

## THE DOHA ROUND: AN OBITUARY

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### HIGHLIGHTS

- The WTO membership will not be able to conclude stalled multilateral trade talks by the end of 2011—a blow that spells the doom of the Doha Development Agenda (DDA) after 10 years of inconclusive negotiations under the WTO's 'Single Undertaking'. It is now time to acknowledge the political realities: the Doha Round is dead.
- This policy brief outlines the history, causes, and consequences of a failed Doha and lays out the core elements of a necessary 'Plan B'.
- The roots of failure are to be found in domestic politics of key WTO members on the core mercantilist items of the Doha agenda—agriculture and manufacturing. While some members—notably the United States—are not able to live with a low-ambition deal, others—notably China, India, and Brazil—cannot commit to elements of a high-ambition deal.
- In the short term, WTO members need to 'harvest the organs' of the Doha Round to deliver benefits to least developed members and as a confidence-building measure to get the WTO back on track.
- In the long run, the death of Doha poses questions about the role of the WTO as guardian and rule-maker of the international trading system. New thinking is needed on the future role of the WTO as well as new approaches to multilateral trade liberalisation.

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## THE DOHA ROUND IS DEAD

Historians will probably date the final death knell for the Doha Round of multilateral trade negotiations at the World Trade Organisation to Friday, April 29, 2011—six months shy of the round's tenth anniversary. In his remarks that day to the WTO's Trade Negotiations Committee (TNC) which oversees the Doha talks, Director-General Pascal Lamy told the WTO membership that "this Round is, once more, on the brink of failure," with blockages in every important area. Lamy, a dedicated marathon runner and optimist by profession, avoided the obvious conclusion, promising to report back to the full membership on May 31. What he did not say, although everyone in the room knew it, is that the time for a successful conclusion to the Round has now passed. Timing is everything in the huge multidimensional chess game that is the Doha endgame, and with the failure to conclude the talks this year a window of opportunity will close. The political constraints associated with a U.S. presidential election year and the change of Chinese leadership in 2012 add to the cold political wind that has been blowing on trade will delay meaningful negotiations in Geneva for at least another two years. This spells the doom of the round, which cannot survive such a blow at this stage, 10 years after its inception, and retain its current agenda and objectives.

For both political and systemic reasons, it is clearly impossible for Lamy and the WTO membership to acknowledge failure publicly. This would only serve to jeopardize the remaining trust in and legitimacy of the WTO system, which is the basis of its sustainability. Instead, in the May 31 informal TNC meeting, WTO members desperately sought to veil the death of the round by aiming for some minor deliverables by December of this year. WTO members agreed to what Lamy euphemistically termed a "three tracks" search for results:

- First, in the run-up to the WTO Ministerial Conference in December, WTO members pledged to give fast track priority to an 'early harvest' package deal for Least Developed Countries (LDCs), including items such as Duty-Free and Quota-Free (DFQF) market access, rules of origin, cotton subsidies, and a waiver for lifting restrictions on LDC services exports.
- Second, until December, members will seek to come to terms on a number of LDC-plus issues, which could include items such as trade facilitation, fisheries subsidies, environmental goods, export competition, and reformed rules for the WTO's Dispute Settlement Understanding.
- Third, in line with the original Doha Development Agenda, members will officially stick to the 'Single Undertaking'—the negotiating rule in which "nothing is agreed until everything is agreed". However, the contentious core elements of the agenda—including non-agricultural market access (NAMA), agriculture, and services—will be put on the 'slow track'.

The official position essentially seeks to distract from the fact that the core elements of the agenda have gone, and will go, nowhere, even after the American elections and Chinese leadership changes in 2012. A deal on these core mercantilist items on the basis of current negotiation modalities is impossible. In light of the unbridgeable gaps between members' positions on NAMA and agriculture, negotiators would have to start from scratch in 2012. Putting these issues on the 'slow track' merely veils the complete failure to reach an agreement and the reality that negotiations on these core items of the DDA are dead. In addition, the attempt to secure an 'early harvest' by December is a sign of the desperate need to demonstrate some kind of outcome—any kind of outcome—to save face, avoid a nasty blame game, and

preserve the remaining trust in and legitimacy of the WTO system. However, diverging positions on the 'early harvest' are already emerging, and the content and overall likelihood of a deal is all but certain. What is certain, however, is that the 'early harvest' would, in fact, be the 'only harvest' of a decade of negotiations on the Doha Round.

