

The Doha Round: Prospects for the Rules-Based Trading System

Patrick Cronin

A multilateral commitment to freer trade has been a cornerstone of the post-World War II liberal international economic order. Patrick Cronin's contribution provides an analysis of the stresses on the international trading system that now threaten to rupture the postwar liberal consensus. He identifies a fundamental tension between the economic logic of free markets and the political logic of the nation-state system. A confluence of factors, many tied to increasing economic integration, has combined in recent decades to deepen the strains between these two logics. Preservation of a rules-based system will require states, particularly the most powerful ones, to make difficult and painful choices.

All politics is local.

Tip O'Neill,

former Speaker of the U.S. House of Representatives

All economics is international.

Peter Drucker¹

In November 2001, the 142 members of the World Trade Organization (WTO) unanimously agreed to launch the ninth in a series of multilateral negotiations to promote a global free trade system (dubbed the Doha Round). A widely shared sense of relief following the decision stemmed from a growing series of fissures that threaten to fracture the post-World War II consensus in favor of a multilateral, rules-based trading system. The genesis of the problem, expressed in the quotes above, is a conflict between the economic logic of free markets and the political logic of the state-based international system.

The tension between these two logics has always been present, but only in the past several decades has it threatened to tear the rules-based system apart. The catalysts accelerating and deepening the strains on the sys-

tem are several. They include, ironically, earlier successes in lowering tariff barriers, a larger number of issues being raised for inclusion on the negotiation tables, a substantial increase in the number of countries taking an active interest in the negotiation process, a governance process struggling to reconcile competing national interests, and an increased willingness by WTO members to engage in bilateral and regional trade arrangements. Outside the WTO, increasing civic concern about the social impact of free trade (and of "globalization" generally) is creating problems as well. Spurred by trade's perceived threat to jobs, communities, the environment, and human rights, to name just the most often cited linkages, protestors are calling for changes in the rules-based trading system. For some, the solution is to disband the WTO and allow states to set their own rules on trade. For others, the answer is to open up the organization to "public" participation, to make its actions more transparent and accountable, and to incorporate values such as environmental protection and worker rights that critics claim are now ignored in favor of free trade.

While the issues facing the multilateral trading system are significant, it would be a mistake to conclude that all hope is lost. WTO members can still arrive at a successful conclusion to the Doha Round, but doing so will require governments to face down powerful and entrenched domestic interests favoring trade protection. This is especially the case for governments in the world's largest markets: the United States, Europe, and Japan. Developing countries, in particular, are flexing new negotiating muscles and demanding important concessions in order to reach an agreement. Given the stakes involved and the process by which the negotiations will take place, the self-imposed deadline to conclude negotiations by the end of 2004 looks unrealistic.

Dueling Logics

Liberal economists forcefully argue that free trade among nations leads to positive-sum (win-win) outcomes for all countries when based on the principle of comparative advantage. As David Ricardo (1973) so elegantly demonstrated, societal welfare is maximized when countries specialize in producing goods that best use their given mix of factor endowments, such as land, labor, and capital, and then trade their surplus for goods produced by other countries.

With the benefits of free trade firmly etched in their minds, liberal economists must view the global trading system with obvious frustration. It is true that the system is much more open than it was before World War II. Global trade and financial flows are significantly higher in absolute terms and embrace more parts of the globe than at any other point in history. In

that sense, economic integration in the past fifty years has truly stitched the world's economies together, such that "all economies *is* international" (Jackson, 1998; emphasis added). But at the same time, markets could be much freer than they are currently. Trade protectionism not only abounds today but appears to be increasing, a trend that runs counter to one of the most fundamental "truths" of liberal economics.

What explains the failure of governments to seize the benefits from free trade? After all, if a government finds it difficult to persuade other countries to open up their markets, then at least it can remove its own barriers to trade. Its citizens will be winners with access to more products and at cheaper prices. Moreover, increased import flows will inject competitive pressures into the domestic economy, raising efficiency levels as a whole. But nowhere do we see governments unilaterally removing all barriers to trade. Instead, liberalization efforts are often used as bargaining chips for access to foreign markets while protectionism, in various guises, is given to favored industries.

Standing in stark contrast to the liberal logic of trade is the fact that international economic transactions take place in a world of nation-states. With no supranational authority to dictate trade rules, much less enforce them, state trade policies are driven primarily by domestic concerns.² Since the appearance of nation-states centuries ago, governments have often approached trade from a mercantilist point of view—in terms of relative gains (how much my state gains relative to another state) and with careful attention to trade's domestic costs. The question of who gains more was always important given the absence of a "globo-cop" to enforce international peace. In an anarchic international environment, each state is forced to rely upon itself for its security. Trade becomes an obvious tool for the accumulation of wealth and power by one's own country—and by potential enemies as well. Further, with increased trade flows come job losses and plant closures. While liberals hail this as a process leading to a more efficient allocation of society's resources, politicians are acutely aware of the political costs to be paid if the losers from trade are ignored. As a result, governments conduct trade negotiations with the goal of gaining as much market access abroad while conceding as little as possible at home.

The influence of this economic nationalist view of the trading system was reflected in the very foundations of the post-World War II trading system. While the General Agreement on Tariffs and Trade (GATT) was created to facilitate a movement toward global free trade, its negotiation principles included the concept of reciprocity. Countries offering greater access to their domestic economies could demand that other countries provide increased access to theirs. No country was expected to offer unilateral concessions. As a result, within the GATT the liberal goal of free trade has been pursued through this mercantilist negotiating process.

