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No. 6458

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INTERNATIONAL TRADE



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September 2007

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ABSTRACT

Multilateral Trade Cooperation: What Next?*

This paper first briefly describes the role of the WTO and its history. It then lays out a simple bargaining model of international negotiations, which can be used for understanding the Doha round of talks. This simple framework is used to distil and discuss a number of potential explanations for the difficulties that have arisen in concluding these talks, as well as a number of systemic questions that confront WTO members. A key question is whether the WTO should concentrate primarily on market access or on further expanding its coverage to deal with regulatory issues or with other domestic policies that may have an impact on trade. Given the difficulties that arise in agreeing on 'behind the border' disciplines, we argue that a continued focus on market access and enforcement of market access commitments is likely to prove most fruitful.

JEL Classification: F13 and F15

Keywords: Doha Round, international cooperation, market access, multilateral trading system and WTO

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* This paper is the Introduction to a forthcoming issue of the *Oxford Review of Economic Policy* (volume 23, number 3, 2007), The WTO and Multilateral Trade Cooperation. This brings together a number of contributions that were supported by a UK Department for International Development (DFID) project, "Global Trade and Financial Architecture." We are grateful to Dieter Helm and John Odell for valuable comments on a previous draft. The views expressed are personal and should not be attributed to the World Bank.

Submitted 29 August 2007

1. Introduction

The World Trade Organization (WTO) is a mechanism for governments to negotiate and enforce disciplines on national policies affecting international trade. The WTO was created in 1995, one of the major results of the 1986-93 Uruguay Round of multilateral trade negotiations. From its inception, the WTO has been a much higher profile organization than its predecessor, the General Agreement on Tariffs and Trade (GATT). The GATT relied heavily on diplomacy and “pragmatic flexibility,” with new rules only applying to those countries that signed on to them (most developing countries did not). The WTO in contrast is a “single undertaking” – all members are subject to the specific agreements in (almost) all areas, although disciplines may be differentiated depending on level of development. The WTO also spans a much broader set of policy areas, including intellectual property rights (IPRs) and trade and investment in services, and enforcement of its disciplines is more legalistic and “binding.” As a result, the WTO goes beyond negative integration – agreement *not* to do something (not to exceed a certain maximum tariff on a product, not to discriminate against foreign goods through domestic consumption taxes, etc.) – to also encompass positive integration: agreement to enforce minimum standards (e.g., provide patent protection of at least 20 years duration). The shift towards negotiating disciplines on “behind the border” policies implied that a broader set of stakeholders became involved in (affected by) the trading system, both within government (regulators, line ministries other than trade/commerce) and outside it (e.g., NGOs with a focus on public health).

In what follows we provide a brief overview of developments in the trading system and the Doha round of multilateral trade negotiations. This round of negotiations has been extremely difficult, as reflected by the initial failure to agree on a negotiating agenda at Seattle in 1999, the collapse of a subsequent ministerial meeting at Cancun in 2003 and the suspension of negotiations in mid 2006. This article discusses the reasons for this problem, and what to do about it. In doing so, it draws extensively on the other contributions to this issue of *The Oxford Review of Economic Policy*.

Our objective in this article is not to provide a detailed description or assessment of the WTO or to provide a blow-by-blow account of the Doha round.¹ Instead, our aim is fourfold. We first provide some context – a brief discussion of the role of the WTO and of its history. Next we lay out a simple conceptual framework, in the form of a bargaining model of international negotiations, which can be used for understanding the Doha round of talks. Then, using this model as a framework, we distil what we regard as the major potential explanations for the difficulties in “getting to yes” in these talks. As we do this we refer to other articles in the issue. Finally, as an outcome of this discussion, we discuss a number of the systemic questions that will confront WTO members as these talks continue, and into the future.

The other contributions to this issue of the *Review* explore in more detail some of the possible explanations for why progress in the Doha Round has been so difficult. Given the emphasis put on economic development in the Doha declaration, and the important role that developing countries have played in the Doha Round, many of the papers focus on the “development dimension.” Anne Krueger takes a broad systemic perspective, asking why support for multilateral cooperation more generally appears to have been weakening. Will Martin and Patrick Messerlin discuss multilateral liberalisation of trade in goods (agriculture and manufactures), while Bernard Hoekman, Aaditya Mattoo and Andre Sapir analyze the challenges of multilateral cooperation on policies affecting trade in services. Simon Evenett discusses the Singapore issues. Chad Bown and Rachel McCulloch focus on the potential role of adjustment costs and the adequacy of existing instruments in the WTO to manage such costs. Mike Finger, Alan Winters and Akiko Suwa-Eisenmann and Thierry Verdier take an economic development perspective. Finger and Winters express serious doubts regarding the utility and effectiveness of putting development assistance on the WTO agenda. Suwa-Eisenmann and Verdier in their survey of the literature on aid, trade and FDI, point out that robust evidence for a strong complementary relationship between aid (including “aid for trade”)

¹ See Newfarmer (2006) and Evenett and Hoekman (2006) for overviews and analyses of the issues that are on the Doha negotiating agenda. The weekly and monthly newsletters of the International Center for Trade and Sustainable Development (*Bridges*) are an excellent source of timely information on and discussion of developments in the WTO and the Doha Round. See <http://www.ictsd.org/index.htm>.

and trade is lacking. Finally, Ross Garnaut and David Vines discuss the major alternative option to the WTO – preferential trade agreements.

2. The WTO: Its Rationale and a (very) Short History

It is widely recognized that there are major gains to a country from unilateral trade liberalisation. These benefits come partly from the well-understood benefits from more efficient allocation of resources, but also, in addition, from the exposure of the domestic economy to foreign competition. In addition, liberalisation can enable a country import a wider variety of final goods, and also to import improved capital goods, technology, and better methods of production. Such unilateral liberalisation has been richly rewarding to those economies that have embarked upon it.²

But there are two potential difficulties in the face of such unilateral liberalisation. First, there is a foreign-market-access (terms of trade) argument. If a country liberalises by itself then it will experience switching of demand of its own residents away from its own goods and towards imports. But if a group of foreign countries liberalises at the same time as the home country liberalises, then there will be a market opening for the home country's exports, counteracting the 'surrender' of markets coming from its own liberalisation. Concerted liberalisation can lead to higher real income for the liberalising country, compared with unilateral liberalisation. This argument suggests that there may be a prisoner's dilemma aspect to trade liberalisation. Bagwell and Staiger (1999), in their 'economic theory of the GATT' analyse this argument in a model in which domestic liberalisation causes a terms-of-trade loss whilst liberalisation abroad causes an offsetting terms of trade gain. The latter will increase the country's real per capita income, compared with what would have happened had it liberalised alone.

Second, there is a domestic-political-economy argument. Participation in international negotiations about trade liberalisation can be used as an instrument in support of liberalisation domestically. That is to say, the prospect - and better still the contemporary reality - of liberalisation by others abroad, especially if they are important trading partners, can be used persuasively by trade-policy officials, as chips in bargains

² See, e.g. Winters (2004) for a survey of the literature on trade liberalisation and economic performance.

with protectionists at home. This argument, too, suggests a prisoner's dilemma problem with trade liberalisation, because of the political power of protectionists.

Given these difficulties confronting unilateral liberalisation, the WTO can fulfil two functions. The first is to provide a forum through which members can negotiate reciprocal entry to partners' markets at the same time as they liberalise themselves.³ The second is to be a commitment device: by agreeing to *bind* policies, a government can make welfare-enhancing liberalisation more credible, since violating WTO commitments will involve a cost – ultimately retaliation by trading partners (Tumlir, 1985; Maggi and Rodriguez-Clare, 1998).

