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Post Bali Doha Round and MC10: Korea's Perspective

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The July deadline for the Doha Round "work program" was missed. The WTO DG urged delegations to come prepare this autumn to redouble their efforts toward reaching "substantive outcomes" ahead of their December ministerial conference in Nairobi, Kenya. However, it seems hardly likely that WTO members will reach a compromise on the work program any time soon, as the Doha negotiations themselves remain deadlocked.

The Doha negotiations remain stalled as negotiators have dug into their divergent positions on domestic agricultural subsidies as well as market access for agricultural and industrial goods. From early 2015, some proposals were tabled in the main negotiating groups in a bid to advance the work program. However, members have proven to be deeply divided over the level of ambition in the core areas of the Doha talks – agricultural, NAMA – and how much to rely on the draft Doha texts from 2008. While the existing 2008 modalities texts cannot be dismissed, members also cannot ignore the fact that the 2008 draft texts were not accepted as the basis for future negotiations by developed members. At the same time, disagreements in agriculture have particularly come to the fore, with various members reluctant to proceed in areas such as NAMA or rules as long as there is a lack of clear signals from the farm trade talks.

Given such circumstances, in order to settle on even a small package at the Nairobi ministerial conference, major players such as the U.S., EU, China, India, and Brazil should establish a compromise on the following several key issues through strong political will.

First, in domestic support of agricultural negotiations, the OTDS (Overall Trade Distorting Support) is likely to be a key determinant of possible outcomes as a whole. The core of this issue is whether numerical OTDS limits should be applied to all Members with appropriate S&D, or whether, as in the 2008 draft modalities, there should be an exemption for RAMs (Recently Acceded Members). Table 1 shows that most member countries have relatively low burdens in reducing their OTDS, compared to that of the U.S. The U.S. stresses a real reduction of farm subsidies for emerging market economies, particularly China, also a recently acceded Member.

To reach an agreement in this area, we need to admit that the most difficult part of the post-Bali DDA will be securing an agreement on farm support, and the domestic political backing for these support programs in advanced countries has eroded considerably in the dozen of years since the DDA negotiations started. Now to reduce domestic support directly impinges on farm policy decisions in emerging developing countries such as China as well as developed countries. Therefore, our first attempt to reach a compromise on such a complex problem will consist of mutual concession based on self-reflection and mutual recognition. In many ways the significance of this item is small compared to the gains from better market access and the removal of export subsidies.

Table 1. OTDS for major countries

Countries	Unit	Bound OTDS (A)	AMS+DM+BB (B)	(B/A)
US	billion US $	14.5	12.1	0.834
EU	billion EUR	24.2	11.0	0.455
China	billion CNY	584.4	96.0	0.164
India	billion INR	1,151.0	104.0	0.090

Note: DM = De-minimis, BB= Blue Box
Source: WTO, JOB/AG/32/Rev.1 (11 February 2015).

Second, the most important item on the DDA agricultural agenda is market access, particularly tariff reduction methods. There are two main positions: those delegations which prefer a tiered formula approach as in Rev.4 of the 2008 draft modality text and those who reject this approach, of whom many favor an alternative based on average cuts. Developed economies such as the U.S., EU and Australia have largely backed average tariff cuts, while developing countries such as India have opposed this idea.

An average tariff cut has its own advantages. It provides all Members with significant flexibilities in their agricultural tariff reductions. Thus, most developing countries consider an average cut approach to be potentially interesting. However, they also express specific preferences on what additional elements would be needed for a balanced outcome. For example, Rev.4 allows developing countries to self-designate "special products (SP)" which could be subject to be exempt from tariff of cuts up to 5 percent of agricultural tariff lines. Developing countries, especially members of the G33, which includes Korea, fear that an average tariff cut will not allow them to protect sensitive tariff lines from cuts as much as the 2008 agricultural modality draft text (REV.4).

Table 2. Equivalence between the tiered formula and an average tariff cut

Unit: %

Tier	Developed countries		Developing countries	
	Initial tariff	Reduction rates	Initial tariff	Reduction rates
1	0~20%	50	0~30%	33
2	20~50%	57	30~80%	38
3	50~75%	64	80~130%	43
4	> 75%	70	> 130%	47
Simple average		60.3		40.2

Source: WTO, TN/AG/W/Rev.4 (6 December 2008).

