Why did 'Development' entrap the WTO Doha Round?

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Abstract

We aim in this paper to identify the root causes of a seemingly uncatchable Doha round agreement. We start by presenting the theoretical framework within which trade agreements are both needed and self-enforced, drawing on the classical and pioneer work of Bagwell and Staiger (1999). Whether or not the various meanings of development fit in their analytical framework is then addressed. We argue that because developing countries are overwhelmingly small countries, meaning price takers, because they relied extensively on non reciprocity in deals making, because they tended to focus their demands on rich countries' agricultural subsidy cuts, and last, because of the absence of consensual knowledge on the link between trade liberalisation and development, the 'development idea' in its various implications has made the talks collapse.

Keywords: WTO, trade agreement, liberalisation, reciprocity, subsidy, trade negotiations

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1. Introduction

'This meeting has collapsed. Members have simply not been able to bridge their differences' announced Pascal Lamy on Tuesday 29, July 2008, after more than one week of negotiations on further trade liberalisation by WTO members. In particular, the Director General of the WTO said: 'there's no escaping the fact that the intensive efforts the whole membership has been putting in over the last days with the aim of establishing modalities in agricultural and Nama [Non agricultural market access – viz. industrial goods] have failed (…). Most have been achieved. Problems that had been intractable for years have been solved. [But] we have not been able to find convergence in the area of Special Safeguard Mechanims (SSM). And we did not even get around to discuss cotton'.[1]

WTO spokesman Keith Rockwell added, after a formal Trade Negotiation Committee (TNC) meeting the day after, that 'the common view all delegations expressed was that they were all disappointed. The common view was that this was going to be most difficult and painful for our poorest members. They all express the desire to preserve what has been achieved in the last 10 days and to build on that in a process for the coming months'. Rockwell adds: 'They really all said that which is quite interesting'.

What is interesting indeed is that an apparently technical issue – the SSM – made the talks collapse while 18 issues had been solved and only one was left to be discussed. More profoundly, it seems that the final disagreement in Geneva was not so much over SSM as over what 'development' actually meant for the negotiating countries. India for instance spoke of a development round as a means for developing countries to ‘safeguard livelihood security’, as Kamal Nath, the India’s Minister of Commerce and Industry negotiator argued ‘[we, developing countries] need a safeguard mechanism in any event (…). But the negotiation of a SSM never came’. On the opposite, for developed countries such as the US, a development round rather meant more market openness: ‘it would have been a very sad commentary if the conclusion of a development round (…) resulted in higher barriers to trade’ Susan Schwab, the US Trade Representative replied, ‘a real development round involves trade liberalisation, not market closing’. The development round was hence conceived as the right for developing countries to protect vulnerable people, with no possible tradeoffs with commercial interests, on the one hand, and as the right to access other countries’ markets, and especially developing countries markets, on the other. With such opposite targets, both hands could not join and applaud the happy conclusion of the Development Round.

The development issue facing the world trading system cannot be restricted however to the apparent divergence on SSM between US on one side, and India and the G33 group on the other.[2] As Pascal Lamy put it during the last press conference of the July 08 Ministerial, ‘Ministers will as usual let you know the visible part of the iceberg. It is my responsibility not to tell you what the invisible part is all about. My experience is that the immersed part becomes visible the meeting after’. Cynics could easily argue that the July conference failure epitomised the inherent flaw of this round. Nobody was ready to lose power, political credit, jobs and market share in particular sectors for an uncertain outcome amounting to a mere 0.1% of world GDP in most estimates, goes the cynical view. And in spite of official regrets, most of the big players felt better off after the talks’ failure. Negotiations went beyond the one week format to demonstrate, and pay tribute to, Pascal Lamy’s impressive commitment, skill and talent, which were not in doubt. The US stood as a resisting power to emerging countries, and indeed put much of the blame on India and China. These two countries, and particularly the latter, are confirmed as new super trade and bargaining powers. Europe, and to a certain extent Brazil, are confirmed in their role of good-willing, middlemen countries or groups. And African countries are once again the main losers, but in the best position ever to ask for more aid and compensation, the cynic concludes.

An alternative and non-cynical view would support Lamy's conclusions that an agreement was really at hand and that the 'immersed part of the iceberg' temporarily postponed the conclusion of the Round. In this line of thought, and beyond the immediate causes of trade talks collapse, we aim in this paper to identify the root causes of a seemingly uncatchable Doha round agreement, ever escaping the negotiators' voluntary chase, like the tortoise in Aristotle's fable racing ahead of Achilles' steps.

