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The Future of the WTO

By Sandra Polaski

When the Doha Round of global trade negotiations derailed on July 23, many observers proclaimed a crisis that threatens the global trading system. This alarm is misleading. The failed negotiations were on the wrong track and unlikely to produce a balanced and widely beneficial new agreement. The aftermath of the crash provides an opportunity to set resumed talks on a better course to achieve the agreed objective of rebalancing trade rules so that developing countries can benefit more.

The World Trade Organization itself will survive this crash. The alternatives to the global trade regime—bilateral or regional free trade agreements—do not offer the advantages to any country that the WTO provides.

This Policy Outlook analyzes the causes of the recent failure and identifies key objectives that must be addressed when talks resume. It explains that the WTO remains indispensable and will survive. However historical patterns and the political calendar suggest that the Doha Round may not be completed until 2009 or thereafter.

Doha Was on the Wrong Track

When the current round was launched in Doha, Qatar in 2001, it was officially named the “Doha Development Agenda,” indicating the priority of helping developing countries gain more from trade liberalization. This priority was an outgrowth of the global solidarity that emerged in the wake of the September 11, 2001 attacks on the United States. More pragmatically, the development agenda reflected the reality that developing countries now constitute the majority in the World Trade Organization and, therefore, can determine whether new trade rules are adopted or not. Many developing countries believe that previous rounds of global trade talks created rules that primarily benefited the high-income industrialized countries that dominated global trade. A rebalancing was needed to provide opportunities for all countries and to take into account the special vulnerabilities of poorer countries.

Despite that moment of clarity, many of the major players, including the United States and the European Union (EU), soon gave short shrift to the development agenda and reverted to their traditional priority of gaining market access for their own competitive firms and sectors. However, a new balance of power has emerged in the global trading system, as large developing countries led by India and Brazil sit at the negotiating table and insist that any deal must address their development concerns. Although the proximate cause of the July breakdown of negotiations was disagreement between the United States and the EU over agricultural trade, major disagreements with the developing countries over agriculture, manufacturing, services, and other issues were just below the surface. If talks had not collapsed because of U.S.-EU disagreements, they would have foundered later because of differences with India, China, Indonesia, South Africa, and a host of other developing countries. It is with these countries that the crux of a successful new trade deal must be found.

At the core of many developing countries' resistance to offers currently on the table in the Doha Round is the issue of employment. How many jobs will a trade pact create? How many will it destroy?

In many developing countries, the largest source of employment is agriculture, usually small-scale subsistence agriculture. For example, in India, 58 percent of the work force is engaged in agriculture. In Kenya the proportion of farmers reaches 74 percent of all workers. If agricultural tariffs are cut, cheaper imports may displace large numbers of farmers. By contrast, in the United States, only one percent of the workforce is in agriculture. India has taken a firm position in the talks that it will not negotiate away the livelihoods of a majority of its population. It is staunchly backed by a group of 42 developing countries known as the G33, which includes heavyweights such as Indonesia.

Where will workers displaced by a new trade regime go to find new jobs? For developing countries, the traditional alternative to agriculture was to build up the manufacturing sector and create better jobs there. However, developing countries are also being asked in the WTO negotiations to radically reduce their tariffs on manufactures. These reductions would allow cheaper imports of medium and high-tech goods from industrialized countries, while also allowing cheaper imports of low-skilled manufactured goods like apparel, textiles, and footwear from competitive producers such as China. Countries in Africa and South Asia could be net losers of manufacturing jobs under the proposals being pressed at the WTO at the very moment they need to create millions of new jobs for displaced farmers. Even countries such as Brazil and Argentina, which would gain from agricultural trade liberalization, stand to lose manufacturing jobs according to models of global trade. Such losses would be a step backward in terms of development, as displaced factory workers look for lower skilled and lower paid farm jobs.

The daunting task at the center of the Doha Round is to find a trade deal that captures the positive potential of global trade to accelerate economic growth and job creation, while recognizing and allowing sufficient flexibility to deal with the reality of extensive job destruction. This challenge has been avoided or denied by many developed country negotiators. Until it is addressed with the seriousness that it requires—and with more than a little of the spirit of global solidarity that launched the round—there will be no agreement on a new trade regime.