History

The early years of the WTO were dominated by negotiations to finalize agreement on several services sectors (finance, telecommunications, maritime) and to liberalise trade in information technology (IT) products. With the exception of the maritime services talks, these were successful. Telecom and financial services agreements were concluded in 1996; the Information Technology Agreement (ITA) – a so-called zero-for-zero deal under which signatories abolished tariffs on a common set of IT products – entered into force in 1997. Flushed with these achievements, at the 1996 WTO Ministerial conference in Singapore, proposals were tabled to form working groups to study possible negotiations on a number of new subjects – investment, competition policy, transparency in government procurement and trade facilitation. These subsequently came to be known as the “Singapore issues.”

The years that followed witnessed the failure of OECD members to agree on a Multilateral Agreement on Investment (MAI), the East Asian financial crisis and follow-on crises in other parts of the world, WTO ministerial meetings marked by violent street protests, and increasing scepticism on the part of many developing country members that the WTO was an improvement over the GATT. Many governments, as well as numerous

³ By harnessing the desire of national export interests to get better access to markets of trading partners, resistance by its import-competing interests to liberalisation may be overcome. This “market access” rationale also encompasses the variant that “terms of trade” effects are important in helping a government overcome a domestic political economy problem. See Bagwell and Staiger (1999).

NGOs based in both poor and rich countries, suffered from a “Uruguay Round hangover” – increasingly perceiving the results of the round to be “unbalanced.”

An influential paper by Finger and Schuler (2000) argued that the net benefits for many developing countries in narrow market access terms were limited and may even have been negative as the result of the new requirements under the Agreement on Trade-Related Intellectual Property Rights (TRIPS) to enforce patent rights and other forms of protection for intangible assets.⁴ Moreover, the costs of implementation of some WTO disciplines, if defined not just narrowly in terms of required legal and regulatory changes, but in terms of what is necessary to benefit from a specific WTO set of rules, could be significant. Assistance to meet the costs of implementation was a matter for governments to request from national and international development agencies. Many developing countries argued that the provision of such assistance had been inadequate.

These considerations help explain why only a few years after the establishment of the WTO efforts were made to initiate a new round of trade negotiations. The requirement in the Uruguay Round agreements on agriculture and services to initiate new negotiations in these two areas in 2000 provided an additional rationale for launching a broader round, as this would allow for cross-issue linkages and tradeoffs. Countries had very different objectives, with some (mostly developed countries) seeking to build on the Singapore ministerial and launch talks on the new areas as well as the core market access agenda, and others (mostly developing nations) seeking to address implementation and related problems associated with existing agreements.

The attempt to launch a “Millennium Round” at the 1999 WTO ministerial meeting in Seattle failed to achieve the necessary consensus, largely reflecting opposition by many developing countries to engage in new negotiations when they had yet to digest the Uruguay Round and a perception that implementation concerns were not being taken

⁴ TRIPS is the first example of a WTO agreement that involves a significant element of policy harmonization. Although most economists accept there is an economic logic to IPR protection, both theory and economic history suggest harmonization is unlikely to be an optimal outcome for all countries, in particular poor economies. Whatever the economics may be, TRIPS greatly increased the awareness of many developing countries of the need to carefully scrutinize the likely impacts of agreements that entail regulatory harmonization.

sufficiently seriously,⁵ as well as resistance on the part of the EU and several other OECD countries to engage in talks to significantly reduce support for their farmers. Many developing countries also opposed proposals to negotiate WTO disciplines for the Singapore issues, environmental policies and (minimum) labour standards. Additional preparatory discussions in 2000/2001 revealed deep differences between WTO members. Notwithstanding these differences, the first round of multilateral negotiations under WTO auspices was eventually launched at the 2001 Ministerial Conference in Doha.

The name given to the round – the Doha Development Agenda – arose for two reasons. First and foremost, the name reflected recognition of the view of many developing countries – echoed in the paper by Finger and Schuler quoted above, and in the article by Finger in this issue – that the Uruguay round had been ‘unfair’ to developing countries. Post Seattle, extensive efforts had been made by WTO members to develop a negotiating agenda that would generate broad support among developing countries.⁶ Second, there was a view in many WTO members that a multilateral effort to reduce trade-distorting policies was part of an appropriate response to the terrorist attack on New York and Washington D.C. on September 11, 2001. As noted by Zedillo (2007), the view that trade cooperation could help address some of the causes of terrorism by promoting economic growth was strongly espoused by the then US Trade Representative Robert Zoellick and helped to change the political atmospherics that up to that point had not generated sufficient support for the launch of new trade talks.

This name has had some influence on the general perception of the round. It has made a ‘satisfactory development outcome’ a sine qua non of the round, something which is more particular than the objectives described in the first paragraph of this article. This point will have significance in much of what follows.

Reflecting the differences in objectives, the negotiating agenda of the round was multidimensional. It spanned market access for goods and services, the WTO’s existing rules, potential new disciplines on the Singapore issues, addressing implementation problems and a renewed emphasis on “special and differential treatment” (SDT) for

⁵ The strategy of the so-called Like Minded Group of developing countries to insist that industrialized countries address their demands on implementation and special and differential treatment on a non-reciprocal basis is analyzed by Narlikar and Odell (2006).

⁶ Odell (2007) analyzes the period between Seattle (1999) and Doha (2001) and documents that the major players were anxious to avoid another failed ministerial meeting.

developing countries. Developing country concerns regarding the Singapore issues led to agreement in Doha that formal negotiations on the four subjects would only be launched after preparatory talks on the specifics of the negotiating agenda in each area had been agreed by consensus.

In 2003 in Cancún there was a further WTO Ministerial meeting, and this meeting also failed. Insistence by the EU on inclusion of the Singapore issues, as well as opposition to deep liberalisation of its agricultural policies, were important factors that soured the meeting. The unwillingness, on the part of the United States, to address demands by West-African producers of cotton to reduce production subsidies as a priority was also important.⁷

A “Framework Agreement” negotiated in July 2004 removed three of the Singapore issues from the negotiating table (retaining only trade facilitation), specified that LDCs were not expected to make any market access concessions (taking up then EU Trade Commissioner Pascal Lamy’s call that these countries should benefit from “the round for free”), and established negotiating frameworks for the key areas of agriculture and non-agricultural market access. It was agreed that formulas were to be used to reduce trade barriers in both areas as well as subsidies in agriculture, and that agricultural export subsidies were to be prohibited by a specific, to be negotiated, date. However, disagreements on the specification of the formulas and the extent to which exceptions could be made for specific products could not be overcome. The 2005 ministerial meeting in Hong Kong did not generate any major breakthroughs, with the exception of (conditional) agreement to ban export subsidies for agricultural products in 2013.⁸

By this time the original endpoint envisaged for the Doha round (January 1, 2005) had been missed, as was pretty much every deadline that had been set during the talks. The inability of the major protagonists to make concessions post Hong Kong led the Director General of the WTO to suspend the negotiations in mid 2006. Despite efforts in early 2007 to resuscitate the process, at the time of writing (August 2007) prospects for

⁷ See Narlikar and Tussie (2004) on the role of developing country coalitions at the Cancún meeting; Lee (2007) on the Africa Group and cotton.

⁸ The meeting also generated a promise by rich countries to extend duty-free, quota-free access to their markets for at least 97 percent of exports originating in least-developed countries (LDCs). This did little more than reflect the status quo. As argued by many commentators the exclusion of 3 percent of tariff lines was enough to permit countries to maintain tariffs on the most competitive LDC exports if they desired to.

an imminent conclusion of the Doha Round appear dim. The expiry of Trade Promotion Authority⁹ in the United States in June 2007 removed an important focal point for a timely conclusion of the talks, and the political calendar in a several major players suggests that Doha is unlikely to conclude before 2009-2010.¹⁰

Despite the torturous negotiating process, some progress was made during the Doha round to deal with several development-related concerns that had become prominent in the period immediately following the creation of the WTO. Thus, in a Declaration on the TRIPS Agreement and public health, developing countries without the capacity to produce pharmaceuticals were permitted to import generics from countries that do have capacity under compulsory licensing arrangements.¹¹ In addition, initiatives were launched to operationalize the idea that trade negotiations should be complemented by assistance (“aid for trade”) for developing countries, both to help address implementation costs associated with specific WTO disciplines, and more generally, to bolster the competitiveness of domestic firms through actions to reduce the costs of trade and doing business.

