The Demise of Doha: The End of the Multilateral Trading System?

Since the end of the Second World War, successive rounds of multilateral trade negotiations have succeeded in reducing global tariff barriers and helped to establish the foundations of today's interconnected, global economy. Indeed, the rapid growth of trade and prosperity the world has experienced over the last half century would have been unthinkable without broad international support for the rules of this system. However, with the collapse of the latest round of multilateral trade negotiations – the Doha Development Round – in July 2006, and the turn of both the United States and the European Union towards bilateral rather than multilateral trading arrangements, the future of the global trading systems appears to be challenged. This brief will assess the underlying reasons for the collapse of the Doha Development Round and speculate on the future impact its collapse might have on the multilateral trading system.

A Short History of the Multilateral Trading System

The World Trade Organization (WTO) and its predecessor, the General Agreement on Tariffs and Trade (GATT), have been the pillars of the multilateral trading system for the last half century. Based on liberal economic theories that assert a connection between open trade and economic growth, the WTO has sought to promote the liberalization of world trade, has enforced a set of commonly agreed trade rules and regulations and has served as a forum to settle international trade disputes. In order to promote the dismantling of trade barriers, the WTO has relied on successive rounds of multilateral trade negotiations and a set of firm principles, like the "Most Favored Nation" principle, that outlaw discrimination between trading partners. This system has allowed all WTO members to benefit from an across-the-board reduction in trade barriers, has prevented great power competition for market shares, and has sought to provide less developed countries with a fairer negotiation position. However, with the seeming failure of the last round of trade negotiations and a move by its largest members – the European Union and the United States – towards bilateral trade negotiations, the multilateral trading system seem increasingly challenged.

Today's multilateral trading system was originally conceived at the 1944 Bretton Woods Conference as an antidote to the trade protectionism policies that contributed to the Great Depression of the 1930s. Its first expression was the General Agreement on Tariffs and Trade (GATT), which was adopted in 1947 by twenty-three founding members. The GATT's stated aims were to increase international trade by promoting lower trade barriers and providing a framework for international trade negotiations. Between 1947 and 1994, the GATT initiated a total of eight rounds of tariff reductions, leading to a substantial liberalization of world trade. The last round of trade negotiations – the so-

The European Union Center of the University of North Carolina at Chapel Hill is funded by the European Union to advance knowledge and understanding of the EU and its member countries.

called Uruguay Round, which lasted from 1986-94 – established the World Trade Organization (WTO), which now consists of 149 member states and enforces a wide set of rules governing international trade relations.

Successive rounds of multilateral trade negotiations have led to the present trading system that combines low global tariffs on manufactured goods with considerable tariff barriers on most agricultural goods and services. In the course of the Uruguay Round, GATT member states made a first step to liberalize trade in non-manufactured goods. This included agreements on trade in agricultural goods, trade in services, special agreements on textile and clothing and agreements on several non-tariff impediments to trade, such as trade-related aspects of international property rights (TRIPS). In addition, a new dispute settlement mechanism was created to govern trade disputes between WTO member states. For all its successes, the outcome of the Uruguay Round proved unsatisfactory to many of the less developed countries (LDCs). Many LDCs had hoped that the Uruguay Round would finally lead to greater tariff concessions on agricultural products and a reduction of non-tariff barriers. During the Uruguay Round, however, these countries were too divided amongst themselves to make their demands heard. As a result, they failed to achieve their bargaining objectives and many primary commodities and processed materials remained subject to tariff restrictions. The most they were able to obtain was the promise of a future review of the current arrangements.

Opening a new round of multilateral trade negotiations after the success of the Uruguay Round did not prove easy. The EU, the US, Japan, and agricultural exporters from the Cairns Group[1] were divided on issues of export subsidies and import restrictions on agricultural products. Moreover, the emergence of newly industrialized countries (NICs) in South-East Asia and the rapidly developing economies of the BRICs[2], meant that the international trading system became increasingly multipolar[3]. The first attempt to open a new round of trade negotiations was made at the November 1999 WTO Seattle Summit. In the end, the Seattle Summit failed amidst violent street protests and the reluctance of developing countries to accept a US proposal that would have made any further trade access conditional on the observation of international labor standards. The failure of the WTO ministerial conference in Seattle indicated for the first time a shift in the established balance away from an EU-US dominated trading system.

After Seattle, the divisions between WTO members continued to deepen. Nevertheless, the opening of a new round of multilateral trade negotiations at Doha in November 2001 was made possible by two new factors, both sparked by the terrorist attacks of 9/11. First, following the September 11 attacks, the industrialized countries of the West became increasingly worried about an emerging nexus of terrorism and underdevelopment, and sought a new "development round" as a panacea. Second, developing countries feared a turn towards protectionism and hoped that the new geopolitical climate would prove more fortuitous for negotiations.

