



International Centre for Trade
and Sustainable Development



WTO OMC

WORKSHOP ON RECENT ANALYSES OF THE DOHA ROUND

2 NOVEMBER 2010



CENTRE WILLIAM RAPPARD, GENEVA

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Centre William Rappard, Geneva

8:45-09:00 Welcome and introduction

Speakers: Alejandro Jara (World Trade Organization – WTO), Ricardo Melendez Ortiz (International Centre for Trade and Sustainable Development – ICTSD), Aaditya Mattoo (World Bank)

9:00-10:00 SESSION 1: What's at stake in agriculture and NAMA?

Moderator: Alexander Keck (WTO)

- Implications of the Doha modalities for tariffs and economic welfare
Speaker: Will Martin (World Bank)
- Assessing the potential cost of a failed Doha Round
Speaker: David Laborde (International Food Policy Research Institute – IFPRI)
- Discussion
Discussant: Manzoor Ahmad (World Trade Advisers), Q&A

10:30-11:30 SESSION 2: What's at stake in services and trade facilitation?

Moderator: Will Martin (World Bank)

- Services in Doha: What's on the table?
Speaker: Aaditya Mattoo (World Bank)
- Assessing the benefits of trade facilitation
Speaker: Evdokia Möisé (Organisation for Economic Co-operation and Development – OECD)
- Discussion
Discussant: Sergio Marchi (ICTSD), Q&A

11:30-12:30 SESSION 3: Quantifying the benefits from a wider Doha agenda

Moderator: Miguel Rodriguez Mendoza (ICTSD)

- The economic impact of a potential Doha outcome
Speaker: Yvan Decreux (International Trade Centre – ITC, Centre d'Etudes Prospectives et d'Informations Internationales – CEPII)
- Figuring out the Doha Round
Speaker: Gary Clyde Hufbauer, Jeffrey J. Schott, Woan Foong Wong (Peterson Institute)
- Discussion
Discussant: Alessandro Nicita (United Nations Conference on Trade and Development – UNCTAD), Q&A

14:00-15:00 SESSION 4: Assessing other elements of the Doha Round

Moderator: Christophe Bellmann (ICTSD)

- Environmental aspects of a successful Doha deal (environmental goods and services, subsidy reductions in agriculture, fisheries and transport)

Speaker: Raed Safadi (OECD)

- New and improved trade rules

Speaker: André Sapir (Université Libre de Bruxelles)

- Discussion

Discussant: Pradeep Mehta (Consumer Unity & Trust Society – CUTS), Q&A

15:30-17:00 SESSION 5: Systemic issues of a Doha failure

Moderator: Patrick Low (WTO)

- What are the real gains of a successful Doha Round?

Speaker: Pankaj Ghemawat (Instituto de Estudios Superiores de la Empresa - IESE Business School)

- Prospects for the global trading system

Speaker: Eduardo Pérez Motta (Federal Commission on Competition, Mexico)

- Discussion

Discussant: Miguel Rodríguez Mendoza (ICTSD), Q&A

17:00-18:00: SUMMING UP AND ROUNDTABLE DISCUSSION

- How can policy-makers use these analyses and what other information do they need?

- *Moderator: Pascal Lamy (WTO)*

Speakers: Roberto Carvalho de Azevêdo (Brazil), John Clarke (European Union), Jayant Dasgupta (India), Michael Punke (United States), Shree Servansing (Mauritius), Sun Zhenyu (China)

