Murder on the Doha

It's been one of the world's great economic success stories. In 1947, with memories of the crippling trade wars of the 1930s still fresh, 23 countries led by the United States launched the General Agreement on Tariffs and Trade. A first round of negotiations that year cut tariffs on roughly one-fifth of

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Express

BY GREG RUSHFORD

all international trade. And for more than six decades, the GATT – which morphed into the World Trade Organization in 1995 – has delivered. Seven rounds of global haggling have lowered straightforward trade barriers, while keeping up the pressure to cut trade-distorting agricultural subsidies and other less-visible protectionist schemes. Today, the 153-member, Geneva-based WTO referees annual trade flows that top $15 trillion.

But this seemingly inexorable process has stalled out. The Doha Round of talks (named for the capital of Qatar) was supposed to be completed by 2005. But in 2003 negotiations collapsed in acrimony, causing Pascal Lamy (then Europe's top trade negotiator and now the head of the WTO) to lament that the round was in "intensive care." Putting on their smiley faces each year, WTO ministers have earnestly vowed to wrap up a deal. Going into the round's 12th year, though, Elvis is showing more signs of life than Doha.

In trade, what doesn't go forward has a way of going backward. The WTO's Lamy has been pointing to evidence of creeping tariff hikes since the 2008 global recession that, if not checked, could cut the value of global trade by about 8 percent. But whatever scary scenario one wishes to cite, Doha's continuing failure threatens to dampen an astonishing run of growth that has enriched the globe and rescued billions from poverty.

AGATHA CHRISTIE REDUX

Pointing fingers is easy. Blame poor countries, egged on by the anti-globalist protest movement, for poisoning the negotiating atmosphere. Blame rich countries for their lack of will to challenge entrenched domestic interests. Blame the big emerging-market economies for their parochialism and muscle-flexing. Indeed, the Doha negotiations resemble that Agatha Christie murder mystery in which everyone on the train is guilty.

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Well, not quite everyone. Two WTO members, Hong Kong and Singapore, genuinely practice free trade. Australia and New Zealand, whose economies were once notoriously protectionist, are leading efforts to sustain WTO momentum. And three bit players, Chile, Ireland and Costa Rica, have long been willing to wrap up a Doha deal. But that brings the number of good-faith negotiating countries to 7 out of 153.

IT'S THE POLITICAL ECONOMY, STUPID!

As the *Financial Times*' Alan Beattie put it, this is an "After you, Claude" game, in which each country insists that the other guys make the initial concessions. Before the United States would talk about cutting farm subsidies, it asked the Europeans to agree to their own. Before poor countries would talk about paring tariffs, they demanded that the Americans and Europeans eliminate theirs. Otherwise-sensible trade diplomats spend their working lives fighting for their countries' uncompetitive, growth-deadening industries, ranging from steel to textiles to rice.

The United States, for example, ought to be delighted to negotiate away its notorious requirement that coastal transport take place only on high-cost American-built ships with high-cost American crews. But Uncle Sam's trade negotiators (Republicans as well as Democrats) have always refused to put the offending Jones Act, which imposes the ship-American requirements, on the bargaining table. And that suits Japan and other countries with their own versions just fine.

THE GOOD OLD DAYS

It used to be so much easier. In 1949, it took only five months of negotiations for GATT members to slash some 5,000 tariffs. And a year later, members managed to cut average tariff rates by another 25 percent. But in the

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1960s and 1970s, the politics of trade became more tortuous. The Kennedy Round in 1964 took three years to hammer out $40 billion in tariff concessions for the GATT's 62 member countries. The Tokyo Round, which began in 1973, involved six years of wrangling. And the last, most ambitions GATT pact, the Uruguay Round, took over seven years to negotiate before it was signed in 1994.

When the WTO, the GATT's successor, got going the following year, it had an unwieldy 123 member countries. Now, the WTO's General Council, with its 153 negotiating delegations, has come to resemble the UN's ineffective talk shop, the General Assembly. And while it's good news that the Russians have agreed to join the club, think of all the new complexities the Bear will bring with it.

