

Why World Leaders Must Resist the False Promise of Another Doha Delay

Edited by Richard Baldwin and Simon Evenett



A VoxEU.org eBook

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ISBN (eBook): 978-1-907142-34-5

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This eBook is produced as part of the CEPR project ‘Politics, Economics and Global Governance: The European Dimensions’ (PEGGED) funded by the European Commission under its Seventh Framework Programme for Research (Collaborative Project) Contract no. 217559.

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Foreword

It's now or never for the Doha Round. If the Round is not concluded in 2011, progress is unlikely or even impossible for another decade. Too pessimistic? Perhaps, but the analysis presented in this eBook is very convincing. China and the US are the keys to a Doha deal. Over the next two years political changes in both countries (growing partisanship in the US, a new leadership in China) will make it difficult or even impossible to offer the sorts of concessions necessary to strike a Doha deal. Looking beyond 2013, the current US concessions on agriculture will not be enough to interest China (and India) in a deal – their exporters will only be interested in a much broader based agreement, and this will require years of further negotiations.

If Doha doesn't happen now, then what is wrong with never? The eBook clearly outlines the pernicious effects of a failure to complete the Round. If the WTO's negotiating and legislative roles fall into abeyance, its Members will be less likely to respect its "judicial" function - the Dispute Settlement Mechanism. And with no end in sight for Doha, the focus has already begun to shift from the WTO to regional agreements. So far, regionalism and multilateralism have evolved in more or less complementary ways. But with multilateral negotiations deadlocked, regionalism could easily reinforce rather than contain protectionist forces, as it did in the 1930s.

What would it take to strike a deal now? The authors are under no illusions about the difficulty of completing the Round this year – it will require a major investment of political capital, in particular by the leaders of the US and China. The essays in the eBook offer some practical suggestions – leaders should shift the focus from the market access aspects of Doha to the systemic importance of completing the Round, and should

be prepared to compensate the sectors adversely affected by the Round. In the end, though, the decisions will be political. As the eBook demonstrates, the effects of failing to complete the Round will be pernicious, but slow acting. This makes postponement very tempting. The coming weeks will reveal whether our political leaders will rise to the occasion.

Richard Baldwin and Simon Evenett have acted with their usual speed and efficiency, assembling at short notice a distinguished group of authors whose essays identify the most important issues facing the WTO in the coming weeks. And as always, they have been very ably supported by Team Vox, in particular by Bob Denham, Samantha Reid, Anil Shamdasani and Pierre-Louis Vézina. We are grateful to them all.

Stephen Yeo
Chief Executive Officer
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28 April 2011

Why world leaders must resist the false promise of another Doha delay: Introduction to the issues

Richard Baldwin and **Simon Evenett**

Graduate Institute, Geneva and CEPR; University of St. Gallen and CEPR

This chapter summarises the arguments in the latest eBook. If the Doha deadlock is to be broken this year, US and Chinese leaders must find more room for compromise by loosening their domestic political constraints. To do this, they must challenge the premise on which the deadlock is based – the view held by special interest groups that Doha is mostly about tariff cuts. These narrow special interests should not be allowed to jeopardise the world trading system and the benefits Doha would bring to all nations. This is critical; the eBook argues that if Doha fails this year, it can't be done before 2020.

The world trade system is at a historical fork: WTO members must make a choice. Key decisions will be taken in discussions that start with the 29th April 2011 meeting of the Doha Round's steering committee and that will continue for the coming weeks (assuming that this Friday's meeting avoids an acrimonious breakdown).

Documents circulated on 21 April 2011 show – for the first time in 10 years of talks – the Doha package in its entirety. They also highlight the deadlock that is holding up the Round. US President Obama thinks he cannot win the domestic political battle against US protectionists without fulsome support of US export interests. Such support, he believes, would require much larger tariff cuts by emerging economies – especially China, India, and Brazil. As these nations believe that they cannot offer greater cuts, Doha is deadlocked.

The essays in this VoxEU eBook – written by leading thinkers on trade from around the world on 3 days notice – show that President Obama and the leaders of China, India, and Brazil – must choose one of two paths:

- The politically expedient path of putting Doha on hold, or
- The leadership path of engaging constructively and creatively in breaking the deadlock.

Other world leaders' views will be critical down the road, but which road history takes will be determined by what the US, China, India and Brazil decide.

If not in 2011, then not before 2020; 2013 won't work

Many believe 2013 provides another opportunity to break the deadlock (after the US elections and the Chinese change of senior leadership). This is a false promise based on woolly thinking – the options are now, or not before the end of the decade.

US Congressional politics will be much rougher from 2013 – scared by divisive debates over spending and taxes driven by extreme positions taken on the role of government.¹ In this poisonous climate, the US President will find it harder to compromise on multilateral trade liberalisation than in 2011. Likewise, the new Chinese government can hardly start off their stewardship of China-US ties by making major tariff concessions.

Think of 2013 as 2011 with less goodwill internationally, more poisonous politics inside the US, and a Chinese leadership that must prove its toughness.

The only way to break the deadlock starting in 2013 would be to give China and India something new to bargain for. The big concession the US is offering in Doha is on agriculture. This might interest Brazil but China and India need other inducements. Chinese and Indian export interests need to be offered prizes that make them willing

¹ See the essay by Claude Barfield for details.

to push their governments into signing. One of the Round big problems was that its agenda speaks little to the commercial interests of rising Asian powers.

The predicament is that adding such prizes would require new negotiations on an expanded Doha agenda. History tells us that it takes years to negotiate a new agenda, and then years to complete the actual bargaining.

This is why 2011 is a fork in history's road. If the US and China are unwilling to break the deadlock in 2011, no deal is likely before 2020. Realistically speaking, a brief pause is not an option; numerous delays in the past did nothing to narrow differences.

The dangers of delaying Doha

Delay – the expedient option – would be foolhardy. As Peter Drysdale notes, the idea that it would be harmless to allow Doha to languish for years is dangerous. Failure to conclude the Doha Round this year would damage the multilateral system in an era when multilateral cooperation is in short supply.

- The multilateral trading system is the economic sinew that constrains the exercise of international political muscle in ways that damage global wellbeing and inflicts national self-harm.
- With the rise of China, a US that is turning inward, turmoil in the Middle East, and a damaged and imbalanced global economy, the world needs such sinews now more than ever.

If leaders do not have the foresight to tackle Doha while it is still possible – and all indications are that they are likely to opt for expediency – the world trade system will be in for an extended period of institutional decay – on a path towards continuing erosion of the WTO's centrality in global trade governance.

Like global warming, the erosion of WTO centrality won't be an event, it will be a process. And like global warming, the costs will come in unexpected spurts and in unexpected ways.

Undermining of the WTO Dispute Settlement Mechanism

One of the hidden costs of the “delay option” would eventually include erosion of WTO members' respect for verdicts of the WTO's “court” – the Dispute Settlement Mechanism. It is naïve to believe that the Mechanism will remain an isolated Garden of Eden while the negotiating and legislative function of the WTO falls into abeyance for a decade or more. The contributors to this eBook point to two sources of erosion.

The first is simply the lack of updating of the rules that the WTO's “court” are interpreting. The most recent update of rules came with the last round – which was finished in 1994. Rules from the 1990s or even the 1950s may have to be applied to issues such as 21st century exchange-rate manipulation, national climate policies including production and R&D subsidies, and border taxes.

As Phil Levy puts it, WTO judges must inevitably fill in the “blanks” between negotiated WTO Agreements and the realities of actual cases. But as time passes and the last negotiated agreement fades into history, the “blanks” between negotiated agreements and current policy issues grow ever bigger. When they get big enough, the judges will either have to stop issuing verdicts, or one of the large WTO members will eventually reject the courts authority on a particular issue.

The second is based on a sophisticated view of why WTO members obey WTO rules. To remain as members in good standing, WTO members strive to comply with WTO rulings. In part this is so that they can reap the benefits of the WTO as a negotiating forum. If the WTO collapses as a negotiating forum, nations may move towards a crass calculus that assesses verdicts only on the basis of the threats that back them. This would be a deeply regrettable move away from a rules-based global trading regime. Lei

Zhang and Qian Wang argue that there is no potential replacement for the WTO, and without it the threat of trade wars would grow.

Regionalism filling the trade governance vacuum

A very different set of costs would come from the uncoordinated system of regionalism that will surely arise if Doha flounders. The problem is that the ongoing Round prevents the WTO from addressing 21st century trade policy issues; regionalism is filling and will continue filling this governance gap.

Many authors felt that regionalism per se was not the problem. Multilateralism and regionalism have gone hand in hand throughout the GATT/WTO's history. Regional and bilateral arrangements were embedded in a vibrant and reactive multilateral system – a system that could and frequently did update its disciplines on preferential arrangements.

Regionalism in a world where multilateralism was permanently deadlocked would be a very different proposition – regionalism would begin to act as a substitute to multilateralism rather than a complement. As Alberto Trejos writes, it is the imbalance between progress on one side and stagnation on the other that is damaging.

One example that many authors pointed to was the Trans-Pacific Partnership (TPP) – the regional arrangement that the Obama Administration is pushing so hard to complete in 2011. Although some support the initiative, all thought it would be more clearly beneficial if it was signed just as the WTO was coming off a fresh win on Doha.

For example, as China will not find the terms of the US-led TPP acceptable, TPP could develop as an “everyone but China” agreement. In absence of a vibrant and active WTO that could potentially multilateralise TPP-disciplines, this arrangement could entrench the adversarial political psychology that is developing in US-China relations in a way

that would be very difficult to reverse.² By contrast, if TPP was agreed along with a finished Doha package, it could be very constructive – helping to frame the critical issues that the WTO must move on to after Doha is completed.

More generally, in this time of global economic crisis and political uncertainty, there is a distinct possibility that regional arrangements could reinforce, not stem, a retreat towards protectionism. Recall the 1930s spurt of bilateralism.

Regionalism for the US and China

A number of authors observed that the two linchpins of the Doha deadlock – the US and China – face great difficulties in using regionalism to compensate for a lack of progress in the Doha Round.

For the US, the chief impediments are its insistence on free trade in food and domestic opposition by US labour unions to trade agreements with low-wage nations – especially 21st century trade agreements that seem designed to encourage the offshoring of some US manufacturing jobs. In this sense, regionalism is not a Plan B for the US. The US's best chance for better access to the world's fastest growing economies is already on the table – it is called the Doha Round.

China faces very different impediments. Most nations around the world are leery of going to zero tariffs with China given its hyper competitiveness. This is especially true of the other emerging economies whose markets are faster growing than the advanced economies, but which are more highly protected – especially when it comes to the sort of goods China exports. Again, the current Doha package is probably the best market-access deal that China will be able to secure for many years.

² See the essay by Peter Drysdale for details.

The rise of protectionism

Several authors warned that continued deadlock in the Doha Round will almost certainly open the door to creeping protectionism. Patrick Messerlin mentions a worst-case scenario, where world trade could suffer severely if all the countries reversed their unilateral liberalisation. The Australian Productivity Commission has estimated the cost estimated at one trillion dollars (Productivity Commission 2009).

Messerlin notes, however, that such a collapse is unlikely to happen immediately, or completely. It could start with a slow rise of protection during the next few years, as it happened in the 1920s before the explosion of protection in 1929-1930. Political circumstances are favourable. In 2012, the elections at the highest political level in several G20 countries—China, India, the US, and France and Mexico—open the doors to people eager to present trade as the scapegoat for national problems – things such as unemployment and austerity measures in the US and Europe, and inflation and inequality in China and India.

Chabib Basri explicitly mentioned Indonesia as an example where this sort of thinking is prevalent. Peter Sutherland mentions the example of Swiss consideration of backtracking on agriculture export subsidies. The profound and ongoing shift in world trade power is the perfect cauldron for brewing protectionist pressures. The US is already showing tendencies to return to the aggressive unilateralism it marshalled in the 1970s against Germany and in the 1980s against Japan.

The blow to developing and least developed nations

As Peter Sutherland and Sübidey Togan point out in their separate essays, the WTO's rules have had a beneficial effect on many developing nations – providing them with a rule-of-law framework that encourages trade, investment and growth. A failed or delayed Round would also be blow to the least developed countries who have been promised quota free and tariff free access to developed nation markets. For many developing

nations, agriculture is an important part of this. As Andre Nassar and Carlos Perez note, multilateral trade policy is heavily unbalanced. Low tariffs and comparative advantage rule when it comes to manufactured goods, but not when it comes to agriculture goods – at least under current WTO rules. A major goal of the Doha Round would be to narrow the asymmetry – and the current package makes good progress on this score. Failing to conclude Doha this year would put this all into jeopardy.

What leaders need to do in the coming weeks

Ernesto Zedillo, a former head of state himself argues forcefully that direct involvement of heads of state is required. Failure of such engagement would put globalisation, and its enormous benefits, at serious risk.

