

# Chapter XI

## REVIVING THE DOHA ROUND: THE AGENDA FOR DEVELOPING COUNTRIES

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### Introduction

If the Doha Round of multilateral trade negotiations fails, the biggest losers will be developing countries. This chapter explains why, and goes on to examine various options for the developing countries either to avert or to deal with this potential failure.

Section A looks at the history of trade negotiations that led to the current impasse, while section B explores the commonalities and differences in the interests of developing countries in the negotiations. These depend mostly on the sectors from which they export, either to developed countries or to each other. Their interests in reducing trade barriers and subsidies in developed countries are mostly either coincident or non-conflicting, but their interests in reducing barriers among themselves sometimes put them at odds.

Nonetheless, it is encouraging that developing countries are making efforts to negotiate collectively, for example, through the Group of Twenty (G20), a bloc including Brazil, China and India that came together at the Cancun ministerial conference in 2003. But it is important that the G20 and other such groups do not limit their cooperation to pushing developed countries to liberalize; they should also work among their members to secure their own liberalization. Without that, the Doha Round cannot succeed.

At the same time, there is a confounding factor in the trade preferences that some developing countries already enjoy from developed countries. They are well aware that multilateral liberalization will erode these preferences, giving them incentives to stand in the way of successful negotiations.

Section C examines the role of developing countries in the structure of past and current negotiations. In the past, that role was limited largely because they were exempt from making concessions and because the developed countries were willing to provide special and differential treatment. Special treatment is still needed, but not in the form that

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has sidelined developing countries from the benefits of previous liberalizations. Instead, their liberalization needs to be met by resources from developed countries and international institutions to assist them in opening their markets.

Section D evaluates several options that may be available to developing countries, both within and outside the context of multilateral negotiations. The first and most promising option is for developing countries to act collectively to reinvigorate the World Trade Organization (WTO) and the Doha Round negotiations. However, for this purpose, it is essential that they declare themselves willing to open their markets significantly in return for liberalization by developed countries. Not only is this necessary for the Doha Round to succeed, it is crucial for developing countries to recognize that it is they, not the developed countries, that stand to gain the most from a successful round.

If the Doha Round does not succeed, and perhaps even if it does, developing countries have the option of establishing regional and/or bilateral trading arrangements, either among themselves or with large developed countries. However, there is little benefit in such arrangements among themselves, and there are dangers in arrangements with large developed countries because of asymmetries in their influence over the many non-trade issues that routinely enter such agreements.

Nonetheless, regional agreements are making small but positive steps in the direction of multilateral free trade. These steps could be improved if they were designed to permit easier expansion to include more countries, as well as rules of origin (the criteria used to define where a product was made) that are more all-encompassing.

Other options include aid for trade, a small but obviously desirable initiative that is being encouraged both within the Doha Round and by the international financial institutions.

Another option is negotiation of focused initiatives in sub-areas, such as a single industry or category of trade. However, these are of doubtful benefit to developing countries since they are likely to lack the potential for trade-offs that would expand their benefits beyond the immediate gains from trade.

For the same reason, unilateral liberalization by developing countries with trade barriers that are already low or moderate should not be encouraged. High-barrier countries could gain from unilateral liberalization, of course. But once barriers are low, the benefits from further unilateral liberalization are outweighed by the benefits of using those barriers as bargaining chips to secure greater market access abroad.

Section E provides a concluding summary of the various options for the way ahead.

## **A. How the Doha Round reached its current impasse**

The Doha Round of multilateral trade negotiations began in 2001, with high hopes that real progress would be made both by and for developing countries, for the first time in the history of trade rounds. Although many issues were on the table, the two central ones were the most difficult to address:

- (a) Developed country protection and subsidies in industries of interest to developing countries, especially agriculture;
- (b) Developing countries tariffs on non-agricultural products and other restrictions on market access, including in services.

In the event, these issues have proved to be so difficult that the negotiations have been characterized by their lack of progress. The Canc n ministerial conference in September 2003 ended without even the beginnings of a negotiating text having been agreed upon. A text was achieved the following year; however, the subsequent ministerial conference, which was held in Hong Kong, China, in 2005, ended in success only because the criteria for success were much reduced and almost meaningless.

