Conclusion

The Doha Round is now older than its immediate predecessor, the Uruguay Round, which lasted what seemed at the time a marathon (7 years, 7 months) from inception to signing. WTO negotiators have missed every deadline set by ministers and summiteers; this record of futility has led some observers to propose dropping the whole venture. We believe that would be a big mistake. Resurrecting a new WTO negotiation with a different set of negotiating objectives would be difficult to sell to most WTO members; instead, the death of Doha would likely propel a new wave of preferential trade pacts and severely fracture the multilateral trading system.

Our analysis shows that the Doha Round can still be successfully concluded with a concerted push by the major trading nations. Contrary to the Doha doomsayers, the potential gains from proposals now on the table are significant, albeit not sufficient to close a deal. With additional effort, particularly by the G-20 members in the services negotiations, WTO countries can put together a Doha package that is both ambitious and balanced between the interests of developed and developing countries.

This study has examined gains from different topics that are at varying levels of completeness and certainty in the Doha Round talks. Tariff and subsidy cuts in agriculture and NAMA are written into the current negotiating modalities; gains in these areas are thus the foundation of a Doha Round liberalization package. Gains from additional sector negotiations in chemicals, electronics/electrical goods, and environmental goods are more problematic. Agreements in these sectors will likely emerge in some form; however, country participation, product coverage, and depth of liberalization in each sector are uncertain. We assume, for the purpose of our calculations, optimistic but plausible scenarios for each of the sectors.

Services negotiations, perhaps the lynchpin of the Round, currently
do not establish new market access. Our calculations of potential gains in services are thus based on a dose of wishful thinking, recognizing that, unless the current offers for liberalizing services barriers are improved, the Doha Round will probably not reach a successful conclusion. Trade facilitation negotiations have been among the most productive in the Round. Our estimated gains from improved trade facilitation, however, are only partially tied to the negotiations. Most of the gains ultimately depend on faithful implementation of reform, so our calculations could just as easily understate as overestimate the potential benefits.

For agricultural products, tariff cuts prescribed by the current negotiating modalities create new market access. US and EU applied tariffs would be almost halved (1.3 percent down to 0.7 percent for the United States and 6 percent down to 3.4 percent for the European Union; table 2.1). Developing-country applied tariffs decline slightly—which is actually a significant accomplishment given the high levels of “water” between bound and applied agricultural tariffs in most developing countries. Agricultural tariff cuts contemplated in the Round, along with new caps on tariff rate quotas, export subsidies, and domestic subsidies, would increase world exports by $17.1 billion (this figure is scaled up from our sample of 22 countries; see table 1.2).

On the whole, tariffs on NAMA products are low. Pre-Doha average applied tariffs in the European Union, Japan, and the United States are all less than 2 percent (table 2.4). Average applied tariffs are less than 8 percent in Brazil, India, and China. Low initial applied tariffs make the task of creating new market access in NAMA more challenging—the average applied tariff cut in our sample is only 0.6 percentage points (from an average tariff of 2.4 percent to 1.8 percent). Since NAMA trade is so vast, however, trade gains are also large, despite small tariff cuts. In total, we estimate annual scaled-up world exports will increase by $50.6 billion from NAMA formula cuts (table 1.2). Moreover, any reduction in bound tariff levels, even if bound rates remain above applied rates, reduces the risk of backsliding into protectionist policies.

The potential trade and GDP gains from NAMA sector agreements—liberalization that would go above and beyond NAMA formula cuts—could be much greater. We estimate the impact of eliminating tariffs in electronics/electrical goods and environmental goods across the 22 countries covered in this study. We also estimate the impact of freer trade (i.e., substantial tariff cuts and tariff harmonization) in chemicals across the same countries. A sector agreement in chemicals would increase scaled-up world exports by $15.8 billion (table 1.2). An electronics/electrical goods sector agreement would boost world exports by $49.2 billion and an environmental goods sector agreement by $5.9 billion. All told, we estimate the three sector agreements would increase annual world exports by an additional $70.9 billion above the trade spurred by the formula cuts. In services, current proposals are deficient and unlikely to promote trade
and investment (Gootiiz and Mattoo 2009). To be sure, the proposals are a small step forward from the Uruguay Round commitments, but services offers need to be substantially improved to generate real gains. The July 2008 “signaling exercise” gave some indication that countries would be willing to liberalize further, but substantive new offers have not yet been submitted. We estimate that the possible gains from meaningful liberalization of services barriers are large. A 10 percent reduction in the tariff equivalent of applied services barriers would increase annual scaled-up world exports by an estimated $55 billion (table 1.2).