US and Chinese political concerns at the heart of deadlock, however, cannot be denied or waved away as a lack of vision. Today, in 2013, and for the rest of the decade, the US will demand deep Chinese tariff cuts that China will refuse. Alberto Trejos puts it frankly: in today's circumstances, to issue statements that merely call for a successful conclusion to the Round is simplistic and naïve.

If US and Chinese leaders are to find more room for compromise, they must find ways to loosen their domestic political constraints. This means challenging the premise on which the deadlock is based – namely, the view that Doha is mostly about new market access.

- President Obama and the Chinese leadership need to make the case to their own domestic constituencies that Doha matters for reasons far beyond the tariffs on the table.

These leaders, and indeed all WTO members, must start making the case that Doha matters for systemic reasons.

- They should argue that Doha needs to be done to preserve one of the world's most precious public good – the rules-based, WTO-centric trade system – a system that has created so much prosperity in America and lifted so many people out of poverty in China, India and Brazil.

The narrow special interests creating the Doha deadlock should not be allowed to jeopardise the world trading system and the benefits Doha would bring to all nations.

In particular, the narrow focus of US export lobbies on additional market access should be challenged by the Obama Administration. These farmers, industrialists, and service providers are some of the biggest users of the public good that is the WTO-centric trading system. They should understand that doing Doha – even if it appears to them as insufficient – is a critical step towards getting the WTO to address the 21st century trade issues that they care about.

Moreover, as Simon Evenett argues in his essay, the calculations on which the US exporters are basing their stance are questionable at best; they need to have another look at the numbers. In any case, they should realise that Doha is critical to the preservation of the system on which their livelihoods depend. Only wishful thinking could justify a belief that the US can withdraw from its usual leadership role in the WTO and expect the status quo to continue.

- World leaders should also consider compensatory arrangements that could make Doha reforms more palatable to the special interest groups behind the deadlock.

For example, the price cuts embodied in the Uruguay Round's agriculture liberalisation were a bitter blow to EU farmers; the EU dampened opposition by providing compensatory payments. While these are not without their problems, the example demonstrates that moving forward on big international issues often requires domestic "side payments". China in particular might think creatively and constructively along these lines.

- The Obama Administration and Chinese leadership should “sell” completion of the Doha Round to their own domestic audiences on national security grounds.

A flourishing and forward moving multilateral system for 60 years proved to be one of the cheapest and surest ways of fostering world peace and security. Both the old super-power and the rising super-powers should view doing Doha as a good, practical and immediately available step towards the sort of mutually beneficial, mutually respectful relationship that they must develop if they are to maintain internal and external harmony.

- Above all, world leaders should not give up on Doha by letting it drag on beyond 2011.

As the Interim Report (2010) presented at Davos in January 2010 showed, we are tantalisingly close to a successful conclusion with major concessions already made that will lead to substantially freer trade to the benefit of all. What we need is a bit more compromise from the world’s largest beneficiaries of the global trade system.

There is no better way to close than giving the last word to the man that guided the last Round to success, Peter Sutherland: *“Free trade has never been an easy sell but the eight trade rounds that have taken place to date have helped to define the world in which we live.*

- *They have provided a bulwark against the protectionism that lurks in most societies and that is evident in some of the new nationalism emerging in Europe and elsewhere.*
- *They have provided growth and stability and have avoided the destructive trade conflicts of the past that have caused such terrible divisions.*

Political leaders must now commit resources and time to concluding the Round or they will bear the responsibility for serious damage being caused not merely to globalisation but to the process of multilateralism more generally.”

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The Doha Round doomed once again: Blame it on the G20

Ernesto Zedillo

Yale University, ex-President of Mexico

What is needed for the Doha Round of trade negotiations to reach a satisfactory end? This essay argues that the talks need nothing less than the involvement of heads of government. Deepening economic integration requires improved global governance and completing the Doha Round must be part of this. Failure would put globalisation, and the enormous benefits it has brought about, at serious risk.

With all due respect to the otherwise competent ambassadors to the WTO, I want to reiterate a key point. For a long time now, what the Doha Round has needed to reach a satisfactory conclusion is not more WTO Ambassadors or trade ministers but the involvement of the heads of government – particularly of countries with a major stake in global trade.

This is why I proposed – on the eve of the first G20 summit in 2008 – that leaders use the opportunity to clinch the political agreements necessary to conclude the Doha Round (Zedillo 2008). Back then, finishing Doha would have had the additional benefit of exorcising the demons of protectionism – which were clearly menacing at the time.

My plea for leaders' involvement in the lowly task of deal making was even more explicit in the run up to the second G20 leader's meeting – the London Summit in 2009 (Zedillo 2009). There I begged for leaders to attend the meeting better informed about the most contentious pending Doha issues and truly determined to advance their solution.

Undeniably, the Doha Round has been one of the standard subjects at the G20 gatherings. Leaders have produced grandiloquent statements about the importance of

finishing it and have even issued deadlines for such a conclusion, but any serious effort to bridge the gaps that have precluded that outcome has been absent from the summits' proceedings. The G20's tone at the top, as far as the Doha Round is concerned, can be characterised as disappointing if not outright deceptive, given leaders' failure to deliver.

What happens on 29 April 2011

As the Trade Negotiations Committee prepares to meet on 29 April 2011, I have no reason to be less sceptical than I have been for several years about what negotiators in Geneva can achieve.

- I see no upside to this meeting – unless some high-level secret trade diplomacy has been taking place.
- I am afraid its downside – that one more formal suspension of the negotiations is warranted as a result of poor progress in the recent drive in the talks – will be another serious blow to the WTO – which is, by the way, one of the most useful and capable institutions of the entire multilateral system.

Richard Baldwin and Simon Evenett's urgent call to the contributors to this eBook to argue once again for the importance of finishing the Doha Round is commendable. In all likelihood, however, this collection of arguments will not reach the required audience – and is unlikely to influence it even if it does. After all, sufficient economic arguments to produce a good outcome have existed from day one and they continue to be equally valid today, if not more so. Concluding Doha would make sense for practically all participants, for both what is and what is not on the table.

It should also make sense because if the DDA were declared dead anytime soon, not only would an effort, albeit not so impressive, spanning almost a decade be wasted, but also because the next WTO multilateral undertaking would have to include at least the topics that comprised the Doha agenda. Claims that this has become obsolete are totally unwarranted.

What is on the Doha Round table

Regarding what is on the table, it would be unnecessary to repeat what has been expounded in papers such as those by Adler et al. (2009), and Hoekman et al. (2009). Overall income gains from a Doha deal not far from where negotiations have got so far will be by no means negligible. As things stand now, the Doha Round would insure everybody some market access and some improvement in terms of trade.

When I say that Doha also makes sense for what is not on the table I mean that it should be doable because it was not terribly ambitious to begin with, which also means that nobody is being asked to surrender to radical trade liberalisation. None of the other parties' "worst" offers would imply for each party to give up total policy flexibility. As presently envisioned the system would be left with ample, and in fact redundant, safeguards.

Failing to conclude Doha makes no economic sense

In short, the purely economic reason for being uncooperative towards the conclusion of Doha is nowhere to be seen. Indolence on the part of governments is firstly about domestic politics.

- Governments of the large developed and emerging countries perceive no political cost from forgoing the economic gains that would come with a Doha deal.
- They do however perceive the cost of a significant political reaction of special interests that may be affected negatively, even if only marginally, by a balanced DDA outcome.

Thus, the preferred option of those governments is to preserve the status quo in the multilateral trading system.

This attitude is reinforced by the free rider incentive stemming from the global public good nature of the trading system. Under this logic it is better to squeeze the status quo to its limits and wait for others to pay the price to change it, if ever that happens.

The dangers of not doing Doha

This domestic political logic is myopic. It is not preordained that the status quo can only change for the better.

- Governments of the large developed and emerging countries should remember how close to a vicious and catastrophic cycle of recession and protectionism the world was as recently as two years ago.
- More fundamentally, the major participants in international flows of trade and investment should take more seriously the notion that deepening economic globalisation (which they seem to accept and benefit from) requires improved global governance – a public good towards which they seem so far unwilling to contribute.

Failure to address effectively this stark inconsistency puts globalisation, and the enormous benefits it has brought about, at serious risk.

The drums of trade and currency wars are still beating

The Doha debacle is just one among several expressions of that inconsistency. In fact, the severity of the great crisis of 2008-2009 and its sequel that will last for many years is an even more materially adverse consequence of governments' reluctance to foster and live with enhanced international coordination in this era of unprecedented globalisation. It is not hard to imagine that the crisis would have been prevented or at least significantly attenuated had governments coordinated early on to contain the global macroeconomic imbalances and deliver a modicum of cross-border financial

regulation and supervision. The G20 leaders admitted that lack of coordination was at the root of the crisis when they first met in November of 2008.

They reiterated that diagnosis at their September 2009 Pittsburgh summit when they kept the global imbalances as their central concern, so much so that they launched a framework to “ensure that fiscal, monetary, trade and structural policies are collectively consistent.” However – and this was the bad news from Pittsburgh – the leaders agreed to implement the framework in a way that was condemned to be ineffectual.

They adopted a sort of peer-review mechanism, giving the IMF a mere advisory and secretariat role. That mechanism made it unlikely, if not impossible, that they would have robust policy recommendations ready for an executable agreement by the November 2010 Seoul meeting, as they had agreed in Pittsburgh. Regarding that objective, not surprisingly, the Seoul summit was a failure. There was little in the *G20 Seoul Action Plan* reassuring the world that the tensions preceding the summit will not re-emerge and worsen anytime soon. The drums of trade and currency wars are still beating.

Doha’s role in the global governance puzzle

At Seoul, the G20 made confrontation more likely not only by failing on macroeconomic policy coordination, but also by not delivering on its commitment to conclude the Doha Round in 2010 and instead watering it down by only speaking of 2011 as “a critical window of opportunity” to get the job done.

Addressing the question of global macroeconomic imbalances in a cooperative way is the litmus test of whether the international community is capable of managing other imbalances of greater complexity, as economic and geopolitical power continues to shift substantially in the years to come. So far the G20 leaders are flunking that litmus test along with their failure of doing their share to complete the Doha Round and strengthen the multilateral trading system.

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Political leaders must commit the resources and time to conclude the Round

Peter Sutherland

Goldman Sachs International

The eight trade rounds that have taken place to date have helped define the world we live in. This essay argues that political leaders must now commit resources and time to concluding the Doha Round or they will bear the responsibility for serious damage being caused not merely to globalisation but to the process of multilateralism more generally.

The Doha Round of trade talks being conducted under the auspices of the WTO is literally on the verge of collapse. It seems that some world leaders are permitting this to happen either as a result of their indifference or by taking negotiating positions that, by reason of their inflexibility, are bound to lead to failure.

What is at stake is a great deal more than the loss of potential world trade probably worth over a trillion dollars per annum (Productivity Commission 2009), important though that is. The creation of the WTO in 1995 following the conclusion of the Uruguay Round was the greatest advance in global governance since the late 1940s.

- It laid the foundations for globalisation as we now know it and established the ground rules, for example, for the integration of the former communist economies into a global trading system.
- It also created a Dispute Settlement Mechanism that, for the first time, permitted the objective adjudication of serious trade conflicts.

This is, in effect, a court system for trade dispute resolution and has been remarkably successful. Indeed the WTO in its entirety has been a great success.

- It has played a crucial role in the economic reform of China which has since become vital for global growth.

More generally it has helped over a billion people move from abject poverty to something better through the opportunities it has afforded. But it has a long way to go, not least in respect of developing countries.

Doha deadlock

The Doha Round has been the subject of negotiation for over ten years. It is tantalisingly close to a successful conclusion with major concessions already made that will lead to substantially freer trade to the benefit of all. Just how close final settlement is and how to bring this Round to conclusion is set out in the Interim Report of the High Level Group set up by the heads of government of Germany, the UK, Turkey and Indonesia that I co-chair (Interim Report 2010).

However, as in all such negotiations, nothing is agreed until everything is agreed. Therefore the immediate risk of failure of the Round is very considerable.

- The least developed countries who have, for example, been promised quota free and tariff free access to the EU would be big losers.

But apart from this serious loss the system itself will be greatly damaged by a failure as the credibility of global negotiations of this kind will be undermined.

The consequence will be the proliferation of bilateral trade deals that are already the focus of the attention of the major powers.

These will create differential trading regimes and will lead to reduced negotiating power for smaller and weaker trading countries. Increasingly their weaker bargaining position will become evident and divisive.

Should this failure take place – as now appears very likely – responsibility will lie primarily with the US, China, and Brazil. Ironically these three will be amongst the

biggest losers. The results of failure will become evident in every area of trade. For example, in agriculture Switzerland is already discussing the introduction of export subsidies. They will not be alone in rowing back on policies for free trade.

Conclusion

Free trade has never been an easy sell but the eight trade rounds that have taken place have to date helped to define the world in which we live. They have provided a bulwark against the protectionism that lurks in most societies and that is evident in some of the new nationalism emerging in Europe and elsewhere. They have provided growth and stability and have avoided the destructive trade conflicts of the past that have caused such terrible divisions. They have also, through trade liberalisation, kept protectionism at bay and have served the interests of consumers everywhere by lowering the prices particularly of necessities.

