IS THERE A FUTURE AFTER DOHA?[1]

Kurt Hübner
University of British Columbia, Vancouver

Trade negotiations usually come with the blame game; national governments accuse each other of self-interested and blocking negotiations instead of looking at the greater good and cooperatively striving for an optimal outcome. Vested interests are all over the place, and they do everything to exert their influence. The Doha round of global trade negotiations is exemplary in this respect. After the failed talks in Potsdam, Germany, in the summer 2007, big players like the European Union and the United States reiterated their positions that the developing countries, and in particular some of the emerging market economies in Asia, are unwilling to provide the necessary cooperative input and refuse to cut tariffs for manufacturing goods in order for a deal to be reached.

The developing countries, in turn, cite the unwillingness of the EU and the US to undertake a radical makeover of their agricultural policies. At the same time, the EU argues that it is the US who is unwilling to undertake a dramatic shift in agricultural policy.

These tactics are not really new. The entire history of the General Agreement on Tariffs and Trade (GATT) can be read as an elaborated version of the blame game. It is equally true that global trade negotiations are somewhat famous for flirting with collapse and succeeding only at the last moment under dramatic circumstances (Bergsten 2007: 13). What is different this time, however, is that the various actors could not find a way out of this ritual and this round did not see a last minute compromise translated into a trade agreement. What started with the Ministerial Declaration in November 2001 as the so-called Doha Round today lies dead, and all attempts to revive the negotiations are likely to be futile as long as national governments are unwilling to wake up to the realities of the global economy at the beginning of the 21st century[2].

The failure of Doha may be seen as economically negligible. As Andrew Rose (2004) argued, GATT/WTO has not contributed to a significant increase in global trade during the last few decades. His econometric study clearly demonstrates that trade patterns among GATT/WTO members economies did not significantly differ from that of non-members. In other words, the surge of exports would have been similar without all the hassle of trade negotiations within the framework of GATT/WTO. Such a conclusion may, however, be too far-reaching. Taking up a notion put forward by Rose (2004:112) himself, Goldstein/Rivers/Tomz (2007) argue that GATT/WTO successfully infiltrated principles like the most-favored nation status into the norms of most governments, with the implication that GATT norms work even in the case of non-members. The embedding of such norms, as they show, drives global trade practices and produces the praised positive effects of this multilateral institution. Without GATT/WTO, so the further conclusion, trade dynamics would have been much less pronounced. This argument in favor of international and more so multilateral trade agreements was first provided by Johnson (1954) who made the case that the absence of such agreements would make countries to exploit their international market power and thus provide the ground for trade wars.

Taking this stance, the failure of Doha looks like a drama as it may lead to the un-embedding or at least the undermining of long-established principles of global free trade, and by this to a new global trade war leading to a *balkanization* of the trading regime. As a matter of fact, parallel to the Doha negotiations we can observe a surge in bilateral trade and investment agreements, a process that can be interpreted as a serious fragmentation of the global trade regime. Since the early 1990s, the number of Regional Trade Agreements (RTAs) has increased sharply. As of December 2006, some 368 RTAs have been registered at the WTO and 215 of those were in-force. It is estimated that the actual number of RTAs is close to 400, of which about 90 per cent were free trade agreements and partial scope agreements (WTO 2007). Whether such agreements act as a stumbling bloc for global free trade is debatable. Pomfret (2007), for example, argues that most of those agreements involve the US and/or the EU, both of which are strong underwriters of the principles of global free trade and therefore quasi-automatically guarantee the persistence of free trade practices. Even though RTAs can be seen as second-best arrangements, it is not clear whether they indeed undermine multilateral principles as much as some observers have argued. Michel Fouquin (in this issue) provides simulations on the effects of RTAs on the global trading regime which demonstrate that the sheer number of RTAs says nothing about the actual economic effects of such agreements. According to his view RTAs are not *per se* undermining global trade. However, his close inspection of some of those agreements indicates that there is the possibility to integrate discriminatory elements in such agreements. Robert Wade (in this volume) argues that the main players are more and more looking to generate regional trade and investment networks and that trade negotiators should substitute the term 'global' by 'regional'.

