

# The Doha Dilemma: Implications for Korea and the Multilateral Trading System

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## The Doha Dilemma

Geneva trade diplomats are confounded by a serious dilemma: They do not know how to conclude the Doha Round of multilateral trade negotiations (MTNs), but they do not want to cancel them. As a consequence, the Doha Round seems likely to lapse into an indefinite period of hibernation—with little idea of when or how the talks could be awakened. If prolonged, hibernation would become the functional equivalent of termination—this is what has happened to the negotiation of the Free Trade Area of the Americas.

The Doha Round is not the first multilateral negotiation to collapse under the weight of substantive disputes and tactical negotiating blunders, but it could well become the first multilateral negotiation that could not be revived and brought to a successful conclusion. I fear that such a result could have serious deleterious effects on the World Trade Organization (WTO).

This short paper examines the implications of the negotiating impasse in the Doha Round for the world trading system and for Korean trade policy. I start with an abbreviated look at where the WTO negotiations stand as the talks approach their tenth anniversary in late 2011 and summarize key reasons why the Doha Round has been unproductive to date. I then examine three major implications for Korean policy if the Doha negotiations collapse. The concluding section puts forward recommendations for unblocking the Doha Round and moving forward on an augmented negotiating agenda over the next 12–24 months.

## Current Status of the Doha Round

Almost a decade ago, the 130-odd members of the World Trade Organization (WTO) met in Doha, Qatar, and launched the ninth round of multilateral trade negotiations (MTNs) in the postwar era. The new talks were called the Doha Development Agenda; this awkward title seemed to suggest that the negotiation would be different from the previous Uruguay Round of MTNs and would focus on promoting economic development in poorer countries. But old habits are hard to break, particularly in conservative Geneva: The WTO talks have followed a familiar script and are generally called the Doha Round.

In its ten years of fitful negotiation, the Doha Round has recorded substantial progress in several areas of its extensive agenda and scant progress in others, notably services. One Doha Round agree-

ment is already being implemented, albeit provisionally.<sup>1</sup> Tentative agreements to cut tariffs and some farm subsidies await clarification of the rules on how exceptions for import-sensitive products will be handled. Pascal Lamy, the Director-General of the WTO, argues that 80 percent of the Round has been completed—implying that much has been achieved and there is little left to do to finish the job. But the remaining 20 percent is the hard part and is a prerequisite for harvesting the gains from the entire negotiation; the Doha Round—like its predecessor—is based on a “single undertaking” in which nothing is definitively agreed until the overall deal is put together.

Attempts to finish the Doha Round have failed repeatedly and new calls to complete the negotiations increasingly lack credibility. The last great hope for a Doha Round revival hinged on the efforts of the G-20 leaders at their summit meeting in Seoul in November 2010. At that time, the G-20 leaders noted that “2011 is a critical window of opportunity, albeit narrow,” and directed their WTO ambassadors “to engage in across-the-board negotiations to promptly bring the Doha Development Round to a successful, ambitious, comprehensive, and balanced conclusion...” (see Seoul G-20 Declaration, paragraph 14, November 12, 2010). Unfortunately, their fine words did not translate into new negotiating positions and proposals to broaden trade reforms. The G-20 leaders failed to follow through on their commitments and left the Doha Round rudderless.

As a result, the Doha Round negotiations are adrift and on the verge of collapse. Proposals to “top up” offers to achieve a bigger package of reforms have not been pursued by the major trading nations (see Hufbauer, Schott, and Wong 2010; and Schott 2011); proposals to put together a “mini-package” of preferences and assistance for the least-developed countries (LDCs) also have foundered—largely because few countries are willing to commit to do more than what they already are doing and are not willing to change their current policies in the context of such a small agreement.

The negotiating climate has gotten so desperate that some diplomats and trade analysts have even suggested that WTO members accept what they call “the deal on the table.” In essence, they are asking WTO members to accept negotiated formulas to cut tariffs and subsidies on agricultural and manufactured goods—subject to ill-defined product exceptions that could substantially erode the economic value of the prospective liberalization—even though those formulas were drafted in expectation that the scope for exceptions would be clarified and that reforms in other areas (e.g., services) would be part of the overall deal. In other words, *there is no deal on the table*; the current reform commitments are contingent on liberalization in critical areas that have not yet been discussed, let alone agreed upon.

