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EUROPE ON THE ROAD TO DOHA: TOWARDS A NEW GLOBAL TRADE ROUND.

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TOWARDS A NEW GLOBAL TRADE ROUND**

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Abstract

This paper reviews progress to date towards a new trade agreement under the Doha Development Agenda. Some of the key issues in contention are examined, including barriers to trade in agriculture and manufacturing, intellectual property rights, and competition policy. A potential sticking point is whether the US will accept a quasi-judicial role for the WTO and constraints on the use of anti-dumping policy. European governments need to decide how badly they want to complete a new trade agreement, and should start preparing their constituents for compromise if an agreement is to be reached.

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1. Introduction

The city of Doha in Qatar was much in the news during March and April 2003, but not in ways that augur well for global trade liberalisation. Daily bulletins from the coalition forces' Central Command in Doha underlined US military might and technological superiority, and the apparent impunity with which it could pursue a unilateralist agenda. Meanwhile, efforts to bring about a very different kind of regime change were faltering. The current round of multilateral trade negotiations, launched in Doha in November 2001, set end-March 2003 as the date by which guidelines ("modalities") for detailed negotiations on agricultural support were to be agreed. But the deadline was missed, prompting increased pessimism about the prospects for a new trade agreement.

In this paper, I review progress to date towards a new trade agreement. Some of the key issues in contention are examined, including barriers to trade in agriculture and manufacturing, competition policy, and intellectual property rights. I speculate on which topics are likely to pose most difficulties, and try to give a European perspective on how the negotiations should progress.

2. The Doha Timetable

A major achievement of the Uruguay Round of global trade negotiations was the establishment of the World Trade Organisation (WTO) in 1995.¹ This finally regularised the anomalous situation which had prevailed since 1948, whereby international negotiations on trade policy were governed by the General Agreement on Tariffs and Trade (GATT), which was both a multilateral treaty and also an international organisation in all but name and legal

¹ The eighth or Uruguay Round of trade negotiations was launched at a meeting in Punta del Este, Uruguay, in September 1986, and was successfully concluded in December 1993. The Uruguay Round Agreements were formally signed in April 1994 and the World Trade Organization was formally established on 1 January 1995.

status. Under WTO auspices, ongoing negotiations take place all the time, and some progress can be made on uncontroversial items. Nevertheless, full-scale negotiations with a formal agenda seem required if the momentum towards multilateral trade liberalisation is to be maintained and if the many loose ends from the Uruguay Round are to be tidied up.

All these issues were to be addressed by a new "Millennium Round" of trade talks, but hopes for progress towards it were dashed by the debacle of Seattle in December 1999. Though the anti-globalization riots made the headlines, the meeting would probably have collapsed anyway even if the streets had been empty of protestors. Disagreements within the negotiating chamber, on issues such as environmental and labour standards, reflected the disillusionment of developing countries with the outcome of the Uruguay Round. Hence the emphasis on "Development" in the "Doha Development Agenda" which belatedly launched the new trade round at the Doha ministerial conference in November 2001. But is this just a fig-leaf, like the "Growth" which was tagged on at the last minute to the EU's "Stability and Growth Pact" agreed at the Dublin summit in November 1999? The voting strength of developing countries in the WTO will probably ensure that agreement will not be reached without some concessions by rich countries on market access for both agricultural and manufacturing products. Nevertheless, the economic and political importance of the EU and US, not to mention the wide range of issues on which they differ, make it inevitable that some accommodation between them is essential for the Round to end in agreement.

The ministerial declaration agreed at Doha in 2001 lays out a detailed work program for the Round, and sets the goal of completing it by January 2005. An intermediate deadline is the next biennial ministerial meeting of the WTO, to be held in Cancun in September 2003, where progress under all headings is to be reviewed. Ominously, two preliminary deadlines, on agricultural support and pharmaceutical patents, have already passed without agreement.

(See Sections 3 and 5 below respectively.) Away from the negotiations, President Bush imposed swingeing tariffs on US steel imports in Spring 2002 and an 80% increase in agricultural subsidies in the May 2002 farm bill. On this side of the Atlantic, proposals by EU Agriculture Commissioner Fischler for modest reform of the Common Agricultural Policy (CAP) were stalemated by the bilateral agreement of October 2002 between President Chirac and Chancellor Schröder to freeze CAP spending until 2013.

