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Advancing the Doha Development Agenda

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The Doha Development Agenda (DDA), the World Trade Organisation's latest round of multilateral trade negotiations, is at a critical juncture. Launched in November 2001, the negotiations suffered a major setback with the failure of the WTO Ministerial Conference in Cancun in September 2003. And while momentum was regained with the issuing of a Framework Agreement in July 2004, the WTO's 6th Ministerial Conference in Hong Kong in December 2005 was unable to capitalise fully on this advance and fell well short of the original goal of setting the terms under which liberalisation would occur.

The Hong Kong meeting made some progress in advancing the Doha Development Agenda and hence the pursuit of growth through trade. But much remains to be done, particularly in settling negotiating modalities in agriculture and non-agricultural market access (NAMA) and in putting some flesh onto the bones of the General Agreement on Trade in Services (GATS). And where progress was made it was qualified, whether in dealing with the concerns of African cotton producers or in improving market access for the products of the least developed countries. Given the work still to do, it is not guaranteed that new deadlines will be met or that the DDA will be concluded on time.

There is much at stake should the momentum of multilateral liberalisation stall. There is a risk of both major opportunities forgone and of systemic strains as discriminatory bilateral and regional deals add distortions to the framework of global trade and investment. Developing countries would be amongst the principal losers. Charting the way ahead will require that trade policy be seen in a broader domestic context which recognises that market opening works best when it is backed by sound macroeconomic policies, flexible labour markets, a culture of competition and strong institutions. Through this lens, trade reform can be promoted as a necessary tool of growth and development rather than as a concession paid to others.

The paper first examines what was achieved at Hong Kong and what still remains to be done, before considering why progress under these negotiations is proving so difficult. We then look at the risks that an enfeebled multilateral trading system would entail, both in terms of liberalization opportunities forgone and systemic strains to the framework of trade and investment. Finally, the paper suggests a way forward in realizing the promise of the Doha Development Agenda.

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Keeping the Train on the Rails

A week before the Hong Kong ministerial meeting, the Financial Times journalist Guy de Jonquieres said two things could be predicted about the meeting. First, it would not succeed in resolving the outstanding deadlock in key areas. And second, it would be declared a success! He was right on the first point, and maybe half right on the second. At least the train has been kept on the rails.

Indeed, the story is not entirely gloomy. Progress was made both in the lead up to Hong Kong and at the meeting itself. Let's first look at the lead up:

- If we take one of the more problematic areas, agriculture, the report of the negotiating chair, Crawford Falconer, referred to 'genuine and material progress' having been made. The report talks of convergence having been achieved on disciplines on export credits and of the attainment of a working hypothesis of four bands for structuring tariff cuts (ranges based on percentage tariff levels for which reductions would be negotiated).
- In trade facilitation, the report by the chair of the negotiating group — the only report approved by Members ahead of Hong Kong — said, with reason, that 'good progress has been made in all areas covered by the mandate'. The focus of negotiations was to be on measures to improve and clarify GATT Articles V (Freedom of Transit), VIII (Fees and Formalities connected with Importation and Exportation) and X (Publication and Administration of Trade Regulations).
- On the eve of the meeting, WTO Members agreed to amend the Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPS) to allow countries with insufficient pharmaceutical manufacturing capacity to import generic versions of drugs still under patent.
- Also on the eve of the meeting, Japan announced a $10bn program to promote poor countries' exports and the EU committed to step up annual 'aid for trade' to €2bn by 2010, to assist developing countries to implement and benefit from WTO agreements and more broadly to expand their trade.
- Over a somewhat longer period, we know from the OECD-WTO trade capacity building database that, since the launch of the Doha Development Agenda, the total volume of trade-related assistance has increased steadily to reach $3 billion in 2004.

What about the meeting itself? The Hong Kong ministerial did indeed achieve some forward movement.

