

What Does Globalization Mean for the WTO?

A View from Economics

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- Extending GATT/WTO disciplines to Agriculture sector (clearly central for Doha in light of the prominence of efforts to reduce agricultural export subsidies); and
- Adjusting to the rise of offshoring (less-clearly central for Doha, but I will suggest why it could be).

- The first two issues are well-reflected in the declaration (on Agriculture) from the WTO Ministerial Conference in Doha, Qatar, November 14, 2001, which states in part:

“...we commit ourselves to comprehensive negotiations aimed at: substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade-distorting domestic support. We agree that special and differential treatment for developing countries shall be an integral part of all elements of the negotiations...”

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- The Doha Round must move away from the non-reciprocal “special and differential treatment” norm as the cornerstone of the approach to meeting developing country needs in the WTO;
- and instead developing countries must come to the bargaining table and negotiate reciprocally with each other and with developed countries.

- The third issue (adjusting to rise of offshoring) less-clearly central to Doha, but could be behind this recent statement by WTO DG Pascal Lamy:

“...we have not yet figured out how to deal with the interdependent world economy we have created. This [GATT] system was initially designed to tackle problems specific to the mid-twentieth century... The basic architecture of the system reflected its origins in an Atlantic-centric world of shallow integration. The question now is what is needed to manage a globalized world of deep integration...” (Speech at the WTI, 10/01/10).

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- toward a collection of more-individualized agreements that can better reflect member-specific idiosyncratic needs.
- Perhaps striking lack of Doha progress in services, and recent proliferation of FTAs, are manifestations of institutional shortcomings of the GATT/WTO architecture for a world of offshoring.

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- The fourth message of this lecture: Incomplete contracting perspective can shed light on some core features of the GATT/WTO that deserve more attention from economists.
- What follows is a synthesis of themes developed in Bagwell and Staiger (2011), together with a number of additional research themes developed in Antras and Staiger (2011), Horn, Maggi and Staiger (2010), and Maggi and Staiger (2011a,b,c).

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- ...based on interviews with WTO delegates and Secretariat staff members, but this position is supported by the data: Subramanian and Wei (2007), and confirmed subsequently by many others (e.g., Chang and Lee, forthcoming).

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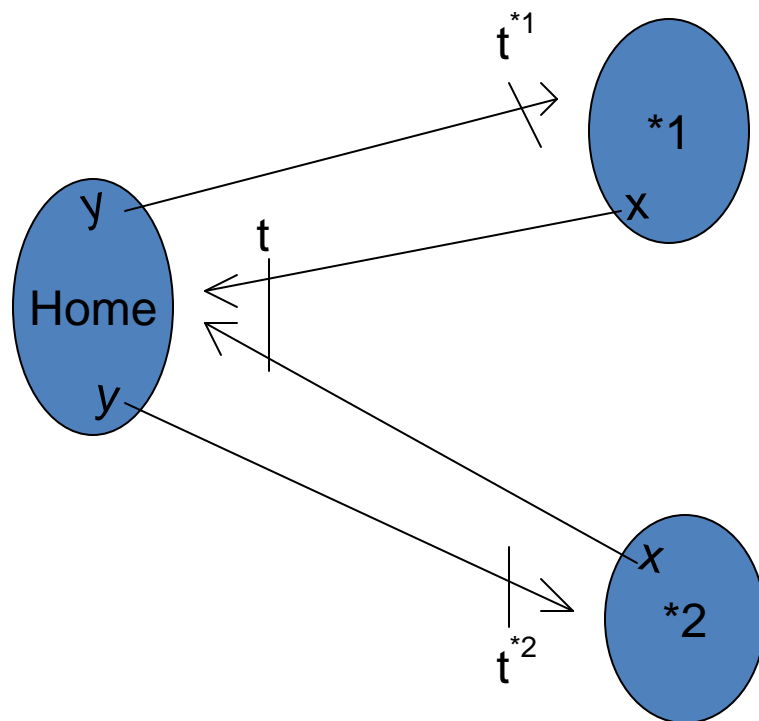


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- Some simple economics suggests that we might have expected this.

