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Challenges to the Multilateral Trading System and Possible Responses

Arvind Panagariya

Abstract
This paper develops three major themes. First, the atmosphere of gloom around the multilateral trading system due to dim prospects of a successful conclusion of the Doha Round notwithstanding, global trade regime remains open and the institution in charge of it, the World Trade Organization, is in sound health. If anything, the Doha Round has been a victim of its own success: considerable de facto liberalization in agriculture has been achieved since the launch of the round. Second, to secure the future of the multilateral trading system, it is nevertheless crucial that the Doha Round is brought to a conclusion even if in a highly diluted form. The damage to the system from an outright failure will be very substantial. Finally, closing the Doha Round will require the United States leading the negotiations. Suggestions that as the largest merchandise exporter, China should now take the lead are frivolous.

JEL F13 F15
Keywords World Trade Organization; Doha Round; multilateralism; regionalism

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Challenges to the Multilateral Trading System and Possible Responses

Arvind Panagariya

1. Introduction

In addition to the obvious—that we both specialize in trade policy—there are two important similarities between the writings of Rolf Langhammer, whom we honor today, and my own. We both have a deep interest in trade and trade policies as they relate to the welfare of the developing countries; and we both take a skeptical view of the discriminatory route to freeing up trade. The vast majority of our writings on trade liberalization are in the spirit of the Most Favored Nation (MFN) principle as enshrined in Article I of the General Agreement on Tariffs and Trade (GATT) of the World Trade Organization (WTO). This view also predisposes us unfavorably towards myriad Free Trade Area (FTA) agreements with their complex rules of origin that have now created a virtual spaghetti bowl of tariffs, undermining the multilateral trading system.

An outstanding contribution by Rolf (Langhammer 2009) along these lines is his recent paper provocatively titled "Why a marketplace must not discriminate?" In this paper, he systematically assesses virtually all aspects of the case for the Transatlantic Free Trade Area (TAFTA) and, arguing that it will involve far too much discrimination against third countries, comes out in favor of what he calls the Transatlantic Trade Liberalization Initiative (TALI) that would refrain from discrimination and will 'facilitate global trade by multilateralizing rules for transaction procedures concluded between the EU and the US, and to extend these to third parties.' (p. 20).

While Rolf has written prolifically, contributing over 200 professional articles, since the multilateral trading system is directly or indirectly at the center of his work and

since the failure in bringing the Doha Round to a close to-date preoccupies trade economists today, this paper honors him by taking stock of where we stand today with respect to achieving the goal of free trade and what can be expected in the forthcoming years. Given the fact that an important aspect of the current tensions and fissures in the trading system that have emerged relates to the substantial rise in the economic weight of the developing countries, this subject also brings into sharp focus Rolf's longstanding interest in the developing countries.

Many commentators are today pessimistic about the future of the multilateral trading system. While the failure to bring the Doha round to conclusion after eleven years of its launch provides a substantive basis for this pessimism, the fear on the part of many that the multilateral trading system and the WTO are somehow in deep trouble is exaggerated. Despite the current impasse, there is much to celebrate about the progress made to-date in achieving a liberal trading system and institutionalizing much though not all of it through the instrumentality of the WTO. Moreover, Doha is not really dead—certainly, none of the certified doctors has made such a pronouncement.

2. The Good News: A Well-functioning and Liberal Trading World Today

In the midst of the gloom surrounding the failure to bring the Doha negotiations to a conclusion, it is easy to forget that the multilateral trading system has had great success in the last two decades. Just as many commentators have declared today that Doha Round is dead, Lester Thurow, an influential intellectual in his time in Democratic circles, had famously proclaimed at the Davos Symposium in 1988 that 'GATT is dead.' While Thurow had many sympathizers at the time, GATT not only survived, it also became the seed that seven years later flourished into the banyan tree we call the WTO today. Rather

than the pessimism of Thurow, it was the optimism of Jagdish Bhagwati that prevailed. In his Harry Johnson lecture (Bhagwati 1990), the latter reminded that when the monarch dies, the British say, 'The Queen is dead. Long live the Queen.' In a similar vein, he suggested, the appropriate response to Thurow would be: "The GATT is dead. Long live the GATT." And that is exactly what happened. The GATT as an institution came to an end with the WTO replacing it but the GATT as an agreement governing goods trade lives on.

To give an idea of the far-reaching accomplishments during the past quarter century, I discuss below the developments in three areas: trade liberalization and growth in world trade, changed developing country attitudes towards trade and foreign investment, and the success of the WTO in implementing trade agreements.

2.1. Trade Liberalization is Intact and World Trade is Flourishing

World trade in goods and services is much freer today than in the pre-WTO world. Protection-motivated non-tariff barriers, which had plagued the system until as recently as the 1980s, are virtually gone. Tariffs have also come significantly down with over protection to industrial products at historically lowest level in almost all countries. Table 1, which shows the latest average tariff rates on industrial products available for the major developed and developing countries, bears witness to this change.

Developed countries have come to bind virtually all their tariffs while developing countries have also bound a substantial proportion of their tariff lines. More importantly, applied tariffs have dropped to their lowest levels in the recent history. Even in India, which is often depicted as a highly protected country, the simple average of applied industrial tariffs is 10.1 percent compared with 8.7 percent in China. While the highest

average tariffs are concentrated in the countries in Latin America, even they are below 15 percent. In the developed countries, the simple average of tariffs is uniformly below 5 percent.

