

# The Doha Development Agenda Impacts on Trade and Poverty

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A collection of papers summarising our assessments of the principal issues of the WTO round, how the outcome might affect poverty, the progress of the negotiations, and the impact on four very different countries.

## Papers in the series

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All these papers and the final report can be found at: [www.odi.org.uk/publications/briefing/doha](http://www.odi.org.uk/publications/briefing/doha)



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## 6. Doha and poverty: preliminary assessment

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The primary purpose of trade negotiations in the past was to reduce barriers to all trade, expected to benefit all countries, while providing a predictable and enforceable system of rules. To the extent that developing countries might have special needs for development, 'special and differential treatment' was designed to increase the benefits or reduce the costs to them of the general measures. The implication of a 'Development Round' might be different: to direct the negotiations primarily at the needs of development, with modifications for other purposes. It is clear that this has not been the purpose of the Round, and to that extent it is not a 'Development Round' (see paper *Principal issues in the Doha negotiations*). There has been no special procedure to make it more favourable to developing countries (see paper *How developing countries can negotiate*). But the analysis of the relationship between trade and Poverty (see paper *Trade liberalisation and poverty*) suggests that trade is not in itself a sufficient instrument for development, and that for many countries it may not even be the one most needed at the moment. On the other hand, there is still strong evidence, not least from the refusal to admit failure in the Doha negotiations, that most countries see a need for a trade promoting and regulating body. Diverting the WTO to development purposes may have been neither necessary nor desirable. But development and meeting the Millennium Development Goals remain targets, for developed and developing countries, and it is therefore legitimate to ask whether the Round is likely to contribute to these, and what lessons there are for linking trade and development policy.

### Gains and losses Aggregate

The paper on *Principal issues* found potential benefits for some countries. The improvements in market access in agriculture are still uncertain, and may be small, but they will benefit efficient exporters, especially those not receiving preferences. These would be primarily middle income Latin American and Asian countries, but could also include India, where as the Trade and Poverty paper points out, a high proportion of the world's poor population live.

For countries with preferential access, including most Least Developed and African countries, there would be few benefits.

The elimination of export subsidies in agriculture would benefit some LDC and developing country producers of non-food products, notably cotton. For a few food importers, there could be an increase in costs, with damaging effects on poverty. This includes some LDCs. The reductions in domestic subsidies in agriculture would have major effects in sugar because they would reduce the benefits countries with quotas currently receive (see paper *Preference erosion: helping countries to adjust*).

Overall in agriculture, some competitive developing countries will gain, on both access and reduced export competition, and these gains could have important effects on poverty. Those LDCs which face competition from subsidised exports will gain, while those dependent on special access to subsidised markets and those who import subsidised food will lose. These include some where dependence of poor people on agriculture is particularly important. Most, along with other low income countries in Africa are likely to see little net change but face potential uncertainty until the net effects of access, subsidies, and special treatment can be calculated and observed. This uncertainty itself is a serious risk for poor people and poor countries. Therefore a development focus requires policy to reduce the uncertainty.

On non-agricultural market access, the potential gains are smaller, although some developing countries might gain, if the still-undecided formula gives substantial cuts on high tariffs in products such as clothing and footwear. Again, most least developed and other 'preferred' countries have little to gain on access, but some will face loss of preferences, and more face uncertainty. Services should offer the most hopes of gain for the poorest people in the poorest countries, as liberalisation that allowed them to use their labour either in services where developing countries compete with developed (transportation, off shore financial services) or in those where labour

can move to another country through temporary migration. The lack of significant offers in the services of interest to developing countries is therefore a major restraint on their potential benefits from the round. Any liberalisation could benefit both developing and least developed countries, and as there are no preferences in services, none should lose, but gains here are unlikely to have a major effect on the outcome.

#### **Estimating the effect**

Some estimates of benefits from a Round are very high. This is normally because they assume both very extensive liberalisation (e.g. full liberalisation of agriculture) and that current preferences, in particular those for sugar, and regional arrangements do not exist, or have no effect. As sugar preferences account for almost half of the gains from preferences (and therefore of the potential loss from removing them), this is a significant omission. They may also group countries together, and, as has been seen here, a net positive outcome does not mean that all countries have gains.

The direct effects of the TRIPS agreement on flexibility of patents on medicines for public health purposes and the proposed agreement on Trade Facilitation are likely to be small, for developing countries and for the poor within them. The achievement of the TRIPS agreement and the innovatory provisions of the Trade Facilitation framework, which allow countries to demand technical and financial assistance as a condition for complying, however, represent a major developmental achievement in terms of negotiations. They demonstrate that developing countries have learned to use the current processes effectively, so that both the process and the outcome are more conducive to development than in the past.