Trade facilitation negotiations have been championed as one of the most successful subjects in the Doha Round. Over 70 provisions on topics ranging from publication standards to new restrictions on fees connected to importation and exportation have been put forward. These negotiations might go forward even if the Doha Round stalls. Quantifying the possible gains from each of the roughly 70 proposals is difficult if not impossible, so we turn to an estimate of potential gains from a modestly optimistic trade facilitation improvement scenario by Wilson, Mann, and Otsuki (2005). Drawing from the work of these authors, we use conservative coefficients to calculate that exports by the 22 sample countries to each other could increase by $86.8 billion if underperforming countries are brought up halfway to the global average in selected areas of trade facilitation (our “narrow definition” of reform). These trade gains would increase annual global GDP gains by roughly $117.8 billion annually (table 1.3).

In general, our findings are broadly consistent with results from other notable studies. For agriculture and NAMA, Yvan Decreux and Lionel Fontagné (2009) estimate a $57 billion boost to world GDP in 2025, while Kym Anderson, Will Martin, and Dominique van der Mensbrugghe (2006) calculate a $96 billion global gain by 2015.1 Our $63 billion global GDP gain is in the same ballpark. Decreux and Fontagné (2009) also estimate a $68 billion gain in world GDP for services while our approximation is around $45.5 billion (see table 1.3). Appendix G outlines the recent work of David Laborde, Martin, and van der Mensbrugghe (2009a, 2009b) that sheds new light on measuring trade distortions and compares our results with their estimates. Broadly speaking, our calculations are conservative compared with their estimates.

Moreover, our findings contradict the critics who argue that the world should trash the Doha Round because the payoff is too small. The potential gains are significant, but the current Doha package is neither ambitious enough nor balanced enough to garner political support in major economies. This is why, for example, US and EU officials have had so much difficulty securing private-sector support for the prospective deal. The services industries—almost ignored for the first eight years of talks—

1. The $96 billion global gain calculation from Anderson, Martin, and van der Mensbrugghe (2006a) is based on scenario 7 in their paper.
are openly skeptical. Accelerating the request/offer negotiations in services, at least among the G-20 countries, is a prerequisite in our view for progress on the Doha agenda.

The challenge today is to break the impasse in Geneva and translate the lofty G-20 mandate to conclude the Doha Round into concrete, new offers by the G-20 countries to reform their trade-distorting practices. For the United States, this means above all tightening its discipline on farm subsidies, bringing its cotton programs into compliance with WTO obligations, and topping up its offer on duty-free, quota-free (DFQF) treatment for the least developed countries. Similarly, the European Union will have to offer tighter discipline on farm subsidies and deeper cuts in farm tariffs, as well as broader commitments to reform trade and investment in services.

At the same time, major developing countries like Brazil, India, and China will have to up the ante in terms of offers on liberalizing NAMA sectors, services, and trade facilitation. In addition, they will have to place limits on their recourse to special agricultural safeguards under the Special Safeguard Mechanism yet preserve the legitimate policy space for supporting subsistence farmers. Because its rates are already low, China can afford to substantially cut many of its NAMA applied tariffs without harming its competitive position. Brazil and India also can augment their NAMA tariff offers to eliminate “water” in their bindings and create new trade opportunities.

If our recommendations are followed, the Doha Round package will be ambitious and well balanced for all participants and could yield potential annual world GDP gains of between $164.9 billion and $282.7 billion. Importantly, the overall package would benefit the developing countries more than the developed countries in terms of percentage GDP gains (1.3 percent versus 0.3 percent, as shown in table 1.3). “Topping up” along these lines would generate more than four times more trade and GDP gains than agriculture and NAMA formula cuts alone. Note, however, that the larger gain reported in this study depends on negotiating ambition rising well above levels observed to date. But even if only half the sector gains we contemplate were achieved, the outcome would be substantial.

While this figure represents optimistic thinking on our part, it is not a “pie in the sky” number. It may take a decade to reach gains of this magnitude once negotiations are concluded, because concessions will be implemented gradually and trade facilitation reforms will take time to become routine. But the scenarios used in our calculations are straightforward. Agriculture and NAMA modality agreements can be translated into binding commitments and topped up with additional tariff cuts resulting from sector negotiations. New rules on trade facilitation can set the stage for reform on the ground. Reducing applied services barriers by 10 percent will take long hours at the negotiating table but can be achieved with the right combination of “sticks and carrots.” All told, the prize is well worth a major push by world leaders.