INTRODUCTION

- Today's Workshop on Recent Analyses of the Doha Round underscores something of fundamental importance – the hard work that governments have put into the Doha Round during the past nine years of negotiations has resulted in some remarkable achievements. Implementation of the gains already achieved would deliver a trading system that is more equitable, more efficient and more effective. There is certainly more that needs to be done to conclude this round, but even at this stage the level of ambition exceeds anything we have seen in previous global trade rounds. This high level of ambition, in tariff cuts, in subsidies reductions and in stronger rules, is among the reasons governments have found it difficult to conclude the negotiations. More ambition means more open markets for exporters. But it also means, in some cases, greater political sensitivity and resistance to the deal from those who benefit from the status quo.
- The OECD tells us that an agreement on trade facilitation measures under negotiation in the WTO could potentially reduce trade costs by 9 per cent, largely through more transparent and predictable border procedures. It says as well that a reduction of a modest 1 per cent in worldwide trade transaction costs has the potential to generate US\$ 43 billion in worldwide welfare gains, of which 35 per cent would accrue to OECD countries and 65 per cent to non-OECD countries.
- The analysis of the International Food Policy Research Institute (IFPRI) indicates that the Doha Round will increase world trade of goods and services by 1.9 per cent, based on present market conditions. But the IFPRI report illustrates the value of the Round as an insurance policy as well by pointing out that if the Round remains unfinished and governments revert to their existing legal limits of protection, trade flows would contract by 9.9 per cent.
- The World Bank projects that implementation of the market access terms contained in the 2008 negotiating texts on agriculture and industrial goods could result in global economic gains ranging from US\$ 202 billion to US \$121 billion depending on the extent to which governments use flexibilities to reduce market opening.
- Although these numbers are impressive, many WTO members believe that they are not sufficient. They also fear that political support for the package as it is now is not there. Certainly, there is agreement from many quarters that progress is needed in services market access, for instance, and the rules negotiations pertaining to the environment, anti-dumping and fisheries subsidies need to be clarified and strengthened.

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- It is for WTO members to determine where the ultimate level of ambition lies. Equally, it is for WTO members to determine the price to be paid to raise the level of ambition above where it lies today. In this vein, it is worth emphasising that the Peterson Institute believes that if all major trading nations improved their market access offers across the board, if they made reasonable improvements in their customs and regulatory environment in order to facilitate trade and if barriers to trade in services were reduced by 10 per cent, the package could deliver up to US\$ 280 billion in additional world output.
 - None of this should take away from the fact that what is on the table represents something that far exceeds expectations at the outset. Quite apart from the numbers, there are also the systemic benefits to the Round. There is a great deal on offer for the poorest, which is why they have been the loudest in their calls for concluding the Round as soon as possible. There is also the strong message that reaching a deal would send to the public and to the markets – even in times of crisis, governments can and do work together to accomplish important things.

SESSION 1:

WHAT'S AT STAKE IN AGRICULTURE AND NAMA?

IMPLICATIONS OF THE DOHA MODALITIES FOR TARIFFS AND ECONOMIC WELFARE

Will Martin (World Bank)

- The tariff formulas for agriculture and for non-agricultural market access (NAMA) would involve deep cuts in industrial country agricultural tariffs and smaller ones in developing countries.
- Non-agricultural tariffs would be cut sharply, albeit from low average levels, with especially big cuts in the highest tariffs.

Agriculture	Before	After formula
High-income	15.5	7.5
Developing (non-least-developed countries (LDC))	13.3	11.3
NAMA		
High-income	1.6	1.0
Developing (non-LDC)	6.1	4.6

- To capture the impact of flexibilities for agricultural and non-agricultural tariffs, it is necessary to take into account the fact that policy makers are willing to incur high costs to provide protection to politically strong sectors.
 - » This, when formalized, leads to the selection of products with high tariffs facing large cuts in applied tariffs on products with substantial import volumes (even with protection).
 - » An alternative approach of selecting products with the highest tariffs includes many products that do not require cuts in applied rates, and unimportant products such as corn stalks.

Agriculture	Initial	After formula	Formula + Flex
High-income	15.5	7.5	11.1
Developing (non-LDC)	13.3	11.3	13.2
NAMA			
High Income	1.6	1.0	1.0
Developing (non-LDC)	6.1	4.6	5.3

- There are still sizeable reductions in the tariffs faced in percentage terms.

Agriculture	Initial	Formula+Flex
High-income	15.1	12.3
Developing (non-LDC)	14.3	11.5
NAMA		
High-income	3.0	2.4
Developing (non-LDC)	2.9	2.1

- To capture the real income gains from an agreement, it is necessary to take into account liberalization at the finest possible degree of disaggregation – in this case the six-digit level of the Harmonized System.
 - » Our exploratory analysis finds that this increases the measured gains substantially over traditional approaches based on trade-weighted average tariffs.
 - » Doha formulas would yield almost 30 per cent of the gains from full liberalization. With flexibilities, the gains are about 1/6th of those from full liberalization.

