Overseas Development Institute

Briefing Paper 41

September 2008

The WTO Doha round impasse

Implications for Africa

Key points

- There is no single 'African view' of what a development-friendly WTO compromise would look like
- African countries benefit and suffer from subsidies, depending on their products and export markets
- African countries should prioritise their development needs and build alliances with other developing countries to present a united front

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The latest World Trade Organization (WTO) negotiation round, launched in November 2001 in Doha, was seen as a positive response to the terrorist attacks on the USA. The negotiations, known as the 'Development Round', had the ultimate objectives of reducing poverty and promoting development. Seven years later, the outlook is bleak. The Doha talks were suspended in July 2008, with trade negotiators increasingly lacking support from their governments. Future elections and rising food and energy prices have exacerbated protectionist tendencies and shifted the focus from international development to self-interest. There are serious concerns as to whether talks can be revived.

It is often argued that the success of Doha would only benefit big developing countries such as Brazil, China or India, while African countries and, in particular, smallholder farmers, would lose. This argument assumes that African countries lack the capacity to benefit from broad tariff cuts on the export side and would become more vulnerable on the import side if tariffs were reduced still further.

However, the caveat 'the devil is in the detail' is nowhere more appropriate than in trade negotiations. Without knowing whether Doha will finally succeed and, if so, what a compromise would look like, we cannot finally determine who will win, and who will lose.

This briefing paper aims to do three things. First, it will discuss in broad terms what was on the table in the latest WTO Round and what the latest compromise looked like. Second, it will analyse how such a global compromise would have affected African countries. Countries' (contradictory) interests on subsidies and agricultural protection will be outlined, showing that there is no simple formula for 'development' – not even for a single country. Third, this briefing will draw on research from the Overseas Development Institute (ODI) to discuss what African countries would require to benefit from international trade, and the extent to which these issues can be addressed by the WTO.

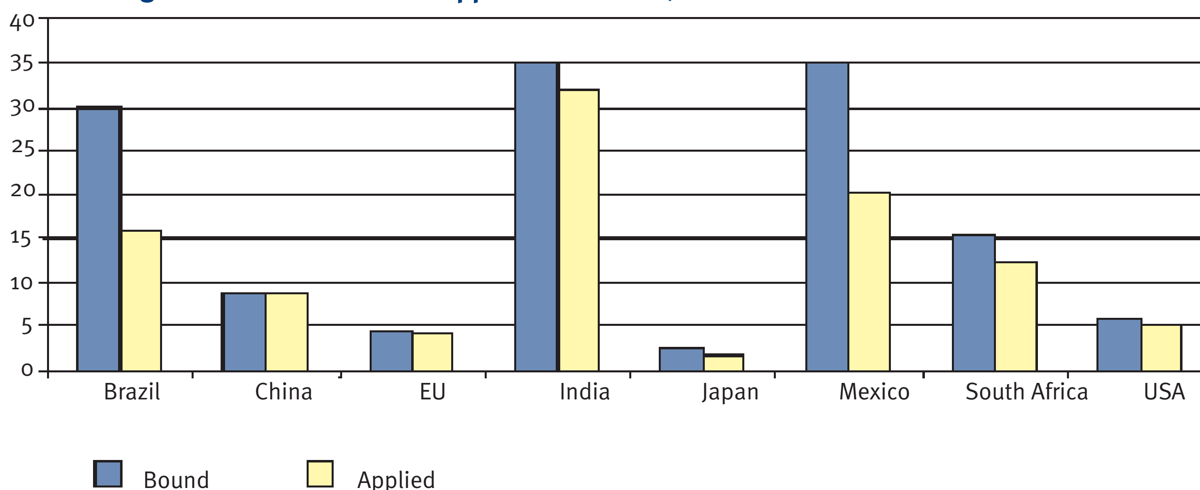
Heading for market: a banana truck in Uganda

The deal-breakers: Why the talks were suspended

The Doha negotiations stalled at the end of July 2008 for a number of reasons. Broadly speaking, the European Union (EU) and India were blamed by the USA for trying to exclude too many agricultural products from tariff cuts, while the USA was blamed by many developing countries for not being ready to reduce the present level of its trade-distorting subsidies (particularly for cotton).

As a result of rising food prices and protected agricultural markets in the EU and USA, some developing countries, like China and India, became increasingly reluctant to reduce bar-

Figure 1: Average bound and estimated applied tariff rates, 2006



Source: Data accessed at http://www.pc.gov.au/research/economic-models-frameworks/?a=60542 (14 August 2008).

riers for low-priced, often subsidised, agricultural imports. In turn, the USA argued it could not cut domestic agricultural support if it did not win new markets, such as China and India.

What had been on the table?

