Global Economic Prospects 2004

Realizing the Development Promise of the Doha Agenda

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World Bank

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GEP 2004 Contents

- Economic Outlook
- Preparations for Cancun
  - Agricultural trade
  - Manufacturing trade
  - Services
  - Trade facilitation
  - Special and differential treatment
Other Bank sources

- GEP 2002
  - Transport services, intellectual property
- GEP 2003
  - Investment and competition policy
- Handbook: Development, Trade and the WTO
- New Handbook on agricultural trade
- Trade notes
- Website: www.worldbank.org/trade
Main messages...

- Global recovery is underway, and is expected to improve growth in developing countries in 2004.
- The Doha Agenda provides an opportunity to improve the standard of living of the world’s poor.
- But to realize the development promise of the Doha Agenda, governments everywhere have to tackle inequities in the world trading system.
- All countries have an interest in taking advantage of this opportunity... a $500 billion interest... and they have the responsibility to realize that opportunity.
All countries have an interest in a successful Doha Agenda…

Suppose an agreement were to lower tariffs to levels like these:

<table>
<thead>
<tr>
<th></th>
<th>Industrial</th>
<th>Developing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Agriculture</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average</td>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td>Maximum</td>
<td>10</td>
<td>15</td>
</tr>
<tr>
<td><strong>Manufacturing</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Maximum</td>
<td>5</td>
<td>10</td>
</tr>
</tbody>
</table>

Source: World Bank Staff
All countries have an interest in a successful Doha Agenda ... a $270 - $520 bil. interest

Change in real income in 2015 relative to the baseline (US $billions)

Source: World Bank staff simulations.
Poverty would fall by an additional 140 million...particularly in Africa

Source: World Bank staff simulations.
A pro-poor world trading system requires tackling anti-development inequities

- Agriculture
- Labor-intensive manufactures
- Special and differential treatment
- …and
  - Services
  - Singapore issues
  - Intellectual property rights
Agriculture is key to poverty reduction in developing countries

- 63 percent of population live in rural areas;
- 73 percent of poor live in rural areas;
- Many urban poor depend on agricultural processing and services for agriculture;
- Agriculture and agro-processing => 30-60 % of GDP, and even larger share of employment;
- Even with rapid urbanization, more than 50% of the poor will be in rural areas by 2035.
Agricultural agenda

- Eliminate export subsidies
  - But only if tariffs also reduced
- Reduce average tariffs
  - Even more important than subsidies
  - Including in middle-income countries
- Cut tariff peaks (tariffs > 15%)
- Reduce tariff escalation
- Eliminate specific, non-ad valorem tariffs
Protection in rich countries is high and has changed little since the Uruguay round... and tariffs are even more important than subsidies.
While protection in developing countries is much lower and has fallen

Industrial countries: Producer Support Estimate

Developing countries: average tariffs for agriculture

* As a percent of output at world prices
Source: OECD

Source: TRAINS
Redefine export subsidies

- Now: simply the difference between export prices and domestic prices
- Ideally: the difference between export prices and costs of production
  - E.g. US cotton: no “official” export subsidy because domestic price = export price; but export price = 50% of costs (and even less in EU)
In agriculture, industrial countries levy higher tariffs on imports from developing countries

Protection rates facing exporters to industrial countries, by region, 1997 (percent)
## Tariff Peaks in Agriculture

### Tariff peaks and variance in selected countries (percent)

<table>
<thead>
<tr>
<th>Country</th>
<th>Average Tariff</th>
<th>Maximum Tariff</th>
<th>St. Deviation</th>
<th>Percentage of lines covered</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>3.8</td>
<td>238.0</td>
<td>12.9</td>
<td>76.0</td>
</tr>
<tr>
<td>Japan</td>
<td>10.3</td>
<td>50.0</td>
<td>10.0</td>
<td>85.5</td>
</tr>
<tr>
<td>US</td>
<td>9.5</td>
<td>350.0</td>
<td>26.2</td>
<td>99.3</td>
</tr>
<tr>
<td>EU</td>
<td>19.0</td>
<td>506.3</td>
<td>27.3</td>
<td>85.9</td>
</tr>
<tr>
<td>Korea</td>
<td>42.2</td>
<td>917.0</td>
<td>119.2</td>
<td>98.0</td>
</tr>
<tr>
<td>Brazil</td>
<td>12.4</td>
<td>55.0</td>
<td>5.9</td>
<td>100.0</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>13.2</td>
<td>154.0</td>
<td>17.4</td>
<td>100.0</td>
</tr>
<tr>
<td>Morocco</td>
<td>63.9</td>
<td>376.5</td>
<td>68.2</td>
<td>100.0</td>
</tr>
<tr>
<td>Indonesia</td>
<td>8.5</td>
<td>170.0</td>
<td>24.1</td>
<td>100.0</td>
</tr>
<tr>
<td>Malawi</td>
<td>15.3</td>
<td>25.0</td>
<td>9.1</td>
<td>100.0</td>
</tr>
<tr>
<td>Togo</td>
<td>14.7</td>
<td>20.0</td>
<td>6.5</td>
<td>99.9</td>
</tr>
<tr>
<td>Uganda</td>
<td>12.9</td>
<td>15.0</td>
<td>3.7</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: WTO IDB (MFN Applied Duties)
## Tariffs rise with processing

