

## The fall of Doha and the Rise of Regionalism?

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**T**he indefinite prorogation of the WTO's Doha trade talks in July suggests that the global appetite for multilateralism may now be seriously weakened. This Policy Brief look at how a failed or significantly delayed Doha round (say till 2009 at the earliest) could affect the scope and structure of any eventual WTO deal. In particular, if a rise in regionalism in the interim is inevitable, they ask whether the EU should reassess its regional trade policy objectives? A move from a multilateral focus to a twinned regional-multilateral trade policy stance will have consequences, both for practical reasons of EC 'institutional capacity' and for strategic reasons, in terms of choice of partner/s. Either way, tough decisions will have to be made. Wherever possible, the authors argue that these tactical choices should be preceded by careful technical analysis of the choice of regional partners and trading groups, as well as on traditional 'diplomatic' methods of trade partner selection.

### The Doha & Multilateralism

After nearly five years of negotiations, the WTO's stumbling Doha Round of trade negotiations was placed in indefinite suspension on July 24th after last-ditch talks in Geneva involving the six core negotiators - India, Brazil, the US, EU, Japan and Australia - collapsed over irreconcilable differences, chiefly on agricultural trade liberalisation.

As the White House's authority from the US Congress to negotiate trade deals expires next year, the end of July was in effect a deadline for a WTO deal on agricultural goods, services and manufactures by 2007.

Consequently, many US experts and officials now consider Congress unlikely to renew that authority. So concluding any agreement in the foreseeable future now seems much less likely. Indeed, it may well be several years before a renewed consensus among the WTO's now-149 member countries can be found to revive it.

The collapse – or strictly speaking prorogation – of the WTO talks suggests that the enthusiasm for multilateralism, and even the world economic order, may be diminishing. It is therefore now an open question whether the Doha Development Agenda (DDA) can be speedily revived and/or whether the very legitimacy of the WTO itself may even be under threat.

This note however seeks to investigate a slightly different issue: namely, if a Doha agreement is now likely to either fail or be significantly postponed (say till 2009 at the earliest), in what ways will the world's trading arena be likely to change in the interim: possibly affecting the scope and structure of any eventual WTO deal.

As has been documented elsewhere (Kernohan, 2006) if the ingredients for a successful round were more-or-less in place, what was crucially missing was the high-level political will to conclude a deal among the world's major capitals and stakeholders. While much discussion is presently taking place on a *status quo ante* basis – as nature abhors a vacuum – the likelihood is that the world's geo-political climate in 2009

will diverge sharply from that of early summer 2007. In short, things will have moved on.

The leading twentieth century economist John Maynard Keynes famously stated that when 'the facts' of international relations change, previous thinking must rapidly be adapted to accommodate them.

### Are we at a turning point...?

It seems highly probable that we are now at some sort of turning point in international commercial affairs, with an apparent weakening in the appetite for 'globalisation' even among senior international policy-makers, planners and strategists as witnessed, for example, by a recent seminar at the Federal Reserve's annual retreat at Jackson Hole, Wyoming (see Briscoe & Guha, 2006).

Of course, concerns about the downside of globalisation's have long been voiced in the NGO and anti-globalising fraternity. But what is now new is its emergence into 'mainstream thinking', as led by an increasingly vociferous and often distinguished body of thought, and echoed in recent UNCTAD thinking on development policy.<sup>1</sup>

If such thinking, commonplace in mainstream development circles for many years, can best be described as

<sup>1</sup> And, for example, a recent Carnegie paper on the fallout from Doha and employment prospects (see Polaski, 2006).

neo-protectionist;<sup>2</sup> it is worth pointing out that trade and globalisation are not as closely associated in practice as many appear to believe.<sup>3</sup>

First, globalisation, properly understood, involves concerns for the mobility of 'factors of production' capital and labour; as well as the mobility of goods & services (aka international trade).<sup>4</sup>

Second, we need to draw a clear distinction between 'trade' itself and 'trade policy', since actual trade patterns tend to increase between countries regardless of any political appetite for globalisation or multilateralism at the level of trade policy.

Thirdly, since globalisation is not restricted to trade matters, any weakening of support for multilateralism and the WTO needs ideally to be accompanied by a careful review of the facts and theory of what is likely to occur in a world of increased regional integration.

