

Multilateralism and the Doha Round: A Stock-Taking

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The Doha Round, notwithstanding some recent injection of impetus, has a desultory now-it's-on-now-it's-off quality to it. To most this lacklustreness is a frustration. If only it could be brought to conclusion, the world would be so much better off, especially if one is to believe the estimates of the gains from trade liberalization that the Round would deliver (an increase in global welfare of about \$500 billion according to Bill Cline of the Institute for International Economics).

There is little doubt that there are substantial liberalization opportunities in both industrial and developing countries that are ripe for reaping. It is also true that the GATT/WTO system and the rounds of trade negotiations provide an institutional framework for making the desirable politically feasible. This framework relies on reciprocal market opening so that the domestic political pain of liberalizing imports is countervailed by the domestic political benefits of providing greater market opportunities for exporting interests. At this juncture, this reciprocity framework is in trouble.

The market opening bargains between industrial and developing countries are increasingly difficult to strike. For two reasons. First, exporting interests in industrial countries have less and less enthusiasm for the multilateral trade system as a means of achieving their access objectives. Second, there seems little prospect that industrial countries will be able to overcome their own defensive interests to deliver greater access to developing countries where they most seek it. This disengagement comes ironically when at least the larger developing countries appear, for the first time, to be prepared to negotiate seriously.

The Corporate sector in the North has been the main driver of multilateral negotiations Historically, the process of multilateral trade liberalization in the WTO has been driven by corporate interests, notably in the US and Europe, in search of access to foreign markets. The early rounds of trade liberalization in the GATT were driven by US private sector interests threatened by the trade diversion consequences of the formation of the EU and its subsequent enlargement. The impetus for the Uruguay Round came in large part from the services, and especially intellectual property interests, in the US and Europe, which were looking to boost their sales and profitability during the macroeconomically difficult times of the 1980s.

The Doha Round has always been plagued by a private sector interest deficit. The corporate demandeurs—the traditional protagonists—of the North are conspicuous by their absence. All the focus on developing country discontent with globalization and the WTO, and attempts to address it by making the Doha round a “development” round have obscured this fundamental problem afflicting the Round. This absence results from an interesting combination of success and defensiveness.

In manufacturing, unilateral and regional liberalization have diminished the stake in multilateralism

The private sector in industrial countries should be interested in seeking market opening in the manufacturing sector in developing countries, particularly the larger ones, where barriers remain high. And the WTO would seem the best vehicle for advancing these interests. Yet there has been little enthusiasm here which we would ascribe to two factors.

First, many developing countries, imbued in recent years with the policy precepts of the so-called “Washington consensus,” have been *unilaterally* dismantling their trade barriers, typically at the urging or under the tutelage of the World Bank and the IMF. Between the early 1980s and today, quantitative restrictions have been eliminated and tariff barriers have been lowered considerably. With all this happening outside the WTO framework, Northern countries do not have to expend negotiating coinage within the WTO to secure outcomes that their firms are obtaining costlessly. The WTO process is thus a “victim” of the success of the IMF and World Bank.

Second, just as countries continue to lower trade and investment barriers unilaterally, they increasingly do so in the context of regional trade agreements as described earlier. Weakly constrained by WTO law, regional integration may however be lessening the scope for, and private sector interest in, pursuing bargains at the multilateral level. The systemic effects of regional agreements for multilateral bargaining may in fact be perverse: countries in a regional arrangement may actually want less broad-based liberalization in the WTO as their preferential access to each other’s main export markets is likely to be eroded. For example, some recent simulations show Mexico as a loser from a successful Doha Round

In services, the WTO negotiations have so far failed to deliver

Don’t industrial country exporters of financial, telecommunications and other services have an interest in seeking liberalization of developing country barriers that are high in services too?

If private sector disinterest in manufacturing negotiations owes to success, in the case of services it owes in an important sense to disappointment. Services remain an area where opportunities for enhancing national and global welfare have only begun to be tapped. But despite significant unilateral liberalization, most countries have so far been wary of engaging in multilateral negotiations.

First, it is difficult to make the deep legislative and regulatory changes needed to open services markets in the context of international trade negotiations. Second, more importantly, the scope for reciprocity within services has been drastically curtailed by the unwillingness of industrial countries to consider greater openness where developing countries have a comparative advantage, notably the supply of services through the movement of persons. Evidence of the poor overall result are the generally weak and still unfinished framework of rules governing trade in services, as well as the minimal level of liberalization commitments undertaken by countries to date. Here again, as for tariffs, the wedge between the reality of present-day regulatory regimes and the level of bound

commitments often remains quite large. All these factors have led to the private sector perception that the multilateral system may not be overly effective – and decidedly slow – in delivering the real opening of services markets around the globe.

