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What the Cancún Meeting Can Achieve

By Claude E. Barfield

As the WTO Ministerial Meeting opens in Cancún, Mexico, conflict surrounds the agenda. U.S. negotiators must find a balance between compromise and assertiveness to overcome soured U.S.-EU relations and should push for a sharp reduction in agricultural trade barriers, increased liberalization in the service sectors, and reductions in the remaining tariffs on industrial products.

The World Trade Organization's Cancún Ministerial Meeting has already gotten its share of negative press, but one should be clear as to just what the meeting represents: it is not itself a negotiating session but rather a midcourse correction for the WTO's Doha Round of trade talks. It is meant to provide guidance and set the parameters for a package of negotiating agreements to be completed by January 2005.

Even so, furious infighting erupted over details of the final agenda and over the negotiating "modalities" (WTO-speak for specific goals in program areas such as agriculture). Thus, in the run-up to Cancún, not a single working group in the subject areas, including agriculture, intellectual property, services, and industrial tariffs, met the deadlines for a completed text or set of instructions. This portends a kind of "Perils of Pauline" walk along a precipice during the Cancún meeting.

A Negative Drag

What are the factors behind the disarray and disagreement, and what are the keys to a successful outcome for the United States? First, it should be noted that general world economic conditions in the past several years have not been conducive to advances in trade liberalization. In 2001, the year that the Doha Round was launched, the total volume of world trade decreased by more than 3 percent—a phenomenon not seen for some decades. During 2002, as the talks got under way, the world economy contracted by 6.5 percent. Admittedly, the regional patterns were uneven, with Asia continuing to recover from the 1997–1999 financial crisis, while other regions, including the Americas and Europe, experienced economic difficulties and recession.

The good news is that for 2003 and 2004 the prospects for a renewal of world economic growth look increasingly good—projections are that world trade will expand by 6 percent this year.

A second factor that has exerted a negative drag on the negotiations is continuing conflict over key issues between the United States and the European Union (EU), the two indispensable leaders of the multilateral system. Old quarrels over bananas have been succeeded by new spats over alleged export subsidies for American companies (the so-called Foreign Sales Corporation case in the WTO), over data and privacy protection in telecommunications, and most corrosively, over genetically modified organisms (GMOs). In May, despite warnings that it would damage prospects for joint leadership in the Doha Round, the United States instituted a WTO case against the European Union over restrictions on trade in GMOs.

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Countervailing Forces

Against these negative aspects of U.S.-EU relations, however, are important countervailing positive forces. Both the Bush administration and the European Commission are fully aware that they have much at stake in the multilateral trading system, and both are led in the trade field by able political leaders, Robert Zoellick and Pascal Lamy.

Although their alleged close personal relations may have been overhyped by the press, it is certainly true that each is determined to succeed—and be perceived as having succeeded—in the Doha Round (not the least because both have ambitions for higher political offices in the future).

It is this grit and determination that explains the breakthrough on the thorny issues surrounding agriculture that was announced August 13 by the United States and the European Union. While details were sketchy and agricultural exporting nations were understandably skeptical, psychologically the accommodations by these two leading antagonists gave a vitally needed boost to the run-up to the Cancún meeting.

A third factor affecting the outcome at Cancún, and ultimately of the Doha Round itself, is the strong role that the developing countries are now playing in the multilateral system and the WTO. Of the almost 150 nations that compose the WTO, 80 percent fit the designation of developing country. Many in sub-Saharan Africa, Asia, and the ocean islands are too small and primitive economically to have any influence. But a number, including large economies such as China, India, and Brazil, and twenty-odd middle-sized economies such as Argentina, South Africa, Korea, Nigeria, and Egypt, have emerged as determined and vocal spokesmen for their individual and collective interests. (This is not to say that developing countries are united on all issues—for instance, some are agricultural exporters, others highly dependent on imports; some are energy exporters, others clearly dependent on outside sources for oil and gas; and some have open investment policies, while others are still highly autarchic in development policies.)

