

A Long Term View on the Doha Round and the WTO

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Washington, May 7, 2007

Overview

- Looking at the past: A much needed perspective
- Looking at the present: (1) A world race to bilaterals?
- Looking at the present: (2) The Doha Round
 - NAMA negotiations
 - Negotiations in agriculture
- Looking at the future: “flex-plining” the WTO

Looking at the past

- Past half-century: “La Belle Epoque”?
- Past two decades: Lack of leadership?

“La Belle Epoque”?

- Lamentations
 - Doha Round takes “too much” time
 - Doha Round involves “too many” countries
- A cost-benefit comparison of the Rounds
 - Stable “productivity”
 - Exceptions: Geneva-I, Kennedy Round
 - Kennedy Round: very special balance between the “liberalization formula” and the “exceptions formulas”
 - Doha Round out of the trend: “too ambitious” under the current negotiating techniques (formulas)
 - Either scale down its targets (at constant techniques)
 - Or improve the negotiating techniques (formulas)
 - Other events (OECE, EEC, etc.)
 - Trade policy is foreign policy

"La Belle Epoque"?

Table 1. A productivity indicator of the Rounds

	Dates	Length (months)	Tariff cuts [2]	"Round	Number of Members	
				Productivity"	All	G77
	1	2	3	4	5	6
Geneva-I	1947	8	26.0	39.0	19	7
Annecey	1949	8	3.0	4.5	20	8
Torquay	1950-51	8	4.0	6.0	33	13
Geneva-II	1955-56	16	3.0	2.3	35	14
Dillon	1960-61	10	4.0	4.8	40	19
Kennedy	1963-67	42	37.0	10.6	74	44
Tokyo	1974-79	74	33.0	5.4	84	51
Uruguay	1986-94	91	38.0	5.0	125	88
Doha	2001-07 [1]	74	50.0	8.1 [3]	146	98

[1] Assuming that it ends in December 2007 [2] Average cut in bound industrial tariffs.

[3] Based on a Swiss25 (emerging economies) and a Swiss10 (developed countries) see text. Sources: Martin and Messerlin 2007. Messerlin 2007a.

Lack of leadership?

- Lamentation: lack of leadership
 - how to explain => looking for change(s)
- More hostile public opinion? No
 - GMF poll: pro-trade 45%-80%, 65% average
- Stronger anti-trade lobbies? No
 - Not in Europe, maybe (?) in US (foreign policy)
 - Bias in favor of anti-trade lobbies?
- More absent business? No (ICC, Businessseurope)
- Increasing difficulties to oppose tiny interests
 - Increasingly thinner margins of majority in the key industrial countries which are still the leaders in WTO negotiations)
 - Permanent anti-freer trade biases conflicting with enlarged WTO scope (agriculture and US Senate)

Thinner majority margins

Table 2. The erosion of the margins of majority, 1950s-2007

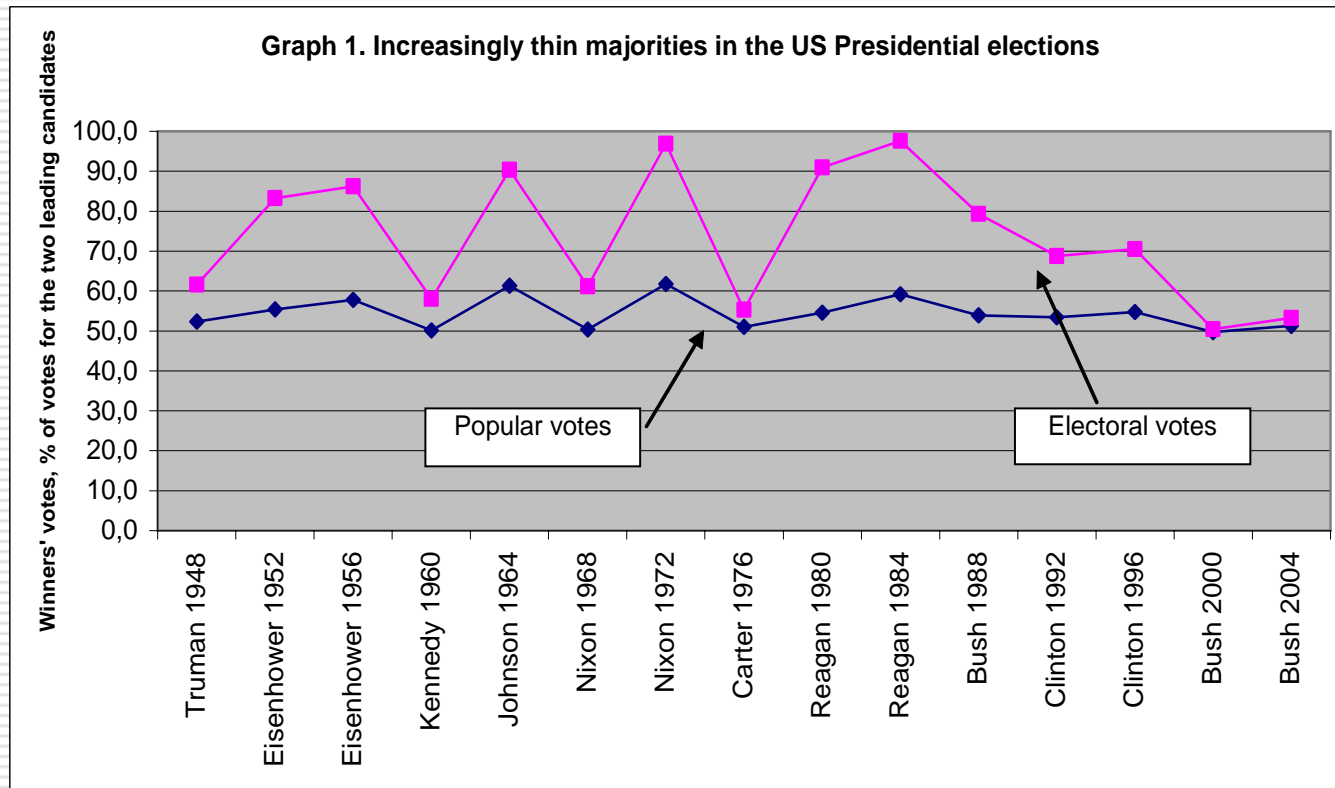
	Highest peak		Lowest level		Average margins [1]	
	year	margin [1]	year	margin [1]	before 90	after 90
US						
President (EV)	1984	97.6	2000	50.5	78.2	58.1
President (People)	1972	61.8	2000	49.7	55.3	51.9
Senate	1965	68.0	2007	50.0	57.3	53.6
House	1965	67.8	2001	50.9	59.2	54.3
France						
President (1-turn)	1969	65.7	1974	43.0	56.5	50.0
President (2-turn)	2002	82.2	1974	50.8	54.0	67.4
President (/all) [2]	1965	44.7	2002	19.9	36.8	20.4
Germany						
Bundestag (seats)	1957	61.2	2002	50.0	54.7	52.8
Votes (/all) [2]	1983	48.8	2005	34.5	44.9	39.8
UK						
Parliament (seats)	1997	71.7	1974	50.3	55.7	65.6
Votes (/all) [2]	1955	49.7	2005	35.2	44.4	40.2