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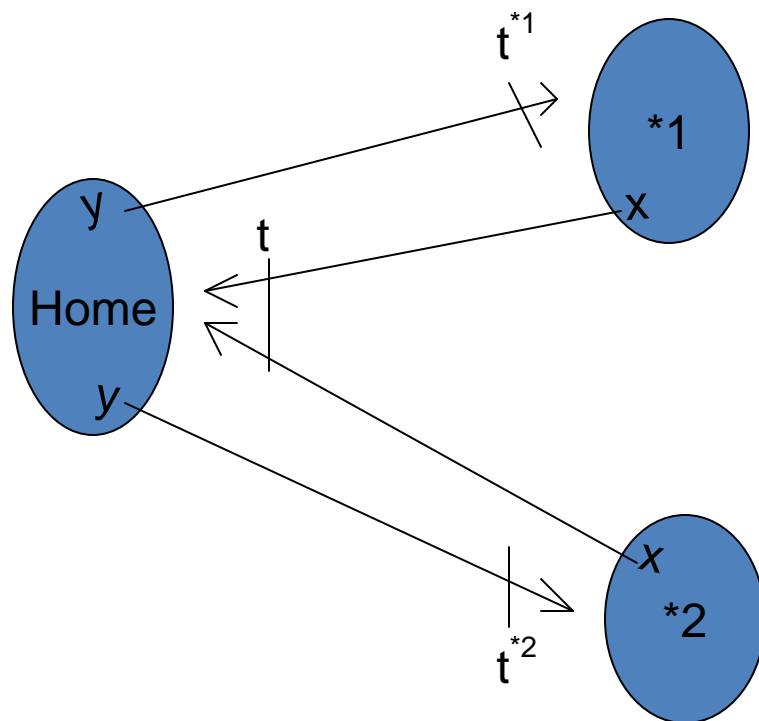


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- Tokarick (2007): "...developing countries could expand their exports by a much larger percentage by eliminating their own tariff barriers, rather than waiting for tariff reductions from rich countries."

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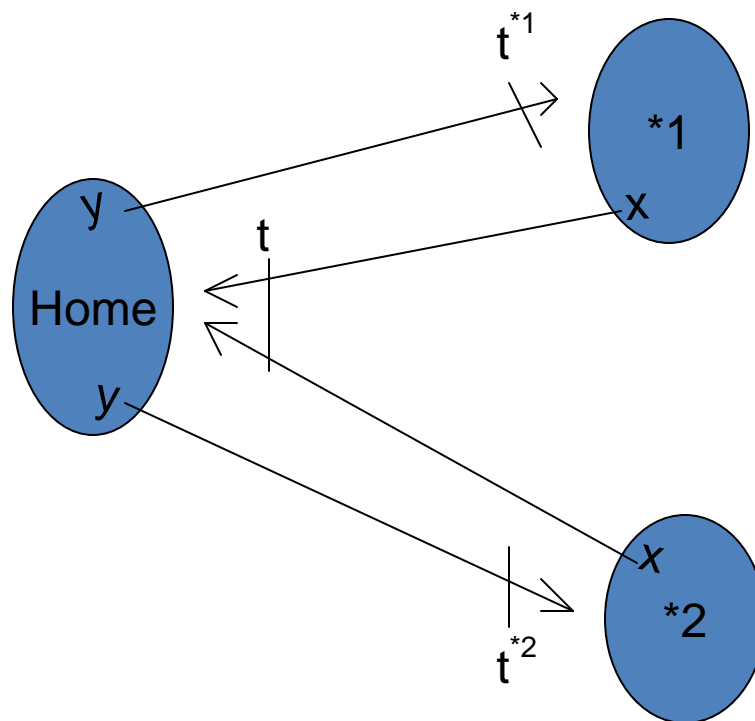


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- Answer depends on purpose of trade agreement.

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- Trade effects associated with WTO membership are largest for countries that were large in world markets at the time of their accession to the GATT/WTO (Eicher and Henn, 2011).

