

**Algirdas Miškinis**

Vilnius University

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## DOHA DEVELOPMENT AGENDA AND THE INTERESTS OF CEE COUNTRIES

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**Summary:** The future of world trade to a large extent depends on the success of trade negotiations at Doha round. Conflicting views on agriculture, medicine, and the treatment of developing countries make it difficult to match the interest of different countries. There is a risk that as a result of the failure of Doha round the path of multilateral trade liberalization will be fully replaced with the path of regionalism or, even worse, with the path of protectionism. The paper will examine the benefits of Doha round, the major restraints to complete negotiations and negative outcomes in case of failure. A special emphasis will be given to the analysis of the impact of the round on trade and economic development of CEE countries and especially on Lithuania.

**Keywords:** Doha, trade barriers, tariffs.

### 1. Introduction to Doha development round

The Doha trade negotiations are the longest of all rounds. It is called a development round, but it might be also called industrial and developing countries' (DC) contention round. Some authors claim that developed countries pursue very mercantilistic aims for their countries, while ignoring interests of DC [Stiglitz, Charlton 2004; Khor 2006; Faizel 2005]. Doha round centres around the most sensitive sector, agriculture, and even non-agricultural issues (NAMA) are negotiated mainly as the instrument to match the interests of DC and developed countries in agriculture. Doha round was stalled several times in failure to come to the agreement between DC (and first of all Brazil, China, India) and developed countries (especially the EU and the US). Most issues had already been solved; however, there is a risk that the round will not end at all or will end with a lot of exceptions, which reduce the impact of agreements on the development of international trade.

Difficulties in negotiations to a large extent arise because the balance of forces in the WTO is changing dramatically. Until recently, the DC comprised the majority of countries in the WTO, but they were having a minimal impact on the development of multilateral trade policies. Now they encompass countries which are still treated as developing, but in some industries they are competing with developed countries. Despite recent reductions, they still maintain high tariffs (Brazil's, India's, and

China's applied tariffs are three times higher than US's or EU's) and refrain from their reduction in order to benefit from "free rider" principle as a result of cuts made by developed countries.

There are some hidden milestones in Doha negotiations. First of all, current account imbalances in major trading countries result in a pressure to protect local and open foreign markets. Large deficits called allegations against foreign countries for executing unfair trade practices and against governments not defending the interests of domestic producers. In such an environment, it is very difficult for the government to give political support for further measures in the area of trade liberalisation. Second, some emerging economies still belong to developing economies and enjoy the benefits of special and differentiated treatment (SDT);<sup>1</sup> however, they are economic superpowers and in some sectors quite competitive. Developed countries often raise a necessity for the similar treatment of equal competitors despite the fact that emerging economies are behind in comparative terms.

## 2. The benefits of completion Doha round

The Doha round has to be completed for two key reasons. The first is to implement the tariff and subsidy reforms embedded in the draft texts developed to date and make use of the gains already agreed. The second reason is to ensure the viability of the multilateral trading system and preclude protective measures or trade and investment rules through bilateral or regional trade agreements [Hufbauer *et al.* 2010].

We would like to list several benefits which necessitate the conclusion of Doha round. First, Doha round should be completed in order to continue the reduction of trade barriers and distortions in agriculture through the removal of export subsidies, cutting domestic support and customs tariffs as existing agricultural agreement concluded in Uruguay round was merely a prologue to trade barrier reductions. Second, there is a need to fix the existing level of trade barriers and prevent the possibilities of raising tariffs in the future as in a large number of countries actual tariffs are lower than their binding schedules. Third, there are substantial gains from tariff cuts and subsidy reductions already in the agreed packages especially in the modalities of 2008; however, these reductions are not sufficiently ambitious and do not bring satisfactory benefits for some countries.

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<sup>1</sup> SDT is GATT provision allowing exports from developing countries to receive preferential access to the markets of developed countries. The first step to grant this status was made on 25 June 1971, when developed countries were encouraged to assist developing countries by awarding unilateral preferences. In reply to this decision, industrialised countries and, first of all, the EU started to apply general system of preferences. A further step was done in 1979 with the adoption of enabling clause. The provisions of this clause are now included in GATT 94. Further attempts to extend were made in 1999, but no formal documents were adopted. DDA includes a commitment to strengthen and make SDT provisions more effective.

