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Completing the Doha Round

Jeffrey J. Schott

Jeffrey J. Schott, senior fellow, joined the Institute in 1983. He was a senior associate at the Carnegie Endowment for International Peace (1982–83) and an international economist at the US Treasury (1974–82). He is the author, coauthor, or editor of NAFTA Revisited: Achievements and Challenges *(2005),* Free Trade Agreements: US Strategies and Priorities *(2004),* Prospects for Free Trade in the Americas *(2001),* The WTO after Seattle *(2000),* Western Hemisphere Economic Integration *(1994), and* NAFTA: An Assessment *(rev. ed. 1993), among others.* *The author benefited from very useful comments on earlier drafts by C. Fred Bergsten, I. M. Destler, Kimberly Ann Elliott, Catherine L. Mann, and Edwin M. Truman.*

The Doha Round of multilateral trade negotiations in the World Trade Organization (WTO) was suspended indefinitely in late July 2006 after a succession of failed attempts to reach agreement on the modalities for cutting farm subsidies and tariffs. Trade ministers are now consulting on how to put the WTO talks back on track. Without a rapid return to active negotiations, US officials may be relegated to the sidelines in Geneva due to the expiration of US trade promotion authority (TPA)—leaving the Doha Round adrift possibly until the next US administration takes office in 2009 or even longer.

Reviving and completing the Doha Round will pose significant challenges for all the major trading nations in the WTO. Breaking the impasse on agriculture is critical, but success will be possible only if negotiations in other important areas of the WTO agenda—particularly services and nonagricultural market access (NAMA)—yield big results. This policy brief examines the causes of the ongoing negotiating problems and what needs to be done to restart the WTO talks.

WHAT'S THE PROBLEM AND WHO'S TO BLAME?

Nobody ever said meeting the ambitious and ambiguous goals of the Doha Round was going to be easy. Putting that package together has become even more difficult since the start of the Doha Round because of both the changing context in which the talks have taken place and the way in which the talks have been conducted.

Context

The global economic and political environment has become increasingly unsettled, creating new challenges to the completion of the trade negotiations. In addition, the foreign policy imperative to work together—which solidified global support to start the Doha Round two months after the tragic terrorist attacks of September 11, 2001—has frayed amid frictions over US policy in Iraq, increasing competitive pressures from China, and renewed concerns about energy security and nuclear proliferation.

The biggest economic challenge is how to redress global economic imbalances—with the US current account deficit now exceeding 7 percent of GDP and China running an even higher surplus as a share of its economy—before they provoke extensive protectionist responses in the United States and Europe. Remedies must include large doses of fiscal reform in the United States and currency revaluation in East Asia. Otherwise, new US and European trade and investment restrictions could fatally sideswipe the trade negotiations and spur a vicious cycle of tit-for-tat retaliation by the targeted countries.

The second challenge is how to focus Europe on new trade liberalization. European Union member states continue to grapple with the impact and adjustment pressures generated by enlargement and with implementing the structural reforms of the Lisbon Agenda. Antidumping measures are being deployed with increasing frequency to blunt import growth from East Asia, particularly textiles, apparel, and footwear. At the same time, investment policies are being contorted to develop and protect "national champions" in manufacturing and services.

A similar set of problems confronts US trade officials, although the source of the tension is different. In the United States, record trade deficits have contributed to weakening political support for trade liberalization and subsidy reform. China bashing dominates US trade politics, driven by a US bilateral deficit with China that exceeded $200 billion in 2005. While legislation calling for an import surcharge of 27.5 percent on shipments from China has been dropped, members of Congress and much of the US business community still rail about the undervaluation of the renminbi. The next Congress will likely return to this issue with more targeted and viable legislative proposals.

Finally, as one would expect, the countries that stand to gain the most from the Doha Development Agenda also face the toughest adjustments. In many developing countries, policymakers are already having problems adapting to the current competitive environment and are extremely reluctant to add to their adjustment burden by committing to new trade reforms. Even if they didn't have to worry about competition from China, many of them would be unsure whether they could take advantage of new trading opportunities due to infrastructure and human capital constraints. These legitimate concerns underscore the need to follow through on trade facilitation reforms in the Doha Round and complementary commitments to "aid for trade" to strengthen economic infrastructure and administrative capabilities.[1]

Conduct of the Negotiations

The negotiations themselves have been badly orchestrated and conducted. WTO members have only a handful of achievements to show for almost five years of effort, and even this limited progress will be voided unless the overall Doha Round accord is significantly improved. The slow pace of the talks stems, at least in part, from (1) negotiating proposals and tactics deployed by individual countries and regional coalitions, (2) ill-conceived provisions in ministerial mandates, and (3) the WTO's mercantilist negotiating ethic.

