The Doha Round of multilateral trade negotiations in the World Trade Organization (WTO) was suspended indefinitely in late July 2006 after a succession of failed attempts to reach agreement on the modalities for cutting farm subsidies and tariffs. Trade ministers are now engaged in a period of reflection and consultation on how to put the WTO talks back on track. The yearend 2006 deadline is still relevant—not for concluding but rather reviving the Doha Round. Without a rapid return to active negotiations, US officials may be relegated to the sidelines in Geneva due to the expiration of US trade promotion authority (TPA) leaving the Doha Round adrift until the next US administration takes office in 2009 at the earliest.

Reviving and completing the Doha Round will pose significant challenges for all the major trading nations in the WTO. This paper examines the causes of the ongoing negotiating impasse, and what needs to be done to restart the WTO talks by late 2006.

What’s the problem and who’s to blame?

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

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

The biggest challenge is how to redress global economic imbalances—with the US current account deficit now exceeding 7 percent of GDP and China running an even higher surplus—before it provokes extensive protectionist responses in the United States and Europe. Remedies must include large doses of fiscal reform in the United States and currency revaluation in East Asia; otherwise, the trade negotiations could be fatally sideswiped as US and EU officials deploy antidumping and safeguards measures with increasing frequency and intensity, which in turn could spur a vicious cycle of tit-for-tat retaliation by the targeted countries.

The second challenge is how to focus Europe on new trade liberalization. European Union member states continue to grapple with the impact and adjustment pressures generated by enlargement, and with implementing the structural reforms of the Lisbon Agenda. Antidumping measures are being deployed with increasing frequency to blunt import growth from East Asia, particularly in the areas of textiles, apparel, and footwear. At the same time, investment policies are being contorted to develop and protect “national champions” in manufacturing and service sectors.
A similar problem confronts US trade officials, although the source of the tension is different. In the United States, record trade deficits have contributed to weakening political support for trade liberalization and subsidy reform. China bashing dominates US trade politics, driven by a US bilateral deficit with China that exceeded $200 billion in 2005. Some members of Congress have called for an import surcharge of 27.5 percent on shipments from China to counter the under-valuation of the renminbi; others would like to emulate Brussels and impose antidumping and countervailing duties with more intensity.

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

**Conduct of the negotiations**

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

**National/Coalition Positions.** A large number of countries deserve blame for the current impasse in the Geneva talks. First in the docket are the key players in the Doha Round that together represent more than half of world merchandise trade and more than 3.2 billion people.

The *United States and European Union* have been reticent to offer significant changes in their current programs, particularly in agriculture (even though their proposals reduce tariffs and subsidies substantially below their bound levels). *China* has kept a low profile not befitting its status as one of the world’s largest economies and trading nations, and has not offered additional reforms beyond the extensive commitments undertaken in its 2001 protocols of accession. *Japan*, on balance, has hampered progress in the talks: even though it has sought to advance talks on cutting tariffs on manufactured goods, it has spent more time defending its protectionist farm policies and seeking large exceptions in agricultural tariff cuts. Finally, *India* has focused on blocking farm reforms in developing countries, even though the resulting negotiating impasse hurts its chances of wresting new access for its competitive exports of services.

Developing country coalitions also deserve criticism. These large and diverse groups have difficulty in reaching consensus among themselves on anything except what they want other countries to do for them, including special and differential treatment
(SDT). For example, the “G-33”, an unusual assortment of countries (now numbering around 45) aligned to serve several defensive interests, have insisted on: (1) maintaining farm protection in their countries; (2) SDT provisions that would create disincentives to policy reform and investment in developing countries; and (3) shielding small and medium-size enterprises in the Caribbean Basin from liberalization requirements over the near to medium term. Similarly, the “G-90”, including the poorest WTO members, has pursued the Doha negotiations with an entitlement mentality that sees the talks primarily as redress for the commitments they undertook in the Uruguay Round. Many of their Doha Round proposals, if enacted, would create obstacles to policy reform and investment needed to advance their development strategies. These countries need to undertake reforms for development purposes whether or not required by WTO accords—though they should not be obligated to bind all of those changes in their WTO schedules.

