Don’t Cry for Cancún

Jagdish Bhagwati

AFTER THE FALL

Once, when asked by a student radical whether he agreed with Mao Zedong’s assertion that a statement could be both true and false, the philosopher Sidney Morgenbesser famously replied, “I do and I don’t.” Something similar could be said about the recent trade talks in Cancún, which collapsed in acrimony: they were truly both a failure and a success. The failure lay in the here and now, in the bad press and in the fact that no actual agreement was reached. But the talks also represented a success, which will soon become apparent: Cancún will serve as a stepping stone to a successful conclusion of the Doha Round of trade negotiations, underway since November 2001.

The Cancún talks collapsed abruptly on September 14 of last year, when Mexico’s foreign minister, Luis Ernesto Derbez, pulled the plug following a stormy meeting. Immediately, nongovernmental organizations (NGOs) began to celebrate, and TV screens worldwide flashed scenes of Walden Bello, an eminent Filipino sociologist, dancing joyfully with fellow activists.

Less joyful were the two major players at the talks, the United States and the European Union, who responded to the breakdown by letting recriminations fly. The heads of both delegations—Robert Zoellick, the U.S. trade representative (USTR), and the EU’s trade commissioner, Pascal Lamy—had hoped for an agreement at Cancún that would let the Doha Round finish on time, in January 2005, when they both expect to still be in office. When no such agreement occurred, both rushed their grievances into print. Zoellick threatened in the

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Financial Times to shift Washington’s focus away from multilateral pacts and toward bilateral agreements with “will-do” nations instead—a threat that made him sound like the Donald Rumsfeld of trade policy, intent on forgoing multilateral institutions in favor of ad hoc coalitions of the willing. Zoellick laid blame for the breakdown of Cancún on the “Group of 22” developing countries (g-22) that had emerged at the talks, deploring their “transformation of the World Trade Organization into a forum for the politics of protest.”

Meanwhile, Lamy responded to the end of the Cancún negotiations by suggesting darkly that the eu would not return to the trade talks anytime soon. As the Financial Times reported six weeks later, Lamy warned against a “rush to relaunch talks” and suggested that the World Trade Organization (wto) negotiating process was deeply flawed. With both major players deploring multilateralism and many NGOs celebrating the collapse of Cancún, parallels with the disastrous WTO meeting held in Seattle, Washington, in late 1999 were perhaps inevitable.

Yet these comparisons were entirely inappropriate. Cancún was no Seattle. The latter will go down in the history of the WTO and of free trade as a failure. The collapse of Cancún, on the other hand, will soon be forgotten, overshadowed by the successes that still should come.

THREE CONTRASTS

Three main differences can be drawn between the breakdowns in Seattle and Cancún. To begin with, Seattle was paralyzed by protests, whereas Cancún was not. To be fair, many observers (including myself) had feared that Cancún would get mired in street protests the way that Seattle had. After all, Cancún, like Seattle—and unlike Doha, Qatar, where the current negotiating round was launched—was readily accessible to agitators. Mexico also has a long-standing tradition of student and rural radicalization; in fact, early reports suggested that the Zapatistas would come to Cancún. Moreover, Mexico’s president, Vicente Fox, had run the country’s Coca-Cola operation before going into politics, a career that invited the caricature that he was a tool of international big business. To make matters worse, his left-leaning foreign minister, Jorge Castañeda, had just resigned before the talks began.
Many also expected the huge reservoir of anger left over from agitations against the war in Iraq—which was hugely unpopular in Mexico—to be redirected against the trade talks. Prior to Cancún, the antiwar movement had already begun to build bridges with antiglobalization groups. Even Howard Dean, the leading Democratic presidential candidate in the United States, had responded to this growing link between the two issues, taking a number of anti-WTO, anti–free trade positions that would have made Representative Dick Gephardt (D-Mo.) blush.

In the end, however, Cancún never witnessed the kind of wild scenes that had disrupted the Seattle talks. The most dramatic events were the suicide of a South Korean farmer (who actually opposed the agricultural liberalization that several NGOs wanted), a nude “happening” on the beach that turned out to be more diverting than a diversion, and some street theater by Oxfam demonstrators wearing masks to represent the leaders of the G-7 group of leading industrialized countries.

