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## The WTO Doha Development Agenda: What Is at Stake

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“To expand the trading circle, to make it richer, more competitive, more varied, is a fundamental contribution to everybody’s wealth and welfare. It is time for the United States to take the lead in establishing the principle of economic cooperation as the foundation for expanded world trade. We propose to do this, not by setting up a super-government, but by international negotiation and agreement, directed to the improvement . . . of the laws that govern trade.”

- Message of President Franklin D. Roosevelt to Congress on Bretton Woods Money and Banking Proposals, February 12, 1945

“A successful Doha Round will reduce and eliminate tariffs and other barriers on farm and industrial goods. It will end unfair agricultural subsidies. It will open up global markets for services. Under Doha, every nation will gain, and the developing world stands to gain the most. Historically, developing nations that open themselves up to trade grow at several times the rate of other countries. . . The United States is ready to eliminate all tariffs, subsidies and other barriers to free flow of goods and services as other nations do the same. This is key to overcoming poverty in the world’s poorest nations. It’s essential we promote prosperity and opportunity for all nations.”

-Statement by President George W. Bush to the United Nations General Assembly, September 14, 2005

## The WTO Doha Development Agenda: What is at Stake

By  
Christina R. Sevilla\*

History and experience provide us with important insights as we look to the future of the international trading system. Particularly since the end of World War II, trade has been an integral engine of the world’s economic progress. Successive rounds of multilateral trade liberalization under the General Agreement on Tariffs and Trade (GATT) and its successor, the World Trade Organization (WTO), have helped rebuild war-devastated economies in Europe, provided a proven path to development for independent and modernizing nations in Asia,

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Latin America, Africa, and the Middle East, and lifted hundreds of millions of people out of poverty.

It is a remarkable continuity of United States' foreign policy that for the past seven decades, American presidents from Franklin D. Roosevelt to George W. Bush have steadfastly supported lowering trade barriers between the U.S. and trading partners around the world. They have shared a belief in trade's central role in promoting rising standards of living, greater prosperity, and a broader range of choices for our citizens and those of other nations. As a result, the United States is the most open major economy in the world, and this openness is a clear source of strength. According to the Peterson Institute for International Economics, U.S. annual incomes are \$1 trillion higher, or \$9,000 per household, due to trade liberalization since 1945.<sup>1</sup>

Today, the world of the 21st century faces enormous challenges. More than 1 billion people live in poverty, a condition that devastates families, communities, and nations.<sup>2</sup> Developed and developing countries alike share the goals of alleviating poverty around the globe, achieving greater economic growth and higher standards of living, and generating new employment and opportunities for their citizens.

As governments seek to break the impasse in the current World Trade Organization (WTO) Doha Round of negotiations, it is worth recalling that economic theory and practical experience demonstrate that open markets and trade liberalization—dismantling tariff and non-tariff barriers to trade—provide a proven path to wealth creation and development. Countries that are open to trade tend to have more wealth, healthier populations, higher rates of education and literacy, stronger labor rights and environmental standards, and greater investment opportunities. Trade barriers, in contrast, may shield narrow special interests from competition, but ultimately they leave a nation as a whole worse off in terms of wealth foregone, slower growth, and fewer resources to address pressing societal needs.<sup>3</sup>

## I.

### THEORY AND EVIDENCE

Why do countries trade? The intellectual underpinnings of free trade are well known to economists. Simply put, nations benefit by specializing in the production of goods and services that they can produce most efficiently, and exchanging these for the goods and services that other countries produce at higher

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1. FRED BERGSTEN, *THE UNITED STATES AND THE WORLD ECONOMY: FOREIGN ECONOMIC POLICY FOR THE NEXT DECADE* (Institute for International Economics 2005).