In July 2006, WTO Director-General Pascal Lamy finally acknowledged that the negotiations were getting nowhere and would fail to meet the deadline imposed by the mid-2007 expiration of the fast track authority of the President of the United States of America from Congress for a full mandate of negotiations. Lamy therefore suspended the negotiations.

Today, although various efforts are being made to revive the negotiations, they remain in a state of suspended animation. Developing countries must therefore ask themselves whether their interests still lie in the uncertain future of the multilateral initiatives, or whether they should instead look at alternative approaches to integration with international markets.

The Doha Round was never really about development per se, even though it may have been marketed as such. Nonetheless, it is true that developing countries as a group may be the biggest losers from the failure of the round. The Doha Round was christened the Doha Development Agenda not because its purpose was to achieve policies that would stimulate development, but because it was intended to pursue the usual objective of trade liberalization with the unusual proviso that developing countries would not be sidelined or put at a disadvantage.

Trade liberalization may well be necessary for economic development, but it is hardly sufficient. The best that could have been expected from the Doha Round was therefore to remove barriers to development. Those barriers exist — and may continue to exist as a result of the Doha Round's failure — because developing countries have failed to participate in previous negotiating rounds where they might have pushed to open markets to their exports.

Instead, first because they were late to sign the General Agreement on Tariffs and Trade (GATT), and then later because they sought and were granted special and differential treatment that exempted them from the negotiations, they sat on the sidelines while developed countries negotiated downwards those trade barriers that it was in their mutual interest to eliminate. Developing countries benefited from these negotiations to some extent, as their most favoured nation (MFN) status allowed them the same market

access granted to others. However, this was usually not in the sectors where developing countries themselves were most able to make exports.

As a result, developed countries now have their highest tariffs on goods exported by developing countries, both labour-intensive manufactures, such as textiles and apparel, and various agricultural products. The latter are also subject to significant subsidies provided by developed countries Governments to their agricultural interests.

In addition, because they did not participate actively in previous rounds, many developing countries also have high tariffs on numerous imports. If the Doha Round is not revived, this unsatisfactory state of affairs will persist and the developing countries will continue to be hobbled in their efforts to escape poverty.

By remaining exempt from the negotiations, developing countries not only failed to secure the benefits of other countries liberalization for their exports. They also failed to secure the benefits from their own liberalization, although some countries did, eventually, see these benefits and opted to liberalize unilaterally. However, by avoiding the negotiated commitment to liberalize, they also avoided the international discipline that might have assisted them in achieving reforms of internal policies as well.

## **B. Trade interests of developing countries**

### **1. Developing countries have a shared interest in exporting**

The principal interest of any developing country in the context of trade negotiations is market access for its exports. Tariffs and other barriers to developing countries exports have always been very restrictive and have prevented those countries from harnessing their comparative advantages to the cause of economic growth.

Indeed, it has been common for developing countries to seek to exploit a newly-found source of comparative advantage, only to be met by new barriers to their exports as soon as these exports become large enough to be noticed by competitors abroad. In that sense, therefore, developing countries share a common interest — reducing trade barriers in the rest of the world, both developed and developing, against their exports.

However, this shared interest is often illusory since developing countries are themselves diverse and export many different products, sometimes to each other. In addition, when they export to each other, their interest in exporting conflicts with a second major goal that many developing countries profess (even though it is contrary to what economists view as being in their interest), that is, restricting imports.

Very much like in the developed countries, where protectionist instincts have to some extent been whittled down through earlier rounds of trade negotiations, developing countries seek to protect their domestic industries even in sectors where other developing countries may have an advantage. When that happens, the export interests of the developing world come into conflict.

Fortunately, this divergence of interests is not as severe as it might be. In the realm of manufacturing, many developing countries tend, by definition, to be abundant in labour and to have their comparative advantage in labour-intensive goods such as textiles and apparel. This means that they compete with one another as exporters — a fact that may pose its own problems — but at least they have a shared interest in reducing barriers to importing such products in the developed world.

Developing countries' export interests are much more likely to diverge when based on something other than an abundance of labour, most obviously in agriculture or other natural resource-based industries. Here their interests tend not to be in direct conflict, in the sense that some import what others export, but rather that they care about different things. Thailand's rice exporters are unlikely to care very much about the barriers that Argentina's beef exporters face in the developed world.

