



## How to Revive the Global Trade Negotiations: A Debate

*Jeffrey J. Schott and Arvind Subramanian assess the impasse that has stalled the Doha Round and disagree over whether and how to restart the talks.*

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Steve Weisman: This is Steve Weisman at the Peterson Institute for International Economics. A few days ago Pascal Lamy, the director general of the World Trade Organization (WTO), talked at the Institute about the global trade negotiations. He got into an interesting byplay with Arvind Subramanian, senior fellow at the Institute. Arvind and Jeff Schott, also a senior fellow, are here to pick up the discussion. Thank you both for joining me today.

Since the suspension of negotiations last summer on trade talks, there have been many appeals to restart them. Some people say that the talks made considerable progress. Pascal Lamy, I think, argues that a little more work would yield a little more progress. Others are skeptical that the talks achieved very much and have even suggested that the talks should be scrapped and replaced with another set of talks. Jeff, are the global trade discussions under the Doha Round dead? Did they achieve any progress? Is the Obama administration interested in moving them forward?

Jeffrey J. Schott: First of all, I think there's a great interest in having a successful Doha Round, not only for the benefits to trade but the contribution that it can make in the broader efforts that the major trading nations are undertaking to try to dig out of this very deep economic recession. There is a broader interest in having international cooperation and achieving liberalization of trade that is giving a new political impetus to trying to restart the negotiations.

Steve Weisman: That impetus was reiterated in London earlier in April, I think.

Jeffrey J. Schott: That's correct. There was a lot of discussion but no hard commitments. I think, though, that there is an appreciation that if the talks could be revived, there's a lot of work to be done. There is a lot on the table but you can't harvest it right now. You don't harvest the fruit until it matures. So there's a lot more work that needs to be done to put the trade negotiation into shape and it could be supported by the political processes in the member countries. And to justify that support, there has to be a significant economic payoff. That payoff is what is under dispute.

Steve Weisman: The American side had made some concessions, for instance, in the agriculture area, lower barriers and subsidies. But the Bush administration and I believe some in the Congress, and I'm not sure about the Obama administration, feel that the payoff is not in sight.

Jeffrey J. Schott: Let me put it a little more simply. The negotiators haven't started negotiating on what normally occurs in a trade negotiation. That is a discussion of what countries will do to change policies on the most important and sensitive issues. All the talk has been about general formulas that would apply in general to all products except to the products that really matter. And there has been no negotiation on services, which is also an important component of this negotiation. So, until you allow the negotiators to start negotiating, you don't really know what's on the table.

Steve Weisman: It's kind of an amazing statement to say they haven't started negotiating. What have they been doing all these years? The discussions have been going on for how long—five, six, seven years?

Jeffrey J. Schott: More than seven years.

Steve Weisman: What have they been talking about?

Jeffrey J. Schott: They've been talking about the shape of the table.

Steve Weisman: Arvind, you're champing at the bit. I take it that you think that there might be a better way.

Arvind Subramanian: Steve, there are two questions. One is how much payoff there is. The second question is: Is this where the real action is? So let me take these two questions up in turn.

In fact, when you say for seven years not much has happened, there's a reason for that. It's not because some governments, out of laziness or inertia, don't know what needs to be done. There's a reason why nothing has happened for seven years. That is, the world was in a roughly stable equilibrium in terms of trade. The private sector around the world was generally quite happy with the status quo, because emerging-market countries were liberalizing unilaterally and in the context of regional trade agreements, and developed countries have pretty open markets with pockets of exceptions. So, that was a status quo that everyone was happy with. That explains both the relative modesty of the ambitions of Doha and the fact that it is so difficult to conclude.

Which comes to my second point: Is this where the real action is? One could argue that the status quo is being disturbed by the crisis, and in the crisis we've seen a lot of protectionist actions that have been undertaken—antidumping, government procurement, state aid, dollops of aid all around the world. Now, many of these issues, like antidumping, like state aid, like government procurement, the new mercantilism, financial-sector protectionism, are not being addressed in the Doha Round. That's not where the threat to the system now is coming from. So to say let's go back and complete Doha may have payoffs, I'm not doubting that it could have some however modest benefits, but all the troubles and potential threats to the system are not being addressed by the Doha Round. That's the reason why I think we need to refashion, not to throw away what Doha has accomplished, but actually quickly get to where all the precious protection specialists are coming from.

