

## THE DOHA ROUND OF MULTILATERAL NEGOTIATIONS: A STORY OF ETERNAL STAGNATION AND FINAL SUSPENSION

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*If we are facing in the right direction, all we need to do is to keep on walking.  
– A Buddhist Proverb*

### Introduction

If one observes the developments and events of the preceding three decades, it is easy to comprehend how the evolutionary process of the multilateral trade regime has become progressively challenging. There is no gainsaying the fact that the Doha Round of multilateral trade negotiations (MTNs) has proved to be egregiously problem-prone. Deep dissensions among the World Trade Organization (WTO) members and country groups, far-apart negotiating positions on crucial issues and inordinate delays in coming to a rare agreement – if and when they did come to one – on the material issues of process and substance led to the suspension of the Doha Round, and brought the multilateral trade regime to a crisis point.

The factors contributing to this unacceptable, if not melancholy, state of affairs went beyond the mercantilist mindset of the negotiators from the principal trading economies and the country groups that wield significant negotiating weight in the multilateral trading system. The Cancún Ministerial Conference (2003) collapsed amidst controversies and deep dissensions among the members. The Hong Kong Ministerial Conference (2005) did not fail but achieved little of substance. Contretemps and mishaps continued even after that. The crucial deadline of June 30, 2006 was missed and two mini-Ministerials of January 2006 and July 2006 failed to achieve anything, causing a great deal of gloom and disillusionment in the community of multilateral traders and trade policy mandarins. In this article, we inter alia examine

causal factors behind the stagnation in the Doha Round and its eventual suspension.

In July 2006, the MTNs were in a desolate state. They had never picked up momentum after the launch of the Doha Round in November 2001. What could possibly be achieved by their satisfactory culmination was not a mystery. The global community needed to adopt the policy objectives of economic growth and poverty alleviation by means of an ambitious program of multilateral trade policy reforms. To be sure, such a reform program needed to have an ambitious vision of coordinated global policy action at the highest political level, at the Group-of-Eight (G-8)<sup>1</sup> level, which comprises strong and most influential global economies. Growth, poverty alleviation, trade expansion and global economic integration are worthy policy objectives, calling for the attention of top political leaders and public policy professionals. In July 2006, the G-8 leaders, in partnership with those from larger Group-of-Twenty (G-20)<sup>2</sup> economies, needed to infuse fresh political capital in bringing the Doha Round negotiations back to their feet and moving.

### Was mercantilism the *bête noire*?

For the consistent lack of progress in the Doha Round, the mercantilist mindset of the participants was blamed most frequently, almost in a routine manner. This observation applies to both academic writings as well as to the economic and financial press. It is also regarded as the primary culprit behind the ignominious collapse of the Cancún Ministerial Conference as well as for the lean harvest of the Hong Kong Ministerial Conference. It is time to put this accusation in a proper perspective and determine whether it has been an impetuous, unjust and excessive accusation. Does mercantilism have a strong grip on the minds of the negotiating trade ministers and delegations? Perhaps this was not the entire explanation of the stagnation in the Doha Round.

<sup>1</sup> The Russian Federation is not a member of the WTO as yet. To that end, negotiations are in progress. Therefore it is correct to say that the G-7 countries had some contribution to make in this regard.

<sup>2</sup> The so-called Group-of-Twenty (G-20) was born before the Cancún Ministerial Conference. At the time of writing, the G-20 has the following 21 members: Argentina, Bolivia, Brazil, Chile, China, Colombia, Costa Rica, Cuba, Ecuador, Egypt, Guatemala, India, Indonesia, Mexico, Nigeria, Pakistan, Paraguay, Peru, Philippines, South Africa, Thailand, and Venezuela. The role of collegial leaders of G-20 was played by Brazil, China, India and South Africa.

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### *Simplicity of reciprocal tariff slashing*

The earlier rounds of the MTNs, under the General Agreement on Tariffs and Trade (GATT) regime, could be completed more swiftly and on target, because they were relatively easier and negotiations were relatively simpler. They essentially dealt with reciprocal tariff slashing on manufactured goods. Besides, they took place among the industrial economies, which were far less diverse in their economic structures and objectives than the present membership of the WTO. With increasing membership, the economic diversity of member economies went on rising and the simplicity of reciprocal tariff slashing was lost forever. The present-day multilateral trade regime demonstrates an incredible range of asymmetry between players.

