International Trade and the Doha Round after Hong Kong

As the WTO’s Doha Round teetered on the brink of collapse, three leading figures from Europe, Pacific Asia, and North America offered their prescriptions for the global trading system. Paul Volcker, former chairman of the U.S. Federal Reserve, argued that the ‘globalization fatigue’ that has become evident around the world had made it important in the short term to focus first on consolidating rather than advancing progress on free trade. Peter Sutherland, the first director of the WTO, stressed the need to continue momentum toward free trade in the face of recent setbacks. Meanwhile, former Thai Commerce Minister Narongchai Akrasanee urged developed countries to return to WTO negotiations after a brief respite in order to resume multilateral efforts to liberalize trade. Their presentations are summarized below.

Paul A. Volcker

My views of the Doha Round reflect my own prejudices as a man largely of the financial world who grew up at a time when the vision of the Bretton Woods system was first being promoted, and with it openness and multipolarity. That world vision was epitomized by the IMF and the World Bank. The GATT did not quite make it to Bretton Woods and it was always kind of a lesser “stepsister.” It did not have the big, marble building in Washington nor a sizable staff, and it was not clear what it did. It had something to do with free trade, but it always involved a lot of haggling and was crippled by particular business or political interests arguing with each other. Central banks do not have to worry about that kind of thing.

As I began learning about Doha, I was struck by its mind-boggling complexity. Despite my prejudices, I believe that trade negotiations have been the great, dramatic area of success over the last 50 years. In relative terms, we have ended up in 2006 with open markets and we have a long record of increased trade supporting economic growth. There may have
been other factors, but it is certain that the success of the GATT, of trade negotiations, and now potentially of the WTO, has contributed enormously to today’s globalized world.

Globalization is here and that is one of the reasons that Doha is in trouble. It is, in a sense, a victim of past successes. Trade is in fact booming. The gains that we are looking for now are important in the agricultural area, but agriculture only accounts for about 10 percent of trade. The further potential gains from trade are no doubt sizable, but those gains would be spread very widely, and the pain would be rather selective and concentrated. It is hard to get excited about incremental gains for the already affluent average American consumers when there are other people who feel strongly that they would be adversely affected by trade liberalization.

And more importantly, there is a certain feeling of globalization fatigue. Globalization is a good thing, but the general public recognizes the difficulties as well. There are other priorities that people worry about more than trade at the moment—economic imbalances, current account deficits and surpluses, and the need for potential exchange rate adjustments. There are security concerns that are easily aroused, as the Dubai Ports World incident demonstrated. There are environmental problems. There is the rise of Asia. There are uncertainties in Latin America. These worries have to some extent depressed the priority given to trade negotiations.

What is at stake in this particular area of economic policy? As I understand it, Doha was slow to get started. After 9/11, however, it was thought that Doha would provide an environment for assisting economic development and for assisting poor and emerging countries that believed they were adversely affected by existing trading arrangements, particularly in the agricultural area. The development agenda that emerged was to concentrate on agriculture, but there had to be some balance as well. Emerging countries were expected to do something in return about industrial access and service access. That was the initial conception. It was a grand bargain. It appears, however, barring a miracle, that the grand bargain has been lost.

So, what do we do? What can be retained? There is a theory that I hear from my trade policy friends all the time that we are on a “trade bicycle,” and that if we do not keep on that bicycle, churning away and pumping away with new trade breakthroughs every few years, we will fall off the bicycle. I keep telling them that there comes a time, if you have been peddling hard enough and long enough, that you can stop peddling for a while to put the bike on a rack and make sure the tires are OK. As an outsider looking at this situation, I wonder whether there might be a way in the time remaining—presumably by the middle of next year, when American
congressional authority expires for so-called “fast track”—to come up with some smaller, but nonetheless important, agreements. For example, current tariffs are often much lower than required by international agreement. It ought to be possible to bring the legal tariff restrictions down to where current practice is, which would then prevent the backsliding that some people are concerned about.

Some people, myself included, have expressed concern about the great proliferation of bilateral and regional trading arrangements. When the Bretton Woods agreement and the GATT were introduced, the basic principle was multilateral agreements; selective agreements were bad. But somehow we have turned 180 degrees and now selective agreements are somehow becoming good and the multilateral bad. If nothing else is achieved in the Doha negotiations, I would hope that there is some recognition that we do not want more selective bilateral and regional arrangements. If the rules need to be stiffened in this area, why not stiffen them?

