

## Special Focus

### What Can East Asia Expect from the Doha Development Round?

#### Introduction

In advance of the upcoming Hong Kong Ministerial Meeting of the World Trade Organization in December to attempt to reach a deal on key issues related to the Doha Development Agenda launched in 2001, this special focus section attempts to provide a primer of some of the basic issues for developing countries going into the upcoming talks. Starting with an overview of the multilateral trading system and how it can potentially benefit developing countries, the section also reviews the issues critical to the success of the Doha Development Round. Finally, we look at ways that East Asian countries stand to benefit from further progress on the Doha Development Agenda, as well as progress they can make on their own to improve their own trade prospects.

#### The multilateral trading system: a two-way street for developing countries

More and more developing countries are realizing the importance of freer international trade as a vehicle for achieving a higher standard of living and employment. The importance of trade in the global economy is well known. In the past 10 years, the share of trade in the global economy has increased from 33 to 41 percent of the world's gross domestic product (GDP). More rapid trade growth has been an important economic driver for developing countries. Per capita GDP growth for developing countries who have been trading more in the global marketplace has accelerated from 2.9 percent a year in the 1970s to 5.0 percent in the 1990s (Dollar and Kraay, 2001).

Trade benefits producers and consumers alike. Consumers benefit from lower prices, a greater variety of products, and better quality products. Producers benefit from increased productivity and efficiency from lower prices for raw materials, technological improvements, and access to larger markets.

The world's **multilateral trade** system benefits most countries, as the system mandates that all countries should have equal access to freer trade. The key principles to the multilateral trading system are: (i) trade without discrimination—this includes the Most Favored Nation (MFN) clause (whereby a member country is required to extend any liberalization steps to all other members) and the national treatment (whereby foreigners and locals are treated equally); (ii) freer trade, gradually and through

negotiations; (iii) predictability, through binding (whereby countries “bind” their commitments to open their markets in goods or services) and transparency; and (iv) fair competition, by regulating dumping (exporting at below cost to gain market share) and subsidies (that reduce the cost of production). By being rules-based in this fashion, the multilateral trading system would be less effective if the rules could not be enforced. The WTO's dispute settlement body is thus a central pillar of the multilateral trading system and the WTO's unique contribution to the stability of the global economy.

Most developing countries view the multilateral trade system as driven mainly by developed countries and working to the benefit of developed countries. There is some truth to this. Developed countries indeed played an important role in initiating the multilateral trade framework because they were the world's largest traders. They were ready to lower barriers to trade because they had much to gain. When the General Agreement on Trade and Tariffs (GATT), the precursor to the World Trade Organization (WTO), was initiated developing countries were not prepared to offer the same degree of deep tariff cuts and chose to keep their domestic markets relatively protected. Even now, average tariffs for many products in developing countries remain higher than in the developed world, although they have been coming down in recent years. Overall, the average tariff in the developed world is just 3 percent versus 10 percent in developing countries, although this difference is much smaller in selected sectors such as agriculture.<sup>1</sup>

In the new round of trade talks there is a determination to involve more countries in the process, especially developing countries. But with more countries determined to play an active role in negotiations, it is harder to get agreement. There are several issues that developing countries have emphasized:

**First**, poor developing countries feel unfairly treated by developed countries' subsidies in agriculture, trade restrictions in non-agriculture products, and rules on intellectual property rights. In agriculture, which has high potential for developing country exporters, only limited progress has been made to reduce developed countries' trade-distorting subsidies. Access for agricultural products from poor developing countries to developed markets and to other developing countries remains limited. Developed countries also

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<sup>1</sup> Anderson, Martin, and van der Mensbrugge, (2005).

often impose cascading tariffs that raise protection for their own processors of commodities like coffee and cocoa, forcing developing countries to only export the lower value, unprocessed crops. In the area of intellectual property rights, the introduction of patent rights in pharmaceutical products could undermine the access for medicines in developing countries, including drugs to fight diseases such as HIV/AIDS and Avian flu.

**Second**, while several countries have been enjoying an increasing share in global trade, including many in the East Asia region, some poor developing countries feel marginalized as their share of global exports has shrunk. The share of global exports from Sub-Saharan Africa has diminished from 1 to 0.7 percent in the last 10 years. With limited capacity to engage in multilateral trade negotiations and uncertainties about the potential benefits, poor developing countries have less incentive to lower high tariffs and integrate into the global trading system.

**Third**, some poor developing countries have been disadvantaged by exports from other more competitive developing countries which have managed to benefit from freer trade. The end of the multi-fiber arrangement (MFA) in textiles and garments, for example, has so far benefited developing countries in East and South Asia but potentially at the expense of other poor countries which used to enjoy preferential access to developed countries under the quota system.

