A New Realism in the Doha Round?
A Roundtable Discussion

John M. Curtis and Dan Ciuriak*

On March 2-3, 2006, a group of leading observers of the international trade and investment scene gathered in Ottawa for an informal discussion of the prospects for the Doha Development Agenda in view of the progress in negotiations made at the Sixth Ministerial Conference of the World Trade Organization (WTO) at Hong Kong, China, December 2005. The roundtable discussion was sponsored by the Centre for International Governance Innovation at the University of Waterloo and the International Development Research Centre, in coordination with the Department of Foreign Affairs and International Trade. The talks focused on the progress of negotiations and the prospects for an ambitious outcome, taking into account the geopolitical and international macroeconomic context, as well as looming developments on the political calendar. This note represents the Chair's thematic summary of the discussions. As these were held under Chatham House rules, no attribution is given. Responsibility for the interpretation of the discussion rests entirely with the authors. Although the prospects for a successful conclusion of the Round remain in doubt, the analysis is still relevant.

---

* John M. Curtis was at the time Chief Economist and Dan Ciuriak Deputy Chief Economist, Foreign Affairs and International Trade Canada. The views expressed in this Chapter reflect the discussion at the roundtable and are not to be attributed to Foreign Affairs and International Trade Canada or to the Government of Canada, to the Centre for International Governance Innovation, University of Waterloo, or to the International Development Research Centre.

Introduction

With the benefit of now a half-decade's worth of perspective, it is clear that the Doha Development Agenda was pre-destined to delay and quite possibly to modest results.

Trade agreements have commercial objectives; but the Doha Round was launched in good measure as an international political response to 9/11. At the launch date of what became known as the Doha Development Agenda in November 2001, the commitments of the Uruguay Round had not been fully implemented, let alone absorbed. The technical groundwork for a new Round had not been laid; movement on the built-in agenda mandated in the agreement that concluded the Uruguay Round had been negligible. And the major looming challenges for world trade were to absorb the impact of the then imminent accession to the World Trade Organization (WTO) of China and the expiry of the textiles and clothing agreement.

Contextually, the Doha Round was launched at a point in time when the so-called Washington Consensus on economic policy was unraveling in the wake of a stunning series of emerging market crises that had begun with the Mexican financial crisis in 1994. Governance issues were literally exploding with anti-globalization protests at one international venue after another.

And two of the key issues in the Round were to be development and agriculture; as one indicator of the difficulties posed by these issues, the need to address them in the multilateral trade system was first noted in a report to Members of the General Agreement on Tariffs and Trade (GATT) back in 1958 by a panel of leading experts chaired by Gottfried Haberler. Four rounds have been completed since then; while some disciplines were adopted as part of the Uruguay Round outcome, agriculture and development remain major issues.

Complicating matters was the fact that some developing countries had come to feel that they had been, in the words of one observer at the Roundtable, "ambushed" in the Uruguay Round and were seeking a rebalancing of the results of that Round (which would of course not be in the interests of constituencies in the industrialized world such as the pharmaceuticals that had pushed for the Uruguay Round). Nor did it help that the first concrete steps on agriculture after Doha had been backward—the European Union's extension of the Common Agricultural Policy (CAP) in 2003 and the US Farm Bill of 2002 which expanded US agricultural support quite substantially.

Given the scale of the challenges, it is at least arguable that the Round progressed, all in all, rather well through its first four years—and indeed not out of line with what in retrospect would have been reasonable expectations. Consistent with this expressed optimistic view, the hard slogging in Geneva and various Ministerial meetings (plenary and mini) might well have served to bring expectations into line with a feasible outcome, finally allowing the Round to enter what one observer termed an "Age of Realism" in which the final moves toward agreement might be quickly and decisively taken.

Or not. Contemporary assessment of major events is hampered by the stubborn indeterminacy of the future—which in small part at least reflects the fact that contemporary assessment is itself part of the analytical feedback that plays into ultimate outcomes.

The following is a synthesis of the thoughts and views of close observers of the trade scene as regards the state of the multilateral trade negotiations and more generally of the global trade scene, as they were put forward and discussed in Ottawa shortly following the Sixth Ministerial Conference of the World Trade Organization (WTO) at Hong Kong, China, December 2005.

Is the Round still "doable"?

At the roundtable, it was argued that the outcome of the Doha Round negotiation turns on several inter-related questions:

- whether there is a persuasive commercial case for the round;
- whether a deal can be configured that meets the commercial objectives, with a reasonable balance of negotiating gains and concessions for all Members, and that is at the same time politically feasible; and

- whether such a deal can be put together in time—which for practical purposes means by July 1, 2007 when US Trade Promotion Authority (TPA) expires, or in such additional time as might be provided by an extension of the TPA?