There have been no formal changes, however. There are still no formal rules requiring time and a consultative process, instead of compressed negotiations. Although there appears to be some willingness to move more of the negotiations to Geneva, rather than to Ministerial meetings, there is no commitment to this, and under WTO rules there must be another Ministerial in 2005 (in Hong Kong, 13–18 December). The evidence of the last five years suggests there needs to be a crisis (whether outside the WTO, as in 2001, or in it, as with the Seattle and Cancún failures) to make the developed countries take the requests by developing countries seriously.

Four countries were chosen to illustrate the range of impacts that the Round might have, nationally and on the poor within them. Brazil is a relatively advanced and diversified, but highly unequal country seeking liberalisation in its developed country markets. India is a much poorer country, but two of its major exports, clothing and services, face significant protection, so it is also seeking access. Zambia, a Least Developed Country, faces virtually no barriers for its exports because most are in goods with low barriers and all benefit from highly preferential terms in all its markets. Brazil and India are two of the principal countries which developed countries are encouraging to liberalise, while Zambia is typical of the countries the developed countries now treat as the focus of the 'development' round. Vietnam is negotiating entry to the WTO, and its decision to do so illustrates the rule enforcement role of the WTO.

The country reports suggest that the WTO's development and poverty impacts will be limited (see boxes): other actions besides trade are important (Zambia), and other fora for trade negotiations and preferences (Zambia, Brazil). In some cases reform will have negative consequences unless it is accompanied by complementary measures. Financial assistance could have a strengthened development effect if it can be designed

to provide predictable funding, and if it is used to allow countries to use trade more effectively (the stress on diversification in the Trade and Poverty, and Zambia papers and on building infrastructure for trade in the Zambia paper).

#### **Brazil**

Brazil could receive major aggregate gains from significant reform to agriculture, but, as the Paper points out, the lack of mechanisms to redistribute income and land would limit the poverty effects. There is some concern about the environmental effects on Brazil (although it is clear that at world level there would be gains, because of relocation of agriculture from inefficient production in the EU), but these could be countered by national action. Gains in the returns to exporting could stimulate the demand for education. The health agreement is likely to improve Brazil's exports, increasing national income. All its gains, therefore, would increase the potential for poverty reduction in Brazil; whether this was realised would depend on national action. This should not be regarded as a reason for considering the gains unimportant: the international system can only enable countries to take action against poverty; trade reform would achieve this for Brazil.

#### **India**

India could gain from improved agricultural access. Its principal gains would come if there are major reductions in non-agricultural tariffs, notably those on textiles; these are uncertain until the formula is agreed. These exports are particularly important for the poor, including gender effects. Without significant gains, it fears loss of markets from the growth in regions and other preferential arrangements which put it at a disadvantage in access. It is therefore concerned to preserve the role of multinational negotiations. It also wants to strengthen WTO rules against actions like Anti-Dumping. It still has very high tariffs, so it is more vulnerable than most developing countries to demands to reduce these. (The government opposes this, although the India Paper sees benefits.) On services, it has liberalised its own services, so it has less to gain by its own actions, and given its large and relatively skilled labour force, it has a strong interest in expanding its access to other markets (and in avoiding protection that might affect its growing role in outsourcing). It therefore sees only gains from increased liberalisation by the developed countries, although it shows caution on its own policy. Given its size and leadership role, India's interests remain an important element of the developing country position.

#### **Vietnam**

Like India, it sees the regulatory function of the WTO as a central advantage. It is still applying to the WTO, and has experienced the difficulties of facing barriers to its imports without an effective institution, like the WTO dispute regime, to protect its interests against a major country. It expects any increase in market access to reduce poverty because it is taking complementary measures, in spite of weak linkages between trading sectors and some parts of the country. But the weak links also mean that while it expects to lose from general textile liberalisation (because of competition from China), it does not expect this to affect the poor directly because of the nature of production.

#### **Zambia**

Zambia is trying to use trade and trade agreements to diversify its economy away from copper, although it still identifies supply constraints as the main obstacles to its trade. As long as copper is its principal export, it expects little effect from multilateral negotiations. It has special trading arrangements with all the regions to which it could expand exports, the EU, US

and its regional market. It has sugar quotas with the EU as both an ACP and a Least Developed Country. It could therefore lose from reductions in EU subsidies that affected these privileges. It is, however, a cotton producer, so it could gain from reductions in export subsidies, and has supported the West African initiative. It still has high protection of its own imports, but, as a Least Developed Country, it would not be asked to reduce this. It was one of the countries proposing special modalities for Least Developed Countries in services, although it has not yet itself made requests or offers. It does expect to gain from the TRIPS/public health agreement, although it will need additional resources to use this effectively. Both the public and the private sectors have been more involved in defining interests in the Doha Round than in the past, and influence its WTO positions.

