

Luncheon Address

Ernesto Zedillo*

Trade for Development: Delivering on Doha's Promise

Seminar

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I'm very pleased to participate in this timely and pertinent seminar on the Doha Round of trade liberalization. I thank Nancy Birdsall for her kind invitation and take this opportunity to congratulate Nancy and her colleagues at the Center for Global Development for their impressive job since their Center was established.

I am very pleased to be here in the very good company of my admired and dear friend, Carla Hills.

I hardly need to argue in front of this audience why freer trade is important for the world's future prosperity and security. Both rich and poor countries need more open international markets to achieve faster economic growth. And the world at large needs faster economic growth if the Millennium Development Goals are to be met at all by 2015. We also need deeper economic integration among all countries and regions if we truly want a safer world. Investing in an open international trading system and in fostering development in poor countries is much cheaper and efficient than military expenditure.

But we know that the significant impediments to international trade which remain in place will be removed by individual countries unilaterally. A concerted and multilateral effort has usually been needed to propel trade

liberalization. Such a cooperative international undertaking has been the guiding mission of the GATT and of its successor, the WTO. These institutions have been the backbone of the multilateral trading system that delivered a twenty-fold increase in world trade during the last half century. Throughout its existence, however, this system has been more an instrument of progress for developed countries than for developing countries. Partly due to their virtual absence, by their own decision, from the several rounds of trade negotiations prior to the Uruguay Round, developing countries have had little influence in defining the system's rules. Consequently, it is a fact that the present WTO contract is unbalanced against developing countries. The remaining protectionism in rich countries is concentrated in sectors of big export interest to developing countries, like agriculture and clothing. Furthermore, the multilateral trading system has been progressively loaded with rules unrelated to border barriers to trade which, at least in the foreseeable future, could be more an impediment than an incentive to developing countries' participation in international trade, and thereby to their development.

The Doha Round, launched in November of 2001, was announced as the answer to the trade and development concerns of developing countries. This claim, considering the negotiating agenda that was agreed upon, was questionable from the start. It is perhaps even more questionable now given that the Round's negotiations have for the most part been a story of missed deadlines and mounting frustration, especially among developing countries. Admittedly, within a few days of the Fifth WTO Ministerial meeting to take place at Cancun from September 10-14, there has been a rush on the part of the US and the European Community (EC) to dissipate this sense of frustration and keep the Round moving. Their efforts, though a long time in

coming, should be welcome; but they will hardly suffice to put the Round on the development track which was originally offered to developing countries, unless something much more significant is delivered at Cancun this week.

It was, of course, crucial that the issue of the TRIPS agreement and access to essential medicines by poor countries be solved before the Cancun meeting. Hence the importance of the deal finally reached unanimously at the WTO's General Council on August 30th which allows for amending the TRIPS agreement so that medicines produced under a compulsory license may be exported to countries with little or no pharmaceutical production capacity.

As important as it is, this step must not be portrayed as a deal maker for the entire Doha Round. To begin with, its political value was significantly diminished by its delay. The issue was originally mandated to be solved by the end of last year, but that date passed without resolution. In the end, the solution finally adopted was basically the same one endorsed by all but one of the WTO members last December. While the US should be acknowledged for at last dropping its opposition to the agreement, this gesture alone should not be expected to restore fully its crucial leadership in the Round. The US's long-lasting reluctance to compromise on this issue made for bad trade diplomacy resting on bad economics. If granting the monopoly rights contained in patent protection has never been the most efficient way to foster innovation, it is even more questionable to position the WTO as the international guardian of intellectual property rights – an unfortunate decision made during the Uruguay Round.

The acrimony to which the issue of public health and TRIPS has given rise is just one example of the severe stress that the WTO is now under as a consequence of the Uruguay Round's decision to widen the scope of the

multilateral trading system well beyond the essential mission of market access for goods and services. After the introduction of the TRIPS agreement, pressures have mounted to have the WTO serve as arbiter on questions such as labor rights, environmental protection, and competition policies. Its rather unique dispute settlement system, which encompasses trade sanctions, has made of the WTO an object of both desire and dislike for all kinds of constituencies with all kinds of agendas.

The fundamental question is whether a multipurpose WTO, if possible at all, is in the long-run convenient for its members, particularly for those in greatest need of relying on the multilateral trading system to gain access to the markets of rich countries. The answer to this question is very concrete: the WTO must focus on a core market access mission; that is, the WTO should concentrate on the pursuit of global free trade.