Political leaders must now commit resources and time to concluding the Round or they will bear the responsibility for serious damage being caused not merely to globalisation but to the process of multilateralism more generally. Their current failure is lamentable.

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About the author

Peter Sutherland is Chairman of Goldman Sachs International (1995–current). He is Chairman of the London School of Economics and is currently UN Special

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His awards include an honorary Knighthood (UK 2004), the Gold Medal of the European Parliament (1988), the First European Law Prize (Paris 1988), The David Rockefeller International Leadership Award (1998), the Grand Cross of Civil Merit (Spain 1989), the Grand Cross of King Leopold II (Belgium 1989), the New Zealand Commemorative Medal (1990), Chevalier de la Legion d'Honneur (France 1993) Commandeur du Wissam (Morocco 1994) the Order of Rio Branco (Brazil 1996) and the Grand Cross of the Order of Infante Dom Henrique (Portugal 1998). He was also presented with the Robert Schuman Medal for his work for European Integration. Furthermore, he received the European Person of the Year Award (1988), the Irish People of the Year Award (1989), the Consumer for World Trade Annual Award (1994) for distinguished service, and the Dean's Medal (1996) from the Wharton School, University of Pennsylvania.

He has received fifteen honorary doctorates from universities in Europe and America. He was awarded an honorary fellowship of the London Business School and the Oxford University Institute of Economics.

His publications include the book *Premier Janvier 1993 ce qui va changer en Europe* (1989) and numerous articles in law journals. He Chaired the Committee that reported to the EEC Commission on the functioning of the Internal Market after 1992 (*The Sutherland Report*).

The Doha Round: What to do after so many wasted opportunities

Alberto Trejos

INCAE Business School, Costa Rica

The Doha Round is again in a crisis. What is left to say after so many disappointments and loss of credibility? This essay argues that concluding the Doha Round in 2011 presents many unique opportunities on the economic front, on the symbolic front, and on the systemic front. But asking the key players behind today's deadlock to move would be naive.

My reaction, when I was asked to write a few pages about the importance of concluding the Doha Round at this Friday's meeting of the Trade Negotiating Committee, was to refuse.

I believe that there are many arguments why a good conclusion to this Doha Round is important for the world, and especially for developing countries. But I am not sure that there is anything new that I can put forward to argue the case, after so many have defended the point for so many years. What else is there to say, after so much disappointment and erosion of credibility?

Numerous opportunities

There are many ways in which concluding the Round in 2011 provides unique opportunities.

- This is an opportunity because of its **economic magnitude**.

A good result would allow the global economy to seize trade gains that have been estimated by various computer simulation models (CGEs) to be on the order of half a

trillion dollars. The world does not have many pockets of untapped, sustainable income of such value.

- This is an opportunity because of its **symbolism**.

An agreement could put away the negative perceptions by many nations about the Uruguay Round. Some nations consider the Uruguay Round as an incomplete job having made good progress on many topics yet not enough when it comes to the most controversial topic of all, agriculture. This result left many countries dubious about the fairness of the multilateral process, and about whether deeper commitments were worth pursuing. It is vital to kill such suspicions by finishing the job this time. A successful Doha Round with a comprehensive agriculture agreement would accomplish this. Otherwise, the lost trust will cost the system for decades to come. If Doha fails, will there ever to be another trade round?

- This is an opportunity because of its **timing**.

This Round was in part launched because in late 2001, the world was so concerned about the economic consequences of newly found political uncertainty, that many governments put aside their fears of protectionist political pressure at home, and their love of cheap anti-trade rhetoric, to take the bold steps needed. The recession feared then was trivial by comparison with the contraction we have just been through, and from which we have not fully recovered.

If we wanted good news in 2001, we crave it now. I doubt that there has ever been a better moment to invigorate world markets, and strengthen the faith worldwide in the globalisation process, than during the current painfully slow recovery from such a deep fall.

- This is an opportunity because of what has happened, during the Doha delay, in the **regional and bilateral front**.

A much broader web of free trade agreements and regional arrangements exists today than ten years ago. This is partly because some nations that have been active in both

the multilateral negotiations and the pursuit of specific deals have had the chance to complete their broad planned spectrum of agreements, and also because some large parties that were very multilateral in their approach – back when a deep and prompt Round seemed accessible – have shifted strategies. Frustrations with the Doha process, and fear of costly trade diversion if others kept advancing and they did not drove them to regionalism.

I believe that trade liberalisation through regional means is more of a building than a stumbling block for multilateral success. Yet, and more to the point, I feel that the current timing is key, if the Doha Round gets concluded, for both fronts to advance together in the future, and for each to become a constructive force reinforcing the other. The current imbalance between progress on one side and stagnation on the other is very damaging.

Bad precedents

But we have set many undesirable precedents in the Doha process. More than the fact that it is 2011 and we are still pursuing the conclusion of the Round, it is the manner in which we have gotten delayed that is the most damaging. We are not late because of intense disagreement by those that want to move forward; we are stuck because those who want a standstill have been successful in dragging their feet and, thanks to the rules in the decision-making process, in tying down everybody else's feet as well.

Along this process, for the first time a major player refused to accept as a starting point for negotiations in agriculture, the pre-modalities draft document put forward by a neutral, once acceptable third party that had been commissioned to do so. At the time, some of us feared that, once this happened, such a reaction would become almost a necessity of negotiation by every side regarding every such draft, and that moving forward would become ever harder. We were sadly prescient.

At some point one of the major players became so absorbed in its own politics that it resisted anything other than to dictate the outcome of the negotiations. That country even opposed a majority of all-but-one in a matter that was not only commercially indispensable but also a humanitarian necessity. It set the precedent for never-before-seen intransigence in the negotiations. This attitude has continued, not only by that party, but also by others pretending to be global powers.

At some point in the process, a powerful new grouping was put together to negotiate on agriculture on behalf of developing nations, on the basis of some mutual agreements on the topic. This was one of the freshest and most constructive forces to influence the multilateral process in years. Only that later, the same group deviated into an alliance of unlike-minded nations to drag an undefined agenda on all topics. It used to be a vehicle for those nations that wanted to move forward, by also being sensitive and constructive regarding the problems that other nations had regarding a more comprehensive trade liberalisation process. It has now become the cynical method by which the latter provoke paralysis. The fertile ground of variable geometry has given way to alliances based on political discourse and that range across all issues; the practical and straightforward language characteristic of trade negotiations has given way to diplomacy of the worst kind.

At some point in the process, we allowed all notions of a schedule or a deadline to the Doha Round to fade. Many presciently feared that this could mean that, later on, the guidance that sometimes imaginary time pressures put on negotiation processes would disappear, with no useful alternatives.

New organising principles needed: Limit nations' veto power

Writing today to simply encourage a successful conclusion to the Round would be futile. This essay is not about asking the handful of parties that are slowing everything down to change their views. That would be simplistic and naive. Nor should we fool

ourselves that the largest players – who have so far been devoid of flexibility and commitment – can find the will and capability to lead.

It used to be that countries who regarded trade liberalisation as a bad thing, and never wanted to partake of it, simply were not members of GATT. As non-members, they were sovereign about their own participation in any negotiation or deal, yet they could not dictate an outcome, or a lack of outcome, on everybody else. We need an alternative path which takes us back to some of that.

I understand that the parties that do not want further progress could never be asked to renounce their veto power regarding agreements that commit them to change policies. But I believe that the parties that are willing to advance are crazy to permit this veto power to extend to the agreements they could reach amongst themselves.

Faced with the enormous cost that the delay has caused the planet, we should now be making a starker choice, between either giving a good conclusion to the Round now, or beginning to suggest the nature of the alternative. This should not be a choice between now or later – or more precisely, now or never. This should be a choice between a successful Doha Round, and something else.

What could that alternative route be?

- Plurilateral agreements within the multilateral system, in which countries can choose not to commit, but cannot stop others from engaging?
- More regional deals?
- An effort to harmonise the rules, extend the rights and allow accumulation of origin across similar Free Trade Agreements, using them as raw materials for deeper regional integration among the countries that want to keep the bicycle moving forward?

I am not sure. But working in our favour some we need good old-fashioned trade diversion – inefficient in the short run but perhaps it is the lubricant we need to push the unwilling along.

About the author

Alberto Trejos is a Professor of Economics at INCAE, in Costa Rica; previously he has been a faculty member at Northwestern University, and visiting faculty at the University of Michigan, and the Center of Hemispheric Policy. He served as Minister of Foreign Trade of Costa Rica, and in that capacity led the negotiation of CAFTA. Former president of CINDE, the Investment Board of Costa Rica, he is a partner at CEFSA, a macroeconomic consultancy based in Costa Rica, and has acted as consultant for business, governments and development organizations in dozens of countries in the Americas, Europe and Africa. He is also a member of the board in several leading Costa Rican corporations. His academic work has been sponsored by Fulbright and the National Science Foundation.

Why the Doha Round matters to Asia and the Pacific

Peter Drysdale

Australian National University

The idea that it would be harmless to allow Doha to languish for years is deeply dangerous, at best. Failure to conclude the Round this year would put a dagger in the heart of a multilateral system. The multilateral trading system is the economic sinew that constrains the exercise of international political muscle in ways that damage global wellbeing and inflicts national self-harm. With the rise of China, turmoil in the Middle East, and a damaged and imbalanced economy, the world needs such sinews now more than ever. Relatively minor and politically manageable accommodation by key players could achieve a substantial outcome that would be a good deal for everyone including developing nations.

So what's the problem? Does it matter if the WTO's Doha Round is prematurely pronounced dead?

For Asia and the Pacific, it matters, seriously.

It's not just that failure to conclude the Round now would toss away the hard-won gains achieved in the negotiations so far. Most accept that it is a good deal for everyone, including developing countries, and relatively minor and politically manageable accommodation by key players could achieve a substantial outcome.

Multilateral system in retreat for economic and geo-political reasons

What leaders who have it in their power to do this deal must understand is that failure to conclude the Doha Round now will put a dagger in the heart of a multilateral system

that is in retreat on all fronts. The threat is not solely economic, even though we are at a critical stage of global recovery from financial and economic crisis. Failure to conclude Doha will also threaten the multilateral system for deep, geo-political reasons.

- Europe is seriously weakened.
- The Middle East and Africa have brought the world to an intensely unstable moment.
- Far more importantly, the emergence of China in Asia and the Pacific challenges the established political order.

How does this all matter to the global trading system?

The multilateral trading system is the economic sinew that constrains the exercise of international political muscle in ways that damage global well being and inflicts national self-harm.

The world without Doha would not be the world status quo ante

Should Doha fail now, there will be powerful momentum to doing other deals of some kind no matter what. In Washington, the Trans Pacific Partnership (TPP) is all the rage. Does it matter if we get yet another pseudo “free trade” agreement? Especially as TPP is between the US and group of eight partners who in the total scheme of things are pretty insignificant?

It certainly would matter, absent Doha.

A rum deal like the one which is shaping up might be of little economic consequence (of somewhat more economic consequence in the unlikely event that Japan signed on) but it would be of considerable political consequence.

In the context of an insecure global trading system it would be a bold statement taking the world in another direction.

- It would drive a wedge down the middle of Asia-Pacific – economically and politically; the US and its partners would be on one side with China on the other.
- It would entrench the adversarial political psychology that is developing in US-China relations in a way that would be very difficult to unravel for a long time.

That might matter less if the WTO was not also in disarray. It matters a lot, as that prospect grows daily.

Despite the continuing importance of global markets to Asia's exported-oriented economies, bilateral FTAs in Asia and the Pacific have come to be regarded benignly. It's suggested that they are building blocks to freer trade globally, while global negotiations languish, although very few of them encourage easy sign-in or extension to other trading partners.

It's suggested that they introduce elements, like services and economic cooperation which global agreements have difficulty dealing with, although it makes little sense to tie these issues to preferential trading arrangements. More tellingly, it's argued that they don't do very much harm — their provisions are under-used because they are costly to business — and avoid the really hard and therefore sensitive issues of trade reform (such as agriculture in Japan, and the US, or services in China), their impact on regional and global trade have been trivial. All the hype about them is diplomatic song and dance; they don't deliver economically.

Suddenly, this trade policy environment seems far less benign.

The global financial crisis has shaken people's confidence in the resilience of global openness. Protectionist sentiment is on the rise and it has some particular targets, in Asia and the emerging market economies. That pressure will only become stronger over time as Europe and the US move to slower growth in the medium term. While trade barriers

are coming down generally, as was the case when the European Economic Community (an earlier incarnation of the EU) was formed, regional arrangements were less of a worry as tariffs and other barriers (except on agricultural products) were coming down against everyone.

In a time of global economic crisis and political uncertainty, there's a threat that regional arrangements could reinforce, not stem, a retreat towards protectionism.