The degree of actual liberalisation that would have arisen from the trade round is very difficult to predict. First, it is important to note that WTO members negotiate over 'bound', (i.e. maximum) tariffs and ceilings for agricultural subsidies. These can be significantly higher than actual applied tariffs and subsidy levels, as shown in figure 1, which contrasts the bound tariffs with the applied tariff rates. The basic formulas agreed might, therefore, result in few meaningful cuts for actual applied tariffs. A similar story applies to the definition of the trade-distorting subsidies over which the EU and the USA were battling. The definition is crucial to determine the real value of any subsidy cut. As the EU and USA have different agricultural subsidy systems, they could not agree a formula that would reduce the subsidies while accommodating their different interests (Page et al., 2008).

The compromise for non-agricultural tariff cuts would have taken account of the interests of industrialised countries by, for example, improving EU and US access to the Chinese car market. The proposed tariff cuts by developed countries had the additional potential to reduce the practice of tariff escalation, i.e. the levying of higher tariffs on processed goods compared to raw materials. As with the tariff reductions for agricultural products, this would have been mainly in the interests of large exporters of agro-processed products, such as Brazil or India.

Furthermore, the USA signalled its readiness to reduce the level of trade-distorting agricultural subsidies below the average level applied in the past four to seven years, though still higher than the current level. The hopes of cotton producers from developing countries (mainly in West and Central Africa) for a compromise that would lock in reduced cotton subsidies were dashed.

Is there an 'African development' formula at WTO?

Despite these caveats, the potential outcome of the trade negotiations sounded cautiously promising for some developing countries. But how would African countries be affected, and how would the costs and benefits be distributed among different interest groups? Were poor and smallholder farmers likely to benefit or would they be adversely affected?

Multiple memberships of different groups within WTO and cross-country alliances illustrate the fact that no clear "African view" exists on what the best achievable Doha outcome should look like. The African Group at WTO covers 41 countries. African countries are further represented in the African, Caribbean and Pacific (ACP) group, mirroring their special trade relationship with the EU, and the G-90 Group, which combines the African and the Least Developed Countries (LDC) Group. Reflecting their special interests and developing status, various subsets of the African Group are also members of the Commodities Group, the Cotton-4 Group, the Developing Country Grouping, the G-20, which fights for improved agricultural market access, G-33 ('friends of special products', which pursues mainly defensive agricultural interests), NAMA 11 (Non-Agricultural Market Access), which fights for lower tariff cut commitments for developing coutries' non-agricultural products, and the LDC Group itself.

Obviously, African LDCs that are exempt from tariff concessions at WTO do not have the same interests as emerging African economies, such as Egypt or South Africa. In addition, conflicting objectives among different stakeholders in African countries

make it even more difficult to achieve a compromise that satisfies all parties. This is best illustrated by the example of agriculture.

Agriculture: The two sides of the coin

The African Group at WTO fights for the real and effective reduction of subsidies. Cotton for example, is of paramount importance for several West and Central African countries, but subsidies (mainly from the USA) have depressed world market prices and increased poverty among African cotton farmers (African Group, 2008). During the Doha negotiations, the USA had refused to reduce trade-distortive support for cotton and had tried to solve the problem through increased aid. This was not acceptable to African cotton producers (Page et al. 2008).

The latest proposal from the USA during the Doha negotiations suggested reducing the total level of trade distorting support. Though it cannot be assumed that this proposal would have led to reduced subsidies for cotton specifically, it had the potential to do so in the medium-term, offering African cotton producers the slight chance of reaping higher world market prices.

However, taking the example of cotton to illustrate the impact of subsidies on African countries shows only one side of the coin. It overlooks the fact that many African exporters benefit from subsidies for their agricultural exports, and fight against the erosion of their preferences in these markets.

ODI research confirms that most African countries are uncompetitive suppliers of agricultural products on the world market (Stevens et al., 2007; Meyn, 2007). To make international exports worthwhile, they require a protected market and a price level above world market. The EU is therefore the main export destination for African agricultural exports, combining preferential access to a high-priced market with high protection rates against third party developing countries.

Reducing the price or protection level towards other countries would have immediate negative consequences for African and Caribbean exporters by reducing the export prices they would receive, and exposing them to increased competition. The latest WTO compromise on bananas is one example. Some 85% of the EU's bananas are imported. Despite the fact that ACP countries pay no tariffs, and Latin American countries do, 80% of EU banana imports come from Latin America, and only 20% from 12 ACP states (Stevens et al, 2008). The envisaged reduction of the EU MFN tariff from €176 ($258) per ton to €116 ($170) per ton by 2015 was rejected by Latin American countries as too little, while African and Caribbean countries rejected it as too much.

Another 'agricultural dilemma' for African countries is the need to balance the interests of (rural) producers and (urban) consumers. While the former need protection from (subsidised) imports, the latter benefit from cheap imports. Given the increasing rates of urbanisation in many African countries, poor consumers may be a more powerful interest group than poor smallholder farmers. Most African countries are net importers of food and therefore benefit, overall, from subsidised imports. Increased food prices have already raised the import bills for African countries and these could rise further when the EU and USA cut their subsidy levels.

Considering the complexity of addressing the different defensive interests of African countries at the WTO raises the question: are their offensive interests any less controversial?

Improved market access for African countries: Yes please – but how?