Billions of US \$	Full liberalization	Formulas	Formula + Flex
High-income	484	141	91
Developing	241	62	31
World	725	202	121

ASSESSING THE POTENTIAL COST OF A FAILED DOHA ROUND

David Laborde (IFPRI)

- The usual assessment of the Doha Development Agenda (DDA) is based on a comparison of the “trade policy scenario” (Doha Round) to the status quo (trade policy baseline), assuming, however that the status quo is a strong assumption in itself and does not allow for any measurement of the WTO’s role as a locking device, nor for the value of the binding process.
- Long-term and short-term analysis of trade policies shows that trade liberalization is not a linear “river”. In the context of an economic crisis, protectionist tensions always appear and may lead to “beggar thy neighbour” policies that deepen global recession.
- Therefore, the Doha Round may appear as a strong signal in favour of continued cooperative behaviour with regard to trade policies on one hand, or on the other hand in case of trade conflicts and tariff wars, it could limit tariff increases through new, and lower, bound tariffs. In both cases, the DDA delivers strong benefits for the global community.
- We have used the MIRAGE Computable General Equilibrium (CGE) model to assess the potential outcome of the Doha Round using a detailed implementation of the December 2008 modalities, and we have examined four protectionist scenarios both with and without the DDA. Two other scenarios assessed the effects of an asymmetric regionalism scenario (North-North integration) as a reaction to the failure of the multilateral approach.
- Protectionist scenarios are based on two main alternatives assumptions:
 - (i) countries raising their tariffs up to their bound level, and
 - (ii) countries raising their tariffs up to the maximum applied most-favoured nation (MFN) level observed over the last 13 years, still respecting their bound level.
- Under normal CGE assumptions, the DDA would increase world trade of goods and services by 1.9 per cent; at the other extreme, the most protectionist scenario (the Bound scenario mentioned above without the DDA) would reduce it by 9.9 per cent. These two extreme alternatives show that a large share of the value of the DDA lies not solely in what it will directly deliver but also in its ability to prevent the implementation of more adverse trade policies.

- If we assess the “insurance” value of the DDA by comparing the implementation of the protectionist policies with and without post-DDA bound tariffs, we find that it represents between US\$ 800 billion and US\$ 570 billion in world trade, and US\$ 180 billion and US\$ 108 billion in world real income. These values are two to three times more significant than the value of the DDA under “normal” conditions.
- Due to initial large binding overhead and low binding rates, developing countries and South-South trade would be among the main victims.

SESSION 2:

WHAT'S AT STAKE IN SERVICES AND TRADE FACILITATION?

SERVICES IN DOHA: WHAT'S ON THE TABLE?

Aaditya Mattoo (World Bank)

- Large gap between offers and policy reality: At this stage, Doha offers on services do not provide greater access to markets, but do provide some reassurance that access will not get worse. The best offers submitted so far improve on Uruguay Round commitments by about 10 per cent, but remain on average about twice as restrictive as current policies. Ironically, key elements of transport and professional services (involving the international mobility of persons) are either not being negotiated at all or are not being negotiated with sufficient seriousness.
- Large potential gains from services reform: The potential gains from a reform of trade in communications, finance, transport and business services are large – probably larger than those from a comparable liberalization of the goods trade. Even exploiting the opportunities arising from goods trade liberalization will require better services: Sub-Saharan African exporters face transport costs many times greater than the tariffs they face in industrial countries. “Trade-facilitating” investments and Aid for Trade will earn a poor return unless they are accompanied by meaningful reforms in transport services.
- The way ahead requires two types of actions:
 - First, in parallel with the market access negotiations, greater regulatory assistance and cooperation to support services liberalization are required, because while services are increasingly globalized, regulation remains inadequate and national.
 - More coherent assistance to developing countries to build regulatory institutions and institute policies that widen access to services: “aid for services trade” and a “services knowledge platform”
 - More cooperation on prudential regulation (e.g. on finance and data flows) to deal, for example, with issues raised by the financial crisis; and on pro-competitive regulation (e.g. on transport and information services) to ensure that gains from liberalization are not appropriated by international oligopolies.
 - More cooperation between host and source countries on mode 4, drawing on lessons from successful bilateral labour agreements.

