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## **THE DOHA ROUND: HAS THE UNRAVELLING BEGUN?**

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It was bad enough when the Doha Round of trade negotiations were deadlocked; now there are dangerous signs that what progress has been made is unravelling. Over the past four weeks the leading trading powers have moved backwards from a number of established positions. Either senior trade negotiators are planning an extraordinarily welcome summer surprise or they are positioning themselves for the blame game when the music finally stops.

After nearly six years of negotiations what's the hurry, you might ask? Well, the small matter of the U.S. Constitution dictates that Americans must vote for their next president in November 2008 and recent history has demonstrated that election years are not known for their dispassionate debates over trade policy. Mention of Sucking Sounds and Benedict Arnolds and scare tactics about outsourcing are more the norm. Avoiding 2008 forces WTO member governments to conclude the Doha Round before the end of 2007 or to wait until the new U.S administration is installed in 2009. (Of course, other nations have elections too--but we'll let that pass.)

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A December 2007 deadline for signing the Doha Round may seem a long way off until you realise that it takes 3-6 months to undertake the detailed legal work associated with completing any schedules (trade-talk for appendices) to a multilateral agreement. After the U.S. lost a case at the WTO a few years back on gambling because of poor "scheduling" at the end of the last major trade negotiation, Congress put U.S. trade officials on notice this time around that there would be much more scrutiny. As far as the timetable goes there really isn't much wiggle room here. Indeed, an agreement on the specifics in September 2007 would be cutting it fine, and that's why getting Doha done in 2007 means getting something serious agreed before the August holidays.

What about waiting until 2009 or 2010? There are several risks with this strategy. First, disillusionment may grow with the WTO and countries may become more inclined to test the limits of their trading partners' patience. The possibility of some pretty ugly showdowns, not least with China and quite possibly over U.S. and E.U. agricultural policies, looms large. Second, postponement provides no guarantee of future negotiating success. Interests may diverge further and the basis of a deal may prove even more elusive. Finally, only perennial optimists will see postponement as materially better than failure. Most political animals have much shorter time horizons than trade policy desperadoes--let's not forget the intractability of the Doha Round caused Tony Blair to refer to the Doha Round as the "trade thing" at last year's G8 summit. If WTO supporters like Blair think like this now, how many will be left in 2009 or 2010? Politics is the art of the possible. Procrastination is a luxury WTO members cannot afford.

So where do we stand with the negotiations? In recent months Japan and Australia seem to have fallen by the wayside and now only Brazil, the E.U., India, and the United States (the so-called G4) are in contact regularly, trying to establish the basis of a deal for reforming agricultural trade, trade in manufactured goods and resources, and service sector trade. Although plenty still remained to be done, from the beginning of this year there were some encouraging

signs especially as the U.S. and E.U. appear to have narrowed their differences on certain key agricultural negotiating matters. Until recently there were also some glimmers of hope in the goods trade negotiations, but the service sector talks remained stalled. (Oh, you may have wondered about the other 140+ WTO members. Essentially the Doha Round negotiations are proceeding in two stages, with the G4 supposed to come close to a deal first, to be followed by a broader agreement among the whole WTO membership, bearing in mind that each member of the WTO has, in principle, a veto over the outcome. It speaks volumes that little apparent thought among the major players has gone into what might happen in the second stage of the negotiation; but this story is becoming depressing enough as it is!)

In the past four weeks or so, however, previous progress has begun to unravel and dark clouds are gathering on the horizon. Each G4 trading power has taken retrograde steps; there are no saints here. At the end of May Brazil indicated that it could no longer agree to cutting its maximum tariff on imported goods to 20 percent and wanted to raise the ceiling to 30 percent. Plus Brazil advocated a number of ruses that allow very high tariffs to remain on certain protected industries while attaining notionally large average tariff cuts. Brazil claims it wasn't going to get what it wanted on agricultural trade reform and so was pulling back on its promises elsewhere. Not to be outdone, and quite probably after some very nasty hectoring from recently-elected President Sarkozy, the European Trade Commissioner threatened to scale back European offers to reign in its trade barriers if others remained unforthcoming.

India then adopted an age-old tactic--suddenly elevating demands in an area known to be very sensitive to a trading partner when negotiations in other areas look like they are making progress too quickly. India's Commerce Minister recently lost his cool when two U.S. Senators had the audacity to write to nine Indian IT companies to ask them about the qualifications of their workforces. (The Senators were concerned that a visa scheme, which many Indians benefit from, was being abused.) No doubt India is well aware that the U.S. Congress

has repeatedly instructed U.S. officials not to allow U.S. immigration policies on to trade negotiating tables.