National/Coalition Positions. A large number of countries deserve blame for the current impasse in the Geneva talks. The United States and the European Union have been reticent to offer significant changes in their current programs, particularly in agriculture. China has kept a low profile not befitting its status as one of the world's largest economies and trading nations and has not offered additional reforms beyond the extensive commitments undertaken in its 2001 protocols of accession. Japan has sought to advance talks on cutting tariffs on manufactured goods but has hampered overall progress in the Doha Round by defending its protectionist farm policies and seeking large exceptions in agricultural tariff cuts. Finally, India has focused on blocking farm reforms in developing countries, even though the resulting negotiating impasse hurts its chances of wresting new access for its competitive exports of services. Together, these are the key players in the Doha Round, representing more than half of world merchandise trade and more than 3.2 billion people.

1. For an analysis of the benefits of trade facilitation for economic development, see Wilson, Mann, and Otsuki (2003).

Developing-country coalitions also deserve criticism. These large and diverse groups proffer requests of what they want developed countries to do for them, including special and differential treatment, but cannot reach consensus among themselves on what they should contribute to advance the WTO talks as well as their own development objectives. In that regard, it is particularly troubling that many of these countries have failed to recognize the critical importance of services reforms to bolster productivity in their agricultural and manufacturing sectors. These countries need to undertake reforms for development purposes whether or not required by WTO accords and should be assisted in their efforts by accelerated disbursements of "aid for trade" commitments by developed countries (once the Doha Round talks revive). Whether they should also be obligated to bind such changes in their WTO schedules is another matter—and should depend on economic conditions in each particular country.

In addition, the trade negotiators themselves deserve some demerits. The "blame game" has been a persistent and degrading sideshow throughout the Doha Round, with dueling US-EU press conferences and desultory charges from developing countries substituting for honest reciprocal bargaining. To be sure, the damage from such verbal abuses can be remedied.[2] More worrisome is the thought that these demarches mask political reluctance by major developed and developing trading nations to negotiate trade reforms. But political leaders have really not yet been challenged to change existing policies in response to offers from other countries—and that won't happen until trade diplomats transcend general discussions on frameworks for negotiations and start talking about how concrete problems will be resolved.

Ministerial Mandates. Some of the Doha Round problems arise from ill-conceived promises inserted in ministerial declarations. The most obvious example is the awkward title of the talks themselves. Proclaiming the "Doha Development Agenda" was perhaps meant to stress the trade and development objective embodied in the preamble of the WTO (and the General Agreement on Tariffs and Trade [GATT] before it) and to give priority to reform of trade barriers of interest to developing countries. But some countries have misconstrued the objective to mean nonreciprocity by developing countries and to justify demands for financial compensation for distortions caused by developed-country trade barriers and

2. Former US Trade Representative (USTR) Robert Zoellick, for example, recanted his post-Cancún diatribe against "can't do" countries by initiating global consultations and augmenting US offers in early 2004. These efforts revived the Doha Round, which had seized up after the failed WTO ministerial in Cancún in September 2003, and contributed to the Geneva Framework agreed in July 2004.

subsidies. A number of developing countries have held back from reciprocal bargaining to redress the "balance of concessions" that was heavily skewed against them in the Uruguay Round and to unravel some of the rule-making obligations—such as those in the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS)—whose implementation imposed extensive burdens on resource-strapped governments. At the Cancún ministerial in September 2003, these countries

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used the new leverage of the WTO's "single undertaking" to streamline the negotiating agenda (excluding investment, competition policy, and transparency in government procurement) and to emphasize concerns about trade in cotton and access to medicines.

At the same time, the predominance given to agriculture—almost to the exclusion of talks on other important issues like services—has been a major mistake. Officials have argued that the focus on agricultural issues is because of the lack of progress in prior rounds and the potential welfare gains for developing countries that could result from subsidy and market access reforms by developed countries. A series of studies by World Bank economists buttress such positions (see, for example, Anderson and Martin 2005). Those analyses, however, exclude the effects of services reforms that may be required for the successful exploitation of new trading opportunities. More attention needs to be given to this matter both in the services negotiations and in the work of the new negotiating group on trade facilitation (see Wilson, Mann, and Otsuki 2005).