Table 1: Tariffs on non-agricultural products

Country	Year of MFN	Binding coverage	Simple Average		Duty Free		Duties > 15%	
		%	Bound	MFN	Bound	MFN	Bound	MFN
					Share of HS 6-digit subheadings (%)			
1	2	3	4	5	6	7	8	9
Canada	2010	99.7	5.3	2.6	36.1	72.8	7.1	6.7
United States	2010	100	3.3	3.3	47.6	47.6	2.4	2.4
Latin America								
Argentina	2010	100	31.8	12.9	0	14.2	98.2	39
Brazil	2010	100	30.7	14.2	0.7	5.2	96.5	40.4
Colombia	2010	100	35.4	11.8	0	2.8	100	25.7
Mexico	2010	100	34.9	7.1	0.3	50.2	99.2	9.5
Western Europe								
European Union	2010	100	3.9	4	28.4	26.7	0.9	0.9
Iceland	2010	94.2	9.6	2.3	46.3	76.7	27.8	0
Norway	2010	100	3.1	0.5	48.9	95.2	0	0
Switzerland	2010	99.7	2	1.9	17.8	18.8	1	0.9
Turkey	2010	42.7	17	4.8	4	25	20	3.1
Asia/Pacific								
Australia	2010	96.7	11	3	19.2	44.9	15.2	0
China	2010	100	9.2	8.7	6.5	7.7	13.4	11.6
India	2009	69.8	34.6	10.1	3.1	2.4	66.2	6.7
Indonesia	2010	95.1	35.5	6.6	2.8	23.8	88.7	1.8
Japan	2010	99.6	2.5	2.5	55.9	56.5	0.7	0.7
Korea, Republic of	2010	93.8	10.2	6.6	15.9	17.2	12.5	1.8

Source: WTO: World Tariff Profiles, 2011.

The proportion of applied tariff rates exceeding 15 percent is also generally low. In Asia, this proportion is below 12 percent in all countries shown in Table 1. Remarkably, at 6.7 percent, this proportion in India is significantly below the 11.6 percent in China. In the developed countries, the proportion is uniformly well below 3 percent with Canada being the major exception. The highest concentration of tariff peaks is in Latin America.

Table 2: Tariffs on agricultural products

Country	Year of MFN	Simple Average		Duty Free		Duties > 15%		Maximum duty	
		Bound	MFN	Bound	MFN	Bound	MFN	Bound	MFN
		% Share of HS 6-digit headings							
Developed									
Canada	2010	16.7	11.3	48.1	58.5	9.6	5.8	597	584
United States	2010	4.8	4.9	32.8	30.5	5.8	5.4	350	350
EU	2010	12.3	12.8	32.5	30	24.6	24.7	191	191
Norway	2010	131.1	49.4	29	45.1	47.2	41	>1000	>1000
Switzerland	2010	48.2	27.2	22.9	28.6	41.4	25.9	>1000	>1000
Japan	2010	20.9	17.3	34.2	35.9	23.8	22.6	660	640
Australia	2010	3.4	1.3	30.7	74.9	3.6	0.5	29	19
Cairns Developing									
Argentina	2010	32.4	10.3	0.1	6.1	95.1	15.7	35	32
Brazil	2010	35.4	10.3	2.7	6.3	95.7	15.4	55	28
Colombia	2010	91.4	17.2	0	1.9	99.9	43	227	98
Indonesia	2010	47.1	8.4	0	13.7	99.4	4.3	210	150
Other Developing									
Mexico	2010	44.2	21.5	0.4	17.7	95	43.4	254	254
Turkey	2010	60.7	43.4	0	16.4	87.1	62.7	225	225
China	2010	15.7	15.6	6	5.9	35.4	34.6	65	65
India	2009	113.1	31.8	0	5.6	98.6	82.4	300	150
Korea, Rep. of	2010	55.9	48.5	2.2	5.4	73	51.4	887	887

Source: WTO: World Tariff Profiles, 2011

Although agriculture is protected at a far higher level, as shown in table 2, progress in liberalizing this sector has been among the most important developments in recent years. For decades, this sector had remained effectively outside the GATT discipline. But the Uruguay Round (UR) Agreement has now brought it under multilateral discipline with some progress made towards its liberalization as well. Later, I will argue that the Doha negotiations have perhaps been partially a victim of the success achieved in liberalizing this sector since the launch of the round, especially in bringing down domestic and export subsidies.

Finally, the transformation in both the attitude and actual trade policy towards services trade has been most remarkable. When the Uruguay Round was launched, developing countries were so skeptical of negotiations in this area that they insisted on keeping it out of the single undertaking so that services trade agenda was relegated to a separate track from the rest. Yet, when the negotiations heated up, it was intellectual property rights (IPR) issues that generated the greatest opposition from the developing countries with services brought centrally under the multilateral discipline through the General Agreement on Trade In Services (GATS) with relative ease. Indeed, today, most developing countries actively seek foreign investment in services and have gone on to liberalize trade in this area through national policy reform to a far greater extent than they committed under GATS negotiations. With rare exceptions, both India and China have opened virtually all sectors to foreign investors, with the larger developing countries in Latin America doing the same as well.

Trade outcomes have mirrored this liberalization, with goods as well as services trade expanding at accelerated pace. The simple average of annual growth rates of world merchandise exports rose from 5.6 percent during 1981-94 to 8.9 percent during 1995-10.[1] These growth rates compare to 2.2 percent annual growth in the world GDP during both periods.

