Introduction

ERNESTO ZEDILLO

The biggest problem confronting the World Trade Organization (WTO) at the time of writing this—end 2006—is surviving the Doha Round. The Doha Round negotiating process generated some positive developments for the trading system, one of which is the focus of this book: a better understanding of the linkages between trade and poverty and the need for complementary measures to assist the poorest countries to benefit from global trade opportunities, including "aid for trade." But this positive aspect of the process is greatly outweighed by the negatives. It is still not known whether the Doha Round will eventually be brought to closure, but whatever the outcome deep concerns are warranted about the consequences of the Doha Round for the future of the multilateral trading system.

It is useful to recall how difficult it was to launch the round. The road from the disastrous Seattle ministerial to the approval of the Doha declaration was a relentlessly rocky one. The odds of holding a successful ministerial gathering at Doha that could initiate a new round were very small even as late as the summer of 2001. After all, the two biggest players—the United States and the European Union (EU)—had hesitated until June to endorse formally and jointly the idea of a new round. Even after this endorsement, suspense and drama continued to pave the road to Doha.

In his late July 2001 gloomy reality check, Mike Moore, the WTO director general, concluded, "A large number of players are not yet convinced," and

"The situation is fragile, and without generosity, good manners, and goodwill, the process could implode and become unmanageable."[1] He was right to be worried. Based on the purely mercantilist logic that had driven previous rounds, some of the key players seemed to think that they had little reason to support a new round. Some feared that they would end up yielding more "concessions" than the ones they would probably receive from others. In the case of the United States, a possible reason for not pushing strongly for the new round was that it saw more promise in extracting "concessions" through the expedient of preferential trade agreements (PTAs). Many developing countries were rejecting the idea of a new round on the grounds either that developed countries had failed to deliver on commitments they had made under the previous Uruguay Round or that certain WTO provisions had, in practice, proved to be counterproductive. Then there were those, like the European Union, that agreed to the round but in the end would do the utmost to resist a firm commitment to undertake serious reforms in the key area of agriculture.

Given the much larger and diverse country composition of the WTO as compared to the composition of the previous General Agreement on Tariffs and Trade (GATT) rounds, it should have been evident that the pure logic of mercantilist negotiations—based on reciprocal concessions—could not be the driving force that would launch the new round and make it succeed. This approach could hardly do the job of achieving further trade liberalization given the variation in priorities and interests of the WTO membership.

The challenge of deepening global trade liberalization had become much less of a traditional mercantilist undertaking and more a task of providing a global public good, with all the sovereignty issues and free-rider complications that such an endeavor entails. In the absence of an otherwise undesirable global government with the capacity to coerce countries into international agreements, creating the conditions for the adequate provision of global public goods critically depends, not on sheer authority, but on effective leadership. Certainly leadership stems from power, but another crucial element is legitimacy grounded in clarity of purpose and the willingness to move toward that purpose without waiting for others to do so. Sometimes it also depends on the willingness to contribute incentives that will entice others to follow.

Sadly it took the 9/11 tragedy to bring together the ingredients demanded by Mike Moore in his mid-summer reality check and to inspire the leadership required to launch the new round. The atrocity energized not only the military but also the soft power of the United States, although, unfortunately, only briefly. Because of the latter, a vision different from the mercantilist one prevalent until then came into play. This vision, novel at that point in the Bush government, was best put forward by U.S. Trade Representative Robert Zoellick in

1. WTO (2001).

a series of articles and speeches he started to deliver less than ten days after 9/11. They were part of a strategy to convince the U.S. Congress of the need to pass the Trade Promotion Authority (TPA) and the need to launch a new round of trade liberalization. Zoellick kept repeating,

> The international market economy, of which trade and the WTO are vital parts, offers an antidote to this violent rejectionism. Trade is about more than economic efficiency; it reflects a system of values: openness, peaceful exchange, opportunity, inclusiveness and integration, mutual gains through interchange, freedom of choice, appreciation of differences, governance through agreed rules, and a hope for betterment for all peoples and lands.[2]