Is there a commercial case for the Round?

Who is interested in the Round? In response to this question, it was noted that the lobbyists do have clients in a number of sectors and that all their clients want a big result from the Round. So there is business interest. This may be more apparent in the United States where the trade policy process is more directly business driven than in Europe, where it is very hard and time consuming for interest groups to press their views, given the layering of institutions (national governments, European Business Associations, and the Brussels bureaucracies).

The breadth and intensity of the interest is not clear, however. Some developing country observers, for example, see an "interest deficit" in the OECD countries—that is, there is no interest in opening up, especially in agriculture. Thus, it was noted, the agreement at Hong Kong to limit sensitive sectors to three percent of all tariff lines provided no assurance of market access gains since developing countries often have exports concentrated in a handful of tariff categories. The three percent carve-out could cover *all* areas of interest to many developing countries, it was suggested.

And some countries have diametrically opposed interests to improved market access—their concern is preference erosion, a major consideration for a large number of the poorest countries.

Accordingly, while it was argued that there is “money in the Round”, when one tries to pull together a comprehensive perspective on interest in the Round, the result is a rather confused and not totally persuasive picture.

The political jigsaw puzzle

That being said, it was suggested that the shape of a deal that is do-able in commercial terms is reasonably well understood. Indeed, one observer argued, if the trade negotiators from the top twenty or so trading economies were to write down their view of such a deal, there would be a high degree of convergence of views. The question is whether we can get there *politically*, domestically and internationally – i.e., is there a feasible solution in political economy terms?

On the one hand, a deal that would bring the then 149 WTO Members into the fold would, it was argued, maximize the pain for the advanced countries, with greater agricultural reform in the EU and the US than had been forthcoming to date. It would also require more in the way of market access concessions from the big emerging markets than has been put on the table so far. On the other hand, a small deal would reduce the pain for the advanced countries but would not be saleable either to the US Congress or to developing countries, particularly the least developed.

Much was seen as depending on the United States and the European Union.

The situation in the United States was seen as problematic if the July 1, 2007 TPA expiry deadline were not met since the case for extension was not there. The gloomy view was that, with the Administration's approval rating in "free fall", the Democrats had no incentive to bail it out. But some held out hope that, by January 2007, with Congress re-shaped by mid-term elections and the unfolding of political and economic events, a case for extension might be made. "Trade votes, it was pointed out, have not been won on economic arguments alone: Foreign policy and security got us into this mess and will get us out of this mess". In support of this view, it was noted that, while the declining polls for the Administration have stimulated protectionist rhetoric in Congress, potential presidential candidates had largely stayed "above the fray" on trade protectionism. As well, recalling that the Uruguay Round agreement was reached shortly after the United States brought in Robert S. Strauss, an individual with a reputation as a "closer", to hammer out a deal, some expressed hopes that Ambassador Portman, an individual who was popular in Congress, might similarly be the man of the hour. [1]

As regards the European Union, some questioned whether the chief EU negotiator could actually go beyond the still-inadequate package on the table: Is the EU negotiating posture a charade, it was rhetorically asked? If not, what does Commissioner Mandelson have to do to get a change? In response, it was pointed out that, while the EU negotiating process is indeed cumbersome, the history of the Uruguay Round shows that movement is possible. The 1992 reforms to the Common Agricultural Policy (CAP) engineered by Commissioner McSherry made the Uruguay Round agreement possible, as Roundtable participants were reminded. The McSherry plan, it was observed, arose as a result of international pressure placed on Europe during the Uruguay Round (Blair House being the key meeting that set up the EU move). Importantly, it was further argued, the farm situation in France, which has been the key stumbling block for CAP reform, is changing. Popular sympathy for the CAP had historically been based on the notion that it helped small farmers; in reality, the CAP funds flow mainly to large farmers (In fact, it was indicated, the Queen of England and the Prince of Monaco have been identified as major beneficiaries). This is becoming increasingly understood, which is causing a shift in public opinion. The European poor are the main losers from the CAP and consumer attitudes against high food prices are hardening. At the same time, French farmers are becoming aware that they can become competitive (including through greater use of genetically modified crops). The French support freer trade by a margin of 60-40, it was asserted, preferring the movement of goods to the movement of people. The EU debate is thus changing and chances of a breakthrough should not to be entirely written off. However, timing is uncertain: as is the case with tectonic plates, pressure builds up and then there are sudden shifts, the timing of which is hard to predict.

