

Dialogue on Globalization

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**FES / WTO International Workshop for Parliamentarians from Developing Countries on**

# "Trade Liberalization and Development – WTO and the Doha Round"

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**Background:** The negotiations under the Doha Development Agenda (DDA) had been suspended in July 2006 due to insurmountable impasses in bargaining positions and a lack of consensus among the key players. In February 2007, the negotiations moved to a full fledged resumption after numerous informal, bilateral and regional consultations had taken place. Political support to get fully back to business has been expressed by political leaders around the world and the majority of developing countries want a quick conclusion of the round and a "fair deal" since major imbalances in the trading system can only be addressed at the multilateral level.

Parliaments have to play a decisive role in policy making in their countries to guarantee that reform programmes are supporting the overall development strategy. Many developing countries have young democracies and parliaments that are not working effectively or lacking resources and the necessary know-how. Trade agreements have repercussions on various other policy areas, such as environment, employment or human rights. Although crucial to understand, these interlinkages are difficult to assess and anticipate. Since parliaments have to ratify most trade agreements (including the WTO agreements), it is important that legislators as elected representatives of the people have a basic knowledge of the content of legally binding trade agreements and their possible implications for other policy areas.

It was against this background, that the international workshop for parliamentarians from developing countries on "Trade Liberalization and Development – WTO and the Doha Round" was jointly organized by the WTO Secretariat (External Relations Division) and the German Friedrich-Ebert-Stiftung (Geneva Office). The wider aim of the workshop was to facilitate the active and meaningful participation of parliamentarians in key areas of discussion and debate on trade issues, especially in regard to the development dimension of international trade and to enhance the external transparency of the WTO. Thus, the workshop aimed to provide parliamentarians with opportunities to obtain first-hand information on recent developments in the WTO talks, to exchange views and experiences with their colleagues from other countries, and to interact with government negotiators and WTO officials to get a clear picture of the challenges and opportunities at stake in the negotiations of the Doha round.

The workshop brought together 24 parliamentarians from partner countries of the Friedrich-Ebert-Stiftung in Africa, the Middle East, Asia and Latin America. It was the first time that such a workshop for parliamentarians was taking place at the WTO building in Geneva, which underlined the increased openness of the organization. At this workshop, the political considerations behind the negotiations were highlighted in contrast to seminars at regional level, which usually focus on the technical issues of the Doha round and the multilateral trading system.

## 1. The Doha Development Agenda and the Multilateral Trading System

### 1.1 State of play of the DDA

The Doha round is the most difficult multilateral trade round ever launched. It is broader (more issues involved), deeper (higher level of ambition in commitments) and wider (150 WTO member states). Combined with the requirement that a final deal must be agreed upon by consensus and include all negotiation areas ("single undertaking"), these factors make the round a very challenging one. Currently, the DDA is in a decisive phase and there is time to reflect but also to fear for the future of the Doha round. In July 2006, the negotiations – although not having collapsed – were suspended, mainly due to the difficulty of the EU and US to agree on the "exchange rate" between agricultural tariff reductions in the case of the EU and cuts in agricultural domestic support in the case of the US. The full resumption of the talks in February 2007 was interpreted as a sign that there is too much at stake to let the round fail. Finally, all WTO members gain from a predictable and stable multilateral trading system that provides for increased business opportunities.

While negotiation positions did not change much, the political atmosphere, which is the starting point for any successful negotiation, improved. It is also clear and crucial for success that large countries such as the members of the

G-6 (EU, US, India, Brazil, Japan and Australia) will have to make bigger contributions. However, the window of opportunity seems to be open only until the end of June, when the Trade Promotion Authority of the US will expire and the political calendar of important WTO members, such as the US and the change of the EU presidency, will make it even more difficult to reach an agreement. Nevertheless, no new deadlines were set officially since the high number of missed deadlines in the past eroded creepingly the confidence in a successful end of the negotiations.

