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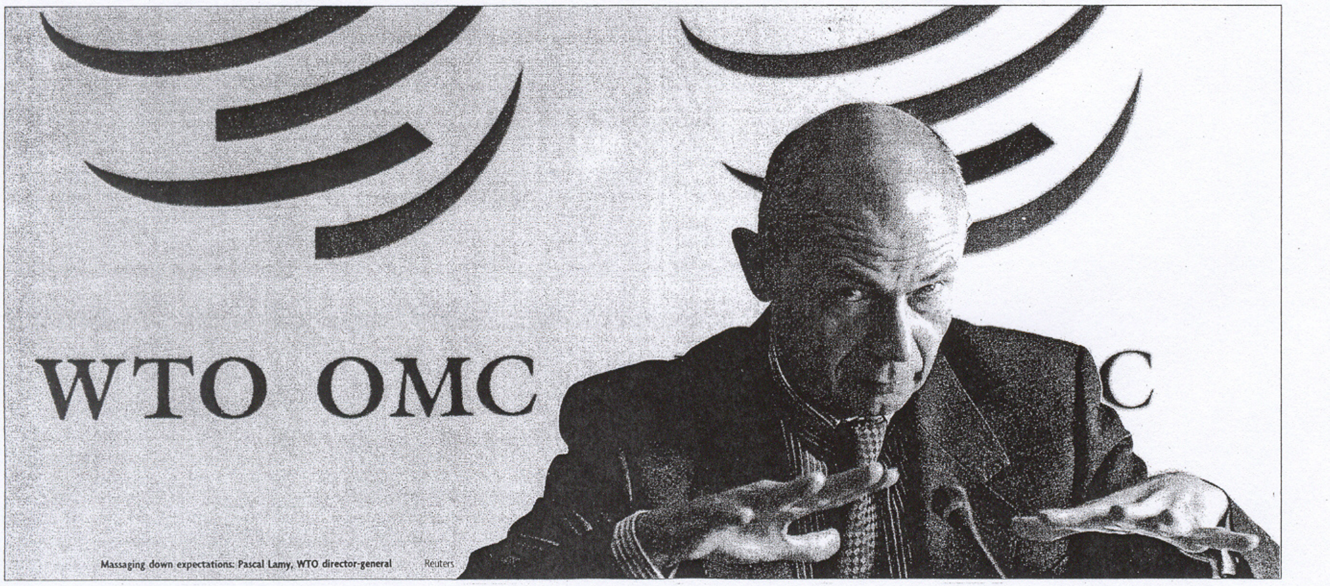
INTERNATIONAL ECONOMY

Last round? Intransigence on trade calls into question the multilateral approach



Massaging down expectations: Pascal Lamy, WTO director-general Reuters

Difficulties with the Doha liberalisation agenda point to the likelihood of a delayed outcome that would fall well short of earlier ambitions to boost the earnings capability of people in the developing world, writes **Alan Beattie**

What was originally billed as a milestone will be yet another staging-post. Meeting next month in Hong Kong, ministers from the 148 member governments of the World Trade Organisation will once again put off decisions about cutting tariffs and subsidies.

Missed deadlines have long dogged trade liberalisation talks. But it is not just ministerial patience that will be tried if the so-called Doha round fails to show progress soon. Continued stasis will raise a more fundamental question: is the WTO game really worth the candle?

After building up the importance of the gathering for most of the year, the main negotiating parties are now quietly massaging down expectations. Pascal Lamy, the WTO's director-general, said last week that the original idea of putting numbers on the framework for the final deal at Hong Kong carried a heavy risk. "If we try this jump and we miss it, we might lose what has already been achieved – and this is not at all desirable," he said. Going for broke would risk Hong Kong joining the Cancún ministerial conference of 2003 and the Seattle meeting of 1999 as a spectacular collapse that occurs in the full glare of publicity.

