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The Doha Development Round and Challenges to Multilateral Trade Negotiations

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On Saturday, December 7th, 2013, the 9th World Trade Organization (WTO) Ministerial Conference concluded in Bali with the first agreement after 12 years of negotiation. The Bali Package featured agreement on four overarching areas: trade facilitation, agriculture, cotton and development. Without some sort of achievement in Bali, many argued the multilateral trade regime would become irrelevant. For instance, prior to the Bali conference, incoming WTO Director-General Roberto Azevêdo noted that in the absence of an agreement, the world would “move on” relegating the WTO to an “empty building” with “empty chairs” (Kanth 2014). As such, the Bali Package was a much needed life-line for the WTO. Following the conference, world leaders expressed similar sentiments: US President Barack Obama praised the agreement as a “rejuvenation of the multilateral trading system,” while EU Commission President José Manuel Barroso stated that “the WTO is back on track and delivering reform” (“Success” 2013). However, critics of the Bali Package, and the WTO negotiation process in general, are quick to note that the agreement papers over the tough issues, such as agricultural subsidies, making meaningful agreement on those issues in the future much more unlikely. Furthermore, loose language is prominent throughout the agreement. This essay will use realist assumptions to theoretically analyze the structural challenges facing negotiators at the WTO.

Understanding International Trade Negotiations

Realists view international disagreements between states as the consequence of a rational pursuit of power (Waltz 1989, 40). Rational theories assume that state actors are instrumentally rational; they seek to maximize self-interest and act on the basis of cost-benefit calculations. Trade is an opportunity to secure wealth from abroad through positive trade balances. Thus, trade negotiations are a forum for the exercise of competing self-interested national preferences rather than an arena for cooperation and mutual gain. As such, realists view international trade as a distributive, zero-sum game, where one state's gain is another's loss. In this system, states must follow *realpolitik* in economic relations: be self-serving and maximize wealth and relative gains (Doyle 1997, 18). Failure to do so threatens the state because a disproportionate accumulation of material wealth by another state can serve as a basis for political power. States must aim to promote key strategic industries and promote the domestic economy, even through the use of trade distorting measures such as subsidies or tariffs. Realists view the international system as a jungle whereby each state is subject to threats from others and must do what is needed to survive (Waltz 1989, 45). International relations between states is unlike domestic politics because a central authority does not exist internationally to regulate the actions of power-seeking states. This system is anarchic; conflict and the inability of states to cooperate internationally is a symptom of anarchy. Anarchy further relegates countries to a permanent state of self-help. The most powerful^[1] states define the contours of economic cooperation in a manner that favours their interests. International institutions, such as the WTO, are an extension of the power of dominant states.

Explaining State Behaviour in Multilateral Trade Negotiations

Negotiation theory distinguishes between distributive and integrative international negotiations: distributive negotiations attempt to resolve conflicts of interest and feature positional and hard-bargaining strategies whereas integrative negotiations^[2] attempt to find common or complementary interests and solve problems confronting both parties (Odell 2009, 620). Most international negotiations feature elements of both distributive and integrative

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negotiation. However, certain issues, such as conflicts over divisible issues^[3], have less integrative potential and are less conducive to cooperative behaviours. Odell, citing Walton and McKersie, argues that negotiations over economic issues are less likely to generate integrative behaviours because these issues are inherently distributive or *win-lose* in nature: one side's gain is the other's loss (Odell 2009, 620). Thus, in these conditions, realist assumptions regarding the zero-sum nature of international negotiations are much more salient. As such, predictably, negotiations in the Doha Round have yielded much more positional, hard-bargaining tactics amongst states despite the opportunities for mutual gains. For instance, in the second day of talks, India, on behalf of the G33 – a coalition^[4] of 46 states that have large domestic farm population – caused an uproar when it made its acceptance of any agreement conditional on developing countries receiving an indefinite waiver to continue food subsidy programs. India in effect adopted a positional approach and a 'game-of-chicken' tactic. Indeed, through the consensus norm, the threat to block agreement is the most significant distributive move (Odell 2009, 625). Moreover, because of the monolithic nature of the G33, its size and the relative weight of India in trade negotiations, the threat was certainly credible. India sought to mitigate the implications of multilateral agreements on its domestic food security programs and appease its constituents, especially in the midst of an upcoming general election. The hard bargaining that ensued led to India receiving a temporary extension for certain trade distorting measures to the benefit of its local industries. Consequently, protectionist policies and distributive tactics impede progress in the WTO.

International trade has long been shown to contribute to welfare gains for the countries involved^[5] (Krugman and Obstfeld 2003, 3). The economic argument is that market distortions reward inefficient enterprises and divert resources (labour, capital, etc.) to uneconomical production processes that would otherwise be used in the production of more efficient goods. In this sense, although adversely affecting certain domestic sectors, free trade is optimal because it increases overall output. Domestic industries are able to specialize in the areas where they have a comparative advantage internationally. Nonetheless, as the Doha Round has demonstrated, the potential for mutual benefits has not pushed states toward meaningful multilateral concessions or concrete agreements on contentious issues. Many states continue to defend sizeable protectionist trade policies. Europe, for instance, will continue to spend approximately 50 billion euros a year until 2020 on farm subsidies – eating up the largest share of the EU budget at 38% (Dunmore 2013). Despite reductions in EU farm subsidies in recent years, countries such as France continue to forcefully defend its domestic agricultural sector, which would be threatened by competition in world markets. In fact, agricultural trade is a cornerstone of the distributive impasse at the WTO and trade disagreements in general. For instance, during negotiations under the General Agreement on Tariffs and Trade (GATT) – the predecessor to the WTO – the majority of trade disputes regarded agriculture (Davis 2004, 153). Economist Paul Krugman notes protectionist measures do “not make sense on any level... but nonetheless govern actual policy” (1997, 115). Consequently, even though trade agreements intrinsically produce mutually beneficial outcomes seemingly congruent with integrative enlarging-the-pie strategies, states continue to pursue relative gains through the use of distributive negotiation tactics. These conditions increase the likelihood of paralysis during negotiation especially in a multipolar setting.

