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After the Doha débâcle

What next for the global trade system?

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Summary points

- The troubled history of the Doha trade talks, which suffered their latest breakdown in July 2008, is due to more than differences between members' negotiating positions. It is a symptom of deeper institutional problems in the WTO, as it struggles to adjust to global economic change.
- At stake are not only prospects for a further push to open world markets, but the primacy of the WTO as the maker and enforcer of the multilateral rules that underpin the international economic order.
- Although reforms of WTO procedures may be desirable, they will not be enough to restore momentum. WTO members need also to develop a new model of leadership, define a clearer mission for the organization and pursue domestic policies that buttress its role.
- It is unclear whether governments possess the political energy or commitment required to undertake that effort. But continued drift risks weakening the organization and could, in the longer term, undermine the integrity of the rules-based trade system.

Introduction

The collapse in July 2008 of World Trade Organization talks, supposedly the last 'last chance' for the Doha world trade round, is a severe – perhaps fatal – setback for the six-year-old project. But the implications extend beyond the fate of the negotiations. The débâcle throws into sharp focus profound longer-term questions about the role of the WTO and its ability to steer a clear and purposeful course at a time when rapid geo-political and economic change is altering the complex balance of power between its 153 members.

Potentially, much more is at stake than prospects for further opening of global markets. The WTO is also the guardian and enforcer of the system of multilateral rules that has underpinned the international economic order for 60 years. Those rules, based on members' commitments to trade with each other on a non-discriminatory basis, have provided stability and predictability in a fast-changing global economy. They have curbed bullying of weak economies by strong ones and acted as a powerful restraint on protectionism.

However, 14 years after it was set up, the WTO is in danger of losing its way. Its disastrous Seattle meeting in 1999 was an early signal that something was seriously wrong. Since the Doha round was launched in the wake of the 9/11 terrorist attacks, it has exposed as many differences between governments as it has bridged. Repeated breakdowns in the talks have engendered growing disaffection and frustration with the organization and prompted members increasingly to pursue national trade agendas outside the WTO, often with scant regard to the interests of the multilateral system.

Peter Sutherland, the institution's first director-general, once described it as the pre-eminent forum for managing global economic integration. However, for much of its life it has struggled to fill that role. In the longer term, failure to define a clearer purpose for the WTO could lead to the gradual loss of its primacy over the regulation of international trade and, ultimately, its marginalization.

The round has not been declared dead, and moves may yet be made to revive it. But the prospects do not look promising. US presidential elections rule out resumption of the talks before spring 2009 at the earliest. By then India, a pivotal WTO player, must hold elections. Later in the year, there will be a new European Commission, which may not share the broadly liberal outlook of the current one. The identity and, most likely, priorities of a number of leading trade negotiators will have changed. Meanwhile, the international economic environment will almost certainly have evolved, for better or worse. All this makes it improbable that the Doha talks could simply pick up where they broke off.

Even if they did, there are no compelling reasons right now to believe they would yield decisive breakthroughs – still less provide a substantial boost to the world economy. Even after years of bargaining, few offers of genuine liberalization have been put on the table, limiting prospective welfare gains from the round. Pascal Lamy, the WTO's director-general, has put them at roughly $130bn annually, or only about 0.2 per cent of global gross domestic product. Many other estimates are much lower.

Limited ambitions and inflexibility are common

Most governments have been reluctant to go much beyond offering to reduce legally enforceable WTO limits on tariffs, farm subsidies and services regulation closer to levels actually in effect today. Such across-the-board 'binding' could clearly contribute to more predictable trading conditions and be a useful backstop against a resurgence of protectionism, especially at a time of heightened global economic uncertainty. But it has not been enough to stir enthusiasm among exporters and multinational companies.

Support and lobbying by businesses eager for improved access to foreign markets are crucial to building negotiating momentum and to getting an eventual deal ratified by national legislatures. Business interest in this round has never been particularly high and has dwindled perilously close to indifference. Conspicuously, a number of pro-trade industry associations that have regularly attended important WTO meetings did not bother to show up at the last one.