[1] Winners' votes, in percent of votes for the two leading candidates

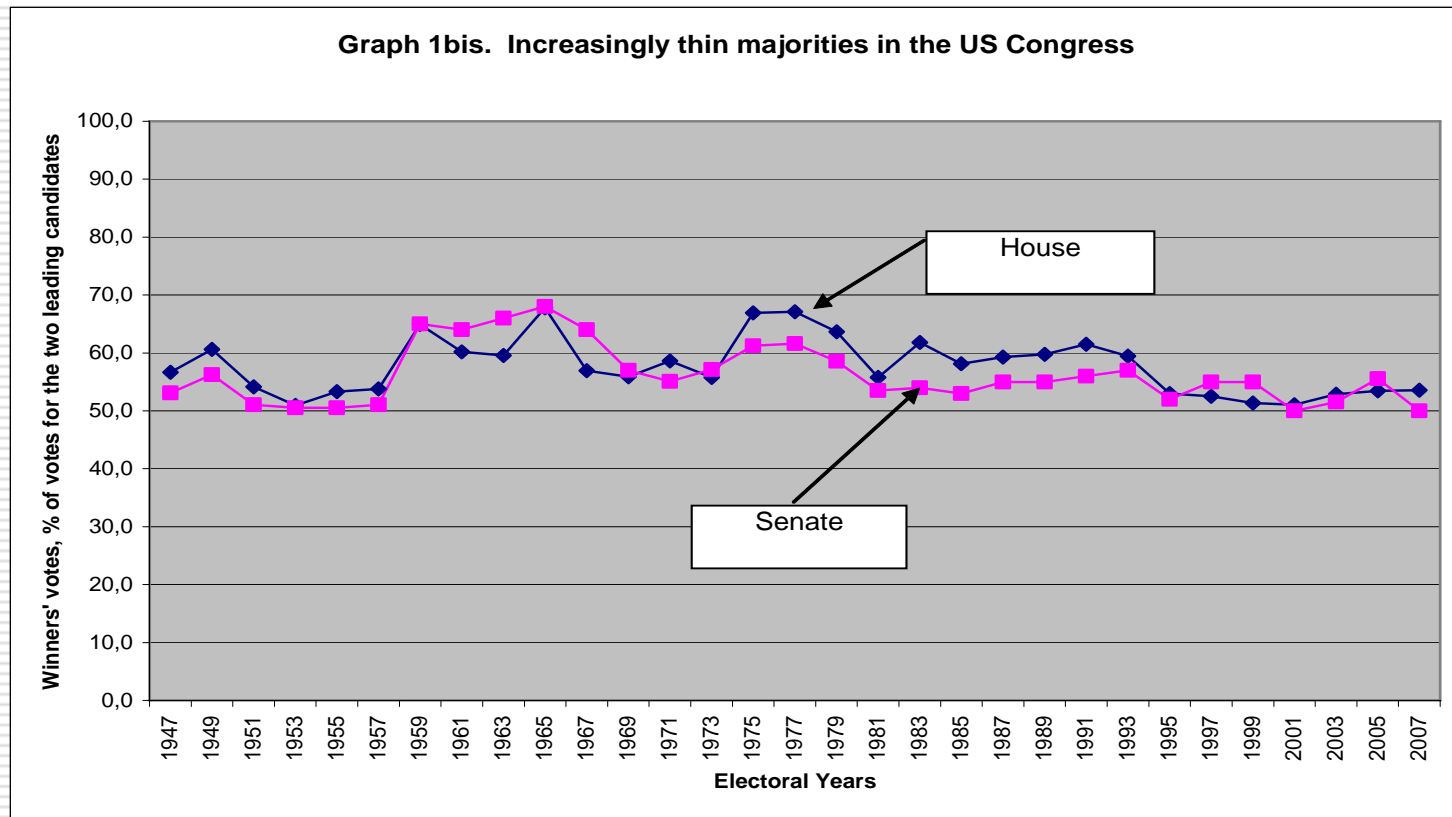
[2] Winners' votes, in percent of all votes expressed.