In **agriculture**, some progress was made under all three pillars: market access, domestic support and export competition. In market access, the revised ministerial text formalises the 'working hypothesis' on structuring Members tariffs for reduction within four bands, with bigger cuts on higher tariffs. On domestic support, the text confirms the 'working hypothesis' that the Aggregate Measure of Support (the annual level of monetary support provided to agricultural producers) would be classified in three bands. The EU will be in the top band, facing the

highest linear tariff cuts, the US and Japan in the middle and everyone else in the bottom band. The Hong Kong ministerial also sought to bring greater discipline to the various domestic support 'boxes'. It will be recalled that the amber box comprises trade-distorting support measures that are not linked to production limiting programmes. The Uruguay Round Agreement on Agriculture (URAA) bound total Amber Box payments and subjected them to reduction commitments. The Blue Box comprises trade-distorting measures that are linked to production-limiting policies such as set-asides and production quotas. The URAA exempts Blue Box measures from reduction commitments. The Hong Kong text specifies that overall cuts in trade-distorting domestic support must be at least equal to or greater than the sum of the reductions in Amber Box, Blue Box and *de minimis* support. This is intended to make it more difficult for countries to simply re-classify subsidies in order to dodge reduction commitments. And for export competition, the text calls for the 'parallel elimination of all forms of export subsidies and disciplines on all export measures with equivalent effect' by the end of 2013, with a substantial part of the elimination to be realised by the end of the first half of the implementation period.

Cotton was for many the litmus test of success at the Hong Kong ministerial meeting. Here, agreement was reached that developed countries will give duty free and quota free access to least developed country exports as of the conclusion of Doha Round negotiations. Developed countries (that is, the US) will eliminate export subsidies in 2006. The text also provides for faster and deeper reductions in trade-distorting domestic subsidies to cotton than those that will be achieved through the general schedules for domestic farm subsidies.

In **NAMA**, the text provides for a 'Swiss' formula for tariff reduction. First proposed by Switzerland in the GATT Tokyo Round (1973-1979) negotiations on industrial tariffs, the Swiss formula seeks to harmonise tariffs through an individual cut to each tariff line. The size of the individual cut depends on a chosen coefficient, with bigger cuts for higher tariff rates. Importantly, the Hong Kong text links the level of ambition for agriculture and NAMA, specifying that this ambition is to be achieved in a balanced and proportionate manner consistent with the principle of special and differential treatment.

And, in a key element of the development package, agreement was reached on the principle that developed countries, and developing countries declaring themselves able to do so, should provide, on a lasting basis, duty free and quota free access for exports from **least developed countries** by 2008.

Still a Long Journey Ahead

Notwithstanding this progress, an enormous amount of work was still left to do. And in some respects, the outcome was weaker than might appear at first sight.

In agriculture, the so-called core modalities, the formulas for cutting tariffs and subsidies, were left unresolved. This task, which was originally set for Hong Kong was deferred until 30 April 2006, with the submission of draft schedules no later than 31 July 2006. This still unfinished business includes the so far

intractable issues of the relevant liberalisation thresholds for developed and developing countries and the treatment of sensitive products, as well as developing countries' self-designated Special Products and the Special Safeguard Mechanism. Developing countries will have the flexibility to self-designate an appropriate number of tariff lines as Special Products guided by indicators based on the criteria of food security, livelihood security and rural development. Developing countries will also have the right to have recourse to a Special Safeguard Mechanism based on import quantity and price triggers. Also to be resolved are the disciplines on food aid, which the EU regards as tantamount to an export subsidy, export credits and the practices of state trading enterprises.

In cotton, it would seem that the overall reductions and the implementation schedules for domestic farm subsidies must be agreed before the depth and speed of cotton subsidy cuts can be negotiated. There will be no early harvest. And it is worth recalling that domestic subsidies make up 80-90 per cent of total US support for cotton.