## **FROM INCEPTION TO FAILURE: DOHA TO GENEVA**

Launched with high hopes in November 2001 in Doha, Qatar, two months after the September 11 attacks on the United States, the Doha Round has seen the world change fundamentally in the course of its lifetime. The shifting geopolitics and economics of a world in transformation have brought with them corresponding shifts in the challenges facing the multilateral trading system—shifts which WTO members have found difficult to address.

Following several false starts, including the breakdown of the WTO Ministerial Conference in Seattle in 1999 amid teargas and protests, the impetus for Doha was closely tied to the needs of the international community for a means by which to demonstrate their commitment to working together in the aftermath of 9/11. In the belief that widespread global poverty serves as a breeding ground for terrorism it was agreed that the Doha Round should be a "development round" in which an agreement would harness trade to meet the pressing problems of global poverty and underdevelopment. The Doha agenda was highly ambitious from the outset, mandating negotiations on the classic mercantilist issues of agricultural tariffs and subsidies and non-agricultural market access as well as second-generation trade issues such as rules on industrial subsidies, anti-dumping, intellectual property rights, environmental goods, fisheries subsidies, trade facilitation, and trade in services.

This ambitious agenda quickly ran into difficulties as the emergence of new economic powers began to manifest itself in the changing dynamics of multilateral trade negotiations. The formation of the G-20<sup>2</sup> group of larger developing country WTO members, including Brazil, India, China, Argentina, South Africa, Indonesia, Mexico, and Thailand, at the WTO Ministerial in Cancún in 2003 marked the final end of the traditional dominance of the 'Quad' of the United States, European Union, Japan, and Canada in prior negotiating rounds under the General Agreement on Tariffs and Trade (GATT), predecessor to the WTO. As the WTO membership assembled in Cancún, negotiators experienced their first full-blown stand-off, with the G-20 on one side and the European Union and United States on the other.

The large agricultural exporters of the G-20 pressed their demands for deep cuts in agricultural tariffs and subsidies by OECD countries to finally deliver on what they saw as a long-deferred promise, dating back to the Tokyo Round (1973-1979), to rectify market distortions in world agriculture. The European Union, on the other hand, pushed to expand the negotiations to the so-called 'Singapore Issues'—investment, competition, government procurement, and trade facilitation. Both the EU and the U.S. called for reductions in developing countries' industrial tariffs in return for concessions on agriculture. U.S. negotiators, in seeking to promote their agricultural export interests, locked themselves into the position of demanding gains within each negotiating area, including agriculture, and not simply gains across the whole Doha package. At the same time, West African countries turned up the heat on the U.S. cotton subsidy program.

<sup>2</sup> Not the same grouping as the better-known Group of Twenty (G-20) Finance Ministers and Central Bank Governors established in 1999.



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Overall, the Cancún Ministerial took place in an ideologically-charged atmosphere fuelled by the presence of thousands of NGO and media representatives. It ended in acrimony and widespread name-calling but without substantive results. Looking back, it is possible to make a strong case that Cancún marked the point at which the Doha Round first went into terminal decline. Certainly, the guiding spirit of international collaboration in the face of global challenges began to dwindle around that time. However, in the years to come negotiators did make some modest progress. The 2004 “July Framework Agreement” laid out in broad terms a pathway to reaching modalities and reduction formulas for Most-Favoured-Nation (MFN) tariffs and agricultural subsidies, and addressed the controversial Singapore Issues by incorporating trade facilitation into the negotiating agenda.