Source: Messerlin 2007a

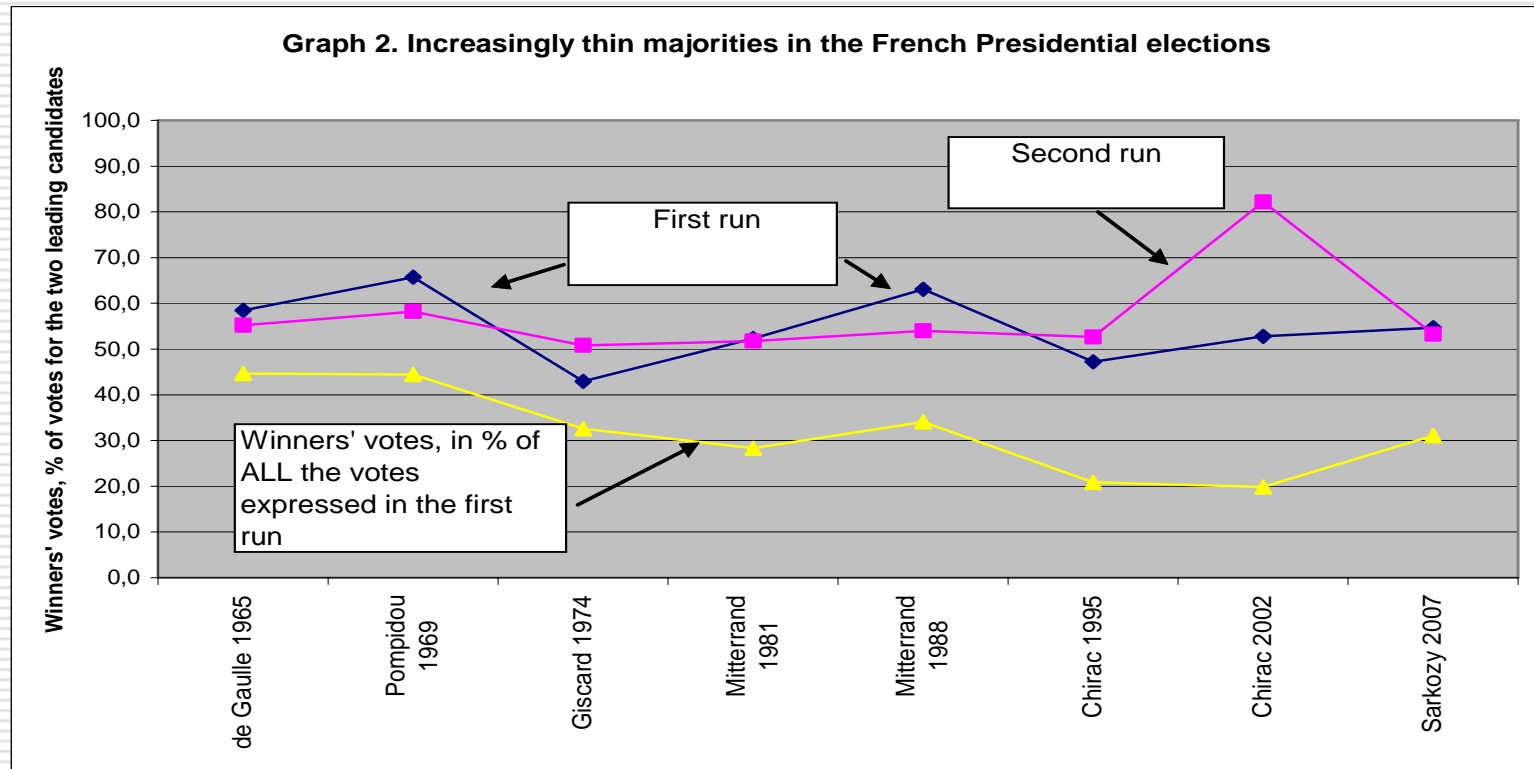
Thinner majority margins: US



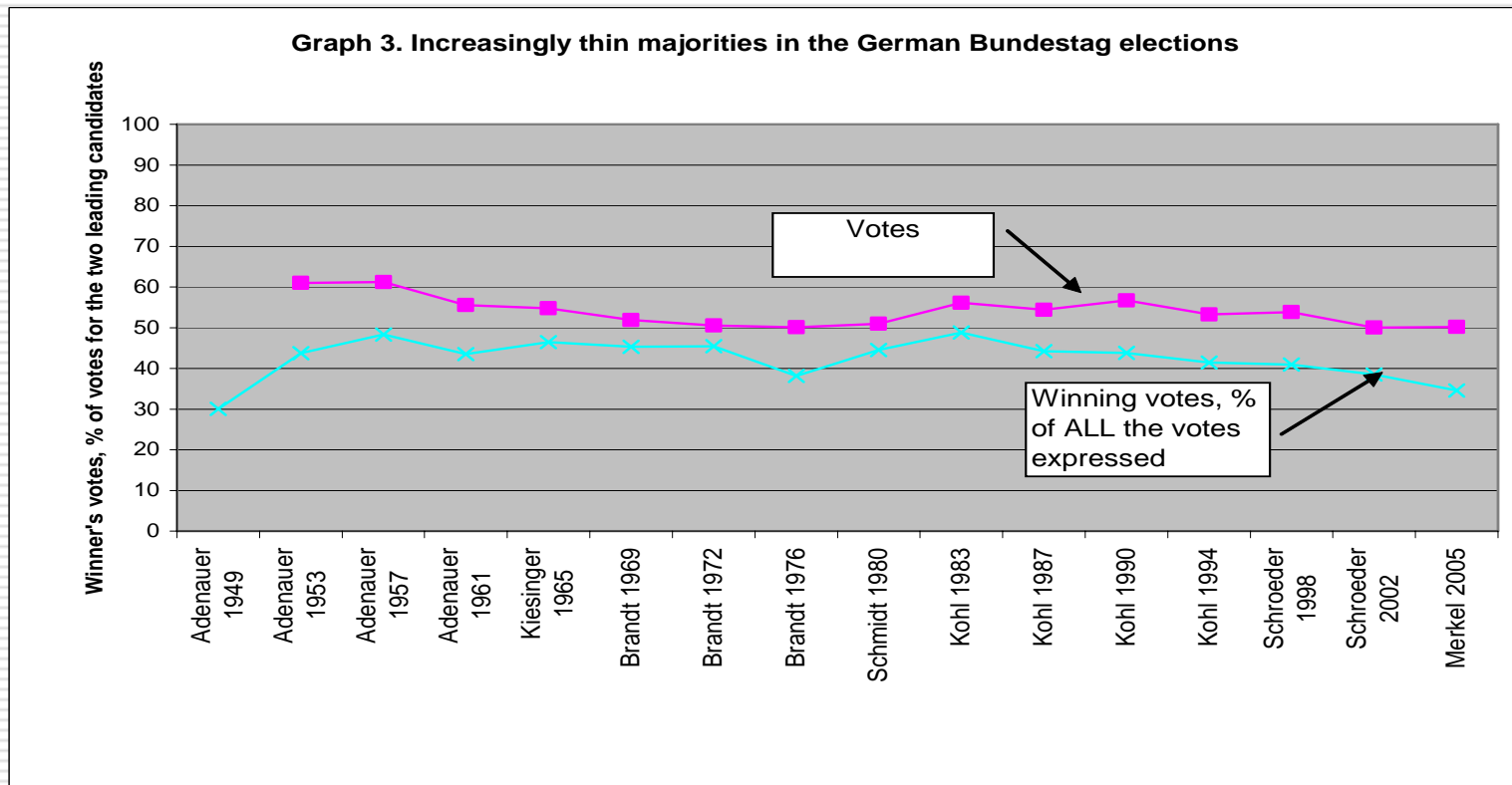
Thinner majority margins: US



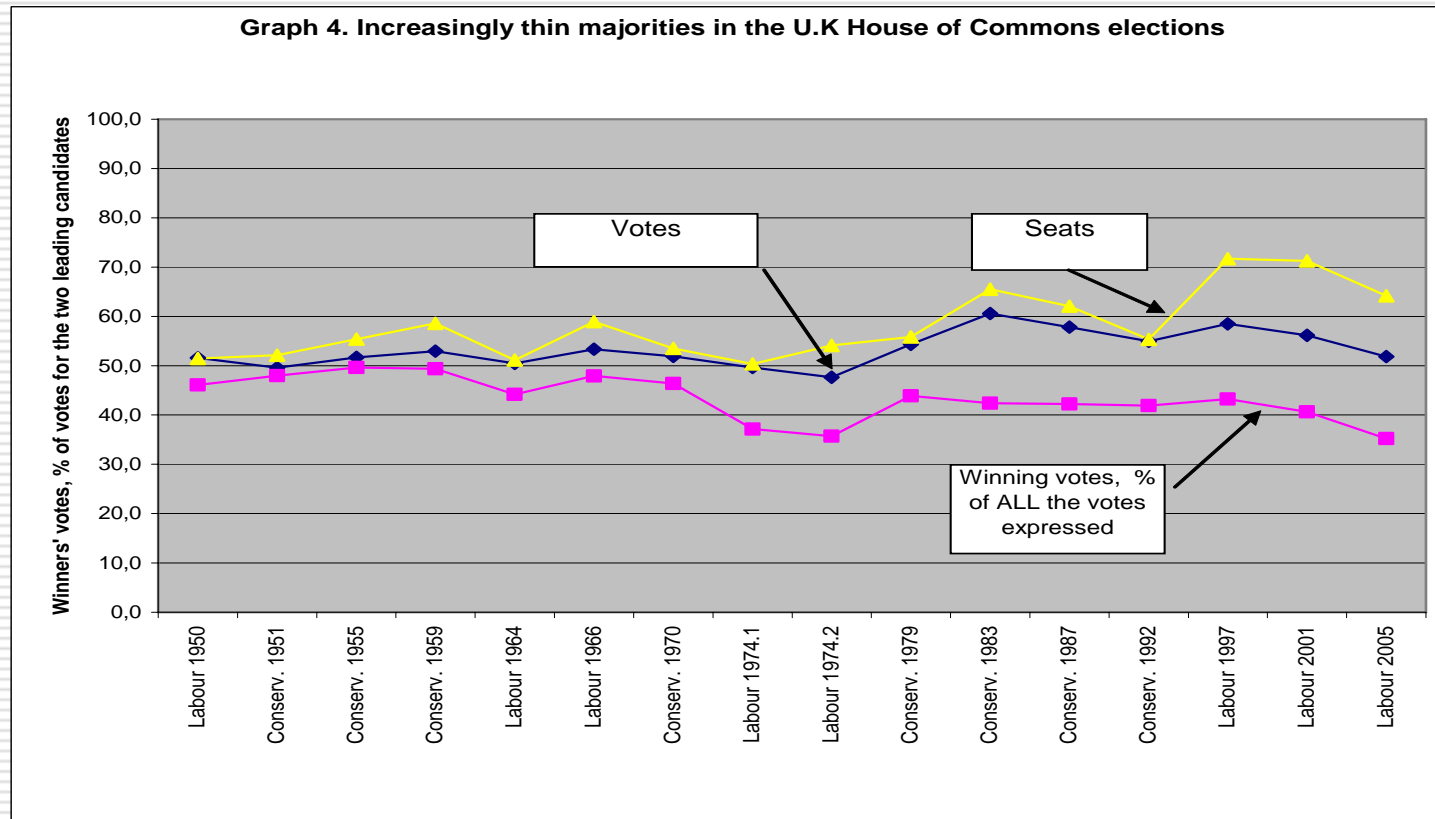
Thinner majority margins: France



Thinner majority margins: Germany



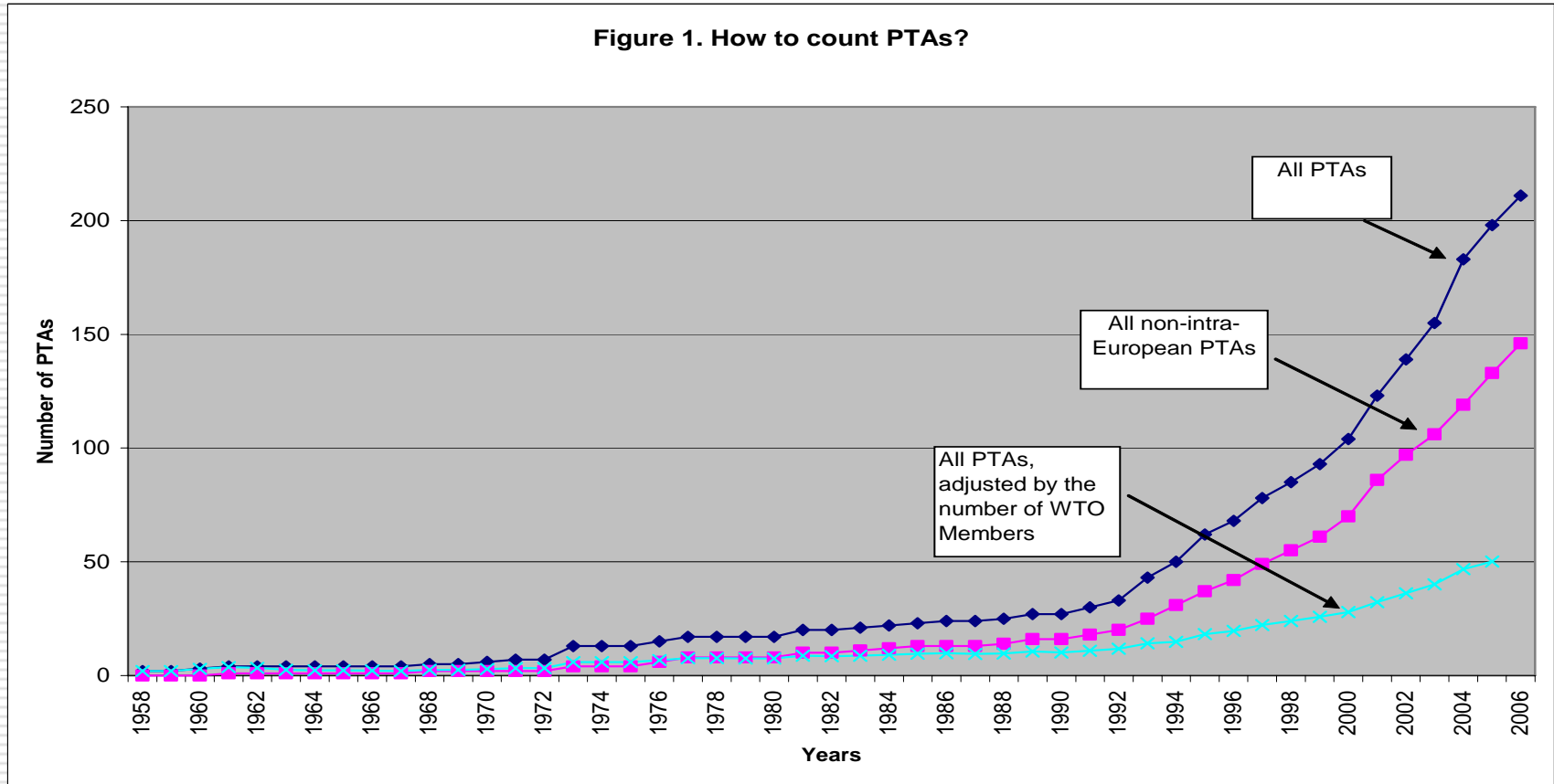
Thinner majority margins: UK



A world race to bilaterals?

- Assessing the trend in bilaterals: comparing oranges and apples?
- A preview on future trade diversion and preference erosion

A trend in bilaterals



A trend in bilaterals?

- 2 PTAs in 1960, 211 PTAs in oct. 2006
- This is comparing oranges and apples
 - Politics vs. economics: the European integration
 - Increasing number of WTO Members
 - “Regional” Agreements vs. “Bilaterals”
 - EC (1958) in goods = 6 bilaterals
 - EC (1958) in services = 15 bilaterals
- A better index of the trend: from 21 to ~50 ???
- That is quite a different perspective!
 - WTO figures create “panic” and “mimic”

Trade diversion, preference erosion

- Bilaterals: 10% of past liberalization
- Today lower applied tariffs => less trade diversion (and less incentives to sign bilaterals)
 - Peak tariffs, unbound tariffs
 - Services, international investment
- A preview of the bilaterals under negotiations or consideration
 - Plenty of potential costs
 - All the more as one moves from the leading small countries to leading large countries

Spaghetti bowl, electron collider?