For the evidence suggests not only that regionalism is likely to enjoy a rapid revival, but also that it is likely to take pronouncedly different forms as the world's two leading brokers of regional deals place different interpretations on their respective regional interests.

## Trade policy ruptures?

The suspension of Doha illustrates a weakening in adhesion, if not outright rupture, in US/EU world views on multilateralism as much as the lack of appetite among large developing countries (e.g. India, Brazil) to add to the confusion and isolation of the

<sup>2</sup> And it should be added, at least in the populist polemic, 'pro aid'.

<sup>3</sup> In fact, the poorest countries will not have to open their domestic markets, under the WTO negotiations. Hence, Ghanaian chicken farmers will not be victimised – as some famous protesters at the IMF's Singapore meeting are currently asserting and under the EU's Everything but Arms (EBA) agreement from 2009 will have unilateral access to EU markets, giving no reciprocal access in return.

<sup>4</sup> The affection with which most economists view international trade arises from the theoretical assertion that, even without mobility of labour and capital, trade in goods/services alone is in theory capable of bringing about at least some degree of convergence of national incomes, as well as a rise in world welfare.

world's poorest nations, often referred to as the 'G90 group' in trade negotiation parlance.

Sadly, as is now dawning on some of the formerly most fervent anti-trade NGOs, it is probably those poorest countries, which had already gained little from the previous rush for markets during the last decade of relative world prosperity, that will now miss out on potential benefits from the stalled Doha 'development' round, especially if we are entering a less benign period of world economic fortunes.

Yet, if we look at the broad spectrum of EU/US views on:

- the importance of a WTO deal,
- the causes of any negotiating failure,
- ways out of the present impasse and
- the sufficiency of regionalism,

we see a systematic divergence across almost all of these vital questions.<sup>5</sup> In the EU also, commercial and trade policy is also at a turning point. This can be seen by the recent implied relaxation of the so-called 'Lamy doctrine', under Commissioner Mandelson. This held that no new RTAs would be launched while the Doha round was under negotiation.

Hence in both the US and EU, the policy dynamics are now almost certain to lead towards increased regionalism or bilateralism, as the thinking is already advanced as to which select country (FTA) or regional partners (RTA) should be first in line for attention.<sup>6</sup>

Of course, much diplomatic effort will now be devoted to a WTO resuscitation agenda: after all what otherwise are the respective trade bureaucrats to do? However, it may be legitimate to ask if this is the time to pour old wine into

<sup>5</sup> A stylised view of the present US polemic might be as follows: 'trade is not a core policy area, especially in the light of US job destruction and the primacy of agricultural concerns; the EU is to blame for not going far enough on domestic farm reform; there is no way out till a new administration and mandate are forthcoming after 2009; and anyway regionalism can do a sufficient job in the absence of a multilateral deal'.

<sup>6</sup> For the US it is an ambitious expansion of the former APEC scheme (excluding perceived WTO recalcitrants Brazil and India); for the EU it is likely to be South Korea, India or other points east.

new bottles without taking a pause to reflect on the likely consequences of long-term WTO failure?

Moreover, while the technocrats on all sides (who, after all, brought us to the present Doha negotiation impasse) will naturally wish to proceed as before, due consideration must also be given to the now-unavoidable costs of delay (or worse, losing the round entirely). Social scientists now recognise the central importance of intervening events (in the form of what is termed 'path-dependency' or 'hysteresis') on the likely shape and scope of any eventual trade deal.<sup>7</sup>

We would argue that it is now time to take stock, and that assessments and prioritisation of EU trade policy should not now proceed by simple extrapolations from past practice, often based simply on precedent and institutional capacity rather than careful analysis.<sup>8</sup>

The point is that things change. It took both the EU and US working closely together to devise and launch the Doha round in 2001. To avert the strong possibility that both the EU and US continue to come up with different answers to similar questions on the ideal prescriptions for the direction of future trade policy, an emphasis is now needed on technical research into the design, sequencing and timing of trade and economic cooperation agreements, taking account of recent developments in the understanding of path-dependency of trade.

Better still, as we now know that human beings weigh potential costs as much more significant than likely gains, some way must now be found to put simple 'cost' metrics on the failure of these multilateral issues so as to more accurately inform developing countries, core business stakeholders and public opinion.<sup>9</sup> As we argue below, these

<sup>7</sup> For example, EU procedural and budgetary timetables will almost certainly factor in another mid-term review of the CAP before 2009/10, not to mention a likely new trade Commissioner.

