

The WTO's Biggest Problem at 10: Surviving the Doha Round¹

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I am very pleased to be part of this excellent conference on the WTO at its 10th anniversary. I must confess that I was a bit taken aback last week when I received an updated draft of the program and realized that, from the original invitation I received last July, my role had grown into being the sole keynote speaker at this lunch with the privilege of being introduced by Professor Charles Calomiris and with comments by Rufus Yerxa.

Of course, let me admit that my role's enhancement has nothing to do with a reevaluation of my intellectual credentials over the last few months, but it was due exclusively to the unfortunate circumstance that Pascal Lamy and Bob Rubin, to whom I would have played second fiddle at this session, could not make it in the end.

Needles to say, the unexpected promotion left me with the little problem of choosing a topic of some relevance to the conference's main thrust. An idea clicked without much difficulty after re-reading the draft program I had in my hands. I saw that none of the session titles in the program contained the four letter word "Doha." I knew that there were good reasons for the omission –this being a specialized conference on the Dispute Settlement Understanding (DSU) - and also that other participants would inevitably make reference to the Round's vicissitudes, but I had to grab my chance and when the organizers asked me about the title of my so-called keynote speech, I told them I would speak about the WTO's biggest problem at 10 -- surviving the Doha Round.

Please believe me, my suggestion was not a frivolous attempt to bring attention to this session with a catchy title. Rather, it stems from a deep concern about the state of the Doha Round and its consequences for the future of the multilateral trading system. So, without any aspiration for originality - for I know my worry is shared by many others -- I want to use this opportunity to expound on the reasons for my concern.

You will forgive me if I start my argument by recalling how difficult it was to launch the Round. To be sure, the road from the disastrous Seattle ministerial to the approval of the Doha Declaration was a relentlessly rocky one. The odds on holding a successful ministerial gathering at Doha that could initiate a new Round were very small even as late as the summer of 2001. After all, the two biggest players – the United States and the European Union -- had hesitated until June

¹ Speech delivered at conference "WTO at 10: Governance, Dispute Settlement and Developing Countries," Columbia University, April 7, 2006

when finally they formally and jointly endorsed the idea of a new round. And even after this endorsement, suspense and drama continued to pave the road to Doha.

Recall Mike Moore's gloomy conclusion in his late July, 2001 *reality-check*. At that time, he said "a large number of players are not yet convinced" and "the situation is fragile, and without generosity, good manners and good will, the process could implode and become unmanageable".²

The WTO Director General was right to be worried. Based on the purely mercantilist logic which had driven the previous Rounds, some of the key players seemed to think that they had little reason to support a new round. Some feared that they would end up yielding more "concessions" than the ones they would probably receive from others.

In the case of the US, possibly the reason for not pushing strongly for the new round was that it saw more promise in extracting "concessions" through the expedient of RTAs. Many developing countries were rejecting the idea of a new round on the grounds either that developed countries had failed to deliver on commitments they had made under the previous Uruguay Round or that certain WTO provisions had, in practice, proved to be counterproductive. Then there were those, like the EU, that agreed to the Round but in the end would do the utmost to resist a firm commitment to undertake seriously the indispensable issue of agriculture.

Given the much larger and diverse country composition of the WTO as compared to the GATT's in previous rounds, it should have been evident that the pure logic of mercantilist negotiations could not be the driving force that would launch the new round and make it succeed. While in the past the approach of negotiating reciprocal concessions had usually led to win-win outcomes, this approach could hardly do the job of achieving further trade liberalization given the variation among priorities and interests that there is in the WTO membership.

The challenge of deepening global trade liberalization had become much less of a traditional mercantilist undertaking and more a task of providing a global public good, with all the sovereignty issues and free rider complications that such an endeavor entails. In the absence of an otherwise undesirable global government with the capacity to coerce countries into international agreements, creating the conditions for the adequate provision of global public goods critically depends, not on sheer authority, but on effective leadership.

Certainly leadership stems from power; but the other crucial element is legitimacy grounded in clarity of purpose and the willingness to move toward that purpose without waiting for others to do so -- and sometimes also on the willingness to contribute with incentives that will entice others to follow.

² Moore, Michael, *The Doha Ministerial: culmination of a two-year process*. Doha WTO Ministerial 2001: Briefing Notes. October 2001

http://www.wto.org/english/thewto_e/minist_e/min01_e/brief_e/brief02_e.htm

Sadly it took the 9/11 tragedy to bring into the picture the ingredients demanded by Mike Moore in his mid-summer *reality-check* and, more importantly, to inspire the leadership required to launch the new Round.