Dealing with the rise of China

There's also the issue of dealing with the rise of China. Accession to the WTO embedded China in the global trading system and encouraged behaviour according to global rules and norms. Despite fears that Chinese participation in the WTO might weaken and corrode the global trading system, China has successfully emerged as a responsible stakeholder if not yet an active leader in the system. Yet China too has played the game.

The bigger China grows — it is already the second largest single trader in the world — the less comfortable the rest of the world becomes about the leverage China exercises. Because of China, this is a time when it is particularly important that global strategies and frameworks must dominate regional frameworks and strategies.

In this light, completion of the Doha Round takes on a far more strategic guise:

- In the context of Doha Round done, the Trans-Pacific Partnership could be a constructive element in a new, innovative WTO agenda.
- In the context of a failed Round, regional fragmentation poses big economic and geo-political risks.

Conclusions

The idea that it does not matter at this time in human history whether the Doha Round of trade negotiations is allowed to languish or go into hibernation for another two years is, at best, deeply dangerous.

Completion of the Doha Round is important for the gains that have already been achieved in the negotiations so far; it is infinitely more important to protecting the integrity of a multilateral system under threat, and all that system means for the geopolitical order.

About the author

Peter Drysdale is Emeritus Professor of Economics and Visiting Fellow in Policy and Governance in The Crawford School of Economics and Government, having been Executive Director of the Australia-Japan Research Centre. He has published widely in journals and policy outlets, with his main areas of expertise are international trade and economic policy; Australia's economic relations with East Asia and the Pacific; the East Asian and Japanese economy and economic policy. This work includes developments in Asia Pacific economic cooperation, including relations between East Asia, Europe and APEC. His research work also extends to Chinese and Korean economies.

What to do about Doha

Anne Krueger

Johns Hopkins University

The Doha Round is in peril. This essay argues that if the impasse is intractable, world leaders face three choices: to quickly finish the low-ambition package on the table, to explicitly terminate the Doha Round, or to let it die a slow death. It says the last option would be by far the worst – even if it is the most likely.

In an ideal world, the Doha Round would have been completed by now.

Since it has not been, the best outcome now would be to have a strong agreement that could quickly be negotiated, especially enhancing the agreements on the liberalisation of services and agriculture.

The importance of the trade system

The sharp drop in trade at the beginning of the 2008-2009 Great Recession was a vivid reminder to all of how important international trade has become in the global economy. Trade has been a major contributor to the growth of all economies, and has enabled growth rates heretofore unheard of among the emerging markets that avail themselves of the open international trading system.

Although the financial systems of most emerging markets were not greatly affected, the sharp drops in exports led to serious decreases in real GDP in many emerging markets. Even among other countries, the importance of trade has been vividly demonstrated.

Interdependence makes the rules-based system more

important

As interdependence has increased, the importance of a rules-based open trading system has been magnified. In addition, new issues have arisen and existing issues have become increasingly important as new technology has bound the world more closely together.

Many of these are centred on services because of the advances enabled by the internet and information technology. The potential gains for the international economy in the 21st century through open trade in services may well be similar to the gains from liberalising trade in goods in the last century. As some low-income countries have discovered, access to world-class low-cost services is often a necessary condition for their ability to increase exports.

Trade in food in an era of shortages

In agriculture, concern is increasing about shortages of agricultural commodities. Liberalising trade in agricultural commodities, including eschewing export prohibitions, would greatly increase global agricultural efficiency. If some countries choose to use export prohibitions in times of high prices, other countries will decide to resort to “food self-sufficiency” with attendant losses to both the exporting countries (losing their markets in “normal” times) and importing countries (facing higher costs of agricultural goods). Without international agreement among both exporters and importers, the risks of further inefficiencies in world agriculture are great.

Doing “Doha Lite” is better than letting Doha drift

However, if it is not possible to reach a credible plan for moving forward, it would be much better to complete a “Doha lite” than to let the Doha Round drift and die a slow death (or delay for a few more years with no evident signs of progress).

- Failing to complete the Doha Round after all this time would not only forego the gains that would arise from implementing what has already agreed upon, but it would further seriously damage the already-wounded WTO.
- Letting more time pass with the Doha Round still “alive” with no signs of significant progress would increase the damage and reduce the WTO’s stature still further.

If the reality is that little or nothing more can be agreed in further negotiations, there are three choices:

- Complete a Doha lite quickly with what has been agreed;
- Declare defeat explicitly and terminate the round; or
- Let the Doha Round die a slow death by continued inaction.

Of these, letting the Doha Round drift is by far the worst option.

The stature of the WTO diminishes as time passes with no visible momentum. Yet all participants agree that the WTO is important for what it has already achieved, in particular its role in continuing the ideal of an open multilateral trading system (admittedly not always adhered to), in dispute settlement, and in enabling a rules-based international trading system.

Better a quick death than a lingering illness that undermines the WTO

As the WTO’s standing diminishes, these existing commitments are gradually eroded. Far better to pronounce the Doha Round ended and to move on to a work programme where progress is possible than to be paralysed by an unbreakable Doha impasse.

Termination, if it is all that can be achieved, could be made less injurious if accompanied by a work programme going forward, such as developing protocols on free trade agreements.

Conclusions

Concluding the Doha Round with that which has already been agreed ('Doha lite') would be vastly preferable to an end to the round with no agreement. Although there would still be criticisms of the WTO, the agreements to date would enable progress, albeit more slowly than most would like.

Best of all, however, would be to make sufficient progress to be able to facilitate a very positive and credible communiqué and a timetable. There are large gains to be had in services and agriculture, in addition to those attainable from that which has already been agreed.

About the author

Anne Krueger is Professor of International Economics at the School for Advanced International Studies, Johns Hopkins University. She is also a Senior Fellow of Center for International Development (of which she was the founding Director) and the Herald L. and Caroline Ritch Emeritus Professor of Sciences and Humanities in the Economics Department at Stanford University.

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The Doha Round: No more delays

Claude Barfield

American Enterprise Institute

Another suspension of the Doha Round is the likely outcome of the upcoming meeting. This essay argues that such a failure is now more dangerous than ever. For domestic political reasons unrelated to trade, the US will be in no position to lead on international trade issues for some years. As the US is still the “indispensable nation” for WTO talks, this means 2011 is the last good opportunity for many years.

At this point, there is virtually no chance that governments will act to prevent another breakdown or suspension of the Doha Round at the 29 April 2011 meeting of the WTO’s Trade Negotiating Committee. So I see little profit in reviewing the intricate details of why this is the case for each of the major areas – goods, services, agriculture, rules, etc. Or even why, as some have noted, there would be real benefits in salvaging less controversial pieces of the negotiating agenda.

The negative political implications of a failure or suspension

I would, however, like to point out some of the possible negative political implications, particularly with regard to the US political situation in coming years.

- First, failure to reach some accommodation this spring will inevitably push off serious negotiations until 2013 at the earliest.

President Obama’s Democratic Party remains deeply split on trade and globalisation issues, with labour unions, the foot soldiers of Democratic election armies, adamantly opposed to new “Bush era” trade agreements.

Though WTO negotiations such as the Doha Round have traditionally not drawn the heavy fire attendant to free trade agreement negotiations, the White House will not risk further alienation of the leftwing of its party until the election next year. Its belated support for the Korea, Panama and Colombia agreements is as far as it will go.

- Then in 2013 and for some years beyond, the US is in for a highly contentious and deeply divisive debate and battle over how to deal with the looming budget crisis and, ultimately, over the size and role of government; this holds regardless of which party wins the presidency or controls Congress.

While I doubt that the country will turn protectionist in a major way, the time and attention of both political leaders and the electorate are not likely to be focused on international economic and trade issues – barring the not remote possibility of another 2008-style financial crisis.

In addition, in this political scenario, there is no reason to believe that the major economic sectors and interest groups will change their unified position. Manufacturing, service, and agriculture all believe that what is on the Doha-Round table does not achieve even modest gains in market access (indeed, this have been the reality since the closing months of the Bush administration in 2008).

The bottom line is that failure to reach an agreement this spring means that the US may well be largely distracted and in no position to lead for some years to come. The US is still the “indispensable nation” for WTO negotiations, so if Doha does not get done this year, it will not get done for many years.

The China issue

One final point with regard to the other “indispensable nation” in Doha negotiations – China.

- It is an open secret that for some time, other major developing-country WTO members – Brazil, India, Indonesia, Argentina, Mexico, just to name a few – have suddenly become gun-shy when it comes to the industrial-goods tariff-cutting that is on the Doha negotiating table.
- Behind the scenes, they candidly admit that fear of the consequences of major Chinese import competition and competition for third-country markets is causing them to pause and reconsider the consequences of further market opening.

Question to them: Do you really think the situation will improve in coming years in a WTO without further rules and obligations for reciprocal market access from China?

About the author

Claude Barfield is a resident scholar at American Enterprise Institute. He is the author or editor of a number of books on trade and science policy, including *Free Trade, Sovereignty, Democracy: The Future of the World Trade Organization* (AEI Press, 2001). In 1999, he coauthored *Tiger by the Tail: China and the World Trade Organization* (AEI Press) with Mark Groombridge. Mr. Barfield is working with Andrei Zlate on the forthcoming AEI Press book *The Eagle and the Dragon: The United States, China, and the Rise of Asian Regionalism*. Before coming to AEI, he served in the Gerald R. Ford administration, on the staff of the Senate Governmental Affairs Committee, and as a co-staff director of the President's Commission for a National Agenda for the Eighties.

Doha Round: Keep moving forward or fall down

Philip I Levy

American Enterprise Institute

The Obama Administration seems to view Doha delay as a minor issue since they view the export gains from the current package as small. This column argues that this calculation is based on a false premise that the status quo would continue even if the Round dragged on for years. Nations respect the WTO's Dispute Settlement Mechanism verdicts in order to remain as members in good standing; this allows them to reap the benefits of the WTO as a negotiating forum. If the WTO collapses as a negotiating forum, nations may move towards a crass calculus that assesses verdicts only on the basis of the threats that back them. This would be a deeply regrettable move away from a rules-based global trading regime.

The state of the current round of global trade talks is indisputably dire. It is never a good sign when analysts are quibbling over whether Doha is dead or simply comatose. Despite plaintive, increasingly desperate cries from Geneva, leaders of the G20 countries have shown little inclination to follow through on their repeated commitments to conclude the talks.

The absence of US leadership is critical

There is plenty of blame to go around, but the absence of American leadership has been particularly striking.

- The Obama administration has waited patiently for an agreement to emerge.

Yet, in the history of global trade accords, there is no track record of self-generating global trade consensus to suggest that this passive strategy will work.

- There remains a stark gap between the position of the US and those of the most significant developing economies in the discussions: China, Brazil, and India.

The Doha Round promised a focus on the concerns of emerging economies. But things have changed since the Round was launched in 2001.

- Emerging economies' new prominence in the global trading system means that any deal that will be politically feasible in the US will require significant market opening by the more advanced developing nations; something they have shown no eagerness to accommodate.

How might this gap have been bridged?

There were lost opportunities. In the last year, President Obama has visited New Delhi and Brasilia and hosted Chinese President Hu Jintao. Traditionally, such presidential diplomacy can be leveraged to generate progress on crucial world issues, such as the Doha talks. However, there is no evidence that President Obama made the issue a priority in any of his meetings.

Admittedly, for President Obama to push for a Doha conclusion would be a demanding task.

- Key interest groups in the US have shown very little interest in backing a “Doha Lite” package – which is the sort of deal that many developing nations would like.
- The Obama administration believes the terms on the table offer little beyond what they enjoy under the status quo.
- With such limited gains on offer, the US Administration sees little incentive to push an agreement through a legislature well-stocked with trade sceptics.

The interest groups support this stance with reference to analyses that question the value of offers on the table, most prominently the work of Hufbauer et al. (2010). Among other findings, those authors conclude that “on the table” cuts in agriculture and non-agricultural market access offer the US a \$7.6 billion gain in exports (the key figure in this mercantilist era) and GDP gains of \$9.3 billion or 0.1%. They find that gains could be more significant in a more substantial agreement including services, sectoral initiatives, and trade facilitation. But at the more modest level, the authors’ conclusion seems to be: “why bother?”

Problems with the simple calculations

Such careful analysis rests on a dubious premise, however. It assumes that the relevant comparison is between a new agreement and the status quo. What if, instead, the alternative to a successful round is a pronounced weakening of the global trading system?

There is a hallowed characterisation of trade talks known as the “bicycle theory”: Liberalising trade is like riding a bicycle; you keep moving forward or you fall over. This is quaint – and more accessible than most trade theories – but there is reason to think it captures something real.

The WTO walks on two legs: Dispute Settlement and trade negotiations

Between the conclusion of trade rounds, the WTO sets policy most directly through the decisions of its “court”, the Dispute Settlement Mechanism. This is not supposed to be a policy-setting mechanism, of course, but that is the inevitable result of a functioning legal system. It fills in the blanks left by negotiators.

