



Doha or Dada

The world trade regime at an historic crossroads

June 28, 2011

Following a decade of talks, the world's major trading nations are seeking to bring the Doha Round in the WTO to a conclusion. This will not work without investing political capital.

Currently, the negotiations are stalled. China and the US are at loggerheads about market access.

Failure to reach agreement this year would presumably mean the end of the Round, setting the world trade regime on course for bilateralism on the part of the powerful states (with a little regional integration). But Dadaism in trade policy is extremely dangerous, causing the erosion of order and dispute settlement.

Clinching the Doha Round would boost world trade, growth and welfare. The impetus from an ambitious treaty would be worth several hundreds of billions of dollars in world trade and half a percentage point of world GDP in growth.

It is becoming increasingly important to have a strong WTO. The rule-based world trade system needs strengthening anyway if it is to deliver a suitable response to new power constellations and phenomena in the global economy. All major trade issues belong on the multilateral negotiating agenda.

The tariff cuts envisaged would chiefly stimulate imports from developing countries and emerging markets. Meanwhile the industrialised nations could benefit from sectoral agreements, for example in the chemical industry or on environmental goods. Simplifying customs procedures would be beneficial for everyone.

Agricultural trade would be made more market-based. Consumers in Europe, the developing nations and agricultural exporters would benefit from the additional opening of agricultural trade and stricter agricultural policy discipline. In the medium term export subsidies would be abolished.

Impediments to development could be removed by liberalising services markets. Opening up services markets to direct investment, especially in Asia, and being able to post workers temporarily to the EU and US would bring enormous advantages.

The Doha Round has major political obstacles to contend with. The US, the EU and Brazil still require slightly better export opportunities, while India needs suitable protection in agriculture and a more liberal attitude in the northern hemisphere towards the posting of IT specialists.

The big emerging markets should square up to their responsibility for the world trading system. By further liberalising their markets they could help themselves while also helping to make a success of the Round.

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World trade in goods, 2010

In USD bn

	Exports	Imports
World	14855	15050
USA	1278	1968
Canada	387	402
Mexico	298	311
Brazil	202	191
EU	5147	5337
Extra-EU (27)	1787	1977
Russia	400	248
China	1578	1395
Japan	770	693
India	216	323
ASEAN	1052	950
LDCs	164	174

Source: WTO **1**

World trade in services, 2010

In USD bn

	Exports	Imports
World	3665	3505
USA	515	358
Brazil	30	60
EU	1553	1394
Extra-EU (27)	684	598
Russia	44	70
China	170	192
Japan	138	155
India	110	117
Singapore	112	96
Hong Kong	108	51

Source: WTO **2**

World exports

Changes yoy in %

	2010	2008	2009	2010
	(USD bn)			
Goods	15237.6	15	-22	22
Services	3663.8	13	-12	8

Source: WTO **3**

Time for closure

Shortly after the terrorist attacks on the World Trade Center, the Pentagon and the White House on September 11, 2001, the member states of the World Trade Organization (WTO) succeeded on November 14 in launching a new round of negotiations in the capital of Qatar, Doha. The Doha Round set out to restore faith in international cooperation on trade. The developing countries, most importantly the poorest among them, were to be given a better chance to secure a share of growth in world trade consistent with their respective development needs.¹ This was to be achieved through improved market access, balanced WTO rules and targeted financial and technical aid. The work programme in the Ministerial Declaration provides for further liberalisation of the markets for agricultural and industrial products and for services, reaffirmation of the rules on intellectual property, investment, competition and public procurement, the simplification of customs procedures and improvement in the compatibility of environmental protection and world trade rules. In addition, the least developed countries were to be helped by being given improved access to markets in other countries. Over time, however, investment, competition and public procurement have been taken off the agenda.

Today, ten years on – after all the peaks and troughs in the course of negotiations², a global economic recession and financial crisis, and creation of the G20 as a forum for economic policy development – it is a matter of whether the now 153 member countries of the World Trade Organization can still muster the energy, backed by a G20 mandate from Seoul, to bring the Round to a successful conclusion by the time the 8th WTO Ministerial Conference convenes in December 2011. Having stalled since July 2008, talks were at least resumed at the end of 2010, and there is evidence to suggest that many important players in the world trading system want to see the Round signed and sealed this year. At any rate, Pascal Lamy, Director-General of the WTO, drew up a road map to this effect, calling for new proposals by April on the individual issues. And at the recent G20 Summit in Seoul the governments of Germany, the United Kingdom, Indonesia and Turkey commissioned a group of experts co-chaired by trade expert Professor Jagdish Bhagwati and the former WTO Director-General Peter Sutherland to give yet sharper contours to the argument for a final deal – a task that the Group completed with considerable urgency.³ However, by early May the negotiation stalled, and discussions set in whether and how to reap benefits from results achieved so far at the ministerials.

This study was not alone in demonstrating that a deal on the Round could be of huge benefit to the global economy. Assuming plausible enhancements in the course of further negotiations, the biggest-ever round of international trade liberalisation in absolute terms could indeed be realised. And what is more, all nations should at present be in a position to shoulder the political costs of adjustment to freer trade and a stricter set of rules.

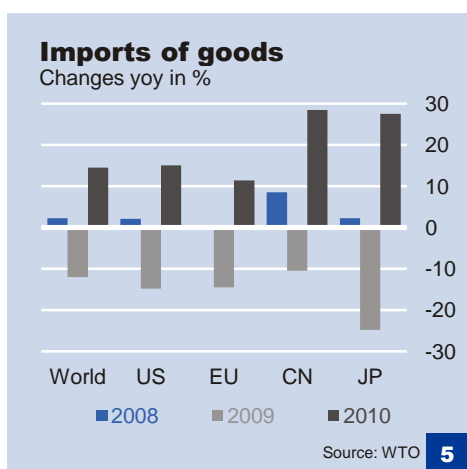
¹ WTO (2001).

² See Blustein (2009), Mildner (2009), for example, on the negotiation process.

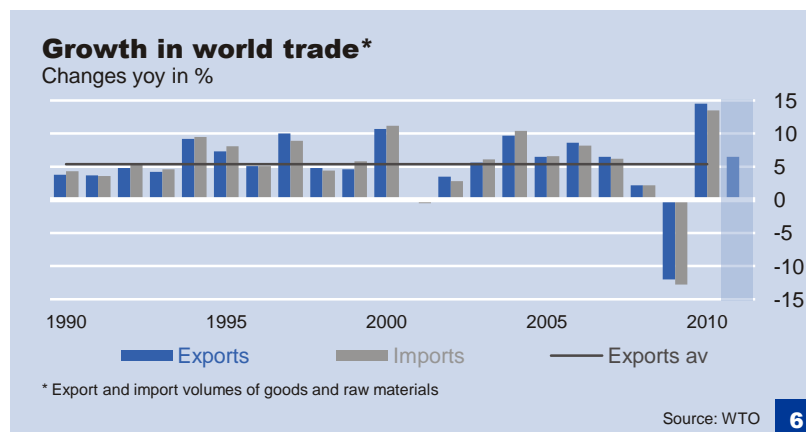
³ Bhagwati and Sutherland (2011).



Striking a deal on Doha would, for once, attest to the ability to achieve results in international economic cooperation outside the framework of financial market regulation within a G20 context. And in the process the emerging markets could demonstrate their commitment and shared responsibility for a free world market. This is enormously important in view of the many episodes and policy issues on which the industrialised nations and emerging markets cannot succeed in reconciling their interests satisfactorily; it is important, too, for the chances of multilateral economic diplomacy in other areas such as currencies, raw materials and climate protection. In economic terms, an ambitious deal would also boost long-range trend growth and consumer welfare – especially in those trading nations that labour heavily under agricultural protectionism – and would lend a growing sense of legal security in international trade. What is more, it would steal the thunder of bilateral and interregional trade diplomacy in pursuit of preferential trade arrangements, to which the big players are so heavily committed despite the generally extremely limited economic prospects that such agreements hold out.