A Healthy WTO

Notwithstanding the collapse of the Doha Round, the WTO will continue to function under the trade rules negotiated in previous rounds, which continue to bind all 149 member countries. Existing WTO agreements will still set the rules for trade between the major players, including the United States, the EU, and major emerging powers such as China and India. There is little prospect that these countries will negotiate separate free trade agreements among themselves, for the same reasons that make a Doha deal difficult. The WTO will continue to attract new members, as seen in recent weeks as Russia and Vietnam work hard to join the organization. The WTO dispute settlement mechanism, which is the venue for resolving grievances that arise under existing rules, will continue to function. It is not at risk because it provides real benefit to all member states in solving their disagreements.

Many of the commitments undertaken in the last round of negotiations (called the Uruguay Round) have only recently been implemented, including the phase-out in 2005 of the global quota system that governed all apparel and textile trade. China is still implementing deep changes to its tariffs and other policies that it agreed to enact over five years as a condition of accession to the WTO in 2001. This means that broad swaths of the world economy are still adjusting to new trade and price realities arising from earlier agreements.

There is plenty of room for world trade to continue to grow under the existing rules, as demonstrated by the impressive expansion of trade over the twelve years since the conclusion of the last round. In fact, the very evident lack of engagement by most private firms in this round is a signal that business feels it has what it needs in terms of market access for the foreseeable future. Powerful corporate interests have never been shy about pressing their governments for new trade deals when they felt constrained by existing rules.

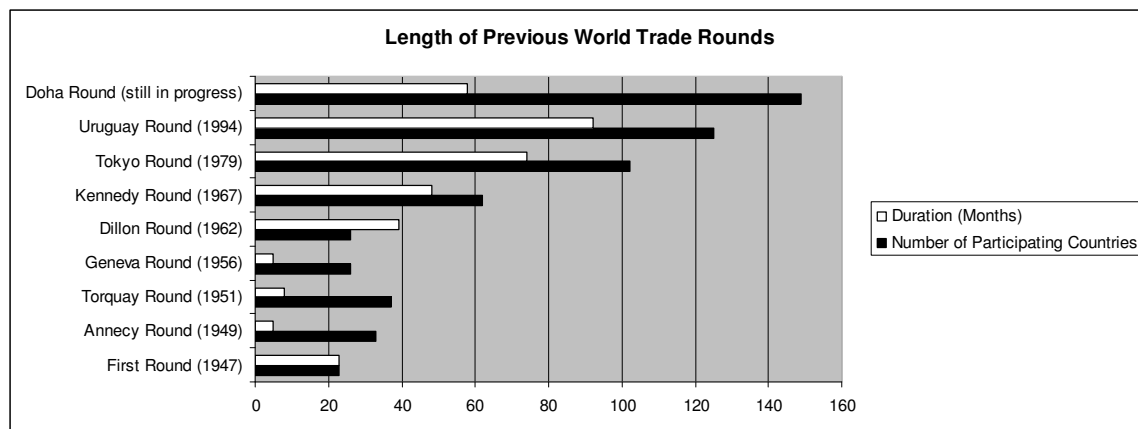
The only risk to the WTO—and it is minor—is from a self-inflicted loss of confidence caused by repeatedly setting premature and unachievable deadlines for reaching a new trade deal, thus producing one artificial “failure” after another. The guardians and supporters of the WTO should dampen, not fan, the anxiety about the organization.

Timelines and Politics

U.S. congressional elections in November 2006 and presidential elections in several major countries, including Brazil and France, in the coming months could sap political will to return to the bargaining table. The U.S. administration’s authority to negotiate trade agreements with a guarantee that Congress will vote on them with no amendments (on a so-called “fast track”) will expire in June 2007. That authority could be extended, but it may depend on the outcome of the November congressional elections. If the Republicans retain control of both houses of Congress, they are likely to extend the authority for a Republican president. However, should the Democrats take control in November, trade policy will be harder to predict. Although the Democrats never denied trade negotiating authority to a Republican president when in control of Congress in the past, a Republican-led Congress repeatedly denied it to former U.S. President Bill Clinton. U.S. trade policy has been conducted on an increasingly partisan basis since the Republicans took control of the executive branch and both houses of Congress, and lingering bitterness may make it difficult to reach agreement on the terms of new trade negotiating authority legislation. The rebuilding of a bi-partisan consensus on trade will not be quick or easy. The United States may not be ready for a new push in the Doha Round until 2009, under a new president. By

then the political climate surrounding trade will evolve in other countries as well, and the overall appetite of the world for a new trade regime may be better or worse.