Finally, the Geneva and Hong Kong ministerial declarations have accepted generous carveouts from liberalization requirements for special and sensitive agricultural products and sensitive industrial products. "Special" and "sensitive" are not defined but can be readily recognized as products protected by high tariffs, quotas, and subsidies. Such early "concessions" have resulted in strong pressure on developing-country negotiators to use the loopholes, even if they block or defer needed adjustments in the economy. While there is a clear justification for crafting schedules that help manage the adjustment burdens in developing countries, including by extending the transition period for implementing "less than formula" liberalization, such open-ended exceptions have further muddied the waters of the WTO talks and inhibited the process of reciprocal bargaining.

WTO's Mercantilist Ethic. Doha Round negotiators have followed a time-honored and perverse Geneva tradition: They label as "concessions"—and demand compensation for—offers to reduce distortions in their own economies. Under this form of negotiating calculus, the best result is to open foreign markets without changing domestic policies. To be sure, such semantic gymnastics have a logical political economy explanation.

As any good trade negotiator knows, WTO members engage in trade talks to achieve both domestic and international objectives. In the traditional, mercantilist sense, the aim is to increase exports—and that is how trade deals still are marketed to national legislatures. But even more important is the goal to increase imports to help dampen inflation, increase competition, and spur productivity in the economy. Indeed, WTO accords often are sought to help advance or lock in domestic policy reforms, such as the reduction in trade-distorting farm subsidies.

An open secret of trade policy is that much of the gains that a country can garner from trade negotiations result from changes made to one's own trade barriers. But the economist's simple prescription for economic health often cannot be filled due to domestic political opposition from interest groups that derive rents from trade protection and subsidies. Given these political constraints, trade officials need help from their trading partners to allow them to undertake the reforms needed to enhance economic growth. This is true both in developed and developing countries—though the reform task is more urgent and more intractable in developing countries given their development status and the adjustment burdens these countries already face in an era of globalization.

That said, the Doha Round won't move forward until negotiators stop asking their counterparts, "What can you do for me?" and address instead the more complementary task of "How can you help me undertake reform of my own policies so we both can achieve our development objectives?"

CAN THE DOHA ROUND AND US TRADE PROMOTION AUTHORITY BE EXTENDED?

The problems mentioned above have contributed to slow-paced and unproductive negotiations and to the political frustration that provoked the breakdown of the Doha Round in July 2006. Normally such an event would presage only a momentary reprieve in the trade negotiations. Trade pundits acknowledge that previous trade rounds have "failed" before they ultimately succeeded. The problem in this instance, however, is that the lengthy deliberations have squandered the time allotted to US negotiators to pursue the WTO talks under US TPA.

The Doha Round cannot be completed under the current TPA. The US Trade Act of 2002, which includes TPA, requires the president to notify the Congress by December 2006 if he intends to offer amendments to the trade remedy laws (antidumping, countervailing duty, and escape clause legislation) and by April 2007 if he intends to sign an agreement. Any agreement so notified and signed before June 30, 2007, can then take advantage of the crucial "fast-track" features of the TPA law: A congressional vote up or down within 90 days after implementing legislation is submitted, with no amendments. Even if talks restart by year-end 2006, it would be impossible to meet these legislative deadlines.

To complete the Doha Round, US officials will have to request that Congress extend TPA for at least a year or two, but to do so the Bush administration will need to demonstrate progress in the trade talks to justify congressional support. US officials, and the world trading system more broadly, face a real "chicken and egg" problem: The Doha Round cannot be revived without new US concessions, but US officials cannot make new offers and garner congressional support to renew TPA without new proposals from other major trading nations.

TPA is dead unless the Doha Round and big bilateral trade talks promise to deliver a substantial package of reforms in agriculture, manufactures, and services. . . .

If TPA expires, US negotiators will be more cautious in WTO talks about offering to revise current US laws or regulations; in turn, US trading partners will be more reticent to put good offers on the table in light of the US offers and the risk that Congress will require that negotiations be reopened and further concessions provided. Most likely, without TPA the Doha Round will go into hibernation.