Finally, maybe less realistically, there are some areas of egregious restrictions that should be addressed. I will take up the problems of the United States, although the United States is certainly not the only culprit: anti-dumping regulations, sugar quotas, rules for safeguards, and dispute settlement arrangements all need to be addressed. They may not be central issues, and they may not be as dramatic as eliminating all agricultural protection, but nonetheless they are very important.

The difficulties at Doha seem to be part and parcel of a much larger problem. The enthusiasm for multilateral cooperation and institutions has clearly been waning. There are questions about the role of the IMF. No one needs to borrow these days, and people try to avoid borrowing from the IMF. It is an institution with expertise and a building, but less activity and function. The World Bank used to lend to a lot of middle-income countries, but for infrastructure those countries can borrow on their own. Moreover, although not in its original mandate, the World Bank has rightfully become concerned about corruption and it may face increasing difficulty finding borrowers who are not corrupt.

I think the WTO is in some sense reaching its limits. We have so much trade already, how much further can you go? The suggestions I have made are in the area of good housekeeping. That is important, and there is a lot to be done in that area. Essentially, however, we have come a long way, and I believe we could easily pause for a deep breath and retain what we have. That itself would be a considerable accomplishment. I am reminded that even Lance Armstrong once in a while has to take a rest.
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Peter D. Sutherland

The Doha Development Round, as it is now called, was launched at the wrong time, with the wrong agenda, and for the wrong reasons. The circumstances under which it was launched were that Leon Brittan had very little to do after the Uruguay Round was over, and he announced that there was going to be a Millennium Round. His own member-states in the European Union were taken a bit by surprise, the United States said it was a bad idea, and the developing world was completely against it. That is the historic truth. Why did he do it? I think probably to obscure the ongoing agenda inside the Uruguay Round, which would have required agricultural liberalization under that round without any new round. Everything was loaded into it, including the so-called “Singapore issues” of competition policy, investment, transparency in government procurement, and so on. They have all been dropped since then, however, and we are more or less back to where we started.

The developing countries ultimately said that they would do it, but that they really wanted a development round. That was a singularly bad idea, because it gave the impression that this was going to be one-way traffic—basically, further liberalization by the industrialized world would be delivered, and there would be nothing delivered or expected from the developing world. That was never doable because if you do not have a balance, you are not going to get the domestic constituency to move forward; whether it is the agricultural policy of the United States or of the EU, the same thing applies. Nonetheless, it became the Doha Development Round. There were—and have been for a long time—legitimate complaints in the developing world about a range of issues, textiles and agriculture being just two. But that does not take away from the fact that there has to be a balance in the negotiations.

Before I start heaping odium on the developed countries, it should also be noted that indeed some of the developing countries of the world are
among the most protectionist countries imaginable, and it has done them immense damage. India and Brazil are two examples of countries that carry a significant degree of culpability for the problems that we are in now because we need concessions not merely from the developed, but from the developing countries too. These two huge countries together account for just 1.7 percent of world imports and for just 1.9 percent of the exports, which shows how open their borders are.

And then there is China, which negotiated its way—with great difficulty both for them and for those who negotiated with them—into the WTO. They feel that they have given everything they are going to give, so they are pretending that they do not exist during this negotiation. In my view, that is a dangerous stance because if this round fails, the consequences are extremely serious for developing countries in particular. We have a wave of protectionism in Europe and the United States. We have seen the ports issue in the United States. We have had cross-border mergers being blocked in Europe. We had the French referendum on the EU, which was not so much a vote on Europe as it was a vote against China, a vote against enlargement, a vote against globalization. It put the fear of God into European politicians everywhere because they saw this as a rejection of the threat of globalization. There is a fear of delocalization. Everyone is getting used to the phenomenon that we are all being told about—the rise of China and India. To my mind, unmitigated good comes from this, but one can understand that it creates uncertainties in the world around us.

What will happen if this round fails? I believe it would very seriously undermine the credibility of the most important institution that has been founded globally since the inspired period of institution building immediately after the Second World War. It would perhaps undermine the dispute settlement mechanism, which is the first working international adjudication mechanism that we have had in almost any context.