In NAMA, as in agriculture, the core modalities remain to be negotiated, within the same time period, including the vexed questions of the number of coefficients in the Swiss formula, the meaning of 'less than full reciprocity' for developing countries, the development of sectoral initiatives and the treatment of preference erosion. Moreover, non-tariff barriers, including standards and conformity assessment, which are arguably a greater impediment to trade than tariffs, have yet to be fully integrated into the negotiating process.

In services, there seems to have been a step backwards. The text agreed at Hong Kong, instead of obliging members to enter into plurilateral market access negotiations, simply requires that they 'shall consider such requests'. Genuine progress in the GATS will call for an intensified request-offer process, augmented by action within plurilateral groups with shared sectoral interests, leading to multilateral commitments. Groups of Members might develop model schedules such as the Reference Paper on Basic Telecommunications. The Reference Paper consists of a set of obligations for a pro-competitive regulatory framework for basic telecommunications that become legally binding when a Member adds the obligations to its schedule of commitments. It has inspired considerable debate on whether its elements could be transferred to other services — for example, postal, courier and energy services — bearing in mind the specificities of other sectors. And there may be a role for some form of quantitative target in the services negotiations. None of these ideas was advanced in Hong Kong, though some progress is being made in plurilateral negotiations.

Even in trade facilitation, there is considerable unfinished business. While negotiating modalities had been broadly agreed prior to Hong Kong, developing countries are not ready to move to legal drafting on the substantive provisions of the agreement before more progress is made in reaching agreement on the scale and nature of technical assistance and capacity building needed to help developing countries reform their customs process. And further clarity is needed on how developing country commitments would relate to issues such as their development needs and implementation capacities.

And finally, the commitment in respect of market access for the products of least developed countries is weakened by the fact that the obligation relates only to, at least, 97 per cent of products originating from LDCs (defined at the tariff line level) and there is no deadline set for the call to progressively achieve compliance with the Hong Kong obligation. The three percent reservation would account for some 330 tariff lines and for some countries this could effectively deprive them of market access for all of their products — it would certainly be highly restrictive on products such as textiles from Bangladesh or Cambodia. Moreover, because eligibility is almost always country-by-country, it is open to developed countries to exclude different sets of products for each LDC and hence limit severely the extent of market access benefits granted.

At the centre of the challenge ahead is the fact that the blockages that we saw before Hong Kong are still with us. As one US Senator put it, negotiators simply kicked the can down the road. Most critically, some parties (such as the EU) say they will not move further on agriculture until others move on services and NAMA, while others (including some developing countries) say the contrary. There are also stand-offs within sectors, as in services for example, where developing country demands on mode 4 (the ‘presence of natural persons’, or the short-term movement of service providers) are pitted against developed country expectations on mode 3 (the supply of a service by one Member ‘through commercial presence in the territory of any other Member’). Nor are stand-offs an exclusively North-South affair. In agriculture, the demands of some OECD countries (notably the US) that others (notably the EU) do more on market access, are matched by demands from some (notably the EU) that others (notably the US) do more to discipline food aid.

Why Progress is Difficult

One explanation that we hear for the difficult and protracted nature of the current negotiations is that of complexity. The agenda is just too full, some would argue. It is true that in contrast with successive GATT rounds (and recalling that the Uruguay Round itself lasted seven and a half years), we are now engaged in real negotiations on agriculture, on opening up markets for trade in services and in dealing with the new issue of trade facilitation.

This complexity, it might be said, is now compounded by the greater diversity of negotiating parties. Developing countries and economies in transition are now much more active participants in the negotiating process. The range of players is certainly wider than during the Uruguay Round, with the G20, which includes Brazil, China, India and South Africa, playing a crucial role in seeking to secure developing country interests, especially in agriculture.