The need for reforms of the multilateral trading system is clearly there. Developing countries are benefiting less than developed countries from the current system. In the industrial sector, developed – but also developing countries – shield their sensitive products, such as textiles, garments and shoes by tariff peaks, high tariffs and tariff escalation. In the agricultural sector, developed countries spend huge amounts of trade-distorting domestic support and export subsidies that undermine the comparative advantages of developing countries. At the Hong Kong Ministerial Conference in 2005, the elimination of export subsidies until 2013 and even earlier in the case of cotton subsidies was already agreed upon. Equally important are increased market access opportunities that could boost South-South trade significantly. The promise of developed countries to guarantee duty and quota free market access for 97 per cent of the products of Least Developed Countries (LDCs) is a starting point but not sufficient, because the majority of LDC's export products often constitute even less than 3 per cent of the tariff lines.

While trade is often a necessary but not sufficient condition for economic growth and poverty reduction, it is no panacea to cope with the challenges of achieving sustainable development. Sound macroeconomic conditions, economic and social infrastructure as well as effective redistribution policies are equally important to truly benefit from trade liberalization. Nevertheless, a successful and timely outcome of the DDA might be an important triggering factor.

The Doha round is more than about trade. It is a severe test of the credibility of the multilateral trading system, whose rules have to be adapted to the needs of developing countries. The challenge is to construct a trading system which all member countries can benefit from. Participants from recently acceded WTO member countries mentioned that they had worked hard to be part of the system and will push the Doha round forward in order to reap the benefits of their WTO membership.

### 1.2 The need for increased policy coherence

Globalisation and the increased interlinkages between policies make efficient coherence one of the most pressing issues currently. One delegate from Geneva mentioned: "Everything we do here at WTO affects everybody else and everything that others do affects us." Various participants highlighted the strong interlinkages between financial and trade policies and raised the concern of the missing coherence between the respective multilateral organizations, i.e. the International Monetary Fund (IMF), World Bank and WTO. Some parliamentarians mentioned that the issue of foreign debt is much more pressing on their countries than the issue of trade. They suggested that trade liberalization efforts should be rewarded by debt relief commitments in return.

Multilateral organizations acknowledge the need for greater coherence but refer to their limited mandate and their member countries' responsibility to provide them with a broader mandate. This poses a huge challenge on governments since many of them have failed to ensure coherence at national level, i.e. between the Finance Ministry (responsible for IMF), the Trade Ministry (responsible for WTO) and other relevant ministries.

Some participants mentioned that their countries' sovereignty was restricted by IMF conditionality or neoliberal World Bank programmes in the line of the "Washington Consensus". They criticized that their governments went too far with the liberalization of sectors, which was disastrous for their economies and had to be reversed again. It turned out that the negative adjustment costs (often in the form of losses of tariff revenues and temporary unemployment) are certain and perceived immediately, while the benefits might be realized in the future, depending on a variety of other factors. In some cases, the expected increase of employment opportunities and higher productivity did not materialize at all, which hints at the need for further research on the linkages between trade and cross-cutting issues, such as employment. A promising though small step into the right direction and greater coherence was the jointly conducted study between the ILO and WTO on "Trade and Employment: Challenges for policy research".

### 1.3 Between unilateral, bilateral, regional and multilateral trade liberalization

While exact data are missing, there is consensus that most trade liberalization is pursued by unilateral market opening (around 65 per cent), followed by multilateral agreements (around 25 per cent) and bilateral agreements (around 10 per cent). However, the benefits of "locking in" reforms at multilateral level is economically equally important as trade liberalization itself since it provides for a predictable, rules-based framework and reduces the available policy space of countries.

Chile was mentioned as an example for successful unilateral trade liberalization. The country has opened its economy since the late 1980s extensively and in a sequenced manner with the result of impressive per capita growth rates. Accompanying programmes and public investment in the social sector mitigated the negative adjustment costs although income inequality increased. While the overall effect of Chile's trade liberalization was considered positive, the strategy of unilateral liberalization was explained as being the result of the standstill at multilateral level.