Despite the challenges ahead, the multilateral trading system has made significant progress in enabling participating countries to contest unfair trade issues. From the developing country perspective, the creation of the World Trade Organization (WTO) should bring the hope that a rules-based multilateral trade could redress the trade imbalances caused by unfair practices. One recent example is the case brought by Brazil which led to the WTO Appellate Body ruling that the United States' cotton subsidies were against WTO agreements. Another example is the WTO ruling brought by Australia, Brazil, and Thailand, against the European Union (EU) sugar subsidy regime. The system also enables developing countries to address imbalances caused by other developing countries. Recently, developing countries in Latin America successfully contested EU preferential treatment for banana exports from the Caribbean. These rulings should send a strong message to developing countries on the benefits of working within the multilateral trading system.

## What is the Doha Development Round?

At the 2001 Ministerial Conference of the WTO in Doha, Qatar, 142 countries agreed to start a new trade negotiation round known as the **Doha Development Round, that takes more into account concerns of developing countries**. The Doha Development Round is important because it puts development at the center of the multilateral trade negotiation with the willingness to negotiate sensitive issues such as agricultural trade, critical for developing country access to global markets. The Doha Round is important in many aspects because it sets the scope for global trade negotiations for the next decade.

The general issues being negotiated in the Doha Development Round are:

**I. To improve market access for agricultural trade by reducing agricultural tariffs, reducing agricultural subsidies, and reforming domestic agricultural support systems.** This is indeed the most important issue considering that almost two-thirds of the gains from the reduction of trade barriers and distortion globally are expected to come from agriculture (Anderson and Martin, 2005). Although there are still many disagreements on how to proceed, the inclusion of the agricultural trade agenda as a condition for multilateral trade to expand sets the stage for developing countries to actively participate in negotiations.

**II. To improve non-agricultural market access through reduction of tariff barriers.** The important issues are reducing average tariffs, reducing the number of tariffs that are significantly higher than the average (tariff peaks), and reducing higher tariffs for processed items (called "cascading tariffs"). These tariff schemes often disadvantage developing countries' exports because they are mostly concentrated in agricultural and food products, and labor intensive sectors such as textiles and apparel (Hoekman, Ng, Olarreaga, 2001). Countries are negotiating the adoption of a Swiss formula-type of approach i.e., applying steeper cuts to higher tariffs, with different coefficients for developed and developing countries.<sup>2</sup>

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<sup>2</sup> The generic Swiss formula is given as  $t_1 = \frac{\alpha * t_0}{(\alpha + t_0)}$

where  $\alpha$  is tariff objective parameter,  $t_0$  and  $t_1$  are the current and final (after cut) tariff. The formula implies the higher the current tariff  $t_0$ , the higher is the cut for a given parameter  $\alpha$ . For example, for  $\alpha=25$  and current tariff of 100 and 150 percent, the formula dictates new tariff of 20 and 21.4 percent, where the latter implies higher reduction (from 150 to 21.4 percent as compared to 100 to 20 percent).

III. **To bring in issues of trade facilitation where the focus will be to reform border procedures in developing countries.** This follows a recognition that good infrastructure for trade is as important as trade policies in getting full participation by countries in the global trading system. The discussion on trade facilitation has evolved to the point where international development agencies have adopted an *aid for trade* approach. With aid for trade, developing countries may receive development and technical assistance to improve trade facilitation in return for their effort in joining the multilateral trading system. An enhanced aid for trade package is currently under discussion.

IV. **To strengthen the rules-based foundation of the multilateral trading system is another key aim.** WTO members agreed at the Doha Ministerial Conference to launch negotiations in the area of WTO rules. These negotiations relate to the agreement on anti-dumping, the agreement on subsidies and countervailing measures, and WTO provisions applying to regional trade agreements. As part of the Doha Round, member governments are also negotiating to improve the trade dispute settlement mechanism (the negotiations are continuing without a deadline).

V. **To address service-sector liberalization in both developed and developing countries.** For developing countries, the progress on this issue seems conditional upon the success in negotiating agricultural market access. Developing countries are also particularly interested in Mode 4 (temporary movement of people). Other issues that will be negotiated in the Doha Round include intellectual property rights, such as rules about importing generic drugs, and use of geographical appellation in product advertising and branding.

**Box 1. Major negotiations offered in Doha Development Round**

**Market access :**

(i) **Agriculture market access:** to improve market access; phase out all forms of export subsidies; and reduce trade-distorting domestic support.

(ii) **Non-agriculture product market access (NAMA):** to reduce tariffs, including tariff peaks, high tariffs, and tariff escalation, as well as non-tariff barriers, particularly on products of export interest to developing countries.

**Trade facilitation:** to negotiate better border procedures and facilities to expedite the flow of export and import.

**Rules and mechanisms:**

(i) **Dispute settlement mechanism:** to improve the implementation of rulings and participation of

developing countries.