To do so, we try to answer the following question: What did a 'development round' possibly mean that a traditional round such as the Uruguay Round did not? We start by presenting the theoretical framework within which trade agreements are both needed and self-enforced, drawing on the classical and pioneer work of Bagwell and Staiger (1999). Whether or not the various meanings of development fit in their analytical framework is then addressed. We argue that because developing countries are overwhelmingly small countries, meaning price takers, because they relied extensively on non reciprocity in deals making, because they tended to focus their demands on rich countries' agricultural subsidy cuts, and last, because of the absence of consensual knowledge on the link between trade liberalisation and development, the 'development idea' in its various implications has made the talks collapse.

2. Some countries, more than others, need to negotiate a multilateral trade liberalisation agreement : the Bagwell and Staiger framework

Understanding why countries need a multilateral setting to liberalise their own trade policy is beyond the reach of arguments based on either comparative advantage or protectionist bias. The former asserts that countries committing unilaterally to free trade will see their real income grow irrespective of what other countries do. It hence makes the very existence of the GATT/WTO unnecessary. The latter seeks to explain why some governments are so reluctant to listen to and apply the free trade tenet endorsed by trade economists.[3] The reason why the same governments might be both willing to protect their economy and make efforts to get rid of such protection indeed does not fit in such a framework.

The now well-diffused economic theory of the Gatt formulated by Bagwell and Staiger (1999) both provides a rationale for multilateral trade agreements such as those signed under the GATT and the WTO, and also for the core principles of the Gatt/WTO, namely reciprocity and non discrimination. Against the then-widespread arguments according to which GATT/WTO trade negotiations were driven by mercantilist interests and hinged hence on bad economics, they demonstrated i) that the 'weight' given to exporters' interests in the negotiation process, coupled with the reciprocity principle allowed countries to maximise global welfare, and ii) that such a level of global welfare could not have been achieved without a multilateral bargaining process.

The argument goes like this. As we know since Torrens (1844), large countries face the incentive to set non nil tariffs on imports for those products where they enjoy market power. When set at an appropriate level, large countries' import tariffs reduce import volumes, which in turn depresses world prices, and overall, when compared to the case of a small country whose import tariffs leave world price unchanged, switches part of the cost incurred by domestic consumers onto foreign exporters. When setting this ‘optimal tariff’, large countries benefit from an increase in national welfare, while hurting their trade partner whose export revenues decline. For a wide range of situations, the losses of exporters are greater than the gains reaped by the large country. Hence global welfare is hurt while one single country gains from its own protection. This is also called the terms-of-trade externality effect. Strong market positions are used to extract gains at a partner’s expense. The external losses – which are nil in the case of a small country - induced by its own protection is simply not taken into account by the large country when setting its import tariff.

Adding up several large countries further worsens global welfare. Retaliation to one large country tariff by another large country leads to a super-tariff war for a wide range of products, to a decline in world prices overall, and to global welfare aggregate loss. It becomes then in the interest of every country to renounce their super tariffs; the problem is that the losses each country would face should the other ones renege on their promises to liberalise trade entrapped them all in a classical prisoner dilemma situation. A third party is needed to overcome information asymmetries across countries and make them all stick to their commitment to cooperate and liberalise trade, which is their own interest. The table 1 illustrates the different outcomes of the game.

Table 1. *WTO as a means to escape the prisoner dilemma situation of large protectionist countries*

		B	
		Free trade	Protection
A	Free trade	10\10	-10\20
	Protection	20\-10	-5\-5

Two countries, A and B, face two policy options – free trade or optimal protection, viz. tariff increasing its own welfare but reducing its trading partner's welfare. The first figure in the payoff matrix above is the payoff for country A, while the second is for country B. Each of the two countries can raise its welfare compared to free trade at the expense of its partner. Still, mutual protection is the worst, and most likely, situation. Cooperation toward free trade generates the higher global gains (WTO, 2007: 51).