And while it may still be felt that progress in the DDA remains dependent on a broad measure of prior agreement between the US and the EU, it is significant that the real motor of negotiations — albeit spluttering — has been the so-called New Quad of the US, EU, India and Brazil, augmented on occasions into the Five Interested Parties (FIPs), including Australia. It was after all the FIPs who put

together the July 2004 Framework Agreement that revived the Doha Round. And on occasions, the FIPs are further augmented into the G6, which includes Japan. Beyond this core, we have the G90, which draws together the poorer developing countries and the G10, with defensive interests in agriculture. And then there is a whole range of specific interest groups, carrying such splendid names as Friends of Fish, or Very Close Friends of Services. One of the interesting dynamics at Hong Kong was the extent to which the G20 sought to find common cause with the G90, in furthering the interests of developing countries.

This greater complexity and diversity, together with a spoiling role played by many non-governmental organisations, may have contributed to the stand-offs at and before Hong Kong. But stand-offs can lead to trade-offs, which are the very bread and butter of multilateral trade negotiations; the complexity argument is not totally convincing. Moreover, given the treatment of the 'Singapore Issues' — investment, competition, government procurement and trade facilitation were embodied in the work program of the Ministerial Declaration of the WTO Ministerial Conference of Singapore in December 1996 — the scope of the DDA is much less complex than it might otherwise have been. As part of the July 2004 Framework Agreement it was decided that there would be no negotiations on investment, competition and government procurement during the Doha Round.

The underlying problem is lack of the political will needed to surmount technical problems and to face up to some difficult short term adjustment strains. And behind the lack of political will is the widespread anti-globalisation sentiment among those in advanced industrialised economies who elect the political leaders.

What we end up with is a potent mix of fear and complacency. Fear on the part of those who feel vulnerable to change. And complacency on the part of governments who are tempted to believe that trade and investment will keep booming, regardless of what happens, or doesn't happen, at the WTO. There is also complacency on the part of business. They have been much less engaged than during the Uruguay Round, and may feel, mistakenly, that they can get what they want from bilateral arrangements. We hear concerns from business about a disconnect, as product cycles get shorter and multilateral trade negotiating cycles get progressively longer.

This is not just a lesson from Hong Kong. The same forces were at play at the Fifth WTO Ministerial Meeting in Cancun, in September 2003, and risk being with us for some time.

The Risks of an Enfeebled Multilateral Trading System

A new deadline was set for 30 April. But very soon after the Hong Kong meeting it was realised that end-July was a more realistic target. The timetable is becoming tight. If agreement on core modalities is not reached by the end of July, it will be very hard to finish the complex process of completing and negotiating actual liberalisation schedules in time to conclude negotiations by the end of the year. And if that deadline is missed, it will be very difficult to sign off on the DDA before the expiry of Fast Track (Trade Promotion Authority) — necessary

for the expeditious passage of trade proposals through the US Congress — in mid 2007. That in turn could spell a protracted period of drift, as it is by no means likely — after the bruising experience of the negotiation of the Central American Free Trade Agreement (CAFTA) — that Fast Track will be renewed.

Nature hates a vacuum. If multilateral action stalls, other initiatives will fill the gap. Bilateral and regional deals will proliferate even more than in recent years. In the last ten years, almost 200 regional trade agreements (RTAs) have been notified to the World Trade Organisation. Thirty three new agreements were notified in 2004 alone, and 20 more in the first six months of 2005. The imagery is striking. The first thing that happened immediately after the failed Cancun ministerial came to a sudden halt was that the Mexican hosts sat down with their Korean counterparts to work on a bilateral deal. In Hong Kong, the Egyptian trade minister used this multilateral forum to announce that Egypt was about to embark on the negotiation of an FTA with the US.

Does an enfeebled multilateral trading system matter? Let us consider what is at stake. We should be careful not to exaggerate the cost, at least in the short term. If the multilateral system stalls, the world will not fall apart. Farms, factories and service providers will continue to produce. And international trade and investment will continue to grow. According to the latest OECD Economic Outlook, world trade grew by 7.3 per cent in 2005. It is expected to grow by 9.1 per cent in 2006. But there will be a cost. And it will come in two forms: opportunities forgone and systemic strains

Opportunities forgone

Only a comprehensive multilateral process of negotiation will realise the full benefits of market opening and rules strengthening, where the political and economic trade-offs are maximised. Let's look at the potential gains from a successful DDA, and the consequential price of failure, in the four key areas of negotiation — agriculture, non-agricultural market access, services and trade facilitation. In doing so, the focus will be particularly on the interests of developing countries; this is after all the Doha *Development* Agenda.

