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TRACKING & PERSPECTIVES ON WTO NEGOTIATIONS: FROM GENEVA TO HONG KONG , JULY- DECEMBER 2005

This month's issue of the FAL Bulletin takes a panoramic view of the present World Trade Organization (WTO) trade negotiations, soon to embark on the Sixth Ministerial Conference in Hong Kong (Special Administrative Region of the People's Republic of China). Reduced expectations on the outcomes of this meeting due to the scant progress on critical issues – such as the liberalization of the agricultural sector - increase the challenge to conclude the Doha Round by the end of 2006. The governments of the region have a role to play in the direction this process may take.

Additional details on the progress of these objectives can be obtained in chapter II of Latin America and the Caribbean in the World Economy, 2004 Trends 2005: http://www.cepal.org/publicaciones/Comercio/3/LCG2283PI/PANI_Cap_II_Eng.pdf

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I. CENTRALITY AND URGENCY OF THE NEGOTIATING PROCESS

The multilateral trading system operating since 1995 currently has 148 members. Unlike its predecessor – the General Agreement on Tariffs and Trade (GATT) – it exhibits a threefold complexity: it covers a wider spectrum of issues that transcend the conventional aspects of trade (being more invasive of domestic policies); issues are technically more complex; and its membership includes emerging economies that are transforming the world economic panorama, specifically, China, India, Brazil, South Africa and, in the near future, Russia. The multilateral system is no longer focused mainly on the interests of the big four, Canada , the United States, Japan and the European Union. This implies that the onus is on the new members to contribute towards the smooth functioning of the WTO.

The multilateral trading system has from its inception demonstrated both important achievements as well as constraints. On the one hand, the system has continued to contribute to the expansion of international trade, an issue that was in doubt some 10 years ago; its regulatory framework has been quite efficient in protecting the interests of developing countries; and there

has been progress in the liberalization of sectors of commercial significance such as those related to information technology, telecommunications and financial services. However, one of many difficulties has to do with the intricacy of developing a comprehensive trade liberalization process which incorporates the interests of developing countries equitably, especially in the area of trade in agricultural products.

In view of the complexity of the task and the complications associated with the building of a balanced framework to facilitate international trade, the role of WTO and the importance of the Doha Round should not be underestimated, especially as:

- A stimulus to world economic growth through improved resource allocation and productivity increases;
- An “international public good” that enables the stabilization of trade flows between countries when these are threatened by protectionist pressures and, above all, allowing globalization greater governance (with respect to trade) during times of recession;
- A permanent negotiating forum which considers a gradual process of trade liberalization involving the periodic holding of negotiations to improve the conditions of market access of members, including developing countries, by correcting asymmetries in market access for their exports, and overcoming certain distortions affecting them (e.g. agricultural subsidies); and
- An instrument that allows and facilitates – under certain conditions – the adjustment by developing countries to new rules of competition through institutional strengthening, technical assistance and special and differential treatment, within the context of an organization that must itself be perfected both in its own institutional structure as well as in its interface with other international bodies.

Above all, it must be emphasised that the multilateral system essentially establishes a framework enabling trade to function in a global context, but the performance of its members and the achievement of their development goals depends largely on the designing of strategies and the formulation of domestic policies and agendas.

II. ISSUES AT STAKE AND THEIR ECONOMIC SIGNIFICANCE

Econometric models that estimate the potential gains from trade liberalization of the Doha Round produce varying results depending on the methodology employed in their elaboration. However, they tend to coincide in some basic aspects:

- Increased agricultural market access reports proportionally greater benefits than the non-agricultural products sector since it possesses the highest levels of protection (see table 1);
- These models indicate that gains in income from tariff cuts are greater than from a reduction in domestic support or export subsidies in this sector. This does not imply that subsidies are not a key element for market access for certain categories of agricultural

products. It does, however, indicate where developing countries should place their priorities. Moreover, the greatest gains in income are derived from trade liberalization between the developing countries themselves. Thus the benefits from trade liberalisation are not exclusively a North-South issue, a point that has not received sufficient attention in international talks;

- The liberalization of services has reported significant gains in income although these are proportionately less for developing countries due to the configuration of their trade; and
- Some estimates indicate that the gains in well-being arising from reduced transaction costs resulting from the adoption of trade facilitation measures tend to be superior to the elimination of trade barriers (see table 1). This explains the importance of this aspect in the Doha negotiations.

Despite the figures shown, the difficulty in achieving consensus arises from the variations in impact amongst developing countries (not all of whom benefit from liberalization in the short term), and from the characteristics of the negotiating process where a delicate balance needs to be achieved around a single undertaking on disciplines and commitments arising from a matrix of interdependent countries and issues. Added to this, the emergence of the developing countries (including the Least Developed Countries) as active protagonists in the negotiating process complicates the finalising of a negotiation that does not contain specific aspects of their present stance.

The “July package” of 2004 once more set in motion the Doha Round negotiations, deadlocked since the Fifth Ministerial Conference of 2003 in Cancun . The negotiating agenda was accepted since it was agreed not to include proposals by developed countries on investment and export competition policies. Despite intense efforts since then, no corresponding results that approach consensus have been achieved. The focus of these efforts can be categorised in three main areas: market access, further development of trading rules, and institutional aspects.

