



The Doha round and the persistency of Constituency-economics

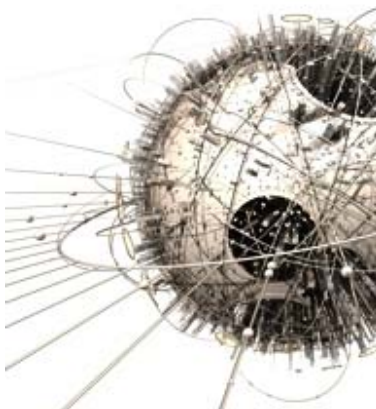
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A critical assessment of the development dimension of the Doha Development Round focusing on the extent to which this offers developing countries policy space and flexibilities to pursue developmental objectives.

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“The alternative to the WTO is a world criss-crossed with bilateral and regional trade agreements that carve up trade rather than freeing it. So-called “free-trade” agreements are nothing of the sort: they create captive markets for rich-country exporters, often offering developing countries little in return.”

Philippe Legrain (2006:1361)

Introduction

Can the Doha round be understood as just another occasion when the bars and locks on the “cage of global finance” (Lindblom 1977) are reinforced? Or is it actually the case that, door after door, developing countries are finding the keys to the locks and trading their way out of poverty? Expected to be concluded in 2004, the Doha round has dragged on until 2007 and its conclusion remains uncertain. Right from the start, rich countries rhetorically committed themselves to abolishing what they recognized as major obstacles to the development of poor countries - the presence of extensive direct and indirect mechanisms of trade distortion disfavours the developing world. These distortions were pushed through by tough bargaining by rich countries, particularly at the Uruguay round, and have slowly been challenged of late with mixed results.

Developed nations, and above all the United States (US) and the European Union (EU), were indeed the initial sponsors behind global trade but developing nations and particularly the emerging markets of the BRICS (Brazil, Russia, India, China, South Africa) and the G20+ no longer stand back and limit themselves to playing the “amendment game” at the table of trade negotiations. The agenda is now also being written up by a handful of big players from the emerging world. The result has, up until 2007, been little more than “stalemate” in Qatar although small development-victories have slowly been achieved recently. After an introduction of Doha as a follow-up to the General Agreement on Tariffs and Trade (GATT) and a sub-product of the World Trade Organization (WTO), I will discuss the context-specificity of the impact of trade negotiations on a heterogeneous developing world. From there I will debate how the Doha negotiations have provided an environment that is rich in both threats and opportunities to the developmental ambitions of the developing world. One particularly important area being negotiated – the one of trade in services and knowledge - is then more extensively explored. Lastly, I will carry out an assessment of the room for manoeuvre of the developing world at the negotiation table through the eyes of the G20+ group.

Doha within the unbalanced reshuffle of the international order

The GATT has been in place since 1947. It started as an intergovernmental agreement to facilitate in the regulation of trade and was later integrated into the more thorough framework of the WTO – an international organization of its own. GATT's stated objective has been from the start, to "facilitate the reduction of barriers of trade and ensure greater equality with respect to conditions of market access for contracting parties" (Hoekman 2002: 13). It was not, however, until the Dillon round in 1960 that the scope of the matters being negotiated within the GATT system broadened and went beyond deals strictly concerning tariffs. Alternatively to the multilateral GATT system, countries have traditionally had the option of going for bilateral agreements and deals between regional trading blocks. The interplay between what is happening at Doha and Special Differential Trade Agreements is a "world of its own" but I will not explore it extensively in this piece. It is important however to keep in mind that the alternative to the single simpler multilateral package being negotiated in Doha is a more uncoordinated and intricate set of deals.