With the passage of time, the multilateral trade regime matured, mutated, and the agenda of MTNs went on becoming progressively larger, more multifaceted, and grew increasingly challenging to negotiate. The Uruguay Round exemplified this trend. Its agenda was exceedingly difficult in terms of spread of issues and their complexity, and the Doha Round was no less so. The most problematical areas in the Doha Round are agriculture, non-agricultural market access (NAMA), services and the one Singapore issue that is still on the table, namely, trade facilitation. Such intricacy and complexity of the negotiating issues contributed to stupefaction and caused sluggish progress.

At the present stage of the multilateral trade regime, many negotiating issues are far from simple. Sophistication and intricacy of issues under negotiation have been exacerbated by, firstly, a much larger number of negotiating member economies than during the GATT era, with a large variation in expectation from the multilateral trade regime. The present membership of the WTO is 149. This number is expected to increase further and touch 170 by 2010. Negotiations among a large number also have the innate disadvantage of homeostasis and drift. Secondly, much enhanced economic diversity among the negotiating member economies than ever before contributes to difficulty and delays in coming to agreements. Not only the range of individual players in MTNs is much larger than in the past, but new country groups like G-20, G-33 and G-90 have also emerged which throw around their negotiating weight in the MTNs. Thirdly, during the GATT era, the Quad

commanded hegemonic status and had a massive influence on the decision-making process as well as the final results of MTNs. The GATT system worked through the Green Room negotiation process, with an active Quad.<sup>3</sup> This is no longer true. In groups, developing economies have also come to have negotiating weights. Leaders in these groups have been proactively seeking to secure developing countries' interests. This changed the fabric and character of MTNs. The negotiation process tended to become far more time-consuming and demanding than before.

### *Wide diversity in objectives*

Due to the diversity of objectives of the member countries, MTNs increasingly became failure prone. Contrary to the GATT era, many developing economies now have important stakes in international trade and therefore participate proactively. Many of them try to contribute to and influence the decision-making process in the manner they consider best for their domestic constituencies. For the first time, they have begun taking the attitude of "What do we get out of the MTNs?" Each member country wants a plaque for domestic display out of the negotiations as a justification for concessions made to the trading partners. These new proclivities make negotiations taxing, testing and prolonged.

Frequent allegations of intransigence were made against the EU, Japan and the U.S., and of late it has been difficult to say that they are incorrect. However, it is ignored that these large traders have very little left to put on the negotiating table at the MTNs in terms of market access, except for things that are very difficult for them to negotiate from the perspective of their domestic interests and considerations.

<sup>3</sup> During the life and time of the GATT, the Green Room process worked well and facilitated consultations among the Contracting Parties (CPs). This process got its name from an actual green room that existed next to the Director General's room in the GATT headquarters, at 154 rue de Lausanne, Geneva, where the most important meetings took place. The GATT period is known for its businesslike diplomacy and negotiating effectiveness. The flip side of this coin was that a lot of relatively smaller traders had to play the role of the second fiddle. Since the birth of the WTO this legacy of the GATT came in for a lot of criticism and was painted in villainous colors. An increasing number of WTO members were eager to contribute to the decision-making process. Accession of many sovereign countries in quick succession slowed down the decision-making process. Participation in the Green Room process was decided on the basis of the issue, and only the most active delegations were invited to participate. As for the question which CPs were typically included for consultations other than the members of the Quad, the answer is Australia, New Zealand, Norway, Switzerland, sometimes one or two transition economies and some developing economies.

*Domestic polity considerations*

There are areas of domestic political, social and economic sensitivities, which the incumbent governments often do not wish to disturb because of their high political costs. The industrial economies have kept agriculture and textiles and apparel under stringent protection for decades. These two areas of trade have survived as protected areas for eight rounds of MTNs. To be sure, there can be little economic justification for not putting them on the negotiating table. If anything, it is poor economics not to do so, but for domestic policy considerations and political sensitivities, these large trading economies find it onerous to allow market access in these areas. It is not easy for trade ministers and negotiators to ignore domestic public opinion, legislatures and parliaments.