The atrocity energized not only the military but also the soft power of the US, although, unfortunately, only briefly. Because of the latter, a vision different from the mercantilist one prevalent until then came into play to push for the new Round. This vision, novel at that point in the Bush government, was best put forward by US Trade Representative Robert Zoellick in a series of articles and speeches which he started to deliver less than ten days after 9/11. They were part of a strategy to convince the US Congress of the need to pass the Trade Promotion Authority (TPA) and the need to launch a new round of trade liberalization. Zoellick kept repeating:

The international market economy – of which trade and the WTO are vital parts - offers an antidote to this violent rejectionism. Trade is about more than economic efficiency; it reflects a system of values: openness, peaceful exchange, opportunity, inclusiveness and integration, mutual gains through interchange, freedom of choice, appreciation of differences, governance through agreed rules, and a hope for betterment for all peoples and lands.³

Curiously, these concepts earned Mr. Zoellick quite a few bitter and unjust attacks. For example, a usually circumspect member of Congress said that Zoellick's claim would be laughable if it weren't serious. Others accused him of melding principle with opportunism and of cynical exploitation of widespread misfortune. An aggressive commentator went so far as to accuse Mr. Zoellick of using tactics reminiscent of those applied by the infamous Senator McCarthy in the 1950s.

That opinionated commentator should have known better. By linking trade with the pursuit of peace and democracy, Zoellick was not using McCarthy's tactics, but rather evoking old ideas, advocated and put to good use before by statesmen like American Presidents Truman, Roosevelt and Wilson.

In fact, Zoellick was relying on concepts which go as far back as Kant's Perpetual Peace published in the late 18th century, and to some extent as far back as the early 17th century when Eméric Crucé first claimed that trade would prevent war.

At any rate, the new sense of urgency gave rise to a strong acceleration of trade diplomacy which in less than two months culminated – not without much wrangling and certainly with the good work of a man who is here today, Stuart Harbinson -- with the adoption of the Doha Ministerial Declaration on November 14, 2001.

The leadership, generosity, good manners and good will that converged at Doha were enough to launch the new Round but not enough to prevent an overloaded agenda which, in the rush to strike a deal at Doha and avoid another Seattle, had to accommodate all kinds of requests from the member countries.

³ Zoellick, Robert B., *The WTO and New Global Trade Negotiations: What's at Stake*, speech delivered at the Council of Foreign Relations, Washington D.C. October 30, 2006.

I myself remember at Doha becoming particularly concerned when the EU's representatives substantially hardened their demand to have non-trade, even environmental, issues included in the agenda precisely when it became clear that they were alone in opposing the commitment to undertake negotiations on agriculture as expressed in paragraph 13 of the Declaration. I also recall that at a post-Doha seminar which I was assigned to lead at the London School of Economics a few days after the ministerial, I wondered whether the inclusion of the non-trade issues could be better characterized as a Trojan Horse, a poison pill, or a time bomb.

All this is just to suggest that the Doha Round encompasses a hazardous paradox: it was launched mainly because geopolitical factors and global public goods considerations - that obviously transcended the purely mercantilist incentives - came into play; however, since the very beginning both the Round's agenda and negotiation dynamics have obeyed the logic of mercantilist liberalization.

The problem with the Doha Round is that, as a global public good endeavor framed in a broader strategy of international cooperation, it had a powerful *raison d'être*. As an enterprise of 149 countries in which each, with no exceptions, acts on a strictly mercantilist logic and holds veto power under a single-undertaking framework, it has a very weak one.

The vision and logic that propelled the Round's launching should have prevailed during the negotiations to make it successful. Unfortunately, that vision and logic seemed to vanish as soon as the lights were turned off in the big conference room where the Doha closing ceremony took place. Once this fact is acknowledged, the story of missed deadlines and lack of substantive agreements that the Round has produced so far should not be surprising at all. That story has almost been, to paraphrase Gabriel García Márquez, a chronicle of a failure foretold.

Some colleagues, including my dear friend and admired professor, Jagdish Bhagwati, have a less pessimistic view of the Doha Round. They remind us that the previous Round took eight years to complete and therefore we should not be surprised that the present one, which entails greater complexity, was doomed to be a long and difficult one. They also take relief from those rare moments in which some marginal progress has been made or at least a major collapse avoided. July 31st, 2004 was one of those rare moments when the Framework was adopted, but you don't have to be a naysayer to accept that it was something of an overstatement when the USTR called it a milestone; India's commerce and trade minister affirmed that the agreement provided significant gains for his country, and Brazil's foreign minister went so far as to proclaim it a combination of trade liberalization and social justice!

After the July 2004 Framework was produced nothing significant occurred in the negotiations for over a year. Only the specter of another failure impelled trade ministers enough to agree a Declaration at the Hong Kong Ministerial last December.