Furthermore, some natural resource products face little competition in the developed world, and therefore face low trade barriers, while others are heavily protected. Getting oil-exporting developing countries to cooperate with exporters of both beef and rice may be difficult. However, it may not be impossible, especially in the context of multilateral negotiations where broad reductions in trade barriers on many products are being considered simultaneously.

## **2. Competition among developing countries does not justify protection**

A more serious conflict may arise not over what the developing countries are able to export, but over how much. The asymmetry in size between many small developing countries, on the one hand, and China and India on the other, leads the former to fear the effects of international competition in precisely the labour-intensive sectors where all of them export. The perception is that China, particularly, has so much cheap labour that other countries that are abundant in labour cannot possibly compete, especially now that China is a member of WTO and is getting MFN treatment.

In fact, of course, China was already getting MFN treatment before it joined WTO, and the increase in competition with China is more a by-product of its remarkable growth since making the transition to a market economy. Also, like other fears of international competition that have existed for two centuries, the fear of China is largely misguided and certainly overblown.

Small countries are already beginning to find that they can compete successfully in some products even as they may have to move out of others. The process of adjustment as comparative advantages evolve can of course be painful, but the view that countries cannot compete at all with China and India is surely false.

## **3. Some developing countries face erosion of preferences**

Another conflict that may arise among the interests of developing country stems from asymmetries in the policies they have faced in the past. In the presence of generally

high barriers to their exports, some developing countries have prospered from special treatment by particular developed countries as markets for their exports. This preferential access has often been based on former colonial relationships.

As multilateral trade barriers have been reduced, and as negotiations proceed towards reducing them further, those countries see themselves losing their markets to other developed countries that were previously not favoured. Unlike competition with China, which may be more a problem of perception than reality, this problem is real. The trade preferences enjoyed by members of the Lom Convention, for example, have allowed high-cost industries to survive, and the extent of the preference is a measure of the cost disadvantage that they will experience when the preferences are removed.

This does not mean that these countries have no comparative advantage or ability to gain from trade. However, it does mean that they are likely to have to transfer resources from the artificially favoured sectors to ones in which they can compete without the preferences, and that they will lose the benefits that the preferences provided.

In some cases, the benefits from the preferences may have been wisely invested in the physical and human capital needed for these countries to move into other industries without preferences. Undoubtedly, however, that there are other countries where this has not happened. For those countries, the failure of the Doha Round may be their only hope of continuing to live in the style to which they have become accustomed.

#### **4. Developing countries can gain by cooperating**

In sum, although the trade interests of developing countries are not by any means coincident, it does seem that many of them share sufficiently common interests in reducing trade barriers — at least in the developed world — that they should be able to cooperate to pursue that end. It is encouraging, therefore, that many of those countries were able to come together in what is now called the G20 at the Cancun ministerial conference in 2003, and that they have continued to maintain that coherence.

It is, of course, discouraging that they are resisting liberalization of their own trade barriers, but that is also understandable. Also, it is perhaps too much to expect them to concede on this before they get a clearer signal from the European Union and the United States that their trade barriers and subsidies will be given up.

An alternative that has to be considered, especially if the Doha Round fails to restart, is for developing countries to pursue trade liberalization by other means, most obviously via bilateral and regional trade agreements. The problem is that if such agreements attempt to harness common interests simply by the developing countries negotiating among themselves, they will fail to address the most severe impediment that they all face in international trade, that is, protection by developed countries.

Alternatively, if they want to negotiate directly with particular developed countries, it is unlikely that the latter will willingly negotiate with them as a group. For example, although

the Free Trade Area of the Americas was conceived by the United States as precisely such an arrangement, it has never made much progress; most recently, the United States has appeared to prefer negotiating with individual developing countries (or with small groups, when the countries themselves are very small, as in Central America). That preference may be explained by the desire of the United States for greater advantage in the negotiations so as to achieve objectives other than trade liberalization.

