© *Roman Grynberg* DOI: 10.1017/S1474745604002022

Towards Doha-lite[1]

ROMAN GRYNBERG
Economic Affairs Division of the Commonwealth Secretariat

The works of Winters and Martins (W&M) and Mattoo and Subramanian (M&S) are two serious and innovative papers that begin to analyse not only what the WTO means for small states but now, just as significantly, what the numerical preponderance of small states might mean for the WTO. This latter issue is especially significant as members grapple with increasingly complex web of interests that need to be accommodated in order to arrive at a consensus in the Doha round. While neither papers represents the position of the World Bank and IMF, what they both have in common is that they approach the current round from the possibility that some WTO members, the smallest, poorest and most trade preference dependent – for example, Mauritius, Fiji, Guyana and Jamaica – may only benefit from Doha round trade liberalisation in geological time! The research, while not representing official Bretton Woods views, constitutes a dramatic shift in thinking inside the beltway from that which existed at the end of the Uruguay round when the dominant position was that 'all members would benefit'.

The economics and political economy of smallness

W&M, as an empirical work, explains the reasons why some small states that may have a comparative advantage in the production of a particular commodity may not be able to trade and not benefit from the process of liberalisation. This inability to benefit from liberalisation and open markets in a meaningful way stems from the very high costs of production in small states that is caused by the interaction of inherent characteristics such as smallness, remoteness and geographic dispersion of small populations. Significantly W&M find no evidence that the high cost structure is policy induced. This leads to the policy dilemma of countries that, by virtue of size and location, are sub-economic and can only maintain income levels at anything approximating present levels through interventions by the international community.

In the Caribbean, which suffers from some of the inherent disadvantages of smallness, the WTO's Trade Policy Review for the Eastern Caribbean States, completed in 2002, noted clearly that almost no merchandise exports from these small states has developed without trade preferences. In the Pacific islands, where

1 The views expressed are those of the author and do not necessarily represent the views of the Commonwealth or its members.

https://doi.org/10.1017/S1474745604002022 Published online by Cambridge University Press

the consequence of nature's legacy is seen in most stark relief, one already finds several micro-states that have virtually no exports of either goods or services (Tuvalu, Niue, Nauru, Kiribati, Marshall Islands to name but a few), but survive from remittances and aid flows. In the larger states of the region (Fiji, Solomon Islands, Vanuatu, Samoa) trade has been based on either preferences or sovereignty and small transient market niches which create quasi-rents of similar commercial effect on investors to that of trade preferences. With the diminution of margins of preference many of these larger states may well suffer the same fate as the smallest 'export-free' states in the region.

It is the loss of this trade and economic advantage through various WTO disputes (bananas and soon probably sugar) and MFN liberalisation that provides the back-drop to the work of both W&M and M&S. Both papers attempt to address the inevitable consequence of the closure of the Doha round – the loss and further erosion of trade preference and the adjustment of the smallest and most vulnerable WTO members. Unfortunately M&S did not have the benefit of access to the empirical work of W&M, which clearly demonstrates that the concerns of small states are legitimate and far more serious than most economists have previously been willing to recognise.

While M&S are right to recognise that small states perceive themselves as losing trade preferences from the Doha round and that many do not feel they have anything to gain from the closure of the round, they exaggerate the significance of this for actual WTO negotiations. Even if highly trade preference dependent countries feel that the loss of trade preference will mean that they will not benefit from the round, that fact alone does not mean that these states, which M&S to their credit recognise, will be able to form a blocking coalition. The reality of Doha round negotiations is that if the Quad can come to a mutually beneficial agreement with the large developing countries (India, Brazil, Argentina, China, Malaysia and so on) the smaller states can be pressured bilaterally into agreeing to a text that is not in their economic interest. While such an outcome is both plausible and feasible in the medium term it is unsustainable and would only compound the long-term problems of the WTO.