Fourth, there is a need for the expansion of markets in both industrialized and DC through cuts in tariffs, domestic support, lifting restrictions in service sector or trade facilitation to consolidate benefits for the countries of specialisation in line with their comparative advantages as existing trade barriers lead to their distortion. According to Bouet and Debucquet's estimations [2010], the December 2008 package would reduce average tariffs by 25%. This would result in the reduction of agricultural protection by 6 percentage points in industrial countries and 0.5 percentage points in middle-income countries. According to some most recent calculations, Doha deal "on the table", which also includes liberalization in services and manufactures plus gains from the trade facilitation, would raise the value of the Doha package in terms of global GDP gains to 282.7 billion USD [Hufbauer *et al.* 2010]. According to the same calculations, if only formula cuts are made the EU would win 0.1% or 16.3 billion USD in GDP gains, while gains in trade would be negative. If Doha round would succeed in pursuing the larger reforms, which are sought recently, then GDP gains would 0.3% or 45.6 billion USD and EU trade gains would be positive.

Fifth, a strong requirement exists to strengthen multilateral international law against bilateral or national legislation. The first regional trade agreement (RTA) was concluded in 1958, but their real explosion occurred at the break of two centuries. The main reason for the explosion was a slowdown in multilateral negotiations, but political interests, domino effect, and a comparative easiness to conclude bilateral agreements should also be added. It is possible to expect that the crisis of 2007-2009 might accelerate the conclusion of RTAs as it happened after the crisis of 1929-1933. By the beginning 2011, the WTO has been notified about 229 agreements in force. In some countries the majority of trade is based on RTAs. This indicates that for these countries the main GATT principal – the most favoured nation – became an exception. It is evident that RTAs are becoming a serious obstacle for further trade liberalisation through diminishing countries' interest in pursuing the path of multilateral negotiations and making trade concessions.

### **3. The negative consequences of Doha round failure and main contentions**

The principles of single undertaking and consensus exacerbate the conclusion of negotiations, the failure of which might lead to the following negative consequences. First, it is unrealistic that it would be possible to remove export subsidies and cut domestic support through bilateral negotiations, as this would decrease their international competitiveness. Fewer difficulties would be with bilateral negotiation on tariffs; however, the necessity to negotiate with a large number of countries aggravates such negotiations. Second, there is a risk that once negotiations are stalled, it will be very difficult to ensure the credibility of existing world trading system. As Bhagwati *et al.* [2011, p. 10] state, Doha round failure "would put the world trade system back to power politics as usual 19th-century-style 'Great Powers' trade system. The GATT/

WTO would go down in future history books as a 70-year experiment where world trade was rules-based instead of power-based". Third, a move from multilateral to bilateral trade agreements means the violation of GATT non-discrimination principle because a trade priority is granted only to one or few countries at the expense of interests of many countries. This will lead into dominance of single trade rules and, first of all, rules of origin over multiple trade rules that make the execution of trade for businesses very irritating. Some economists, namely Warwick Commission [*The Multilateral Trade... 2007*], encourage states to refrain from establishing RTAs.

The most imperative and contentious issue for both developed countries and DC is agriculture. General formulas for cutting tariffs and reducing agricultural subsidies were agreed by most countries, but disagreements arise when it comes to the exemptions (so-called "flexibilities") of sensitive products from formula cuts.

#### **4. Central and Eastern European countries and Doha negotiations**

In our research, we will confine ourselves only to new EU Member States, which being part of the EU do not pursue independent trade policies. In trade liberalisation, the loser will be agricultural producers, but countries will not lose as the winners will be consumers, those welfare as a result of lower food prices will increase.

Already during the initial phase of negotiations, it has been agreed that export subsidies, which result in overproduction and artificially low prices would be phased out. In the EU, these subsidies do not play a crucial role and are used to manage the temporary incidents of overproduction. The EU has already promised to phase out export subsidies by 2013. On other hand, an increase in world prices for food has also reduced the reliance of EU farmers and food producers on export subsidies.

We can see from the Lithuanian example in dairy and bovine sectors that the loss from the phasing out of export subsidies will not harm very much CEE countries. In the analysis of the dairy sector, we included the following products receiving export subsidies: milk (CN 0401), milk powder (CN 0402), fermented milk (CN 0403), whey (CN 0404), butter (CN 0405), and cheese (CN 0406). The analysis of the bovine sector included fresh beef meat of bovine animals (CN 0201) and frozen beef meat of bovine animals (CN 0202).

According to the statistics derived from Export Helpdesk, in 2009 Lithuania exported to the EU dairy products for 202.7 million EUR and to third countries, mainly to Russia, for 117.5 million EUR. In 2009, the export of dairy products to third countries amounted to 37% of the whole produce. The main milk products exported to third countries are cheese (60% of export value), whey and milk powder. Half of Lithuanian cheese exports go to third countries, half of export subsidies are received for export of cheese to Russia. Export subsidies were not paid for exports of CN0401 and CN0404 products. Export subsidies made up only 2.9 million EUR, including 2.5 million EUR for the export of cheese to Russia. In 2009, export subsidies covered 5-7% of export prices, much less than before renewal in 2006 (15-17%).