It might well be very much in the interests of significant regional groups of developing countries to insist on negotiating with the European Union and the United States en masse, precisely in order to undermine this advantage that the larger players wish to exert. However, it seems unlikely that they will get agreement to do this, even among themselves, since the larger developed countries can offer incentives for them to negotiate separately.<sup>2</sup>

## **C. Structure of trade negotiations**

### **1. Developing countries have played only a small role in past negotiations**

In the past, trade negotiations within GATT and WTO have been conducted primarily between the largest negotiating blocs — the European Union and the United States — with the eventual agreement then sold with minor modifications to the other participants.

Smaller countries might press for particular concessions, either for themselves or for a like-minded group such as the Cairns Group of agricultural exporting countries, but in practice that has not usually achieved much. A smaller country might also play a larger role by acting as an intermediary between the European Union and the United States, but that too has provided only limited benefit. Whatever the deal the European Union and the United States reached, most countries had to take-it-or-leave-it and the pressure to take it became extreme.

Nonetheless, this somewhat understates the role of developing countries. Each of the many issues that enter a round of negotiations is considered within a negotiating group, which includes delegates from many more countries than just the European Union and the United States. Developing countries do sit at the table in these groups, as they do in the green room discussions that attempt to reach final agreement on particular issues.

These groups are assembled on a somewhat ad hoc basis by the WTO director-general, and some have viewed this process as inadequately representing the interests of developing countries. However, the fact remains that a selection of them are at the table, expressing their views, and they certainly have had a non-trivial affect on the outcomes of the negotiations, if not a major one.

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<sup>2</sup> See Evenett, 2005, for a model of how dominant countries can get smaller countries to compete for access to their markets.

## **2. The Development Agenda should provide assistance to liberalization, not exemption from it**

The official development orientation of the Doha Round might be thought to represent an example of the developing countries interests. In fact, however, it seems likely that the stress on development in the Doha Declaration in November 2001 was more a reaction to the post-9/11 need by developed countries to accommodate others than any particular push by the developing countries themselves.

In any case, there is a real question about the extent to which trade negotiations should have such an orientation. Previous rounds had created impediments to development by leaving developing countries on the periphery of the negotiations, and it is important that this be corrected.

However, it is neither within the purview nor the expertise of trade negotiators to implement many of the changes that are necessary for poverty reduction and economic growth in developing countries. The best that they can do is to seek removal of impediments. That is an important objective, but if it is advertised as solving the manifold problems of developing countries it can only raise expectations that will be disappointed.

Having said that, it is worth asking whether the Doha Round should include a bias in favour of developing countries. The fact that previous rounds have arguably been biased against them, mostly by exclusion, may suggest that this would be appropriate. Unfortunately, such a bias would undoubtedly be interpreted as meaning that developed countries should make greater concessions than developing countries, by lowering their own trade barriers and removing subsidies while developing countries do little themselves.

Economists know that such a bias is actually against the interests of developing countries and is really a bias in the opposite direction. Trade negotiations are about giving countries external incentives to implement painful but desirable policy changes that they would otherwise be unable, politically, to achieve. Appearing to favour developing countries by exempting them from this process is not a favour at all.

The trick, therefore, is to find additional ways to address developing countries interests without exempting them from trade liberalization. This was the intent of the Doha Declaration, which repeatedly identified developing countries for special assistance in implementing whatever agreements might be achieved. Unfortunately, WTO lacks any mechanism to provide such assistance, and it is unclear how a completed Doha Round that included such promises would actually deliver on them.

From this perspective, renewed progress in the Doha Round may depend on initiatives outside WTO to mobilize resources for assistance. A credible commitment by the European Union, the United States and other developed countries as well as by international financial institutions, to provide greater resources for implementing liberalization in developing countries, might be just the incentive to get them to be more forthcoming in the negotiations. The aid for trade initiative is a step in that direction.

## **D. Options for the developing countries**

### **1. Developing countries should act collectively to reinvigorate the World Trade Organization**

Given that a successful conclusion to the Doha Round would offer great benefits to developing countries, the first option that must be considered is whether they can play a role in getting it back on track. The answer is surely yes, in that it has been their refusal to offer meaningful trade liberalization that has led (along with stubbornness on the part of the European Union and the United States) to the current impasse. To reverse that situation, it will first be necessary for a number of major developing countries to recognize that trade liberalization is in their interest. Economists' arguments to that end have largely fallen on deaf ears, or at least on ones that are not very influential. The likelihood in the near term of greater understanding of the benefits, and not just the costs, of reducing trade barriers is probably too small to count on.