We now lay out a simple conceptual framework that is helpful in framing our discussion of the main hypotheses as to why it has been difficult to get to a conclusion in the Doha round.

3. Elements of a Conceptual Framework for Trade Negotiations

Trade negotiations are an example of integrative (positive sum) bargaining. In contrast to the type of zero-sum bargaining that characterizes the purchase of product, it is not the case that one party’s gain is another’s loss. Given that international trade agreements need to be self-enforcing, to be feasible an agreement needs to be a Pareto improvement for all members in that each player receives positive *net* benefits. That is, the benefits received must be greater than the costs incurred as a result of the actions each player has agreed to carry out. These net benefits are, in some sense, a (projected) reward for bearing the costs associated with the actions agreed to.

⁹ This is a piece of legislation, previously called “Fast Track”, that precludes the U.S. Congress from introducing amendments to a multilaterally negotiated deal, limiting it to either endorsing or rejecting the outcome of negotiations as a whole.

¹⁰ See Evenett (2007) for a succinct analysis of the political calendar and its implications.

¹¹ See, e.g., Sell (2007) for a discussion of the negotiations on this topic.

Basic Nash bargaining theory suggests that (a) each player will have a *threat point* (their best alternative to a negotiated agreement); (b) the magnitude of the potential net benefits will depend on the subjects that are on the table – i.e., what comprises the *negotiating set*; and (c) the improvements that can be attained relative to the threat points through the negotiation process will depend on players' *power*.

The threat point, or best alternative to a negotiated agreement (BATNA), is of great importance in any negotiation. The BATNA may be the status quo, but need not be. If the BATNA is not very different from the best possible outcome for a player given what is on the table, the prospects for a deal will be limited. If the BATNA is a marked deterioration relative to the status quo because of actions other players are likely to take, the incentives to agree to a deal will increase. What a feasible deal may look like depends on the agenda that has been established for negotiations – the negotiating set. As mentioned previously, the negotiating set in the Doha round was complex, spanning not just market access and WTO rules but also new areas (Singapore issues) and demands by developing countries for assistance in implementation and re-balancing of specific WTO agreements.

What matters therefore for each participant is the difference between the BATNA and the net benefit associated with feasible proposals.

The situation typically confronting governments in a WTO negotiation is illustrated in Figure 1. If the status quo is identical to the BATNA and is defined by point X_A , any negotiated outcome within the area spanned by the dashed lines through X_A is a Pareto improvement—both governments gain. In the figure, there are many possible positive Pareto-improving outcomes.

If the status quo is represented by point X_4 all policy packages (possible outcomes) are worse for either country 1 or country 2—indeed, as drawn, an agreement is only feasible if negotiators are able to combine (link) two policy packages like X_3 and X_5 , so as to get an outcome to the northeast like that shown at point P. Even then, the net gain associated with a deal – which would be somewhere in the shaded square region – is quite small relative to, say, a move from X_A to X_4 .

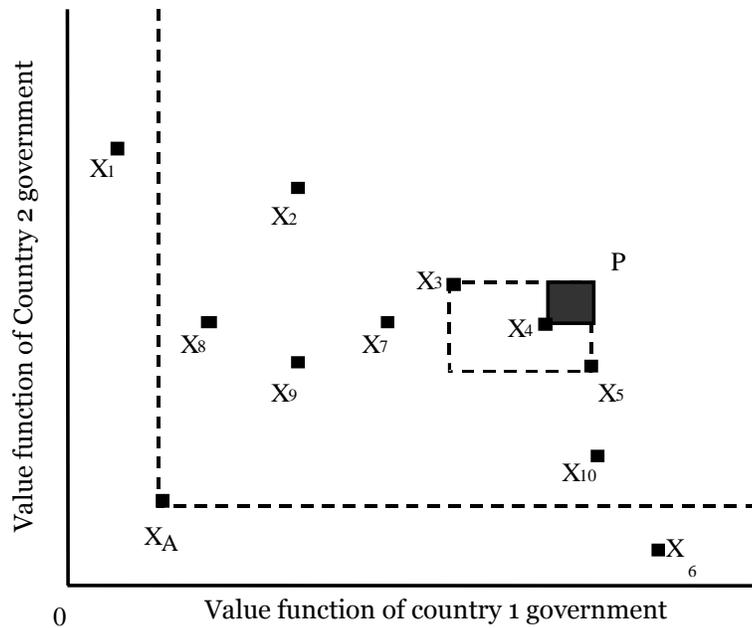


Figure 1: The negotiation space and feasible outcomes

Having identified Pareto-improving outcomes, we can then use Nash bargaining ideas to identify which of these are likely as a Nash bargain, given the power of those bargaining. If X_A is the starting point, then all of X_2 to X_5 , and X_{10} , are possible outcomes (both X_8 and X_9 are Pareto dominated). If country 2 is much more powerful than country 1, then X_2 is a likely outcome. If country 1 is more powerful than country 2, then X_5 or even X_{10} are possible outcomes.

Furthermore, we can go beyond this. We can define a ‘fair’ agreement as an agreement that distributes the per capita benefits to nations more equally, relative to threat points, as compared with what would happen in the Nash bargaining outcome.

To implement such a framework empirically would require that the measurement (or magnitude) of benefits and costs can be expressed in economic terms. Economists and economic analysis of the potential gains from trade negotiations almost invariably focus on measures of economic welfare such as predicted changes in aggregate real income.

In practice, however, the value functions that negotiators try to maximize may not – indeed, often will not – correspond to national welfare as measured by real income. This is because politics matters: policymakers (negotiators) will inevitably accord

different weights to different groups in society, depending on the political power of specific interest groups within countries. Because of this negotiators are not unitary actors that maximize social welfare.

Two things follow from this. First, the Pareto criterion, as measured by the real income outcome for the countries involved, may not be sufficient for one to define the feasible set. This is because the activity and power of lobby groups may result in outcomes, which would be Pareto superior for a country as measured by real income of the country, but which are rejected, because of the damage that these outcomes would do to the wellbeing of particular interests.¹² Second, standard measures of bargaining power (such as economic size) cannot be used to predict the relative welfare gains that will accrue to countries, as suggested by Nash bargaining theory.

As consequence, trade negotiations are multi-level games – negotiators (the agents of governments) are given negotiating mandates that reflect domestic politics and need to defend the outcome of negotiations before domestic political bodies. Thus, they do not just negotiate with their foreign counterparts but also negotiate and interact with domestic interest groups.

Matters are complicated further due to the formation of coalitions of countries seeking to enhance their negotiating power and the presence of so-called composite players – groups of countries that negotiate as a bloc. For the latter, interactions extend to a least three levels: within member states, between bloc member state governments, and between the bloc and the rest of the WTO membership.

In what follows, we will use the conceptual framework that we have just presented to discuss a number of specific hypotheses as to why progress has been (is) difficult in the Doha round. Our discussion above immediately suggests the following three possibilities.

(a) It is possible that a mixture of actions will be necessary, like that required to get to point P from point X_4 above, because individual acts of liberalisation damage the real income of the country performing them, as discussed in the first of the difficulties mentioned at the beginning of Section 2. Even if this is not true – so that each act of

¹² The Stolper Samuelson theorem is a very general demonstration of how liberalisation can damage the rewards to one factor of production; there are many other more specific demonstrations of this possibility.

liberalisation is Pareto improving, in that it increases the wellbeing of foreign countries and of the country doing it - the complexities of tradeoffs of interests *within* countries may make it difficult to identify a *politically feasible* Pareto improving outcome – as measured by the real income of countries. There may need to be a *package* of liberalisations in the bargain, to overcome these domestic political obstacles.