The Doha Development Agenda: Progress of Negotiations

The Doha Development Round is the first round of multilateral trade negotiations committed to treating development issues as a priority. Central to the negotiation agenda is an agreement on the liberalization of agriculture and services, both issues that constitute leftovers from the Uruguay Round. However, both the European Union (EU) and the US have insisted that other issues should also make part of the agenda, including market access for non-agricultural products (NAMA), as well as the so-called Singapore issues – namely investment protection, competition policy, transparency in government procurement and trade facilitation. Developing countries have fervently opposed the introduction of these issues, insisting that a reduction of agricultural tariffs remains at the heart of negotiations. Nevertheless, it has been agreed that with some minor exceptions talks would not be concluded until an agreement will be found on all issues – i.e. nothing is agreed until everything is agreed.

Since their initiation in 2001, progress on the talks has been slow and protracted. The difficulties of coming to an agreement became clear at the September 2003 WTO Summit in Cancun, which witnessed a dispute over the main issue of agricultural reform. The trigger of the conflict was a joint paper by the United States and the European Union on agricultural reform that was deemed unacceptable by most other participants. Another rift emerged over the EU attempt to introduce regulatory issues (i.e. the Singapore issues) into the trade talks – a step vigorously opposed by a coalition of developing countries. One outcome of the Cancun summit has been the emergence of a new group of developing countries, known as the G-20. Since then, the G-20 have assumed a significant role in the process of negotiations. Representing the interests of large transition economies in Asia and Latin America, the G-20 have increasingly succeeded in challenging the domination of trade talks by the United States and the European Union[4].

In the aftermath of Cancun, trade negotiations grounded to a virtual standstill and were only slowly revived. Over the following two years, talks waxed and waned without producing any significant results. Thus, it was only at the December 2005 Hong Kong Summit that some real progress was achieved, with trade ministers agreeing to the elimination of export subsidies on agricultural products until 2013. However, hopes of a speedy conclusion to the Doha Round proved ill-founded when the July 2006 Geneva Summit failed to reach an agreement about reducing farming subsidies and lowering import taxes. All further trade negotiations were finally suspended after last ditch talks between the EU, US, India, Brazil, Japan and Australia failed to reach a compromise on the issue of agriculture liberalization.

Faced with the collapse of negotiations at Geneva, the future of the Doha Development Round now remains uncertain, and talks are likely to remain suspended for an extended period of time. The main reason for this delay is that the trade promotion authority (TPA) of the White House – the so-called "fast-track authority" – expires in July 2007. The TPA enables the White House to negotiate trade deals with a guarantee that the US Congress will vote on these deals as a package without being able to make any amendments. Without TPA, every part of a future deal would be scrutinized by Congress, making any deal close to impossible. While it is theoretically possible for Congress to extend TPA authority, a shift of majorities from Republican to Democrats in the fall 2006 mid-term elections makes this unlikely. As a consequence, any further trade negotiations will be held up until after the next US Presidential elections in 2008. Whether the geopolitical climate will then be more conducive to bring the Doha Development Round to a conclusion remains to be seen.

The European Union: The End of the Lamy Doctrine?

The EU launched into the Doha Round negotiations with a highly ambitious and multifaceted strategy, seen by many as an attempt to challenge the position of the United States in multilateral trade negotiations and to impose its own agenda of regulatory and non-trade issues. While EU member states grudgingly asserted their willingness to make some concessions on the issue of agricultural tariffs, the European Commission in return demanded compromises on a variety of non-tariff and regulatory questions, including the so-called Singapore issues – investment, competition, trade facilitation and transparency in government procurement[5]. Thus, in the course of negotiations, the European Commission lobbied hard for the adoption of a set of multilateral rules that regulate these four Singapore issues. The new focus on non-trade issues was partly conditioned by the absence of strong pressure from European industries for increased market access abroad. With tariffs on industrial products at an all time low, business support for EU negotiations remained lukewarm, and NGOs and farming groups assumed a greater influence on the negotiation process.

However, Europe's ambitious new trade agenda yielded little success. Most participants viewed the Singapore issues as an unwelcome intrusion on domestic sovereignty. Developing countries were particularly concerned about the high cost of adopting European-style environmental regulations. Faced with the resistance of the G-20 at Cancun in 2003, the EU was forced to withdraw three of the Singapore issues from the agenda, leaving only the issue of trade facilitation.

