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What Should the United States Do about Doha?

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The Doha Round of multilateral trade negotiations in the World Trade Organization (WTO) remains stalled despite the political impetus provided by the Seoul G-20 Summit in November 2010. The major trading nations have not revised their positions enough to propel new negotiations on agriculture, manufactures, and services. There is now little chance to complete an agreement this year and little indication that current efforts could succeed next year.

In 2011, the US Congress faces an unusually heavy agenda of trade legislation, including implementing bills for pending free trade agreements with South Korea, Colombia, and Panama and reauthorization of the trade adjustment assistance and developing-country trade preference programs.

With such a full legislative agenda, the Obama administration has been extremely cautious about putting forward new negotiating proposals in the Doha Round that would risk inciting additional congressional opposition to those efforts. Other major trading nations have shown similar timidity: The political will claimed by the Seoul Summit leaders to “bring the Doha Development Round to a successful, ambitious,

comprehensive, and balanced conclusion” is lacking not only in Washington but also prominently in Beijing, Brasilia, Brussels, Delhi, and Tokyo. No wonder that the Doha Round has been relegated to a second- or third-tier priority for US economic policy; the near-term prospects for success have faded to white.

The impending crisis in the trade talks has generated the expected mix of angst and callow indifference. Trade diplomats continue their vacuous rhetoric while academic and legal experts pollute internet forums with uninformed comments about the decade-long negotiations coupled with wildly impractical solutions. The objective of this policy brief is to do better by clarifying the policy options for dealing with the Doha Round currently before political leaders and then recommending a course of action that is both consistent with near-term political constraints and the objective of advancing world trade and economic development.

POLICY OPTIONS

Doha Round “doctors” have prescribed a wide range of treatments for what ails the trade talks, ranging from placebo pills to euthanasia. In essence, the treatment options fall into three broad categories, summarized below. All have significant downside risks.

First Option

The first option would be to *declare victory and sign the deal “on the table.”* This option is extolled by those who place a high premium on avoiding systemic damage that would likely occur if a multilateral trade negotiation (MTN) failed for the first time in the postwar era. The agreement would endorse the formula tariff cuts in agriculture and non-agricultural market access (NAMA) plus reductions in agricultural subsidies, already included in draft negotiating modalities tabled years ago in Geneva. The liberalization commitments contain substantial flexibilities for developing countries to either exempt or sharply limit the application of the Doha Round reforms to particular products and/or sectors.

However, there are two major problems with this option: The prospective gains are too small and are skewed toward too few countries. Peterson Institute analysis of the formula cuts yield only small trade gains for the United States: \$7.6 billion in increased US exports to the world and \$14.3 billion in increased US imports. As a result, US GDP would rise by \$9.3 billion.¹

This is small potatoes for the US economy in the aggregate. However, for some US producers, the loss of protection or subsidy could be meaningful; those groups would strongly oppose the deal when it goes to Congress for ratification.

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Would anyone stand up for the systemic benefits and lobby for the deal? The export-oriented lobbies have bigger fish to fry and the service industries have nothing to gain from the Doha Round, so they won't stand up either. Even if US officials agreed to such a deal, the US Congress would probably defer action or even reject it unless the president committed an extraordinary amount of political capital to its ratification.

A further problem is that the small gains are unevenly distributed and largely benefit a few countries; China is the big winner at the expense of most other major trading nations. Chinese GDP gains total almost \$10 billion from the formula cuts, slightly *more* than the US increase. Developing countries (excluding China) receive only about one-fifth of the total welfare gains from the formula cuts in agriculture and NAMA.² It is hard to call this result a “development round.”

Second Option

The second option is to pull the plug on the decade-long talks. “*Declare failure and go home*” would recognize the impasse in the negotiations and the lack of political will to break

it—even with the best efforts of the G-20 Summit leaders. Pending commitments to reform farm export subsidies and to remove tariffs and quotas affecting exports from the least developed countries (LDCs)—the so-called duty-free, quota-free initiative—would lapse. Developing countries, especially the poorer ones not linked to trade pacts with major industrial nations, would be the big losers.

