost a legal dispute in the WTO on cotton subsidies since US subsidies and export credits are considered to press down the world market prices and increase US market share on the behalf of other countries. The US has appealed the WTO ruling, however.

### **Export subsidies**

Export subsidies are primarily paid out by the EU to enable it to dispose of excess production which cannot be disposed on the market and to avoid price falls in the EU. As for domestic support, the subsidies contribute to pressing down the prices on the world market, which decreases non-European farmers' income and toughens competition. The negotiations concern the phasing out of this instrument.

According to the World Bank, only two per cent of the welfare gains resulting from a complete liberalization of trade in agriculture would come from a phasing out of developed countries' export subsidies. As with domestic support, the question of export subsidies is however symbolically important for the developing countries.

In 2004, the WTO decided to phase out all agricultural export subsidies under certain conditions. The member states have not yet agreed on the timing for this, but the decision is still considered a success for the developing countries. At the same time, it is doubtful whether the phase-out of the export subsidies will generate any considerable economic gains for the developing countries (see diagram 1 above).

## 4.2 Industrial goods

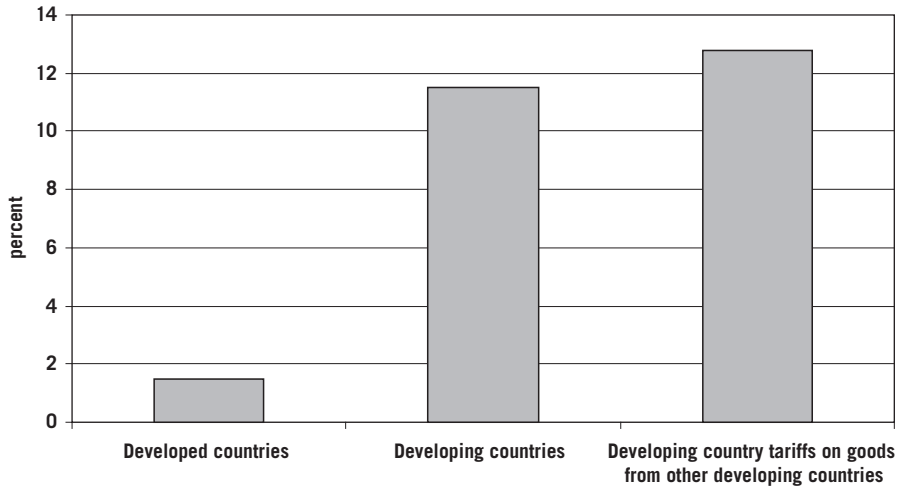
The negotiations on *non-agricultural market access (NAMA)* are expected to contribute to increased market access for the developing countries. The most important ingredient in these negotiations, from a development perspective, is that the agreed tariff reduction formula has a harmonizing profile, which means that high tariffs are reduced more than low ones, and that tariff peaks and tariff escalation is thus reduced. All indications point to this being the case.

The issues which the developing countries consider most limiting for increased exportation are however other issues than border protection, so-called non-tariff barriers. Examples of such barriers are subsidies, import licences, and technical barriers to trade. Unfortunately, these will probably continue to widely exist in developed countries.

High import duties on industrial goods are just as big a problem for the developing countries from a development perspective as high duties on the export markets. The average applied most-favoured nation (MFN) industrial tariff in the developing countries is almost 12 per cent whereas it is only 1,5 per cent in the developed countries. Tariff protection against imports from other developing countries is generally even higher, about 13 per cent.

High import duties result in input becoming more expensive and domestic resources (labour and capital) becoming tied to protected sectors so that the export sector cannot expand. High tariff barriers also prevent increased competition, innovation, and transfer of technology; factors which contribute to growth and economic development. The developing countries' import duties also limit trade between developing countries.