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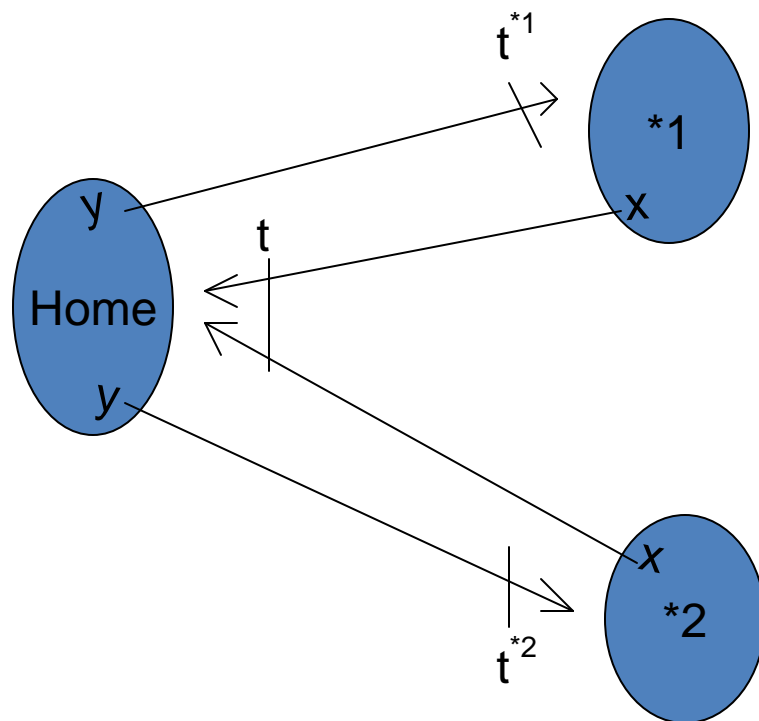


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- These issues lead to Implication 2: In order to make room at the table for developing countries, developed countries may need to renegotiate their existing tariff commitments with each other.

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- These two issues not unfamiliar: a struggle with accommodating latecomers in evidence from very early in GATT/WTO history.

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E. Wyndham White on the *bargaining power* issue faced in the 1950-51 Torquay Round...

"...A number of European countries with a comparatively low level of tariff rates considered that they had entered the Torquay negotiations at a disadvantage. Having bound many of their rates of duty in 1947 and 1949, what could these low-tariff countries offer at Torquay in order to obtain further concessions from the countries with higher levels of tariffs?"

...and on an early version of *globalization fatigue*:

"The Torquay negotiations took place under conditions of much greater stress than those which prevailed at the time of the Geneva or Annecy Conferences. Besides, ...many of the countries...felt they needed more time to digest and to assess the effects of the concessions already made before making further cuts in their tariffs." (ICITO, 1952, pp. 9-10).

Developing Countries (cont'd)

- And even *The Economist* coming around to the view that the latecomers issue is the central sticking point at Doha:

"...the real bone of contention is the aim of proposed cuts in tariffs on manufactured goods. America sees the Doha talks as its final opportunity to get fast-growing emerging economies like China and India to slash their duties on imports of such goods, which have been reduced in previous rounds but remain much higher than those in the rich world. It wants something approaching parity, at least in some sectors, because it reckons its own low tariffs leave it with few concessions to offer in future talks. But emerging markets insist that the Doha round was never intended to result in such harmonisation. These positions are fundamentally at odds." (April 28, 2011)

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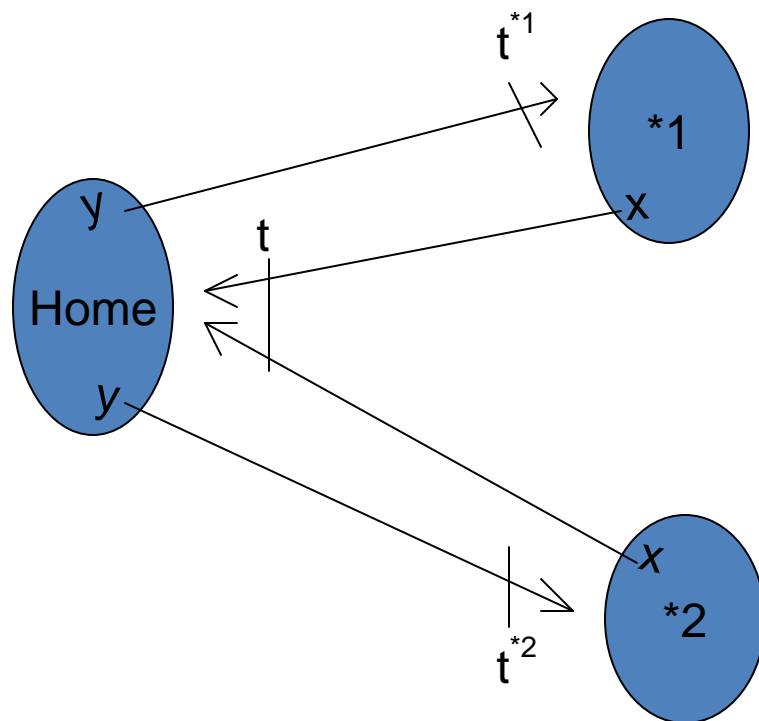


