

The Doha Development Agenda Impacts on Trade and Poverty

October 2004

A collection of papers summarising our assessments of the principal issues of the WTO round, how the outcome might affect poverty, the progress of the negotiations, and the impact on four very different countries.

Papers in the series

1. Trade liberalisation and poverty
2. Principal issues in the Doha negotiations
3. How developing countries can negotiate
4. South-South trade
5. Preference erosion: helping countries to adjust
6. Doha and poverty: preliminary assessment
7. Poverty impact of Doha: Brazil
8. Poverty impact of Doha: India
9. Poverty impact of Doha: Vietnam
10. Poverty impact of Doha: Zambia

All these papers and the final report can be found at: www.odi.org.uk/publications/briefing/doha



Overseas Development Institute
111 Westminster Bridge Road
London SE1 7JD, United Kingdom
Tel: +44 (0)20 7922 0300
Fax: +44 (0)20 7922 0399
iedg@odi.org.uk
www.odi.org.uk

A Study funded by the Department for International Development, UK, under contracts CNTR 03 4777 and ITD 0153.

2. Principal issues in the Doha negotiations

Sheila Page

The WTO negotiations cover trade in agriculture and other goods, trade in services, access by developing countries to medicines, protection of indications of geographical origin, strengthening or clarifying WTO rules, and a new subject of trade facilitation.

Agriculture

The Doha declaration aimed at:

substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade-distorting domestic support... special and differential treatment for developing countries... to enable developing countries to effectively take account of their development needs, including food security and rural development... non-trade concerns will be taken into account in the negotiations... We commit ourselves to the objective of duty-free, quota-free market access for products originating from LDCs. (Doha Mandate 2001)

What developing countries want

This is the central issue of the negotiations. Agriculture remains the most protected sector, with a complex system of interventions, to protect production, and then to counter that protection through countervailing barriers and mitigate it through preferences. Any reform will have complex effects, both positive and negative, on those who lose or gain from the current arrangements with significant impact on poverty (see paper *Trade liberalisation and poverty*). The average bound tariff (the tariff agreed in negotiations) is 62%, compared to 29% for industrial products. Although some countries apply rates below those bound, the average applied rates are also twice as high for agriculture: 17%, compared to 9%.

The most protected products are sugar, dairy products, and tobacco. For the US, the highest tariff is 350% on tobacco products; for the EU, 470.9% on milk and cream. For developing countries, this depresses potential export earnings and the income of domestic producers. Sugar is a special case because both the US and the EU have combined protection with quotas for imports. These allow selected developing countries to export limited amounts at prices well above the world price (about a factor of 3 in the EU market).

The structure of tariffs makes negotiations difficult: while the average tariffs of developed countries are normally substantially lower

than the averages of developing, the structure tends to be flat in developing countries, while there are high peaks in developed countries. Any formula that targets high averages will hit developing countries; one which focuses on peaks will hit developed countries.

The fact that agricultural products are a declining, and now in some cases small, share of developing country exports does not mean that this is a declining issue. While higher income elasticities would be expected to cause faster growth in manufactures trade than in agriculture, the differences observed are much greater than this could explain: the protection has held agricultural trade down. And for sub-Saharan Africa, the Caribbean, and some Latin American countries, agriculture remains important. Agriculture also has symbolic importance: agriculture and access to medicines were the two central development issues in the negotiations.

All developing countries want improved access and reduction or elimination of subsidies, although with different specific targets. Those with preferences want these preserved. Some are concerned to secure access to food, and proposed a 'Development Box' to give developing countries flexibility on import controls and permission to use some restricted subsidies for domestic production. The Africa, Caribbean and Pacific (ACP) region and Least Developed Countries (LDC) asked for duty and quota free access for the LDC, and elimination of export subsidies.