**Diagram 4. Applied MFN-tariffs on industrial goods (trade-weighted average)**



Source: Hertel and Martin (1999)

With the exception of the least-developed countries and a further group of poor countries, the Doha Round will most likely result in lower tariffs for industrial goods in the developing countries. At the same time, many developing countries often demand to be exempted from tariff reduction commitments. This is partly due to the fact that domestic economic interests in developing countries, just as in the developed countries, demand protection against foreign competition. Another reason is that many developing countries still believe that industrialization is best attained if the country's developing industries are protected from competition from the global market. Finally, tariff income is one of the most important sources of income in the state budget for many developing countries, which must find other sources of income if the tariffs are lowered. This is often difficult, especially for the least-developed countries.

Less than full reciprocity is motivated in many cases. So far the developing countries have also met with a relatively large understanding from the developed countries for their demands to be exempted from tariff reductions. This seems to result in a number of "ways out" when it comes to evading commitments. Against the background of the conclusions in Chapter 2.2, i.e. that an open trade policy benefits growth and economic development, we can state that the risk is high that the negotiation results will be weak from a development perspective.

## 4.3 Services

The GATS negotiations so far have been characterized by great caution. The member states have been reluctant in presenting demands and offers of improved market access. For this reason the negotiations will most likely have limited effects on development. In many cases, countries have already opened their services markets without having "bound" these market openings in the WTO. The commitments made during the negotiations are therefore expected to mainly result in bindings of already opened markets, in other words not increase market access in practice. Several studies indicate, however, that the greatest potential development gains are to be found in services (for example Charlton and Stiglitz, 2005). A negotiation result which only results in maintaining the status quo in market opening would therefore be unsatisfactory from a development perspective.

A development promoting result in the negotiations requires that the member states' efforts are focused on services sectors and delivery modes which are central to development. Infrastructural sectors like telecom, financial services, and transport, are examples of such sectors. They are considered to be strategically important because they are so closely linked to other parts of the economy. If these sectors are stimulated, the effects will be spread like rings on water to the rest of the economy.

The question of temporary movement of persons is the economically and symbolically most important question for the developing countries in the GATS negotiations. For the Doha Round to contribute to development it is thus important that the member states negotiate constructively on this area. The negotiations so far only focus on the movement of highly skilled labour, and the prospects are poor that they will go any further.

## 4.4 Intellectual property rights

As with the GATS, the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) entered into force in 1995. The TRIPS Agreement requires WTO members to apply a minimum level of protection for literature and art (copyright), as well as for inventions, design, and trademarks (industrial property rights). The purpose is to stimulate technical innovation and other creative contributions.

The TRIPS negotiations in the Doha Round concern three areas:

- TRIPS and public health,
- The relationship between TRIPS and the Convention on Biological Diversity,
- Geographical indications.

In this report we will examine the first two points as they can be considered most important from a development perspective.

## **TRIPS and public health**

In connection to the Ministerial Conference in Doha in 2001, the WTO member states agreed to prolong the transition period for the least developed countries' implementation of the TRIPS Agreement's provision on patent protection of medicines. The extension is valid until 2016. In August 2003, member states even agreed on how countries lacking their own production of medicines can make use of the provision on the right to produce medicines without requiring a licence from the patent holder.

Both of these decisions facilitate the access to medicines in the least developed countries and in countries without their own medicine production. As good public health is a condition for economic development, the decisions should even aid poverty alleviation in these countries.

In this connection it is possible to argue that the decision reached in the WTO on TRIPS and public health only "correct" the problems which arose through the creation of the TRIPS in 1995. The most optimal result on TRIPS from a development perspective is neither a set of rules which makes it impossible to copy new medicines nor a set of rules which freely allows copying. Instead it is necessary to create rules that balance the need of intellectual property protection so that resources are spent on new medicines, and poor countries' needs to access medicines without eroding state finances. This "balancing" of the rules is important and must take place continuously in order to reach the Millenium Goals in the fight against HIV/AIDS and malaria.