2. THE WORLD BANK, *WORLD DEVELOPMENT INDICATORS* (2006).

3. *See, e.g.*, PAUL KRUGMAN AND MAURICE OBSTFELD, *INTERNATIONAL ECONOMICS: THEORY AND POLICY* (Pearson Addison Wesley 2002).

quality and lower cost.<sup>4</sup> In this arrangement, countries benefit from more efficient production, increased consumer choice, and better goods and services at lower prices. Dismantling government barriers to trade allows individuals access to the world's supermarket for food, clothing, and other manufactured goods, and for services that form the infrastructure of the modern economy, ranging from finance to telecommunications and transportation to education.

Competition also motivates businesses to innovate, to find new production processes and technologies to better serve customers, and to advance knowledge. For example, the development of advanced computer technologies and life-saving medicines in recent years has flourished under conditions of open markets and export opportunities for industry growth, coupled with enforcement of strong copyright and patent laws.

Barriers to competition produce the opposite effect: less efficient domestic industries; higher costs, poorer quality, and fewer choices of goods and services; less innovation; and slower economic growth.

The economic history of the 20th century provides a potent demonstration of the vast benefits of trade liberalization for hundreds of millions around the world and a dramatically painful lesson on the global costs of trade barriers. In 1930, the United States imposed unprecedented trade barriers in the mistaken belief that U.S. producers "could not successfully compete against foreign producers due to lower foreign wages and production costs".<sup>5</sup> At that time, the U.S. Congress passed the Smoot-Hawley Tariff Act, which erected high tariff walls to shield the U.S. market from foreign competition.<sup>6</sup> The consequences were disastrous. Trading partners retaliated by protecting their own markets from foreign imports. World trade fell by 70 percent in the early 1930s, throwing tens of millions out of work, deepening the Great Depression, and fuelling the political tensions that helped give rise to World War II.<sup>7</sup>

Since then, successive American presidents and Congresses have laid the foundations and forged consensus for peaceful economic cooperation and shared prosperity through the General Agreement on Tariffs and Trade (GATT) and its successor institution, the World Trade Organization. From its original 23 founding members under the GATT in 1947, today's WTO has grown to 150 members at every level of development, representing every region of the globe, with

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4. *Id.*

5. Office of the U.S. Trade Representative (citing 1929 Speech by President Herbert Hoover), Remarks before the Center for Strategic and International Studies Conference on Globalization (March 10, 2004). Available at: [http://www.ustr.gov/assets/Document\\_Library/USTR\\_Deputy\\_Speeches/2004/asset\\_upload\\_file715\\_4409.pdf](http://www.ustr.gov/assets/Document_Library/USTR_Deputy_Speeches/2004/asset_upload_file715_4409.pdf).

6. See, e.g., Barry Eichengreen & Douglas A. Irwin, *Trade Blocs, Currency Blocs, and the Reorientation of World Trade in the 1930s*, 38 J. INT'L ECON. 1 (1995).

7. BERNARD M. HOEKMAN & MICHEL M. KOSTECKI, *THE POLITICAL ECONOMY OF THE WORLD TRADING SYSTEM IN PERSPECTIVE* (Oxford University Press 2001).

more than two dozen additional countries currently seeking to join.<sup>8</sup> The goal remains the same: lower barriers to trade and spur new trade flows among nations, thereby unlocking the benefits of economic growth and development on the broadest basis. Trade rules also provide certainty, transparency, and predictability in international commerce, help foster the rule of law, and allow for countries to settle their trade disputes peacefully.

## II.

### TRADE CREATES WEALTH FOR SOCIETIES

Empirically, expanded trade has been essential to economic growth and wealth for both developed and developing countries.

