

# A M T A C

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## **WTO Doha Development Round Ministerial Collapse in Geneva August 6, 2008**

The latest World Trade Organization (WTO) Doha Development Round ministerial level talks collapsed on July 29 after more than a week of intense negotiations. While countries reportedly reached agreement on 17 of the 20 negotiating points, the refusal of India and China to lower trade barriers on agricultural products without an easily triggered safeguard derailed the Round. A safeguard is a mechanism that allows a country to increase tariffs or establish quotas in response to surging imports that have caused damage in its market.

Specifically, the dispute was over the threshold for when developing nations could trigger agricultural safeguard tariffs and how high those tariffs could be. India and China wanted the ability to use the safeguard at a mere 10 percent increase in imports, while the United States wanted developing countries to accept at least a 40 percent import trigger. Neither side was willing to move on this issue, and the talks collapsed.

### **Collapse is a Major Positive for U.S. Manufacturing**

Our analysis of the recent negotiating drafts along with media reports of the latest state of play reveal that the United States has been willing to make additional concessions on industrial tariffs in order to minimize U.S. concessions in agriculture. As part of the non-agricultural market access (NAMA) talks, the United States has committed to undertake substantial tariff reductions, while developing nations would be allowed to maintain high bound tariff rates.

As a reminder, countries under the WTO system are allowed to self-designate their economic status and thereby shield themselves from significant obligations. For example, India and China claim to be “developing nations” for the purposes of the WTO and thus argue that they should not be required to make concessions similar to developed nations, like the United States. This flawed system allows export superpowers like China and India to masquerade as developing countries and reap the benefits of greater access to key international markets while continuing to protect their home markets. As a result, if the Doha Round eventually is concluded, there is little doubt that it will be detrimental for U.S. manufacturers and their workers.

The latest proposed agreement mandates a very specific and harmful outcome for U.S. industry through drastic non-reciprocal tariff cuts and numerous provisions granting “special and differential” treatment for developing countries. Adoption of the current NAMA language would once again require the United States to make massive market-opening concessions while the vast majority of our WTO trading partners are allowed to insulate their markets from our exports.

As part of the NAMA negotiations, Members have been debating the method for reducing industrial tariffs. It is clear that any concept of equal tariff reductions has been rejected. Instead the talks have centered on a tariff-cutting formula, known as the Swiss formula, which allows for disparate treatment depending on a country’s self designation of economic development and other factors. The lower the coefficient used in the formula, the more drastic the tariff cuts. Developed

nations such as the United States have agreed to accept much lower coefficients than developing countries.

Specifically, the latest text proposes that developed countries commit to a coefficient of 8. A coefficient of 8 would cut the U.S. average bound tariff rate from 3.3 percent to 2.3 percent. However, for sensitive products which still have relatively high tariffs, a coefficient of 8 results in drastic cuts. For example, the average U.S. tariff on man-made fiber trousers is presently 20.3 percent. Applying the recommended Swiss formula with a coefficient of 8 would reduce this tariff to 5.7 percent, a reduction of over 70 percent.

These drastic duty reductions will only invite more U.S. companies to relocate production offshore and ship their goods back to the U.S. market for final consumption. Moreover, severe cuts to our basic tariff rates will virtually eliminate the preferential trading benefits provided under trade agreements such as NAFTA and CAFTA. When a CAFTA producer can ship man-made fiber trousers duty free into the United States (generally using U.S. yarn and fabric), they can compete with Chinese trousers that are required to pay a duty rate of 20.3 percent. Reduce the duty for Chinese trousers to 5.7 percent, and the difference becomes negligible.

For developing countries including India and China, the proposed coefficients are as high as 25. If China has the same 20.3 percent tariff on man-made fiber trousers, applying a coefficient of 25 reduces the tariff to 11.2 percent -- double the U.S. tariff. Developing countries can also opt to apply half the agreed cuts or zero cuts to a percentage of their tariff lines by accepting a slightly lower coefficient.

The proposed agreement also gives developing countries so called "special and differential treatment," which among other things would allow them to reduce their tariffs over a schedule almost twice as long as the implementation period for the United States. In addition, China would be granted even greater flexibilities and insulation since it is considered a "recently acceded member" to the WTO. Finally, countries considered to be weaker developing nations and least developed countries would not be required to take any substantial steps toward market opening.

### **Major Issues Left Unaddressed**

Beyond the massive concessions to the developing world on industrial products, the United States failed to seriously negotiate a meaningful offensive agenda on crucial issues like the VAT inequity and currency manipulation.

**Value Added Tax:** 149 countries utilize a value-added tax (VAT) system. Foreign countries rebate value-added taxes whenever their manufacturers export products to the United States. In addition, these foreign countries apply a value added tax assessment on all products shipped to their market. The average VAT tax rate for all countries is now 15.4 percent. It is estimated that U.S. manufacturers and service providers suffered a \$428 billion disadvantage in markets both at home and abroad as a direct result of foreign VAT export subsidies and foreign VAT import assessments.

