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A new pathway to global trade reform

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The Doha Round is dying, lying comatose on life support under the world's watchful eye. Awaiting the passing of 2012 elections in the United States, India, Korea, France and Mexico, some WTO member countries assure the patient's family that thereafter a bolt from the blue will reactivate their dying loved one and all will be well.

This cheery prognosis has two fatal flaws: the patient is in very bad shape and there will be no bolt from the blue.

Some of those who privately admit the next stop for Doha is the mortuary are sanguine about its impending death, arguing the World Trade Organization's wider family is alive and well and Doha's passing would be no great loss. They are being disingenuous.

Not since the birth in 1947 of its forebear – the General Agreement on Tariffs and Trade – has a trade-liberalising negotiating round spanned a decade. In dog years the Doha Round is more than 70 years old. And not since 1947 has a round been allowed to die.

A death in the family is no trivial matter, especially when family members looked on, knowing death was imminent, but refused to help.

An inquest would ordinarily follow, at which kin would blame each other for their indifference to Doha's fate, tearing at the heart of the family's cohesion. Some would go their own way, rivalries would be created and the wider family would break into feuding clans.

As morbid as this analogy of the state of the Doha Round is, it is nonetheless real. Imagining that the collapse and death of the Doha Round has few consequences for the health of the World Trade Organization is as self-deluding as it is self-serving.

The Doha Round was conceived in 2001 to tighten existing rules and disciplines and to establish new ones. Without effective rules, member countries have opportunities to crib and cheat, pushing at the boundaries, arguing about ambiguities in the rules as they revert to protectionism.

Why play by the rules of the game when others don't? Why lose jobs and whole industries when others bend the rules on subsidies and access to their own markets for their own political advantage?

Even those countries that strictly adhere to the letter of the rules can legally hike tariffs and farm subsidies to the levels at which they agreed to bind them in previous rounds. And they can impose export controls on food and other strategically important products, while placing heavy restrictions on trade in services.

Moreover, countries would be legally free to enter into preferential bilateral and regional trade agreements as long as the agreements covered a vaguely-defined "substantially" all trade.

Since the non-discrimination principle is suspended in bilateral and regional trade agreements, a world that allows a round of multilateral trade negotiations to die is a world that invites the formation of discriminatory trade blocs of the sort that contributed to the outbreak of the Second World War.

Sure, this might be unduly alarmist, but the lessons of history – of a world descending into protectionism in response to an economic crisis – have not been fully learned.

It is true that during the global recession of 2008-09 the world remembered the disastrous beggar-thy-neighbour protectionism of the Great Depression and refrained from repeating that calamity. But the post-Depression, pre-War era was not one of free and open trade. A system of Commonwealth imperial preferences discriminated against Japan, Germany and other non-Commonwealth countries, US tariffs were raised to historically high levels and trade-restricting quotas were applied.

In 1938, the year before the outbreak of the Second World War, the average United Kingdom tariff rate was around 24 per cent, which was more than double its average rate of 10 per cent just before the Great Depression. And in 1938 the average tariff rate in Germany exceeded 30 per cent and US tariffs were more than 15 per cent.

Resisting protectionism during the 2008-09 global recession was a laudable achievement. However nations' citizens and businesses didn't blame their governments for the Global Financial Crisis that caused the recession. Rather, they blamed Wall Street speculators, merchant banks and creators of shonky derivatives.

But during the ensuing insipid, jobless recovery phase in the United States and Europe, businesses, organised labour and everyday citizens are vociferously demanding protection from imports. These demands are being justified on the basis of allegations of unfair practices such as currency manipulation, subsidies, dumping, loss-making state owned enterprises and a host of other grievances – as if none of these practices occur in their home countries.

Governments are beginning to succumb to these demands. A report released in May 2011 by the World Trade Organization found that most G20 countries had imposed more new trade-restricting measures than in previous periods and the collective resolve of the G20 governments to resist protectionism was under stress.

Most economic forecasting organisations expect the United States and Europe to grow only slowly for at least a decade as their households, businesses and governments engage in necessary de-leveraging – winding back unsustainably high levels of debt. Government debt across the world's major advanced countries is expected to peak at 77 per cent of GDP, with that of the United States expected to peak at 85 per cent of GDP, the United Kingdom's at 79 per cent of GDP, France's at 80 per cent, Spain's at 64 per cent, Italy's at 100 per cent and Japan's at 164 per cent. In contrast, Australia's debt will peak at a little over 7 per cent of GDP.