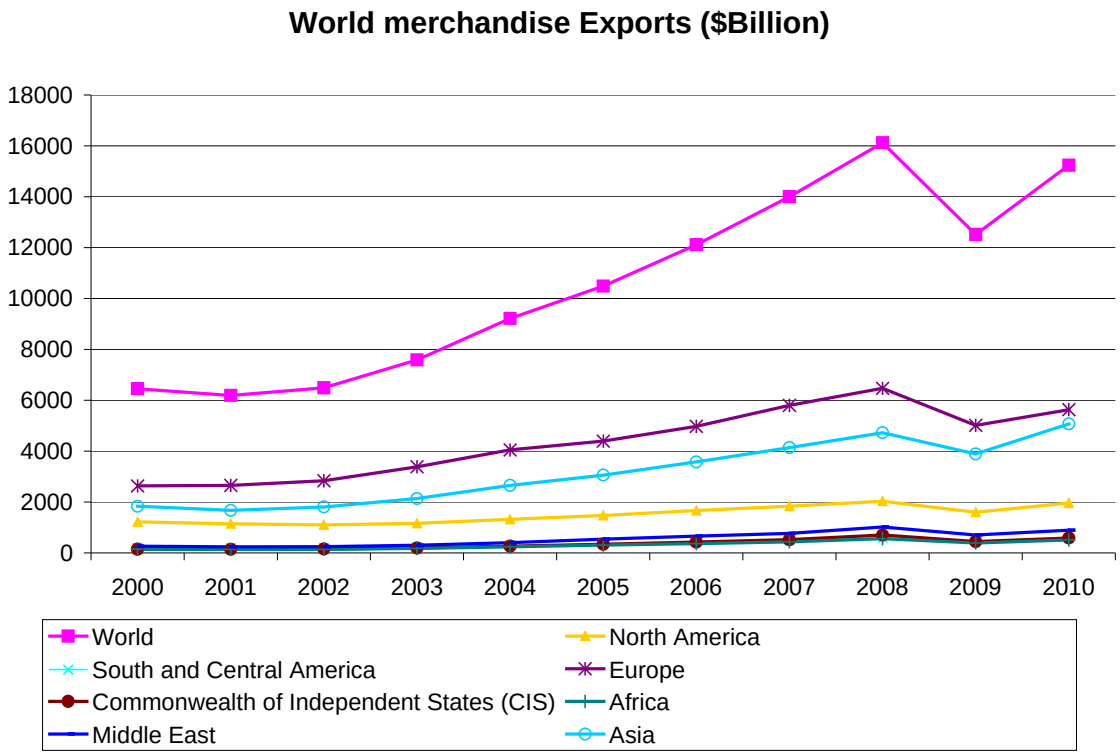


Figure 1: Merchandise exports from the major regions of the world, 2000-10

Source: Based on data in *International Trade Statistics 2011*, Geneva: World Trade Organization.

Figures 1 and 2 show the trajectories of merchandise and commercial services exports (in current dollars) of the major regions of the world from 2000 to 2010. Merchandise

[1] These rates have been calculated using the annual growth rates , appendix table A1 in *International Trade Statistics 2011*, Geneva: World Trade Organization.

exports have shown remarkable growth in the three major regions of the world: Europe, North America and Asia. In Europe, they have more than doubled and in Asia, they have almost tripled during the decade. Growth in North America has been slower but still impressive with exports rising from $1225 billion in 2000 to $1965 billion in 2010. Remarkably, though much smaller in magnitude, exports in the remaining three regions—Africa, Middle East and Commonwealth of Independent States—has been as impressive as in Asia. In each case, merchandise exports have more than tripled during the decade.

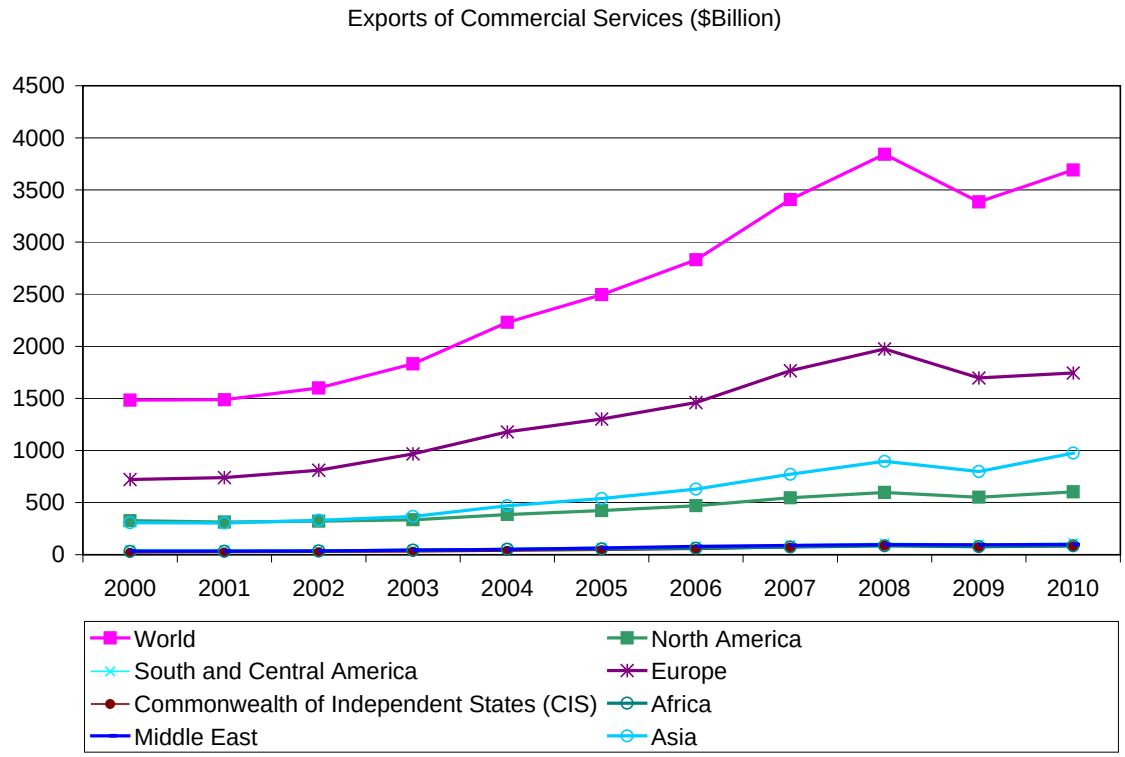


Figure 2: Exports of commercial services from the major regions of the world, 2000-10

Source: Based on data in *International Trade Statistics 2011*, Geneva: World Trade Organization.

Growth in the exports of commercial services has been similarly spectacular. In North America, they have almost doubled; in Europe, they have more than doubled; and In Asia, they have more than tripled between 2000 and 2010. The remaining three regions have also seen their commercial services exports nearly or more than tripled. From the viewpoint of facilitating trade, the WTO has been a huge success.