The framework for negotiation agreed in July 2004 suggests a 'tiered formula that takes into account' the different tariff structures of developed and developing countries, with exemption of LDCs from cuts, 'differential provisions for developing country members', 'deeper cuts in higher tariffs' but 'flexibilities for sensitive products'. It thus recognises all the issues raised by developing countries. It rejects the formula proposed by the US and EU, under which only some goods would have been subject to minimum levels of cut; others could have been grouped and subject to average cuts, allowing countries to avoid cutting peaks, if they made deeper cuts elsewhere. The provision for sensitive products could protect some

peaks, but these would need to be explicitly declared, not part of a group. Tariff escalation is mentioned, but with no provision; it is not now a major issue for most developing countries.

Subsidies

The continued permissibility of subsidies to exports and production makes agriculture different from other sectors in the WTO. The question of whether the eventual elimination of subsidies should be declared an objective helped to break up the Seattle Ministerial Meeting, and nearly caused failure at Doha. The Uruguay Round Agreement on Agriculture classified subsidies into three types: those defined as being clearly distorting: amber box, including production or export-related payments; those which might be distorting because they are related to production, but which were intended to limit production: blue box; and those defined as having little trade distorting effect: green box.

In developing countries, subsidies by developed countries help consumers of those products, but hurt competitors. Table 1 shows the countries whose exports are most seriously affected by other countries' subsidies (above 40% of exports).

Table 1 Countries dependent on exports of goods subsidised in other WTO members

Country	Share of exports affected (percentage)
Benin	85
Mali	84
Chad	82
St Kitts and Nevis	78
Burkina Faso	76
Malawi	76
Burundi	73
Tanzania	68
St Lucia	64
Uganda	63
Sudan	60
Zimbabwe	59
Rwanda	59
Dominica	58
St Vincent	57
Paraguay	55
Cuba	51
Cote d'Ivoire	49
Guinea-Bissau	40
Nicaragua	40

Source: Hoekman, B., F. Ng, and M. Olarreaga, (2002) 'Reducing Agriculture Tariffs Versus Domestic Support: What's More Important for Developing Countries' World Bank Working Paper, No. 2918, Washington, DC: World Bank: p30.

If the subsidies were removed, some might still be uncompetitive, and most of the sugar producers gain from the subsidies because of quotas, but most would face less serious barriers, and some would gain significantly. They are concentrated among the poorer African countries, Central America and the Caribbean, with some agriculture-dependent South American countries. On the import side, where subsidies could be an advantage, only two have more than 20% of imports affected by subsidies: Comoros 24%, Algeria 20%. All the official positions of groups of developing countries asked for the end of export subsidies.

In mid-2003, four West African cotton exporters, Benin, Burkina Faso, Mali and Chad cited the cost to them of subsidies, and placed this as a separate item on the agenda for Cancún. Cotton is between 5 and 10% of their GDP, and more than 60% of exports. They requested a new type of agreement: in addition to any negotiations on subsidies in the Doha context (which could not take effect until at least 2005) an interim settlement reducing subsidies to cotton by a third a year in 2004-6 and, until then, compen-

sation for Least Developed cotton producers. This would be paid by the subsidisers, falling in line with reduction in subsidies.

The initiative has been supported by other African and ACP countries. Some of the benefit would go to developed country producers. The proposal was targeted principally at the US, whose subsidies are quantitatively the most important; the EU and China also have subsidies which may be damaging to some exporters.

The July 2004 framework recognised 'the development aspects of the Cotton Initiative' and asked that it be 'addressed ambitiously expeditiously, and specifically'. Although it did not make any commitment to a separate settlement, the general commitments on agriculture required that all domestic subsidies in the 'Amber' and 'Blue' boxes be reduced by 20% in the first year of implementation.

All export subsidies (except those by Least Developed countries) including certain export credits and insurance programmes ('export measures with equivalent effect') are to be ended, with new controls also on food aid. Non-LDC developing countries will have extra time, but not exemption. Larger domestic subsidies will be subject to larger reductions on higher levels through a tiered formula and the first cap on total support, including a cap on total 'blue' box support. Green box support remains uncapped, but the rules are to be 'clarified' and the results monitored.

