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The WTO at a crossroads by Barry Desker

Failure to reach substantive agreements on agricultural and service liberalization will prevent the conclusion of the Doha round of trade negotiations at the Hong Kong World Trade Organization (WTO) ministerial meeting in December. East Asia's rush toward preferential trading arrangements will continue, risking the sidelining of the WTO, as the WTO's foremost supporters seek a second best option. The rise of China and India will increase the competitive pressures on high-cost skilled labor in the developed countries as well as middle-income developing countries, such as Malaysia and Thailand, poised earlier for graduation into the ranks of developed countries. There will be a growing risk of protectionism rearing its head.

The French attempt to derail the current Doha round by requiring that Peter Mandelson, the European Union's trade commissioner, submit every offer for vetting by officials of the EU national governments before it is tabled at the Geneva talks. EU foreign ministers rightly rebuffed the French move last month. Content with the stalemate at the WTO, France was prepared to allow a failure in Hong Kong if significant cuts in agricultural protection would be its key outcome. French (and EU) foot-dragging on agriculture has become a staple of WTO negotiations but time is running out.

The EU factor

Until U.S. Trade Representative Rob Portman tabled a proposal to cut farm tariffs substantially and to abolish export subsidies over five years, the negotiations had stalled. The EU responded with a less ambitious offer but even this aroused the ire of the farm lobby in Europe. Although the expansion of the EU has increased the pressure for reform of the Common Agriculture Policy (CAP), EU farmers have been fighting a rearguard battle to retain their protected markets. But the EU really fronts an even more intractable opposition to agricultural trade liberalization by the cosseted farmers of Japan and South Korea. Ironically, they may prove to be more difficult to mollify than the Europeans when the trade ministers meet in Hong Kong.

Neither are the developing countries angels in the world of trade negotiations. The largest gains in real income would result from eliminating current distortions in the agricultural policies of developing countries. But even as the Group of 20 – comprising larger developing countries such as Brazil, India, and Pakistan – sought deeper cuts in the agricultural subsidies of the U.S., EU, and other rich countries, they offered only modest tariff reductions. More striking, their tariffs continue to discriminate against products of other developing countries – a trend compounded by their reduction of tariffs on goods of export interest to developed countries during the previous Uruguay Round of trade negotiations. Indian tariffs on soybean oil imported from the U.S., for example, are significantly less than tariffs on palm oil imported from Malaysia and Indonesia.

While the developed countries have highlighted the need for liberalization of the services sector, especially in the developing countries, they remain adamant against opening their economies to the entry of labor from the developing countries, even for industries with significant shortages of domestic labor. On the other hand, in developing countries such as in East Asia, liberalization of the services sector often occurred as a result of IMF conditions for assistance during the Asian economic crisis rather than as a product of WTO negotiations or unilateral liberalization. Nevertheless, the services sector does not appear a "deal breaker" in Hong Kong if agreement can be reached on agriculture.

Uneven effects of liberalization

More problematic is the uneven effects of global trade liberalization. Attention is increasingly drawn to the negative impact on some poorer states. Thus the group of African, Caribbean, and Pacific countries that enjoy privileged access to the EU for their exports, particularly of bananas and sugar, will find themselves facing an onslaught of global competition. Similarly, less developed countries, which currently enjoy tariff-free access to developed country markets, will face competition from more competitive economies. In textiles and garments, Bangladesh and Cambodia will be shunted out by China and India. With little to gain from more liberalized trade, the least developed countries could be a stumbling block to an agreement unless they are bought off by promises of greater aid to build their capacity in administration, infrastructure, and trade facilitation. As this is a perennial unfulfilled commitment, they are unlikely to be easily convinced. They will remain so even though the evidence is that countries that simplified their trade procedures, established more efficient, transparent governments, and improved their physical infrastructure have gained from the expansion of international trade.

The really troubling development is the squeeze on middle-income jobs in the developed countries and on middle-income developing countries. These have been groups within countries and in the international system at the forefront of globalization. But as pressure increases to outsource jobs in the manufacturing economy and in the knowledge economy to centers with equal skills but much lower costs, we are likely to see these groups turn away from openness to international competition and promote increasing acceptance of protectionism.

In the U.S., such trends have led highly paid steel and auto industry workers to support anti-dumping measures, import restraints, and the inclusion of labor standards provisions in trade agreements. In Germany, it has resulted in stagnant wages, rigid employment practices, and declining

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employment in manufacturing even as the German export miracle continues (since more and more parts and components are imported in place of domestic value added manufacturing).

For middle-income developing countries including ASEAN states such as Malaysia and Thailand, the challenge will be to upgrade knowledge-based skills and compete on capabilities, not cost. Their strength will have to lie in soft competences such as existence of property rights, the rule of law, and a move away from rote learning – rather than the building of hard infrastructure where China will rapidly lead the way in the region. Although the instinct will be to slow the pace of China and India's integration into the regional and global economy because of the competitive threat posed by these rising powers, this would be unwise.

Given the dismal outlook for the WTO, East Asia will increasingly focus on negotiating free trade agreements (FTAs) as a second best option. ASEAN should take the lead in concluding such preferential trading arrangements with China and India. These FTAs will have more trade-creating effects than a raft of FTAs with partners around the globe.

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