Agriculture remained at the heart of the round. To some degree, the EU had done its homework in advance by instituting reforms to the Common Agricultural Policy in 2003. However, the WTO Ministerial in Hong Kong in December 2005 was an inflexion point for the level of ambition in the round. EU Trade Commissioner Peter Mandelson held to 2013 as the phase-out date for EU agricultural export subsidies, and the only real achievements in Hong Kong were commitments on Aid for Trade and on granting LDCs Duty-Free and Quota-Free market

access. But even here the devil had to be extracted from the technical details. Economic modelling analysis revealed that a multitude of sins could be concealed within the granting of 97% rather than 100% DFQF, which was what was on the table.

After Hong Kong the EU withdrew more and more from the fray. European negotiators felt they had offered significant reductions in agricultural protection, made relatively modest demands of developing countries on industrial tariffs, and conceded most of their agenda on the Singapore Issues for the sake of concluding the round. But the disappointing outcome of Hong Kong marked the beginning of the end. From that point the level of ambition in the Doha negotiations trended steadily downwards. Although the EU could live with this, and was henceforth able to present itself as a relatively unproblematic partner, living with low ambition was exactly what the United States could not do.

Strong external pressure on the United States Trade Representative (USTR) to reduce subsidy support to the U.S. farm sector was at least offset by mounting domestic pressure from the U.S. farm lobby not to make any concessions without securing substantially improved access to the markets of the big emerging economies in agriculture. Meanwhile, the rise of China and the lack of a significant social safety net for dislocated American workers fed a growing popular anti-trade sentiment in Congress which fixated on high annual external U.S. trade deficits and Chinese “currency manipulation” as well as job and investment flight through “offshoring.” In this context, only an ambitious agreement could motivate the U.S. export interests that are essential to the passage of any trade agreement and mobilize them for the necessary campaign of arm-twisting and vote-counting in Congress.

However, for structural reasons the emerging giants themselves did not have much to put on the table. With some justification, China pointed to the extensive package of tariff reductions and domestic

economic reforms that had been made a condition for Chinese WTO accession in 2001 and claimed to have already done its part. Moreover, India and Brazil had made unilateral reductions in applied tariffs on industrial goods to such a large extent over the previous ten years that the formula cuts foreseen in the Doha modalities would not actually bite, reducing legal baseline rates but leaving applied duties unaffected. For them, the elephant—or rather, the dragon—in the living room was China. Brazil, India, and other emerging economies were reluctant to further reduce industrial tariffs on an MFN basis because market opening towards OECD countries on this basis would also result in market opening towards China, whom they increasingly feared as a competitor.

To further complicate matters, there were differing strategies reflecting diverging national interests among the G-20. At one extreme, India was fiercely protective of its 800-million-strong army of subsistence farmers, whom it wished to shelter from import competition from the United States and elsewhere. At the other pole, Brazil, as one of the world's largest agricultural exporters, was pushing hard to get the U.S. to dismantle its walls of agricultural protection and domestic subsidisation.

In summary, the United States Trade Representative was increasingly in need of an ambitious and commercially attractive outcome given U.S. domestic politics. But China, India and Brazil all have domestic politics too, and were not in a position to supply such a result—especially in the face of U.S. offers on agriculture and manufacturing that were not perceived to be worth additional concessions.

In these circumstances, the July 2008 Ministerial in Geneva was destined to fail, and fail it did. Despite some convergence on side issues, the political impasse on the core items remained. The proximate cause of the collapse lay in the arcane details of the so-called Special Safeguard Mechanism (SSM)—a device that would allow developing countries to increase tariffs to protect their farmers from import

surges and price declines. A stand-off developed between, on the one hand, India and China, and, on the other, the United States. Ironically, the issue was to lose much of its importance almost immediately as sharply increasing global food prices did away with anxieties over floods of cheap farm imports.

On the manufacturing front, the U.S. had been pressing emerging economies—China in particular—to sign up to a number of so-called “sectoral” initiatives which would eliminate or significantly reduce tariffs in certain industrial sectors such as industrial machinery, chemicals, or electronics in addition to across-the-board MFN formula cuts. This was seen as a way to compensate for otherwise minimal market access gains. China eventually made clear that this was not going to happen, taking away from then-USTR Susan Schwab the sweetener she needed to appease skeptics in the U.S. business community. Failure to bridge the sharply diverging positions led Lamy to end the Ministerial with an admission of defeat.