Steve Weisman: Arvind, you've written this in articles that evidently were read by Mr. Lamy. When he was here at the Institute, he said he was not impressed. He suggested that you were abandoning this process too soon and bringing too much into the discussions and guaranteeing even more of an impasse. What's your answer to that?

Arvind Subramanian: The answer is that, the irony about trade negotiations is not that small is necessarily better. The argument always is: If you can't do a small Doha, how can you do a bigger package? But that's precisely the point. The bigger package actually puts more on the table of interest to the private sector. And if you think that Doha is not going forward because there's no real private-sector interest in it, by enlarging the agenda, you actually generate private-sector interest, which can in fact push something forward quicker, faster.

Steve Weisman: Jeff, what do you think of that argument?

Jeffrey J. Schott: It doesn't fly for a simple reason. You're enlarging an agenda to meet problems that are a low priority for a number of countries. In so doing, you're diluting the attention that is given to the issues for which those countries have high priority. So, the issue of exchange rates is not going to get on the Doha agenda.

Steve Weisman: Arvind, do you think that exchange rates should be on the Doha agenda?

Arvind Subramanian: Given that undervalued exchange rates looking like they're a big part of the problem, yes, something should be done about them.

Jeffrey J. Schott: Antidumping is on the agenda of the Doha Round. I believe nothing will happen on antidumping because all countries are very happy with the current situation. The noise that is being heard during the negotiations criticizing the policies of some countries and others, including the United States, I think has been done for tactical effect. And countries have been very successful in challenging aspects of US antidumping practices through WTO litigation. That is sufficient to deal with their needs in terms of the US use of antidumping. Whenever there is an economic downturn, there will be an increase in antidumping. Where we've seen the increase is not in the United States and the European Union but in India and China and a few other developing countries. So, what they would like, they would be very happy to have restrictions on the use of antidumping by the rich countries. But they don't want any restrictions on WTO rules that would affect them, and that's not going to work.

Steve Weisman: Go ahead, Arvind.

Arvind Subramanian: Jeff, what I find strange about this analysis is that you say these new pressures are important, but countries don't have the political will to address them because they're all very happy with it. But in fact they do attach very high priority to stuff on the Doha Round. If they have attached high priority to it, in seven years, what have they done about it? I mean, it's clearly the case that to say that governments have high priority doesn't seem very critical. And there's a deeper reason why it hasn't been addressed.

Jeffrey J. Schott: No, there's this very simple explanation why there hasn't been progress. The Doha Round initially made the commitment that agriculture would get priority and that was at the insistence of the developing countries.

Steve Weisman: Jeff, let me interrupt you. Explain for the listener and reader what you mean by that, agriculture, in your opinion in the United States, for instance.

Jeffrey J. Schott: In the previous eight rounds of multilateral trade negotiations, the agenda was generally set by the United States and European Union. Until the last of the eight negotiations, developing countries did not contribute very much; nor were they asked to. As a consequence, the overall results of trade liberalization in Geneva, in the 50 years of the General Agreement on Tariffs and Trade (GATT), involved primarily liberalization by the industrial countries, commitments for liberalization by industrial countries in all areas, except those of priority interest to the developing countries because they weren't part of the deal. Therefore, their interests were not given full hearing.

Steve Weisman: Those interests are agriculture among others?

Jeffrey J. Schott: Agriculture and light manufactures.

Arvind Subramanian: Except that, Jeff, I'm sure you'll agree with this: For us, the big exception was the Uruguay Round, when developing countries took on massive obligations on intellectual property rights in return for which they got some access in textiles and the beginnings of liberalization on agriculture. So, it's the Uruguay Round that actually was the defining point in terms of developing-country participation in the multilateral trading system.

Steve Weisman: But that's history. What you're saying is that this round was supposed to expand on opportunities for developing countries.

Jeffrey J. Schott: Exactly, and deal with deep cuts in agricultural tariffs and probably more importantly deep cuts in agricultural subsidies that distort trade and investment in agriculture.