One of the main reasons why it is important to put the mixed picture of parallel developing worlds into evidence is because the effects of trade are necessarily context-specific. Although this piece explores issues of trade for developing countries at the macro-level, it is important to remember that any generalization is no substitute for detailed analysis of the impact of multilateral trade regimes in particular countries, communities or sectors. This is particularly the case when analysing Non-Trade Barriers (NTBs). Revenues from traditional tariffs go straight to government coffers for redistribution. Conversely, when NTBs are in place, it is particular sectors or companies hosted by the government that indirectly benefit, making the impacts of trade slightly more complex and harder to assess. In the cases in which extensive economic empowerment to lower-income labour forces is provided by these sectors or companies, a poorly planned removal of NTBs can harm development, particularly in the shorter-term. Overall, trade can indeed influence development by impacting on several issues such as employment, wages, inequality, volatility, economic growth, government revenues and commodity prices.

After acknowledging the context-specificity of the impact of trade, let us now look at how China's manufacturing and India's Information Technology software and services are currently shaking the world economy. These are countries whose region, when compared to Sub-Saharan Africa, shows just how mixed the picture in development

and trade-dependencies currently is. The unprecedented rise of China and India as emerging market forces presents a large set of challenges and opportunities that are simultaneously delicate, complex and comprehensive. An effective divide in the developing world becomes obvious when you put the characteristics of these two massive economies next to those of some African countries. China and India first and foremost advance their particular interests and play the game of constituency-economics in the international negotiation table; a game that, as will be seen in the last section, is part of the explanation for cooperation and bandwagoning through coalition-building in the developing world. This means that not only are African economies sensitive to tremendous competition from these “giants”, but they are also in a much weaker bargaining position in trade negotiations vis-a-vis the developed world. Africa remains more extensively dependent on the European Union and the United States’ performance for market stability and on their markets as export-outlets. This reality is evident when one compares the trade orientation by destination of different regions of the developing world. The graph in Figure 1 (IMF 2007: 124) shows just how much more dependant sub-Saharan Africa is than Asia in its exports to the EU and the US. Recently the continent is also becoming more and more reliant on rising Chinese and Indian demand for primary commodities, observed in the increase of the category “other” in the graph for the period of 2001 onwards.

Trade Orientation

(Trade with indicated areas as percent of total trade)

With the rapid growth in intraregional trade, the importance of trade with the United States has generally decreased.