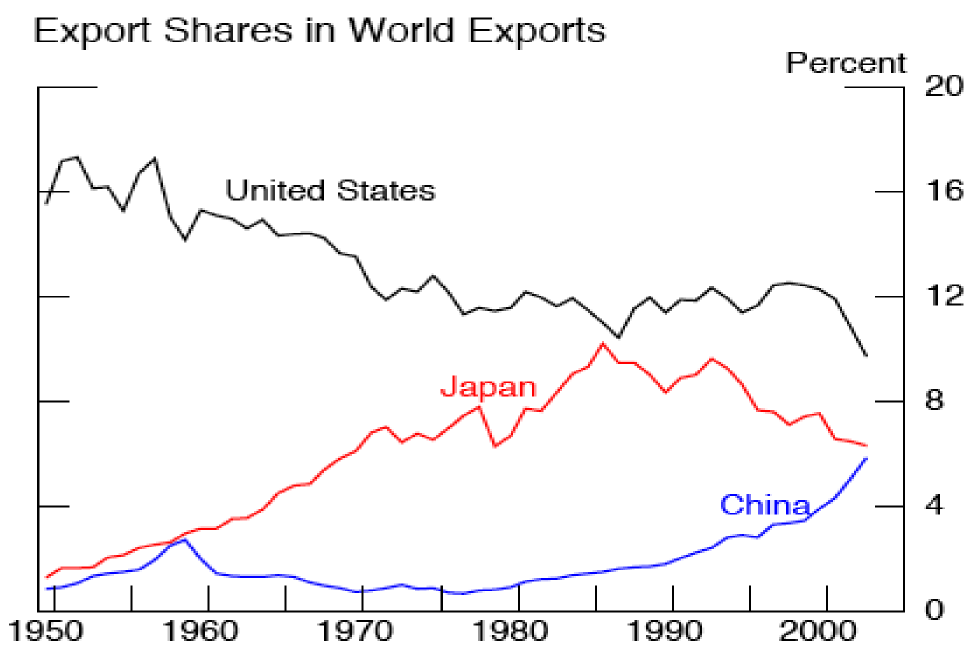
Unlike previous trade rounds, Doha suffers of diminishing returns for developing as well as the developed economies (Sally 2006). Given the achievements of the past, potential gains for these actors are still positive but not as high as to generate pressure on national governments. With tariffs at a low level, the attention has moved more and more to sensitive areas like property rights, public procurement, and services at large. Nowadays trade models that are used to simulate and calculate trade benefits come up with significantly lower benefits of trade liberalization than those used previously (Ackerman 2005). More so, the smaller gains are highly unevenly distributed between actors of the South and the North. The concept of a multilateral regime of free trade and liberalization is no longer the most promising strategy for maximizing the benefits of cross-border trade. Instead of going global, more and more governments support bilateral initiatives. The old-new proposal for a Transatlantic Free Trade Agreement (TAFTA) put forward by the German Chancellor Merkel during Germany's EU Presidency demonstrates such strategic behavior: instead of waiting for a positive end of the Doha round, the EU went for a bilateral path to improve market access between the EU of 27 and the US.

This move may not automatically undermine global trade but it does send out a strong message that the 'big countries' are willing to move on without addressing the impasse of Doha[3]. China as a new WTO member has also made prominent use of the RTA clause, setting up regional trade agreements with Hong Kong, Macao, ASEAN, Australia and New Zealand. Whalley (2006: 219) reports that agreements with India, Chile, Singapore, South Africa, and the Gulf Cooperation Council (GCC) are being discussed. China seems to be using regional agreements as a policy tool to position itself as a well-networked economy in Asia and at the same time to introduce special treatment clauses into trade relations. In this respect, China is acting similarly to the EU and the US, a practice that can be interpreted as an accentuated case of selective adaptation where the Chinese government makes strategic use of an evolving international regime. The proposal for a deepening of the Atlantic economic relationship has a longer and overall rather unsuccessful history as it was never realized as a political project. However, trade and foreign direct investment between the US and the EU are very well developed, and so are the political and cultural ties. At the same time, economic relations still suffer from barriers, hurdles, national interests, and the idiosyncrasies of various actors. A political agreement between the global economies' two largest trade blocs could overcome many of those barriers. Due to the loss of his fast track authority in June 2007 and his overall domestic political decline, the current American president may not be in a position to go forward with an agreement with the EU. An incoming Democratic President may be confronted with strong protectionist demands on the side of domestic labor and business and therefore not be interested in going forward with a bold Doha strategy. Bilateralism may be a political way out.

The newly launched TAFTA initiative aims to improve trade relations between the two big blocs that still dominate global trade[4]. However, this dominance is no longer guaranteed (see Lévy in this issue). The rise of capitalist market economies like China, India, and a few other emerging economies has fundamentally changed the global game (see graphs 1 and 2). Following the flying geese-pattern of economic development, they have established themselves as highly competitive suppliers of manufactured goods for the global economy and quickly moved up the value added-ladder. Trade between the group of OECD economies and China plus India represented only about two percent of the overall OECD trade in 1980; China's share has subsequently increased to ten percent, and India's share has grown to roughly 3 percent since then (OECD 2007: 110).