Table 1

**GAINS IN WELL-BEING ASSOCIATED WITH TRADE LIBERALIZATION IN
AGRICULTURAL AND NON-AGRICULTURAL PRODUCTS, SERVICES AND TRADE
FACILITATION MEASURES**

(% and US\$ million)

	OECD	Developing Countries	Other Countries	TOTAL
Agricultural trade liberalization:				
- Border procedures	22.5	37.0	29.0	29.0
- Domestic support	8.0	0.0	4.5	4.5
Manufacturing (border procedures)	11.1	25.3	17.5	17.5
Liberalization of services	15.9	7.9	12.3	12.3
Trade facilitation	42.5	29.8	36.8	36.8
TOTAL %	100.0	100.0	100.0	100.0

TOTAL \$	108,667	87,735	15,974	212,376
% by countries	51.2	41.3	7.5	100.0

Source: J. Francois, H. Van Meijl & Van Tongeren, “Trade Liberalization and developing countries under the Doha Round”, Tinbergen Institute Discussion Paper 2003-60/2

(a) Market access

This area refers to the conditions of access of goods and services in international markets. The general orientation of the July package contemplates a progressive continuation of the liberalization process, proposed mainly by developed countries with a keen interest in market access in non-agricultural products (NAMA) and services, areas in which some developing countries led by India are also seeking greater openness.

One critical feature of the negotiating round is the conclusion of an agreement on liberalization “modalities”. These modalities represent operational targets under negotiation which, for trade liberalization in goods, involves a formula for determining tariff reductions, parameters, the implementation base, deadlines, flexibility for developing countries, treatment of unbound tariffs and other barriers.

The agricultural sector faces more restrictions and distortions than that of non-agricultural goods and is subject to a more complex commercial regime of tariffs and tariff-quotas, subsidies and licences and other border barriers, as well as changes in its trading and production structure since WTO came into being. Agricultural production in developing countries has in fact evolved towards agro-industrial products whilst its trade is heavily influenced by the appearance of large marketing chains. This explains why it is a priority issue both for developing countries and for the region under all three pillars of reform: market access, domestic support and export competition. However, the impact on developing countries varies according to the structure of their exports, their level of diversification in goods traded and their target markets.

At the same time, the controversial decisions proposed at WTO in emblematic agricultural markets – sugar and cotton – increase the pressure to modify developed country policies and open the possibility of expanding developing countries’ interest into more ambitious reforms. Indeed, the proliferation of instruments and modalities in the negotiating agenda has cast some doubt on the real benefits of liberalization likely to come out of the current negotiations.

At just a month away from the Hong Kong Ministerial Conference, the possible outcomes are still uncertain, yet indications are that this will be more a meeting of formality in an effort to seek renewed commitment from WTO members on the Doha process. Last October’s presentation of proposals on agricultural reform by the United States and the European Union – embodying some of the G-20 proposals – came up against the basic discrepancies still persisting between the interests of members on this and other issues under debate (especially trade in services).

Prominent amongst the new proposals is one from the United States to reduce the instruments that distort trade within five years, followed by their elimination over a subsequent five year period. On the subject of tariffs, the European Union has drawn closer to the developing countries’ position on tariff peaks and progressive reductions through differential tariff bands. A significant divergence still exists between the positions of the European Union and the United

States concerning tariff cuts for developed countries. With regard to export subsidies, state export trading companies and the harmonization of domestic support policies, a greater level of accord exists between the United States and the European Union. In domestic support, however, the European Union has proved to be less flexible about reductions which might show up reforms implemented under the Common Agricultural Policy in recent years. Although no agreement has been reached on time frames, the consensus of the United States, G-20 and the European Union on the complete elimination of export subsidies is noteworthy (see table 2, available on the web-page version of this issue).

The debate on non-agricultural market access (NAMA) bears some similarity to the agricultural negotiations, the challenge being the balance between specific negotiating agendas and flexibility in tariff reductions, bound tariffs and non-reciprocity for developing countries. Unlike agricultural negotiations, in NAMA talks there are no groups that represent the positions of developing countries; in fact, there is a greater lack of consensus in this sector than in agriculture, particularly with respect to the erosion of preferences. Despite this, it is significant that these countries have played a more pro-active role than in previous negotiations.

In trade liberalization of services, developing countries recognise the role of services in the competitiveness of their economies and seek to improve their integration in these markets whilst retaining due consideration for their development status—a flexibility contemplated in the architecture of the General Agreement on Trade in Services (GATS)—and leaving scope for national policies. They acknowledge the need for improvements in domestic regulations and institutional capacity that must accompany this effort; however, some countries are resistant to proposals by some developed countries for mandatory commitments and a critical mass of significant trade offers (the benchmark-based approach).

