

Agricultural Outlook Forum

Presented: February 16, 2006

BIG PICTURE POLICY VIEWPOINT

Andy Stoler
Executive Director
Institute for International Business
Economics and Law,
The University of Adelaide

Presented: Thursday, February 16, 2006

WTO'S DOHA ROUND & THE U.S. AGRICULTURE AGENDA:
A BIG PICTURE POLICY VIEWPOINT

Andrew L. Stoler
Executive Director
Institute for International Business, Economics & Law
The University of Adelaide

Introduction

Good afternoon ladies and gentlemen. It's a real pleasure for me to be here today and to see so many old friends. This is also a very important annual gathering and I am grateful to the organizers for inviting me, particularly given the significance of the issues under discussion.

In his closing remarks at the Hong Kong Ministerial Conference, U.S. Trade Representative Portman said that after having spent the week with his colleagues from around the world, he had heard repeatedly – both in private meetings and negotiating sessions – about the absolute need to let countries know there will be new market access opportunities in agriculture and that tariffs will have to come down in order for the rest of the Round to come together.

Australia's Trade Minister, Mark Vaile, left the Hong Kong welcoming the agreement to set deadlines to finalize agriculture market access modalities and schedules and stressing that the newly agreed deadlines must be met.

Celso Amorim, Brazil's Foreign Minister and the de facto head of the G-20 grouping, regretted that progress in the Round since July 2004 had been faltering and insufficient, stating that elements for the global bargain – centered on agriculture – were not there in Hong Kong. He affirmed that there would need to be a balanced treatment of industrial market access and agriculture.

WTO Director-General Pascal Lamy came away from the Hong Kong meeting saying the Doha Round was now 60 percent finished, as compared to 55 percent in the lead up to the meeting. Considering that the agriculture and services have been under negotiation since January 2000, I wonder whether it was a good idea for Lamy to suggest governments have to finish the next forty percent of the Round between now and December.

Do the politicians' statements reflect the situation on the ground? With hard work, will it be possible to achieve a significant outcome in agriculture and other areas by the end of this year? The consequences of success and

failure are significant. So what can we say about the big picture outlook at this stage?

State of Play in the Doha Round

Generally speaking, it's hard to document much progress in the Round between the agreement on the August 2004 "framework" texts and the Ministerial meeting. In fact, the text of an initial declaration that Pascal Lamy took with him to Hong Kong did little more than re-dedicate WTO members to what they had already agreed 18 months earlier.

Agriculture is of course central to any successful outcome in the WTO talks. What the past 18 months has shown us is that – notwithstanding all of the grandstanding on export subsidies - market access barriers are far more difficult to address successfully than are the issues of domestic support and export competition. WTO Members' inability to reach convergence on core issues like the structure of the formula to be applied to cutting tariffs is very worrying because the formula is a precondition for sorting out other issues in market access.

In Hong Kong, agreement was reached to end export subsidies by 2013 and that has to be seen as a success from the meeting. However, the not so fine print of the Declaration also tells us that this date sticks only to the extent that other parts of the negotiation move ahead successfully on schedule. And that brings us back to market access and the April 30 target for agreement on modalities. Can this target be met?

Not according to the negotiators and other experts. In a survey of more than 100 negotiators, policy-makers and experts from both developed and developing countries that I conducted in the second half of January, only 2 percent of respondents thought that the end of April targets would be met in the agriculture negotiations, with fully eighty-eight percent of our capitals-based respondents convinced that meeting the targets set in Hong Kong was unlikely.

When you consider that this end of April objective is more or less the same target we were supposed to meet at the end of March in 2003, you have got to be worried about what that means for agriculture and the rest of the negotiations given the overall goal of concluding the Doha Round in 2006.

Working out an acceptable formula is also the core problem for the industrial tariff negotiations. Some of the approaches that have been put forward are very dangerous, as they would severely limit the tariff cutting we can expect in this round from developing countries. This is a problem for at least two reasons: (1) everyone knows that opening markets to imports has a beneficial impact on an economy's growth and development and (2) because it is often in South-South trade where the greatest potential benefits lie in market access for the developing world.

Reaching agreement on the Swiss formula at Hong Kong is only one part of the task. What matters most in the NAMA talks now is what will be the agreed coefficients for the application of the formula to developed and developing countries. American negotiators said in Hong Kong that the respective coefficients should be no more than five points apart if we are to achieve a decent result in the NAMA negotiations, but many developing countries in Hong Kong were suggesting coefficients more than 20 points apart from that to be used by developed countries.

Added to this is the problem posed by the linkage made in paragraph 24 of the Hong Kong text, which relates the level of ambition to be achieved in agricultural market access to that achieved in industrial products and vice versa. In last month's survey, fifty-three percent of respondents held the view that this linkage would end up reducing the overall liberalization achieved in both agriculture and industry.

In the services trade negotiations, now under way for more than five years, just 68 initial and 24 revised offers were on the table in the period prior to Hong Kong. The WTO's 148 members were all to have had their offers on the table prior to the Cancun meeting. More than two years later, we have 150 members and less than half of the governments are participating in the negotiations. As with agriculture and industrial tariffs, this is essentially a market access problem.

