Trade Liberalization Despite Doha's Delay

by Robert A. Rogowsky

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The Doha Round of multilateral trade negotiations appears to be, as some have labeled it, on life support. Desperate measures are taken weekly to sustain and possibly resuscitate it. While the round officially began November 2001, negotiations in services and agriculture, as dictated by the preceding Uruguay Round Agreement (URA), started in 2000 and have been grinding on for seven years. After more than half a decade, the talks have nearly collapsed. Despite bleak prospects, there is much to be optimistic about, unless you are a trade minister whose job success is tied to completing a round. Ultimately, the Doha Round is likely to succeed, but not for many years. In the meantime, significant trade liberalization will continue while the negotiators painstakingly labor toward more fundamental reforms on the agenda.

The Doha Round

First, the round will be lengthy. Each of the eight preceding rounds took longer than the one before. The Uruguay Round lasted eight years. If the length of the previous eight General Agreement on Trade and Tariffs negotiations is any measure, the Doha Round will last twelve years. By that calculation, we are only halfway through. Why does it take so long? The low-hanging fruit was picked decades ago. Negotiators are digging into highly sensitive areas that domestic political forces in every country are well-equipped to resist. Intensely sensitive agriculture negotiations have stymied progress of the round. Progress in both industrial tariffs in developing countries and services also has been slow. Negotiators for the former are still trying to settle on the "modalities" or method of the negotiation.

Second, the success of the Uruguay Round Agreement is a problem for the Doha Round. The URA is a broad-reaching agreement that brought under World Trade Organization discipline, indeed created the WTO, matters that for decades had been too politically sensitive to be included.

Early rounds focused on tariffs. The Tokyo Round (1973–79) opened discussions of a few non-tariff measures—like subsidies and antidumping. But the URA opened whole new areas for liberalization. Textiles and agriculture were brought under WTO discipline. The agreement restructured the dispute settlement rules, creating a more forceful adjudicative body. Services were introduced and concluded with the General Agreement on Services, including separate agreements on financial services and telecommunications. New agreements were reached on Trade Related Intellectual Property, Trade Related Investment Measures, Sanitary and Phyto-Sanitary Measures (to prevent them from being used as trade barriers), and Technical Barriers to Trade. The Trade Review Mechanism was created to audit members' progress on a regular basis. Bi-annual ministerial meetings were set up to ensure regular attention at the highest levels.

Third, the URA instituted the principle of "single undertaking" wherein every member agrees to every element of the agreement. A member cannot pick and chose, but must accept the whole agreement and all its parts. Once considered among the most valuable accomplishments of the URA, it now appears to be its Achilles heel.

Single undertaking becomes a problem in part because of the success of the WTO in attracting members. The Kennedy Round (1962–67) involved forty-eight parties and covered $40 billion in trade. The URA involved 120 members and $3.7 trillion in trade. The WTO currently has 151 members, and the current negotiations touch on more than $5 trillion in trade. Fewer than three dozen members are considered developed nations. The developing and less developed countries range from China, India, and Brazil to Indonesia, Paraguay, and Burkina Faso. Common ground is scarce.[1]

In the grim atmosphere of the Doha Round, much is encouraging. Trade negotiations are intensely political events. Powerful political forces are at work to prevent liberalization. If the necessary countervailing pro-trade forces are not active, that it is because the gains from freer trade are already occurring on their own.

National, Bilateral, and Regional Liberalization

Over the past decade, a substantial amount of liberalization occurred outside the multi-lateral negotiations, and this will continue. Bilateral and regional agreements, such as the North American Free Trade Agreement and Mercosur, have opened many markets. Nearly 400 regional agreements have been notified to the WTO. Some are modest initiatives, but many are robust free-trade arrangements. The United States alone has completed ten free-trade agreements covering fifteen countries and has many more in the pipeline, including a Framework for Transatlantic Economic Integration.

An even more powerful type of liberalization is unilateral reform. Many countries are already reducing tariffs well below their maximum level—the "bound" rate that the country negotiated in the URA.[2] For instance, Brazil's average most-favored-nation tariff bound under the URA exceeded 31 percent. But Brazil has lowered tariffs to a trade weighted average of 8.2 percent. India similarly has lowered its URA bound tariffs from nearly 50 to 14.6 percent, South Africa, from nearly 20 to 5.1 percent, and Turkey from nearly 30 to 4.8 percent. The World Bank's *Global Economic Prospects 2005* indicates that two-thirds of tariff cutting was the result of unilateral trade reform, 25 percent is from multilateral negotiations, and the rest is from preferential trade agreements.

