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SPECIAL ISSUE

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ECLAC

Economic Commission for Latin America and the Caribbean

PRESERVING THE MULTI-LATERAL TRADING SYSTEM: AN EVALUATION OF DOHA

ECLAC DIVISION OF INTERNATIONAL TRADE AND INTEGRATION

Last 24 July, Pascal Lamy, Director-General of the World Trade Organization (WTO), announced the suspension of the Doha Round of global trade talks to “enable the serious reflection” that is “clearly necessary” among participants.

The announcement did not specify when talks would resume, but it is likely to signify a delay of months, even years, before negotiations, which were to have concluded in 2005, will be renewed.

The Doha Round, unlike previous rounds, put the burden of proof on industrialized economies by tackling the liberalization of trade in agriculture, a sector where they generally lack comparative advantages.

The key to successful negotiations thus lay with the economies that most rely on



agricultural export subsidies, provide domestic support for producers, or apply the greatest tariff barriers to these products. As in all negotiations, this was to have been counterbalanced by contributions from the developing economies in other areas, such as non-agricultural market access. But the main characteristic of the Doha Round is agricultural liberalization.

Lamy's announcement followed on the heels of the collapse of the latest meeting of the so-called G-6 nations – the United States, the European Union, Japan, Australia, Brazil and India – which have emerged as leading actors in the Doha process.

The formal explanation for the suspension is that the gaps in the positions of these actors remain too wide to bridge.

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The United States refused to adopt a more flexible position regarding additional commitments to reduce the amount of resources it gives to agricultural subsidies. The European Union, for its part, was vague in its statements about new tariff reductions on its agricultural products, and even less clear about its intentions concerning the range of sensitive products to be excluded from these cuts. Brazil and India were reluctant to accept significant commitments to reduce their bound tariffs in the WTO as their contribution to a positive outcome.



The Underlying Reasons

Beyond these formal explanations for the failure of the talks, a look at the history of the multilateral trading system provides a deeper understanding of the current status of Doha.

Back in the 1950s, the failure of the US Congress to back the creation of the proposed International Trade Organization (ITO) was described by one observer as a victory for the alliance between perfectionists and protectionists.

The former feared that the proposed ITO would not go far enough, while the latter feared it would go too far. As a result, the multilateral system had to wait half-a-century for the creation of an international body possessed of the legal status to regulate global trade.

This anecdote may prove useful to understanding the current situation of Doha, as some observers maintain that the likely outcomes of the Round could not live up to initial expectations for liberalization. Others believe that demands to achieve this possible outcome were excessive and did not benefit the developing countries, as was intended.

It is true that certain models used to evaluate diverse scenarios of potential impacts of negotiations – which present various methodological problems and differing results – provide limited (but not insignificant) figures on the expected benefits of this Round, both in terms of global GDP and increased exports.

It is also true that the benefits were concentrated on a specified number of WTO actors and would not be distributed uniformly among developed and developing countries, nor within

developing countries. But neither were the individual contributions requested of WTO members uniformly demanding.

Let us examine this assertion more closely. Four main areas of negotiation were covered in Doha:

1. agriculture
2. non-agricultural products
3. trade in services
4. trade facilitation.

The three major groups of actors participating in the WTO are:

1. developed countries
2. developing countries (which embrace a broad range of divergent positions reflecting differentiated impacts of market openness)
3. least-developed countries (less than US \$1,000 *per capita*).

Within the Doha negotiations, it was clear that the least-developed countries (LDCs) would not be asked to commit to opening their markets to agricultural products, manufactured goods or services.

Moreover, within the framework of the December 2005 Hong Kong Ministerial, WTO members from developed and developing economies had agreed to extend, permanently, preferential treatment to the LDCs for access to both developed country markets and, where possible, to developing country markets.

This initiative brought developing country markets into the preferential benefits to be made available to the LDCs under the special treatment regime. This is an issue of growing relevance, as the inclusion of Asian countries would thus provide the LDCs with preferential access to these highly dynamic markets of increasing importance within the global economy. This preferential access would be extended indefinitely, with no ending date as is currently the case, and without quotas - an issue of special relevance. In short, the LDCs would not take on commitments that would have been controversial for them. In terms of market access, they stood to become net beneficiaries.



Uncertain Status of Initiatives for Developing Countries

Add to this the parallel initiative known as Aid for Trade. While never fully articulated, its main outlines would have complemented Doha outcomes.