Extending TPA won't be easy. Congress remains evenly split on trade issues, and the slim protrade majority in the House of Representatives could fall victim to the November 2006 mid-term elections. White House officials and business lobbyists fear that reauthorization of TPA would revisit the fractious battle in the summer of 2005 over the ratification of the Central American Free Trade Agreement (CAFTA) and would have to be fought in 2007 without two of the most tough-fisted Republican leaders in the House (former Majority Leader Tom DeLay and Ways and Means Committee Chairman Bill Thomas). If the Democrats gain control of either or both Houses of Congress, the administration will have to deal with new chamber and committee leadership whose commitment and capacity to lead on trade policy is uncertain at best. Trade policy could be held hostage until the next administration (when the Democrats hope to regain the White House). Such an outcome would not serve US economic interests and should be avoided by leaders of both parties.

Regardless of the electoral outcome, the Bush administration will have to spend political capital to rebuild the bipartisan protrade coalition in Congress or live without TPA and possibly relegate trade initiatives to the back burner for the rest of its term. However, to pass high-profile trade legislation like TPA, Republicans will need to attract a few dozen Democratic votes to offset protectionist members of their own caucus. To that end, Republicans will have to address concerns and interests of protrade Democrats, who have defected en masse on major trade votes in recent years in response to highly partisan legislative politics.

Assuming the Bush administration decides to pursue the renewal of TPA—since without TPA its trade policy would be severely constrained—it will probably have to wait until after the new Congress convenes in January 2007. Action in a lame-duck session in late 2006 would be difficult: The session is short, and other trade issues (such as extension of the generalized system of preferences [GSP] program, the Andean Trade Preferences Act, and the Africa Growth and Opportunity Act)—that are less contentious and action on which is time sensitive—probably will be given priority.

What needs to be done to renew TPA? In my view, the political recipe involves a combination of ingredients.

First, the Bush administration will have to demonstrate that large benefits are in the offing from both the Doha Round and big new free trade agreements (FTAs) under negotiation (especially initiatives with Korea and Malaysia). For that reason, reviving the Doha talks, and upping the ante of WTO offers, is a critical prerequisite for congressional consideration of TPA.

Second, the Bush administration needs to emphasize the foreign policy cost of disengaging or downgrading regional trade initiatives already in train in the Middle East, Southeast and East Asia, and Latin America. US trade initiatives usually involve pursuit of a range of economic and foreign policy goals, including the strengthening of democratic processes and support for antiterrorist programs, and have been used to cement political alliances with strategic trading partners (Schott 2004, chapter 13).

Third, the Bush administration needs to add a package of legislative "sweeteners" including support for a short-term extension of the current farm bill, enhanced health care and pension benefits for displaced workers, and other improvements to trade adjustment assistance programs.[3] The risk of such an approach, of course, is that some members of Congress will demand that other controversial issues be included in the package or that the use of TPA for future implementing bills be conditioned on the inclusion of certain provisions (e.g., labor) or the exclusion of others (e.g., changes in trade remedy laws).[4]

In any event, new legislation will likely present additional challenges to the Doha Round beyond the extension of generous US farm subsidies. Will the Bush administration be willing to pay the price to renew TPA in terms of US policy reforms sought by foreign trading partners and congressional Democrats? No decision has been taken, nor will the issue come to a head before the mid-term election. But it is hard to see how the White House would agree to pay for TPA unless US trading interests stand to gain significantly from the prospective trade initiatives. Bluntly put, TPA is dead unless the Doha Round and big bilateral trade talks promise to deliver a substantial package of reforms in agriculture, manufactures, and services that create concrete trade and investment opportunities for US firms, workers, and farmers.

WHAT NEEDS TO BE DONE? AND WHO NEEDS TO DO IT?

The adage "good things come in small packages" may apply when buying a Christmas present for your spouse, but "good things don't come in small packages" for trade negotiators. The Doha Round won't be revived unless the major trading nations increase the ante at the bargaining table, which will be a challenge for both developed and developing countries.

Unlike past rounds, the United States and the European Union have much less to offer except for the politically sensitive subsidies and border restrictions that have survived eight previous liberalization assaults in GATT rounds. To get political support for changes in their long-standing trade barriers, US and EU officials will need to bring home agreements that offer substantial new trading opportunities, primarily in developing countries that still maintain high border barriers to trade. Anything less and politicians will opt for the status quo.

