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“Challenges to the Multilateral Trading System”

OXONIA Distinguished Speaker Event

by

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The importance of multilateral trade liberalisation

Ever since the GATT was established in 1948 the growth in international trade and economic growth has been remarkable. The point demonstrated is that the traditional mercantilism of trade relations is less and less appropriate for the global economy.

Bilateral trade deals make the business environment more complex and unpredictable. Preferential trading agreements erode the principle of non-discrimination. They distort trade away from the underlying comparative advantage; create rents which are appropriated by special producer interests; multiply the complexities associated with aspects such as rules of origin, technical regulations, health and safety standards and administrative arrangements. They are also far harder to enforce than WTO rules, whose resolution mechanism is has been very effective.

Partial agreements outside the scope of the WTO lack the power of universal rules and legally binding commitments when it comes to two vital areas. One is the regulation of commerce in a clear and predictable manner.

A second key advantage of the multilateral framework is the impact of WTO obligations on the domestic reform process. Economic reform is extremely

difficult to achieve politically, and external commitments have often been the means by which domestic opposition to reform has been overcome.

What went wrong with Doha?

Why then has Doha run into such trouble? There has been a key contradiction at the heart of the Doha Round from the start, and that was its construction as a 'development' round.

The concept of a development round gave developing countries unrealistic expectations of what they could expect when the process of inevitable give and take within detailed negotiations got under way. Further, there are other institutions better placed to focus on economic development. The WTO's job is to focus on the creation of a favourable enabling environment for international trade and investment to grow.

The "development" round also opened the way for a damaging emphasis on the idea that developing countries should not be required to make the same commitments to WTO rules as the developed countries. However, avoiding WTO commitments almost always operates against the long term economic interests of developing countries. It relieves their governments of the pressure to reform; reduces their attractiveness to foreign direct investors; slows the growth in their trade.

The failure of Doha is also a failure of political will, which puts some responsibility on all of those who failed to engage in creating a more constructive climate of opinion. That includes the WTO itself, and leading politicians and negotiators who did want a positive outcome. The success of the Uruguay Round, negotiated between 1986 and 1993, depended on an extraordinary degree of political risk-taking, with some individuals willing to put their ministerial futures on the line. Such political courage has been absent in the Doha talks.

Some responsibility also rests with multinational businesses, which for the most part were slow to engage with their critics, and slow to set out the arguments for the positive impact of multilateral trade liberalization.

Next steps

Time is running out on Doha. This is all the more disheartening as so much already has been agreed. The EU has agreed to carry through the biggest reform of the Common Agricultural Policy in a generation. WTO members have agreed to eliminate export subsidies and to discipline other unfair forms of export support by 2013. Further, the tariff cuts proposed by the G20 countries will open new export markets for agricultural products.

Furthermore, Brazil, India and other countries have committed to bringing down their high WTO-guaranteed tariffs to close to the tariffs actually being applied. The trade-facilitation agreement, too, is far advanced, and everyone recognises the importance of faster and more efficient customs clearing and processing procedures.

However, neither the outcome nor the path by which it was reached has been satisfactory. The steps needed are practical measures to reform the WTO and its processes, as well as longer-term steps towards enhancing political commitment to the framework of multilateral trade.

Institutional reform

The Doha Round has been a negotiation by formulae. This led to very ambitious headline commitments, attenuated by a myriad of special conditions. The Uruguay Round, by contrast, involved broadly stated objectives met through intensive bilateral bargaining. The outcomes were less predictable, but the pragmatic approach got results.

Another key to an improvement in procedures is recognition that universal participation is not equivalent to transparency. The need for transparency applies to the issues and initial positions, and to the eventual outcomes, but there will always be a need for some negotiations to be private.

Enhancing political commitment to multilateralism

This will require changes in attitudes in a number of capitals: The US has always been a driving force behind multilateral institutions, but the credibility of its commitment to the WTO is in doubt.

The EU needs to be able to negotiate on manufacturing and services without having to stay constantly sensitive to its farm lobby. EU politicians also need to advocate the benefits of trade liberalisation to voters, rather than taking the populist route. China and Japan have benefited enormously from its WTO membership; their leaders should now take a more active role. Brazil and India must take much greater responsibility for the outcome of WTO negotiations. Both have appeared to be driven by doctrine and narrow self-interest, rather than a broader sense of the interests of either developing countries or the WTO membership as a whole.

More broadly, there must be a recognition that the true development agenda lies in making commitments to WTO rules, rather than in seeking exemptions from them under the rubric of 'special and differential treatment'.

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