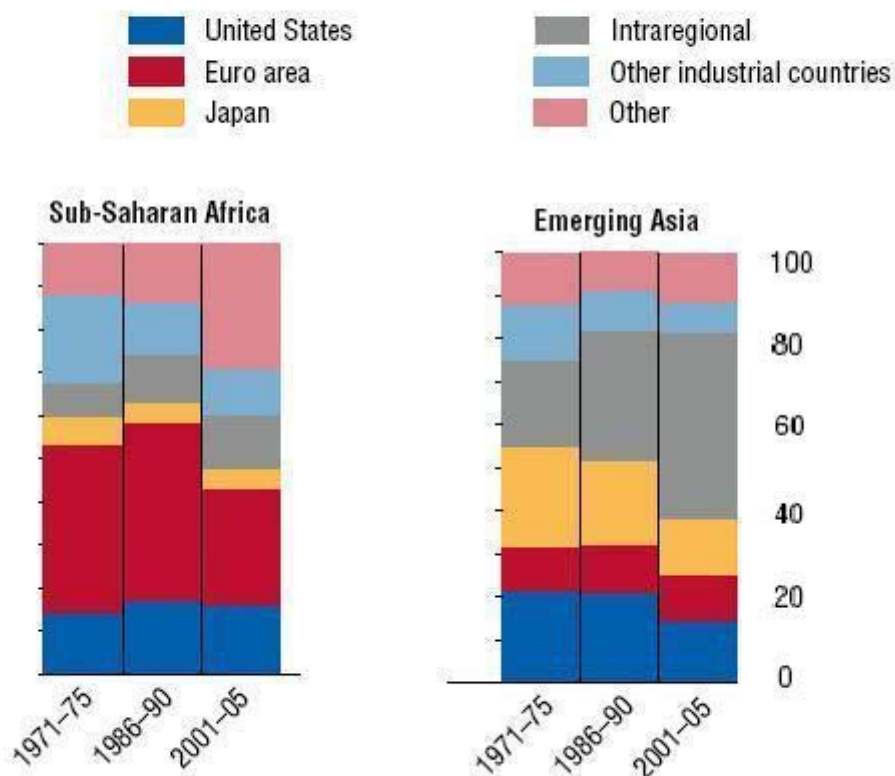


Figure 1

Assessing the space for development – Threats and opportunities at Doha

According to an April 2007 IMF report, developing countries expect to keep growing strongly thanks to benign global financial conditions and high commodity prices. Developing countries are on the cusp of a significant economic upturn. This is positive news but one should keep in mind the old truthful cliché that, although a “precondition for it”, growth does not immediately translate into development. Another frequently mentioned problem with the current outlook is that a considerable part of growth is primary commodities-based, which can be problematic in the longer term (Farfan 2005). In addition, as I have observed, the developing world does not constitute a single homogeneous block.

In WTO talks such as Doha, when countries agree to open up already developed sectors or industries in developing countries, this significantly improves sector and industry efficiency and competitiveness through market adjustments brought about by competition. Also, lower trade-tariffs can bring down domestic prices, which can benefit consumers, particularly poorer ones. In addition WTO negotiations, when able to tackle residual constituency-protectionism of rich countries and unreliable industries in the developing world, can foster development. This is important since, when exercised in a non-transparent manner, protectionism can open the way to installed corporate lobbies that “pressure governments into pursuing policies that benefit them but not the general good” (Legrain 2003:1354). WTO negotiations, including the Doha round can therefore, in some particular instances, reduce poverty in the developing world. Another means by which it can do so is by cutting on complicated and time-related wastes in trade, namely through a simplification and harmonization of customs administration procedures and by bringing down costs. Domestic trade facilitation, improving customs administration, can boost developing countries’ export to richer countries and foster development.

Although the playing field is levelled, the question over the restructuring of the WTO and the current procedural agreements of how international trade rules are devised is important. Some “question marks” can be put on a few features of the ritual of negotiation, particularly when it comes to issues of agenda-setting. The fact remains that the WTO encompasses a very democratic model of consensual politics, perhaps even over-democratic. Every member has veto power and that brings about the “blessing” and the “curse” of consensual politics. This consensual politics is a “double-edged sword”. On the one hand it does compel actors to compromise but on the other hand it can foment lengthy and stubborn negotiations, whereby those that are the least in need of a new agreement are favoured. The sheer number of stakeholders negotiating and holding a veto in the WTO does at the end of the day make the reaching of a consensus a challenging task and gives in principle no particular privileges to developing countries. One of the technical difficulties at the negotiating table disfavours both developed and developing countries, but at times consciously used by developed countries in their benefit has been language barriers. English was the conference language, despite French and Spanish also being official WTO languages. Interpretation facilities were restricted to the big conference rooms, while it was in the smaller rooms that the important negotiations took place. Delegates from developing countries frequently criticized this negotiation model as representing a

