Facts on the Doha Round

Office of the United States Trade Representative **www.ustr.gov**
Doha Development Agenda Policy Brief – October 2005

Expanding Markets to Promote Development and Growth

The Challenge

The world faces enormous challenges. More than one billion of its people live in poverty, a condition that devastates families, communities and nations.

Trade liberalization, combined with pro-market, developmental domestic reforms, enhances the economic growth potential of developing countries. To catalyze far-reaching trade liberalization through the World Trade Organization's Doha Development Agenda (DDA), the United States has put forth bold reform proposals to spur economic growth and alleviate poverty.

Liberal trade policies are empirically proven to support growth in developing countries:

- The World Bank has reported that per capita real income grew almost three times faster for developing countries that lowered trade barriers (5.0 percent per year) than for developing countries that did not (1.4 percent per year) in the 1990s.

- Additional World Bank research found that growth in developing countries benefits the poor: average incomes of the poorest fifth of society rise proportionately with average incomes. Factors such as rule of law, openness to international trade, and developed financial markets benefit the poorest fifth of society as much as everyone else.

> *"We will fight to lift the burden of poverty from places of suffering -- not just for the moment, but permanently. And the surest path to greater wealth is greater trade. In a letter he wrote to me in August, the [United Nations] Secretary General commended the G-8's work, but told me that aid and debt relief are not enough. The Secretary General said that we also need to reduce trade barriers and subsidies that are holding developing countries back. I agree with the Secretary General: The Doha Round is 'the most promising way' to achieve this goal."*
>
> President George W. Bush
> September 14, 2005

The Doha Development Agenda

The Doha Development Agenda is about creating market access opportunities and reform in agriculture, expanding opportunities for manufactured goods and services, and updating the trading rules to meet the needs of a 21st century economy.

- Two-thirds of the World Trade Organization's Membership is comprised of developing countries. Trade liberalization achieved through this process has enormous reach in the global economy.

- A study by the World Bank and the Institute for International Economies showed that elimination of global trade barriers could lift 300-500 million of the world's poor out of poverty.

- A successful trade round will be comprehensive and ambitious. In its recent publication *Putting Development Back into the Development Agenda*, the World Bank concluded "…the liberalization targets under the DDA have to be quite ambitious if the Round is to have a measurable impact on world markets, and hence poverty… In order to have a significant near-term impact on poverty, complementary domestic reforms are required to enable households to take advantage of market opportunities created by the DDA."

> *"Even though perceptions differ as to what is really meant by 'development' and what should be the means to achieve the end goal of 'development' - trade and development are increasingly perceived as being inextricably linked to each other… "more than 70% of the development outcome of the Round will come from each area of [sic] under negotiation. This includes agriculture, services and non agricultural market access."*
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> WTO Director-General Pascal Lamy
> October 6, 2005

There are four major areas of focus within the Doha Development Agenda to deliver market access opportunities.

1. Agriculture

- Over 70 percent of the poor in developing countries live in rural areas. Agriculture is the largest employer in low-income countries, accounting for about 60 percent of the labor force and producing about 25 percent of GDP.

- Developing countries have rightly focused on the need to reduce and eliminate trade-distorting subsidies in developed nations, and the United States continues to lead on these reforms, but World Bank findings show that only 2 percent of the potential gain to the world will come from developed nation elimination of export subsidies and 5 percent to removing domestic support measures.

- Focusing on market access is where the biggest gains to global trade liberalization are to be realized. According to the World Bank, 93 percent of the global benefits from removing distortions in agriculture would come from market access. For developing countries, nearly all of the benefit they receive from liberalization is from the global reduction of import tariffs.

    - It is also important to limit "sensitive" and "special" product exemptions. While the DDA framework provides for exempting products from full tariff reductions (products developed countries may treat as "sensitive" and developing may treat as "special"), a framework excluding 2 percent of tariff lines and 4 percent of tariff lines respectively would shrink the benefits by three-quarters. (World Bank Trade Note June 2, 2005).

- World Bank modeling shows that "over half the gains to developing countries from global agricultural reforms would come from liberalization of developing countries themselves." As shown in study after study, including the United Nations' Millennium project on trade, the biggest gains come from developing countries' own liberalization reflecting the basic point that protection hurts the consumers of the protecting country.

- Two additional factors boost the potential gains to developing countries from global reforms:

  1) Agricultural tariffs are even higher in developing than developed countries
  2) A large minority of developing country trade is now with other developing countries.

2. Non-Agricultural Market Access

- According to recent WTO data, developing countries saw their share in world merchandise trade rise sharply in 2004 to 31 percent, the highest since 1950, and developing countries command now almost 20 percent of world exports.

- Similarly, total trade within the developing world (South-South trade) is growing at 10 percent per year, double the growth rate of world trade. South-South trade now accounts for over 40 percent of developing country exports.

- Over 70 percent of the duties paid by developing counties are paid to other developing countries, largely a function of high tariff rates. For example, more than 60 percent (approximately $23 billion) of developing country exports to one advanced developing country – Brazil – are subject to tariffs greater than 15 percent.