- Second, a bolder, more innovative approach to the services negotiations. To achieve parity of ambition for services and break out of the low-level equilibrium of diminished business expectations and limited business engagement, a proposal: instead of incremental, sectoral or modal negotiations, a sub-set of Members (say a G-30) would take the lead (as in the Information Technology Agreement) to define a final package which is balanced, developmentally desirable and commercially relevant, with three elements:
 - No new restrictions, especially on cross-border trade in business services, and more open transport
 - Pre-commitment to reform, especially on foreign direct investment (FDI), and to greater regulatory cooperation and assistance
 - Greater scope for temporary migration with source country obligations (specified in, say, a model schedule).

ASSESSING THE BENEFITS OF TRADE FACILITATION

Evdokia Möisé (OECD)

- Recent OECD modelling work to assess the impact of specific trade facilitation measures found that the measures under negotiation in the WTO have the potential to reduce trade costs by 9 per cent, which is more than the impact of geographical distance between trading partners, generally estimated to account for 8 per cent of trade costs.
- For OECD countries the measures that appear to have the most significant trade cost reduction potential are transparency and predictability measures (a total of more than 4 per cent), and coordination and cooperation among various border agencies (around 2 per cent). These measures were found by earlier OECD work to entail limited costs for the administrations concerned, as their introduction and implementation costs are usually absorbed in normal administrative operational costs. Nevertheless, such measures require political momentum at a high level.
- A modest hypothetical reduction of 1 per cent in worldwide trade transaction costs could potentially generate US\$ 43 billion in worldwide welfare gains, of which 35 per cent could be expected to accrue to OECD countries and 65 per cent to non-OECD countries. The welfare gains would increase in proportion if the assumption on trade costs reduction were higher. Under an “OECD-only” scenario, where trade facilitation would be undertaken only by OECD countries, non-OECD countries would stand to lose (by 3 per cent), because of a trade diversion effect. It can be argued that trade facilitation benefits accrue primarily to those countries that actively engage in them.
- Trade facilitation measures under negotiation also have a significant effect on trade flows. A 1 per cent improvement in the transparency and predictability indicators (reflecting GATT Article X-related measures) have the potential to bring a 0.7 per cent increase in trade flows for manufactured goods. A 1 per cent improvement on formalities, such as those brought by single windows, pre-arrival processing and post-clearance audits, could generate a comparable increase in trade flows for agricultural products.

SESSION 3:

QUANTIFYING THE BENEFITS FROM A WIDER DOHA AGENDA

THE ECONOMIC IMPACT OF A POTENTIAL DOHA OUTCOME

Yvan Decreux ((International Trade Centre – ITC, Centre d'Etudes Prospectives et d'Informations Internationales – CEPII)

- Activity (employment) in agriculture has been reduced in most developed countries, especially European Free Trade Association (EFTA) countries. Exceptions are New Zealand, Canada and Australia, which rank respectively in first, second and fourth places in terms of activity expansion as a consequence of a Doha agreement.
- Activity is increasing in all developing countries. The largest increase has been occurring in Brazil, the smallest in India.
- As regards non-agricultural market access (NAMA) production, the main annual increases in absolute terms have been as follows:
 - » Textiles, clothing: China, Chinese Taipei, Korea (US\$ +68 bn)
 - » Cars, trucks: Japan (US\$ +53 bn)
 - » Machinery: EU (US\$ +15 bn)
 - » Electronic equipment: US (US\$ +13 bn)

A Doha agreement would increase the current specialization pattern.