In assessing this option, one should consider to what extent Doha's demise would constrain future WTO negotiations. Former US Trade Representative Susan Schwab argues that pulling the plug on the decade-long trade talks would clear the path for future new negotiations on a modified agenda of issues.³ But would it? The issues that have clogged the arteries of the Doha effort, especially tariff and subsidy reforms in agriculture and NAMA, would remain priorities for the majority of WTO members and thus would have to be included in any subsequent WTO package of agreements. And targeting new areas for negotiation like trade-related climate change or currency issues—even among a small subgroup of WTO members—would also likely falter; the core countries needed for such “plurilaterals” are the same ones complicating the current talks and would raise problems in these new areas as well.

This option would have little near-term impact on the US economy (since most US trading interests already have discounted any Doha results). However, it probably would inflict substantial damage over time on the credibility and effectiveness of the WTO in two ways. First, it would cast doubt on the efficacy of the WTO as a forum for multilateral trade negotiations. Who will want to invest time and effort into another Geneva negotiation after 10 years of barren negotiations? Government and business leaders, who once valued the GATT/WTO as a place where one could get things done, will concentrate their efforts on more expeditious and productive bilateral and regional forums for reducing trade and investment barriers. This shift is already pronounced but would accelerate.

Second, the WTO's dispute settlement process would gradually degrade as rulings attempt, or at least are seen to be attempting, to bridge gaps in WTO rights and obligations left unfilled by the dormant MTNs. If the panelists are regarded as usurping the powers of WTO negotiators, it could trigger a backlash against the WTO and political resistance to compliance with such rulings. Members of Congress already think this is a problem with regard to the numerous WTO rulings against US antidumping practices.

1. Gary Clyde Hufbauer, Jeffrey J. Schott, and Woan Foong Wong. 2010. *Figuring Out the Doha Round*. Washington: Peterson Institute for International Economics.

2. See Hufbauer, Schott, and Wong, 2010, table 1.3. In the sample of 22 countries accounting for 88 percent of global GDP, developing countries accrue \$21.5 billion of the \$55.5 billion in global GDP gains, but China accounts for \$9.7 billion of the \$21.5 billion. Thus other developing countries represent only 21 percent of the total (\$21.5 billion minus \$9.7 billion / \$55.5 billion).

3. Susan C. Schwab. 2011. “After Doha.” *Foreign Affairs* 90, no. 3 (May/June).

Third Option

The third option is to *recognize that the talks cannot conclude in the current environment and that the Doha Round needs a “time-out.”* This option avoids blame for killing the round, while recognizing that—given the current political climate in the major trading nations and the dead zone for closing a deal in 2012 due to elections in several countries and the change in Chinese leadership—the negotiating impasse is unlikely to be broken in the near future. To a large extent, a time-out is basically what took place for almost two years after the July 2008 debacle in Geneva—even though officials kept up the appearance of active negotiations.

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The problem with this option is stark: If the WTO talks go into hibernation, there is no telling when, or if, they will wake up. Hibernation could easily become termination as it did in the negotiation of the Free Trade Area of the Americas. Getting WTO members to return to the negotiating table and invest more time and effort into a process that demonstrably failed to produce tangible results after a decade of work won't be easy. Before WTO members call a time-out, consideration should be given to what needs to be done to ensure that countries have an incentive to work to finish a WTO deal in 2013. I offer some ideas in the final section of this policy brief.

Moreover, in the interim, trade officials—spurred on by business constituencies as noted above—will continue to negotiate bilateral or regional agreements. Indeed, the scope and pace of such initiatives have accelerated since the breakdown in the Geneva talks in July 2008. Much of the negotiating action involves the major Asian countries and discriminates against trade and investment from third countries. While these preferential deals could chart a course back to Geneva, they more likely will divert attention and interest away from the WTO.