But at least it must be said that for all the difficulties besetting multilateral trade diplomacy the world trading system weathered the first crash test since the 1930s surprisingly well. For one thing, there was no relapsing into protectionism as in the previous century. In the fifth WTO report on trade measures by the G20, the WTO found that 2.4% of G20 imports (1.9% of the world imports) are ring-fenced at all by restrictive measures (cumulative total since 2008). Additionally, by July 2010 world trade had already settled at its pre-crisis level, albeit with a muted growth outlook in 2011.⁴ Evenett does, however, state that since November 2008 at least three countries – Brazil, India and China – have taken recourse to numerous safeguards and have also raised their tariffs considerably.⁵



Second, the crisis has in no way slowed the drive to further liberalisation under a raft of bilateral and inter-regional trade agreements. Particularly in Asia, a large number of treaties have been signed over the past ten years whose economic impact is only now gradually being analysed.⁶ And the international community continues robustly down this road, most recently through China's

⁴ WTO (2011), see also Sprissler (2009) and Evenett (2010) on the limited resurgence of protectionism.

⁵ Evenett (2011).

⁶ Kawai and Wignaraja (2010) identify moderate positive impacts, chiefly from the ASEAN+1 formats, from AFTA and from a few larger bilateral treaties.



TOP 10 goods exporters, 2009

In % of world total

Countries

Extra-EU (27)	16.2
China	12.7
USA	11.2
Japan	6.2
Korea	3.9
Hong Kong	3.5
Canada	3.4
Russia	3.2
Singapore	2.9
Mexico	2.4

Source: WTO **7**

TOP 10 goods importers, 2009

In % of world total

Countries

Extra-EU (27)	17.4
USA	16.7
China	10.5
Japan	5.7
Hong Kong	3.7
Canada	3.4
Korea	3.4
India	2.6
Singapore	2.6
Mexico	2.5

Source: WTO **8**

TOP 10 services exporters, 2009

In % of world total

Countries

Extra-EU (27)	26.3
USA	19.2
China	2.5
Japan	5.1
Singapore	3.5
India	3.5
Hong Kong	3.5
Switzerland	2.8
Canada	2.3
Korea	2.3

Source: WTO **9**

compact with ASEAN. The EU has also initiated or revived a string of negotiations with India, Singapore, Malaysia, Vietnam, Canada and the Mercosur countries, among others. And thirdly, in late 2010 the WTO Doha Round also picked up the threads at the point where they had been left in July 2008 after the last serious negotiation.

Economic opportunities ...

Conclusion of the Doha Round on the basis of the summer 2008 negotiation status alone would already bring substantial benefits for the world economy. If topped up by the addition of a few very plausible components that could still be negotiated in the course of the year, the impact on external trade, and indirectly on growth and employment, would be quite considerable indeed.

In a comprehensive analysis referencing country-specific data for seven industrial and 15 developing countries, Hufbauer, Schott and Wong⁷ reckon that conclusion on the basis of the July 2008 negotiation status would increase these countries' trade by USD 134 bn, whereas an ambitious conclusion⁸ would translate into an expansion in imports by USD 311 bn and in exports by roughly USD 280 bn p.a. Extrapolating these figures to the global level, a narrowly defined conclusion would generate trade effects worth USD 180 bn and a broadly defined conclusion nearly USD 800 bn.

On the import side, a broadly defined negotiating result would have the greatest impact on China, followed by the EU, the US, India and Brazil. On the export side China, the EU, the US and Japan would feel the greatest effects, running into the middle double-digit billion dollar range, while the potential gains for Brazil and India are estimated at only around USD 5 bn each. At any rate, the greatest trade effects would arise in imports from developing and emerging-market countries, which is hardly surprising given their still very high level of protection.

The authors estimate the gains from a narrowly defined conclusion at USD 56 bn (0.1% of GDP) for the 22 nations and USD 63 bn for the world, and the effects of a broadly defined conclusion at USD 249 bn for the 22 nations and USD 283 bn for the world (0.5% each of GDP). As a percentage of GDP, in this case an ambitious conclusion would place China (1.3%) ahead of India, Brazil, Japan, the EU and the USA (both on 0.3%), while a modest conclusion on the basis of 2008 would generate a scant gain of 0.1% of GDP for practically all major economic areas.

Experts at the World Bank⁹ have similarly argued that even concluding the Round on the basis of the July 2008 negotiation status would harvest substantial benefits. They estimate the global income effects of reducing the applied tariffs at roughly USD 160 bn for agriculture and industry alone. Gains worth another USD 99 bn could be achieved with an agreement on trade facilitation.¹⁰ Most importantly, this would heighten the security of future market access at what would then be lower WTO-bound tariffs, which at present are often way above the rate actually applied. The lion's share of

⁷ Hufbauer, Schott and Wong (2010).

⁸ The authors simulate the effects that would stem from a 10% liberalisation of services, the agreement of zero or low tariffs in sectoral accords for chemicals, electronics and electrical goods as well as for environmental goods, and from an agreement on trade facilitation.

⁹ Hoekman, Martin and Mattoo (2009).

¹⁰ Decreux and Fontagné (2009).

TOP 10 services importers, 2009

In % of world total

Countries

Extra-EU (27)	23.0
USA	14.0
China	6.7
Japan	6.2
Singapore	3.5
India	3.4
Canada	3.3
Korea	3.2
Russia	2.5
Saudi Arabia	1.9

Source: WTO **10****Duty- and quota-free market access**

Many OECD countries, among them the EU, already grant duty- and quota-free access to up to 100% of all goods from the LDCs. Canada does so for 99%, Japan for 98%; the US does not have a specific LDC programme but other treaties with a similar effect. South Korea grants access for roughly 75%. It is correct that whilst 99-100% on the part of practically all OECD countries and major emerging markets would be necessary to prevent the exclusion of important tariff lines with high trade volumes, at the 2005 Ministerial Conference in Hong Kong only 97% could provisionally be agreed.

Services markets still heavily ring-fenced

liberalisation and the opening of foreign trade markets would result from autonomous measures introduced by national governments anyway. It is up to the WTO better to safeguard the legal security surrounding these measures and, when the going gets tough, to prevent a relapse into area-wide blatant, covert or administrative protectionism (anti-dumping measures, anti-subsidy measures, non-tariff trade barriers). Moreover, international discipline in trade and agricultural policy would be considerably strengthened. The average bound tariff would be lowered from 40% to 30% on agricultural trade and from 8% to 5% on trade in goods, while the weighted averaged of applied tariffs in agricultural trade would fall from 15% to 12% and from 3% to 2% on trade in goods. Many peak tariffs would be reduced. Additionally, the least developed countries could be placed at an advantage by giving them duty- and quota-free access to markets in the OECD countries and possibly also to major emerging markets, with very limited exceptions for individual products. Estimates range from USD 2 to 5 billion worth of additional exports from the least-developed countries (see sidebar).¹¹

Trade facilitation. Clear scientific consensus also exists that a trade facilitation package (customs and clearance procedures, port management, electronic forms etc.) is likely to have some of the greatest advantages for developing countries. The transaction costs of trade that result from inefficient procedures are in many cases higher than the customs duties. And even in a country with middling efficiency such as the US the costs are remarkably high, at 5-6% of the average export value per shipping container. The gap between the most efficient countries and the rest is especially pronounced in this respect. Fortunately, the WTO signatories have already reached broad agreement on a package. A plausible range for the income gains (excluding ports and IT), which are extremely difficult to calculate, lies between USD 118 bn and USD 393 bn.¹²

Services. It is difficult to quantify the potential gains of an agreement on services (the negotiation status is discussed below). It is however clear that the highly protected developing countries stand to reap the bulk of the economic gains, particularly from opening up to direct investment and the cross-border provision of services, with gains potentially working out at nearly one percent of those countries' GDP.¹³ Also clear is that the availability of better professional business services in particular would have many positive effects on the economy as a whole in these countries. Hufbauer et al. estimate that a genuine 10% improvement in market access for services as the result of conclusion of the Doha Round would unleash expansion in trade of not quite USD 90 bn for the 22 nations analysed and income effects equivalent to 0.1% of GDP. US services exports and Chinese imports would gain most from this.