Subsidies could also be reduced or eliminated as a result of the WTO's disputes procedure. In 2003, Brazil complained about both US subsidies to cotton and EU subsidies to sugar, and in 2004, won both cases (both are still subject to appeal). In both, the complaint dealt with only a narrow range of subsidies, but from 2004 the Peace Clause, which restricted challenges to most agricultural subsidies, ceased to apply; more cases could be brought.

Effects

For Least Developed countries, none of the proposals would mean any cuts in their own tariffs; for other African and Latin American countries, tariffs are normally low (Nigeria is an exception), and applied rates are much lower than the bound rates, so that few cuts would be required. A few Asian developing countries, notably India and Pakistan, do have high tariffs, which would need to be reduced.

On access, for African and most Least Developed countries, most exports already face either 0 rates, or preferential rates, and so would not be directly affected by any reductions agreed in the WTO. This applies also to other ACP countries in EU markets. A significant proportion of agricultural exports occur within African or Latin American regions, again under preferential rates or 0 tariffs. There would, however, be significant benefits to non-LDC developing countries in Latin America and Asia exporting to developed countries because, even where there are preferences, these tend to be of minor importance in their exports. For Brazil, there would be significant gains in access relative to, for example, the African countries with preferences (trade 'undiversion'), as well as any trade creation effects.

The elimination of export subsidies would benefit some LDC and developing country producers of non-food products (notably cotton). For a few food importers, including some LDCs, there could be an increase in costs. The reductions in domestic subsidies would have major effects only in sugar. They would reduce the benefits countries with quotas currently receive (see Paper on Preference Erosion). The provision for designation of 'sensitive products' gives part of what was requested as a Development Box, the right to restrict imports, but not any relaxation of controls on domestic subsidies. As most countries at risk of food insecurity do not have the resources to subsidise, this may not be a major defeat.

As low cost food and imports are important to the urban poor (see paper *Trade liberalisation and poverty*), any gains from import controls for the rural poor would need to be offset against losses to the urban.

Overall, some developing countries will gain, on both access and reduced export competition, although a few may also need to reduce their own controls. Most LDCs will see little effect, but those which face competition from subsidised exports (e.g. the cotton exporters) will gain, while those dependent on special access to subsidised markets (e.g. the sugar producers) and those who import subsidised food will lose.

Non agricultural market access (NAMA)

Doha aimed:

by modalities to be agreed, to reduce or as appropriate eliminate tariffs, including the reduction or elimination of tariff peaks, high tariffs, and tariff escalation, as well as non-tariff barriers, in particular on products of export interest to developing countries. (Doha Mandate 2001)

This is a less important issue than agriculture because barriers are lower; the current structure of protection is less restrictive and less complex. Although most exports from developing countries are non-agricultural, these do not excite the same pre-conceptions about livelihoods and poverty that agricultural exports do, and no developed countries would now admit to having industries that are protected for social reasons.

The outcome will be defined in terms of the modalities of tariff cuts, any differential treatment of developing countries, and the rules on binding. While in agriculture, most countries have 'bound'* their tariffs as part of the Agreement on Agriculture, in manufactures, there are still countries which have not bound all tariffs.

Non-Least Developed African developing countries put the emphasis on reduction in peaks and escalation. The highest peaks, in both developed and developing countries, are in textiles and clothing. Other highly protected goods are fish, rubber, and leather goods. Specific duties (fixed, rather than percentage) are also important in some non-agricultural goods, notably textiles and garments; their effect has increased because prices have fallen. Least Developed Countries have concentrated on ensuring that the commitment to provide them with duty and quota free access is met. Developing countries in Africa opposed any commitment to increase binding substantially.

Proposed tariff cuts

The initial proposal in 2003 used a formula designed to produce maximum reductions for tariffs which were high relative to a country's own average. This did not directly meet the objective of reducing peaks (high in absolute terms), did not put higher cuts onto countries whose general level of tariffs are high and did not favour developing countries (its objective), because the levels of bound tariffs does not correspond to levels of development. Least Developed Countries were to be exempt from making cuts, although another provision called for eliminating all tariffs by all countries in some sectors.