One measure of the strength of the WTO is the willingness of members to comply with past commitments and to abide by Dispute Settlement judgments. Even in more

optimistic times, sceptics in large, powerful countries will ask just why their country should comply with adverse decisions. This is particularly true when the winning complainant is a small country. Why not simply accept whatever meagre retaliation the little country can muster?

The usual reply – for example, that often made by the US government – is that it is important to remain a member in good standing at the WTO. If a large country wishes to reap the benefits of the WTO as a negotiating forum, it must demonstrate leadership and show respect for the verdicts of the Dispute Settlement Mechanism.

But what happens to this argument if the WTO no longer appears viable as a negotiating forum? One may be left with the crass calculus that assesses verdicts only on the basis of the threats that back them. This would be a deeply regrettable move away from a rules-based global trading regime.

Further, just as a failed round could call into question the potency of the Dispute Settlement Mechanism, it could simultaneously increase countries' reliance upon the enfeebled system. As time passes and the last concluded agreement recedes into history, the “blanks” between negotiated agreements and current policy issues grow ever bigger. New issues can be addressed through either negotiation or litigation. In the absence of viable talks, there will be a growing temptation to seek expansive verdicts in dispute settlement.

The US government has been critical of expansive verdicts, but is not immune to this temptation. To illustrate: Among US congressmen, one popular approach to concerns about China's currency valuation has been to advocate a WTO case under GATT Article XV:4, which says WTO members “shall not by exchange action frustrate the intent of the provision of the GATT.” There is very little supporting detail in the article, beyond a suggestion to ask the IMF what this ought to mean. The only way the US could win such a case would be for a panel to get creative and develop detailed rules – a role that properly belongs to negotiators (Busch and Levy 2010).

The dangers of walking on one leg

In the absence of negotiations, such potentially explosive cases are likely to proliferate. They are likely to leave the WTO in an untenable position.

- Verdicts in such cases would be modest – and thus show that the WTO is impotent; or
- They would be ambitious – and potentially face rejection by members as illegitimate.

In either case, the trend could prove seriously damaging to the institution and the trading system. For this reason, the status quo is not likely to persist in the absence of trade negotiations.

Conclusion

The Doha talks cannot conclude without attention from the highest level of political leadership. Should this not be forthcoming, we may be in for an extended period of institutional decay. If the status quo is not a durable option, the costs of a failed round may be significantly greater than just forgoing the market access offers on the table.

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The dubious hold-up over NAMA

Simon J. Evenett

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If trade diplomats thought they knew one thing, it was how to cut industrial tariffs. Yet the Doha deadlock rests squarely on the inability to compromise on industrial tariff cuts. This column says that the arguments made for higher levels of ambition don't stand up to much scrutiny and should not be allowed to provide a basis for a continuing impasse.

“I believe we are confronted with a clear political gap which, as things stand, under the NAMA framework currently on the table, and from what I have heard in my consultations, is not bridgeable today,” Mr. Pascal Lamy, Report by the Director-General on his consultations on NAMA Sectoral Negotiations, 21 April 2011, page 3.

Not long ago, when several “new” issues were being proposed for inclusion on the Doha Round agenda, numerous trade experts and non-governmental organisations argued that the WTO should stick to what it was good at, namely, negotiating better access to foreign markets for industrial goods. Having successfully completed numerous post-war trade negotiating rounds, the view was that – if anything – trade officials knew how to negotiate market access.

NAMA used to be no-DRAMA

In the light of this history, it is pretty surprising that one of the major factors holding up the conclusion over the Doha Round is the inability to narrow differences on proposals

to liberalise non-agricultural market access (NAMA). According to the current chairman of the NAMA negotiations, differences here are not of recent vintage:

“... the issue of the divergence in views between some Members about the appropriate level of ambition which is considered to be the main stumbling block of the NAMA negotiations since mid-2008.” (WTO 2011a, page 1).

What’s going on? Do the underlying negotiating claims stand up to scrutiny? Are the claims concerning commercial benefits exaggerated? The purpose of this chapter is to answer these questions.

The DRAMA over NAMA

Fortunately the Director-General himself has provided a succinct summary of disagreement over the level of liberalising ambition for NAMA and its manifestation in the form of proposals for tariff-free trade in certain sectors of the world economy. Mr. Lamy notes:

“One side considers tariff cuts achieved through the [Swiss tariff-cutting] formula as being insufficient to meet its expectations for the level of ambition of the Doha Round on industrial tariffs. They argue that the formula only provides for limited cuts in applied tariffs in emerging countries. They also argue that given the already low level of developed country industrial tariffs, and the application of the formula reductions with no exceptions, they would lose all leverage to obtain future industrial tariff reductions from emerging economies. Therefore, they saw the Doha Round as the last opportunity towards a harmonisation of tariffs with emerging economies. For that, the essence of tariffs on chemicals, industrial machinery and electric and electronic products should be eliminated.” (WTO 2011b, page 2).

The proponents of a high level of liberalising ambition base their arguments on several factors, each of which will be examined in the section that follows. North American and European manufacturing associations have made prominent claims that there is not enough tariff liberalisation envisaged for emerging markets in the current NAMA

proposals. Let's leave aside quite how they came to this conclusion, especially since leading emerging governments have not stated which of the [three options available](#) to them they plan on implementing. Still, the view of little benefit to Western manufacturers appears to have had a particularly significant impact on the view of US trade negotiators and policymakers.¹

Those WTO members preferring a more modest level of ambition have had their position characterised by Mr. Lamy as follows:

“The other side considers that the formula delivers a significant level of ambition. These Members point at the unilateral tariff reductions that many developing countries have undertaken since the Uruguay Round and point at the value in binding them in the Doha Round. They also indicate that, for the first time in the history of the multilateral trading system, developing countries are systematically cutting their tariffs, including some of their applied tariffs. As to sectorals, these Members see them as a means to improve the level of ambition, but according to them, such negotiations must be faithful to the mandate of the Doha Round, be balanced and proportionate. On this last point, some Members point at the disproportionate efforts that emerging countries would be undertaking when eliminating tariffs on chemicals, industrial machinery and electric and electronic products, considering the current very low level of tariffs applied by developed countries” (WTO 2011b, page 2-3).

One solution to the impasse is for those seeking a higher level of negotiating ambition to withdraw their proposals. We should not be surprised that in a trade negotiation a party demands a lot of reform by others. What a negotiator asks for and what they get – if they are serious about concluding the deal – are all-too-often two different matters. In what follows a fact-based assessment is made of the arguments made in favour of a high

1 Given the fine-grained variation in tariff rates alluded to in the next section, it is an open question whether the computational models used by Western export representatives and their consultants are sufficiently detailed to obtain accurate estimates of the impact of implementing the proposed Swiss-formula tariff cuts.

level of negotiating ambition. If these arguments are found wanting, then they provide a dubious basis upon which to hold up the NAMA negotiations.

Are the claims made in support of a high level of ambition sensible?

It will be useful to start with some facts concerning the tariffs applied by the larger emerging markets on imports of industrial products (see Table 1). The five emerging markets selected include three of the BRICs – Brazil, India and China. The most important feature of this table is the substantial heterogeneity across the larger emerging markets which, as I will argue below, calls into question the tendency to lump all emerging markets into the same category when criticising the lack of ambition in existing NAMA proposals.

For example, of the largest emerging markets two (India and Turkey) still have substantial proportions of their import tariffs on industrial products unbound. The lowest average bound rate of tariffs for these five countries is less than a third of the highest average bound rate; likewise for average applied rates. The resort to tariff peaks – tariffs above 15%– varies considerably too.

Now what of the claims that the application of the Swiss tariff-cutting formula will not reduce emerging markets tariffs by much? Since the tariff peaks offer the greatest protection against imports – and the greatest distortion to markets – let's start there. A tariff rate of 15% or more is typically taken to be a tariff peak. Under the most generous tariff cutting formula available to developing countries², only bound rates of tariffs currently at 40% or more could generate a post-Doha tariff peak of 15% or more. As Table 1 makes clear, the average bound tariff rates in the largest emerging markets are well under 40%, so any caricature of a Doha Round leading to virtual tariff

2 That with a Swiss formula coefficient of 25.

elimination in the West while wide-ranging tariff peaks survive in emerging markets is simply impossible to sustain.³

Now bear in mind that nearly two-fifths of Brazil's product categories (at the 6-digit level) have tariff rates applied at 15% or more. The comparable percentages for Mexico and China are 22.7% and 11.6%, respectively. Application of the currently proposed tariff cutting formulas will cut a 15% tariff to between 8.4% to 9.4%, that is, between a 37.5 and 42.9 percentage reduction in the original tariff. The higher the initial tariff peak the greater the percentage reduction in tariff. Therefore a 20% tariff peak would, after the application of these formulas, be reduced to between 10% and 11.1%, a larger actual and percentage reduction in tariffs than with a 15% tariff peak.

Table 1. The tariffs applied by large emerging markets on industrial products

	Percentage of manufactured goods lines bound	Average bound rate on manufacturing goods	Average applied rate on manufacturing goods	Percentage of MFN applied rates above 15%	Average tariff rate applied in 1995
Brazil	100	30.7	14.1	39.0	12.9
China	100	9.2	8.7	11.6	(23.8) ¹
India	69.8	34.4	10.1	7.3	36.0
Mexico	100	34.9	9.9	22.7	12.6
Turkey	42.6	17.0	4.8	3.1	7.5

Sources: Data for the second through fifth columns is taken from *WTO Tariff Profiles 2010*. Last column data from Mexico and Turkey data is taken from Bacchetta and Bora (2001). India data from its 1998 *WTO Trade Policy Review* and refers to 1997/8. Brazil's data is taken from its 1996 *WTO Trade Policy Review* (page xvi).

Note: 1 Pre-accession applied average tariff rate. Notice in nowhere in the main text is the fall in the applied average tariff rate in China attributed to unilateral tariff reform on the part of the Chinese authorities.

3 No doubt some will say that developing countries are allowed to exempt some product lines from the application of the Swiss tariff cutting formula. This is formally correct, but there are limitations on the extent to which such exemptions can be used. Moreover, while the industrialised countries are not allowed such exceptions in the current NAMA text, this does not mean that the negotiation will end with no exceptions being granted for certain tariff peaks in sensitive sectors in industrialised economies. In short, the "exemptions argument" is a double-edged sword.

Even once allowance for exceptions is made for, the current NAMA proposals will result in a substantial reduction in the number of tariff peaks in three of the largest emerging markets and in percentage cuts in tariff rates that exceed previous trade rounds.

Much has been made by Western manufacturers of the gap between the bound and applied rates of tariffs. It has been argued that, due to unilateral tariff reforms by emerging markets since the completion of the Uruguay Round, the gap has grown so much that for many imported goods in emerging markets the application of the tariff cutting formulas merely reduces the legally bound tariff without cutting the applied rate. India is the poster child for this “problem”. Its average applied tariff in the mid-1990s was 36%, whereas now it is 10.1%. Indian average bound rates are much closer to the former than the latter.

What to make of this criticism? The first, factual comment is that it certainly doesn’t apply to all of the large emerging markets that are WTO members.

- China’s bound and applied average rates are very similar, so only under the most unusual circumstances would cutting the former not force cuts in the latter.
- Brazil, in contrast, has seen its applied tariff rate rise – not fall – since the WTO was created, which certainly doesn’t fit the story put about by Western exporters’ trade associations.

To the extent that the other large emerging markets have seen tariff cuts since the 1990s, they have been on a far smaller scale than India’s and so cuts in bound rates are more likely to require cuts in applied rates and thereby create market access. All of this suggests that, while gaps between bound and applied rates do exist, there is simply too much variation across even the largest emerging markets to sustain broad-brushed conclusions of limited market access gains for Western manufacturers from current NAMA tariff cutting proposals.

Western manufacturers have also sought to dismiss arguments that there is positive, commercial value in binding some, or all, of previously implemented unilateral tariff

reforms. Such manufacturers and their representatives have argued that emerging markets are unlikely to reverse tariff reforms. To believe that this assumption – for it is only that – holds across countries with such different levels of development, political systems, and growth trajectories is heroic. Indeed, as noted earlier, applied tariff rates have increased in Brazil since the WTO was formed.

To reinforce the point Table 2 reports on the protectionist measures taken by large emerging market members of the WTO since November 2008. The temptation to reverse prior trade reforms was probably higher during the recent global economic downturn. This table excludes so-called unfair trade actions (antidumping etc) so that they cannot be said to be “distorting” the results.

Once again there is pronounced variation across the large emerging markets that are WTO members, not just in the number of measures taken but in the scope of trade and trading partners affected. The last two columns of Table 2 report the number of times US and EU commercial interests have been hurt by these emerging markets since November 2008.

While Mexico and Turkey have caused little harm to Western commercial interests, the same cannot be said for Brazil, China, and India. In fact, 19 of the measures taken by Brazil were tariff increases. Just because the recent global economic crisis didn't generate the across-the-board transparent tariff increases of the 1930s doesn't mean that Western export interests emerged unscathed from protectionism and that had tariff bindings been lower some of those market opportunities would not have been lost.