'Free riders' and the weight of definition

Perhaps what is also very significant about M&S is the fact that they have never really justified their definition of small economies – 0.05 % of world trade with income below US $4,630 (in PPP terms), while the definitions proposed by W&M are based on real economic and trade variables reflecting actual costs of production. The concerns of small states of whether, in a globalised world they will be able to attract investment, is certainly true of what W&M call micro-states – those with populations of less than 400,000. It is also true of small states – that is developing countries with a population of less than 1.5 million. The beauty of the delineation between these two sub-categories is that we have a group of countries

https://doi.org/10.1017/S1474745604002022 Published online by Cambridge University Press

that will have the most extreme difficulty competing in the global market and those, with some assistance and adjustment, that could potentially become globally competitive. The delineation, which is based on real trade and economic variables, will shape the type and extent of policy intervention and adaptation of the rules of the multilateral trading system. The difficulty, as we shall see, is not the economics but the political economy of who gains and who does not.

While it is comforting to think that real trade data can provide delineation between small and large states the point is moot. The real negotiating issue in Geneva is that, if WTO members wish to disentangle the wilful conundrum created by ministers in the Doha mandate on small states, which recognises the difficulties of small vulnerable states, calls for resolution but prohibits the creation of a new category, they will have to deal with 'free riders' at the very margins of any definition.[2] It is this political difficulty that will ultimately undermine the attempt of small states to actually address their trade concerns, irrespective of the goodwill of large developed countries. If large WTO members continue to insist that no new category be created, while simultaneously asking for a definition of small states, the problem of small states in the Doha round will disappear under the unbearable weight of definition. The negotiating difficulty is that any definition that will be acceptable to the quad and the micro-states may not be acceptable to the free riders at the margin. Any definition that is acceptable to the free riders will not be acceptable to the quad, because the pressure for consensus will increase the number of beneficiaries and *pari passu* diminish the appetite for substantive trade concessions by the quad.[3]

2 Ministerial Declaration, Fourth Session, Ministerial Conference of the World Trade Organization, WT/MIN(01)/DEC/1, 20 November 2001, (01-5859), Doha, 9–14 November 2001, adopted on 14 November 2001, para. 35

> 'We agree to a work programme, under the auspices of the General Council, to examine issues relating to the trade of small economies. The objective of this work is to frame responses to the trade-related issues identified for the fuller integration of small, vulnerable economies into the multilateral trading system, and not to create a sub-category of WTO Members. The General Council shall review the work programme and make recommendations for action to the Fifth Session of the Ministerial Conference.'

3 During the negotiations at Doha Ministerial conference over the extension of exemptions from several disciplines under the *Agreement on Subsidies and Countervailing Measures* members began with a limited list of countries that would benefit but which eventually expanded to cover almost all WTO developing countries. See: Procedures for extensions under Article 27.4 for certain developing country members G/SCM/39, 20 November 2001. The provisions state:

> Programmes eligible for extension pursuant to these procedures, and for which members shall therefore grant extensions for calendar year 2003 as referred to in 1(c), are export subsidy programmes (i) in the form of full or partial exemptions from import duties and internal taxes, (ii) which were in existence not later than 1 September 2001, and (iii) which are provided by developing country members (iv) whose share of world merchandise export trade was not greater than 0.10 per cent, (v) whose total Gross National Income ('GNI') for the year 2000 as published

https://doi.org/10.1017/S1474745604002022 Published online by Cambridge University Press

In praise of plurilateralism

Assuming a *deus ex machina* and WTO members agree on a definition of small and micro-states then there is much to be said in favour of the WTO reconsidering how it will deal with such a large group of countries which require special and differential treatment (S&D). A return to the plurilateralism of the Tokyo round is viewed adversely by M&S. This is very much an ideological position, and what has been learned over almost ten years of North–South dialogue in the WTO is that small developing states (and even some very large ones) did not understand what they were signing in 1995 and certainly neither have the resources nor the will, nor even sound economic reason, to implement many of the Uruguay round agreements. Since almost the beginning of the WTO, developing countries have complained of their inability to implement agreements or to benefit from them. They have consistently sought S&D provisions that are seen as unimplementable by the Quad. Indeed there is good reason to return to plurilateralism as the form of S&D least damaging to the core of the GATT/WTO, i.e. the principles of MFN and National Treatment. These are fine and honourable principles of international public law but to apply the principle that WTO members are economically equal in agreements, such as the ASCM, is to completely miss the economic evidence provided by W&M. Rather than wasting invaluable negotiating and human capital over unending delays in the implementation of the ASCM by developing countries and creating ever more complex S&D provisions that reflect the various economic realities of WTO members it would protect the core of the GATT law, i.e. MFN and National Treatment, to return to plurilateralism, where countries would agree to the discipline of the ASCM when they feel they are sufficiently developed to do so. While this may be anathema to those such as W&M, one need merely look beyond the beltway to see the extent of subsidies to small and large business being provided by Quad members, especially at sub-national level. While ideally there should be no subsidies, the political reality is that vast sums are spent by developed countries attracting investment, while small developing countries have signed agreements that eliminate any ability to provide tax concessions and other measures to do likewise for exporters.