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- Seems extreme, but other less-extreme sounding possibilities may have much the same effect (will return to this later);

- In *The Misadventures of the Most Favored Nations*, Paul Blustein describes the terms of the agriculture bargain that emerged from Doha in 2005:

"The package was based on a hardheaded political calculation, in the finest tradition of WTO- and GATT-style mercantilism. Curbing farm subsidies might be a desirable policy for the United States as a whole, but it was a 'sacrifice' that American politicians could accept only if most farm groups were assured that their export opportunities would burgeon. A Kansas wheat grower who might ordinarily rebel at seeing his federal check shrink would presumably acquiesce provided his crops stood a better chance of gaining access to European consumers or the booming emerging markets of India and China." (pp. 205-206)

- But with suspension of the round in 2008, Blustein observes:

“Agriculture groups felt that the deal on the table simply wouldn’t provide enough new market access for U.S. farm exports to compensate for the reduction in the cap on U.S. subsidies...the handwriting seemed to be on the wall: Although U.S. exporters would gain additional sales in high-income markets, such as the European Union, for beef, pork, and some other products, they wouldn’t gain much, if anything, in the world’s emerging markets, because the loopholes granted to developing countries were too large.” (p. 269)

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- exchanging cuts in export subsidies for cuts in import tariffs departs from the “tradition of WTO- and GATT-style mercantilism” in a number of crucial respects.
- For one thing, the traditional political tradeoff of export interests against import-competing interests is absent.

- Result: no one to push for the Round.

"It was really sobering to hear the ag and NAM [National Association of Manufacturers] people say, 'Hmmm, this isn't worth the trouble,'" recalls one congressional staffer who attended the meetings. "How would you get that passed in Congress?" (Blustein, p. 270).

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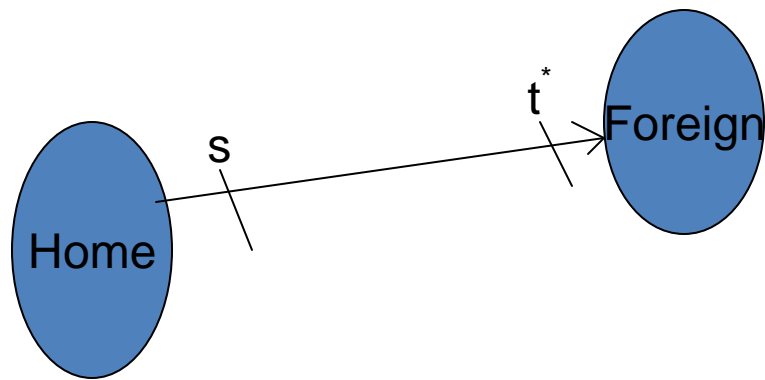


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- Lesson for Doha: The agricultural package on the table is *not* in the tradition of GATT bargains.

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- Lesson for Doha: The agricultural package on the table is *not* in the tradition of GATT bargains.
- Traditional market access bargain exchanges tariff cuts for tariff cuts.