Agriculture. A lot of work has been done on measuring the potential gains from agricultural trade liberalisation. But this does not, by any means, guarantee certainty of prediction.

There has in fact been a scaling back of estimated gains, particularly for developing countries, as greater account is taken of the situation of net food importers, the effects of preference erosion and the fact that cuts in bound tariffs will not translate into corresponding cuts in (lower) applied rates. Bringing the impact on net food importers into the equation is important as market projections suggest that developing countries as a whole, and the least developed in particular, will face growing net imports of agricultural products. As part of this re-assessment, it has also become clearer that the gains to developing countries from agricultural trade liberalisation will be rather concentrated among a small group of countries, with Brazil among the biggest beneficiaries.

But there are gains to be made. A recent World Bank study suggests that a Doha scenario involving a 75 per cent cut to bound agricultural tariffs, a 75 per cent cut to agricultural subsidy ceilings and abolition of agricultural export subsidies would raise developing country incomes by some $23 billion, with GDP rising by 0.3 per cent in Latin America, South Asia and Sub-Saharan Africa (see Anderson and Martin, 2006).

Identifying the source of gains is important, and will remain important as we try to generate momentum in the DDA. Fully one half of developing country gains come from their own liberalisation. And, according to the Bank, over 90 per cent of gains come from tariff cuts. Market access barriers are found to be much more important than domestic subsidies because the amount of support granted is much greater and because trade barriers distort both production and consumption while domestic support distorts only production (Anderson, Martin and Valenzuela, 2006).

Moreover, even where OECD countries' agricultural policies do not harm *overall* economic welfare in developing countries, they certainly harm the economic and social well being of farmers in developing countries (Tangermann, 2005). From a development perspective, that is an important consideration.

And the quantification pendulum may swing back again. Most of the modelling work on which current estimates are based are static. As dynamic effects through productivity improvements are brought into the picture it is possible that we will see the estimates of potential gains increased.

Non-agricultural market access. Of the estimated $97 billion gains from full tariff liberalisation for industrial goods under NAMA, some $68 billion would accrue to developing countries (Lippoldt and Kowalski, 2003). Fully unrestricted access to all the Quad countries (US, EU, Japan and Canada) would produce substantial benefits for Sub-Saharan Africa, leading to a 14 per cent increase in non-oil exports and boosting real income by about one per cent. Looked at from another perspective, it is worth recalling that in 2002, Bangladesh was charged the same amount of tariffs (around $330M) on its two and a half billion dollars of exports to the US as France, whose exports to the US were worth $30 billion.

The question of preference erosion looms large here, as it does in agriculture. However, we find that for all but a handful of developing countries, the gains from across the board MFN liberalisation more than offset the losses from preference erosion (Lippoldt and Kowalski, 2005). And where there are net losses, the answer is not to forgo liberalisation but rather to provide development assistance to the developing countries concerned to enable them to diversify their exports.

Services. The measurement of potential gains from the liberalisation of trade in services is still in its infancy. The estimation of tariff equivalents for services barriers remains imprecise. And there is a growing realisation that costs incurred by foreign suppliers in order to overcome natural barriers, such as different languages and institutions, are mainly one-off fixed costs of entering the foreign market and cannot therefore be transformed into tariff equivalents.

But the modelling methodology is getting better and the data are becoming more reliable. And out of these improvements is a growing sense that the

potential gains from open service markets are very great. This is not surprising. The service sector is now the biggest area of economic activity in all country groupings. Service barriers — usually in the form of behind-the-border regulatory requirements — are particularly high. And services liberalisation acts as a proxy for increased factor mobility — of labour (via mode 4 of the GATS) and of capital (via mode 3).

