



Pathfinder Economic Flash

Bali Declaration: Breathing Life into the Doha Round Corpse

Doha Round Impasse

Two years ago, it was officially announced that the Doha Round had reached an impasse after 10 years of negotiations. Pascal Lamy, who was then Director-General of the WTO, admitted this publicly. It is encouraging, therefore, that the world's Trade Ministers were able to agree on a package of measures, even if it was very limited, at their meeting in Bali recently. It is important to stress that the outcome is a far cry from the 'single undertaking' that one normally expects from a Round of Multilateral Trade Negotiations. This was recognized by the Ministers who have agreed that work on a number of important outstanding issues should commence immediately at the WTO in Geneva.

The Case for a Multilateral Trading System

It is pertinent to ask why multilateral trade negotiations matter when countries have the option of signing bilateral and regional trade agreements. As we have seen, there has been a proliferation of such agreements in recent years, as the Doha Round negotiations stalled. In this context, it is important to stress that a rules-based multilateral trading system is a global public good which is very much in the interests of poor and vulnerable countries. First, there is an economic argument against bilateral/regional trade agreements as they lead to "trade diversion" i.e. they incentivise deviation from optimal trade patterns based on the concept of comparative advantage. In addition, there are practical reasons why a "spaghetti" or "noodle" bowl of preferential trade agreements are disadvantageous to poor and vulnerable countries. These countries find it extremely unfavourable when they have to negotiate bilaterally with larger and more powerful partners. They can be coerced or lulled into agreements that do not advance/protect their interests sufficiently due to economic and/or political asymmetries. Furthermore, capacity-constrained countries have great difficulty in dealing with an international trading system, which has been made extremely complex by the "noodle soup" of bilateral and plurilateral trade agreements. The administration/transaction costs are higher for everyone and most taxing as well as least affordable for the poor and vulnerable countries. It is in every one's interests, particularly these countries, to give primacy to a rules-based multilateral trading system. However, it is, of course, important as to how these rules are negotiated and implemented.

A Historical Perspective

Developed countries have dominated the previous Multilateral Trade Rounds. At the very outset, these negotiations (under the auspices of the GATT) involved only these countries and the initial agreements focused just on the trade-in-goods. Developing countries were not involved. However, by the time of the Uruguay Round, which was completed in 1996, the “single undertaking” moved beyond goods to cover other key areas, such as services and intellectual property rights. As multilaterally negotiated rules were impinging upon an increasing segment of domestic economic activity, it became essential that developing countries participated in these negotiations. At the same time, these countries were accounting for an increasing share of international trade, particularly after China gained accession to the WTO. This meant that it was also in the interests of the developed countries to seek increased access to these emerging markets through a set of multilaterally agreed rules. Hence, there was a convergence of interests for both parties. However, though developing countries participated in the Uruguay Round negotiations, at the end the major developed countries cut a deal among themselves and the benefits generated were highly asymmetrical, with the developing world missing out.

When the developed world mooted a New Round of trade negotiations at the turn of the century, developing countries were initially reluctant, given their past experiences. However, the threat and uncertainty, which 9/11 posed to the global economy, provided fresh momentum for the case for a new round of multilateral trade negotiations to boost the global economy, particularly as the promise of a “Development Round” was held out. The Doha Development Agenda was the placed at the heart of the negotiations.

This time around, the developing countries have been far more prepared for the negotiations. The Least Developed Countries (LDCs) and Small Vulnerable Economies (SVEs) have mobilized more effectively. In addition, the larger developing countries, including China, India and Brazil, have also been very vigorous in pursuing their trade interests. This has meant that the 148 members of the WTO, which operates by consensus, have had great difficulty in completing the Doha Round negotiations. The challenges have been exacerbated by the rise of protectionism in the developed world following the Great Recession in the US and EU, in the aftermath of the global financial crisis. However, with signs of recovery gaining ground, it has become timely to provide further momentum to global economic activity by demonstrating some progress on the Doha Round negotiations. This was the backdrop to the Bali Trade Ministerial.

The Bali Declaration

It is important to recognize that the agreement reached in Bali is very partial. Very large and important areas have been excluded. These include agricultural and non-agricultural market access; reforming the highly distortionary agricultural support policies (subsidies), particularly by the EU and US; and services (i.e. the so called ‘market access trinity’ are not in the final Declaration). Other excluded areas include transfer of technology; aid for trade; the work program for SVEs; E-commerce and TRIPS non-violation and situation complaints. The Ministers have mandated further work in each of these areas.

However, it is welcome that some life has been infused into a corpse that seemed dead. The Trade Ministers adopted 10 texts relating to the three pillars of the Bali Package: trade facilitation, some agricultural issues and selected development focused issues. The deal was finalized on resolution of the stand-off between the US and India on food stocks. The solution was a “peace clause” serving as an interim arrangement pending commitment to negotiating a permanent outcome in the future, with a deadline of four years. A few sticky points on trade facilitation were also ironed out at the 11th hour. Agreement was also reached on a number of development issues of interest, particularly to LDCs: Preferential Rules of Origin for LDCs; Operationalization of Waivers Concerning Preferential Treatment to Services and Service Providers of LDCs; Duty Free and Quota Free Access for LDCs; and a monitoring mechanism for Special and Differential Treatment (this would benefit all developing countries, including Sri Lanka).

With this limited package in hand, WTO members are now set to revive the rest of the Doha Round trade negotiations. They have agreed to prepare a “clearly defined” work program in the next 12 months on how to address the remaining parts of the Round. Work on the unresolved issues will be addressed in the relevant WTO committees.

Benefits for Sri Lanka

The main benefits for Sri Lanka will accrue from the following:

- The agreement on trade facilitation will provide an easier environment for cross-border movement of goods and services at a time when Sri Lanka is embarking upon taking advantage of the benefits of preferential access to a market of 2.5 billion opened up by the combination of strengthening the Indo-Lanka FTA and signing the proposed FTA with China.
- The agreement on General Services (in relation to rural development, food security and poverty alleviation) provides policy space to promote rural development and poverty alleviation; as does the agreement on Public Stock Holding for Food Security Purposes (India held out for this to create space for its Food Security Act).

Conclusion

One may conclude that the Bali package is limited in scope and effect. However, it came at a time when there was a general belief that support for a rules-based multilateral trading system, which is very much in the interests of poor and vulnerable countries, was waning. In that sense, it constitutes an important advance. However, there is still a very long way to go before the Doha Round negotiations reach agreement on a “single undertaking” that delivers on the promise made of a “Development Round” at the launch of the negotiations 12 years ago.

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