Table 3: Selected indicators for the trading partners to be involved in bilaterals under negotiations or under consideration by seven selected WTO Members

	Number of partners	Market size [a]		Average industrial tariff [b]		Regulatory ranking [c]				
		at current USD	at PPP USD	applied	bound	trading across borders	dealing with licences	ease of doing business	regis- tering property	protec- ting investors
		2	3	4	5	6	7	8	9	10
Singapore	12	90,6	81,2	5,7	9,0	40,0	68,9	43,5	42,3	41,0
Chile	9 [e]	81,6	77,7	6,4	10,3	43,2	77,8	49,4	45,5	45,1
Korea	11	49,1	57,4	7,3	13,3	43,3	85,3	57,6	39,8	40,4
Japan	18	13,4	16,4	7,5	20,0	53,5	58,3	54,8	60,6	56,6
USA	14	14,9	16,5	8,8	21,3	54,1	69,7	52,2	64,7	44,2
China	12	10,4	17,0	10,1	25,5	83,1	96,4	83,5	76,1	47,2
EC	24	23,4	44,2	10,3	17,8	71,1	125,6	91,2	61,8	64,8

[a] GDP (in USD, 2004) as a share of world GDP. [b] WTO Trade Profiles. [c] Doing Business 2007.

[d] Counting as one the 10 countries having acceded to the EC in 2004. [e] Counting as one the EC.

Source: Messerlin 2007b.

The Doha Round

- Focus on the efficiency (productivity) of the negotiating process, that is, the balance between liberalization formula and exceptions formulas
- Only two topics examined:
 - NAMA
 - Agriculture

NAMA negotiations

- Two anchors:
 - The European business target: no tariff higher than 15 percent (second thoughts)
 - Doha Round very special: huge water in tariffs, i.e., huge benefits from binding tariffs
- The liberalization formula
 - A Swiss25 for the emerging economies fits the business target
 - A Swiss10 for the industrial countries fits the *less than full reciprocity* provision
 - No substantial gain (and probable losses) from a Swiss5
- The exceptions formulas
 - No exception for the industrial countries (?)
 - Why not re-using the Swiss formula for the exceptions: bring down the highest bound tariff (300%) down to the highest applied tariff (50%) ==> defines a Swiss60.
 - Coverage: see agriculture (?)

NAMA negotiations

Table both23. Calculations of possible tariff cuts, selected countries

	Current situation					Combined Swiss factor [a]				
	Average bound tariff	Average applied tariff	Tariff water = (1-2)	Number of lines with tariffs >15% bound	Number of lines applied	Maximum bound tariff	Average bound tariff	Bound tariffs >15% Number of lines	Average tariff	Maximum bound tariff
	1	2	3	4	5	6	7	8	9	10
III. Moderate bound and applied tariffs, low tariff water: offering some liberalisation, keeping certainty high										
Korea	10.2	6.7	3.5	552	59	36.8	6.7	190	18.8	22.1
South Africa	11.0	7.8	3.2	1187	953	60.0	6.2	266	23.1	30.0
Malaysia	11.2	8.0	3.2	1562	1234	300.0	6.2	118	21.6	50.0
China	14.4 [b]	9.1	5.3 [b]	n.a.	585	50.0	n.a. [c]	n.a.	n.a.	27.3
IV. Moderate applied tariffs, high bound tariffs and tariff water: offering some liberalisation and more certainty										
Philippines	16.7	5.8	10.9	1886	954	50.0	9.3	384	17.7	27.3
Indonesia	35.0	6.8	28.2	3864	592	125.0	14.4	2701	15.9	34.3
Thailand	20.2	10.0	10.2	2289	1243	80.0	10.6	211	20.0	34.3
V. High bound and applied tariffs, high tariff water: offering more liberalisation and more certainty										
Brazil	29.4	12.7	16.7	3994	2196	85.0	13.4	201	20.1	22.1
Mexico	34.8	13.4	21.4	4349	2450	50.0	14.7	206	20.2	27.3
India	37.0	15.4	21.6	3505	3413	150.0	14.7	2571	16.5	42.0

Notes [a] Based on a Swiss factor of 25 combined with a Swiss of 40 for 4 percent of the tariff lines and a factor of 60 for 2 percent of the tariff lines. The two highest Swiss factors have been systematically applied to the currently highest applied tariffs.

[b] Due to its recent accession, China's average bound tariff has been arbitrarily set at the level of her average applied tariff in 2002 (see text for explanation). China's current average tariff water is nil.

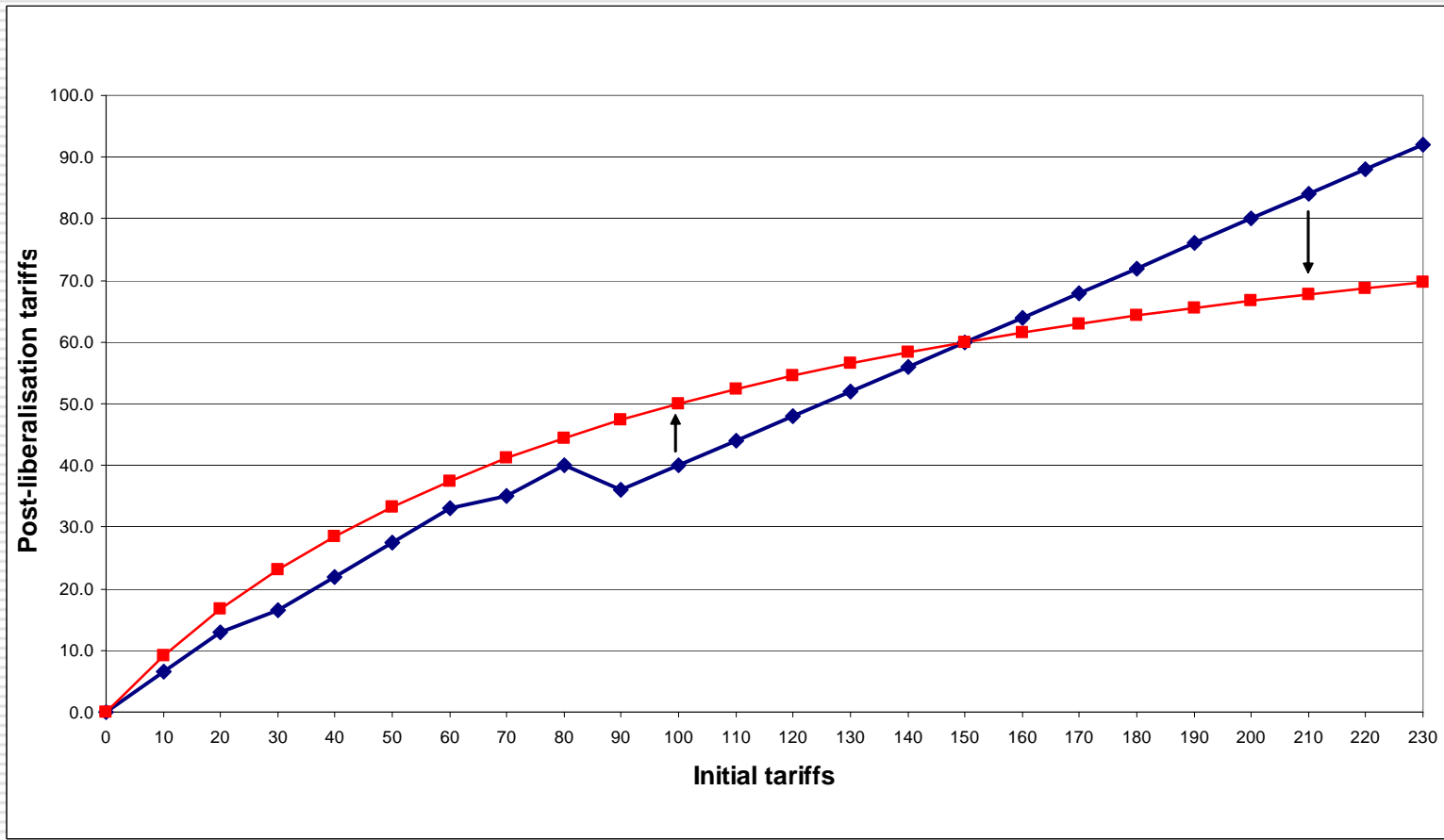
[c] Estimated very close to 9 percent (the 2005 bound tariff).

