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## Doha end game or the end of the Doha Round – South-South cooperation as an alternative to multilateralism?

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# The Current Column

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## Doha end game or the end of the Doha Round – South-South cooperation as an alternative to multilateralism?

Bonn, 30 May 2011. After almost 10 years the Doha Round is teetering on the edge of the abyss. On 31 May Pascal Lamy, Director-General of the World Trade Organization (WTO), will in all probability reach a further downbeat conclusion after several weeks of reflection. There is little chance of the Doha Round being brought to an end this year: the divergences between a number of large countries are too great for that. The developing countries would be the clear losers if the multilateral Doha negotiations were finally to collapse.

In case the Doha Round fails, different versions of a possible Plan B have been under discussion behind the scenes for some weeks. A leading proposal is for no more than a few selected aspects to be brought to a close while such controversial issues as agriculture and industrial products are left on one side. Also doing the rounds as Plan B is the option of giving the least developed countries duty- and quota-free market access. In a third scenario the Doha Round would be suspended to enable more recent topics of future importance to be taken up. Whatever form a possible Plan B for the Doha Development Agenda may take, it should continue to bear the interests of the less developed countries in mind.

The most serious obstacle to the conclusion of the Doha Round at the moment is the reduction of tariffs on industrial products. The USA in particular wants better market access to emerging economies, which they reject. Emerging economies and less developed countries argue that they have already offered enough 'concessions' during the Doha Round. They also claim that, as part of the Doha Round, the industrialised countries should grant the developing countries better access to their markets. Yet, although access to OECD markets is important for developing countries, it is only one side of the coin. If developing countries want to derive maximum benefit from multilateral trade liberalisation, they must also open their markets to each other and continue to expand South-South trade.

South-South trade between developing countries and emerging economies is still obstructed by

higher trade barriers than exist in North-South or North-North trade. South-South trade barriers are nearly three times as high as those impeding North-North trade. Bilateral trade among the poorest countries is even affected by what tend to be the highest tariff barriers.

The removal of obstacles to South-South trade would be highly auspicious for developing countries. On average, a ten per cent reduction in developing-country tariffs might, according to the OECD, generate additional export revenues of US\$ 6 billion as a result of increased South-South trade. There is, then, considerable potential for growth of trade among low-income countries and, therefore, for the promotion of economic development and the alleviation of poverty.

The potential for South-South trade is evident from the boom in recent years. Growth rates in South-South trade have exceeded those in both North-North and North-South trade. While global trade has risen fourfold in the past two decades, South-South trade has grown more than tenfold, although middle-income countries account for most of this increase. The more rapid expansion of South-South trade than that of other trade flows, despite the adverse effects of higher trade barriers, suggests that such trade-promoting measures as the modernisation of infrastructure relevant to trade – ports and roads, for example – can do a great deal for development.

Leading the way in South-South trade are India, Brazil and, above all, China. Last year China became Africa's most important trading partner. Its annual trade with Africa in goods and services is valued at over US\$ 100 billion. A question arising after the global financial and economic crisis was whether the consequent decline in global demand heralded the end of the era of export-based growth. In fact, South-South trade has become a new growth engine for developing countries. After the global crisis the increased reorientation of trade towards China and other emerging economies helped the economies of less developed countries to recover relatively quickly. Compared to many western industrialised countries, the

emerging economies are experiencing high growth rates and importing more from other developing countries.

The demand for such raw materials as copper, steel and oil is particularly high. Raw materials and semi-processed products continue to play a larger role in South-South trade than in North-South trade. Yet a third of the total volume of South-South trade already consists of highly processed goods, where the prospects for profitable transactions, the diversification of developing-country economies and technology transfer are particularly favourable.

The potential for trade between developing countries and emerging economies can be increased both in the WTO's multilateral forum and through South-South cooperation. The number of regional trade agreements between developing countries, for example, is rising. Such South-South groupings as MERCOSUR, ASEAN and COMESA currently account for about a quarter of all 474 reported regional agreements, of which 283 are in force.

For many years the UN Conference on Trade and Development (UNCTAD) has been endeavouring to promote South-South trade. Six years ago it set in motion a round of negotiations on the Global System of Trade Preferences (GSTP), a system of

special tariff preferences in trade among the developing countries. December 2010 saw a breakthrough in this round of talks: the representatives of the parties to the GSTP agreed to reduce at least 70 per cent of the customs tariffs they imposed on each other by more than 20 per cent. Yet, the agreement was initially signed by only eight countries – and that major South-South trading partner, China, was not among them.

Current estimates indicate that only some of the potential benefits of South-South trade can be derived from regional trade agreements and South-South trade preferences. Multilateral negotiations therefore constitute an important instrument for realising South-South trade advantages. Recent research findings make it abundantly clear that the advantages to be gained from freer South-South trade would be of at least the same order of magnitude as the advantages that developing countries can expect from improved access to the markets of the industrialised countries. The developing countries would be well advised not only to point at the OECD countries and demand more concessions, but to make their markets more accessible to each other, preferably within the framework of the WTO's multilateral forum.



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