... and risks

Although an agreement has yet to be given definite shape, a settlement along the lines of the 2008 status, with some plausible enhancements in trade facilitation issues and moderate liberalisation in the services sector, would still pose economic risks for many countries, or indeed disadvantages in certain cases. A political solution would have to be found for this by the Round, possibly also

¹¹ See Hoekman, Martin and Mattoo (2009) on the figures for 2009.

¹² Hufbauer et al. (2010), p. 104.

¹³ CIE (2010).

Food prices may be a problem for importing countries

with funding from outside the WTO, in the form of help for self help (“aid for trade” and financing infrastructure projects to enable the least developed countries, chiefly in Africa, to realise export opportunities in the first place).

The problem remains that many small, impoverished developing countries obliged to source food from abroad would initially suffer, as falling farm subsidies in the wealthy nations would drive up their import bills. What is more, reducing tariff rates leads to more trade, rising world market prices and negative terms of trade effects, making it more expensive to provide food for the domestic population. Given already high world market prices for many staple foods¹⁴ this poses problems for the governments in such countries. In the long run domestic farmers might respond positively to rising prices by adjusting their supply, depending on the national situation and agricultural production potential, but to begin with this will be of little help politically. However, in the medium term the liberalisation of agricultural trade will help make world market prices for basic foodstuffs more stable and also improve the position of net food-importing countries. At any rate, it is important to reverse the recent trend towards national restrictions on food exports, which has further fuelled price surges on an already thin world market.¹⁵ Trade effects would not make up for this in every case.¹⁶

Some countries miss out on big gains

Moreover, the trade and income effects from conclusion of the Round on the basis of 2008 would presumably be so marginal for many LDCs and some middle-income countries that they are unlikely to attract much political backing.¹⁷ Individual countries would probably even lose out. For many developing countries, the erosion of their preferential status caused by the fading benefits from preferential agreements might just about be compensated by a generous arrangement on duty- and quota-free market access to the OECD and to some heavyweight emerging markets. Then again, in the course of tariff rate cuts in industry there will arguably be some developing countries that end up with far more competition for domestic products on their home market than with opportunities that they can actually turn to their advantage. Where there is a strong sectoral concentration of effects, lobby groups and the government might be turned against an agreement. Nor have quite justified concerns been allayed in many developing countries over the impact of tariff reductions for industrial goods given the presence of still excessively competitive Chinese suppliers – who enjoy an added boost from the undervalued exchange rate – in industries with a high proportion of labour costs (e.g. textiles and clothing).¹⁸ Another unresolved issue is that the balance of advantages with both a modest and an ambitious conclusion would be tilted heavily towards China and Europe, so that other major players could not solicit approval in domestic political debate on the impacts of opening markets in their own countries with the argument that it would bring very significant economic gains.

Lobbies against agreement

¹⁴ See Schaffnit-Chatterjee (2011, 2009).

¹⁵ See Hoekman, Martin and Mattoo (2009) on these effects.

¹⁶ See Bouet and Laborde (2010) on these effects.

¹⁷ See the detailed analyses in Hufbauer, Schott and Wong (2010) and in Bouet and Laborde (2010). The authors estimate the impact on export values at between -3.5% and +4.5% (change by 2025 on the status quo) and the income effects at between -0.3% and +0.9%.

¹⁸ Blustein (2010: 244) reports that in the negotiations in 2007 even Brazil was still defending the high tariff rates on automobiles and related automotive parts, textiles and other goods to secure the necessary protection against imports from China.

Current status of negotiations

Trade in agriculture

Conclusion of the Uruguay Round of the General Agreement on Tariffs and Trade in 1995 first imposed effective multilateral discipline on agricultural trade.¹⁹ The WTO rule book today encompasses not only tariff protection but also *inter alia* export subsidies and internal support payments to farmers insofar as these impact on trade. Although not yet liberalising world trade, the Uruguay Round did cap subsidisation policy and place the entire system on a transparent basis for the first time.

Agricultural negotiations also played an important part in the Doha Round. By summer 2008 negotiating positions were not all that far apart. This was because the EU was prepared to lift tariff protection and domestic support payments very considerably and to remove entirely export subsidies²⁰ that had already been lowered substantially in the course of the decade.

Tariffs. In general, the requirements of tariff reductions by industrial countries range between 50% and 70%, depending on the bound tariff rate, with two-thirds of these levels applying to developing countries. This would see the EU lowering its bound tariffs by an average of 60% and granting better access to its markets.²¹ Other agricultural protectionists such as Japan, Norway, Switzerland and Canada would also have to liberalise significantly. Hufbauer et al. estimate that the applied trade-weighted tariff rates for the 22 countries would fall from 7.6% to 5.3%, in the case of the EU from 6.0% to 3.4% and for Japan from 10.4% to 4.5%, while Brazil and India would squeeze out “water” from their bound tariff schedules and China and the US would need to liberalise only moderately. Some import quotas would have to be abandoned or expanded as compensation for lower cuts in tariffs on sensitive products.²²

Support measures. Trade-distorting support to farmers would also require further reduction in the region of 50-85%, depending on the extent of the support. For the EU this would mean scaling down by 80% versus the bound level in the WTO within a five-year period (eight years for developing countries). The US was required to set the upper level for internal support just a whisker above its current payouts. According to Blustein, in July 2008 the US negotiators put in an offer of USD 14.5 bn.²³ But in 2007 America’s trade-distorting subsidies had only reached USD 8.3 bn²⁴ and are unlikely to be much higher today. Moreover, broad agreement had already been reached on the inclusion of certain types of US agricultural subsidies

The dispute over the special safeguard clause

After about 60 hours of talks on this issue, the negotiators parted on July 29, 2008 without having achieved a result. The WTO signatory nations had already agreed that there should be a special safeguard clause but could not achieve a consensus on whether or not the special safeguard mechanism (SSM) should confer the possibility for all developing countries that were not small and vulnerable or LDCs of increasing protective tariffs beyond the level to which they had committed in the Uruguay Round, only to facilitate liberalisation or as a general principle in the event of an increase in imports. Correspondingly controversial were the issues of the context in which they were permitted to react, what import surges (volume and duration) would act as a trigger, and what the scale of tariff increases would be. The compromise text provided for various different threshold values (Pascal Lamy proposed 40% over three years for no more than 2.5% of the tariff lines) for the authorisation of safeguards going even beyond the Uruguay-Round commitments (the higher of 15 percentage points or 15%). America and other nations (chiefly Latin American and Southeast Asian countries) were only prepared to accept a minimum 40% increase in imports as the trigger for such a tariff increase under the special safeguard mechanism for developing countries, while India, China and other countries were aiming for considerably lower values (10% import increase) and far more flexibility on tariff hikes (30%). Kamal Naht, India’s trade minister at the time, argued that given the inadequate recording of imports in India such high growth rates could very quickly jeopardise the existence of India’s subsistence farmers and were therefore unacceptable.

¹⁹ For discussion of the overall topic see the volume edited by Anderson und Martin (2006). In all fairness it must be said that discipline was still extremely lax given the advantage taken of all the leeway in implementation of the Uruguay Round Agreement on Agriculture.

²⁰ The export subsidies have fallen from a total of roughly EUR 1.5 bn for the market year 2006/2007 to around EUR 500 bn at last count. See WTO (2008d).

²¹ Hufbauer et al. (2010), p. 19.

²² A proposal is under consideration to raise tariff quotas to up to four percent of consumption in return for a two-thirds lower tariff rate cut; by way of compensation for a third less tariff rate cut the quota would be lifted to 3% of consumption. On average the quota increase could cancel out a third of the rate cut. See Laborde et al. (2010).

²³ Blustein (2009), p. 264. The maximum level still stands at USD 48.5 bn.

²⁴ More recent data on trade-distorting support payments is not available. But the WTO Trade Policy Report on the United States (WTO 2010, pp. 90-91) notes that the 2008 Farm Act in force until 2013 has changed very few policies; given the continued rise in world market prices for many goods, the present level is presumably below the 2007 figure.



(“Blue Box” measures). At any rate the US and Japan would have to make reductions of 70%, whilst 55% would suffice for all other countries.