#### *A. What is at stake for the United States*

The American market's openness to the world has been a cornerstone of the nation's strength and prosperity. The United States is the world's largest economy and largest importer and exporter.<sup>9</sup> Since the 1990s, freer trade has helped raise U.S. national economic output by nearly 47 percent, and, over the same period, the U.S. economy added nearly 19 million jobs.<sup>10</sup> Manufactured exports support more than one in six U.S. manufacturing jobs (an estimated 5.2 million jobs) and agricultural exports support an additional one million jobs.<sup>11</sup> Jobs supported by exports pay about 13 to 18 percent more than the national average.<sup>12</sup>

American households also benefit from the freedom to choose imports from around the world. It is estimated that the two major trade agreements of the 1990s—the WTO Uruguay Round and the North American Free Trade Agreement between the United States, Canada, and Mexico—generate increased purchasing power of \$1,300 to \$2,000 per year for the average American family of

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8. See World Trade Organization Website, "Understanding the WTO: Members." Available at [http://www.wto.org/english/thewto\\_e/whatis\\_e/tif\\_e/org6\\_e.htm](http://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm); See also "GATT Years: from Havana to Marrakesh." Available at [http://www.wto.org/english/thewto\\_e/whatis\\_e/tif\\_e/fact4\\_e.htm](http://www.wto.org/english/thewto_e/whatis_e/tif_e/fact4_e.htm).

9. World Trade Organization, *Leading Exporters and Importers in World Merchandise and Commercial Services*, INTERNATIONAL TRADE STATISTICS (2006). Available at [http://www.wto.org/english/res\\_e/statis\\_e/statis\\_e.htm](http://www.wto.org/english/res_e/statis_e/statis_e.htm).

10. U.S. Bureau of Economic Analysis, "International Economic Accounts." Available at <http://www.bea.gov/international/index.htm>; Bureau of Labor Statistics, "Overview of BLS International Data and Training." Available at <http://www.bls.gov/bls/international.htm>; Additional calculations by USTR.

11. U.S. Bureau of the Census & U.S. Dept of Commerce, "Industry Trade Data and Analysis, statistics." Available at <http://ita.doc.gov/td/industry/otea/jobs/>; US Department of Agriculture, statistics.

12. USTR Fact Sheet, "Trade Promotion Authority Delivers Jobs, Growth Prosperity and Security at Home" (January 2007). Available at [http://www.ustr.gov/Document\\_Library/Fact\\_Sheets/2007/Trade\\_Promotion\\_Authority\\_Delivers\\_Jobs\\_Growth\\_Prosperty\\_Security\\_at\\_Home.html?ht=](http://www.ustr.gov/Document_Library/Fact_Sheets/2007/Trade_Promotion_Authority_Delivers_Jobs_Growth_Prosperty_Security_at_Home.html?ht=).

four.<sup>13</sup> According to a University of Michigan study, if Doha were to achieve even a one-third cut in global barriers to trade in goods and services, the real income gain to a U.S. family of four could be an additional \$2,500 annually.<sup>14</sup>

Moreover, from a U.S. perspective, 95% of the world's customers are abroad; a Doha deal will generate further reductions in trade barriers among the WTO's 150 members, opening more markets for American companies, workers, farmers, and ranchers.<sup>15</sup> Industrial manufactured goods represent 62% of total U.S. goods and services exports; these exports have increased by 107% since 1995 when the WTO Uruguay Round went into effect.<sup>16</sup> The United States exported \$891 billion of manufactured goods in 2006.<sup>17</sup> U.S. exports of services have doubled over the past 12 years, generating a \$72 billion surplus in 2006 on exports of \$414 billion.<sup>18</sup> Today, eight in ten jobs in the United States are in services, in professions ranging from law, medicine, finance, insurance, education, telecommunications, engineering, retail, tourism, consulting, environmental services, and many others.<sup>19</sup> Finally, the U.S. is the world's largest exporting country of agricultural products, with a 9.7% share of world exports in 2005.<sup>20</sup> One in three acres in the U.S. is planted for export.<sup>21</sup>

### B. What is at stake for developing countries

For developing countries, the benefits of trade openness coupled with pro-market domestic reforms are also proven by experience, and the potential for greater growth and poverty reduction through trade liberalization is substantial. The World Bank has reported that per capita real income grew nearly three times faster for the developing countries that lowered trade barriers (5 percent per year) than for other developing countries (1.4 percent per year) in the 1990s.<sup>22</sup>

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13. Office of Management and Budget, "Promoting Economic Ownership and Opportunity." Available at <http://www.whitehouse.gov/omb/budget/fy2006/promoting.html>.

