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After the "July Package" of framework agreements (without modalities) that was reached by the WTO General Council on August 1, 2004, the Friedrich Naumann Foundation and the Cordell Hull Institute held a half-day meeting in Washington, DC, on October 5, 2004, on the framework for re-launching the WTO negotiations.

The meeting was held at the Willard Hotel (pictured above) across from the U.S. Treasury.



Reproduced here are the opening remarks of **Hugh Corbet** (above).

About the Author

Hugh Corbet, president of the Cordell Hull Institute in Washington, DC, was previously the Director of the Trade Policy Program at the Sigur Center for

AFTER THE JULY PACKAGE...

State of the WTO System and the Doha Round

Hugh Corbet

WHAT we have been seeing in the World Trade Organization over the last decade is the continuation of an underlying and slow-moving challenge to the trans-Atlantic duopoly that has determined the direction, shape and content of multilateral trade negotiations since the 1960s.

In the late 1950s there was the Haberler Report on the neglect of agriculture in the multilateral trading system under the General Agreement on Tariffs and Trade. In the 1960s and 1970s attempts were made in the Kennedy Round negotiations and again in the Tokyo Round negotiations to set about the liberalization of agricultural trade. In the Uruguay Round negotiations, beginning in the 1980s, the Cairns Group of smaller agricultural-exporting countries emerged and held the feet of the European Union and the United States to the fire until there was an agreement on how to extend the multilateral trade-liberalizing process to agriculture.

So when it came to resuming the liberalization of international trade, it was clear that the Doha Round negotiations were launched very much on the run, somewhat half-heartedly and without an inter-governmental consensus on their purpose or, for that matter, on the purpose of the WTO itself. The negotiations were launched – after the first attempt in Seattle failed two years earlier – in November 2001 in Doha, the Qatari capital, just as the War on Terrorism was getting under way. Indeed, but or 9/11, some say, the negotiations might not have been launched at all.

Against the background of the struggle over agricultural trade, it was clear that the goal of completely the negotiations by the end of 2004 was simply unrealistic. After the Doha Round was launched, governments spent the two years trying to settle the modalities, i.e. detailed plans, for the negotiations. Modalities had to be agreed on a wide range of items on the Doha Round agenda, but first and foremost on agriculture.

Asian Studies at George Washington University (1992-97), having earlier been a guest scholar at the Woodrow Wilson International Center for Scholars and the Brookings Institution (1990-92), all also in Washington.

For nearly twenty years, Mr Corbet was the Director of the Trade Policy Research Centre in London (1968-89), where he founded and edited *The World Economy* journal (1977-90).

In 1982-88, Mr Corbet convened in different parts of the world, eight informal roundtable meetings of trade ministers, senior officials, business leaders and independent experts from twelve to eighteen countries at a time. The meetings were part of the international effort to launch what turned out to be the Uruguay Round of multilateral trade negotiations of 1986-94.

About the Meeting

The purpose of the half-day meeting was to review the WTO General Council's package of "framework agreements" without modalities at the end of July that enabled the Doha Round negotiations to continue.

Other Speakers

Besides Hugh Corbet, the other speakers were: **William D. Rogers**, Vice Chairman of Kissinger Associates, New York; **William A. Reinsch**, President of the National Foreign Trade Council, Washington, DC; **Ann Tutwiler**, President of the International Food & Agricultural Trade Policy Council, Washington, DC; **Andreas Falke**, Professor of Trade Policy, University

Why so much emphasis on agriculture? Because many WTO member countries, especially the Cairns Group, as well as other developing countries with a stake in the agriculture sector, do not trust the European Union on the subject – and they do not trust the United States much either. An *impasse* was inevitable.

So at the start of 2004, on the initiative of Robert Zoellick, the U.S. Trade Representative, the focus in the WTO shifted to securing by the end of July a "framework agreement" without modalities – without detailed negotiating plans. There ensued more maneuvering among the European Union, the United States, the Cairns Group and the other *ad hoc* coalitions

Significance of the "July 2004 Package"

The framework agreement that the WTO General Council reached at the end of July – actually in the early hours of August 1 – has not resolved any of the fundamental problems that have dogged the Doha Round negotiations from the outset. But the framework agreement did a lot more than keep the negotiations alive.

Three points need to be made.

The first point, to which I will return later, is this. There can now be a period for reflection as technical work proceeds until the U.S. Congress extends the President's trade-negotiating authority before it expires on June 1, 2005. In any case, not much can happen at a political level until after the next U.S. Administration, whoever is elected in November, and the new European Commission is settled into office.

Second, some definite signs of "progress" were needed for the President of the United States to include in the report to Congress that has to be submitted before March 1, 2005, as part of the process of seeking the extension of U.S. trade-negotiating authority. At the core of the "July 2004 package" is agriculture, which includes a commitment to eliminate export subsidies, something in which there is a compelling interest not only in the United States, the Group of 20 and the Cairns Group but also in the European Union, where the excesses of the common agricultural policy are also widely deplored.