On some counts, the gains from services liberalisation could exceed gains in the area of goods by a factor of five. Developing countries stand to be amongst the major beneficiaries, in part because of their growing role as exporters of services. Developing countries are particularly successful in sectors such as port and shipping services, audiovisual, construction, and health services. And while developing countries have a clear comparative advantage in labour-intensive services, such as construction, technological advances in the telecommunications and computer industries has enabled them to become highly successful in skill-intensive computer-related activities (Nielson and Taglioni, 2004).

But it may be through the opening up of *imports* that the greatest welfare gains will be realised — or forgone — from services liberalisation. This is because of the critical effects of services barriers on downstream users. Ongoing analysis finds that if account is taken of services barriers, the effective rate of protection for some agricultural and manufacturing sectors actually turns negative, meaning that services barriers contribute to effective taxation of these industries, further compounding the overall distortions to the economy. Examples of manufacturing industry in developing countries that are effectively taxed by services barriers include motor vehicles in Brazil, chemical products in Romania and mineral products in Thailand (Dihel, 2005).

As we saw in agriculture, the sources of liberalisation gains are important and provide a pointer as to where negotiating effort should be directed. Modelling work suggests that considerably greater gains are likely to come from the liberalisation of market access for service providers than from the provision of national treatment. This is intuitively reasonable given that market access restrictions impact on all potential suppliers, foreign and domestic, while national treatment restrictions impact only on foreigners. This is not though the priority allocated by GATS negotiators; again this is not surprising given the central role of non discrimination in the WTO system.

Trade facilitation. Developing countries would capture two thirds of the gains from a DDA agreement on trade facilitation. Furthermore, if trade facilitation reforms are restricted to OECD countries, the resulting trade diversion would cause a three per cent income drop in developing countries (Walkenhorst and Yasui, 2003). It is not bestowing a favour on developing countries to allow them to opt out of liberalisation commitments.

A particular, and legitimate, concern of developing countries in the area of trade facilitation relates to the costs that are likely to be associated with, say, customs reform. Even the most costly trade facilitation measures, however, bring cost savings elsewhere and generate additional government revenue through increased efficiency in revenue collection and improved customs effectiveness.

Mid-way through a five year customs modernisation programme, Angola has increased revenue by 150 per cent. Nevertheless, some upfront costs need to be underwritten by the donor community. And coherence and sequencing are important, as some trade facilitation measures are prerequisites for others.

A multilateral agreement on trade facilitation would help lock in domestic reform while also providing a framework for international coordination and necessary technical assistance. The key here will be to ensure that necessary development assistance is offered, without holding the actual process of negotiation hostage to the aid-for-trade debate.

Another concern expressed by developing countries is that any commitments entered into as part of the trade facilitation negotiations could become subject to dispute settlement. However, as WTO Members are not bound to implement trade facilitation commitments for which they lack the necessary capacity, they would be shielded from dispute settlement proceedings, while nevertheless forgoing the benefits that such commitments would bring.

Systemic strains

Beyond these, not inconsiderable, opportunities forgone, a stalling of the motor of multilateral trade reform would see systemic strains which, over the longer term, could prove even more costly. Three threats stand out: the entrenchment of existing market distortions, the downsides of bilateralism and pressures on the dispute settlement system.

The dangers of entrenched distortions are nowhere more apparent than in agriculture. Some 30 per cent of OECD farmers' receipts come from a combination of government interventions in markets and budgetary payments. What is even more important, fully three quarters of this support comes from the most trade-distorting types of policy instrument such as import tariffs and export subsidies (OECD, 2005a).