2.2. Developing Countries have Embraced Freer Trade and Investment

The last two decades have also seen a serious shift in the attitudes of developing countries towards international trade. Rather than viewing foreign competition as threat to their industries they now see an opportunity in it. Though reluctant in the 1980s when the International Monetary Fund and World Bank aggressively pushed trade liberalization, they have progressively come to embrace it in the past two decades. Indeed, in what Bhagwati has called an "ironic reversal," today, it is the developed countries that express fear of foreign competition, with the rhetoric of job losses abroad and leveling of unskilled wages in the face of competition from the developing countries becoming louder and louder.

In the 1950s and 1960s, development thinking was dominated by the view that developing countries needed to foster industrialization and that this required protection to manufacturing against competition from well-established foreign suppliers. Reliance on exports was seen as a non-starter because it as thought that the demand for developing country exports, which consisted of largely primary products, exhibited low elasticity with respect to both price and income and. Low price elasticity meant that any efforts by the developing countries to expand exports would be frustrated by such large endogenous decline in the terms of trade that expanded exports would end up fetching reduced

revenues. And he low income elasticity meant that over time, as incomes rose in the industrial countries, their demand would shift in favor of manufactures and services and away from developing country exports with the result that the developing countries will experience a an exogenous secular decline in their terms of trade.

This line of thinking inevitably led the developing countries to seek special and differential treatment in framing the rules of international trade under the auspices of GATT. That in turn translated into developing countries having a free hand in the use of all instruments of protection including strict licensing and high tariffs as well as one-way trade preferences involving better than the MFN access to their products in the developed country markets. Import substitution remained the name of the game until the late 1970s except in the four Asian tiger economies of South Korea, Taiwan, Singapore and Hong Kong.

By the late 1960s, evidence from South Korea and Taiwan had begun to convince at least some economists that outward orientation offered a superior road to industrialization. This was the theme of two large-scale, multi-volume studies carried out in the 1970s under the auspices of the Organization for Economic Development (OECD) and the National Bureau of Economic Research (NBER) under the directorship of Little, Scitovsky and Scott (1970), and Bhagwati (1978) and Krueger (1978), respectively. These studies greatly influenced the thinking at the World Bank and the International monetary Fund (IMF), which in turn used the instrumentality of loan conditionality during the 1980s to push trade liberalization and other pro-market reforms in the developing countries.

While the developing countries saw much of the liberalization under the Bank-Fund conditionality as having been imposed on them from outside under duress and remained reluctant players for liberalization during the UR negotiations, interactions involved in Bank-Fund programs and resulting experimentation perhaps led them to think harder about alternative policy choices. More importantly, their attitudes began to shift in a major way after the breakdown of the Soviet Union and the emergence of the success story of China under an outward-oriented regime. These developments and a recognition that the autarkic policies and domestic controls had not delivered led India, which had been a bastion of protection, to turn to liberal policies in 1991. Its post-reform success and continued rise of China helped change the developing country attitudes yet further.

While developing countries today continue to demand special and differential treatment, they participate much more actively in the negotiations. The emergence of the G-20 grouping prior to the 2003 WTO ministerial meeting and its success in getting the developed countries to drop three of the four Singapore issues from the Doha negotiating agenda offer one example of their engagement with the negotiating process. They continued to play the same active role subsequently at Hong Kong ministerial meeting and then in the 2008 negotiations in Geneva that produced a deadlock between developed and developing countries.

Developing countries have also come to use the dispute settlement body (DSB) to defend their trade interests. Hoekman (2012), who makes this point cogently, points out that while developing countries were defendants in only 8 percent of the cases under the GATT, under the WTO, they have been defendants in 35 percent of the cases.[2]

[2] This paragraph is based on Hoekman (2012).

Developing countries have also emerged as complainants, accounting for one-third of all cases brought to DSB during 1995-11. Even more interestingly, as many as 44 percent of the developing country cases have been against other developing countries. In a highly visible case, India challenged the EU GSP plus program in 2003 with adverse implications for the neighboring Pakistan who benefited from the program. In another similar case, Brazil challenged the EU export subsidy on sugar that had benefited the African, Caribbean and Pacific (ACP) countries through guaranteed access to the highly protected EU market.

Finally, it needs to be emphasized that while all developing countries can be said to have moved away from anti-trade policies of the 1950s and 1960s, vast differences among them remain. At one extreme, we have the least developed countries (LDCs) that still insist on and enjoy one-way trade preferences. They have tariff-free access to the internal EU market under "everything but arms" (EBA) initiative. Developing countries in Sub-Saharan Africa, vast majority of them also LDCs, enjoy significant one-way preferences in the United States market under the Africa Growth and Opportunity Act. At the other extreme, larger developing countries such as China, Brazil, India and Indonesia have become vocal demanders of concessions in the negotiations. Cairns Group developing countries including Brazil, Argentina, Indonesia and Colombia had, of course, played an important role in bringing agriculture into the negotiations even under the Uruguay Round.

2.3. WTO as an Institution is Intact

A key function of the WTO is to implement the existing agreements among member countries. When the WTO replaced GATT on January 1, 1995, it greatly expanded

multilateral discipline on trade. It brought textiles, agriculture and services into the fold of multilateral rules. It also entered new territory by creating a uniform intellectual property rights (IPRs) regime in all areas of intellectual property. And it replaced the relatively weak dispute settlement system in which implementation of the rulings of GATT panels was largely dependent on the goodwill of the offender by a binding system backed by the right to retaliate on the part of the damaged party in case of non-compliance by the offending party.

In a recent paper, Davey (2012) assesses the performance of the WTO in implementing the existing agreements and settling disputes. I largely agree with his conclusion that the institution has been broadly successful in both these areas. Implementation involves ensuring that member countries file various notifications on trade laws such as those relating to dumping laws to patent laws and regulations affecting trade such as those spelling out TBT [Technical barriers to Trade] and SPS [Sanitary and Phyto-sanitary] measures. The relevant committees have even helped informally helped identify best practices in these areas.

