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World trade

In the twilight of Doha

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The global trade talks have collapsed because the world's biggest economies prefer failure to compromise. What comes next?

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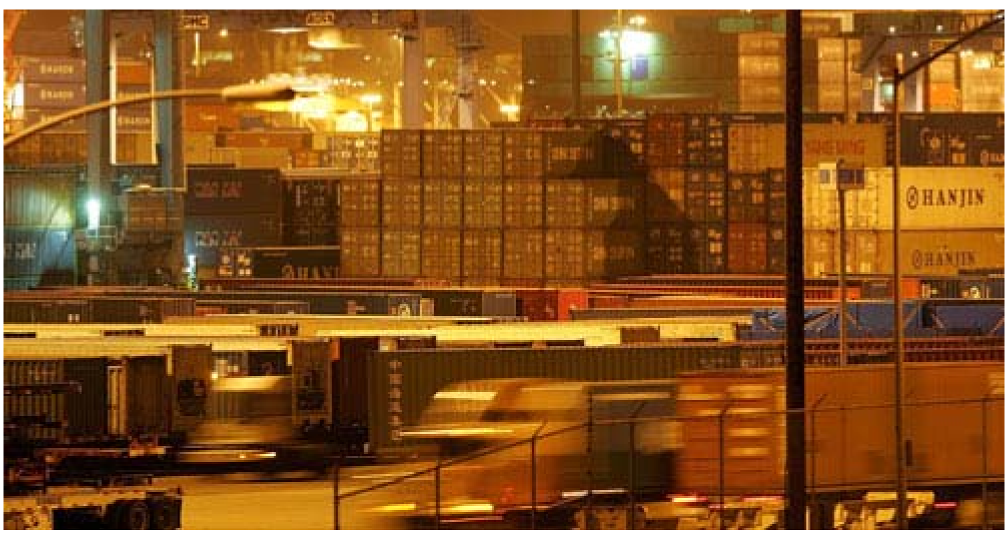

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AT LAST it is official. After stumbling on for months, the Doha trade talks have collapsed. On July 24th, at the end of yet another futile gathering of trade ministers in Geneva, Pascal Lamy, the World Trade Organisation's director general, formally suspended the negotiations. He set no date for their resumption. As Kamal Nath, India's trade minister put it, the Doha round "is definitely between intensive care and the crematorium."

Launched in the Qatari capital in 2001, soon after the terrorist attacks on New York and Washington, DC, the Doha round was to be an "ambitious" effort to make globalisation more inclusive and help the world's poor, particularly by slashing barriers and subsidies in farming, the rich-world's most molly-coddled industry.

For almost five years, negotiators haggled over just what such an "ambitious" effort should look like—and made scant progress. Technically there was nothing inevitable about this week's collapse. Yet, despite their grand rhetoric, the world's big economies have long appeared unwilling to make the political compromises that a Doha deal requires.

The big question is what happens next? Previous trade rounds have stumbled, only to rise again a few years later. In 1990 the Uruguay round (predecessor to the Doha talks) was suspended thanks to seemingly insoluble differences between Washington and Brussels over Europe's farm subsidies. Trade experts declared the trade talks dead and fretted about the future of the multilateral system. But three years later came the Uruguay Agreement—the most ambitious and comprehensive trade deal to date.

Judging whether Geneva 2006 is a replay of Brussels 1990 means answering two questions: why will today's negotiators not compromise? And what, if anything, could change their mind?

The fault lines in the Doha round are deep. America wants to slash tariffs, arguing (rightly) that the best way to help poor countries is through more open markets. Since America's tariffs are already low, that puts the onus on the European Union (EU) to cut farm tariffs and on big emerging economies to reduce barriers on farm goods and industrial products. Emerging economies, in contrast, want fewer farm subsidies and lower tariffs in rich countries, but are loth to reduce their own barriers much. Countries such as India argue that in a pro-poor Doha round they need do little. The EU chides America both for demanding unrealistically large tariff cuts from others and for offering too little farm-subsidy reform of its own.