The GATT: Victim of Its Own Success

Between 1947 and 1994, the member states of the GATT concluded eight sets of negotiations leading to dramatic reductions in average tariff levels (Table 22.1). Because of these efforts, throughout the 1950s and 1960s world trade volumes and living standards increased substantially—to many a validation of liberal ideas on the benefits of trade. Many of the tariff reductions were accomplished in the first two decades of the GATT's existence. For instance, following the conclusion of the Dillon Round in 1961, average tariffs had been reduced by almost 75 percent from their postwar peaks. The subsequent Kennedy Round achieved a further reduction of 35 percent (Spero and Hart, 1997: 57). Because developed countries dominated the GATT's membership at inception, it should come as no surprise that tariff negotiations focused primarily on manufactured products—goods of common interest within this group of nations. By mutual agreement, agriculture was kept off the table from the very beginning, labeled too sensitive to liberalize. Indeed, after the war U.S. senators favoring continued financial support for U.S. agricultural products scuttled the proposed International Trade Organization (ITO). These economic nationalists feared that the ITO would infringe on U.S. sovereignty by ordering an end to farm support programs.

It is important to note that liberalization efforts were facilitated by the willingness of the United States to play a leading role in pushing the negotiation process forward. Freer trade was part of a larger geopolitical strategy to help rebuild the U.S.'s Cold War allies Japan and Western Europe. In this context, the United States tacitly agreed to accept asymmetrical (lower) benefits from the liberalization process compared to its trading partners.

Over time, however, increasing levels of import competition began to affect traditionally dominant industries in the developed world. In the

United States, industries such as textiles and apparel, electronics, automobiles, and steel came under substantial pressure from foreign producers. The erosion of U.S. economic hegemony following World War II was an inevitable consequence of the rebuilding of the war-torn economies of Japan and Western Europe as well as shifts in comparative advantage to these and other countries.³

Companies and workers in the affected sectors appealed to their governments for protection. In a variety of cases they found obliging politicians unwilling to allow economically and politically important sectors to wither away. The prospect of tens of thousands of jobless voters streaming to the polls at election time was often too much to bear.

The GATT's rules largely prohibited governments from raising tariff barriers to stem import competition. As a result, a proliferation of other forms of trade protection occurred as governments looked for creative ways to help their companies and workers. These measures included persuading foreign producers to limit exports (voluntary export restraints or VERs), quantitative restrictions on imports (import quotas), and nontariff barriers (NTBs)—a catchall term encompassing health and safety standards, labeling requirements, customs procedures, government procurement policies, and licensing requirements, among other measures. In the case of quotas (import and VERs), the protectionist intent was clear. But for other trade barriers like health and safety standards for imported products, it was often hard to know where legitimate nontrade concerns ended and trade protection began. This ambiguity only served to make disputes over the use of these measures harder to settle.

Contributing to growing trade tensions among GATT members was the inability of the GATT's dispute settlement mechanism (DSM) to effectively adjudicate these disputes. In many cases the new forms of protectionism lay outside of the GATT's purview. When disputes did fall under GATT rules, the organization's principle of unanimous consent proved an insurmountable obstacle. The defendant country in a complaint had the power to veto the formation of a dispute panel or to prevent the organization from adopting its findings. With a governance process like this, it is no surprise that members viewed the DSM as ineffectual.

A Proliferation of Issues

By the early 1980s, it was increasingly clear that the GATT's rules would need to expand to include not only these new forms of protectionism but also a growing list of other trade-related issues. At the top of the list was agriculture. During the 1970s, large surpluses in production due to favorable weather conditions and government aid created trade conflicts over the use of export subsidies to dispose of the excess. At the same time, structural

Table 22.1 GATT/WTO Rounds, 1947–2001

Year	Name of Round	Number of Participants
1947	Geneva	23
1949	Annevy	13
1950	Torquay	38
1956	Geneva	26
1960–1961	Dillon	26
1962–1967	Kennedy	62
1973–1979	Tokyo	99
1986–1993	Uruguay	125
2001–?	Doha	144 ^a

Source: Spero and Hart (1997); Doha Round information added by author.
Note: a. As of January 1, 2002.

changes in the economies of developed countries led to an upsurge in the export of services such as telecommunications, banking, and insurance. These were areas that many countries traditionally protected due to their perceived strategic importance. As a result, companies venturing abroad often ran into a variety of barriers including limits or outright bans on foreign participation. With the growing spread of multinational corporations around the world came pressures to include not only trade in services but also issues like intellectual property rights (IPRs) and investment law. Companies argued that both were trade-related since foreign direct investment (and the protection of technology transferred in the process) affected trade flows among countries. Businesses hoped that the creation of global standards in these two areas would make it easier to manage overseas operations, particularly in the developing world where IPRs were not well respected and where local investment codes often limited management's flexibility.⁴

The emergence of issues such as these split the GATT's membership along a variety of lines both within and across the developed/developing country divide. While a broader range of items for negotiation would seem to offer the best hopes for reaching a compromise, the politically sensitive nature of these issue areas led members to take strong positions in favor of or against them. Because of this, issues relating to agriculture and to new forms of protectionism proved too controversial to reach agreement on or were only addressed in a limited way until the Uruguay Round.

The Large "N" Problem and the GATT/WTO Governance Process

Compounding negotiation problems tied to the broader agenda was a significant increase in the GATT's (and now WTO's) membership in recent decades, particularly from developing countries.⁵ Each of these countries brought to the table its own set of national interests—those issues it wanted to see on the trade agenda and those it opposed. As a group, developing countries are now taking a much more active role in the WTO and challenging the organization's traditional decisionmaking processes that have favored developed countries' interests.

As Table 22.1 shows, the number of countries at the negotiation table doubled between the Kennedy and Uruguay Rounds. When the latter round began in 1986, the GATT had eighty members, only forty to fifty of which took an active role in the formation of the negotiation agenda. By the late 1990s, membership in the WTO had risen to 135 following an influx of developing and "transition" (formerly communist) states (Laird, 2001; Odell, 2001).