A two or three year delay in world trade talks is hardly unprecedented. The Uruguay Round talks took seven and a half years to conclude. The current round has been underway for only about four and a half years. As the figure below shows, trade rounds have taken longer to conclude as more countries join global trade negotiations. Since the last round, WTO membership has continued to expand. Most of the new members are developing countries. These countries are at very different stages of economic development and have highly differentiated export interests as well as defensive concerns for their own firms, workers, and farmers. It was never likely that a round with many more players, and more diverse players, would take *less* time than previous rounds. If the trends seen below are any indication, this round could take eight to ten years, concluding in 2009 or later.



The Alternatives to the Doha Round

While there is broad recognition that the Doha Round was not on track to achieve an ambitious or balanced outcome, some lament the collapse of the round nonetheless, arguing that it will unleash a frenzy of bilateral and regional trade deals. These deals would exclude some countries, and if negotiated between unequal partners, might be even worse for the weaker countries than the deal on offer at the WTO. That much is true. However, it is not at all clear that negotiations for smaller trade deals will accelerate or that they will undermine the WTO.

If the U.S. fast track trade negotiating authority is not extended, it will be impossible for the U.S. administration to achieve new bilateral free trade agreements. Congress would be free to amend any tentative deals at will, making negotiations impossible. The U.S. strategy of “competitive liberalization” would come to a halt.

In Asia, regional and bilateral trade pacts have been proliferating rapidly. The ongoing WTO negotiations have had no impact on the pace of those talks, and the collapse of Doha will neither accelerate nor decelerate Asian integration. The trade talks in Asia are meant to facilitate integrated production in the region, in addition to consolidating the economic interests of major Asian powers. Those countries depend on outside markets, particularly the rich markets of the United States and Europe, to take their export production, so they have no incentive to turn away from the WTO, regardless of how many regional pacts they conclude.

In Europe, an ambitious negotiating agenda has been underway for several years to replace current preferential trade arrangements that benefit countries in Africa, the Caribbean, and the Pacific with free trade agreements by the end of 2008. These talks have run into substantial obstacles because of development concerns on the part of the ACP countries, similar to the issues that bedevil the global talks. Europe may pursue other bilateral deals over the next two years, but there is little reason to think that any big agreements will be easy to achieve.

Next Steps for the WTO

The head of the WTO, Pascal Lamy, hoped to bring the Doha Round to a swift conclusion. If a long delay seems likely, he may decide to leave the post. Whether it is Mr. Lamy or a successor, the role of director general of the WTO should be reevaluated for the coming period. What is needed is leadership in acknowledging and addressing the profound concern about the impact of trade policy on employment that exists in a majority of WTO member countries. These concerns are well-noted in industrialized countries, but the problems loom even larger in the developing world, where job fears encompass both the agricultural and manufacturing sectors. Recent studies by the Asian Development Bank and UNDP have shown a marked weakening of the link between economic growth and employment creation in recent years, even in dynamic economies like China. The preoccupation of WTO members with trade's effect on jobs is based in reality and is completely legitimate. Until the issue is acknowledged and put on the table, a way forward cannot be found. Any ultimate agreement will have to allow an extended implementation period and real flexibility in the sequencing of liberalization measures to foster greater job creation than job destruction in countries with very different capacities for adjustment.

The world economy and world trading system have changed tremendously since the last round of trade negotiations concluded in 1994. New powers are rising and they plan to exercise their might in various ways, including by pressing their vital domestic concerns such as employment. The poorest countries, which lost ground under the last trade round, will insist that they do better this time. A period of reflection over the next few years to find a path that is grounded in the new emerging world order might be just what the WTO needs. ■

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