In principle, a compromise was there for the taking. Indeed, Mr Lamy has informally laid out its contours: more subsidy cuts than America has offered and more ambitious tariff cuts by the EU and big emerging economies. So why has nothing happened? One reason is genuine differences over whether the interests of poor people are best served by lower tariffs or more special protection. But the explanation lies chiefly in the failure of countries to face down their own powerful protectionist lobbies, particularly farmers.

Deal or no deal

Curiously, this political cowardice has pushed negotiators in opposite directions. Europe and the big emerging economies are inclined towards a timid deal. America wants a big Doha deal, where its farmers see real gains in their access to foreign markets, or no deal at all.

The tension between these approaches was the immediate cause of this week's collapse. Susan Schwab, America's trade representative, decided that the EU and the emerging economies were not offering enough liberalisation to justify big cuts in America's farm subsidies. “Doha lite” as Ms Schwab put it, was riddled with loopholes and not worth having. This is why America has received much of the blame for Doha's demise. But at home, Ms Schwab's hard line was hailed. Virtually everyone in Washington agrees that no Doha deal was better than a weak deal.

America may be exaggerating. By most calculations, the kind of compromise Mr Lamy envisaged would have brought real, albeit modest, reductions in rich countries' farm barriers and big emerging economies' industrial tariffs. What is more, rich countries promised to give the poorest duty- and quota-free access for most goods. Rich and poor were working on rules to streamline customs procedures so that it no longer takes 20 days to unload and clear a container in Eritrea compared with two hours in Liverpool. Trade in services might have been freed a bit. Because global trade talks work on the principle that nothing is agreed until everything is agreed, these gains are all at risk.

Nothing will change until the big economies, and Washington in particular, decide that a Doha deal is worth having. The lesson of the Uruguay round is that domestic calculations can change quickly. Carla Hills, then America's top trade negotiator, said she would rather see the Uruguay round fail than cave in to Europe's refusal to take on its farmers. Yet three years later, that round was concluded as all sides compromised.

Optimists argue that much the same will happen again. As Jeffrey Schott of the Institute for International Economics puts it, leaders need to “stew in their own juices” until they realise that a Doha deal is worth doing. Some argue a turnaround could come quickly. Jagdish Bhagwati, a prominent trade expert, still hopes that George Bush will realise within weeks that a Doha compromise is better than no deal at all. “He needs a multilateralist triumph,” argues Mr Bhagwati.

Unfortunately, there are several reasons for pessimism. In 1990 the only obstacle to a deal was the deadlock between Brussels and Washington. Today, several other big economies, including Brazil, India and China, also need to be on board. India, in particular, shows remarkably little interest in doing a Doha deal.

The political landscape in America is less hospitable today, too. This week's collapse means the administration cannot get a Doha agreement through Congress before June next year, the date for the expiry of George Bush's trade-promotion authority—which prevents the deal from being destroyed by legislators' amendments. Although some in the White House want him to ask Congress for an extension, Mr Bush may be unwilling to take on a political fight he may not win. America's lawmakers are more sceptical of trade deals these days. Trade-promotion authority—and by extension a Doha deal—will probably have to wait until after the 2008 presidential election.

America's political calculus could yet change if the real costs of a Doha failure became clear. In the short term, however, that seems unlikely. Although, Doha's failure makes rich-country promises to help the poorest sound hollow, the rich could salvage some credibility. Peter Mandelson, Europe's top negotiator, has already suggested a separate development package for the poorest, which would include trade-related aid as well as promises on duty- and quota-free access to rich markets.

Moreover, America's farm bill is to be reauthorised next year. With Doha in abeyance, farm-friendly lawmakers will do little to cut subsidies and Mr Bush will do little to force them. Another fat farm bill will make it even harder to restart the Doha talks.