Steve Weisman: And just to remind readers and listeners, the subsidies are more of an issue in the United States than tariffs.

Jeffrey J. Schott: For the United States, yes. And in Europe, there are some subsidies, but tariffs are a bigger problem, though the Europeans had more agricultural export subsidies that will be prohibited under the terms of this agreement once it is implemented. But there is a central point, and it's a political economy consideration: After eight rounds of multilateral trade negotiations, what's left on the table for the United States and the European Union are the most politically sensitive measures. Those are the ones that have survived eight previous attempts to cut them down.

For developing countries to say, "our priority is to get rid of these measures or to substantially reduce that protection" implies that there's going to have to be a big payoff to compensate the United States and Europe for making such a sensitive

big step. Basically that is part of the negotiating problem that has stalled the talks for so long. There had been big demands to take very politically difficult steps by the United States and Europe, but very inadequate reciprocal offers from other countries that would allow political consideration of such changes in policy in the United States and Europe.

Steve Weisman: But at a time of an economic downturn, is it realistic to expect these reciprocal concessions anytime soon?

Jeffrey J. Schott: Absolutely not. Therefore, any comments that say the negotiations could conclude by the end of this year or early next year are totally unrealistic. One should expect at best, a reengagement of the negotiating process. But it's very difficult to conceive of trade ministers going to their political masters and saying, "we want you to consider a sensitive change in policy" until the economies are really on an upswing.

Steve Weisman: Do you think the Obama administration is inclined to resume negotiations and have them drag on for another couple of years?

Jeffrey J. Schott: My sense is that they're seriously considering both the substance and strategy for reengaging the negotiations. But the time period would be one of accepting the fact that even if you start full-scale negotiations, it would take more than a year to go through the detailed work necessary on particular products and sectors on manufacturers and on services. You're looking into 2011 at the earliest before you could get to the endgame negotiations.

Steve Weisman: Arvind, the developing countries are sometimes blamed, especially India, for not even being willing to allegedly consider some of these steps in return for lower agriculture barriers or subsidies. What's your assessment of their willingness on a reciprocal basis to break the logjam here? Are we just destined to have this impasse go on forever?

Arvind Subramanian: Steve, you've put your money on the exact question. In some ways, what Jeff is saying about why Doha didn't go forward, because the developed countries were asked to liberalize in the most sensitive areas and in return developing countries were not offering enough, in some ways, that is exactly what I mean by saying that pre-Doha Round or precrisis, the state of play around the world, the status quo, was broadly acceptable. India was banking on the fact that even if it didn't play ball, there would be no real consequences stemming from that. And indeed, I think in those circumstances they were right. It was the right political calculation. India wouldn't give anything because it's politically difficult, but then they're not going to face any consequences. It's not as if the United States is not getting access in India. We're liberalizing in any case unilaterally and multilaterally. So, there are no consequences to that. In some ways that strategy was not a politically unwise or inexpedient strategy.

The question going forward is: Has that fundamental thing changed in a way that India realizes or is right to realize that, "Hey, that status quo is gone, but if we don't contribute, even our existing levels of access and openness overseas is threatened." I don't know how it's going to come out. For example, suppose the

world economy recovers and protection specialists don't get really out of hand. We get what I call low-grade protectionism. Then the status quo is again broadly acceptable all over. And I don't see the initial impetus for anyone really making a push to complete the Doha Round. I mean, there has to be a credible threat that either the system is going to collapse or the people's access to each other's markets is going to be seriously threatened in order for that to be a renewed fundamental push from the private sectors and governments around the world. Until then, I think you may be right that we're just headed for low-grade protectionism. The world economy recovers, nothing seriously is impaired, and the world goes on.

Jeffrey J. Schott: I think there are two aspects of this problem. One is that the private sector now realizes that the status quo was not sustainable, because they're seeing an increase in protectionism, legal protectionism consistent with WTO obligations. And second, governments are seeing that in the absence of a viable multilateral process in Geneva, countries will pursue other avenues of trade arrangements that discriminate, and discriminate usually against key countries.