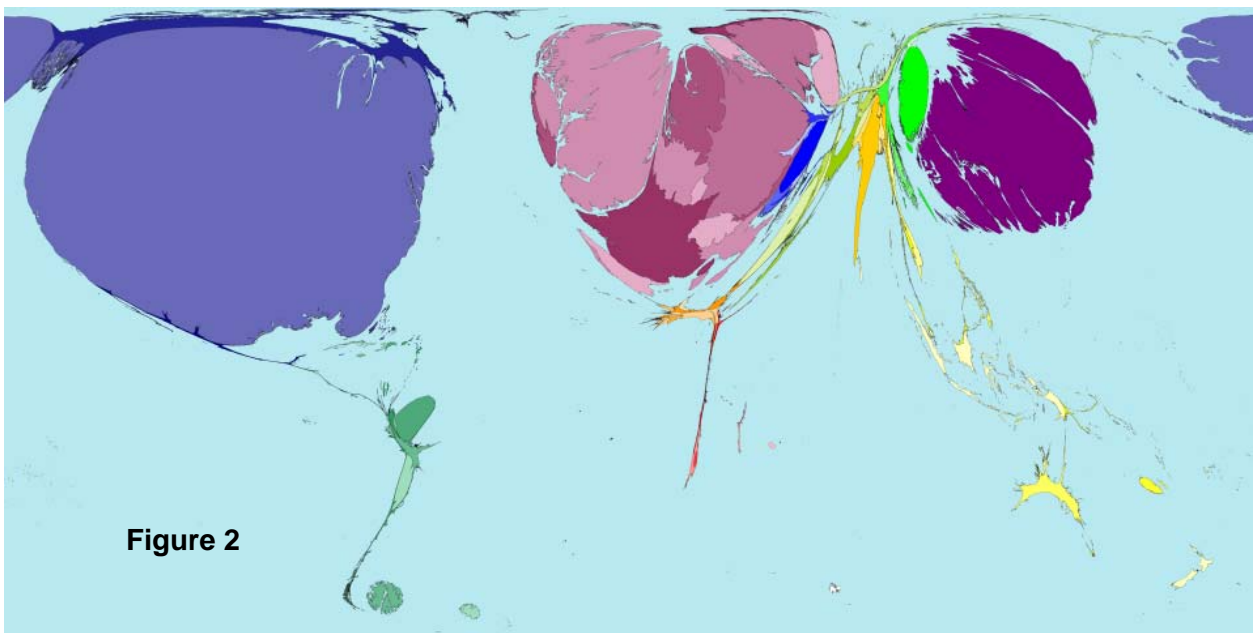
revival of the elitist green room¹ process. In addition there were too many meetings and it was sometimes unclear where these were held, who was being consulted and on what basis (Jwara & Kwa 2003). More worryingly, many of the most crucial decisions were made in the absence of several developing countries' ministers, as negotiations went into over-time, and not everyone was able to reschedule their flights. Moreover, Berneo and Davis (2005) observe how developing countries, while representing 2/3 of WTO members, initiate only 1/3 of disputes filed in the organization. This demonstrates the difficulties poorer countries come across in terms of their style and leverage in negotiation. They often lack the necessary knowledge and experience to be successful in such undertakings, something that is also reflected in major trade negotiations such as Doha. This is a chronic problem the WTO should try and address once and for all.

Finally, the classical issue for developing countries at Doha has been the farm subsidies that developing countries use to bolster their own farmers and which distort world prices in agricultural products, bringing them artificially down. This damaged the profit margins of farmers in the developing world, constraining their export-capabilities. At the beginning of September 2007, after an initial US\$17 billion proposal being rejected by Brasil and India, the United States finally declared its willingness to limit its subsidies to a level between US\$13 billion and US\$16.4 billion (IHT 2007). This was the first time that the US accepted publicly that would in principle bring farmers payments below US\$23 billion. Although it does go to show that rich countries are in fact interested in concluding the round successfully, there are two main reasons why developing countries welcomed the news with scepticism. Firstly, given that the fast-track powers of the American President have expired, the commitment by the US chief negotiator Robert Zoellick still needs to be approved by the American congress. Secondly, its impact on the real American expenditure in farm subsidies is likely to be nil in the short-term. In 2006, the US spent only US\$11 billion out of much larger negotiated sum of US\$19.1 billion (IHT 2007 B). This piece of news has however to be understood within the wider chronology of trade negotiations and if it comes through will represent an important step in the future towards cutting down on the rich countries' ability to distort markets.

¹ The "Green Room" is a phrase taken from the informal name of the director-general's conference room. It is used to refer to meetings of 20–40 delegations, usually at the level of heads of delegations.

