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WTO Negotiations Crash: What Now?

Failure at Doha may be the first omen indicating that the objectives of the financial institutions built in the immediate post-War II period and their decision-making apparatus, do not reflect modern realities and thus, cannot deliver. A hitherto powerful global system has moved into an age of impotence.

The Doha round of trade negotiations have taxied up and down the runway for seven years without taking off. The time for the end game had come. Convening the world's ministers a few months before a US presidential election, a year before the Indian general elections, with a lackluster global economy as a backdrop, provided an appropriate setting, considering that failure at Doha was cast in stone much earlier.

Optimistic projections on Doha focused on potential economic benefits, which arguably would have boosted the global economy between a hundred and two hundred billion US dollars. While certainly a figure of note, it pales in comparison to calculations by the International Monetary Fund that the sub-prime crisis entailed a write down of approximately one trillion dollars for financial institutions worldwide.

The economic repercussion of the Doha collapse will not shatter the global economy - in fact, this was one of the main reasons why the talks were allowed to falter.

The rub of the matter is deeper though. Failure at Doha may be the first omen indicating that the objectives of the financial institutions built in the immediate post-War II period and their decision-making apparatus, do not reflect modern realities and thus, cannot deliver. A hitherto powerful global system has moved into an age of impotence.

The US, and to a certain extent Europe is no longer strong enough to lead. Both suffer from metal fatigue, having shouldered the burden of leadership for more than 60 years. They are definitely not even strong enough to push developing countries and emerging market economies to toe the line as they see it. The latter countries and economies for their part are strong enough to block policy. Critically however, they do not seem to have not yet arrived at a stage in their political and economic development where the responsibility to lead and to burden-share influences their respective policy calculus.

A closer look at the main stumbling blocks over Doha reveal some new elements to be taken into account in future. Allegedly, several countries including China and India demanded farm import rules, which allow countries to protect poor farmers by imposing a tariff on certain goods in the event of a drop in prices or a surge in imports. This demand was rejected by the US.

Despite the obvious benefits and the strong dependence on exports as one of the drivers of developing economies, countries such as China and India chose to set the foot down and stop further liberalisation of the global economy. They were driven to that point because economic globalisation had increased wealth and income dramatically, but at the same time deepened inequality, giving rise to serious political and social problems at home. The Gini-coefficient – a yardstick for inequality – had risen consistently over the last 20 years for China and is now approximately 0.47 compared to an OECD average of approximately 0.31 (0.40 is routinely observed as the high-water mark that signals a worrying degree of inequality).

This explains why the Chinese government time and time again places the development of rural areas on top of its political agenda. During the last general elections that took place in India in 2004, the Congress Party replaced the BJP as the dominant party primarily because growth accrued to the urban districts had not benefited rural areas.

Western observers may not only be aware, but also, disinterested in analysing domestic politics in developing countries. But as the Chinese and Indian cases demonstrate, these countries have reached a level of political and economic development where domestic politics greatly determine the conduct of their foreign and trade policies. Quite simply, large sectors of their economies have not really benefited from economic globalisation. If the roles were reversed and a similar situation faced the US or Europe, commitment to a global deal that threatened to aggravate inequality would be akin to political suicide.

Five or ten years ago, China and India would not have been strong enough to stop a deal being hammered out between the US and the EU, with the tacit approval from a large number of countries. But now, their share of global trade has reached a level where they can play ball, and even hardball.

However, this is neither the end of the beginning, or the beginning of the end for the WTO. In a year or two, an attempt will be made to pick up the pieces and the circumstances may have changed sufficiently to suggest an agreement.

But one condition must be fulfilled to keep hopes alive - a wholehearted commitment to respect existing rules. The cornerstone of the WTO system, the dispute settlement mechanism must be employed to avoid trade wars. If member states start to disregard rules - as regrettably was the case less than two months ago when the US failed to comply with a WTO ruling concerning cotton subsidies, and/or not referring cases to WTO - the entire regime will be in trouble. Consequently the effort right now must include rallying member states around existing standards, and to adamantly resist any dilution of the legal regime or to the lure of taking the law into one’s own hands.

For the longer term, any failure to cut through the maze and get agreement to the Doha round may prove detrimental to world trade, at least in the form observed since 1947.

It will be difficult to achieve future liberalisation. As trade gradually turns away from manufactured goods liberalised through many rounds, to services not fully covered by the WTO, the goal of a status quo may actually amount to a decrease in free trade, forcing countries to look at other ways of securing access to markets.

These may take the form of regional trade arrangements where countries seek a partnership steered by common interests. It is not difficult to predict that such groupings will be formed around strong economies. Weaker economies, in particular, developing nations will be left stranded, since they will not have much to offer in any negotiation. If so, a dichotomised world trade system may emerge, which in reality will work to keep a lid on the weaker economies as the latter seek to upscale trade and production. It may yet be referred to as a world trade system, but certainly not a global one.

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