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FUTURE PROSPECTS FOR MULTILATERAL AND BILATERAL TRADE NEGOTIATIONS

Abstract. The GATT agreement was the first to include agriculture and to cover both border protection and domestic and export subsidies for agricultural products. The round completed successfully in 1994. The subsequent Doha or Development round aimed at furthering progress launched in GATT has not been so successful. This paper explores why the Doha round has been difficult and why it now appears there will not be a meaningful agreement. Developing countries are much more numerous today in WTO, and they insist on an agreement to better their situation. Agricultural subsidies are still a major impasse between rich and poor countries. The absence of the industrial sector to balance agriculture also is an impediment. Furthermore, bilateral and regional agreements have made much more progress and provide many of the gains that might eventually come from a multilateral agreement. Recent work has concluded that domestic reforms are key to achieving the gains of any trade agreement, and they will be essential for Poland to capture the gains from EU membership.

Key words: multilateral trade negotiations, bilateral trade agreements, Doha round, Development round

Introduction

The GATT round of trade negotiations concluded with the signing of the agreement in Morocco in 1994. The GATT round was the first to include agriculture in the negotiations. One of the outcomes of the agreement was the creation of the WTO beginning January 1, 1995. Since that time, the WTO has been the convener of trade negotiations and dispute settlement. The GATT agreement mandated that the WTO member countries get together to launch a new round of trade negotiations within five years. In 1999, even though the countries were not really well prepared, there was an attempt to launch a new round of trade talks in Seattle. But that attempt failed because of an interesting grouping of labor interests in rich countries and developing country groups.

Many developing countries felt that they did not get from the GATT round what they needed or expected in terms of market access and tools to accelerate economic growth and development. Also, the membership in WTO grew considerably to about 149 members (almost double) with most of the new members being developing countries. So the developing countries have greater weight in WTO than they did in GATT. They were not willing to launch a new round without some assurance that their needs would receive more attention. Then in 2001 a second attempt was made to launch the new round of trade negotiations in Doha, Qatar. There were no protests in Doha, and the meetings were better prepared. So the new round of trade talks was officially launched in Doha in 2001. This

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round is also called the “development round” to accentuate the importance that delegates agreed to regarding the special needs of developing countries.

But progress was slow in getting agreement even on a framework to continue the negotiations. A ministerial conference was scheduled in Cancun, Mexico, in 2003 with hopes of obtaining agreement on the framework and for establishing a road map for future negotiations. But developing countries were gaining strength, especially the G20 led by Brazil and India. At the same time, the world price of cotton had fallen precipitously, and the West African cotton producers were claiming harm from the cotton subsidies paid to rich country producers, especially in the United States. The argument was that because of the huge subsidies, US cotton producers increased their production, and that led to lower world prices, thereby harming poor cotton farmers in countries like Chad and Mali. The cotton issue was used to galvanize developing country insistence on rich country subsidy reduction and increased market access. Because of the hard stance on both sides, the Cancun ministerial meeting also failed, and no framework agreement was reached.

Finally, at the very last minute, a framework agreement was reached in July 2004 in Geneva. But the framework agreement left much work to be done. Another ministerial conference was held in Hong Kong in December 2005, and progress was made, but, still, many important issues remained unresolved. In June/July of 2006, there was a modality meeting in Geneva to attempt to break the deadlock and make progress in the talks. After weeks of intense negotiations without success, on July 24 WTO Director General Pascal Lamy announced that the WTO trade talks were being suspended [WTO... 2006].

The US administration authority to engage in the WTO negotiations (called trade promotion authority or TPA) expires in mid-2007. Without that authority, the US cannot meaningfully negotiate. The current sense is that there is too little time left to get a meaningful agreement before the US TPA expires, so, at least for the near term, most believe this round of WTO negotiations have failed. Most of the issues leading to the failure relate to agriculture.

Why did we reach this impasse?

To understand why we are now in this situation, we need to examine several important factors:

- What do the rich countries want from this round?
- What do the developing countries want from this round of trade talks?

- What is happening in other negotiations, especially bilateral and regional negotiations?

Let us examine each of these factors in turn.

Rich countries say they want a more liberal trade environment. They indicate they are willing to reduce to some extent their domestic and export subsidies to gain a more open trade environment. In December 2005, the EU did agree to eliminate its export subsidies by 2013 if other countries eliminated export incentives (such as US export credit provisions). Both the US and the EU have domestic subsidy reduction proposals on the negotiating table, with the US proposal calling for greater reductions. However, developing countries and some non-governmental organizations (e.g. Oxfam) claim the proposals do not go far enough.

Developing countries have consistently said that the major issues are rich country subsidies and access to developed country markets. Most of the analysis done by the World Bank [Agricultural... 2005] has indicated that developing country focus on rich country subsidies is misplaced. That is, the World Bank analysis argues that elimination of rich country subsidies would help developing countries much less than increased market access. Nonetheless, rich country subsidies have remained an important focal point for developing countries. “Our farmers can compete with rich country farmers, but not with the treasuries of rich country governments.”