Tariff-cutting is never easy. But the evolving integration of the world economy has left the WTO with all sorts of more complicated issues to grapple with – everything from tax subsidies to intellectual property protection to the opening of huge service industries including banking and telecommunications. Oh, did I forget to mention environmental issues, labor rights, fisheries preservation and animal protection?

DÉJÀ VU AND ALL THAT JAZZ

Nobody likes protectionism, except when they are the ones being protected from foreign competition. U.S. trade negotiators have been blocking agricultural reforms since the 1950s. And to this day, Washington just says no to concessions that would allow emerging economies to prosper in the export of sugar, cotton and beef (to name just three farm products).

Of course, nobody takes a back seat to the Europeans in protecting farmers. Europe's Common Agricultural Policy, adopted in 1962, was aimed at propping up rural living standards in an increasingly competitive global economy. While recent reforms in the Common Agricultural Policy have curbed the most visible outrages by shifting to a system in which subsidies supplement farm income rather than encouraging surplus production, it still swallows some $75 billion annually from the taxpayers – 42 percent of the EU's entire budget.

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REVENGE OF THE POOR

Under the WTO rules, any member can veto a global agreement. For decades, though, diplomats from smaller countries would never dare to stick it to the rich and powerful – they were too dependent on foreign aid and protection from military aggression. But those days are gone.

In 1999, in what would have been called the Seattle Round of trade-liberalizing negotiations, developing-country delegates (supported by anti-globalist protestors who took to the streets in the Battle of Seattle) were in no mood to give way. So when President Clinton kowtowed to his stridently protectionist labor union allies by proposing economic sanctions against countries that did not meet the AFL-CIO's idea of fair-labor standards, angry diplomats from Asia, Africa and Latin America declared the negotiations DOA.

This sort of thing has become a habit. Two years later, at the beginning of the Doha Round, Thailand and the Philippines went to the mat over European tariffs that hit the Asians' tuna industries. Their main gripe was that the EU was allowing duty-free imports of canned tuna from former colonies in Africa and the Caribbean while taxing Thai and Philippine fish at a rate of 24 percent. The fight became so contentious that it threatened a Seattle-style demise for Doha. But the Europeans finally agreed to talk about carving out a special exemption that calmed the pesky Asians, at least for the moment.

In 2003, when WTO ministers met again in Cancun, the rancor that infects the Doha negotiations had set in. Some of the bitterest fighting pitted poor countries against other poor countries: while bananas weren't on the negotiating agenda, producers in Jamaica and Dominica expressed their resentment of former European colonies in Africa that got preferential treatment. Meanwhile, one of the latter, Cameroon, distracted negotiations by jockeying for a tariff advantage over the more-efficient banana exporter Ecuador.

But for the most part, the conflict that sank Cancun stemmed from poor-country resentment against years of discriminatory treatment at the hands of the industrialized powers. Many of the poor nations' diplomats hardly tried to conceal the fact that they had come to score political points, not to negotiate seriously. When Jayen Cuttaree of Mauritius complained to reporters that the rich world had offered African nations no trade-liberalizing concessions, I remember asking what concessions Cuttaree's crowd would offer in return.

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"It wasn't a question of our offering concessions," he shot back. "We were demanding." And, in a now-familiar scenario, the emerging-market countries were egged on by anti-globalist protestors – this time including ActionAid, a group based in Britain that actually managed to secure places on the delegations from Uganda and Senegal.

COTTON BLATHER

In this atmosphere, long-simmering injustices provoked large responses. To the surprise of almost everyone at Cancun, diplomats from Chad, Burkina Faso, Benin and Mali showed up one morning to vent their rage at the WTO's cotton policies. The Cotton Four, with a combined GDP of just $40 billion, are among the poorest nations on the planet. They were unhappy that some 25,000 cotton farmers in the American South were raking in $3.6 billion annually in subsidies – three times as much as all U.S. foreign aid to Africa. Those subsidies put African cotton farmers at a dismaying disadvantage. But the economics of trade distortions (like the politics) is more complicated. While nobody could defend the U.S. cotton program with a straight face, tiny, inefficient African cotton farmers really weren't equipped to take advantage of the subsidies' (hypothetical) end. Moreover, while low prices for some commodities that were a consequence of the European and American farm programs were indeed hurting African farmers, rich-country subsidies for other commodities (notably, grains) were helping to keep prices for food low for consumers in Africa's cities.