Export subsidies. Industrial nations would have to eliminate their export subsidies by the end of 2013, developing countries by 2016 and LDCs by 2021. Considerable progress had also been negotiated on disciplining implicit export subsidies (export credit guarantees and insurance programmes, food aid and monopolistic state exporters), notably by the US and Canada.

Unresolved issues. However, the simmering conflict with some West African countries over highly damaging cotton subsidies in the United States should have been resolved; this was achieved neither in July 2008 nor since. Still to be negotiated is the precise upper percentage of tariff lines for sensitive products (a figure of 4% is currently being discussed, but with opposition from Canada and Japan) and compensatory measures (in the form of import quotas as a share of domestic consumption), the simplification of tariffs, the protection of indications of provenance, compatibility with the Convention on Biological Diversity and most importantly the protective clause for developing countries. Following days of negotiation between the US and India, in July 2008 talks had to be suspended over the latter item (see sidebar). Basically, however, it is true to say that agreement on agriculture was already within negotiators’ grasp in July 2008²⁵, that the overall status of negotiations no longer reflects any ingrained differences of opinion and that conclusion along the familiar lines would unleash significant welfare effects.

NAMA

The Non Agricultural Market Access (NAMA) negotiating group has dealt since 2002 with the bulk of the products traded internationally (90% of exports). These include industrial manufactures and commercial goods, textiles, fuels, mining products, footwear, gems and jewellery, forest products, fish and fish products and chemicals.

Swiss formula

The following tariff reduction formula shall apply.

For industrial countries: $t_1 = 8 \times t_0/8 + t_0$

For developing countries: $t_1 = (20, 22 \text{ or } 25) \times t_0 / (20, 22 \text{ or } 25) + t_0$, where:

t_1 = post-Doha final bound rate of duty

t_0 = bound base rate of duty

Where 20 is chosen as the coefficient it grants the flexibility to cut up to 14% of the non-agricultural tariff lines by less than half of the amount provided for by the formula on condition that these tariff lines do not exceed 16% of the total value of the country’s imports, or 6.5% of the tariff lines up to 7.5% of the total value of imports. If 22 is chosen, formula cuts need not be applied to 10% of the lines up to 10% of the total value of imports or 5% up to 5% of the value. If 25% is chosen as the coefficient there is no flexibility to exclude any tariff lines. Mathematically, the rates of duty are very close to the coefficients.

Source: WTO (2008c), pp. 5-6.

Industrial market access

Access to industrial goods markets represents the classic issue around which GATT and WTO negotiation rounds revolve. Tariffs, especially high tariffs, peak tariffs and tariff rates that rise with the level of processing (tariff escalation), and non-tariff impediments also play an extremely important part in the Doha Round. In 2005 agreement was again reached on the use of a progressive tariff reduction formula (“Swiss formula”, see sidebar), and in July 2008 negotiators already signed off significant components of an accord.²⁶

Progress has at least reached the stage of rapprochement on the coefficients applicable to industrial and developing countries, with the industrial nations taking the lead with larger tariff reductions within a period of five years. The developing countries would be given the choice of various rates, but would then have to expect correspondingly less flexibility the lower the reductions they opt for, and would have ten years’ time. Flexibility encompasses treaty provisions currently being considered that would allow certain product groups to be spared market liberalisation. At the same time, attempts are being made to prevent extremely important product categories from being exempted entirely (anti-concentration clause). Small and vulnerable economies, LDCs, member countries that have only recently joined the WTO and those with already low bound rates receive special treatment. An agreement along the negotiation status would mean that industrial countries could not set their customs tariffs above 8% and would lower their average tariff rate to 3%. This would imply the EU cutting its applied tariff rates

²⁵ That, at least, is the view expressed by Ambassador Crawford Falconer, chairperson of the agricultural negotiations, to the WTO Committee, (see Falconer 2008).

²⁶ WTO (2008c).

from 1.5% to 0.8% and the US from 1.4% to 0.7%.²⁷ For the emerging market and developing countries (not counting excepted country groups) the overwhelming majority of tariff rates would drop below 14% and the average rate would fall to 11%. China's applied average tariff would be reduced from 3.5% to 2.6%, Brazil would cut from 7.0% to 5.9% and India from 7.8% to 7.7%. However, the bound rates would head steeply south, plummeting in the case of Brazil from 30.3% to 12.4%, for India from 30.4% to 11.8% and for China from 4.1% to 2.9%, whilst the EU would engineer cuts from 2.4% to 1.2% and America from 4.2% to 1.6%.²⁸ But China and some other countries would be given three to four years longer to lower their tariffs.

Since the start of the Doha Round the traditionally export-oriented business associations in the major industrial nations have lobbied heavily for improved market access to emerging economies. But they are not yet satisfied with the status achieved, and this has resulted in a tense relationship with trade diplomats from the northern hemisphere. Moreover, US and EU negotiators have on several occasions adopted the stance in the WTO that all this still fails to provide enough ammunition for them to manoeuvre an agreement through their parliamentary chambers. Attempts are consequently being made to sound out additional avenues.

Sectoral negotiations

The sectors include automotive and related parts, bicycles, chemicals, electronics, fish and fish products, forest products, gems and jewellery, raw materials, sports equipment, medical and pharmaceutical aids and appliances, tools, toys, textiles, clothing, footwear and industrial machinery.

Sectoral negotiations. Negotiations are therefore being conducted plurilaterally in 14 sectors on the reduction of tariff rates to zero or close-to-zero percent for at least 90% of the relevant world trade in these goods. Economically significant would be agreements on chemical products, electronics and industrial machinery, which account for half of the world's trade in goods, but so far the emerging markets in particular show no great interest in arrangements of this kind unless they are granted additional market opportunities elsewhere. Even if such flexibility were to materialise, the chances of success would presumably be very limited.

Opinions divided on free sectoral trade

Getting the few players each in the chemical industry, mechanical engineering and jewellery to sit down at a negotiating table with sufficient critical mass, holds out the likeliest prospects of success. Director General Lamy personally took the dossier into his own hands in April 2011 in a bid to sound out possibilities, only to state in frustration on April 21 that the NAMA dossier represents the greatest stumbling block in the negotiations and fundamentally different and at present unbridgeable views unfortunately still exist.²⁹ So far representatives of major emerging-market countries insist that individual sectoral agreements would completely upset the balance of concessions and that the impacts could have direct negative repercussions on employment in hitherto protected sectors, with Brazil being expected to open its market substantially for a third of its industrial products and China for roughly one half. The emerging markets would be prepared to countenance this only if the US and EU put significantly better offers on the table in the agriculture chapter of the negotiations or elsewhere.

²⁷ To accommodate the concerns of African developing countries in particular, lists of products are being discussed for which tariff rate cuts would be staggered to prevent excessively rapid erosion of preferences conferred by the ACP agreements.

²⁸ These numbers are based on estimates from Hufbauer et al. (2010), p. 30.

²⁹ Lamy (2011).



Services

Services the wallflower of the Doha Round

For a long time trade in services eked out a shadowy existence in the WTO negotiations. At the 2005 Ministerial in Hong Kong it was agreed first to negotiate the key modalities for agriculture and industry. Not until 2008 did the Signalling Conference, a forum chaired by Director General Pascal Lamy at which 32 countries exchanged indications on their commitments, mark the initiation of negotiations proper. To the present day not much headway has been made. But unless markets are opened significantly, there will be no conclusion standing any chance of ratification by the US Congress.

Potential in closed markets

Closed markets. The baseline situation is actually rather promising. The defence instruments for trade in services currently vary strongly by region and sector.³⁰ Markets in the countries of Southeast Asia, the Middle East and East Asia, for example, are still heavily ring-fenced. Sectorally, the only relatively open regions outside the OECD world exist in financial services, telecommunications and the retail trade, whereas many transport services and the liberal professions are still powerfully protected, even in the OECD. Individual services of particular interest to developing countries, such as outsourcing and tourism, are hardly restricted at all, whilst others like the posting of workers are treated extremely restrictively. This greatly complicates the traditional process of give-and-take over mutual market opening, in which benefits to the trade partners are roughly on a par.