The reduction rate of an average tariff cut that is equivalent to the tiered formula is calculated as 60.3 percent for developing countries and 40.2 percent for developing countries if all agricultural tariff lines are uniformly distributed in each tier. The equivalent minimum cuts could be 50 percent for developed countries and 33 percent for developing countries. However, there are significant flexibilities in the application of the tiered formula to agricultural tariff lines; sensitive products for both developed and developing countries and special products for only developing countries, as stated above.

Therefore, reaching an agreement on this issue is similar to searching for an idea on how the SP can be incorporated in an average tariff cut approach. A similar story can be applied to NAMA. Tariff reductions for industrial products would be made using a simple Swiss formula with separate coefficients for developed or developing countries. However, there is a menu of options for developing countries that will apply according to the scale of the flexibilities they choose to use. The lower the coefficient is, the higher the flexibilities and vice versa. The NAMA modalities contain these coefficients: 8 for developed members and 20, 22 and 25 for developing members. Developing countries that select 20 or 22 as the coefficient for the Swiss formula could be entitled to exempting 5~6.4 percent of NAMA tariff lines of special importance from reductions in bound tariffs under certain restrictions.

Table 3. Flexibilities for developing countries in 2008 NAMA modality texts (Rev.3)

Coefficient for Swiss formula	Reduction rate	Coverage	Restrictions
20	0 % (no cut)	Up to 6.5% of NAMA tariff lines	Do not exceed 7.5% of total NAMA import
	half % of the agreed formula reduction	Up to 14% of NAMA tariff lines	Do not exceed 16% of total NAMA import
22	0 % (no cut)	Up to 5% of NAMA tariff lines	Do not exceed 5% of total NAMA import
	half of the agreed formula reduction	Up to 10% of NAMA tariff lines	Do not exceed 10% of total NAMA import
25	No flexibilities		

Source: WTO, TN/MA/W/Rev.3 (6 December 2008).

In order to reach an agreement on tariff reduction formulas in both agriculture and NAMA, additional flexibilities with very strong conditions need to be incorporated into the average tariff cut method. Instead, both the average reduction rate and the minimum reduction rate need to be raised properly in the average tariff cuts. This idea is a kind of trade-off between flexibilities and reduction rates within the average tariff cut approach.

Third, the MC10 is the first WTO ministerial to be held in sub-Saharan Africa. Thus, advanced countries should concede the priority demands of developing countries, in particular the African and least-developed countries, with respect to the Development Agenda: LDC issues – including rules of origin, DFQF (duty free quota free), operationalization of service waiver, the final solution for cotton. These are addressed in the 2013 Bali texts, but as non-binding best endeavor commitments on the part of developed countries. In particular, the 2013 Bali Ministerial renewed the call for developed countries to provide DFQF market access for LDCs on 97 percent of their tariff lines. One problem is that the 97 percent threshold allows developed countries to exclude a handful of tariff lines that account for a large share of LDC exports. Advanced countries need to concede the priority demands of developing countries with respect to development issues in LDCs. For example, developed countries implement the 97 percent threshold step by step; setting the first threshold of at least 80 percent of LDC exports and the second threshold of at least 90 percent of LDC exports.

Fourth, WTO members need to pay attention to high costs incurred by delayed implementation of the TFA (Trade Facilitation Agreement). It is projected that full implementation of the TFA by all WTO members could deliver benefits of the US$1 trillion, according to PIIE (2013). Most TFA benefits will accrue to developing countries, but the size of benefits depends on the speed and extent of TFA implementation. So WTO member countries should seek to assure that the TFA enters into force before or just after the Nairobi Ministerial in December 2015 (This will require the affirmative vote of at least two-thirds of the 161 WTO members.).

Finally, the U.S. and EU have signaled that a significant outcome must be achieved by Nairobi, or else members will have to acknowledge the failure of the Doha round. In this regard, developing members need to realize that developed countries are leading mega-regional FTA such as TPP and TTIP, which will occupy center stage in world trade policy as a consequence of the DDA's failure. In other words, the U.S. and EU have an alternative in anticipation of the failure of the DDA negotiations. Furthemore, they are also engaged in plurilateral negotiations such as TiSA(Trade in Service Agreements) and EWG (Environmental good working group) of which major developing members are not a part. If developed countries create their own league of trade liberalization based on mega FTAs or plurilateral negotiations, then the WTO could fall into a small league composed only of developing countries. KIEP