(b) The perceived status quo (BATNA) may be X_4 , suggesting that there may be not much to play for. (We will suggest that this may be possible in the Doha Round for several major players.)

(c) In addition, there may be difficulty on agreeing as to what is a fair bargain, as distinct from one based on power alone.

These three possibilities (a) to (c) are taken up, in the same order, in the following three sections.

4. The negotiating set: there is upside but it's a package

An often-noted stylized fact that may have an important bearing on the slowdown in multilateral trade cooperation is the boom in world trade and far-reaching trade liberalisation that has occurred in the last 3 decades. The average MFN tariff in many WTO members is now less than 10 percent. According to World Bank research, the uniform tariff equivalent of applied tariffs for merchandise products is now 10 percent in high income countries and 15 percent in developing countries. The level is substantially higher for agricultural products, 40 and some 25 percent respectively, and consequently much lower for manufactures (4 and 14 percent).¹³

The implication of past trade liberalisation – both unilateral and multilateral – is that there is less to play for. The paper by Martin and Messerlin on multilateral liberalisation in goods (both agriculture and manufactures) discusses this issue. This translates into fewer export interests having an incentive to invest significant (political) resources in engaging in trade talks and providing the political support that is needed for own liberalisation. As only the hardest nuts are left to crack in the OECD—i.e.,

¹³ These numbers are own trade restrictiveness indices (TRIs). The country aggregations mask significant variations across countries. For example, the TRI for agricultural imports is 30 percent for middle-income countries, but only 18 percent for low-income economies. See World Bank (2007). The methodology and findings are explained in Kee, Nicita and Olarreaga (2006).

agriculture—the need for such political engagement is acute. Matters are complicated further by the fact that agriculture is a sector that is of significant export interest to only a subset of WTO members. Less than 10 percent of world trade is in agricultural products. While no doubt trade volumes would be higher if rates of protection were lowered, in economic terms other sectors of economic activity dominate. This is not to deny that this is an important sector from a development perspective – better access to OECD markets will help farmers in developing countries. The problem is how to create political momentum in OECD countries to reduce trade-distorting agricultural support.

The core issue on market access is that because WTO negotiations are barter exchanges, concessions in agriculture by high-income countries need to be balanced by concessions on the part of the agricultural exporting nations that will benefit in mercantilist, export volume terms. If it were the case that there is little left to trade it would be easy to explain why Doha is going nowhere. However, this is not the case.

Average levels of protection have fallen in developing countries, but there is still significant protection. The averages mask relatively high tariff peaks in both agriculture and manufactures in many countries. In addition, despite significant liberalisation of trade in services, numerous barriers to trade persist, and many countries continue to maintain restrictions on inward FDI in services.

Thus, in principle it would appear that the traditional GATT-type of bargaining about market access should be feasible, *as a package*. There would be “payment” for OECD agricultural liberalisation taking the form of traditional market access liberalisation by developing countries.

Such a market-access agenda has two important aspects. First, although, by liberalising, countries are doing something which [almost certainly] raises real income, this comes at a political cost. But these political “bads” are incremental - market access is more or less, not all or nothing - and so they can be bargained about in an incremental fashion. Deals like that seem, in principle, possible to do. Second, due to recent geo-political changes the EU and the US are now less willing to allow free riding by developing countries. As noted by Anne Krueger in her article in this issue, they perceive less need to “pay” for a multilateral system so as to achieve foreign policy objectives. There is now also a greater opportunity cost in allowing free riding by emerging markets as these

countries have been growing rapidly. Pushing for reciprocal access to these markets is also beneficial for small developing countries that cannot negotiate such access themselves, but must rely on the MFN principle to benefit from whatever is negotiated between the big players. These points both strengthen the claim that there is a do-able deal in which developing countries provide access, in exchange for reform of agricultural policies in the OECD.

Nevertheless this confidence about a potential deal should be tempered. A number of factors complicate “getting to yes.” Some revolve around the substance of a market access deal. Others involve the distribution of benefits and costs within and across countries.

4.1. Problems related to the substance of a market access deal

Binding market access policies vs. actual liberalisation. One possible problem is that the focus of the WTO is on policy bindings – the maximum level of protection that can be accorded to goods or services. While what matters for exporters are applied levels of protection, this is not the focus of WTO negotiations. These centre on tariff bindings and specific commitments for services sectors. For many developing countries applied trade policies are much more liberal than what is implied by their commitments in the WTO. As a result, deep “liberalisation” commitments associated with a specific formula to cut tariffs may not do much, if anything, to lower applied rates of protection. The extent of the “binding overhang” is significant. For Brazil, for example, the import weighted average tariff for non-agricultural merchandise is 30 percent, compared to an applied average MFN rate of 8.4 percent. For agricultural products, the numbers are 40 percent vs. 10 percent. Similar ratios prevail for other countries.

An important determinant of the perceived value of such bindings is what traders expect to happen in the future – is it likely that governments will raise tariffs above applied levels? Absent tariff bindings that are at, or close to, applied rates, under the WTO rules they are free to do so. If the expected probability of “backsliding” is low, negotiators will be either (i) pressured to seek very deep cuts in bindings so as to reduce actual levels of protection; or (ii) not pressured much insofar as exporters confront relatively low applied tariff barriers and see only a limited net benefit associated with further reductions (given

the costs they need to expend to lobby for the cuts to be achieved). Very deep cuts in bindings may be resisted by negotiators as “giving up too much” – in the Brazil case just mentioned to get close to the current applied average tariff, the cut in bound tariffs would have to be some 75 percent. This may be hard to sell politically at home – it appears to be a lot, even though such a cut would not do much to reduce actual levels of protection. Moreover, the stress by developing countries that “fairness” requires that they make less deep liberalisation commitments than high-income countries makes it more difficult to agree on a level of reduction that would be meaningful in terms of actual liberalisation.¹⁴ An underlying problem here is that the WTO has been lagging very far behind the reality on the ground in terms of applied levels of protection in developing countries.

Services liberalisation. A second factor is the difficulty associated with negotiating incremental improvements in access to services markets. There is a prima facie case that services exports should be a key area of interest for players like the US and EU – they account for the lion’s share of global trade and investment and have a revealed comparative advantage in services. Much of the potential improvement in access to markets in developing countries is in the area of services. The scope for using the WTO to negotiate additional commitments in services is large; the scope to use the WTO to lock in recent autonomous policy reforms is even greater. However, as discussed by Hoekman, Mattoo and Sapir in this issue, a source of uncertainty here concerns the impact of making liberalisation commitments on regulatory freedom, and limitations in developing countries on the capacity to put in place and enforce appropriate regulatory policies. This substantially reduces the scope for countries to make binding commitments to liberalise access to services markets. This takes us to a third, more general question.

Difficulties in addressing regulatory policies. An important difficulty comes from the fact that much of what is being bargained about – not just in the area of services – is more difficult than negotiating market access. Negotiations on the construction of international regulatory regimes or the enforcement of rights to intangible assets (through, for example, patents or the establishment of sets geographical indications) may entail a zero-sum bargain. For example, an intellectual property rights regime involves the creation

¹⁴ In practice, as discussed further by Bown and McCulloch (this issue), some policymakers appear to want to maintain a significant amount of “headroom” to raise tariffs if they deem this necessary in the future, rather than be forced to use the safeguards instrument that is built into the WTO for that purpose.

or protection of rents, which, once established, must be transferred from one country to another. An agreement on regulatory policies may not be possible to arrive at in an incremental fashion through what Bhagwati terms the ‘first difference’ reciprocity that is the characteristic of trade negotiations. Instead, absolute reciprocity may be necessary. When it comes to regulatory policies, one cannot propose to shave off 10 percent of a regulation in one area in return for a 15 percent change in another by a trading partner. Thus, bargaining over policies that go beyond market access may be much more difficult than bargaining over border measures.