Delaying the crunch point into next year will at least make the effective deadline for the end of the round – mid-2007, when the White House's authority to negotiate trade deals without having them picked apart by Congress expires – loom a little larger. Brinkmanship is part of any trade negotiation: the previous Uruguay round of trade talks, which was supposed to last for four years but ended up dragging on for seven-and-a-half, was similarly plagued by threats of withdrawal and veto. What is notable this time is the extent of resistance to a deal that is shaping up to be markedly less ambitious than its predecessor.

Many observers and participants warn that unless the European Union, and specifically the French, are secretly prepared to make fundamental changes to their defensive position on farm trade, it seems unlikely that a pause of a couple of months is going to make a vast difference to the degree of liberalisation the round can deliver.

True, as Mr Lamy pointed out last week, what has already been promised is not entirely negligible. An end to agricultural export subsidies from the rich countries and the potential for cuts in industrial tariffs by the big emerging markets would be a real gain for world trade. But many of the promises to cut domestic farm subsidies and tariffs will reduce the theoretical ceilings for protection rather than actual applied rates. And unless there are real and substantial cuts in farm tariffs from the rich countries, the developing nations will not offer reciprocal reductions in the protection they give their goods and services markets.

In theory, countries could save face by agreeing a weak deal, which would mean mainly lowering tariff and subsidy ceilings rather than actually allowing more access to their markets. But five years – and dozens of meetings with thousands of officials racking up millions of air miles – would be a long time to spend negotiating over largely symbolic cuts in protection. It would also fall well short of the hopes that the Doha round – to give it its full title, the "Doha Development Agenda" – would act as a symbol of global solidarity when it was launched in the Qatari capital in the aftermath of the September 11 2001 attacks on the US.

Even some of those who have seen all this before are worried. Peter Sutherland, who forced the Uruguay round to a conclusion in 1994 and became the first head of the WTO, says of the Doha talks: "We are now facing an extremely dangerous situation." For Mr Sutherland, now chairman of BP and Goldman Sachs International, downgrading the importance of the Hong Kong meeting would mean leaving too much to be done next year. "It is extremely risky to imagine that a low level of ambition and achievement at Hong Kong could lead to any real possibility of achieving an end to the round by the end of next year," he warns.

Some policymakers appear to agree. In his annual foreign policy speech this week, Tony Blair, the British prime minister who currently holds the presidency of the EU, argued that the aim of the Hong Kong meeting "has to be to create the conditions" for a comprehensive agreement "by the end of 2006". British officials say privately that to allow Hong Kong to become a mere stocktaking exercise would allow intransigent countries off the hook rather than making them face up to the realities of threatening a veto.

Meanwhile Dipak Patel, the Zambian trade minister who co-ordinates the least-developed countries (LDCs) in the Doha round, says that another Seattle-type failure – though without the teargas and rioting – in Hong Kong might help concentrate minds in the rich countries.

On the face of it, it seems baffling that the round is in so much trouble. After all, scarcely a day goes by when a group of business leaders, or a politician with an eye on his legacy, does not emphasise the vast gains apparently possible from concluding a trade round and call for a greater sense of urgency in getting it done. The dominant school of thought is that it is merely the intransigence or unrealistic expectations of certain parties that has caused the gridlock. For most observers, it is the EU, hamstrung by fierce internal lobbying by the French against offering big cuts in farm tariffs, that has prevented progress.

Last week, in what appeared a reference to France's desire to protect its farmers, Celso Amorim, the Brazilian foreign minister, said: "It is a great responsibility of those that are putting some narrow interests – those of probably not more than a handful of thousands of people – above the interests of the large majority of the population of the world."

On this issue Brazil, which leads the Group of 20 developing nations that negotiates on agriculture, has joined forces with the US. Both governments argue that the Doha round is intended to focus on agriculture and that the onus to move thus remains on the EU.

Brussels' latest offer would see an average reduction of just 39 per cent in farm tariffs (with some products designated as "sensitive" and subjected to much lesser cuts), compared with a G20 proposal for an average 54 per cent reduction and the US's proposed 75 per cent cut. The EU insists that its offer will mean real cuts in protection and improved access to its markets for foreign agricultural exporters.

