Why Prospects for Trade Talks Are Not Bright

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NOTWITHSTANDING some recent fresh impetus, the Doha Round has been hobbled by a frustrating "now-it's-on-now-it's-off" quality. If only it could be brought to conclusion, the world would be so much better off, especially if one is to believe the estimates of the gains from trade liberalization that the Round would deliver—running as high as $500 billion. But a meaningful conclusion to the Doha Round will not be easy to achieve. Aggressive interests in trade liberalization are fewer now than in the past and industrial countries' defensiveness is greater.

Substantial opportunities for liberalization undoubtedly exist in both industrial and developing countries. Moreover, the World Trade Organization (WTO) system and associated trade negotiation rounds provide an institutional framework for making these opportunities feasible. This framework relies on reciprocal market opening: the domestic political pain of liberalizing imports is countervailed by the domestic political benefits of providing greater market opportunities for exporting interests. But right now, this framework is in trouble.

Market opening bargains between industrial and developing countries are increasingly difficult to strike. First, exporting interests in industrial countries have declining enthusiasm for the multilateral trade system as a way to achieve access to desired markets. Second, industrial countries are finding it difficult to overcome defensive interests within their own borders to deliver greater access to developing countries. Ironically, this disengagement coincides with an apparent effort by (at least) the larger developing countries to negotiate seriously.

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Private sector disinterest

Historically, multilateral trade liberalization has been driven by corporate interests, notably in the United States and Europe, seeking access to foreign markets. Early rounds of trade liberalization under the WTO's predecessor, the General Agreement on Tariffs and Trade (GATT), were driven by U.S. private sector interests threatened by trade diversion consequences of the then–European Economic Community's formation and subsequent enlargement. Looking to boost sales and profitability during the difficult economic times of the 1980s, U.S. and European services sectors—especially those with intellectual property interests at stake—provided much of the impetus for the Uruguay Round (1986–94).

The WTO would seem to be the best vehicle for advancing the current interests of the industrial countries' private sectors that are seeking the opening of markets in developing countries for manufactured goods, particularly the larger developing countries where barriers remain high. But the Doha Round, launched in 2001 to address developing countries' discontent with globalization and the multilateral trading system, has always been plagued by a private sector interest deficit. Attempts to make the Doha Round a "development" round have obscured the fundamental problem of the relative absence of the industrial countries' corporate sectors from the negotiations. This absence results from an interesting combination of trade liberalization success unilaterally and defensiveness at the multilateral level.

Many developing countries, having adopted the policy prescriptions of the "Washington Consensus," have been unilaterally dismantling their trade barriers, typically at the urging of the World Bank and the IMF. Since the early 1980s, quantitative restrictions have been eliminated and tariff barriers have been lowered considerably. With this happening outside the WTO framework, industrial countries do not have to negotiate within the WTO to secure access to new markets that their firms are obtaining without cost. The WTO process is thus a "victim" of the success of the World Bank and IMF.

Just as countries continue to lower trade and investment barriers unilaterally, they increasingly do so in the context of regional trade agreements. Weakly constrained by WTO law, regional integration may, however, be lessening scope for—and private sector interest in—pursuing bargains at the multilateral level. The systemic effects of regional agreements for multilateral bargaining may in fact be perverse: countries in a regional arrangement may actually want less broad-based liberalization in the WTO because their preferential access to each other's main export markets would likely be eroded. For example, some recent simulations show Mexico as a loser from a successful Doha Round.

Services is an area where opportunities for enhancing national and global welfare have only begun to be tapped. Despite significant unilateral liberalization, most countries have so far been wary of engaging in multilateral talks. One reason is because it is difficult to make the deep legislative and regulatory changes needed to open services markets in the context of international trade negotiations. More importantly, scope for reciprocity within service sectors has been drastically curtailed by industrial countries' unwillingness to consider greater openness where developing countries have a comparative advantage—notably, in the supply of services through the movement of persons.