Nobody wants to see the possibility of eliminating agricultural export subsidies slip by. Getting rid of the European Union's export subsidies, which Martin Wolf has called "the world's most damaging dumping programme", should be inducement enough to other governments to get on with tackling the rest of the agenda and completing the negotiations by mid-2007, which is when the current U.S. trade-negotiating authority expires altogether.

Now for the third point. Something encouraging was also needed for interest groups in Washington, and not just agricultural

interests, to feel that the prospects for the Doha Round negotiations had improved enough to warrant a strong lobbying effort by them on Capital Hill to secure the extension of U.S. trade-negotiating authority.

So what happens next? First of all the modalities for negotiations have to be settled. Then the bilateral negotiations, as such, have to be conducted and completed in short order, which could take six to nine months. In the course of the negotiations, the low-cost agricultural-exporting countries will have to be satisfied that the European Union, the United States, Japan and other industrialized countries are committed to reform, to dismantling discrimination against them. And the developing countries, whose agricultures have been adversely affected by developed-country subsidies, directly or indirectly, will have to be satisfied with the agreements reached in the negotiations. These are enormous tasks.

Enormity of the Tasks Ahead

So when the Doha Round talks resume in earnest in the second half of next year – after the U.S. Congress has confirmed continued U.S. membership of the WTO and has approved, or not disapproved, the extension of U.S. trade-negotiating authority – governments first have to settle the modalities for negotiations on agriculture and on the other items on the Doha Round agenda.

As a result of the July 2004 package it might be easier to settle the modalities after the U.S. elections this November. Much will depend though on what the Group of 20 and others see happening – in the way of commitments to reform – over the coming year or so in the European Union and Japan as well as the United States.

Once the modalities are settled, hopefully at the WTO Ministerial Conference in Hong Kong in December 2005, governments will have until early in 2007 to complete the negotiations. They will have to leave themselves four or so months for the legal formalities. So in practical terms, governments will have a bit more than a year to complete the negotiations, which is not long at all as such things go.

Central to settling the modalities and completing the negotiations will be reaching a tacit agreement, at the highest level, to set about the substantial liberalization of agricultural trade over which the leading industrialized countries have been temporizing for half a century.

Much will depend not only on fundamental changes being made in the European Union's common agricultural policy, which will be difficult enough, but also on the fundamental changes being made in the farm-support programs of the United States, which the Congress will be asked to approve by the 2006 autumn recess in the 2007 farm bill. Substantial agricultural policy reforms will be

expected of Japan as well, along with Korea, Switzerland, Norway and others – not to mention the developing countries.

Need for a Period of Reflection

That brings me back to the need for reflection.

After the Cancún debacle in September 2003, and the subsequent inability of negotiators back in Geneva to re-engage, it had to be asked whether the Doha Round negotiations were salvageable or, if that was too soon to determine, whether it wasn't time to reflect on what they and the WTO system itself were trying to achieve.

Resolving the underlying crisis in the WTO system is not just a matter of agreeing on the modalities for negotiations on the various items on the Doha Round agenda. The sources of tension, suspicion and difficulty run deep and need to be put in historical context and clarified in a longer-term perspective.

Unless an effort is made to achieve a general consensus among the different coalitions of countries on the purpose of the WTO system, the Doha Round negotiations may simply resume in 2005 where they left off at the end of 2003, with negotiators facing each other in the same entrenched positions as they try again to settle the modalities – not only on agriculture and non-agricultural market access but also on trade in services, rules and other issues.

When the negotiators were struggling in 2002 and 2003 with modalities, the question of negotiations on the Singapore issues and a number of systemic issues, some in Geneva suggested that the level of ambition should be lowered. It was suggested that the Doha Round should be limited to market-access negotiations. That suggestion came up again this year as WTO delegations struggled to reach the July framework agreements.

This puts some of us in mind of the difficulties in launching the Uruguay Round negotiations. Many issues were proposed for the negotiating agenda – some new, some old. Trade ministers, senior officials, commentators and others debated whether the main focus should be

- on restoring the momentum of trade liberalization that was lost in the 1970s or
- on strengthening the GATT system, which continued to deteriorate, in spite of the Tokyo Round agreements of 1979.

In the early 1980s there was set in train a behind-the-scenes consensus-building process at inter-governmental level. A survey of opinion among trade officials was undertaken in preparation for an informal meeting of trade ministers in Stockholm in May 1985. The purpose of the survey was to help figure out priorities.

It was found that government officials accorded a higher priority to strengthening the GATT system than to further trade liberalization. It was realized that for trade-liberalizing agreements to be durable they have to be underpinned by a framework of rules that is respected by governments – especially by the governments of the major trading powers.