<table>
<thead>
<tr>
<th>Cocoa products</th>
<th>EU</th>
<th>US</th>
<th>Japan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw</td>
<td>0.5</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Intermediate</td>
<td>9.7</td>
<td>0.2</td>
<td>7</td>
</tr>
<tr>
<td>Final</td>
<td>30.6</td>
<td>15.3</td>
<td>21.7</td>
</tr>
<tr>
<td>Maximum</td>
<td>63</td>
<td>186</td>
<td>n.a.</td>
</tr>
</tbody>
</table>
Tariffs escalation discourages domestic value added...

Source: WTO IDB (MFN Applied Duties)
## Tariffs rise with processing

**Tariff escalations in selected product groups (percent)**

<table>
<thead>
<tr>
<th>Tropical products</th>
<th>European Union</th>
<th>United States</th>
<th>Korea</th>
<th>Japan</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Coffee</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Raw</td>
<td>7.3</td>
<td>0.1</td>
<td>5.2</td>
<td>6</td>
</tr>
<tr>
<td>Final</td>
<td>12.1</td>
<td>10.1</td>
<td>8</td>
<td>18.8</td>
</tr>
<tr>
<td><strong>Cocoa</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Raw</td>
<td>0.5</td>
<td>0</td>
<td>5</td>
<td>0</td>
</tr>
<tr>
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<td>9.7</td>
<td>0.2</td>
<td>5</td>
<td>7</td>
</tr>
<tr>
<td>Final</td>
<td>30.6</td>
<td>15.3</td>
<td>12.3</td>
<td>21.7</td>
</tr>
<tr>
<td><strong>Sugar</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Raw</td>
<td>18.9</td>
<td>2</td>
<td>a</td>
<td>25.5</td>
</tr>
<tr>
<td>Intermediate</td>
<td>30.4</td>
<td>13.8</td>
<td>19.3</td>
<td>11.6 b</td>
</tr>
<tr>
<td>Final</td>
<td>36.4</td>
<td>20.1</td>
<td>50</td>
<td>a</td>
</tr>
</tbody>
</table>

| Expanding commodities | | | | |
|-----------------------| | | | |
| **Fruits** |
| Raw       | 9.2 | 4.6 | 49.6 | 8.7 |
| Intermediate | 13.3 | 5.5 | 30 | 13.2 |
| Final     | 22.5 | 10.2 | 41.9 | 16.7 |
| **Vegetables** |
| Raw       | 9.9 | 4.4 | 135.4 | 5 |
| Intermediate | 18.5 | 4.4 | 52.2 | 10.6 |
| Final     | 18 | 6.5 | 34.1 | 11.6 |
| **Seafood** |
| Raw       | 11.5 | 0.6 | 15.6 | 4.9 |
| Intermediate | 5.1 | 3.2 | 5.8 | 4.3 |
| Final     | 16.2 | 3.5 | 20 | 9.1 |

a. All lines have specific duties with no ad valorem equivalents
b. 56 percent of lines have specific duties with no ad valorem equivalents

*Source: WTO Integrated Database*
Specific, non-ad valorem duties

- Used primarily by rich countries
- Imply higher protection than normal duties
- Contribute to escalation
- Hit low-value imports from DCs harder
  - $5 on $5 bottle of wine vs. $20 bottle
- Have greater impact during price slumps
- Non-transparent
Non-Transparent Protection Due to Specific Duties

Percentage of Tariff Lines Non Ad-Valorem

Source: WTO IDB (MFN Applied Duties)
Specific Duties Mask High Protection

Average Ad Valorem Duties vs. Ad Valorem Equivalents in Agriculture

Australia: Average Ad Valorem Tariff = 1.2%
US: Average Ad Valorem Tariff = 5.0%
EU: Average Ad Valorem Tariff = 35.2%
Jordan: Average Ad Valorem Tariff = 21.6%