14. Drusilla K. Brown, Alan V. Deardorff & Robert M. Stern, *CGE Modeling and Analysis of Multilateral and Regional Negotiating Options*, UNIVERSITY OF MICHIGAN RESEARCH SEMINAR IN INTERNATIONAL ECONOMICS, Discussion Paper No. 468 (2001).

15. Ambassador Susan C. Schwab, Remarks at the National Press Club on the Doha Development Agenda (July 7, 2006).

16. U.S. Census Bureau (Foreign Trade Division), "Foreign Trade Statistics." Available at <http://www.census.gov/foreign-trade/www/>; Additional calculations by USTR.

17. U.S. Census Bureau (Foreign Trade Division), "FT900: U.S. International Trade in Goods and Services."

18. U.S. Census Bureau, *supra* note 16.

19. U.S. Dept of Labor, Bureau of Labor Statistics, "Occupation Employment Statistics.;" Calculation by USTR.

20. WORLD TRADE ORGANIZATION, ANNUAL REPORT (2006)

21. U.S. Dept of Agriculture (Foreign Agricultural Service) "Market and Trade Data" (2005).

22. DAVID DOLLAR & ART KRAAY, TRADE, GROWTH, AND POVERTY (Development Research Group, The World Bank 2001).

With respect to poverty, Columbia University economics professor Xavier Sala-i-Martin finds that global poverty rates have declined significantly over the last three decades, estimating between 250 million and 500 million fewer poor in 2000 than in 1970, coupled with reductions in global income inequality during the 1980s and 1990s.<sup>23</sup> China, for example, has aggressively opened its market and expanded its trade, lifting more than 250 million people out of poverty.<sup>24</sup> Chile, which has also actively opened its market to trade and commerce, has more than halved its poverty rate, which declined from 46 percent in 1987 to around 18 percent in 2004.<sup>25</sup>

Moreover, while debt relief and foreign aid can make an important contribution to development in poor countries, trade and trade liberalization are likely to be even more powerful tools for alleviating poverty and providing societies with the economic resources to address their most pressing needs. Again according to the World Bank, the annual income gain to developing countries from the elimination of trade barriers to goods alone is \$142 billion, conservatively measured.<sup>26</sup> This amount exceeds the \$80 billion in foreign economic assistance by the major industrialized countries in 2005 and the proposed \$42.5 billion for developing country debt relief combined.<sup>27</sup> For example, according to the Blair Commission on Africa, raising Africa's share of world trade from 2% to 3% would provide export revenues of \$70 billion, nearly three times the amount that sub-Saharan Africa receives from global aid donors.<sup>28</sup>

Although studies by the World Bank and the Peterson Institute for International Economics estimate that global free trade could lift tens of millions of people out of poverty, trade should be accompanied by other domestic reforms, assistance, and capacity building for developing countries to fully realize the benefits of liberalization.<sup>29</sup>

The United States has made it a priority to provide developing countries with the tools necessary to build trade capacity and thus benefit from the global trading system. The United States is the largest single-country provider of trade-

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23. SALA-I-MARTIN, XAVIER, *THE WORLD DISTRIBUTION OF INCOME: FALLING POVERTY AND...CONVERGENCE, PERIOD* (Columbia University, National Bureau of Economic Research, & Universitat Pompeu Fabra 2005).

24. *Id.*

25. U.S. DEPT. OF STATE, BUREAU OF WESTERN HEMISPHERE AFFAIRS, *BACKGROUND NOTE: CHILE* (2005).

26. Kym Anderson, Will Martin, & Dominique van der Mensbrugge, *Doha Merchandise Trade Reform: What's at Stake for Developing Countries?* (The World Bank, Working Paper No 3848, 2006).