The dramatic rise in the number of developing country members was

driven by a number of factors. Perhaps the most important reason was a generalized trend toward the adoption of export-oriented development strategies in response to liberal pressures to remove barriers to international trade and investment (Odell, 2001). Instrumental in the policy change process was the leverage exerted by organizations like the International Monetary Fund (IMF) and World Bank that used their resources to promote a free-market approach to development. Now with outward-looking development policies, developing countries acquired an intense interest in market access and in the rule-making body that promoted it. For smaller economies, an organization furthering the development of a global, rules-based trading system was attractive. More than anything, it served as an alternative to a power-based trading system in which larger countries were free to bully smaller ones. It also offered an opportunity to shape the rules in ways that would promote the interests of developing countries. A final reason explaining the rise in developing country membership levels was a decision made for the Uruguay Round negotiations that any agreement would be adopted as a "single undertaking." In contrast to previous GATT rounds, members would now have to agree to all provisions in an agreement instead of being able to selectively choose which portions to respect. The practical effect of this all-or-nothing approach to deal making was that countries could no longer free ride on the willingness of other members to extend nonreciprocal trade concessions (Schott and Watal, 2000). As a result, members now had an interest in all issues under discussion.

The increase in WTO membership levels had a profound effect on the organization. Not only did it bring many new interests to the negotiation table, but it also exposed weaknesses in the organization's governance structure, creating what Jeffrey Schott (2000) terms the "consensus-build-ing problem." From its founding, the GATT adopted a governance process based on the principle of consensus. This suggests that any agreement must necessarily reflect the interests of all members, potentially difficult to achieve as more and more countries join in the negotiation process. With more states at the table, the size of the win set (or the common concessions all are willing to make) is likely to decrease. As John G. Conklin (1996) notes, this system of governance generates least-common-denominator outcomes.

Despite formal governance rules that made agreement challenging, informal practices helped the GATT's members conclude successful negotiations through the 1970s. Reflecting the distribution of global power, the so-called Quad countries (United States, Canada, Japan, Europe) exercised a decisive amount of influence on agenda formation and the subsequent negotiation process in each round (Schott and Watal, 2000). Successful rounds were facilitated not only by Quad leadership but also by the small number of members, their mutual interest in the liberalization of manufac-

tured products, and by economic structures dissimilar enough that tariff liberalization before the 1970s did not lead to substantial amounts of trade competition.⁶

This decisionmaking process came under strain once Quad unity fragmented in the face of disputes over agriculture and barriers to markets' access. While these did not preclude an agreement in the Tokyo Round, they proved to be substantial problems in the Uruguay Round. This was especially true in the context of an influx of developing countries into the GATT. Both existing and new developing country members began to participate more actively in the negotiation process.

Today, the problem of numbers is exacerbated by the continued accession of new members (over twenty since the conclusion of the Uruguay Round) and a determination by least-developed countries to make sure their views are adequately reflected in any future agreement. Although larger developing countries played important roles in negotiating a variety of the provisions of the Uruguay Round agreement, many of the least-developed countries felt that the final accord was forced upon them by the world's major trading states (Finger and Schuler, 2000).

This fragmentation of strongly held interests within and across levels of development was amply illustrated in the highly public fight over selection of the WTO's first director-general and in negotiations over how the Doha Round would be conducted. In the first case, crosscutting coalitions of developed and developing countries formed around New Zealand's Mike Moore and Thailand's Supachai Panitchpakdi. Members in each coalition felt strongly that their candidate best represented their national interests. Unwilling to concede, both sides compromised by splitting the job into two three-year periods with Moore having the first turn. Developing countries' resentment at past governance practices was displayed in the process to decide how the Doha Round negotiations would be carried out. A coalition of the WTO's least-developed countries, along with relatively wealthier developing countries like Egypt and Pakistan, called for all final decisions to be made in the WTO General Council and for no informal, closed-door negotiations talks to take place (Intl. Centre for Trade, 2002). This practice of using so-called green-room talks, named after the meeting room adjacent to the WTO director-general's office, to conduct "negotiations within the negotiations" came to a head during the Seattle ministerial meeting in 1999. Many of the smaller developing countries accused the host U.S. delegation of trying to promote its interests via the use of a green-room process that excluded them. While agreeing that informal consultations and negotiations can serve a useful purpose, they continue to insist that any informal talks be publicized and open to all members.

China's December 2001 accession to the WTO only exacerbates the numbers problem. With its large and growing economy, China's government will be able to exercise an important degree of influence over the

course of any deliberations. However, how China will choose to wield its power is unclear at this early stage. During its first months as a member, Chinese officials supported proposals from various developing countries to limit Quad influence over the Doha talks. In that sense, early signs suggest that China may end up, deliberately or not, being a champion of developing country interests vis-à-vis a more democratic decisionmaking process within the WTO. This stance is consistent with China's national interest in strengthening its relative position at the global level.