The achievement of duty free quota free (DFQF) market access is a major objective for the LDC Group at the WTO. LDCs would receive free access to 97% of the markets in developed countries if the Doha negotiations were concluded successfully (although the precise meaning of '97% market access' has yet to be specified). The precise meaning of '97% market access' has yet to be specified. However, LDCs wanted this access immediately and aimed to ensure that the remaining 3% would not exclude major sectors or product lines – a concern, for example, for clothing exports from Bangladesh.

DFQF is not, however, a WTO concern for most African countries, which already enjoy duty and quota free access to their main markets in the EU and the US. African LDCs have had DFQF access to the EU under the Everything but Arms initiative since 2001, and most sub-Saharan developing countries have DFQF access under their EU Economic Partnership Agreements. Moreover, 37 African countries qualify for DFQF in the US market under the African Growth and Opportunity Act (AGOA). Most African countries do not seek new markets, but have severe problems in expanding their exports to markets that already exist (Stevens et al., 2008). African demands for improved market access concentrate, therefore, on improved rules of origin, support to deal with non-tariff barriers, and aid for trade.

Rules of origin

The rules of origin define where a product is made. They limit originating status to one country, even though, in today's globalised economy, products are rarely made in one country alone. The rules determine, for example, whether the T-Shirt exported by Lesotho is a product from Lesotho when the cloth was imported from China. Until the end of 2007, the EU judged such a product to be Chinese, while the USA considered it to be from Lesotho.

Broadly speaking, the Group of LDCs (and other small developing countries) would like a more generous interpretation of originating status by developed countries. They would like to source globally and minimise the requirements for domestic value added, arguing that more generous rules would encourage local and regional processing, thus con-

tributing to the diversification of their economies out of low value-added primary products. ODI research supports this point of view, finding that reformed rules of origin have the potential to determine the overall impact of duty and quota free market access for African countries. Since the supply-side response of African countries is often restricted by low production levels or limited production facilities, they can only expand production when they can use imported materials, for instance in case of food processed products where packaging materials and/or raw material input is often not locally available (Stevens et al., 2008).

Non-tariff barriers

Non-tariff barriers, such as technical barriers to trade (e.g. product standards, packaging requirements) and sanitary and phytosanitary standards continue to restrict exports from African countries (Stevens et al., 2008; Meyn, 2007). While the same requirements for imports and domestic products are needed for safety and avoid any discrimination against domestic producers there is – without doubt – a need to strike a balance between essential consumer interests and protectionist measures. In the light of eroding preference, it is increasingly important to help African countries address the technical barriers to trade, as well as the sanitary and phytosanitary standards.

Aid for trade

The WTO Task Force on Aid for Trade developed in response to the preference erosion that further trade liberalisation would have for some countries. It was acknowledged during the Doha negotiations that trade liberalisation will not lead to development if countries lack sufficient capacity to trade. African countries and LDCs need aid for trade to grasp the opportunities offered by duty and quota free market access (Stevens et al., 2008).

Pledges for increased aid for trade made at the WTO Hong Kong Ministerial Meeting in 2006 reflected an overall commitment by developed countries to increased aid spending. OECD countries announced an additional €4 billion ($5.8 billion) per annum for aid for trade from 2010, half of it to be provided by EU countries and the European Commission (EC). However, the funds have not been secured and there is no agreement on how the money will be spent. Infrastructure support and the expansion and modernisation of production capacities are regarded as a priority by African countries, but donors prefer to support trade policy and development. A similar conflict of interests occurs when industrialised countries finance impact assessments of potential trade compromises in developing countries, while at the same time lobbying for a specific compromise at WTO.

What are the next steps?

It is extremely difficult to reach any meaningful compromise in multilateral trade negotiations. Though most countries claimed to have the best intentions to make Doha a 'development round' it was, increasingly, captured by the selected sectoral interests of powerful trading nations. Countries sought tariff cuts and the reduction of trade distorting support to improve their market access, while at the same time minimising their own commitments to reform. The compromise deal that was (almost) reached reflects this. Thus, the effective rate of protection and the total level of subsidies would have been only marginally affected by the cuts. Still, some 'real effects' might have been achieved that would have had different effects on African countries and the interest groups within these countries, reinforcing the fact that no joint 'development package' exists.

On the plus side, the offer from the USA to reduce its ceilings of trade distorting subsidies might have had some potential to reduce US cotton subsidies, benefiting cotton farmers in Central and West Africa by potentially offering the chance to benefit from higher world market prices. On the other hand, the cut of trade distorting subsidies would have had a negative impact on many African countries, as they are dependent on cheap agricultural imports to satisfy consumer demands

While no single African view exists on what pro-developmental outcome is desired at WTO, it seems that African countries need to decide on their main priorities so that they can push through their main interests. It is important to reconcile their opposition to the stance taken by developed countries by forging strong links with other allies in the developing world. WTO negotiations are all about bargaining – and about having a set of clear and united objectives.

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ISSN 0140-8682

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