

# What's at Stake in the Doha Development Round?

Written by Tony Heron

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TONY HERON, DEC 11 2009

*We pledge ourselves to work to further increase momentum towards our goal of an ambitious and balanced outcome in the negotiations, our highest common priority in trade policy for the year ahead. We call on all WTO Members to work with greater urgency to bring these negotiations to conclusion by the end of 2006.*

### **G8 Gleneagles Statement on the Doha Development Agenda, 2005**

*'We shall strive to reach agreement this year [2008] on modalities that leads to a successful conclusion to the WTO's Doha Development Agenda with an ambitious and balanced outcome'.*

### **G20 Action Plan, 2008**

The two quotations above illustrate perfectly the recurrent theme that has come to define the Doha Development Agenda (DDA) ever since the Millennium trade round was resurrected and rebranded following the collapse of the now infamous Seattle ministerial in 1999. On the one hand, world leaders and commentators continually speak of the absolute imperative of concluding the DDA in a timely fashion – and of the terrible consequences of not concluding the talks. On the other hand, these same leaders seem incapable or unwilling to make the necessary compromises to reach an 'ambitious and balanced' outcome in the negotiations. While we are frequently reminded of the benefits of concluding the DDA and of the consequences of not doing so, outside of academia there is not much of talk of why a successful conclusion to the Doha round has proven to be so elusive. In this short paper, I address both these issues. First, I address the question of what is really at stake in the DDA and argue that while it is undeniable that a successful conclusion to the talks would bring some benefits, the overall importance of the Doha package (as it is now constituted) has been greatly exaggerated. Second, I address what I consider the more fundamental issue of why world leaders have been unsuccessful in their attempts to conclude the round. Here I argue that the current stalemate in the Doha negotiations is a reflection of the changing distribution of global economic power but that this has been made worse by attempts to graft developing countries' concerns onto a set of pre-existing and deeply flawed institutional arrangements.

### **So what's at stake?**

In understanding the controversies surrounding the DDA, it is important for students of International Relations to recognise the discursive element of the debate – by which is meant how language and discourse not only describes but also sets the parameters of the debate with respect to the sorts of questions and solutions that are deemed as legitimate. In the early and mid 2000s, discussion of the DDA was generally couched in a 'pro-poor' discourse wherein the Doha round constituted a *development round*. Because it was described as such a successful outcome, the talks became central to the realisation of the UN Millennium Development Goals and, more particularly, to spurring growth and development in Africa – the corollary of this being that the failure to conclude the DDA would condemn the poorest people in the world to further misery and hopelessness. In the last couple of years, the onset of the global financial crisis has seen the 'pro-poor' discourse replaced with one emphasising the 'threat of protectionism'. In this discourse, the importance of concluding the DDA is couched primarily in terms of kick-starting the global economy following the collapse of world trade. The corollary of this, however, is perhaps more revealing of the discursive politics involved, namely, that the failure to conclude the DDA would threaten to undermine the

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credibility of the WTO and the entire multilateral trade system, leading in time to spiralling protectionism and a return to the 'beggar-thy-neighbour' trade policies of the 1930s. These claims are not entirely without foundation. In the last quarter of 2008 growth in world trade more or less collapsed and in 2009 actually contracted by a staggering 9% – the first such contraction since the world recession of 1981-2 and the biggest fall in world trade since the Great Depression. Put another way, with countries as varied as Germany, South Korea, China, France, Chile, Malaysia and Ecuador witnessing collapses in the volume of their exports ranging between 17% and 47%, it is hardly surprising that people began to speculate that it was only a matter of time before the return of Great Depression-style economics would herald the return of Great Depression-style politics. As if to confirm this, the financial media, international institutions and other monitoring agencies began to report a significant increase in trade protectionism in 2009 – most notably, the notorious 'buy American' clause contained in president Obama's US\$900 billion economic stimulus plan but also other less headline-grabbing measures that were deemed to be in violation of the WTO or else contrary to the spirit of free trade.