The impact of China's accession—positively or negatively for the rules-based system—may ultimately be decided by its willingness to play by the rules and by other countries playing fairly with it. China is in the midst of a profound restructuring of its economy, with significant social dislocation already taking place. As it implements its commitments to the WTO, these costs will only rise. If the level of social unrest were to threaten the Communist Party's control of the political system, it is possible that China could reverse earlier liberalization efforts. More likely, however, is a China that will act like other powerful members of the WTO: using the rules to promote its own interests while complying with its obligations to the extent that domestic politics allow. This is likely to mean an increase in the number of disputes brought to the WTO with China either as complainant or defendant.⁷

In one sense, this increased use of the WTO's dispute settlement mechanism would be a positive sign for the future of the rules-based system—so long as the WTO is able to resolve these problems in an amicable fashion. More worrisome in recent years is an accumulation of cases in which powerful countries have chosen not to respect adverse rulings. These include the EU's loss with respect to the importation of hormone-fed beef from the United States and the U.S.'s loss to the EU over the issue of taxation of export earnings.⁸ If China's entry to the WTO simply adds another major power unwilling to comply when it loses important cases or, alternatively, finds others stubbornly resisting when it wins, then this bodes ill for the rules-based system. Ultimately, the system's ability to survive and prosper will depend on the willingness of the world's major trading nations to comply with their obligations. In turn, this will necessitate being willing to ignore the pleas of powerful domestic interests favoring protectionism.

Prospects for Success

The inability of WTO members to launch a new round in Seattle and their difficult—but ultimately successful—struggle to do so in Doha two years later was due to stark differences among the membership over the direction and content of the negotiations.⁹ Compounding these problems was strong resentment among many developing countries that the Quad powers were,

as usual, trying to shape the agenda to suit their interests at the expense of everyone else's. Rather than capitulate, developing countries made a strong statement in Seattle by publicly condemning the use of green-room tactics and refusing to sign off on an agenda that did not adequately reflect their input. There were other important reasons for the failure in Seattle, including deep divisions among the Quad countries themselves, particularly over agriculture.¹⁰ At the Seattle ministerial meeting, developing countries sent an unprecedented statement that they would use the principle of unanimous consent to block the talks unless their varied (and sometimes conflicting) interests were given space at the table. No longer would the Quad countries be able to informally dictate the terms under which negotiations would be held and agreements reached.

The issues and positions leading up to the Doha meeting closely paralleled those in Seattle. The key differences explaining success in the former case and failure in the latter can be tied to commonly held perceptions that the WTO and the multilateral trading system would suffer irreparable damage if members failed a second time. Adding to the pressure to bridge members' differences over an agenda was a global recession and attendant worries about resurgent protectionism, as well as the terrorist attacks in New York and Washington, D.C., in September 2001. In the weeks prior to the Doha meeting, it was widely believed that the attacks would further damage an already suffering U.S. economy. Despite these new forces for compromise, the Doha meeting almost failed, a testament to the difficulty in finding an acceptable agenda. The final result left all sides claiming victory; however, skeptics felt that the language of the declaration launching the round was sufficiently ambiguous to paper over important differences—divisions that may yet prevent a final agreement. The discussion below offers a look at contentious areas of the negotiation agenda and the difficulties to be faced in successfully concluding the latest round.

Industrial Tariff Reductions

No round would be complete without tariff reductions on industrial products. Developing countries, especially the poorest, are worried that new tariff reduction commitments (in percentage terms) will require them to reduce their protection rates relatively more than developed countries since the former have rates higher than the latter. Given the great sensitivity with which developing countries approach the issue of market access to Quad-country markets, these developing countries are likely to resist further concessions, at least and until they see greater market access for their own exports. Since the latter are often blocked by nontariff forms of protection, by antidumping actions, and by trade barriers on nonindustrial products (especially in agriculture), developing countries will require prompt and measurable concessions in other issue areas.

Antidumping Measures

The Doha declaration calls for negotiations "aimed at clarifying and improving" current rules on the use of subsidies and countervailing measures (SCM), especially antidumping measures. Ostensibly designed to allow countries to legally raise barriers to trade to counter unfair trade practices by others, many countries targeted by these measures feel that they are no more than disguised protection cloaked in an aura of legitimacy. Led by South Korea, Japan, the European Union (EU), and many developing countries, this item was placed on the agenda despite the vigorous opposition of the United States, a heavy user of such measures. This is an issue ripe for discussion given a global upsurge in the use of these measures by rich and poor countries alike. However, the United States is unlikely to sign off on a final agreement unless it extracts concessions on other issues. Complicating any trade-off will be U.S. domestic politics. The U.S. Congress, constitutionally charged with control of trade policy, has put the Bush administration on notice that it will not tolerate any interference in the U.S.'s antidumping mechanism. Supporting this stance are a variety of powerful domestic lobbies that benefit from it as well as congressmen who object to having a supranational organization dictate what the United States can and cannot do with its trade policy.

Agriculture

Agriculture is historically the most difficult issue to deal with in international trade, and the Doha Round will be no different in this respect. Negotiators will face four main issues: expanding market access, "substantial reductions" in trade-distorting domestic supports, reducing "with a view to phasing out" export subsidies, and providing "special and differential" treatment for developing countries (WTO, 2001a). Opposing each other on each of these issues are various coalitions of countries, often cutting across levels of development.

In general, developing countries have a strong interest in phasing out barriers to accessing the Quad markets. While the Uruguay Round's agricultural commitments included the transformation of nontariff barriers to tariffs, the resulting tariff levels often offered at least as much protection as before. Among those countries supporting greater market access as well as an end to export subsidies are the Cairns Group of fourteen developed and developing countries with a natural comparative advantage in agricultural products.¹¹ Against EU objections, this group successfully pushed for the goal of phasing out export subsidies. Internally, the EU's high level of domestic support and export subsidies for agriculture has placed it in opposition to calls for freer markets in agricultural trade. Also resistant to market-opening measures and reductions in domestic support are countries like

Japan and South Korea that would prefer to continue to protect various agricultural products. In all cases, politically strong domestic lobbies underpin their decades-long protectionist stances.