Taken together the foregoing arguments suggest that binding unilateral tariff reforms would likely have commercial value to Western firms, the magnitude of which are very unlikely to be uniform across products and trading partners. If bindings do indeed have greater value than thought, resort to sectorals is less important, and the apparently low ambition outcome for the NAMA negotiations cannot be dismissed so easily.

Table 2. The extent to which the largest emerging market WTO members closed markets during the recent global economic downturn varied

	Number of protectionist measures implemented since November 2008, excluding unfair trade actions	Number of tariff lines affected (percentage of product categories affected)	Number of trading partners affected (percentage of maximum)	Number of times US commercial interests hurt, excluding unfair trade actions	Number of times EU commercial interests hurt, excluding unfair trade actions
Brazil	34	246 (20.4%)	130	22	26
China	24	351 (29.2%)	164	13	12
India	28	365 (31.3%)	145	16	20
Mexico	5	86 (7.1%)	36	5	2
Turkey	3	11 (0.9%)	14	1	2

Source: Global Trade Alert database.

Perhaps the feeblest argument made by those seeking higher levels of liberalising ambition in the NAMA negotiations is that the implementation of the Doha Round based on the current formula would provide industrialised countries with far fewer negotiating chips in subsequent negotiations on NAMA. This criticism misses entirely the point of a Single Undertaking where trade-offs across matters can be negotiated. On their worst-case scenario in future rounds Western governments would have to make concessions on non-NAMA policies if they are going to persuade emerging market governments to liberalise NAMA. There is nothing counter-cultural about this in the WTO.

Overall, then, the claims that Western exporters will gain little from emerging market implementation of the tariff cutting formulas on the table do not bear close examination. The variation across the large emerging markets alone is so big as to call into question these claims. Without support for these claims the case for aggressively pursuing sectorals is weak. Demands for the latter, then, should not hold up the conclusion of the Doha Round NAMA negotiations.

Concluding remarks

Trade negotiators can ask for whatever they like. What ultimately matters is what all WTO members can agree to.

- For three years certain WTO members have sought to persuade their trading partners of the merits of tariff elimination – or substantial tariff reductions – in several sectors of the world economy that go beyond the application of the tariff-cutting formulas already agreed proposed.

This argument has not carried the day among most WTO members.

- Beyond some face-saving gestures, it seems that many emerging-market governments are unprepared to go much further in offering tariff cuts.

Given these points, holding up the NAMA negotiations with further demands for ambition now jeopardises the entire Doha Round.

Even more depressing is the realisation that these demands are more than likely based on a flawed understanding of the underlying facts about emerging-market tariff regimes and a tendency towards gross over-generalisation of emerging-market circumstances. What a way to conduct a trade negotiation.

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The US is painting itself into a corner on 21st century trade policy

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America's best chance at getting better access to the world's fastest growing economies is on the table – it is called the Doha Round. The US should push hard for a conclusion as the alternatives are much worse. The US faces great domestic and foreign problems in pursuing the regionalism alternative. In particular, US faith in the Trans-Pacific Partnership seems to be based on unclear thinking about political constraints at home and political reactions abroad.

The Obama Administration is getting ready to paint itself into a corner on 21st century trade policy. The key event is the 29 April 2011 meeting of the Doha Round's steering committee that will decide the Round's fate.¹

The basic issues are simple. Obama feels that he cannot win the domestic political battle against US protectionists without fulsome support of US export interests. Such support, he believes, would require much larger tariff cuts by emerging economies – especially China, India, and Brazil. As these nations say they cannot offer greater cuts, Doha is deadlocked.

All indications are that the US is pushing for a suspension of the Round, or some similar tactic. The goal, it seems, is to shield the Obama Administration from pressures to make any compromises this year or next.

¹ The steering committee is known as the Trade Negotiating Committee; all members are on it and it is chaired by the WTO Director-General Pascal Lamy.

Woolly and wishful thinking in Washington

Washington's thinking on this seems incomplete.

- Obama's stalling makes perfect sense from a short-term domestic political perspective.

US exporters of manufactured goods, service, and agriculture are not pushing for Doha. They reaped handsome harvests from emerging markets' unilateral tariff cuts this century but view this as history. They focus only on the new market access and they are unimpressed.

- The unclear thinking concerns medium-run alternatives for US trade policy.

The most critical point turns on the timing of what happens next.

If the 2011 deadlock is for real, no deal is possible before 2020

There is still a glimmer of hope that the Doha deadlock is tactical – brinksmanship rather than an unbridgeable gap. But if the deadlock is real and Doha cannot be done in 2011, then no deal is likely until the end of the decade.

This not-before-2020 is a bold conclusion, but consider the logic.

As Claude Barfield argues in his essay, US labour unions oppose trade liberalisation, offshoring, and globalisation. Labour unionists are the “foot soldiers of Democratic election armies”, so Obama will not risk further alienating them during the election year. Nothing will be done in 2012.

Many view 2013 as the next window but let's think that through. The US political scene is likely to be much worse in 2013 – scared by divisive debates over spending and taxes driven by extreme positions taken on the size and role of government. In this poisonous climate, Obama will find it harder to compromise on multilateral trade liberalisation.

The obvious way to break the deadlock starting in 2013 will be to give China something to bargain for. The big US concessions in this Round are on agriculture. These interest Brazil but China and India will only find it politically optimal to cut their tariffs further if Chinese and Indian export interests are offered prizes that make them willing to push their governments into signing the deal.

The predicament is the delay this agenda-expansion would entail. History tells us that it takes years to negotiate a new agenda, and then years to complete the actual bargaining.

In short, if the US and Chinese are unwilling to break the deadlock in 2011, no deal is likely before 2020.

Can't Obama follow the regional route?

If Obama allows Doha to fail, it is surely in part because he believes the US can pursue its trade ambitions via the regionalism route. But let's think that through. Apart from agriculture, US exporters face fairly low barriers when exporting to other developed nations but not when it comes to the world's fastest growing markets – especially Brazil, India and China.

Given US domestic politics – which makes FTAs with low-wage nations difficult for the US to ratify – and domestic politics in large emerging economies – which makes NAFTA-style FTAs with the US difficult to sign, the bilateral route seems very unlikely to work out well for the US.

This is not speculation, it is a fact. The pairing of US domestic politics and Asian domestic politics, American is already seriously behind its main industrial rivals when it comes to bilateral agreements in Asia. Allowing Doha to die will not change the structural impediments that are hindering US FTAs with Asians, but not those of the Europeans and the Japanese.

The two big US domestic problems are agriculture and labour unions. The US is a major food exporter, so it insists that its FTA partners remove their food tariffs. Many East Asian nations are allergic to food liberalisation, so signing FTAs with the US is a difficult deal (witness the Korea US FTA). Europeans and Japanese, by contrast, are quite happy to leave aside all sensitive agriculture goods. US trade unions' opposition to trade agreements with low-wage nations is the second problem (witness the many years it took to ratify the Colombia US FTA).

But Obama has a plan to fix all this – it is called the Trans-Pacific Partnership (TPP) agreement. Let's think that through.

What happens if labour unions view TPP as an offshoring agreement?

The Obama Administration's big hope is the TPP. The US is negotiating the TPP with 8 other nations. It already has FTAs with the 4 bigger ones, so there will be no new market access from them and precious little from the other four. This makes it clear that TPP is not mainly about preferential tariffs – it is about providing 21st century rules for 21st century trade.

When supply chains internationalised, trade became more complex, revolving around a “trade-investment-service nexus” (Baldwin 2011). Firms invested in production stages internationally to lower production costs and linked the facilities via trade and infrastructure services (telecoms, express mail, air cargo, internet, etc.). The Obama Administration hopes that TPP will set the rules that 21st century commerce needs. As USTR Ron Kirk put it: “the agreement will create a potential platform for economic integration across the Asia-Pacific region.”

As commendable as this may be from the US business perspective, US trade unions may view TPP as making the world safe for American outsourcing. The fact that two of the current TPP members have labour rights issues on par with Colombia will create even more problems.

One would have to be quite the optimist to think Obama can rapidly implement TPP and then expand it to include other low-wage Asian nations. But US opposition is not the only threat to Obama's hopes for the TPP.

Suspicion of US motives among potential Asia-Pacific members

A key assumption behind US hopes is that TPP will create a domino effect. Although TPP starts small, the US wish is that it draws in all the fast-growing Asia-Pacific economies. The biggest wish of all is that India and China will eventually have to join this agreement dominated by American rules. There are two serious flaws in this thinking:

- First, applying the domino theory of regionalism to this situation is problematic given the lack of preferential market access mentioned above.

Empirical evidence in the World Bank's forthcoming Handbook on Regionalism and the WTO's forthcoming World Trade Report confirm the lack of trade diversion from "deep" FTAs. The basic economics is simple. Many of TPP's rules would make it easier for all nations to run the trade-investment-services nexus in, say, Vietnam. National reforms on investment rights, intellectual property rights, FDI-linked capital flows, and infrastructure services do not come with rules of origin.

- Second, some Asia-Pacific nations have begun to worry about why the Obama Administration is so interested in the TPP.

Japan is hesitant to join – given the insistence on radical agriculture liberalisation. Korea finds it hard to see what TPP offers beyond the Korea-US FTA and worries about being part of a plot to corner China and India. A TPP without Japan or Korea is not the sort of agreement that will force China and India to grant the US better market access. The large ASEANs may join, but they already have TPP-like agreements with Japan. Without compulsion, India and China will never join. China – and increasingly India –

are at the heart of the trade-investment-services nexus even without a 21st century trade agreements. Their markets are large enough to attract US, Japanese and European FDI without them.

Concluding remarks

The US's best chance at getting better access to the world's fastest growing economies is on the table – it is called the Doha Round.

If the Obama Administration lets the Round slide into a coma, the next multilateral agreement will be closer to 2020 than 2013. If today's deadlock is bona fide – i.e. the US really cannot use systemic arguments to get the current package through Congress – then it will be equally real in 2013. The US will still demand deep, additional tariff cuts from China; China will still see no reason to concede. Think of 2013 as 2011 with much less goodwill internationally and poisonous politics inside the US. Breaking the deadlock will require a broader agenda but that would take years to agree and years to negotiate to fruition.

One reason the Obama Administration seems so blasé about failure of the Round is that it seems to think highly of its Plan B – the Trans-Pacific Partnership. Plan B, however, is based on wishful thinking and a misunderstanding of the nature of 21st century trade agreements.

- 21st century trade agreements create much less political economy “jealousy” and are thus much less “contagious” than the old-fashioned preferential tariff deals that seem to be in the minds of Obama's advisors.

Most of TPP's rules do not come with rules of origin; nations don't have to join TPP to benefit from it (this is what happened with the EU's Single Market Programme).

- Other Asia-Pacific nations have begun to suspect US motives when it comes to the TPP.

If TPP doesn't finish in 2011, US domestic problems will hinder TPP progress in 2012. By 2013, there may be other TPP-like arrangements may be in place – in addition the deep bilaterals already signed by Japan and the EU. For this reason, a little delay now could completely ruin the TPP's domino effect. China won't join and Japan and Korea are hesitant. A TPP without Japan, Korea, and China misses the heart of Factory Asia. This is certainly not the sort of agreement that will force China and India to grant the US better market access than they are now offering in the Doha Round.

This is the corner in which the US may find itself in 2013. Completion of a multilateral Round may be years away, and the US's bilateral and regional options will be difficult to pursue for domestic and international reasons.

In the meantime, the US will continue to play catch up in the FTA game. The EU will continue to sign FTA with large Asian nations. It is likely to conclude one with Canada and it is considering an FTA with Japan like the one Switzerland has already signed.

At that point, the US's wishful thinking may be wishing it had made the compromises necessary to complete the Doha Round in 2011.

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The one-trillion-dollar chicken game and the G20

Patrick A. Messerlin

Sciences Po

At the end of this week the world will know whether, after ten years of negotiations, the Doha Round is still stuck in a “game of chicken”. This column argues that the agreement in goods still offers a good basis for a deal as it provides the most precious virtue, i.e. certainty and insurance. Moreover the likely alternative to Doha – rampant regionalism – will not help the US and China achieve more than they could with Doha because their trade partners find FTAs with these two particularly difficult.

At the end of this week the world will know whether, after ten years of negotiations, the Doha Round negotiators are stuck in a chicken game where the largest countries keep making excessive requests for concessions from their partners. As concluding the Doha Round by 2011 is one the oldest and most repeated pledges of the G20 leaders, a continuing Doha deadlock will also be the most severe blow to the G20 since its creation.

The 2008-2009 financial crisis did not trigger a trade crisis. The world trade regime was remarkably resilient, allowing the emerging economies to continue to grow and softening the blow for the industrial economies. But, a serious deadlock in the Doha Round is almost certain to open the door to severe problems in trade.

Creeping protection and Doha failure

A first scenario would be the collapse of world trade if all the countries start backpedalling in terms of trade liberalisation. Even if they do that by following WTO rules, such a collapse will come at a permanent cost estimated at one trillion dollars—almost

three times the fall of the world GDP in 2009 (Productivity Commission 2009). No country—large or small—will survive unshaken such a shock.