In addition, the trade negotiators themselves deserve some demerits. The “blame game” has been a persistent and degrading sideshow throughout the Doha Round, with dueling US-EU press conferences and desultory charges from developing countries substituting for honest reciprocal bargaining. To be sure, the damage from such verbal abuses can be easily remedied. More worrisome is the thought that these demarches mask political reluctance by major trading nations, both developed and developing, to negotiate trade reforms. But political leaders have really not yet been challenged to change existing policies in response to offers from other countries—and that won’t

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1 USTR Bob Zoellick, for example, recanted his post-Cancun diatribe against “can’t do” countries by initiating global consultations and augmenting US offers in early 2004. These efforts revived the Doha Round, which had seized up after the failed WTO ministerial in Cancun in September 2003, and contributed to the Geneva Framework agreed in July 2004.
happen until trade diplomats transcend general discussions on frameworks for negotiations and start talking about how concrete problems will be resolved.

**Ministerial mandates.** Some of the Doha Round problems arise from ill conceived promises inserted in ministerial declarations. The most obvious example is the awkward title of the talks themselves. Proclaiming the “Doha Development Agenda” was perhaps meant to stress the trade and development objective embodied in the preamble of the WTO (and the GATT before it) and to give priority to barriers of interest to developing countries, but it has been misconstrued to mean non-reciprocity by developing countries or a “Round for Free” for the least developed countries (LDCs). Important developing countries have held back from reciprocal bargaining in an effort to redress the “balance of concessions” that were so heavily skewed against them in the Uruguay Round, and have used the new leverage of the WTO’s “single undertaking” to streamline the negotiating agenda (excluding investment, competition policy, and transparency in government procurement) and to emphasize concerns about trade in cotton and access to medicines.

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

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

Can the Doha Round and US Trade Promotion Authority be extended?

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

The real “chicken and egg” problem for the world trading system is: can the Doha Round be revived without new US concessions, and can US officials make new offers
and garner Congressional support to renew TPA without new proposals from other major trading nations? To revive the Doha Round, US officials will have to request that Congress extend TPA for at least a year or two, but to do so the Bush administration will need to demonstrate progress in the trade talks to justify Congressional support. We probably won’t know what can be done prior to the crucial US mid-term elections on November 7, 2006.

The Doha Round cannot be completed under the current TPA authority. The US Trade Act of 2002, which includes Trade Promotion Authority (TPA), requires the president to notify the Congress by December 2006 if he intends to offer amendments to the trade remedy laws (antidumping, countervailing duty, and escape clause legislation), and by April 2007 if he intends to sign an agreement. Any agreement so notified, and signed before June 30, 2007, can then take advantage of the crucial “fast track” features of the TPA law: a congressional vote up or down within 90 days, with no amendments.

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

Today, few pundits or policymakers in Washington will say that extending TPA is possible. White House officials and business lobbyists have been scarred by the fractious ratification vote on the Central American Free Trade Agreement (CAFTA)—which passed by 2 votes in the House--and fear that reauthorization of TPA would revisit the battle of summer 2005 and would have to be fought in 2007 without two of the most
tough-fisted Republican leaders in the House ( Majority Leader Tom DeLay and Ways and Means Committee Chairman Bill Thomas).

In any event, extending TPA won’t be easy. Congress remains evenly split on trade issues, and the slim pro-trade majority in the House of Representatives could fall victim to the November 2006 mid-term elections. With a reduced majority, Republicans will have to address concerns and interests of pro-trade Democrats, who have defected en masse in recent years in response to highly partisan legislative politics. If the Democrats take control of one or both Houses of Congress, there is a risk that they will hold trade policy hostage until the next administration (when they hope to regain the White House).