Within the EU, the region's support for agriculture and its protectionist stance reflects the strong influence of countries like France. Any concessions here will require tough intra-EU bargaining, an agreement that might be more possible in light of the region's impending enlargement and the strains it will place on the region's budget for agricultural support. In an effort to avoid intra-EU disputes, EU negotiators unsuccessfully pushed for recognition of agriculture as a "multifunctional" activity. Under this rubric, countries could presumably continue to protect their sectors under the guise of preserving a rural way of life ("rural development") or the environment. Further, the continent's recent scare over mad cow disease has only deepened public pressures on politicians to allow countries to conduct their agricultural policies in ways that protect their citizens. The EU is already embroiled in a trade dispute over the banning of U.S. exports of hormone-fed beef. Although no scientific evidence has been produced to support the thesis, EU regulators claim that such beef is unhealthy for consumers and should be banned. Moreover, EU negotiators have argued (unsuccessfully to date) for inclusion of a "precautionary principle" in trade under which imported products can be banned if they are thought to be harmful despite a lack of evidence (or in the interim until such evidence can be developed). From the point of view of exporters seeking better access to EU markets, these positions smack of protectionism in other guises. Although EU efforts have been successfully resisted, agricultural exporters enter the Doha negotiations fearing that the EU seeks to take back with one hand what it may give with the other.

The United States has conflicting interests on agriculture as well. While not formally a member of the Cairns Group, it supports the group's position on market access and export subsidies. U.S. exporters believe the United States will benefit (at the EU's expense) if trade-distorting subsidies are removed from exports. When it comes to domestic supports, however, domestic politics have opened up a gap between rhetoric and practice. The 1996 U.S. Federal Agriculture Improvement and Reform Act was seen by liberals as an important step toward the reduction of U.S. agricultural supports that distorted prices for agricultural products. Under this law, farmers would no longer be paid according to government price supports for particular commodities or paid to not produce certain crops; rather they would be paid direct and diminishing amounts of money unconnected to what crops they produced. The liberal hope was that this form of protection would reduce price distortion while overall support levels would end over time. Good intentions have been upset by bad weather and domestic politics. In the intervening years, both major parties in the U.S. Congress have come together to authorize significant increases in farm aid in a bid to attract

political support in farming areas hard hit by drought and other problems. It is unclear at this stage how U.S. negotiators will be able to reconcile the actions and attitude of Congress with a need to offer concessions in this area to trading partners.

Finally, developing countries themselves are split on the issue of agriculture and liberalization (Watal, 2000). Net-exporting countries such as Argentina and Thailand are vigorous supporters of greater market access and an end to subsidies. But net-importers like Egypt and Pakistan favor special treatment that will allow developing countries to protect in the name of food security and rural development. For the latter group of countries, liberalization forcing tens (or hundreds) of thousands of uncompetitive farmers and their families into cities in search of work would be a political nightmare and potential social catastrophe. Net-importers have pushed hard for the inclusion of special and differential treatment provisions and are unlikely to settle for provisions that do not substantially address their concerns.

Investment Policy and Competition Law

These issues are at the core of the so-called Singapore issues promoted by the EU and Japan.¹² The process of developing a core set of standards for host countries to follow in their treatment of foreign multinationals began with a partial set of rules agreed to in the Uruguay Round. Developed countries, home to most of the world's direct investors, have a strong interest in setting rules that give their corporations maximum flexibility in managing of their operations abroad. At the same time, developing countries have a history of imposing a variety of restrictions, for example, local content or trade balancing requirements, to help ensure that the host country captures as many of the benefits from this investment as possible. Efforts to establish global standards exposed a deep developed/developing country rift, with the latter naturally opposed to rules that restrict a host's ability to regulate companies within its borders.¹³ The trade-related investment measures (TRIMs) provision of the Uruguay Round provided a first cut at outlawing a small number of these practices. Timetables were established to end the use of domestic-content requirements and certain export performance standards on foreign investment (Moran, 2000). Many developing countries would like to see these deadlines extended or repealed, while developed countries would like to expand the list to include other types of host-imposed rules on foreign direct investment.

Proposals to create an explicit link between competition law and the WTO created splits within the developed world, with the United States in opposition to negotiations on this issue area.¹⁴ Developed countries see this as a mechanism to promote exports abroad in cases where domestic competition laws are absent or not enforced in the target market (Hoekman and

Holmes, 1999). Thus their concerns are not with the promotion of liberal, welfare-enhancing policies abroad but with market-access goals driven by mercantilistic concerns. Other aspects of competition law, such as those concerning improper behavior of foreign exporters or direct investors (e.g., export cartels or the use of transfer pricing), do not appear to be a priority for those countries pressing to include this issue on the WTO negotiation agenda. While supportive of the goals underlying the EU and Japanese proposal, the United States opposes it, apparently believing that U.S. interests are better promoted through the use of unilateral and bilateral approaches (Hoekman and Holmes, 1999). To bolster their case against a WTO-based mechanism, U.S. competition authorities suggest that ceding authority to the WTO might expose the organization to capture by export interests, that the WTO's evidentiary standards fall below those in the United States, and that the WTO lacks sufficient expertise to handle such issues (Graham, 2000). As with investment law, many developing countries stand in strong opposition to the EU and Japanese proposal. While many supported the establishment of a working group within the WTO to study these issues in 1996, few are willing to agree to the launch of negotiations (Watal, 2000; Graham, 2000).