Trade in services and technological learning - a sensitive, untapped world

Services and knowledge-intensive industries hold the greatest added-value in the value-chains of the current international economic order. These industries are complex, capital intensive and demanding for host states but they are also invaluable economic multipliers of the countries' competitiveness and in the development of their socio-economic indicators. The services sector forms the backbone of a knowledge-based economy, which means that looking at the earnings from the production and commercialization of knowledge is a good indicator of development. A look at the 2007 UNCTAD Least Developed Countries report shows that the outcome of the trade relations at the Doha Round concerning this industry is absolutely vital for Developing countries. The cover of that important report displays the map in Figure 2 with territory size showing the proportion of worldwide earnings (in purchasing power parity) from royalties and license fees that are earned there. Let us now try and break down the trade debates behind the reality represented in the map.



Services have been part of multilateral trade negotiations since 2000. By 2004, 30 to 40 per cent of workers in the developing world were employed in the sector. This percentage rises up to 70 in the case of developed countries (UNCTAD 2007). The trend is for services to progressively take over agriculture as the most significant sector of the economy, this is also the case for developing countries. The Trade-Related

Aspects of Intellectual Property Rights (TRIPS) agreement, also discussed in Doha should be mentioned. The deal covers a whole range of intellectual property rights but for a large part of Sub-Saharan Africa, the HIV/AIDS epidemic has meant that all eyes are on the impact of TRIPS on the pharmaceutical industry and on other healthcare innovations. So that development is not forestalled by intellectual property rights, developed countries at the Doha have allowed for countries to declare a national emergency and institute what is known as compulsory licensing - the right to make a drug without paying royalties to the patent holder. However, many developing countries simply do not have the resources, infrastructure or legal framework necessary to deal effectively with the implementation of the TRIPS agreement and, as such, find it hard to make those rules work in their favour. As seen in the map in Figure 2, knowledge and technological know-how remains asymmetrically the property of developed countries. At the end of the day, in the cases where these countries hold low levels of technological learning², more than directly damaging their economies, instant liberalization in high-end labour service markets and in intellectual property rights is rather ineffective. It can easily lead to an increase in the marginalization (UNCTAD 2007 p.57) of the developing world, particularly of Least Developed Countries. Lack of technological and knowledge learning will invariably perpetuate a vicious cycle of underdevelopment as represented on Figure 3 below.

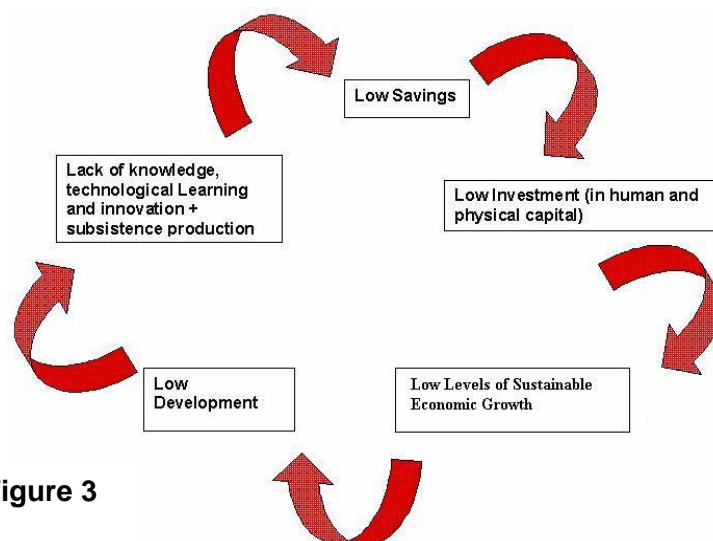


Figure 3

² Note the difference between knowledge/technology transfer and knowledge/technology learning - the latter implies a sustained building of knowledge and innovation capacity at home. Not just a one-shot temporary transfer of knowledge or technology geared towards short-term goals.