## **Biological diversity and traditional knowledge**

The negotiations on the relationship between the TRIPS Agreement and the Convention on Biological Diversity aim to reach an agreement on rules to protect traditional knowledge. They shall also aid the spreading of gains from inventions based on developing countries' genetic resources and traditional knowledge. This would be positive from a development perspective as it would contribute to increased income in the developing countries. In the long run it would also lead to a better balance between developed and developing countries on profits resulting from intellectual property rights. The negotiations are progressing slowly, however. The reason for this is the lack of unity on the question of whether the TRIPS Agreement's rules on patents are compatible with the Convention's rules to protect biological diversity. It is unlikely that the WTO member states will reach an agreement on these questions in the Doha Round.

## 4.5 The financial effects of the negotiations

### Effects on state finances resulting from developing country commitments in the Doha Round

It is likely that lowered tariffs on average would affect developing countries' state finances negatively. At the stage at which many developing countries find themselves today, with relatively high tariff levels, reductions can however be expected to stimulate trade to soften the negative effects or eliminate them completely.

When tariff revenue decreases in a developing country, difficulties often arise with replacing them. Therefore it could be necessary to complement the trade negotiations with an aid packet which, amongst other things, replaces a loss of income. Another area with a need for trade related aid in many countries, is aid directed at improving countries' tax administration.

### Trade-related aid

Trade negotiations involve considerable costs, which is burdensome for countries with a limited capacity. The costs partly result from participating in the negotiations, which includes possibilities to identify areas of priority, to present proposals, and to analyze other members' proposals; but also from implementing the commitments resulting from the negotiations. Apart from this, adjustment costs arise linked to the reforms required from the negotiation results. For poor countries to be able to participate effectively in the negotiations, as well as being able to use and thus benefit from the negotiated reforms, it is necessary to offer the countries trade-related aid. Aid can also be necessary to strengthen developing countries' capacity to produce and market their goods.

Trade-related aid is not being negotiated in any special committee in the WTO, but discussions take place in several different committees, not least in connection to the negotiations on trade facilitation. These can result in increased trade-related aid.

Beyond these negotiations, further discussions outside the Doha Round are being held since a few months back. The British initiative, known as *Aid for Trade*, takes a broader approach to ease the integration of the developing countries in the global trading system. The approach, which builds upon the developed countries committing themselves to support the developing countries' implementation processes through both capacity building and financial support, could become an important complement to the Doha Round.

The *Aid for Trade* initiative consists of three parts. The first part concerns support for trade developing strategies. The second part focuses on solving the problems that developing countries meet when trading with countries like the EU, for example with

technical requirements or environmental standards. The third part deals with compensation for lost government revenue and the erosion of preferences.

## 4.6 Effects on poverty, growth, and environment

### Effects on poverty

The Doha Round's effects on poverty will most likely be positive. Even if they can be expected to be small in relation to the total remaining global poverty, it is possible that several million people are lifted out of poverty. However, the United Nations member states cannot, even under a total free trade regime, rely on global trade negotiations in the WTO to contribute in any major way to the halving of poverty before 2015, as stipulated by the Millennium Goals. One reason is that most of the world's poor population is not dependent on international markets for their income or consumption. Poor people often live as self-sufficient farmers and are therefore not affected to any higher degree by changes on international markets.

Another reason why the poverty effects most likely will be limited is that the general level of ambition for the Doha Round is low, especially amongst the developing countries themselves.

#### World Bank estimates of the poverty effects of the Doha Round

According to the World Bank, the amount of people living in extreme poverty (incomes of less than one USD per day) in the world could decrease by 2,5 million people as a result of the Doha Round (Anderson, Martin and van der Mensbrugghe, 2005). This corresponds to less than half a per cent of the estimated total poverty in 2015. The figure is based on a prognosis which only observes so called static effects of trade liberalization (lower import prices and higher export income). If dynamic effects are taken into account (such as increased productivity), the figure increases to 4 million. When the World Bank finally assumes total free trade and dynamic effects, global poverty will be reduced by 35 million people compared to the reference scenario, i.e. by barely 6 per cent of total poverty in the world in 2015.