This perception is strengthened by the increasing disjunction between the accelerating product cycle firms face in global markets and the lengthening negotiating cycle governments must contend with. The blistering pace of technological progress has had profound implications for the operation of a number of key sectors, such as telecommunications, transport, and finance. But if the multilateral response continues to be slow and ponderous, private sector enthusiasm will wane further. Non-governmental routes to securing market access and standard-setting will prove more attractive for the private sector than the WTO route. So too will the call of regional inter-governmental sirens.

Even in the area of intellectual property, Northern corporate interests are not looking to the Doha Round. Many of their objectives were accomplished in the Uruguay Round. Where residual interests remain in seeking higher standards of IP protection, they are using the regional route to pursue them, and have achieved some success. For example, in the regional agreements negotiated by the US with Jordan, Morocco, and Vietnam, these countries have had to provide protection for pharmaceuticals and test data used in obtaining regulatory approval for pharmaceuticals that goes beyond the WTO's TRIPs agreement. The overall impact of this is to increase the monopoly power of the patent-holder and limit the ability of generic producers to compete.

Northern defensiveness is growing

It has become increasingly clear since the Uruguay Round that any bargain in the multilateral arena can be struck only if the demands of the larger developing countries for market opening in the North can be met. With the emergence of large developing nations as important traders on the global scene, the WTO system has to increasingly accommodate the market access priorities of these new players. They too have become demanders. What are the South's market access interests and can the North deliver on them?

Given the South's comparative advantage, it is interested in market access in four areas: agriculture, textiles, labor mobility, and cross-border services. The political problems of opening vary across these sectors.

In agriculture and textiles, two of the traditionally most protected sectors in the US, EU, Japan, and Canada, the political difficulties are well-known. Farming interests in France, and the clothing industry in the United States have been formidably effective over the years in resisting liberalization. But for different reasons, they are experiencing, or will soon experience, a bout of wrenching disruption.

In the EU, enlargement of its boundaries to bring in the countries of Eastern Europe and beyond and the consequent budgetary pressures is necessitating a reduction in subsidies. In the US, the dismantling of the clothing quotas under the Uruguay Round is now going

to expose domestic firms to greater competition. Both these developments are in a sense pre-determined. The EU may wish to present its fiscally necessary subsidy cuts as a potential concession and seek in return concessions from its trading partners. But in a world where its budgetary difficulties are common knowledge and trade negotiators are far from naive, real “payment” will come only if it goes further in its reform than it is obliged to do. But at a time of such change, the appetite for further liberalization in agriculture in the EU and textiles in the US, which is what developing countries are seeking, is not likely to be great. How much incrementally can industrial countries commit to in the Doha Round?

In the case of services, industrial countries face contrasting challenges in the modes of interest for developing countries. The mobility of labor has always been a difficult issue, but now even the openness of cross-border trade seems uncertain. Developing countries such as the Philippines, India, Sri Lanka and Egypt have a profound stake in the mobility of skilled personnel, and most developing countries in the mobility of the unskilled. Notwithstanding the large mutual gains from allowing greater labor mobility, immigration policy has yielded only the most grudging concessions. Now that traditional political difficulties have been compounded by a new fear of terrorism, it is difficult to see how greater openness can be accomplished.

The industrial countries account for more than three-quarters of all cross-border trade in services. But developing countries are among the most dynamic exporters: India, Israel, Brazil and Costa Rica are among the twenty developing countries whose exports of business services have grown by more than 15 per cent per annum in the last decade. This growth and the outsourcing of services jobs have provoked deep concerns in many industrial countries- obscuring their own comparative advantage in services. It is possible that a fuller reckoning of the foregone benefits, by the US and other countries, will lead to a more enlightened strategy. But for the moment, far from seeking greater openness abroad, the industrial countries seem unwilling to even lock in current openness of cross-border trade.

