

MARK THIRLWELL
Program Director
International Economy
Tel: +61 2 8238 9060
mthirlwell@lowyinstitute.org

AFTER DOHA: I. THE SEARCH FOR PLAN B

EXECUTIVE SUMMARY

On 24 July, the Doha Round of multilateral trade negotiations was suspended indefinitely, due to irreconcilable differences over the liberalisation of agricultural trade.

While the suspension of negotiations may or may not turn out to mark the death of the Doha Round, it will almost certainly mark a watershed for the future of the international trading system. With even a 'good' outcome for the faltering trade round likely to deliver little in terms of new market access when set against the scale of negotiating resources devoted to Doha, the appetite of the world's trade ministers for any repeat performance will be limited. As a result, the era of giant, set piece trade rounds like Doha and its predecessor the Uruguay Round may well be over.

With Doha in the deep freeze and the future of the multilateral system in question, the search is on for a Plan B for international trade. The most likely Plan B on offer is a deepening of the world economy's recent infatuation with preferential trade agreements (PTAs). Given that the long-term implications for world trade of a mass proliferation of PTAs are uncertain, however, policymakers are also casting around for measures designed to reduce the risks associated with this strategy. Several options exist, but all have their drawbacks.

An alternative Plan B would therefore look to reform of the multilateral system itself. Possibilities here range from proposals to slim down trade negotiations or to allow more discretion for WTO members to advance at their own speed, through to ambitious plans to reconstruct the very foundations of the WTO itself by reinvigorating the case for free trade. Unfortunately, the difficulties with Doha confirm that delivering reform at the multilateral level will be tough. Nevertheless, in the long term, this is likely to be the best Plan B on offer.

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Doha’s demise

Even after the announcement on 24 July that the Doha Round of multilateral trade negotiations was to be suspended indefinitely, participants in the negotiations have remained reluctant to post a death notice. This is despite their failure to make much progress after almost five years of negotiations, and despite a growing sense of pessimism among observers about the ability of the trade round to deliver any real progress even before the suspension of negotiations.¹ Still, their reluctance is understandable for two reasons.

First, the recent history of multilateral trade negotiations shows that trade rounds have often been marked by repeated crises and breakdowns in negotiations. Doha’s predecessor, the Uruguay Round (1986-1994), ran for almost eight years and suffered collapses in Montreal (1988) and Brussels (1990) before reaching a successful conclusion.

Second, a completely defunct Doha would indeed be a defining moment for the global trading system, marking as it would the first irrevocable breakdown in trade negotiations since the GATT was established in 1948. Not surprisingly, the world’s leading trade ministers don’t want to be seen to be left with the blood of the multilateral trading system on their hands.

Year	Round	Focus
1947	Geneva	Tariffs
1949	Annecy	Tariffs
1951	Torquay	Tariffs
1956	Geneva	Tariffs
1960–61	Dillon Round	Tariffs
1964–67	Kennedy Round	Tariffs, anti-dumping
1973–79	Tokyo Round	Tariffs, non-tariff barriers (NTBs), ‘framework agreements’
1986–94	Uruguay Round	Tariffs, NTBs, rules, services, intellectual property, dispute settlement, textiles, agriculture, creation of WTO
2001–	Doha Round	Suspended in July 2006

Source: World Trade Organization (2003)

AFTER DOHA: I. THE SEARCH FOR PLAN B**Two scenarios**

Much of the case for Doha optimism, such as it is, rests on the hope that the latest breakdown in negotiations (which, remember, came after the failure to start a multilateral round at all at the WTO Ministerial in Seattle in 1999, as well as the collapse of the WTO Ministerial in Cancun in 2003) is no more than an inevitable part and parcel of the drama that surrounds multilateral negotiations, an unavoidable piece of trade policy theatre. That may yet turn out to be the case. Unfortunately, however, even if negotiations do restart at some point, the best outcome now on offer looks to be the kind of minimalist agreement that will deliver little in terms of new market access. In other words, Doha, for all the sound and fury of the past five years, looks likely to end up signifying nothing much.