The July 2004 draft was qualified as only 'initial elements for future work', because concentration on agriculture had meant little discussion. It supported the idea of a formula, but did not define its structure. There would be sectoral negotiations to reach 0 tariffs, but with 'flexibility for developing-country participants'. Least developed countries would be exempt from both the formula reductions and the sectoral cuts.

* Notified to the WTO, and therefore impossible to alter upwards without renegotiation.

Effects

Most LDCs have no gains. They do not face tariffs in their major markets (including their regional markets for non-agricultural goods), so they have little to gain on access, and would not be expected to reduce their barriers. The draft mentions the risk of loss of preferences, but does not deal with it. Developing countries might gain, if the formula gives substantial cuts on high tariffs in products such as clothing and footwear. Asian countries (which have smaller margins between their bound and applied rates) might have to liberalise.

Services

Neither the Doha mandate nor the July 2004 framework has specific aims for services. Negotiations on services use a system of countries 'requesting' specific trading partners to open specific activities in particular sectors, and then countries 'offering' to open sectors, with the opening on an MFN basis (to all countries). Special treatment for developing countries has taken the form of asking for less opening, not offering preferential access as in goods. There is no exclusion of Least Developed countries from commitments, and the developed countries have issued requests to them.

Services, including some where negotiations are in place such as tourism, are very important to some developing countries, including both Least Developed and small island countries: the 25 countries with the highest dependence on tourism are all small islands, and it is the principal export for a third of developing countries. Many services rely on semi-skilled labour, and are often in regions of the country where other activities are not possible, so that there can be direct effects on incentives for education and on rural poverty.

Movement of labour (called 'Mode 4' of services) remains the most restricted part of services, so potential gains are high. Worker remittances are already a significant source of income for developing countries (on average more than 1% of GDP).

Many countries' applied regimes substantially more liberal than they have bound. Developing countries, in particular, had difficulty in the Uruguay Round in knowing what type of offer to make and were cautious in the face of lack of experience. This means that many could make offers or respond favourably to requests without substantially altering their actual regimes. This could give them negotiating 'credit' to use in services or in other sectors where they are making requests.

As most developing countries have a cost advantage in labour, many, including the Least Developed and the ACP, are trying to gain increased access to developing countries for temporary workers. There have been unofficial proposals for a WTO visa that would give limited rights to move for specific occupations. India has supported the visa as well as asking for removal of economic needs tests (the restriction of visas when local labour is available) and sectoral commitments. The risks of terrorism have increased resistance in some developed countries to any form of migration, so that such opening may be difficult to achieve.

Developing countries, particularly those which are landlocked or with limited transport resources, also have strong interests in more efficient and less restricted transport and communication services. Some developing countries, e.g. South Africa, India, and some in the Caribbean, can provide health services, but find these obstructed by barriers from government health services or insurance.

The EC offer was principally in sectors such as telecommunications, financial services, transport, courier services computer services, environmental services, distribution, construction, tourism, news agencies and entertainment. It excluded education, health, social

services, and audiovisual, and made only minor offers on movement of labour, restricted to professionals and graduate training.

Immediately before Cancún, agreement had been reached on a text for Special Treatment for Least Developed Country Members, but the July 2004 text did not explicitly call for this to be implemented. It would not have imposed clear differentiation of the type proposed for the formulae for goods. It had merely asked that least developed countries be given more flexibility to open 'fewer sectors, liberalizing fewer types of transactions' and that other countries give them priority in market access opening. Least Developed would not be exempt from opening.

Most developing countries still have not participated actively in making offers and requests, and the July 2004 text only requests these by May 2005. The WTO has offered technical assistance in making offers, but the barrier is probably in doing the analysis of what existing legal regimes are, and then the implications of binding them, rather than on the technicalities of turning this into an offer.

Effects

The scope for very specific opening means that general conclusions about the effects are impossible. Any liberalisation is likely to benefit both developing and least developed countries, and there are no preferences in services to lose. But it seems unlikely that they will gain in their principal demand, for fewer restrictions on movement of labour. The form of the negotiations is an obstacle for them.