### **Other developing countries**

These four countries do not have examples of serious losses from preference erosion. As the paper on Preference Erosion and Compensation shows, however, there are some countries, such as Malawi, Mauritania, Cambodia, Bangladesh, Mauritius, and some island countries, for which the potential losses in sugar, bananas, and/or textiles are so large that no gains on other issues could produce a positive outcome. These are all countries with little to gain on access (because they already have highly preferential access). These countries will oppose reform, supported by those who do not know whether they will have small gains or small losses.

The WTO will need to find a way of providing, directly or indirectly, an assurance that financial compensation will be available to countries that lose which will allow them resources and time to restructure their economies. If this means adding financial payments to the WTO agenda, this is in principle no different from the efforts by the EU to expand the agenda to the Singapore issues to provide it with 'compensation' for what it might 'lose' (in the mercantilist sense) on agriculture. Without this insurance against the risk of loss, either some poor countries will lose or they will prevent a settlement, and then more poor people, in the large countries, will lose.

### **Prospects for a settlement**

The decision by the US to restart negotiation in January 2004 and the eventual response by the EU, led to movements in the direction of the developing country positions, both those of the major countries, the G20, on agriculture and those of the smaller, the G90, on the Singapore issues, assistance, and preference erosion. This suggests that fears that the developed countries would withdraw from the multilateral system and reach their own arrangements or that developing countries were rejecting the system when they refused to accept the draft of the developed countries at Cancún were wrong.

Both the US and the EC suggested after Cancún that they could achieve their trade objectives through bilateral and regional negotiations. But most of these were based on the assumption that some of the most difficult issues in their bilateral relations (notably agriculture) would be settled at multilateral level. After Cancún, progress was slow. The major countries may achieve agreements with smaller countries, but these will have small benefits for the larger countries. The initiatives in South-South trade by developing countries are more symbols of concerted action than steps towards free trade areas. Promotion of South-South trade by developed countries ignores the real problems of small markets and lack of infrastructure (see Paper on South-South trade).

As happened during the slow periods of the Uruguay Round,

### **Trade prospects and the MDGs**

On the 1st and 8th MDG, reducing the numbers falling below the poverty line and those suffering from hunger and developing a partnership for development, even a limited outcome of the Round would have favourable effects. Income of the countries with the largest number of poor people would increase, and in some, at least, this would feed through into poverty reduction. This would, in aggregate, outweigh any negative effects. But unless there are transfers to ensure gains for all, the losers will include some of the African countries most at risk of failing to reach the income poverty reduction goal.

On the partnership goal, the nature of the WTO negotiations: that they have to achieve consensus, not majority vote or weighted voting, as in other international institutions, has made it possible for all countries to have an effective voice. The alerting of developing countries to what they can lose in trade negotiations, even if their potential gains appear small, means that it is no longer possible for negotiations to leave them to one side. The MDG of 'partnership' therefore has become a practical requirement of the international trading system.

Three of the MDGs (child mortality, maternal health, and HIV/AIDS and malaria) are about health. Trade access is not likely to have direct effects on these, but increased income would make better provision potentially available. This high weighting to health in the MDGs means that the single achievement of the Doha Round, the agreement on access to medicines for non-pharmaceutical producing countries, has a large weight.

On education, any improvements in access will increase the returns to education and therefore demand, as well as increasing national income, and therefore the potential supply. Improvements in non-agricultural access and in services access might be expected to be most important. These are also likely to be most important for the 3rd goal, of promoting gender equality, as it is tariffs and non-tariff barriers on textiles, often (although not always) with a predominantly female labour force, which are among the highest in this area.

The 7th goal, environmental sustainability could be assisted at global level, by shifting production, particularly agricultural production, from countries where it exists only because of protection or preferences to those where it is most suitable. Increased income has the potential to improve sustainability.

countries will try to find alternative ways of gaining the results that they want. But it seems likely that, again as happened in the Uruguay Round (and of course in the foundation of GATT, itself), the advantages of multilateral agreements will eventually mean a return to multilateral negotiations. For those countries which seek the protection given by international rules, like India and Vietnam, there is no substitute for the WTO.