And that is what is particularly distressing about the unhappy state of play in the Doha Round. This is not a highly complex rule-making negotiation like the Uruguay Round. There are no technical excuses, only a failure to deliver on market access.

Ten years ago, we negotiated for the first time rules for trade in services, complex approaches to measuring agricultural support and the TRIPS agreement. The Doha Round implies no new architecture in the WTO system. This time we are on well-known territory. It is a market access round – the most traditional of all GATT-WTO exercises and if we are having trouble gaining WTO Members' agreement to increased market access in 2006 we should be asking why that is the case and whether part of the problem might be due to other factors like the explosive growth in free trade agreement negotiations around the world.

Success or failure in the WTO, has important implications for global growth prospects. According to a 2005 paper by Kym Anderson and Will Martin at the World Bank, global welfare could be boosted by as much as \$300 billion per year if we can realize significant liberalization of merchandise and agricultural trade through the Doha Round and eliminate the worst forms of subsidies to agriculture.

But Anderson and Martin warn that much of this gain could be lost if the Doha result permits numerous exceptions for designated "special" and "sensitive" product categories.

Industrial tariff reductions are also a very important component of the “development” aspect of this negotiation. Improved access to developing country markets for industrial products is important for exporters in other developing countries. Between 1990 and 1999, the share of intra-developing country trade in manufactures increased from 29 to 34 percent.

A hypothetical agreement to reduce tariffs to an average level of one percent in industrial countries and five percent in developing countries would raise developing country income by US\$108 billion - more than twice as much as the gain estimated for developed countries.

The WTO negotiations are not addressed to investment, but they are very much concerned with trade in services and there is today a very strong connection between the two. This is due in part to the fact that most services are still not easily traded cross-border and require a local presence in the economy in which they will be provided. Today, more than two-thirds of all foreign direct investment flows are services-related, with services industries accounting for more than 60 percent of world FDI stock – compared to about 25% in the 1970s. Countries need investment for development. If today most of this investment is services-related, then it is clear that open services trade regimes will attract more investment.

Last September, business leaders from 23 countries joined forces to signal a “wake-up call” about the real risk of failure in the WTO talks and warned of serious consequences for worldwide economic growth. That business warning followed months of little or no progress on agriculture and other issues at the core of the WTO negotiations. American business reiterated this message at Hong Kong and at the more recent Davos World Economic Forum meeting, business has again expressed its concern over the lack of progress.

The business community is right to warn Governments of the dangers of failure in this negotiation. A small number of issues saw some progress in Hong Kong, but there are dozens of important unresolved issues on the table in Geneva. A business as usual approach will not enable negotiators to respect the end of April deadlines that must be met if there is hope of finishing this Round in 2006.

Competitive Liberalization and Free Trade Agreements

At the same time as the WTO talks seem to be perpetually teetering on collapse, we have been witnessing a historically unparalleled level of activity in the negotiation of bilateral and regional trade agreements. And this activity is everywhere: in Latin America, in Africa and especially in the Asia-Pacific. Last month, I spent two weeks in Beijing and Kuala Lumpur. China might have joined the WTO only four years ago, but the appeal of multilateralism seems to have been tempered by a more recent interest in free trade agreements.

In Malaysia, the slow pace of the WTO negotiations has convinced the government that it too now has to hedge its bets through FTAs. Malaysia supports a meaningful outcome in the Doha Round, but it is also now simultaneously engaged in ten different FTA negotiations.

Both the Australian and New Zealand governments are actively negotiating several FTAs today after having completed and implemented a series of agreements in the past couple of years. Japan and Korea are engaged with their trading partners. Of course, here in the United States, the past few years have seen a dramatic increase in the negotiation of Free Trade Agreements.

Are the WTO Round's problems linked to this high level of FTA activity? Through our surveys, we found there has been a marked change of view over the past two years. Back in February 2003, we asked our survey group whether regional trade agreements were seen as a problem for the WTO. A minority of thirty-three percent responded that they were worried about the impact of FTAs on the Doha Round. When we asked the same question in May 2005, a majority of 53 percent of respondents saw FTA negotiations undermining the prospects for progress in the Round.

If the experts are worried, we need to ask "why?" We need to assess whether these agreements are helping or hurting the WTO.

The nature of the new agreements – not to mention the interplay of political forces that tend to be much more significant at the regional level – makes for a complex analysis. Questions we should be thinking about include:

- whether the "competitive liberalization" approach that some argued helped to conclude the Uruguay Round in 1993 and launch the Doha Round in 2001 is still productive in 2005;
- whether the different scope of the WTO and FTAs has a bearing on the relationship;
- and, whether we might be seeing a degree of policy confusion on the part of WTO member governments.