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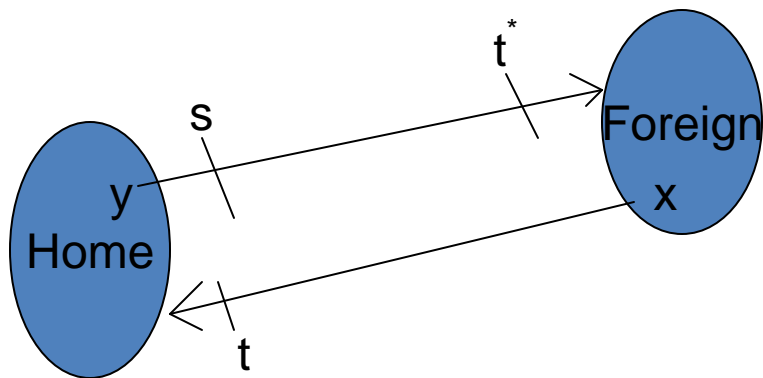


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- Of course, cuts in export subsidies could be part of a broader bargain in which traditional market access bargaining over tariffs also took place: Figure 3.
- But these gains would come *in spite* of the agreed cuts in export subsidies, not because of them.

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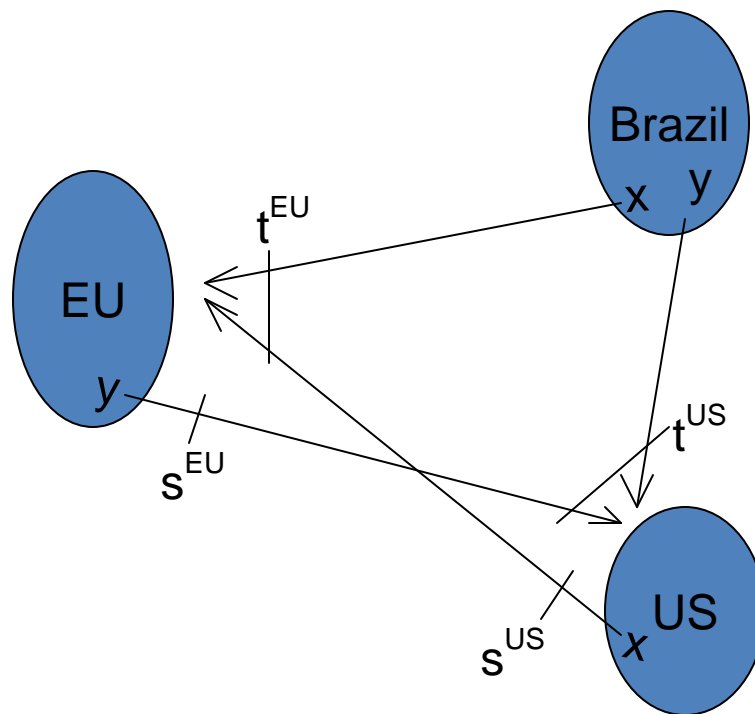