However, there are grounds for guarded optimism that the Round may yet be completed, though probably not by January 2005. Consider first the history of earlier GATT rounds. As Table 1 shows, successive rounds have become longer as the number of participants and the range of topics covered have increased. Figure 1 illustrates the relationship between the duration of trade rounds and the number of participants, and adds a forecast for the Doha Round based on a crude extrapolation of the first eight trade rounds. If the close relationship between duration and number of participants were to repeat itself, then the Doha Round would last eight and a half years, ending in May 2010!² Of course, there is no iron law of international negotiations which would lead us to expect such a relationship to hold even approximately, but the exercise may be an antidote to excessive pessimism about the snail's pace of progress.

A different source of optimism is President Bush's success in obtaining fast-track authority, which commits Congress to voting on a negotiated trade agreement as a single package, rather than picking it apart item by item. Fast-track lapsed in 1994, but was restored

² The estimated relationship between duration d (in months) and number of participants n is $d = -12.81 + 0.82n$, with a squared correlation coefficient of 0.976. In words, on average over the first eight trade rounds, each additional participant was strongly associated with an increase in the round's duration of just under a month. Applying the same approach to the first seven rounds predicts the actual outcome of the Uruguay Round to within a month, and gives a forecast for the duration of the Doha Round which is almost identical to that in Figure 1.

(under the new title of "trade-promotion authority") in the July 2002 Trade Bill, albeit after a very narrow vote (215 to 212) by the US House of Representatives. Given the separation of powers in the US constitution, it would not be credible for the US administration to sign up to an agreement without fast-track, and its granting makes the completion of the Round much more likely. It has even been suggested that the US steel tariffs and farm subsidy hikes were deliberate ploys to reduce opposition to granting fast-track, and so should not be seen as reflecting a protectionist bias in the current administration. Whatever the price paid to obtain it, fast-track enormously strengthens the hand of US trade representative Robert Zoellick in the negotiations, and gives the US a role in the process much greater than its share in world GDP or trade warrants. EU Trade Commissioner Pascal Lamy can only look with envy at the plenipotentiary power which US negotiators enjoy. On trade policy, as on so much else, Europe speaks with more than one many voice.³

3. Barriers to Agricultural Trade

WTO negotiations now encompass a huge range of issues, at least one for every letter of the alphabet. But there is a danger that the negotiations may not get past "A". Disagreements over agricultural subsidies delayed the completion of the Uruguay Round by three years, and have already proved to be a central stumbling block in the Doha Round.

There are good reasons for this: agriculture really is different. Farmers are typically self-employed owner-managers with all their human and physical capital specific to agriculture. Hence, unlike owners and even workers in many other sectors, their incomes are

³ Strictly speaking, this is not true of the ongoing negotiations in Geneva. The EU is a member of the WTO in its own right, and the EU representative speaks on behalf of all EU member countries. However, this is not the same as being able to commit to policy changes without the need to consult EU governments.

more closely tied to the fortunes of their sector, often to those of a particular crop. Add to this the fact that voting systems in many developed countries give disproportionate weight to rural areas, and it is not surprising that agreement on reducing agricultural protection remains elusive.

The deadlocked negotiations in March 2003 pitted the US and the Cairns Group of sixteen food exporters (including Australia and Argentina), on the one hand, against the EU, Japan and South Korea on the other. The US proposal was to reduce tariffs dramatically and across the board, to cut all distorting farm subsidies to a maximum of 5% of the value of production, and to abolish all export subsidies. The EU responded by offering much smaller cuts in both tariffs and subsidies, with cuts in average tariffs rather than uniform proportional cuts. (I return to this issue in the next section.) The huge gaps between the two positions reflect not just that US agriculture is more export-oriented, but also that the pattern of support in the two regions is very different. The EU uses export subsidies more than the US, whereas the US uses export credits as well as food aid to dispose of its surpluses.

Yet the very difference between the two positions suggests that there may be scope for trade-offs, provided there is a political will on both sides for an agreement. As for developing countries, the debates over subsidies may be peripheral from their perspective. Hoekman, Ng and Olarreaga (2002b) suggest that developing countries as a group are hurt more by rich-country agricultural tariffs than by their domestic support, while some middle-income food importers are actually helped by rich-country subsidies.

