

REALIZING THE DEVELOPMENT PROMISE OF THE DOHA AGENDA
Draft Speech

When the WTO ministers launched the current round of trade talks in 2001, they called it the “Doha Development Agenda”. This was to underscore the promise that developing countries would be major beneficiaries of multilateral trade reform. After four years of fitful and often contentious negotiations, that promise now hangs precariously in the balance.

The reason is that, despite last year’s July agreement in the WTO Council which breathed new life into the talks stalled after Cancun, there remains a real possibility of a minimalist outcome. Unless there is a surge in negotiating ambition – particularly in agriculture – negotiators could end up with an agreement that offers precious little stimulus to development.

Avoiding the fate of a “Doha without development” requires everyone to raise their sights.

- *Rich countries* have to take the lead in forging a new commitment to liberalize trade, especially in agriculture, where important trade opportunities for developing countries are presently lost due to walls of border protection and costly subsidies.
- *All developing countries*, especially the more powerful ones, have to propose deeper cuts in barriers to non-agricultural market access and in services, foregoing the usually counterproductive temptation to claim exemptions or delays under the banner of special and differential treatment.
- Finally, *the international community*, working together outside the WTO context, has to provide development assistance to assist those countries that may lose from the Doha accord, and to assist others with domestic supply constraints to take advantage of new trade opportunities.

Let me elaborate.

Trade barriers generally work against poverty reduction

At the launch of the Doha Agenda, it was widely recognized that developing countries were not getting the most out of the world trading system. Developing countries’ exports – particularly agriculture and labor-intensive manufactured products and services – face the greatest restrictions all over the globe. One indication: the average poor person earning less than \$2/day and selling into the global market faces barriers that are nearly twice those of the non-poor.

- Protection in agriculture worldwide is some three to four times higher than in manufacturing.
- Protection for all products in rich countries, though only less than half that of poor countries, is biased against developing countries. On average, the US, EU, Japan and Canada charge developing countries more than 20 percent more to get into their markets than they charge each other.
- Consider this tangible example: Mongolia, producing sweaters and suits, pays 16 cents in the dollar to US customs officials for its exports into the US market; meanwhile Norway pays less than half a cent in the dollar for its exports to the US of smoked salmon, jet engine parts and crude oil.

The final expiration on January 1, 2005 of the three decade-old quota system for textiles and clothing that locked out exports from many efficient developing countries is an important achievement of the Uruguay Round. However, it is too soon to declare complete victory:

- Behind the now defunct quota system is a wall of tariffs that still limits access of clothing and textile products to the major industrial markets.
- Moreover, anti-dumping claims threaten to undo or seriously delay the benefits of the end of the quota system.

Agricultural protection is particularly harmful to the world's poor.

In agriculture, average tariff equivalents on farm products are more than three times higher than those on manufactures.

- These barriers – when you add up the tariffs, specific duties, quotas and tariff rate quotas as well as market price supports – surpass 40 percent of the world price in rich countries.
- If you put this in monetary terms, rich countries' total support to their agriculture amounts to \$350 billion annually – nearly a billion dollars per day. This is paid by both treasury outlays and higher prices for consumers
- And it is often the poor in high-income countries who spend a higher percentage of their income on food. A welfare mother with a family of four pays a much higher share of her family's income in tariffs than does the single female executive earning four times as much.

Agricultural protection is particularly pernicious on crops such as sugar, rice and cotton – all key crops for the world's poor.

- Subsidies are so extensive that farmers in the Nordic countries and in the Northern US states find it financially rewarding to grow sugar—even though their costs of production are 2-3 times those of more efficient producers among developing countries.
- Japanese rice tariffs are more than 500 percent, and in California water subsidies are so extensive that growing rice in the desert is remunerative.
- A Mississippi cotton farmer gets about \$1 from the US government for every \$1 of cotton they produce; this drives down the global price of cotton, and deprives poor but efficient farmers in West Africa of some \$250m. in income.

It is not simply the scale of protection in agriculture that harms developing countries, but often the nature of that protection. Tariffs that escalate as cheap raw materials are transformed into valuable finished products discourage production in developing countries.