The key player, I think, going forward and for deciding whether we will have a viable multilateral system may end up being China. China committed in its protocol of accession to the WTO only eight years ago to substantial liberalization of its trade barriers. It has much lower barriers than most developing countries, and it could afford to have cuts in its existing levels of protection without changing its competitive situation very, very dramatically. And it may decide that it is useful to make that investment to ensure the viability of the multilateral process. And if China does that, then there will be some efforts I think by other developing countries to find some accommodation so that a multilateral package can be put together, perhaps not as ambitious as I would like, but one that maintains the health of the WTO system and then allows the WTO to begin to look at some of the important issues that Arvind has put on the table.

Arvind Subramanian: I think where I slightly disagree with Jeff is that I agree with the fundamental point that historically it's been true that multilateral trade negotiations often get their impetus after a serious crisis when access under the system or the system itself is being seriously threatened. We saw that after the Tokyo Round, after the oil shocks. We saw that in the Uruguay Round when there was a major problem of an outburst of protectionism and so on.

My assessment is that, I don't think that as yet any protectionist action seriously frightens the private sector or governments around the world so far. That's I think the one slight point of disagreement. If it changes, then of course I would agree that the impetus would be naturally generated. But I don't think that we're there yet.

My second point is that, once we get that impetus, I think we should use that to solve a number of the outstanding issues that face the system rather than just confining it to a few tariffs and a few subsidies in the traditional areas because the world economy now is much more than manufacturing and agriculture.

Steve Weisman: Gentlemen, what final assessment do you have of the prospects and timetable here?

Jeffrey J. Schott: I think there are a couple of threats that are going to provoke action and protectionist threats. First, coming through the auto bailouts, we're seeing the first signs of that today with the situation with Chrysler. Second, an even more pervasive problem comes as countries get together to develop an international regime to deal with climate change. There will be a lot of concerns as countries commit to reducing greenhouse gas emissions, concerns about the competitiveness of their industries and workers, and steps that could be taken to level the playing field with countries that do not take commensurate action imposed on their own firms. That could lead to a big unraveling of the liberalization that we've seen in the postwar period if it isn't blunted at the start. I think that is an important reason why there needs to be a parallel effort in the WTO to forestall new protectionism in efforts to try to compensate for some of the actions taken to mitigate greenhouse gas emissions.

Steve Weisman: But it sounds like you think that a crisis provoked by the auto bailout or climate change could be the opportunity to revive these talks. Are you hopeful that that might happen?

Jeffrey J. Schott: In every crisis, there is opportunity if you can grasp it. That's why I think the broader economic crisis has begun to change political thinking about the importance of working together, not only in the G-20 summits, but also in other major forums where countries have to cooperate with each other to achieve global objectives. That's the Copenhagen process in developing a post-Kyoto climate regime and the Doha Round in the World Trade Organization.

Steve Weisman: And therefore this would be no time to add even more complications to the process? Arvind?

Arvind Subramanian: I don't know about that, Steve. I don't know whether I would draw that conclusion. I do think that the climate change negotiations are going to be key. My own view on that is that, what is going to be most important is coming to a cooperative solution on what I call equitable burden sharing on the substance of climate change. How much should each country contribute to reductions? If they're able to do that, then I think the trade component of that will be kind of resolved; because if you agree on the underlying objectives and the emissions, then you can work out the details.

However, if they can't agree on that, I do think there are going to be problems. But I don't think trade can ever fix the environmental problem. It will be ugly and messy because lots of trade action will be contemplated but that has the potential, as Jeff says, for kind of really testing the trading system.

Let's see what happens when we come to that. But I do think that going forward, there are going to be a number of other issues testing the trading system. At some stage or other, to continue ignoring them would be a recipe for undermining the system rather than preserving it. But the one thing we can all agree is that the WTO is an institution that we should do our utmost to preserve, because I think it's been a bulwark of the international trading system in the postwar period. On that, Jeff and I completely agree.

Jeffrey J. Schott: Absolutely.

Steve Weisman: Let's end on that happy note then, although we are always happy even when we disagree here. Thank you both very much for a very interesting discussion and I appreciate your willingness to articulate your different views.

Arvind Subramanian: Thank you.

Jeffrey J. Schott: Thank you, Steve. Thank you, Arvind.