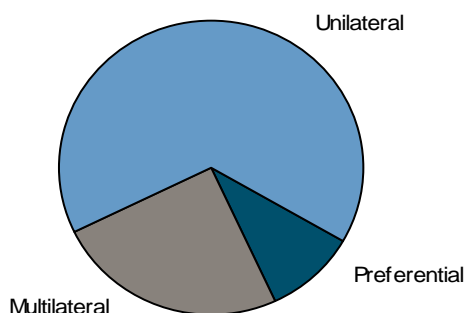
Partisans of the current round will argue that such an assessment is too harsh. True, even if negotiations are resumed, they may well do little more than deliver cuts to bound tariff rates that still left them above actual applied rates, and so generate little new market access. After all, this broadly characterises the way negotiations were going before July's collapse. Yet in some ways this still represents progress, since such an agreement would at least lock in new, lower bound tariff levels and so prevent any reversion to higher levels of protection in the future. A similar argument could also be applied to the commitments to reduce agricultural subsidies on offer: granted, the impact on current spending plans might turn out to be negligible, but it would at least forestall any future increases.

These are fair points, but on their own are unlikely to make for a great advertisement for another trade round. This leaves the world economy contemplating two likely scenarios. The first is that the Doha Round is to all intents and purposes already defunct. The second is that the round is somehow pulled out of the freezer and defrosted without incurring fatal damage in the process, and some form of a minimalist agreement is reached. Either way, Doha may well turn out to be the last in the line of giant set piece multilateral trade rounds, since neither scenario is going to leave governments keen to embark on a re-run of their Doha experience.

Does Doha matter?

Should we care? One possibility is that even the complete failure of the round will turn out to have little or no adverse impact on international trade. After all, Doha has looked increasingly unlikely to deliver much additional liberalisation, and previous trade rounds have already lowered many of the most significant barriers to cross-border exchange, progress which the WTO will continue to defend through its dispute settlements mechanism. Besides, there are other factors driving international trade integration. Perhaps the world economy can rely on the powerful forces unleashed by international global competition and the business incentives that it creates, along with the fruits of technological progress (in the form of lower transport and communications costs) to continue to drive economic integration.²

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Share of total tariff reduction, 1983-2003*%, by type of liberalisation***Figure 1**

Source: Box 2.7 in World Bank (2004)

Certainly, there are signs that the locus of trade liberalisation has already moved away from WTO-style multilateralism. One of the most significant developments in world trade has been the growing role of emerging markets. According to calculations by World Bank economists (who looked at the trade-weighted tariff rates of the 33 largest developing country importers) roughly two-thirds of the decline in their average tariffs over the past two decades has come from unilateral liberalisation (Figure 1). This compares to just 25% from multilateral liberalisation (the Uruguay Round) and only 10% from preferential trade agreements (PTAs).³

This, then, is the optimistic version of life after Doha: in the current era of globalisation, countries can effectively free ride on a secular trend of continued international economic integration, supplemented by unilateral liberalisation in those cases where remaining trade barriers are still high, and with the WTO preventing any backsliding from currently prevailing levels of trade openness.

There is of course a much more pessimistic version of a post-Doha world, according to which the failure of the trade round would eventually result in the disintegration of the current global trading system. In this scenario, the collapse in negotiations damages the credibility not just of the idea of giant rounds of trade negotiations, but of the WTO and the multilateral trading system overall, including its dispute settlement mechanism. The fear here is that the absence of the prospect of future progress with trade liberalisation will gradually be translated into an increasing reluctance to abide by existing commitments, leaving the world's great trading powers feeling increasingly entitled to dictate their own rules for international trade. The endgame could be an unwinding of the very process of globalisation on which the optimistic scenario is counting.⁴

Searching for 'Plan B'

Uncertainty about what a post-Doha world might bring is one reason that policymakers will now be searching for a Plan B for international trade.⁵

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There are two broad categories on offer. The first, and probably the most obvious, Plan B in prospect involves countries spending even more of their time and energy negotiating various forms of PTAs – bilateral, regional and cross-regional trade agreements. This would merely take the world economy further down an already well-trodden path, as the number of such agreements has already surged since the 1990s (Figure 2).

An alternative approach would focus on rejuvenating the multilateral system and so reducing the relative attractiveness of the preferential approach.