Because negotiations on the Singapore issues are so important to the EU, they emerged as a major source of tension in discussions over the Doha Round agenda. With the EU appearing to concede important ground in agriculture (agreeing to negotiations with a goal of phasing out export subsidies), the region likely expected reciprocity on other issues, especially in this area. Nevertheless, opposition to including these issues on the agenda was strong enough that the Doha Declaration compromised, with agreement to continue to study the issues until the WTO's Fifth Ministerial Conference in 2003. However, even then negotiations were only to begin if the agenda for them was agreed to "by explicit consensus." The chair of the Doha discussions on this issue provided a public statement that in his view explicit consensus meant that any WTO member could unilaterally block the launch of negotiations if it was unhappy with their mandated goals. Wrangling over this issue and the reference to explicit consensus reflects past resentment felt by many developing countries regarding their lack of control over the agenda and the outcome of past rounds. They are determined to exploit the unanimity principle to ensure that their voices are heard on issues of importance to them. The finessing of the Singapore issues in Doha merely postpones the hard bargaining and trade-offs leading to the launch of negotiations on these issues that will likely be needed to keep the Europeans at the table.

Linking Trade to Environmental and Labor Standards

More than any other issue, proposals to tie international trade rules more firmly to global standards on the environment and labor practices have

aroused substantial opposition both inside and outside the WTO. Inside, developing countries have consistently blocked U.S. attempts, beginning with the 1996 Singapore ministerial meeting, to create a working group on trade and labor. In the face of such resistance, U.S. authorities agreed that the issue would not be on the agenda for the next round and, further, that the WTO lacked competence to discuss it. Nevertheless, fears continued to run deep that the United States was trying to place it on the agenda in order to create new mechanisms to deny developing countries' exporters access to developed country markets. Indeed, such suspicions appeared confirmed by U.S. President Bill Clinton's ill-timed remark in favor of linking trade and labor standards just prior to the Seattle meeting (Laird, 2001). Clinton's statement was motivated by strong domestic pressures from trade unions affected by import competition and labor activists seeking to improve working conditions abroad, groups that were prominently protesting the WTO in the streets outside the meeting. Clinton's actions, which appeared to renege on earlier promises, significantly poisoned the atmosphere inside the hall. In the run-up to the Doha meeting, the U.S. government, under a Republican president much less beholden to labor interests, has not made this an important issue. The only WTO action has been to "take note" of the work by the International Labour Organization on the social dimensions of globalization (WTO, 2001a).

Efforts, particularly by the EU, to link trade rules more closely with the environment have also elicited strong criticism from the developing world. As with the United States on labor, EU negotiators are under strong domestic pressures to incorporate environmental concerns more closely into the work of the WTO. Some demands are driven by environmentalists critical of the impact of globalization on environmental conditions around the globe, while others spring from concerns over the health of the food supply. Still other efforts to link trade and the environment, however, are motivated more by domestic producers seeking new means to protect themselves in light of competition from developing countries, which generally have minimal environmental standards. Debate within the WTO has been as acrimonious on this issue as with labor. Developing country opposition forced the EU to scale back its expectations significantly. Nevertheless, in the bargaining at Doha the EU won agreement to begin immediate negotiations in three issue areas: to clarify the relationship between WTO rules and specific trade obligations in existing multilateral environmental agreements (MEA); to promote procedures for the regular information exchange between MEA secretariats and relevant WTO committees; and to reduce or eliminate tariff and nontariff barriers to the importation of environmental goods and services. Environmentalists criticized this outcome for its focus only on rule clarification and not rule change. Thus developing countries appear to have given away only limited concessions on an issue area of great importance to the EU. Environmentalists were cheered by agreement to begin negotiations to "clarify and improve" rules on fisheries subsidies

that, in their opinion, have contributed to overfishing and the collapse of fish stocks in various parts of the world.

Development and "Implementation" Issues

With their newfound voice, developing countries have been making a variety of demands. Their willingness to walk away from the Seattle meeting without an agreement and their tough bargaining stances in the intervening years to Doha forced the Quad countries to take notice of their interests. Quad negotiators now understand that developing countries' interests have to figure prominently in any new agreement.

Helping to strengthen this conviction was the position taken by a group of developing countries regarding "implementation" issues. They argued that developing countries had yet to receive expected benefits from the Uruguay Round agreement and that this imbalance must be rectified before they would support a new round. From a developing country point of view, concessions on intellectual property rights and investment measures were to be offset by Quad agreement to open up their textile, apparel, and agricultural markets and to grant developing countries "special and differential" treatment. While developing countries walked away from the Uruguay Round negotiating table expecting measurable benefits in a short period of time, the reality is that the Quad countries scheduled many of their market-opening measures in textiles and apparel for the end of the allowed ten-year implementation period (1996–2005). Although the Quad countries are legally within the letter of the agreement, they are accused of violating its spirit (Laird, 2001). Adding insult to injury, Quad countries have used antidumping measures, along with other actions such as tariff escalation, to offset expected benefits to developing countries.¹⁵

Developing countries are also concerned about the costs of complying with their Uruguay Round commitments, particularly in areas such as investment law and customs procedures. Estimates show that the poorest countries may need to spend the equivalent of a year's worth of development monies simply to come into compliance (Finger and Schuler, 2000). As the extent of the costs became apparent, more and more developing countries called for extensions of the deadlines.

A third implementation issue revolves around the practical meaning of the Quad commitment to extend special and differential treatment. As Sam Laird (2001) relates, much to developing countries' dismay, this has turned out to be more rhetoric than substance and has focused largely on giving developing countries more time and technical assistance to comply with a single set of trading rules instead of offering them different and lesser obligations.