The generally weak and unfinished framework of rules governing trade in services provides evidence of the overall poor results—as well as the minimal level of liberalization commitments undertaken by countries. The wedge between the reality of present-day regulatory regimes and the level of bound commitments often remains large. As a result, the private sector has concluded that the multilateral system is ineffective—and decidedly slow—in delivering real opening of services markets worldwide.

This perception is strengthened by the increasing disconnect between the accelerating product cycle firms face in global markets and the lengthening negotiating cycle with which governments must contend. The blistering pace of technological progress has had profound implications for key sectors such as telecommunications, transport, and finance. But if the multilateral response remains slow and ponderous, private sector enthusiasm will wane further. Nongovernmental routes to securing market access and standard setting—as well as the call of regional intergovernmental sirens—will prove more attractive.

Even in the area of intellectual property, Northern corporate interests are not looking to the Doha Round. Many of their goals were accomplished in the Uruguay Round. They have been pursuing their remaining interests in raising standards of intellectual property protection through the regional route—an effort that has achieved some success. For example, under regional agreements negotiated by the United States with Jordan, Morocco, and Vietnam, these countries have had to go beyond the WTO's Trade-Related Aspects of Intellectual Property Rights (TRIPS) agreement in providing protection for pharmaceuticals and testing data used in obtaining regulatory approval for pharmaceuticals. Overall, this has increased the monopoly power of the patent holder and limits the ability of generic producers to compete.

Growing Northern defensiveness

Since the Uruguay Round, it has become increasingly clear that striking any bargain in the multilateral arena would require meeting the demands of the larger developing countries for market opening in the North. With the emergence of large developing countries as important global traders, the WTO system must increasingly accommodate their market access priorities. What are these priorities and can the North deliver?

Given the South's comparative advantage, it seeks market access in four areas: agriculture, textiles, labor mobility, and cross-border supply of services. The political problems of opening vary across these areas. In agriculture and textiles—two of the traditionally most protected sectors in the United States, European Union (EU), Japan, and Canada—the political difficulties are well known. Farming interests in France and the clothing industry in the United States have been formidably effective over the years in resisting liberalization. But for different reasons, they are experiencing (or will soon experience) a bout of wrenching disruption.

Enlargement of the EU's boundaries to include new countries in Eastern Europe and beyond—and the consequent budgetary pressures—make it necessary to reduce subsidies. The dismantling of clothing quotas in the United States under the Uruguay Round is now going to expose domestic firms to greater competition. Both developments are, in a sense, predetermined. The EU may wish to present its subsidy cuts as a potential concession and seek concessions in return from its trading partners. In a world where budgetary difficulties are common knowledge and trade negotiators are far from naive, however, real return "payment" will come only if the EU goes further in its reform than it is obliged to. At a time of such change, the appetite for further liberalization in agriculture in the EU and textiles in the United States, as developing countries are seeking, is not likely to be great. How much can industrial countries commit to in the Doha Round?

In negotiations on services, labor mobility has always been a difficult issue, but now even the openness of cross-border trade in services seems uncertain. Developing countries such as Egypt, India, the Philippines, and Sri Lanka have a profound stake in ensuring the mobility of skilled personnel—and most developing countries in ensuring the mobility of the unskilled. Notwithstanding the large mutual gains that would be derived from allowing greater labor mobility, immigration policy has yielded only grudging concessions so far. And with traditional political difficulties compounded by a new fear of terrorism, greater openness seems elusive.

Industrial countries account for over three-fourths of all cross-border trade in services. But Brazil, Costa Rica, India, and Israel are among the 20 developing countries whose exports of business services have grown by more than 15 percent annually in the last decade. This growth and the outsourcing of service jobs have provoked deep concerns in many industrial countries—obscuring their own comparative advantage in services. A fuller reckoning of the forgone benefits by the United States and other countries might still occur in the future, leading to a more enlightened strategy. But for the moment, industrial countries, far from seeking greater openness abroad, seem reluctant to lock in current openness of cross-border trade.