- Consider this: 90 percent of the world's cocoa beans are grown in developing countries, but they account for a mere 4 percent of global production of chocolate. Tariff structures are one reason for this. In the EU, for example, raw cocoa has a tariff of 0.5 percent, semi-processed cocoa pays 9.7 percent, and ready- to-eat chocolate pays 30%.
- Or consider the case of Chilean tomatoes exported to the US. Fresh tomatoes enter at 2.9 percent; if Chilean producers dry them and package them and the tariff is 8.7 percent; but if Chileans make them into salsa the tariff is 11.9 percent.

Lest I give the impression that this is solely a problem of rich countries, let me hasten to add that protection in middle and low income countries is only slightly lower. Developing countries have levels of protection that are less than rich countries, but nonetheless still high and trade-restricting.

- Middle income developing countries have an average tariff equivalent of about 40 percent *against other developing countries*, while the US, the EU, Canada, and Japan have levels of protection equivalent to 45 percent.

- Like their rich country counterparts, they resort to specific duties – if with less frequency – and to escalating tariffs.
- Said differently, nearly one-third of the total possible gains to developing countries are associated with agricultural liberalization in the developing countries themselves.

...and so liberalizing world trade in agricultural products is key to Doha's development impact

A trade round that does not begin to tear down barriers in agriculture will not be a development round.

- Developing countries have a strong comparative advantage in agriculture and three quarters of the world's poor live in the countryside, so reducing barriers to agricultural trade in most countries generates a strong, poverty-reducing impulse.
- The majority of the rural poor live in countries that do not receive preferential access to markets of rich countries.
- Bank research indicates that some two-thirds of the potential gains from trade liberalization emanate from agriculture.

The problem here is that the July WTO framework leaves open the possibility of an agreement without much reduction in these barriers.

- Border protection – all those tariffs, specific duties and non-tariff barriers – is the most distorting element of agricultural trade policy hurting developing countries.
- For these barriers to be reduced, however, cuts have to be substantially more than is generally envisaged. A key reason is that legally *bound tariffs* in the WTO are significantly higher than actual *applied tariffs* in both developed and developing countries — average bound rates are close to double the applied rates in developed countries, and more than double in developing countries. In the LDCs, bound rates are six times as high as applied rates.
- Only when bound rates are cut below applied rates can real gains in market access be achieved.

Similarly, the agreement specifies that “sensitive” and “special” products will be subject to smaller cuts in protection.

- This has the potential to seriously undermine the value of any deal.
- Bank research indicates that even if only 2 percent of tariff lines covering the most protected heavily traded products were subject to smaller cuts, say around 15%, much of the poverty reducing potential of the Doha round would be eliminated.

Large cuts in domestic support commitments are also needed.

- As with border barriers, existing ceiling commitments on domestic support for farmers are so much higher than actual support levels that the proposed 20 percent cut in the total bound Aggregate Measurement of Support promised in the Framework Agreement, as an initial installment, will not even come close to requiring actual reductions in support.
- Attempts at liberalization are also likely to be thwarted by conjuring tricks such as switching between different-colored “boxes” and making applied domestic support “disappear” by abolishing administered prices – while leaving the same protection in place.
- Indeed, a cut as large as 75 percent would be required to get substantial reductions in applied support in some cases – and even this would cut domestic support in only four economies.

Finally, although export subsidies are quantitatively the smallest component of trade distorting restrictions, the decision to eliminate them within an agreed timeframe is an important – and long overdue – achievement.

- But in terms of the development impact of the Doha Round, much will depend on the phasing of reductions and final date for ending these subsidies.

Agriculture is an area where rich countries – as the most serious offenders – have to take the lead.

- Among the high income countries, the EU, Japan, Norway, Switzerland and the US have to be more forthcoming.
- Without a substantive outcome on agriculture the “development” round rings hollow.

Nonetheless, developing countries themselves will have to be more forthcoming if the round is to promote development... and this means avoiding excessive recourse to special and differential treatment.

Many of the restrictions I’ve enumerated for rich countries – high barriers in agriculture, barriers to labor-intensive manufactures, escalating tariffs – are also common in middle- and low-income developing countries.

- Despite surging South-South trade, middle income countries charge each other some 22% for market access as compared to the 8% price of trade entry that rich countries charge each other.
- Developing countries exhibit similar, if less exaggerated, levels of protection in agriculture as high income countries; but their level of protection to manufactures is some four times higher.
- Understand what this means: Exporters in Africa wishing to export to South Asia have to pay on average 22 percent to sell their goods. Latin American exporters have to pay on average 25 percent to sell in East Asia. Or an East Asian company typically pays 14.9 percent to sell in Mexico.