There are at least two reasons why the protests in Cancún never matched the size or intensity of those in Seattle. First, the more strident antiglobalization groups appear to have suffered from what the economists call “the law of diminishing returns.” At first, their tactics had been brilliant. Whereas guerrillas traditionally strike where they are least expected, the protesters had appeared exactly where they were expected the most: at big international meetings, where thousands from the media had gathered looking for colorful stories to file. At first, the protesters had provided just that, a welcome contrast to the gray delegates inside the conference centers. But by Cancún, the novelty that marked Seattle had worn off. Second, prior to Cancún, the most energetic antiglobalization groups had created their own playground: in Porto Alegre, Brazil, which now hosts the World Social Forum (a counterpoint to the World Economic Forum usually held in Davos, Switzerland).

A second major difference between the Seattle talks and those in Cancún was that the stakes at the former meeting were much higher. Seattle represented the attempt to launch a whole new round of multilateral trade negotiations. And the proposed round would have been the first to be held under the WTO, which had replaced and incorporated the General Agreement on Tariffs and Trade (GATT) in 1995, following
the conclusion of the Uruguay Round. For these reasons, the abortion of the Seattle talks was a much bigger deal and had far more symbolic meaning than the collapse of Cancún. The failure to properly start a new round of trade talks (at Seattle) was much more traumatizing than lack of agreement in the midst of an ongoing round (at Cancún). After all, the preceding Uruguay Round, which took more than seven years to complete, had suffered collapses of its own, in Montreal (1988) and Brussels (1990). Cancún fell into this more benign category—more of a hiccup than a permanent end to the Doha process.

Finally, the politics of Cancún were very different from those of Seattle. At Seattle, the U.S. leadership was less than exemplary. President Bill Clinton, who had fought heroically to win passage of the North American Free Trade Agreement (NAFTA) and for support for the Uruguay Round, had been reluctant to push hard for new WTO talks at Seattle. The bruising fight over NAFTA had left him exhausted. Moreover, the Democratic Party was divided over trade, and one of its key constituencies—organized labor—had been deeply offended by Clinton’s support for NAFTA.

Clinton had also worked hard to secure normal trade status for China and to smooth its entry into the WTO; in fact, Charlene Barshefsky, then USTR, had arrived breathless in Seattle just two weeks after concluding a marathon trade negotiation in Beijing. She and Clinton seemed far more focused on China than on the talks in Washington State. And Clinton failed to do the spadework necessary to get important countries on board for the Seattle talks, going into overdrive only when it was already too late. According to one story, his administration could not find hotel rooms in Seattle for foreign leaders to stay in; as a result, they had to resort to last-minute tactics such as telling the Canadian prime minister, Jean Chrétien, to fly down in the morning and back to Ottawa that night.

Clinton also made a serious error by telling an interviewer, just before he arrived in Seattle, that maintaining high labor standards should eventually become mandatory for trade-treaty-guaranteed access to markets. This statement angered developing countries, which were already distressed by the spectacle of union activists from rich countries claiming that such measures were meant to protect workers in poor countries, when they appeared to have been designed to shelter jobs in rich countries instead.
Cancún, by contrast, was a very different story for the United States. With President Bush strongly behind him, Zoellick had cleverly exploited the tragedy of September 11, 2001, to get the new trade round launched at Doha. Nonetheless, the Bush administration then proceeded to harm the cause by taking a number of protectionist actions. For example, in March 2002 it succumbed to the steel industry’s demands for protection and enacted steel tariffs, invoking the safeguards provisions of the WTO. Two months later, it also increased government support for American farmers under the U.S. farm bill. Washington claimed that both measures were compatible with WTO rules and within its rights. But even if they were (and the steel tariffs have since been declared illegal by the WTO), the symbolism was bad: one cannot start negotiations to reduce protection and then follow immediately by raising subsidies and trade barriers.

To give it credit, however, the Bush administration recognized that the hostile foreign reaction to its protectionist actions undermined its free trade credentials. Unless they were reestablished, the Doha Round would have been jeopardized. Had the United States persisted in asking for freer trade while taking protectionist measures, many countries would have retreated behind their own trade barriers rather than join an effort to dismantle them.