Against this backdrop, recent discussion of the DDA has been accompanied by much invocation of the infamous Smoot Hawley tariff of 1930 and the almost equally infamous World Economic Conference of 1933 – the implication being that if decisive action was not taken to shore up the world trading system by concluding the DDA, then protectionism would return, fuelling mutually-antagonist trading blocs leading to economic catastrophe. Yet, while politicians and other commentators have of late done much to invoke the supposed 'lessons of the 1930s', few have acknowledged that similar warnings were made during the deep recessions of the early-to-mid 1970s and early 1980s – and on both of these occasions, notwithstanding a moderate increase in some protectionist barriers, the world trading system remained largely open and liberal in character. Despite the fondness for invoking the 1930s, then, more recent historical precedent suggests that a return to protectionist trade wars remains a remote prospect. Indeed Great Depression-style trade policies are even less likely now than in the 1970s and 1980s. First, states have much less room for manoeuvre now than they possessed in the 1970s and 1980s (not to mention the 1930s), with around four-fifths of world trade legally bound at zero or negligible tariff rates. Second, there is now a much higher prevalence of intra-firm and intra-industry trade than in the 1970 and 1980s, meaning that most firms are at least to some degree import and/or export dependent and thus have little to gain over the long term from the erection of trade barriers. Third, even if the above was not sufficient to prevent the return of trade protectionism, it is not altogether clear how much the completion of the DDA would achieve: the World Bank has calculated that the DDA could deliver global welfare gains of close to US\$300 billion by 2015 – but since this is based on the heroic assumption that Doha will lead to the complete elimination of *all* remaining tariff and non-tariff barriers, the likelihood is that a successful outcome to the talks would deliver only a tiny fraction of this figure.

### 3. So what's really at stake in the DDA?

So if the economic benefits – and therefore the expected adjustment costs – of the DDA are likely to be modest, why have world leaders invested so much political capital in the talks (although of course this is open to question) and why has a successful conclusion to the negotiations proven to be so elusive? A large part of the explanation lies with the legacy of Uruguay Round. This was the first time that developing countries *as a bloc* had played an active role in the GATT with the outcome described, at least initially, as a 'grand bargain' whereby improved market access for textiles and clothing and agriculture along with promises of technical assistance were exchanged for regulatory harmonisation in areas like intellectual property, investment, services and so on. On closer inspection, however, it ultimately became clear that the Uruguay Round was less of a 'grand bargain' than initially assumed: the gains from the liberalisation of textile and clothing largely went to consumers in developed countries or else were generally usurped by China following its accession to the WTO in 2001; the gains from agricultural liberalisation were even more illusory while the promises of technical assistance simply failed to materialise. In contrast, the concessions that the developing countries agreed to in return for these benefits turned out to be very real and prohibitively expensive – both in financial terms and in terms of eroding the relatively high degree of policy autonomy that developing countries still enjoyed up until this point. Not surprisingly, this fuelled a strong sense of grievance and disillusionment with the outcome of the Uruguay Round and the GATT way of doing things more generally. This sense of grievance was important because during the 1990s and 2000s developing countries began to account for a progressively greater

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share of world trade – and thus the GATT and the WTO, along with other international institutions, were affected by underlying changes in the distribution of global economic power.

The other factor which helps to explain the current difficulties with the DDA is that, even though greater developing country participation in world trade and in GATT politics altered the balance of economic power, this was not something that was automatically reflected in the institutional transformation of the world trading system. Although the creation of the WTO in 1995 as part of the Uruguay Round settlement was heralded as a major departure in the governance of world trade, the change was less dramatic than initially thought. In fact the WTO constituted the worst of both worlds. This is because it retained the traditional GATT decision-making structure characterised by informality and consensus decision making (which generally favoured the developed countries), but on to this was grafted a dispute-settlement process characterised by a high degree of formality and legalism. The importance of this, in terms of the developing country grievances discussed above, was twofold. First, the unbalanced nature of the outcome of the Uruguay Round – as developing countries perceived it – was made worse because it was accompanied by a more legally-robust process for settling trade disputes, thus serving to lock in the trade commitments made. Second, since the creation of the WTO did little to alter the decision-making structures of the GATT, developing countries were wary of making any further commitments in a new trade round unless the agenda was explicitly weighted in their favour. Against this, the changing distribution of global economic power in the post-Uruguay environment served to harden the attitudes of elites within many developed countries *against* offering further concessions to developing countries. This stance was based on the belief that developing countries had been the principal beneficiaries of the changing division of labour – in global manufacturing in particular – and therefore further liberalisation should be based on 'a level playing field' and that developing countries could not expect, nor should they be entitled to, 'a trade round for free'.