Preferential Trade Agreements (PTAs) can be building but also stumbling blocks for the multilateral trading system, depending on whether they increase or divert trade. Many bilateral trade agreements have a decisive impact on a national economy due to the reciprocity and strictness of the norms and regulations included ("WTO Plus"). Although these agreements are regarded as a second-best option compared to the other forms of liberalization, governments argue that there are no alternatives since their businesses need the market access to their major trading partners. This issue was especially raised by the countries that are currently negotiating bilateral trade agreements with the US, such as Colombia, Peru and South Korea. In the case of the Andean countries, it was regretted that the Andean Community was not able to negotiate a regional agreement as a block, which would have given greater bargaining power than in the bilateral negotiations. Issues that are sensitive for major economies such as agricultural domestic support are never on the table for PTAs, but can only be dealt with at multilateral level. Regional trading blocks vary heavily in terms of number of member countries as well as the depth and breadth of integration. Participants from African countries in particular mentioned that tariff barriers remain quite high in their regional trade agreements. At WTO, one of the first concrete results of the Doha negotiations was the draft decision taken by the General Council in July 2006 to provide for rules on early announcement and notification of PTAs to WTO as well as on procedures to enhance transparency. This is especially important for non-tariff barriers to trade, which are often too burdensome and intransparent, preventing developing countries from making use of increased market access opportunities that arise out of lower tariffs.

### 1.4 Trade negotiation process and dynamism

Developing countries have not been actively engaged in multilateral trade negotiations until the Uruguay round. This turned into the opposite in the Doha round. Currently, there are 150 WTO member states with a variety of interests, which they represent and defend by groupings that emerged since the launch of the round in 2001. The affiliation can be based upon regional criteria, such as the African or Caribbean Group, UN classification, such as the LDC group or by common interests in specific sectors, such as the NAMA-11.

In the area of agriculture, the coalition of developing countries with defensive interests, the G-33, and offensive interests, the G-20, are remarkable since they stuck together despite major differences in the groupings themselves and various attempts from outside to divide them. The G-20 proposals became the centre of gravity in the agricultural negotiations, which proved that developing countries can be well organized, have technical expertise and can negotiate effectively. Moreover, the grouping showed a sense of leadership that was lacking at that moment by major players, such as the EU and US.

In this context, the role of China in the WTO was debated and concerns were raised about China's future position in the world market. It was considered as an important step that such a fast growing economic giant like China entered WTO and decided to become part of the rules-based multilateral trade regime. China even accepted much stricter regulations in its accession protocol than other WTO members had to commit themselves to and already faced a number of disputes against its trade regime. This demonstrates that the WTO system is working and China is clearly part of it. It remains to be seen how actively the country will exercise its role as WTO member in the future.

At the national level, parliaments have to play a decisive role in policy making to guarantee that trade agreements are supporting the overall development strategy. However, parliamentarians raised the concern that they are rarely included in the preparation and negotiation process of trade deals and lack relevant information. Moreover, in some countries trade deals enter into force even without parliamentarian approval, whereas the translation of the commitments into national law depends on the parliaments again. At this stage, however, it is already too late to modify the provisions of the final trade deal and constitutes a loss of sovereignty in parliamentary power.

## 2. DDA negotiation areas: Options and consequences

### 2.1 Agriculture

The destiny of the DDA is closely linked to the prospects of a successful outcome in the agricultural negotiations that follow a rather political calculus. There are the options of failure, which would include the indefinite postponement of the Doha round for some years; of success; and of "something near success".

The conditions for a successful outcome are related to the broader agricultural policy and reform programmes of the major players. The EU has reformed its agricultural policy fundamentally in the right direction by its reform program until 2013. It shifted its subsidies away from a production-based to an income-based approach. This implies that the internal prices in the EU are coming down and the system causes fewer distortions in the market place. Thus, the EU is in the easier position to make big contributions in the negotiations, since it is forced to proceed with its reforms by domestic commitments. After these reforms, export subsidies might no longer be needed and tariffs could go down anyway.

The agricultural policy in the US is defined by its Farm Bills, which are reformed every five years. In contrast to the EU, the Farm Bill 2002 marked a step back by actually having increased the allowed amount of trade-distorting domestic support. This development made the negotiation position of the US much more complicated and inflexible than the one of the EU. At the moment, the discussions on the new Farm Bill, which has to be approved later this year, are taking place controversially. Yet, a significant change of the present legislation in the most trade-distorting areas seems to be unrealistic. Moreover, the cotton issue and domestic support in this area remains extremely sensitive in the US.

