

Pursuing a Doha trade deal is a low priority

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‘Not only are the returns to a Doha round likely to be low, but the potential costs are high ... it appears more sensible to concentrate on six more important trade issues’

Some suggest that, as a response to the current crisis, the conclusion of the Doha Round should be high on the agenda of policy makers. It would, they maintain, send the right signals and prevent the spread of protection (Baldwin and Evenett, 2008). Some EU policy makers including the Trade Commissioner and the UK Government agree and go further, arguing that the EU needs to demonstrate successes, one of which would be the conclusion of the Doha Round.

We have considerable doubts that the Doha Round can be concluded this year and, if it were, whether it would have significant value for developing or developed countries. Rather, it would be better to concentrate on trade gains in other areas.

The impact of the downturn on the Doha Round negotiations

The economic downturn will make it extremely difficult for World Trade Organization (WTO) members to agree on anything substantive in the near future (Meyn, 2009). The EU (which has just increased its subsidies to dairy products) and the US are unlikely to agree on reducing agricultural subsidies. Unemployment in the US will not make it more willing to extend duty free quota free access to Bangladeshi garment manufacturers or any other sectors in the Least Developed Countries (LDCs). As a result of the downturn, India and China are less able to accept any reduction in their manufacturing tariffs or to make significant offers on the liberalisation of trade in services.

Moreover, there are administrative obstacles to the major actors driving forward the Round:

- US: the United States Trade Representative (USTR) has not yet been confirmed, which signals a low priority for trade;
- EU: A new European Commission will be chosen this year, while the current Trade Commissioner is a recent appointment.
- India – one of the key developing country players in the negotiations – faces elections this year.

Limited gains from a potential Doha deal

It is not only the probability of concluding Doha successfully that is small, but also the size of the compromise deal that could be reached. In brief, the Doha Round would not be very important, for either developing or developed countries. It is estimated that the effects of a successfully concluded WTO Round would be around \$80 billion – around one tenth of the estimated 2008/09 output losses due to the global financial crisis, which are estimated to be around \$800 billion for developing countries (Anderson et al., 2005, and te Velde, 2009).

There would be some benefits for some large developing countries, such as Argentina, Brazil, India and Thailand. And lowering the bindings on tariffs and subsidies, even if there were no actual reduction from current actual levels, would reduce the risk of increased protection in response to the recession. But the benefits would not be large for most developing countries (Page, Calì and te Velde, 2008) and would be negative for most preference-dependent countries (Meyn, 2008).

Low risks from a failure to agree

There is still little direct evidence that developed countries are putting in place traditional protection measures, such as tariffs. In some developing countries, a large increase in tariffs would be possible, as bound tariffs are higher than current rates, but is unlikely. These countries have to juggle many interests and their room for manoeuvre is diminishing as a result of the economic crisis. The needs of impoverished consumers (and voters) and domestic producers (depending on imported inputs) need to be given due concern, and many countries have committed not to increase current tariffs as part of bilateral and regional arrangements.

The risk of protection appears to be more serious in relation to non-traditional instruments, such as subsidies and new forms of non-tariff barriers. The WTO surveillance

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mechanism aims to monitor such measures, but new types may be difficult to detect or controversial to include.

Conclusion: there are more important trade issues

Pursuing an outcome for the Doha Round is a low priority. Not only are the returns likely to be low, but the potential costs are high, as a failure or minimal compromise is likely to undermine the credibility of the WTO.

For now, rather than focusing on the Doha Round, it appears to be more sensible to concentrate on six more important trade issues:

- To resist domestic pressures to apply protectionist measures, for example increasing or introducing subsidies (for agriculture, for example, or bailouts for the car industry).
- For EU members openly to oppose protectionist measures taken by other EU member states. The Czech and German governments have, for instance, set a good example by questioning the French support for cars that are produced in France.

- To avoid the introduction of new formal or informal product standards, labelling requirements, and so on, intended to encourage discrimination against imports.
- To support the surveillance process that the WTO has put in place to track the new protection measures applied by members and encourage it to cover a broad range of potentially distorting measures.
- To monitor and discipline any trade-distorting impact of the various fiscal stimuli aimed at combating the global financial crisis.
- To bring forward Aid for Trade allocations (without reducing other aid commitments) and to address trade finance constraints, in order to mitigate the effects of recession on developing countries.

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Useful resources and references

Useful resources:

ODI on the financial crisis:

<http://www.odi.org.uk/odi-on/financial-crisis/>

WTO on trade and the financial crisis:

http://www.wto.org/english/news_e/sppl_e/sppl113_e.htm

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