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Consequences of a Failed Doha Round

Presentation by
Munir Ahmad¹

A failed Doha Round!

Mercifully, it has not reached there yet, although despite valiant efforts, especially during the putsch last July, success has continued to elude. Let us hope it does not come to that pass because the consequences of failure could be many and far-reaching.

The unfolding events in financial markets should serve as a stark reminder.

Although the two situations are not exactly alike, if I were allowed a little exaggeration, there is a similarity of sorts. Many, if not all, now seem to accept that lack of adequate regulation lay at the heart of these troubles in financial markets. The collapse of many titans in such short order has jolted the belief in the capacity of markets to self-regulate. This week even the Economist magazine, the prophet of laissez-faire, has conceded that “Regulation is necessary, and [that] much must now be done to improve the laws of finance”. And President Sarkozy of France has called for rebuilding of, in his words, “regulated capitalism”.

Mind you, a major blame for the ongoing problems in financial markets has been laid at the virtually unregulated practice of short selling. And to keep it from inflicting any further harm, short selling has been ordered to stop – albeit, for the present, only for now.

I suspect that many in this room might be wondering about this analogy between the failure of financial markets and a possible failure of Doha Round; and whether I am about to predict a catastrophe if the Round fails.

So let me hasten to suggest that Doha negotiations are after all, ultimately, an effort to set the regulations of trade. And here I use the term ‘regulation’

¹ Executive Director, International Textiles and Clothing Bureau (ITCB) Geneva; the views expressed are solely in his personal capacity.

in its broadest sense. Whether it is for fixing or setting the rules for anti-dumping, or for subsidies to agriculture, or for industrial tariffs, all this is eventually aimed at establishing the regulations for trade. It is indeed a task essential to the continued health of international commerce.

So my first point is that the first casualty of a possible failure of Doha Round is going to be the loss of opportunity to set or fix regulations in many an area of commerce: agriculture, non-agricultural products, anti-dumping, services, and so forth.

Losing this opportunity is fraught with risks down the road. One only hopes that it would not one day have to be regretted – just as many are now bemoaning the absence of much-needed regulation in the area of finance – national as well as international.

My second point is that a failure to set new regulations of trade is bound to weaken or diminish the existing regulations, too. Take just the example of dispute settlement, a feature that distinguishes the WTO as an agreement and an organisation from most others. Imagine a series of challenges, say, against agricultural subsidies in the absence of success on agriculture in Doha Round. Imagine the political tensions it will engender. And imagine how difficult it would be for some major Members of the WTO to resist domestic political pressures.

It is a prospect that will put the dispute settlement system to a test: a test that has the potential of diminishing the WTO at its core. The absence of a working dispute resolution mechanism was the bane of the GATT system that preceded the WTO. Those familiar with the history of trade relations under the GATT would readily recall the problems.

And it is difficult to visualise the tensions and conflicts that a dilution of the dispute system might bring about.

My third point, and the most important one, is with respect to the loss of opportunities that a failed Doha Round would entail: the opportunity to improve and increase market access as well as the opportunity to restore some justice to the system.

First, the opportunity to improve market access: Let me confess that because of the demands of my present job I have not been able to fully follow the negotiations on services.

Leaving that aside, it is now well recognised that NAMA and agriculture hold not only the key to unlocking the rest of the Round but also the promise of delivering major components of gains in improving real access to markets.

I guess it is unnecessary to recount the projections as to the extent of improvements to market access depending on the assumptions made in this or that study. In fact, I must say that the results of these studies have hardly ever proven to be accurate. For example, we have seen how wide off the mark such studies were in predicting the outcome of the elimination of MFA quotas on textiles. We (I together with one of my colleagues at the ITCB, Mrs Dinora Diaz) have recently done a reality check of post-quota trade developments against major forecasts that greeted the eve of that momentous event and have come to conclude how (and why) so many predictions of doom had proven to be unfounded. Those of you who may be interested are invited to visit our analysis at www.itcb.org.

Let me therefore share with you only a couple of simple statistics which we have calculated ourselves, and the transparency of which I am confident about.

As you would probably be aware, textiles and clothing are an area where tariffs in developed countries are relatively high even though it is a sector of major export and jobs-creation interest to many developing economies. And you might also be aware that concerns about erosion of tariff preferences have also largely emanated from this sector.

Taking only 29 tariff lines from the United States market (and also taking into account the longer implementation period for cutting the tariffs on these lines that appears to be accepted by all negotiators), we calculate that there will be a duty saving of as much as \$36 billion over the proposed implementation period.

Looking from a different perspective, we estimate the duty saving in US tariffs after the implementation of agreed Doha tariff reductions at over \$6 billion per year.

The saving in EU duties is estimated to be somewhat lower due to EU's relatively lower current tariffs, but by no means much smaller.

Still on the same subject, the very fact that developing country tariffs will also be subject to reductions according to the same Swiss tariff formula is by itself unprecedented. Never before, in any multilateral Round, had developing countries agreed to such steep reductions in their tariffs. Imagine a tariff of 50 percent being reduced and bound at 17 percent! That is the extent of reduction promised under the NAMA text that is on the table.

All this is no small opportunity to let go.

In this short presentation, let me then turn to the second theme under my third point: i.e., of loss of opportunity to bring some justice to WTO regulations, if Doha Round were to end in failure.

The WTO rule book has failed to regulate some glaring instances of short changing (akin to short selling in finance). In this respect, subsidies on cotton come top of the list. For decades they have stood in the way of many developing countries' prospects for growth and development. Coming from a family of farmers, I have personally witnessed the pain of these subsidies. Fortunately, the determination displayed by a group of four African countries and valiant civil society support has propelled the issue on to the Doha agenda as a moral imperative and a test case for the WTO. It is no exaggeration to say that it is a litmus test for the system to show that it cares, that it can deliver with a human face, and that it can restore some justice to trade regulations.

Under the same rubric of justice in trade regulation comes, in my view, the issue of duty-free access for least-developed countries.

Were Doha Round to fail, the opportunity to fix these issues would have been lost, or at least delayed who knows until when.

In closing, let me say that my fourth and last point will be with respect to the loss of opportunity for setting the mechanisms for trade facilitation; yet another promising area of Doha Round and which, I know, many of you as business people have a keen interest in.

In conclusion, I believe that all in all the consequence of a failure of Doha Round will be a (i) great missed opportunity and (ii) expose the rules-based trading system to great strains. One only hopes that the situation does not reach that pass. The unfolding crisis in finance is a powerful reminder for the world to be wary of.

I thank you for your attention.