The overall offers on the table in the multilateral agricultural negotiations constitute already an improvement compared to the results of the Uruguay round. Remarkably, it was agreed to phase out export subsidies until 2013, with the major share until 2010. In the area of market access, there are still a lot of open questions, since the final outcome can only be assessed after having defined all flexibilities. The negotiations on how developed countries will be allowed to shield their sensitive products and how the interests of developing countries will be taken into account adequately continue to be most contentious. In the latter case, there is the proposal to designate a certain amount of products as "special products", which are subject to lower tariff cuts, and to provide for the option of a "special safeguard mechanism" to protect food security, livelihood security and rural development needs in developing countries.

Many participants criticized that currently the export products of their countries have to compete with the subsidized agricultural products of developed countries, which undermines their comparative advantages. Moreover, the level of ambition in the negotiations on cutting trade-distorting domestic support is much lower than the level of ambition for tariff reductions. This increases the pressure on small agricultural enterprises in developing countries, which would probably face negative consequences and high adjustment costs at least in the short term.

In a globalized economy, dynamic comparative advantages are crucial to profit from market access opportunities. Thus, agricultural enterprises have to come up with demand driven products and innovative alternatives. A promising option could be investment in the production and export of organic products, although the costs in the production process are higher and non-tariff barriers are more demanding. In this context, a greater degree of internationalization of standards was called for. Many participants raised the concern that the Agreements on Sanitary and Phytosanitary Measures (SPS) and on Technical Barriers to Trade (TBT) are difficult to comply with for many exporting firms of their countries. However, there was no agreement in Doha to negotiate on these agreements in the current round, which makes the internationalization of standards under the WTO framework more difficult. While the governments can facilitate trade by negotiating conducive agreements, it is finally up to the exporting companies to know and comply with the relevant product and process standards of the supermarkets in the destination countries in order to benefit from increasing export opportunities.

The lack of adequate infrastructure and capacity problems in international transportation are more relevant in agriculture than in other areas, since the quality of many products depend on their in-time delivery. African countries in particular are confronted with shortages and need to look for quicker and easier ways to transport their products into major export markets (see "Aid for Trade" in section 3). Related issues, such as streamlining and accelerating the handling of goods at the border and improved customs valuation systems, are parts of the negotiations on trade facilitation.

## 2.2 Non-agricultural market access (NAMA)

The negotiations on non-agricultural market access (NAMA) did not move much further than before the suspension of the talks in July 2006. At the Hong Kong Ministerial in 2005, it was agreed to use the "single Swiss formula" approach with probably two coefficients – one for developed and one for developing countries.

The Swiss formula is a non-linear tariff cutting approach applied on a line-by-line basis, which aims at harmonizing the tariffs; i.e. higher tariffs will face deeper cuts. The rationale behind this approach is to deal with tariff peaks, high tariffs and tariff escalation, which are still applied by developed – and developing countries – to shield their sensitive products.

However, there exist various types of flexibilities, which reflect the necessary hierarchy of contributions from WTO member countries, taking into account their different characteristics. For example, developing countries ("paragraph 8 countries") will be allowed to exempt 5 per cent of their tariff lines, or to apply lower formula cuts for 10 per cent of their products. A group of ten developing countries ("NAMA 11") is pushing strongly against ambitious tariff cuts and is calling for more flexibilities than there are on the table. While the "Small and Vulnerable Economies (SVEs)" will be granted additional flexibilities, LDCs are not required to make any commitments. The question of how to treat the "Recently Acceded Members (RAM)" is more complicated since this group comprises small countries such as Cambodia or Nepal, but also for example China. Thus, a differentiation in this group might be necessary and is being discussed.

Three other issues are at the sidelines of the NAMA negotiations. First, some developing countries raised the concern that they will be confronted with preference erosion, which arises from the general lowering of tariffs and shrinked preference margins. The affected countries fear to lose the competitiveness of their products and market shares. Second, the treatment of "Non-Tariff Barriers" (NTBs), such as complicated rules of origin, is still negotiated controversially and requires more technical work. The third open question is the coverage of the sectoral agreements, which aim at more ambitious formula cuts, for instance in the area of textiles and electronics. The participation in this initiative is voluntary, but once members agreed to stronger commitments, they are bound by them and have to grant them on a most-favoured-nation basis.