The initiative would strengthen the institutional capacities of countries and, more importantly, the development of export supply-side capacity, in order to transform potential access into real access. It would also include cooperation for the development of managerial skills by countries.

The status of these initiatives following the suspension of negotiations is now uncertain. Aid for Trade was not conditioned to progress in Doha negotiations, but its outcome is now likely to be inferior to that which was emerging, even in the best-case scenario.

Trade facilitation – which reduces transaction costs – was, however, part of Doha negotiations. The developing countries themselves had advanced interesting proposals in this area to link financial contributions to the technical assistance received and to the capacity of developing countries to fulfill their commitments.

In short, this presents another net loss for the developing countries. It is likely, however, that new proposals will emerge to save this initiative, which would be a positive development.

In any case, regional organizations should assess the initiatives that had been agreed to and evaluate the feasibility of moving forward promptly with them, with or without resumption of Doha negotiations. This is a task that **ECLAC** will pursue, through its contacts with other regional organizations.

The remainder of non-LDC developing countries would also have access to Aid for Trade resources. Depending on their previous WTO commitments and a series of specific factors (small vulnerable economies, land-locked countries, among others), they could take advantage of a number of exceptions contained in proposals for liberalizing industrial goods, services

and agricultural products. These would provide them with flexibility to graduate commitments and moderate the possible negative impacts of opening their markets.

It is true that these flexibilities were not fully agreed upon and that certain proposals were generating tensions among the developing countries. But the most probable scenario was that an important group of these measures would have been included in the final negotiating package, and that this would have provided necessary flexibility.

The most important of these proposals is that liberalization for both agricultural and non-agricultural product markets takes place based on bound tariffs (as has always been the case) and not applied tariffs. The former are significantly greater for almost all developing countries, which means, in effect, a greatly reduced impact in terms of actual liberalization.

ECLAC proposes the prompt evaluation of advancing in the region on Aid for Trade initiatives.



ALEJANDRO HOPPE

Negotiations were thus focused on a specific group of developed and developing countries whose markets are of greatest interest. For developing countries, the main topic of negotiation was trade in agricultural products, organized in three areas:

1. export competition (export subsidies, state trading enterprises, export credits and food aid)
2. domestic subsidies for production (internal support)
3. market access.

The most difficult negotiations involved points two and three.

Hong Kong Ministerial Accord on Export Subsidies

Last December, the Hong Kong Ministerial agreed, in principle, to the gradual removal of export subsidies by the year 2013. This was conditioned to the results of the Doha Round and, in particular, to other aspects related to export competition.

While the actual repercussions of this decision on export subsidies could be minor – given that the US subsidizes relatively few of its agricultural exports and that the EU had already contemplated their elimination by 2013 as part of internal reforms – its importance lies in binding this commitment as part of an international treaty.

Moreover, the stipulated conditionality would have allowed the disciplining of other distorting policies (e.g. export credits, guarantees and insurance, state trading enterprises) and, under certain modalities, food aid. These advances are now on hold.

Main Differences in Agriculture

Two key components merit particular attention: domestic support and tariff liberalization. World Bank studies, among others, indicate that complete elimination of domestic subsidies would represent just 5% of global gains from agricultural liberalization. Some 93% of gains would come from tariff liberalization.

Why does a negotiating issue which represents such minimal benefits at the global level carry such decisive weight in the definition of the final outcome?

One reason is that, despite its proportional insignificance among total gains, its political impacts are wide-ranging. This is a first clue to understanding the role that domestic support and tariff liberalization played in negotiations. And their impacts on certain product categories – dairy, meat and sugar, among others – can be particularly distorting.

Commitments and actual spending, Amber box

(Figures in currency of each member)

	Bound 2004	Applied 2004	Margin	Member proposal			
	Ambar box			G-20	G-10	US	EU
European Union (15) (billions of euros)	67,2	32	35,2	13,4	20,1	11,4	20,1
United States (billions of US \$)	19,1	12,7	6,4	5,7	7,6	7,6	7,6
Japan (billions of yen)	3,973	611	3,362	993	1,391	1,112	1,391

Source: correspondence, Canada Job (06) 151, 22 May 2006.