With these concerns in mind, the developing world has called for a "development" round to address their interests. Developing countries won a

number of important victories in this regard at the Doha meeting. Most notably, they wrung a statement from the Quad powers that the existing IPR obligations would not stand in the way of efforts to deal with public health problems in developing countries (WTO, 2001b). At issue were growing attempts led by Brazil and South Africa to force brand-name drug-makers to offer AIDS drugs at a reasonable cost. Lacking the resources to pay prices propped up by patents but facing a serious health crisis, these countries argued that patent protection should not take precedence over public health. Facilitating the Doha statement was the anthrax scare in the United States. Facing a sudden need for millions of doses of the drug Cipro, U.S. and Canadian authorities threatened to override the patent held by the German pharmaceutical company Bayer unless prices were reduced. Traditionally strong support by these Quad countries for international intellectual property rights' protection melted away almost overnight when this public health threat turned up unexpectedly in their own backyards. Pointing out this apparent double standard, developing countries won over global opinion on this issue.¹⁶

Beyond the issue of IPRs, developing countries won other concessions. These include a WTO waiver of the Cotonou agreement under which the EU grants preferential market access to the seventy-eight members of the African, Caribbean, and Pacific (ACP) group of countries.¹⁷ Composed largely of former European colonies and entirely of developing countries, this group includes fifty-six members of the WTO. To forestall objections, ACP members made it clear that acceptance of the waiver was important to their support for any future negotiations, especially relating to the Singapore issues, the environment, or labor (Int'l Centre for Trade, 2001).¹⁸ Additionally, developing countries won a pledge that the WTO would provide sufficient technical assistance and capacity-building programs to ensure that developing countries were adequately trained for the Doha negotiations.¹⁹ Further, WTO members agreed to establish working groups on debt and finance and on technology transfer, two issues of great importance to the developing world. All WTO members committed themselves to the objective of duty-free and quota-free access for products from the least-developed countries. Finally, the Doha declaration recognized the existence of developing country proposals to create a framework agreement on special and differential treatment, although no specific action was proposed. Instead, members agreed that all existing special and differential provisions of the WTO rules "shall be reviewed with a view to strengthening them and making them more precise, effective, and operational" (WTO, 2001c).

Developing countries were unsuccessful in getting implementation issues into a single negotiation area by themselves. In its place, members agreed to look favorably on requests for technical assistance and deadline extensions by developing countries and to take up these and other issues in the existing, relevant WTO committees (WTO, 2001d).

Dispute Settlement Mechanism

The Uruguay Round agreement created a stronger and more controversial Dispute Settlement Mechanism (DSM). Instead of one member being able to veto the resolution process, new rules stated that all members would have to agree to dismiss a case. With this and other changes, many observers concur that the DSM is much stronger than under the GATT. Economic nationalists are strongly critical of the new DSM. They object to the DSM's ability to erode state sovereignty, charging that it forces members to sacrifice environmental, health, and other concerns in favor of free trade (Public Citizen, 1999). They further argue that the WTO's DSM is run in a nondemocratic manner with little transparency or accountability to the outside world. Interestingly, liberals too have been critical but on different grounds. As Bernard Hoekman and Petros Mavroidis (1999) note, there have been no cases brought to the DSM by a least-developed country. In these authors' opinion, this is tied to asymmetric incentives to bring cases and enforce decisions (e.g., for fear of reprisal) and resource limitations tied to the cost and time needed to pursue a case. Supporters of free trade raise other issues including how to deal with an increasing number of cases of noncompliance (which leads to more protectionism via retaliation and less free trade) and concerns over the method of retaliation. This latter issue is tied to a U.S. threat to use a "carousel" approach in implementing authorized retaliation (Bhagwati, 2002).²⁰

Negotiations on "improvements and clarifications" to the DSM are more likely to satisfy liberal concerns than nationalist ones since member states will be at the negotiating table rather than nongovernmental organizations. Smaller countries see the DSM as a way to constrain large-state behavior and have a strong interest in making the system work as effectively as possible. The Quad countries can also benefit from strengthening the system since each has won cases where compliance became an issue. Despite being on the outside looking in, nongovernmental critics have brought sufficient pressure on the organization that even some liberals acknowledge it would be wise to improve transparency if only to make a stronger case for free trade (Crook, 2001).²¹ Unlike all other issues in the Doha Round, negotiations on the DSM are not part of the "single undertaking."

Regional Trade Arrangements

There has been a proliferation of Regional Trade Arrangements (RTAs) around the world in the past fifteen years, reaching 113 in 2000 (de Jonquieres, 2001). The forces promoting such an expansion are several, as Robert Lawrence explains elsewhere in this volume. Since its inception, the GATT allowed limited exceptions to the principle of nondiscrimination,

which such agreements ostensibly violate. However, the dramatic increase in RTAs in recent years has increasingly called into question whether such arrangements are welfare enhancing or welfare reducing from a global efficiency standpoint. More and more liberal economists are branding RTAs as mercantilist-inspired impediments to the goal of global free trade. Analysts suspect that RTAs could be undermining the commitment of WTO members to the global trading system. If RTAs are in place with major trading partners, states may be less interested in supporting an international, rules-based trading system (Laird, 2001).

In an effort to reinforce support for global rules, WTO members agreed in Doha to begin negotiations to "clarify and improve" rules and procedures relating to RTAs. While liberals hope these efforts will be successful, the fact remains that it is the WTO's own members engaging in RTA creation. The chapter by Lawrence argues that deep-seated changes to the global economic system are driving the move toward regionalism, suggesting that the WTO may need to implicitly or explicitly condone RTA activity.

Conclusion

The multilateral, rules-based trading system faces its biggest challenges to date. The tension between the economic logic of free trade and the political logic of the state-based trading system is greater than ever before and threatens to unravel support for the system. Driving this dynamic is the WTO's governance structure, the size of its membership, the intensity with which all sides are pushing their own interests, and the politically sensitive nature of many of the issues on the agenda.