Something like 325 FTAs have been notified to the WTO – more than 200 of these notified since the WTO entered into force eleven years ago. By some estimates, there are an additional sixty or so FTAs in operation but not notified to WTO. New FTAs are being notified at the rate of 11 agreements per year, compared with an annual average of three or less during the almost five decades of the GATT. The WTO estimated that by the end of last year, slightly more than fifty-one percent of all world merchandise trade would take place among countries linked by preferential agreements.

If you are a WTO multilateralist, these are some pretty scary numbers.

Can the Doha Round be Rescued?

Can the Doha Round be rescued?

Our most recent survey showed that practically none of the experts in our polling population expect the Doha Round to be completed in 2006 and that 70 percent of respondents expect American trade negotiating authority to expire on schedule in mid-2007. The same people do not expect to see the April negotiating targets met. So what will become of the DDA?

In an insightful article he wrote in the NATIONAL JOURNAL in early January, Bruce Stokes laid out a scenario in which negotiators would likely be faced with a choice between cobbling together a minimalist package and wrapping up the talks in 2006 or accepting the fact that the Round might need to be extended for a significant period (with President Bush having to seek extension of trade negotiating authority in 2007). Bruce points out in his article that a minimalist round outcome would likely have very little in it that would be politically attractive to most Member governments, making extension a more likely choice.

Bruce cites Fred Bergsten as saying that it is inevitable that the round will need to be extended. Fred, who is widely credited with inventing the term "competitive liberalization", thinks that this might still be the key to getting the Doha Round done eventually.

In an article published in FOREIGN AFFAIRS in December, Fred notes the important role played by NAFTA and the APEC Summit in 1993 in finally moving the European Community to play ball in the final stages of the Uruguay Round. When the APEC Leaders agreed in November 1993 to pursue "free and open trade and investment in the Asia Pacific region" it only took another month for the Europeans to agree on an agricultural package that brought the round to a successful conclusion. European negotiators at the time said that the risk that fully half of world trade and economic output would go its own preferential way was decisive.

Demonstrating that he is still a strong believer in the persuasive powers of competitive liberalization, Fred believes the APEC Business Advisory Committee (ABAC) proposal for a study of an APEC-wide free trade agreement is just the sort of catalyst needed in 2006 to get the Doha Round moving again. Neither Bergsten nor the ABAC proponents would expect to see an APEC FTA between now and the end of 2006, but then almost nobody seems to expect results in the Doha Round without its extension. Fred's point is that merely by seriously starting the APEC FTA, Europeans and other recalcitrants might get the idea that they had better take steps to make the Doha Round succeed.

I think Fred's got a point. You can say what you want about the impact on the Doha Round of individual FTAs now under negotiation, but there is no doubt in my mind that an APEC-wide deal would be seen as qualitatively different. It would definitely have a head-turning effect.

In addition, nearly every Asia Pacific country is now involved in the negotiation of several FTAs. The fact that APEC leads the way in business-friendly initiatives like trade facilitation adds to the argument for an APEC FTA

initiative. If there is a weak link in Fred's suggestion it's agriculture which is notoriously hard to deal with in an FTA context but which might prove to be more easily tackled in a multi-party APEC deal. And anyway, if Fred's right, we don't need to conclude the APEC negotiations – we only need to start them seriously to get the Doha Round back on track.

Keeping the End-Game in Focus

It's important that the Doha Round and the WTO should eventually succeed. The USITC has said over and over that for the United States it is almost impossible to demonstrate the positive economic effects of nearly all of the FTAs that have been negotiated because of the hugely different size of the American economy compared to its new FTA partner. On the other hand, the benefits of a WTO round are much easier to quantify, even if economic modeling needs a considerable upgrade to deal with non-tariff elements of modern trade negotiations.

The costs too of a failed WTO negotiation are impressive. A recent study in Australia by the Centre for International Economics estimated the cost to world GDP of a failed Doha Round at \$122 billion in foregone GDP. Success on the other hand, is estimated by the CIE to be worth about \$230 billion a year in GDP gains.

Apart from a good deal of very hard work and political commitment, it is not easy to see what the answer is for the WTO's Doha Round, but I think one thing is clear: any attempt to deflect attention from the central role in the negotiations of agriculture – such as the recent suggestions by EC Commissioner Mandelson – is not likely to prove productive in the longer term. Agriculture is important to the American economy as it is in Australia where I now spend most of my time, but it is not the key to national economic development. By contrast, in many developing countries, agriculture occupies a central place in employment and national income and for these countries – including those in the G-20 – there can be no end-game in the WTO talks that does not start from a premise of significant results in the liberalization of global agricultural trade.

This is borne out by common sense and by every survey my Institute has ever conducted on the prospects for the WTO talks. And it is very hard to see how any minimalist package could be constructed given the obvious reluctance of those countries where agriculture is central to settle for a package that provides them with little or no effective gains in access to developed country markets.

Everything I have read and the people with whom I have talked about this in recent days tells me that mid-2006 is going to be the crunch time for the WTO negotiations. If we can't see some very substantial progress and concrete negotiating solutions by July, it is likely to be years before this negotiation is concluded.

Thank you very much for your attention.