Opposition to outsourcing in general and business-process outsourcing (BPO) in particular in the industrial economies has the same reasons, that is, domestic policy considerations and politics. Until political leadership and populations in these countries are better educated on these issues and learn to recognize the benefits of free trade and payoffs from the principle of comparative advantage, industrial economies will find it daunting to put these issues on the negotiating table. Market access in these areas will continue to be limited for the developing economies. Political will among the large WTO member countries could indeed surmount the difficulties and resolve stand-offs in the MTNs, but that has patently been in short supply. Sentiments that underlie the general lack of political will include the adverse reaction of domestic constituencies and the widespread anti-globalization sentiment in the large industrial economies that are also the large traders.

To persuade the EU, Japan and the U.S. to make market liberalization offers in agriculture, textiles and other manufacturing sectors, the G-20 economies need to make attractive balancing offers in their market opening. The emerging-market economies (EMEs) have not made it a secret that they are unwilling to sharply lower their trade barriers.

*Active role of NGOs*

In addition, the active role played by non-governmental organizations (NGOs) oftentimes led to

stand-offs in the MTNs. The large international NGOs, which are highly resourceful, significantly influenced the positions taken by the developing economies, particularly the least-developed countries (LDCs).<sup>4</sup> While the large NGOs have an impressive knowledge base and technical prowess in MTN-related issues, there were occasions when their advice did not contribute to smooth progress in the MTNs. A case in point is the services negotiations during the Doha Round, particularly during the Hong Kong Ministerial. By advising developing economies not to participate in plurilateral negotiations, NGOs did a disservice to the cause of developing country trade and the MTNs.

**Commitment by the G-8**

The looming possibility of failure of the Doha Round worried the political leadership in the large industrial nations. To infuse political momentum into the moribund Doha Round, five G-20 members (Brazil, India, China, Mexico and South Africa) were invited to the St. Petersburg G-8 summit of July 15 to 17, 2006. The objective was to avert the hiatus of several years and come to agreement in the principal areas of divergence. The stalled Doha Round was the subject of intense and exhaustive discussion on the second day of the G-8 Summit. All the participants agreed that flexibility was badly needed for coming to core modalities. The G-8 communiqué called for "a concerted effort to conclude the negotiations of the WTO's Doha Development Agenda (DDA) and to fulfill the development objective of the Round."<sup>5</sup>

Together, the participants set a deadline of mid-August to settle the outstanding issues and decide on the core modalities. Once again the French briefly resisted the new deadline. Jacques Chirac argued that the EU's stance on trade policy was not an issue for the G-8 countries to decide, but he relented due to lack of support. The sense of resolve could translate into a long-awaited breakthrough. The G-6 countries (Australia, Brazil, the EU, India, Japan and the U.S.) became active in putting together a framework for an agreement and the long awaited modalities that could be acceptable to the 149 members of the WTO. The G-6 began deliberations in Geneva on

<sup>4</sup> Several large international NGOs are known to have larger budgetary resources than the WTO.

<sup>5</sup> See the G-8 Joint Statement on Trade on the Internet at <http://en.g8russia.ru/docs/16-print.html>.

the 17th of July, with the hope of arriving at the modalities by mid-August.

### **Suspension of the Doha Round: Pyrrhic victory for the protectionists?**

Potential compromise offers were informally made in a fourteen-hour long G-6 meeting in Geneva. Pascal Lamy, the Director General of the WTO, tried to bring the members to concur on or around the compromise formula he had proposed. However, they failed to bridge the differences in positions on modalities on agricultural subsidies and industrial tariffs. The large trading economies evidently preferred a collapse to a compromise-based, if somewhat diluted, final outcome of the Doha Round. The gavel came down on July 24 formally suspending the Doha Round, leading to a veritable crisis of some magnitude in the life of the WTO. This collapse epitomized defeat of the common good by special-interest politics and therefore was “senseless and short-sighted” (The Economist, 2006).