In contrast, developing countries are showing a new willingness to engage. Some of the larger developing countries seem increasingly willing to contemplate serious liberalization of hitherto protected manufacturing and services subsectors in the context of the WTO, provided their industrial country partners are willing to reciprocate. For example, Latin American countries are willing to open their financial and telecommunications sectors further in return for meaningful concessions by the United States and the EU on agriculture. Similarly, if labor mobility were seriously on the agenda, countries such as India and the Philippines could well display an openness to reducing trade barriers.

Are we being woolly-headed about this? Developing countries such as Brazil and India have been notorious procrastinators in the multilateral system. And these countries may continue to find it difficult to acquiesce to multilateral liberalization of services, which poses challenges of sequencing regulatory changes and other domestic reforms. But what is different today—and this leads us to feel more optimistic—is both a conviction in these countries about the need for their own reforms and a recognition that these domestic reforms will be easier politically if they can be coupled with market opening abroad. These developing countries are not only interested in greater access for their agriculture and labor-based services exports for its own sake but, crucially, also as a means of furthering domestic reforms.

Hazarding a prediction

If our analysis here is correct, the prospects for a meaningful Doha Round may not be too bright. We fear a scenario in which a limited set of concessions is agreed to, based largely on what has already been done—subsidy reduction in agriculture in the EU and locking in ("binding") the already undertaken services reform in developing countries—and this package is trumpeted as a successful Doha Round.

Are we being overly cynical? Ten years ago, a "successful" Uruguay Round was concluded, leading to estimates of large global welfare gains. But liberalization assumptions built into the models were disconnected from what the Round actually achieved. The models assumed substantial liberalization in agriculture and manufacturing by developed and developing countries. For many developing countries, however, "liberalization" attributed to the Round was notional, even illusory. Very little incremental liberalization took place: in both agriculture and manufacturing, developing countries agreed to bind tariffs at levels that often were higher than prevailing levels.

For industrial countries, meaningful liberalization took the form of quota dismantling, but apart from that very little was achieved. In agriculture, countries set tariffs at very high levels to offset the elimination of quotas ("dirty tariffication"). Cuts in tariffs were rendered notional by an arcane process of choosing a base year well before unilateral reductions had been made. Furthermore, the model estimates conveniently ignored the impact of the intellectual property agreement, which would have reduced welfare gains, especially for developing countries.

We are not saying that there was no liberalization during the 1990s. Nor are we claiming that there is no value in locking in reforms that have already occurred. What we are saying is that the benefits of the Round were exaggerated and its costs were underplayed. Cutting through all the hype, the Uruguay Round was all about industrial countries eliminating clothing quotas in return for which developing countries increased their intellectual property protection. The rest did not amount to much. While framework agreements in services and tariffication in agriculture set the stage for future liberalization, much greater claims were made on their behalf. Yesterday's future has arrived and we will have to see how much these framework agreements deliver in terms of actual liberalization.

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We highlight these concerns to warn that there will be overwhelming pressure to again create the illusion of a successful negotiation with a delusory development dimension. A meaningful development round faces forbidding challenges. In the industrial countries these include cutting textile tariffs at a time when industry is coming to terms with eliminating quotas; cutting agricultural tariffs when farmers are struggling to accept cuts in production subsidies; securing greater labor mobility when terrorism has cast its shadow over immigration policy; and preserving openness of cross-border trade in services when the boom in outsourcing is creating deep anxieties about job security. In developing countries, the challenge is to use the WTO to undertake meaningful liberalization of goods and services in a way that these countries have not yet done.

Now is the time to muster the political will to overcome these challenges. If we cannot, then when the dust settles on the Doha Round, let us be honest in how we assess it—using a clear benchmark of how much additional liberalization it truly caused. ■

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