Somewhat more likely would be a greater appreciation of the benefits to be had from liberalization abroad, making it appear worth the cost of their own liberalization. Indeed, the emphasis by the G20 and other developing country groups (such as the cotton-exporting African countries) on the need to change developed countries' policies suggests that the costs of these policies are becoming better understood. It may even be that the costs of these policies are being overstated; agricultural subsidies, after all, harm only those countries that are net exporters of the subsidized products while they benefit those that are net importers.

However, if exaggeration of the costs can help to enhance the perceived benefits of liberalization, perhaps to the point that the developing world is ready to pay something to achieve it, then it may serve as a tool to unite those countries in a willingness to participate in the negotiations more constructively.

A final possibility is to rebalance the developing world's understanding of the relative gains from liberalization for developed and developing countries. Understandably, the perception right now is that the greatest beneficiaries from liberalization are the developed countries, especially their large corporations that are seeking to extend their reach into developing countries' markets. This perception is enhanced every time someone harangues the developing world for its failure to cooperate.

In fact, the developed countries already enjoy most of the benefits from trade that they will ever achieve, and extending trade liberalization to new markets will provide them with relatively little benefit. By the same token, the multinational corporations do indeed seek to profit from selling in new markets, but the size of their operations in the developed world suggests that these benefits too, important as they may be, are relatively small.

In contrast, the developing world stands to gain far more from liberalization, including their own. Their markets are small and seriously distorted in ways that international competition can readily correct. The trade barriers that they impose on

themselves as well as face from others cover a much larger part of their trade than these same barriers account for in the developed world. For example, research on the North American Free Trade Agreement (NAFTA) shows that the economic gains to Mexico, as a share of its gross domestic product (GDP), were an order of magnitude larger than the gains to Canada and the United States (Brown and others, 1992). So the perception that trade liberalization is mostly of benefit to the developed world is simply wrong.

This matters, because in developing countries many are suspicious of entreaties from developed country Governments for them to go along with trade negotiations, thinking that the motive is to benefit the rich, not the poor. They may even be correct about the motive; many in developed countries probably do believe that their constituents will reap the lion's share of the benefits from liberalization.

However, that belief is incorrect. In fact, if the Doha Round never recovers and if trade liberalization comes to a halt indefinitely around the world, the harm to the developed countries will be minimal. They have already achieved most of their gains from trade, and unless the process of liberalization is actually reversed, they will be just fine. It is the developing countries that stand to lose by far the most from this impasse.

This message needs to be conveyed to opinion leaders in developing countries. They must come to understand that the Doha Round is not primarily a game played by and for the people and corporations of developed countries. Rather, after half a century of trade liberalization that has sidelined developing countries, it is now a game that must include, and will primarily benefit them. Indeed, if the round fails, there will be plenty of people in the developed world who will breathe a sigh of relief.

## **2. All countries should encourage and cooperate in aid for trade initiatives**

In recent years, there has been a growing awareness that developing countries participation in international trade is hindered not just by the barriers put in their way by countries with which they might trade, but also by physical and institutional deficiencies within their own economies that make it difficult to export and import. Thus, recognition has grown that assistance to those countries should include aid for trade.

As stated in a report from the International Monetary Fund and World Bank (2005), aid for trade is provision of assistance by the international community to help countries address supply-side constraints to their participation in international markets and to cope with transitional adjustment costs from liberalization.<sup>3</sup> Aid for trade is an explicit part of the Doha Round negotiations; however, if the Doha Round does not proceed, it is even more essential that aid for trade initiatives are pursued. The World Bank and the International

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<sup>3</sup> The report goes on to list the following elements of aid for trade: technical assistance; capacity-building; institutional reform; investments in trade related infrastructure; and assistance to offset adjustment costs, such as fiscal support to help countries make the transition from tariffs to other sources of revenue.

Monetary Fund committed to providing such assistance; however, as always, developing countries themselves need to play an active role in seeking this assistance and making sure that it is tailored appropriately to their needs.

Fortunately, this is one area where resistance to change ought to be minimal, since the benefits to developing countries are much easier to see than the benefits from trade itself. In addition, even though aid for trade will lower the costs of trade if it succeeds (and thus have many of the same effects as tariff reductions), that fact may be less apparent to import-competing interests and thus not excite the same degree of opposition.