(b) The amplification of trading rules and policy-making scope

The Doha Round involves changes in at least the following spheres: anti-dumping, subsidies and countervailing measures, multilateral registration of geographical origins for wines and spirits and trade facilitation. These aspects, especially anti-dumping and countervailing duties, form one of the main threats to developing countries' strategy to use trade as a vehicle for higher levels of development. Trade facilitation instruments would present significant benefits in income (some estimates indicate that the transaction costs associated with trade amount to between 5% and 10% of the total value of trade). Hence the desirability of adopting concrete initiatives in these areas. For this reason, several issues of the FAL Bulletin have focused on this matter. Please check the following web site: http://www.cepal.org/cgi_bin/getProd.asp?xml=/transporte/agrupadores_xml/aes281.xml&xsl=/agrupadores_xml/agrupa_listado-i.xsl&base=/tpl-i/top-bottom.xsl

(c) Some cross-cutting institutional aspects

Some topics on the negotiating agenda are related to institutional challenges of the multilateral system, such as the development dimension and governance of the system. This involves instruments capable of dealing with: (i) the distinctiveness of developing countries and the disparities in levels of development of members of the system—Special and Differential Treatment, strengthening implementation, technical assistance and capacity building; (ii) dispute settlement mechanisms that make its linkage function more effective and the system more secure

and predictable; (iii) bringing regional agreements in line with the multilateral system, i.e. stimulating trade between members and minimising third party discrimination; and (iv) environmental concerns related to trade.

III. CHALLENGES TO THE NEGOTIATIONS AND POTENTIAL OUTCOMES

The overview and reflections of the new WTO Director General, Pascal Lamy, on assuming office highlight the difficulties that persist and the kinds of decisions required in the following spheres: (i) Agricultural negotiations: Agreement on a time limit for the termination of export subsidies, quantification of reductions and criteria for domestic support instruments, the structure of liberalization and special instruments; (ii) Non-agricultural market access (NAMA): Agreement on a liberalization formula, treatment of unbound tariffs and flexibility on products with differential treatment (sectorized liberalization); (iii) Services: Negotiating mechanisms to assure better quality liberalization in the light of a weakening supply-demand model; and (iv) Harmonization on rules and institutional aspects: Definition of instruments and progress on written proposals. The identification of the issues has not, however, resolved the difficulty in agreeing on concrete measures to deal with them, due to differences in expectations on outcomes, on liberalization perspectives and even on trade policies. His recent call to WTO members to “rescale” their expectations of Hong Kong points to the fact that countries still have an agenda for the outcomes of the Round.

From a broader perspective, development needs to be approached from a cross-cutting angle, procuring that the trading system facilitate and not hinder poverty alleviation and Millennium Goals, recognising that each of these objectives to a certain degree falls outside the sphere of WTO yet needs to be taken into account. This includes designing a “trade assistance window” through links with other international organizations (International Monetary Fund, World Bank) whilst recognising that an integrated support mechanism is already in place for Least Developed Countries.

The priorities of Latin American and Caribbean countries in the negotiations are to some extent demonstrated through their participation in interest groups that coordinate their positions in the process around concerns and proposals on public health, anti-dumping and trade facilitation, amongst others. They are mainly represented in groups related to agricultural reform and predominantly in the G-20 by 10 member countries of the region under the leadership of Brazil .

IV. OUTCOMES TO BE AVOIDED

The upcoming Hong Kong Ministerial Conference is significant not only for its negotiating agenda but also for the political impact of its success or failure on the current negotiating environment.

Undeniably, WTO has become a forum for trade dispute settlements par excellence. Whilst it is an expected development and has no negative connotations in itself, it diverts attention away from the objective of gradual trade liberalization. It also hampers political support from key countries, especially the United States , necessary for the smooth functioning of the system. Moreover, it strengthens the emergence of protectionist pressures e.g. in trade in textiles and clothing in Europe and the United States, that could mean a falling back into former GATT practices of supervised trade in which developing countries would lack the backing of a regulatory framework to protect them.

The Hong Kong Ministerial Conference must be successful without being over-ambitious, as it is unhealthy for two successive Ministerial Conferences to show no progress, since it weakens the multilateral trading system as the conduit for multilateral trade relations, triggering an even greater proliferation of regional and bilateral agreements of a discriminatory nature that do not cover any of the important trade concerns (such as agricultural subsidies and anti-dumping measures).

In this context, a Hong Kong declaration must be a reasonable and realistic product that contains the necessary parameters to move the negotiating process forward efficiently in 2006 and which upholds the commitment to the Doha Agenda. This implies a review of expectations and a precise definition of a set of core outcomes expected from the various spheres of negotiation. Further, as Pascal Lamy has suggested, WTO members should take note of the cost of a system without a negotiating Round.

The present international landscape exhibits a vigorous expansionism that has had important repercussions on trade and growth for developing countries, representing an opportunity to conclude the present Doha Round. A less favourable international environment and less decisive world leadership could paralyse the negotiating process indefinitely. As the United Nations Secretary General has indicated, this is a time for decisions: "We must make good use of the advantage of an unprecedented consensus on how to promote global economic and social development, and we must forge a new consensus on how to face new threats." (United Nations General Assembly, Fifty-Ninth Session, page 7).