With respect to dispute settlement, it had been feared that this function will be usurped by dispute settlement mechanisms in myriad FTAs but William Davey (2012) argues that this has not happened. In his view, this is because WTO dispute settlement system has certain advantages over FTA dispute settlement systems. "The FTA systems tend to have binational panels without possibility of appeal and with no Secretariat support, thus there are more frequent concerns with bias and quality of decisions. While WTO system is multilateral, FTAs are often composed of two or only a few parties. This means that power plays a much more important role in the implementation of results.

There is peer pressure to implement DSB decisions in the WTO, there is nothing comparable in an FTA, particularly where some of the parties have unequal bargaining power." (Davey, 2012, p. 10)

Davey (2012) also discusses in detail the functioning of WTO dispute settlement and concludes that despite some shortcomings, it has lived up to expectation. First, after an initial surge, the number of cases brought for consultations has been cut to half of their level in the 1990s. The number of cases has been reasonably steady during the 2000s suggesting that a steady state may have been reached. Second, while some cases have experienced delays with panels taking longer than stipulated, these have been few. The appellate body had given its verdict within the stipulated 90-day limit except in the last two years with these delays arising out of the two massive subsidy cases involving Airbus and Boeing. Third, rulings in almost all cases have been implemented though in only about half of the cases this has taken place within reasonable time. In some cases, implementation has taken quite long but implementation has taken place in all cases. Finally, developing countries in general and smaller countries in particular have been able to access to the system and use it effectively to protect their trading rights.

A final point worth making is that despite the major financial crisis, which created prolonged high levels of unemployment in the major industrial economies that continue till today, trade disruption has been minimal. No doubt, violations of WTO rules took place in most countries but when seen against the dislocation the crisis created, these were hardly serious and resulted in few WTO challenges by the damaged parties. This was in contrast to the Great Depression when similar dislocations led to a virtual trade war between Europe and the United States that led to the enactment of the infamous

Smoot-Hawley tariffs in the latter. On the whole, trade has recovered relatively quickly in the aftermath of the crisis, as evidenced by Figures 1 and 2.

3. The Bad News: The Failure to Close Doha Carries a Very High Cost

It is tempting to argue that given that world trade a freer today than ever before, that the key WTO members are happy with where they are in terms of market access (see below), and that the WTO has reached a stage at which it could continue to implement the existing agreements and settle disputes as they arise, declaring an end to Doha negotiations and eschewing future multilateral negotiations is a perfectly acceptable outcome. But such an inference represents a serious error of judgment.

As Bhagwati (2012) has pointed out, in addition to the obvious that the benefits that would have accrued from trade liberalization and trade-friendly reform of rules will not materialize, the failure to complete the Doha round has at three other costs: future multilateral liberalization will come to a halt for years o come; multilateral rule-making will be greatly undermined; and WTO authority to settle dispute settlement will be undermined.

The end to multilateral negotiations will leave preferential trade area (PTA) agreements as the only game in town. Because the level of protection was extremely high at the time the GATT was signed, despite vast amount of liberalization over the decades, the world still remains very far from global free trade. As such, the benefits from further multilateral liberalization can hardly be discounted. The Doha failure, which will leave al future trade liberalization to PTAs, would leave little incentive for Brazil, China and India to open their markets to the United States. Given the current United States FTA template, which necessarily requires labor WTO plus environmental

and intellectual property clauses, it is implausible that these countries will enter into PTAs with it. Likewise, it is doubtful that any remaining barriers in the United States and EU could be or should be eliminated through a bilateral agreement between them. Given the current trends and future expectations, Brazil, China and India together will be larger than the United States in twenty-five years. Even the possibility that the United States, Europe and emerging market economies including Brazil, China and India, with each accounting for one-fifth or more of the world economy, will maintain high protection against one another is something to worry about. The world needs multilateral negotiations to succeed to maintain the momentum for trade liberalization.

But WTO negotiations involve not just trade liberalization but also rule making. Even if one subscribes to the hard-to-defend extreme view that multilateral negotiations for trade liberalization among as many as 156 members consisting of powerful countries whose interests diverge too much to allow progress and therefore it is best to leave liberalization to PTAs, we need multilateral negotiations to arrive at new rules and reform the old ones. While we may debate, as we have done for at least two decades, whether bilateral and multilateral routes are complementary or in conflict with one another with respect to the objective of worldwide free trade but we cannot debate it with respect to reaching rules that are globally efficient. Rules negotiated bilaterally will necessarily disregard the effects on the third countries. For example, TBT and SPS measures in bilateral arrangements run the clear risk of being used as devices to keep third countries out of the market.

There is also added risk that when disputes arise in areas in which multilateral rules are either unclear or nonexistent, decisions by WTO panels and appellate body will

effectively end up making rules. The most obvious example here concerns carbon taxes. The existing rules in this area are sufficiently unclear to allow multiple interpretations. And given the current political atmosphere and pressures, it is likely that a future panel might feel compelled to rule such taxes WTO legal. That would de facto establish a new rule to which that the member countries did not actually agree. Similar possibilities exist in the area of labor standards and intellectual property.

Finally, as Bhagwati (2012) forcefully points out, once the multilateral process is weakened, dispute settlement itself may move to bilateral processes. To quote him, "The DSM [dispute settlement mechanism] is the pride of the WTO: it is the only impartial and binding mechanism for adjudicating and enforcing contractual obligations defined by the WTO and accepted by its members. It gives every member, big or small, a platform and a voice." He goes on, "Once PTA-based DSMs are established, however, adjudication of disputes will reflect asymmetries of power, benefiting the stronger trade partner. Moreover, third countries will have little scope for input into PTA-based DSMs, though their interests may very well be affected by how adjudication is structured."