Bringing large countries' tariffs to the level maximising global welfare is basically what the multilateral trade liberalisation game is all about. The Bagwell and Staiger argument ends like this. Pursuing their own interests, countries open up their market in exchange for reciprocal concessions from their large, trade partner countries. Thanks to the exporters and to their quest for market access, large countries do face incentives to get rid of their optimal tariff. Interestingly enough, the ultimate level of tariffs will not be systematically free trade. The game ends up when the mutual gains from the reciprocal exchange of market access are exhausted, which leaves room for small-country like tariffs – or 'distributive tariffs' – implemented as a means to switch toward producers some of the consumers' welfare without affecting world prices.[4]

Two sets of objections are brought to the Bagwell and Staiger economics of the GATT/WTO.[5] The former disputes the empirical validity of the theoretical framework they propose, and indeed there has been remarkable growth in the empirical testing of the Bagwell and Staiger position. Seminal work by Whalley (1985) showed that the tariff rates prevailing among major powers after the Smoot-Hawley Tariff Act was enacted in 1930 were close to those that would be predicted in the Nash non-cooperative equilibrium. But Regan (2006) contested this finding, interpreting the Smoot-Hawley tariffs as mere political protectionism. When surveying the empirical work, Bagwell and Staiger (2002) cautiously concluded that a ‘strong affirmative presumption’ existed in favour of the large country, terms-of-trade externality hypothesis. In their head-on empirical investigation of this issue, Bagwell and Staiger (2006) found estimates supporting their theory, but in light of the limitations of their study, they also concluded that it offered a ‘a first, albeit promising, glimpse at the empirical content of the terms-of-trade theory of trade agreements’. The same year, Broda, Limao and Weinstein (2006) found evidence that WTO non-member countries systematically set higher tariffs on goods with inelastic supply, from which they inferred that countries are motivated by optimum tariff considerations. But here again, Regan (2006) contested the result, in particular for their relying on too narrow a sample of countries (only 15).

The second set of objections put forward complementary, and in some cases substitute theories, to the Bagwell and Staiger framework, which was described as the ‘traditional approach’ in the WTO World Trade Development 2007 report. Three motives in this report are identified, which explain the commitment of countries toward multilateral trade liberalisation. Firstly exchanging market access, which is the backbone of the Bagwell and Staiger approach. Secondly capturing credit for the benefits of trade liberalisation: the main argument here is that the market access conceded by trade partners provides a more visible signal (as the idea of ‘concession’ somehow conveys), and consequently, a broad support from home exporters. Thirdly, miscellaneous motives such as market size increase (enabling a small country to exploit economies of scale) and insurance provision (against the erosion of market access in a large market) complete the list. We start by applying the Bagwell and

Staiger framework to the case of 'development' and 'developing countries', before extending it to issues or concerns not restricted to large countries and optimal tariffs per se.

3. Why 'development' does not fit in the Bagwell and Staiger framework

Adopted on 14 November 2001, the Doha WTO Ministerial Declaration defines the main objectives of the current trade liberalisation negotiation round – the 'Doha round'. This round was renamed 'the Doha Development Round' because of the specific ambition pertaining to development and developing countries contained within it.[6] WTO members hence asserted in the introduction of the Declaration:

'1. (…) We are determined (…) to maintain the process of reform and liberalization of trade policies, thus ensuring that the system plays its full part in promoting recovery, growth and development.'

'2. International trade can play a major role in the promotion of economic development and the alleviation of poverty. We recognize the need for all our peoples to benefit from the increased opportunities and welfare gains that the multilateral trading system generates. The majority of WTO members are developing countries. We seek to place their needs and interests at the heart of the Work Programme adopted in this Declaration. Recalling the Preamble to the Marrakesh Agreement, we shall continue to make positive efforts designed to ensure that developing countries, and especially the least-developed among them, secure a share in the growth of world trade commensurate with the needs of their economic development.'

'3. We recognize the particular vulnerability of the least-developed countries and the special structural difficulties they face in the global economy. We are committed to addressing the marginalization of least-developed countries in international trade and to improving their effective participation in the multilateral trading system.'

The objective of harnessing trade for poverty alleviation and development promotion is distinguished from the broad goal of sustainable development found in the Preamble of the WTO. The paragraph 6 of the Declaration restates such a goal, anchoring sustainable development to the environment pillar.[7]

Noticeably, no clear and consensual criteria have been defined to assess whether or not the outcome of trade negotiations is 'favourable to development'. This inherent flaw actually weakened, not to say nullified, the self-enforcing character of trade agreements that arise from Bagwell and Staiger's rationale for the WTO. Oddly enough, neither the Gatt nor the WTO has addressed the issue of benchmarking 'development' seriously, as shown by the fact that neither has bothered to define what a 'developing country' is. Any WTO member country can claim to be a developing country provided that no objection is raised by another member. In the negotiation process the lack of clear-cut definition of developing country members has tremendous implications on the arguments and positions chosen by member States, and particularly by developed countries. While some support a broad definition of 'developing countries', others suggest differentiating emerging countries from lesser developed countries among the whole set of 'developing countries'. For instance, some among the French delegation were overheard questioning the agricultural trade negotiation package, insofar as European Union Common Agricultural Policy (CAP) tariffs would be drastically cut and would be unfair in benefiting primarily large land owners in emerging countries – with Brazil being the implicit case in point.

