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NOVEMBER 2005

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Munk Centre for International Studies
University of Toronto
1 Devonshire Place
Toronto, Ontario, Canada  M5S 3K7
Telephone: (416) 946-8900
Facsimile: (416) 946-8915
E-mail: munk.centre@utoronto.ca
Website: www.utoronto.ca/mcis



ISBN 0-7727-0822-3
ISSN 1715-3484

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CENTRE FOR INTERNATIONAL STUDIES
University of Toronto
1 Devonshire Place
Toronto, Ontario
M5S 3K7
Tel.: (416) 946-8929
Fax: (416) 946-8915
E-mail: cis.general@utoronto.ca
Website: www.utoronto.ca/cis

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## MCIS Briefings

1. ***Bound to Follow? US Foreign Policy, International Reactions, and the New Complexities of Sovereignty.*** By Louis W. Pauly. 2005 ISBN 0-7727-0825-5.

2. ***The Multilateral Agenda: Moving Trade Negotiations Forward.*** By Sylvia Ostry. 2005 ISBN 0-7727-0822-3.

# The Multilateral Agenda: Moving Trade Negotiations Forward

Sylvia Ostry

*Sylvia Ostry, Ph.D., is the Distinguished Research Fellow, Centre for International Studies, University of Toronto. She has a doctorate in economics from McGill University and Cambridge University. Dr. Ostry has held a number of positions in the Canadian Federal Government, among them, Chief Statistician, Deputy Minister of Consumer and Corporate Affairs, Chairman of the Economic Council of Canada, Deputy Minister of International Trade, Ambassador for Multilateral Trade Negotiations, and the Prime Minister's Personal Representative for the Economic Summit. From 1979 to 1983 she was Head of the Economics and Statistics Department of the OECD in Paris. She has received 19 honorary degrees from universities in Canada and abroad and, in 1987, received the Outstanding Achievement Award of the Government of Canada. In December, 1990 she was made a Companion of the Order of Canada, the highest award in the Canadian national system of honours. In June, 1991 she was admitted as a Fellow of the Royal Society of Canada.*

## Introduction

The goal of this briefing is to provide a general overview of the current negotiations of the World Trade Organization and some suggestions for moving them forward. As I am a devotee of brevity, my temptation was to summarize the current situation with one word: dismal. I recognize, however, that more is required to substantiate this description. I will place the issue of the Doha Round of negotiations in a broader historical context, and will argue that the Hong Kong Ministerial meeting in December is crucial but not final. The real due date is June 2006 when the trade promotion authority granted by Congress to President Bush expires, for it is unlikely to be renewed anytime soon after.

I will begin with a brief overview of the legacy of the Uruguay Round, the major determinant of the ambience of the global trading system. Then I will move to the emergence of the 'new geography' at Cancun and of a major acceleration of preferential trade agreements (PTAs), which conjure up an image of an overflowing spaghetti bowl. Finally, I'll conclude with a few words on Hong Kong, including some policy suggestions in light of this historical analysis.

## The Uruguay Round Legacy

The Uruguay Round was the eighth negotiation of the General Agreement on Tariffs and Trade (GATT). Since its inception, the GATT had worked very well through the concept of reciprocity, although denounced as mercantilist by trade purists. Its functioning was assisted by a focus on border barriers which reduced intrusion into domestic policies, the Cold War, and the virtual exclusion of agriculture from its purview. From the 1960s onwards the rounds were effectively managed by the United States and the European Community (the Big Two) with a little help from some of their industrialized country friends. The developing countries were largely ignored as players, although this began to change in the 1970s, largely as a consequence of the OPEC oil shocks.

The Uruguay Round was a watershed in the evolution of the system; unlike previous GATT negotiations, agriculture was at the centre of the talks. A call by the United States for negotiations came in 1981, but the process was stalled by endless foot-dragging by a European Community determined to avoid facing the reform of their grotesque Common Agricultural Policy (CAP). The European Community was aided in this tactical delaying of the issue by a small group of developing countries, led by Brazil and India, who strongly opposed the so-called 'new issues' of services, intellectual property, and investment, the main priority for the American business. Indeed, the agenda for the new issues was effectively managed by American multinationals who enlisted the support of corporations in other OECD countries. Despite the stalling of certain participants, the Round was finally launched in September 1986 at Punta del Este, Uruguay. It concluded in December 1994, four years beyond the target date agreed to at the launch. The conclusion rested on a deal between the European Community and the United States on agriculture negotiated behind closed doors at Blair House, in Washington, and the negotiations were almost as tortuous as the launch.

The Grand Bargain, as I have termed it, was completely different from old-time GATT reciprocity. The opening of OECD markets to





agriculture and labour-intensive manufactured goods, especially textiles and clothing, was conceded in exchange for the inclusion of services, intellectual property, and (albeit to a lesser extent than originally demanded) investment into the trading system. It also included as a virtually last minute piece of the deal the creation of a new institution, the World Trade Organization, with the strongest dispute settlement mechanism in the history of international law and virtually no executive or legislative authority.

The Grand Bargain turned out to be a Bum Deal. There was far less opening in agriculture markets than developing countries had expected, and the reduction of restrictions on textiles and clothing was backloaded and more than offset by the impact of China. The side of the deal that affected countries of the South required a major institutional upgrading and changes in the infrastructure of most Southern countries, changes which take time and cost money. The new issues did not involve border barriers but domestic regulatory and legal systems. These factors meant that implementation involved considerable investment with uncertain medium-term results. In effect, the trading system was transformed from the negative regulation of the GATT – what governments must not do – to positive regulation – what governments must do.