But where did Doha negotiations stand prior to 24 July? What was the underlying problem? A good place to look for answers is at the starting point – commitments adopted by members at the close of the Uruguay Round, at which the WTO was created. The table describes situation of domestic subsidies included in the Amber box (subsidies that most distort trade) where figures over applied levels are available.



Total domestic support includes, in addition, Blue box and *de minimis* subsidies. The table provides a preliminary look at this issue, as it does not include all the components nor the diverse scenarios previously noted.

The table does, however, reflect a key outcome. In all instances, there is a notable decrease in domestic support as compared to the bound levels of the Uruguay Round. This represents a major advance over the current situation. For example, within the framework of the Uruguay Round, the European Union had a ceiling of €67 billion for programs within the Amber Box. This would have shrunk to a figure between €11 billion and €20 billion under the proposals for cuts advanced by the US and the EU.

The Perfect is Enemy of the Good

So why was no agreement reached on this issue? Some WTO members criticized the fact that, when factoring in all components of US programs, the US proposal would have allowed for a level of subsidies higher than those currently applied, albeit

substantially lower than those which it could apply within the scope of its current commitments.

With no results to the Doha Round, not only would the WTO members that most distort agricultural trade be freed from having to commit to reductions – they could also return to existing levels permitted by the WTO without violating their obligations. In short, this is a worse situation than the one at the start of the Doha Round: the perfect is the enemy of the good.

WTO members do retain the option of using dispute settlement mechanisms, as recently occurred with sugar and cotton. But this approach opens the door to the risk associated with legal settlements, greater tension in the system and uncertainties concerning applicable trade rules.

An additional problem is the risk that remains from the transfer of subsidies among categories, a consequence of the lack of transparency in program information and administration. In summary, while the proposals advanced were not particularly satisfactory given the ambitious expectations, they were nonetheless preferable to the current situation – and certainly far superior to the prospect of failure.

The Doha Round would have allowed for cuts in the agricultural production subsidies of the developed countries.

Obstacles to Negotiating Access to Agricultural Product Markets

More complicated, however, was the situation regarding negotiations for market access for agricultural products.

As noted above, the problem lay in the fact that the United States conditioned improvements in its commitments on domestic subsidies to significant reductions in tariff barriers by others.

The European Union was prepared to respond timidly to this demand – not, perhaps, to meet US requests, but close to G-20 levels – providing it could exclude a number of sensitive products. While the EU never announced the exact percentages under consideration – a figure of 8% was mentioned – concern grew in light of World Bank studies indicating that the inclusion of just

2% of tariff lines as sensitive would bring a 75% reduction in the total benefits from agriculture negotiations.

For their part, the developing countries demanded the right to designate the number of special products (for reasons of food security, among others) subject to different treatment, plus a system of special safeguards. Add to this the fact that developing country reductions would take place based on WTO consolidated levels, which are, on average, 48% vs. 21%, in the case of applied tariffs. And that, like the EU, they sought to maintain a category of sensitive products to moderate liberalization.

Thus, the full set of exceptions to tariff reductions, plus the differences between applied and consolidated tariffs, meant that, in practice, intended new opportunities for market access would hold little significance. Several studies, particularly by the Organization for Economic Cooperation and Development, indicate that South-South trade – the most dynamic of recent years – would have reaped the greatest benefits, had acceptable levels of liberalization been achieved.

In this context of product exclusions and special safeguards, the benefits to South-South liberalization were weakened – and it is highly unlikely that these types of liberalization will be achieved through bilateral negotiations or regional blocs.

The impossibility of harmonizing these diverse positions led to the suspension of negotiations.

Multilateralism, the Main Casualty

But the repercussions of this situation are greater than the simple numbers involved.

The first victim of the collapse is multilateralism, and this requires a serious evaluation of the opportunity costs of not having access to an organization like the WTO. This fear was rightly a main factor behind the creation of the WTO over a

decade ago. Another factor was private-sector interest in the benefits that a strong multilateral system could provide.

Both these factors were absent from the negotiations. The former has faded in light of the strength demonstrated by the multilateral trading system for the past 10 years, and its ability to survive over 50 years. In contrast, the private sector – especially in developed countries – has found in bilateral talks a mechanism which allows it to negotiate advantageous accords with developing countries, transforming the WTO into a forum for regulating relations between developed and emerging economies, including China, India and, in the near future, Russia.