In point of fact, developing countries have liberalized a great deal over the last two decades.

- Over the last 20 years as a group they have progressively brought down their tariffs from nearly 30 percent to less than 10 percent.
- Countries as diverse as China, India, Brazil, Argentina, Malawi, Uganda and Sri Lanka have brought down their border barriers to trade.

But most countries have reduced these barriers to trade as part of domestic reforms rather than as part of a multilateral or regional process that used domestic reforms to simultaneously open markets abroad.

- Some two-thirds of the total reduction in average tariffs in the last two decades was attributable to unilateral reforms, not due to multilateral or regional agreements.
- In part this was because up until this round, developing countries were marginal participants in the trade negotiations and their interests were insufficiently represented. This meant that multilateral efforts at liberalization took place mainly in product lines of interest to the dominant members, mainly rich countries. Barriers on products of interest to developing countries, particularly in agriculture, were subject to only feeble disciplines.
- But in part it was also because developing countries were undertaking liberalization without binding their commitments in the multilateral system. Their liberalization efforts in that sense obtained only half their possible benefits: reforms at home, while a

powerful stimulus to productivity, missed the opportunity to leverage trade openings abroad.

In this round, the July framework effectively excused the least developed countries from any new disciplines, save for transparency in customs duties and increasing the coverage of bound tariffs.

- But for countries where protection remains high, making no contribution to the Doha round will leave in place barriers that prevent competition that sap their productivity – and force continued reliance of ever diminishing and largely ineffectual preferences.
- To reap the benefits of the Doha round, the least developed countries must analyze the potential benefits – as well as the possible costs – of accepting the offer of exemption from new liberalization commitments that they have already been granted.

South-South trade now constitutes some one quarter of developing country exports, and over 30 percent of exports from least developed countries go to other developing countries. Moreover, South-South trade is growing 50% faster than world trade in general. Exempting this dynamic segment of global trade from further liberalization undercuts the development objectives of the round.

For these reasons, developing countries cannot opt out of the round in the name of special and differential treatment and collectively expect to get the most out of the Doha Agenda. Not only is avoiding exemptions and lowering barriers in their own long-term interest, and in the interests of their developing country trading partners, it is the only way to put the onus on recalcitrant rich countries to make a deal.

“Aid for trade” assumes a new urgency

This is not to say that gains from trade reform are automatic or that even an ambitious round in Doha that stimulates pro-poor growth throughout the developing world will benefit every country in equal measure.

Indeed, a few countries may even be hurt.

- Some Sub-Saharan African countries may suffer from rising prices to food as subsidies in the rich countries are wound down.
- Other countries that have enjoyed privileged access to large markets as part of preferential arrangements – in sugar, bananas, textiles and clothing – may see those preferences eroded.
- Of course, not all net food importers or countries with preferences would suffer these terms of trade losses because prices of their exports, for example cotton or labor intensive manufactures, might rise.
- Analysis indicates net terms of trade losses will afflict only a minority of developing countries, and that these effects will be allayed by their being spread over a decade or more of implementation.
- Even so, the internal adjustment costs for some can be non-trivial, and the international community has to search for ways to offset these costs and ensure that a successful Doha round benefits all countries.

But most importantly, developing countries can use assistance to address supply-side constraints that would otherwise prevent their private entrepreneurs from taking advantage of opportunities won in the Doha round. The round can deliver opportunities, but it is enhanced competitiveness that is key to integrating developing countries into global markets.

Furthermore, while trade reforms are necessary to stimulate increases in productivity and output, rarely are these reforms sufficient, especially in the poorest countries. For trade to become a strong lever for growth, good trade policies typically need to be accompanied by complementary reforms, capacity building, technical assistance, and investments in infrastructure.

This is where “aid for trade” enters the picture. What do I mean by “aid for trade”?

- I mean the provision of technical assistance, of advice and expertise to assist countries confronted with the myriad complexities of modern trade.
- But more than that, “aid for trade” means building the capacity of developing countries to deal with these issues on their own, for example through the training of government officials.
- And it means helping to create a framework of sound and well-functioning institutions for trade, directing assistance towards institutional reform in areas such as customs.
- Yet important as knowledge and institutions are, they are of limited use without roads and ports to link the poor and the goods they produce to markets. So investment in infrastructure is also a key component of “aid for trade”.
- Lastly, “aid for trade” can mean assistance to offset any adjustment costs, such as fiscal support to help countries make the transition from tariffs to other sources of revenue.