On the question of access to agricultural products, the EU has been willing to accept certain cuts to its Common Agricultural Policy (CAP), but in the run-up to the December 2005 Hong Kong Summit has rejected more ambitious proposals emanating from the US and the G-20. An agreement was made at Hong Kong on the elimination of all export subsidies on agricultural products by 2013, as well as providing "duty-free and quota-free" (DFQF) market access for all exports from the fifty poorest countries by 2008. The latter has been a longstanding demand of the EU. Indeed, the EU has long seen itself as the representative of developing countries and has defended their right for "special and differential" treatment that allows them to maintain certain protectionist measures. The EU has demonstrated its willingness to grant special favors to developing countries by adopting its 2001 "*Everything but Arms*" Initiative. This initiative grants duty free market access for all exports of the world's 49 poorest countries.

However, despite its ambitious new trading agenda and its determination to win a better deal for the world's poorest countries, the European Union, at long last, seems to have lost its enthusiasm for multilateral trade negotiations. Indeed, it seems to have followed the US from a policy that prioritizes multilateral trade negotiations to a policy focusing on bilateral and regional trade negotiations. At the outset of the Doha Round, the EU adhered to what has been christened the *Lamy Doctrine*, after former EU Trade Commissioner and current WTO Director-General Pascal Lamy. According to this doctrine, the EU would not engage in the negotiation of any new regional trade agreements (RTAs) while the Doha Round was taking place. But with the collapse of trade negotiations and the increased focus of the United States on bilateral and regional agreements, the EU has slowly turned toward its own form of bilateralism.

As a consequence, preferential trade agreements have been concluded with Mexico and Chile, while regional agreements with Mercosur and the Gulf Cooperation Council (GCC) are in the process of being negotiated. Indeed, this softening of the Lamy Doctrine began well before the collapse of trade talks in Geneva, and in 2004 alone the EU was involved in negotiations for 18 bilateral trade arrangements[6]. In a recent speech, Peter Mandelson in fact argued for pursuing targeted bilateral trade agreements, focusing on regional groupings[7]. According to him, "the risks in trade policy are not so much in the balance between multilateralism and bilateralism, but the choice between an open and ambitious approach to bilateralism that drives forward the dynamic of global liberalization and a closed approach to bilateralism that looks for the quick political fix or opens some borders only to close others."

The United States: Competitive Liberalization or Bilateralism?

US negotiators initially adopted a defensive strategy for the Doha Development Round that sought to limit the potential costs of the round for domestic interest groups. Appropriately, the strategy was labeled the "no-body bags trade policy" and reflected the domestic climate in the United States at the end of the Clinton era. Although the Clinton administration had called for a linking of trade and international labor standards at the 1999 Seattle Summit – a demand that infuriated developing countries and contributed to the failure of the summit – the US never embraced the "new trade issues" to the same extent as did the EU. Moreover, following the election of the Bush administration in 2000, Robert Zoellick, the new US trade representative (USTR), indicated a return to a purely market-access based trade agenda. At the same time, the Bush administration periodically succumbed to protectionist pressures at home. This was demonstrated by the temporary imposition of tariffs on imported steel from 2002-2004, the adoption of the 2002 Farm Bill, which raised domestic support for US agriculture close to European levels, and the 2006 controversy about foreign ownership of US harbors.

Most important, under the Bush administration bilateral and regional trade agreements became a more important part of US trade policy, while the US assumed a less significant profile in the Doha Round. According to the US, this new trade strategy is based on the

The European Union Center of the University of North Carolina at Chapel Hill is funded by the European Union to advance knowledge and understanding of the EU and its member countries.

concept of "*competitive liberalization*" that seeks to advance trade liberalization simultaneously on multiple fronts – bilaterally, regionally and multilaterally. Throughout the length of the Bush administration, this strategy has led to the negotiation of a variety of high-profile trade agreements, such as the regional agreement with Central American Countries (CAFTA), as well as bilateral agreements with Australia, Chile, Singapore and Bahrain, amongst others. At the same time, several ambitious regional and bilateral trade negotiations are continuing, including the Free Trade Area of the Americas (FTAA), a US-Andean FTA, and FTAs with Thailand, Malaysia and South Korea. Finally, several big trade projects are currently being considered, including a Middle East-North African Free Trade Agreement and the "Enterprise for ASEAN" agreement.