Source Forbes et alii, 2004. Author's computations.

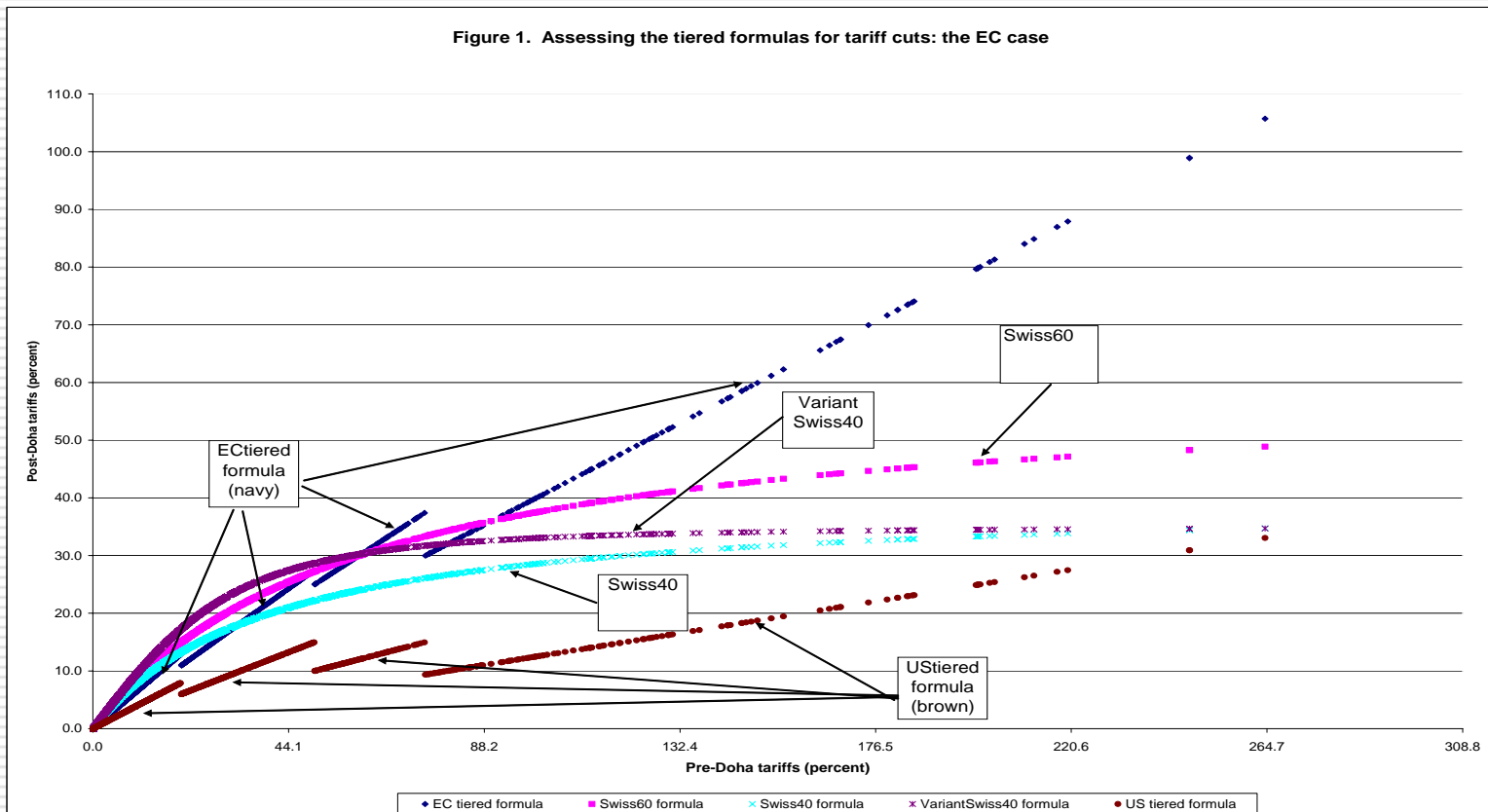
Negotiations in “agriculture” (1)

- Market Access (tariffs)
 - Even worse balance liberalization/exceptions
 - Bad liberalization formula: tiered formula (TF)
 - Swiss formula: better on economics than TF
 - Swiss formula: better on politics than TF because farm vs. food products:
 - Deeper tariff cuts on the highest tariffs => food
 - Smaller tariff cuts on the lowest tariffs => farm
 - Bad exceptions formulas:
 - Not only coverage: 1%-15% => 1%-5%
 - but also method: rent-creating (MFA=Multi-Food Agreement detrimental to farmers)
 - Alternative: reason in Swiss terms, translate in tiered terms

Negotiations in "agriculture" (2)



Negotiations in "agriculture" (3)



Negotiations in “agriculture” (4)

□ Domestic support

- The US more on the grill than the EC
- But pending problems (even for the EC):
 - Short run -> re-definition of boxes?
 - Long run -> decoupled subsidies are politically unsustainable in the long run
 - Has “re-coupling” begun?: the bio-fuels case

Negotiations in "agriculture" (5)

Table 6. Domestic support in the EC and the U.S. (billion U.S.\$)

	U.S.	EC25
1. The Amber Box (the most trade-distorting subsidies)		
The Uruguay final bound commitments	19,1	89,0
Effective amounts in 2004	13,0	42,0
Estimated amounts in 2006-2010	[a]	26,0
The Doha final bound commitments: proposals based		
on the EC formula	7,6	26,7
on the U.S. formula	7,6	15,1
on the G20 formula	5,7	17,8
2. Overall Trade Distorting Support [b]		
The Uruguay final bound commitments	55,0	149,0
Effective amounts in 2004	23,0	74,0
Estimated amounts in 2006-2010	18,0 [c]	40,0
The Doha final bound commitments: proposals based		
on the EC formula	22,0	44,7
on the U.S. formula	25,9	37,3
on the G20 formula	13,8	29,8

Notes [a] Unknown (depend on world price evolution).