Such a collapse is unlikely to happen immediately. But, it may start with a slow rise of protection during the next few years, as it happened in the 1920s before the explosion of protection in 1929-1930. Political circumstances are favourable. In 2012, the elections at the highest political level in several G20 countries—China, India, the US, and France and Mexico, the current and next hosts of the G20 Summits—open wide the doors to people eager to present trade as the scapegoat for all the unsolved problems, unemployment, and austerity in the US and Europe, and for inflation and inequality in China and India. And the ongoing profound shift in world powers is the perfect cauldron for nurturing such risks for a long time.

Rush to regionalism and Doha failure

An alternative scenario would be a rush to preferential trade agreements. The awkward behaviour of countries rejecting a multilateral deal, but at the same time ready to sign more demanding preferential trade agreements is not new. It happened at a large scale after the failed WTO Ministerial in Cancun in 2003.

In such a scenario, the largest trading partners such as China and the US may feel safe. They should think twice. Many countries are hesitating to sign a Doha deal by fear of the efficient Chinese exporters. If the Doha negotiations fail, they will do their best to keep China at bay, avoiding giving preferential concessions to China, or giving them reluctantly if China exerts strong political pressure. In the US case, the problem is its insistence on imposing labour and environmental provisions in its preferential agreements. After ten years of negotiations, a humiliated Colombia finally agreed to abide by such provisions. Large emerging countries will never do this. In short, China and the US risk to be marginalised by the preferential agreements emerging from the ashes of the Doha Round. Ironically, both countries have particularly strong joint economic and political interests to conclude a Doha deal.

The current package is a good basis for concluding the Round

In 2008, the existing drafts of a Doha agreement in goods were considered as a good basis for a deal. It is hard to see why it would not be the case today. Envisaged concessions are large enough to bring substantial gains—roughly between \$300 and \$700 billions. They consolidate past liberalisations, providing the most precious virtue—certainty and insurance—in modern economies. And, they bring moderate additional liberalisation spread on a large set of sectors so that the Doha Round will not generate strong shocks to individual sectors risking rocking the boat of economies under high stress since 2008.

Paradoxically, the financial crisis makes such an outcome even more obvious for two reasons. Emerging economies have revealed their willingness not to increase their applied tariffs during the crisis. Such a revealed preference erodes their claim that they make huge concessions when binding their tariffs at their current level. Meanwhile, industrial countries have a strong interest to minimise new economic turbulences. Deeper market access will make emerging economies more—not less—effective, hence attractive, as amply shown by South Korea or China. Such a view should induce developed countries to refrain to request concessions in addition to those envisaged in 2008.

However, some (not all) business people claim today that what is on the table is not enough, and insist on getting additional concessions at any cost. They should ruminate on—and be made accountable of—what will happen to their firms in case of a Doha failure chaos. And, better for them not to complain when they will face the uneven playing field generated by a rush to preferential agreements and the possible marginalisation of their countries in this scenario.

Do more on services liberalisation

That being said, closing the Doha Round requires more negotiations on services. In 2008, trade negotiators have already spotted services offering a large pool of potential concessions. As most of these services have been resilient to the financial crisis, negotiators can and should develop and finalise these discussions, having again in mind consolidation of past liberalisations and moderate additional market access.

Beyond their capacity to offer a nice wrap up of the Doha deal in goods, services have a remarkable feature. They offer a long-term solution to the macroeconomic imbalances which are fuelling international bitterness and frustrations. If it wants to export more, the US should rely on its competitive edge in certain services. If it wants to rebalance its own economy, China should satisfy its huge domestic potential demand in services by importing more of them.

Conclusions and next steps by the G20

If there is a deadlock in Geneva at the end of this week, the whole trade issue will be back in the hands of the G20 leaders, hence of its current Presidency—France. President Sarkozy, alone or teaming with Presidents Lee from South Korea (the previous G20 Presidency) and Calderon from Mexico (the next Presidency), should head to Washington, Beijing and a few other G20 capitals to get the needed political impetus to tell business lobbies in all the capitals to stop fuelling the ongoing deadly chicken game, and negotiators in Geneva to hurry up.

Such an initiative will not be unusual. In the past, multilateral trade have often been successful only after the mediation of medium size countries as brokers.

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About the author

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Why WTO members should not give up the Doha Round: The case of agricultural trade

Andre Nassar and **Carlos Perez**

Institute for International Trade Negotiations (ICONE)

Why should policymakers bother to conclude the Doha Round? This column argues that the benefits for agricultural trade provide reason enough. Developed countries would benefit from more competitive products entering their market and developing countries would benefit from having access to these markets for export.

David Ricardo taught us more than a century ago that trade should be fostered because it allows nations to exploit their comparative advantages and thus boost their purchasing power – all the while making foreign nations better off as well.

Nowadays international trade is much more complex. If that prominent Englishman were living among us, he would probably observe there was a global asymmetry in the exploitation of comparative advantage. Trade and comparative advantage rule when it comes to manufactured goods, but not when it comes to agriculture goods – at least under current WTO rules. Completing the Doha Round would narrow the asymmetry.

The historical neglect of agriculture in the GATT/WTO system

Taking into account a historical overview of the evolution of the international trade rules, the deficit in agriculture is evident. Under the GATT, parties negotiated tariff reductions and disciplines for subsidies only for manufactured goods. Until 1986, when the Uruguay Round was launched, eight rounds had promoted the liberalisation of industrial products, but almost nothing was done for agricultural goods. It was just with the beginning of the Uruguay Round that states agreed on negotiating agricultural

trade liberalisation. In historical terms, WTO trade rules for agricultural products lag behind the ones for manufactures products.

The Uruguay Round made some progress – notably the WTO Agricultural on Agreement signed by WTO members at the end of the Uruguay Round. Nevertheless, the shortage of commitments to liberalise agricultural markets persists. The WTO Agricultural on Agreement did not succeed in reaching the same degree of liberalisation as previous rounds had achieved for industrial products. Such a discrepancy is seen in three main pillars: market access, domestic support, and exports subsidies.

Regarding the first one – market access – some improvements were achieved in the Uruguay Round, but far less than in manufactured products. Contrary to industrial products trade, agricultural trade is still managed through tariff-rate quotas and other non-tariff measures such as safeguards. This facilitates discretionary actions of states against imported food. Notwithstanding that, agricultural tariffs remain relatively higher than those on industrial goods.

Both domestic support and exports subsidies have even larger room for improvement. For the former, there is a difference between support programmes that nurture production directly (these are deemed to be trade distorting) and those that are considered to have no direct effect. How to discern the difference? In non-agricultural products, all subsidies are potentially considered trade distorting, so they are all disputable. The direct and indirect distinction in agriculture, however, means that some trade-distorting agricultural subsidies are almost impossible to contest in the WTO.

Besides, for export subsidies there are also exceptions, such as the possibility to subsidise products that are specified in a member's lists of commitments. On the other hand, there is no exception for export subsidies in the manufactures market. Being instruments used mainly by developed nations to protect farmers, to avoid the improvement of disciplines to domestic and export subsidies it keeps the agricultural market unequal.

The need for updated rules on agriculture

Along with these three restrictions mentioned above, it is also important to remember the Uruguay Round's so-called "Peace Clause". In doing so, we should bear in mind its symbolism, as well as the consequences when it stopped being in force in 2003. This Clause, by limiting the access to the Dispute Settlement Body, suggested a lesser commitment of WTO members with respect to the agricultural market. Without having an arbitrary body, legal efficiency is tougher to achieve.

In legal terms, such distinction is difficult to obtain not only when there is no third party able to solve conflicts, but also when, in case it exists, it is not followed by normative extension. When the Peace Clause ceased, WTO members started going to the WTO's court – the Dispute Settlement Mechanism, thus producing a new jurisprudence on agricultural trade.

Nevertheless, given the discrepancy between the agricultural and industrial products markets, in which the former's exceptions allowing subsidies are commonplace, the WTO's current juridical condition has become unstable. In order to solve this, it is necessary to extend agricultural rules while pursuing liberalisation. Under these circumstances it helps to enhance legal efficiency, helping the agricultural market catch up with the manufactured openness.

Agriculture liberalisation would benefit developed and developing nations

Furthermore, it can be strenuously asserted that both developing and developed countries would benefit from a more liberalised agriculture. In promoting the reduction of restrictions on market access, developed countries would benefit from developing countries' more open markets, which are still more strongly protected than the developed ones. Developing countries meanwhile would benefit from exporting more agricultural goods. A more opened agricultural market would promote gains for both sides.

Concluding remarks

Concluding the Doha Round is crucial for narrowing the historical gap between agricultural and manufactured goods trade. As it is, given the three bottlenecks in the market access, domestic support and export subsidies, Doha's negotiations draw even more attention, not least because the status quo has negative consequences to the Dispute Settlement Mechanism. In concluding the Doha Round both developing and developed countries would benefit.

Were he alive today, David Ricardo would concur, no doubt advocating the benefits of trade that follow from comparative advantage.

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André Meloni Nassar has served as the managing director of the Institute for International Trade Negotiations (ICONE) since 2007, organization where he was the general manager from 2003 until 2007. As the head of ICONE Andre has been working as a technical advisor for several Brazilian private associations in topics related to international trade, international negotiations, market intelligence and sustainability issues with expertise in the following industries: sugarcane, poultry, beef, pork, dairy, soybean and rice. Since 2003 André has employed an active role in multilateral negotiations serving as an informal advisor of the Brazilian government for the agricultural negotiations of the Doha Round and as an advisor of trade associations for WTO disputes.

André has coordinated various projects, including those sponsored by international organizations such as The World Bank (three projects), Inter-American Development Bank (one project), The William and Flora Hewlett Foundation (two projects), International Agriculture and Trade Policy Council (one project), International Food and Policy Research Institute (one project), International Centre for Trade and

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Asia Pacific and the Doha Round

Muhammad Chatib Basri

National Economic Committee of the President of the Republic of Indonesia

The Doha Round of trade negotiations began nearly ten years ago with a focus on lowering trade barriers, particularly for the sake of developing countries. Today, the Doha Round is stuck in limbo. This column argues that both developed countries as well as developing countries stand to gain from moving the discussions forward – particularly those in the Asia Pacific region.

Of many benefits of the Doha Round for the Asia Pacific economies, one is fostering their reform process and taking advantage of new market access.

Asia Pacific economies (many of them classified as emerging economies) have an enormous stake in the Doha Round.

The trade interests of the Asia Pacific region, mapped back into the Doha Round, show that the region has much to gain from fully and effectively participating in multilateral negotiations.

Although a successful result in the Doha Round relies on all WTO members, Asia Pacific countries should recognise that they can play an influential role in the process.

The region has a very credible record in the area of trade and investment liberalisation and APEC has also done much to advance the thinking on rule making (Bora and Basri 2006).

But Asia Pacific economies can do more to translate this work into the WTO framework. It is worthwhile to note the statement of Indonesia's Trade Minister Mari Pangestu:

“On the trade front, it is well worth repeating that the first short-term priority is to complete the Doha Round of negotiations. It is the surest way to ensure sustainable and strong recovery through flows of trade and investment, and does not need any fiscal outlay.” (Pangestu, 2011, 15)

There are several reasons why the Asia Pacific economies should push for completion of Doha Round:

- Asia Pacific economies are particularly important in promoting the development aspect of the Doha Round.

This point is based on a series of facts linking trade and development. The first is that emerging economies are becoming important markets for other emerging economies. Asia Pacific trade accounts for one-third of the total world trade and this share has been rapidly increasing in the last ten years. At the same time, the intra regional trade, especially in East Asia has also increased significantly from 37% to 54% over the period of 1980-2008 (Pangestu 2010). Importantly, trade among the emerging economies is growing even faster than overall or intra-regional trade. Since 1990 the average annual growth rate of trade between emerging economies has grown twice the rate of the growth of world trade whereas emerging countries’ trade with each other is gaining larger share of their total trade (Soeastro and Basri2005; Pangestu 2010). When it comes to Indonesia, Brenton and Ikezuki (2003) shows that the share of Indonesia’s manufacturing exports to non-OECD is increasingly important.

The second fact is that emerging economies have higher levels of tariff than advanced or developed economies, so the Doha Round’s tariff cutting will have an especially large pro-trade effect when it comes to trade among emerging economies. Emerging economies’, including Indonesia, have an interest in seeing tariffs reduced in emerging economies.

Thus, completion of Doha is very important for the Asia-Pacific region. The Asian economies should thus play an important role in promoting Doha.

- Over the past ten years, many WTO members that favour the most-favoured-nation liberalisation – including East Asian economies – have started to establish regional trade agreements.

This proliferation of regional agreements is not without concern. It may lead to problems of coherence, or the spaghetti bowl problem, which can result in higher cost of doing business (Bhagwati 1995). Nevertheless, the regional and bilateral arrangements are likely to live on and may continue to proliferate.