The failure of the round would proliferate what Jagdish Bhagwati christened the “spaghetti bowl” of bilateral agreements. What is the effect of the spaghetti bowl? First of all, small and medium-sized enterprises—the types of entities we should be stimulating, particularly in the developing world—cannot handle it because it means they face different rules with every country they deal with: different rules of origin, different tariffs, and different rates. It creates preferences, which then leads to a situation where the country that has the preference will object to greater liberalization on a global basis because it will reduce their preference. So the more preferences you give, the bigger the vetoes you are creating against future trade liberalization. The banana producer in Jamaica does not
want liberalization of agricultural markets in regard to bananas into the
EU because they have privileged access as it is. The same can be said in a
number of other areas.

The WTO, therefore, would become weakened and perhaps damaged
to an extent that would make it difficult to function as an umbrella for the
kind of interdependence that the Trilateral Commission fundamentally
stands for. That is the risk of the absence of success here. It would be very
difficult for developing countries, while the developed economies would
have a greater impetus towards protectionism and less of a bulwark against
that protectionism.

What will happen with the integration of China? One of the great
consolations we have in this exciting period of growth in China is that
there is a rule-based system that they have used to transform their own
economy. Everything that has happened in the Chinese economy do-
merically has been driven by the statement, ‘We are obliged to do this
under the WTO.’ If we take that rule-based system and knock it around,
we have a real danger.

The failure of the round will create very serious divisions. Bilateral agree-
ments ultimately distort global trade and investment. They create confusion
for companies, and particularly for smaller companies. And they create an
environment that is against the sort of “one world” that we thought we had
in the immediate aftermath of the collapse of the Iron Curtain. We had a
brief moment of glory, and when we finished the Uruguay Round, in part
that was why. There was euphoria about the fact that we could now at last
recognize that one world existed and the world economy and the basic
principles of the market economy were being accepted everywhere.

What, finally, are the realities of where we now stand? I went to a meeting
behind closed doors in Davos where amongst those attending were former
U.S. Trade Representative Robert Portman, EU Trade Commissioner Peter
Mandelson, and Foreign Minister Celso Amorim. Mandelson made the
comment, “We all know how we could settle this round. Everyone of us
here could write down on an envelope exactly what is required to settle
this agreement.”

I am not going to go into the detail of it, but I think I could write it out
on the back of an envelope pretty well. The problem is that it may not be
politically deliverable. We have not got any momentum going for this, and
the price as far as vital constituencies are concerned is impossible. If you
take the common agricultural policy of the EU, for example, there may be
enough there for a possible settlement, but probably not enough to satisfy
the other constituencies—the U.S. exporting interests, for example, or those
in other parts of the world. Europe has just gone through an enlargement, and the total subsidies in the EU—which I am not justifying—are €105 billion. I do not think it is possible to unravel that just after enlargement.

In conclusion, we are a long way from the type of conditions that might give us any real possibility of settling by May 2007, in time to get the fast-track extension that is really driving the deadline on this matter. It is increasingly difficult, for a whole range of reasons, to imagine everything coming together. We have not got the groundwork done to deliver the agreement.

What do we do? I simply think we have to keep the show on the road. Do not declare failure. Secondly, if we do not have the prospect of getting the big package, let us at least try for “Doha Lite.” I do not think that is deliverable either, because if the concessions are not sufficient, they are not going to provide the basis either for the developing countries or for the United States, in particular, to bring the thing to an end.

This is not an optimistic scenario. It is a very important subject, however, with very serious consequences. We must be very careful that our apocalyptic visions are not converted into reality. So at all costs, keep the show on the road.

The European chairman of the Trilateral Commission, Peter Sutherland is the founding director general of the World Trade Organization. He currently serves as chairman of BP plc and as chairman of Goldman Sachs International.

Narongchai Akrasanee

My views of the Doha Round can be summarized as follows. The Doha Round is dead. Long live the Doha Round.

Let me elaborate why I say this. My assessment is that Doha Development Round is unlikely to have the kind of conclusion that was envisioned from the beginning—the “Doha single undertaking.” In fact, East Asia does not mind this conclusion.

Why do I say this? And why do I say that this Doha Round is dead and long live Doha Round? There are two basic reasons. The first is that East Asia has not taken the Doha Development Agenda seriously. Second, the
United States and EU have not taken it seriously. Both share blame for the lack of success of the round.