In earlier estimates, the World Bank reached considerably higher figures in relation to decreased poverty (World Bank 2004). The different results can be explained by, amongst other things, the free trade scenario chosen at the outset. It is important to remember that similar estimates only can indicate tendencies, rather than giving exact figures.

## **Effects on growth**

Economic growth is a precondition for a consistent reduction of poverty. Economic growth is primarily affected either by increasing the access to capital or through increased productivity. According to the World Bank, the trade reforms from the Doha Round could stimulate the accumulation of capital in developing countries to increase the welfare benefits by approximately 25 per cent (Anderson, Martin, and van der Mensbrugge, 2005). Above all, the World Bank expects the Doha Round to stimulate economic growth via its effects on productivity. Increased trade in goods can stimulate productivity in several different ways, amongst other through the transfer of technology and by increased import competition creating increased pressure on the restructuring of domestic markets.

In a discussion on the importance of the Doha Round for economic growth it is important to emphasize the potentially large impact of the GATS negotiations on capital flows, investments, and economic growth in the developing countries. However, as has already been mentioned, the expectations for an ambitious result of the GATS negotiations are unfortunately low.

## **Effects on environment**

According to researchers contracted by the European Commission for an environmental sustainability impact assessment of the Doha Round, there is a risk that environmental pressure in developing countries will increase as a result of the negotiations. The negative environmental effects presented are to a large extent the effects of increased production (Kirkpatrick and George, 2005). As one of the main goals of WTO cooperation is increased trade and production, this illustrates a built-in conflict of goals for the organization.

Multilateral trade liberalization means better and cheaper access to input, including environmental technology. To the extent that trade liberalization stimulates the spread of more modern (often more environmentally friendly) technology to developing countries, conditions for decreased environmental strain improve also for them. The method used by the Commission's researchers does not take this factor into account.

How can the Doha Negotiations contribute to stimulate environmentally sustainable production in the developing countries? Both the agricultural negotiations as well as the negotiations on fisheries subsidies contain important "sustainability elements". Even in the negotiations on increased market access for industrial goods and services, many countries, including Sweden, are pushing for environmental goods and services to be prioritized in the negotiations.

# 5. Developing Country Participation in the Doha Round

## 5.1 How do the developing countries negotiate in the WTO?

Even if only two official developing country classifications exist in the WTO context, many different constellations of developing countries negotiating together exist. A prominent group is the LDC group, which coincides with the official LDC category (see the box under Chapter 1). In several negotiating committees in the WTO, the LDC group acts collectively. The group is generally represented by one LDC, which acts as a spokesperson. The country varies over time.

### Members of the LDC group in the WTO

Current members are Angola, Bangladesh, Benin, Burkina Faso, Burma, Burundi, Chad, Central African Republic, Djibouti, Gambia, Guinea, Guinea Bissau, Haiti, Cambodia, Congo, Lesotho, Madagascar, Malawi, Maldives, Mali, Mauretania, Mozambique, Nepal, Niger, Rwanda, Senegal, Sierra Leone, Solomon Islands, Tanzania, Togo, Uganda, and Zambia.

A further eight LDCs are candidates for WTO membership: Bhutan, Cape Verde, Ethiopia, Laos, Samoa, Sudan, Vanuatu, and Yemen.

Another group which has presented common negotiation proposals on agriculture, industrial tariffs, and negotiations on regional trade agreements, is the group of ACP countries. ACP stands for Africa, Caribbean, and Pacific countries. This group contains almost eighty countries which traditionally have close trade relations with the EU.

A group which to a high degree overlaps with both these groups is the Africa Group. This group has made joint statements and proposals in a large number of areas.

The agricultural negotiations are very important for most developing countries. In this area developing country interests diverge considerably. This is illustrated by the creation of a number of different groups in these negotiations. The most prominent is probably the G20. The group was created in connection to the Cancun Ministerial Meeting in 2003, as a reaction to the joint EU-US proposal in the agricultural negotiations. The group focuses on the need for reform in developed countries, including the need for increased market access and decreased subsidies. Several large developing countries with strong export interests belong to the group, but even certain smaller, weaker countries. The group is mainly led by Brazil, with India playing a prominent role as well.