The real negotiations are taking place very informally on the core modalities and bilaterally ("confessionals"). Furthermore, there are plurilateral negotiations ("fire-side chats") and multilateral negotiations to inform the rest of the membership on the progress. These technical negotiations are superposed by four major tensions: First, the level of ambition in the NAMA negotiations depends completely on the level of ambition in the agricultural negotiations, which are still deadlocked. Second, the different interpretation of the "less than full reciprocity" principle, which stands in contrast to the claims by the EU and US for "real market access". Third, the hierarchy of contributions is still not clear and can only be agreed upon when the numbers for the formula, coefficients and different flexibilities are on the table as a whole. Fourth, a great concern is also to decide on how to deal with the "China problem", especially in the areas of textiles and footwear.

The negotiations on NAMA are closely connected with the debate on policy space and adjustment costs. UNCTAD's Trade and Development Report 2006 argued that developing countries should not be denied the flexibility that today's developed countries used before, which would be the case if the current NAMA proposals would be applied. In this context, the question was raised why developing countries give away voluntarily much more policy space in bilateral free trade agreements than it is at risk in the DDA. The important factor is to find the right policy mix between restricting "bad policy space" and providing for enough "good policy space" in the multilateral trading system.

Trade liberalization triggers competition and leads to a restructuring of the economy across but also inside sectors. This causes adjustment costs in the form of loss of tariff revenues, displaced workers that often have to be retrained or even deindustrialisation processes. While the EU and US have trade liberalization adjustment funds, which provide e.g. for measures to retrain workers that lost their jobs, most developing countries cannot afford such programmes and face a hard reality at least in the short term, since they often lack functioning social safety nets.

**2.3 Services**

The services sector makes up for a large share of GDP and is the fastest growing sector in many developing countries. Moreover, especially financial, telecommunications and transportation services are of critical importance for the development of other sectors in an economy. The improvement of services in terms of delivery, quality and costs can reduce the price of the final product considerably and increase its global competitiveness. In many developing countries, the lack of adequate infrastructure and an inefficient transportation system are among the main bottlenecks of benefiting from market access opportunities.

The General Agreement on Trade in Services (GATS) provides the multilateral framework of principles and rules for international trade in services. It is comprehensive in scope with 11 sectors and around 160 sub-sectors and comprises four different modes: Mode 1 ("cross-border supply"), Mode 2 ("consumption abroad"), Mode 3 ("commercial presence"), and Mode 4 ("presence of natural persons"). In contrast to the goods sector, where tariff bindings and reductions are negotiated, the talks in the services sector are primarily about specific commitments made by countries concerning the extent of market access and the exemptions of the most-favoured-nation principle. The majority of the commitments that were made until now did not contribute to real liberalization of services, because members tend to commit themselves only in areas where they opened up already unilaterally. Nevertheless, this "locking-in" of commitments at the multilateral level is a significant economic contribution since it reduces the available policy space of a country on a long-term basis.

The service sector is closely linked to the question of domestic regulation, where efficiency of national authorities and good governance play an important role. Services liberalization has both an external component, e.g. lowering barriers to trade and increasing foreign equity, and an internal component, e.g. reforming domestic policy, enhancing transparency and accountability or efficient regulation. However, it is still a contentious question of what "good regulation" comprises. In many countries, the economy faces the problem of being over-regulated, which was for example the case in India until the early 1990s. On the other hand, an efficient regulation system is necessary and has to be in place before opening up a sector. World Bank studies found that FDI flows and growth rates have been higher in sectors that have high regulatory capacity. The crucial factor is to find the right balance and sequencing between adapting domestic regulations and services liberalization. It was stressed that liberalization does not mean to give up the right to regulation but – contrarily – makes efficient institutions and adequate regulations even more important. This poses a high challenge on developing countries that often have weak institutions and limited regulatory capacity.