PTAs notified to GATT/WTO

cumulative, by date of entry into force

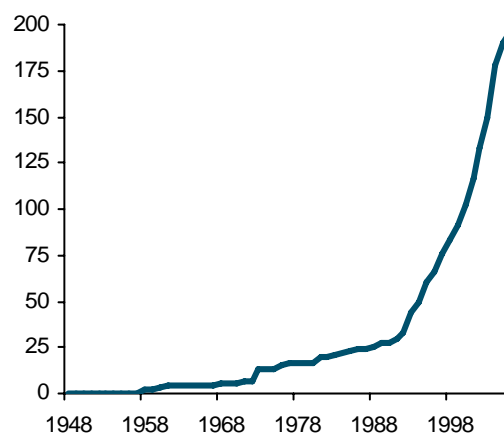


Figure 2
Source: WTO web site

PTAs and Plan B

While individual PTAs will have their pros and cons, for many observers the prospect of a world economy enmeshed within an expanding network of overlapping trading arrangements is a worrying one. In particular, they fear that, rather than supporting world trade, the resulting web or spaghetti bowl or noodle soup of agreements, with their inconsistent rules of origin and differing product coverage and content, will turn out to be at best an impediment to international economic integration and at worst will actively undermine it. In fact, there is no clear theoretical or empirical consensus as to whether PTAs are likely to complement the multilateral system or undermine it. Of course, the absence of such a consensus is itself not particularly reassuring when the world is about to charge off even further down the PTA route.⁶

The potential problems associated with the mass proliferation of PTAs have at least prompted a series of proposals that seek to reduce the possible risks involved. Some of these look to promoting better or cleaner PTAs, for example by making it easier for other economies to join in, or by proposing the use of less distorting types of rules of origin, or more modestly, by encouraging the adoption of best practice guidelines for such agreements. An example of the former approach is Ross Garnaut’s proposal for Open Trade Arrangements which would use the simplest and most liberal rules of origin available, and which would extend membership to any country willing to meet the conditions of the agreement.⁷ An example of the latter approach is APEC’s list of best practice rules for PTAs.⁸

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Another alternative that is often canvassed is for the WTO itself to enforce greater external discipline on its members' pursuit of PTAs, for example by tightening up the language of, and then enforcing, Article XXIV of the GATT, which is supposed to regulate such agreements. But the idea of toughening up Article XXIV and/or its application is a proposal that has been around for some time, and this past experience indicates that making any significant progress along this route is very difficult.⁹

Another suggestion is that the solution is to go for regional or even larger PTAs. One example of this approach would be the proposed APEC-wide free trade area for the Asia-Pacific (FTAAP).¹⁰ Another would be Japan's proposal for a regional trade agreement that would take in the sixteen members of the East Asian Summit.

Part of the thinking here seems to be that this would at least minimise the distortions associated with having a large number of smaller agreements, by incorporating a substantial portion of the world economy under the same rules and arrangements. Other advocates of such agreements see them as being large enough to force countries back to the multilateral system through fear of exclusion (supporters of NAFTA sometimes argue that it helped convince otherwise reluctant European trade negotiators to complete the Uruguay Round). Yet many of the same issues that have seen Doha run into the ground would appear to be almost equally as likely to dog any such large-scale negotiations at the present time. To date, for example, there appears to have been little appetite on the part of several major APEC member economies to negotiate an FTAAP.

Reforming the multilateral system

If plans to modify the potentially troublesome impact of a world of PTAs are problematic, one obvious alternative is to make PTAs less attractive by getting the multilateral system working again.

The starting point for many of the proposals that comprise this alternative Plan B is a sense that the multilateral system is facing a capacity crisis created by the growing number of WTO members (headed for 150 and counting, Figure 3), the requirement for consensus decision making, and the increasing breadth and complexity of trade negotiations. One common observation, for example, is that while the WTO grants a say to all of its members (in principle on a one member, one vote basis), in practice the overwhelming majority of world trade is accounted for by a minority of countries: thirty countries account for almost 90% of all merchandise exports and over 85% of

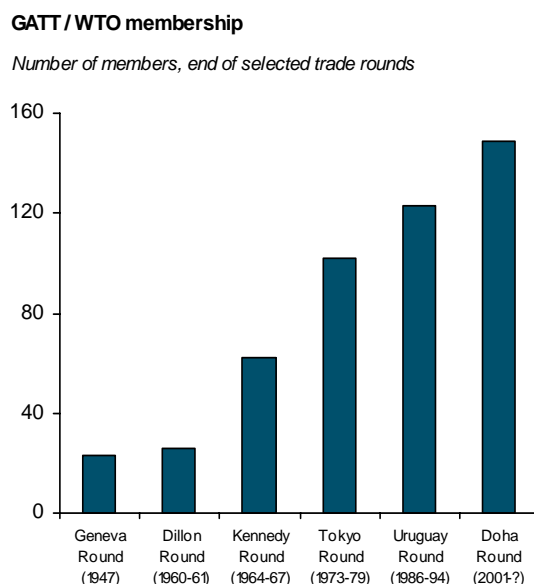


Figure 3
Source: WTO web site

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all merchandise imports.¹¹ In other words, to deliver a meaningful result for world trade, only a subset of the WTO's membership is needed, or indeed relevant.