- Impact on global welfare is positive, except when preference erosion is significant (Mexico and to a lesser extent Canada; Africa).
- In the case of Sub-Saharan Africa, this conclusion has to be softened because trade between Africa and Asia has increased significantly over the last few years, so that the EU's share in African exports has been significantly reduced. Such trends have not been entirely reproduced in the model. Preference erosion on the EU market thus becomes a smaller issue.
- With regard to services and trade facilitation, even limited advances in services would result in significant gains. Trade facilitation could double overall gains, especially in Africa. However, to make it clear that this is a consequence of the Doha round, it would be necessary to propose a precise roadmap on this point. Otherwise, development aid could be perceived as the continuation of current programs under a new name.
- These findings are based on two studies:
 1. Decreux, Y. & Fontagné, L. (2009). Economic Impact of potential outcome of the DDA, CEPII Research Report 2009-01
 2. Decreux, Y. (2009). Effets d'un accord commercial multilatéral sur la base des propositions de décembre 2008, Report for the French Government

Both studies can be downloaded from: <https://sites.google.com/site/ydecreux/>

FIGURING OUT THE DOHA ROUND

Gary Clyde Hufbauer, Jeffrey J. Schott, and Woan Foong Wong

- The Doha Round is worth saving:
 - » To harvest the gains from tariff and subsidy reforms already on the table, to bind trade reforms already implemented but not covered by WTO obligations, and to lock in trade facilitation commitments.
 - » To ensure the viability of rules-based multilateral trading system. If Doha continues to drift, countries will turn to import barriers, subsidies for farmers and industry, and bilateral/regional trade pacts, and such actions would cause irreparable harm to the WTO's credibility as a negotiating forum, undermining its valuable dispute settlement mechanism.
- Prospective results from what is already on the table are significant, but not sufficient to marshal the political support needed to close the deal and ensure ratification by member countries.
- What's on the table?

Country	"On the table" cuts in agriculture				"On the table" cuts in NAMA			
	Trade gains (billions of US\$)		GDP gains		Trade gains (billions of US\$)		GDP gains	
	Exports	Imports	Billions of US\$	Per cent of GDP	Exports	Imports	Billions of US\$	Per cent of GDP
United States	3.8	1.6	2.2	0.02	3.8	12.7	7.1	0.05
European Union	2.8	15.3	7.8	0.05	10.6	11.0	8.5	0.05
Japan	0.5	2.4	1.3	0.03	7.5	2.5	4.2	0.10
Brazil	2.3	0.01	0.9	0.07	0.4	1.0	0.6	0.04
China	1.3	0.2	0.6	0.02	15.6	6.7	9.2	0.28
India	0.4	0.2	0.2	0.02	1.6	0.5	0.9	0.08
Developed Countries	9.5	19.2	12.3	0.03	23.1	29.5	21.7	0.06
Developing Countries	7.7	1.4	3.6	0.03	27.5	16.1	17.9	0.17

- Not ambitious enough: Not enough on offer to ensure that countries will liberalize existing policies in exchange for Doha offers.
- Not balanced enough: Not enough progress across the entire Doha agenda to ensure political support for the prospective agreements, and not enough benefits for both developed and developing countries to achieve Doha's development goals.
- 56 per cent of the GDP gains from the formula cuts go to the European Union, China, and the United States, yet the absolute sizes of the gains are too small to inspire pro-trade constituencies to counter opposition from those groups that would lose protection/subsidies.
- What can be done? The Doha package needs to be “topped up” by the major trading nations, which should improve their market access offers across the board.
- Progress on services is a prerequisite for success. We estimate that a 10 per cent reduction in the tariff equivalent of applied services barriers would increase annual world exports by an estimated US\$ 55 billion and generate global GDP gains of around US\$ 45.5 billion.

Country/Group	"Topped-up" reforms in Services			
	Trade gains (billions of US\$)		GDP gains	
	Exports	Imports	Billions of US\$	Per cent of GDP
United States	13.1	3.1	6.1	*
European Union	17.4	5.2	6.9	*
Japan	3.8	3.5	2.7	0.1
Brazil	0.8	2.83	1.6	0.1
China	4.4	12.0	7.1	0.2
India	2.6	7.2	3.6	0.3
Developed Countries	38.9	14.5	18.5	*
Developing Countries	16.1	35.3	21.5	0.2

* indicates that the GDP percentage is positive but less than 0.05 per cent.