The immediate result was furious recrimination and blamesmanship among members. Candidly critical of the US stance, the EU, India and Japan put the blame for the collapse on the U.S. Most trade delegations were disappointed at the U.S. for not coming up with any new proposal on domestic farm subsidies in Geneva, as did the other G-6 members. The US response was that no such new offer was necessary because the EU and the EMEs, particularly India, failed to table meaningful improvements on agricultural market access. The U.S. was also critical of the exceptions to farm tariff cuts sought by the EU and the EMEs, arguing that they were looking for loopholes to avoid legitimate trade liberalization. Judged fairly, not the U.S. alone could be blamed for the demise of the Doha Round, many other participants were also culpable. From the point of view of a trade economist, trade-distorting subsidies should not have been there in the first place. It was paradoxical that the U.S. was demanding a *quid pro quo* of extensive market opening measures for the removal of trade-distorting subsidies. Such a stipulation was something approaching the absurd. Furthermore, the stand taken by the U.S. was tantamount to spurning the July Framework Agreement of 2004.

The U.S. deserved to receive a disproportionate amount of blame for the demise of the Doha

Round for three principal reasons. First, the compromise package that Pascal Lamy was tending towards after the G-8 Summit would have brought real, albeit modest, reductions in agricultural tariffs and subsidies in the industrial countries as well as industrial tariffs in the EMEs. To an extent, it would also have led to a liberalization of trade in services. However, the U.S. took a hard line and insisted that it was not in favor of a modest kind of Doha Round agreement. If an agreement of appropriate magnitude was not reached, the U.S. had made it known that it would not settle for a weak final outcome. Second, the U.S. was perceived as being overly responsive to the demands of its domestic politics and insensitive to multilateral needs. During the negotiations it had frequently demanded maximum concessions, making it impossible for the MTNs to progress at an even pace. It was evident that the political clout of the US farm lobbies was enormous. It outweighed any promise to take the suitable and effective measures for alleviating global poverty (Switzer, 2006). Undeniably, political leadership cannot ignore the demands of the domestic constituencies, but there was a need to balance it with multilateral obligations and the need to be a good global citizen. Third, in the recent period, the commitments of the U.S. in the MTNs and its deeds have remained far apart. Rhetoric was seldom backed by action. In the recent past, the U.S. has been turning away from its traditional commitment to multilateralism. The U.S. signed 9 of its total 12 FTAs between 2001 and 2006. An additional six FTAs were awaiting approval by the Congress. When the Doha Round was suspended, 11 more were at various stages of negotiation.

Finger pointing apart, reforms that the EU was expected to agree to by the G-6 member countries were difficult but doable, considering the past agricultural policies in the EU. Likewise, a slashing of farm subsidies by the U.S. was politically difficult, more so against the background of the November mid-term elections, but absolutely possible. All that was needed was political commitment to right the long-term wrongs. The demise of the Doha Round evidenced political unwillingness of the member countries to face up to the protectionist lobbies, particularly farmers, in their own countries. Complacently ignoring the right agricultural subsidy structure was wrong for the U.S. for an additional reason. The US farm bill is to be reauthorized in 2007. The Doha Round was an ideal opportunity – and instrument – for the U.S. to start eliminating farm subsidies.

Failure of the Doha Round effectively eliminated an opportunity for overhauling the US farm subsidy program and structure. Loss of this opportunity made the US government vulnerable to litigation at the Dispute Settlement Panel of the WTO. The WTO had found the US cotton subsidies illegal in 2004; rice and soybean subsidies may well be the next to be declared illegal under the WTO rules.

By letting the Doha Round collapse after prolonged stagnation, the industrial economies also exposed themselves to another allegation. The Doha Round was conceived as the first ever development round, and the intentions of the members were to rebalance the multilateral trade regime. That the development objective of this round is highly valuable has been noted since the beginning, at the time of the launch, down to the G-8 Communiqué of July 2006. Accordingly, since the launch of the Doha Round, industrial economies had promised support for the DDA, which was expected to help the developing economies, particularly the small and low-income ones, through brisk trade expansion. It was also believed that the Doha Round would help achieve the Millennium Development Goals (MDGs), particularly the first one of halving the global income-poverty by 2015. Goodwill and commitment to these noble objectives were expressed repeatedly in various Ministerial Declarations in enthusiastic and effusive terms. Demise of the Doha Round was an obvious loss of credibility for the rich countries in this regard. It became a testimony of insincerity of the political leadership at the highest levels.