And thus, as this danger sank in, Washington turned its policy around in a remarkable fashion. The administration had not realized how badly its earlier missteps would be received elsewhere; once it did, Washington beat a rapid retreat on the most damaging of these measures—specifically, those relating to agriculture. Together, Zoellick and U.S. Agriculture Secretary Ann Veneman secured political support for a substantial offer in June 2002 to reduce agricultural subsidies and trade protection, putting the ball in the EU’s court. That summer, Zoellick also managed to get the president’s fast-track negotiating authority renewed, something Clinton had failed to achieve in two attempts.

The favorable contrast between Cancún and Seattle was also evident in the controversial issue of the “trade-related aspects of intellectual property rights” (TRIPS) regime in the WTO. At Seattle, the pharmaceutical industry and the U.S. government were attacked by NGOs for having added TRIPS to the WTO agreement that concluded the Uruguay Round. This criticism was fair:
after all, intellectual property protection is a matter of collecting royalties, and including them in a trade institution such as the WTO seriously distorted what that organization should accomplish. But by Cancún, the NGOs had muted their criticism on this subject. Washington had managed to get the pharmaceutical industry to agree to relaxed patent protections right before Cancún, which not only removed a contentious issue from the scene but also cast the United States in a favorable light.

NOW FOR THE BAD NEWS

Why, then, did the talks at Cancún fail? Failure, like success, has many fathers, and there has already been a plethora of official explanations of what went wrong—or, more accurately, complaints. Zoellick’s and Lamy’s grievances have already been mentioned. Other principals also publicly weighed in, including Celso Amorim, Brazil’s foreign minister and chief negotiator, who published his version in The Wall Street Journal, and Alec Erwin, South Africa’s trade minister and a favorite to become the next director-general of the WTO, who published his in the Financial Times. Most of these players, however, were too close to the scene to provide an objective assessment.

In fact, the most likely explanation for the failure of Cancún lies in a multitude of mistakes made by all parties. To begin with, Zoellick and the United States made two clear errors. First, although the most controversial items on the agenda at Cancún were TRIPS and agriculture, the United States made its concession on TRIPS before the conference started. It presumably hoped that the gesture would demonstrate Washington’s eagerness to achieve accord at Cancún. But a concession made can no longer be used as a bargaining chip. Countries such as Brazil and South Africa, which had benefited from the TRIPS concession, nonetheless remained tough on agriculture—to Zoellick’s surprise and chagrin.

As for agriculture itself, Washington had been prepared to offer major concessions at Cancún. But as Claude Barfield and James Glassman of the American Enterprise Institute (no foes of the current administration) have pointed out, Zoellick erred by reducing this offer at Cancún in order to bring it in line with the far less ambitious concessions proposed by the
eu. This move allowed Washington to make common cause with Brussels. But it left the Cairns Group of 17 agricultural exporters and the G-22 hugely dissatisfied and disappointed, especially since their hopes had been raised by the ambitious original U.S. offer. A better strategy, according to Barfield and Glassman, would have been “for the United States to isolate Europe” and to negotiate separately with the G-22 on agriculture. Would this strategy have worked? Could Europe have been cowed into yielding some ground, despite the traditional French intransigence? Perhaps; Lamy did compromise at Cancún on other issues, although agriculture raises exceptional difficulties.

Still, if the United States made strategic errors, so did the middle-level developing countries of the G-22, led by Brazil, South Africa, India, and China. Zoellick has correctly blamed them for being unwilling to offer to reduce their own agricultural trade barriers. After all, Zoellick could not have sustained a significant offer on agriculture, or improved the general U.S. position at Cancún, unless he could have convinced both the eu and the G-22 to make their own moves toward freer trade. The U.S. farm lobby and the members of Congress who represent it insisted on it, demanding that there be a “level playing field” before they agreed to abandon their insistence on domestic protections. Why, then, was the G-22 so adamant?

