The *End* of the Big Trade Deal

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Why Doha will be the last of the grand multilateral trade negotiations.

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The Doha Round of multilateral trade negotiations has long been on life support. Those who recall the years in which the Uruguay Round was comatose may regard a near-death experience as a necessary stage before eventual recovery. Perhaps the mid-summer efforts to revive the talks will succeed. But regardless of whether Doha ends in at least a limited agreement, it may well be the last major round of the multilateral trade negotiations that have defined the world trading system since World War II. One way or another, trade policy officials and, indeed, everyone else concerned with international economic arrangements would be wise to begin contingency planning now.

DIAGNOSING DOHA'S PROBLEMS

The Doha negotiations have obviously been going badly for several years. It is less well-recognized that this round of negotiations was in trouble even before it was formally begun. The first attempt at launching a round, at a November 1999 Ministerial in Seattle, was a debacle. The Bush Administration had no more success in its early months. As with almost every aspect of international relations, the

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September 11, 2001, terrorist attacks on the United States changed the trade dynamic for a short time. The November 2001 ministerial in Doha was one of the first occasions for the world's governments to show their resolve that terrorism would not rend the fabric of international cooperation. Yet even with this powerful incentive for agreement, and the symbolic gesture of naming it the Doha Development Round, the bare outline of a negotiating agenda took six days to hammer out.

In the intervening five years, Doha has been characterized by missed deadlines and recurring charges by the protagonists that someone else is to blame for the lack of progress. The looming expiration of U.S. fast-track negotiating authority has not, at least to date, effectively focused the minds and energies of trade officials, as in earlier deals. Of course, many factors have conspired to impede Doha since before its formal launch. What is notable is how many of these are structural obstacles that will remain even as unfavorable transient factors recede.

First, the always unwieldy organization of negotiating rounds has become nearly dysfunctional. The original 1947 GATT had about forty signatories; today there are more than 140 members of the WTO. The challenges in coordinating negotiations among such a group are considerable. Yet numbers alone do not tell the whole story.

So long as only a relatively small set of countries had both interest and influence in trade negotiations, it essentially drove the process. Traditionally, this privileged group had the United States and Europe at its center, with Japan and a handful of other countries also playing key roles. These countries were mostly, though not exclusively, interested in commitments from one another. Much of the developing world spent its limited negotiating capital avoiding market access commitments and promoting the principle of more favorable access to the markets of developed countries. The latter, being an exception to the trading rules rather than a reciprocally negotiated benefit, was put into practice solely at the discretion of the developed countries. Moreover, its value was inexorably diminished as the tariffs of developed countries were progressively reduced.

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Beginning in the Uruguay Round, however, the developed countries increasingly set their sights on commitments from the fast-growing emerging market countries. The admission of China to the WTO has accelerated this trend. Many of those countries, in turn, have adopted a strong export orientation and are thus themselves increasingly interested in access to the affluent countries for their competitive industries. While the emerging market countries have some shared positions, they also have different negotiating emphases, a reflection of their varying sources of economic strength. Except for occasional tactical purposes, they do not comprise a negotiating bloc. They all need to be involved individually in the trade talks. The result is a very complex negotiating dynamic.

A second, related factor is the change in leadership capacity of the United States and the European Union in trade negotiations. The just-mentioned importance of emerging markets would in any case have decreased somewhat the relative

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influence of the world's two economic giants in the WTO. But geopolitical and domestic changes have further diminished the ability of those two polities to exercise control. The slow erosion of the U.S-European alliance following the end of the Cold War has a subtle but real impact on most areas of cooperation, including trade. Widespread global disenchantment with U.S. foreign policies in recent years has, at least at the margin, made many countries less willing to follow American initiatives in other areas such as trade.

Meanwhile, trade policy has become another battlefield for partisanship in the United States and another occasion for a reassertion of Member State prerogatives in the European Union. For trade officials in both countries the result is a considerably narrower domestic scope for making forward-leaning concessions to move negotiations. The domestic and geopolitical handicaps to effective U.S. and European leadership in the WTO compound the difficulties created by the cumbersome character of WTO negotiations. Since no other countries will soon possess the combination of influence, willingness, and experience needed to guide the WTO process, the diminished leadership capacities of the United States and European Union will be the only ones available.

A third structural obstacle to wide-ranging trade negotiations is the domestic resistance built up within many countries to the incursion of trade agreements into domestic regulatory policy. In the United States and Europe the opposition arises from the WTO restrictions on national health and safety measures, such as prohibitions on growing or selling food containing genetically modified organisms. In many developing countries the opposition has centered on the Uruguay Round requirements that all WTO members afford certain intellectual property rights to foreign companies. Here the big issue has been the availability to these countries at prices they can afford of patented pharmaceuticals needed to fight AIDs and other serious diseases.