It is conceivable that the Bush administration could ask Congress to extend TPA during a “lame duck” session of the current Congress after the mid-term election instead of waiting for the new Congress to convene in January 2007. This option becomes more likely if the Democrats gain a majority in the House of Representatives. However, in that case, the “price” of each Democratic vote—and the Republicans would need a few dozen to offset protectionist members of their own caucus—would increase substantially both in terms of new conditions on trade accords and Republican commitments to fund health care and pension reform programs sponsored by the Democrats.

To legitimize the request for an extension of TPA, the Bush administration will have to (1) demonstrate that large benefits are in the offing from both the Doha Round and big new FTAs under negotiation (especially initiatives with Korea and Malaysia); (2) emphasize the foreign policy cost of disengaging or downgrading regional trade initiatives already in train in the Middle East, Southeast and East Asia, and Latin America; and (3) add a package of legislative “sweeteners”, including support for a short-
term extension of the current farm bill with its rich subsidies and enhanced health care
and other benefits under Trade Adjustment Assistance programs. New legislation will
not be cost-free and will likely present additional challenges to the Doha Round beyond
the extension of generous US farm subsidies.

What needs to be done? And who needs to do it?

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

An open secret of trade policy is that much of the gains that a country can garner
from trade negotiations result from changes that are made to one’s own trade barriers.
But the economist’s simple prescription for economic health often cannot be filled due to
domestic political constraints caused by interest groups that derive rents from trade
protection and subsidies. Given these political constraints, trade officials need help from
their trading partners to allow them to undertake the reforms needed to enhance economic
growth. This is true both in developed and developing countries—though the reform task
is more urgent and more intractable in developing countries given their development
status and the adjustment burdens these countries already face in an era of globalization.
Unlike past rounds, many developing countries have (1) a real stake in the bargaining process and—like the US and the EU—will have to take home some trophies from Geneva to get their governments to approve their own trade reforms; and (2) leverage to push their own export interests. The single undertaking gives them a stick in the closet; like most sticks, it is most valuable if threatened but not used.

Unlike past rounds, the US and EU have much less to offer except for the politically sensitive subsidies and border restrictions that have survived eight previous liberalization assaults in GATT Rounds. To get political support for changes in their long-standing trade barriers, US and EU officials will need to bring home agreements that offer substantial new trading opportunities primarily in developing countries that still maintain high border barriers to trade. Anything less and politicians will opt for the status quo. Simply put, a big package of market access reforms is an essential component of a successful Doha Round deal.

The adage “Good things come in small packages” may apply when buying a Christmas present for your wife, but “good things don’t come in small packages” for trade negotiators. The Doha Round won’t revive unless the major trading nations, developed and developing, increase the ante at the bargaining table.

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

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

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

To do so, each of the key players will need to ante up new offers in a coordinated manner that can then be presented to the broader WTO membership in Geneva. The APEC meetings in Hanoi would be a logical culmination of the consultative process that promotes a return to the negotiating table. Because APEC comprises most but not all of the key trading nations, APEC trade ministers should invite several non-APEC countries
to join in a special session on the WTO during their annual meeting. The purpose should be to consult and coordinate on the new proposals that each will table in the Doha Round.

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

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

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3 To be sure, this will pose a large challenge to US officials since Congress has warned USTR not to make offers that would alter US immigration policy.
Major developing countries, especially Brazil, Mexico, and South Africa, need to make concrete offers to reduce current levels of protection for goods and services, and to provide poorer developing countries with preferential market access. Average industrial tariffs should be reduced below 10 percent and bound at that level. In services, revised offers need to be tabled that open new competitive opportunities in financial services, telecommunications, air transport, and other distribution services. Several of the leading trading nations in the developing world already have accomplished much of this liberalization; they should now “lock in” these reforms to ensure a stable policy environment for trade and investment. Whether these countries will do so depends on how the United States and the European Union address their priority demands.

