

Doha Round – Squaring the Triangles

Even more than its predecessor, the Uruguay Round, the Doha Round of multilateral trade negotiations “excels” as a round of missed deadlines. The latest deadline elapsed on 30 April 2006, with no “modalities” established for the negotiations on liberalisation in agriculture and manufacturing, contrary to the commitment made by the WTO member countries in the Ministerial Declaration issued at the conclusion of the WTO’s sixth Ministerial Conference in December 2005 in Hong Kong. Meanwhile, with summer drawing closer, a new “breakthrough” in the Doha Round is due, following similar seasonal rituals in 2004, with the “July 2004 Package” or Framework Agreement that revived the Doha Round at that time, and in 2005, when a “first approximation” to a meaningful outcome of the negotiations was intended (and not achieved). This time around the situation is different, though. If no agreement involving the submission of draft schedules of the final results is reached by July/August 2006, this might even spell the death knell for the Doha Round. It seems at least that under these circumstances the Doha Round will hardly finish in 2006, as envisaged in Hong Kong, or in early 2007, as currently planned. Rather, due to the expiry of the US administration’s authority to negotiate trade agreements on a “fast track” and also due to presidential elections in France in mid-2007, the Doha Round looks set to enter into a longer period of drift. A new window of opportunity for completing the negotiations might then indeed not open until 2009, i.e. after the next presidential elections in the United States. Seen against this background, the multilateral trade talks now truly appear to have reached a crucial stage.

For a “July 2006 Package” to be tied up, Pascal Lamy, the WTO’s Director-General, has set an end-of-June deadline for the core negotiating themes. By this date, detailed guidelines or “modalities” for reducing tariffs and subsidies on agricultural goods and for improved non-agricultural market access (NAMA) would have to be agreed. This would leave time in July for other important negotiations to advance in substance, ranging from services liberalisation to rule-making in areas as diverse as anti-dumping, regional trade agreements, the relationship between WTO rules and trade provisions in multilateral environmental agreements, or special and differential treatment for developing countries. Progress in these fields has been held up by the repeated failures of WTO member countries to agree on the agriculture and NAMA modalities.

Apparently unimpressed by the Doha Round’s roller-coaster proceedings, international trade has been booming. In 2005, the volume of world merchandise exports grew by 6 per cent. This is less than the exceptional 9 per cent expansion recorded in 2004, but it is nearly twice the rate at which the world’s GDP rose in 2005. For 2006, the volume of goods trade is predicted to grow even faster at 7 per cent, compared to 3.5 per cent GDP growth. Similar trends hold for services trade and foreign direct investment activities. One might therefore reasonably ask to what extent success or failure in the Doha Round, and the level of its ambitions, really matters to international trade and investment.

In actual fact, the “costs of non-Doha” would be sizable. First of all, major commercial opportunities, and thus potential gains, would be foregone. This would hurt developed and developing WTO member countries alike, with developing economies losing most from persisting high-tariff regimes in agriculture, and export-oriented industrial nations like Germany primarily suffering from continued blockages to market access in manufacturing industries and in the services sector. Secondly, the WTO would in future proceed by litigation rather than legislation, as critics have put it. Dispute settlement would, accordingly, displace rule-making. Overall, dispute settlement has been a “success story” of the WTO; it was even called the WTO’s “crown jewel”. However, stripped of its feedback from the multilateral rules negotiating agenda, the WTO’s dispute settlement mechanism would risk becoming pointless and overly contentious. Thirdly, with a weakened WTO, unilateral

protectionism would politically gain ground, as it would become more difficult for governments to resist protectionist pressures from vested interests at home. Finally, with the multilateral system stalled, bilateralism, plurilateralism and regionalism would likely take over. Preferential trade agreements (PTAs) of all kinds among WTO member countries would fill the gap and proliferate even more than in recent years. As a complement to multilateralism, PTAs may on balance prove to be economically beneficial, but as an alternative to the multilateral trading system they would cause more harm than good, mainly resulting from the multiplicity of trading regimes created through PTAs and the related increase in transaction costs in international trade.

The negotiations in the Doha Round started out as a broad-based market-opening and rule-making exercise, but over time they essentially narrowed down to a market-access agenda with an “annex” on clarification and improvement of certain rules, procedures and disciplines existing in the trading system. In this respect, the rejection by developing countries of the “Singapore issues” (competition, foreign direct investment, transparency in government procurement and trade facilitation) at the fifth WTO Ministerial Conference in September 2003 in Cancún, and their consequent removal (with the exception of trade facilitation) from the multilateral agenda in the “July 2004 Package”, was the turning-point. It was a clear vote against any further extension of the WTO’s regulatory power. It also demonstrated the growing influence of developing countries in multilateral trade negotiations. This was institutionally underpinned in Cancún by the spontaneous formation of the G20 (with Brazil, China, India and South Africa as its most prominent representatives), which plays a decisive role in seeking to secure the trade interests of developing countries, especially in agriculture.

The present state of the Doha Round negotiations can be compared to a double triangle with three main issues – domestic agricultural subsidies, agricultural import tariffs and industrial import tariffs – and three major players, i.e. the European Union, the United States of America and the G20. The EU and the G20 want the USA to cut domestic farm subsidies; the USA and the G20 want the EU to slash import tariffs on agricultural goods; and the EU and the USA want the G20, and in particular its leading member countries, to lower tariffs on industrial goods. The shifting coalitions associated with this constellation have been likened to a multidimensional version of one of those logic puzzles which involve getting a fox, a hen and a bag of corn from one side of the river to the other without the fox eating the hen or the hen eating the corn.

On agriculture, it was decided in Hong Kong that 2013 is the end date for the elimination of export subsidies. However, the core modalities, i.e. the formulas for cutting tariffs and subsidies in the two other agricultural “pillars” – import market access and domestic support – are still unresolved. On industrial products, there is a broad understanding on a “harmonising” formula to cut import tariffs, with bigger cuts for higher tariffs. However, as in agriculture, the core modalities remain to be negotiated, such as the number of coefficients in the formula, the definition of maximum tariff rates, the meaning of “less than full reciprocity” for developing countries or the treatment of preference erosion.

The key for breaking the deadlock in the negotiations is a strong political will on the part of the participating national governments. Such a political will could be harnessed through a bold initiative by the Director-General of the WTO, who could present a consensus paper which would contain – and solve – all the important trade-offs among the issues on the negotiating table. Such was the case with the Final Draft or Dunkel Paper under the GATT in the early 1990s that paved the way to a successful conclusion of the Uruguay Round. A similar move this time around might also evoke an affirmative response by governments in the WTO, or force Pascal Lamy to resign.

*Georg Koopmann
Senior Economist, HWWA Department “World Economy”*