[b] Sum of the Aggregate Measure of Support (AMS), "de minimis" subsidies and Blue Box subsidies.

[c] Estimate based on the USDA Farm Bill 2007 Proposal.

Sources: EC, U.S. and G20 Proposals.

Penn [2005] Jales and Nassar [2006] Kutas [2006].

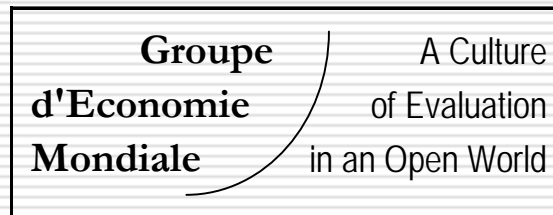
Long run: “flex-plining” the WTO (1)

- Shooting for shorter Rounds
 - Domestic political constraints (US President/Congress)
 - Business strategy: the target depends from the length of the Round
- Back to the core business for the WTO: market access
 - Emerging recognition: food emergency
 - Requires initiatives (IMF-BIS)

Long run: "flex-plining" the WTO (2)

- Market access goods: *"peeling the onion"*
 - "Round Light": impossible?
 - Balance in formulas and long term perspectives
- Market access services: plurilaterals
 - Trust => Bilateral (EC Services Directive)
 - Requires more frequent Rounds
- Single Undertaking: from negative to positive discrimination
 - Single Undertaking did not bite in 1995
 - It is biting today => systematic evasion via "group exemption" (coalitions as negative discrimination) => chaotic and unfair WTO system
 - Push for possibility to discriminate positively via "WTO open plurilateralism"

Thank You for Your Attention



Biases towards anti-globalizers: The French Case, 2007

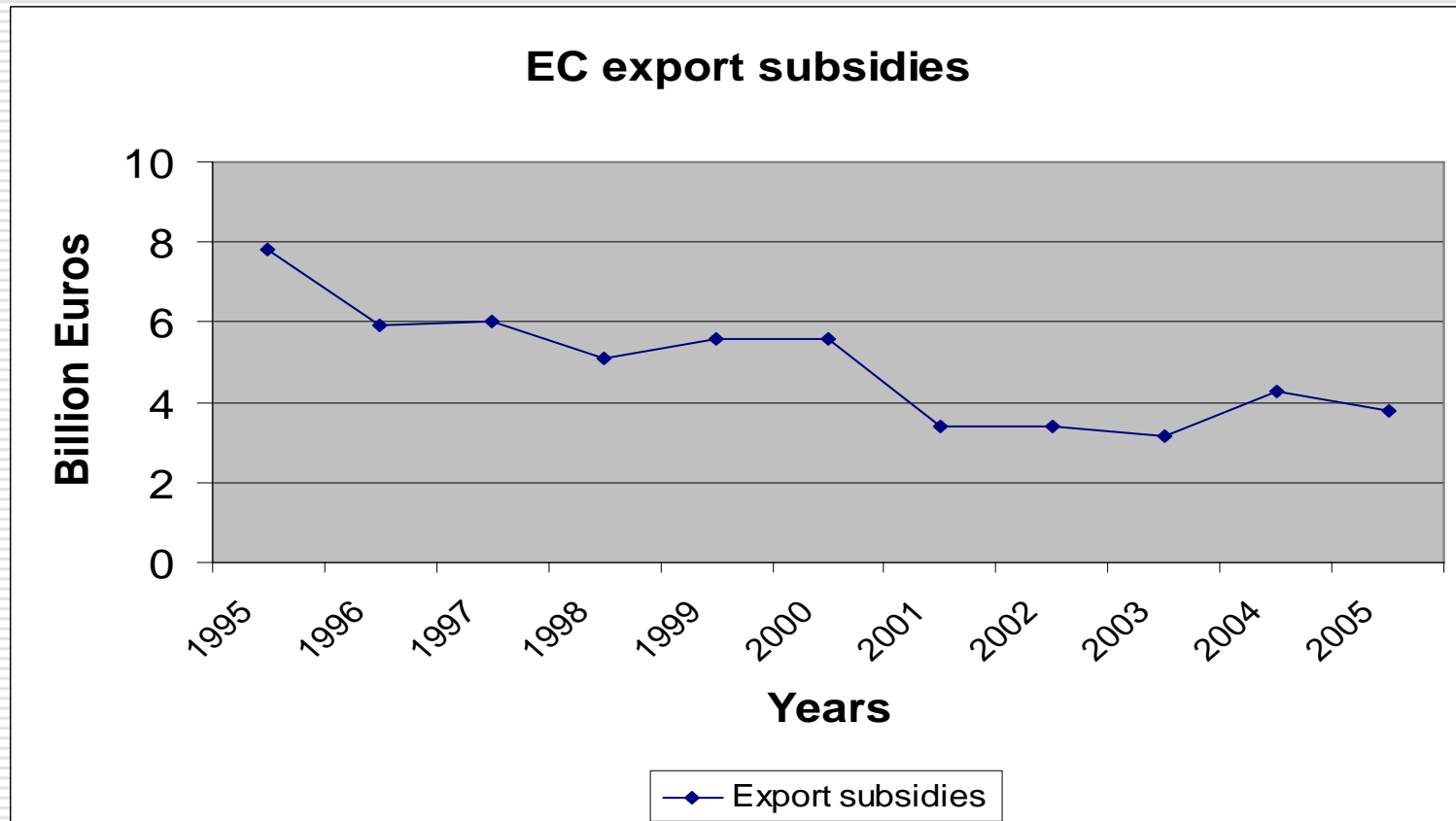
	Name	Party	Tendency	Votes	Support in campaign	Institutional bias	Gross revenues	Gross expenses	Net revenues
1	Besancenot	trotskyiste	extreme left	4,0	8,3	2,1	800	800	0
1	Bove	trotskyiste?	extreme left	2,0	8,3	4,2	800		
1	Buffet	communist	extreme left	2,0	8,3	4,2	800	5500	-4700
1	Laguillet	trotskyiste	extreme left	2,0	8,3	4,2	800		
1	Schiavari	trotskyiste	extreme left	1,0	8,3	8,3	800		
2	Nihous		green --	1,0	8,3	8,3	800		
2	Voynet	trotskyiste	green +	1,7	8,3	4,9	800	1340	-540
3	Royal		socialiste	25,0	8,3	0,3	8000	16000	-8000
4	Bayrou		centrist	18,8	8,3	0,4	8000	10000	-2000
5	Sarkozy		conservative	30,4	8,3	0,3	8000	16000	-8000
6	de Villiers		extreme right	1,0	8,3	8,3	800		
6	Le Pen		extreme right	11,1	8,3	0,8	8000	9200	-1200
1	5 candidates		extreme left	11,0	41,7	3,8	4000	6300	-2300
2	2 candidates		green	2,7	16,7	6,2	1600	1340	260
3	1 candidate		socialiste	25,0	8,3	0,3	8000	16000	-8000
4	1 candidate		centrist	18,8	8,3	0,4	8000	10000	-2000
5	1 candidate		conservative	30,4	8,3	0,3	8000	16000	-8000
6	2 candidates		extreme right	12,1	16,7	1,4	8800	9200	-400
12	all candidates			100,0	100,0		38400		
1+2	5 candidates	trotskyiste		10,7	41,7	23,7	4000	2140	1860