Successful aid for trade projects generally combine most, if not all, of these elements: technical assistance and capacity building, institutional reform, investment in infrastructure and assistance with transitional adjustment costs. Consider two examples:

- The Bank is working with Vietnam on a project for comprehensive customs reform, encompassing capacity building, simplification of clearance procedures, modernization of the legal framework and improved information and communication technology.
- Likewise, the Standards and Trade Development Facility, initiated by the World Bank and the WTO, uses a mixture of financing, technical assistance and donor coordination to build the capacity of developing countries to meet international standards in food and agricultural exports.

The good news is that development assistance in this area has been increasing.

- The World Bank has been rapidly expanding its support to trade through enhanced investments in infrastructure and in our programs to support trade facilitation. We anticipate that Bank lending for trade facilitation in FY04-06 will amount to US\$1 billion, more than three times the total lending during FY96-03.
- The IMF, through its new Trade Integration Mechanism, has tabled additional resources for those countries suffering from policy-induced deterioration in terms of trade; already it has made a loan to Bangladesh to cope with the termination of the ATC. Other donors have increased their programs.

However, we know that demands for funding to address supply-side constraints still exceed available resources. Existing levels of development assistance also remain substantially below what many poor countries can absorb.

- Incorporating more trade expanding programs into Poverty Reduction Strategies is a first step.

An important way forward is to enhance the Integrated Framework, the six agency cooperative now providing trade-related technical assistance to least developed countries. This could be achieved by making available somewhat larger amounts to provide expanded technical assistance

to help low income countries, for example, to meet international sanitary standards, improve customs, and strengthen other trade-related institutions. By scaling up the Integrated Framework, and providing more funding and more support for trade in country programs, the international community can substantively address some of the main concerns arising from the Doha Agenda.

The expanded Integrated Framework could move beyond diagnosis of technical assistance and capacity building needs to include efforts to design a blueprint for new infrastructural investments and institutional reform programs that would eliminate bottlenecks to expanded trade.

- These could provide a framework for subsequent new investments and programs which could be undertaken with support from existing institutions, including the World Bank, and the regional development banks. They could form part of national development strategies, described in Poverty Reduction Strategies, where the trade and growth agendas in any case need to feature more prominently.
- This is only one way to achieve a large increase in aid for trade. There are others. It is time to consider all new ways to harness aid for trade.
- Aid for trade is an investment in the future – one that promises a high rate of return in terms of supporting higher growth.

The Doha round is a critical opportunity both to bring about real trade policy reform in both developed and developing countries and to marshal additional resources to underpin this reform.

But time is running out on the Doha process.

The Hong Kong Ministerial, scheduled to begin December 13, 2005, is a key test of the ultimate ambitions of the “development” round. Unless the Hong Kong Ministerial is able to deliver concrete progress, it is unlikely that the round can be completed by the end of 2006.

- If this sounds ambitious, remember that it is already one year later than the original deadline agreed by Ministers at Doha.
- And, most importantly, a swift - and substantive - conclusion to the Doha round is essential if the Millennium Development Goals are to be achieved by 2015.

But just any deal is not enough to promote development. The danger that developing countries will end up with very little is real and worthy of concern. If all countries stick to minimalist positions, there is little chance that the Doha round will make a significant contribution to reducing global poverty. And the price of failure is high – for the world’s poor and for all those who believed that the Doha round was a sign that WTO Members were serious about making the trading system work for development.

For all of these reasons, the time for action is now.

- Rich countries have to take seriously the development aspirations of developing countries and begin by adopting the same aggressive market openings in agriculture that they long ago adopted in manufactures.
- Middle income countries, particularly those in the G-20, also have to contribute with offers to open services markets, bring down high tariffs in manufactures, and reduce barriers in heavily protected agricultural markets. Trading away “special and differential privileges” for increased market access in agriculture and elsewhere would spur their own development.
- At the same time, the international community has to devise a program of “aid for trade” that will allow low-income countries to participate more actively in the global market place and, for the few countries actually hurt from rising food prices or loss of

preferences, that will provide resources to help them develop more internationally competitive firms and industries.

Every country has to contribute – because only then will every country gain. And only then will the Doha round be not just another missed opportunity, but a true development round.