Defining development not on a country basis (level of income) but as an idea or a concept to which trade openness would be linked could have helped clarified expectations over the Doha Round; but as we see below, both on a country-definition basis and conceptually, the prior commitment to development put WTO negotiations in an awkward position.

3.1. Most developing countries are price takers – hence small countries in economic sense

In the Bagwell and Staiger framework, the rationale underlying the principle of reciprocity and justifying the very existence of the WTO is to be found in the inefficiency problem of international cost-shifting. WTO allows countries to escape the terms-of-trade driven Prisoners' Dilemma. This means that the global inefficiency problem induced by such cost-shifting (from domestic consumers to foreign exporters) arises because some countries are large enough in international markets to alter world prices at the expense of foreign exporters. In this framework, small countries in Staiger's own terms 'may not possess this power to any significant degree in most of the markets in which they operate. For these countries, an international trade negotiation may simply have little to offer in the way of the kind of efficiency gains that the larger countries can achieve because the governments of these small countries are already (unilaterally) making trade policy choices that, while potentially very trade-restrictive, are nevertheless efficient from an international perspective, since their choices can't possibly be motivated by international cost-shifting' (Staiger, 2006). Hence the problem that international trade negotiations are expected to address may in fact *not* be a problem that the majority of WTO developing-country members face. As consequence, Staiger (2006) acknowledges, 'a central component of the benefit of trade negotiations may not be available to these countries'.[8]

The question then is whether developing countries, or at least part of them, are countries large enough to affect the prices of the products they trade. Evidence on this issue is limited and mixed. Thanks to differentiation, Daniel Gros (1987) observed, it remains possible that even very small countries have the power to alter their terms of trade. Broda, Limao and Weinstein (2006) inferred from non-WTO members' tariff levels (which are all developing countries) that trade policies were motivated by optimum tariff considerations. But as mentioned above, this study suffers from relying on a limited sample of countries. Until evidence of significant market power by developing countries becomes available, Staiger (2006) concedes, the majority of WTO developing country members may not be part of the 'problem' that the WTO exists to solve. This said, he adds, this 'does not of course by itself imply that they have nothing to gain from WTO negotiations: drawing that conclusion would be a bit like concluding that those who don't own guns have nothing to gain from gun control'.[9] As a conclusion, making an organisation provide significant benefits to countries which are not part of the inefficiency problem such an organisation exists to address looks overambitious and irrational within the Bagwell and Staiger framework.

3.2. Subsidy cuts may hurt while tariff cuts don't

Let's go on with the Bagwell and Staiger framework and try to understand how the subsidy cuts in OECD countries, called for by an overwhelming number of WTO developing country members, became a bone of contention and, eventually, one of the main underlying causes of the July 08 conference failure.

Subsidies have been a weight on WTO's shoulders from the very beginning of the Organization. The creation of the WTO was nearly prevented by disputes in the Uruguay Round of GATT negotiations over the issue of negotiating disciplines on agricultural subsidies. The almost official motive behind the disruption of the WTO talks in July 2008 lies in the fact that the special safeguard mechanism flagged by India and other food-import dependent countries was justified – by such countries, and such countries only - to correct for subsidised food import surges. Prior to the July 08 conference, disputes over subsidies that violate existing WTO rules have led to the largest amount of authorized retaliation in GATT/WTO history.

The common analysis over subsidies, Bagwell and Staiger (2004) argue, was that the GATT subsidy rules were weak and inadequate, while the new disciplines on subsidies that were added to GATT rules with the creation of the WTO represent a significant strengthening of multilateral disciplines toward more global efficiency. This is particularly the case of the subsidies and countervailing measures or SCM WTO agreement, as well as of rules governing domestic support in the WTO Agreement on Agriculture. Based upon the economic theory of decoupling and targeting, the latter sets apart distorting measures (eg coupled agricultural support) from least-distorting subsidies (eg decoupled support). The former are bound and capped, while the latter are not. Even though objections have been made as to whether decoupled support actually had limited distortive effects in situations of market failures, the agricultural policy reforms triggered by WTO subsidy rules are directly inspired by neo-classical economics, and particularly the theoretical principle of targeting, which recommends policies directed toward specific objectives, more efficient than broad measures such as price support (Bureau, 2008). Should countries renounce their coupled support (like public intervention prices, deficiency payments and other output subsidies) and favour instead decoupled support, both national and global welfare should rise together (Dewbre, Anton and Thompson, 2001). From this perspective, global efficiency enhancement can be considered as the bedrock of the Agreement on Agriculture subsidy rules.

