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After Doha: Evolution or Revolution in the Trading System?

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The Evolution of World Trade

- Owing to dramatically falling transportation and communication costs, and progressive policy liberalization, international trade has propelled world growth for the past 50 years.

-The period 1950-2000 was the best half century in recorded economic history.

-Trade consistently expanded by 2% to 4% per year faster than world GDP.

-An increase in the trade to GDP ratio of 10% increases GDP by 2% (advanced OECD countries) and 5% (developing countries).

The Evolution of World Trade *(cont'd)*

- The composition of trade has gradually shifted away from agriculture towards manufactures and services.
- In 1980:
 - agriculture represented 12% of world trade;
 - manufactures 46%;
 - services 15%.
- In 2005:
 - agriculture represents 7%;
 - manufactures 60%;
 - services 20%.
- Global value chains increasingly fragment the production process and blur the lines between agriculture, manufactures and services.

US FTAs				
Partner country	Share of total US trade			
Current partner				
Australia	0.89			
Bahrain	0.03			
CAFTA	0.99			
Canada	19.38			
Chile	0.46			
Dominican Republic	0.36			
Israel	1.03			
Jordan	0.07			
Mexico	11.27			
Morocco	0.03			
Oman	0.04			
Singapore	1.39			
Total	35.94			
To be ratified				
Colombia	0.55			
Panama	0.28			
Peru	0.28			
Total	1.11			
Under negotiation				
Malaysia	4.88			
South Korea	7.90			
Total	12.78			
Grand total	49.83			
<i>Source: TradeStats Express.</i>				

China FTAs						
Partner country		Share of total China's trade				
Current partner						
ASEAN		9.17				
Chile		0.50				
Hong Kong		9.61				
Macao		0.13				
Pakistan		0.30				
Thailand		1.22				
Total		20.93				
Proposed partners^a						
Australia		1.92				
Brazil		1.04				
Gulf Coop. Council ^b		2.37				
Iceland		0.01				
India		1.32				
Mexico		0.55				
New Zealand		0.19				
Peru		0.20				
Singapore		2.33				
South Africa		0.01				
Total		9.94				
Grand total		30.87				
a. China's FTAs with APEC, South Korea and Japan are sometimes referred to as possibilities, but are excluded from the list because of their relatively low probability over a horizon of 5 years.						
b. The Gulf Cooperation Council includes: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.						
Source: China Statistical Yearbook.						

EU FTAs							
Current Partner country		Share of EU external trade		Prospective partner country		Share of EU external trade	
Chile		0.52		Albania		n.a.	
Croatia		0.64		Algeria		1.36	
Iceland		0.19		Andean Community ^a		0.70	
Liechtenstein		0.09		Bosnia-Herzegovina		n.a.	
Macedonia		0.10		Central America ^b		0.38	
Mexico		1.16		Egypt		0.62	
Norway		4.50		Gulf Cooperation Council ^c		3.92	
Palestinian Authority		n.a.		India		1.79	
Switzerland		6.46		Israel		1.04	
Total		13.66		Lebanon		0.14	
				Mercosur		2.30	
				Morocco		0.94	
				Serbia and Montenegro		n.a.	
				Syria		0.25	
				South Africa		1.55	
				Tunisia		0.65	
				Turkey		3.37	
				Total		19.01	
				Grand total		32.67	
a. The Andean Community comprises: Bolivia, Colombia, Ecuador, Peru and Venezuela.							
b. Central America comprises: Costa Rica, El Salvador, Guatemala, Honduras, Panama and Nicaragua.							
c. The Gulf Cooperation Council comprises: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.							
Source: European Commission.							

Causes of Doha Breakdown

- Doha Declaration put excessive emphasis on agricultural liberalization and insufficient emphasis on manufactures and services.
- Embedded land values resulting from agricultural subsidies and protection now exceed \$1 trillion in North America, EU and Japan combined.
- Farm lobbies in North America, EU, Japan, etc. are unwilling to liberalize market access and slash subsidies, or even resist decoupled farm support.

Causes of Doha Breakdown *(cont'd)*

- Emerging economies have their own long lists of sensitive and special farm products, insulated from liberalization.
- Emerging economies benefit handsomely from the “public good” of open world markets, but are unwilling to contribute new liberalization in manufactures and services. Important “free-riders”: Brazil, China, India, Indonesia, South Africa.
- Least developed countries demand duty free access for 99% of their tariff lines, but are unwilling to open their own markets -- *even to each other.*

What's Next? Scenario #1

- Erosion of world trading system; more restrictions on investment; few alternative deals. Consequences:
 - WTO descends in relevance -- particularly harmful to its smallest and poorest members;
 - More emphasis on the WTO's litigation role, given the ineffectiveness of negotiations;
 - Increased protectionist pressures (especially in the US and the EU on new issues);
 - Possible adverse shocks in financial markets.

What's Next? Scenario #2

- Doha revival with TPA extension:
 - Promise of big results in Doha Round may prompt Congress to extend TPA;
 - With TPA extension, possible Doha success by end 2007.
- Finance ministers must take the lead in pushing presidents and prime ministers. Director-General Pascal Lamy will need to issue his own draft package.
- Lamy draft should resolve key issues (agriculture, NAMA, services) and point towards plurilateral negotiations (e.g., zero-for-zero tariffs on industrial inputs and complete liberalization for selected services) in 2008-2009.

What's Next? Scenario #3

- Fred Bergsten's “plan B” and other big regionals.
 - Announcement of an exploratory talks for APEC FTA, also known as the FTAAP; this could generate incentives to restore the multilateral track (for India, Brazil, South Africa, EU);
 - Truly free trade for “half of the world” would exert much larger impact on global output than a successful Doha;
 - Might trigger renewed attention on a Western Hemisphere FTA, and/or TransAtlantic FTA, and/or an East Asia FTA;
 - Downsides? Might lead to antagonistic blocs. Might further marginalize already marginal countries and suppliers.

What's Next? Scenario #4

- Bilateral FTAs criss-crossing the globe; many of them with limited coverage of agriculture and services.
- China leads the advance of East Asian regionalism with multiple FTAs.
- EU negotiates with Korea and ASEAN, as well as countries close to home. Japan follows suit.
- Can the US stay in the FTA game?
 - Malaysia and Korea talks moving slowly.
 - SACU, Thailand, Ecuador suspended; Egypt initiative stillborn.
 - Ratification of Peru and Colombia FTAs may be watershed battles.

Bold Forecast

- Six month extension of TPA.
- At the end of 2007, shallow results in the WTO Doha Round, to be followed by plurilateral negotiations on particular sectors.
- Exploratory talks on big regionals – FTAAP, Western Hemisphere, TransAtlantic, East Asia – but nothing concrete.

Bold Forecast *(cont'd)*

- Real action is on bilateral FTAs, propelled by diplomacy as much as economic interests. But the US sits out the game for at least three years.
- Meanwhile, driven by IT and transportation technology, global trade and investment grow rapidly.
- People ask: do we really need a new round of WTO negotiations?