- In a study of five leading industrialized-developing countries – Brazil, Egypt, India, Malaysia and South Africa – top non-agricultural, manufactured exports to trading partners with low duties valued $1.3 billion, more than 3 ½ times the value of the trade among themselves ($361 million). These results suggest low duties support export growth and high duties suppress trade.

- The broadest measure of trade restrictiveness – the average bound tariff – shows that the United States is among the least restrictive trading economies in the world, with an average bound tariff on all goods of 3.6 percent, compared to the 39 percent average of all WTO members.

- The World Bank's findings suggest that the biggest developing country winners from the Doha Round overall will be: Brazil, Argentina, other Latin America, India Thailand and South Africa, along with some others in southern Africa. Notably, the Bank found that the rest of sub-Saharan Africa gains when non-agricultural market access is expanded and especially when developing countries participate as full partners in the negotiations.

3. Services

- According to World Bank data, the services sector accounts for the largest and fastest growing share of GDP in middle and low-income economies. Over half of total employment in Latin America, Caribbean and East Asia is in the services sector.

- An IMF study showed that countries with fully open telecommunications and financial services sectors grow up to 1.5 percentage points faster than other countries.

- Liberalization in global services trade will bring the infrastructure of modern economies – express delivery services, reliable communications, financial services, transportation services and others – to the developing world.

- The World Bank estimates that nearly $900 billion in annual income gains would be realized by developing countries from elimination of their barriers to trade in services.

4. Trade Facilitation

- The WTO Trade Facilitation negotiations under the Doha agenda are addressing one of the main barriers to attracting investment in developing countries and achieving increased South-South trade, by aiming to ensure rules-based border regimes are transparent and efficient.

- Many studies have shown that the costs of delays and unnecessary red tape at the border of certain countries can be the equivalent of a 5 to 15 percent tariff.

- The results of the trade facilitation negotiations will serve to diminish corruption, lower the costs faced by enterprises in many developing countries that are attempting to embrace trade opportunities, and overall enhance the integration of developing countries in the global trading system.

Special and Differential Treatment

The Doha Development Agenda recognizes that developing countries will need additional assistance to participate more fully in the global economy.

- The WTO's system of rights and obligations provides for special and differential treatment (S&D) – ways in which developing countries are provided unique treatment to assist their participation in the system. The Doha mandate explicitly states that special and differential treatment will be an integral part of the Doha negotiations. Lesser reductions and longer phase-in periods are examples of S&D. Least Developed Countries[1] – designated as LDCs by the United Nations – are not obligated to make contributions.

[1] There are currently 32 Members of the WTO that have been designated by the United Nations as a "least developed country": Angola, Bangladesh, Benin, Burkina Faso, Burundi, Cambodia, Central

- Since WTO Members are able to "self-elect" as developing countries, a central challenge in the Doha Round is to provide special and differential treatment to facilitate integration without providing disincentives for countries – both developed and developing – to liberalize and reform.

- Another challenge in providing special and differential treatment arises because each country presents a unique set of circumstances; it will be critical to achieve solutions that effectively address individual needs of Members rather than attempt outdated "one-size-fits-all" solutions.

- The Doha negotiations place much greater attention on ensuring that as negotiations progress, developing countries have the wherewithal to participate as well as implement the resulting agreements. This has involved an increase in trade capacity building assistance and creation of a WTO trust fund to which the United States has contributed more than $1 million annually.

Beyond Trade: Additional U.S. Assistance to Developing Countries

The United States is deeply committed to helping the world's poor. The U.S. is the world's largest single-country donor of official development assistance, the largest donor of emergency humanitarian relief, the largest donor of private charitable funding, and the World Bank has judged the United States to be the world's most open major economy to imports from developing countries.

- The United States nearly doubled its official development assistance to the world's poor from $10 billion in 2000 to $19 billion in 2004.

- U.S. citizens give billions more every year through charitable donations, and U.S. NGOs account for the vast majority (62%) of all private institutional grants from OECD countries.

- Debt relief is another area where the U.S. has taken the lead. With leadership from President Bush, the G-8 countries agreed to cancel 100% of the bilateral and multilateral debt for qualifying Heavily Indebted Poor Countries.

- In addition, the United States contributed over $1.34 billion in FY2005 for trade capacity building assistance to developing countries, up 45 percent from FY2004 ($921 million). Our commitment is demonstrated by the continued growth in USG efforts, the 45 percent increase follows a sizeable 21 percent increase between FY2003 and FY2004.

African Republic, Chad, Democratic Republic of the Congo, Djibouti, Gambia, Guinea, Guinea-Bissau, Haiti, Lesotho, Madagascar, Malawi, Maldives, Mali, Mauritania, Mozambique, Myanmar, Nepal, Niger, Rwanda, Senegal, Sierra Leone, Soloman Islands, Tanzania, Togo, Uganda, Zambia.