Developing countries are showing a new willingness to engage

Of course, northern disinterest is also a function of developing countries’ willingness to open their markets in the context of multilateral negotiations. As noted already, developing country markets continue to remain relatively protected in substantial swathes of manufacturing and services. But there are emerging signs that some of the larger developing countries may be willing to contemplate serious liberalization in the context of the WTO provided their industrial country partners are reciprocally willing. It is no secret, for example, that the Latin American countries are willing to further open up their financial and telecommunications sectors in return for meaningful concessions by the US and EU on agriculture. Similarly, if labor mobility were seriously on the agenda, countries such as India and the Philippines may well display an openness to reduce their trade barriers.

Are we being woolly-eyed about this? It is true that developing countries such as Brazil and India have been the notorious recalcitrants in the multilateral system. It is also true

that there may continue to be difficulty for these countries in acquiescing to multilateral liberalization of services which poses difficult questions of sequencing regulatory strengthening and other domestic reform. But what is different today, that warrants greater optimism, is both a conviction in these countries about the need for their own reform, and a recognition that these domestic reforms will be easier politically if it can be coupled with market opening abroad. In other words, these countries are interested in greater access for their exports of agriculture and labor-based services for itself, but crucially also as a means for furthering domestic reforms.

What could happen? Hazardous a prediction

If our analysis of the difficulty of getting further market opening in the industrial countries is correct, the prospects of a meaningful Doha Round may not be dazzlingly bright. What we fear may happen is that a limited set of concessions will be agreed upon based largely upon what has already been done—subsidy reduction in agriculture in the EU, and locking-in (“binding”) the already undertaken services reform in developing countries—and this package will be trumpeted as a successful Doha Round.

Are we being overly cynical? Hark back 10 years ago to the Uruguay Round. Then too a “successful” Round was concluded, and large welfare gains to the world were estimated. The problem was that the liberalization assumptions that were built into the models were disconnected from what was actually achieved under the Round. The models assumed substantial liberalization in agriculture and manufacturing by developed and developing countries. In the case of many developing countries, their “liberalization” attributed to the Round was notional even illusory. In agriculture, all of them agreed basically to bind their tariffs, often at levels higher than prevailing ones. And in manufacturing too, very little incremental liberalization took place: countries again agreed to bind tariffs often at levels higher than what they actually applied.

In the case of industrial countries, meaningful liberalization was implemented in the form of quota dismantling, but apart from that very little was achieved. In agriculture, there was dirty tariffication, meaning that countries set tariffs at very high levels to offset the elimination of quotas. Cuts in tariffs were rendered notional by an arcane process of choosing a base year well-before unilateral reductions had been made.

Furthermore, the model estimates conveniently ignored the impact of the intellectual property agreement, which would most certainly have reduced welfare gains, especially for the developing countries.

We should emphasize that our argument is not that there was no liberalization during the 1990s. Nor are we saying that the locking-in of reforms that have already been undertaken is without value. What we are saying is that the benefits of the Round per se were exaggerated and its costs underplayed. If one had cut through all the hype, the Uruguay Round was all about industrial countries eliminating their clothing quotas in return for which developing countries increased their intellectual property protection. The rest did not amount to very much. Yes, framework agreements in services and tariffication in agriculture set the stage for *future* liberalization, but much greater claims

were made on their behalf then. Yesterday's future has arrived and we will have to see how much these framework agreements deliver in terms of actual liberalization.

In sum, we have no doubts that very meaningful globalization liberalization opportunities are out there waiting to be exploited. But a meaningful conclusion to the Doha Round will not be easy to achieve. The aggressive interests are fewer, the defensiveness greater, and the larger geopolitical distractions overwhelming.

We highlight these concerns to warn that there will be overwhelming pressure to create once again the illusion of a successful negotiation with a delusory development dimension. The elements of a meaningful development round face forbidding challenges. In the industrial countries these include: cutting textile tariffs at a time when industry is coming to terms with quota-elimination; cutting agricultural tariffs when farmers are struggling to accept the cuts in production subsidies; securing greater openness to labor mobility when terrorism has cast its shadow over immigration policy; preserving openness of cross-border trade in services when the boom in outsourcing is creating deep anxieties about job security. In developing countries, the challenge is one of inducing them to use the WTO to undertake meaningful liberalization of goods and services in a way that these countries have never done so in the history of the institution.

But this is the time to face up to these challenges and muster the political will to overcome them. And if we cannot, then when the dust settles on the Doha Development Agenda, let us be honest in assessing it, based on a clear benchmark of how much truly additional liberalization it effected, rather than dressing up notional gains as serious achievements.