To make matters worse, the multilateral GATS (General Agreement on Trade in Services) rules are also very weak, with commitments still falling far short of the market access actually granted. This is also true of the offers currently up for negotiation in the Doha Round. Although more than 100 member countries took the trouble to submit extensive new commitments in 2003 and 2005, the consensus among experts and trade diplomats is that there are at present hardly any genuine liberalisation offers on the table, that in many cases offers fall short of the market access actually conceded and that all that would be achieved is heightened legal security over existing market access. WTO jargon refers to this as “water” flowing out of the commitments.³¹

Yet some minimum improvement in framework conditions and actual market opening is presumably needed to conclude the Round. Since 2006 the 30 major WTO member states have been trying to achieve a “critical mass” of market opening among themselves, departing from the principle of country-specific negotiation and focusing instead on entire services packages instead of narrow GATS sectors.

Movement in many areas

Signalling Conference. At the WTO Signalling Conference on July 26, 2008, at which 32 member countries put forward offers, it clearly emerged that most players still have plenty of trumps up their sleeves.³² Liberalisation of professional business services would probably still be the easiest to accomplish. Cross-border provision of the entire catalogue of corporate consulting, IT and administrative

³⁰ See, for example, Gootiz and Mattoo (2009), Hoekman and Mattoo (2011).

³¹ Where WTO or GATS offers by negotiating parties fall short of the tariff rates or market access rules on services bound thus far by international law, but are still above the restrictions currently applied, the outcome for trade partners is merely greater legal security that the country in question will not backtrack to the previous bound protection; but no new effective market access is granted. The gap between bound and actual market access is called “water”.

³² See WTO (2008).

services is often obstinately hallmarked by barriers to the temporary mobility of workers and cross-border delivery. Restrictions on direct investment (commercial presence) are still prevalent in postal, express and courier services, telecommunication services and wholesale and retail trade, with the liberalisation of electronic business services another important item for the latter segment. In the financial services sector there were also indications of greater willingness to loosen restrictions on opening branches abroad, for example within the framework of licensing procedures and regulations on foreign equity. The insurance industry in individual countries is also moving towards opening up life, property and reinsurance business. And even in the notoriously difficult transport services sector there was some willingness to ease the numerous restrictive regulations in air and sea transport. Some movement was similarly noted in energy and environmental services, tourism and other sectors.

Viewing the situation from the angle of the GATS-specific modes of supply (Mode 1=cross-border supply; Mode 2=consumption abroad; Mode 3=commercial presence (direct investment); and Mode 4=temporary presence of service suppliers abroad), a growing willingness to liberalise is at least apparent in Modes 1 and 2, and there is some sectoral flexibility on Mode 3. However, Mode 4 continues to pose the biggest problems, particularly in the US, whereas the EU reportedly made the significant offer to issue visas for 80,000 skilled workers. All in all, the conference went better than expected, with all major trading nations indicating serious liberalisation.

Not enough progress on negotiations

Latest developments. With the resumption of talks last autumn negotiations have got moving again somewhat. The US and EU still expect the big emerging economies to open their markets substantially – something these are prepared to countenance only if America delivers on support payments to farmers. Representatives from the EU continue to insist that a package consisting of legally binding market access commitments on the basis of the status quo (notably in the case of Modes 1 and 2), a strict regulation opposing foreign equity limitations and liberalisation of Mode 4 can reconcile the interests of all concerned. But at the end of April 2011 the chairman's report on the negotiation status did not make very encouraging reading. In no sector had anything close to agreement on market opening been reached.³³

Deal conceivable

Substantial liberalisation of many tightly sealed sub-markets could unleash considerable trade and welfare effects. A strong case can be made for OECD countries and some emerging markets to move ahead primarily on upping their commitment towards actual market access, on opening their countries to direct investment in infrastructure and transport industries and on the temporary posting of skilled workers insofar as provisions can be made for pro-competitive domestic regulation and for a suitable institutional and regulatory infrastructure for market opening.³⁴ The poorest countries would not need to offer any market liberalisation whatsoever for the Round still to be brought to a successful conclusion, although concessions would nonetheless be conceivable. Why progress on the liberalisation of services is so sluggish remains a mystery.

³³ De Mateo (2011).

³⁴ The special features of negotiations on services are so numerous that we can do no more here than refer the reader to the excellent overview of the problems by Hoekman and Mattoo (2011).

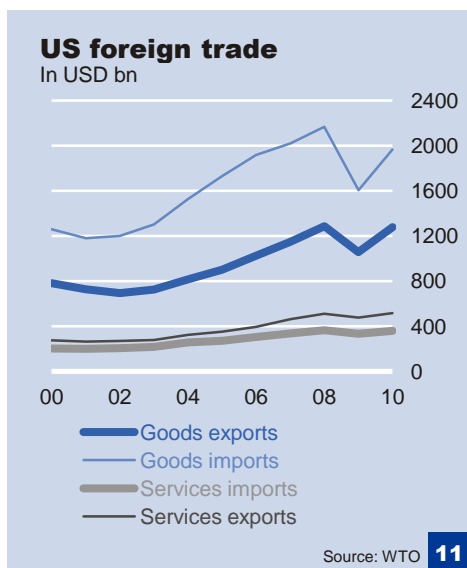


Other dossiers³⁵

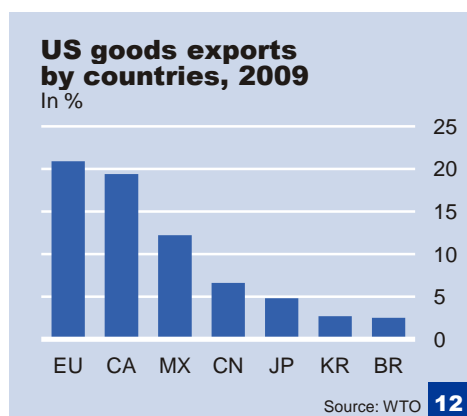
Trade facilitation chapter completed	Negotiations on trade facilitation have produced the best results. A broadly consensual text has already been drawn up. Agreement on the measures it contains would have enormously positive impacts on world trade.
Better trading conditions for environmental goods	Efforts are additionally underway in the industrialised countries to negotiate particularly liberal trade rules for so-called environmental goods. So far, however, agreement has been reached neither on a list nor on the basic modalities, although there are indications that hurdles like these could by all means be overcome in a final stage of negotiation. The industrial nations' export interests in this area certainly dovetail with developing countries' environmental protection concerns, but a trade-off is hardly likely to be achieved without better market access regulations in the industrialised nations.
Stricter rules for trade defence instruments	Attempts to tighten up WTO rules, especially on trade defence instruments such as anti-dumping and anti-subsidy regulations, have so far made little headway because the positions are so far apart, although there has been limited progress on rather more technical aspects of the anti-dumping rules. Farther advanced are the talks on strengthening the dispute resolution mechanism. There has been absolutely no breakthrough on the systemic aspects of regional trade agreements (WTO compatibility criteria and special treatment of developing countries), whilst negotiators have at least managed to come to an understanding on key elements of a transparency procedure for such agreements. Considerable progress has also been made on interlacing regulations in multilateral environmental agreements and those of the WTO.
Special treatment of developing countries under review	Special concerns of the developing countries are discussed in various negotiating groups. Most prominent among these are the many special and differential treatment provisions, reform of which is proving extremely difficult. At least some progress is being made towards establishing permanent monitoring; consensus also exists on amending 28 of a list of altogether 88 provisions. Furthermore, developing countries' problems with the implementation of WTO commitments belong to the development complex on which advances have already been achieved in some areas.
Dispute over protection of indications of provenance	When it comes to the protection of intellectual property, some issues are seriously stalemated. The protection of indications of provenance for wines and spirits, placed on the agenda at the insistence of the EU in particular, has been a subject of dispute for years – so far without any substantial convergence of views. Attempts are also being made to clarify how the origin of genetic resources can be enshrined in the patent system. But a practical solution was already found in 2005 to the problem of compulsory licensing for the production of AIDS drugs in developing countries.