The Benefits of the WTO

It is worthwhile keeping in mind the importance of an organization like the WTO and the benefits it provides. Key among these is its role in stabilizing trade flows and the terms and conditions in which these occur. Kindleberger viewed the multilateral system as an international public good.

During the “Asian crisis,” for example, the WTO helped prevent the possibility of protectionist pressures, keeping countries from modifying their tariffs or adopting restrictive trade measures different from those contemplated in its accords. As a result, the trade policies of Latin America and the Caribbean were not altered by this episode.

The tariff reductions obtained are binding conditions of market access. From this vantage point, the eventual elimination of export subsidies and the drop in levels of domestic support for agricultural products already underway constitute a clear sign of progress toward fair trade.

Moreover, improvements in specific trade rules (such as anti-dumping measures, technical barriers to trade, sanitary and phytosanitary measures) frequently used as protectionist barriers

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■ EDITOR: Pilar Bascañán, assisted by
Lezak Shallat and Lucía Concha
■ GRAPHIC PRODUCTION: Alvaro Muñoz

■ ADDRESS: Av. Dag Hammarskjöld 3477, Vitacura, Santiago, Chile.
■ TELEPHONE: (562) 210-2380 or (562) 210-2000.
■ FAX: (562) 228-1947. ■ WEBSITE: www.eclac.cl or www.eclac.org
■ E-MAIL: dpisantiago@eclac.org

The symbols used in this newsletter represent the various indigenous cultures of the Americas and some of the milestones in the region's history. The symbols are engraved on the outside of the conference rooms at ECLAC headquarters in Santiago, Chile.



Astronomic
Observatory



Fell's Cave



Mayan
Numbers



Corn



Santiago del
Nuevo Extremo

have been regulated by the WTO. The most sophisticated bilateral and regional agreements have not been able to further discipline these rules. This is a clear example of how the WTO, as a multilateral forum, is the appropriate forum to tackle these issues in the future.

It is within the WTO that developing countries have been successful in presenting their complaints against protectionist policies. There is no other organization where the developing world can seek redress against these types of policies. It is true that WTO dispute settlement mechanisms leave room for improvement in favor of developing countries. But, once again, this belongs to the debate with the perfectionists.

At the WTO, each member has an equal voice, at least formally, independent of its size, development level or financial contributions. There is undoubtedly room for improvement within WTO decision-making procedures, and the organization has not always been a model of transparency. But this is an inevitable part of the process of improving multilateral institutions, a process from which a strong dose of pragmatism must not be absent.

As Pascal Lamy notes, there is still an opportunity to “examine available options and review positions.”



Importance of Renewing Negotiations for Latin America

The suspension of negotiations will push forward the agenda of bilateral talks undertaken by the US, the EU and, more recently, by Asian nations, including China. A growing number of countries worldwide, in all regions, will now be open to this possibility.

This will mean greater discrimination against those countries that are not included in some type of trade agreement with the most relevant markets.

In the case of Latin America, Mercosur should probably return to the negotiating table with the European Union and even evaluate whether, in the absence of Doha results, it shouldn't consider some type of negotiation with the United States. Either

way, negotiations will be even more complex since the three pillars of agricultural talks identified by the Doha Round have not been redefined.

The logical conclusion is that WTO negotiations must be resumed as soon as possible, probably by the end of 2006, in order to contribute to the renewal of US Trade Promotion Authority negotiating authority.

In any case, no country has yet pulled its offers off the table, which is a positive sign.


The opportunity still exists to make sure that the skeletal advances made to date are preserved once talks are resumed and the overall process re-evaluated to find alternative ways to move forward.

Perhaps the announcement by the main parties would have been more complete and welcome if, in addition to reiterating their commitment to the multilateral framework, they would have reconfirmed their offers and their willingness to renew negotiations. Another positive step would be to seek implementation of certain measures to benefit the LDCs already achieved by negotiations. The same could be sought for

specific advances obtained in Aid for Trade.

It is important to take advantage of the call by Pascal Lamy for “time out to review the situation, time out to examine available options and time out to review positions.”

It is necessary to cooperate with efforts to “keep up the pressure for the political movement that would permit the resumption of negotiations” and lay the groundwork for the basis of an acceptable accord. Responsibility for this rests, in great measure but not exclusively, with those who contributed to the decision to suspend negotiations. But responsibility lies primarily with the United States and the European Union, because their policies have generated this impasse and because of the role they play in the multilateral trading system.