What are the causes of the Doha distress? Ask a dozen trade experts and you’ll get two dozen or more, sometimes contradictory, answers. Some emphasize political support or lack thereof; in this regard, Doha may be a victim of the success of MTNs in the GATT era because what is left to liberalize (especially in the industrial countries) are largely barriers to sensitive farm and manufactured products that evaded reform in past rounds. Others focus on different priorities regarding liberalization of trade barriers or adoption of new rulemaking obligations (where countries have been divided over the priority to be given to new rules on contingent protection measures, whether to supplement WTO rulemaking in areas such as intellectual property or the environment among others, and how to define the scope of preferences and exceptions to be accorded to developing countries). Still oth-

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<sup>1</sup> In December 2006, the WTO General Council agreed to implement an accord establishing a “Transparency Mechanism for Regional Trade Agreements” on a provisional basis pending completion of the Doha Round.

ers cite institutional or procedural rigidities that complicate the negotiating process, though I think these problems are overstated by Geneva partisans. For example, concerns that there are too many participants to form a consensus target the wrong problem; the real problem is not that there are too many participants but that there are now more “players” than in past rounds whose contributions are needed to put a deal together and who differ sharply on what should be done.

What is undeniable, however, is that many WTO members have a serious case of Sinophobia; some do not feel that the prospective trade gains justify the domestic political risk of seeking changes in existing policies, and many developing countries do not believe that a “development round” should require them to do so in any event. Political support for a Doha deal also suffers because some important pro-trade constituencies (e.g., service industries) have effectively been ignored in the talks over the past decade. In sum, it is a combination of ingredients that has led to the negotiating impasse in Geneva.

By late May 2011, it became clear that neither the “top up” strategy nor the mini-LDC package would work. WTO Director General Pascal Lamy subsequently called for a period of reflection on the Doha Round, just like he did after the debacle at the Cancún WTO ministerial eight years ago when he was the EU Trade Commissioner (see Schott 2003). “Those who do not learn from history are condemned to repeat it”—and in several respects we are now witnessing similar reactions to the breakdown in the WTO talks to those pursued by key players in the Doha Round in late 2003. Is this Cancún 2003 redux?

In 2003, EU officials reflected on the WTO talks and refocused their attention on a distinctly domestic agenda: Then it was EU enlargement; in 2011 it is the financial crises throughout the European Union’s southern tier and how to share the burden among the broader EU membership. In 2003, Cancún propelled a new US free trade agreement (FTA) strategy: Then it was bilateral free trade agreements (FTAs) with Colombia, Peru, Thailand, and others; now it is regional FTAs like the Trans-Pacific Partnership (TPP) and, most recently, the Middle East Regional Integration for Trade (MERIT) initiative. And, of course, Korea responded after Cancún with the launch of new FTAs, including most prominently talks with Japan in late 2003, which may now be revived after being suspended for many years.

Trade ministers hopefully will use this period of reflection for crafting new strategies for moving the WTO talks forward that can be vetted at the upcoming WTO ministerial meeting in mid-December 2011. To date, however, there has not been much new thinking about the trade negotiations, and prospects for the December WTO meeting are dim; indeed, the Doha Round already has become an afterthought in the minds of many policymakers.

Some steadfast multilateralists have thus concluded that it is time to put the Doha Round out of its misery (Schwab 2011; Lehmann 2011). Such advocates argue that WTO countries should recognize that there is insufficient political will to break the current negotiating impasse and that it is necessary to excise the cancer before it spreads and significantly impairs the WTO system.

But ending the Doha Round will not resolve the problems that created the negotiating impasse. WTO members will insist on addressing the same issues in any future MTN. Moreover, the Doha doctors who favor euthanasia underestimate, in my view, the cost of Doha failure in terms both of degradation of the trading system and foregone reform and potential reversal of past liberalization

(see Schott 2011; Bouet and Laborde 2008). In broad terms, the process of multilateral negotiations would be impaired. Policymakers would be wary of investing more time and effort in WTO talks if a decade of work on the Doha Round fails to produce tangible results. Instead, they would focus negotiating initiatives almost exclusively in bilateral and regional projects—a policy shift that already has accelerated sharply since the breakdown in the Doha talks in the summer of 2008.