### Members of the G20

The exact membership has varied over time. The current members are: Argentina, Bolivia, Brazil, Chile, China, Cuba, Egypt, Guatemala, India, Indonesia, Mexico, Nigeria, Pakistan, Paraguay, Philippines, South Africa, Tanzania, Thailand, Uruguay, Venezuela, and Zimbabwe.

Yet another group held together by common interests in agriculture is the G33. This group was also created in connection to the meeting in Cancun. Its main goal is to achieve exemptions for developing countries from too drastic tariff reductions and to gain access to a new safeguard mechanism, tailor-made for developing countries. The leader of this group is Indonesia.

In agriculture yet another group of countries called the G90 has presented common proposals. To a large extent the group overlaps the ACP countries, though it is somewhat larger as it includes some Northern African and Asian countries.

In the services negotiations, a group known as the G74 has sometimes presented shared submissions. The group consists of the countries in the Africa Group, Caricom (which stands for *Caribbean Community* and consists of 15 Caribbean countries), and several Asian and South American countries.

Apart from these groups there are a number of regional groups like the ASEAN (*Association of Southeast Asian Nations*, an intergovernmental organization of 10 members from Southeast Asia), Caricom and Mercosur (an intergovernmental organization with Brazil, Argentina, Uruguay, and Paraguay as members), as well as groups which share common interests in specific questions.

## 5.2 The possibility for developing countries to participate in the negotiations

### Limited capacity to participate

The developing countries' participation in the WTO negotiations hardly reflects the political ambition of the Doha Agenda. Many developing countries, in particular the poorest, have a limited capacity to participate in trade negotiations. They often have insufficient means to get a full overview of their own needs, thereby identifying their own trade interests. Furthermore, it is not uncommon that they lack the resources to participate on spot in Geneva.

The width of the Doha Agenda often results in several negotiations going on at the same time in several different committees, which means that each country would need several people on location to follow all the negotiations. A third of the least developed countries totally lack any permanent representation in Geneva. The

uneven distribution of resources also becomes obvious when looking at the amount of written submissions. The ten most active members account for a total of 60 per cent of all individual submissions in the Doha Round with the US, the EU, Australia, China, and Japan at the forefront.

## **The developing countries have become more well-organized**

An extensive learning process is often required for the capacity to negotiate in different constellations. In earlier rounds, developing countries have had problems in maintaining their coalitions. The coming together of developing countries does, however, improve their negotiating position as well as their possibility to actually be represented in the different committees. In comparison to the last round of negotiations, the Uruguay Round, the developing countries are now far better organized. This means that their possibilities to defend their interests have increased. Even the WTO work procedures have been improved in this sense. Amongst other things, representatives from the different groups are now always invited for discussions in order in a smaller circle, to discuss specific issues and thus ease the negotiations in plenary, which can often be considered to be slow-moving.

However, not all developing countries belong to a group. Poor countries like Kirgizistan, Mongolia, and Nicaragua, do not, for example, belong to any of the groups mentioned above. In other words, the risk still remains that their interest will not be taken care of even if WTO members decide to take special heed to developing country interests the way they are presented by the different groups

## **Different areas, different activity**

The existing groups have different levels of activity in different negotiating committees. For example, in the committee that deals with special treatment of developing countries, developing country participation is understandably very high. The same applies to the negotiations on agriculture. In the services negotiations, the developing countries have shown an increasing involvement over time, especially on issues of a more horizontal nature. In the GATS market access negotiations, which are based on individual offers and thus require relatively higher involvement than other negotiations, many countries have had problems to participate actively. This is problematic, not least against the background of the large potential gains which could result from an opening of the services sector.