Curiously, these concepts earned Mr. Zoellick quite a few bitter and unjust attacks. For example, a usually circumspect member of Congress said that Zoellick's claim would be laughable if it weren't serious. Others accused him of melding principle with opportunism and of cynical exploitation of widespread misfortune. An aggressive commentator went so far as to accuse Mr. Zoellick of using tactics reminiscent of those applied by the infamous senator Joe McCarthy in the 1950s. That opinionated commentator should have known better. By linking trade with the pursuit of peace and democracy, Zoellick was not using McCarthy's tactics, but rather evoking old ideas, advocated and put to good use before by statesmen like American presidents Truman, Roosevelt, and Wilson. In fact, Zoellick was relying on concepts that go back to Kant's *Perpetual Peace,* published in the late eighteenth century and, to some extent, as far back as the early seventeenth century, when Eméric Crucé first claimed that trade would prevent war.

At any rate, the new sense of urgency gave rise to a strong acceleration of trade diplomacy that, in less than two months, culminated—not without much wrangling—in the adoption of the Doha Ministerial Declaration on November 14, 2001. The leadership, generosity, good manners, and goodwill that converged at Doha were enough to launch the new round, but not enough to prevent an overloaded agenda that, in the rush to avoid another Seattle, had to accommodate all kinds of requests from the member countries. At Doha I became particularly concerned when EU representatives substantially hardened their demand to have nontrade, even environmental, issues included in the agenda precisely when it became clear that they were alone in opposing the commitment to undertake negotiations on agriculture as expressed in paragraph 13 of the declaration. At the time, I wondered whether the inclusion of nontrade issues could be better characterized as a Trojan horse or a time bomb.

2. Zoellick (2006).

All this indicates that the Doha Round encompassed a hazardous paradox: it was launched mainly because of geopolitical factors and global public good considerations; however, since the very beginning both the agenda and negotiation dynamics have obeyed essentially a mercantilist logic. As a global public good endeavor framed in a broader strategy of international cooperation, Doha had a powerful *raison d'être.* As an enterprise of 149 countries in which each, with no exceptions, acts on a strictly mercantilist logic and holds veto power under a single-undertaking framework, it had a very weak one.

The vision and logic that propelled the round's launching seemed to vanish as soon as the lights were turned off in the big conference room where the Doha closing ceremony took place. Once this fact is acknowledged, the story of missed deadlines and lack of substantive agreements that the round has produced so far is not surprising. To paraphrase Gabriel García Márquez, the story is a chronicle of a failure foretold.

July 31, 2004, was a rare moment of potential optimism. The adoption of the framework constituted progress. Afterward, however, and for well over a year the negotiations produced nothing significant. Only the specter of another failure compelled trade ministers to agree to a declaration at the Hong Kong ministerial meeting in December 2005. The fact that an outcome similar to the one of the ill-fated Cancún meeting was avoided made some commentators confident that the round might have turned the corner at last. This assessment was at best premature, if not outright unwarranted, given the scant substance contained in the Hong Kong declaration.

The end date for agricultural export subsidies (2013) agreed to at the Hong Kong meeting not only covers only a small percentage of total farm support but also is later than the date that serious analysts consider to be a balanced compromise (2010); indeed, 2013 was already the date implicit in the current European agricultural policy for phasing out export subsidies. Likewise, the elimination of cotton export subsidies by developed countries by 2006 was not a very impressive achievement. The major offender, the United States, was due to effectuate something similar anyway because of the WTO dispute won by Brazil. The decision to give duty-free, quota-free market access for 97 percent of the exports of least developed countries is not very meaningful given that the excluded 3 percent of tariff lines would allow developed countries to continue protecting products of great export potential for the poorest countries.

