

Success Requires a 'Grand Vision'

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South African gold miner.

WHILE MANY trade policy specialists are disillusioned about the Doha Round, a solid majority of the public in many countries strongly supports freer trade. The 2003 Pew and the 2004 German Marshall Fund polls show that more than 80 percent of those polled make a sharp distinction between freer trade, which they see positively, and globalization, which they sometimes fear. After 10 years of highly publicized anti-globalization movements, these results are amazing, especially considering that they show no difference between countries exhibiting a free trade stance and those famous for their vocal protectionism.

Why are trade specialists so frustrated and out of step with the public? No doubt a major factor is fatigue. They are acutely aware of how long it takes just to make demonstrable progress. They are also deeply frustrated by the gap between what is actually done and what could be done, given the costly nature of current trade policies. But, ultimately, disillusion is the best ally of vested protectionist interests.

Basic, but often forgotten

Disillusionment takes the form of five frequently heard remarks. First, *trade policy is marginal, and the World Trade Organization (WTO) is irrelevant or too constraining—domestic policies are what really matter*. But the fact that trade policy is largely concerned with fiscal and regulatory issues raises serious doubts about the robustness of the line between trade and domestic policies. As for the WTO, one of its roles—probably the most important one—is to catalyze complementary domestic reforms. By destabilizing domestic vested interests, the multilateral trade regime is certainly an integral part of domestic policies.

Second, *the WTO is medieval*. But how many other institutions have adjusted so quickly to such a totally new world? In the early 1980s—only 20 years ago—freer trade was a serious objective for only the major industrialized countries plus a handful of Asian and Latin American emerging economies, and the General Agreement on Tariffs and Trade (GATT) talks were driven by the United States and the European Community. In the early 1990s, the Uruguay Round negotiations involved 10–15 more emerging countries, with the talks guided by the “Quad” (the United States, the European Union [EU], Canada, and Japan). Currently, at least 20 more developing countries are active participants, trade for development is a real WTO concern, and the Group of Five (the United States, the EU, Brazil, India, and Australia) has emerged as a legitimate vanguard of the Doha Round.

Third, *trade rounds are too long and subject to severe “manic-depressive” ups and downs*. But with the Doha Round expected to finish in 2007, its eight years would still be well below the Uruguay Round’s 12 years (the first attempt to launch what became the Uruguay Round was in 1982 and was a complete failure). Of course, the roller coaster from Seattle to Doha to Cancún to Geneva is reminiscent of the Uruguay Round. But are protracted, bumpy rounds avoidable? No, if we take seriously the principle of WTO members’ sovereignty. Trade negotiating is like bluffing in a card game. A game with 148 players (although only about 50 are effective players) who have imperfect information on their partners’ cards—and often on their own cards—can move forward only like a roller coaster. Wishing for a rapid, neat round raises the question: how long do “obvious” reforms in developed and developing countries generally take? Very often longer than a trade round. Just look at Europe.

Fourth, *business support is lacking*. But business support for trade negotiations should be expected to be asymmetrical: episodic when the WTO is in the “business as usual” mode, strong if things are seriously going wrong. Businesspeople cannot invest a lot of time in supporting new market access—that is the politicians’ job—when they are caught up in the daily grind of making a living in markets that are already open. But if the existing level of openness were to be at risk because of a severe failure of trade negotiations, one could reasonably expect the business world to energetically defend the multilateral trade regime and its markets. Indeed, increasingly vocal European industrialists and service providers offer a good illustration of this asymmetry. They see European inertia in agriculture as a potential threat to their access to the rapidly growing developing countries’ markets, and they make increasingly clear that they do not want to be “hostages” of the European farmers.

Fifth, *bilateral trade agreements are weakening multilateralism*. But the risk of this occurring is being oversold. Some of these agreements have already shown their dreadful capacity to favor the powerful signatory—making the WTO agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) look good compared with certain intellectual property rights provisions in bilateral agreements. Many are so lacking in real content that they could not possibly threaten the WTO trade regime. And all of them are triggering greater hostility among businesses that feel protected by some agreements, but excluded by many others—prompting them to ultimately prefer the multilateral approach.

A realistic Doha Round outcome

What can we realistically expect from Doha? The Round will not result in a “big bargain.” None of its predecessors did. It took eight GATT Rounds and 50 years to liberalize the manufacturing sector of developed countries—about 25–35 percent of their GDP. That said, there is still plenty to be done in agriculture and manufacturing. Rich and emerging economies should liberalize agriculture and the few remaining protected industrial sectors that are crucial for developing countries. And developing countries should focus on reducing and binding their tariffs, particularly in manufacturing. All that may sound modest. But is it? For many developing countries, it would cover a quarter of their GDP—even more for most of the least developed countries—and that would be roughly what was achieved in the eight GATT Rounds. Moreover, if the Doha Round triggers complementary domestic reforms, welfare gains will be enormous.

How about services? It seems hard to believe that this will be a major ingredient of the Doha Round. The main reason is that it is very difficult to really liberalize services in a negotiating context based on reciprocal concessions—as amply shown by the EU which, despite 15 years of intense efforts, has made very limited progress in opening up domestic markets in services on this basis.

However, negotiations on trade facilitation could help. Currently, these talks focus narrowly on customs issues related to trade in goods. They should be extended to a wide

cluster of trade-related services: logistics, transport services (including infrastructure), and associated telecom services. Lowering the operating costs of all these services would be equivalent to reducing trade barriers, creating similar opportunities based on the following quid-pro-quo: developing countries would lower their own trading costs (partly with the help of international aid, for instance in the context of the Millennium Development Goals) while service providers from developed countries would gain access to new service markets in developing countries.

Realism requires a ‘Grand Vision’

If the global community hopes to avoid unduly slow progress in the Doha Round, then inertia, and finally regression, it needs a “Grand Vision”—one that takes a long-term view and enables emerging market economies to take a leadership role. To begin with, announcing the anticipated results of a series of rounds in such a Grand Vision would help avoid the disastrous tendency to oversell the outcome of an individual round. Over the past decade, it has been too easy for vested protectionist interests to quote the countless official speeches that oversold the Uruguay Round outcome in agriculture. European farmers have been persuaded that all of their difficulties since the mid-1990s were caused by the Uruguay Agreement—despite the fact that the aggregate level of European farm protection has barely moved since the late 1980s (reflecting the limited effective farm liberalization under the Uruguay Round).

Certainly, a Grand Vision would require a lot from the emerging trading powers—such as Brazil, China, India, and South Africa—which should complete an enormous overhaul of their trade policies in the years to come, swinging from vehement opposition to the multilateral trade regime in the 1980s to clear leadership in the 2000s. They should convince other developing countries that most of the gains that developing countries will get from freer trade will come from their own liberalization. Emerging trading powers are the only ones capable of doing this and being trusted, which is why they are so crucial for the long-term credibility of the multilateral trade regime.

The United States and the EU should facilitate such an overhaul. They should eliminate their own protectionist (often outrageous) clusters. They should help on the special and differentiated treatment issue, especially but not exclusively vis-à-vis the poorest countries. And they could quickly give the emerging trading powers the role these countries deserve. In particular, they could open up the Group of Eight summits to a dozen emerging countries—creating a “Group of Eight plus” (at the heads of state level) in trade matters. Such a group is the only conceivable forum capable of defining a legitimate Grand Vision for the world. ■

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