[1] Editor's note: These hopes were dashed shortly after the Roundtable when Ambassador Portman was appointed Director of the Office of Management and Budget in June 2006.

The question of time

The time required to negotiate a deal must be understood as being in part a function of the effort provided. Thus, it was argued, with an injection of some new energy and, given sufficient effort, a big deal could be put together in a short time.

However, given where the negotiations were in the immediate aftermath of the Hong Kong Ministerial, some saw the unofficial deadline of TPA expiry as, for practical purposes, having already been missed. If so, it was argued, public perceptions and the negotiating dynamic would depend heavily on whether the US Administration can get TPA extension. With TPA extension in hand, July 2007 would then be seen as the midpoint of an extended but live Round; without extension, talks might continue but July 2007 would be widely interpreted as marking the *de facto* failure of the Round: in the words of one observer, "Without the TPA deadline, things would stop."

To some observers it seemed quite extraordinary that the whole exercise *should* depend on US trade negotiating authority. Amongst the developing countries, it was noted, there is unhappiness with being in effect "blackmailed" by TPA expiry as a deadline for the negotiations.

But others argued that it was important to take advantage of the deadline provided by TPA expiry for the good of the multilateral trade system. Regionalism, it was suggested, is "at the gates".

Rounds do get done

While there was no clarity regarding the sufficiency of the commercial interests, the existence of a feasible outcome in political economy terms, or the sufficiency of time, an optimistic note was sounded by some observers. It was pointed out that rounds do get done. To be sure, there is a lot of posturing; but, in the end, negotiators cut a deal on the basis of what is on the table. For example, the last three Rounds—Kennedy, Tokyo and Uruguay respectively—resulted in tariff cuts of about 33 percent, 33 percent, and 33 percent. How hard is it to guess what the next number will be? Realistically, farmers will get their money, even after an ambitious, successful conclusion to the Round; it is a question of which "box" the money falls into and just how trade-distorting the support will be. Ultimately, the Doha Round may not be a "big" result based on *ex ante* expectations and hopes; but, it was suggested, when we look back, it will in fact be seen as a big result.

What was needed to move things forward was to connect the various elements of the negotiation—services, NAMA, agriculture and other elements—in order that the trade-offs could better be framed. In this regard, the Hong Kong Ministerial had established a useful common deadline of July 31st 2006 for progress on agriculture and NAMA and for the first real services offers. Further, it was noted, the plurilateral approach that has been adopted for services is happily also a sectoral approach; this can drive a constructive dynamic and lead to a different kind of negotiation based on sectoral specifics.

To summarize, in response to the question "Is the Round doable?", the discussion yielded an answer that might best be characterized as "The Round is not undoable."

Development: the Major Conundrum in the Round

Without a doubt, development has been the most contentious and ultimately confused aspect of the Round. Some saw this as a congenital defect in the framing of the Doha Development Agenda (DDA); according to this view, the Round had been misconstrued from day one.

Some of the confusion reflects the fact that it was, as one observer put it, "a masterpiece of constructive ambiguity".

However, it cannot be ignored that the choice in Dubai in November 2001 had been to have a development round or not to have a round at all. The Round was launched on the basis that it would provide a response to the North-South divide that had emerged from the outcome of the Uruguay Round—regardless of whether the emergence of this divide was an unintended consequence or a reflection of the power imbalance in the negotiations, a point on which views differed. The problem lies therefore not so much in the origins of the Round as in the lack of agreement as to what the Round was to deliver with respect to development.

Trade and Development: Clarifying the Link in the Doha Round

As one observer put it, the term "trade and development" is somewhat like a Rorschach test: everyone sees something different. To some it means agriculture, to others it means "aid for trade" (or capacity building), to others it is about preserving policy space, and to others it is about market access (supported as necessary by capacity building). That being said, observers from both the developed and developing worlds argued that considerable progress had been made in clarifying the ambiguities papered over at Doha. As one observer put it, the use of the development label for the Doha Round did create confusion but we are now almost out of those woods.

In this regard, it was argued that the development community has come a long way in recognizing that development is very complex and largely domestic. While trade liberalization is seen as an integral part of restructuring economies to take advantage of globalization, the idea of a trade round driving development, it was suggested, has the tail wagging the dog. The practical problems facing the would-be exporter in a typical developing country—e.g., long delays and theft of goods in transit—are not matters that the WTO can deal with. Similarly, WTO rights and obligations represent only a small part of the development function—for example, it was noted, it is not the handful of artists in developing countries who actually have foreign sales who need intellectual property protection but rather the thousands who work in the domestic market who do not.