With regard to East Asia’s position, let me give you a real example. I have been trade policy advisor to the Thaksin government for the last four or five years, and for the last four years we have had no meetings on the WTO or Doha at all, not even one single meeting. I think this is typical of all Southeast Asian countries. Neither did we have any seminars or conferences on the Doha Round or WTO. Nobody paid attention to it at all in East Asia.

Why is East Asia not interested? Because the current trade regime is fine for us. We are enjoying robust growth in production, in trade, in everything. If you look at the statistics of the last several years’ performance in East Asia, you will see that we are doing very well under the present regime. The lower tariff rates of manufactured goods in the United States and EU are very good for us. Agricultural subsidies in the United States and EU are also very good for us, as are limited access for services in East Asia and the high border protection for East Asian business practices. These are all issues to be negotiated under Doha, so why should we bother to negotiate? The current situation is already good for us. And when we talk about agricultural protection and so on, I must confess that East Asia is a sinner. We may be small sinners or big sinners, but we are all sinners.

Turning to the EU and the United States, it seems the EU is now much more interested in expanding from 15 to 25, while the United States is much more interested in free trade agreements with selected countries. Why are the United States and EU not serious about Doha? I think that from their perspective, the issues included in the Doha Round are not the relevant ones. There is too little on services, and too little on intellectual property rights. And in terms of the method, they have no control anymore over the WTO.

I remember when I went to the first WTO ministerial meeting in Singapore in 1996, we were negotiating some issue very seriously, but then suddenly Leon Brittan and Charlene Barshefsky left the room with the representatives from India and Brazil. Brittan and Barshefsky were massaging those representatives to get them to agree to their terms. Once they had agreed, they all returned and announced their agreement. We just had to follow. That is no longer true. I was told that on the last day at Doha, when they negotiated the agenda, the debate on the inclusion of antidumping went on until almost morning for only one reason: the Indian negotiator, Minister Nath, would not agree until antidumping was included. Bob Zoellick was so sleepy at the end that he agreed just to finish it off.
I have also been observing the situation in the United States during my discussions with U.S. negotiators over the past years on free trade and regional trade agreements. Just a few weeks ago, Rob Portman was removed from his position. If you remove a commander of an army during a battle and the battle is about to be concluded in a week, it means that you are giving up the battle already. Susan Schwab has been appointed to replace him, but she is not going to be the kind of commander that would win this so-called battle. Accordingly, I believe that neither the EU nor the United States are serious, and if they are not serious, it is very likely that we will not have an agreement. Again, East Asia will not mind that at all.

I believe that for the last few years, people have been trying to do things outside the WTO. The WTO is getting less priority and becoming more irrelevant among many countries. That becomes obvious if you look at the last director-general of the WTO, Dr. Supachai Panitchpakdi. He went on from the WTO to UNCTAD. How could you be more irrelevant than that?

On the positive side, I have been involved with FTAs for the last four years, and I can tell you that FTAs are not the solution. The United States will not get what they want through FTA negotiations because what interests the United States most is trade in services and intellectual property rights. We have been negotiating with the United States for the last two years. Our Prime Minister Thaksin, the strongest prime minister in the world, told me to conclude an agreement. But I could not do so because the ways in which our countries operate are polar opposite in services and intellectual property rights. On services, we work on a positive list; the United States wants negative list. We work on discretionary supervision; the United States wants an automatic system for getting permission. We work on pre-approval; the United States works on post-audit. It is not possible to agree.

There was a huge demonstration in Chiang Mai when the U.S. delegation was there to negotiate on intellectual property rights. We are drug consumers; the United States has drug innovators. How could the two interests be similar? And in terms of animals and plants and so on, we have biodiversity; the United States has biocreativity. They want protection under the World Intellectual Property Organization; we want protection under the Convention on Biological Diversity. You see, we have a lot of plants and animals, but we do not know what to do with them. The United States does not have that many plants and animals, but they know what to do with them. How can you agree on this sort of this thing? In the end, we could not conclude an agreement with the United States. I am sure they will not be able to conclude agreements with Korea or Malaysia either.
In the end, I think developed countries will find that their best option is to rely upon the WTO system. I hope that the Doha negotiators will be able to agree on a little bit lower degree of undertaking than the “single undertaking” and then let the issue die down for one or two more years. I believe that then they will definitely turn back to the WTO for the kind of future liberalization that all of these countries want to have.

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