Up to now, the proliferation of regional trade agreements has taken place in an environment where the WTO was firmly at the centre of the world trade system. If the Doha Round fails, the fallback is the Marrakesh Agreement of 1994. This could especially be a problem when it comes to ensuring consistency with the WTO principles and rules.

Many of the new regional arrangements are “WTO plus” in the sense that they cover areas (such as investment and competition policy) that are not covered by the WTO (Pangestu 2010). Without completion of the Doha Round as a way of updating what the WTO stands for, the benchmark for “WTO plus” will be very out of date.

- For many years reduction of world tariffs and subsidies in agriculture has become one of the reasons why Doha has stalled.

In fact, the increase in market access for agriculture is good for both developed and developing countries. As for the developing countries, the increase of the market access in agriculture will not only allow developing countries to export their agriculture products but will also help the poor people in developing countries.

Consider the example of the rice protection in Indonesia. The rhetoric of rice protection is to protect poor rural farmers, but in reality it protects landowners and not the poor farmers since three-fourth of the poor people in Indonesia are net consumers of rice (McCulloch 2008).

While regional trade agreements and bilateral agreements may push trade liberalisation in some region or between countries, there are a number of issues that cannot be resolved regionally or bilaterally, including removal of subsidies and domestic support in agriculture. Thus, completion of Doha is vital for both developed and developing countries.

Creeping protectionism

While the Great Recession of 2008-2009 did not see the sort of protectionism that came with the Great Depression of the 1930s, the risk of creeping protectionism remains.

The trade collapse due to the global crisis led some policymakers into a question of the relevance of export led growth strategy. Take Indonesia as an example. Many believe that the relatively insulated economy is one the reasons why Indonesia has performed relatively better than other economies during the global crisis.

This then brings to the surface the question of whether an export-led growth strategy is still relevant, bearing in mind that what saved Indonesia from the dreadful effects of the global financial crisis was the domestic economy. This is not only specific to Indonesia, because data shows that many countries that are more supported by their domestic economy are proven to have a better performance compared to countries that are extremely dependent on exports during the global financial crisis.

This phenomenon has led to many lively discussions among commentators, politicians, and some policy makers in Indonesia about the importance of relying less on exports and focusing more on domestic market. Often the conclusions of such discussions are advice to policymakers in Indonesia to pay less attention to “openness” to trade and investment, and to concentrate more on protecting the domestic economy against external volatility.

This then creates a political pressure for creeping protectionism and pushes policymakers to embrace somewhat more nationalist or protectionist view for a new reason (Basri and

Rahardja 2011). In addition, real exchange rate appreciation in Emerging Economies, rigidity in labour market, and high cost economy have eroded Emerging countries especially Asia Pacific's competitiveness. These in turn will induce the demand for protection.

Thus, given the fragile and uneven economic recovery in various parts of the world, and the trend of real appreciation of the emerging economies' currency, the threat of protectionism continues and the current global and regional setting for trade policy remains full of uncertainties. This phenomenon will complicate the process of further unilateral trade liberalisation or even preventing it all together. Thus, the pressure for trade liberalisation needs to continue to come from external such as the Doha Round.

Looking from this perspective, Asia Pacific economies have an enormous stake in the Doha Round. The trade interests of the Asia Pacific show that the region has much to gain from the completion of Doha. In that forum, the Asia Pacific countries should recognise that they can play a major and influential role in the process.

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Completing the Doha Round and developing countries

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For developing countries, following the principles of sound economic policy and establishing the appropriate institutions of a functioning market economy is a very challenging task. This column says that completing the Doha Round could help them follow at least some of the principles of sound economic policy and establishing some of the appropriate institutions of functioning market economies.

The aim of economic activity is to generate wealth through high but sustainable growth in real income per-capita. Views on market-oriented policies to achieve this aim have converged recently into a set of policy principles known as the “Washington Consensus” and later revised as the “Post-Washington Consensus.”

The related principles of sound economic policy consist of policies that aim at achieving allocative efficiency, macroeconomic and financial stability, and social inclusion. Allocative efficiency requires protection of property rights, contract enforcement, rule of law, market-based competition, appropriate incentives, liberalisation of foreign trade, and liberalisation of foreign direct investment.

Macroeconomic and financial stability requires sound money, prudent supervision, fiscal sustainability and current-account sustainability. Finally, social inclusion requires social safety nets and targeted poverty-reduction programs. In addition a functioning market economy requires the availability of appropriate institutions, i.e. institutions for securing property rights, regulatory institutions, institutions for macroeconomic stabilisation, institutions for social insurance, and institutions of conflict management (Rodrik 2007).

In a market economy entrepreneurs need to have adequate control over the returns to assets, and private appropriability of the returns to accumulation is an essential requirement for achieving allocative efficiency. Since markets fail when participants engage in fraudulent or anticompetitive behaviour, every market economy needs to be overseen by regulatory institutions.

Establishment of appropriate institutions that will assure sound money, prudent supervision, fiscal sustainability and current-account sustainability are requirements for achieving macroeconomic stabilisation. In addition, social insurance in a market economy is needed to achieve social stability and social cohesion. Finally, for conflict management, market economies need the rule of law, a high-quality judiciary and an effective police force.

The Doha Round will help developing nations

For developing countries, following the principles of sound economic policy and establishing the appropriate institutions of a functioning market economy is a very challenging task. But completing the Doha Round in principle may help them follow at least some of the principles of sound economic policy and establishing some of the appropriate institutions of functioning market economies.

Economic theory emphasises that countries can derive welfare gains from freer trade, and that the proposition applies to both goods and services. Although liberalisation of foreign trade and investment may in principle lead to welfare gains, there is no guarantee that these gains will be derived. To derive welfare gains the country has to establish competent authorities that will enhance market competition, secure property rights including intellectual and industrial property rights, establish the institutions required for the elimination of technical barriers to trade and barriers arising from food safety and sanitary policies followed by foreign countries, and establish modern customs administrations. The country may also lack the expertise and resources to devise and implement the establishment of appropriate institutions and regulatory

policies to liberalise trade in services. Here, improved prudential and pro-competitive regulation will be necessary to deliver the full benefits of services liberalisation.

Since these are challenging objectives, international efforts to achieve these goals could be enhanced. One mechanism that could help to achieve these objectives is fostering aid for trade. In addition the WTO could help developing countries by establishing a 'services knowledge platform' and a 'standards knowledge platform'. While the 'services knowledge platform' would bring together sectoral regulators, trade officials and stakeholders to assess current services policies and identify beneficial service sector reforms, the 'standards knowledge platform' would bring together standardisation and conformity assessment officials, trade officials, and stakeholders to assess current standards policies and identify beneficial reforms for elimination of technical barriers to trade, food security , and sanitary and phytosanitary policies in foreign countries.

The fundamental role of the WTO has in fact been the establishment of a rule-based trading system based on norms that are generally accepted and respected. These rules have helped countries follow some of the principles of sound economic policy. Expansion of these rules and policy disciplines in the Doha Round by squeezing out water from tariff bindings and extending commitments on services to cover a much larger number of services sectors could help reduce policy uncertainty in the world trading system, and help the developing countries to achieve higher levels of economic growth (Hoekman 2011). On the other hand, for conflict management economies need the rule of law and a high-quality judiciary. These have been supplied in the international economy by the dispute settlement system of the WTO, where disputes are adjudicated by an international court whose rulings are universally implemented.

Note that a central goal of multilateral negotiations has been to improve market-access opportunities and the security of WTO members' market access. Recent research indicates that the average tariff in agriculture in the absence of a Doha agreement would be 14.5%, while the average bound tariff would be 40.3%. On the other hand in the case of non-agricultural market access the average tariff in the absence of Doha

agreement would be 2.9%, while the average bound tariff would be 7.8% (Martin and Mattoo 2010). Finally, in the case of services, research indicates that barriers to services trade remain prevalent, and that service barriers in both high-income and developing countries are higher than those for trade in goods.

In the case of non-agricultural market access the GATT/WTO has achieved its mission to a large extent. On the other hand multilateral negotiations on agriculture and services began only during the Uruguay Round, which culminated in the signing of the ‘Agreement on Agriculture’ and ‘General Agreement on Trade in Services’ in 1995.

- In agriculture the Doha negotiations focused chiefly on reductions of world tariffs, reducing trade distorting domestic support to agriculture, support to products like cotton and sugar, and reduction of export subsidies.
- In the case of services WTO members pursued a bilateral approach to negotiations, submitting request to others and responding to requests with offers between 2000 and the end of 2005.

But large asymmetries in interests across membership impeded progress on both areas. In 2006 WTO members launched an effort to complement the bilateral request offer process with a plurilateral or “collective” approach. This involved subsets of the WTO membership seeking to agree to a common “minimum” set of policy commitments for a given sector. But even with the new approach not much progress could be achieved until now.

Concluding remarks

Completing the Doha Round is a challenging task, but potential gains from trade liberalisation and expansion of WTO rules and policy disciplines are considerably large. To benefit from these gains the process requires the ultimate political backing of the WTO member countries.

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With the skin gone, what can the hair adhere to?

Lei Zhang and **Qian Wang**
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The Doha Round has been going on for ten years and its fate is now in jeopardy. This column argues that governments should not let it fail as it could bring down with it the whole WTO-based world trade system. As there is no potential replacement for the WTO, without it the threat of trade wars would become more serious.

The Doha Round has been going on for ten years with many ups and downs – including a formal suspension in 2008. But this time it is different. The Round’s steering committee, known as the Trade Negotiating Committee, will meet in Geneva on 29 April 2011 to decide the Round’s fate. Many observers believe that WTO members will allow the Round to lapse. This would be a mistake. Governments should not let the round fail, especially in this post-financial-crisis era.

- Firstly, there’s an old saying in Chinese: With the skin gone, what can the hair adhere to?

It is widely acknowledged that there are three mutually supportive pillars which lay down the foundation of the WTO: the negotiating pillar, the Dispute Settlement Mechanism, and the Trade Policy Review Mechanism. If the Doha Round fails, the WTO’s most fundamental pillar will crumble. After that, how much longer can the Dispute Settlement Mechanism function with teeth? The much softer Trade Policy Review Mechanism would also risk bumping into a big trouble.

In short, the Round is part of the three inalienable pillars that supports the WTO's role as a platform for a levelled playing field. If the negotiating pillar collapses and the platform with it, players and problems will still be there. Where can the players find another relatively fair arena?

- Secondly, from the viewpoint of international governance, there is simply no replacement for the WTO's maturity and stability as a system for execution of agreements given its long track record on enforceability and compliance by member governments.

Other newly established organisations, like the G20, are much inferior to the WTO in this regard. It would be much wiser to adhere to the current international system as it already has teeth; it takes time for children's teeth to grow.

The idea that the WTO can be allowed to lapse in the hopes of a better organisation emerging brings to mind the old Chinese idiom: "reject what is near at hand and seek what is far away". For the sake of international governance, we should support the reputation of WTO in its effectiveness in fighting protectionism.

- Thirdly, the Doha Round is a symbol, which stands for the multilateral trading system that WTO members have built over the last 70 years; if it fails, the threat of trade wars will escalate and countries may try to reverse past unilateral trade liberalisation moves.

The consequences would be catastrophic, especially to the small and least-developed nations which are more dependent on global trade rules. In this regard, developed countries should offer more sincerity.

- Last but not least is the WTO's role as a facilitator of domestic reform.

For some transition countries, the WTO acts as an external impetus to internal economic reform. Failure of the Doha Round may deter such nation's reform efforts to turn from centrally planned towards market-orientation.

We strongly advocate a conclusion to the Doha Round by the end of 2011 as it is currently scheduled. However, if this does not come to pass, there are two important things to be done to safeguard the multilateral trading system.

The WTO secretariat should freeze the whole Doha Round negotiating packages for further negotiations which may start in one or two years; this would mean taking the packages in its entirety as a starting point for further moves.

Beat around the bush by trying to strike a deal on less controversial packages.

This would give confidence and hope to the believers in free trade and multilateralism.

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On 29 April 2011 WTO members gather in Geneva to determine the future of the Doha Round multilateral trade negotiations. The world trade system is at a fork in history's road; WTO members cannot avoid making a choice.

- Take the politically expedient path by putting Doha talks on hold, or
- Take the leadership path of engaging constructively and creatively in the breaking the deadlock.

This eBook argues that if the current deadlock – mainly between the US and China – cannot be broken in 2011, no resolution is likely before 2020. US Congressional politics will be much rougher in 2013 – scared by divisive debates over spending and taxes, and the new Chinese government can hardly afford to start off with major tariff concessions to the US. Think of 2013 as 2011 with less goodwill internationally, more poisonous politics inside the US, and a Chinese leadership that must prove its toughness. Breaking the deadlock would require an expanded negotiating agenda, but this would add years to the talks.

The false promise that it would be harmless to allow Doha to languish for years is deeply dangerous, at best. The authors in this volume – trade experts from across the world – identify the perils of allowing Doha to flounder, and the hard choices governments must make to break the deadlock.