The Singapore issues. Despite these difficulties, a subset of the WTO membership – led by the EU – insisted, right from the beginning, in going beyond market access and including the Singapore issues. While this eventually failed, for reasons sketched out above and discussed in depth by Simon Evenett (this issue), it used up valuable time and resources and diverted attention away from the market access agenda. In principle, the Singapore issues could have been helpful to balance the negotiating agenda, as these were subjects of interest to the EU in particular. In practice, however, at the end of the day many countries either saw these subjects as not being in their interest – i.e., moving them away from their status quo level of welfare – and (or) were of the view that even if they agreed to negotiate on these areas of regulation, it would not do much to generate additional movement towards liberalisation of agriculture by the EU. Arguments that these were areas where disciplines would benefit those who applied them do not (and did not) cut much ice in a context where the name of the game is mercantilism and reciprocity. More substantively, while harmonization of domestic regulatory policies may reduce negative spillovers on foreign firms, there may well be strong economic efficiency rationales for regulatory diversity.

A problem here is that the WTO is driven much more by narrow commercial considerations than was the case under GATT, when other objectives such as foreign policy or contributing to the global public good played more of a role. In the past it might have been more feasible for governments to make concessions on subjects like the Singapore issues and use these to argue that a negotiated outcome is balanced. In the current regime this is simply not possible. Thus, even if the EU Commission had wanted to argue that concessions obtained on the Singapore issues justified greater liberalisation

of agriculture, this would not be sufficient to allow greater reform of the Common Agricultural Policy. Strong support would be needed from EU member states, in turn reflecting strong support from corporate or other interests. This was not there.

4.2. Power and distributional constraints

Potential gains from trade liberalisation are often difficult to realize because reforms will generate losses for protected industries and factors of production. A rationale for large, multi-subject trade rounds is that it allows cross-issue linkages that may mobilize enough political support to make reforms feasible. In addition to perceptions that overall, aggregate net gains are (too) small, it may be that the constituent elements of the “packages” that underlie these small aggregate potential gains imply significant variance in the *distribution* of expected benefits and costs for groups within countries and across countries. Chad Bown and Rachel McCulloch focus on the potential problems of adjustment costs for countries in responding to agreements made in WTO negotiations.

The distributional dimensions and implications of the negotiation space that was established in Doha are complex, both because the negotiations spanned regulatory policies – and thus interest groups outside the trade community narrowly defined – and a very large number of countries, many of which participated in negotiating coalitions. The latter give rise to intra-coalition distributional constraints that may reduce the ability of the coalitions to explore tradeoffs within and across issues. One result of this complexity may be to reduce the power of large players to push for specific packages of proposals, and to increase the power of small players to block proposals, in both cases driven by the specific distributional implications of alternative proposals.

Complexity: many players, many issues. In August 2007, the WTO had 151 members, with another 25 or so in the process of accession. There is enormous diversity across members in terms of size, per capita incomes, specialization, and interest group activity. Over time, as industrial tariffs have fallen, trade negotiations increasingly came to focus on nontariff policies. Some such policies apply at the border and need to be on the table for trade liberalisation commitments to be meaningful. They also lend themselves to incremental bargaining. However, when it come to domestic regulatory policies, even if directly impacting on trade as well as domestic production or

consumption, it is often not feasible – makes no sense – to engage in first difference reciprocity. In the case of regulation, the agenda revolves around (mutual) recognition (acceptance of regulatory competition) or harmonization to a common (minimum) standard. This is much more complex than negotiating tariffs, both in terms of the mechanics and the welfare economics. And, it requires direct engagement with – and by – regulators and the competent government bodies. Trade ministries do not have legal competence in most of the relevant areas, and efforts to negotiate these matters in the context of a trade agreement are likely to be regarded with some suspicion by the entities that are responsible for enforcing domestic regulatory norms.

The expansion in membership and issues – with an associated increase in the number of stakeholders and affected groups within countries – translates into significant complexity and uncertainty. Simply defining national positions on the spectrum of subjects and proposals that are on the table is nontrivial. Agreeing on compromises and tradeoffs within and across issues is an order of magnitude more difficult.

Returning to the potential market access deal sketched out earlier – OECD agricultural reform for market access liberalisation by the G20 – it is clear that stitching a deal together will require multiple tradeoffs. At the very least, there may need to be what Celso Amorim, the Brazilian foreign minister leading the G20 group of developing nations, has called a *triangle of tradeoffs* between countries. That is, the EU and the G20 need to get the US to cut farm subsidies, the G20 and the US need to get the EU to lower agricultural tariffs, and the US and the EU need better access to the markets of the G20 and other emerging markets. Realization of such a triangular deal is made more difficult by domestic politics and negotiating tactics of the major players. Specifically:

- (i) US farm groups have been seeking very large increases in market access, and in its attempts to build support for the round amongst its own farmers the US oversold the potential for the US to gain new export markets in agriculture. What the US seeks in agriculture – as the price of reforming its domestic farm policies - may not be implementable in Europe and may be unacceptable to the developing world.
- (ii) In the EU, France has proven to be effective at assembling blocking coalitions within the EU. The implication is that EU member States must be convinced that

that the prospect of new markets for goods and services will outweigh the (political) cost of reducing farm support further.

- (iii) As is the case with the EU, within the G20 countries have different interests. The gains that India can make if it manages to achieve a reduction in US farm subsidies may not compensate for the competitive threat from American farmers if India itself lowers its own tariffs. And there is also resistance in India to improving agricultural market access, because of fears about Chinese competition, if it lowers protection in goods markets. And Brazil has been resistant to lowering maximum tariffs as far as is demanded by the EU and the US.

Matters are particularly complicated when it comes to policies that are regulatory in nature, i.e., that address domestic market failures or are motivated by social equity objectives. As discussed above, negotiations have shown that the WTO is not well equipped to deal with services, since in many ways what is required is the negotiation of regulatory standards. More generally the difficulty in making progress on all four of the Singapore issues shows that this is true of these subjects as well. The global, multilateral, WTO is just not set up to deal with negotiating the substance of regulation. Going beyond measures to increase transparency and efforts to abolish explicit discrimination against foreigners is extremely difficult – one size generally does not fit all. Efforts to agree on the substance of regulatory policies imply harmonization and convergence to the standards that apply in a subset of the WTO membership – the industrialized country members. The associated (perceived) asymmetry in negotiating outcomes makes it difficult to “get to yes.”¹⁵

The large number of WTO members generates significant coordination problems and transactions costs. In some sense the WTO is confronted with the consequences of its own success in expanding membership and the greatly increased level of participation by developing countries. As all members now play, it is harder – impossible – for the large members to stitch up deals between themselves. The consensus rule that is applied in the

¹⁵ The legacy of the negotiation of the TRIPS agreement in the Uruguay Round, something that was not at all envisaged as an objective when the round was launched in 1986, arguably plays an important role in reducing the level of trust developing countries have that outcomes of WTO interactions will benefit them.

WTO implies “one member one vote”. While in practice no single small country can block agreement, it is difficult to overcome resistance by a coalition of such countries.

One of the noteworthy developments under the WTO relative to the GATT is that coalition formation has been pursued more actively by developing countries than in the past. In principle, this time honoured technique reduces the number of “actors” but possibly at the cost of greater inflexibility and a need for more time to consult. Negotiating coalitions such as the G20, the Like Minded Group, and the Africa Group played a central role in the Doha talks and certainly gave developing countries more “power” in terms of defending their interests in the negotiations. Such coalitions require compromises and balances within each group that can make it more difficult to make the tradeoffs and concessions needed to agree on a final package.

For example, as noted previously, WTO members agreed to make tariff cutting formulas a core negotiating modality, with eventual emergence of variants of the so-called Swiss formula – first used in the Tokyo Round (1973-79) – as the basis of discussion for merchandise trade liberalisation.¹⁶ This generates non-linear cuts, with higher proportional reductions for higher tariffs. Two (or more) coefficients were to be used, one for developed countries and another for developing nations – such that developed countries would reduce their tariffs proportionally more. Exemptions would allow governments to maintain higher levels of protection for a subset of “special” and “sensitive” products. The important role played by coalitions can make it more difficult for the major players to agree on the specifics of a formula if a coalition includes a wide variety of countries and insists on a maintaining a common front. Given that many developing country coalitions did span a differentiated set of countries, insistence on undifferentiated SDT for all members narrowed the set of feasible outcomes.