The figures demonstrate that the removal of export subsidies will have an impact only on the export of cheese although not very tangible. It should be also taken into consideration that for the Lithuanian agricultural products export subsidies are even less important because of lower domestic prices in comparison to the world prices. However, domestic butter prices in Lithuania are much higher than EU average; therefore, export subsidies cover larger share of export prices (from 13 to 25% in 2009). As butter has no comparative advantage, its export volumes are low (less than 0.3 million EUR in 2009) despite export subsidies.

Beef makes 50% of Lithuanian meat export. During 2004-2009, the export of beef increased more than three times. Only in 2007, the export of beef increased by 30% and exceeded 70 million EUR. One third of Lithuanian beef is exported to third countries – 38.5 million EUR in 2008 (in 2009 exports went down by 40%). In 2008, export subsidies for the beef export to Russia, Belorussia, and Ukraine made 7.1 million EUR. The export subsidies covering more than 90% of export to third countries make Lithuanian export especially attractive as domestic prices in Lithuania are lower than in EU or Russia even despite of Russian 15% customs tariff. Export subsidies cover around 25-30% of Lithuanian beef price and are a great export stimulus. Lithuanian beef on Russian market, however, faces a hard competition from Latin American exporters, who are able to sell beef at lower prices and who will become even more competitive once export subsidies are removed. Despite export subsidies to Russia, Lithuanian exporters, being competitive as a result of lower domestic prices, prefer the much safer EU rather than the Russian market; therefore, the removal of export subsidies will not affect them negatively.

The draft modalities from July 2008 indicate reductions in domestic support in both the amber and blue boxes; however, the right for flexibilities means that Doha round agreement would probably not entail further changes to the EU domestic support system. EU agricultural policy in 2003 was significantly changed by decoupling domestic support from one based on current prices and production volumes to new one based on past production. According ICSTD observations, the EU's production-linked farm subsidies containing in blue box fell to a record low 12.3 billion EUR in 2007/08, while payments that are unrelated to trade and production and are included in green box reached 62.6 billion EUR [*EU halves...* 2011]. Domestic support in the EU now is less distortive and its size is out of WTO control. As a result, in case of the end of Doha negotiations, EU farmers, including those from CEE countries, will not suffer losses from cuts in domestic support. According to the ICTSD, recent figures put EU's overall trade-distorting support below the proposed new ceiling of 22 billion EUR to be established by Doha agreement. It would be more difficult for the EU to meet the ceilings of domestic support if 2008 modalities are agreed. The pressure of DC on the EU to reduce subsidies is much lower than on the USA.

The major impact of Doha round will be in the area of market access. Currently, the EU applies intervention prices to keep agricultural prices high. Such a dual price system requires high tariffs equal to the difference between world and EU prices.

The reduction of tariffs under Doha agreement would lead to a dramatic surge of foreign imports and increase of competition for European farmers. Among CEE countries, Poland will be affected most. The reduction of tariffs will be carried out on the basis of formula envisaging the highest reductions for peak tariffs. In the EU, the most affected will be beef, sugar, poultry, and dairy products although there is a possibility to include up to 4% of tariff lines into the list of sensitive products and thus to shield them from large reductions.

The list of sensitive products will be affected by reductions as well, but to a lower extent, however, at increased quotas. Currently, it is not clear which products will be included in this list to safeguard them from competition from DC as countries are free to select. As no criteria are present for the listing of sensitive product; therefore, there is a threat that even a short list would include large volumes of imports. The shielding of some EU products will be helpful for producers of those products, but it will have a negative impact on the producers using these products as inputs. DC will seek to reduce EU tariffs for subsectors where they have a comparative advantage – sugar, rice, beef, poultry, and fruits. The reduction of tariffs will lead to the erosion of the benefits of preferential tariffs for ACP countries, but it will be met positively by some developed countries and DC from Latin America and Asia.

According to February 2008 draft modalities, a significant overall reduction in EU and US tariffs is expected although exports from DC would nevertheless continue to face significant import duties. The average EU agricultural tariff would fall to 9.5% from 23.4%, sugar (from 129), cereals (from 78.3), meat (from 67.3), and dairy (from 56) would continue to face high tariffs and these products would likely be designated as sensitive. Proposed 2008 EU modalities are beyond Doha round proposal and are opposed by some EU countries including Poland. In comparison, the average trade-weighted applied tariff would fall from 7.9 to 3.5% for goods entering the US market; however, tariffs for sugar, tobacco, and dairy would only be reduced to 16.5, 12.8 and 12.4% from 46.8, 42.6 and 28.1%, respectively. According to observations of the ICTSD [*Who Gains...* 2011], tariffs on sensitive products would fall from 50.4 to 29.3%.