27. Susan Schwab, Op-Ed., *More Trade, Less Poverty*, WALL ST. J., June 29, 2006.

28. BLAIR COMMISSION FOR AFRICA, *REPORT OF THE COMMISSION FOR AFRICA* (2006) available at: <http://www.commissionforafrica.org/english/report/introduction.html>.

29. Kym Anderson, William J. Martin & Dominique van der Mensbrugge, *Global Impacts of the Doha Scenarios on Poverty* (The World Bank, Working Paper No 3735, 2005); WILLIAM R. CLINE, *TRADE POLICY AND GLOBAL POVERTY* (Center for Global Development & Institute for International Economics 2004).

related assistance, which includes trade-related physical infrastructure.<sup>30</sup> U.S. cumulative spending on such aid in 2001-2006 totaled more than \$5.6 billion in grants.<sup>31</sup>

### III.

#### TRADE LIBERALIZATION AND DEVELOPMENT

Developing countries are potentially large beneficiaries of further multilateral trade liberalization in agriculture, manufactured goods, and services through the WTO Doha Round.

##### *A. Agriculture*

More than 70 percent of the poor in developing countries live in rural areas.<sup>32</sup> According to the World Bank, the most important thing developed countries can do to increase benefits from trade liberalization is to make deep cuts in agricultural tariffs.<sup>33</sup> Eliminating agricultural distortions by developed and developing countries alike would deliver nearly two-thirds (63 percent) of the potential benefit to developing countries.<sup>34</sup> World Bank studies indicate that 93 percent of the welfare gains from removing distortions to agricultural trade globally would come from reducing import tariffs, while only 2 percent of gains would come from reducing export subsidies and 5 percent from reducing domestic support.<sup>35</sup> Virtually all of the welfare gains to developing countries from removing distortions to agricultural trade globally come from the removal of import tariffs.<sup>36</sup>

##### *B. Goods*

According to the World Bank, roughly half of global economic benefits from free trade in goods would be enjoyed by developing countries.<sup>37</sup> The estimated increase in developing countries' annual income by 2015 is \$142 billion,

30. See USTR Website, "Trade—Capacity Building." Available at [http://www.ustr.gov/http://www.ustr.gov/Trade\\_Development/Trade\\_Capacity\\_Building/Section\\_Index.html](http://www.ustr.gov/http://www.ustr.gov/Trade_Development/Trade_Capacity_Building/Section_Index.html).

31. *Id.*

32. WORLD BANK DEPT. OF AGRICULTURAL AND RURAL DEVELOPMENT, *A RESPONSIBLE APPROACH TO GROWTH: THE RURAL SECTOR BEYOND 2015* (The World Bank 2006)

33. KYM ANDERSON, WILL MARTIN & DOMINIQUE VAN DER MENSBRUGGHE, *DISTORTIONS TO WORLD TRADE: IMPACTS ON AGRICULTURAL MARKETS AND FARM INCOMES* (World Bank 2005).

34. *Id.*

35. Kym Anderson and Will Martin, *Agricultural Market Access: The Key to Doha Success* WORLD BANK TRADE NOTE, June 27, 2005.

36. ANDERSON ET AL., *supra* note 34.

37. Anderson et al, *supra* note 26.



or 49 percent of global gains.<sup>38</sup> Taking dynamic changes to economies into account, the estimated increase rises to as much as \$259 billion, or 56 percent of global gains.<sup>39</sup> Trade barriers in developing countries are higher than in developed countries: The International Monetary Fund finds that trade restrictions in developing countries are four times higher than in high-income countries<sup>40</sup>. Because roughly 70 percent of the tariffs on goods traded by developing countries are paid to other developing countries, low- and middle-income nations could benefit from eliminating their own barriers and stimulate further South-South trade flows.<sup>41</sup>

