

# Economics in Brief



No. 34, 8<sup>th</sup> January 2014

## The Bali WTO resolutions: plenty of boasting, but not much substance

Author: Dr Martin Raschen, phone +49 (0) 69 7431-2434, [research@KfW.de](mailto:research@KfW.de)

In December 2013 the 159 member states of the *World Trade Organization* (WTO) reached a trade agreement (the "Bali Package"). The WTO was quite happy about the outcome; however, this is just a question of perspective. Any agreement is certainly better than no agreement, but it is doubtful whether its impact will be as significant as it has been portrayed.

### Administrative simplification of trade ...

The most important component of the *Bali Package* is trade simplification. WTO members have committed to provide better information about existing rules, to apply them in a more transparent manner, and to strengthen the right of appeal. The focus of the agreement is not on the reduction of bureaucratic barriers to trade, but just on transparency and non-discrimination. The WTO established a *Committee on Trade Facilitation* to monitor implementation. However, its first report will not be made until four years from now.

### ... with extensive exemptions for developing countries

Developing countries have the right to classify individual provisions at their discretion into three categories, and to implement them in a correspondingly phased manner over a very generous timeframe. Indeed, the implementation can even be postponed indefinitely if, for example, a developing country claims it does not have the necessary capacities or receive enough donor support (*Aid for Trade*).

### Thorny issue of food subsidies excluded

The most politically sensitive issue – food subsidies – was largely deferred. To a limited extent, subsidizing food can comply with WTO rules. But if such support forces foreign providers out of the market, or if it

disrupts neighbouring agricultural markets because subsidized food is being sent abroad (i. e. smuggled), then it becomes a matter for the WTO.

At Bali the specific case under discussion was India, where the government intends to provide highly subsidized food for two thirds of the population (at an annual cost of about USD 20 billion). The imminent failure of the conference was only averted by reaching an interim agreement that such programmes will not be challenged before the WTO during the next four years (obligation to keep the peace).

### The benefits of the *Bali Package* will come in small doses

According to the WTO, the costs of trade will decline by 10–15%. The International Chamber of Commerce in Paris calculates that global GDP will increase by USD 960 billion p. a. (of which 54% will be in developing countries); 21 million jobs will be preserved or created (86% of them in developing countries). Based on the Paris study (and taking into account Germany's 8% share of global trade), DIHK (the Association of German Chambers of Commerce and Industry) calculates that the agreement will add EUR 60 billion to Germany's economic growth over the next five years.

But we expect the effects will be more modest, as implementation is likely to be a slow process that only proceeds in small steps:

(i) Developing countries were granted a significant amount of discretion with regards to implementation. Yet that is precisely where bureaucracy and a lack of transparency get in the way; after all, the regulatory jungle is quite lucrative for many people because it invites corruption.

(ii) To be sure, more *Aid for Trade* by donor countries could put greater pressure on developing countries to act. But first the funding for these measures has to be provided, and it remains to be seen whether this will happen, since no specific commitments were made at Bali.

### No reason for exuberant optimism!

The WTO and its new General Director were determined to achieve a successful outcome because not a single trade agreement has been reached since the foundation of the WTO in 1995. To achieve this success, a whole range of core issues were omitted from the *Bali Package*. Above all, no advances were made towards greater liberalisation of global trade.

### What will happen with the Doha Round?

The liberalisation round launched in Doha in 2001 remains deadlocked. The objectives of the Doha Round are to improve market access for industrial and agricultural goods and to open fully markets in services around the world. It seems unlikely that the Doha Round will achieve success anytime soon, with the principle of unanimity remaining a particularly significant obstacle.

Various observations give cause for concern. First, there is a growing trend towards regional trade agreements instead of a multilateral agreement. Second, violations of WTO free-trade rules have continuously increased. Third, free trade is being insidiously undermined by subtle, hidden interventions below the WTO "radar". This makes an agreement on Doha increasingly difficult.

All the same, at least the *Bali Package* contains a WTO commitment on the Doha Round, calling for a "clearly defined work programme" to be presented by the end of 2014. It will be interesting to see what comes of that. ■