The fact that an outcome like the one at the ill-fated Cancún meeting was avoided made some commentators confident that the Round might have turned the corner at last. This assessment is at best premature, if not outright unwarranted by the scant substance contained in the Hong Kong Declaration.

The end date for agricultural export subsidies (2013) agreed at Hong Kong not only covers a rather minor percentage of the farm support under contention but also is later than the date considered to be a balanced compromise (2010) by serious analysts. For practical purposes there was no compromise on the part of the EU, since 2013 was already the date implicit in the current European agricultural policy for phasing out export subsidies.

Likewise, the elimination of cotton export subsidies by developed countries by 2006 is not a very impressive achievement. The major offender was due to effectuate something similar anyway because of the WTO dispute brought by Brazil against the US which ruled against those subsidies.

The decision to give duty free, quota free market access for 97 per cent of Least Developed Countries' (LDC) exports is much less attractive than it looks. The excluded three per cent of tariff lines would allow developed countries to continue protecting products of great export potential for the poorest countries.

The rest of the Hong Kong ministerial offered little progress beyond the 2004 July Framework. The pending – and most important -- issues of agriculture, manufactures and services experienced no progress whatsoever.

The sole agreement was on a bunch of new 2006 deadlines. For example, according to the schedule, at the close of this month there should be agreement on the modalities for market access on both agricultural and non-agricultural products. Given the Round's perfect track record of missing every single deadline so far (the original deadline for the modalities on agriculture was March 2003!), the prospects for compliance with the deadlines adopted at Hong Kong are not encouraging, to say the least.

Negotiators are claiming that this time around deadlines truly mean something or else the Round might be further victimized by the expiration of the US TPA in mid 2007. Well, the latter is true, but by no means will this circumstance alone make it possible or less difficult to get the indispensable agreements in place. It is hard to see how within the next few months the negotiation dynamics could undergo enough positive change to achieve a good conclusion to the Doha Round. I would suggest that a sensible way to explore whether a good outcome is feasible might be to imagine the sequence of conditions and events that must occur to produce a happy ending and to subject this scenario to a reality-check, à la Mike Moore. Simply for illustrative purposes, let me sketch such a sequence.

Of course, there cannot be a sound Doha result without rich countries applying effective and substantial reductions in agricultural tariffs and subsidies. These countries should also be forthcoming with further cuts in their industrial tariffs including on textiles and clothing.

The biggest opposition to meaningful agricultural liberalization all along has been from the European Union followed closely by the G-10 (Japan, Switzerland,

Korea, Norway, etc). The EU has stuck to its guns on this issue. The trade and agricultural European Commissioners have had their hands tied by the French-German pact on the EU agricultural budget agreed in the fall of 2002 and the 2003 EU Common Agricultural Policy (CAP) reforms. Every time a pertinent Commissioner has tried to deviate from the CAP straightjacket a scolding has been delivered, either directly from Paris or via Brussels, achieving instantaneous results.

The dearth of latitude given to the EU Trade Commissioner was confirmed, once again, by the European response to the US agricultural proposal of early October and by what happened in Hong Kong. *Ceteris paribus*, the EU will continue to resist major cuts in agricultural tariffs and will continue asking for a large number of products to be designated sensitive and therefore exempt from the general rules to reduce protection. Considering the present political situation in France, I do not see how the EU position on agriculture could go through the required and indispensable changes any time soon.

Even if the EU negotiators miraculously were granted a reasonable margin of action on agriculture, this would not be accomplished without getting meaningful concessions from others.

Assume the US Trade Representative can put on the table what it takes to get the deal done – a heroic assumption in light of current American politics - and also that the G10 is brought on board.

After that, it would be the majors in the G20's turn to pay. My guess is that Brazil, and not India, would have to be first at the counter. Is Brazil ready to slash its industrial and agricultural tariffs? Is it ready to make more ambitious offers in services? Is it ready to give some preferences to LDC's? Assuming it did all these things, India would then have to oblige, and this would be no small enterprise considering how slowly the processes of reform tend to proceed in the Indian democracy. At the very least, some additional incentives would be needed to get India to do its part. I suppose that locking into the General Agreement on Trade in Services (GATS) the free entry of electronic delivery of cross-border services and a gesture in mode 4 would be required as a bonus by the Indian officials to move. Are these conditions feasible?

Were all of the above to be solved, plus the rest of the G20 problems as well as the pertinent issues on rules, dispute settlement and Preferential Trade Agreement (PTA) disciplines, still remaining would be the question of how to deal with the LDC's and other developing countries' concerns. Many of these countries have yet to acquire the capacity to export agricultural and industrial products and would have their trade preferences and fiscal revenues eroded if a truly liberalizing Doha outcome were to come about.

