Conclude Doha: It Matters!

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Based on Hoekman, Martin and Mattoo (2009)
The context

• Economic situation under stress
  – Global GDP to decline by -2.9% in 2009
  – Net private capital flows to developing countries down US$800 billion 2007 peak
  – Global trade volumes down some 10% in 2009
  – Global unemployment up by 60 million+

• To date limited recourse to protectionism
  – One interpretation: no need for more disciplines

• Many voices arguing that Doha will generate trivial market access gains at best
Doha: a quixotic quest?

To the contrary
Doha matters more now

- Protectionist pressures should not be ignored or system taken for granted
  - Unemployment will stay high while exports recovering – recipe for more, not less pressure
  - Little fiscal/monetary room left; unwinding to start
  - Global imbalances and exchange rate pressure
  - Substantial scope to raise tariffs/support industries

- Developing countries hit hard – a Doha deal is an opportunity to help them exit crisis faster
  - In part by pursuit of trade facilitation and greater South-South trade (where growth is higher ...)

- Signaling effect: multilateral cooperation at work
The “small numbers problem”

• Public discussion of Doha has over-emphasized model-based quantification exercises
• Models look “under the lamppost”: agriculture and NAMA
  – Can only quantify impact of reduction of applied tariffs (and estimates of AVEs)
  – Result: small global numbers (trade, income; welfare)
  – As of 2008, estimates of net global income gains in the $60-$80 billion range or less – depending on how one accounts for likely exceptions
    • NB: this reflects a lot of unilateral reform in last decade and implementation of regional and WTO agreements
• Why get excited for 0.5% of GDP or less?
Two possible responses

1. Modelers: Build a taller lamppost & more powerful lights

2. Analysts: Do a better job in making the case for what is on the table: the value of rules and bindings
   - Ad 1: Work ongoing on disaggregation, on services, trade facilitation: all greatly increase estimates of actual/potential income gains
   - Ad 2: Implies a shift away from seeking to summarize outcome of negotiations in one (big) dollar/euro/etc. number
Improving the modeling

• Disaggregate: model impacts at 6-digit HS level in global CGE framework
  – This allows better accounting of fact that welfare losses rise with square of tariff – and that tariff peaks are at the product-specific level
  – Result: current modalities generate a global gain of $160 billion (taking into account sensitive products etc.)
    • Laborde, Martin and van der Mensbrugghe (2009)
  – More than doubles estimates using aggregate data

• Services modeling: same story—big numbers
  – Problem: limited data on policies, flows and mark-ups

• Trade facilitation: again large potential gains
  – Problem: can only partially be attributed to what is on the table in Doha (Arts. V, VIII, X)
Beyond model-based numbers

• WTO Negotiating coin = policy commitments:
  – Tariff bindings; specific commitments in services
  – Policy disciplines (rules of the game)

• Both reduce the size of potential negative spillover effects of national policies
  – During crisis responses
  – And after – when fiscal stimulus needs to be reduced

• Reducing applied trade policies (liberalization) is just one element of WTO negotiations
  – As it was under the GATT: lock-in and MFN extension of unilateral reforms (in part driven by steady EC expansion)
The value of the WTO rises in bad times

• Up to mid 2008: “not enough on the table” from perspective of many industries
  – Trade was booming; little perceived prospect of backsliding

• That was then....
  – The boom is over, but “so far so good” as regards backsliding on protectionism

• Key question: how much of a role is played by the existence of WTO rules and commitments?
Assessing policy responses to date

- WTO/Global Trade Alert: Lot of action, but no major rise in protection
  - Focus of many measures – in North and South – is on China
- A number of countries have also liberalized trade (partly post food price spike) and taken trade facilitation measures
- Much of the rise in antidumping and safeguards is in “traditional” products (Messerlin)
  - Must wait and see if “new” products come to fore
  - There are lags – e.g., takes time for drop in prices and unemployment to feed into dumping/injury
- Extensive fiscal/financial support to key sectors – finance, autos – trade policy redundant (cash was king)
- Scope for discrimination and political pressure to keep resources at home—including through procurement
Developing countries have initiated most new “trade remedy” investigations; OECD nations rely more on fiscal stimulus and financial support

Source: Chad Bown Global Antidumping Database (World Bank PREM Note 144, October 2009)
Rules are working? (i) imposed measures flat:

(ii) share of investigations leading to higher barriers down:
How much is due to the WTO?

• Globalization/fragmentation has changed incentives of firms re: protection
• Some major policy areas are not subject to (effective) WTO disciplines
• Regional integration agreements have also been a factor – first and foremost the EU
  – (Lot to be learned from EU experience re: effectiveness/design of policy disciplines in areas such as subsidies and procurement)
• Time will tell – still have significant pressure given global imbalances/adjustment to come
More tit-for-tat can be very costly

- McKibbin-Stoeckel (2009): welfare costs of countries raising tariffs by 5-10% will lower GDP by between 1 and 3% in most countries
- Recent US action against China on tires and resulting retaliation; “buy national” pressure; etc.
- China primary target, but US comes 2\textsuperscript{nd} as most frequent target; EU as a whole #3
Doha: What’s on the table?