Development-focused trade liberalization is therefore dependent on: concrete expansion of service export opportunities; and improved efficiency and productivity of services sector in LDCs and ODCs through technological learning and not mere knowledge and technology transfer. The Doha Round is not addressing this reality.

The implications at stake when trade in services is being discussed must also be understood within the migration-development nexus debate. Even though there are negative consequences of labour migration, such as brain-drain, the positive impact could be substantial for developing countries. Recent reports show that “liberalizing the movement of workers could amount to 156 billion dollars if developed countries increased their quota of workers from the developing world by 3%” (Kategekwa 2006:3). The graph in figure 4 (IMF 2007:163) taken out of IMF’s World Economic outlook, shows just how migration and exchanges in labour between developed and developing world still vastly lags behind traditional exchanges in goods and services. This is very much due to the severe restrictions still in place for those wishing to migrate from the developing to the developed world. Again, the current trade negotiations at Doha seem unlikely to present any major breakthroughs for this situation.

(Percent of labor force and GDP, respectively)

Although immigration has expanded significantly over the past two decades in some large European countries and the United States, trade remains as the more important channel for accessing the large global labor force.

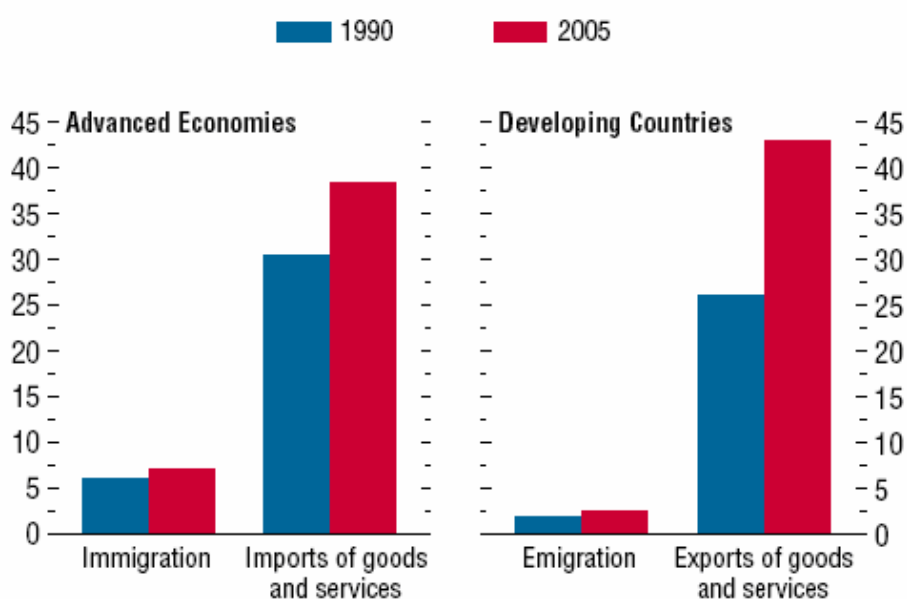


Figure 4

Looking for room to manoeuvre – The G20+ and the rise of a proactive developing world

The inevitability of what I call “constituency-economics”, originally reflected in Putnam’s two-level game theory (Putnam 1988), becomes evident when traders, principally traders from rich countries, start alluding to their home constituencies as having insurmountable interests they need to uphold and defend on the international stage. I argue that the development dimension of the Doha Round has been defined by the clash between the constituency-economics of rich countries and attempts by the developing world to build new avenues of cooperation. The term “constituency-economics” alludes to the persistence of a “zero-sum” game in the politics of international trade, something that Krugman (1997) also acknowledges. This is important on two levels. Firstly, it shows how crucial it is for developing countries to come together and coordinate their trade stances by forming coalitions and bandwagoning. Secondly, it explains why, as we have seen, developed countries have been “shying away” from multilateralism and pushing on their bilateral and Preferential Trade Agreement Agenda. The bilateral and multilateral alternatives of international trade are, in one way or another, mutually exclusive and in direct competition with each other. In this context, the G20+ comes about as an important example of South-South cooperation and of remarkable stance coordination for a variety of reasons. It was the first time that China assumed a more proactive and leading role. It also brought together very diverse regional powers, something that is notable not just in harnessing synergy in economic trade bargaining but also in the symbolic underpinnings of the coalition and in the moral weight it carries, representing over half of the world population (Narlikar & Tussie 2004: 953). The G20+³ brings together actors that are as significant in the emerging international order as they are heterogeneous.