Along with too many countries, the problem may also be too many issues. The arguments for negotiating over a large package of measures in a giant trade round are, first, with a sizeable number of issues up for discussion, there is the possibility of securing bigger gains, and second, it might be easier to reach an agreement if participants can trade off concessions they have to make in one area against gains they can secure in another.¹² However, the sheer size and complexity of trade rounds that is the result of this approach is becoming increasingly counterproductive.

Instead, it might be possible either to turn to single issue negotiations, or to allow more ambitious members to press ahead with their own agendas while staying within the multilateral system. One option would be a retreat from the idea of a single undertaking introduced by the Uruguay Round, whereby all the issues up for negotiation are treated as a total package. This would basically represent a step back in time, to when some agreements were negotiated that were only adopted by those GATT members that chose to be bound by them. Such optional or 'plurilateral' agreements were a feature of the Tokyo Round (1973-79). However, many of these were amended in the Uruguay Round and turned into multilateral agreements, leaving only two such arrangements still operational (covering government procurement and trade in civil aircraft). Indeed, a major objective of the Uruguay Round was precisely to move away from this approach, although even post-Uruguay there are some examples to be found, such as the 1997 Information Technology Agreement.¹³

Placing a greater emphasis on a plurilateral approach would have the advantage of allowing those members with more ambitious agendas to advance them within the existing WTO-based framework. But it would achieve this at the cost of creating a multi-class membership structure and hence possibly losing some of the current system's legitimacy.¹⁴

A second group of proposals would look to an even more fundamental reform of the multilateral system. The logic here is that the idea of reciprocity on which the current system is based, whereby domestic trade liberalisation is treated as a concession that must be made in order to purchase market access overseas, runs directly counter to the ideal of free trade, which would see countries cutting their own trade barriers because it is in their own best interest to do so. This approach would therefore seek to change the foundations of the system, by re-emphasising the benefits of domestic liberalisation and, by being more transparent about the costs of protection, reinvigorating the domestic political case for liberalisation. For example, Andrew Stoeckel has argued for an augmented role for the WTO's Trade Policy Review Mechanism to carry out economy-wide analysis of the costs and benefits of trade policies, and so encourage a political constituency for liberalisation. Similarly, Bill Carmichael has stressed the importance of securing a domestic commitment to liberalisation, arguing for institutions to promote domestic transparency for trade policy along the lines of Australia's Productivity Commission.¹⁵

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While this approach undoubtedly has some merit, not least because transparency is itself a good thing, economists are probably kidding themselves if they think that more transparency alone will be enough to convert the world to free trade. It is hard to believe, for example, that more transparency will be sufficient to wean the EU away from its current agricultural policy, the costs of which are already very well known.

Conclusion

The suspension of trade negotiations in late July may or may not turn out to mark the death of the Doha Round, but it will almost certainly mark a watershed for the future of the international trading system. Since even a resurrected Doha would be unlikely to deliver much in terms of new market access relative to the immense amount of effort devoted to the negotiations, the appetite of the world's trade ministers for any repeat performance is going to be strictly limited. One implication is that the era of giant, set piece trade rounds like Doha and its predecessor Uruguay, may well be over.

Unfortunately, as yet there is no wholly compelling alternative ready to take its place. The most likely Plan B on offer – an intensification of the rush to PTAs – has unpredictable implications for the future of world trade, and while there are several policy options that could mitigate some of the risks involved, all have their drawbacks.

The risks and uncertainties associated with the preferential trade route mean that the best Plan B on offer is the reform and reinvigoration of the multilateral system. The good news is that there are some options already available. Of these, the possibilities offered by a plurilateral approach perhaps offer the best chance of progress, although supporting such attempts with determined efforts to highlight the costs of protectionism and the benefits of free trade would certainly do no harm.

The bad news is that Doha's travails confirm that any attempt at reforming the world trading system will be a difficult and painful process. In the meantime, PTAs will continue to proliferate. This means that efforts at multilateral reform will also have to be accompanied by policies that seek to mitigate the risks created by the world of PTAs now in prospect. The priority here should be further efforts towards encouraging a more widespread adoption of guidelines for best practice PTAs, including standardised rules of origin. Reducing inconsistencies between PTAs and promoting clean rules of origin would at least help reduce the frictions in international trade until a better Plan B can be implemented.