Why then so much trouble when negotiating their cuts – for the distortive ones -, and so many voices calling for their cap – for the decoupled ones? Subsidies, both substantially and procedurally, are different animals from tariffs. Contrary to tariffs, which are almost always ‘least-best’ policies even in situations of domestic market failures (Bhagwati and Ramaswami, 1963), subsidies are required to address market failures and make the economy get as close as possible to its efficiency frontier. According to the targeting principle indeed, production subsidies are hence almost always a preferred policy instrument to tariffs. As recalled by Bagwell and Staiger (2004), ‘this is because a production subsidy distorts only one margin (i.e., producer decisions), and can therefore constitute a “first-best” instrument of intervention in the presence of production distortions, whereas it is well-understood that a tariff distorts <u>two</u> margins (i.e., producer <u>and</u> consumer decisions) and therefore almost never corresponds to first-best intervention’. In short, countries need subsidies on the ground of efficiency, they do not need tariffs.

Helping countries to get rid of their ‘bad’ subsidies may however look similar to the objective of trade agreements in Bagwell and Staiger’s global efficiency framework, wherein countries through reciprocal market exchange face mutual incentive to eliminate the ‘bad part’ of their tariff (the part inducing terms-of-trade externality and hurting partners). Reciprocity was the principle allowing countries to give up this globally inefficient part of their protection. A procedural mechanism was hence the solution to the large country, super tariff problem, and this procedural device made market access opening self-enforcing in the Bagwell and Staiger framework. The case is different with subsidies. No reciprocal bargaining is set to help countries renounce their distortive (eg coupled) support. Instead, (apparently) substantial criteria such as ‘least trade distortive’, ‘targeting’ and ‘decoupling’ define a one-size-fits-all way of designing domestic subsidies, whatever the size of the country. The capacity of economic science to provide policy makers with uncontroversial criteria for the design of welfare enhancing domestic subsidies proved crucial in this respect. In a way, both have failed. Doubts rapidly arouse around the theoretical effectiveness of decoupling in situations of market failures, and particularly in situations of uncertainty and insurance market incompleteness which are fairly common in agriculture, all the more so in developing countries (Hennessy, 1998). On the other hand, policy makers also fell short of expectations, at least in the making of the 1996 US Farm Bill and the 2003 reform of the EU’s Common Agricultural Policy (CAP), because of their conservative, and partial, allocation of decoupled payments. Their intention to gain support from big farmers support for their reforms somehow watered down the idea of decoupling, and by targeting large farms on average, left room for potentially significant cumulative distortive effects. ‘Bad’ subsidies may hence persist, particularly so among developed economies, stirring up anger from developing countries, whereas reciprocity in market access exchange led to the exhaustion of terms-of-trade externalities.

The ‘subsidy problem’ becomes even more serious when we contemplate negotiations on both tariff and subsidy cuts, and not on subsidy cuts only. A potential risk is then that misguided disciplines on subsidies would simply redirect public interventions toward the use of second-best instruments such as tariffs. How high is such a risk under WTO subsidy rules compared with GATT subsidy rules is the question Bagwell and Staiger (2004) addressed. To start with, they recall that the effects of a tariff can be duplicated by a combination production subsidy/consumption tax, so that a government that has access to tariffs as well as a full set of production subsidies and consumption taxes enjoys a degree of policy redundancy. A central question behind the 'subsidy problem' is whether governments have access to a sufficiently rich set of domestic instruments, and therefore a degree of policy redundancy which can be exploited under tariff negotiations. Assuming that this rich set of domestic instruments is available, Bagwell and Staiger show that GATT subsidy rules are sufficient to ensure that an internationally efficient policy combination will be implemented under GATT tariff negotiations. They moreover find that efficiency under GATT tariff negotiations is attained even when responding to subsidies under GATT rules is allowed to be quite costly. Turning then to WTO subsidy rules, and to the SCM specifically, they first argue that the key innovation of the SCM agreement relative to the GATT is that WTO member countries now have the added right to challenge – and, in principle, force the removal of – any positive subsidy. They show that a range of efficient outcomes that were attainable under GATT subsidy rules are unattainable under the subsidy rules of the WTO. 'Intuitively', they write, 'the redundancy of policy instruments is utilized to achieve efficient outcomes through tariff negotiations under the institutional constraints of the GATT subsidy rules, and by introducing the potential that this redundancy will be removed, the WTO subsidy rules interfere with the ability of governments to structure their tariff negotiations so as to achieve efficient policy combinations'. They conclude that the key changes introduced by the WTO subsidy rules may ultimately do more harm than good to the multilateral trading system, by undermining the ability of tariff negotiations to serve as the mechanism for expanding market access to more efficient levels. Too low a level of redundancy between subsidies and tariffs under WTO subsidy rules, when compared to the GATT, hampered the mere functioning of market access exchange and ultimately lead to inefficient level of protection and support. Flagged up by developing countries as a provocative anti-development long-lasting feature, two high a level of agricultural protection and subsidies among OECD countries have been relentlessly denounced as both unfair and globally inefficient. The ‘subsidy (efficiency) problem’ became a ‘development problem’. Unsolvable within the current rules and negotiation process, this contributed to a deadlock.