(ii) **Regional trade agreements:** to clarify and improve disciplines and procedures under existing WTO rules on regional trading agreements.

(iv) **Antidumping measures:** to clarify and improve disciplines, while preserving the basic concepts, principles, and effectiveness of these agreements and their instruments and objectives.

**Services:** to liberalize services sector and modes of supply.

**TRIPS** (Trade-related aspects of intellectual property rights): to establish a multilateral system of notification and registration of geographical indications for wines and spirits. Protection of geographical indications of other products addressed under review of implementation of the TRIPS agreement.

**Special and differential treatment:** to negotiate on how to implement special and differential (S&D) treatment for developing countries.

**Progress in the Doha Round**

In 2003, the Doha Development Agenda was dealt a severe blow after the Ministerial Conference in Cancun, Mexico, failed spectacularly to agree upon how to proceed with the round. Without the willingness of developed countries to commit to decreased agricultural protection and subsidies and of developing countries to engage in the Singapore issues (which include investment, competition policy, government procurement, and trade facilitation), the meeting failed to deliver any consensus.

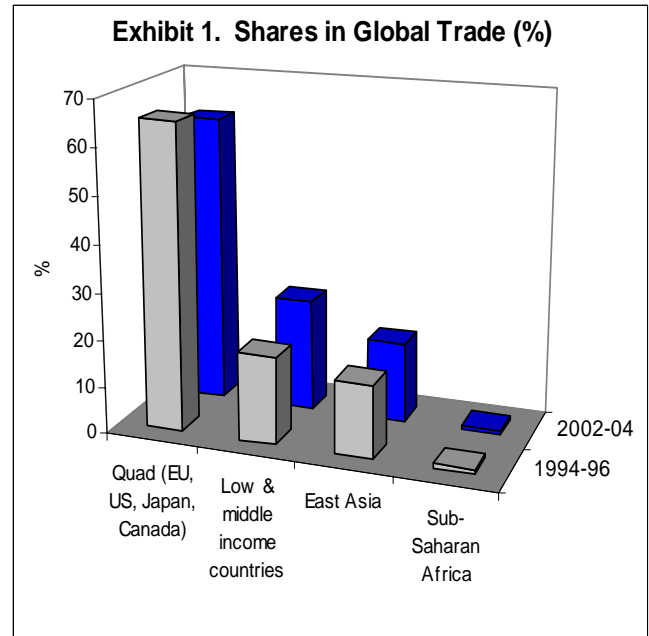
The deadlock was broken in Geneva when the General Council agreed on the “July package” in the early hours of August 1<sup>st</sup>, 2004. The main achievements of the meeting include a road map for the future elimination of agriculture export subsidies, new commitments to discipline trade-distorting farm subsidies, and commitment to reduce agriculture tariffs to achieve substantial improvements in market access while allowing for flexibility in the treatment of sensitive products. There was also agreement to initiate negotiations on trade facilitation, with the objective to expedite the movement, release, and clearance of goods to substantially reduce red-tape and improve customs procedures around the world. The other Singapore issues were dropped. The delay in reaching agreement meant that the original January 1<sup>st</sup>, 2005, deadline for finishing the talks could not be met. Unofficially, members aimed to complete the next phase of the negotiations at the Hong Kong Ministerial Conference in December 2005, including full

“modalities” in agriculture and market access for non-agriculture products, and to finish the talks by the end of the following year.

The next Ministerial Conference is scheduled in Hong Kong for the 13-18 of December. The 148 participant countries are expected to resolve key issues brought by the July package ranging from domestic support for agriculture, the formula for tariff reductions, non-agricultural market access, and treatment of sensitive and special products. Success in Hong Kong will send an important message to the world that the multilateral trading system is about making mutual sacrifices for mutual benefit. On the other hand, failure will send a bleak message on the future of multilateral trade. More importantly, developing countries, including most of East Asia, who expect to gain from the advance of freer trade will lose the most if the Hong Kong meeting collapses.

### Potential Benefits for East Asia

East Asia is likely to benefit more from global trade liberalization than any other region because of its open markets and the role trade already plays in driving growth. The share of the region’s trade to GDP reached an average 80 percent in 2002-04.<sup>3</sup> The region also has become one of the major players in global trade as its share in world exports reached 18 percent in the same period.<sup>4</sup> At the same time, more than one third of East Asian trade has been within the region with several sectors, such as parts and components which fuel regional supply-chain networks, showing increased integration over the last decade. However, the extent to which the Doha Development Round offers significant benefits to East Asia depends on the issues and sectors being negotiated.



