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The Importance of Reviving the Doha Round

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Overlooked in the daily onslaught of negative global financial and economic news—not to mention campaign rhetoric—is the vital and positive role that international trade and open markets have played in helping companies stay afloat in today's tough economic climate. America's free trade policies—that favorite bugaboo of protectionists on both sides of the political aisle—and a relatively open investment regime have cushioned the U.S. economy as domestic consumers and investors have tightened their purse strings and cashed out their mutual funds. Now that the economic storm has spread from the U.S. to much of the world, the need to keep the nation's trade and investment barriers low and competitive is even more critical.

With many countries' economic well-being linked through trade and investment, the need for all nations to embrace trade and investment liberalization is crucial to helping the global economy recover and grow. Sadly, rather than calmly assessing what policies are needed to restore confidence in U.S. and world financial markets, politicians everywhere are stumbling over each other to design interventionist schemes that could reverse many hard-won and beneficial open market policies—policies that many leaders are wrongly blaming today's economic turmoil on precisely such interventionist policies. Rather than panicking or pandering to special interests, policymakers in the U.S. and around the world need to commit to getting multilateral trade talks back on track in the World Trade Organization and should remain vigilant against implementing protectionist investment policies as important elements to any long-term economic recovery strategy.

Trade and Development in the Doha Round. As its name implies, the current Doha Development Round of multilateral trade negotiations was founded on the principle of promoting economic development along with freer trade. Member nations, developed and developing alike, went into the negotiations with the idea that any new agreement would result in developing countries being better integrated with and benefiting from the global economy.

When a country lowers its barriers to trade, it opens its economy to competition and a wider variety of goods and services than was previously available. Competition spurs the movement of labor and capital from industries that cannot compete to those that can, enabling the country to both produce more efficiently and attract new investment—critical elements of any long-term development strategy. Of course, freer trade also means that exporters can sell their products in more countries' markets. However, for a country trying to develop its economy, merely gaining additional access to wealthy markets is not enough to spur the same kind of momentum needed for sustainable growth as the efficient use of resources and new inflows of investment.

In that regard, one of the biggest boosts to freer trade and sustainable development would come not only from developed countries making meaningful

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progress on dismantling remaining trade barriers but also from developing countries making binding commitments under the Doha Round to reduce what are some of the world's highest tariffs and other trade barriers against the developed world. Yet even more critically, developed countries must reduce tariffs and other barriers to trade against each other. The IMF reports that manufacturing tariffs in developing countries are four times higher than in developed countries, and separate research has determined that 70 percent of tariffs paid by developing countries go to other developing countries.[1]

Rather than highlighting broad disagreement over what a comprehensive multilateral trade agreement should look like, the collapse of global trade negotiations in July of this year reflected the inability of countries to agree on a handful of "deadlocked" issues. Of particular concern was the demand that developing countries be granted an excessive special safeguard mechanism as a means to protect domestic producers from import surges. Had this demand been fulfilled, developing countries would have been able to apply higher, temporary tariffs in excess of current bound rates, undermining not only the fundamental objective of negotiating for freer trade but also reversing progress made earlier under the Uruguay Round and in the accession agreements defining the trade liberalizing commitments of newer members.

Such a reversal of progress would have a tangible impact on rich developing and developed countries alike. For example, since the WTO was established in 1995, real growth in trade of goods and services among lower-income and lower-middle-income countries has averaged more than 7.5 percent, while high-income countries have experienced 7.2 percent average growth—faster on average than these countries' average rate of GDP growth.[2] With countries trading more, it is no surprise that they are more integrated with the global economy. Measured by the ratio of trade to GDP, lower-income and lower-middle-income countries' trade integration rose from an average 71 percent in the early 1990s to 94 percent today. Trade integration increased for high-income countries as well, climbing from an average 113 percent to 132 percent.[3] With international trade playing an increasing role in the economic performance of nations and countries becoming ever more connected to global markets, the cost of backtracking on the commitments WTO members have already made would not only result in a slower recovery from today's economic slump, but it would also undermine efforts to advance economic development.

Reduce Barriers to Trade. There is nothing wrong with developing countries taking extra time to implement trade reforms, especially when these countries are clearly striving to introduce broad policy changes as part of a comprehensive reform of their economic policies and institutions. However, the overarching goal of the trade talks is to reduce barriers to trade, not erect more of them. International trade has been a source of growth for all participants, and WTO members need to make meaningful contributions towards an agreement—if one is to be had. Nations can strike the biggest blow against poverty and achieve a faster pace of economic recovery by helping to conclude the Doha Round with an agreement that eliminates trade-distorting polices in all countries, rich or poor. And the faster the pace of trade liberalization, the better. After all, doggedly holding on to protectionist trade policies for as long as possible only further delays economic development.

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1. Uri Dadush and Julia Nelson, "Governing Global Trade," *Finance and Development*, Vol. 44, No. 4, December 2007; Thomas W. Hertel and Will Martin, "Liberalising Agriculture and Manufactures in a Millennium Round:Implications for Developing Countries," *The World Economy*, Vol. 23, Issue 4, December 2002.
2. Calculated from data in Roumeen Islam and Gianni Zanini, *World Trade Indicators 2008: Benchmarking Policy and Performance* (Washington D.C.: World Bank, 2008), at *http://info.worldbank.org/etools/wti2008/docs/mainpaper.pdf* (November 3, 2008).
3. *Ibid.*