

GLOBAL IMPLICATIONS OF THE FAILED DOHA TRADE TALK

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ABSTRACT

WTO was structured to spearhead a global-level agreement on trade, tariff-reduction, etc. Unfortunately, it has failed to produce a final agreement on the Doha Round. This paper evaluates some of the key implications of this failure, including: WTO's performance within the context of its mandates; the proliferation of bilateral and regional trade agreements; some of the evidence on open/fair trade which question the net benefits accruing to developing/emerging economies belonging to WTO and for the non-members to join; and challenges facing multinational corporations navigating through a myriad of trade and investments accords. The overall conclusion: WTO needs to re-define its role.

INTRODUCTION

GATT (the General Agreement on Tariffs and Trade) was founded in 1947, while WTO was established in 1995 with the aim of addressing global trade concerns over services, intellectual property, and other aspects of modern-day trade. Whereas WTO has brought about agreements on telecommunications services, information technology products, and financial services, it has failed to produce a successful round of "general" negotiations which started with the formal meetings in Doha (the capital of Qatar) in November 2001. Meanwhile, there has been a proliferation of bilateral and regional trade agreements, the pace of which has significantly increased in recent years. Moreover, there appears to be mixed academic and practical evidence on whether it is even beneficial for emerging/developing nations to want to belong to WTO and agree to the terms and conditions reached in general trade rounds. This paper aims to analyze these issues, with a specific focus on: GATT/WTO and the problems associated with the latest round of negotiations; the available regional and bilateral trade systems which are either in full existence or in parliamentary/congressional approval stages; some of the key implications of the Doha failure for not only WTO and its future, but also with respect to non-members (such as Russia), and multinational corporations which have to navigate through a myriad of trade agreements worldwide; and the evidence on the "costs/benefits" of belonging to the WTO. The paper concludes by calling for a modified role for WTO.

GATT/WTO AND THE DOHA ROUND

Since its establishment in 1947, the global trading system has benefited enormously from GATT's series of trade negotiations (rounds) and the subsequent reductions in tariffs. WTO was established in 1995 following the conclusions of the Uruguay Round of Negotiations (1986-1994). In addition to administering trade agreements reached under its auspices, WTO's primary functions consist of adjudicating trade (mainly dumping-related) disputes and monitoring national trade policies.

The organization's major accomplishments to date include an agreement reached among 69 governments on telecommunications services, a 40-government pact on tariff-free trade in information technology products, and a 70-member financial services accord that covers more than 95% of trade in

banking, insurance, securities and financial information, all concluded in 1997. WTO has a Trade Policy Review Mechanism designed to “improve transparency, to create a greater understanding of the policies that countries are adopting, and to assess their impact.” Furthermore, under WTO’s Dispute Settlement Understanding, members “bring disputes to the WTO if they think their rights under the agreements are being infringed.” Although this can be viewed as an endorsement of the accessibility of the overall system to members, it nevertheless implies that an enormous portion of the organization’s resources are being used for adjudicating trade disputes. Indeed, since its establishment in 1995, WTO has seen more than 350 cases (with a majority dealing with dumping-related disputes), compared to a total of about 300 cases dealt with during the entire life of GATT.

In 2000, talks started on agriculture and services, leading to the eventual launching of the Doha Trade Round in November, 2001. Many emerging, developing and poor nations, having joined the WTO negotiation process somewhat “late,” have proved to be a rather formidable force for advanced nations to deal with [1]. Despite holding a number of Ministerial Conferences since then, no consensus has yet emerged, with major disagreements centering on reductions by advanced nations of their agricultural subsidies and by emerging countries of their tariffs on industrial goods.

BILATERAL AND REGIONAL BLOCS

WTO rules call on the member states to operate on a basis of a non-discriminatory trading system. Nondiscrimination and the so-called most-favored nation (MFN) aspect of GATT/WTO were designed to ensure that every member is treated equally and faces the same tariffs as every other one. The system, however, allowed for members to enter into Preferential Trade Agreements (PTAs), such as free trade agreements (e.g., bilateral or regional trade accords), without extending the MFN treatment to those countries outside such agreements. Unfortunately, it seems that such PTAs have taken over the WTO system. Indeed, WTO’s multilateral-based system has in recent years been challenged with the rapid rise in the number of regional and bilateral trade accords.

The EU and NAFTA are among the best known regional trading agreements, though they share the stage with many others. In its “Global Economic Prospects 2005,” the World Bank, reported that with varying degrees of complexity and success, there were more than 230 bilateral and regional trade deals by 2005, compared to less than 50 in 1990. Outside the U.S. and the EU, countries and regions have been busy forming free trade agreements (FTAs) of their own. In the Americas there exist: NAFTA; CAFTA (Central American Free Trade Agreement); Costa Rica and Panama FTA; Andean Community (with Chile expected to become a full member); and MERCOSUR. In Africa economic blocs have consisted of: AMU; CAEMC; CEEAC; COMESA; EAC; ECOWAS; SACU; SADC; and WAEMU. In Asia, the best-known is ASEAN (comprised of 10 nations). A consequence of all these deals: by 2005, more than 35% of the world trade – compared with less than 10% in 1990 – was covered by regional accords. However, it turns out that such trading agreements produce not only contradictions and incompatibilities vis-à-vis the multilateral-based system embedded in WTO, but also limited economic gains and perhaps even losses – especially for some developing countries. Thus, there are major implications for WTO’s future as well as for its current members, non-members (e.g., Russia), and multinational corporations which have to navigate through a disparate set of trade and investment agreements worldwide.

IMPLICATIONS FOR WTO, COUNTRIES AND COMPANIES

Is WTO itself (i.e., its original mandate) any longer needed? Some members may argue that WTO, as an organization, should continue to exist because its dispute settlement mechanism is indispensable to global trade. However, not even this function seems to have retained its historical relevancy. On many occasions, for instance, the US and several other countries have ignored adjudicated subsidy-related decisions made against them. Next, on the issue of tariff-reductions, World Bank's estimates show that between 1983 and 2003 two-thirds of the global tariff reductions came about due to unilateral reforms undertaken by individual countries, with another quarter resulting from the global Uruguay Round of trade discussions. Only a tenth of such reductions could have been attributed to bilateral and regional trade agreements.

In terms of potential gains or losses associated with WTO-based system vs. the other types of agreements, there exist both practical as well as academic evidence, some supportive and some dismissive of either type. Rose [3], for example, analyzes the standard "gravity" model of bilateral trade for 175 countries, concluding that "membership in the GATT/WTO is associated with an economically and statistically insignificant increase in trade;" in other words, "there is ... little evidence that belonging to the GATT/WTO really matters." Meanwhile, Chang [2] states that today's advanced economies do not play "fair" with developing/emerging nations in calling for open and free trade on the part of the latter group.

Insofar as non-members are concerned, the proliferation of bilateral and regional trade accords imply that there may be little incentive for this group of countries, which includes G-8 member Russia, to accept the invitation to join or to even apply for WTO membership. Finally, multinational corporations and other international investors and traders may find it increasingly confusing and difficult to navigate through the rising number of bilateral and regional agreements.

CONCLUDING REMARKS

WTO was structured to function as a multilateral agency. In recent years, though, its overall effectiveness has become questionable. As economies further deregulate and embrace market-oriented policies, private enterprises continue to emerge, taking over the long-held trade and investment functions of state-owned monopolies. It is time for WTO's 151 members to rethink through how a new framework can be created to enhance the process of increasing global trade – one that can be responsive to the needs of both the developing/emerging and the advanced economies.

REFERENCES

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