³⁵ The information is based on the April 21, 2011 reports by the chairs of the respective Doha negotiating groups to the WTO Trade Negotiations Committee, all of which are available on the WTO website.

Trade policy = domestic policy + diplomacy



More than practically any other area of economic policy, trade policy is not just a matter of diplomacy but also a domestic policy issue. Whilst economic impacts on incomes, employment and welfare may be positive when markets are opened abroad, sector- or company-specific adjustment costs for businesses and their employees also typically arise in the course of domestic market liberalisation. This means that governments are constantly exposed to lobbying from two quarters – potential winners and losers –, and the mercantilist slant of trade rounds does not make life any easier for diplomats. Added to which, in most countries trade agreements need parliamentary ratification, an obstacle that can be surmounted only if the balance of benefits and disadvantages is perceived as broadly positive and there is at least no opposition from the big organised lobbies. At the current status of negotiations, however, diplomacy and domestic policy in the major world trading powers do not sit comfortably together. What has been put on the negotiating table is not sufficient to court approval at home, and what is needed to do so is not forthcoming in Geneva. A brief look at the trade policy priorities and domestic policy constraints in the major trading nations is therefore helpful in this context.



USA. In 2009 the US was the third largest exporter of goods, the biggest exporter of services and the major industrial and services importer in the world. However, since 2000 its external trade has expanded by only 3% p.a. (exports) and 1% p.a. (imports). Although the US trade deficit shrank during the recession, it is now on the rise again. Surpluses in services cannot make up for the shortfalls in its trade in goods. Although the Obama administration has nailed its flag to the mast of doubling exports within five years, this appears unrealistic and would also require substantial real depreciation of the dollar above and beyond export promotion.



Trade policy seems quite incapable of delivering sufficient impetus to correct America's external imbalances. Conclusion of the Round would be good for the President's export drive and for non-partisan parliamentary cooperation, by giving the US better sales opportunities for all sectors. Stricter discipline on future farm subsidies would also bolster budget consolidation. But so far the Obama administration has not rated the potential gains great enough to give it a chance of securing approval from Congress – and probably rightly so. Hufbauer et al. calculate for example that a narrow conclusion on the basis of the July 2008 negotiation status would result in additional exports worth just USD 7.6 bn.³⁶ President Obama is therefore aiming for further market opening in all three sectors,³⁷ chiefly by the big emerging markets, which China and Brazil in particular have not yet seen their way to offering.

It is certainly true that Congress would need stronger arguments pro employment and exports to bridge its massive rifts on trade policy issues and set aside its blockading tactics, even on signing free trade agreements. To make matters worse, the Democrats have been at odds over trade policy issues for 20 years. The loss in November 2010 of many electoral districts in the "rustbelt states" highlighted the vulnerability of the Democrats to Republican opposition, even the "Blue Dog" Democratic group with working

³⁶ Hufbauer (2010), p. 7.

³⁷ See Punke (2011).



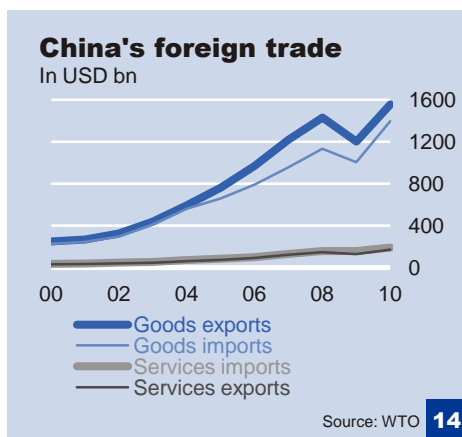
class roots. And even if an accord were reached in Geneva, qualified employees in high-tech companies and business service providers would reap the greatest benefits with no immediate gains for low-skilled labour or the unemployed.

The US represents the political bottleneck of the Round, because a conclusion would not be possible at all without distinct improvements to the status quo. But America has hardly any negotiating leverage left, since the US market is already very open and the most pressing demand, aside from the issue of agricultural support payments, is for the expansion of temporary residence rights for Indian IT experts – both sticking points in domestic policy. Up to now President Obama has not proved much of a risk taker in trade policy, nor is he very likely to turn into one.³⁸ So far at any rate, China's and the EU's "competitive liberalisation policy" through preferential trade agreements has not been a powerful enough incentive.³⁹ What America needs most is further export opportunities in China.

China. China's phenomenal rise in world trade is unparalleled in economic history. Since 1990 its exports of goods have soared by a factor of 25 and its imports by a factor of 26. Over the last decade alone Chinese deliveries of goods and services have escalated by an average of 17% p.a. and imports by 15%, three times faster than world trade as a whole. In trade in goods and services, China is one of the top three performers in both imports and exports. In 2009 its share of global merchandise exports came close to 10% and its share of imports close to 8%, with slightly lower values of less than 4% and 5% respectively in the case of services. Chinese exports head mainly for the EU, the US, Hong Kong and Japan; its major suppliers are Japan, the US and South Korea. China is increasingly evolving into a producer of final goods, with high imports of intermediate goods from Asian economies. China's trade balance is typically positive, whilst the balance on services shows slight deficits. However, in recent years its external surpluses have shrunk as a result of the effective trade-weighted appreciation of the renminbi.

It was not until the early 1990s that China began steering its trade policy towards gradual liberalisation. Then in 2001 it joined the WTO on strict conditions, as a result of which it has been forced to pursue an untypically rigorous liberalisation course. Its weighted tariff rates are now just 10% in agriculture and roughly 4% in industry. Hence China's exports have emerged from competition through low wages to climb the value-added ladder over the past 20 years, and this also applies to its services. At the same time the country has opened up to direct investment.

Having only just joined the WTO, China therefore demonstrated little willingness in the Doha Round to open its markets much further. It would benefit significantly from a conclusion at the present negotiation status. On the export side China would reap considerable gains in manufactured goods and open the door just slightly wider to agricultural and services imports. But it is not expected to give much ground on services, although this would presumably deliver the greatest welfare gains. That is especially frustrating for the offensive interests of the US and EU. On the whole China has adopted a relatively passive stance so far in the Doha Round, failing to put forward any groundbreaking offers.



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China's foreign trade by countries, 2001 and 2009
%

	Exports		Imports	
	2001	2009	2001	2009
US	26.7	22.4	10.8	7.7
EU	20.8	23.8	16	12.7
East Asia 6*	16.4	14.6	31.2	27
Japan	18.5	9.8	17.6	13
Asia (rest)	6.7	10	6.7	9.1
South and Central America	2.3	3.6	2.4	6
Russia	1	1.5	3.3	2.1
Africa	2.2	3.9	2	4.3
Near East	2.7	4.3	3.8	5.6

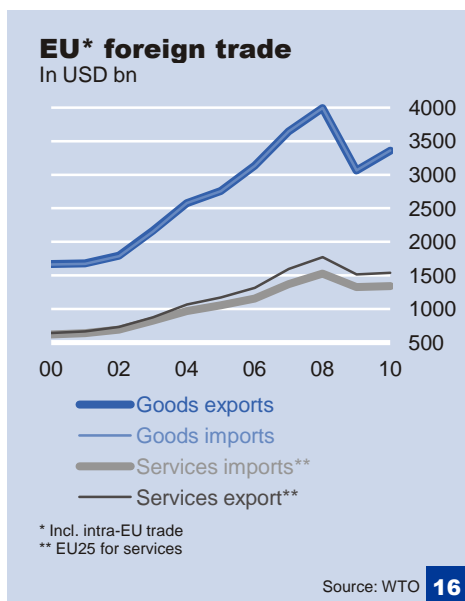
*Hong Kong, China (excl. re-exports), Korea, Malaysia, Singapore, Taiwan, Thailand

Source: WTO

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³⁸ See Falke (2011).

³⁹ See Stokes (2010).