In the case of Indonesia, the liberalization of the financial sector was conditional on profiting from World Bank programmes. While the country has now a very liberal financial system with a more efficient banking system, it was mentioned that this did neither lead to significant FDI inflows nor to lower prices of the products. Moreover, most banks keep concentrating on consumer credits rather than investment credits for the business sector.

Developing countries are often confronted with labour surplus, which makes Mode 4 the single most important area of interest for the majority of them in the service sector. Since 2005, India became the strongest demandeur of the group of developing countries for commitments in Mode 1 and Mode 4, given its increased competitiveness in these areas. The multilateral negotiations in Mode 4, however, focus mainly on the regulation of the migration of high-qualified workers, ignoring the much greater need of developing countries to achieve market access also for "unqualified" workers. Moreover, even the discussions on greater access for high-qualified workers did not move much forward given that in many developed markets, such as in the EU and US this area is considered as a security issue, leaving trade negotiators little room for concessions. In this regard, African participants complained that the business visa requirements were still too restrictive in many developed countries hindering them from establishing new business contacts.

The GATS agreement does not provide for an "emergency safeguard mechanism" yet. The DDA negotiations include this issue but face the problem that for each sector a different and adequate mechanism has to be agreed upon in order to be effective. To facilitate a solution, commissions on "necessity needs tests" were created for instance to guarantee that regulations are not more trade-restrictive than necessary. This discussion showed the difficulty of finding a consensus in this area.

## 3. The development component of the DDA and Aid for Trade

Since the Doha round was baptized as a "Development" round, it has been discussed controversially on how to achieve a development-friendly outcome. However, there is not even consensus on what the development dimension of the DDA comprises. One speaker referred to Amartya Sen, who defined "development" as the "removal of unfreedom". In the context of the WTO this could be interpreted as the need to provide for a level playing field and balanced rules. Until the Uruguay round, developing countries´ interests were not addressed, due to the fact that these countries were neither asked to make contributions nor did they engage themselves actively in the negotiations. Not surprisingly, the current rules of the multilateral trading system are not in favour of the interests of developing countries. For their main export products in the agricultural or textiles sector for instance, precisely the highest tariffs are applied. Due to agricultural subsidies and high domestic support in developed countries, developing countries cannot benefit from their comparative advantages in these sectors.

One important aspect of the development dimension of the DDA is to provide developing countries with enough flexibility in the rules to take into account their different levels of development, referred to as "Special and Differential Treatment" (S&DT). The African Group and LDCs are the main proponents of S&DT measures. Their requests comprise a number of areas, such as flexibility in the WTO rules, transitional arrangements, simplifying existing procedures, "less than full reciprocity" in the commitments or technical assistance and capacity building. There are around 150 regulations since 1947 in the GATT, where S&DT has been called for. In the market access area, it was criticized that preferences exist that go back to the colonial system and are discriminating against other countries. In agriculture, the different boxes contain enough loopholes to maintain broad distortions of the world market. The TIRPS Agreement and the TRIMs Agreement restrict the policy space of all WTO member states significantly, limiting for developing countries the flexibilities that nowadays developed countries had used in their development process. This means that the rules themselves are neither balanced nor fair and S&DT can only mitigate negative effects insufficiently. To be a real "Development" round, the multilateral trading system should be reformed in such a way that it provides increased market access for products of developing countries and phase out trade-distorting subsidies and domestic support in developed countries.

Fair global trade rules are a necessary condition but no guarantee that developing countries can make use of increased business opportunities due to at least three main factors. First, in particular least developed countries face a number of supply-side constraints like the capacity to meet product standards and the lack of tradable surpluses. Second, physical (exporting) infrastructure, such as roads, electricity or telecommunication is often deficient. Third, institutional weaknesses, such as burdensome customs procedures hinder trade.

To meet these challenges, an enormous amount of public and private investment is needed. Thus, aid for trade programmes have been provided for a long time through bilateral, regional and multilateral development projects. However, they have fallen short of delivering the expected results on the ground. To improve the impacts, there is a clear need to mainstream trade into national development plans (e.g. Poverty Reduction Strategies), to implement the Paris Declaration on Aid Effectiveness (e.g. through improved coordination and coherence between donors) and to better link demand and response on a country and regional level (e.g. through a higher degree of ownership of receiving countries).