Paradoxically, the trade success of economies like China is due not to the ingenious use of the principles of free trade and simple comparative advantages but rather are the outcomes of state economic policies that allowed the country to end up with a basket of advanced export products that are far above what one could expect from the income-level of an economy like China (Rodrik 2006: 12). In 2006, China nearly had the same share in world exports as Japan, and even more exceptionally, the top of its exports list features electrical machinery, and power generation equipment as exports (Marquez/Schindler 2006: 4). Asia is on its way to deepening its regional integration. However, it is important to state that this process is mainly driven by a few countries and not by the Asian Pacific Economic Cooperation (APEC) as such. As a matter of fact, the region is closer to a dense network of bilateral trade agreements then a Free Trade Area of Asia-Pacific as some observers suggest (Bergsten 2007). The concrete shape, form and content of an Asian RTA however remain still unclear. Fouquin (in this issue) provides simulations demonstrating that different pattern of Asian RTAs would lead to different benefits for potential partners. Given diverging national interests and the cultural cleavages, it is an open political question which of the many versions of an Asian RTA, if any at all, will finally succeed. Given that Asia is now the most dynamic economic region in the global economy it seems realistic that regionalism will only spread further. 'Big' traders like the US and the EU foster this regionalization by trying to partner up with as many Asian-focused RTAs as possible.

Graph 1

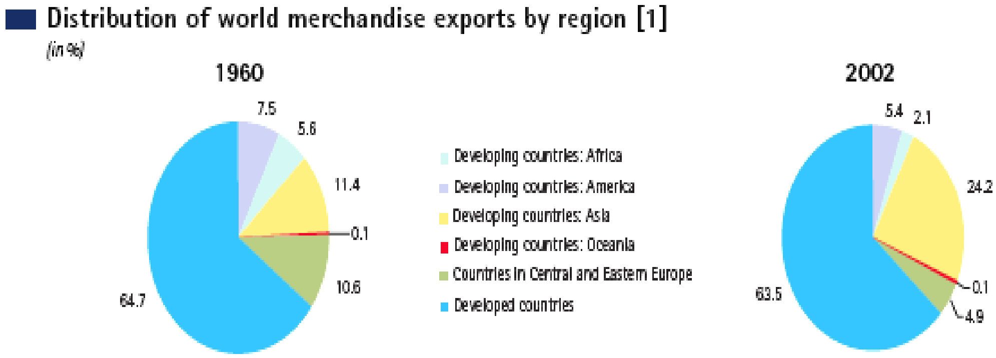


The integration of these economies into the overall global economy sharply increases the scope, range and intensity of competition for the advanced capitalist economies. Trade liberalization today poses severe challenges for many sectors of advanced economies due to the rapid rise in global competitiveness of emerging market economies. Loss of market shares and more so, the loss of jobs makes pushes by governments towards further liberalization increasingly more difficult. Whether an increase in trade openness leads to an increase of job losses is highly debated in the literature. The bottom line is that the skills that are no longer in demand do not automatically correspond with the newly demanded skills due to trade and investment dynamics (OECD 2007: 127ff.). Theoretically it can be argued that economic globalization increases the elasticity of labor demand (Rodrik 1997; Hübner 2001) and through this undermines labor market power of trade unions. Empirically it seems that such a process, though in a relatively low-impact version, can be found in several OECD economies. It comes therefore as no surprise that domestic agendas, as Thomas Palley in this issue shows, heavily influence the US position towards the Doha round and the ongoing rescue attempts. National constituencies that are impacted by global trade express a strong demand for shelter against the adjustment costs. In the case of the current Doha round those demands take protectionist forms, mainly against China which is seen by Democratic as well as Republican senators as using dumping measures and in particular by artificially undervaluing its currency (Hübner 2007).

Adding development, labor rights and environmental issues to the agenda reflects the new realities of the global economy. In this respect, WTO is different from the former GATT that dealt solely with tariff reductions and removing non-tariff barriers to trade. Drache/Froese (in this issue) argue that this broadening and deepening of the agenda is responsible for the failure of Doha as negotiators, e.g. governments, can no longer rely on the usual negotiation strategies and methods. Those strategies and methods, as Steger (in this issue) stresses, are part of an institutional culture that was established and fostered by the successes of the various GATT rounds. The resulting architecture of the global trade regime very much served the interests of the advanced capitalist market economies. If we take the number of dispute settlements as an indicator of the smooth working of this regime, it is striking that this number is on a steady rise. More so, the bulk of dispute settlements brought into action are of 'north-north' character. In other words, it seems as if the trade regime is enduring a rough ride. However, the rise in the numbers of disputes can alternatively be read as a success of the established norms and institutional principles as member states of the WTO actually make use of their rights.