The proliferation of effective developing country negotiating coalitions in the Doha round is a major change to the trading system. They have enhanced the “power” of these countries, and have shifted the agreement zone in Figure 1 more in the direction of these coalitions than was the case in past negotiations. An implication is that to obtain agreement on a package, the EU and US will need to accept to make concessions. Their

¹⁶ The Swiss formula is defined as $T_1 = MT_0 / (M + T_0)$, where the left hand side is the new tariff and M is the coefficient – the maximum level of the permitted tariff.

unwillingness to do so can be interpreted as an unwillingness to accept the global distributional consequences of the more active participation of developing countries in the trading system.

The large number of countries and issues on the WTO agenda may enhance the incentives of subsets of WTO members to pursue preferential trade agreements. The steady expansion in the use of such agreements reflects not only trade liberalisation with preferred partners but cooperation on “behind the border” policies. These are done in preferential trade agreements, rather than at the WTO, partly because they enable the construction of hub-and-spoke regimes in which small countries are integrated within the regulatory framework of the larger partner. It may be easier to attain agreement in a small numbers setting as there are fewer competing interests and potentially more side payments possible; thus facilitating internalization of overall net gains and addressing distributional constraints. However, it is important to note that PTAs are not substitutes for the WTO—to date there are no PTAs between the large WTO members (e.g., EU, US, Japan, India, China, or Brazil). Instead, PTAs are limited to deals between neighbours and North-South agreements with one of the big WTO members as the “anchor”. The role of PTAs is discussed at greater length in the article by Garnaut and Vines in this issue.

Small developing countries. Multilateral liberalisation that goes beyond bindings to reduce applied MFN tariffs implies that many small developing countries will confront the prospect of preference erosion. These countries often already have good access to high-income markets. The implied “negative” reciprocity – the effects of a round are to give formerly preferred countries *less* – may impede consensus unless packages are included in the negotiation space that offer compensation. OECD nations have not been willing to offer direct compensation, except, very partially, in the case of the EU (e.g., by offering limited payments to ACP sugar producers in the most recent reform of the CAP). Absent compensation, the net benefits of any Doha deal are reduced, and may even be negative for some countries. If so, a deal is not feasible – as a result of the consensus rule. The problem of preference erosion was prominent in the Doha Round, more so than in past rounds as a result of implementation of deeper and more meaningful preferential

access programs by OECD countries post 2001.¹⁷ The classic solution is to identify cross-issue linkages that offer affected countries benefits in other areas. The “aid for trade” initiative that was proposed in 2005 can be seen in part as an effort to put such a package in place, although donors stressed that this was not intended to constitute any form of “compensation”. However, in negotiating terms it clearly can be seen as a side-payment: the implication is that the “round for free” would not be enough to make a deal acceptable to least developed countries.¹⁸

A further remark can be made about the incentive structure confronting small countries in the WTO. For those small developing countries that want to use the WTO as a commitment device for their own policies – clearly they cannot use it as a way to improve their terms of trade – there is a problem. The WTO is not effective to cement autonomous reforms because the small size of the markets concerned implies that commitments are unlikely to be enforced (Bown and Hoekman, 2007). In order for the WTO to provide a poor country with the efficiency enhancing, enforcement-cum-commitment role posited by economic theorists, trading partners must be willing to invoke the WTO’s enforcement mechanisms. This may not happen if the developing country market is small, given that the resource costs of litigation are high relative to market access benefits. For these countries the WTO may be of little practical relevance. If so, the potential value of any Doha policy packages may be reduced, making any expected loss relative to the status quo – as a result of preference erosion or higher food prices due to liberalisation of agricultural markets in the EU – more significant.¹⁹

¹⁷ Francois, Hoekman and Manchin (2006) assess the potential impact of preference erosion on beneficiaries and provide references to the recent literature. Most research concludes that erosion impacts are likely to be limited for most countries, but could be significant for a number of economies.

¹⁸ Note that the preference erosion problem was self-created: WTO members are paying the price of their heavy reliance on discriminatory trade policy as an instrument to pursue development objectives.

¹⁹ The limits of reciprocity and terms-of-trade-driven external enforcement of commitments has long been recognized by members, being one rationale for the creation of the WTO Trade Policy Review Mechanism. If trading partners are unlikely to take action, enforcement requires action by domestic interests that are negatively affected by policies of their government that violate WTO disciplines. This may be facilitated by enhanced surveillance and transparency. However, to leverage better transparency, such groups need to have legal standing and/or mechanisms to bring forward cases and claims, which they often do not have. Hoekman and Mavroidis (2000) and Bown and Hoekman (2007) discuss these questions at greater length.

5. The BATNA: not too bad?

In addition to the possibility that the overall net payoffs for many countries associated with what was on the table were not sufficiently large relative to countries' threat points, another possible explanation for limited progress is that the status quo is perceived to be "stable." Concretely, traders are benefiting from past liberalisation and the ongoing boom in world trade, and they may perceive a low probability of governments backsliding (raising protection again) and expect the WTO to continue to function with or without Doha (Odell, 2007b).

Given the large binding overhang mentioned previously, corporate interests may be excessively optimistic on this front, discounting too much both the probability of backsliding and the willingness of governments to abide by existing WTO disciplines. The example of Indonesia is illustrative: in July 2007 the government announced a variety of more restrictive conditions on inward FDI. Given that the prevailing more liberal situation had not been locked in through the GATS, the government was unconstrained in taking this action (Aglionby, 2007).²⁰ The historical example of what happened to agricultural protection in countries such as Japan and South Korea, as well as the EU, further illustrate the value of locking in tariffs. In the case of Korea, effective protection of oilseeds was negative in the 1950s – today the OECD reports that protection of this sector stands at some 700 percent. Tariffs could have been bound at low levels at zero political cost in 1960, precluding the rise levels of protection over time.²¹

For trade policy commitments to be binding, it is necessary that they are enforced. An important element of a view that the BATNA is not that bad may be that what has been achieved to date in terms of multilateral commitments will not unravel – that is, a presumption that the WTO's transparency and dispute settlement mechanisms will be sustained. The WTO is the custodian of 60 years of liberalisation that has been locked-in through binding schedules of commitments. These commitments are binding because the "crown jewel" of the WTO – its dispute settlement mechanism – is effective. We believe that the WTO as an institution is robust enough to withstand a failure of the Doha round –

²⁰ Indonesia announced a 49 percent foreign ownership cap on companies in sectors such as multimedia, ports, airports, and education. Equity ownership caps were reduced for mobile phone companies (from 95 percent to 65 percent). Insurance companies were capped at 80 per cent, hospitals at 65 percent and most construction activities at 55 percent.

²¹ We are grateful to Will Martin for providing this example.

should one materialize – i.e., there is separability between negotiations (new rules) and enforcement of past commitments. However, this does assume that members do not adopt a strategy of trying to use the dispute settlement process to address matters on which rules could not be negotiated, and more generally, that there is not a major increase in the number of panel or Appellate Body reports that are not implemented.

Another possible reason for a perception that the status quo will not be too much different from the threat points of large players is that the WTO has been quite successful at taming the “aggressive unilateralism” that was a hallmark of US trade policy in the 1980s. In contrast to pervasive use of Section 301 and similar instruments of US trade law to address perceived weaknesses in protection of intellectual property and policies restricting access to foreign markets, the emphasis of “unilateral” trade policy has been on the negotiation of bilateral or regional trade agreements. Of course, this does not mean unilateral pressures will not be exerted – witness the current sabre rattling by the US regarding bilateral exchange rates and trade imbalances. Moreover, PTAs are costly to nonmembers – a greater reliance on PTAs is not good news for the trading system. That said, PTAs are part of the landscape and have been for a long time; the same is true of disagreements and pressures on exchange rates and trade imbalances. Corporate and other interests may regard these as limited threats relative to the status quo.