In the years ahead other things may revive Doha—although they might equally poison the trade system still further. Some analysts argue that this week's breakdown will bring a mass of trade disputes, particularly over rich countries' farm subsidies. The WTO has already declared many of America's cotton subsidies to be illegal. Future cases might attack subsidies for rice and soyabeans. The disputes could convince politicians that farm trade really needs reform. Then again, it might make America's Congress even more sceptical of multilateral trade.

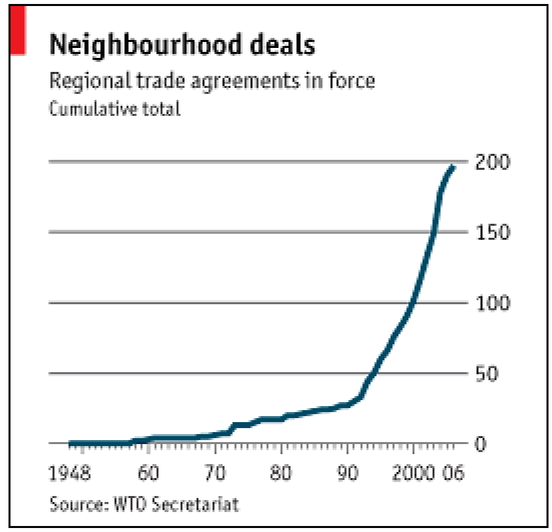
A bleaker economic climate could also change the political equation. In the early 1990s a recession focused minds on the importance of getting the Uruguay round done. Today, the thriving world economy has bred complacency. Trade has grown briskly and many types of protectionism have waned. The number of new anti-dumping cases, for instance, has fallen sharply in the past couple of years. If the economy slows, tariffs—and the risk of trade spats—may rise. Slower growth will make it harder to take on special interests, such as farmers. A global slowdown will also raise countries' fear of Chinese competition. And that fear may make a Doha deal less likely.

In America, where Sino phobia is strongest, many politicians equate China's entry into the WTO with the beginning of America's “problems” with Chinese trade. In emerging economies the fear of China already lies behind a reluctance to cut multilateral tariffs. Many countries, including India, Egypt and Nigeria have been unilaterally slashing tariffs, even as they refuse to offer big tariff cuts in the Doha round. The reason is that Doha commitments are irrevocable and they want to keep the ability to raise tariffs, partly for fear of China.

The most likely route to a reinvigorated Doha is the failure of an alternative—a greater focus on regionalism. Regional and bilateral trade deals have mushroomed (see chart). All but one WTO member, Mongolia, is now involved in some sort of preferential trade deal.

America is often touted as a champion of regionalism. The Bush administration has signed 14 free-trade deals and is negotiating another 11. Many people assume America would lose little from Doha's demise, in part because it could wield power in regional deals.

Yet the opposite may prove true. Without trade-promotion authority, the president will find it difficult to negotiate bilateral, regional or multilateral deals. The ability to push a regional agenda could be stymied just as others step up the pace. The EU has made no secret that its Plan B after Doha's demise is a shift towards bilateral deals, particularly in Asia.



Within Asia, the number of trade deals is exploding. The ten ASEAN countries have bilateral deals with each other; all have, in effect, individual bilateral deals with China. Others are being negotiated with India, South Korea and, in several cases, Japan. By one estimate, East Asia alone will have around 70 free-trade deals by the end of 2006.

This noodle bowl of Asian regionalism could be the catalyst for restarting the Doha round. As Richard Baldwin, an expert on regionalism at the Graduate Institute of International Studies in Geneva, has pointed out, Asian-style regionalism may prove more pernicious than other regional deals. The sheer number of agreements, all of which cover slightly different products and contain different rules, will dramatically complicate logistics in a region that epitomises the global trend towards decentralised production.

As these agreements gradually reduce bilateral tariffs, Asia will be riven by trade discrimination between different countries. That may push nations back to the Doha table. None more so than America, especially if it is left out of the regional rush. But how far must Asian regionalism go and how much damage will be done before the multilateral trading system can put this week's disaster behind it?