The Dalian Mini Ministerial and the Road to Hong Kong: Uncertain Future for WTO

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A group of prominent WTO Members recently met informally at Dalian, China to pave the path for the Sixth WTO Ministerial Meet to be held over 13-18 December 2005 in Hong Kong. The forthcoming Ministerial meet of WTO is going to be crucial for the current round of multilateral trade negotiations. The Doha Development Round of trade talks, which was launched at Fourth Ministerial at Doha in November 2001, was targeted to conclude by January 2005. However, the progress thereafter has hardly been in the positive direction, marked by missed deadlines; failed discussions and inconclusive conferences. The January 2005 target was never achieved, and the deferred deadline of wrapping up the current round of negotiations by 2006 will depend critically on the success of the December Ministerial. But the slow progress of the ongoing negotiations has raised apprehensions that the Hong Kong meet might be overburdened with unresolved issues. A failure of the Ministerial will be a major setback for the multilateral system. Top WTO officials have warned that unless the current round of negotiations picks up momentum, it will be difficult to avert such a crisis. In a statement in early July, WTO Director-General Supachai Panitchpakdi has said, *"although some progress has been made in certain areas of negotiations, the progress is nowhere near sufficient in terms of the critical path to Hong Kong"*[1]. In order to facilitate progress of the stalled talks, about thirty prominent WTO Members met at an informal Ministerial meet on 12th and 13th July at Dalian, China. Although some breakthrough in the negotiations was achieved, the large number of outstanding issues has raised apprehensions about the success of the Hong Kong Ministerial in December.

In the Dalian informal meet, the most notable progress made was in the market access negotiations for agricultural goods. There has been an agreement among the participating countries that the G20 formula for tariff reduction can be used as a basis for further discussion on this topic. The G20 proposal introduces a tiered tariff reduction formula for developed and developing countries. Developed country tariffs

[1] http://www.wto.org/english/news_e/spsp_e/spsp40_e.htm, 8th July, 2005.

are divided into five bands whereas developing country tariffs are divided into four bands. Within each band, a linear tariff reduction formula is applied with higher bands attracting a steeper cut. To address the issue of tariff peaks, the formula puts an additional condition of putting a cap of 100 per cent tariff for developed countries and 150 percent tariff for developing countries. Table 1 shows the tariff reduction formula proposed by the G20 group.

Table 1. Tariff Reduction Formula Proposed by G20

G-20 Proposal	**Developed countries**		**Developing countries**	
Number of bands	5 Tariff Bands		4 Tariff Bands	
Thresholds	Tariff Bands (in AVEs)	Average Linear Cuts	Tariff Bands (in AVEs)	Average Linear Cuts
	≤20	v%	≤30	< v%
	>20 ≤40	w%	>30 ≤80	< w%
	>40 ≤60	x%	>80 ≤130	< x%
	>60 ≤80	y%	>130	< y%
	>80	z%		
	where v<w<x<y<z			
High tariffs & Cap	cap:100		cap: 150	

AVE= Ad Valorem Equivalent, Tariff Bands are based on Bound tariff rates

Though in the Dailan mini Ministerial the G20 formula was accepted as a basis for further negotiations, the G10[2] countries and the EU subsequently proposed a variant of the formula with 3 tariff bands both for developed and developing countries. However, the EU formula was considered to be less ambitious by most countries and was rejected. It now appears that most countries agree to use the G20 formula as the basis for future talks.

Along with a convergence of ideas on the tariff reduction formula, the other issue which has been settled is the calculation of Ad Valorem Equivalents (AVEs) for specific tariffs[3] and other non-ad valorem rates. This issue is important because many developed countries frequently use specific tariffs or other AVE rates which can hide

[2] The members of the G10 group are Bulgaria, Iceland, Israel, Japan, Korea, Liechtenstein, Mauritius, Norway, Switzerland and Chinese Taipei.