Country	“On the table” cuts in agriculture and non-agricultural market access				Including “Topped-up” reforms: Services, sector initiatives and trade facilitation			
	Trade gains (billions of US\$)		GDP gains		Trade gains (billions of US\$)		GDP gains	
	Exports	Imports	Billions of US\$	Per cent of GDP	Exports	Imports	Billions of US\$	Per cent of GDP
United States	7.6	14.2	9.3	0.1	39.4	45.9	36.2	0.3
European Union	13.4	26.3	16.3	0.1	62.7	53.5	45.6	0.3
Japan	8.1	4.9	5.6	0.1	30.6	13.7	18.6	0.4
Brazil	2.7	1.0	1.5	0.1	6.0	13.9	8.9	0.7
China	16.8	6.9	9.7	0.3	55.7	68.4	52.7	1.6
India	1.9	0.7	1.1	0.1	7.7	20.3	11.8	1.0
Developed Countries	48.7	32.6	34.0	0.1	147.6	129.7	113.9	0.3
Developing Countries	35.2	17.5	21.5	0.2	131.8	181.9	134.9	1.3
World Total	92.8	86.9	63.0	0.1	384.1	409.9	282.7	0.5

- If our recommendations are followed, the Doha Round package would be ambitious and better balanced for all participants, and could yield potential annual world GDP gains of up to US\$ 280 billion.
- Even if negotiators achieve only half of our “top up” gains, the Doha results would be more than twice as large as the current package.
- In addition, a larger share of the gains would go to developing countries.

SESSION 4:

ASSESSING OTHER ELEMENTS OF THE DOHA ROUND

ENVIRONMENTAL ASPECTS OF A SUCCESSFUL DOHA DEAL (ENVIRONMENTAL GOODS AND SERVICES, SUBSIDY REDUCTIONS IN AGRICULTURE, FISHERIES AND TRANSPORT)

Raed Safadi (OECD)

- A survey by the OECD of 136 firms, 77 companies across 10 OECD and non-OECD countries, has confirmed the presence of significant barriers (i.e. rated major or prohibitive) to trade in environmental goods. Analysis using the simple criteria of frequency of response found the following five items leading the list of 19 categories of non-tariff measures (NTMs) covered by the survey:
 - » Testing and certification (27 firms)
 - » Customs procedures (24)
 - » Regulations on payments (23)
 - » Adequacy of intellectual property protection (19)
 - » Government procurement procedures (14)
 - » Product standards and technical regulations (13)
- Market responses will be important in resolving the different pressures the agro-food sector is currently facing. Market responses will also be important in resolving climate change and resource scarcity issues although government intervention will also be needed in order to correct for non-existent or deficient markets.
- Trade and an efficiently functioning international trading system will be a key framework condition allowing global supply to match global demand and meeting consumer requirement for quality and variety. Production patterns globally are likely to shift and the general consensus is that fragile areas with food deficits in parts of Asia and Africa may be even less able to feed their growing populations than before. This implies that trade will become increasingly important in connecting food surplus areas with food deficit ones. In parallel, development strategies will be necessary to create employment outside agriculture for poor populations whose already meagre livelihood from farming will come under threat. The multilateral trading system will need to be strong enough and reliable enough to satisfy food-deficit countries that trade is indeed a reliable component in a broad food security strategy.
- A rules-based multilateral trading system is necessary, but it is also insufficient. Attention to improving the framework policy conditions in many less developed economies is also required, as is increased

investment in agriculture in developing countries. Without improvement in the supply capacity in many poor countries, they will not be able to respond to markets – at either local, regional, national or international levels. Both public and private investment can provide the necessary capital for further development, but the private sector has an additional contribution to make with respect to bringing “know how” and networks to less developed regions.

- OECD countries have been involved in a process of agricultural policy reform driven to a great extent by the application of the WTO Agreement on Agriculture and the policy principles agreed during the 1998 OECD Agriculture Ministerial. Progress has been made in reforming support policies both in terms of reducing the level of support (from 37 per cent of farm receipts in 1986-88 to 23 per cent in 2006-08) and the share of the most production and trade-distorting support (from 86 per cent of total support producer support estimates (PSE) to 56 per cent). The implementation of more decoupled policy instruments has played a very important role in the reform process in OECD countries. Better targeting of policies to specific income objectives or market failures remains a major challenge of ongoing policy reforms.
- The scope and nature of current global challenges require a fresh examination to identify in which direction agricultural policies need to move. There is an urgency to avoid irreversible negative consequences of both action and inaction, recognizing that there remain many unknowns about future opportunities and challenges.
- Government policies will have to be designed in a complex and rapidly changing environment. This opens new policy challenges in terms of governance at national and international levels; efficient institutions and decision processes for the whole policy cycle from the definition of the objectives to the design and implementation of specific measures; the establishment of information flows to produce and share good quality information for decision making; and management of risks and uncertainties by governments, farmers, firms in the food chain and consumers.