3.3. The ‘Development’ idea developed against the very idea of reciprocity

The agenda of developing countries during the GATT era explicitly infringes the reciprocity principle, established in the view of permitting mutually beneficial negotiations of market access exchange among equal (eg. large) countries in the Bagwell and Staiger framework. This agenda can be typified, Narlikar (2005) wrote, in the statement of the Indian representative in the early times of the GATT: ‘Equality of treatment is equitable only among equals. A weakling cannot carry the burden of a giant’.[10] In practical terms, this view translated into the demand for preferential treatment by developing countries in the GATT, which took two forms - special market access for the products from developing countries, and exemptions from GATT obligations. Developing countries demands for preferential treatment generated some successes, Narlikar (2005) emphasises.

Let’s recall after Staiger (2006) that it is possible that the ability of the WTO to deliver significant benefits for most of its developing country members is severely limited. Should we consider, as in the Bagwell and Staiger framework, that the problem that the GATT/WTO exists to solve is a large country problem and that most of the developing country members of the WTO are small, then indeed ‘even an idealized rules-based world trading system would offer little to most of the WTO’s developing country members’. In this case, Staiger adds, ‘the exemption from policy commitments that developing country members were granted in the

GATT era can be seen in effect as a form of “benign neglect” granted to them by the developed country GATT members’. In this case, he concludes, ‘the majority of developing country WTO members face a two-edged sword: they should resist attempts by the developed countries to get them to offer negotiated policy concessions of their own, but neither should they expect much out of the WTO. In this case, the role of small developing countries as WTO members is essentially to prevent the bigger countries from discriminating against them as these bigger countries use the WTO to find solutions to their problems’. This should not make trade talks collapse however.

What might have done so could instead stem from the fact that the demands of developing countries evolved noticeably during the Uruguay Round and the WTO era, moving from a position of seeking exceptions to their progressive integration as full-right members facing the rights and obligations of the other (large country) members. The case of least developed countries excepted, the Special and Differential Treatment negotiated during the Uruguay Round basically consists in longer implementation and reduced obligations conceded to developing countries, much more than the exceptions per se. ‘The challenge of the developing world today seems to be much more nuanced’, Narlikar (2005) acknowledges, ‘which is based neither on an outright rejection of the reciprocal, multilateralism of the WTO nor a wholesale acceptance of it’. The Doha Round talks can be best characterized by a superimposition of two distinct types of demand - exemption (Gatt era) and facilitation (Uruguay Round) – largely because of the emergence of two main negotiating blocks between the Doha (2001) and Cancun (2003) conferences, among the various overlapping coalitions of developing countries - namely the offensive exporters (G20) and the defensive importers (G33). The former led by Brazil seemed ready to move toward full reciprocity, conceding market access on NAMA against tariffs and subsidy cuts by OECD countries on agricultural products during the last days of the July 08 Conference. The latter somehow stood firm on its developing country status, arguing as India did that it was ready to negotiate commerce, but not livelihood and human security, whatever the imbalances such an exception would generate in the final package of modalities. ‘I would like to emphasise the role of the G20’ Brazilian negotiator Amorim said during the last G20 press conference at the end of the July 08 WTO Ministerial. ‘It’s an irony’, he adds, that ‘many of the achievements come from the G20, providing the main structures, ideas, formulas. The only issue on which the G20 was not able to agree inside the group was the one which took the round to a halt.’ Exemption and facilitation-toward-reciprocity stances were not compatible across the 20 issues to be negotiated. Their superimposition mirrors the complexity of the ‘developing country’ group, which in itself actually does not exist. It lay at the heart of the complexities of the intertwined coalitions of developing countries and eventually prevented consensus.