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NOTES

¹ For one take on this see Mark P Thirlwell, Doha closes, another opens. *The Australian*, 27 July 2006.

² For one version of this argument see Stephen Roach, *Doha doesn't matter*. Global: economic comment, Morgan Stanley Research Global, 4 August 2006. Roach argues that the 'fundamentals of IT-enabled globalization have become far more important than multilateral agreements in driving the global trade cycle.' He points out that during five years of multilateral negotiations that have gone nowhere, the world economy has continued to integrate.

³ Chapter 2 in World Bank, *Global economic prospects 2005: trade, regionalism and development*. Washington DC, World Bank, 2004. p 27.

⁴ See for example Martin Jacques, The death of Doha signals the demise of globalization. *The Guardian*, 13 July 2006.

⁵ This section draws on the concluding chapter in Mark P Thirlwell, *The new terms of trade*. Lowy Institute Paper 07. Sydney, Lowy Institute for International Policy, 2005.

⁶ For a discussion of the costs and benefits of PTAs and their possible implications for the global trading system, see chapter 3 of *Ibid*.

⁷ See Ross Garnaut, *A new open regionalism in the Asia Pacific* (paper presented at the International conference on world economy, Colima, Mexico, 2004).

⁸ On APEC's guidelines see APEC. *Best practice for RTAs/FTAs in APEC: agenda item: v.2, 16th APEC ministerial meeting, Santiago, Chile, 17-18 November 2004*. APEC 2004: http://www.apec.org/etc/medialib/apec_media_library/downloads/ministerial/annual/2004.Par.0004.File.tmp/04_amm_003.pdf.

⁹ For a pessimistic assessment on the prospects for reforming Article XXIV see page 22 in Peter Sutherland, Jagdish Bhagwati, Kwesi Botchwey, Niall Fitzgerald, Koichi Hamada, John H. Jackson, Celso Lafer and Thierry de Montbrial, *The future of the WTO: addressing institutional challenges in the new millennium. Report by the Consultative Board to the Director-General Supachai Panitchpakdi*. Geneva, World Trade Organization, 2005. This gloomy assessment is also shared by the World Bank, see page 144 World Bank, *Global economic prospects 2005: trade, regionalism and development*.

¹⁰ The idea of a FTAAP has been around since at least 2004. For a recent restatement of the case, see C. Fred Bergsten, Plan B for world trade: go regional. *The Financial Times*, 16 August 2006.

¹¹ Data are for 2004. If the EU is counted as a single reporter, then trade flows are even more concentrated.

¹² Bergsten argues that one lesson of trade policy is that big trade rounds have been crucial to successful multilateral liberalisation for precisely this reason: the potential for trade-offs has allowed progress on what would otherwise have been intractable issues. C. Fred Bergsten, Fifty years of trade policy: the policy lessons. *The World Economy* 24 (1) 2001.

¹³ The Information Technology Agreement provides for participants to completely eliminate duties on the information technology products covered by the Agreement. Originally signed by 29 participants accounting for 88% of world trade in IT products, the agreement entered into force in 1997 after several other countries had joined. At present the ITA has 68 participants and accounts for about 97% of global IT trade.

¹⁴ The case for this option, also described as 'variable geometry' is made in Sutherland, Bhagwati, Botchwey, Fitzgerald, Hamada, Jackson, Lafer and de Montbrial, *The future of the WTO: addressing institutional challenges in the new millennium. Report by the Consultative Board to the Director-General Supachai*

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Panitchpakdi. See pp 65-67. Note that while WTO negotiations on rules are multilateral, negotiations on market access are already plurilateral.

¹⁵ Andrew Stoeckel, *Termites in the basement. To free up trade, fix the WTO's foundations*. Barton, Rural Industries Research and Development Corporation (RIRDC), 2004. pp 89-93. Bill Carmichael, *Trade policy at the cross-roads*. Pacific Economic Papers No. 351, Australian National University, 2005.

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ABOUT THE AUTHOR

Mark Thirlwell is Program Director, International Economy at the Lowy Institute for International Policy. Mark is a graduate of Cambridge University and has an MPhil degree in economics from Oxford University. Before joining the Institute, Mark worked as an economist for the Bank of England, JP Morgan and the Australian Export Finance and Insurance Corporation.

He is the author of the Lowy Institute Papers *India: the next economic giant* and *The new terms of trade*.

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