The circumstances of the collapse also raise doubts about whether enough governments possess the incentive and determination to see the project through. Ostensibly, the meeting foundered on US objections to a mechanism sought by China and India for protecting their farmers from 'surges' in cheap agricultural imports. Not only was the specific point in dispute fairly technical; it related to a situation that looks hypothetical at a time of steep, and possibly permanent, rises in world food prices. That the three countries let such a second-order issue trip up the entire endeavour suggests not only a lack of sense of proportion but fragile political commitment.

Washington initially sought a far-reaching agenda for Doha but has progressively lowered its sights. It has also had to negotiate with one hand tied behind its back since its legal authority to conclude new trade deals expired in July 2007. The US Congress, whose assent is required to renew it, has become increasingly sceptical of, even hostile to, trade liberalization of every variety. The signs are that its successor, which takes office in January 2009, will be no more enthusiastic, and almost certainly less so if the US enters recession.

For China and India, the costs of failure are trivial, because neither economy stands to gain much from the round: by one estimate, a successful outcome would add only three days' growth to the former and 21 days' to the latter. That partly reflects the two countries' reluctance to engage aggressively. China has made few demands of other members, while balking at going beyond the sweeping commitments to open its market that it accepted when it joined the WTO in 2001. For Beijing, the purpose of membership had more to do with locking in its own domestic reforms than with safeguarding its exporters' access to foreign markets. Now that the pace of reforms has slowed, the perceived need to subject the Chinese economy to external disciplines is apparently less urgent.

With the exception of some categories of services, where it has pushed for liberalization, India has adopted a mainly defensive and sometimes intransigent stance since the Doha talks were launched. It has often seemed more committed to preserving the right to maintain its own trade barriers than to fighting hard to dismantle those in other countries. Indeed, the failure of previous WTO meetings has more than once earned Indian trade ministers a rapturous popular reception on their return home.

But these are not the only members to have exhibited limited ambitions and flexibility. The phenomenon is more widely spread. The European Union has been hamstrung both by differences between its 27 members and by a self-inflicted dilemma over agriculture, the main issue in the Doha round. Politically, the EU is constrained from offering in the WTO liberalization much more substantial than its members have already agreed internally. In a game ruled by reciprocal bargaining, this has limited its room for manoeuvre. Brussels has had little success in using the 2003 reforms of its farm subsidy regime as a lever to pry from its negotiating partners concessions sought by European industry on industrial tariffs and services. Other countries see little reason to 'pay' in the WTO for benefits that they are receiving anyway.

Japan, the world's second largest economy and for many years a staunch supporter of the multilateral system, has played a largely passive backseat role: its chief concern has been to defend its high barriers to imports of rice and some other politically sensitive agricultural products. Like a growing number of WTO members, it has increasingly channelled its recent liberalization efforts into bilateral rather than multilateral trade initiatives.

Nevertheless, the willingness of China and India to push their dispute over import safeguards to – and beyond – the limit is noteworthy. It is a striking symptom of the self-confidence born of their growing weight in the global economy. It also underlines just how far the influence once exercised by the US and Europe over the multilateral trade system has shifted in favour of larger emerging economies, and how the active cooperation of the latter is now indispensable to hopes of making progress in the future.

Alternatives to trade rounds

Where, then, do things go from here? While stopping short of writing off the Doha talks, several participants have suggested that their convoluted structure has become close to unmanageable. Mr Lamy has called it much too complex (as EU trade commissioner, he once labelled WTO procedures 'medieval'). Susan Schwab, US trade representative, has suggested that the periodic trade rounds that have driven multilateral liberalization forward for 60 years may now be obsolete.

Similar statements were, of course, made after the end of the GATT's Uruguay Round in 1994 – although the expectation then was that the new WTO would supersede rounds by becoming a forum for continuous negotiation. Things did not turn out that way. If Doha finally fails, or produces only a weak outcome, other ways will need to be found if the multilateral system is to keep advancing.

Trade experts and policy analysts are already canvassing a variety of possible options. The main ones would replace the far-ranging, omnibus agendas of trade rounds with less ambitious exercises intended to achieve incremental progress. Most of the proposals made so far, however, suffer from weaknesses that could limit their practicability. They include:

Splitting the multilateral agenda into a series of separate negotiations, each focused on one sector or issue.