At the Hong Kong Ministerial Conference in 2005, two mandates were given to the WTO Director-General: First, to create a Task Force that provides recommendations on how to operationalize "Aid for Trade" (AfT) and to make it contribute most effectively to development; second, to consult with members, the IMF, the World Bank and other international and regional organizations in order to find ways to secure additional financial resources for trade-related development assistance. As a parallel process, a Task Force was established to make recommendations on how to improve the Integrated Framework (IF), which is a multilateral Aid for Trade programme for LDCs that was created in 1996. In July 2006, the recommendations of the IF Task Force were adopted by the IF managing bodies and are currently in the process of implementation.

The recommendations of the AfT Task Force were approved by the WTO General Council in October 2006. They mention that the definition of AfT will be broad enough to reflect the different needs of developing countries, but also clear enough to distinguish AfT from other development assistance programmes. According to the principle of ownership, it is up to the governments to identify what the obstacles to trade in their respective countries are. AfT is not part of the "single undertaking" and is no substitute but complement to a successful Doha outcome.

While the appropriate mechanism for deliverance is still being discussed, there is a strong tendency to channel AfT via the already existing programmes, such as the IF for instance. Although donors like the EU, US and Japan already made voluntary pledges, legally binding commitments are still missing.

The AfT implementation plan for 2007 looks pretty ambitious. As a first step, one regional periodic review will be held in Africa, Asia and Latin America to assess what is needed, what is already happening and what should happen. These stock-taking conferences will be jointly organized by WTO, World Bank and the Regional Development Banks. In November, the results of these consultations will be discussed in Geneva. By the end of the year, an AfT Report and a joint World Bank-WTO paper on how to operationalize AfT will be published.

The AfT initiative is quite remarkable in the sense that the WTO was not eager to talk on aid for trade apart from its limited technical assistance and capacity building programmes until then. In substance, however, the value-added seems to be limited to a possibly more transparent and efficient monitoring and evaluation mechanism of trade-related development assistance. It was mentioned that WTO is not and should not become a development agency, but exercise its role as catalyst or promoter to increase the aid for trade commitments of donors. In this context, the additionality of AfT was questioned and some participants recalled the non-compliance with many pledges, such as the goal of the developed countries to spend 0.7 per cent of their GDP for development cooperation. It was criticized that foreign aid is a very opaque business and not very transparent. It was called for increased efficiency in the delivery, mutual accountability and shared responsibilities as well as a higher degree of parliamentary control.

## 4. Perspectives of the DDA

Since the full-fledged resumption of the DDA negotiations in February 2007, WTO Director-General Pascal Lamy called for returning to a multilateral, transparent and Geneva-based process, guided by the chairs of the negotiating groups. The purpose remained the same, i.e. to find consensus on establishing the modalities in agriculture and NAMA based on revised texts that might become the framework for the final agreement. Although there are no new deadlines set, there is the belief that an outcome might be possible until the end of the year. This requires an agreement on the core modalities by July and depends to a large extent on the political will of the main players, i.e. the G-4 members US, EU, Brazil and India. A final deal, though, has to reflect the interests of the whole WTO membership and it was questioned if that can be the case given that only the G-4, G-6 and G-8 are really negotiating.

The US reaffirmed its commitment to the successful conclusion of the DDA. However, the take-over of the Congress by the Democrats changed the domestic dynamics of the negotiation position, while the pressure from the powerful farm lobby groups remains strong. Since the export-oriented interests have traditionally dominated US positions, a successful outcome is defined by the degree of substantial market access and new trade flows in all sectors, i.e. agriculture, manufactures and services. A more balanced view and moderate negotiation position would only be possible if countervailing lobby groups emerge in the US. According to the US, a successful outcome of the round depends very much on four conditions: First, substantial improvements in agricultural tariff cuts must be offered by the EU. Second, deeper agricultural tariff cuts must be accepted by major developing countries, limiting the flexibilities in the form of special products or the special safeguard mechanism. Third, deeper reductions in overall domestic support must be offered by both the US and the EU. Fourth, the developing countries need to bind the vast majority of their tariffs. The overall challenge will be that every country is better off than before, i.e. to achieve a "win-win" solution. A general concern is the fact that the Trade Promotion Authority (TPA) that allows the US Administration to submit trade deals to Congress for a "yes" or "no" vote expires on 30 June. Without TPA, other trading partners might be unwilling to continue negotiating with the US since Congress could change any single provision of a final trade agreement. The extension of the TPA for another year or even longer will depend on the prospects of putting through US interests in the final DDA deal.