But this is disputed. In negotiations last week in Geneva, farm exporters including the US, Australia, New Zealand and Canada said the EU's market opening was derisory. The EU had presented its proposals for dealing with sensitive products such as poultry and beef, which will receive lesser tariff cuts. According to officials present, the US said that the EU proposal to reduce protection on the import of chicken legs would amount to "one chicken McNugget" per person per year in the EU.

For their part, the Europeans are annoyed at perpetually being scapegoated. Peter Mandelson, EU trade commissioner, said last week: "I do not want see the process of brinkmanship being replaced by one of blamesmanship." Joseph Pröll, the Austrian farm minister, says: "The US and Brazil are sitting there like ice-skating judges marking down each new move by Peter Mandelson and [EU agriculture commissioner] Mariann Fischer Boel out on the ice. It is time for them to get their own skates on and prove that they can perform as well as they can criticise."

By this point, even some non-European governments are wondering whether the perpetual demands from the Brazilians and the Americans that the EU must move are becoming counterproductive. Zambia's Mr Patel has also expressed frustration with the US-Brazilian axis, saying: "This is supposed to be a development round, not a market access round." The LDCs' demands – for aid to help them trade, and for their special preference schemes to be made more generous and permanently entrenched – are being squeezed out by the stand-off, he says.

Some say this apparent stasis is not terminal but merely part of the traditional brinkmanship of trade talks, where those who make their concessions last have to concede least.

Peter Gallagher, formerly a senior Australian trade official and now a consultant on trade negotiations, has the sanguinity that comes with experience of previous crises. "It helps if you can think of the negotiations as theatre – ritual, improvised and far too long," he says. "But it is not necessarily the stuff of tragedy. At this point the actors are keyed-up and tiring; alternately, anxious and bored by their own lines. They are looking for ways to bring the drama to a conclusion."

But others say that the impasse reflects deep structural flaws in the very idea of multilateral trade rounds, indicating that this function of the WTO is becoming obsolete.

The essence of a multilateral trade negotiation that progresses simultaneously across different strands – goods, services, agriculture, intellectual property rights and rules on legal actions such as the prevention of dumping – is that it allows countries to gain exports in one area to compensate them for loss in another.

Given the inefficiency of European agriculture, for example, an EU focused on protecting its farmers rather than giving its consumers cheaper food would have no interest in joining a trade round that negotiated only on farm goods. The "mercantilist" structure of the WTO – predicated on export promotion – implies that European politicians need to deliver export gains for goods and services to offset the loss of farm production.

However, despite the insistence of European and American business leaders that they need Doha to succeed in order to open goods and services markets, such pressure is evidently insufficient to overcome the resistance of their counterparts on the farm.

So large has the WTO's membership grown, and so wide and complex the range of issues it has taken on, that the basic trade-off structure cannot operate, some experts argue. Razeen Sally, a leading trade academic at the London School of Economics, says the current travails confirm that the WTO has grown too large and unwieldy to make multilateral trade rounds work.

In a paper this year for the London-based Globalisation Institute, he noted that the WTO's previous incarnation, the General Agreement on Tariffs and Trade (Gatt), had fewer members and "small, club-like decision-making glued together by Cold War alliance politics".

Many WTO members have great difficulty keeping up with WTO negotiations and implementing its decisions. Prof Sally argued that the expanded agenda and size of the WTO "has resulted in a loss of focus and a drift towards multiple and contradictory objectives" – not least, loading its trade rounds with unrealistic expectations about the gains for the whole developing world.

The organisation – which operates by consensus, with each member in theory holding a veto – had become as unwieldy as the United Nations, he charged. "The WTO has become much more politicised, buffeted by external criticism and with deep internal pressures," Prof Sally wrote. "These are all symptoms of the increasing UN-isation of the WTO." Unilateral decisions to cut tariffs and relax restrictions offered a more fruitful way forward than seeking the lowest common denominator.

With at least 18 months to go, it is too early to call an end to the system of multilateral trade rounds and to start envisioning a post-Doha world. In any case, some of the likely features of that world could help scare countries into agreeing a deal – notably the diversion of trade negotiations down bilateral routes.