Of course, WTO members will still be bound by existing obligations and the heralded dispute settlement system will continue to function. But past success is not a guarantee of future performance. Disputes undoubtedly will arise over “gray areas” of WTO law. Without the prospect of new negotiations to update and clarify the WTO rulebook, panelists will be tempted to bridge the gaps in their rulings. That is the danger: If the panelists attempt, or appear to be attempting, to usurp the powers of WTO members by interpreting and possibly expanding the scope of WTO obligations, it will likely trigger a political backlash against the WTO and discourage national compliance with such rulings. Members of Congress already think this is a problem with regard to the numerous WTO rulings against US antidumping practices. Over time, the frozen WTO legislative function will erode political support for compliance with the judicial function of the WTO.

Second, a Doha Round failure would unshackle protectionist pressures that would lobby for the use of WTO-legal measures to protect domestic industries and farmers. The 2008–09 recession already demonstrated how WTO members, particularly developing countries, have recourse to what I call “free safeguards measures”—that is, raising applied tariffs to the maximum allowed by their WTO bindings. Of course, the major trading nations (the United States, the European Union, Japan, Korea, and China among others) generally cannot do the same thing because their tariffs are bound at or near applied rates. Instead, they use a combination of policies—antidumping, subsidies, undervalued currencies, discriminatory tenders for public procurement—to achieve the same result (see Hufbauer, Kirkegaard, and Wong 2010). Antidumping and other “temporary” trade measures have become important weapons in the trade arsenal of China, India, and Brazil, as well as traditional users among industrialized countries (see Bown 2011).

### **Implications for Korea**

What would continued drift or outright failure of the Doha Round mean for Korea? In my view, the breakdown in the WTO talks would have three main implications for Korean policy. Briefly put, a breakdown would:

- validate the initial Korean skepticism about the potential payoff from WTO talks, given their initial reluctance to commit to broad agricultural liberalization;
- support Korea’s trade negotiating strategy to develop a network of FTAs with its major trading partners; and
- undercut Korea’s strategy to use the G-20 to strengthen its leadership role in the world trading system.

Korea never invested substantial negotiating capital in the Doha Round, for two main reasons. First, the initial focus of the WTO talks was on agricultural reform. Korean officials were not prepared

to reduce their protection on a most-favored-nation basis and doubted that Japan, Europe, or the United States would accede to developing-country demands to reform farm policy either. Second, Korea was more concerned about competition in the neighborhood, especially with China. Recall that Chinese accession to the WTO was almost coterminous with the start of the Doha Round in late 2001. The challenge of increasingly intense competition from China prompted Korea to put greater emphasis on FTAs than on MTNs. The objective was—and remains—to use bilateral deals with Japan, the United States, and the European Union to spur import competition and new foreign investment in Korean industry and services in order to enhance productivity growth throughout the Korean economy.

From early on in the Doha Round, Korea diverted resources away from the WTO talks and into its increasingly active FTA agenda. In fact, the FTA shift actually began in the late 1990s with the decision to negotiate an FTA with Chile. This trial run at FTA negotiations was meant to help prepare Korean officials for the more burdensome task of negotiating with its major trading partners.<sup>2</sup> Talks with Japan started in 2003 but soon ran aground. Korea's focus then shifted to an FTA with the United States and subsequently a similar deal with the European Union.

As of September 2011, Korea has signed FTAs with countries accounting for 34 percent of its total merchandise trade in 2010; when concluded, ongoing FTA negotiations would bring the trade coverage ratio to almost 50 percent. And if FTAs under study with Japan, China, and others are added to the list, more than 80 percent of Korean trade eventually could be covered by FTAs (International Monetary Fund [IMF], Direction of Trade Statistics, July 2011).