In theory, that would sharpen the focus of negotiations and avoid the intricate cross-linkages that have bogged down the Doha round, as countries have tied progress in one area to obtaining satisfaction in others.

However, de-linkage could be a two-edged sword. WTO members' economic interests and trade patterns vary widely. To make agreements politically saleable at home, governments habitually seek to match 'concessions' – offers to lower their own barriers – in one sector with 'gains' achieved by getting other countries to liberalize different categories of trade. In the absence of such trade-offs, progress in some contentious areas, notably farm subsidies, would be near-impossible. The US and European Union would never agree to stricter WTO curbs on their spending unless other members undertook in return to lower their barriers to trade in areas such as industrial goods and services.

In any case, the single-track approach has already been tried before and found wanting. During the 1990s, WTO members held separate negotiations on agriculture and services that soon ended in deadlock. Their failure was one of the arguments advanced for launching the Doha round, in the hope that it would lead to a broader 'package deal'.

'Coalitions of the willing'

Seven WTO members (counting the EU as one) account for about 80 per cent of world trade. There have been suggestions that they, and other interested parties, should conclude liberalization agreements between themselves, the benefits of which would then be extended unconditionally to all other members. In theory that would free decisions from the requirement to command a consensus of the entire membership and from the need to devise the elaborate let-out provisions and loopholes that had to be to built into the Doha talks to satisfy the WTO's many smaller and poorer members.

However, the proposal implicitly assumes that there are enough 'willing' governments, fired by bold liberalization ambitions, to press ahead with it. That is not obvious, on the basis of the negotiating stances taken in the Doha talks. The participation of larger developing economies, led by China and India, would also be critical. The former is now the world's second largest exporter and third largest importer; if it and India stayed out, the credibility of the talks would be seriously impaired. Furthermore, in that event the US and EU would almost certainly refuse to grant the two countries unconditional access to their own markets on a non-reciprocal basis. To do so would invite strong objections at home that China and India were 'free-riding' on others' liberalization.

'Critical mass' agreements

These would combine features of the other two and are inspired by three WTO agreements reached in the

1990s, on information technology tariffs, telecommunications and financial services. Those deals were negotiated by a limited number of WTO members, accounting collectively for much of the international trade in the three sectors. The results were extended, with some limited strings attached, to other countries.

Once again, the feasibility of the approach would hinge on whether China and India – probably along with Brazil and South Africa – were ready to take part and to negotiate constructively. It is also unclear whether the three sets of earlier talks succeeded because they were limited to self-selecting participants, or because of the particular conditions then prevailing in the sectors concerned.

In telecommunications services, deep structural changes spurred by technological innovation were making the maintenance of long-standing trade barriers prohibitively costly or unsustainable, in developing as well as developed economies. Similarly, in IT, the spread of global production chains, in which electronic components pass through multiple countries for processing and re-export, was clearly making import tariffs an expensive anachronism. The financial services agreement, meanwhile, was struck at the height of Asia's 1997 economic crisis. The talks were, in a sense, condemned to succeed, because failure would have delivered a serious blow to already shaky international market confidence. Equally important, the economic devastation suffered by many Asian countries left them in a weak position to resist Western pressure to liberalize.

That suggests that the efficacy of the 'critical mass' approach may depend heavily on identifying circumstances in which multilateral negotiations both clearly flow with the prevailing economic current and can positively reinforce it. Such opportunities may not be easy to find, especially in view of recurrent criticisms from business that the WTO liberalization agenda often lags far behind market-driven changes. 'Critical mass' negotiations may therefore remain, at best, a solution for special cases rather than developing into an all-purpose tool.

Re-engineering the WTO is not enough

In any case, modifying or re-engineering WTO architecture and procedures – even if it can be achieved – addresses only one part of a bigger problem, of which the Doha talks' troubled history is the most visible symptom. Getting the multilateral system back on track involves tackling at least three other challenges.

One is a leadership vacuum. The GATT, out of which the WTO grew, was essentially the child of benign American hegemony. But the US no longer has either the will or the capacity to provide the overall stewardship of the multilateral system that it once exercised. Nor, if it did, would other countries be ready to accept it.