Intellectual property

Trade Related Aspects of Intellectual Property were added to the coverage of the WTO in the Uruguay Round and the effect of this on developing countries has been a major issue. The questions most prominent in the Doha negotiations are related to production and trade in generic pharmaceutical products; extending the controls on the use of 'geographical indications' (Bordeaux wine, Blue Mountain coffee; currently only wines and spirits are regulated by the WTO); some issues in patenting life forms; and traditional knowledge. All raise important issues of principle, but only the results on pharmaceuticals seem likely to have major effects on poverty in the short term.

A declaration at Doha made it clear that developing countries could license production of medicines for public health crises within their own countries; it left to negotiation what rights could be given to countries which do not produce these, which include many of the poorest, to import under the same circumstances. A compromise was agreed on 30 August 2003, which met the request of the LDCs. It allows the same broad definition of threats to public health as is used for allowing manufacture of generics, so there are no restrictions on diseases covered. It requires countries to 'take reasonable measures' to prevent re-export, but does not require them to prevent it. Except for Least Developed countries, other developing countries can import only after showing that they lack capacity to produce, and 11 advanced developing countries have said that they will use imports only 'in situations of national emergency'.

The agreement could increase exports, and therefore income, in some of the major developing country producers of generic pharmaceuticals, including Brazil and India. Some of this might replace existing arrangements for special prices from non-generic producers to Least Developed countries, but there could also be larger and more certain supplies, leading to health improvements in LDCs. To be fully effective, any arrangement would need complementary measures to improve the delivery of health services,

as inadequate resources to distribute medicines is a major barrier.

Trade facilitation

The EU, with varying degrees of support from other developed countries, suggested that investment, competition policy, transparency in government procurement, and trade facilitation be added to the WTO agenda, and that agreements on them be negotiated in the Doha Round. The Doha declaration was unclear (deliberately, to secure a deal) on whether it had placed them on the agenda or was merely suggesting that they be negotiated after Cancún. Most developing countries strongly opposed all of them, as unnecessary extra burdens to an already crowded negotiation, and the first three as potentially damaging to their development strategies. At Cancún, the EU eventually agreed to remove the first two from the agenda, and indicated potential agreement to remove the third. By the time of the July 2004 draft, these changes were irrevocable, so only trade facilitation remains (or has been placed) in the negotiations.

Some developing countries had seen merits in securing progress on this issue, although preferring that it should be done through technical assistance rather than new rules. It is a mixed area of negotiations. It includes increasing regulation and standardisation of customs rules and practices, with the objective of simplification. It attempts to improve the performance of customs administrations and port or transport facilities in developing countries either by setting targets or by providing technical assistance. It can include both laws, whether border measures or internal administration, and rules, procedures, and technical equipment. To the extent that it increased the efficiency of trade, any progress would improve the income of developing countries in trade sectors, but it is not clear how much WTO rules can contribute to this.

The costs of trading are higher in developing countries whose customs services lack technology, training, or good administration, especially in land-locked countries, whose access to markets is through a second developing country, and can be as costly as tariffs. Most of the efficiency effects, however, are obtainable by countries' unilateral action (with aid), and are not really WTO issues. Many require increased investment in infrastructure, which can conflict with other spending priorities for development. Increased regulation of procedures would take away this choice and to the extent that the 'inefficiencies' are intentional barriers to imports, new rules would reduce countries' policy freedom.

The July 2004 draft emphasises clarifying existing provisions on customs and 'enhancing technical assistance and support for capacity building'. Developing and least developed countries will have not only longer transition periods, but differential requirements on the extent of commitments (unusual in a provision on rules). It recognises that there will need to be investment in infrastructure, and exempts developing countries from meeting requirements which depend on these if the 'required support and assistance for such infrastructure is not forthcoming'. If the agreement follows this framework, it may impose lower costs on developing countries than they feared, and could offer some benefits.

Reference

WTO (2004) Doha Work Programme, Draft General Council Decision of 31 July 2004, WT/GC/W/535 (revision of JOB(04)96).

© Overseas Development Institute 2004

For further information contact Sheila Page (s.page@odi.org.uk)