Developing country participation also tends to be "top-heavy". The countries participate in ministerial meetings and the consultations of the General Council, but to a far lesser extent in the working groups which bring forth the suggestions dealt with by the deciding bodies. This results in countries having to take a position on suggestions they have had no part in developing, and maybe even do not grasp the full implications of.

## **Capacity building measures are necessary**

Different measures are taken to improve developing countries' possibilities to participate in trade negotiations. Different organizations and bilateral donors help developing countries identify their trade interests while supporting countries with weak or no representation in Geneva. As mentioned earlier, however, these measures are often described as being insufficient or badly coordinated.

# 6. Conclusions: Ten Steps for the Doha Round to Promote Development

In order for the results of the Doha negotiations to foster development, progress is needed in a number of areas. Below we have summarized some of the most important steps needed in ten points.

## Market access

1. A considerable reduction of agricultural tariffs. No products of interest to the developing countries are to be exempted from tariff reductions in developed countries.
2. The developed countries lower their applied tariffs with more than 50 per cent. Tariff peaks and tariff escalation decrease in the developed countries.
3. The developing countries, with the exception of the least developed countries, lower their applied tariffs with more than 30 per cent and the highest allowed tariff level will be 15 per cent.
4. The developed country services markets are opened to allow an increase in the temporary movement of persons between developed and developing countries.
5. All least developed countries are granted free access to all developed country markets for all products.

The most important measures for development are to attain considerable improvements for market access. The greatest potential gains are found in the services area, followed by industrial goods, and then agriculture. Agriculture is the sector which is given the highest priority by many countries, which is the reason why progress in that area is essential. The opportunities for developing countries to benefit from more open trade increase if they participate in reforms themselves, and do not merely rely on the commitments made by their trading partners. To offer the least developed countries free access to developed country markets is a symbolically important question in a development round, even if the value of this type of benefit is sometimes overestimated.

## Agricultural support

6. Considerable reduction of developed country domestic support for agriculture.
7. Limitation of developed country fisheries and cotton subsidies.
8. Phasing out of developed country agricultural export subsidies.

Domestic support and export subsidies contribute to pressing down the prices on the global market and thereby obstructing the competitive situation for producers in, above all, developing countries. Even if the expected welfare gains from reducing or eliminating them are small, relative to improvements in market access, the areas have a large symbolic value. Furthermore, the gains are expected to be very important for individual countries and products. Progress in these areas can be seen as a necessary condition for the developing countries to accept and see an opening their own markets as feasible.

## TRIPS

9. All least developed countries are given extended transition periods for the implementation of the TRIPS Agreement.

The least developed countries currently lack the conditions to fully implement the relatively costly TRIPS Agreement. Therefore they should be granted an extension of the transition period.

## Trade facilitation

10. Conclusion of a new agreement on the simplification of trade procedures

The gains resulting from simplified trade procedures are well known and contribute to, amongst other things, the increase of duty incomes and the reduction of corruption. A new agreement in this area would therefore be welcome, provided that developing countries are given support to handle the costs of implementing the agreement.

Even if this list is first of all a presentation of desired steps it is far from exhaustive. Genuine involvement and hard work is required from all levels of society during the implementation phase if developing countries are to benefit from the results of the Doha Round. This is true both on a national level in the developing countries and in cooperation with the developed countries. Increased aid efforts to ease developing countries' integration in and possibilities to benefit from the multilateral trading system is also a precondition.

To attain the Millenium Goals by 2015, it is finally necessary to work continuously on a number of different areas other than trade policy. Increased trade and economic integration is an effective tool for stimulating economic development. This is illustrated not least by the economic development in parts of Asia during the last two decades. At the same time, society must be reformed on a broad front for a sustainable development process to be able to take root. Democracy and legitimate political institutions, measures to improve public health, good governance, and a sustainable view on environment and natural resources are some strategic factors which together with international economic integration can stimulate sustainable development in the world. The road to get there is long and far from straight, but if the WTO negotiations contribute with one step, it will become just that little bit shorter.

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