A final consideration is that the US proposal covers only "distorting" subsidies. In the colourful WTO jargon, this excludes subsidies in the so-called "Green Box" which are unrelated to production levels and so are deemed not to distort trade. However, such subsidies have income effects which affect whether farmers continue to grow a certain crop

or not.⁴ This is a further consequence of the point made earlier that farmers are sector- and often even crop-specific in their physical and human capital. Hence a subsidy which is not directly linked to the level of production may allow them to continue in production and even to export. While the EU is moving in the direction of such subsidies, they are proportionally more important to the US. Developing countries might want to count them in the calculation of total public support to agriculture, and it might even suit the EU if such subsidies were put on the table as part of a comprehensive deal on agricultural support. At the very least, "Green Box" subsidies which accrue to exporters could be deemed trade-distorting.

4. Varieties of Trade Policy

After eight trade rounds, tariffs on non-agricultural imports into developed countries have been greatly reduced. But the devil is in the detail. Remaining tariffs tend to be concentrated on labour-intensive commodities of potential interest to developing-country exporters. Low average tariffs obscure tariff peaks (defined as tariffs greater than 15%) and tariff escalation (whereby tariffs are higher on finished goods than on raw materials). To a great extent these features arise from the precise ways in which tariffs were reduced in previous rounds.⁵ In the Kennedy and Tokyo Rounds, a formula approach was used, typically applying a close-to-proportionate cut to a wide range of tariffs. By contrast, in the Uruguay Round, a commodity-by-commodity approach to tariff cuts was adopted, subject to the requirement of an overall reduction in the average level of tariffs. This approach is not

⁴ This point has been made by Oxfam.

⁵ Because tariffs are non-uniform, tariff averages tend to underestimate the true extent of trade restrictiveness. See Anderson and Neary (2003). For further discussion of tariff reduction formulae, see Francois and Martin (2003) and Chapters 52 and 53 by Tarr and Panagariya respectively in Hoekman, Mattoo and English (2002); for tariff peaks, see Hoekman, Ng and Olarreaga (2002a).

guaranteed to raise the importing country's welfare, nor is it likely to significantly increase market access. According to the basic theorems of trade policy reform, a welfare improvement is only assured if all tariffs are cut proportionally, or if the highest tariffs are cut (a so-called "concertina reform" of tariffs).⁶ Hence it would be very desirable if the Doha Round were to revert to a formula approach. Failing that, some other procedure to eliminate tariff peaks is essential to ensure access to developed country markets for developing countries.

Tariffs are not the only form of trade protection of course. Indeed, the very success of earlier trade rounds in reducing average tariff levels led many developed countries to impose quantitative restrictions on imports instead. These were disallowed for many goods in the Tokyo Round, though they remained important in textiles and clothing trade, under the Multifibre Arrangement. The response was a rash of "Voluntary Export Restraints" (VER's), negotiated quantitative restrictions on exports. Unlike quotas imposed by importers, these ensured that exporters enjoyed some of the rents, and (because they were imposed by the exporting country), they were also consistent with the GATT. Of course, consumers in importing countries, and potential alternative suppliers from third countries, were the losers.

The Uruguay Round attempted to regularise these types of trade restriction. Remaining quantitative restrictions on agricultural imports were converted to tariffs; VER's were outlawed; and the Multifibre Arrangement was replaced by an Agreement on Textiles and Clothing under which quantitative restrictions were to be gradually eliminated over a ten-year period. However, the application of this Agreement was "back-loaded", so that the main concessions are not due until the end of the transition period in 2005. Naturally, fears have

⁶ This holds, with appropriate qualifications, both for unilateral and multilateral reform. See Neary (1998).