And Brazil, a major emerging economy that had industrialised from the end of the Second World War through to the 1980s, is now enduring a process of deindustrialisation. In 2005, the value of Brazil's net exports of manufactured goods reached \$US 10 billion; in 2010 it had slumped to a deficit of \$US 65 billion. Countries such as South Africa and Indonesia are under much the same pressure.

Meanwhile, the emerging giants of China and India are powering ahead, China's economy having grown at an average annual rate of 10 per cent over the last decade and India's at 7 per cent. And as a portent of economic growth prospects, China's average annual productivity growth was 10 per cent last decade and India's was 5 per cent, while that of the United States was 2 per cent and the EU was 1.3 per cent.

At a continuation of recent historical economic growth rates, China's economy will double in size every eight years, India's every 12 years, America's every 40 years and the EU's every 42 years.

These trends are describing a momentous shift in the global centre of gravity to Asia, restoring China and India to an economic position they enjoyed for a thousand years until the Industrial Revolution in the late 18th Century. And as manufacturing becomes standardised – or commoditised – it is shifting from the developed world to large-scale, low-wage factories in Asia.

Global trade talks have been taking place at negotiating tables rocked by these tectonic shifts underfoot, edifices crumbling, lights flickering and old world chandeliers swaying.

When the Doha Round was launched in 2001 the dominant players at the negotiating table were those of the world in which the Uruguay Round had been completed – the United States and the EU. China had only that year joined the World Trade Organization, agreeing, as the entry price, to bind all tariffs for imported goods at an average of 15 per cent for agricultural products and just under 9 per cent for industrial goods. India's and Brazil's economies were around one-twentieth the size of America's. Russia wasn't in the World Trade Organization, only now hoping to gain entry in the coming months.

Persuading developing countries of the merits of starting a new round of multilateral trade negotiations obliged the US and Europe to agree that it would be a development round. The idea was that the greatest reductions in trade barriers would be from developed countries, improving access to rich-country markets for poor countries, embodying a sensible philosophy of trade is better than aid in alleviating poverty.

But the economic transformation of the last decade has caused China, India and Brazil to shift from developing countries at the turn of the century to major emerging countries in its second decade.

This brings us to the fundamental philosophy of open trade. Within the WTO family only a few members fully practise free and open trade. They include Singapore, Chile, New Zealand, Hong Kong and Australia. Many others would prefer to retain trade barriers at their present heights, being prepared to consider lowering them only if others do so at the same time. It's as if there is some right height for a trade barrier, set by a mystical formula guaranteeing import competition is fair. Usually the bearers of the mystical formula are large businesses seeking a specified entry into the bottom lines of their profit and loss statements – not so mystical after all.

Reductions in trade barriers are accordingly treated as a bad move to be avoided, a price to be paid only in return for a reciprocal reduction elsewhere. And that reciprocal reduction is regarded as a bad move by that country, a high price to pay.

Discussion at the negotiating table of the Doha Round therefore invariably turns to the price countries are being asked to pay for a successful outcome; they don't want to lower their trade barriers but will consider doing so only if others agree to lower theirs. Discussion rarely, however, turns to the price of failure of the Round.

Is it any wonder that the Doha Round is on life support? As long as countries want to maintain trade barriers at their present heights, as long as they regard trade barrier reductions as bad for their countries, the Doha Round will go nowhere.

Yet without further trade liberalisation where are the world's future jobs and prosperity to come from? China will continue to grow strongly, so too India. Countries rich in minerals and energy resources such as Australia, Norway, Chile, Colombia, some African countries and oil-rich Arab states will continue to grow. East Asia's rising middle classes, with their appetite for premium foods, will ensure a strong future for New Zealand and Australia. Germany's excellence in high-value, precision manufacturing will help lock in its place as the dominant European economy.

As a source of growth, stimulatory fiscal measures have run their course in debt-ridden Europe, Japan and the United States. So has monetary easing. Neither is a sustainable source of growth anyway. Parts of southern Europe are living well beyond their means and will have no choice but to confront lower living standards. Japan has been devastated by a natural disaster and has deferred economic reforms.