Unlike past rounds, many developing countries have (1) a real stake in the bargaining process and—like the United States and the European Union—will have to take home some trophies from Geneva to get their governments to approve their own trade reforms and (2) leverage to push their own export interests. The single undertaking gives them a stick in the closet; like most sticks, it is most valuable if threatened but not used. They will not and should not accept a deal that does not increase access to foreign markets for their goods and services and decrease actual disbursements of farm subsidies by industrial countries.

Accordingly, a successful Doha Round will have to include a big package of market access reforms to accommodate the interests of both developed and developing countries. That outcome is still a long way off.

To date, the proposals put forward by the major trading nations would not result in substantial cuts in applied tariffs, in current levels of disbursements of farm subsidies, or in trade and investment barriers to services. Moreover, no one is sure what these offers are worth, since it is unclear whether—and if so how—the offers will be applied to products currently benefiting from high levels of protection or subsidy. Each country wants to provide exceptions from the general liberalization formulas for "sensitive products" so that key domestic constituencies are shielded from the reforms. Extensive resort to such exceptions (either via outright exemption or more limited reform) would substantially hollow out the content of the agreements. In short, the current proposals need to be substantially improved to produce a result that provides politicians the quid pro quo for their difficult votes to reform long-standing trade barriers and subsidy programs.

The negotiating process has seized up because key negotiators have not led by example and challenged their colleagues by proposing concrete changes in current policies that would open new opportunities for trade and investment. Each "leader" of the trading system says his or her counterpart must do more before another offer is put on the table.

The best way out of this "chicken and egg" problem is for the main developed and developing trading nations to move in tandem and in expectation of reciprocal offers from the bulk of the WTO membership. Consultations among key WTO members already have been held in Southeast Asia, Brazil, and Australia on how to revive the Doha Round, and more sessions are scheduled through the Asia Pacific Economic Cooperation forum (APEC) ministerial in mid-November 2006. By that time, US officials may face a decision point on TPA, especially if the mid-term elections go badly for the Republicans, so it is particularly important that the WTO talks revive and show some progress at that point.

To do so, each of the key players will need to ante up new offers in a coordinated manner that can then be presented to the broader WTO membership in Geneva. The

3. To be sure, no package of "sweeteners" may be sweet enough to those politicians seeking strategic advantage in the 2008 US presidential election.

4. In that regard, a new TPA debate also could provoke internecine debate on trade and immigration policy—a divisive issue both between parties and within the Republican caucus—since a Doha Round deal on services will probably have to include at least narrowly drawn offers to increase trade in temporary labor services.

APEC meetings in Hanoi would be a logical culmination of the consultative process that promotes a return to the negotiating table. Because APEC comprises most but not all the key trading nations, APEC trade ministers should invite several non-APEC countries, along with WTO Director General Pascal Lamy, to join in a special session on the WTO during their annual meeting. The purpose should be to consult and coordinate on the new proposals that each will table in the Doha Round.

Without delving into the fine print of what needs to be done, let me summarize what each key player needs to offer to craft a package of agreements that could balance the political needs of those countries with the development goals of the Doha Round. The caveat "easier said than done" is understood.

The **United States** and the **European Union** both need to augment their WTO offers to catalyze movement by others. The United States has to make further cuts in farm support and open up trade in labor services, and the European Union has to do more on agricultural market access as well as industrial tariffs and services. Specifically, overall trade-distorting subsidies provided to US and EU farmers should be reduced by 60 to 70 percent from WTO-bound levels and applied farm tariffs should be cut by more than half with very few exceptions.[5] Most tariffs on manufactured goods should be eliminated (as the United States originally proposed in 2002), and none should be higher than 10 percent after a transition period. In addition, both need to make narrowly focused offers on temporary provision of labor services.[6] In many cases, US and EU reforms will not primarily benefit bilateral trade but rather respond to the priority demands of developing countries. But what the European Union does matters for the United States, and vice versa, even if the reforms do not largely benefit bilateral trade, since if each provides new opportunities for key developing countries, then those countries will reciprocate in areas of interest to the United States and the European Union.

Major developing countries, especially Brazil, Mexico, and South Africa, need to make concrete offers to reduce current levels of protection for goods and services and to provide poorer developing countries with preferential market access. Average industrial tariffs should be reduced below 10 percent and bound at that level. In services, revised offers need to be put on the table that open new competitive opportunities in financial services, telecommunications, air transport, and other distribution services. Several of the leading trading nations in the developing world already have accomplished much of this liberalization; they should now "lock in" these reforms to ensure a stable policy environment for trade and investment. Whether these countries will do so, of course, depends on how the United States and the European Union address their priority demands.