[3] A specific tariff is a customs duty that is levied per unit of imports. Unlike, ad valorem rates, which is related to the value of the imported goods, specific tariff is based on the quantity of the imported good, i.e. on volume, weight, etc. An AVE tries to estimate the level of protection accorded by specific tariff in ad valorem terms, i.e. as a percentage of the value of an import.

the actual level of protection of such rates in terms of AVEs. Also as the degree of protection of such rates depends on the size of a unit import price, specific tariff poses a higher barrier to cheaper imports, which undermines the competitiveness of exports from developing countries.

As most tariff reduction formulae in WTO are based on ad valorem rates, it was important to devise a mechanism to calculate AVEs for non-ad valorem rates. Although the problem of finding AVE of non-ad valorem rates has been solved, according to a report by the chairman of the Trade Negotiations Committee (TNC), it has been at a high cost in terms of the time and negotiating resources and has stalled progress in other negotiating areas[4].

Even within the negotiations on agriculture, a wide range of sensitive topics remain unresolved. There has been hardly any convergence on the reduction schedule of trade distorting domestic support. The enhanced Blue Box support prescribed in the July Framework is also turning out to be a contentious issue as many developed and developing countries including the EU and the G20 countries are of the opinion that it will allow USA to pass of its counter-cyclical payments as Blue Box subsidies. Other important issues like special products (SPs), the new Special Safeguard Mechanism (SSM) in favour of developing countries (SSM) have not seen much development during the past few months. Even during the Dalian Ministerial, talks have made little progress on these issues. These delays have not allowed Member countries to agree on a "first approximation" of modalities in Agriculture by the end of July, and have slowed progress in other sectors as well.

Lack of progress in agriculture seems to be pulling back the sectoral negotiation on high trade and production distortions in cotton. The sectoral initiative to tackle the problems of cotton exporters from Africa has not advanced much in recent times. In a recent Cotton Sub-Committee meeting on 18th July, it has been pointed out by the African countries that prices of cotton are still declining and the several million people in Africa who are directly dependant on the production and exportation of cotton continue to suffer from such price decline[5]. Representatives from the African

[4] WTO Document no. TN/C/5, dated 28 July 2005
[5] In Benin, Burkina Faso, Mali, and Chad cotton production accounts for five to ten per cent of gross domestic product (GDP). Cotton also plays a central role in their trade balance, accounting for close to thirty per cent of total export revenue, and more than 60 per cent of agricultural exports revenue. (source: WTO document number TN/AG/SCC/GEN/2, dated 22 April 2005)

nations have also complained that the negotiation on cotton is not gathering momentum as no major developed countries have responded to the African Group's proposal regarding finalizing the modalties of this sectoral initiative. Concerns have also been expressed that the issue of cotton might get sidelined at the Hong Kong Ministerial Conference in December.

In Non-Agricultural Market Access (NAMA) also, the negotiations have reached a deadlock. The July Framework proposed that the NAMA tariff reduction formula should be *"a non-linear formula applied on a line-by-line basis which shall take fully into account the special needs and interests of developing and least-developed country participants, including through less than full reciprocity in reduction commitments"*.

Within this broad framework, WTO Member countries have suggested different formulas. Most countries have suggested formulas based on the Swiss formula or some variant of the Swiss formula[6]. USA has proposed a Swiss formula based approach with dual coefficients, a lower for developed countries and a higher one for developing countries, with an additional rider that the coefficients should be 'in sight' of each other. The formula suggested by the EU is also based on Swiss formula but with an additional "credit coefficient" for developing countries. Recently, Argentina, Brazil and India have jointly submitted a proposal to WTO[7] where they have come up with a non-linear tariff reduction formula. The formula is given as:

$$t_1 = \frac{B \times t_a \times t_0}{B \times t_a + t_0}$$

where,
t_1 is the final rate, to be bound in ad valorem terms
t_0 is the bound base rate
t_a is the average of the current bound rates
B is a coefficient, its value(s) to be determined by the participants

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[6] A Swiss Formula is given by:

$$t_1 = \frac{C \times t_0}{C + t_0}$$

Where t_0 is the initial tariff and t_1 is the final tariff; C is a coefficient, its value(s) to be determined by the participants, the coefficient 'C' determines how deep the tariff cuts will be. Higher value of C leads to lower tariff cuts.