The bottleneck is instead likely to come from the aid providers, who bear its budgetary cost. Fortunately, there appear to be plenty of funded initiatives available, both from the international financial institutions and from developed countries. What is needed now is for developing countries to submit well-conceived proposals for the use of these funds, and then to make sure that the projects are carried through.

### **3. Regional and/or bilateral arrangements — not optimal but often worth pursuing**

The obvious alternative to multilateral trade liberalization is for individual developing countries to enter into trade agreements with other countries or groups of countries. The current wave of regional trade agreements, which began with negotiations by the United States first with Canada and then with Mexico to form NAFTA, was itself in part a response to the failure of multilateral negotiations, progress on which was then stalled in the Uruguay Round.

Even though the Uruguay Round ultimately finished successfully, subsequent difficulties first in starting a new round at Seattle in 1999, and later in pursuing the negotiations of the Doha Round, have undoubtedly contributed to the willingness and often eagerness of almost every country in the world to enter into such agreements. Today, more than 200 of them have been notified to WTO.

Economists are largely in agreement that such preferential trading arrangements are, at best, inferior to multilateral liberalization and that they have the potential to be distinctly harmful, even to their participants and certainly to outsiders. That makes it difficult to provide guidance on the form that such agreements should take. Nonetheless, if multilateral liberalization turns out not to be an option, then many developing countries will undoubtedly take the preferential route.

### **4. Developing countries should choose their partners carefully**

If developing countries do pursue preferential trading arrangements, they must decide on the types of potential partner with whom to negotiate. An obvious choice is to form free trade agreements (FTAs) with their neighbours. The economic case for doing so is not clear, but given the desirability of making and/or maintaining peace with one's neighbours, then such regional trade agreements probably make the most sense.

Another choice of partner for some countries is between developed countries on the one hand, and other developing countries on the other. The problem with FTAs among developing countries is that they are likely to involve competing exporters of many of the same products. This means that the potential for trade among them is either minimal or likely to be particularly disruptive.

It is true that there are also similarities in trade patterns among developed countries that have successfully pursued economic integration, especially in the European Union. However, what appear to be common industries in fact often produce differentiated products, and there is ample scope for intra-industry trade. Such trade appears much less likely within FTAs among developing countries, which tend to find their comparative advantages in more standardized products.

This suggests that developing countries might be better advised to seek trade agreements with developed countries, such as the European Union or the United States, as indeed a great many of them are currently doing. In terms of the economics of trade alone, this appears to be a fruitful approach, since it opens import-competing industries in both parties to competition from comparative advantage-based exports, but does so in a smaller way than might be feared from multilateral liberalization. Indeed, such agreements may lead these import-competing industries gradually to shrink, thus over time reducing the resistance to broader liberalization.

The downside of such arrangements is the extreme asymmetry between the two sides that negotiate them, one rich and the other poor. This would not matter if FTAs consisted simply of reducing all tariffs to zero among themselves and nothing else. However, FTAs are never that simple. In addition to troublesome rules of origin, they typically carry all sorts of other baggage to protect labour and environmental standards, intellectual property rights, investment and much else.

These additional features of an FTA are not necessarily undesirable, but sometimes they can be. Also, whether desirable or not, they usually operate in only one direction, constraining or requiring change in the policies of the developing country partner without any extra expectations at all of the developed country partner. Thus, even though in principle trade agreements should be able to yield substantial net positive benefits for both parties, this asymmetry is likely to mean that the developing country partner is pushed to the lower limit of the benefits that it will accept, with the larger share going to the developed country.

While developing countries often fear that multilateral trade liberalization will primarily benefit the developed world, for tariff liberalization at least, that fear is unfounded. However, when agreements extend well beyond the setting of tariffs into many other issues — as they do in FTAs even more than in the multilateral system — that fear may well be justified. Indeed, it might be suspected that some of the recalcitrance on the part of developed country negotiators in the Doha Round may be intended to assure exactly that outcome.