Whatever their individual priorities, there are several issues that unite them. Most significantly, all hold the view that the results of the Uruguay Round (1986–1994) were unbalanced and have proven highly damaging to their economies. Under a so-called Grand Bargain, in return for agreeing to new rules and disciplines in services, intellectual property, and health and safety measures, developing countries were promised increased trade in their priority areas, particularly agriculture, textiles, and apparel. What they subsequently discovered was that in agriculture, virtually no liberalization actually occurred and in textiles and apparel the deadlines were backloaded and did not kick in for a decade (that is, until 2005). Furthermore, they found that the new intellectual property rules would potentially result in a huge transfer of wealth from the developing to the developed world and that they would face large sanctions unless they invested scarce resources in costly new regulatory systems for services (banks, insurance, and telecommunications markets). The result is that they have demanded compensation and a rollback of some Uruguay Round trade rules (namely in intellectual property) as a preface to undertaking any new obligations in the Doha Round: in WTO-speak, these are called "implementation issues" in that they are largely concerned with easing the burdens of implementing the more onerous rules of the Uruguay Round.

Constraints, Concessions, and Compromise

Against these realities and constraints, what are the goals and tradeoffs for the United States at Cancún and in the negotiations beyond? Though there are ancillary desires, there are really three main U.S. priorities in the Doha Round: a sharp reduction in the barriers to trade in agricultural products; substantially increased liberalization in the service sectors; and elimination of, or a dramatic reduction in, the remaining tariffs on industrial products.

Liberalization of the agricultural sector is the linchpin for both the United States and for the fate of the round itself. Though the recently announced U.S.-EU compromise was a start, other agriculture exporting countries will demand further reduction in barriers in three areas: export subsidies, production subsidies, and border tariffs. The United States (along with other agriculture exporting countries) will have to push the European Union to agree to explicit timetables and percentage reductions. Agriculture is linked directly with other U.S. goals in that developing countries have vowed to oppose further advances in services liberalization and in other areas without explicit commitments in agriculture (and in textiles and apparel).

Regarding the services negotiations, there is also an internal tradeoff and linkage. In return for an agreement to liberalize in priority U.S. service sectors, such as energy, the environment, distribution, legal services, and insurance, developing countries are demanding liberalization of rules for the temporary movement of labor (both skilled and unskilled) across borders—and for commitments that developed countries will not restrict outsourcing. As to the elimination of all remaining industrial tariffs that the United States is demanding, in addition to the linkage issue discussed above, the key will be fashioning so-called "special and differential treatment" for developing countries that allows them flexibility and additional time for reducing tariffs, without permitting long-term protection for these industrial sectors.

On the other side of the ledger, the United States must be prepared to make the difficult political decisions on concessions in two areas: reduction of barriers in the textiles and apparel sectors and—likely at the very end of the meeting—reform of the WTO antidumping rules. Whatever happens in the Doha Round, under agreements reached during the Uruguay Round, the worldwide quota system for textiles and apparel will end in 2005. What developing countries will demand in the current negotiations is that the Bush administration take steps to prevent the imposition of high tariffs to replace the quotas and steps to head off a wave of antidumping actions by U.S. textile and apparel manufacturers.

These demands present the most difficult negotiating challenge for the Bush trade leaders—fashioning meaningful concessions in the U.S. antidumping regime without producing a revolt in Congress that will bring down the entire Doha negotiating package. What the defenders of the U.S. antidumping system fear—and opponents hope—is that Zoellick will be able to exact enough concessions from other countries to allow him at the last moment to throw in antidumping reforms and argue to Congress that the final Doha Grand Bargain is too favorable for the United States to turn down.

Finally, in pursuit of this favorable total package, the United States will likely play the role of mediator and protector of developing countries on several other important issues—specifically, the new negotiating issues that the European Union wants to introduce and that the developing countries adamantly oppose: rules for investment, competition policy, trade facilitation, and transparency in public procurement. Of these, investment and competition are the most volatile politically, and the United States (despite some interest in investment issues) will attempt to curry favor with developing countries by offloading these areas to WTO study groups.

It is all a dicey game, but if they can pull it off, the economic payoff will be high for WTO members, both developed and developing alike.