The Uruguay Round consisted, due to some clever legalistic juggling by the United States and the European Community in the end game, of a 'single undertaking.' There were no 'escape hatches' for the Southern countries as there had been in the Tokyo Round: it was a take it or leave it deal. So they took it, but, it's safe to say, without a full comprehension of the profoundly transformative nature of the new system and the Bum Deal. The extraordinary complexity of the negotiations was especially difficult for the poorest countries who had (and have) few human resources and played almost no role in Geneva. A former delegate notes that during the entire negotiations the Geneva team received two instructions from their capital. This lack of comprehension is perhaps better captured by a remark of one of the Southern participants: "TRIPS was part of a package in which we got agriculture."

There were a number of unintended consequences of this transformation. Most important in the current context was that a serious North-South divide was embedded in the WTO. While the

South is hardly homogeneous, there is a broad consensus that the outcome was seriously unbalanced. This contributed to the emergence of the new geography to which I shall now turn.

## The New Geography

After the WTO Ministerial debacle in Seattle in 1999 a new Round was launched in Doha, Qatar in 2001. Given the resentment of most Southern countries, it is more than symbolic that the outcome was termed a 'development agenda' and not a round. The main objective of the Doha meeting was to avoid another Seattle when all the developing countries walked out, thus its great success was that it did not fail. The Doha Declaration, the agreement which resulted from the talks, was a masterpiece of creative ambiguity; as the negotiations went nowhere and all deadlines agreed to at Doha were missed, it was too clever by half. And then came Cancun in September 2003.

I was at Cancun, and when the meeting ended so abruptly I was reminded of the mid-term Ministerial in Montreal in 1988. On the last morning of the meeting the bleary-eyed negotiators were waiting for the European Community and the United States who had been up all night dealing with agriculture. When they arrived they announced that there was no agreement so we should just go ahead and draft a communiqué on the agreed issues. A group of Latin American countries headed by Brazil said 'no'; if agriculture was not included in the agreement then it was to be rejected. This stance produced a moment of shock among the negotiators, but we recovered and announced to the press that the meeting had been adjourned and would resume in Geneva.

But despite my reminiscence I soon realized that Cancun was not Montreal, for the North-South divide had taken a different shape. Two new coalitions were formed at Cancun. The G20, led by Brazil, India, and China (the Big Three), includes South Africa and a number of Latin American countries. The G90 includes the poorest developing countries, primarily from sub-Saharan Africa. Both of these coalitions have survived and the G20 is playing an active role and is trying to establish an effective relationship with the G90. Unsurprisingly, there have been repeated efforts by the Big Two to split the coalitions and to encourage conflict between them by including the main Southern countries in negotiating coalitions of North and South. So far these attempts have not succeeded. Indeed, a so-called New Quad (the Big Two, Brazil and India) has been established at recent meetings. But





even if the coalitions are fractured, there are bigger issues, for the new geography is not confined to trade. A shift in the balance of power is underway and will spur changes in both domestic and external policies.

## Conclusions

It is difficult to evaluate what the impact of the new geography will be on the Doha negotiations. There does not appear to be any coherent strategy either by the G20 or the G90 except perhaps on agriculture. But even in that domain there are unresolved differences between countries such as export-oriented Brazil, import-focused India, and the poverty-stricken African farmers with dependence on one commodity. The crucial issue of special and differential treatment (SDT) has also exacerbated the North-South divide and divisions between Southern countries. This dissent is also exemplified by the Development Agenda, which could certainly not include any agreement on the issue of development, either a definition, process, or policy. Thus the real danger of the new geography is that it could transform trade into a zero sum game. By blocking consensus the G2, G3, G20, and G90 can exert power, but for what purpose?

The proliferation of PTAs is also fragmenting the global system. The Sutherland Report on the WTO released last December puts great emphasis on this trend and its active promotion in recent years as an American strategy of "competitive liberalization" designed to encourage more ambitious agendas in the WTO. This is nonsensical because in the American bilaterals the inclusion of WTO plus for TRIPS and investment foisted on the smaller, weaker countries is negative for the WTO. In earlier decades the European Community used PTAs as an instrument of foreign policy. Today the United States is doing the same. The consequence is to greatly increase the transactions costs for smaller countries and smaller companies because of the increasingly complex rules of origin. What it does for foreign policy is not quite clear.

There are a number of experts who argue that the outcome at Hong Kong depends on a bilateral agreement on agriculture by the Big Two – another Blair House. This will be very difficult for both parties because of growing protectionism in the U.S. Congress, especially over some agricultural issues, and growing concerns in Europe over American demand for greater market access as well as export subsidies domination. But agriculture alone won't do it this time. There is nothing approaching coherence in the negotiations over non-agricultural market access (NAMA) or services. Yet the OECD countries are demanding improved access in NAMA and far better offers in services. The Indians and others are asking for some good offers on movement of natural persons. But for the United States this raises serious concerns about migration and security. And, lest we forget, key issues remain on outsourcing These are a few examples of the difficulties facing the negotiators. The time to Hong Kong is short but the road is long and bumpy.

Finally, given the current state of the trading system and the uncertainty concerning the outcome of the negotiations, I think it would be prudent to consider some structural reform proposals at Hong Kong. In addition to the suggestions from the Sutherland Advisory Group, there have been a large number of studies recently on basic concerns such as trade and development, equity and poverty, trade and growth, international coherence, etc. I know Hong Kong is not a likely forum for a seminar, but the host government could launch some working groups on these and other priority subjects. Perhaps one outcome could be to establish a policy forum in the WTO so that such issues could be discussed and debated as a part of the policy process. One such forum existed in the GATT – when the trading system was much simpler.



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