## **5. Free trade areas should be structured to approximate multilateral free trade**

FTAs will continue to be negotiated between developed and developing countries. So how they can be constructed so as to be most beneficial, or least harmful, to the developing country partners? The answer is to approximate, as closely as is possible within an FTA, the benefits of multilateral free trade. This means that:

- (a) First, when overlapping FTAs are formed, with countries A and B both forming FTAs with country C, then they should more or less automatically form an FTA between A and B as well. Without that, country C — which is often a developed country — gets to play the other two countries off against each other while being immune to such gaming itself;
- (b) Next, when A, B and C form FTAs between A and B, A and C, and B and C, they should specify the rules of origin of each bilateral FTA to allow the accumulation of content from each of the three countries. Thus, if each of the bilateral FTAs requires, say, 30 per cent local content to qualify for tariff-free access, then that 30 per cent should be calculated to include content from all three countries;
- (c) Once that is done, if the FTA is no more than a trade agreement, it would make most sense to redefine it as a single FTA encompassing all three countries. Unfortunately, trade agreements are never that simple, and their other features may provide impediments to merging them, and even incentives not to do so. Developing countries should vigorously resist such features that cannot be easily extended to new members, as these are likely to be used as leverage against their interests by the more dominant partner.

All of this advice is intended not just to allow FTAs to approximate multilateral free trade as far as possible, but also to smooth the transition towards that ideal over time. It is likely to be a vain hope, but GATT Article XXIV should be revised to require FTAs to always permit new entrants under the same conditions as existing members. That would ensure that FTAs make it easier, not harder, for regions of free trade to expand.

Unfortunately, such a requirement would not be on the table for discussion even if the Doha negotiations were proceeding. Also, those who negotiate FTAs are unlikely to impose it themselves, since members of FTAs always value the exclusivity of market access that their arrangement provides.

All is not lost, however, even if bilateral and regional trade initiatives do become the dominant form of liberalization at the expense of further multilateral negotiations in WTO. A lively debate has raged between economists who see regional liberalization efforts as stepping stones towards multilateral free trade and those who see them as stumbling blocks (Bhagwati, 1991). This debate has merits on both sides, but it does seem clear that even though regionalism is distinctly inferior to multilateralism if it fails to lead to multilateral free trade, it is apparently moving the world in the right direction.

Brown and others (2006) as well as other research cited calculations of the effects of a considerable variety of FTAs, almost all of which yield net benefits to the world as a whole. The following table shows a sample of the calculated welfare effects of FTAs, formed by the United States and Japan with various trading partners, on the participants, the rest of world and the world as a whole. In all cases, the global effects are positive because the benefits to the participating countries far outweigh the (often negative) effects on outside countries.

### Welfare effects of bilateral negotiating options for the United States and Japan

(Unit: US\$ billion)

United States and:	United States	Partner	Other	Global
Australia	19.4	5.4	-1.7	23.1
Central America and the Caribbean	17.3	5.3	-6.9	15.7
Chile	6.9	1.2	-0.2	7.9
Morocco	6.0	0.9	0.6	7.5
Singapore	15.8	2.5	4.2	22.5
Southern African Customs Union	9.6	2.2	0.0	11.8
Thailand	17.1	5.6	-0.8	21.9
Free Trade Area of the Americas	67.6	45.4	-3.6	109.4
Japan and:	Japan	Partner	Other	Global
Chile	2.8	0.9	-0.2	3.5
Indonesia	10.7	1.7	-1.3	11.1
Republic of Korea	18.7	2.2	-1.2	19.7
Malaysia	10.5	0.3	-0.7	10.1
Mexico	8.2	3.3	-0.9	10.6
Philippines	2.2	0.5	0.3	3.0
Singapore	5.0	0.6	1.1	6.7
Thailand	19.5	-0.5	-5.5	13.5

Source: Brown and others, 2006.

### 6. Initiatives in particular industries are of limited benefit to developing countries

An alternative to negotiating broadly over many categories of trade, but with a single country or a small group, is to negotiate narrowly over trade in a single industry, perhaps with a larger group. Developed countries have pursued this strategy, often successfully, as they have struck agreements over such industries as aircraft, finance and telecommunications. Developing countries could conceivably do the same.

Certainly, if developed countries do initiate such discussions, it may well be in the interests of developing countries to participate. However, for most industries, it appears

unlikely that developing countries themselves could initiate such negotiations, except perhaps if an industry were of interest only to developing countries, both as exporters and as importers. However, it seems doubtful that many such industries may exist. There is therefore not much potential for a sectoral approach initiated by developing countries.