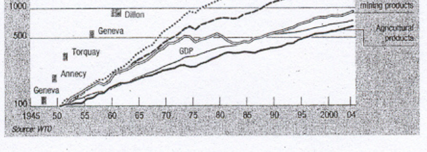
While the EU, for example, has always said it has preferred multilateral to bilateral negotiations, European officials have been watching with some alarm as the US pursues bilateral trade deals with Asian countries such as South Korea. Some officials and executives familiar with its thinking say the EU, although it has made an effort to keep such plans quiet for the moment, has a strategy of aggressively pursuing bilateral and regional deals in east Asia ready to go if the Doha talks do not succeed.

Under a regime of bilateralism, the greater clout of rich nations in striking deals with smaller and poorer partners would be likely to mean that developing countries had to make many more concessions – such as stringent protection for foreign investments – than they would under WTO talks.

This may give some clue as to where the Doha round will go: in the end, the developing countries will have more to lose than rich nations from the undermining of the WTO as a negotiating forum. But the continual delay and intransigence mean that even their patience has been sorely tried. A failed or weak agreement on Doha could be the last effort of its kind.

Additional reporting by Frances Williams

Global real GDP and export growth
Indices rebased 1950=100 (semi-log scale)



Source: WTO

Impact on poverty is disputed but can be real

Calls by business leaders or politicians for a successful conclusion to the Doha round tend to be buttressed by grandiose claims that the round would boost the global economy by numerous billions of dollars or lift hundreds of millions of farmers in the developing world out of poverty.

Their intent is obvious: by emphasising the rewards of progress and success, such interventions are designed to underline the cost of intransigence and failure. But economists emphasise that the effects of multilateral trade deals, particularly on poverty, depend on precisely what kind of liberalisation is undertaken. And some, notably at the World Bank, have begun to moderate their predictions.

Thomas Hertel, a professor at Purdue University in the US, has co-edited a book to be published by the World Bank on the impact of a successful Doha round. "The big message from our book is that the poverty impacts are rather smaller than the bank thought in the past and than the numbers thrown around by others," he says.

The work reckons that a reduction in poverty as a result of full liberalisation of agriculture and goods trade would be only half or a third of previous estimates – partly because of a better understanding of the impact of growth on poverty reduction and partly as a result of including the effects of the special preference schemes enjoyed by many developing countries.

The authors estimate that, even in the long run, once economies have had time to adjust and freer trade has raised productivity growth, the elimination of all protection on goods and farm trade might lift 127m people out of the extreme poverty of earning less than $1 a day. There were an estimated 1.1bn such people in 2001. But the limited package being contemplated under Doha would lift only 20m out of that destitution and, if more than 2 per cent of farm products were exempted from tariff cuts, the poverty impact would be negligible. The European Union wants 8 per cent of its products to be subject to lesser cuts.

Moreover, the gains are not evenly spread. In the case of Bangladesh, for example, a successful conclusion of Doha might increase poverty in the short term, as the value of the country's special access schemes are eroded by the reduction in tariffs elsewhere and cuts in farm subsidies increase food prices for the poor.

Estimates of gains from trade liberalisation are often dependent on assuming that countries can switch labour and capital from one employer or sector to another – more likely in rich countries with efficient job markets and financial systems than in the developing world.

On the other hand, the World Bank has also thrown up surprising evidence of poverty reduction where it had often been assumed elusive. EU countries sometimes claim that freer farm trade will benefit no-one but huge agribusinesses and food companies: François Loos, the former French trade minister, was fond of saying that the only beneficiary from global free trade in sugar would be Coca-Cola.

In fact, detailed work on Brazil suggests that, though the large landowning sugar and cotton barons would benefit from agricultural liberalisation, so would poor and landless workers. Economists found that a Doha success would mean the creation of some 253,000 Brazilian agricultural jobs, more than half of which would go to the poorest third of workers, and – despite the loss of jobs in manufacturing – overall poverty would fall.

www.worldbank.org/trade