The previous sections have explored just how developing countries’ ambitions for space and flexibility encounter a “zero-sum” game as in one way or another they clash with the defensive arguments of rich countries. In a curious development, the latter have recently tended to become protectionist, losing their traditional role of liberalizing leadership in the organization. American-led liberalization of multilateral trade, witnessed particularly in the Uruguay round, has now come to a standstill. Lobby

³ It currently comprises Argentina, Bolivia, Brazil, Chile, China, Cuba, Ecuador, Egypt, Guatemala, India, Indonesia, Mexico, Nigeria, Pakistan, Paraguay, Peru, Philippines, South Africa, Tanzania, Thailand, Uruguay, Venezuela, Zimbabwe

groups from uncompetitive sectors such as steel, textile and farming, important for the constituencies of those negotiating the deal, pushed the Americans and Europeans to put the “brakes on” liberalization and become more protectionist. Indeed, as Brazilian foreign minister Celso Amorim observed, “the proposals set forth by the G20+, which Washington holds responsible for the meeting’s failure to reach an agreement are 70 to 80 percent in line with the positions held by the United States at the start of the Doha Round” (IHT 2007). The EU has gone through a very similar transformation, with the added detail that it is far more worried with its own integration process to the East.

This picture gives the G20+ a window of opportunity to simultaneously lead trade negotiations and invert the traditional bargaining stances. This switch has now put developing nations as leading promoters of broad trade liberalization with small adaptations, and rich countries resisting it. We are witnessing, in the words of Mario Marconini, former Brazilian Secretary of Foreign Trade, a “shift in paradigm” (IHT 2007). An interesting argument put forward by Daniel Tarullo (2006:48) is that, since Doha and the extensive benefits earned at Uruguay round, big multinationals no longer require further liberalization for the consolidation of their profitability. He observes that these companies have been far less assertive in their lobbying for the completion of these international deals than they used to be. The telling story of how the G20+ maintained cohesion at Cancun despite many believing in the impossibility of it happening (Tussie & Narlikar:2004) is a rather encouraging example of how slowly developing countries are taking their development into their own hands.

Coalition-forming by developing countries has dramatically increased recently but has been around from at least the middle of the 1960s. It has traditionally assumed a reactive form, triggered by unsatisfactory deals proposed by rich countries. One of the initial groups of rich countries in the Doha round was named the Quad members group, constituting the US, EU, Canada and Japan. The first international coalition of developing countries was the G77 formed in 1964, comprising the promoters of the early non-aligned movement. Nowadays, in addition to regional economic organizations such as MERCOSUR and ASEAN, parallel to the G77 and the G20+ there are organization as diverse as the Small and Vulnerable Economies (SVE), the African group, G3+3, NAMA11, G10 and the LMG group. Serrano and Prieu (2006) conclude that middle-range powers also tend to use the “tools” of coalition-making and regionalism in the WTO as a means to advance their leadership in their particular regions. This explains the participation in a high number of coalitions of middle range powers such as Brazil, Indonesia, China and Argentina as is illustrated in the graph in Figure 5 (Serrano and Prieu 2006). Ultimately, economic exchanges primarily respond

to the pressures of constituency-economics. The same can be said for the rule-setting of trade negotiations that underpin them. The Doha round saw, once again, individual negotiators representing the perceived interests of their constituency. It is in this mindset that developed countries sit down to discuss, draft and amend the texts and figures of the rules of trade relations. Developmental objectives are invariably relegated, at best, to second place in the agenda.