The answer seems to be that policymakers in developing countries have fallen victim to two fallacies, one of description and one of prescription. The first fallacy is that protection is greater in rich countries than in poor ones, that Brussels and Washington are guilty of double standards, practicing protectionism at home while pressing for free trade abroad. Such arguments are remarkably prevalent, and are not confined to NGOs such as Oxfam; they are shared by some leaders of multilateral institutions as well, who should know better. Even such a splendid economist as Nicholas Stern, the World Bank’s senior vice president, has observed, “It is surely hypocritical of the rich countries to encourage poor nations to liberalize trade, whilst at the same time succumbing to powerful groups in their own countries that seek to perpetuate narrow self-interest.”
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Such comments are remarkable, for if one looks at average trade protections in rich versus poor countries, the facts show that the latter nations are more protectionist than the former, not less so—and not just in industrial products, but also in labor-intensive goods such as textiles and garments and in agriculture as well. Rich nations' industrial tariffs now average close to 3 percent. But the figure is 13 percent for poor countries. As for agricultural tariffs, these average 112 percent in India and 37 percent in Brazil but only 12 percent in the United States.

Of course, agricultural subsidies are a different matter: few among even midlevel developing countries can afford to match the money governments pay to farmers in rich countries today, which amount to an average of $300 billion annually. But farm subsidies are not exactly small in countries such as India either, which heavily underwrite the costs to farmers of electricity, irrigation, and fertilizers by having state-owned providers supply them at reduced prices.

Although it may be groundless, this fallacy of description has had a major impact, making it more comfortable for leaders of developing countries to ignore their own protectionism and to reject rich countries' demands for reciprocity in trade liberalization. Re-enforcing this attitude is a fallacy of prescription: that it is fine to condemn rich-country protectionism while leaving one's own trade barriers in place. This fallacy is linked to the old notion popular in many developing countries in the quarter-century after World War II: that protectionism is actually a good thing, since the freeing of trade would be either impractical or downright deadly for their development. By this logic, any level of reciprocity of trade liberalization would imperil development, and poor countries are therefore justified in rejecting it.

Again, however, the facts tell a different story. Countless studies over the last three decades have demonstrated that trade protection makes it harder to achieve prosperity, whether a country is rich or poor. Reciprocity, moreover, is a useful tool—whether developing countries recognize this fact or not. After all, reciprocity gives export industries a stake in trade liberalization, thereby handing leaders who want to break down barriers a powerful counterweight to those sectors of their economies that want to keep trade barriers in place.
Moreover, except when it comes to outright aid payments, few countries are willing to give something for nothing; they rarely do so, at least, in trade matters.

In the context of Cancún, the fact that NGOs such as Oxfam encouraged developing countries to maintain their trade protections shows how such groups, despite their good intentions, can do a lot of damage—particularly when they wander into areas in which they have little expertise. This goes for the World Bank as well, which, despite the excellence of its technical staff, has occasionally indulged in unhelpful populist comments on the subject. Such mission creep is not a good thing. One solution to the problem would be to help the cash-strapped WTO develop expertise on questions relating to the world trading system; after all, the WTO is the institution devised to address such matters, and it is hard to imagine its director-general (unlike the World Bank's) ever forgetting the uses of reciprocity. Even if he did, his staff, who would be familiar with the academic literature on trade and the history of trade liberalization, would surely remind him.

**FALSE CHARGES**

Other divisive issues at Cancún included the infamous cotton question and the insistence of the EU, joined by South Korea and Japan, on putting the so-called Singapore issues into the Cancún text. Both of these matters have been overplayed, however; neither were really deal-breakers.

The Singapore issues are a mixed bag, relating to investment, competition policy, trade facilitation, and transparency. The EU had been pushing them as a package since the time of the WTO ministerial conference in Singapore in 1995, and Lamy inherited the issues from his predecessor, Sir Leon Brittan. Both the EU and Japan have been very keen on the investment provisions in particular, although their business lobbies have not pushed this agenda—at least not as hard as have their NGOs, which, in contrast, oppose the measures and helped derail a multilateral agreement on investment at the Organization for Economic Cooperation and Development some years ago.
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On competition policy, the United States and the EU had several disagreements, with the U.S. antitrust division under Bill Clinton opposed to pursuing competition policy in the WTO, while the EU wanted matters handled there. Trade facilitation (in customs) and transparency (in procurement) were the least objectionable issues, although several of the poor countries would have found their resources strained to implement better administrative regimes. But then more funds could have been made available for this purpose.