Do these costly agricultural support policies meet their objective of supporting small farmers? It seems not. In the OECD area one dollar spent on price support adds a mere 25 cents to farm income. And because domestic support is still coupled to production, most of the benefits accrue to very large wealthy operators, not to the small farms. In the EU, 25 per cent of farms (largest farms) receive 70 per cent of all farm support. In the US the figure is 90 per cent. It has been estimated by the Groupe d'Economie Mondiale at Sciences-Po that in France over a quarter of support under the Common Agricultural Policy goes to just five per cent of farmers (*The Economist*, 2005).

The relationship between regionalism and the multilateral trading system is a topic in its own right and I shall only touch upon it. It is also not a black and white matter. Regional trade agreements can be more ambitious than the WTO. Many of them, for example, provide for a negative listing approach to services liberalisation under which all sectors are liberalised except those that are specifically excluded from the negotiations, and which is generally regarded as being more comprehensive and transparent than the positive listing approach

embodied in the GATS and which uses a bottom up technique whereby countries negotiate which sectors are to be liberalised. And there can be synergies, such as the way in which the GATS Understanding on Commitments in Financial Services took advantage of insights gained in financial market opening at the regional level.

But regional and bilateral deals introduce systemic strains through the diversion of trade and investment, and through the increased costs imposed on business by the proliferation of rules of origin and product standards. And though it is usually denied, the negotiation of RTAs does impose an opportunity cost on the scarce time of trade policy officials.

Turning to the third systemic risk, there is a danger that if the DDA process stalls the WTO will, as one observer has put it, proceed by litigation instead of legislation; in other words, there is a danger that dispute settlement will take the place of rule making. This in turn would put even more strain on the dispute settlement process and, without the underpinning of progressively strengthened rules, eventually undermine the authority of the process itself.

The dispute settlement system has not been working badly. Though the number of disputes has grown, decisions are for the most part respected and implemented. And of the over 300 disputes submitted to the WTO since its creation in 1995, only a handful have not yet been resolved. But dispute settlement cannot operate in a policy vacuum.

Charting the Way Ahead — Not by Trade Alone

Is there a realistic alternative to the DDA as a way of strengthening the trading system? This seems unlikely, but two propositions are worth briefly considering. The first is that we accept that regional trade initiatives are a fact of life and hence introduce a division of tasks whereby systemic rules issues, like subsidies, would be addressed in the WTO while market access would be left to the regional and bilateral agreements. The problem with this approach is that, apart from the distortions and increased transaction costs entailed in regional arrangements, advancing market access in sensitive sectors is likely to be just as difficult at the regional level as it is in the WTO. The exceptions and lengthy transition periods applying to agriculture in many regional agreements are testimony to this.

Regional and bilateral agreements will only complement the multilateral trading system if that system is itself strong. Only if the WTO system is bringing down MFN trade barriers and strengthening trade rules will the risks of regional distortions be contained and the opportunities for synergies be maximised. Viewed in this way, the pursuit of regional deals as an alternative to a potentially enfeebled WTO system is a cause for concern (Heydon, 2003).

A second proposed alternative to the approach embodied in the DDA is that, in recognition of the growing complexity of the agenda, comprehensive rounds of multilateral negotiations be abandoned and that, for the DDA, the pursuit of a 'Single Undertaking' (whereby nothing is agreed until everything is agreed) be replaced by issue-specific negotiations. In this way, it is suggested, stand-offs could be avoided. But, as pointed out earlier, stand-offs are usually the precursors

of trade-offs. And without the scope for a broad balancing of interests, within and between issues, progress in any one area is likely to prove difficult. One of the most potentially positive things to come out of the Hong Kong ministerial meeting was the agreement to link the levels of ambition in agriculture and NAMA.

We should not lose sight of the promise of the Doha Development Agenda. It brings with it the chance, in agriculture, to move from trade-distorting policies to ones that do less harm to the trading system, while more effectively meeting domestic farm policy objectives. In NAMA, there are opportunities to maximise the gains from international specialisation, while using the Swiss formula approach, agreed in Hong Kong, to lessen the distorting effects of tariff dispersion *within* national economies. In services, some flesh might finally be put on the bones of the GATS, with genuine market opening commitments, balanced by assurances about the right to regulate. And in trade facilitation, very large efficiency gains could be realised within a framework of development cooperation. In all of these areas, the DDA offers the opportunity, through aid for trade, to address developing countries' supply-side constraints and help foster their fuller integration into the multilateral trading system.