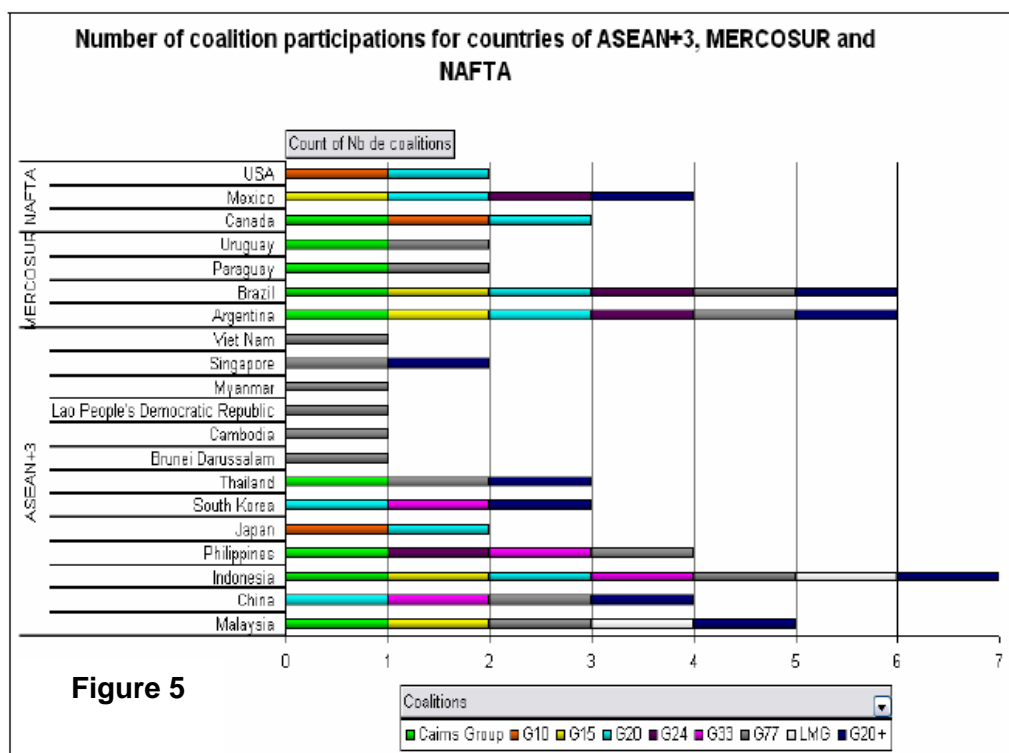


Figure 5

Conclusion

The main point I have wished to put across is that developing countries tend to find little improvements in space and trade-flexibility to reach their developmental goals unless they harness bargaining power through economic competitiveness and diplomatic coordination, usually through regionalism and coalition-building. *Realpolitik* has not been replaced by *Developolitik* at Doha after a simple branding exercise termed the round developmental. The rhetoric however, has been put to some use by developing countries. It has been a platform to which developing countries go back whenever they advance their discontentment with the developmental impact that rich countries' "constituency-economics" has on their prospects for development. In the case of the Doha round, the hypocrisy surrounding the term has also been the major argument put forward by the developing world whenever the negotiations seem to be

breaking down. Future development through trade negotiations will need to be conscious of the diversity in the economies of the developing world. It will also need to harness the potential in technological and knowledge learning as well as in liberalizing a services trade and migration that benefits the developing world. These two issues have so far either been damaged or ignored at the negotiation table and progress has been too slow. Finally, although not without its pitfalls, developing world coalition endeavours such as the G20+ are to be welcomed. They constitute initiatives that, when well coordinated and devising proactive and constructive proposals for trade rules, can bring diverse developing states together. The developing world will necessary rely on the leadership of the emerging markets leverage for pushing forward a more development-friendly WTO trade framework and overcome the constituency-economics of the rich world.

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