been expressed that the promised liberalisation will not materialise.⁷

Just as limiting the use of tariffs led to increased reliance on quantitative restrictions, so prohibiting the latter has spawned a huge increase in the use of safeguard measures, and especially of anti-dumping tariffs.⁸ These are supposed to be imposed only in response to specific injury caused to domestic producers by imports sold below cost. A case can be made that this kind of flexibility to provide temporary protection in response to rapid changes in market conditions is essential to ensure political acceptance of reductions in trade barriers.⁹ But governments are always prone to favour domestic producers who take anti-dumping suits, and temporary protection can too easily become semi-permanent. The US in particular has made extensive use of anti-dumping in recent years, and developing countries want its use restricted. (Though some developing countries have also begun to use anti-dumping measures.) The difficulty of reaching agreement on this issue is that it would require importing countries to commit to restrictions on their freedom of action in response to unanticipated import surges. For the US in particular, such ongoing extra-territorial restrictions on its discretionary power may be too much to accept.

5. Widening the WTO Mandate

As if the infinite varieties of trade policy were not enough, there are pressures on the WTO to expand liberalisation to include various "behind-the-border" policies that indirectly affect trade. Robert Zoellick (2002) has characterised the EU's approach as seeking to widen

⁷ See Chapters 11 and 21 by Laird and Kheir-el-din respectively in Hoekman, Mattoo and English (2002).

⁸ See Chapter 22 by Finger in Hoekman, Mattoo and English (2002).

⁹ See Ethier (2002).

the scope of trade liberalisation, in contrast to the US which wants to deepen it. It is true that the EU has pushed hard for a more "comprehensive" trade round, covering competition policy, as well as environmental and labour standards. However, the US too has been to the fore in defending the extension of "Trade-Related Aspects of Intellectual Property Rights" (TRIPS). This was agreed in the Uruguay Round but its implications for trade in pharmaceuticals subsequently raised concerns about public health.

Developing countries see environmental and labour standards as disguised protectionism, and they may be right, notwithstanding the good intentions which motivate many of their advocates. The question remains whether the WTO is the appropriate forum for addressing these concerns. It would make more sense to leave the responsibility for taking action to other international organisations (though given that the US has repudiated the Kyoto Agreement and has always been suspicious of the ILO, this might not be easy to implement in practice). At the same time, the WTO could agree to exempt non-mandatory eco-labelling or similar practices from trade sanctions.

As for competition policy, openness itself may be the best guarantee against monopolisation. Indeed, measured concentration ratios may rise following trade liberalisation as domestic firms consolidate, even though prices are reduced and consumers gain. A possible role for multilateral competition policy arises in connection with cross-border mergers and acquisitions. But economic theory gives no clear-cut guidelines on international merger policy. A likely gain in aggregate efficiency as high-cost firms are taken over must be traded off against an increase in market concentration.¹⁰ The effects on trade flows and welfare of a domestic competition authority prohibiting a foreign takeover of a home firm are

¹⁰ See Neary (2003) for a formalisation of this argument. And see Chapters 43 and 44 by Holmes and Evenett respectively in Hoekman, Mattoo and English (2002) on aspects of competition policy in a WTO context.

ambiguous *a priori*. The only case where intervention is clearly justified is that of international cartels. But, notwithstanding the EU's enthusiasm for it, it is hard to see the WTO in its present form taking on responsibility for policing such cartels. It would make more sense for competition authorities in developed countries to provide technical assistance to their opposite numbers in developing countries, and for authorities in all countries to pool the information they possess on anti-competitive practices.

The issues that arise in connection with TRIPS are very different. Developing countries balked at implementing the Uruguay Round agreement on TRIPS since it prevents them using low-cost generic drugs to combat infectious diseases. In response to these concerns, the Doha Declaration stressed the need to promote both access to existing medicines and research and development into new medicines. But the hard question is deciding where exactly the trade-off between these two conflicting goals should be made. A separate declaration on TRIPS in Doha set end-2002 as the deadline for agreeing on pharmaceutical patent waivers for developing countries, but this was missed because agreement was blocked by the US.