In the end, although South Korea continued to insist on the four Singapore issues being packaged together, Lamy walked away from this position and indicated that he would have been willing to let go of investment and competition policy. Thus the issue was not a sticking point, as some have charged. Lamy has been blamed for waiting too long before showing he was ready to compromise. But that is not a credible charge: he gave way well before the end of Cancún.

As for the cotton question, much has been made of the fact that the African and Caribbean countries walked out of the Cancún talks as a measure of solidarity with four cotton-exporting countries (Benin, Burkina Faso, Chad, and Mali)—a walkout that, some have claimed, caused the meeting to collapse. Both cotton subsidies and sugar tariffs have long been denounced by trade economists as harmful to poor countries. But the demand by the four African countries that they be immediately compensated for this harm with between $250 million and $1 billion annually was simply unrealistic and inappropriate. Rarely do countries compensate others for the effects of economic policies that they pursue; doing so would open up a Pandora's box. The issue is better handled by asking the World Bank and other aid agencies to redirect some funds to assist countries in need. This should be done while Zoellick works, as he has promised to, on eliminating production subsidies to U.S. cotton within a total package that would be part of the conclusion of the Doha Round.

If Zoellick goes to work on some form of multilateral support for the four cotton-producing nations and tries to include the reduction of cotton subsidies in Doha's total agricultural package, these countries should return to the table. This would be in everyone's interest; the wound is too small to let it fester until it destroys an otherwise healthy organism.
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DERBEZ AND DENOUEMENT

Luis Derbez, Mexico's foreign minister, has been widely criticized for his inexperience as the chairman of the talks at Cancún—especially for terminating the conference without consulting a wide group of trade ministers. But it is hard to believe that Derbez halted the proceedings without consulting Zoellick first. After all, although Mexico has had problems with the Bush administration, it remains part of NAFTA and a strong U.S. ally. And even Zoellick's angry statements after the end of the conference suggest that he approved, if not proposed, the meeting's termination: "As Derbez ... closed the session, representatives of influential developing countries finally rushed forward to say they wanted to keep going ... yet they were too late" (italics added). Zoellick evidently was so angered and frustrated by the impasse that he pulled the plug.

But Zoellick was likely confident that such hardball tactics, along with the threat that the United States would turn to bilateral trade negotiations, would force recalcitrant nations back to the multilateral table. He did not actually plan on leaving the poker game; rather, he hoped that it would resume as soon as the other players returned with more chips.

He may well be proven right. Chances are high that negotiations will resume and that, when they do, a successful outcome will be reached. None of the players, now that their passions are spent, have any interest in a failed Doha Round. True, there are reasons for pessimism. The United States is now entering an election season and the Democratic candidates are staking out fiercely irresponsible antitrade positions. President Bush will probably see this as an opportunity to make a case for trade, accusing the Democrats of putting politics above the national interest. Bush almost never indulged the cause of "fair trade" during his first campaign, and there is little evidence that he lost any votes on this account; thus he is unlikely to endorse the issue this time. Of course, a weak economy could weaken support for serious trade liberalization and make it difficult politically. But the economy's growth in the third quarter of 2003, which exceeded 7 percent, has lifted Bush's hopes and dampened those of his opponents.
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Even if the situation were to deteriorate on these fronts, all it would mean is that the Doha Round will not be completed by its original January 2005 deadline. But that would not be fatal; this deadline has always been regarded in private, although never acknowledged publicly, as overambitious. After all, the Tokyo Round took more than five years to complete, and the Uruguay Round that followed took more than seven. For Doha to finish in three would be a heroic achievement.

What matters most is that the negotiators keep talking, beyond the original deadline if necessary. And the chances are high that they will, for at least one overriding reason. If the G-22 and the Cairns Group really want agriculture to be liberalized, they are unlikely to achieve this except in the context of a multilateral agreement. Bilateral deals are simply not up to the task. Most of them today exempt agriculture, and few exist between countries with competing farm sectors. Besides, production subsidies cannot be cut preferentially for favored nations. So the G-22, the EU, the United States, and Japan have only one real option: multilateralism.