While this sequence of bilateral and regional trade agreements concluded by the US in recent years seems to indicate a certain disillusionment with multilateralism, the new US Trade Representative Susan Schwab has described these negotiations as a way to "establish the breadth and scope of potential multilateral agreements in years to come by setting precedents and by demonstrating the real benefits of free and fair trade". At the same time, the US has shown itself reluctant to play a leading role in Doha Round negotiations. Thus, on the all-important topic of farm subsidies, the US has demanded deep and substantial cuts in tariffs from other countries, while refusing to budge on its own policy of domestic agricultural subsidies. Indeed, following the break-down of negotiations in Geneva in July 2006, other countries were quick to shift the blame for the collapse on the US negotiating position. Not surprisingly, some analysts have concluded that US trade policy under the Bush administration has undergone a move away from multilateralism, resembling developments in US foreign policy.

Conclusion

The prorogation of the Doha Development Round in July 2006 and the increasing willingness of the two most advanced trade blocs to seek bilateral alternatives seem to indicate that the days of the multilateral trading system might be numbered. The most obvious reason for this is that with a proliferation of actors and issues, it is becoming increasingly difficult for parties involved to come to an agreement that benefits all. The emergence of the BRICs, and their ability to rally the least developed countries to their support, has meant that no longer will it be possible for the United States and the European Union to clinch out a deal between themselves and cajole the rest of the world into following them. Indeed, long gone are the days of the infamous *Blair House Accords* of 1992[8], when US and EU agreement alone was able to impose a compromise on farm trade on the rest of the world. As some have argued, the WTO increasingly resembles the UN, an organization from which the US has grown ever more estranged because of its inability to get its own way.

The demise of the Doha Round can mainly be blamed on the reluctance of both US and EU to accept a deal that would impose domestically sensitive costs. As the EU Trade Commissioner Peter Mandelson warned after the collapse of the talks, "if the US continues to demand dollar-for-dollar compensation in market access [cutting tariffs] for

The European Union Center of the University of North Carolina at Chapel Hill is funded by the European Union to advance knowledge and understanding of the EU and its member countries.

reducing domestic support, no one in the developing world will ever buy that and the EU will not either"[9]. In the meantime, both have reverted to a strategy of bilateral trade negotiations, which allows them to use their economic power to impose more unfavorable terms on their negotiating partners. While the European Union has for some time been less reluctant to engage in this strategy – based on the Lamy Doctrine – it has increasingly been left with little choice but to follow the US lead, so as not to cede valuable market shares to the US. Consequently, the collapse of the Doha Round of trade negotiations might have well heralded the end of the process of multilateral trade liberalization that started after the Second World War. Whether it will lead to a gradual unraveling of this system, or whether we are only faced with a temporary clogging of the process of trade liberalization, remains still too early to tell.

Indeed, in early 2007, US and European leaders once again attempted to revive trade negotiations and seemed closer than ever to strike a deal on the decisive issue of agricultural tariffs and subsidies[10]. If they succeed, however, both would still have to convince an increasingly assertive developing world that such a deal would be in its best interest. With US Trade Promotion Authority expiring this summer and a new US farm bill to be passed before the end of the year, little time remains. Should no deal come to pass and both continue their drive towards bilateral trade negotiations, the multilateral trading system would be faced with its toughest crisis yet.

---

[1] The Cairns Group is an interest group of 18 agricultural exporting countries, composed of Argentina, Australia , Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Guatemala, Indonesia, Malaysia, New Zealand, Pakistan, Paraguay, the Philippines, South Africa, Thailand, and Uruguay

[2] Brazil, Russia, India and China

[3] See brief in this series on "The rise of the BRICs: implications for transatlantic relations": http://www.unc.edu/depts/europe/business_media/busbrief0705-BRICs.htm

[4] Since its creation, the G20 has had fluctuating membership, but is spearheaded by the G4 (People's Republic of China, India, Brazil & South Africa), and overall accounts for approximately 65% of the world population, 72% of its farmers and at least 2/3 of its agricultural output

[5] So called after the 1996 WTO Singapore Summit, at which they were first discussed

[6] European Commission DG Trade, http://ec.europa.eu/trade/

[7] Speech by Peter Mandelson at the London School of Economic, October 9, 2006

[8] The Blair House Accords broke the impasse over agricultural trade that dominated the Uruguay Round and enabled the successful conclusion of the round. Agreement was reached in a behind the doors deal between the EU and the US, excluding developing countries.

[9] Peter Mandelson quoted in Financial Times, "US blamed as trade talks end in acrimony", July 24, 2006

[10] It seems likely that at least one factor leading to the reopening of trade negotiations between the US and EU has been the stalling of free trade negotiations between the US and South Korea and Malaysia. See BBC News, "US free trade discussions stumble", January 18, 2007

The European Union Center of the University of North Carolina at Chapel Hill is funded by the European Union to advance knowledge and understanding of the EU and its member countries.