As the discussion above details, these are not insurmountable problems, and the bargaining in Doha suggests that sufficient room still exists for trade-offs across issue areas. But the hard part has now begun, and meeting the stated end-of-2004 deadline is unlikely to happen without some major shock to the global economy that forces countries to look beyond their own particularistic interests. If past history is a guide, WTO members will engage in zero-sum negotiation strategies unless and until the prospect of failure prompts members to compromise. Even then the organization has shown a willingness to negotiate years beyond established deadlines before reaching a make-or-break point. Crucial to the round's success will be a package that allows a large majority of members to walk away from the table feeling that their interests were reflected in the final agreement. With more and more countries at the table and participating actively, such a deal will require all countries to make significant concessions. This is especially the case for the system's most powerful members. U.S., Japanese, and EU governments will each need to stare down powerful

domestic lobbies and concede important ground, not only to settle differences within the Quad but also to satisfy developing countries that now will accept nothing less.

Notes

1. Cited in Jackson (1998: 104).
2. Used here, I am referring to an organization that can, independent of nation-state influence, determine and effectively enforce a set of trade rules. While the WTO is often criticized as a powerful supranational organization that infringes on state sovereignty, the reality is that it cannot—on its own—enforce the rules on state sovereignty. Instead, it can only verbally reprimand rule violators and, if need be, authorized states to retaliate in the face of unfair trade practices. The WTO cannot force states to change their behavior. Furthermore, the rules it does attempt to enforce were written and agreed to by the member states themselves.
3. What drove these changes in comparative advantage is in some cases the matter of bitter dispute. For liberals, these shifts were market-driven phenomena. For others, however, countries such as Japan used state intervention in the economy to create such advantages. For more on this latter view, see Krugman (1986) on strategic trade theory.
4. Common mandates relate to the use of domestically produced inputs, exporting, and technology transfer.
5. Ratification of the Uruguay Round brought with it the creation of the World Trade Organization in 1995.
6. Regarding differences in industrial structures, see Thurrow (1992).
7. China filed its first complaint of unfair trade practices (against the EU) within a month of joining the WTO.
8. Another long-running dispute over the EU's banana import policy dragged on for years, leading the United States to impose retaliatory trade duties. An agreement was reached in 2001 only because both sides saw the conflict as an obstacle to launching a new WTO round.
9. As in Seattle two years earlier, Doha negotiators had not agreed on a text outlining the shape of a new round when the scheduled deadline expired. In contrast to the earlier meeting, officials in Doha continued their deliberations and hammered out an agenda for the negotiations the following day.
10. See Odell (2001), Laird (2001) and Schott (2000) for a variety of explanations for the collapse of the Seattle talks.
11. The Cairns Group members are Argentina, Australia, Brazil, Canada, Chile, Colombia, Fiji, Indonesia, New Zealand, Paraguay, Philippines, South Africa, Thailand, and Uruguay.
12. These items, along with government procurement and trade facilitation, were introduced at the 1996 WTO ministerial meeting in Singapore for possible inclusion on the trade agenda.
13. See Moran (1998) for an analysis of actual vs. expected benefits from these measures.
14. As Hoekman and Holmes (1999: 876–887) define it, competition (or antitrust) law is “a set of rules and disciplines maintained by governments relating either to agreements between firms that restrict competition or the abuse of dominant market position (including attempts to create dominant position through merger).” Competition policy is a broader concept encompassing rules and instruments

that define the “conditions of competition” in the marketplace. Thus competition law is a subset of competition policy but also includes actions relating to privatization, deregulation, and subsidies, among other areas.

15. Tariff escalation refers to the use of higher tariffs for items at later stages of production. This discourages exporters from developing an export capacity in downstream activities that often have higher value added at those stages and are more profitable.
16. Unresolved by this statement is the key issue of defining which health problems qualify for overriding patents.
17. This waiver is necessary because such an agreement violates WTO rules.
18. Some developing countries outside the ACP group, such as the Philippines and Thailand, did initially object to the deal (and the waiver) because of expected discrimination against their exports to the EU.
19. This is an important issue for the poorest developing countries. As Laird (2001) details, many developing countries find it fiscally difficult to staff an office in Geneva with a sufficient number of trained personnel to represent their interests among the many international organizations headquartered in that city. Of the fifty-five new members joining the WTO between 1986 and 1999, about forty were unable to fund an office at all.
20. Under this approach U.S. authorities would raise (and then lower) tariffs on different imported products over time. This is designed to hurt as many exporting sectors in the target country as possible, putting maximum pressure on their government to come into compliance with WTO rules.
21. The liberal hope is that greater transparency will do two things: force governments away from their mercantilist bargaining strategies while creating incentives for politicians to rally support for free trade based upon its economic benefits.

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Regionalism, Multilateralism, and Deeper Integration: Changing Paradigms for Developing Countries

Robert Z. Lawrence

The proliferation of regional trading arrangements in the 1990s has generated significant debate regarding its implications for the multilateral trading system and for nation-states within it. Robert Lawrence addresses these important issues from the point of view of developing countries. His analysis shows how post-World War II assumptions regarding the global trade system and developing country participation in it have shifted in important ways. At the same time, new forces within the private sector have emerged in favor of deeper forms of regional integration. In the chapter below, Lawrence provides an accessible political economy analysis of the merits of regional, multilateral, and deeper integration from a developing country perspective.

There is a profound tension in our world. Increasingly the economy is global, but the world is organized politically into nation-states. This process of globalization has raised two fundamental questions about how we should be governed. First, to what degree should policies be decided by nations independently, and to what degree should they be subject to international agreement? And second, if international agreement is required, should it be regional or multilateral? This chapter addresses the relevance of these questions to trade policy, adopting the perspective of developing countries. The first part describes the historical shifts in the focus of trade policies in global systems during the period after World War II and then explores specifically how these shifts have given regionalism today its distinctive charac-