Extra-EU trade by countries (goods), 2009

%

Exports		Imports	
USA	18.3	China	17.9
Switzerland	8.1	USA	12.9
China	7.4	Russia	9.7
Russia	5.9	Switzerland	6.2
Turkey	4	Norway	5.7
Norway	3.4	Japan	4.7
Japan	3.2	Turkey	3
India	2.5	Korea	2.7

Source: WTO **18**

By tabling a robust offer on two or three sectoral agreements and a couple of key services sectors China could arguably set the Doha Round on the home straight and make a conclusion possible. It is, however, doubtful whether the People's Republic – undisputedly the foremost nation state in world trade over the coming twenty years⁴⁰ – will don the mantle of Doha leadership at the expense of slightly tougher domestic economic adjustment. The world trading system can no longer field a global US hegemon, but China is not yet going to assume that role either.

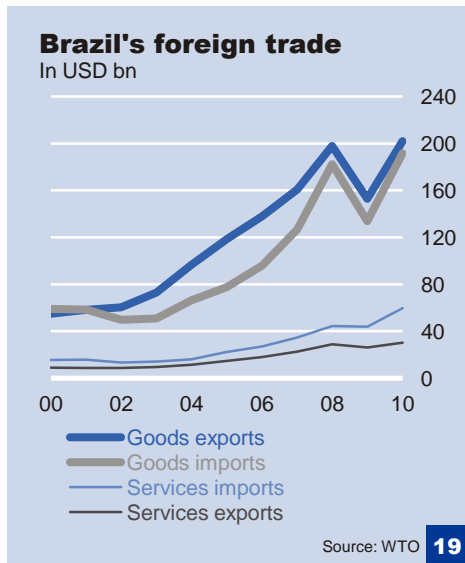
EU. Even considering its extra-regional trade alone, the EU is still the elephant in the world trading system. Extra-EU trade accounts for 13% of global merchandise trade and 18% of services trade. In 2009 imports and exports of goods and services reached roughly USD 2.5 trillion each, capturing first place throughout the world. However, growth in imports and exports over the past decade has averaged no more than 3% p.a. – only half as much as total world trade. The majority of EU goods are destined for the US (ahead of Switzerland and China), while most imports are already sourced from China (ahead of the US and Russia).

So far in the Doha Round, the EU has been able to pursue its main concerns and would also harvest some of the greatest economic gains. Europe would create itself an external anchor for a better agricultural policy, substantially reduce internal farm support and increase its export opportunities in industry and services. Improved access to industrial markets in the emerging economies would certainly be necessary in order to clear domestic political hurdles, chiefly in Germany; but the EU cannot bring much more substantial leverage to bear, as its former petitions for a better regulatory framework for competition, investment and TRIPs were either dropped or treated passively. In the services sector all that remains as an incentive to important emerging markets such as India is the trump card of liberal regulation in Mode 4.

As far as the EU is concerned, the Doha Round is still the economically most important trade policy option. The various bilateral agreements envisaged offer only limited economic potential. Any domestic political problems would presumably be confined largely to French politicians' acceptance of the agricultural trade rules and backing for a conclusion from German industry and the Federal Government. This too would point to the advisability of wrapping up the Doha Round before campaigning begins for the French presidential election in 2012. A conclusion would also have to be ratified by the European Parliament.

Brazil. Brazil is steadily integrating into the world trading system. Since 1990 merchandise exports have risen 6.4-fold and imports 8.5-fold. All told, exports and imports of goods have jumped by 12% and 10% p.a. since 2000, practically twice as fast as the global average. By 2009 Brazil had cornered more than 1% of world trade. The country of the iconic Sugarloaf Mountain has advanced in recent years to become a heavyweight player on the agricultural scene, exporting soy, meat, poultry, orange juice and ethanol, but has become only selectively competitive in manufacturing and the services sector, e.g. in aircraft, machinery and software. While also benefiting from exports of raw materials, it still imports industrial products and professional business services on a large scale. In 2006 Brazil could still boast a substantial trade surplus closely

⁴⁰ In absolute terms the EU-27 (extra-regional trade only) still generate the largest volumes of trade in goods and services, but China is catching up swiftly.



approaching the USD 50 bn mark, but since then this has shrunk rapidly and is likely to have disappeared almost entirely by 2012. Current account will presumably also have come under further currency-induced pressure (2009: -1.5% of GDP; forecast for 2012: -3.2%).

Conclusion of the Doha Round would bring Brazil moderate additional export opportunities, chiefly in agriculture, but probably less than it had for a long time anticipated. The farm sector is still important for employment and exports (not quite 38% in 2009). Brasília could also hope for better provision with services and industrial products, but for the most part it takes a defensive view of market liberalisation in industry and services. Since the end of the Uruguay Round, which Brazil considered detrimental to its interests, Brasília has adopted a tough stance in its trade policy vis-à-vis the US and EU, particularly in agriculture, but also in merchandise trade.⁴¹ It is therefore hardly surprising that Brazil was instrumental in formation of the G20 bloc of developing nations in Cancún, that it has been especially vociferous in recent years on its scepticism at the chances of reaching an acceptable conclusion to the Doha Round and has done very little to move negotiations forward. Genuine interregional alternatives are not open to Brazil, but its exports and imports are well diversified across the EU, the US, China, Argentina and Japan. By opening its markets more it could most importantly lend the Doha Round political impetus, but its defensive attitude is easily explained by the fact that domestic manufacturers would face far more competition from NAMA and GATS. Brazil is thus likely to remain a difficult partner coming down the home strait, even though its domestic political problems should not be all that onerous.



India still heavily protected

India. India's integration into the global economy has been extremely dynamic with 14% growth in the volume of both exports and imports since 2000, although this did admittedly begin from a very low level.⁴² Up to 1990 India had sealed itself off almost completely from global economic integration through protectionism. Since then its exports have grown by a factor of 13 and imports by a factor of 14. India's trade to GDP ratio has soared since 1990 from 16% to 47%, while its share of world goods exports has climbed from less than one percent in 1990 to 1.3%, to 2% of world imports, and to 2.7% and 2.6% of services respectively. Today India is the sixth biggest services exporter in the world, discounting intra-EU-27 trade. This is down chiefly to IT services and outsourcing, 90% of which in 2003 stemmed from the posting of Indian specialists. For a long time, however, India's external balances have posted deficits due to macroeconomic factors and microeconomic weaknesses in manufacturing industry, the unfavourable, labour-intensive structure of its merchandise exports, correspondingly low integration into global production networks and huge demand for imports of capital goods and intermediate products.

Although India has gradually liberalised its external trade and direct investment since the early 1990s, it is still heavily protected in comparison to other countries at a similar level of development, chiefly in agriculture, food and the automotive sector. Inter alia, this is severely hampering better development of its industrialisation.

⁴¹ On Brazil see i.a. Husar and Mildner (2008), Busch (2009), Schott (2009) and Jörissen and Steinhilber (2010).

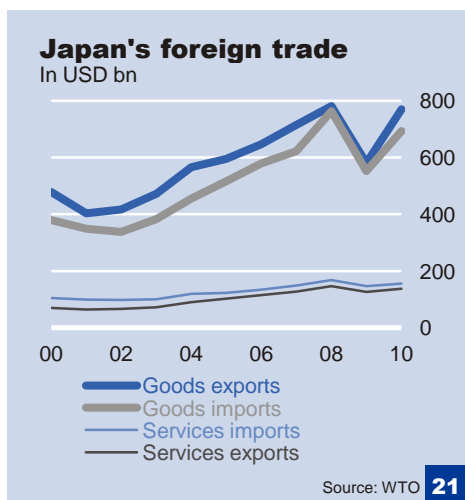
⁴² For India's trade development and policy see Panagariya (2008), Kowalski (2009), Husar and Mildner (2008) and Schuster (2010).

India has asserted many interests in the Doha-Round

India has played a prominent political role in the WTO and the Doha Round. As early as the 1990s it successfully blocked the treatment of environmental and social standards, and it was due in no small measure to India's insistence that three of the four Singapore themes (competition, investment and public procurement) were taken off the WTO agenda 2003 in Cancún (with debate on trade facilitation continuing). Together with Brazil, India has also been a vehement advocate of developing and emerging market countries' concerns. Agricultural protection is still a top priority, but in the case of services India definitely has offensive interests and is moreover prepared to compromise – as with industrial issues – on further opening of its market, which will not be able to move forward fast enough without foreign direct investment in the infrastructure and in professional business services.