Before concluding this section, it may be noted that some of the academic literature, most notably, Rose (2002), has advanced the view that somehow the WTO is irrelevant to the expansion of trade. The conclusion is derived by answering the question whether the entry of a country into the WTO leads to an expansion of its trade in the negative. But to those familiar with the history of GATT and WTO, a moment's consideration should convince that this is the wrong way to phrase the question. Even though the most favored nation (MFN) provision of the GATT prohibits discrimination only against other members, with rare exceptions, member countries have extended the trade liberalization

negotiated under the GATT and WTO to non-members. Thus, for example, even though South Korea was outside GATT in 1965, it benefited from the Kennedy Round liberalization. Similarly, though China did not enter the WTO until 2001, it benefited from all seven negotiating rounds under the GATT including the Uruguay Round. The same also goes for Russia most recently. Often countries choose to enter to preserve the benefits they are already enjoying. No wonder then that the entry itself shows up as a non-event in Ross-type regression analysis.

In addition, it bears reiterating in this context that the WTO is not just about trade liberalization but also rules and settlement of disputes. It is inconceivable that the order in the trading system and consequent expansion of the world trade we have observed in the last six decades could have materialized in the absence of the WTO. By implication, the preservation of the institution and all its current strengths is essential. And for that, the eventual conclusion of a Doha agreement remains crucial.

To search for possible solutions, we must first turn to a discussion of what factors have contributed to the current impasse, a subject a consider next.

4. Challenges to The Multilateral Trading System

At the outset, it may be pointed out that the common impression that the WTO has no achievements to its credit in the area of new negotiations is false. The Information Technology Agreement (ITA), which brought all tariffs on information technology products in the signatory countries to zero, was inked soon after the WTO came into existence. Soon after, agreements were also reached on two services issues: telecom and financial services. Declaration to kick off the wide-ranging Doha Development Round was reached in 2001 alongside the Doha Declaration on the TRPS Agreement and Public

Health. The latter was followed up by the decision for the Amendment of The TRIPS Agreement in December 2005 though its ratification is yet to be completed. These were contentious issues at one time and constitute significant achievements. But it is often the case that once a negotiation is successfully concluded, no matter how contentious it may have been initially, it diminishes in significance.

These achievements have, however, been marred by what is definitely a bigger failure of bringing the Doha negotiations to a conclusion. Even excluding the last four years, which have been largely devoid of any significant activity to advance the negotiations, there has been seven years of intense efforts have not produced an agreement. Considerably progress had been achieved during the last serious effort in July 2008 but given the all or nothing nature of the outcome, no concrete progress has taken place. With rare exceptions, observers have come to feel that the round has reached an impasse that cannot be broken, with some going so far as to suggest that it should now be officially killed. The silver lining for the optimists, however, is that while the negotiations remain in intensive care on life support, virtually none of the major negotiators has suggested that the life supports be withdrawn. Therefore, the hope that something may still be rescued remains alive.

A key question is why the Doha negotiations have reached the impasse. Many explanations are provided though one can take issue with each.

4.1. False Claims Leading to Unrealistic Expectations

The labeling of the negotiations as "development round" created the expectations on the part of most developing countries that the UR round had effectively damaged them and the new round would be about correcting that injustice. This impression was greatly

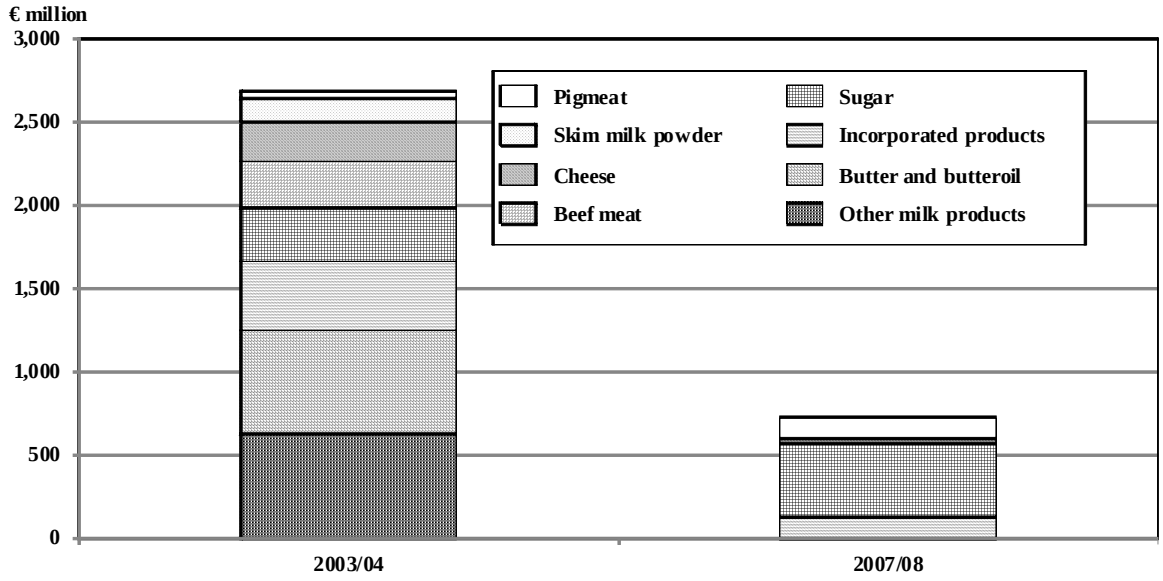
reinforced by repeated subsequent assertions by the heads of international institutions, press, NGOs and many influential academics to the effect that agricultural protection is largely a developed country problem; developed-country subsidies and protection hurt the poorest developing countries the most; it is wrong to ask the poor countries to liberalize when rich countries heavily protect their own markets; and agricultural subsidies and protection in the rich countries reflect double standard and hypocrisy on the part of the rich countries. In addition, respectable institutions such as the OECD gave an exaggerated impression of developed countries subsides by producing measures of subsidies such as the Producer Support Estimate in which it included the protection provided by trade barriers into it. I have documented these exaggerations and falsehoods systematically in Panagariya (2005a, 2005b) and need not repeat the details here. The effect of these assertions was to considerably harden the stance of the developing countries and to give them false hope that they deserved to get one-way concessions on agriculture from the developed countries. But eventually, the developed countries came to demand agricultural liberalization from the developing countries as well that countries such as India and China then found politically difficult and contributed to the impasse.