A final difference relative to the Uruguay Round that makes the status quo more stable is that there is no equivalent to the creation of the WTO now on the table. During the Uruguay Round the creation of the new trade institution implied there was a “take it or leave it” situation: countries were forced to either accede and accept the single undertaking, or withdraw from membership of the multilateral trading system. No such threat can be exercised today.

6. “Fairness” and economic development

The process of bargaining outlined in Section 3 should, if it leads to an agreement, give rise to an outcome which will reflect the differences in power across participants. Many participants and outside observers may not, however, perceive such a negotiated outcome as *fair*.²² As noted above, we can define a “fair agreement” as one that distributes the per

²² See Kapstein (2006) for an illuminating discussion of fairness in international economic relations.

capita benefits resulting from an international agreement to nations more equally, relative to their threat points, than would happen in a Nash bargain. In principle, assessments of degrees of fairness can then be made by determining the monetary equivalents associated with a given redistribution of the overall (aggregate) outcome of a round.²³

With the benefit of hindsight, calling the round the Doha Development Agenda, probably raised unrealistic expectations regarding what the trading system is capable of doing for development. Presumptions that an “equitable and fair” round would (could) address the development concerns expressed by many during 1997-2001 implied a misunderstanding of both the role and the institutional capacity of the WTO. The problem of development for many countries is only marginally related to constraints on access to external markets. The renewed insistence on SDT for developing countries in WTO agreements – justified on the basis of “fairness” – makes it almost impossible to also insist that the agreement be fair in the sense defined above: that the share of the gains from the international agreement which should accrue to all players should be more equal than what would happen under a Nash bargain. Insofar as SDT for developing countries gives them the right not to agree to do anything, then it is not clear what it means to say that they should get a “fair” share of the gains from the international agreement since they are not agreeing to do anything. Their increased share of the benefits of the WTO agreement becomes in effect, a gift. How to assess the “fairness” of such a gift is unclear.

The renewed push for traditional SDT can be characterized as a pure distributive, zero-sum, strategy (Narlikar and Odell, 2006). It was central to the Like Minded Group, but other developing country coalitions also had strong elements of distributive tactics, stressing the need for asymmetry in “concessions”, with developing countries liberalising less, if at all. This narrowed the negotiating space considerably, as well as reducing the potential economic payoffs for the developing countries concerned. It also presupposes that what is proposed or demanded by developing countries – whether in terms of

²³ In practice, as noted above, this is very difficult, as the “value” that is placed upon different outcomes of negotiations – in particular rules and disciplines and derogations from rules and disciplines – will depend very much on the beliefs and objective function of actors.

offensive or defensive interests – is “good for development.” Economists can (and did) argue that this is not necessarily the case.²⁴

In our view, much of the SDT that was sought by developing countries in the Doha round was either economically meaningless or detrimental to development (growth) prospects – e.g., blanket exemptions from trade liberalisation commitments (Hoekman, 2005). Many economists have pointed out that the approach traditionally taken towards “development” concerns in the WTO – which involves opt outs from rules for developing countries and calls for rich countries to grant preferential access to their markets on a nonreciprocal basis – has been ineffective and costly to the trading system. It has led to significant discrimination *among* developing countries, incentives by recipients of preferences to oppose MFN liberalisation because of fears of preference erosion, less certainty and predictability of trade policy because the criteria for preferential access are determined unilaterally and are subject to political and other types of conditionality, and, last but not least, to higher tariffs in developing countries that are detrimental to *other* developing countries as well as consumers. The associated barriers to South-South trade reduce the growth potential of many developing countries.

Because the focus of the WTO is on trade policies, this is the instrument used by members to address development concerns. Although there is no consensus in the literature on the impact of trade policies on growth, a good case can be made that this is not the most efficient or effective instrument – indeed, to the contrary. Insofar as the policy tool is ineffective or detrimental for national development prospects of developing countries, the approach taken towards “development” in the WTO is actually costly. Moreover, by hollowing out the principle of nondiscrimination, it has also reduced the value of the trading system from a global perspective, resulting in a network of trade arrangements that impose both allocative inefficiency and administrative costs.

That said, the insistence by developing countries on the type of SDT they have been pushing for is also understandable in that it reflects the limitations of what the WTO can (should) do. Small, poor countries have no market power; they have little to bring to the table. Even if they agreed to liberalise substantially more than what they have already

²⁴ Note that this observation is not specific to developing countries. As discussed previously, all WTO members may (and often do) defend positions that economists can show do not maximize national economic welfare.

done unilaterally, the quid pro quo they can demand is inherently limited. Thus, engaging in a distributive strategy may well be all these countries can do given the mechanics and processes of WTO negotiations. Thus, SDT is a reflection of a broader problem: WTO members have many objectives but are (forced) to centre their attention on primarily one instrument: trade-related policies. There is only so much that trade and trade policy can achieve. A basic economic principle is that in most cases, for every objective one needs a separate instrument.

Aid for trade: A better instrument to pursue “fairness” and development. The foregoing argument suggests that shifting to other instruments that provide more direct assistance to improve the competitiveness of firms and farmers would improve policy coherence by marrying greater overall *nondiscriminatory* access to markets to an enhanced ability on the part of low-income countries to exploit such access (Hoekman, 2002). Such considerations helped to put aid for trade on the agenda of international policymaking and the WTO.²⁵ The recognition that trade negotiations must be complemented by actions to help address the prevailing constraints in many poor countries that inhibit exploitation of trade opportunities was an important development in our view. Insofar as Doha has led (will lead) development organizations to focus greater attention on the trade agenda and constraints in developing countries this should be counted as a positive outcome.

As stressed by Mike Finger and Alan Winters, and by Akiko Suwa-Eisenmann and Thierry Verdier in their articles in this issue ultimately what matters is the magnitude and effectiveness of aid for trade. The WTO does not have any comparative advantage in either identifying or addressing trade capacity priorities at the national level. If WTO members can resist the temptation to replicate the structures that have been put in place by development organizations to deliver aid – limiting its role to enhancing the accountability of both donors and recipients for performance through greater transparency – it would make an important contribution to development. However, as

²⁵ The case for complementing trade liberalisation with development assistance was made by a number of observers and groups during the Doha round – see e.g., Hoekman (2002), Bhagwati (2004), Page (2006), Prowse (2006), Sutherland et al. (2004), UN (2005), and Zedillo et al. (2005). Njinkeu and Cameron (2008) is a recent compilation of papers on aid for trade; Hoekman and Olarreaga (2007) contains a set of papers analyzing the potential impact of trade and complementary reforms on poverty in low-income countries.

noted above, aid in itself is not enough – more important is putting in place appropriate policies that encourage trade and investment.

7. Where to next?

We have reviewed reasons why reaching an outcome in the Doha round has been (and will be) difficult. What of the future? The experience of the Doha round suggests it is worth revisiting what is being aimed for. Two points stand out in this reconsideration.

First, it is evident from our discussion in Section 6 that the WTO is not able – of itself – to deliver a “development agenda”. An organization whose fundamental purpose is trade liberalisation – through a mechanism that induces members to negotiate away trade restrictions with partner countries – simply does not have access to enough instruments to promote development. The approach traditionally taken towards ‘development’ in the WTO – using the particular instruments of opt outs for trade policy disciplines and nonreciprocal preferential access – has been ineffective and costly to the trading system. Calls on OECD countries to abolish agricultural protection – no matter how relevant and important from a development perspective – will not result in movement in that direction without strong *domestic* political pressure in these countries to do so. All the WTO can do is to help generate such pressure through trade-related (market access) incentives. But other forces will have to come in as well – such as groups with environmental, development and other objectives that have an interest in ensuring greater “coherence” between national policies. (Coherence is discussed at length in the article by Alan Winters in this issue).