For many years, the GATT was a small club dominated by mainly Western industrialized economies. Rapid expansion has turned the WTO into a steadily larger and more heterogeneous assembly, dominated numerically by developing nations. Some of the more advanced ones have taken an increasingly active role in the organization's deliberations, exemplified by Brazil's leadership of the Group of 20 developing-country agriculture exporters, while the influence of India, and more recently China, has grown in line with their economic importance.

Though these disparate players have sometimes found points of convergence, with each other and with industrialized economies, more often than not dissonance has been the order of the day, leaving the WTO's overall direction unclear and confused. The Sutherland report on the future of the WTO, published in late 2004, likened the organization to 'a vehicle with a proliferation of backseat drivers, each seeking a different destination, with no map and no intention of asking the way'.

If the WTO is to regain momentum, it will most probably need to evolve towards some form of collective leadership, involving bigger members along, perhaps, with some influential smaller ones. That is unlikely to be achieved through formal mechanisms such as a steering committee: an attempt to establish one in the GATT foundered on bitter disagreements and complaints from those excluded. Instead, it will require patient, painstaking diplomacy and consultation aimed at identifying common ground and building a basis of mutual trust.

The second challenge makes such an effort all the more necessary. The success of past trade rounds, and of unilateral liberalization, in eliminating import quotas and cutting tariffs has done much to free trade. But it has left the WTO facing an array of new and difficult issues. Its members are divided over how – and in some cases, whether – to address these challenges.

Some have arisen because the lowering of protection at borders has thrown into sharper relief less easily measurable non-tariff barriers, such as health and safety rules, licensing requirements or standards. In some cases, the temptation to resort to them as protectionist devices has grown as markets have been opened wider. Other barriers are to be found in activities, particularly services, that were traditionally shielded from global competition but which technological and other changes have made increasingly tradable across borders.

In all these cases, further multilateral liberalization implies acceptance by WTO members of international rules and disciplines in areas that have long been considered the prerogative of sovereign policy. Devising appropriate frameworks will be a technically complex task. It will also involve overcoming strong resistance, in some developed as well as many developing countries, to the extension of externally imposed constraints on their domestic affairs.

The third, and perhaps toughest, challenge is to make the WTO more relevant to its members' priorities. At the heart of the issue lies a chicken-and-egg conundrum. Governments' widespread disaffection with the organization is often attributed to its unwieldy and cumbersome machinery. But are the WTO's evident procedural deficiencies really the fundamental cause of its problems? Or is their persistence, rather, a manifestation of collective political indifference and apathy?

In an organization that prides itself on being member-driven, it is well within governments' power to introduce change, if they want it. In recent years, numerous proposals for reform have been made by, among others, bodies such as the Sutherland and Warwick commissions. For the most part, however, they have been not so much rejected as ignored. Rather than focus on making the WTO function better, governments have increasingly sought to pursue trade objectives outside the institution, notably through bilateral and regional deals.

At the same time, there are numerous signs of fading public support for liberalization in parts of the industrialized world, particularly the US. Although the trend has not – yet – led to the raising of barriers on a large scale, it is clearly strengthening resistance to removing them. Recent evidence includes the US Congress's continuing refusal to approve a trade deal with Colombia, a small, non-threatening, economy and a US ally, and its passage this year of a Farm Bill authorizing big increases in subsidies.

The uneven distributional effects of trade liberalization have long made it politically contentious among specific constituencies that stand to lose from the removal of protection. However, trade and, more generally, globalization, have increasingly been made whipping-boys in the US and elsewhere for much wider sources of popular discontent, including stagnating median real wages, widening income inequality and disappearing blue-collar jobs. The attacks are, for the most part, misdirected: the origins of those problems lie more in technological change, labour market deficiencies and inadequate domestic policies. But until those challenges are tackled effectively, popular support for trade is likely to remain at a low ebb.

In more advanced developing countries, fear of globalization is far less pronounced. Many, indeed, have moved to open their markets autonomously: the World Bank estimates that about two-thirds of liberalization by developing nations since the mid-1980s has been unilateral. Admittedly, it has sometimes been done under pressure from the World Bank and International Monetary Fund. Nonetheless, by and large, it has not so far been rolled back and overall trends appear to continue to favour deeper integration with the world economy.