Ironically, the greater the difference between the bound rates and the applied rates, the larger the cuts in bound rates that are required to affect actual rates, the ones that matter to exporters. The larger the cuts needed, the harder it is to negotiate, and yet the less valuable it is for exporters to expend scarce political capital lobbying for it (and against protection-oriented groups). Similarly, aggressive competition for foreign direct investment has pushed countries to offer protections and other enticements to encourage investment. This has substantially reduced the incentive for trade-oriented industry to expend political effort to get a more comprehensive Trade Related Investment Measures package.

Many countries are reducing the non-tariff barriers (NTBs) blocking trade. The World Bank reports that developing countries have substantially reduced core NTBs (including quantitative restrictions, price administration, and monopolistic trading channels). In 1989, more than 30 percent of tariff lines in East Asia and Pacific countries had core NTBs, but only 5.5 percent had them in 2004. South Asia fell from 57 to 13 percent, and the Middle East and North Africa from 44 to 8.5 percent. These trends are hard on those that we need support for negotiations, but ironically because progress is being made through other routes.

The pressure to liberalize also is muted when economies are growing rapidly. It has been calculated that the even the highest estimates of economic welfare gain from a successful Doha Round would be equivalent to eighty-two days of growth for Brazil at its average rate of growth from 2000–05.[3] For India, it is twenty-four days of growth, and for China only three days. It becomes clearer why trading partners are reluctant to concede sensitive trade protections when broader economic growth overshadows the potential gains. Happily, it also becomes increasingly clear to growth-oriented nations, as economic theory shows, that there is good reason to liberalize unilaterally.

Dispute Resolution and Liberalization

Finally, regardless of progress made in the Doha negotiations, a remarkable amount of liberalization continues through the dispute settlement mechanism. Since 1994, roughly 360 complaints have been filed. While only about 30 percent of the members of the WTO have been involved, and disproportionately, the United States and the European Union, important barriers to trade, are under growing attack from the juridical process the dispute settlement mechanism offers. Fewer than than a third of the complaints have required more than consultations to resolve. Of those that go to a dispute panel or through appellate body review, about 90 percent identify violations that must be corrected. Virtually without exception, members found in violation express intent to correct the problem, and in many cases have already done so. Retaliation, the remedy for non-compliance, has been requested in fewer than 20 percent of the adjudicated cases. Retaliation has been authorized in only eight cases and was not even used in some of them.[4]

Members have taken to dispute settlement highly sensitive matters that have plagued trade negotiations for decades, including Canadian softwood lumber stumpage fees, the U.S. foreign sales corporation tax, the European Union's hormone-treated beef ban, the European banana distribution restrictions, safeguards, and numerous complaints on anti-dumping and countervailing duty enforcement (including the practice of "zeroing"). In the past two years, seven cases aimed at intellectual property protection, including barriers to entertainment products and refunds, reductions, and exemptions from taxes, have been filed against China. China has filed one against the U.S. Agricultural subsidies—slow in negotiation—are increasingly challenged in the dispute process. Brazil successfully challenged EU sugar subsidies and U.S. cotton subsidies. Canada has challenged U.S. corn subsidies. Brazil recently filed a broad-spectrum “request for consultation” (first step to a formal complaint) with the U.S., identifying violations for multiple agricultural support programs aimed at a long list of plant and animal products.[5]

The Doha negotiation may be in terminal decline. More likely, it is simply bed-ridden until after the U.S. and Indian elections. The negotiation is in this condition at least in part because of the solid institutional foundation left by the URA; the rapid globalization regardless of negotiations; the perception by export-oriented interests that they need to invest less heavily in trade at the expense of other areas of concern; and the growing realization by growth-oriented emerging markets that unilateral reform works. ⚖

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Endnotes:

1 Coalitions, however, are plentiful, including, but not limited to, the G-4, G-8, G-20, G-90, the Group-of-110, the Cairns group, the NAMA-11, the Africa/Caribbean/Pacific Group, the “Cotton 4,” and the Like-Minded group, each with its own agenda.

2 Elborn-Woteck, et al.,” Fiscal Implications of Multilateral Tariff Cuts,” IMF Working Paper, September 2006.

3 Simon Evenett, “Doha’s Near Death Experience at Potsdam: Why Is Reciprocal Tariff Cutting So Hard?”, June, 2007, mimeo.

4 Bruce Wilson, “Compliance by WTO Members with Adverse WTO Dispute Settlement Rulings: The Record to Date,” J. of *International Economic Law*, June 1, 2007.

5 United States—Domestic Support and Export Credit Guarantees for Agricultural Products, WT/DS365/1, 17 July 2007. Including production flexibility contract payments for each of wheat, corn, grain sorghum, barley oats, upland cotton and rice; non-insured crop disaster assistance payments; crop disaster payments, emergency feed and other feed program payments for each of beef, veal, dairy, hogs and pigs, sheep, and lamb; tree assistance programs for apples, apricots, peaches, pears, and all other trees, bushes, and vines; programs exempting farmers from fuel taxes or from taxes based on overall farm income; subsidies related to irrigations works.