In addition to getting a complete duty free, quota free market access system, those countries – which should commit to freer trade for their own sake, although with greater flexibility than that accorded to the others -- would need to be supported to compensate for losses in fiscal revenue incurred as a result of lowering import duties, to build the human and physical infrastructure they need

to benefit from increased market opportunities and to adjust to erosions of existing trade preferences that result from multilateral negotiations.

As argued in the *Trade for Development* Report of the Millennium Project, greatly increased international technical and financial support for reform and adjustment by developing countries is needed to ensure achieving sensible liberalization targets. A temporary "aid for trade" fund commensurate with the size of the task, or significantly ramped-up contributions through existing channels are needed to support poor countries in addressing adjustment costs associated with the implementation of a truly reformist Doha Round. The Hong Kong aid for trade pledge and the appointment of a task force at the WTO to look at the topic of aid for trade, frankly speaking, do not constitute credible steps to address this issue. A solid political will to pay the price of preventing the LDC's from blocking a good deal is yet to be detected among the key players.

In short, my modest reality check is not favorable at all to the possibility that a good package of agreements can be concluded in time to avoid the expiration of the US TPA on June 30th, 2007.

If not by April 30th (when the crucial deadlines on modalities will most likely be missed again), then certainly by mid summer, it will be conspicuously clear that it is not possible to conclude a substantive Doha Round within the time frame implied by the present TPA. And that will be the moment of truth Mr. Lamy has been talking about in recent days.

Obviously, it is not up to the negotiators or the WTO officials to start openly entertaining scenarios of what must be done once that moment of truth arrives with its very bad news.

Governments, however, have a serious responsibility to look ahead and consider how to handle the situation. Of course, nobody should expect that the enlightenment which has been absent for four years will appear at last. It is better to accept that countries will then still be acting on a purely mercantilist logic as, indeed, they have been all along. But even if they remain faithful to this logic, governments should realize that it is in nobody's interest to further undermine the existing multilateral trading system. I cannot think of any WTO member that would win, now or in the foreseeable future, from a weakened WTO. What I am suggesting is that once it is granted that the goal of reforming the system has been missed, the goal of at least preserving it should become the priority for all concerned. I believe that it is under this lens that all options should be examined by every WTO member.

What are the post-moment-of-truth options?

Basically, there are two. The first is to extend formally, either with a fixed term or without it, the time horizon to conclude the Round. The second would consist of adopting a package of light or minimum agreements and proceed to close the Round on time for ratification by members in 2007.

It is not easy to decide which would be the least damaging to the system. I see considerable risks in both.

In reference to the first, I do not see how any progress in the negotiations could be made at all within the next two or three years, particularly in the absence of the US TPA and the intensification of electoral politics in key places like the USA and France.

Meanwhile two bad things will be happening. On the one hand, the WTO will continue to be under the tremendous stress which necessarily stems from running the existing system and the Round talks simultaneously. One activity complicates the other. Furthermore, countries that have an urgent need to liberalize their foreign trade will continue delaying action on that front so that they can keep their negotiating chips for the unclosed Round. Both circumstances conspire in favor of global protectionism.

The second route that of a "Doha lite," is also full of downsides. Nothing guarantees that the pending big issues will be solved when put back into the built-in agenda. Besides, in the absence of a truly overhauled system, increasing protectionist pressures and trade conflicts, which sooner or later will be brought to the WTO, would inevitably tax its institutional resources. The risk of inefficiency by fatigue will be a serious one for the WTO.

In either option, an even worse proliferation of Regional Trade Agreements (RTA) would occur. This would have two consequences. One, the existing multilateral trading system would be weakened by the preferences and trade diversions instilled by the RTA's; and, two, those preferences would make it even harder to reform the system in the future.

In which of the two ways should countries choose to go at the moment of truth?

Despite its obvious shortcomings, I find the second option less odious than the first one. Transparency in conceding failure now rather than later is probably best for the system altogether.

I would be even more inclined to a Doha lite if it might possibly comprise a strengthening of the DSU as well as provisions to force, under certain circumstances, the multilateralization on a Most Favored Nation (MFN) basis of the preferences granted through the RTA's. Both components would leave the system better prepared to withstand and manage the protectionist pressures that will be intensifying in the near future and to undertake anew the task of reform when the geopolitics prove to be more propitious.

In conclusion, dear friends, I believe that very soon the relevant question will be, not how can the WTO save the Doha Round but rather how can the WTO be saved from the Doha Round.

Thank you very much.