### C. Services

Services are now the major source of employment in developing economies, accounting for more than 50 percent of jobs in Latin America, the Caribbean, and East Asia.<sup>42</sup> Services are the future of developing countries because they are the fastest-growing component of their total economic output and the largest component of foreign direct investment (FDI).<sup>43</sup> Services account for more than 60 percent of global FDI, increasing from \$870 billion to \$5.9 trillion from 1990 to 2004.<sup>44</sup> Because the barriers to trade in services are extensive, the payoff for reducing them is great. For example, a recent World Bank report indicates that countries with open financial services sectors have grown on average one percentage point faster than other countries.<sup>45</sup> A University of Michigan study estimates that liberalization of services would produce more than two-thirds of the global economic welfare gain from the elimination of trade barriers.<sup>46</sup>

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38. *Id.*

39. *Id.*

40. THE WORLD BANK & INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT, GLOBAL MONITORING REPORT, (World Bank 2006).

41. Address of the US Trade Representative, "Initiative for Global Development" (June 2006) Available at [http://www.ustr.gov/assets/Document\\_Library/Transcripts/2006/June/asset\\_upload\\_file676\\_9564.pdf](http://www.ustr.gov/assets/Document_Library/Transcripts/2006/June/asset_upload_file676_9564.pdf).

42. THE WORLD BANK, *supra* note 2.

43. THE WORLD BANK, WORLD DEVELOPMENT INDICATORS (2006).

44. UNCTAD, WORLD INVESTMENT REPORT: FDI FROM DEVELOPING AND TRANSITION ECONOMIES, IMPLICATIONS FOR DEVELOPMENT (2006); UNCTAD, WORLD INVESTMENT REPORT: THE SHIFT TOWARDS SERVICES (2004).

45. AADITYA MATTOO, RANDEEP RATHINDRAN & ARVIND SUBRAMANIAN, MEASURING SERVICES TRADE LIBERALIZATION AND ITS IMPACT ON ECONOMIC GROWTH: AN ILLUSTRATION (World Bank 2001).

46. Brown et al, *supra* note 14.

## IV.

## TRADE AND THE ENVIRONMENT

Trade liberalization can and should support sustainable development. Generally speaking, countries that are wealthier tend to devote greater societal resources to domestic environmental preservation. In the WTO, the Doha Round holds great promise for win-win situations with regard to trade and environment, whereby liberalization yields positive environmental outcomes. For example, many prominent environmental nongovernmental organizations, such as Oceana and World Wildlife Fund, have supported the efforts of trade ministers to eliminate harmful fish subsidies, which lead to overfishing of the world's oceans and depletion of fish stocks, as part of the Doha negotiations.<sup>47</sup> Further, liberalizing trade in environmental goods and services can support sustainable development goals by providing greater access at lower cost to key environmental technologies in areas such as wastewater management, solid and hazardous waste management, remediation of soil and water, and protection of ambient air and renewable energy production.

## V.

## THE WISER PATH

Developing and developed countries alike face an important choice in the direction of their trade policy. The rapid pace of change in the international economy, and its effects—both positive and negative—on regions, localities, and individuals, breeds understandable anxieties. Each society must find a way to address the needs of those who may be dislocated by change and cushion the transition. But backsliding and erecting walls and barriers to trade is not the answer. Trade barriers protect a few at the expense of the many, and countries that fail to resist protectionist actions risk slower growth, inefficient and noncompetitive sectors, greater unemployment, and increased inflation in the longer term.

The United States stands ready to dismantle remaining trade barriers, as others do the same, and create new trade flows that will benefit large and small businesses, workers, farmers, and families. It is imperative to expand new markets abroad in order to distribute the gains from trade yet to be realized to the hundreds of millions who seek greater freedom, opportunity, and a path out of poverty.

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47. Letter to Ambassador Rob Portman (December 7, 2005). Available at [http://www.ustr.gov/assets/Document\\_Library/Fact\\_Sheets/2005/asset\\_upload\\_file471\\_8608.pdf](http://www.ustr.gov/assets/Document_Library/Fact_Sheets/2005/asset_upload_file471_8608.pdf).