In sum, over the near term, the Doha Round seems destined for the parking lot. G-20 leaders have not matched the fine words of their summit declarations with concrete action. US initiatives to break the impasse have been too tentative to dispel longstanding concerns—based on previous

Doha Round experience—that the United States would really raise its offers. However, such action probably would not have been sufficient in any event since it is unlikely that key Doha participants would have matched new US offers. China seems to have shifted into neutral pending the installation of its new leadership; EU officials seem to lack a forward gear when it comes to further commitments on agriculture; and Brazil and India fear they don't have the horsepower to keep pace with China. In the race to the Doha Round finish line, these countries have run out of gas.

RECOMMENDATIONS FOR US POLICY GOING FORWARD

If this analysis is correct, then—at best—the Doha Round will be adrift at least until 2013. Under either option 2 or 3, US officials would receive a large share of the blame for Doha's woes. So what should the United States do now to deflect such criticism, minimize damage to the WTO, and advance US trading interests?

Simply put, the United States needs to keep open the multilateral option while accelerating bilateral and regional trade initiatives. The former requires, as a practical matter, making a down payment (in the form of provisional implementation of specific reforms) on a future Doha package; the latter requires working particularly with the European Union, Brazil, and India to resolve problems that can subsequently be “locked in” WTO schedules.

Preserving the Multilateral Option

US policy first needs to demonstrate that US officials continue to be committed to a strong multilateral trading system and place high value on WTO rules and obligations. To that end, US officials need to reconfirm that the United States is willing to return to the WTO talks (which they have already done) once other major trading nations are willing to put together a bigger Doha package and that they will take concrete steps that encourage those countries to do so (which they have not done very well).

In essence, the United States and other major trading nations need to *make a down payment on a future package of WTO accords that would be more ambitious and balanced* than what is currently on the table in Geneva. Conceivably, it also could include agreements in areas not yet subject to Doha discussions (just as the Uruguay Round added new issues mid-stream, e.g., the agreement to establish the WTO) or commitments to launch new WTO negotiations as soon as the

Doha Round accords enter into force on a built-in agenda of issues specified in the final Doha deal (as was done in services after the Uruguay Round). Candidates for such a built-in agenda should include issues such as competition policy and investment that had been put aside at the WTO ministerial in Cancun in 2003 as well as climate change measures and currency issues. Commitments to post-Doha talks in these areas could help make a down payment more ambitious and balanced and therefore more likely to encourage resumption of WTO negotiations.

The “down payment” strategy should not be confused with early harvest proposals: The implementation of reforms would be provisional and revocable if WTO members did not

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reengage trade talks by early 2013. The down payment would be a “carrot” to encourage them to do so; the expiration date would be a “stick” to guard against procrastination.

“Early harvest” is a confusing concept in any event. It implies a small-scale, finished deal that might be supplemented in the future but creates doubts about political commitment to subsequent negotiation. Yet, this approach is the one put forward by WTO Director General Pascal Lamy at the informal high-level WTO meeting on May 31, 2011, with a specific focus on benefits for LDCs and very little coverage of market access reforms for other countries. Contrary to conventional wisdom, however, it is not clear that one could put together a small package that was balanced among the interests of WTO members and could pass muster in legislative bodies. Closing deals in seemingly noncontentious areas like trade facilitation or environmental goods and services would not be easy; indeed, there are strong disagreements about the scope and coverage of new WTO disciplines in those areas, and many countries see these issues as key negotiating chips needed to induce better offers on agriculture, NAMA, and services.