Congress has on three occasions (1974, 1988 and 2002) instructed U.S. negotiators, as part of granting Fast Track authority, to address the VAT distortion through changes to the GATT (and now WTO) rules. No changes have been achieved in any previous GATT/WTO negotiations, and thus the United States has agreed to arrangements which have left this massive distortion, adverse to U.S. manufacturing and agriculture, intact. To date, U.S. negotiators have not tabled any position in the Doha talks designed to reform the VAT disadvantage. At the same time, certain

trading partners (the EU) have repeatedly attacked various aspects of the U.S. tax system designed to reduce some of the distortions created by the rampant use of foreign VAT schemes.

**Currency Manipulation:** A second crucial issue not on the Doha agenda is currency manipulation. China has a clear policy of undervaluing its currency in order to gain unfair advantage in international markets. WTO rules are vague on whether currency manipulation qualifies as an export subsidy, which would make it subject to the dispute settlement process. As a result, no such cases have been filed. The most practical way to change the WTO rules to clearly define currency manipulation as a subsidy would be as part of the current multilateral Doha Round, yet it does not appear that the United States has even discussed the issue of currency manipulation as part of the Round.

### **Biggest Whiners are Biggest Winners**

It is important to note that for countries like India and China, maintaining the status quo is a good deal. Consider that China's trade surplus with the United States was an astounding \$256 billion last year, and India remains one of the most protected markets in the world. While the average U.S. bound tariff is 3 percent for industrial products, the average worldwide WTO bound tariff is 30 percent.<sup>1</sup> India's average is 37.7 percent.<sup>2</sup> China's foreign exchange reserves top \$2 trillion, and China's National Bureau of Statistics recently announced that their economy was growing at an annual rate of 10.1 percent. Meanwhile, the United States has lost nearly 3 million manufacturing jobs since 2001, ran a \$708.5 trade deficit last year, and is arguably in the midst of an economic recession.

Clearly, the current one-way street environment is benefiting these top tier "developing" countries at the expense of all other players. Since they enjoy great advantages under the current system, China and India have no incentive to reach a deal that would significantly change international trading rules. As a result, China and India's negotiating positions are in stark contrast to those of the United States, where the Bush Administration is seeking to close a deal at almost any cost. In addition to legacy issues of wanting to close a deal before leaving office, the Bush Administration is under tremendous pressure from U.S. importers and retailers and multinationals for even greater opening of the U.S. market.

Adding a further layer of concern is the fact that the declaration initiating the Doha Round included goals and promises that the Round would be intended to foster "development" and provide "special and differential treatment" for developing countries. As noted earlier, since the WTO allows countries to self-designate their development status, China and India have included themselves in this group and share a strong sense of entitlement for excessive concessions from developed countries. **Putting it bluntly, India's trade minister Kamal Nath was quoted in the Wall Street Journal last week saying, "This is a round where we're supposed to be getting, not giving."**<sup>3</sup>

It is unclear how this sentiment can ever be reconciled with that of the U.S. Congress. When Congress granted the Bush Administration Fast Track negotiating authority in 2002, it listed reciprocal market opening as a key objective.<sup>4</sup> We are clearly well beyond any possibility of

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<sup>1</sup> Statement of Senator Charles Grassley at Senate Finance Hearing on WTO negotiations 10/27/2005  
<http://www.senate.gov/~finance/hearings/statements/102705cg.pdf>

<sup>2</sup> 2002 WTO Trade Policy Review for India

<sup>3</sup> <http://online.wsj.com/public/article/SB121734618198593583.html>

<sup>4</sup> Trade Act of 2002 / 19 U.S.C. 3802

gaining reciprocal market access as part of these talks due to the one-sided concessions already agreed to by the U.S. government.

### **Where the Talks Go from Here**

Despite the collapse, U.S. Trade Representative Susan Schwab said that the United States would stand by its latest concessions in future talks, but she did note that any current U.S. offers on the table were contingent upon improved offers from players such as China and India. While it is a positive development for U.S. manufacturing interests that the Round collapsed, our negotiating partners effectively used the desperation of the Bush Administration to lock in concessions for any future negotiations.

As you can see, the divide between developed and developing country commitments widened further during the July ministerial, while the United States gained nothing in terms of an offensive agenda on issues like the VAT inequity and currency manipulation. Although the Doha talks have collapsed for now, AMTAC does not discount the fact that they may be revived either for one last try this fall or more likely in 2009, following elections in the United States and India. As such, AMTAC will continue to monitor all Doha Round developments closely. In addition, we will continue to educate Congressional members and their staffs as to the potential of these talks to deal another devastating blow to the U.S. manufacturing base and its workforce.