Much can be said about the costs and benefits of the TRIPS agreement, but, viewed from the perspective of intellectual property (IP) owners, the economic benefits (beyond anti-piracy provisions) of obliging micro-states like Dominica or Tonga to implement onerous and burdensome obligations, which they are not in a position to either implement or enforce, are far from obvious. Again a plurilateral approach, where micro-states agree to implement only the anti-piracy disciplines of the TRIPs, would decrease the economic burden of implementation and increase legitimacy of the multilateral system, without any substantive cost

by the World Bank was at or below US $ 20 billion, (vi) and who are otherwise eligible to request an extension pursuant to Article 27.4, and (vii) in respect of which these procedures are followed.

https://doi.org/10.1017/S1474745604002022 Published online by Cambridge University Press

to IP owners, who may not be able to enjoy their IP rights in Tonga, but, as long as they are not exported illegally, would suffer no financial loss.

Both the SPS and TBT Agreements can be implemented in small and micro-states in ways that diminish the administrative burden that they have imposed. In such small societies where, by virtue of the size of government, nearly all trade standards are contractual matters between buyer and seller, the government has had almost no role. The option of a regional approach to implementing these agreements is certainly one that has been discussed in Geneva and would substantially diminish the burden of these agreements on small and micro-states.

None of what has been said above will address an appropriate way of compensating small states for the loss of trade preference. But if W&M are correct in their analysis then these countries, which have a significantly higher cost structure because of endowed handicaps, will simply not attract investment. These countries have had relatively high incomes but relatively stagnant growth as an inevitable result of access to preferential trade agreements. With their phasing out and the diminution of margins of preference they will see income levels contract and some will develop into autarchic islands of poverty, dependent on income transfers and increasingly, criminality. W&M suggest the creation of mode IV quotas for these small states by developed countries so that they are able to have some benefit from trade liberalisation. This, given the tiny population of the small and particularly the micro-states would create no real cost for larger developed WTO members and would provide real opportunities for these states to benefit from globalisation. It is an innovative and highly commendable recommendation.

However, if there is an analytical weakness in W&M it is the failure to recognise that the international community has historically intervened to provide subsidies directly to private investors through trade preference arrangements. It is these subsidies, along with aid that were, in large measure, the cause of the observed high incomes of many of these small island states. The use of trade distorting commodity protocols and tariff quotas in the systems of trade preference provided by the US and the EU has given investors in small states sufficient economic rent to overcome the cost disadvantage of locating in such remote and small locations. Indeed the subsidies to investors in small states through trade preferences and distortionary, WTO incompatible quotas, assured exports in what would otherwise be sub-economic volumes from these isolated locations. Yet despite generations of subsidies to exporters from these locations, W&M take an ideological position that there should now be no support to the private sector in future, even as a transitional measure. Many of the small states, as opposed to micro-states, have substantial but not necessarily insurmountable cost disadvantages and any option for assuring they benefit from globalisation must extend beyond W&M's proposal which allows their citizens to leave temporarily. Financial instruments need to be developed to assist the private sector to look at these locations and to help these countries find market niches that allow the private sector to overcome the cost disadvantages of smallness.

https://doi.org/10.1017/S1474745604002022 Published online by Cambridge University Press

The international community owes a debt to both W&M and M&S as they have begun an area of trade research that covers the interests of almost a majority of WTO members, depending on how they are defined. While all policy conclusions are by their nature contentious the authors are to be congratulated for addressing the concerns of a group of countries for which there has been precious little thought or consideration in the corridors of Geneva. An approach to closing the round ultimately based on 'Doha-lite' for small developing states, which would require a return to plurilateral agreements combined with appropriate market friendly financial instruments to assist the private sector and preferential mode IV access, will provide the basis for a developmentally positive and equitable outcome.

https://doi.org/10.1017/S1474745604002022 Published online by Cambridge University Press