Korea's next trade challenge is to harmonize these pacts so that they propel deeper integration with its main trading partners. One obvious channel for doing so would be for Korea to join the TPP. It already has signed bilateral FTAs with four current TPP participants (Chile, Peru, Singapore, and the United States); two others (Malaysia and Vietnam) are covered by the Korea-ASEAN pact, and talks are underway with two others (Australia and New Zealand). Moreover, TPP negotiators are considering numerous provisions of the United States–Korea (KORUS) FTA for the broader regional pact; indeed, obligations undertaken in recent Korean FTAs now set important precedents for evolving world trade rules. These agreements, particularly the FTAs with the United States and the European Union, already cover sensitive issues. Interestingly, Korean officials have been willing to undertake farm reforms in specific FTAs where foreign policy objectives along with generous dollops of income subsidies could temper the opposition of Korean farmers. The main exception is the exemption of rice from the trade reforms. Except for Vietnam, current TPP participants are not major rice exporters. If and when Thailand joins the talks in the future, however, rice could become a potential deal-breaker for Korea. On the other hand, in my view, rice reform probably could be managed in a manner similar to that adopted by the KORUS FTA if Korea becomes a TPP member before Thailand enters the fray.

The other channel under consideration is the long-sought but problematical Northeast Asian FTA between Korea, Japan, and China. The subject has been studied ad nauseam and bilateral talks

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<sup>2</sup> In the event, the FTA negotiation with Chile proved more difficult than expected. The talks took three years to conclude and then domestic ratification got entangled over liberalization of grapes and a few other farm products. Korean officials learned valuable lessons in both crafting the terms of the agreement and selling the deal to the National Assembly. From start (September 1999) to finish (entry into force in April 2004) took about four and a half years.

between Korea and China are supposed to launch next year. I suspect that this initiative will give priority to political considerations and produce a trade accord that has very modest impact on economic activity in the near-to-medium term.

As noted above, China has remained the primary focus of Korean trade policy as Korea has negotiated other FTAs. Korean officials have sought (1) to use FTAs to better prepare for competition with China rather than to just increase trade with those FTA partners; and (2) to keep pace with China in deals with South-east Asian countries by emulating the China-ASEAN trade pact. Trade and investment with its FTA partners has grown markedly but nowhere near the rate of Korea's trade with China.

In 2000, the United States was Korea's main export market, taking twice as much Korean goods as China. By 2003, China had become the number one export market, and in 2010 Korea exported almost three times more goods to China than to the United States.<sup>3</sup> Over the past decade, Korea's exports to and imports from the United States only grew by 22 percent and 46 percent respectively; in contrast, Korean exports to China increased almost seven-fold and Korean imports rose almost six-fold.

The third implication for Korean policy posed by Doha's problems is more difficult to assess but could have adverse and far-reaching effects on Korea's international economic strategy. Korea has invested substantial time, effort, and political prestige in the development of the G-20 as the key forum for global economic governance—and one in which Korea plays an active leadership role. For the past three years, Korea has been part of the leadership “troika” of the G-20, comprised of the past, current, and prospective chairs of the G-20 summit, and has used this position effectively to strengthen the world trading system.

In 2010, with the active support of Korean President Lee Myung Bak, the G-20 leaders issued a strong mandate to their trade officials to complete the Doha Round. The failure of the leaders to follow through on these commitments reflects badly on both the WTO and the G-20 process. I am concerned that the failure to back up the Doha Round commitments—on top of broader problems in coordinating responses to global macroeconomic problems—could undercut the credibility of this new mechanism and thus weaken Korea's position in the leadership circles of the world economy. For that reason, I think it is in Korea's interest to work with its G-20 partners to reinforce and update the Doha Round mandate issued in Seoul in November 2010—and in so doing reinforce international confidence in and support of the G-20 process overall. The concluding section sets out what I believe could be done in the near term to put the WTO negotiations back on track.

### **Going Forward: Prospects for WTO Talks in 2012/2013**

Without new energy and insights, trade diplomats are unlikely to move the Doha Round forward toward a successful resolution. The business-as-usual scenario would then primarily feature regular work by WTO committees and increased activity in terms of cases brought to the WTO for dispute settlement. The legislative function of the WTO would grind slowly as risk-averse trade officials await the results of elections and regime changes in major trading countries.

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<sup>3</sup> China is also the leading supplier of goods to Korea but did not surpass Japan for that title until 2007.

As in the past, Geneva doldrums usually means intensified activity on regional trade initiatives. In 2012/2013, Asia will likely continue to be the hotbed of trade talks, with both intra-Asian integration pacts and broader trans-continental pacts filling the negotiating void left by the sluggish WTO process.