<sup>8</sup> For even factoring in a notional realignment of personnel from WTO multilateral work, DG trade is severely constrained as an institution and has been stretched by long-running bilaterals with Russia, the GCC and closer to home, the Mediterranean region.

<sup>9</sup> This cognitive disparity is called 'bounded rationality'. In fact the most recent assessment

costs should not simply factor in a comparison with where we were in July, or the *status quo ante*, but any additional costs for development of a world in which a proliferation of regionalism intervenes between now and 2010.

### A few technicalities on regionalism...

Of course the 'orthodox' economic transition is widely understood to involve an open external stance for small countries, especially if they are resource rich and/or labour abundant.<sup>10</sup> In practice, of course, the issue of how precisely any region's economies should position themselves to make best use of both internal resources and international opportunities is a complex one.

Inappropriate or ill-timed economic integration initiatives are not simply neutral in their effects. They can in fact inflict considerable social and economic losses and/or even undermine future attempts to adjust policy in the correct direction.

As a starting point, economists have long argued that preferential trade liberalisation is desirable if the volume of imports by member countries from the rest of the world does not decline on a product-by-product basis after the implementation of the agreement (Kemp & Wan, 1976; McMillan, 1993).

The question then becomes: do we have the tools and techniques to assess whether this is, in fact, the likely outcome of any particular proposed agreement?

The answer is 'yes'. At the very least, a simple version of the 'volume test' mentioned above might be used to assess the appropriate level of enthusiasm prospective members should have for a proposed RTA. But we can probably also do much better than this nowadays without too much difficulty.

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of the benefits of Doha (see Decreux & Fontagné, 2006) places the possible gains from Doha as equivalent, for sub-Saharan Africa, to a doubling of official development aid after 2020.

<sup>10</sup> This 'ideal' trade stance is usually complemented by (urging) an open position on FDI, not simply as a source of substitute capital, but more particularly as a vehicle for the transfer of technology, knowledge and standards of best practice.

While it used to be the case that serious simplicities and shortcomings existed in our techniques and tools, fortunately it is now the case that substantive technical progress in modelling database and simulation techniques has taken place in recent years.

We present below just one such idea for a practical *ex ante* test of future EU regional trade policy coherence.

### Regionalism & path-dependency

Regional trade agreements are controversial in economics, not simply because of the classic (so-called 'Vinerian') view that they can sometimes reduce trade by diverting it, rather than creating it, but also because of the unresolved disagreements over when a regional trade agreement is likely to precede, rather than preclude, more global agreements. Finally over whether, even if global agreements eventually take place, the sequencing of prior regional agreements has an ongoing effect upon the trade patterns that emerge. The nub of all these arguments is 'path-dependency'.

At issue now is how, where and importantly how quickly can or should the EU move in any re-launch of its regional agenda.

### A practical example...

Given the importance for the EU ... as from these insights ... we argue that theoretical contributions from recent work on regionalism and the path-dependency of trade make certain new insights available to us (see Edwards, 2006).

Amongst other things, forming trade blocs between, say, a rich country and an intermediate country may not be a stepping-stone to liberalisation with poorer countries if the latter liberalisation is delayed too long and if the intermediate countries have veto or other voting rights (a case in point is Portugal's pressure on the EU to undo the textiles liberalisation with China in the bra wars dispute).

### Conclusions: Getting the trade policy we need

It is now important to try to get these trade policy priorities right, and not simply in an attempt to harmonise the transatlantic dialogue.

Given the present moves to augment membership and institutional structure of multilateral institutions such as the IMF, it is becoming clear that in many respects the ability of the EU/US to shape debates and policy fora will weaken as world wealth, and after it geopolitical influence, shifts relentlessly eastwards - perhaps more quickly than many might imagine.

So our plea is that the entirety of evolving EU trade policy - and not just the WTO negotiations - should be subject to a clear set of *ex ante* checks as is increasingly found desirable in other policy areas. This can be readily achieved by an element of simple scenario analysis of the likely future impact of alternative policy prescriptions. But ideally such scenarios should also include an assessment of increased regionalism as a serious potential cost, when viewed in the context of the present delay - or even ultimate derailment - of a multilateral trade round.

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