China needs to contribute more than any other developing country and perhaps as much as industrial countries on market access for manufactured goods. Compared with other major trading nations, China has the most to lose from the collapse of the WTO system. China's fast domestic growth rate depends on keeping its export engine running, which in turn requires an open world trading system.[7] Moreover, as a practical matter, China's trade barriers are already low compared with its peers (e.g., India and Brazil), so large percentage cuts in base tariff rates will translate into small changes in China's applied tariffs. Such concessions—in conjunction with significant appreciation of its currency—could yield important dividends: Contributing more than most developing countries would allow China to respond positively to protectionist pressures in Europe and the United States and would give China a political advantage in its relations with other developing countries.

India needs to do more to align its trade policies with its overall economic development strategy. Prime Minister Manmohan Singh has capped the more outrageous industrial tariffs, but in multilateral talks, India's position has remained faithful to an earlier age where protection of agriculture and services was paramount. Indian demands that subsistence agriculture be sheltered from all trade accords should not mean an unwillingness to reform agricultural policies and to open competition to processed foodstuffs, nor should India continue to protect its generic pharmaceutical firms and a long list of monopoly service providers. Moreover, India now has an "offensive" agenda in the Doha Round to enhance the ability of multinational firms to outsource various operations, particularly tradable services, to Indian firms. When developed countries offer a more concrete deal on services, India should be able to reciprocate with deeper cuts in industrial tariffs and selective agricultural reforms.

In sum, the major trading nations in the developed and developing world need to dig deeper into their pockets and agree to implement new trade reforms that will promote economic growth at home and abroad. Overall, negotiations should yield the following:

5. For a more detailed analysis of the Doha Round negotiations on agriculture, see Elliott (2006).

6. To be sure, offers on temporary provision of labor services will pose a large challenge to US officials since Congress has warned the USTR not to make offers that would alter US immigration policy.

7. China's extensive network of FTAs is not a viable alternative since these pacts do not cover China's major export markets (e.g., the United States and the European Union accounted for about 40 percent of Chinese exports in 2004).

• In agriculture, farm export subsidies should be phased out by 2013 as promised; the overall level of trade-distorting farm subsidies should be cut by 60 to 70 percent, with de minimis allowances cut to 1 percent of the value of production; and farm tariffs should be more than halved in developed countries and reduced by one-third in developing countries—with limited exceptions for sensitive products linked to higher minimum import access requirements and tariff caps no higher than 100 percent.

• For manufactures, tariffs should be slashed in developed countries (with most tariffs bound at zero) and applied tariffs reduced by at least 30 percent in major developing countries (including China).

• Services negotiations probably require the biggest effort to upgrade the sparse offers proposed to date, particularly in the area of financial, telecommunications, distribution, and "mode 4" labor services. In this area, for a deal to come together, industrial countries will need developing-country commitments to reform in infrastructure services (e.g., banking, insurance, telecom, and air transport), while developing countries expect new opportunities to provide labor-oriented services (e.g., health care, construction, and basic information technology services). Satisfying both camps will require the elimination of nationalistic rules on establishment and governance and the reform of regulation that fosters incumbent suppliers.

If ministerial-level consultations progress to the point by the APEC meetings that such a package is feasible, then Pascal Lamy should invite WTO members back to Geneva in early 2007 for an intensive series of negotiations on agriculture, NAMA, and services. That would be the time as well for him to unveil a new "Lamy Draft"—drawing on the extensive efforts already undertaken by chairs of the negotiating groups—that provides specific guidance to WTO member countries on crafting the final Doha Round package of agreements.

WHAT IF THE DOHA DEAL DOES NOT GET DONE?

For those who think the above proposal is too ambitious or too imbalanced, or doubt that the US Congress will extend TPA and thus expect the WTO talks to drift indefinitely, I conclude with a summary accounting of the prospective costs of failure of the Doha Round. The alternative to a successful multilateral negotiation is not the status quo ex ante but rather a serious degradation in the trading system.

It's fairly easy to classify the downside risks of a failure of the Doha Round, even if it's difficult to quantify the extent of the losses.

The first loss would be forgone welfare gains from new WTO reforms. If one posited the outcomes modeled by economists at the World Bank and leading universities, the expected benefits would range from about $50 billion to several hundred billion dollars. These numbers are both too large and too small, since many of the models assume too much change in tariffs and subsidies and too little change in regulatory policies affecting service industries compared with what would be contained in an acceptable Doha Round accord.