The most important subjects—agriculture, manufactures, and services—made no progress whatsoever beyond an understanding on a raft of new deadlines for the modalities for market access on both agricultural and non-agricultural products (end April). Given the round's perfect track record of missing every single deadline before then, it was not a great surprise that all the Hong Kong deadlines were missed and that the round was put into a state of suspension at the end of July 2006 by Pascal Lamy, the new WTO director general.

A sensible way to explore whether a good outcome is feasible is to imagine the sequence of conditions and events that must occur to produce a happy ending before the expiry of TPA in mid-2007 and to subject this scenario to a reality check, à la Mike Moore. Simply for illustrative purposes, let me sketch such a sequence.

There cannot be a sound Doha result if rich countries do not apply substantial reductions in agricultural tariffs and subsidies. These countries should also be forthcoming with further cuts in their industrial tariffs, including on textiles and clothing. The biggest opposition to meaningful agricultural liberalization all along has been from the European Union, followed closely by the G-10 countries with high levels of protection of agriculture (Japan, Switzerland, Korea, Norway). So far, the European Union has stuck to its guns on this issue. The trade and agricultural European commissioners had their hands tied by the French-German pact on the EU agricultural budget agreed in the fall of 2002 and the 2003 EU Common Agricultural Policy (CAP) reforms. Every time a pertinent commissioner has tried to deviate from the CAP straitjacket, a scolding has been delivered, either directly from Paris or via Brussels, achieving instantaneous results.

The dearth of latitude given to the EU trade commissioner was confirmed, once again, by the European response to the U.S. agricultural proposal in October 2005 and by what happened in Hong Kong. Ceteris paribus, the European Union will continue to resist major cuts in agricultural tariffs and will continue asking for a large number of products to be designated sensitive and therefore exempt from the general rules to reduce protection. Considering the present political situation in France and other European countries, I do not see how the EU position on agriculture could go through the required and indispensable changes any time soon.

Even if the EU negotiators miraculously were granted a reasonable margin of action on agriculture, this would not be accomplished without getting meaningful concessions from others. Assume that the U.S. Trade Representative can put on the table what it takes to get the deal done, a heroic assumption in light of current American politics, with the Democrats having obtained the majority in both houses of Congress and the fact that the inability to offer a relatively small increase in subsidy disciplines led to the suspension of the round. Assume also that the G-10 is brought on board. After that, it would be the turn of the majors in the G-20 to pay. Are Brazil and India ready to slash industrial and agricultural tariffs? Are they ready to make more ambitious offers in services? To give some preferences to least developed countries? Even if Brazil did all these things, for India to do so would be no small enterprise, considering how slowly the processes of reform tend to proceed in the Indian democracy. At the very least, some additional incentives would be needed to get India to do its part. Binding free entry of electronic delivery of cross-border services and a gesture in mode four of the General Agreement on Trade in Services (GATS) might be required as a bonus by the Indian officials to move. Are these conditions feasible?

Were all of the above to be solved, plus the rest of the G-20 problems as well as the pertinent issues on rules, dispute settlement, and PTA disciplines, still remaining would be the question of how to deal with the concerns of the least developed and other developing countries. Many of these countries have yet to acquire the capacity to export agricultural and industrial products and would have their trade preferences and fiscal revenues eroded if a truly liberalizing Doha outcome were to come about.

In addition to getting a *complete* duty-free, quota-free market access system, those countries, which should commit to freer trade for their own sake, although with greater flexibility than that accorded to the others, would need support to compensate for fiscal revenue losses incurred as a result of lowering import duties, to build the human capital and physical infrastructure they need to benefit from increased market opportunities, and to adjust to erosion of existing trade preferences that result from multilateral negotiations.