SESSION 5:

SYSTEMIC ISSUES OF A DOHA FAILURE

WHAT ARE THE REAL GAINS OF A SUCCESSFUL DOHA ROUND?

Pankaj Ghemawat (IESE Business School)

- What are the potential gains from the Doha round and, more broadly, from opening up? The mood among trade professionals is somewhat defensive in this regard since the projected gains amount to a few tenths of a percentage point of the global GDP. As a result, some suggest that the principal task in going forward is to lock in gains that have already been achieved instead of looking for additional gains. While such a lock-in is important, it is not a very energizing message. I believe it is also on the wrong track.
- To get onto the right track requires three kinds of shifts.
- A shift from thinking of the world economy as globalized, to recognizing that it is semi-globalized. Despite significant increases in cross-border integration in recent decades, huge headroom remains, as indicated by the international component of flows or activities that can take place either within or across national borders. The people-related internationalization measures (for immigrants, university students and tourists) are all less than 10 per cent, the product-related measures (trade adjusted for double counting divided by GDP and FDI/gross fixed capital formation) range from 10 per cent to 20 per cent, and informational measures (cross-border mail, phone calls, internet traffic and patents involving international cooperation) from 0 per cent to 20 per cent. Even (pre-crisis) measures of cross-border financial integration tended to fall in the 20 to 40 per cent range prior to the crisis, indicating that capital markets were less than perfectly integrated as well.
- A shift from focusing on a limited set of administrative levers for fostering more integration to expanding the policy space. When one looks at why cross-border integration is as limited as it is, a range of barriers stand out. Yet only a subset of the administrative barriers tend to be considered in analysing the gains from further liberalization; thus, regulatory harmonization, trade facilitation and other measures to reduce red tape are still generally glossed over, as are opportunities for facilitation to deal with cultural barriers rooted in insularity, hubris, and a basic lack of information, and opportunities for investments to address geographic barriers of various kinds.

- A shift from focusing on volume to focusing on value. As Pascal Lamy has observed, trade economists and professionals still tend to focus on volumes when they should be think more broadly about all the ways in which cross-border exchange can create value. Here, a business perspective is particularly informative, because businesses figured out the importance of this decades ago. Looking at how businesses evaluate international moves calls attention to cost drivers that range beyond the usual focus on absolute cost differences to include scale economies, investments in cost reduction, utilization effects, etc). Business experience also suggests that it is advisable to pay much more attention to the effects of cross-border exchange on differentiation as well as costs, on industry structure and on risk factors and learning opportunities. And just because some of these potential gains from trade are hard to quantify, does not mean that they should be ignored.
- An excerpt from Pankaj Ghemawat, *World 3.0: Global Prosperity and How to Achieve It*, Harvard Business Review Press, 2011

PROSPECTS FOR THE GLOBAL TRADING SYSTEM

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- When markets operate under conditions of competition, they generate the most efficient results with the greatest social benefits.
- Efficiency is the key to promoting economic growth in the short term. More growth implies better wages and, above all, more job opportunities.
- Efficient markets improve income distribution by generating lower prices together with more and better options for the poorest consumers. Those with the least resources concentrate their consumption on markets for food which, in many instances, are highly concentrated or governed by regulations which shut out competition.
- Competition policy has two ways of making market policy more efficient and inclusive in its benefits to society: the first is the application of competition law and the second is the design of a regulatory framework that promotes competition by allowing free market access to competitors. In both cases, the outcome is more efficient markets.
- International evidence shows that competition is the greatest contributor to market efficiency and, hence, the best instrument available for promoting growth and employment in the short term. The World Economic Forum (WEF) estimates demonstrate a high correlation between competition intensive markets and economic growth. Moreover, greater competition in the main consumer markets of the lowest income groups would generate an increase in available income of approximately eight percentage points.
- Market growth is the main source of economic opportunities for businesses. There are no more than two options: expansion of domestic markets and expansion of international markets. There are two main sources of growth for domestic markets. First, the demographic transition from poverty and marginalization to the lower and intermediate middle class. Secondly, greater job opportunities resulting from increased economic growth. Competition policy becomes the key driving force for the promotion of domestic market opportunities, through its direct impact on the net income of the poorest population groups and its effect on employment through growth driven by increased market efficiency.
- Foreign trade policy, through measures promoting liberalization and efficient regulation, is an efficiency promoting instrument with a dual function. Firstly, by promoting more efficient markets, it ensures better