4.2. Doha a Victim of its Own Success

It may be recalled that the language on liberalization of agricultural subsides had been the most contentious subject in the launch of the Doha negotiations. The eventual language in the Doha Declaration included reductions in export subsidies "with a view to phasing [them] out." Disagreements on this language between the European union and India had contributed to the delay in the signing of the declaration at Doha by one full day.

Yet, today, agricultural export subsidies have nearly disappeared and actionable domestic agricultural subsides have come considerably down in both the European Union and United States. Figure 3 shows that the export subsides in the European Union (EU) declined sharply between 2003-04 and 2007-08. As of February 2011, export subsidies in the EU continued to be available for cereals, beef and veal, poultry meat, pig meat, eggs, sugar, and some processed goods but they had not been used on cereals since July 2006 or on sugar since October 2008. In the United States, export subsidies are down to tens of millions of dollars.

Chart IV.1
Export subsidies in the European Union, 2003/04 and 2007/08



Source: **WTO notifications.**

Figure 3: Export Subsidies in the European Union, 2003-04 and 2007-08 (Reproduced from Trade Policy Review of EU, 2011 (WTO: WT/TPR/S/248, p. 211)

Actionable domestic subsidies have similarly declined. As a result of reforms of the CAP [Common Agricultural Policy], support for beef, olive oil, and fruits and vegetables,

as measured by the current total AMS [Aggregate Measure of Support], has either declined sharply or ceased altogether. Support for cereals, dairy, and sugar remains more significant but the overall support has seen considerable decline. Figure 4 show the change in Green, Amber and Red box subsidies in the EU between 2000-01 and 2007-08. In 2007-08, Amber Box subsidies had dropped to 12.4 billion euros. Similarly, in the United States, the total support in 2007 was US$84.65 billion, of which US$76.2 billion was under the Green Box. The AMS was down to $6.3 billion.

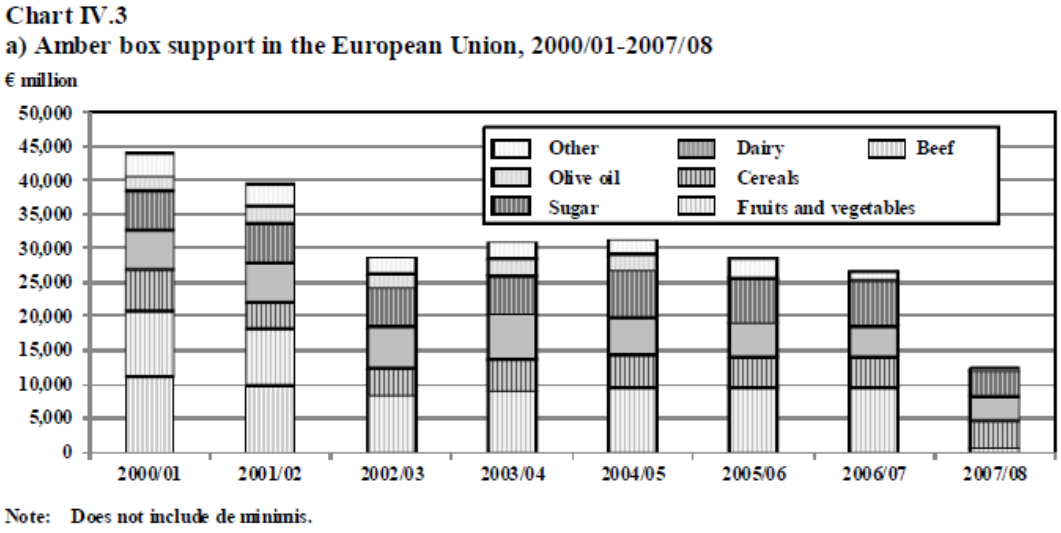


Figure 4: Domestic Subsidies in EU, 200-01 to 2007-08.

Symmetrically, markets in industrial goods and services in the developing countries have also undergone significant liberalization in the 2000s. This is particularly true of two major countries: China and India. As a part of it's the conditions of its 2001 WTO entry, China undertook major obligations to liberalize. It not only undertook this liberalization de fact but also bound it at the WTO giving it international legal force. India continued to bring its tariffs down and open services sectors to direct foreign investment until at least 2004-05 as a part of its national liberalization. As a result, outside of agriculture, which remains highly protected, it has a very open trade regime

with the trade in goods and services as a proportion of the GDP rising to above 50 percent. These developments have perhaps left the major players more or less satisfied in terms of market access while lacking the appetite for further opening of their own markets that would be necessary to bring the Doha round to a conclusion. They are perhaps afraid to disturb the domestic political equilibrium for what would essentially amount to nothing more than binding of the existing liberalization by partner countries.

4.3. Preferential Trade Areas (PTAs)

I have argued ever since PTAs began gathering momentum they were an unfortunate development and they posed a threat to multilateral liberalization.[3] The opponents argued that PTAs were GATT plus or WTO plus and they would complement rather than supplant multilateral liberalization. It is now clear, that PTAs have become a major stumbling block to multilateral liberalization. Export interests, especially in the developed countries, have learned that they get better deals through PTAs since they gain an upper hand over non-members within the union. Therefore, they prefer bilateral rather than multilateral route to liberalization. This is even truer of developed country lobbies pushing non-trade agenda consisting of intellectual property rights and labor standards. Large developing countries such as India, China and Brazil are strictly opposed to further proliferation of non-trade issues in the WTO, which they see as a trade institution. That naturally diverts the lobbies to PTAs where they face much weaker developing country partners and have a relatively free play. That game is being played almost entirely as Bhagwati (1994) had predicted. He had hypothesized that that a hegemonic power is

[3] See, for example, Panagariya (1996, 1999a, 2004), Bhagwati and Panagariya (1996) and the collection of my essays on regionalism, Panagariya (1999b). Krishna (2012) offers a more recent critical assessment of the subject.

likely to gain a greater payoff by bargaining *sequentially* with a group of non-hegemonic powers than *simultaneously*. In particular, he cited provisions with respect to intellectual property protection and environmental and labor standards as extra benefits secured by the United States through the uneven bargain in the North American Free Trade Agreement (NAFTA).