As argued in the *Trade for Development* report of the Millennium Project, greatly increased international technical and financial support for reform and adjustment by developing countries is needed to achieve sensible liberalization targets.[3] A temporary "aid-for-trade" fund commensurate with the size of the task or significantly ramped-up contributions through existing channels are needed to support poor countries in addressing adjustment costs associated with the implementation of a truly reformist Doha Round. The Hong Kong aid-for-trade pledge, the progress that is being made to create an enhanced integrated framework secretariat in Geneva to bolster trade assistance for least developed countries, and the report of the Task Force on Aid for Trade are all positive steps. However, they do not constitute credible steps to address this issue. A solid political will to pay the price for preventing the least developed countries from blocking a good deal is yet to be detected among the key players.

In short, my modest reality check is not favorable at all to the possibility that a good package of agreements can be concluded in time to avoid the expiration of the U.S. TPA on June 30, 2007. Therefore, it is imperative to start openly entertaining scenarios of what must be done in the face of this reality. Governments have a serious responsibility to look ahead and consider how to handle the situation. It is unlikely that the enlightenment that was absent for five years will appear at last. It is better to accept that countries will continue to be driven by a purely mercantilist logic. But even if they remain faithful to this logic, governments should realize that it is in nobody's interest to undermine the existing multilateral trading system further. I cannot think of any WTO member that would win, now or in the foreseeable future, from a weakened WTO. Assuming that it becomes evident that the goal of reform in the Doha Round is missed, the goal of at least preserving the WTO should become the priority for all concerned.

3. UN Millennium Project (2005).

Basically, there are three options. The first is to extend formally, either with a fixed term or without it, the time horizon to conclude the round. The second is to adopt a package of light or minimum agreements and proceed to close the round on time for ratification by members in 2007. The third is to declare the round dead. It is not easy to decide which would be the least damaging to the system. Considerable risks are associated with all three options.

In reference to the first, I do not see how any progress in the negotiations could be made at all within the next two or three years, particularly in the absence of the U.S. TPA and given the intensification of electoral politics in key places like the United States and France. Meanwhile, two bad things will be happening. On the one hand, the WTO will continue to be under the tremendous stress of running the existing system and the round talks simultaneously. One activity complicates the other. Furthermore, countries that have an urgent need to liberalize their foreign trade will continue delaying action on that front so that they can keep their negotiating chips for the unclosed round. Both circumstances conspire in favor of global protectionism.

The second route of a "Doha lite" is also full of downsides. Nothing guarantees that the pending big issues will be solved when put back into the built-in agenda. Besides, in the absence of a truly overhauled system, increasing protectionist pressures and trade conflicts, which sooner or later will be brought to the WTO, will inevitably tax its institutional resources. The risk of inefficiency by fatigue is a serious one for the WTO.

The third scenario implies writing off five years of investment by governments and the private sector, a likely increase in disputes on contentious policies, with rising stress on the multilateral trading system, and even greater incentives than exist today for governments to turn inward and approach trade policy reform through a bilateral or regional track. This can only be to the detriment of small countries and the poorest and most vulnerable economies, especially if there are knock-on effects on the willingness of developed countries to live up to their promises of providing more assistance to strengthen trade capacity in these countries.

Under all three options, an even worse proliferation of preferential trade agreements will occur. This would have two consequences. First, the existing multilateral trading system would be weakened by the preferences and trade diversion generated by these agreements. Second, the preferences would make it even harder to reform the system in the future.

Despite its obvious shortcomings, I find the second option the least odious. Transparency in conceding failure in achieving an ambitious outcome now rather than later is probably best for the system altogether. But time for this option is rapidly running out. In conclusion, the relevant question that has confronted WTO members, how can the WTO save the Doha Round? soon may change to how can the WTO be saved from the Doha Round?

Does this imply that the analyses included in the book are no longer relevant? To the contrary, they are as important as ever. Understanding the impacts of changes in world prices on the incomes of households in poor countries, and—which is more important—what can and should be done to increase the benefits of trade reforms and expand trade opportunities, is as critical in a world without a Doha Round as it is in one where a round is eventually negotiated.

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