Negotiations in “agriculture” (1)

□ Export subsidies

- A truly “unilateral” liberalization
- The Hong Kong decision: irreversible
- A problem solved -> but this solution generates a new problem: net losses for net importing (developing) countries

Negotiations in "agriculture" (1)



Negotiations in "agriculture" (2)

Table 5. Rebalancing the EC tariff proposal

	Current ad val. equivalent tariffs %	Post-Doha tariffs (%)			
		EC offer	Swiss 70	Swiss 60	Swiss 50
All "agricultural" products (2011 tariff lines)					
average tariffs	24.4	12.9	13.9	13.1	12.2
Bulk farm commodities (117 tariff lines)					
average tariffs	19.7	10.7	11.8	11.1	10.3
maximum tariff	93.6	43.7	40.0	36.6	32.6
number of tariff lines with smaller cuts [b]			65	60	42
number of tariff lines with larger cuts [b]			8	13	31
Produce/horticulture products (273 tariff lines)					
average tariffs	13.6	8.0	9.7	9.3	8.9
maximum tariff	118.9	47.6	44.1	39.9	35.2
number of tariff lines with smaller cuts [b]			214	210	202
number of tariff lines with larger cuts [b]			5	9	17
Semiprocessed products (488 tariff lines)					
average tariffs	12.6	6.8	7.6	7.2	6.7
maximum tariff	174.9	70.0	50.0	44.7	38.9
number of tariff lines with smaller cuts [b]			262	243	226
number of tariff lines with larger cuts [b]			24	43	60
Processed products (1120 tariff lines)					
average tariffs	32.3	16.9	17.8	16.7	15.5
maximum tariff	264.3	105.7	55.3	48.9	42.0
number of tariff lines with smaller cuts [b]			949	847	749
number of tariff lines with larger cuts [b]			118	222	318
Notes	[a] it was impossible to allocate ** tariff lines in the three categories of products. [b] in case of using a Swiss formula instead of the EC tier-based formula.				
Source	EC tariff offer in agriculture. Author's computation.				

The Golden Key to FTA success: Low MFN tariffs

Case 1: The partner is MORE efficient than the rest of the world

	Free trade	WTO non discrimination		Preferential TA	
		tariff rate (%)	price	tariff rate (%)	price
Partner	100.0	10	110.0	0	100.0
Rest World	108.0	10	118.8	10	118.8

Case 2: The partner is LESS efficient than the rest of the world

	Free trade	WTO non discrimination		Preferential TA	
		tariff rate (%)	price	tariff rate (%)	price
Partner	108.0	10	118.8	0	108.0
Rest World	100.0	10	110.0	10	110.0
Partner	108.0	5	113.4	0	108.0
Rest World	100.0	5	105.0	5	105.0
Partner	112.0	15	128.8	0	112.0
Rest World	100.0	15	115.0	15	115.0

So far, small countries are in the driving seat

	Small partner	Large partner
Support from exporters	bilateral=WTO	bilateral<<WTO
Opposition from import-competitors	bilateral=WTO	bilateral<<WTO
Additional elements for a bilateral	foreign policy	foreign policy
Net gains of bilateral vs WTO	"easy negotiations" positive in the short run negative in the long run	"neo-imperial" (WTO-Plus) unnoticed, but subjected to unexpected opposition
Domestic forces		
	Bilateral between a "not so small" and a large country	
	"Not so small" partner	Large partner (EC)
Support from exporters	bilateral<WTO	bilateral<WTO
Opposition from import-competitors	bilateral=WTO	bilateral <or= WTO
Additional elements for a bilateral	foreign policy	foreign policy
Net gains of bilateral vs WTO	000 ???, especially if the WTO is more flexible (services)	"neo-imperial" (WTO-Plus) ???, especially if the WTO is more flexible (services)
The table assumes that both partners have relatively small MFN tariffs (ie, are not too much subjected to trade distortions, hence by the same token do not offer deep preferences).		

So far, small countries are in the driving seat

- Good reasons:
 - Large partner=proxy for the world
 - Voice not diluted in the WTO forum (at the cost of no coalition)
- But uncertain outcomes:
 - Large partner: Is often volatile
 - Adds WTO-Plus conditions
 - Adds new bilaterals: spaghetti bowl or electron collider?
- Collapses of FTAs in the past

Back from Doha/Geneva to Brussels

Table 7. Level of protection by EC Member state [a]

Member states	PSEs [b]		Tariffs [c]	
	%	index	%	index
Austria	59	103	22.9	98
Belgium	57	99	22.7	97
Britain	72	126	25.5	109
Czech Rep.	57	99	26.6	114
Denmark	54	94	26.1	112
Estonia	55	96	27.2	117
Finland	72	126	26.5	114
France	59	103	21.6	93
Germany	61	106	24.5	105
Greece	40	70	18.7	80
Hungary	44	77	23.5	101
Ireland	99	173	26.2	112
Italy	45	79	19.1	82
Latvia	59	103	25.3	108
Lithuania	62	108	26.6	114
Luxembourg	75	131	25.6	110
Malta	37	65	18.6	80
Netherlands	53	93	19.1	82
Poland	47	82	24.5	105
Portugal	43	75	18.3	78
Slovakia	54	94	25.2	108
Slovenia	57	99	21.2	91
Spain	43	75	19.1	82
Sweden	71	124	25.5	109
EC-15	55	96	21.9	94
EC-25	57	100	23.3	100

Sources: OCDE, WTO. Messerlin 2006.

[a] There is no available information on Cyprus' farm sector.

[b] PSE: Producer support equivalents in 2002, OCDE.

[c] Ad valorem tariffs in 2004 (specific tariffs excluded).