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A 'Plan B' for the WTO: how to rescue the Doha Round

by Barry Desker

On May 30, Pascal Lamy, director general of the World Trade Organization (WTO), set a deadline of June 30, 2006 for a long-delayed deal to conclude the Doha Round of global trade negotiations. This means members of the WTO would have to reach a broad-based agreement to cut farm subsidies and tariffs on agricultural and industrial goods before United States trade negotiating authority expires in mid-2007. The deadlock in global trade talks has been accompanied by frenzied negotiations for bilateral and regional free trade agreements (FTAs), which proponents claim serve as building blocks for overarching multilateral deals. But there is a risk that bilateralism and regionalism are becoming a stumbling block for the WTO – especially after the June 30 deadline was not met.

While FTAs liberalize trade among member countries, such agreements may also increase incentives to raise protectionist trade barriers against nonmembers. The sluggish pace of WTO negotiations has hastened the trend favoring FTAs as countries choose a second-best option. The pressing need today is for new momentum in the Doha negotiations. Because of the negative role of the European Union (EU) in the current negotiations, the U.S. and China should lead a new initiative for across-the-board trade liberalization.

Hopes for a successful conclusion to the Doha Round were raised when the U.S. presented a proposal last October to cut farm tariffs substantially and to abolish export subsidies over five years. The EU responded with a less ambitious offer but even this aroused the ire of the farm lobby in Europe. French (and EU) foot-dragging on agriculture has become a staple of multilateral trade negotiations. In practice, the EU presents even more intractable opposition to agricultural trade liberalization than the cosseted farmers of Japan and South Korea.

Developing world resistance

The developing countries are not making life any easier in the Doha negotiations. The largest gains in real income would result from eliminating distortions in the agricultural policies of developing countries. But even as the Group of 20 (comprising larger developing countries such as Brazil, India, and South Africa) sought deep cuts in the agricultural subsidies of the U.S., EU, and other rich countries, they offered only modest tariff reductions.

Attention is also increasingly drawn to the negative impact on poorer states. African, Caribbean, and Pacific countries that enjoy privileged access to the EU for their exports, particularly of bananas and sugar, are facing an onslaught of global competition. Least-developed countries, which currently enjoy tariff-free access to developed-country markets, will face competition from more competitive economies.

This raises the more problematic issue of the uneven effects of global trade liberalization. In textiles and garments, Bangladesh and Cambodia will be shunted aside 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 trade-related capacity in administration, infrastructure, and trade facilitation.

Two solutions to the Doha impasse

Trading economies need to consider what could be done to maintain the impetus for trade liberalization. There are two possible solutions:

First, a two-tier WTO system in which the new rules as well as the rights and benefits would apply only to those states that participated in those negotiations. This took place during the Tokyo Round negotiations in the 1970s, and resulted in the adoption of several plurilateral GATT agreements. There could be an opt-in/opt-out approach. WTO member countries that do not wish to participate in the negotiations or sign on to any results would not be obliged to do so.

A more far-reaching alternative approach would be a push for greater liberalization by key countries with an interest in maintaining the momentum of multilateral trade negotiations. The U.S. and China should take the lead in proposing a multilateral free trade agreement under GATT Article XXIV among countries and customs territories interested in opening markets across the board. If the two giants could do so, they would help reshape the substance and atmospherics of international trade negotiations, shifting the focus away from FTAs.

Politically, this could be the imaginative approach necessary to create a new foreign policy opening between the current global hegemon, the U.S., and the world's rising power, China. Such an alignment would assist in ensuring the peaceful development of China. Traditionally, the rise of great powers resulted in the emergence of great power conflicts if they did not have binding interests. With the end of the Cold War, there are analysts in the U.S. and China who are focusing on the coming conflict between the two powers. However, if a new concert of interests can be created between Washington and Beijing, it is possible that China's emergence, like that of the U.S. at the end of the 19th century, could take place within the framework of a rule-based international system that can accommodate the emergence of global powers with shared interests in global peace and stability.

Challenge for the EU

This would pose a challenge to the EU. European governments would have to decide whether they wished to support French-led opposition to further liberalization, especially of agricultural trade, or whether they would be willing to bear some costs to ensure that wider global benefits could be attained. The United Kingdom, the Netherlands, and the Scandinavian countries could push for the EU to join this global move to prevent the marginalization of Europe.

Such a development would be reminder of the critical impact of the decision by President Clinton to convene a "leaders' meeting" in Seattle in November 1993 of the countries participating in the Asia-Pacific Economic Cooperation (APEC) forum to break the stalemate in the Uruguay Round of GATT negotiations caused by EU opposition to agricultural liberalization.

Within the EU, there was grave concern that the U.S. intended to form a preferential trade grouping that would exclude the Europeans. After urgent consultations between French President Francois Mitterand and German Chancellor Helmut Kohl, the EU agreed to the inclusion of agriculture, leading to the conclusion of the Uruguay Round in December 1993. For the East Asian economies in APEC, this was the first recognition that they could benefit from the regionalism card in multilateral economic diplomacy. APEC also provided a learning experience, as the agreement for sectoral liberalization in APEC was the model for sectoral liberalization in the WTO.

East Asian support for this initiative provided the critical mass in the WTO. This also provides a cue for the future. A European willingness to concede on agriculture is only likely if it can be framed in the context of wider interests. If the U.S. and China seek an early and successful conclusion to the Doha Round negotiations, they should be prepared to propose a Plan B – a multilateral free trade agreement among countries interested in across-the-board trade liberalization. An initiative in APEC would be a first step.

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