### Agriculture

East Asia can gain from the success of agricultural trade talks in Doha Round for at least two reasons:

**First**, is trade on rice. Rice cultivation is important in East Asia not only for its contribution to the agricultural sector but also because rice production is largely in rural areas where most of the population lives (80 percent in Cambodia and Vietnam, for example). Studies suggest that trade should benefit rice producers in Cambodia and Vietnam by following Thailand’s success in catering to foreign consumers’ demand (Arulpragasam *et.al*, 2004). However, access to other regional markets is limited by protectionist policies in favor of domestic producers. For example, access to the nearest OECD countries, Korea and Japan, is limited since rice imports are subject to import quotas and high specific tariffs for over-quota import (400¥/kg in Japan).<sup>5</sup>

Given the sensitivity and difficulties in negotiating these issues, it is still unclear whether much progress will be made from negotiations on agricultural subsidies and market access. The negotiation process will likely face resistance from the European Union and Japan which are still very defensive in reforming their agricultural policy.

**Second** is processing of agricultural products such as coffee and cocoa. Developed countries such as the EU and the US impose cascading tariffs for the import of

<sup>3</sup> Trade/GDP = (export + import)/GDP

<sup>4</sup> Twelve countries in East Asia excluding Japan.

<sup>5</sup> UNCTAD, Trade Analysis and Information System (TRAINS) database, 2002.

processed agricultural products. For example, East Asian processed cocoa exports to the EU are subject to a 30 percent tariff compared to a zero percent tariff for raw cocoa. Similarly, the export of processed coffee beans to the EU is subject to a 12 percent tariff compared to a zero tariff for raw coffee beans. The cascading tariffs constrain East Asian exporters from moving into higher-value processed agricultural products.

### **Non-agricultural products**

The success of the Doha Round in improving market access can benefit competitive East Asian exports and enable East Asian countries to export higher-value items. East Asian countries should negotiate lower tariffs and tariff peaks. This is likely to be the main source of gains for regional economies.

### **Services**

Despite increases in domestic competition, the services sector in East Asia is for the most part still highly regulated with few foreign competitors. Air transportation, logistics, financial services, and telecommunications are regulated in favor of domestic players. By opening up the services sector, East Asia can potentially benefit not only from the inflow of foreign direct investment but also from more efficient service providers, including increased efficiency for domestic providers. For example, one study suggests that restricting foreign firms from being able to establish logistics services in Malaysia and Indonesia is estimated to have increased distribution costs by 4 percent (Dee, 2004, citing Kalijaran, 2000). Similarly, a study of commercial banking services in East Asia also indicates that increasing foreign ownership improves the performance of the commercial banking sector (Laeven, 2005). In this respect, countries in East Asia have full control of the results from liberalizing their own services sector. In other words, with or without the Doha Round, East Asian countries should consider unilaterally liberalizing their services sector.

### **Regional trade agreements**

The success of the Doha Round will also help bring discipline to regional trade agreements (RTAs) which have proliferated worldwide since 1995. There are several RTAs in the region such as the Asean Free Trade Area (AFTA), AFTA and China, and other bilateral talks such as Thailand and the US. The concern about RTAs is that they risk diverting trade away from an efficient non-member. Also, too many involvements in different RTAs can lead to difficulties in complying with different protocols and arrangements.<sup>6</sup> While recognizing that the

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<sup>6</sup> The prominent trade economist Jagdish Bhagwati refers to the potential complications from regional trade

main priorities for services reform are domestic, and much can and should be achieved unilaterally, international negotiations can help develop and create commitment to good services policy. However, while multilateral liberalization is likely to produce larger gains than preferential liberalization within the context of a regional agreement, the latter may be more feasible.

### **Trade facilitation**

The Doha Development Round calls for more efficient border procedures, clarification, and improvement of WTO rules governing customs protocols to expedite clearance of goods. Both imports of materials for important products such as textiles, apparel, furniture, and exports are often subjected to slow or antiquated customs procedures at ports. Industries in low income East Asia such as Cambodia, Lao PDR, and Vietnam can gain significantly from improvements in their border procedures to reduce the cost of delivering inputs and raw materials and therefore increase the profit margin for exporters.

### **Trade in intellectual property rights and geographical indications**

The Doha Round has decided to provide waivers to developing countries who do not have drug manufacturing capacity to import generic drugs. Thus success of negotiations on this issue can benefit the East Asia region which is currently facing serious risks from the spread of infectious disease such as HIV/AIDS and the potential for the human spread of Avian Flu. With respect to geographical indications (GIs), developing countries could demand geographical recognition for their products' distinctive quality and characteristics. The Doha Round will address the issue of registering GIs through a multilateral system and enhancing GIs to cover items beyond wine and spirit. Thus East Asia's local knowledge and cultural richness embedded in certain products such as food and manufactured items can potentially benefit from GI's (for example, see Luthria and Maskus, 2004).

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