Moreover, it remains difficult to bring development into the mercantilist negotiating framework of a trade round. For example, it was suggested that there was a fundamental lack of coherence in the framing of the negotiations: the development dimension of trade is identified with market access but market access also means own progress on policy reforms (since a tax on imports is a tax on exports) and the least developed countries were to be given a free pass in this regard. It is an optimistic view, it was suggested, that sound development outcomes could nonetheless be achieved through greater cooperation between the World Bank and the WTO processes such as the discussion of policy frameworks supported by trade-related technical assistance (TRTA) in the context of the "integrated framework". The integrated framework, it was suggested, is not working. For one thing, it is hard to sort out when aid is just "aid" and when it is "aid for trade"—not to mention when it is "new" and when it is just "re-profiled" existing money (the sense of some observers is that there is actually little if any new money). It was pointed out that "aid for trade" would involve earmarking aid, which goes against the last five years of World Bank policy against such earmarking. And there is a confusion of programs—Aid for Trade, Poverty Reduction Strategy Papers (PRSPs), and Millenium Development Goals (MDGs) are all overlapping frameworks for disbursement of aid.

Given the current perspective, some observers found it hard to imagine that the notion of trade ministers delivering "development" was ever taken seriously. This would require, it was suggested, a level of coordination of domestic agencies that is difficult, and of international agencies that is impossible, to achieve. A multilateral trade agreement was not going to be the catalyst for such a coordination of effort.

In turn, it was argued, this more realistic perspective has brought a new-found clarity as to what development now means in the Round. Conceptually, it was argued, the term "development" in the Doha Round context must be recognized to mean development as understood by trade negotiators rather than by the development community. That is why development in the Round is associated so closely with agricultural trade; the WTO is the forum in which agricultural trade is best negotiated and that is the area where the trade negotiations have the greatest leverage on the development function—even if agriculture might have been "oversold" as a development tool. Thus, at a minimum, development in the Round means increased market access in agriculture, which is what was not obtained in the Uruguay Round and which continues to be lacking in the Doha round.

Further, the idea of "policy space", problematic as it may be to those who see a major benefit to a country from the acceptance of trade disciplines, is now accepted. The Hong Kong Declaration reflected agreement on buy-outs in the TRIMs agreement for local content, performance requirements and so forth. This provides practical policy space. It was argued that we need to "declare victory" in the WTO on this issue and get on with the real WTO agenda which is market access.

To be sure, it was acknowledged that market access, while necessary, is not sufficient. A distinction needs to be drawn between what might be termed "market access" and "market entry". Improved market access under trade rules (i.e., through tariff reduction) can be negotiated but this does not guarantee market entry which also depends on the ability of an exporter to comply with the various standards that products must meet (SPS, TBT, ISO, Walmart specifications, etc.). And the costs of compliance are high. Capacity to take advantage of market access concessions obtained in negotiations is thus also necessary.

However, it was argued that capacity building is really a sideshow for the WTO, notwithstanding the fact that it has become the centerpiece of the discussion of trade and development in the negotiations: the bottom line is that the WTO cannot provide funds for restructuring but can deliver market access, starting with agriculture but including non-agricultural goods and services. In this sense, the label "development" has become a liability for the Round, distracting attention from the central WTO agenda.

Risks to the Multilateral System from A Failed Round

Paradoxically, the reappraisal of the role of trade liberalization in development is taking place at a time when the more dynamic developing countries have gained a major stake in the multilateral system and the least developed countries (LDCs) have arguably taken over from the United States and the European Union as the custodians of the multilateral system. There was a time when the least developed (LDCs) feared the WTO. Now, it was suggested, the LDCs have bought into the notion of a rules-based system and are happy to play the WTO game while the developed countries are avoiding engagement.

This situation highlights a problem in the political economy of the Round.

The great byproduct of the trade and development linkage, it was suggested, has been to force a more sophisticated examination of the distribution of global welfare gains from liberalization and of the development impacts of particular aspects of agreements. In the course of this examination, it has become apparent that LDCs face a real risk of no welfare gains from a deal due to the negative effects of preference erosion and higher food prices (the vast majority of LDCs are net food importers). Indeed, the perverse result of this situation is that the more engaged the LDC is in exports, the greater the welfare loss from deteriorating terms of trade.

At the same time, it was suggested that the huge beneficiaries of agricultural liberalization would actually be the industrialized countries, where food prices would be lower. But the ground work to prepare the case for agricultural liberalization based on the actual nature of the benefits has not been done.[2] Nor, it was suggested has adequate homework been done in the industrialized nations to explain to farmers what agricultural trade liberalization means and how government will support incomes—it is possible, it was pointed out, to be generous to farmers in non-distorting ways.