Last, but certainly not least, the U.S. Administration concluded in mid-May an agreement with leading Congress-people of both parties that is likely do much to undermine the faith that U.S. trading partners will place in any trade-related promises that the U.S. Congress might make. Although the U.S. Administration has the power to negotiate commercial treaties, under the U.S. Constitution the power to regulate commerce rests with Congress. American elected officials have long recognised that U.S. trading partners don't, or won't, negotiate twice with the U.S. (once with the Administration and then with Congress.) Consequently, procedures have been put in place to allow for up-or-down votes (without amendments) on trade agreements that the U.S. Administration signs with trading partners and that meet certain pre-specified conditions. These procedures--often referred to in the press and by specialists as Fast Track or Trade Promotion Authority--were in place when Peru and Panama, amongst others, decided to start their negotiations for free trade agreements (FTAs) with the U.S. As we will see, having followed the rules, Peru now finds the prospect of its signed FTA being renegotiated with unwelcome provisions on labour and environmental policies being included as a pre-requisite--not even a guarantee--of the agreement's eventual ratification by Congress.

What happened was that a hard core of trade sceptics were elected to the U.S. Congress in November 2006. After taking office this year these elected officials demanded the implementation of a new U.S. trade policy. Rather than honour their existing commitments to those countries that the U.S. Administration had recently signed FTAs with, the Administration and Congressional leaders agreed to add new conditions to these trade deals, effectively forcing the renegotiation of the concluded Peruvian deal. No doubt some trade supporters in Washington, D.C., think this is a necessary compact to get any FTAs approved by the current U.S. Congress. Notwithstanding the fact that the latter is hardly assured, little thought has been

given to the longer term consequences for the credibility of any promises the U.S. makes about how any future trade agreement will be eventually treated by Congress. Put bluntly, either much of what has been written by U.S. trade policy experts about the importance of Fast Track/Trade Promotion Authority is wrong, or in the future the U.S. faces a major credibility problem with its trading partners. I doubt this point has been lost on the U.S. trading partners who must surely question whether any Doha Round deal could get through Congress on an up-or-down vote. If Congress is prepared--with the connivance of the U.S. Administration--to renege on its promised treatment of two tiny FTAs, how likely is it to stick to its promises when a worldwide trade deal is under consideration? U.S. officials may rue the day that they squandered much of the trust of their trading partners in return from an increased likelihood that Congress approve two FTAs with limited economic, diplomatic, and strategic significance.

Where does this leave the Doha Round in the critical six to eight weeks ahead? The omens aren't good. No doubt there are some eternal optimists out there who believe it will be "all right on the night." Even so, they ought to acknowledge that the last month has been terrible. There is of course the slight chance that the fear of failure may encourage senior trade ministers into making the difficult compromises, but for all their much-vaunted panache not one of them gives much of an impression of having done the necessary work at home to overcome entrenched interests. Instead stalemate looms and much depends on how the associated media game is played. Will a graceful way of concluding the negotiations without an agreement be found? Or are senior trade negotiators and WTO officials going to squander what little remains of their credibility by arguing that the talking will continue--but with a 18-24 month hiatus? Or will the talks collapse into irreparable acrimony? Much depends on how the major trading powers fancy their chances at the "blame game" (should it prove impossible to paper over the cracks of failure) and what they think might come next. Indeed, I often wonder

if the current tactics of some trading nations are driven as much by positioning for the next multilateral trade negotiation, rather than by much of a desire to complete the Doha Round.

Should the blame game come to pass, although the E.U. will undoubtedly take a bit of a beating the principal fall guy is likely to be the United States. Whatever the U.S. Administration and its apologists may say, the recent U.S. compact on FTAs must surely call into question whether Congress can stick to any commitment to treat a Doha Round agreement in a pre-agreed manner. Moreover, with a U.S. Congress whose majority party is inclined to distrust the current U.S. Administration and that was elected to contain many of its initiatives, the likelihood of Trade Promotion Authority being extended to complete the Doha Round is slim anyway. The U.S. did not like taking much of the blame for the suspension of the Doha Round in 2006; it had better prepare for worse if it is pinned with sinking the Doha Round in 2007.