However, most developing countries have been reluctant to bind unilateral tariff cuts in the WTO (although some did show signs of greater willingness before the Doha talks collapsed). Except in China, the gap between their average bound and applied rates is far wider than in OECD nations. In most developing countries, the practical consequences are small, because they account for little trade. But in larger and more advanced emerging economies the implications are more important.

Not only do nine of them rank among the world's top 20 importers; their unwillingness, for whatever reason, to 'bind' liberalization actually in force raises questions about the strength and depth of their commitment to the rules and disciplines at the heart of the multilateral system. It also means that WTO market access negotiations, insofar as they tend to revolve around the level of bound, rather than applied, tariffs, are somewhat tenuously related to the real world.

Dangers of post-Doha drift

It is far from clear that WTO members will be prepared in the near future to invest the time and effort needed to strengthen the institution and enhance its effectiveness. If the Doha round is somehow brought to a conclusion, there may well be a political temptation to turn away and get on with other business. If, on the other hand, the Doha round is abandoned or simply left to moulder, disenchantment risks sliding into indifference.

Either way, there is a risk of an indeterminate period of drift. One near-certain consequence would be intensified pursuit of bilateral and regional initiatives, not least because otherwise under-employed trade ministers and negotiators would wish to justify their existence and budgets. Much of the critical analysis of such deals to date has focused on their potential to provoke systemic problems by, for example, creating 'spaghetti' or 'noodle' bowls over overlapping discriminatory agreements. Definitive judgments on this question are hard to reach, however, because empirical evidence available about the impact of bilateral agreements is very limited.

A more pertinent question may be whether bilateral negotiations have much economic impact at all. Many, particularly in Asia, are much heavier on political and diplomatic symbolism than on commercial substance, often being riddled with exceptions, especially for agriculture and other sensitive categories of trade. In addition, there is evidence that the costs of complying with the complex and restrictive rules of origin built into many bilateral deals discourage many exporters from taking advantage of such preferential access as they afford.

The US has pressed harder than most Asian countries for concrete liberalization commitments in its bilateral negotiations. However, most of its recent deals have been with smaller economies that do little trade, and the strength of Congressional opposition to the pending agreement with Colombia suggests the political appetite in Washington for further bilateral trade diplomacy is very limited.

The EU, which in 2006 ended a moratorium on new bilateral trade deals, faces fewer such internal constraints. However, talks on its first three initiatives, with South Korea, India and the Association of Southeast Asian Nations (ASEAN) have so far made slow progress. Meanwhile, long-standing EU talks with Mercosur and the Gulf Cooperation Council appear, at best, still to be treading water.[1]

Conclusion

For the foreseeable future, the goal of substantial and genuine trade liberalization – other than by the unilateral removal of barriers – may prove as elusive outside the WTO as within it. Whether, in due course, that encourages governments to turn back to the organization with renewed interest is impossible to predict.

In the meantime, drift in the multilateral trade system may not mean calm. If the Doha round finally fizzles out, some countries may seek to obtain through litigation what they failed to achieve through negotia-

1 See other titles in the JEF series listed at the end of this paper.

tion. Brazil has already said it is considering challenging the legality of US and EU farm subsidies in the WTO. Others may follow. That could sting Washington and Brussels into retaliating with a volley of tit-for-tat counter-suits.

The result would be to place immense pressure on the organization's quasi-judicial mechanisms for settling trade disputes – its one indisputable success story and the bedrock of its authority. The mechanisms have functioned well so far because enough countries believe it is in their national interest to make them work. But it would take only one decision by a larger member to ignore an unfavourable ruling gravely to weaken the effectiveness and credibility of the machinery. A succession of such breaches could lead to the gradual undermining of the rules at the heart of the global trade system.

Yet, perversely, maybe something of that kind is needed to jolt the organization's members into tackling the challenges confronting it. The prospect of securing economic gains in the Doha round may not have been powerful enough to impel governments to make the compromises needed to achieve them. But a serious threat to the integrity of the WTO's rules, and the potential consequences for the stability of the global economic order they underpin, is a prospect that none of its members would be likely to contemplate with equanimity.

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