In the absence of trade liberalisation it is hard to see how Europe, the United States and Japan will emerge from an economic funk. The world must openly and candidly confront the price of failure of the Doha Round instead of complaining about the price of a successful round. Member countries need to recognise that the world has changed profoundly in the decade since the launch of the Doha Round in 2001 and will continue to do so.

Whizzing back and forth to Geneva, burning up jet fuel, plugging away at the 2001 mandate, will not bring the Round to a successful conclusion.

Last year's G20 meeting recognised 2011 as a window of opportunity to complete the Round. The window has closed. A meeting of Trade Ministers from seven major countries in Davos in January 2011 agreed to define the shape of a final deal by May. No subsequent progress was made. A meeting in Paris in May of Trade Ministers representing 21 WTO members accepted a full deal was unachievable in 2011 so opted to pursue a down-payment at the WTO Ministerial Meeting in December. That modest aspiration, too, has been dashed.

A new pathway to global trade reform needs to be found. Such a pathway could involve a down-payment at the Geneva meeting of Trade Ministers in December, followed by further instalments towards a final deal, accompanied by an agreement not to increase protection along the way.

The December down-payment would comprise a set of pledges by major economies on what they were individually prepared to do to assist the world's least developed countries (LDCs).

An LDC pledge for December would be accompanied by a commitment to a standstill on existing protection to prevent trade barriers being raised while the global trade negotiations continued.

Further, trade negotiators would develop a work program on further instalments of outcomes. This instalment approach would recognise that the Doha agenda is out of date, and that it is too large and with too many entanglements between issues to be manageable as a single negotiation.

Issues on the Doha agenda and new issues could be negotiated in either of two ways: negotiations involving all WTO members or negotiations involving a critical mass of members. An existing example of a critical mass agreement is the enforceable agreement on information technology that was negotiated among 29 WTO members in the period between the completion of the Uruguay Round and the start of the Doha Round. More countries have progressively joined the agreement, taking the total to 73 countries. Another example of a critical mass negotiation is the WTO Government Procurement Agreement.

In the negotiation of these issues two different treatments of non-signatories could be contemplated: extending Most Favoured Nation (MFN) treatment to non-signatories (as in the Information Technology Agreement) and not extending MFN treatment to non-signatories (as in the Government Procurement Agreement). The latter approach would be relevant if there were large problems of free-riding non-signatories.

A good example of an issue that could be pursued outside of the Doha Round is the negotiations relating to free trade agreements. It is in the world's interests to prevent the proliferation of low-quality, discriminatory bilateral and regional trade agreements. Disciplines should be agreed in order for bilateral and regional trade deals to qualify for WTO consistency. The basic existing requirement is that such deals cover "substantially" all trade between parties to the agreement. Yet "substantially" is not defined, allowing discriminatory trade deals to be WTO-consistent while omitting the more sensitive sectors and issues for which the gains from liberalisation might be the greatest. This trophy-collecting approach to bilateral and regional trade deals degrades the WTO's foundation principle of non-discrimination and for questionable economic gain.

Agreeing on new disciplines for WTO-consistent bilateral and regional trade deals should not depend on or wait for the success of negotiations on manufacturing industry tariffs, farm subsidies, export subsidies or anything else. It should be done for its own sake to prevent the further degradation of the non-discrimination principle.

Profound shifts in the global centre of economic gravity over the decade since the launching of the Doha Round, compounded by the global recession of 2008-09 and the weak recovery in heavily debt-burdened western countries, mean that the Round cannot be successfully completed using the existing modes of negotiation. If further global trade liberalisation is to occur, new approaches must be adopted. Declaring the Round dead or proceeding with business as usual, pretending there is life in the Doha Round while watching it die, is to surrender to protectionism.

A new approach involving an initial down-payment, further instalments and the parallel negotiation of selected agreements is a realistic way of achieving further liberalisation.

Trade liberalisation possesses the magic of creating more global jobs and prosperity for sharing among the countries of the earth. Without it, countries will be consigned to squabbling over the carve-up of existing jobs and incomes. Worse, surrender to protectionism would reduce global jobs and prosperity. It is a bleak prospect we must not contemplate.