Over the last decade, since the Uruguay Round agreements, it has become clear that governments have again lost sight of what the multilateral trading system is about.

In the United States, for instance, there is a tendency to regard the multilateral trading system simply as a device for securing access to foreign markets for American exports, not for promoting trade liberalization as a positive-sum game or for promoting institutional stability in the world economy. Some even think the United States does not need the WTO system.

In the European Union the system is traditionally viewed as the framework within which it handles its relationship with the United States. That was the conclusion of a study of the Trade Policy Research Centre in London on *Making Trade Policy in the European Community* that was published in 1993.

For many years, Japan saw the system as a defense against bilateral U.S. and EU pressures to open its markets, but turned to bilateral negotiations following the multilateral commitment in the Uruguay Round agreements to open markets for agricultural products.

As for developing countries, many of them appear to regard the WTO system as another development agency, providing benefits (rights) without requiring obligations.

It sometimes seems that only China sees the WTO system as a framework of internationally agreed rules providing a stable institutional environment for the conduct of international trade and investment as well as a guide to the development of domestic commercial laws aimed at promoting “transparency”, “stability” and “predictability” – hallmarks of the multilateral trading system, along with “non-discrimination”.

A year or so ago I used to make this point tongue in cheek. More recently I have been making the point more seriously as I find people close to events agreeing that the Doha Round negotiations were launched without enough consultations, without adequate preparation and without a sense of direction.

Development Aspect of the Doha Round

Well, I will not go into the attitudes of the majors, but it is worth dwelling on the position of developing countries, not least because



The **mockingbird** is the state bird of Tennessee. Cordell Hull represented a district of Tennessee in the Congress of the United States, and was elected a senator from there, before becoming U.S. Secretary of State (1933-44).

"The mockingbird is known for fighting for the protection of his home – falling, if need be, in its defense. Mockingbirds are not intimidated by animals larger than themselves and have been known to attack eagles"

– Diana Wells, *100 Birds and How They Got Their Names* (Chapel Hill, NC: Algonquin, 2002)

Trade Policy Analyses

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The Institute's purpose is to promote independent analysis and public discussion of issues in international economic

they account for three quarters of the WTO membership. And in the end they will have to be satisfied in whatever package of agreements is reached in the Doha Round negotiations.

On the development dimension of the Doha Round negotiations, governments appear to be at cross purposes, which suggests the issues need to be thought through more carefully, as Peter Sutherland, the first WTO Director-General, suggested in April last year. After agriculture, the development dimension is probably the hardest hurdle to clear in the Doha Round negotiations, in part because the developing countries and the major developed countries are passing each other like ships in the night.

On the one hand, developing countries are pressing for "special-and-differential (S&D) treatment" through (i) preferential access to markets, (ii) relief from reciprocating fully in market-access negotiations, (iii) exemptions or deferrals from some WTO rules and (iv) technical assistance in implementing WTO agreements. Some of them are bent on preserving "policy space" for the future and a number of others worry about "preference erosion" with the prospect of MFN tariffs being reduced or eliminated.

On the other hand, those familiar with the workings of the multi-lateral trading system since World War II point out that the WTO is not a development agency, but a framework of contractual agreements. Those agreements nevertheless have an important bearing on economic growth and development.

Internationally agreed rules in the WTO system serve to promote institutional stability, important in the conduct of international trade and trade-related investment, for they enable firms to know where they stand *vis-à-vis* their governments and the governments of other countries, helping them make investment, marketing and other business decisions of long-term importance, to plan for expansion or if need be for adjustment. And economic growth, after all, is a continuous process of adjustment.

Now some among the spokesmen for developing countries say that WTO rules are often asymmetrical, reflecting conditions in industrialized countries, as with those on subsidies, anti-dumping actions and intellectual property rights. Where that is the case, an effort needs to be made to amend the rules, not introduce provisions providing "flexibility", undermining their purpose.

Non-discrimination as the Way Forward?

The most intractable Doha Round issues, liberalizing agricultural trade and trade in labor-intensive manufactures, essentially arise out of discrimination by country and by product. Studies at the World Bank over the last few years have shown that generalized tariff preferences, in place since the early 1970s, are not significantly benefiting developing economies and that, more recently,

relations.

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the proliferation of preferential trade arrangements is adversely affecting developing economies as a whole, even if each one benefits the parties directly involved.

In seeking to liberalize trade in agricultural products and light manufactures, to make sure WTO rules apply equally to all members and to integrate developing countries into the world economy, the time may have come to begin restoring the principle of non-discrimination to its original position as the cornerstone of the multilateral trading system.

So what has to be done to overcome discrimination against low-cost agricultural exporting countries and against developing countries? Progress on both fronts will not be possible without the industrialized countries securing greater access to markets worldwide. That suggests a need to lift sights in the Doha Round negotiations and focus more seriously on integrating developing countries into the world economy – and into the multilateral trading system.