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

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*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.<sup>1</sup> 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

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<sup>1</sup> 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.<sup>2</sup> 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.

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<sup>2</sup> 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.”*

## References

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