There is one “wild card” that could break the Geneva impasse and revive the WTO talks over the next few months: concrete action by G-20 leaders at their next summit in Cannes in November 2011. The G-20 is the only forum that includes all the major trading nations on whom the success of the Doha Round depends. To be sure, the time remaining before that summit and the WTO ministerial in December is too short to negotiate substantive agreements. However, the G-20 could put forward a plan of action, with specific national commitments that serve as a down payment for a bigger deal that could be developed over the following 12 to 24 months.

What needs to be done? Several months ago, I outlined a strategy (Schott 2011) in which major developed and developing countries would commit to negotiate over the next year or two a broader package of agreements that both augment and deepen offers to liberalize trade in goods and services, and that launch new WTO rulemaking initiatives in areas that have become more salient in the past decade and would benefit from multilateral disciplines. Both components are critical to unblocking the WTO talks.

The liberalization component is needed to fulfill the G-20 mandate for an “ambitious, comprehensive, and balanced” deal; equally important, it also is probably crucial for ratification of the deal by national legislators who usually judge such pacts by a mercantilist calculus. G-20 members should “up the ante” for a Doha deal by committing to implement deeper tariff and subsidy cuts than prescribed in the negotiating formulas advanced to date in the talks and by engaging in request-offer negotiations on specific service sector policies. Such reforms could be advanced through a combination of “formula-plus” cuts (what Hufbauer, Schott, and Wong 2010 call “top ups”) or sector-specific commitments or a combination of the two.

The rulemaking initiative could comprise agreements in areas not yet subject to Doha discussions (just as the Uruguay Round added new issues in midstream, e.g., the agreement to establish the WTO) or commitments to launch new WTO negotiations on a built-in agenda of issues specified in the final Doha deal (as was done regarding specific service sectors after the Uruguay Round) that would engage immediately upon the entry into force of the Doha agreements. Candidates for such a built-in agenda could include issues such as energy and climate change, competition policy, and WTO- IMF cooperation/coordination (especially important for dealing with problems that arise when global macroeconomic policies are out of balance). Commitments to post-Doha talks in these areas could encourage the United States and other G-20 countries to invest further in the Doha Round talks, including by making new offers that serve as a down payment on a more ambitious and balanced deal.

There remains, however, the additional problem of addressing the development component of a broader deal and what could be done in the near term as part of a down payment on the bigger deal to come. Providing benefits for the LDCs should be favored by both developed and developing country members of the G-20 but officials are wary of extending preferences beyond those already

granted for fear of provoking labor-intensive industries at home that face strong competition from LDC imports. That explains in large measure why the desire to extend full duty-free, quota-free (DFQF) treatment for LDC exports runs aground: In some countries, new legislation would be required to liberalize import-sensitive agricultural or apparel products; in others, eligibility requirements for those preferences would have to be revised so that the presumed tariff gains aren't blocked by restrictive origin or other standards.<sup>4</sup> For that reason, the G-20 members need to work around those political roadblocks when crafting new LDC benefits. One approach that could yield immediate gains for LDC exports would be to focus on simplifying and harmonizing eligibility criteria for LDC preference programs (including rules of origin) and commit to limiting tariff line exceptions to the bare minimum (which hopefully would not exceed 1 percent of the tariff lines in each country's schedule).

Finally, the G-20 needs to set up a process for pulling these components together into a balanced package that could be presented to the broader WTO membership. In this regard, inspiration should come from the troika leadership tradition of the G-20 management to date. At the Cannes Summit in November 2011, the G-20 leaders should nominate those members which have been involved in the troika leadership during the past three years (Brazil, the United Kingdom, Korea, and France) and ask them to consult with the other members and put together a draft G-20 proposal that provides concrete commitments designed to unblock the Geneva talks in 2012 and beyond. In essence, this steering group would try to engineer a bridge-building exercise that links the US and EU positions with those of China and other emerging trading powers. With the added negotiating grist proposed above in terms of additional liberalization and rulemaking goals, it should be able to construct the ambitious and balanced package that have eluded Doha Round participants for so long.

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<sup>4</sup> In the United States, new legislation would be required, would face strong opposition from the textile and apparel industries, and would likely fail in the absence of broader benefits for US trading interests in a prospective final WTO deal.

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