Figure 4

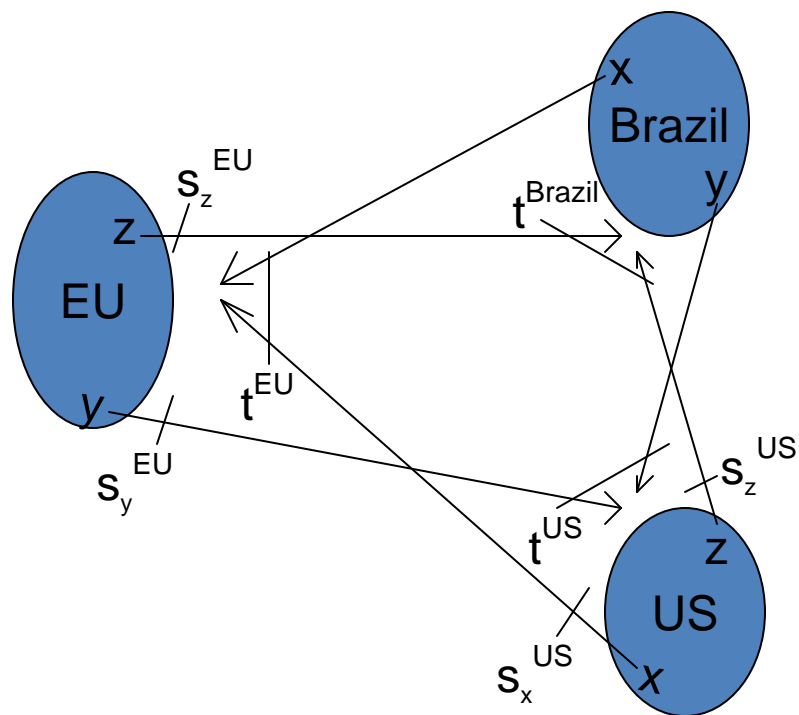


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- The upshot is a pessimistic view of the Doha approach to agriculture negotiations when this approach is evaluated on its own merits.
- Within wider context of integrating developing-country members into the world trading system, though,...
- it is possible to interpret efforts to limit export subsidies as playing a useful role in addressing problem of “latecomers” to the GATT/WTO bargaining table.

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- both as a bargaining chip to entice developing countries to agree to lower their tariffs, thereby generating bargaining power for the “low-tariff” developed world,
- and as a device to mitigate the overall trade effects of integrating developing countries into the world trading system, thereby addressing the issue of developed-world “globalization fatigue.”

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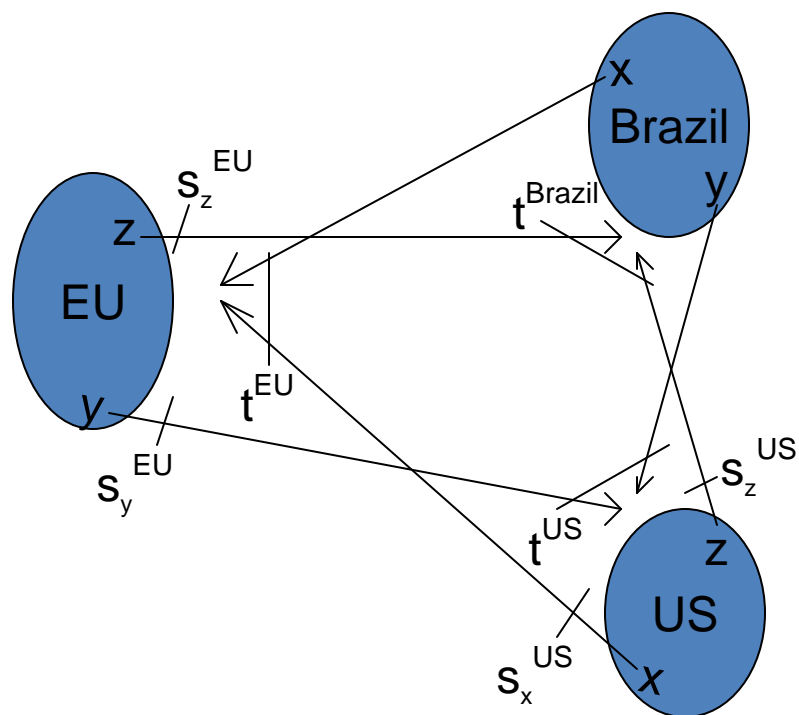


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- Finally, worth emphasizing the *one key change* in the substance of the current approach to Doha Round negotiations that is required for this economic interpretation to hold together: developing countries (Brazil in Figure 5) must come to the bargaining table and offer reciprocal tariff cuts of their own.

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- Absent tariff cuts from developing countries, the analysis I have sketched above cannot lend support to the basic Doha approach to negotiations.