The alternative to a successful multilateral negotiation is not the status quo ex ante but rather a serious degradation in the trading system.

The second cost would be systemic erosion. The WTO would not implode but rather begin a slow descent into oblivion. The poorest and weakest members, who benefit the most from a strong multilateral rules-based system, would be the most disadvantaged. To be sure, members still would adhere to obligations under existing agreements. But there would be less confidence in using the WTO as a forum for trade negotiations—why spend the effort when the process yields so little? On the other hand, there would be more emphasis on WTO litigation in the absence of an effective "legislative" process to liberalize trade and augment the world trading rules. Developing countries likely would make more use of the dispute settlement process to "litigate" desired changes in the practices of other member countries—but big players would have less incentive to comply with adverse rulings.

The third cost would be increased regionalism—pursued in a way highly corrosive to the WTO system. Major trading nations would refocus their negotiating efforts on bilateral and regional trade agreements, and the number of such initiatives would proliferate—as occurred in the immediate aftermath of the failed WTO ministerial meeting in Cancún in September 2003, which disrupted the Doha Round for months. Of course, there probably will be more regional initiatives whether or not the Doha Round succeeds. However, the explicit discrimination inherent in those pacts, along with the burdensome rules of origin required to qualify for the trade preferences, would become more onerous in the absence of the mitigating effect of complementary multilateral liberalization.

Even worse, preferential pacts between the richest countries could severely impair the trade of developing countries. In the past, most FTAs involved deals among developing countries or between major developed and developing countries. So-called

North-North FTAs were vetted but rejected because of their potentially adverse impact on the multilateral trading system. A Doha failure could change that calculus and prompt new FTAs among the major trading nations. Two initiatives seem possible under this scenario: a US-Japan FTA, in response to Chinese trade pacts in the region and the current Korea-US talks; and renewed interest in a Transatlantic FTA or TAFTA, which would be seen as a constructive response to growing protectionist pressures on both sides of the Atlantic and would be less offensive to labor interests than North-South deals. Such talks conceivably could proceed without TPA if the participants loosely interpret WTO obligations requiring coverage of "substantially all trade" and tread lightly on agriculture. Other countries would then seek comparable deals on a bilateral or regional basis.

The fourth cost would be increased protectionism. Trade rounds act as a buffer against protectionist impulses since blatant new trade barriers or subsidies could disrupt ongoing negotiations. Remove the constraint and countries could well deploy new protectionist measures in the coming years—channeled through practices not subject to WTO disciplines. And, of course, this risk increases as the buoyant economic growth of the past five years begins to wane. What's likely? New doses of regulatory protection, via sanitary/phytosanitary measures in agriculture and visa restrictions to block trade in services, plus investment restrictions to protect national security or national patrimony (particularly in energy and transportation). Such measures could escalate in the future in response to slower growth and rising unemployment as the global boom of the past three years weakens amid high energy costs and associated inflation. Reactions to a new terrorist attack, bird flu pandemic, spike in oil prices, or other unforeseen events also could exacerbate latent protectionist tendencies.

Fifth, the breakdown of the trade talks could precipitate adverse shocks in financial markets. It's not a coincidence that I often get calls from Wall Street when trade talks stall. Given the global economic imbalances noted above, markets already are sensitive to threats of new trade protectionism and their knock-on effects on capital flows. Concerns about exchange rate misalignments already weigh heavily on US-China trade relations; this problem could spread if the dollar adjustment needed to mitigate global imbalances falls disproportionately on the euro, prompting a surge in European protectionism.

Finally, and often ignored, is the opportunity cost for developing countries, particularly the least developed, of not being able to use the carrot and stick of multilateral trade negotiations to catalyze their own domestic economic reform. In other words, no help in dealing with the competitive challenge of globalization in general and China in particular.

In sum, the costs of failure in the WTO talks would be substantial. Many developing countries would suffer significant losses, and the process of multilateral negotiation would be devalued, if not discredited. In contrast, while worse off, the costs to developed countries would be relatively small, and other trade initiatives could compensate some of those losses. But for most developing countries, including those who have been most demanding and least forthcoming in the Doha Round, there is no viable alternative to the WTO. Completing a comprehensive package of WTO trade accords should be the number one trade priority of developed and developing countries alike in 2007.

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