



Dialogue on Globalization

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The future of WTO's Doha Round: From the suspension of the negotiations to possible scenarios and their implications for development

The negotiations of the Doha Development Agenda (DDA) are facing their most difficult phase after having been suspended de facto across the board on 27 July. Their current status can be characterized as interplay between entrenched positions of key trading nations on the one side and the pressure to resume negotiations (mainly from developing countries) on the other, combined with an overall lack of leadership. It remains rather unclear when the negotiations of the DDA will be resumed and what the implications of the final outcome are for developing countries.

What has happened since July 2006?

"Time for reflection" and "silent diplomacy"

After the suspension of the Round, Pascal Lamy, Director-General of the WTO, announced a "time for reflection" to allow each constituency to consider what is at stake and to review its negotiation position. This "time-out" was necessary since the negotiations were stuck between formulae and numbers, and stakeholders seemed to have lost sight of the broader picture of the Round. Various civil society groups took advantage and urged to start thinking more creatively on how to achieve the development aspects of the Round. Although no official meeting of the WTO negotiating bodies has taken place since then, various meetings of key players occurred, such as the G-20 High Level Meeting on 9 September in Rio de Janeiro, Brazil; the Cairns Group Ministerial Meeting from 20-22 September in Cairns, Australia; the IMF/World Bank annual meetings from 13-20 September in Singapore; and regional group meetings. Besides, a number of bilateral meetings among major trading nations took place to try to bridge their differences – a process that Lamy referred to as "silent diplomacy". Despite all these efforts, members remain very much entrenched in their positions.

Time for a "Geneva consensus"

The major challenge of a "Development" Round is to contribute to the goal that trade works better for development. In this regard, three problems emerge: First, there is no panacea, i.e. each of the 149 WTO members has to find a somehow different strategy. Second, conducive multilateral rules are important but must be complemented by supportive national and/or regional measures. Third, trade opportunities and adjustment costs arising from a successful completion of the Round are distributed unequally among WTO members. Thus, Lamy called for a "Geneva consensus", arguing that the adjustment costs and imbalances of winners and losers of trade liberalization must be addressed properly.

Some progress in WTO's Aid for Trade Initiative

The Aid for Trade Initiative was added as a late-comer to the DDA at the Hong Kong Ministerial Conference in 2005 to assist developing countries in benefiting from the multilateral trading system, e.g. by building supply-side capacity and trade-related infrastructure. In February 2006, a Task Force was established to work on how to operationalize Aid for Trade. The WTO General Council endorsed these recommendations at its meeting in October and made clear that Aid for Trade was not part of the "single undertaking" and could be continued to be discussed formally. Although the initiative gains strong support among most WTO members, there remain more questions than answers: Apart from the general question why WTO should engage itself in this activity, it is still unclear how much additional funds will be pledged, which criteria should be used for its distribution and – most important – how to implement it effectively. While Aid for Trade is no substitute for a successful outcome of the DDA, it might be an

important step towards greater coherence between international organizations in trade policy.

Resumed debate on “policy space”

UNCTAD's Trade and Development Report 2006 highlights the concept of policy space by mentioning that developing countries should not be refused the flexibility, which today's developed countries applied before to pursue their development strategies. Many countries used instruments of an active industrial policy, such as high tariff protection and export subsidies, which are already limited by WTO regulations and are to be restricted even further according to the proposal in the DDA negotiation area of Non-Agricultural Market Access (NAMA). The critical question is how to influence the right policy mix by reducing “bad policy space” and allowing enough “good policy space” under the multilateral framework.

Possible scenarios of the Doha Round and their implications for development

Scenario 1: The Round will be concluded in 2007 by a bottom-up approach: Possible but difficult

This scenario requires that WTO members get back to the negotiating table soon and conclude a DDA framework agreement until the end of March 2007. This agreement must include modalities in the areas of agriculture and NAMA, final offers in services and an agreed text in trade facilitation and rules. The March deadline arises from the political timetable in the US, since US Congress will have to decide on the prolongation of the “Trade Promotion Authority” (TPA) and the “Farm Bill” by this time. While the soon Democrat-dominated Congress indicated some willingness to renew the TPA if labor and environmental provisions are included, the future of the Farm Bill is more uncertain. Since it regulates the US domestic farm support program, its reform is necessary to allow the US more flexibility in the agricultural negotiations. In contrast to the Republicans, Democrats are traditionally less dominated by farm lobby groups and will probably be more skeptical about the program, given its high burden for the US budget. The development impact of this scenario would be rather modest, although not negligible. While agricultural export subsidies would be reduced until 2013 (in the case of cotton even earlier, combined with a reduction of domestic support), overall trade-distorting regulations would not be removed drastically and the level of real subsidy spending in developed countries not be reduced significantly. In NAMA, mod-

erate cuts in tariffs, tariff peaks and escalation would correct some of the imbalances and offer few developing countries more possibilities for increasing their exports, whereas other developing countries would face negative effects. While progress could be achieved in trade facilitation, this seems unlikely in areas, such as services or rules, except from the reduction of fisheries subsidies.

Scenario 2: The Round will be concluded in 2007 by a “Lamy text”: Unrealistic but possible

Along the lines of the “Dunkel text”, it is speculated that Lamy could come up with a similar text, offering a minimal consensus. This would require an active interpretation of his role as “facilitator” and “catalyst” as well as strong leadership. Lamy already came forward with a proposal, trying to facilitate a solution at the June 2006 “Mini-Ministerial”. This, however, was rejected by both developing and developed countries. Thus, it seems unlikely that such a text, produced by a top-down approach would gain the final approval of all WTO members. Nevertheless, it might be a useful instrument to facilitate the first scenario.

Scenario 3: The Round remains stalemated for some years: Realistic but undesirable

If the first scenario does not deliver, the Round will be stalemated at least until the US presidential elections in 2008. It will reduce pressure from governments, and offers that are already on the table might be watered down or disappear completely. The French election in 2007 will influence the level of flexibility of the EC especially in the area of agriculture. This scenario gives countries time to follow a holistic approach and could lead to the resumption of the “Singapore issues” or even financial topics. It is unclear if development concerns would be taken more seriously by then.

Conclusion

In a globalized world, a fair, rules-based multilateral trading system is more crucial than ever. Lamy described the current system in his speech at the European Parliament on 17 October: “It is as if economic decolonization had had to wait 50 years after political decolonization”. To achieve the former, a radical change of the mercantilist negotiation logic, combined with strong leadership is critical, but still missing among the major players.

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