Still much potential for India to open markets in its own interests

There is still considerable potential for the liberalisation of trade and investment in India, but in practice agricultural interests continue to wield considerable veto powers in farm trade negotiations through the individual states and the Union Government. Economically, India would stand to gain quite a lot from an ambitious conclusion of the Doha Round, but Indian trade policy is still too defensive even though domestic political problems with ratification would be comparatively slight – a conclusion requires only Cabinet approval but does not need to pass Congress. Panagariya⁴³ therefore argues in favour of offensive market liberalisation to far better exploit the export potential in agriculture and industry even in activities requiring low skills. It remains to be seen whether Indian negotiators will increasingly embrace this line.



Japan. In trade in goods and services, Japan is still one of the top five trading nations in the world with a share of roughly 4 ½% of world goods trade and almost 4% of services trade. But over the last decade its exports have expanded by an average of just 2% p.a. and its imports by 1%. In 2009 it posted a surplus in merchandise trade and a deficit in its trade in services. Current account is traditionally in surplus. China is Japan's most important trade partner, followed by the US and the EU. The Japanese goods market is open for the most part, but agriculture is still heavily ring-fenced by tariffs.

Japan's opportunities in the Doha Round lie in industrial exports and agricultural imports, on which it traditionally takes an extremely defensive stance. It also had offensive interests in better rules on direct investment, but this now remains on the agenda only implicitly in talks on services. In general Japan has behaved very passively.

No good alternatives to multilateralism

Doha or Dada

Conclusion of the Doha Round would not only be economically and politically beneficial for the overwhelming majority of WTO member countries, it would also be significant inasmuch as the multilateral world trade regime represents far the best option.⁴⁴ In Asia alone another regional integration area is forming that offers good chances of deep integration. Advantage is already being taken of these in a large number of agreements. Otherwise there is very little potential for significantly deeper regional integration in, say, Africa and Latin America.

⁴³ Panagariya (2008).

⁴⁴ Now also see Baldwin and Evenett (2011) on the economically unattractive alternatives.



What is more, the world trade order already features a host of bilateral agreements between countries or trade areas like the EU that seek to negotiate complex accords which ultimately generally produce very few economic outcomes. Seldom are they likely to result in such substantial market liberalisation as the free trade agreements that the US and EU signed with South Korea. Even more importantly, such agreements between the major industrial nations and China are will hardly be possible for political reasons, and probably not with Japan either for powerful economic and domestic reasons in Tokyo. Whether this will work with India is currently being put to the test by the EU. The EU and US have attempted bilaterally to achieve progress on important dossiers in the Transatlantic Economic Council, but so far to little effect. Canada is already incorporated into NAFTA and is holding talks with the EU. The problems surrounding South American integration around the Brazilian anchor in Mercosur and new Brazilian initiatives are legion. So what is left?

Besides these avenues, all that thus remain in the medium term are presumably small options that would see the big trading powers trying to negotiate the best preferential arrangements for themselves more or less competitively (as in the case of South Korea) with lots of very small partners. The medium-range consequence would be the direct empowerment of international trade relations and a substantial part of investment flows. Whether these agreements would then also succeed, as occasionally claimed, in going beyond WTO regulation on issues such as competition, investment, social and environmental standards and others is doubtful, at least for the majority of such endeavours.



The General Agreement on Tariffs and Trade was created precisely at a time when the global economy had just gone through a quarter century of protectionism and extensive bilateralism.⁴⁵ Reversing the rampant protectionism that spread during the Great Depression following the 1930 Smoot-Hawley Act in the US was an extremely arduous task. A beginning was made in 1934 with the Reciprocal Trade Agreement Act, which withdrew the authority to negotiate trade agreements from the US Congress, placed it instead in the hands of the President and gradually set US policy back on track for liberalisation.⁴⁶ There followed from 1948 sixty years of arduous liberalisation policy, first in regional and later in multilateral agreements, to accomplish the reglobalisation of world trade. Fortunately, this is not now immediately at stake, although all concerned should be aware that a robust multilateral framework, explicit rules and reciprocal, controlled and moderate market opening on a global scale is both politically and economically preferable in the foreseeable future to an empowered trade policy within narrow bounds.

Another point that can hardly be disputed is that during the economic and commercial rise of important emerging market countries the multilateral set of regulations governing world trade needs to be fine-tuned to take account of such things as basic rules on safeguards, development issues,⁴⁷ matters regarding linkage of

⁴⁵ See Findlay and O'Rourke (2007).

⁴⁶ See Haggard (1988).

⁴⁷ Rodrik, for example, advances many good arguments in favour of adjusting the WTO rulebook and the thrust of its trade policy in such a way as to leave developing countries sufficient "policy space" for heterodox economic policy measures to a still tolerable international extent, rather than judging all countries by a normative trade policy yardstick under all circumstances, see Rodrik (2007).

the world trading system and further issues of global economic significance to other regimes such as the food supply and the FAO rules, climate protection, the protection of species and global currencies. And for the time being, probably no alternative forum holds out better opportunities for topics such as direct investment, global competition rules and public procurement. Were the Doha Round now to be run wilfully into the ground, the international community might well start wondering whether issues of this kind would ever again be able to find a plausible and truly global forum. If not, the only other practicable solution for the next twenty or thirty years would presumably be the more or less voluntary informal multilateralisation of deals between Beijing, Washington and Brussels. But do we really want that? While there is still a choice between the multilateralism of the Doha Round and the Dadaism⁴⁸ of the big players, we should opt for Doha.

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⁴⁸ The Dada art movement encouraged doubt, rejected established norms and values and embraced artistic individualism. Its preferred means of expression was through random, destructive action.



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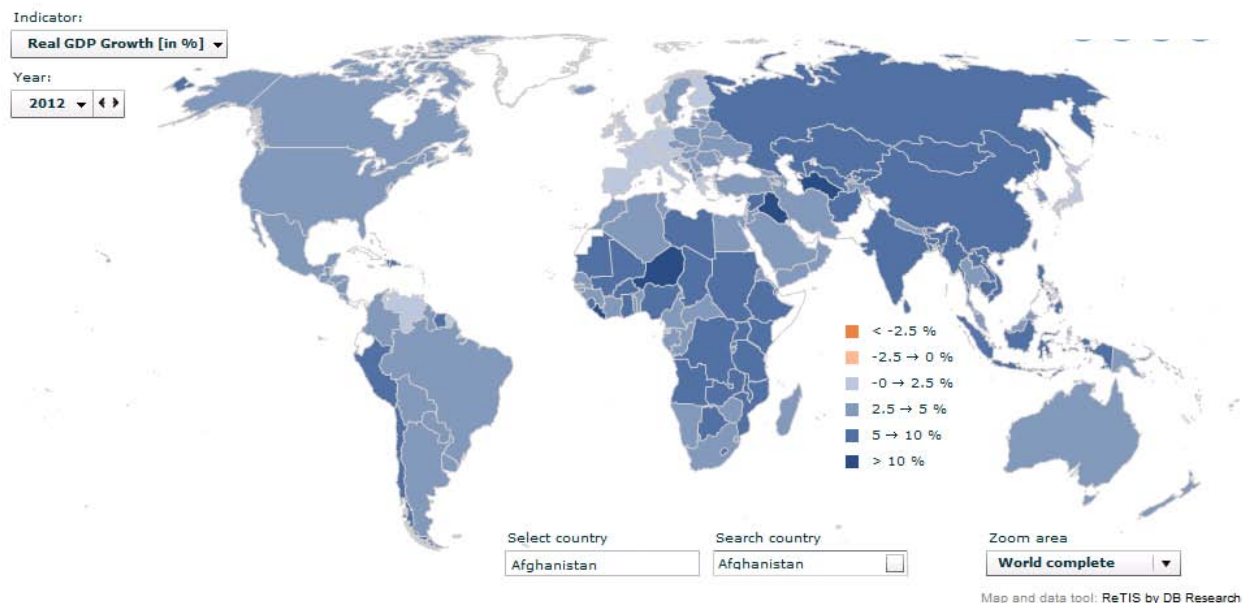


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