Obviously, this recommendation is not aligned with the outcome of the Uruguay Round, nor with the agenda agreed upon at Doha, at least as interpreted by some of its important members. A fresh discussion and revision of the WTO's core mandate will have to take place sooner rather than later, so it better be sooner. To the extent possible, the WTO must be trimmed down by excluding its existing non-trade mandates and the Doha agenda should be adjusted in consistency with the same criteria. This, in turn, implies a strong recommendation for the WTO members to eliminate from the agenda the negotiation of multilateral agreements on investment and competition policy. It will be better and easier to do this sooner, at the Cancun meeting, rather than later, given that the Doha Declaration itself can accommodate such a decision.

The other Singapore issues -- transparency of government procurement and trade facilitation -- are obviously market access issues and therefore should be preserved in the Doha agenda.

In addition, ministers should resolutely avoid extending the trade and environment mandates accepted at Doha.

The recommendation to redirect the WTO to execute a core trade mission is not to neglect the development importance of the other problems the institution has been asked to deal with. The balance that many countries expect to see in the economic global governance agenda should not be pursued solely within the WTO; the international community must create effective ad-hoc instruments to confront the other challenges and not rely solely on the WTO to do so.

Even if relieved of all concerns that are not pure trade, the WTO would still be charged with a phenomenal task. This is certainly the case with regard to liberalization of trade in services. Notwithstanding the eight year life of the General Agreement on Trade in Services (GATS) and the negotiating commitments adopted in the Doha agenda, progress in this area has been extremely modest. This is regrettable as the potential gains from trade liberalization in services are large and may greatly exceed those that can be realized through further trade liberalization in goods.

To move seriously in that direction, developing countries should open more aggressively to foreign investment in the services sectors -- "mode 3" of the GATS agreement. They would harvest important gains stemming not only from larger investment flows, but also from increased competition and, equally importantly, from better technologies in areas where developing countries' growth usually encounters significant bottlenecks. Of course,

developed countries would also win from that opening, given that they have large comparative advantages in the provision of a wide range of services.

But it is unlikely that effective opening to services will occur in developing countries if, on their part, rich countries do not signal a serious will to proceed toward liberalization in the so-called “mode 4” of the GATS agreement -- the temporary movement of workers for the purpose of providing services. Such an evolution would be in the developed countries’ own interests given the economic and demographic maturity they are quickly approaching. Without an orderly influx of new workers, their economies will tend toward stagnation and their social security systems toward financial collapse.

In spite of its potential benefits, however, the political difficulties in developed countries that inhibit liberalizing the existing constraints against the temporary movement of workers are enormous. Similarly monumental political difficulties consistently thwart efforts to attain effective agricultural trade reform.

Unquestionably, agricultural liberalization is the main stumbling block in the Doha Round. Failure to make significant progress on this front is obstructing progress on all other items on the Doha agenda. Most developing countries only reluctantly accepted moving into a new round because they were told that it was the one way to address the many long standing issues of interest to them, the most important one being the rich countries’ massive agricultural protectionism.

Such protectionism has led to the displacement of agricultural production and employment in developing countries where 60 per cent of the population still lives in rural areas that are also home to 75 per cent of the 1.2 billion people living in extreme poverty in the world. Beyond a doubt,

the agricultural and trade policies of industrialized countries have contributed to the poverty of poor countries.

Despite many good reasons to change, so far the agricultural talks have proven to be a rather disappointing process. The deadline to agree on the framework for negotiations, March 31 of this year, was missed. To be sure, real negotiations never took place. Countries or groups of countries put forward their proposals but seldom, if ever, demonstrated any intention to compromise. The EC never produced, by itself, a proposal fully consistent with the Doha mandates on agriculture. In fact, it could have not done so without first reforming its Common Agricultural Policy, something it finally announced only in June. A US proposal put forth in July of 2002 -- ambitious yet incomplete -- was viewed skeptically from the beginning, since it was preceded by the Farm Bill.

As was reflected in the Doha Declaration, developing countries have expected that this Round would lead to three major outcomes: the elimination of export subsidies; a significant reduction in other forms of government subsidies to farmers of developed countries; and, to much improved access to the markets of these countries.