The EU also stressed its commitment to a successful conclusion, but mentioned that the "window of opportunity" for a compromise would only be open until the end of June. Otherwise, the talks would drift away for quite some time. The EU is a special case since it has to find a balanced position that is accepted by all 27 member states with different interests. Developing countries are even a much more heterogeneous group and are looking for exemptions, exceptions or relieves from the general commitments of the final outcome. A general perception in Geneva is that a move in domestic support by the US would trigger the negotiations very much. The discussion in agriculture on sensitive and special products remains a major stumbling block, as well as the issue of preference erosion, where preference receiving countries are looking for lower tariff cuts in agriculture. The EU decoupled its internal support and reformed its agricultural system widely. Moreover, it already offers duty and quota free market access for LDCs by the "Everything but Arms" initiative, with the exceptions of fresh bananas, rice and sugar. In addition, the EU also applies other forms of preferential market access through its General System of Tariff Preferences. The EU wants a "credible Swiss formula" in NAMA and considers trade facilitation as a very important enabling factor for developing countries, especially the land-locked countries.

Benin mentioned as the then coordinator of the African Group that the Doha round offered much more opportunities to level the playing field than the Uruguay round. Thus, developing countries call for more fairness and equity in the current negotiations. The agricultural negotiations were described as a "semi-multilateral" process. For a number of African countries, the only internationally competitive product in agriculture is cotton. However, developed countries, i.e. mainly the US, produce surpluses in cotton and export it at highly subsidized prices that were below production costs in the last six years at the world market. Moreover, meat producers in African countries have been flooded with meat exports of developed countries. In NAMA, the possible negative effects of the outcome could be increased unemployment and deindustrialization with the complete loss of uncompetitive industries. Many developing countries and least developed countries are part of regional customs unions with common external tariffs, such as the East African Community. If Kenya as a developing country, for instance, undertakes commitments to reduce its tariffs, this has a direct impact on the members of the customs union, i.e. Tanzania and Uganda, which would otherwise be exempted as LDCs from offering any concessions. Finally, the proposal to grant LDCs duty free and quota free market access for 97 per cent of their products is not enough, since the missing 3 per cent could exclude the majority of export products of many LDCs, which would make this offer meaningless unless it is extended to 100 per cent.

The difficulty of the Doha round is that it is broader, deeper and wider than any other round before. The "single undertaking" principle leads to a cross-sectoral mercantilist bargaining approach that is much more dominated by political than economical considerations. Moreover, it distracts away the attention from the overarching goal, i.e. to rebalance the multilateral trading system in favour of developing countries and to deliver a development-friendly outcome. If the latter can be achieved, depends much on the resoluteness, with which developing countries and the different negotiation groupings insist on their positions and resist the pressure from developed countries, which will increase when it comes closer to a final deal.

In contrast to former multilateral trade rounds, the possible gains and losses of a possible DDA deal have been analyzed much more intensively and critically by a number of research institutes and discussed more widely. Developing countries are more cautious now in offering concessions that might compromise their development strategies in the future. However, there is still the need for more country-specific impact assessment studies.

There was consensus that if there was no breakthrough in the next few months, the negotiations would probably drift away for some years given the domestic political constellations in the key countries. What are the consequences of failure? The stock markets are not expected to move a lot and trade is also expected to continue growing, facilitated by an increasing number of bilateral and regional trade agreements. WTO will also continue to exercise its other functions such as the Trade Policy Review and Dispute Settlement Mechanism. But the WTO as organization and multilateralism as such would suffer a crisis of legitimacy with significant political consequences.

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