

# WebMemo



Published by The Heritage Foundation

No. 2179

December 22, 2008

## The Future of the WTO Doha Round

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On December 12, the director-general of the World Trade Organization, Pascal Lamy, announced that he would not convene a ministerial meeting in December to conclude the Doha Round of multilateral trade negotiations. The announcement comes after efforts to build consensus for a comprehensive agreement were held hostage to a handful of controversial trade issues, as well as changing political leadership in key WTO countries.

While a trade deal would immediately bolster confidence in the world economy, any further agreements are contingent upon whether, in 2009, WTO members have the political will to conclude the Doha Round.

**Waiting for Free Trade.** The risk of delaying progress in the WTO is twofold: First, countries will increasingly look to bilateral and regional free trade arrangements to more quickly reap the benefits of lower trade barriers. Second, the pressure to implement protectionist measures in response to the current economic downturn will be immense. Free trade agreements can help reduce trade restrictions globally by demonstrating solutions to difficult trade problems. However, they can also discriminate against countries not party to the agreements and their differing rules can add to the cost of trade. FTAs are not a perfect substitute for multilateral trade liberalization, and WTO members need to ensure that concluding the Doha Round takes priority over FTA negotiations.

Delaying a comprehensive trade pact also reduces countries' discipline in keeping a rein on

protectionist measures implemented to prop up domestic companies. Moreover, without the new market access a multilateral deal would bring, it will be more difficult for firms that are struggling domestically to export instead. When all sales opportunities dry up, companies go out of business, jobs are lost, and the chance for economic recovery is postponed.

Ultimately, however, the costs of delaying a multilateral deal pale in comparison to the cost of the trade round failing completely. Because each failure reduces confidence in the WTO's ability to deliver open markets, the ministerial meeting should be postponed until the chance for success is better. Multilateral trade and investment liberalization is crucial to not only help the global economy recover but also to reduce poverty and increase growth. The world cannot afford to let the Doha Round fall by the wayside.

**Resolving the Issues.** The two biggest problems impeding progress in the Doha Round are: (1) continued disagreement over the special safeguard mechanism, used to protect domestic farmers in developing countries from agricultural import surges; and (2) voluntary sector-specific agreements to make deep cuts in manufacturing tariffs.

This paper, in its entirety, can be found at:  
[www.heritage.org/Research/TradeandForeignAid/wm2179.cfm](http://www.heritage.org/Research/TradeandForeignAid/wm2179.cfm)

Produced by the Center for International  
Trade and Economics (CITE)

Published by The Heritage Foundation  
214 Massachusetts Avenue, NE  
Washington, DC 20002-4999  
(202) 546-4400 • [heritage.org](http://heritage.org)

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The collapse of global trade negotiations in July of this year largely resulted from India's demand that developing countries be allowed to apply high, temporary tariffs to stem imports above a threshold level that could harm local producers. Had the U.S. not protested, developing countries would have been able to impose duties in excess of current bound rates on imports that rise merely as a consequence of seasonal shifts in demand. Not only does this tactic undermine freer trade, but it also reverses progress made earlier under the Uruguay Round and in the accession agreements of newer members. Using prohibitive tariffs to protect marginal farmers is not unusual; however, it is done at the expense of consumers who then will often have to rely on government subsidies to pay higher prices for food. Developing countries should address social concerns with non-trade-distorting income support mechanisms that better target recipients without harming other segments of the populace.

In an effort to reduce manufacturing tariffs, the U.S. and other developed nations are looking to sectoral agreements to open markets in important advanced developing countries. These voluntary deals in specific industries (including chemicals, electronics, and industrial machinery) would result in major tariff reductions in China, Brazil, India, Argentina, South Africa, and other major developing country markets. At issue is whether by participating in sector-specific negotiations, developing countries are then committed to the industry-specific agreements before knowing all the details. Thus, while it would be beneficial for all countries for these tariffs to

be cut, the nature of negotiations prevents countries from "losing" tariffs before they know what concessions they gain elsewhere. As the pressure to conclude an agreement increases, or headway is made in other parts of the talks, countries should gain greater flexibility on sectorals.

**The Sooner, the Better.** In a December 2 letter to the Bush Administration, ranking U.S. Congressmen made it clear that the current text of the agreement showed too little ambition on the part of key advanced developing countries to earn the Hill's support. The letter recommended that, rather than rushing into an agreement Congress would not approve, time be taken to overcome the impasse in WTO negotiations. Fortunately, while the issues are difficult, relative to the scope and depth of the comprehensive agreement, they are few in number.

With the new year comes new leadership in the U.S., India, and Europe and, therefore, the chance for new momentum to complete the Doha Round with an agreement that substantially opens global markets to trade. The sooner an agreement in the WTO can be reached, the faster the world can move on from today's economic downturn, and the quicker the benefits of more open markets can accrue to developed and developing countries alike.

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