4. The trade & development missing link

While all economists share Samuelson’s (1939) view that some trade is better than no trade, no scientific statement, with scientific value on par with the comparative advantage theory, provides true and non trivial predictions of the effects of trade openness on development. Admittedly this is largely because development remains a tricky concept to define and measure. Attempts to substitute ‘growth’ for ‘development’ have not proven decisive. Comparative advantages which predict instantaneous gains to any (small) country opening up its trade, say nothing about dynamic gains and growth. And growth theory, focusing on innovation, human capital or research and development, does not make either exports or imports enter its equations. Trade theory is silent about growth and conversely growth theory about trade. No consensual knowledge, liable to guide public policies toward a defined objective (Haas, 1980)—trade liberalisation in this particular case—was available to make the trade and development linkage operational in WTO negotiations.[11]

Considering the absence of a theoretical link between trade and development, empirical studies and numerical simulations have multiplied over the last seven years. What has been observed from the launch of the Doha Round is increasing competition among economic research staffs over trade impact simulations according to various ‘development’ criteria such as country GDP, poverty headcount ratio or real wages in specific industries. OECD and World Bank trade models are no longer the main players in this field, their results being sometimes even sharply questioned and criticised (Bureau, Jean, Mattews, 2006). And the gains from trade derived from competitive simulations and model refinements seem to shrink inexorably (Ackerman, 2005). What we know from all these studies on the impact of trade seems rather trivial: there are gainers and losers from trade liberalisation; this is true at country level as well as household level; in some cases, the poorest are the losers, but in some cases only. Lastly, there should be gains for all, but some (households and countries) will have to wait a bit (Chabe-Ferret, Gourdon, Marouani and Voituriez, 2007).

Strikingly, the indeterminacy of the (freer) trade-development relationship reinforced the pros and cons arguments over trade liberalisation and provided a convenient vehicle for opposing ideologies, beyond what the empirical facts cautiously suggested. Some trade economists somehow oversold the benefits of the Doha round accruing to developing countries, by publicizing free trade gains scenarios as partial trade liberalisation scenarios as envisaged in the various WTO drafts.[12] The cheerleaders of globalization, as Rodrik (2007) called them in one of his papers, magnified the gains to be reaped by further liberalization of markets which are actually meagre for poor and rich countries alike. Overselling the pro-poor impact of trade liberalisation did more harm than good to the negotiation process itself.

‘Which is the greatest threat to globalisation: the protesters on the streets every time the International Monetary Fund or the World Trade Organisation meets, or globalisation's cheerleaders, who push for continued market opening while denying that the troubles surrounding globalisation are rooted in the policies they advocate?’ Rodrik (2007) asks. And answers that ‘A good case can be made that the latter camp presents the greater menace. Anti-globalisers are marginalised. But cheerleaders in Washington, London and the elite universities of north America and Europe shape the intellectual climate. If they get their way, they are more likely to put globalisation at risk than the protesters they condemn for ignorance of sound economics.’

Facing much uncertainty on the genuine contribution of trade further openness to development (when compared with more efficient domestic institutions and wider space to define, test for and implement sui generis policies), developing countries might hence have doubted of the actual benefits they would gain from freer trade, while rich countries, even in the case of altruism and genuine interest in dealing a pro-development round, could have seen development gains shrink abroad in exchange for higher market access conceded at home (Gallagher, 2008). Acknowledging that ‘a government can be expected to abide by commitments it negotiates within the GATT/WTO only if and for as long as it sees doing so to be in its self interest (i.e., GATT/WTO commitments are not meaningful unless they are self-enforcing)’ (Bagwell and Staiger, 2004b), the lack of theoretical relationships between trade openness and development, along with the lack of empirical evidence of the significant impact of the former on the latter, made ‘development’ a political argument more than a sound and undisputable objective fitting the self-interest of WTO member countries.

5. Conclusion

Starting with the Bagwell and Staiger economics of the Gatt, we have tried to look for reasons explaining how ‘development’ was transformed from a blessing to a curse during the Doha Round negotiation process. We have short listed four explanations and hence argued that because developing countries are overwhelmingly small countries, meaning price takers, because they relied extensively on non reciprocity in deal-making, because they tended to focus their demands on rich countries agricultural subsidy cuts, and last, because consensual knowledge on the link between trade liberalisation and development was lacking, the ‘development idea’ in its various implications has made the talks collapse.