1. Some new market opening in agriculture and manufacturing
2. More secure market access in goods
3. New or stronger disciplines on policies that create negative spillovers
4. Somewhat greater security of access in services
5. Initiatives to expand export opportunities of LDCs and low-income countries

• NB: many other issues as well!
1. Some new market opening for goods

• Average farm tariffs confronting developing (OECD) country exporters will drop to 11.5% (12.1%)

• Tariffs on their exports of manufactures to fall to 2.1% (2.4%)

• This may not look like much improvement, but there is a lot of action at tariff line level.
  – E.g., tariff will decline from 32 to 6% for tennis shoes exported from Bangladesh to the US.
  – Tariff peaks are the most costly/constraining
2. More secure market access in goods

- Modalities will substantially lower average bound tariffs
  - Bound average in Ag. down to 30%; NAMA: 5%
  - Here again: tariff peaks come down most

- Ban on agricultural export subsidies

- Large cuts in maximum permitted ag. subsidies—by 70% in US; 60% in EU—bringing them close to/below applied levels
3. Disciplines on policies that create negative spillovers

• Food policies
  – Subsidy disciplines not just a market access story
  – Less insulation of national markets will reduce volatility of world prices; create thicker markets

• Cotton. Global support up more than twofold from $2.7 billion in 2007/08 to an estimated $5.9 billion in 2008/09

• Sustainable development
  – Fishery policies cost the world economy $50 billion (60% of the landed value of the global catch); EU and US production support > $1bn per year
    • Important for food security & livelihoods of many small developing countries/coastal regions
  – Potential for tariff reductions on environmental goods – averaging some 10% in low-income countries
4. Services: somewhat greater security

Note: A large ‘offer gap’ remains (factor of 2 on average)
5. Initiatives to expand exports of low-income countries

• 97% duty-free, quota free for LDCs
  – Not as good as 100%, but still worth $1 billion in the US market

• Trade facilitation
  – Improving the logistics performance of low income countries to that of middle income countries would increase their trade by more than 50%

• Aid for trade
  – Not linked to DDA but *de facto* something Doha has already delivered; closure would strengthen prospects of delivery on Hong Kong commitments
Getting to yes

WTO Members confront two broad judgments

1. How best to strike a balance between more liberalization of applied policies and more security of access (more bindings)

2. How far and under what conditions to allow for safeguard type actions and trade remedies in return for tighter and more comprehensive tariff and other policy bindings
Market access—“sectorals”

• NAMA
  – Modalities generate exceptions for sensitive products
  – Sectoral deals can generate more trade opportunities
  – Mostly involve a (small) subset of WTO members – GATT/WTO rule of thumb has been +/- 90% of world trade
  – Could be pursued along lines of ITA and financial-telecom talks after Uruguay Round – as part of a Doha deal
  – Progress also possible through (bilateral) scheduling negotiations

• Services
  – Critical for industry in EU/US (largest employers; net exporters)
  – Liberalization hard to achieve among 153 nations
  – Focus on significant additional binding of policies – leverage unilateral/domestic reform incentives

• Linkage big time: a deal on exchange rates outside WTO?
“Safeguards”

• Special safeguard mechanism for agriculture
  – Often trade protection will not help when there are shocks (raise prices for the poor)
  – Analysis suggests a quantity based SSM can increase world price volatility
  – Price-based SSM has less negative consequences for world price volatility

• Experience suggests international rules matter but domestic political economy/institutions as if not more important
  – Focus on independent monitoring/review; processes to allow domestic stakeholders to defend their interests
Conclusion: the bird in hand

• Major benefits lie in greater policy disciplines
  – improved *security* of access
  – strengthening of global rules that reduce prospect/size of (future) negative spillovers
    • Agricultural support policies; environmental goods
• But there will also be liberalization of applied policies
  – Cuts in tariff peaks (key for many developing countries)
  – For market entry (competitiveness): trade facilitation, aid for trade
• If the DDA cannot be concluded, what scope to cooperate on trade policy dimensions of climate change mitigation?
Strengthening the trading system

• Lesson from the crisis: Improved transparency matters

• Data is a public good – under-provided
  – This true especially for subsidies & other nontariff measures, for services policies, and procurement
  – Multi-agency taskforce on NTMs: allocate resources needed to collect/disseminate data on a sustained basis
  – National or regional bodies need access to up-to-date global databases and information systems for analysis and benchmarking own policy/performance