[7] WTO Document no TN/MA/W/54, this proposal is popularly known as the ABI proposal

There are three important features of this formula which needs to be highlighted. This is a variant of the Swiss formula where the coefficient is higher for countries with higher initial tariffs, resulting in lower levels of tariff cuts for countries with higher initial tariffs. Secondly, this formula is applicable only to bound tariff lines and India has made it clear that any tariff reduction formula based on applied rates is not acceptable. Thirdly, the proposal argues that the coefficient 'B' should be modulated taking into account the needs and ambitions of Members regarding market access agreed to for this round. A group of Caribbean countries (Antigua and Barbuda, Barbados, Jamaica, and Trinidad and Tobago) have also proposed another variant of the ABI formula where they have suggested that an extra component, designated 'C' to be added to the base coefficient associated with the tariff reduction formula which will be different for each country and should be calculated by taking into account several development-related considerations.

So far, none of the tariff reduction formulas has gained widespread support among WTO Members. A further source of division has been the treatment of unbound tariff lines in WTO. Developed countries are in favour of binding all tariff lines. However, most developing countries are of the opinion that though 100 percent tariff binding is a desirable objective, these countries require some flexibility about sensitive products and may need to keep some of their tariff lines unbound.

Lack of convergence on critical issues have prevented progress of the NAMA negotiations and have effectively ended the possibility of reaching a consensus on “an outline of a formula" for reducing tariffs on industrial goods by the end of July. The Report by the Chairman of the Trade Negotiations Committee[8] highlights that divergences regarding the level of ambition and the flexibilities have created a stalemate where the negotiations are stuck in an endless loop. The report says:

“One of the main problems we have been facing in this area is that some Members do not want to discuss numbers without first having a defined structure, while other Members have problems discussing the structure without first having the numbers. This "chicken and egg" situation has been impeding progress. Clearly, it is not possible to advance on any issue if every single detail is kept variable. This vicious

[8] WTO document number TN/C/5, dated 28 July 2005

circle can only be broken if Members proceed with the necessary conditional trust and show a genuine willingness to negotiate". Pg 6

Given the amount of disagreement persisting among Members about various aspects of NAMA, reaching a full modalities package before or during the Hong Kong Ministerial seems unlikely.

Progress has been slow in other areas also. Services negotiations generally got low priority during the Post Cancun negotiations. Though in the past few months a large number of initial and revised offers have been submitted, the levels of commitments offered in these proposals remain low[9]. Developing countries are particularly dissatisfied with the level of the Mode 4 commitments made by the developed countries.

Services negotiation is generally complicated because it involves a large number of sectors. The situation has become more complex because the current round of negotiations has reached a stage where Member countries are preparing for inter-sectoral bargaining. Many Member countries are linking their services offers intricately with the progress of other critical areas of the negotiation, namely agriculture and industrial tariffs. And given the lack of progress in these key areas, it is not surprising that services negotiation is not making much headway.

Along with lack of progress in the key areas like agriculture, NAMA and services, hardly any progress has been made in the areas like Special and Differential Treatments (S&D), Safeguards, Technical Barriers to Trade and TRIPS. Particularly in TRIPS, the issue regarding the extension of geographical indications (GIs) is turning out to be a major roadblock in this round of negotiations.

The Declaration on the TRIPS agreement and public health is considered to be one of the major achievements of the Doha Development Round. However, the TRIPS council has not yet found a "permanent solution" to the problem facing countries that have no or inadequate drug manufacturing capacity so that they can have access to affordable medicines. A number of deadlines regarding this aspect of TRIPS and Public Health have already been missed[10]. Notably, the Doha Declaration instructed

[9] See WTO Document Number TN/S/20, dated July 2005, Report by the Chairman to the Trade negotiations Committee, Council for Trade in Services,
[10] see http://www.twnside.org.sg/title2/twninfo197.htm

the Council for TRIPS to find an "expeditious solution to this problem" before the end of 2002.

