Why Might the Doha Round Fail?

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1.0 Introduction

There are a number of factors working against a successful Doha Round conclusion. Several of these affect the linkages and trade-offs between the main elements of the Doha Round negotiating agenda, particularly agriculture, non-agricultural market access (NAMA), services, and rules. For most of the past six years, the negotiating difficulties in agriculture were regarded as the main constraint to concluding the Doha Round. However, in recent months, as the shape of the agricultural package became clearer, it has become apparent that there are also major obstacles to be overcome elsewhere in the negotiations; especially in NAMA.

Some of the factors which have influenced the pace and the level of ambition of the negotiations include:

2.0 The Problem of Applied versus Bound Tariffs

Developing countries were told this was to be the "Doha Development Round" which implied that their interests and concerns would be front and centre in the negotiations, particularly as regards agriculture. In contrast, the developed countries expected that, although there would be special and differential treatment for developing countries – mainly in the form of lower reduction commitments, this would not prevent substantial improvements in market access for both agricultural and non-agricultural products. However, few recognized at the beginning how difficult it would be to reconcile these expectations. The problem is that most developing countries (India and Brazil for example) have applied tariffs which are substantially below their bound rates (and which form the agreed baseline from which to negotiate tariff reductions). This so-called "water in the tariff" gives these countries complete policy flexibility to increase applied tariffs up to the bound ceiling level overnight. In contrast, the applied rate is identical to the bound rate for virtually all tariffs in developed countries and China as well. This means that it is very difficult for any tariff formula to bring developing country bound tariffs below the applied level without requiring a linear tariff reduction which is greater than that applied to developed countries. However, for agricultural exporters (developing as well as developed) a major goal in the Doha Round was to improve access to the rapidly growing emerging markets of the developing world.

3.0 Limited Pressure on Governments from Non-agricultural Interests

Agreement on the part of the developing countries to launch the Doha Round was conditional on a narrow negotiating agenda which concentrated on the "unfinished business" of agriculture and the remaining tariff peaks on manufactured products in developed countries. Attempts by some developed countries (in particular the EU) to broaden the agenda to increase support for potential trade-offs were rebuffed and as a result the pressure on governments from non-agricultural interests to conclude the Doha Round is not as broad, or as deep as it was in the Uruguay Round. Furthermore, a number of issues have
been successfully negotiated on a sectoral basis after the Uruguay Round (e.g., pharmaceuticals and information technology), which has further reduced the potential number of interest groups exerting pressure on governments to conclude the Doha Round.

In other words, the Doha Round is concentrated on overcoming the toughest defenders of the status quo in the agricultural and non-agricultural sectors while having relatively fewer champions of freer trade to counteract this defensive pressure. In Canada, for example, the non-agricultural champions of freer trade have been virtually invisible (many are of the view that NAFTA has largely addressed their trade interests). With minimal pressure for an ambitious Doha Round result from non-agricultural interests, the agricultural exporters have been effectively neutered by the political power of the import sensitive supply managed sectors.

4.0 US Support for Reform Is Weaker than it was in the Uruguay Round

Many US agricultural export interests (which were disappointed that the Uruguay Round results did not live up to their hype) are aware that the major beneficiaries of agricultural trade liberalization would be low cost producers such as Brazil, Argentina, New Zealand, and Australia – countries whose land values do not reflect the benefits of farm programs, but rather what the market will return. US agriculture’s interest in further trade liberalization has also been eroded by the fixation on biofuels and the conviction that the political energy spent on promoting and defending biofuel policies will pay a better economic dividend than multilateral trade policy. Compounding the situation has been a failure, at least until relatively recently, of the US Administration to explain to US producers that reductions in trade-distorting domestic support can be replaced in part or in whole by green support.

The end result is that US agriculture’s support for the Doha Round is considerably softer than it was for the Uruguay Round where it can be argued that the single-minded determination of the US to bring agriculture under operationally effective international rules and disciplines was mainly responsible for the advances that were made.

5.0 The Increased Negotiating Leverage of Developing Countries

The dramatically increased influence of developing countries, especially the large emerging economies, within the WTO has meant that the US and the EU can no longer ram through the results of their bilateral negotiations on a take it or leave it basis. While it is true that the Cairns Group of developed and developing agricultural exporters can claim much of the credit for ensuring the Uruguay Round got off to a good start on agriculture, with many of its ideas incorporated into the final Agreement on Agriculture, the end-game negotiations (Blair House and subsequently) were completely dominated by the two economic superpowers.
In the Doha Round, Brazil and India together with the other members of the G-20 group of developing countries have demonstrated a capacity to generate proposals which have been incorporated into the Chair’s modalities paper along with the leverage necessary to reject US/EU accommodations which do not reflect their interests. In particular, the G-20 has made it clear that their willingness to move on NAMA will depend upon the progress they make in agriculture. For the G-20 developing countries, the magnitude of the reduction of US trade-distorting domestic support has become their main barometer of agricultural trade reform.

The upshot of this is that while the G-20 has managed to keep the level of ambition in the agricultural negotiations higher than it would be if the US and the EU had been left free to conclude and push through another "Blair House" bilateral deal, the unwillingness of the large emerging economies to meet the market access aspirations of the developed countries on non-agricultural tariffs has become a major stumbling block.

6.0 Differing Interests among Developing Countries

It is important to point out that the interests of the developing countries are not homogeneous. Many developing countries are more concerned about reducing their non-agricultural tariffs because of anticipated competition from China than they are about import competition from developed countries. Similarly, in agricultural market access, many developing countries are just as concerned about import competition from highly efficient developing country exporters, such as Brazil or Malaysia as they are with import competition from developed country exporters. This is particularly true for countries with a large number of subsistence farmers who often coexist with a much smaller number of larger-scale commercial farmers. In countries like India, China, Indonesia, and the Philippines, the ability to continue to shield their vulnerable subsistence farmers from import competition is viewed as a political imperative. Hence, their insistence on small or no tariff cuts on "special products."

7.0 Expanded WTO Membership Makes Negotiations More Complex

The increasing size of the WTO (over 150 members) and its current institutional structure (based on consensus rather than a majority vote) have been cited among the reasons why the conclusion of the multilateral negotiations has become so difficult and protracted.

Considered in isolation, none of these factors would be sufficient to prevent the Doha Round from concluding, but their cumulative effects so far have been sufficient to blunt any attempt to bring the negotiations to a successful conclusion.