At the same time, the spread of international and also transnational production networks undermines the traditional case for free trade. When a significant share of cross-border trade takes the form of intra-company trade, the case for free trade changes fundamentally. International production networks are put in place by rational decisions of transnationally operating companies which exploit comparative advantages alongside their value chain. This leads to a new phase of global integration where integration afflicts not so much national economies as such but micro units that may – like islands - be separated from the reproduction of domestic economic circuits. Such networks rely on cheap transportation and well-established communication structures. In the case of a totally free trade regime, it can be shown that these networks generate positive welfare effects for participating economies – losses of some actors will be more than compensated by gains of others (Arndt 2007: 388 ff.). However, as Samuelson (2004) recently argued, under conditions of rapid outsourcing and catch-up in productivity by the group of emerging market economies, the gains may flow only to one side of the exchange.

Graph 2



Source: UNCTAD 2007

It goes without saying that globalization is increasingly meeting political skepticism in both advanced as well as non-advanced economies. The Doha round, though labeled as 'development round', did not adequately respond to the challenges of globalization. In the world of advanced capitalist market economies, fears of losing in the competition with the small number of emerging market economies led to a rise of new protectionism. In the developing world, the notion of free trade has come under fire, as the rising tide of globalization has not lifted all the boats in this part of the world in the same way as in others. This failure has negatively influenced the Doha negotiations but also offers the opportunity for discussions about a new trade regime that reflects the needs of a more balanced growth regime on the global level. Steger (in this issue) argues that the Doha round is stuck with the culture of trade negotiations of the 'old GATT' and therefore structurally misses the opportunities and challenges of the 21st century. This seems exemplary to be the case for Canadian trade strategies, as Dymond (in this issue) argues, which for a long time seemed to favor Doha and have only recently started to accept the new realities of the global trade arrangements.

The unwillingness of the US and the EU to engage in a radical overhaul of their agricultural policies is often referred to as the main reason for the stall of Doha. The Fischler reforms of the Common Agricultural Policy (CAP) have changed agricultural policies in the EU and made farm policy spending more or less independent from the varying conditions of agricultural world markets. This move was mainly motivated to win acceptance in the Doha round (Cardwell/Rodgers 2006). In the US, the situation is different as agricultural spending still replies to world market conditions and acts as a shelter for domestic farmers. Given the crucial importance of farm states for the US elections there is no reason to expect any action on this front until the elections in November 2008. Developing countries' hopes for better market access remain unlikely as long as the EU and the

US follow their own trajectories. Given the fact that Doha was supposed to focus on the developmental needs of developing countries with special emphasis on agricultural trade liberalization, the stance of the 'big two' comes as a disappointment for the developing world. This is in particular true for the economies of the Asia Pacific region, which would have the most to gain from a total liberalization of agricultural trade (Anderson/Martin 2007). Agriculture definitely is at the top of developmental issues that must be solved if there is to be a future beyond Doha. A new global trade regime, however, needs to go beyond agriculture and deal with the pressing issues of a global economy characterized by unevenness and inequality. Such an agenda would have to simultaneously address the re-establishing of the principle of multilateralism that is endangered not only by regional agreements but also by the desire of non-governmental organizations fighting for labor and environmental standards.

Notes

[1] The chapters assembled for this issue are revised versions of an international conference on "Trading Cultures: Trade Policies after Doha", held March 2, 2007, at the *Institute for European Studies* and *Institute for Asian Research*, University of British Columbia. This introduction benefited from the contribution of Pitman Potter, director of the *Institute for Asian Research* at UBC.

[2] The length of negotiations has increased from round to round. The first Geneva round was completed in no more than 8 months but has increased significantly since the mid-1960s. The Uruguay round needed 91 months until an agreement could be signed (Martin/Messerlin 2007: 349). Doha is now in its seventh year, and as argued in this paper will not come to a successful end.

[3] Garnaut and Vines (2007: 518) argue that the regionalization of global trade has been started or at least strongly supported by actions of the US. The undermining of the principle of multilateralism comes with a price as Krueger (2007) argues.

[4] It is of interest in this context that in June 2007 Canadian Prime Minister Stephen Harper signed an agreement with the EU for the enhancement of the Economic Partnership between Canada and the EU. This move can be interpreted as a further segmentation of the global trading regime as Canada and the EU target a different agreement than the US and the EU (not to talk about the again different nature of NAFTA).

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