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

India needs to do more to align its trade policies with its overall economic development strategy. Prime Minister Manmohan Singh has capped the more outrageous
industrial tariffs, but in multilateral talks, India’s position has remained faithful to an earlier age where protection of agriculture and services was paramount. Indian demands that subsistence agriculture be sheltered from all trade accords should not mean an unwillingness to reform agricultural policies and to open competition to processed foodstuffs, nor should India continue to protect its generic pharmaceutical firms and a long list of monopoly service providers. But it now has an “offensive” agenda as well; one of India’s priorities is to nourish its golden goose: offshore insourcing. If developed countries can offer a concrete deal on labor services, India should be able to reciprocate with deeper cuts in industrial tariffs and selective agricultural reforms.

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

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

- For manufactures, tariffs should be slashed in developed countries (with most tariffs bound at zero) and applied tariffs reduced by at least 30 percent in major developing countries (including China).
• Services negotiations probably require the biggest effort to upgrade the sparse offers tabled to date, particularly in the area of financial, telecommunications, distribution, and “mode 4” labor services. In this area, for a deal to come together, industrial countries will need developing country commitments to reform in infrastructure services (e.g., banking, insurance, telecom, and air transport), while developing countries expect new opportunities to provide labor-oriented services (e.g., health care, construction, and basic information technology services). Satisfying both camps will require the elimination of nationalistic rules on establishment and governance and the reform of regulation that fosters incumbent suppliers.

What if the Doha deal does not get done?

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

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

The first loss would be foregone welfare gains from new WTO reforms. If one posited the outcomes modeled by economists at the World Bank and leading universities, the opportunity costs would total several hundred billion dollars. This number is both too large and too small, since the models assume too much change in tariffs and subsidies
and too little change in regulatory policies affecting service industries compared to what is on offer in Geneva.

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

The third cost would be **increased regionalism**—pursued in a way highly corrosive to the WTO system. Major trading nations would refocus their negotiating efforts on bilateral and regional trade agreements, and the number of such initiatives would proliferate—as occurred in the immediate aftermath of the failed WTO ministerial meeting in Cancún in September 2003 that disrupted the Doha Round for months. Of course, there probably will be more regional initiatives whether or not the Doha Round succeeds. However, the explicit discrimination inherent in those pacts, along with the burdensome rules of origin required to qualify for the trade preferences, would become more onerous in the absence of the mitigating effect of complementary multilateral liberalization.
Even worse, the trade of developing countries could be severely impaired by preferential pacts between the world’s richest countries. In the past, most FTAs involved deals among developing countries or between major developed and developing countries. So-called “North-North” FTAs were vetted but rejected because of their potentially adverse impact on the multilateral trading system. A Doha failure could change that calculus and prompt new FTAs among the major trading nations. Two initiatives seem likely under this scenario: a US-Japan FTA, in response to Chinese trade pacts in the region and the Korea-US talks; and renewed interest in a Transatlantic FTA or TAFTA, which would be seen as a constructive response to growing protectionist pressures on both sides of the Atlantic that is less offensive to labor interests than North-South deals. Other countries would then seek comparable deals on a bilateral or regional basis.

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

Fifth, the breakdown of the trade talks would likely precipitate **adverse shocks in financial markets**. Given the global economic imbalances noted above, markets already are sensitive to threats of new trade protectionism and their knock-on effects on capital flows. It’s not a coincidence that I often get calls from Wall Street when trade talks stall. Markets are good at discounting the value of current commitments, but less secure in projecting the impact of new protectionism that could sideswipe financial and currency markets. Uncertainty is a cost quickly reflected in reduced asset prices.

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

In sum, the costs of failure in the WTO talks would be substantial. Many developing countries would suffer significant losses, and the process of multilateral negotiation would be devalued, if not discredited. In contrast, while worse off, the costs to developed countries would be relatively small, and some of those losses could be compensated by other trade initiatives. But for most developing countries, including those who have been most demanding and least forthcoming in the Doha Round, there is no viable “Plan B” to the WTO.

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4 Concerns about exchange rate misalignments already weigh heavy on US-China trade relations; this problem could spread if the dollar adjustment needed to mitigate global imbalances falls disproportionately on the euro, prompting a surge in European protectionism.