“No deal is better than a bad deal,” according to the U.S. trade lobby, and this dynamic persists today. Until it changes, it will be very difficult for any U.S. Administration—particularly the current one, lacking ‘fast track’ trade negotiating authority and needing to appease anti-trade constituencies in the Democratic Party—to sign up to a deal. Without U.S. support it will be impossible to conclude the round.

The round has been largely moribund since July 2008. The world financial meltdown and subsequent global economic contraction led to surging unemployment in the United States and elsewhere, and resulting protectionist pressures around the world further undermined chances for a deal. While world leaders repeatedly pledged their commitment to the completion of the round by the end of 2010 (and then, later, by the end of 2011), their more urgent concern was to get the economy moving again while preventing the outbreak of a 1930s-style global trade war.

Each attempt since to reinvigorate the round has

failed. Over Easter 2011, the WTO membership came to the end of the line when the U.S. and China once again failed to agree on sectorals, with Lamy recognizing that it is NAMA “where the magnitude of the gaps among major players is effectively blocking progress in other areas.”

## THE CAUSES AND CONSEQUENCES OF FAILURE

There has been no shortage of plausible explanations for the slow death of the Doha Round. Among the most prominent are those that emphasize that the negotiations were ill-prepared from the outset or that the negotiating agenda was overloaded. More recently observers point to protectionist pressures stemming from the economic crisis or, alternatively, the declining importance of concessions on agriculture vis-à-vis manufacturing in a world in which food prices are skyrocketing and tariffs being lowered unilaterally, rendering concerns about the price suppression effects of subsidies somewhat outmoded. Each of these explanations is true to some degree. However, the fundamental cause of the Doha Round’s failure can be found in the quintessentially mercantilist trade politics which—after a flush of idealism in the wake of 9/11—returned to the fore in Cancún and has persisted since.

It has long been clear that Doha cannot meet the high expectations raised for the negotiations. Early estimates of \$500 billion in annual global welfare gains using computable general equilibrium (CGE) models of the global economy have been gradually reduced to estimates in the region of \$100 billion, depending on whether a modest liberalisation of services is included. Poverty alleviation impacts would be modest or even negative for some WTO members.

Is there any political imperative for such a deal? Not that anyone can see. Simon Evenett has summed it up well: “I see no basis for a deal... There are a small number of countries (notably the U.S.) who can’t do a low-ambition deal and a large number

of countries that can’t do a high-ambition deal. Domestic developments in the main trading parties account for this outcome—until they change, the impasse continues.”

So what has been lost? To some degree, the errors of overestimating the gains from Doha may have given way to an underestimation. Modeling analysis has some serious limitations and cannot capture many dynamic effects. Trade in services—the fastest-growing and potentially largest tradable sector—is either not included in the models for technical reasons or included in a very crude fashion. Aid for Trade and trade facilitation are also outside of the models. The benefits stemming from a trade facilitation agreement—already within reach at the WTO but currently held hostage under the Single Undertaking—could dwarf those resulting from the rest of a Doha deal. The World Bank estimates that bringing countries whose trade facilitation capacity is below average even halfway up to the average could increase overall trade by almost \$400 billion annually.

Another element to appreciate when thinking about a failed Doha is the importance of the multilateral trading system itself to developing countries. Even absent a massive upswing in protectionism following a failed round, the WTO system risks erosion and a loss of credibility. Lacking the reinforcement of progressive agreements, there are clear limitations to what even a fully-functioning WTO dispute settlement mechanism can achieve on the basis of current rules. Current protectionist pressures around the globe, resulting from prevailing high unemployment rates in many larger economies in the wake of the economic crisis, are likely to provide further challenges to the WTO as the guardian of international trade.

