

CAN THE DOHA ROUND BE A DEVELOPMENT ROUND? SETTING A PLACE AT THE TABLE

Kyle Bagwell and Robert W. Staiger

Stanford & NBER

September 15, 2011

- The WTO's Doha Round is an attempt to address challenges brought about by the most recent wave of "globalization."
- Prominent among these challenges are two: bringing developing countries into the world trading system; and extending GATT/WTO disciplines to Agriculture sector.
- What can account for the lack of progress in the Doha Round?
- Are there changes in the approach to negotiations that was endorsed at Doha that might help to break the current impasse?
- In this paper, we extract insights from the standard economic theory of trade agreements to provide answers to these questions.

What you get is what you give

- Developing countries have experienced little in the way of trade gains from 50 years of GATT/WTO-sponsored tariff negotiations. Why?
- A country's import tariffs impede its exports.
- When this insight is applied to a setting of reciprocal MFN multilateral tariff negotiations, Figure 1.
- Suggests that SDT can explain the lack of trade benefits from GATT/WTO membership experienced by developing countries.

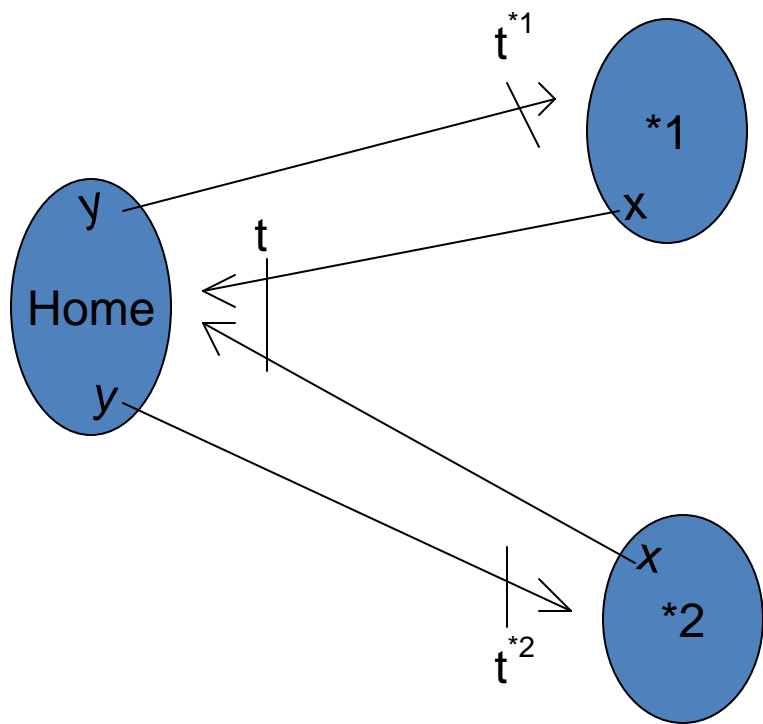


Figure 1

What you get is what you give

Hope of a “free pass” for developing countries to greater export volume is thwarted by the fact that,

- while a developed country might offer a more open market on an MFN basis to all comers,
- developing countries must compete for sales in that market with the “higher-export-performing” developed countries who “bought” the concession with reciprocal tariff cuts of their own.

Implication: The Doha Round must move away from the non-reciprocal SDT norm as the cornerstone of the approach to meeting developing country needs in the WTO, and instead developing countries must come to the bargaining table in markets where they are large and negotiate reciprocally with each other and with developed countries.

A latecomers problem

- Even if developing countries do come to the bargaining table in markets where they are large, a problem may arise wrt developed countries.
- Reciprocal bargaining between developed countries has gone on for over 50 years;
- Developed country tariffs on most manufactured goods are already very low;
- Developing countries would therefore be “latecomers” to the tariff bargaining arena for these products.
- Two potential issues faced by developed countries: inadequate bargaining power; “globalization fatigue.” Figure 1.
- As a result, it may be difficult for developed countries to identify a substantial set of mutually beneficial and reciprocal tariff bargains with developing countries.