This leaves the question of whether developing countries should participate in sectoral negotiations initiated by developed countries. This idea should be treated sceptically. Such negotiations are bound to occur only in sectors where the developed countries have interests as exporters. This works well among themselves, where with intra-industry trade they often can strive to open each other's markets within the same sector. However, developing countries seldom are in this position. If they participate in such negotiations, unless they merely act to block agreement, they will be pushed to open their own markets without getting anything in return.

This is not to deny the benefits to developing countries of opening their markets to foreign exports in any sector. Nevertheless, if such sectoral negotiations proceed outside more comprehensive multilateral negotiations such as the Doha Round, they will inevitably lead to access for the developed world to the markets of developing countries, but not the reverse. That is too close to the current situation, in which after 50 years of trade rounds, developing countries still have little role to play. It would be better, therefore, if they limited their negotiations to ones where trade-offs across sectors are possible, either multilaterally or bilaterally.

## **7. Developing countries with high protection will gain from unilateral liberalization**

For the same reason, unilateral liberalization should be treated with scepticism in some cases and by some countries. It is not that unilateral liberalization is without benefits; it surely is beneficial, as two centuries of international trade theory have convincingly established. However, if implemented alone, unilateral liberalization generates only the benefits from itself, not from any foreign liberalization that could have been secured in exchange through negotiation.

For small countries, that does not matter. Their markets are not large enough for anyone (except possibly a close neighbour) to be willing to pay anything for market access. Even for large but very poor countries, that may also be true. However, since some of the larger developing countries have made economic progress, and especially since they have begun to join together for negotiating purposes, their levels of protection have become bargaining chips for which they should be able to get something in return.

Of course, if their tariffs are very high, then the harm that they do before those tariffs are negotiated downwards is too costly to justify retaining them. Countries with very high tariffs certainly should reduce them substantially and unilaterally, especially if negotiations for reciprocal liberalization do not appear to be forthcoming.

However, once their tariffs are down to a modest level, there is a case for keeping them in place as long as their exports face protection abroad. Without that, they may never be able to get those foreign tariffs removed.

## **E. Conclusion**

Looking at the various options, it is clear that the most desirable alternative from the perspective of developing countries would definitely be for the Doha Round to be restarted and for it to proceed to a successful conclusion. However, as time passes, this option appears less and less likely to happen, unless the negotiating authority of the President of the United States is extended beyond mid-2007.

However, no progress will be made as long as developing countries continue to insist on offering nothing in exchange for the policy changes that they seek in the developed world. They simply must accept that substantial trade liberalization is in their own interest, if not for the sake of the gains from trade that economists universally tout, then for the sake of the policy changes that they seek abroad.

If they were to come to the negotiating table offering significant market access to developed countries' exporters, that might mobilize those exporters to push their own Governments to be more forthcoming in the ways that everyone agrees would benefit developing countries — reducing subsidies and tariffs on developing countries' exports. Without such an offer on the table, it is only the protected and subsidized interests in the developed world that are paying attention to the negotiations, and they are successfully blocking any progress.

Of the other options, the provision of aid for trade should certainly be favoured, whether or not it is done within the context of the Doha Round. However, as useful as aid for trade certainly is, it will never even begin to serve as a substitute for real liberalization of policies that distort trade both in the developed and the developing worlds.

If the Doha Round does not restart, then bilateral and regional initiatives are often worth pursuing. Although not guaranteed to be beneficial, these initiatives do, by and large, seem to have moved the world in a positive, albeit very messy, direction. However, their terms should be better designed so that they are more, rather than less, likely to lead down a path towards more liberalization.

Finally, with or without the Doha Round, very small countries and those with high tariffs should reduce them unilaterally. The harm they are causing to their own economies exceeds whatever benefits they may perceive for the beneficiaries within their countries. This is also too high a cost to pay for negotiating chips that may, some day, buy them concessions abroad.

However, large developing countries with tariffs that are already low or moderate should postpone reducing them further. They should also join together as far as possible, and they should then offer to eliminate these tariffs in exchange for whatever liberalization they can elicit from developed countries, either individually or en masse.

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