This represents a serious problem for developing country members, particularly the small and vulnerable. Alternatives to multilateralism such as bilateral Free Trade Agreements (FTAs) are skewed in favor of the powerful, whereas the WTO’s Most



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Favoured Nation (MFN) principle allows even the smallest WTO members with tiny markets and nothing much to offer to benefit from the full extent of market opening that occurs under WTO rules and to operate on the basis of the same terms of trade. The WTO is the only venue in which developing countries can truly hope to get a “fair shake” over the longer term.

On the other hand, the flight into regionalism hardly provides a complete alternative to the multilateral system. Certainly, FTA-induced trade diversion is not a good thing, but as long as trade between the giants of the system remains subject to MFN tariffs for the foreseeable future, the incentives for participation in the rules-based system in the short term, and for further multilateral agreements in the longer run, will remain. No OECD member will be willing to give up on improved access to the Chinese market for long. Moreover, ‘WTO-plus’ and ‘WTO-extra’ third-generation regulatory integration outside the realm of the WTO could actually facilitate the ‘multilateralisation’ of the progress made in these areas and reinforce rather than undermine the system as a whole. Regional agreements may spur the development of third-generation trade rules where regional solutions are most effective and efficient. WTO-centrism, after all, is not a value in itself. And for the larger economies, in the context of internationally interlinked production and value chains, there are still strong incentives to converge around the set of rules provided under WTO auspices. Russia’s long-awaited WTO accession may provide a further example of the value of predictable and continuous rules-based commercial relations.

## **HARVEST THE ORGANS!**

Unless a rabbit magically appears out of a hat, there are few credible options short of recognizing the death of the Doha Round. The course now being charted in Geneva is to separate negotiating areas into three tracks, with fast, medium and slow tracks according to the degree of difficulty and likelihood of agreement. But current pronouncements indicate an effort to preserve the façade that this can be accomplished within a Doha framework, that new wine can be put into old bottles. A frank recognition of the death of the round may make it easier for negotiators in Geneva to “harvest the organs”—the more uncontroversial elements of the round such as trade facilitation, Duty-Free Quota-Free access to large economies for the poorest countries, and so forth—which could serve as confidence-building measures for preserving WTO credibility and legitimacy in the short run.

Trade facilitation has most often been mentioned as a candidate for a separate deal as it is uncontroversial and holds out the prospect of 'win-wins.' Picking additional items will be trickier, as early discussions of Lamy's proposed "three tracks" indicate. To be sure, a package for LDCs providing for DFQF market access without exceptions is imperative. An initiative to significantly lower services market restrictions for LDCs would be a great supplement to free access for LDC services. Such a package should also cover cotton subsidies and the elimination of agricultural export subsidies in general, which ought long ago to have been consigned to the dustbin of history. Areas where agreement would contribute to the provision of important global public goods include negotiations on environmental goods and restrictions on fisheries subsidies. Nevertheless, many of the items in this 'new' agenda touch upon areas of domestic sensitivity for several WTO members. Only time will tell whether they are willing and able to agree on the 'early harvest' that would, in truth, be the only harvest of the round.

It is now the time, as former Mexican President Ernesto Zedillo was insisting back in 2007 in Forbes magazine, to "save the WTO from the

Doha Round." Ultimately, the failure of Doha underscores the necessity of rethinking the purpose and functioning of the WTO as an institution. The WTO will not, in the long run, retain its centrality through well-functioning administration and adjudication of trade disputes alone. Shallower and faster agreements rather than the great omnibus trade rounds of the past could be one way to facilitate progress so that the WTO membership can keep pace with rapid changes in the global economy. The Single Undertaking itself, which has become a straightjacket, may have to be relaxed, opening the door to plurilateral agreements among willing partners.

Without doubt, such a 'Harvesting of the Organs,' 'Plan B,' 'Doha-Lite,' or 'Safe Landing' has plenty of drawbacks compared to the best-case scenario - notably a deal that would represent a victory for multilateralism and provide a much-needed shot in the arm for today's faltering global economy struggling with financial market volatility, the effects of high commodity and energy prices, and a mounting food crisis. But now is the moment to acknowledge political realities and find innovative and pragmatic second-best solutions that will better serve us all in a post-Doha world.