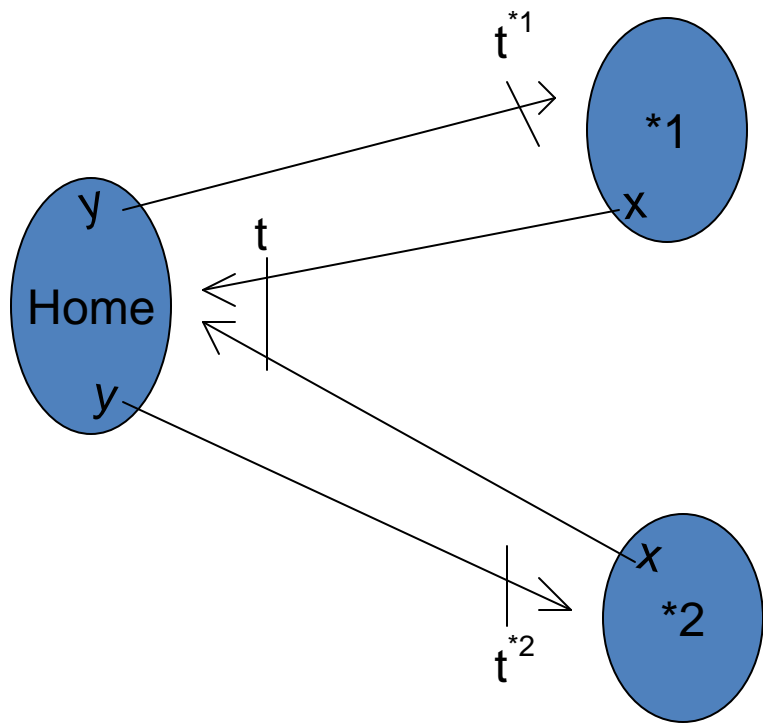


Figure 1

A latecomers problem

- A struggle with the latecomers problem has been in evidence from very early in the GATT/WTO history.
- One explanation for the breakdown in Doha is the difficulty dealing with this problem on a scale that has never before been confronted in the history of the GATT/WTO.
- If this explanation is correct, then the challenge for governments is to find a way in the Doha Round to “work around” the constraints posed by past bindings in the context of the latecomers problem;
- and thereby facilitate agreement on the set of negotiated tariff commitments that the current WTO membership would choose to negotiate today if they were not constrained in their negotiations by their pre-existing tariff bindings.

Implication: In attempting to integrate its developing country membership into the world trading system, the WTO may face a “latecomers” problem that, while occurring also in earlier rounds, is unprecedented in its scale in the Doha Round, and which could potentially account for the current impasse.

- Doha approach in Agriculture: encourage negotiations that deliver reductions in trade-distorting agricultural subsidies in exchange for reductions in import tariffs.
- Strikingly different from traditional GATT/WTO market-access bargaining.
- Economics of market-access bargaining strong; not so for Doha approach in Agriculture.
- Consider simple case of exchanging cut in export subsidy for cut in import tariff in ag sector: Figure 2.
- Both parties can't gain from this; hence no deal possible.
- The liberalization of agriculture should reorient toward a focus on traditional market-access bargaining.
- Still, as we discuss below, a possible role for reducing/eliminating the agricultural export-sector subsidies of developed countries as a device for addressing latecomers problem.

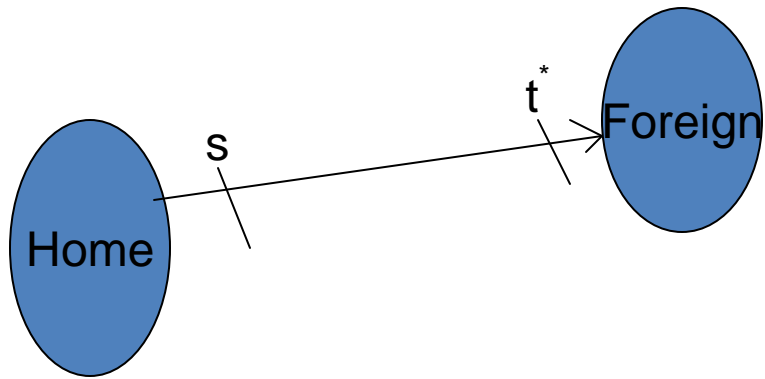


Figure 2

Implication: The Doha approach of negotiating reductions in export-sector agricultural subsidies in exchange for reductions in agricultural import tariffs may in fact be unworkable, because it is unlikely to lead to an agreement in which all parties to the agreement gain.

Making the Doha Round a development round

- A Doha Round that moves away from SDT, and
- engages developing countries to come to the bargaining table in markets where they are large and negotiate reciprocally with each other and with developed countries, and, as part of the bargain,
- reduces and/or eliminates the agricultural export-sector subsidies of developed countries,
- could be viewed as a way to engineer trade volume gains for developing country members while using the reduction/elimination of agricultural subsidies
- both as a bargaining chip to entice developing countries to agree to lower their tariffs, thereby generating bargaining power for the “low-tariff” developed world,
- and as a device to mitigate the overall trade effects of integrating developing countries into the world trading system, thereby addressing the issue of developed-world “globalization fatigue.”
- Note: A truly multilateral deal required.

What we are seeing today is the paralysis in the negotiating function of the WTO, whether it is on market access or on the rule-making. What we are facing is the inability of the WTO to adapt and adjust to emerging global trade priorities, those you cannot solve through bilateral deals.

This risks overshadowing the achievements in other parts of the WTO functions, such as monitoring, surveillance, dispute settlement or even Aid for Trade... There is, therefore, an urgent need to develop a shared diagnosis over the current impasse and what went wrong as a means to prepare a discussion over possible solutions as well as over emerging issues.

I would urge you to use the summer break to reflect and come prepared to fully engage in an “adult conversation” over “what next.”