It may be possible in the weeks ahead to stitch together a deal that will, through scaled down ambition, avoid a total setback and keep the train on the track. But this will not fulfil the promise of the Doha Development Agenda, nor reap the gains on offer from global trade and investment.

This brings us back to the question of political will. If the DDA is to be brought to a genuinely successful conclusion, a change of mindset is needed. If effectively explained and resolutely implemented, this changed perspective need not take years to achieve. Trade policy needs to be seen in a broader domestic context which recognises that market opening works best when it is backed by sound macroeconomic policies, flexible labour markets, a culture of competition and strong institutions. Market opening works best — and maybe only works at all — in a coherent policy environment which facilitates the movement of labour and capital from declining to expanding areas of activity (OECD, 2005b).

Through this lens, trade reform can be promoted as a necessary tool of growth and development rather than as a concession paid to others. And through this lens it might then be possible to agree on a mechanism whereby once a country's trade under regional deals reached a certain level, preferences embodied in those deals would be multilateralised on an MFN basis.

Policies at the national level must acknowledge that globalisation does result in a decline in certain areas of activity, and that measures are needed to smooth the necessary adjustment for the people concerned. In some cases targeted measures may prove effective in correcting for market failure, but when used such measures should be transparent and cost-effective. In particular, should it be considered necessary to use safeguard measures, it should be on the basis that their potential benefit in providing breathing space for — and public acceptance of — structural adjustment exceeds the costs they entail.

Take just one example. In the mid-1980s, Harley-Davidson was allowed safeguard protection against imports from Japan as part of a restructuring package.

The restructuring worked — the number of Harleys is testimony to that. But there was a cost. To be precise — $150,000 for every job saved. The important thing though is that the cost was known, and so an informed decision could be taken about the merits of assistance.

Nowhere is policy coherence more important than at the interface between trade and development. This is partly a question of international cooperation, not least among aid donors. But it is also a question of pursuing whole-of-government policies at the national level.

The main outcome of Hong Kong was a strengthened commitment to the development dimension of the Doha round and to the need for aid for trade. But the fact remains that the best way to lift countries out of poverty is through reduced barriers to market access — not least through developing countries' own barrier reduction, as an exercise of enlightened self interest in a framework of domestic policy coherence. Aid for trade has an important role to play, but as the Hong Kong Ministerial Declaration rightly notes, it cannot be a substitute for the development benefits that will result from a successful conclusion to the DDA, particularly on market access. Failure to seriously address the goal of improved market access was undoubtedly Hong Kong's biggest shortcoming. Correcting that shortcoming is still the key outstanding priority for trade policy makers.

Conclusion

The WTO Ministerial Meeting in Hong Kong made some headway in advancing the DDA. And further concerted efforts are being made to resolve outstanding differences. But much remains to be done and it is not assured that the DDA will be drawn to a successful and timely conclusion. Should the momentum of multilateral liberalisation stall, there would be major costs, both in terms of opportunities forgone and of systemic strains to the international framework of trade and investment. Regional and bilateral initiatives will proceed anyway, but if they proceed in the absence of a strengthened multilateral system the risks of serious distortion to patterns of trade and investment will be greater and the entrenchment of vested interests based on preferential deals will make it even harder to promote multilateral liberalisation to the benefit of developed and developing countries alike. Advancing the DDA will require a change of mindset that need not take a generation to effect. Trade liberalisation needs to be seen not as a concession but as an integral part of broad-based economic reform under which labour and capital are allowed to move from declining to expanding areas of activity. This is what should be understood by the Doha *Development* Agenda.

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