To sum up, when one weighs the achievements of the Dalian Ministerial vis-à-vis the unresolved issues, the gravity of the situation becomes apparent. There are just too many issues left to be solved during the run-up to the Hong Kong Ministerial meet. At present, negotiations on a number of crucial sectors are stuck in a deadlock. To make the matter worse, quite a few of these unresolved issues are also tangled in inter-sectoral bargaining. Even if the negotiations pick up speed during the pre-Hong Kong period, the sheer number of issues that will be on the agenda for the Hong Kong Ministerial meet will make it a likely candidate for a failure.

The overall lack of direction of the Doha Round of negotiations is not new. Almost all the deadlines set by the Doha Development Agenda has been missed. The failure of the Cancun Ministerial has made the progress of this round even slower. To illustrate the sluggishness of the Doha Round of negotiations it should be highlighted that both for agricultural and non agricultural goods May 31 2003 was marked as the deadline for establishing the modalities. And 1st January 2005 was targeted for achieving an overall outcome. A stocktaking of the progress shows that so far, in August 2005, the modalities for agriculture and NAMA have not been finalized. Due to widespread differences among members, even a "first approximation of full modalities" could not be agreed upon during July 2005. Currently, the projection is that the current round of negotiations should conclude in 2006. For this to happen, the Hong Kong Ministerial will have to play a decisive role in setting the stage for the final phase of negotiations. However, even the top WTO officials are sounding downbeat about the possibility of a successful outcome from the Hong Kong meet. In a recent report, the Chairman of the Trade Negotiations Committee said:

"My warning in February and my subsequent warnings about the slow pace of the negotiations do not seem to have been well heeded. At a Ministerial gathering in Paris in May, I warned that, at the current pace, we were not going to make it by July, and possibly not by December, and I urged the Ministers present to take the action necessary so that real progress would be made. However, at the most recent gathering of Ministers in Dalian, China, I had to report that progress remained far from sufficient. I told them I regretted that the warning I gave them in May and those

I had given to negotiators in several TNC meetings seemed more valid than ever". Page 3, TN/C/5, 28 July 2005

If the Hong Kong Ministerial fails, the future of multilateral trade negotiation will be in danger. During the last few years, dissatisfaction with the multilateral trading system has fuelled the growth of Regional Trading Agreements (RTAs) among countries. The failure of the Seattle and Cancun Ministerial triggered a surge in the number of RTAs. *The Economist*[11] suggests that these failures have highlighted the inherent problems of the multilateral trading system and are likely to push many countries to divert their negotiating energies into regional trade agreements. A large number of announcements about formation of new trading blocks during 2003-2004 seem to be a validation of this argument[12].

RTAs are now threatening to emerge as an alternative to the multilateral trading system. It appears that the international trading system is currently at a crossroad and the success of the Hong Kong Ministerial will be crucial in determining whether it will continue under the multilateral framework or will get fragmented into a few regional trading blocks.

[11] "Unlocking the benefits of world trade" The Economist, Oct 30th 2003
[12] Since 2002, the United States has signed bilateral agreements with Australia, Bahrain, Central America plus the Dominican Republic, Chile, Morocco, and Singapore. Negotiations are on with Colombia, Ecuador, Panama, Peru and Thailand. According to Schott (2004), regional agreements with Bolivia, Egypt, New Zealand, Pakistan, Philippines, South Korea, Sri Lanka, Taiwan, Province of China and Uruguay are also under consideration. See Schott, Jeffrey J. (2004): "Free Trade Agreements: Boon or Bane of the World Trading System" in *Free Trade Agreements: US Strategies and Priorities*, ed. J.J. Schott. Washington: Institute for International Economics.