Keeping away from multilateral negotiations also allows countries to maintain many distortions in agriculture. As an example, absent their consideration in multilateral negotiations, the United States cotton subsidies can continue indefinitely. Buyers of cotton such as Bangladesh use cotton in apparel that they export and are happy to buy it for lower prices that subsidies imply. A the same time, other cotton exporters such as the small West African countries and India cannot challenge the subsidies in the WTO.

In the United States, the pursuit of PTAs has also created a political problem that has spilled over to Doha negotiations. PTAs require Congressional approval and since they are negotiated individually and sequentially, there is repeated acrimonious debate on free trade. The result has been polarization resulting in a loss of appetite to push the Doha round.

4.4. Emergence of Large Developing Country Players

The post-UR world has seen the emergence of several large developing countries—Brazil, China, India and Indonesia—that are expected to grow yet larger in relatively short period of time. As it happens, despite considerable liberalization by these countries, especially China and India, the level of protection in them remains significantly higher than in the developed countries. This asymmetry, complemented by the expectation of a

very large potential market in these emerging market economies, has given rise to difficulties in bargaining not previously experienced.

In particular, seeing the large developed country markets, developed countries insist on average reciprocity meaning they want the developing countries to open their markets as much as their own. But the developing countries seek marginal or the first-difference reciprocity whereby they are willing to offer only as much *additional* market access as they expect to receive from the developed countries in Doha negotiations.

The situation is further complicated by the fact that China, which has the larges developing country market today, had to give very substantial concessions for its entry into the WTO in 2001. On the one hand, it remains resentful that it had to give WTO plus concessions to gain the entry and on the other it feels that having completed the implementation of liberalizing measured agreed as a part of the entry conditions in the mid 2000s and not having had any role in shaping the Doha agenda, it lacks the room for additional large-scale liberalization.

4.5. A Lack of Leadership

Not to be underestimated is the role the lack of leadership in advancing the Doha round, especially in the United States, has played. A deal had been nearly reached in July 2008 when, pushed by its manufacturing lobby, Susan Schwab, the then United States Trade Representative (USTR), pulled the plug on the negotiation. While the agreement on the formula (including the values of the coefficients in it) for liberalization in the area of non-agricultural-market access (NAMA) had been reached, the USTR reopened the issue by insisting in addition that participation in zero-for-zero tariffs in certain sectors be mandatory for the larger developing countries. That insistence proved the deal-breaker.

Subsequently, President Barack Obama and his USTR have shown no interest whatsoever in advancing the Doha negotiations. Indeed, the president has hardly mentioned the word "Doha" during his entire presidency though he has gone on to complete at least two free trade agreements, one with South Korea and the other with Colombia. The refrain of lower-level officials in the administration has been that China, which now has the largest share in the world market for manufactures, should lead the process.

5. What are the Solutions?

At the outset, it must be recognized that no progress is likely without the United States having the will to lead. This may not be sufficient to make progress but it is necessary. Other alternatives, EU and China, are not credible. The EU is represented as a single member in the WTO but is hardly united enough to lead and has, indeed, never done it. As regards China, it still lacks the clout and legitimacy to lead the round; it is a stretch to think that the United States and EU will follow China's lead. There is no go on the negotiations without the United States President leading the charge.

Assuming such leadership will be forthcoming in the future, a good starting point will be to conclude a minimalist agreement and bring a least a formal closure to the Doha round. Such an agreement could be built around the progress towards an agreement that had been achieved in July 2008. It should be understood that liberalization in this round for the developing countries will mean binding industrial tariffs at levels below the past bindings but still above their MFN tariffs while that for the developed countries will mean binding subsidies below the past bindings but above the current applied levels. It is far too ambitious for the developed countries to demand bindings below the MFN levels

in most developing countries and for the developing countries to expect developed countries to bring bindings on subsidies below their current applied levels. Some issues that had remained unresolved in July 2008 will require flexibility on all sides. Cairns Groups of developing countries, which stand to benefit from agricultural liberalization and still have high tariffs (for example, Brazil, Argentina and Colombia), can surely give some added concessions in industrial goods and the developed countries could show grater flexibility on liberalization in agriculture. Developing countries, most notably India, could redesign the special safeguard they have sought in agriculture such that it is invoked only when there is real threat of injury and not to role back liberalization.

Short of a deal along these lines, the next best option, as suggested by many including Davey (2012), is an even more limited deal that involves stand-alone agreements on some of the least controversial subjects in the Doha agenda. These may include such issues as trade facilitation, dispute settlement and fisheries subsidies. While this fallback option is likely to be seen as a failure of the Doha round, it would still have the advantage of keeping the door to future negotiations open.

Abandonment of both these options and a decision to declare the round as inconclusive will inevitably leave PTAs and plurilateral agreements such as the government procurement agreement as the only game in town. That will without doubt greatly damage the multilateral trading system. It is unlikely that such a process will promote genuine free trade. For instance, it is inconceivable that the Transpacific Partnership (TPP), promoted by the United States as a way to advance freer trade, will be embraced by such major developing countries as China, India and Brazil. Instead, these countries, especially China and India, are bound to pursue their own PTAs that exclude

the United States and EU. These developments will fragment rather than unify the world economy. Equally, the process will produce even worse outcome in the area of rule making eventually undermining even the WTO as an institution.

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