Although these concerns have not themselves been sufficient to defeat any agreements to date, they have prompted even many committed free traders to question how extensively the WTO should govern domestic regulation. Yet the priorities of many exporters are directed at just such regulation. Negotiations on liberalizing trade in services inevitably raise a host of regulatory issues, which are exceedingly difficult to deal with in large, multi-sector negotiations except in fairly blunt fashion.

A fourth obstacle to successful multilateral trade negotiations is the waning interest of American, European, and Japanese multinationals. Historically, these export-oriented companies have provided a major part of the domestic support for trade agreements. Ironically, the very success of past rounds has given many of these companies most of the liberalization they need, both in opening export markets and facilitating international intra-company trade. Some companies have recognized that additional international rules they favor—such as the desire for more intellectual property protection—are unlikely to be adopted. Consequently, while most of these large companies support Doha, they allocate considerably less of their political weight to assuring its successful conclusion and domestic implementation.

A fifth factor impairing large trade rounds is the availability of bilateral and regional alternatives. The George H.W. Bush Administration more or less explicitly touted NAFTA and APEC as alternatives for U.S. international economic policy in the event that Europe could not break its internal logjam on agricultural issues in the Uruguay Round. The tactic worked and the Uruguay Round was completed. Without fast track authority, the Clinton Administration turned in its waning days to non-controversial bilaterals as a way of maintaining an active trade policy. The George W. Bush Administration tried the earlier tactic of using bilateral and regional trade agreements as a way to prod the rest of the world forward on Doha, but this time the tactic has failed, in part because the commercial value of the recent trade agreements (and thus the threat they pose to non-participants) has been quite modest.

Despite the limited returns of the Bush policy to date, the approach appeals to at least some trade supporters. For one thing, these negotiations can be wrapped up relatively quickly compared to the glacial pace of multilateral negotiations. While exporters may not gain more access to big markets, at least they can achieve something tangible. Meanwhile, other countries—including many in East Asia—have themselves begun to pursue a bilateral and regional trade agenda. In

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part this strategy is a hedge against the failure of Doha, but in part it reflects the efforts of some countries to undercut the U.S. position at the center of the international economic system.

BEYOND DOHA

Nothing said so far is an argument against a concerted effort to bring the Doha Round to a successful conclusion that realizes its goal of promoting trade liberalization, with special attention to measures that will increase agricultural export opportunities for developing countries. Even if this is the last big trade round, new approaches for the trading system will more easily be built on the heels of success.

As of this writing, there has been at least a glimmer of hope. Although the Bush Administration has had three capable trade representatives, only recently has the White House itself shown any real interest in Doha. Without White House involvement, the USTR could not count on the political support that will probably be needed to complete the round—at home to moderate the demands of various interest groups, and abroad to galvanize the leaders of other countries to take action. Perhaps President Bush's personal embrace of Doha this summer will finally yield progress.

Whether Doha succeeds or fails, though, each of the five obstacles will be more than a passing phenomenon. Of the five, the diminished U.S. and European capacity for trade leadership is the only factor that could, in the foreseeable future, realistically become more favorable to prospects for Doha and, eventually, another large trading round. Elections in the United States and key European countries could put into office, or into positions of greater influence, political figures willing to expend more effort on another round. They might subscribe to the logic underlying the last three big rounds—that the multilateral system can move forward only by bundling together in one large negotiation enough issues to allow multiple cross-sectoral trade-offs among countries.

Yet even with a renewed U.S. and European commitment to a big trade round, the other structural obstacles would remain. In fact, pursuit of a big post-Doha round could actually be counter-productive for the multilateral trading system. Different approaches within the WTO will not be given a serious try so long as key actors cling to hopes of a big round. Also, because a proposal for a new round will seem quixotic to many trade officials, companies, and other involved parties, they may react by devoting their energies to bilateral and regional alternatives that appear more realistic.

Thus, even as governments, exporters, and others should join in a last push to complete a somewhat scaled back Doha Round, they would do well to begin planning for what comes next. There are many possibilities—some obvious, others less so, none easy, and all with shortcomings. Plurilateral agreements within the WTO, service sector agreements that involve both trade officials and domestic regulators, combined trade and development initiatives under the joint auspices of the WTO and the World Bank, and mini-rounds are just some of the options. There must also be a serious discussion of the merits of a more considered and concerted agenda of bilateral and regional trade agreements. Although the economic and foreign policy arguments against such an agenda are considerable, especially for the United States, the absence of a clear alternative multilateral path makes this a necessary debate.

The landscape of the trading system has changed immeasurably since the Tokyo Round of the late 1970s, much less the tariff reduction rounds during the first few years of the GATT. Those who are interested in strengthening the multilateral trading system and assuring its political viability must break their attachment to the big round that evolved from those earlier efforts. The time for innovative thinking has come. ◆