The new EU Commission in 2004, the new WTO Director General in 2005, probably, a new US Trade Representative in 2005, and, perhaps, a new US Administration mean that the negotiations must continue, without major political initiatives, for the next 6–12 months. The agreement of July 2004 provides a basis for technical negotiation. It includes recognition of the interests of all the major countries or groups. In agriculture, the guidelines are sufficient for serious negotiations. In non-agriculture, they are much vaguer, but developing a formula which will meet them is a technical question, although strong pressure on developing countries (notably India) to reduce their tariffs without parallel concessions in agriculture or services could still lead to a breakdown. On services, there is a serious problem of capacity in many developing countries to make the 'requests' that would give them important benefits, or to define the 'offers' which they could make, given their existing liberalisation. The July settlement does not resolve

this. The most important unresolved issue is of preference erosion. This is merely 'recognised', with the solution to be found within the negotiations, although this seems impossible, except by limiting liberalisation to an extent incompatible with significant gains for the non-preferred countries. The disappointment of developing countries at the limited response by developed countries to the informal agreements of the Uruguay Round, to provide more technical assistance or special consideration, makes any similar arrangement unlikely to be an acceptable part of the Doha settlement. This is likely eventually to need a political, rather than technical, intervention.

There are some systemic pressures for agreement. The cotton and sugar disputes, won by Brazil, could be followed by more numerous challenges under the WTO Disputes Mechanisms. If the complainants succeed, subsidisers will need to reform or to compensate. The cases themselves have forced the EU and US to reconsider whether the advantages of negotiation may outweigh the costs.

Arguably, it was security in the months after 11 September 2001 that helped achieve agreement to begin the Doha Round in December 2001. Some suggest that security still offers a reason to secure a settlement.

There are still substantial opportunities for 'old-fashioned' trade integration in goods: for reducing tariffs, non-tariff barriers, and subsidies. In services, there has still not been a negotiation round to reduce barriers (the Uruguay Round concentrated on identifying and binding existing barriers). Therefore, there is no reason for pessimism about the need or demand for future negotiations, even if there is now likely to be hesitation about introducing new issues.

The US must renew its presidential negotiating authority in 2005: the July 2004 settlement may be enough to justify this. But it will then expire in 2007, so this is seen as the new 'target' date for the Doha Round. It gives time for negotiation, followed by political initiatives to reach a final settlement, the 'old' model of trade negotiations (before biennial ministerial meetings suggested more frequent ministerial intervention). It is possible, but not certain.

### Linking trade negotiations and development

Is it possible to combine a basically mercantilist process, where offering access is a 'loss' and 'gains' are measured by access to markets, not by welfare (which would see both offering and securing access as gains), with a development objective? If not, does the WTO need to change or do we need to lower expectations from it? The WTO may need to change, even to promote world welfare without a development focus. Bargaining for access has worked for major trade barriers, but it is not easily adapted to negotiations on rules. This will not happen in the current Round, but the present structure can still produce useful results on both trade and security of rules for small or weak countries.

Altering the structure to promote development risks damaging what the WTO does do well, and may not offer high returns. The potential gains from trade are small for many countries, and many development and poverty problems, as argued in the country papers here, require national solutions, with international financial and technical assistance.

As is clear in the contrast in expectations for poverty in the different countries, whether an improvement in national income from trade is transmitted into poverty reduction depends crucially on national policies. The international trading system can only enable poverty reduction; it cannot ensure it. Trade is not always central to development.

An apparently simple criterion of evaluating each agreement's contribution to development begs the question of whose choices will determine how the different components of sustainable development will be weighted. It fails to distinguish between actual impact (given all a country's other policies) and potential impact (assuming the observer's ideal policies). Finally, it ignores the need to look not at 'each' agreement, but at the net effect of all initiatives.

The difficulties of the nature of the current trade agenda, where liberalisation is sought in areas where there were previously preferences and other special arrangements, should lead to questioning whether development objectives should direct trade negotiations. The trade preferences used to promote development are now proving difficult to disentangle and an obstacle to poverty-reducing liberalisation. Distorting trade is rarely the first-best way of securing welfare gains. While trade can increase the income available to reduce poverty, how this is distributed among countries and within countries depends on other policies, both international and national. Only if we assume that these other policies are not feasible should we treat the direct poverty or MDG effects of trade policy as more important than the traditional calculus of their welfare effects.

The idea of 'development friendly' trade negotiations is not meaningless. The process of negotiations must take account of the interests of all countries, but take particular care of the developing who are now two-thirds of the members, although accounting for only a third of world trade. It is possible to analyse the need to reduce barriers to imports from some developing countries, combined with changes in subsidies and preferences, in a purely trade negotiation framework: if all countries are to accept the result, and thus give it the required consensus, then gains must be found both for those whose trade is restricted and for those who do not have sufficient gains on the normal trade agenda.

The developing countries have found their voices in the current round, and for that it can be called a Development Round. They have identified their interests, formed alliances where there are common interests, avoided being sidelined, and started to achieve some gains. These are important results for the Development Goal of promoting partnership between developed and developing countries.

### Reference

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