

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

# BACK TO BASICS:

## MARKET ACCESS ISSUES IN THE DOHA AGENDA



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## **PREFACE**

The aim of this paper is to go “back to basics”, focusing on the market access issues in merchandise trade that developing countries will face in the next negotiations. Data on patterns of trade and protection in agriculture and manufacturing are analysed, the main results of the Doha WTO Ministerial Conference are reviewed, and the likely impact of several liberalization scenarios is evaluated. The broad conclusion of the analysis is that developing countries as a whole still have sizeable potential gains to derive from improved market access in merchandise trade, but the size and the distribution of these gains depend a great deal on the extent to which developing countries will be active in the liberalization process and on the agreed negotiation targets and modalities.

This paper was prepared by Sam Laird, Lucian Cernat and Alessandro Turrini of the Trade Analysis Branch, Division on International Trade in Goods and Services, and Commodities.

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## ***EXECUTIVE SUMMARY***

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Trade and development linkages and the problems of the least developed countries have been a key preoccupation of the international community in the last few years, following major economic crises in Asia, the Russian Federation and Brazil, and these concerns were heightened by the slump in global demand in 2001. While the long-term pursuit of freer trade seems to have become widely accepted, concern has been expressed about the short-term effects of liberalization and of the costs of implementation of WTO commitments. This has led to greater emphasis being devoted to institution and capacity building as well as to the removal of supply-side constraints. In a similar vein, the view has been expressed that developing countries need policy space to pursue industrialization policies that are appropriate to their stage of development. However, the scope for such flexibility is also being limited by increased WTO commitments.

One of the most challenging tasks for the WTO's Doha meeting was to give some meaning to trade and development linkages. On the one hand, it was considered important to overcome the opposition of many developing countries to wider negotiations than those covered by the "built-in agenda", agreed during the Uruguay Round. On the other hand, many countries also felt the need to ensure that trade worked for development. The concerns of the developing countries needed to be reflected in the negotiating mandates. In this respect, the texts agreed at Doha provide an opportunity to improve the developing countries' effective participation in international trade. Many issues that were voiced by developing countries in Seattle and reaffirmed in the UNCTAD X Plan of Action adopted in Bangkok in February 2000 were included in the new WTO agenda. At the same time, the agenda is expanding to incorporate an ever-growing number of "new" issues (investment, competition policy, etc.) where the impact on development of possible new WTO rules is less clear.

Concerning the analysis of the dynamics of trade patterns, this paper identifies several stylized facts that characterize the evolution of the position of developing countries in world trade in recent decades. Overall, the share of developing countries in world exports has been increasing in the past two decades, as has the share of exports in industrial goods originating from developing countries. However, these aggregate trends hide important differences across developing country groups. For example, African and Latin American countries have witnessed a decline in their share in world trade, while the upward trend for the developing countries as a whole was driven mostly by the trade performance of certain East Asian countries. With regard to the sectoral composition of exports, an analysis of revealed comparative advantage indices shows a marked difference between the developing and the developed countries, as well as among developing countries, as far as the degree of trade specialization is concerned. Developed countries have a relatively steady, diversified trade pattern, whereas there are groups of developing countries with a rapidly changing trade specialization and groups with persistent, undiversified export patterns.

As far as the current pattern of protection is concerned, tariff barriers to exports from developing countries appear to be heavily concentrated in agriculture, textiles and clothing, and other sectors of export interest to developing countries. The post-Uruguay Round protection pattern is characterized by a high dispersion in tariff rates, with a large number of tariff peaks concerning products of interest to developing countries in agriculture, food, textiles, apparel and some mid-technology products. Tariff escalation also affects trade flows in a number of products of interest to developing countries. It is a pervasive feature in both developed and developing countries and concerns both agricultural and industrial goods.

Using new data on preferences within the framework of the computable general equilibrium (CGE) model, it is estimated that a 50 per cent reduction of tariffs in agriculture would increase world welfare by about \$20 billion, a figure that is broadly in line with those obtained in recent studies. All world regions would gain from agricultural liberalization. As found in previous analyses, the elimination of tariffs is more important in improving the allocation of resources than is the elimination of export subsidies. Moreover, the elimination of export subsidies, if not coupled with tariff liberalization, may have negative effects on some regions, especially in Africa. Finally, extending liberalization to all merchandise trade would almost double world gains and would benefit developing countries in particular. However, the distribution of gains and losses from a comprehensive liberalization scenario would be unequal across different groups of developing countries. While most Asian countries would gain substantially if tariff cuts in manufacturing were added to liberalization in agriculture, sub-Saharan Africa might not.

The analysis of the basic data on trade flows, patterns of protection and results of the simulations is suggestive of some policy conclusions which are discussed in detail in the final section of the paper. Some of the key conclusions that may be useful in determining targets and modalities for the market access negotiations are:

- Both in agriculture and in industrial products, a formula approach would help address tariff peaks and tariff escalation. The Swiss formula is highly effective in this respect, but may be too much too soon for many developing countries, unless modulated in some way. Exceptions to a formula should be limited, and,

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