If this is not achieved shortly, several years could pass before negotiations resume within the WTO framework: the worst possible scenario for developing countries. 

1 *Condiciones y políticas de competencia. Economías pequeñas de Centroamérica y el Caribe* (Competition policies and conditions. Small economies of Central America and the Caribbean) by Claudia Schatan and Marcos Avalos (coordinators). Published by the *Fondo de Cultura Económica* and **ECLAC**, June 2006. Analysis of the current situation in the area of competition in the Central American and Caribbean countries. The authors make recommendations on how to strengthen institutional and create healthy and competitive markets. [www](#)



protection system pose today's family units with greater demands and an overload of functions. The author proposes new policy options which take into account current family structures and dynamics. [www](#)

2 *El papel de la familia en la protección social en América Latina* (The role of the family in social protection in Latin America), by Guillermo Sunkel, April 2006 (LC/L.2530-P/E, Spanish), *Serie Políticas sociales N°120*. Evaluation of changes occurred over recent decades, including population ageing, the increase in female-headed households and the decrease in average family size. Inadequacies of the social

3 *La medición de los Objetivos de Desarrollo del Milenio en las áreas urbanas de América Latina* (Measurement of the Millennium Development Goals in urban areas of Latin America), by Simone Cecchini, Jorge Rodríguez, Daniela Simioni, June 2006. (LC/L.2537-P/E, Spanish). *Serie Estudios estadísticos y prospectivos N°43*.

The document presents a series of comparative indicators at the regional level to follow-up Millennium Development Goals in 36 urban areas in nine Latin American countries. The indicators were developed based on micro-databases from population and housing censuses and household surveys. [www](#)

4 *Patrones de especialización comercial y desempeño del mercado de trabajo en América Latina* (Patterns of trade specialization and labour market performance in Latin America), by Jaime Ros, July 2006, (LC/L.2566-P/E, Spanish). *Serie Macroeconomía del desarrollo N°49*. This study, which covers 1990-2003 period, focuses on the links between trade specialization and labour market performance in three sub-regions: Mexico and Central America; Mercosur and Chile; and the Andean Community. It includes statistics on export concentration by regional destination, the importance of migration and family remittances, and analysis of labour market performance, the unemployment rate and real wage growth, among others. [www](#)

5 *Política fiscal en países especializados en productos no renovables en América Latina* (Fiscal policy in countries specializing in non-renewable products in Latin America) by Juan Pablo Jiménez and Varinia Tromben, April 2006. (LC/L.2521, Spanish). *Serie Macroeconomía del desarrollo N°46*. This study reviews the tax instruments used by Latin American countries, the evolution and composition of national wealth and its impact on fiscal performance, and mechanisms for stabilization. The authors make recommendations concerning the design of fiscal policies to address the volatility of the prices of non-renewable products and the difficulty of setting sustainable levels of public sector spending. [www](#)

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MONTH	EVENT	PLACE
JULY		
6	Annual meeting, United Nations Regional Commissions and the 2006 Substantive Session of Economic and Social Council (ECOSOC)	Geneva, Switzerland
10	Virtual forum: "Lét Agogo (Milk in Abundance): Case study in overcoming obstacles in developing the milk sector in Haiti," Experiences in Social Innovation project, ECLAC Kellogg Foundation / Italian Cooperation. See: http://www.risalc.org	ECLAC Headquarters Santiago, Chile
10	Inauguration: Summer School on Latin American Economies 2006, ECLAC	ECLAC
13	Ibero American Meeting on Migration and Development, preparatory meeting for the XVI Ibero American Summit of Heads of State and Government	Madrid, Spain
14	Virtual forum: "Case study in community health in the Amazons: Action for Community Health project in the Tapajos national forest", Experiences in Social Innovation project, ECLAC / Kellogg Foundation / Italian Cooperation. See: http://www.risalc.org	ECLAC
14	Cooperation agreement signed between ECLAC and the Andean Corporation for Promotion (CAF, <i>Corporación Andina de Fomento</i>)	ECLAC
25	Launch: <i>Economic Survey of Latin America and the Caribbean, 2005-2006</i> , ECLAC	ECLAC
27	Cooperation agreement signed between ECLAC and the Spanish Agency for International Cooperation (AECI, <i>Agencia Española de Cooperación Internacional</i>)	ECLAC