The proposed 2008 agriculture modalities provide an improved market access for EU exporters especially to markets of industrialised countries. According to Jean *et al.* [2008], average customs tariffs for EU exports would go down from 16.9 to 11.2%, a reduction by 33%. Even taking into consideration sensitive products, the average applied tariff would fall from 18.9 to 12.1% in industrialised countries. In DC, average tariff for EU exports would fall from 19.1 only to 17.8% when flexibilities are taken into account.

## 5. NAMA

Developed countries in exchange of large concessions on agricultural market access, domestic support, and export subsidies, require reciprocal access to DC for



their industrial products. Especially strong requirements to open markets are for fast growing emerging economies such as Brazil, China, and India. In the NAMA negotiations, a single general formula with some exemptions is applied on all tariffs. The formula requires larger cuts for higher tariffs and smaller cuts for low tariffs. Higher reductions in tariffs are envisaged for developed countries and lower for DC. As in agriculture, the issue of flexibilities arises and receives a similar consideration as sensitive products; **however, in NAMA only DC have the right to designate flexibilities** and no quotas are applied. DC expect that using flexibilities, they will be able to protect their uncompetitive industries. It is important to stress that flexibilities will affect not only imports from industrialised countries but also from developing<sup>2</sup>.

There are attempts of the WTO to encourage countries to eliminate voluntary tariffs in some industries under so-called sectoral initiatives by members who comprise a specific percentage of total trade in that sector exceeding the critical mass. The initiative is expected from developed countries while DC will be granted SDT; however, it is anticipated that large DC will take part also. December 2008 text includes 14 sectors<sup>3</sup>.

It is very difficult to assess the impact of NAMA on CEE exports as so far it is not clear which industries will be definitely selected for full phasing out of customs tariffs. Most support so far has been received by the following industries: chemicals, industrial machinery, and electrical/electronics.

In addition to agriculture and NAMA, Doha agreements will include other provisions, such as services liberalisation and trade facilitation. The outcome of these issues is highly uncertain (this is why they are not discussed here). Jean *et al.* [2008] consider that services' liberalisation could add another 25% to their global welfare estimates. No or limited benefits will be gained by CEE from the agreement on geographical indications. The EU is using this issue in an attempt to balance concessions in other areas.

## 6. Conclusion

The loss from the phasing out of export subsidies will not harm CEE countries much especially those with lower domestic prices than world prices. Although a decline in domestic support is expected, the right for flexibilities allows forecasting that agree-

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<sup>2</sup> India, e.g. intends to protect small enterprises, employment sensitive sectors, industries employing vulnerable people or located in vulnerable regions. According to Indian Ministry of Commerce and Trade, the country has 4712 NAMA tariff lines and under flexibilities would like to designate 471 (10% of total) sensitive tariff lines for taking at least half the formula cuts not exceeding 10% of total imports during 1999-2001 or 235 (5% of total) sensitive tariff lines for taking no formula cuts or retaining them as unbound subject to these lines not exceeding 5% of total imports during 1999-2001.

<sup>3</sup> These include: automotive, bicycles, chemicals, electronics/electrical products, fish, forest products, jewellery, hand tools, enhanced healthcare, machinery, raw materials, sports equipment, textiles clothing and footwear, and toys.

ments would not entail further changes to the EU domestic support system. It would be more difficult for the EU to meet the limits of domestic support if 2008 modalities are agreed. The reduction of tariffs, however, would lead to the dramatic surge of foreign imports. The most affected might be beef, sugar, poultry, and dairy products. The impact of NAMA or services on CEE so far has been very uncertain.

## Literature

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## PROGRAM ROZWOJU Z DOHA A INTERESY KRAJÓW EUROPY ŚRODKOWO-WSCHODNIEJ

**Streszczenie:** Przyszłość światowego handlu zależy w znacznej mierze od powodzenia negocjacji handlowych rundy Doha. Sprzeczne poglądy na rolnictwo, medycynę czy podejście do krajów rozwijających się są przyczyną trudności w pogodzeniu interesów różnych krajów. Istnieje ryzyko, że skutkiem niepowodzenia rundy Doha, model wielostronnej liberalizacji handlu zostanie zastąpiony przez model regionalizmu, a nawet, co gorsza, protekcjonizmu. Celem niniejszego artykułu będzie analiza korzyści rundy Doha, głównych przeszkód na drodze do zakończenia negocjacji i negatywnych skutków w razie ich niepowodzenia. Skupiono się głównie na zbadaniu wpływu rundy na rozwój handlu i gospodarki krajów Europy Środkowo-Wschodniej, ze szczególnym uwzględnieniem Litwy.