conditions for growth, employment and revenue distribution, which, in turn, helps domestic markets to grow and provide more opportunities for entrepreneurs. Secondly, by making industry more productive and promoting efficiency and access to more competitively priced inputs, it facilitates industry's access to international markets.

- If foreign trade policy is to ensure these results, it must be perceived by industry as a policy that is not only stable but long term or permanent. This requires that tariff reductions be bound and foreign trade rules consolidated through a process of bilateral, regional or multilateral negotiation.
- In the case of Mexico and most other developing countries, the trade liberalization process has been unilateral or has taken place through the negotiation of free trade agreements. Only tariff reductions established through free trade area negotiations have been bound in this field. Most unilateral liberalization processes have not been “anchored” or bound at the WTO.
- The WTO has not been an effective tool for fostering stable and lasting trade liberalization processes in developing countries. The WTO should focus on the binding of tariff commitments and foreign trade rules, the area in which it has been most effective.
- The deadlock in the Doha Round negotiations is probably highlighting a problem which is structural in origin. This should be a time to reflect on the way in which the multilateral trading system operates and the incentives that push the negotiations forward. The consumer must be the axis around which commercial decisions rotate.
- The WTO is undergoing one of its worst crises. The Doha Round was to have been completed in 2005 and today it is difficult to make an accurate forecast of when this will come about. There appears to be a lack of political will on the part of major players at a number of points on the Members' development spectrum. It is likely that, even if the Round were to be completed right now, it would already fail to meet the needs of the current economic reality. There is perhaps a need for more and better regulation of subsidies, investment and competition commitments, climate change, working conditions and a re definition of the concept of development, regulation of transgenic organisms and an improved relationship with the World Bank and IMF, as well as serious reflection on trade remedies and a comprehensive review with a view to modernizing the dispute settlement system.

- All of the above means raising the stakes, understanding that equilibrium no longer lies within the single undertaking and that it is necessary to make additional and parallel payments so that the Pareto improvement benefits all (including those affected by preference erosion, least-developed countries (LDCs) with no institutional capacity, developed countries facing agricultural lobbies and developing countries under pressure from their industrial interest groups). This introduces further variables which could potentially lead to forms of equilibrium that cannot be achieved today. This, moreover, makes it possible to redefine the core objective of the multilateral trading system, turning it into a tool for promoting market efficiency and hence into a key engine for productivity, growth and increasing involvement of the population, which hitherto has had no access to markets or to the benefits of development.
- However, we should now make a decision to embark on one of two paths. The first is to expedite the conclusion of the Doha Round by adopting a pragmatic approach, which may be a minimalist but nonetheless an efficient one. The second is to redefine a set of basic principles in order to refocus the multilateral trading system, placing at its very heart the interests of both consumers and society – a system that is sufficiently balanced for the alignment of market interests to improve market access conditions for those segments of the population that have hitherto remained on the sidelines and for the WTO to become a stable source of rules providing certainty for economic operators.
- Another option is to move along both paths simultaneously, to seek a swift conclusion to the Doha Round, with a minimum content that sends a clear message to the world that the WTO Membership is committed to a multilateral trading system that supports the efforts towards economic recovery that are now being made by many Members of the Organization.
- A simultaneous approach would also involve defining the components that will have to make up the new multilateral system, the negotiating exercise for which would commence immediately after the conclusion of the Doha Round.
- We cannot continue in this state of immobility. Societies are moving ahead and, in so doing, are finding substitutes for a trading system that has ceased to be multilateral.