Such hypotheses still need to be formalised in a general equilibrium setting such as in Bagwell and Staiger (1999), and ideally tested. Should they be validated, they provide some insight on the ‘immersed part of the iceberg’ Pascal Lamy mentioned in his final talk at the end of the July 08 Conference. Most of all, they stress the need either to forget about trade and development and leave it to dedicated UN agencies or Washington institution, or if development really matters, to reframe expectations on trade liberalisation impacts on developing countries and adjust accordingly the necessary clarification and reform of the reciprocity principle <u>in practice</u> and of WTO subsidy rules - these two bones of contention – so as to keep WTO agreements both needed and self enforced as they have proved to be thus far.

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Notes

1 All the quotations from the final press conference of the July 2008 Package Conference of the WTO can be consulted on the WTO website, http://gaia.world-television.com/wto/20080721/meet08_webcasting_e.htm

2 Developing countries are split across various coalitions and groups at the WTO, with some overlap. Brazil, India, South Africa and China headed the creation of the G20 a few weeks before the Cancun WTO Ministerial Conference in 2003, based around an alternative proposal for agriculture to the one put on the table by the US and the EU. Another group which had been set up earlier was the G33, led by Indonesia and which focused on proposals for special and differential treatment and special products. The least developed countries (LDCs) joined other countries from Africa, the Caribbean and Pacific during the Cancun conference to form the G90. Some countries are members of two groups, hence China and India, which are both members of G20 and G33.

3 Or as Gregory Mankiw from Harvard putting in his New York Times Economic View, July 13, 2008: 'A majority of economists […] support free trade. Economists are nearly unanimous in their support an unfettered system of world trade', Sunday Money p4 .

4 The 'distributive' part of tariffs may indeed remain, meaning tariffs set as such a level as they transfer part of consumer welfare to the producer without affecting world prices as in the classical small country case. As long as the remaining tariffs affect world prices, and as the same situation prevails for another country at least, there exists an opportunity of mutual gains through further tariff cut. The 'large country' portion of tariffs is hence removed through the reciprocal exchange of market access, while the small country or 'distributive' part is left unchanged.

5 They are all wrapped up in the excellent 2007 WTO World Trade Report, see in particular pp53-64.

6 Panagariya (2002) noted that the main Ministerial Declaration itself uses the expressions 'least developed' countries 29 times, 'developing' countries 24 times, and 'LDC' 19 times, while many of the annexes deal with issues of specific concern to developing countries.

7 See http://www.wto.org/english/thewto_e/minist_e/min01_e/mindecl_e.htm. The paragraph 6 goes like this: 'We strongly reaffirm our commitment to the objective of sustainable development, as stated in the Preamble to

the Marrakesh Agreement. We are convinced that the aims of upholding and safeguarding an open and non-discriminatory multilateral trading system, and acting for the protection of the environment and the promotion of sustainable development can and must be mutually supportive. We take note of the efforts by members to conduct national environmental assessments of trade policies on a voluntary basis. We recognize that under WTO rules no country should be prevented from taking measures for the protection of human, animal or plant life or health, or of the environment at the levels it considers appropriate, subject to the requirement that they are not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries where the same conditions prevail, or a disguised restriction on international trade, and are otherwise in accordance with the provisions of the WTO Agreements.'

8 Supporting this assertion, Staiger (2006) quotes a study by Subramanian and Shang-Jin Wei (2003), which indicates that membership in the GATT/WTO appears to have large positive and significant trade volume effects for developed countries but little if any systematic effect on the trade volumes of developing-country GATT/WTO members.

9 Details of small countries' motivations to access the WTO conclude Staiger's paper. A A first potential role of the GATT/WTO is that of facilitating the *enforcement* of negotiated agreements. A second potential role of the GATT/WTO is that it may serve to provide an environment of reasonably stable and secure property rights over negotiated market access claims, thereby facilitating the negotiation of efficient agreements.

10 Quotation extracted from Narlikar (2005)

11 See on this point see Stiglitz and Charlton, 2005 ; Rodrik 2007.

12 See in particular the World Bank press presentation of the book *Agricultural Trade Reform and the Doha Development Agenda* edited by Anderson and Martin (2005) on the World Bank website: 'Tariff Reform Could Deliver Annual Global Gains of $300 Billion by 2015, Says World Bank Study' http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/TRADE/0,,contentMDK%3A20716308~pagePK%3A64020865~piPK%3A149114~theSitePK%3A239071,00.html, and its comments by Mark Weisbrot 'World Bank's Claims on WTO Doha Round Clarified', http://www.cepr.net/index.php/press-releases/press-releases/world-bank-s-claims-on-wto-doha-round-clarified/