Second, should attempts be continued to expand the coverage of the WTO to cover domestic policies? Many arguments have been reviewed above in favour of doing this. However, our discussion in Section 4 above suggests that matters can be made worse, rather than better, as the result of efforts to do this. Attempts to extend the negotiating set to new areas such as TRIPS and more recently the Singapore issues have not been productive. The analytical reason for this, which we have discussed above, is that doing this may bring with it a need for absolute reciprocity – an all or nothing agreement to establish or accept common (minimum) regulatory norms. This is in contrast to market access, where first difference reciprocity is possible – gradual cuts in

restrictions can deliver additional access to markets, and such increases in access can be traded at the margin. Furthermore, the expansion to new areas also brings in many more stakeholders from within government and civil society, and obtaining agreement from these is difficult.

Looking forward, there seem to be two possibilities. First, the WTO could continue to press for agreement on a wider agenda of new issues. In doing so it would be seeking to reduce the global proliferation of regulatory regimes. We have identified how difficult this will be. Alternatively, the WTO could limit its focus to market access (which is mainly what it has done up until now, with the spectacular exception of TRIPS), and let other matters be addressed in different organizations and fora,²⁶ including in regional agreements. By seeking to create sufficient liberalisation, as regards market access, the WTO would help undercut the use of regional free-trade areas for that purpose.

Such a narrowing of focus might help the WTO in the achievement of its members' objectives. From a national economic welfare perspective the interests of all members are in unilateral MFN liberalisation. Integration into the world economy supports sustained economic growth by ensuring access to technology and knowledge, attainment of economies of scale, and dynamic efficiency through competition. As mentioned, many governments have already done much to enhance the openness of their economies, but significant restrictions on international transactions remain. The reasons holding governments back from elimination of this discrimination against foreign goods and services are political-economy ones: vested interests. Seeking reciprocal liberalisation from others, at the same time as countries liberalise themselves, helps in bargains with protectionists at home.²⁷

²⁶ The discussions in the working groups of the Singapore issues during 1997–2003 suggest that one way forward on behind-the-border regulatory policies—which clearly will not cease to be of interest to stakeholders and where there are certainly potential gains from international cooperation—may be “softer” forms of cooperation – outside the WTO – aimed at obtaining a better (common) understanding of the net benefits associated with alternative substantive norms.

²⁷ The terms-of-trade analysis of Bagwell and Staiger, although important, focuses on the wrong issue in seeking to explain why individual countries choose protectionism. As we have discussed, terms of trade motivations for defection are much less important than rent-seeking and similar political economy reasons. However, terms-of-trade considerations are critical in the operation of the trading system as they have an important impact on the incentives to enforce (implement) trade agreements.

What this discussion, and the papers which follow, suggest is this. A number of factors in the WTO process may have created a position in which many different opponents to trade liberalisation have come together in their opposition, even although each has a different reason for this opposition. Two of these factors are those which we have already mentioned in this section - an emphasis on fairness by developing countries and the search for wider agendas, like those in Singapore issues, by OECD countries. But there is also opposition caused by others who want to use trade as a stick to induce adoption and enforcement of norms in non-trade policy areas, including the environment, development, labour rights, and human rights. Including some, or all, these things in the objectives of WTO negotiations is clearly making multilateral liberalisation harder to achieve. It is possible that, because of these resistances, the current negotiating agenda entails aggregate net payoffs that are too small for some participants. If this is so then BATNAs may be acceptable for many WTO members- and that may be part of why agreement is so difficult.²⁸

What might be done to generate greater progress on the bread and butter of the WTO: market access? A combination of continuing along the path that is already being travelled and seeking to adjust expectations by redefining objectives might do much to help.

First, the two papers issued in July 2007 by the chairs of the negotiating groups on non-agricultural market access (Stephenson, 2007) and agriculture (Falconer 2007) illustrate that progress on the market access agenda should be feasible. The contours of a potential deal that are contained in those papers are not insignificant. They would lower non-agricultural average levels of bound protection to some 20 percent in many developing countries, and well below 10 percent in the OECD. They would also strengthen disciplines on agricultural support, including a large reduction in differences between current applied tariffs and tariff bindings, and the abolition of export subsidies. It seems clear that any Doha agreement will not have far-reaching effects in fully liberalising agriculture. But, as noted by Martin and Messerlin in their article in this

²⁸ Paradoxically, what is happening may also be making unilateral liberalisation harder to achieve, as countries hold back from liberalisation which could be achieved domestically, in the hope of using promises of it as part of a successful multinational bargaining process.

issue, what may come out of Doha would still compare well to what was achieved in previous rounds.

Second, the WTO is not just about *actual* trade liberalisation: bindings matter. This role of the system is greatly underemphasized by policymakers and the research community.²⁹ Given that countries have done a lot to liberalise trade under their own steam, an important task would appear to be to adjust the “WTO baseline” by ensuring that WTO commitments catch up with realities on the ground.

Third, there should be more focus on the trade-distorting dimensions of agricultural support policies. Research has shown that what matters most in terms of affecting world prices of farm products and reducing global welfare is protection at the border.³⁰ Subsidies play a much less important role. Given that the revealed preference of many high-income countries is to support farmers and rural communities, shifting the focus of negotiations to lower tariffs while at the same time encouraging governments to shift to measures like income support, instead of border protection and production subsidies, would help create greater opportunities for a “win-win” outcome. During the Doha round arguably excessive emphasis was put by policymakers and the media on reducing “subsidies” without distinguishing between alternative instruments and their effects. This did not enhance the prospects for a deal.

Fourth, more should be done about discrimination against foreign providers of services. Redefining the objective of the GATS to focus centrally on explicitly discriminatory policies would ensure there is clear parallelism between what the GATT and the GATS are aiming to do. In services, as in tariffs for goods, there is still very much to be done to lock-in unilateral liberalisation.

Fifth, it is important to take international trade theory more seriously. Every trade textbook stresses that the demonstration that there are gains from trade abstracts from distributional effects: while there are net aggregate gains, there are also losers within each society. This issue was discussed at length in Section 4. In principle the gains from trade are large enough that all losers can be compensated while leaving the country better off. In practice, however, many losers are not compensated. To a large extent this is a

²⁹ Francois and Martin (2004) is a notable exception.

³⁰ Hoekman, Olarreaga and Ng (2004); Anderson, Martin and Valenzuela (2006).

political matter – just as the initial or equilibrium level of trade protection is an outcome of a political process. Doing more to use additional instruments such as adjustment assistance to rebalance outcomes *within* countries (see the article by Bown and McCulloch in this issue) and aid for trade to rebalance them *between* countries could do much to help sustain the trade negotiation process and the WTO as an institution. These are matters for national policy, however. As stressed by Finger in his article in this issue, they do not lend themselves to binding multilateral commitments.

Sixth, bolster the role of the WTO as a transparency institution. A problem affecting services is that applied policies are not transparent in the sense that there is no analogue to the tariff schedule that applies to imports of goods. As tariffs fall, the relative importance of nontariff measures increases – doing more to collect and report data on the use of such policies is important in both identifying potential protectionism and determining their trade restrictiveness and incidence. Especially for smaller countries, transparency is critical for WTO disciplines to be meaningful, as the burden of implementation and enforcement lies on the shoulders of domestic interest groups. The Trade Transparency Commission proposed by Garnaut and Vines in this issue might help with moves in this direction.

A corollary of the vision sketched out above is that WTO members accept that the WTO has a specific task – enabling market access - that it should not be asked to go beyond. Even if at some point a day were to arrive where the world had come close to realizing and locking-in free trade, so that no more negotiations about liberalisation were necessary, the WTO has an important job to do in helping to sustain this – through its transparency activities, as a venue for communication between governments, and by offering a mechanism to settle disputes. These are not “minimalist” functions – to the contrary!

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