And then there's the matter of corruption. The Cotton Four let it be known that they would be inclined to dampen their outrage in return for millions more in foreign aid. The money, they said, would all go to the aggrieved farmers. (Here's the place to repeat the joke about the Brooklyn Bridge, but I won't bother.)

The U.S. response to the Cotton Four (discovered in a leaked document) can be paraphrased as quit whining and find other ways to scratch out a living. Perhaps, the document suggested, they could work with the World Bank "to effectively direct existing programs and resources toward diversification of the economies where cotton accounts for the major share of their GDP." The ensuing outrage from the Africans, who enjoyed widespread sympathy from fellow Third Worlders, helps explain why poor-country diplomats broke out in undiplomatic cheers when the Cancun meetings collapsed in September 2003.

Ironies abound. The Cotton Four still maintain tariff barriers that make it difficult for them to trade with one another, much less export to the rest of the world. Moreover, each of them was asking the WTO negotiators for discretion to hike their tariffs to somewhere between 60 and 98 percent, even as the rich countries opened their markets to African cotton. In the euphemistic language of trade negotiations, it's called "policy space"; in English, it's the flexibility to turn back the clock.

THE NAUGHTY NINE

The rich countries, it seems, also want policy space. The Swiss and Japanese are perhaps the most important movers in what was originally dubbed by reporters as the Naughty Nine. (The other seven: Taiwan, South Korea, Iceland, Norway, Bulgaria, Liechtenstein and Israel.) They want to keep their both high tariffs and subsidies for sensitive, import-competing commodities. As the Swiss refrain went: we'd like to help the poor Africans, but not at the expense of our dairy farmers and pristine Alpine meadows.

Swiss trade officials understand who butters their bread. The Swiss public doesn't gripe much about the costs of subsidizing all those picturesque cows roaming the foothills of the Alps, or all that good cheese they deliver.

Nor, for that matter, have Japanese consumers ever really complained in an organized fashion about their country's whopping tariffs on rice, which drive up the wholesale price ten-fold. While it would be understandable if Japanese trade negotiators came to WTO meetings looking for opportunities to advance the interests of Mitsubishi or Toyota or Toshiba, they have other priorities. Or rather *priority*: protecting Japan from low-cost, high-quality rice imports.

Current rice tariffs in Japan are about 390 percent (that's not a misprint). Yet the Japanese are asking the Doha negotiators to raise

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it to almost 600 percent! Talk to us about rice tariffs in 10 or perhaps 20 years, Japanese diplomats say privately, when our aging rice farmers working paddies the size of postage stamps will no longer be around.

THE SEMI-RICH AREN'T SO DIFFERENT

Other important emerging-market economies have their own policy space to defend. Consider Brazil, which currently applies tariffs that average 10 percent on agricultural imports and run as high as 55 percent for certain commodities, including dairy products, fruits and vegetables. In the WTO negotiations, the Brazilians' position – like India's and South Africa's – is that they should be given the legal discretion to double or triple tariffs whenever it suits them.

"Whenever" translates as "frequently." In 2010, the Brazilians slapped tariff hikes on imported tools, raising the levy from 14 percent to 25 percent. Tariffs on imported toys jumped from 20 percent to 35 percent that same year. Not surprisingly, the tools and toys in question come from China, whose competition Brazil fears. In September 2011, Brazil hit China again, this time with tariffs of 30 percent on imported autos that were not at least 65 percent Brazilian-made.

As so often happens in trade, the space between rhetoric and reality is chock-full of paradoxes. General Motors (along with Ford, Fiat and Volkswagen) lobbied Brasilia to get tough on imports of Chinese cars because it makes and sells a lot of vehicles in Brazil. But does the right hand know what the left hand is doing? After all, GM Brazil's potential gain is GM China's loss – and GM sells more vehicles in China than in any other country including the United States.