As things stand on the eve of the Cancun meeting, there is no reason to believe that the big players are ready to deliver on the Doha agricultural promise. Last August 13th, the EC and the US presented a joint agricultural proposal. It is not yet possible to make a final assessment about it, given that some crucial numbers were left blank. Depending on those numbers, the proposal will be characterized either as a modest step in the right direction at best or, at worst, as the launching of a new US-EC “coalition of the willing for agricultural protectionism.” Needless to say, if the latter proves to be the case, the least one can say is that the rest of the world had hoped for more

mutually productive solutions to mend the trans-Atlantic rift. Unfortunately, there are clues in the proposal that suggest this is indeed the course that has been taken by the old allies.

Those clues are numerous. For example, the plan only proposes to reduce export subsidies rather than eliminating them fully, as it should, especially considering that for all practical purposes export subsidies constitute outright dumping. In fact, the proposal creates a new “blue box” of domestic support with which the US and the EC would be able to perpetuate some of their protectionist agricultural offenses. The plan as proposed does not commit to eliminate completely trade distorting subsidies – the *de minimis* provision. Nor does it cap the “green box” of subsidies – those which are supposedly non-trade distorting. Moreover, it makes no clear commitment to reduce aggregate domestic support to farmers over time. Taken altogether, on domestic support it looks like a proposal for change in order to avoid real changes. On border protection –tariffs, specific duties, quotas and tariff-rate quotas -- the jury is still out because of those still-to-be-determined numbers in the EC-US proposal. It is clear, however, that the US has now acceded to the European request to proceed only timidly with regard to “sensitive” products. This is certainly not good news for agricultural exporters.

The EC-US defensive posture on agriculture stands in sharp contrast to their proposal on non-agricultural products, which also has been endorsed by Canada. In this case, they go instead for an ambitious formula to harmonize and reduce tariffs, even allowing for some elements of special and differential treatment for developing countries. Not surprisingly, this proposal’s sincerity likewise has been received with some skepticism. The way in which rich countries have back-loaded the phasing-out of the

Multifibre Arrangement – which allows import quotas on textiles and clothing but must cease to exist in 2005-- as well as the lack of any real progress in the negotiations to discipline the abusive anti-dumping practices, are just two of several reasons other countries harbor that skepticism.

Admittedly, developing countries have not been serious trade reformers during the Doha Round talks either. For the most part, they have taken the position that their national interest is better served if they get as many concessions as possible without further opening to international trade, a highly questionable criteria. On balance, developing countries have been more inclined to fight for exemption from WTO obligations than for securing freer access to all international markets. This misplaced emphasis has been reflected clearly at the negotiations on special and differential treatment, which were flooded with all kinds of requests containing little, if any, development value for developing countries. To be fair, developing countries' defensiveness in the Doha talks is regrettable but understandable in light of the developed countries' performance throughout the present Round.

Given all that has transpired in the lead up to September 10, the WTO Cancun ministerial meeting will not open under the best auspices. At this point, only last minute, truly effective diplomacy and tons of political willingness could deliver a good outcome. This would crystallize only if the US and the EC were to improve substantially their agricultural proposal, which would mean capping at much lower levels the total amount of their farm subsidies, including a radical decoupling from output, and putting forward a precise and truly liberalizing offer for market access. In exchange, developing countries should adopt one of the ambitious proposals for non-agricultural products which should include sensible, not self-defeating,

special and differential treatment. A good outcome would also include a decision to purge the Doha agenda of negotiations on multilateral agreements on investment and competition, or at least to make adherence to them strictly voluntary for WTO members. And in the event that any of those agreements ever came to life, they should be excluded from the dispute settlement system.

In an alternative scenario, trade ministers would decide to muddle through the Cancun meeting agreeing to only marginal changes on a few points on the existing agenda, and reiterating the intent to finish negotiations by the end of next year. Most probably, this would only mean postponing the crisis for a later date in the not too distant future.

In the worst alternative, the Round's crises could come unraveled at Cancun if strong disagreements persist right to the very end of the meeting, as happened on that infamous occasion in Seattle. This would be a most unfortunate turn of events with exceedingly negative economic and geopolitical global consequences in the short-term. Were this to occur, it would be imperative for leaders to return to the drawing board as soon as possible, before the damage worsens or reaches a point of irreversibility.

At Cancun or later, bold decisions would be needed in order to adopt seriously -- not just rhetorically -- a pro growth and development grand vision for the multilateral trading system. Sadly, that grand vision has so far been absent from the Doha Round negotiations.

*Director, Yale Center for the Study of Globalization