Breakdowns in MTNs are not unknown. In December 1990, the Uruguay Round had caved in because of insoluble differences between the EU and the U.S. on agricultural subsidies. It was resuscitated by the erstwhile Director-General of the General Agreement on Tariffs and Trade (GATT), who came up with the unusual plan of preparing a draft compromise agreement and presenting it to the Contracting Parties (CPs) as the basis of a future agreement. He succeeded. The Uruguay Round was completed after all because eventually all CPs were willing to make compromises and accommodations, although it took much longer than originally planned. Could the Doha Round be a repetition of history? An optimist always has enough to go on.

Suspension of the Doha Round cannot be seen as a Pyrrhic victory of the protectionist lobbies and

forces. It was not followed by calls for increasing protectionism and the ocean of world trade remained calm at the sad news of the demise of the Doha Round. During the contemporary period, multilateral trade has been growing at a higher rate than global GDP. Although a major setback, the failure of the Doha Round represents an inability to advance the multilateral trade regime, but not a retrograde movement in it. While the probability of the multilateral trade regime falling apart in the short term is virtually nonexistent, with the passage of time this failure will decisively show its pernicious effect and cast a debilitating shadow over the multilateral trade regime.

### Summary and conclusions

Thus far the Doha Round of MTNs proved to be most problem-prone. It had stagnated since its inception and was finally suspended. Deep dissensions among the WTO members, far-apart negotiating positions on crucial issues and inordinate delays in coming to a rare agreement on the material issues brought the Doha Round to a crisis point. A mercantilist mindset of the participants was frequently blamed for the stagnation in the Doha Round. It was also regarded as the primary culprit behind the ignominious collapse of the Cancún Ministerial Conference as well as for the lean harvest of the Hong Kong Ministerial Conference. However, there was more to it than just that. Over time, the MTNs have become more complex, whereas the simplicity of reciprocal tariff slashing of past rounds no longer exists. Besides, the WTO has a large number of diverse countries as its members seeking different policy objectives to meet the expectations of the domestic stakeholders. The active role of the NGOs also has rendered the MTN process difficult.

After the Hong Kong Ministerial Conference that brought no noteworthy achievement, participating members of the WTO had promised to continue intense negotiations and converge their respective negotiating positions with an explicit objective to set down firm agreements in the most important and basic areas of MTNs by the end of April 2006. For this reason the self-imposed deadline of April 2006 became vitally important to meet. To this end, a mini-Ministerial was organized in January 2006 in Davos. It ended without any meaningful progress of the MTNs towards the objectives. Despite intense negotiations at various levels, the self-imposed dead-

line of April 30 was missed. This was seen as an enormous collective mistake by the members, if not the end of the multilateral trading system. Another desultory mini-Ministerial was called by the WTO in Geneva during the period of June 29 through July 2, 2006, with an objective to negotiate on modalities in agriculture and NAMA. This mini-Ministerial was marked by apathy and again failed to achieve anything of substance.

With the passage of time it became obvious that expressions of positive and virtuous intentions were completely misleading. There was a wide gap between what was being promised and what was being achieved in terms of tangible agreements and core modalities. Although the New Quad had come into being, the MTNs acutely suffered from a lack of imaginative and responsible leadership. Settling on the core modalities was not impossible, but when the sticking points called for creativity and flexibility, important trading economies, and the members of the New Quad – particularly the two trade superpowers that have the largest negotiating weight – responded by apathy. In July 2006, the languishing Doha Round seemed ripe for complete failure.

The G-8 leaders, in collaboration with the select members of the G-20, tried to infuse political momentum into the moribund Doha Round during the St. Petersburg G-8 summit of July 15 to 17, 2006. All the participants agreed that flexibility was badly needed for designing the core modalities. The G-8 communiqué called for a concerted effort to conclude the negotiations of the WTO's Doha Development Agenda (DDA) and to fulfill the development objective of the Round. Notwithstanding these endeavors, the Doha Round was formally suspended on the 24th of July 2006, precipitating the first major crisis in the life of the WTO.

## References

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