In contrast, the down payment would be like collateral on a contingent contract to return to the Geneva talks, if the prospective gains for all participants are substantially increased. There are a range of possible contributions to such a down payment, but the prospective actions must include specific market access components as well as rulemaking obligations. If the major trading nations, both developed and developing, agree to up the ante in the WTO talks, then an agreement could be reached by yearend 2011 on down payments explicitly tied

to a bigger package of trade reforms. To that end, consideration should be given to the following as potential parts of a WTO down payment:

- implement the first 20 percent of cuts in tariffs and subsidies that would be required under the formulas developed in the Agriculture and NAMA negotiations;
- implement some aspects of the Doha package on a *provisional basis* pending final resolution of the deal (as has already been done more than four years ago for the agreement on transparency of regional trading arrangements). The most important measure to include in this area would be the commitment to eliminate agricultural export subsidies by 2013 (the date of the next EU review of its farm policies) to preclude the reimposition of such measures once commodity prices fall back to more normal levels;
- provide targeted technical and financial assistance as part of the trade facilitation package (similar to recent US bilateral offers to Egypt); in essence, the trade component of the G-8 package from the 2011 Deauville Summit; and
- eliminate tariffs on an agreed list of environmental goods. Doha participants have played protectionist games with the composition of such a list; instead, they should agree to adopt a list compiled by the World Bank that updates the products included in its 2007 recommendation in this area.

Could more be done for LDCs as part of these down payments? Doing so would address the critical requirements for the WTO talks put forward by Pascal Lamy on May 31, 2011 and demonstrate the continued commitment of the major trading nations to the development objectives of the original Doha mandate. The desire to extend full duty-free, quota-free treatment for LDC exports would require new US legislation, which would face strong opposition from the textile and apparel industries and likely fail in the absence of broader benefits for US trading interests in a prospective final WTO deal. So duty-free, quota-free offers would need to work around that political roadblock, perhaps by excluding some tariff lines (as already discussed at the Hong Kong ministerial in 2005), and focus instead on simplifying and harmonizing eligibility criteria for LDC preference programs (including rules of origin), which could yield immediate gains for LDC exports.

Such an offer would hopefully refresh interest in achieving substantial multilateral trade reforms and encourage political leaders to refocus on WTO talks, in 2013 if not sooner. And if the deal doesn't come together, the reform commitments and rulemaking obligations included in the down payment would expire.

Bilateral and Trilateral Initiatives

While the Doha Round hibernates, it is crucial for the United States to continue to pursue broad-ranging agreements with developed and developing countries to maintain momentum for trade liberalization and create a buffer against protectionist pressures. In this regard, the United States should push for early conclusion of the Trans-Pacific Partnership agreement, which could set constructive precedents for future multilateral accords once the Doha Round negotiations are revived.

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At the same time, working with the European Union, Brazil, and India could both resolve outstanding bilateral problems and create rulemaking precedents that could be brought back to Geneva. For example, the United States and European Union could negotiate a bilateral deal on services. Since there is a good chance that EU-Japan negotiations could be launched in the near future—modeled on the EU-Korea and US-Korea pacts—consideration also should be given to a trilateral services pact including Japan. Similarly, several US-EU bilateral issues overlap with current talks with Brazil,

which could be usefully discussed trilaterally; policies regarding subsidies and standards for renewable energy (including bio fuels and wind/solar power generation) fall into this category.

More broadly, the United States and European Union have common interests in supporting economic development, trade, and investment in the Middle East and North Africa region and in working with India to develop its infrastructure and service sector. In these areas, work among key Doha participants could establish a supplemental package of reforms that, if extended on a multilateral basis, could encourage other WTO members to reciprocate.

How would such a proposal affect China's role in the WTO negotiations? Overall, the down payment proposal offers China a constructive option for keeping the talks open and avoiding disruption in the multilateral trading system from which it greatly benefits. The suggested tariff cuts would require China to reduce its applied tariffs (since Chinese bound tariffs are generally low and close to currently applied rates) and contribute to a compromise on environmental goods liberalization. The complementary US initiatives with Europe and other Asia-Pacific countries would also demonstrate how regional trade efforts provide precedents for MTNs and hopefully will encourage the Chinese—perhaps in 2013 after the new leadership is settled in—to consider increased market access offers and new subsidy and other rulemaking reforms in both the Asia-Pacific and WTO negotiations. Indeed, if those talks tee up new WTO efforts in areas like energy and climate change, competition policy, and currency issues, they could well frame the built-in agenda for new negotiations included in the final WTO package of accords in 2013.

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