Another factor that has emerged is that the links between trade liberalization and poverty reduction have been demonstrated to be somewhat weaker than previously thought. Another 2005 World Bank book [Putting... 2005] argues that while trade liberalization is very important, it is the accompanying domestic reforms that must go along with the trade reforms that are critical. In other words, these domestic reforms permit the potential gains from trade liberalization to be realized. These reforms may also be important in targeting the gains towards the poorer segments of the population.

In addition to these factors, another important development has been the advance of bilateral and regional agreements. The EU has “Everything but Arms,” and the US has the African Growth and Opportunities Act (AGOA), both of which provide essentially duty free access for many of the poorest countries to EU and US markets. In other words, these regional programs have provided to the poorest countries most of the benefits that they would get from a WTO agreement, at least in terms of north-south trade.

There are important differences for the rich countries as well between the GATT round and the WTO round. The GATT round succeeded in reducing or eliminating many

industrial tariffs. At present, industrial tariffs are quite low, so there is not great interest in rich country manufacturing sectors in pushing WTO negotiations. In contrast, for the GATT round the industrial sectors were pushing hard for the agreement and provided some pressure to make progress in the agricultural negotiations (always the most difficult). In the WTO round, that pressure from the rich country manufacturing sectors has been mainly absent.

Furthermore, there have been many bilateral agreements negotiated since the GATT agreement of 1994. The private sector tends to prefer the bilateral agreements because much more progress can be made much more quickly. For example, the Morocco-US free trade agreement (FTA) took effect in 2006. It took about 14 months to negotiate and is quite comprehensive. The US now has 15 bilateral FTAs and 5 regional FTAs [US Trade... 2006]. Recently, the EU also has accelerated the pace of negotiating regional and bilateral agreements. All told, there are now over 200 regional or bilateral agreements globally. Taken together, these agreements have reduced the perceived need for a broad global agreement through the WTO. This is the case despite the fact that economists almost universally would favor the multilateral approach to the regional or bilateral approach. Figure 1 illustrates how the estimated gains from a broad WTO agreement have declined through time as more bilateral and regional agreements have come into force. The most recent estimations reported in figure 1 were done in 2004.

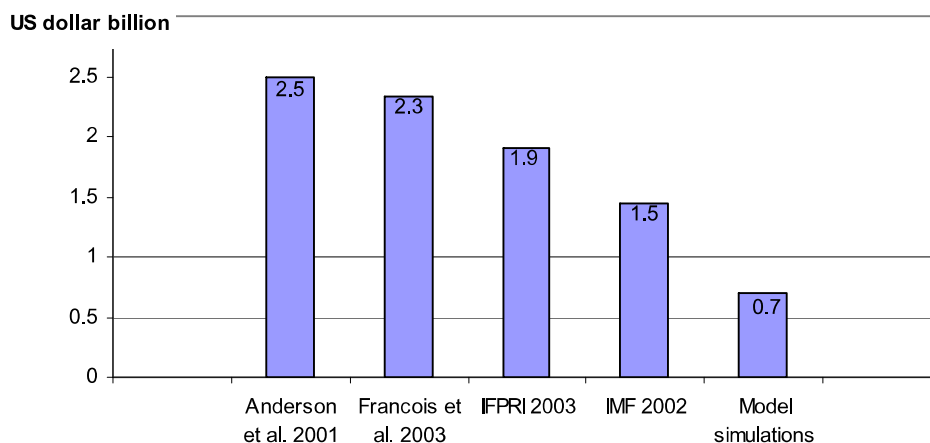


Figure 1. Welfare gain estimations through time for Sub-Saharan Africa
 Source: [Osakwe 2004].

So the bottom line is that this round of trade negotiations is likely to fail because no group has a strong interest in seeing it succeed. Most of the players would like to see a WTO agreement. However, the perceived gains likely are not so large as in past rounds, and perceived costs may be higher. While rich and poor countries alike would like to see an

agreement, and it would be in the long-term interests of both sides to reach an agreement, it is simply not possible at present given all the factors discussed above. A paper agreement is still possible before the deadline, but a real substantive agreement seems highly unlikely.

What does this mean for Poland?

Being an EU member, Poland will have the advantages of the EU market for its agricultural products as the EU admission agreement comes into full force for agricultural products. So for Poland, entering the EU is like entering a regional FTA. And as indicated earlier, the key to success in entering new trade arrangements is to make the domestic policy reforms and public investments that will enable the country to reap maximum advantage of the trade opening. Thus, for Poland, investments in infrastructure, information and communication systems, and sound rural development policies will be key to enabling Poland to reap the gains for its agricultural sector of EU membership.

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