

An abbreviated version of this  
article appeared in **The Financial Times**

## Why Doha is Inescapable

By

Jagdish Bhagwati

&

Robert Baldwin

Jagdish Bhagwati is University professor at Columbia University and Senior Fellow at the Council on Foreign Relations. Robert Baldwin is emeritus Hildale professor of economics at the University of Wisconsin-Madison.

The Free Trade Area of the Americas (FTAA) ran into rough weather in Miami last November. The patchwork deal to let countries go in different directions on several issues, as each FTAA member might fancy its interests to lie in, was little more than a face-saving formula. But if one looks closely at the face, it is evident that USTR Zoellick's love affair with the strategy of going bilateral and regional, both as desirable in itself (when many see these proliferating deals as a pox on the world trading system) and as a strategic means to spur multilateralism (when in fact many regard it as harming it), had floundered.

In consequence, Doha has resurfaced forcefully as an option, despite the premature reports of its demise at Cancun which contained within itself the seeds of eventual success, such as the agreement on TRIPS after long and grueling fights between developing countries and the pharmaceutical firms. But we would argue that Doha must be seen, not just as an option, but in fact as the option that alone can be chosen if we are to make significant progress on liberalizing the world trading system further. Why?

### **Politics and FTAs**

Part of the reason for the Miami failure was what Mr. Zoellick has regrettably been unwilling to admit, even while using bilateralism to favour loyal allies (such as Australia) and punish fickle friends (such as New Zealand, which was denied an FTA, putting it at extreme disadvantage with its rival Australia in the US market): that domestic and foreign politics intrudes far too much into the choice of trade partners and the agendas covered by bilaterals and regionals. This sets up new roadblocks to trade liberalization.

Thus, it is now widely agreed that the NAFTA negotiations with Mexico led many protectionists to zero in on the warts in Mexico's face, regardless of whether these had anything to do with trade, and to allege that free trade with Mexico would not be "fair" trade. This led to a variety of non-trade issues to be made part of negotiations for trade liberalization: the state of Mexico's environment, its labour standards, its provisions on intellectual property protection, and the state of its democracy. In the end, NAFTA survived, just barely, but trade negotiations ever since have been captured by lobbies, good and bad, that seek to advance their agendas by pretending that they are "trade-related" agendas. This has slowed down trade liberalization, with many developing countries now fearful and acting on the increasing realization that trade treaties and institutions are being captured and distorted by the powerful business, labour and environmental lobbies of the rich nations for their own purposes and to the detriment of the poor nations' trade.

The difficulties that afflicted the FTAA in Miami would certainly have included similar concerns on the part of Brazil which has continued to insist, for instance, that the diffusion of appropriate labour standards worldwide should be pursued outside of the FTAA negotiations and in a manner that does not involve trade or other sanctions which readily lend themselves to protectionism. But this critical problem, which would have ironically pitted a Republican US administration (whose commitment to labour standards in trade negotiations is simply strategic and aimed at domestic politics) against a progressive Brazilian administration (whose pro-labour credentials are undisputed), was obscured and trumped by politics of an altogether different variety.

Brazil has always regarded the FTAA as an extension of NAFTA, with the United States playing the hegemon. It favours instead an outward expansion from the Mercosur model, where Brazil would be the hegemon. Besides, every influential Brazilian remembers, we are told, Ambassador Zoellick's undiplomatic remark when candidate Lula expressed his opposition to FTAA during the campaign: In that case, let him "head south to Antarctica"! It is not surprising that the FTAA posed insuperable difficulties: after all, it was Canada and Mexico, the two NAFTA allies of the United States, who were playing without success for the American positions. Perhaps President Lula and his advisers were telling the USTR to trade with Antarctica?

### **Bilaterals and Agricultural Subsidies are Incompatible**

But the main problem is that bilaterals and regionals simply cannot address the principal trade issue today: the removal of production and trade subsidies in agriculture. How can production subsidies, which the United States and the EU have many of, be cut preferentially? It is impossible. At the same time, cutting export subsidies preferentially for one's FTA partners is possible indeed, but politically impossible. Why? Because it turns upside down the political logic of preferential trade deals. When one reduces tariffs for only the FTA members, one reduces the competitiveness of non-members whose entry into the FTA markets continues to face the tariffs. As the economists Gene Grossman and Elhanan Helpman have formally demonstrated, this provides an important political motive to sign FTAs. But when it comes to export subsidies, which the EU in particular has many of, if they are cut only for the FTA members, then the non-members, who maintain their subsidies, increase their competitiveness in the FTA markets. Politics then disfavours FTAs.

Besides, lax as the discipline of Article 24 of GATT, which sanctions FTAs under specific preconditions, has been, the United States itself has long taken the position, including under the Clinton administration when Ambassador Stewart Eizenstat belabored the EU on this issue, that selective exemption of large sectors is incompatible with Article 24. How can FTAs that exempt agricultural subsidies altogether from the axe be considered to be compatible with the spirit, as distinct from the letter, of Article 24?

So, in the end, if agricultural subsidies are to be attacked, as most WTO members recognize is necessary now, there is no option except to go back to Doha. Going down the bilateral path is not merely unwise; it is also impractical for the problems at hand. It is time for Mr. Zoellick and Mr. Pascal Lamy, whose inspired leadership on getting the Doha Round off the launching pad deserves all our gratitude, to get back instead to the business in Geneva.