CHINA'S GREAT WALL (OF TARIFFS)

China's attitude toward Doha is more nuanced. On one hand, the Chinese see entry into the WTO as a source of pride – more evidence that their economy has joined the big leagues. Equally important, they see it as buttressing the post-Mao strategy of export-led growth, which has transformed China from a stagnant Marxist-Leninist paradise into the globe's most dynamic economy. On the other hand, the hard men who still rule in Beijing have been in a chest-thumping mood in recent years, sensing a geopolitical shift in power away from the Europeans and Americans and toward the Middle Kingdom. So they have become increasingly difficult to deal with in WTO meetings.

At present, the biggest single obstacle to reviving the Doha Round from its coma is a behind-the-scenes struggle between Chinese officials and the Obama White House. At the behest of its manufacturers, the United States is insisting that there will be no Doha deal unless the Chinese eliminate all their tariffs on chemicals, electronics and machinery. Anything less, the Chinese have been told, wouldn't stand a prayer of getting ratified by the U.S. Congress. In response, the Chinese say that they are tired of being the Americans' whipping boy, even as China amasses hundreds of billions in American IOUs.

Will the Chinese come to see an opportunity here – that by eliminating their industrial tariffs, they would not only be serving their interests in terms of access to U.S. markets, but also would be putting pressure on now-hesitant developing countries like Brazil and India to jump on the tariff-cutting bandwagon? Don't hold your breath.

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TRADE LIBERALIZATION ADRIFT

If there is one country that has benefited from the 65 years of negotiated trade liberalization, it's America. Gary Hufbauer, an economist at the Peterson Institute in Washington, estimates that the efficiencies created by open markets contribute roughly $1 trillion annually to U.S. GDP. But it's certainly not news that America's enthusiasm for trade liberalization has waned.

Thus, when U.S. Trade Representative Ron Kirk issued a press release praising $7 billion in tariff-free coffee imports for supporting a $38 billion American coffee industry involving hundreds of thousands of American jobs, he knew who his audience was. Since Americans don't have coffee plantations, there is no domestic lobby to complain about unfair competition and it is permissible to view imports as a good thing.

But what about imports of semifinished slabs of steel used by Americans in businesses making everything from irrigation pipes to fenders for SUVs? And what about imports of clothing that support more than two million Americans who work in retailing, not to mention those who haul those imports to the stores or are paid from the tax revenues generated by retailers? You won't be hearing about those jobs from Ron Kirk, our trade rep. And you certainly won't be hearing about all the American consumers who benefit from buying Chinese.

Don't single out Kirk or his boss in the White House for blame, though. Not one of

President Obama's predecessors in either political party, dating to the days of President Ronald Reagan in the 1980s, would have approached the issue differently. George W. Bush once visited the Port of New Orleans, which he said existed so Americans could sell their products overseas – never once mentioning the "I" (as in import) word.

And don't blame the American trade negotiators alone for failing to set rational priorities. The services exports of India, China and Brazil have increased well over 10 percent every year for the past decade. Yet none of those nations appears prepared to make concessions to drive trade in the sector likely to support much of global growth in coming decades. As Batshur Gootiiz and Aaditya Matoo of the World Bank have noted, the offers on the table by these three countries "promises somewhat greater security of access to services markets but not an iota of liberalization."

Meanwhile, WTO members have been busy undermining the principle of nondiscrimination on which the GATT was built, signing more than 300 preferential trade agreements. Half the world's trade flows now are channeled into special carve-outs – for example, the North American Free Trade Agreement – that grant special privileges to small groups of WTO member countries, while denying the favors to everyone else.

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To be sure, the WTO remains both relevant and useful. The binding dispute-resolution system, by which members can be made to drop their worst protectionist rackets when they are determined to be inconsistent with WTO commitments, sometimes works very well. The same can be said for the director-general's periodic trade-monitoring reports that expose abuses, which have proven to be a valuable name-and-shame exercise. Indeed, without the WTO and its GATT predecessor, it's likely that, in times of global recession, the world would have reverted to 1930s-style tit-for-tat protectionism.

But this process has plainly reached a crisis point. The longer the Doha negotiations remain in limbo, the less likely the major trading nations are to summon the will to confront the domestic interests opposing concessions. And without forward momentum, the more likely it is that the WTO institution's core mission of promoting global economic expansion by dismantling trade barriers will fail. The whole world, alas, doesn't seem to be watching.