Meanwhile it was argued, the major emerging markets—China, India and Brazil—have not been making the contribution commensurate with the benefits that they have been getting from the system.

This combination of interests and engagement, it was felt by many at the Roundtable, did not augur a successful conclusion to the Round. The EU and the US will not provide the

[2] As a footnote to this discussion, it was noted that this is not a new situation: the Uruguay Round launch effort included a visit to Japan to demonstrate the benefit of low food prices. But it didn't work – however, this effort met with an argument that meat prices in Japan were high because Japanese consumed so little meat!

leadership to shore up the multilateral system but the emerging markets and the LDCs are not ready to take over leadership.

This is problematic since, in the consensus view, there seems to be no alternative to the multilateral system to address many key and still unresolved issues that continue to disturb the smooth functioning of the global trade system.

First, an agreement could help clarify systemic questions raised by the present lack of a coherent view of where the multilateral system is going. The consensus on embedded liberalism has collapsed. The old multilateral framework based on the GATT has evolved into something more than just a trade system; as one observer put it, it is at present a strange and unbalanced amalgam with the "rights" of one factor of production—intellectual property—being protected but not others. There is no consensus on this "system". It is driven by ad hoc, episodic liberalization, mingling foreign policy with economics—"episodic ad hocery" one might call it. At the same time, it was argued that the broader systemic issues could not be handled within the WTO negotiations alone. The ability to achieve consensus within a group of 149 Members[3] is limited; this constrains the areas on which the WTO will be able to move. Hence labour, investment, etc. cannot be built into the multilateral framework in any significant fashion. Other mechanisms are needed for these areas.

Second, without an agreement, the WTO would be weakened as an institution—it would be a ship without a rudder. The momentum for reform would be dissipated and the WTO's ongoing role as "overseer" of the multilateral system would be weakened.

Third, the dispute settlement mechanism in particular needs an agreement. Without the "legislative" guidance provided by a broad agreement amongst the Members, the evolution of the system would increasingly be based on decisions by the judicial arm through settlement of disputes. This raises new issues since, with the expiry of the "Peace Clause" in the Agreement

[3] Editor's note: the number of WTO Members has since increased to 150 with the accession of Vietnam on January 11, 2007.

on Agriculture, the subsidies agreement also applies to agriculture. The proliferation of RTAs is also affecting the scene for dispute resolution by providing, in some instances, for a choice of forum in which to pursue dispute settlement.

Fourth, if the Doha Round were not successful, the scene of action would shift increasingly to the arena of regional trade agreements (RTAs). However, it was noted, RTAs themselves are embedded in the multilateral system. The WTO is needed to provide some discipline over the formation and operation of RTAs, especially in respect of rules of origin (ROOs). Multilateral tariff elimination would of course clean up the ROOs mess. Moreover, some things cannot be done in bilateral agreements, in part because of free rider problems and in part because the big players cannot deal with each other in a bilateral context. For example, it was noted, the EU and Mercosur have found it difficult to deal with sugar because of the nature of that market. This drives RTAs towards small deals. Further, RTAs are not uniformly successful in leveraging greater trade (south-south RTAs appear to have had a weak track record) for those that can conclude agreements while raising a problem of exclusion and preference erosion for those that cannot. Finally, it was remarked that, if trade is about integration into global supply chains, RTAs are not helpful, they in fact are the opposite—they can restrict access.

In short, there is no perfect substitute for the WTO; some things will get done in the WTO or not at all. The cost of failure of the Round would be damage to the WTO's credibility which would represent an important system failure. The resulting drift would expose the system to developments, which could include disruptive change—including protectionist action against China, significant currency realignments and so forth.

Conclusion

With the window of opportunity for a timely successful conclusion to the Doha Round rapidly narrowing following the Hong Kong WTO Ministerial, close observers of the international trade scene underscored the need for a comprehensive agreement to shore up the multilateral system, identified necessary next steps to bring about such an agreement and, notwithstanding numerous obstacles, pointed to reasons to believe that such an agreement could in fact be achieved. At the same time, the political economy of the Round was not seen as especially propitious for a successful conclusion; expectations were accordingly being trimmed (e.g., to a "Doha lite" outcome) and an extended hiatus was seen as a very real possibility, exposing the system to additional pressures and risks. Any optimism about a successful conclusion to the Round was thus qualified.

Events over the course of 2006 initially tended to validate the more pessimistic assessments of prospects for the Round but subsequently started to reflect the more hopeful views.

It's never over till its over.