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The Causes and Costs of Failure

Gary Clyde Hufbauer
Reginald Jones Senior Fellow
Peterson Institute for International Economics
Washington DC

Payoff from World Trade

- Owing to dramatically falling transportation and communication costs, and progressive policy liberalization, international trade has propelled world growth for the past 50 years.
 - The period 1950-2000 was the best half century in recorded economic history.
 - Trade consistently expanded by 2% to 4% per year faster than world GDP.
 - An increase in the trade to GDP ratio of 10% increases GDP by 2% (advanced OECD countries) and 5% (developing countries).

Payoff from World Trade (*cont'd*)

- Since WWII trade barriers have been slashed – mainly under GATT/WTO auspices but also through regional and bilateral agreements.
- Each successful trade negotiation represents a major gift from today's leaders to tomorrow's workers.

Causes of Failure

- Doha Declaration put excessive emphasis on the economy of yesterday (agriculture) rather than the economies of today (manufacturing) or tomorrow (services):
 - Agriculture is 7% of world trade;
 - Manufactures are 61% of world trade;
 - Services are 20% of world trade.
- Embedded land values resulting from agricultural subsidies and protection now exceed \$1 trillion in the US, EU and Japan.
 - No democracy can embrace policies that slash property values overnight.

Causes of Failure (*cont'd*)

- Farm lobbies in US, EU, Japan, Canada, Korea, etc. are unwilling to liberalize market access and slash subsidies, or even decouple farm support.
- Emerging economies have their own long lists of sensitive and special farm products, insulated from liberalization.
- Emerging economies benefit handsomely from the “public good” of open world markets, but are unwilling to contribute new liberalization in manufactures and services.

-Important “free-riders”: Brazil, China, India, Indonesia, South Africa.

Causes of Failure (*cont'd*)

- Least developed countries demand duty free access for 99% of their tariff lines, but are unwilling to open their own markets -- *even to each other.*
- A Democratic majority in the Congress (after November 7, 2006) may demand too high a price for extending Trade Promotion Authority (TPA) beyond June 30, 2007.

Costs of Failure *(cont'd)*

- Every past GATT/WTO negotiation has “failed” before it finally succeeded. But if Doha truly flops, it will be a first in post-WWII history.
- Complete free trade could deliver \$2 trillion of annual benefit to the world economy. Progress stops if Doha flops.
- Collapse of the Doha Round will block the road out of poverty for 400 million people in Africa, Asia and Latin America.

Costs of Failure *(cont'd)*

- If Doha collapses in 2007, political calendars suggest that the WTO negotiations will not restart before 2010.
- Meanwhile, US, EU and China will pursue bilateral and regional free trade talks. Sector specific agreements may flourish. The world now has about 200 RTAs and FTAs -- a small fraction of the theoretic number, more than 10,000.

Costs of Failure *(cont'd)*

- Episodic trade and investment protection will erupt. Countries will be tempted to address trade imbalances through protection and subsidies, rather than macroeconomic instruments (fiscal and exchange rate policy).
- If Doha fails, the WTO focus will turn to dispute settlement. Litigation is a poor substitute for negotiation in bringing down trade barriers.
- If financial markets sense a breakdown of the world trading system, equity vales could plunge.

Last Best Hope

- Finance ministers must take the lead in pushing presidents and prime ministers. The two ministers best qualified to lead the push are US Treasury Secretary Henry Paulson and UK Chancellor of the Exchequer Gordon Brown.
- Director-General Pascal Lamy should issue his own draft package in January 2007.
- The Lamy draft should both resolve key issues (agriculture, NAMA, services) and point towards plurilateral negotiations in 2008 and 2009.
Possible plurilateral subjects: zero-for-zero tariffs on industrial inputs and complete liberalization for selected services (e.g., finance).