There are two separate problems here. First is the question of which drugs should be exempt from the TRIPS agreement. The US fears that a waiver clause could be interpreted to include not just drugs to combat infectious diseases but also "lifestyle" drugs such as Viagra or slimming drugs. This seems to be a problem for the lawyers: how to word the exemption so it benefits only drugs targeted at specific infectious diseases. Second is how agreed exemptions would be implemented, since they would effectively impose a global regime of two-tier pricing. The economic objections to this are many. First, even assuming that smuggling could be policed, is the problem of where in the group of middle-income countries to draw the line. Second, any such regime would discriminate against poor patients

in developed countries. Third, by drawing attention to the temporary monopoly rents earned on existing drugs, would the upper tier prices prove politically sustainable? Finally, selective waivers could bias incentives in drug research towards "lifestyle" drugs and away from new therapies for tropical diseases. Nevertheless, despite all these objections, world public opinion is firmly on the side of the developing countries on this issue. It seems unlikely that any trade agreement will be acceptable to developing countries unless it makes concessions to them. Perhaps developed countries could agree to increase their support for research into infectious tropical diseases and designate such support as foreign aid.

6. Thinking the Unthinkable

Is Doha the only show in town? Are there alternatives to extending the multilateral trading system? And what would happen to world trade and the prospects for development if a new agreement proved unattainable? The questions are not just academic. Bill Thomas, Chairman of the US House of Representatives Ways and Means Committee, has raised the possibility of the US leaving the WTO if the EU fails to reform its agriculture policy: Congress is due to vote on the issue in 2005.¹¹ Especially since September 11, U.S. foreign policy has exhibited a newly determined unilateralism, which may yet be applied to trade issues.

A failure to agree on a new trade round would not mean a collapse of world trade. The alternative to multilateralism is not autarky but regionalism. Indeed, many regional agreements are currently under discussion. The US has embarked on a slew of such "mini-coalitions of the willing", though progress on the most ambitious of all (and a particular goal of President Bush), a Free Trade Area of the Americas, appears to be stalled. Not to be

¹¹ *Financial Times*, February 14, 2003.

outdone, the EU is also engaged in negotiating a range of "Economic Partnership Agreements" with selected groups of countries.

Such regional agreements pose a number of problems. Negotiating them in parallel with the multilateral trade talks risks diverting attention and negotiating skills away from the big picture. More serious is that they risk diverting trade itself. An example is the EU's "Everything But Arms" initiative.¹² While it has eliminated tariffs on imports from very poor developing countries, there is concern that it may also have diverted trade from middle-income countries.¹³ Finally, regional agreements are rarely comprehensive, and typically do not cover subsidies and other "behind-the-border" policies that affect trade. Hence they are proving less attractive to poorer countries than the EU and US had hoped.

A different consequence of a breakdown of the trade talks is that the dispute settlement mechanism of the WTO might no longer command legitimacy, or would lapse altogether towards countries which withdrew from the WTO. This quasi-judicial role for the WTO was one of the achievements of the Uruguay Round, but its operation in practice is still being tested. It remains to be seen, for example, how the US will respond to the recent WTO ruling that the 2002 steel tariffs are illegal.¹⁴ If the trade talks stall all countries would be tempted to ignore such rulings. Other bilateral disputes which are currently on hold (such as the EU's ban on imports of genetically modified food, and the EU's claim that US tax treatment of the foreign subsidiaries of US firms amounts to an export subsidy) could revive. At the very least, progress towards a rule-based system of international trade would be

¹² This is consistent with the GATT since, though it is discriminatory and is not part of a regional agreement, it is a concession to least-developed countries.

¹³ See Hoekman, Ng and Olarreaga (2002a) and Chapter 12 by Olarreaga and Ng in Hoekman, Mattoo and English (2002).

¹⁴ *The Economist*, March 29, 2003.

delayed.

The most serious consequence of a failure to conclude a new trade round would be to risk permanently depriving poor countries of the benefits of openness. We need to be careful not to claim too much for openness. Some of the more optimistic claims for the effects of openness on growth have rightly been criticised.¹⁵ Nevertheless, on average and over relatively long periods of time, the correlation between openness and improved economic performance is too strong to be dismissed. For example, a World Bank study has shown that developing countries which increased their ratio of trade to GDP over the last twenty years enjoyed relatively fast growth and reductions in poverty; whereas those (including much of Africa) with falling trade-to-GDP ratios had negative growth and increased poverty during the 1990s. The difficulty for countries trying to use trade liberalisation as a route to breaking out of this vicious circle is to face down mercantilist objections both at home and abroad. Mercantilism – the fallacy that exports are desirable in themselves and imports not – is alive and well and probably always will be. The great achievement of the GATT and the WTO has been, by imposing reciprocity, to enlist mercantilist instincts on the side of multilateral liberalisation. The mercantilist rallying cry "Let's increase our exports" became the multilateralist slogan "Let's increase everyone's exports", so generating pressure to reduce import barriers. In principle, nations do not need a multilateral framework to justify trade liberalisation: unilateral liberalisation is almost always welfare-improving. In Samuelson's words: if other countries silt up their harbours, why should we do the same? But multilateral liberalisation is much more likely to command political support. It serves as a commitment device for domestic governments, enabling them to resist pressures for protection from