Source: WTO IDB (MFN Applied Duties)
Trade in manufactures also contains impediments to development

- Higher tariffs to exporters in developing countries
- Tariffs that escalate as value is added in developing countries
- Specific duties that increase the poorer a country is
- Anti-dumping actions that tax developing countries disproportionately
Rich countries levy higher tariffs on imports from developing countries

Average tariffs of industrial countries charged to exporters from various regions, 1997 (percent)
And so do developing countries …

- African import duties on African manufactured goods are 6x > those imposed by OECD countries on African goods
- In fact, exporters to Africa from all other regions face lower tariffs than do their African competitors
- What happened to regional integration?
Developing countries pay more of their foreign tariffs to rich countries and to neighbors.
Manufacturing agenda

- Adopt a formula which targets high tariffs, not “average cuts”
- Apply to bound tariffs, not applied tariffs, giving credit for autonomous liberalization
- Reduce regional trade barriers
- Extend binding to all tariff lines to lock-in reforms
Anti-dumping: the new protectionism

- Hits developing countries harder
- Results in unreasonably high penalties
- Bad economics: hurts consumers in order to protect inefficient producers
- And administratively costly
- Yet developing countries are jumping in
Africa needs to control, not contribute
Antidumping actions hurt developing countries

Number of actions initiated between 1995 and June 2002

<table>
<thead>
<tr>
<th>Actions initiated by:</th>
<th>Industrial economies</th>
<th>Developing economies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Against industrial economies</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Against developing economies</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Services and the GATS

- GATS positive list approach is pro-development
- OECD countries need to move on mode 4 (movement of natural persons)
- DCs can increase commitments to lock-in past reforms
- Pre-commitment has worked well for some sectors (e.g. telecoms)
Figure 4  Temporary labor mobility is an underused mode of trade in services
Value of world trade in services by mode, (percent)

Mode 1 (cross-border supply) 28%
Mode 2 (consumption abroad) 14%
Mode 3 (commercial presence) 57%
Mode 4 (movement of natural persons) 1%

Source: IMF Balance of Payments Yearbook
TRIPS

- OECD countries must move on importation of generic drugs by DCs
- DCs lacking manufacturing capacity account for <2% of global pharmaceutical sales
Singapore issues

- No strong development case
- Unlikely to generate more investment or improve competition, but could create major additional expenses
- Trade facilitation not well suited to global rules making

If inevitable => get ↑ market access and binding commitments to finance new trade facilitation systems
Will new protections promote additional flows to developing countries?

Probably not...

- Most FDI looks to domestic laws
- Bilateral Investment Treaties (BITs) already cover most investment...
- ...but have not increased investment
- Multilateral accords likely to be weaker
Cooperation on competition by rich countries could take up two topics of importance for development...

- International cartels: cost $7b+ in 1990s
- Exemptions from antitrust laws...
  - National export cartels: cost ??
  - Maritime transport: cost --20% to export prices
The big investment and competition problems of developing countries are...

...barriers to their exports

- Trade barriers **discourage investment** in developing countries’ export industries
- ...and trade barriers **prevent competition** from developing countries in protected markets
Special and Differential Treatment

- Old style S&DT
  - Trade preferences
  - Opting out of tariff reductions by DCs
  - Rules designed by OECD countries with promises of technical assistance

- Consequences
  - Reduced pressure for MFN reductions on DC products: Reciprocity matters!
  - Flawed preference schemes
  - Inappropriate rules and unfulfilled TA
**S&DT: Preferences**

- Tend to be captured by few middle-income countries
- Exclude majority of the poor who live in Asia
- Often undermined by rules of origin
- Increasing complexity as bilateral agreements proliferate
Trade preferences have had only marginal success

Share of LDCs in EU and US imports, 1966–2002 (percent)

Source: WITS.
Towards a more effective S&DT: some principles

- Improve market access for all products of all developing countries
- Duty-free/quota free access for all LDCs, and harmonize and reduce restrictions that limit usage of preferences
- Resource-intensive rules:
  - search for ways to make rules supportive of, not distractions from, development.
  - link implementation of rules to national capacity
- Provide development assistance to help ensure supply response
- Quid pro quo: DCs lower border barriers and assume full responsibilities as incomes rise
For the development promise of the Doha agenda to be realized, all countries have to take responsibility

- **Rich countries**: must lead in agriculture, labor intensive manufactures, mode 4 and development assistance while working with DCs to define development-friendly rules
- **Middle income countries**: provide new access in services and lower high external tariffs—benefiting themselves and others
- **Low-income countries**: continue and lock-in trade reforms while mainstreaming trade in development strategies and seeking derogation on resource-intensive rules