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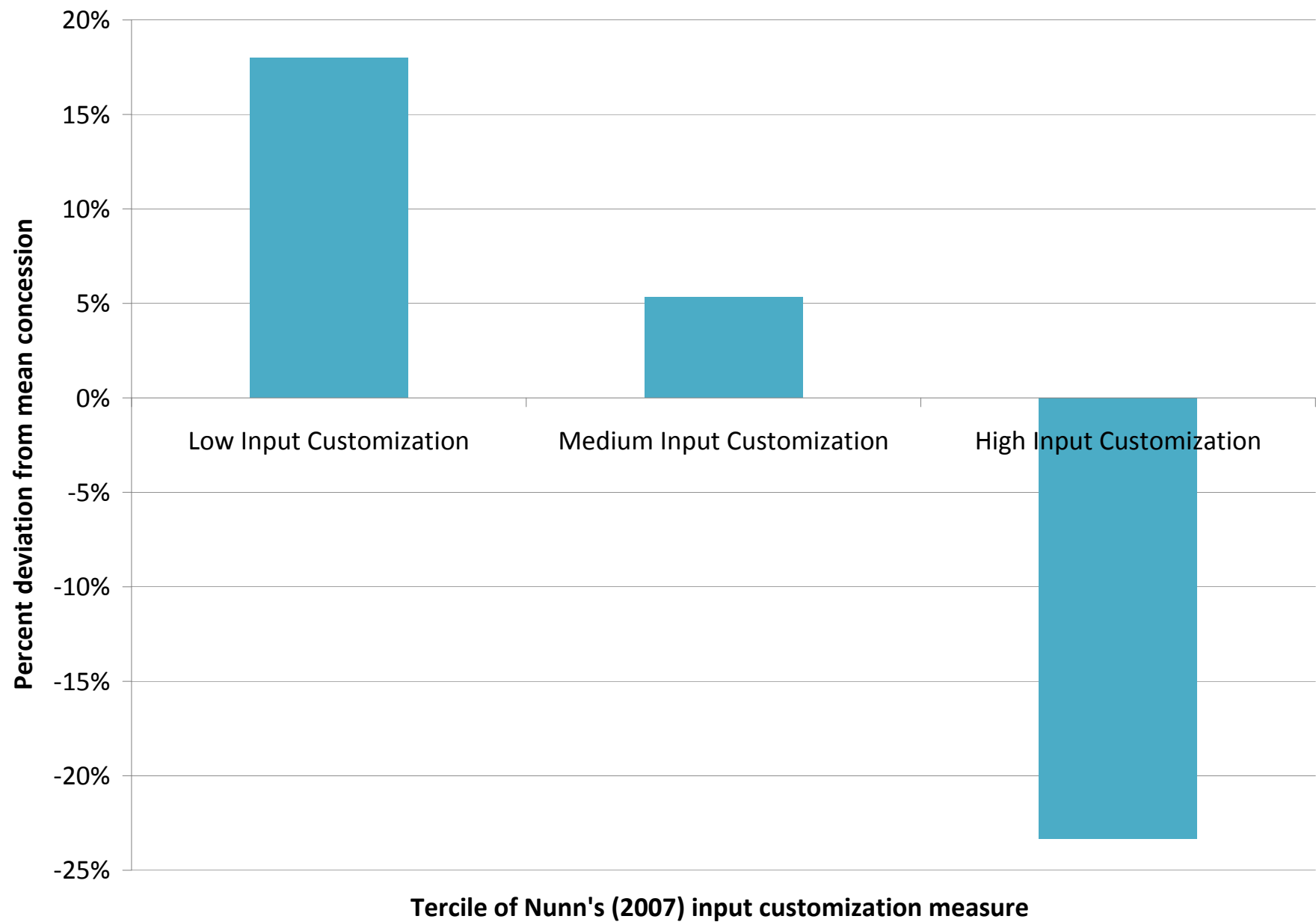
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- and for striking lack of WTO/Doha progress in liberalization of services (Francois and Hoekman 2010).

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- All told, the rise of offshoring may present the WTO with a profound institutional challenge.

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- An incomplete contracting perspective can shed light on some core features of the GATT/WTO that deserve more attention from economists.

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- Incomplete-contracting perspective can help explain core design features of GATT/WTO.

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- allowing court rulings to set legal precedent best if govs unlikely to interact repeatedly in legal system.

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- suggests a prediction of shift toward property rules over time, as GATT/WTO legal scholars argue has occurred.

Conclusion

- The stated aims of the Doha Round are incoherent from the perspective of economic analysis, but they can form the basis of a coherent plan for delivering trade gains for developing countries with one key change:
- The Doha Round must move away from the non-reciprocal SDT norm as the cornerstone of the approach to meeting developing country needs in the WTO;
- instead developing countries must come to the bargaining table and negotiate reciprocally with each other and with developed countries.
- The rise in offshoring is disrupting the simple structure of trade externalities that allowed the GATT architecture to work well, and in response the WTO must evolve toward deep integration and more idiosyncratic member-specific commitments.
- An incomplete contracting perspective is helpful for understanding some core features of the GATT/WTO that deserve more attention from economists.