¹⁵ See Rodriguez and Rodrik (2001).

domestic lobbies.¹⁶ By removing this commitment device, a breakdown of the Doha Round would risk imposing anarchy in international markets and would hold back the integration of developing countries into the world economy. It would be a tragedy for Europe, a disaster for the developing world.

7. Conclusion

In this paper I have taken it as given that progress towards an open rule-based system of international trade is desirable, and have not tried to address the diverse concerns of anti-globalization activists. I have also been unavoidably selective in the topics I have discussed. Even with this limited scope, it is clear that there are daunting obstacles to be overcome if the Doha Round is to reach a successful conclusion.

Yet there may be guarded grounds for optimism. The deadline of January 2005 seems unlikely to be met. Too little progress has been made towards the intermediate deadlines set in Doha. And, nervous of suffering his father's fate – relative success abroad but perceived failure at home – President George W. Bush's energies are likely to be taken up with domestic issues until November 2004. But a new or reelected President could have time and energy to pursue a diplomatic triumph, before fast-track authority lapses in 2007.

As for the form which a deal might take, there is little basis for making predictions. However, as I have noted already, the very distance between the different sides, especially the EU and US, on so many issues, suggests that there is scope for making trade-offs. This is even true of agricultural subsidies, where the concerns of EU members who are net contributors to the CAP, coupled with the desire to agree reforms before the land-abundant accession countries join, may yet force some movement towards the position of the US and

¹⁶ See Maggi and Rodriguez-Clare (1997).

the Cairns Group. A more likely sticking point is US reluctance to commit to restraints on its discretionary action, which will be required if it is to accept a quasi-judicial role for the WTO and constraints on its use of anti-dumping policy.

What can Europe do? In an ideal world, European governments would offer generous proportional cuts in all tariffs; seek some compromise on agricultural tariffs and subsidies, while calling the US bluff on Green Box subsidies; continue to push for labour and environmental standards and for an extension of competition policy, but not as explicit components of a trade deal; and, finally, grant fast-track authority to Pascal Lamy in the hope of deflecting the wrath of their domestic lobbies. In the real world we live in, none of this seems likely. But faced with an increasingly unilateralist US and a justifiably indignant Third World, European governments need to decide how badly they want to complete a new trade agreement. Assuming they want to avoid the doomsday scenario of a breakdown in the negotiations, then they should start preparing their constituents for compromise, especially on agricultural support, if an agreement is to be reached.

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Table 1: Trade Rounds under the GATT and WTO

Round	Duration	# Months	Principal Concerns	# Participants
Geneva	Apr 1947 - Oct 1948	7	Tariffs	23
Annecy	Apr 1949 - Aug 1949	5	Tariffs	13
Torquay	Sep 1950 - Apr 1951	8	Tariffs	38
Geneva II	Jan 1956 - May 1956	5	Tariffs, admission of Japan	26
Dillon	Sep 1960 - July 1962	11	Tariffs	26
Kennedy	May 1964 - June 1967	37	Tariffs, anti-dumping	62
Tokyo	Sep 1973 - Nov 1979	74	Tariffs, NTB's, framework agreements	102
Uruguay	Sep 1986 - Dec 1993	87	Tariffs, NTB's, rules, services, dispute settlement, textiles, agriculture, creation of the WTO, etc.	123
Doha	Nov 2001 - Jan 2005 ?	38 ?	See text <i>passim</i>	141*

* 141 at the start; currently (April 2003) 146, with a further 26 in accession negotiations.

Source: www.wto.org

Figure 1: Duration of GATT and WTO Rounds