To summarise, then, we can say that the difficulties that the post-Uruguay trade agenda has encountered are a by-product of the changing balance of economic power between developed and developing countries. But, as frequently pointed out to students of International Relations, politics is not just about material interests and power capabilities – it is also about how institutions shape material interests and mediate or amplify existing power asymmetries. In this specific case, the WTO has inherited a series of decision-making structures that acted to institutionalise traditional power asymmetries and make it difficult for developing countries to fully actualise their newly-acquired power. During the Seattle ministerial meeting the objectives of developing countries came up against those of developed countries, which lay primarily in extending and deepening the Uruguay Round agenda into areas like transparency in government procurement, competition policy, investment, trade facilitation, labour standards and the environment. And, to the extent that the post-Uruguay agenda should be weighted in favour of the interests of developing countries, this would have to be achieved within existing power structures, meaning that a sufficient *quid pro quo* would have to be offered to the developed countries in return.

Although the collapse of the Seattle ministerial meetings is most often discussed in terms of the street protests and public disturbances that took place, it was the disharmony *inside* the meetings room which was ultimately more decisive – and it is this that has set the tone for the negotiations ever since. Although the post-Uruguay negotiations were revived in the immediate aftermath of September 11<sup>th</sup> and renamed as the DDA, the change in substance was insufficient to prevent another collapse at Cancun in 2003; and despite the fact that the decision was taken to drop the three most divisive Singapore Issues – transparency in government procurement, investment and competition policy – from the agenda the negotiations have struggled to make much headway since. Although the 2005 Hong Kong ministerial was declared a 'moderate success', on the basis of a series of (fairly modest and largely unbound) commitments designed to boost trade-related capacity building and market access for least-developed countries, the talks failed to produce any resolution on the substantive issues of agricultural and non-agricultural market access. In 2008, the negotiations were re-launched in Geneva but soon suffered another collapse after WTO members failed to find a compromise to the issue of the 'special safeguard mechanism', designed to protect developing countries from post-liberalisation import surges. At the time of writing in late 2009, WTO members were meeting again in Geneva for the first official ministerial since Hong Kong but without any real expectation that a breakthrough was imminent.

### 4. Conclusion – will there be a conclusion and does it matter?

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It is almost ten years to the day since the collapse of the Seattle ministerial, but a new trade deal seems no more likely now than at any other point in the negotiations. This does not necessarily mean that a deal cannot be reached. In fact with sufficient compromise on the part of both developed and developing countries it is even possible, albeit perhaps unlikely, that a deal could be struck in 2010. Such an agreement, however, is unlikely to address the issues we have raised in this paper. In essence, the impasse in the Doha negotiations hinges on the question of 'fairness' and the different meanings that rich and poor countries attach to this term. The developing countries see fairness in terms of addressing the inequities of the Uruguay Round bargain through a trade deal that is not only more balanced but one that is deliberately and explicitly weighted in their favour; while, for their part, the developed countries are by and large sympathetic to this perspective, but nevertheless see the question of fairness primarily in terms of a 'level playing field' in which all countries, with the exception of the very poorest, contribute fully to the final outcome. In these circumstances, the degree of compromise required is likely to dictate a final agreement that is modest in both scope and ambition. Yet this is not something that should worry free traders unduly. Although there has been much talk lately of the 'threat of protectionism', trade liberalisation continues to spread through regional and bilateral deals – with approximately 400 such agreements scheduled to be implemented by 2010, close to three-quarters of which were negotiated after 1995. These agreements are not, however, to everyone's liking since they tend to be trade distorting, offer fewer welfare benefits than global free trade deals while carrying sizeable opportunity costs in terms of undercutting efforts to liberalise trade on a multilateral basis. Finally, such agreements do little to address the type of bargaining asymmetries that we have discussed here since they offer developing countries even fewer opportunities to balance against power politics while threatening to leave many of their number out of the game completely.

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