Multilateral Negotiations and the Effect of Uncertainty and Complexity

In 1947, 23 countries were involved in the first world trade negotiations. In 2013, Laos and Tajikistan acceded to the WTO. A year earlier, Russia, Montenegro, Samoa and Vanuatu joined the WTO. Today, WTO membership stands at 159 countries and accounts for 97 per cent of global trade (WTO 2013). The number and influence of non-state actors has also increased, such as multinational corporations, epistemic communities and nongovernmental organizations. The sheer number of participants increases the level of uncertainty and complexity as well as the likelihood of conflicting interests and positions. As many developing countries have joined the WTO, they bring their own offensive and defensive concerns (Polaski 2006, vii). Some want further access to the agricultural, textile or apparel sectors of wealthy nations, whereas others want to maintain trade barriers for domestic manufacturing and services sectors. On the other hand, not surprisingly, certain developed countries want the opposite. Indeed, as Krugman notes, it is a “game scored according to mercantilist rules in which an increase in exports – no matter how expensive to produce in terms of other opportunities foregone – is a victory, and an increase in imports – no matter how many resources it releases for other uses – is a defeat” (1997, 115).

The opposing priorities within the Doha Round reflect important variations in the economies of developed and

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developing nations. Generally, developing countries are abundant in unskilled labour and raw materials, whereas wealthy nations are abundant in capital, the provision of services and heavier advanced industries. As a result, differing economies generate differing national preferences in international trade negotiations – a condition that was not as prevalent in earlier trade rounds with fewer developed actors dominating the talks. Those trade rounds featured more commonalities – not only in economic priorities but also in culture – between the leading industrial economies. Polanski argues, with China joining the WTO in 2001 and India and other developing countries much more engaged, it is “inevitable that current and future bargaining rounds will be more complex and difficult than past negotiations” (Polanski 2006, vii). In fact, each round of multilateral trade talks over the last 70 years has taken longer than the one that preceded it. Hampson and Hart concur with Polanski, arguing that the greater the number of participants in a given negotiation setting, the less likely an agreement can be reached that accommodates the interests of all parties (1995, 28-29). What’s more, if increasing the number of actors in a given negotiation setting reduces the capacity to produce an agreement favourable to all, then the inherent nature of such trade negotiations implies that there will be either winners and losers or no agreement at all. As such, states must pursue self-help positional negotiation tactics during the Doha Round as decisions about which sectors to liberalize or protect can make a significant difference in the distribution of wealth (Charlton and Stiglitz 2005, 295). This makes reaching agreement much more challenging.

An increase in the number of actors also increases the volume of information. It becomes increasingly difficult for negotiators to identify solutions, trade-offs or concessions to reach an agreement. The increasing interlinkages among issues^[6] and interconnections among states and coalitions within the multilateral trade system present significant data-gathering and information-processing challenges, especially for weaker states with fewer negotiation resources (i.e. number of staff or access to information). Communication becomes harder and the likelihood of misunderstanding increases, particularly given the variations in culture and language. Even more mundane, parties may simply lose track of key information. Therefore, rather than negotiation taking the form of a process of convergence toward a zone of agreement, multilateral negotiations take on a character of puzzle-solving (Hampson and Hart 1995, 28-29). Such was the case during the pre-negotiation phase leading up to the Bali Ministerial. Director-General Azevêdo sought to secure consensus on key areas in advance of the Bali conference. However, despite significant negotiations, the parties failed to reach consensus, leaving many complex technical issues in brackets prior to the Ministerial (“The WTO” 2013). This puzzle-solving atmosphere is not conducive to agreement as states are less likely to support an agreement in the presence of uncertainty. In addition, under conditions of heightened complexity and uncertainty, governments are more likely to adopt ideological positions or simplified but firm goals (Hampson and Hart 1995, 31). Smaller states are more susceptible to this as they are less likely to have the resources, such as manpower or access to information, to mitigate conditions of complexity and uncertainty. Negotiating on the basis of ideology increases the likelihood of rigidity in one’s position and is less conducive to integrative problem-solving approaches.

The Consensus Norm and the Role of Power

Davis notes that realist conceptions of power and interest alone cannot account for the behaviours of states during negotiations (2004, 153). In this sense, strong states cannot always persuade weaker states to open their markets. In the WTO, the consensus norm reduces the effects of power asymmetries and increases stability in negotiation (Pfetsch and Landau 2000, 22). Zartman argues that weaker parties often use such procedural manipulations in the absence of structural equality (1985, 122). For instance, on December 7th – a day after the negotiations in Bali were set to end – Cuba, whose GDP per capita is 117th in the world, threatened to oppose any deal that did not ease America’s Cuban embargo (“The WTO” 2013). Cuba, backed by other members of the Bolivarian Alliance of the Americas (Bolivia, Nicaragua and Venezuela), succeeded in adding language regarding the virtue of non-discrimination in the Ministerial Declaration. In this sense, power is mediated through the institution.

Although these institutional features strengthen the bargaining position of weaker states, it nonetheless empowers blocking coalitions^[7] or those who seek to delay, hold up or block an agreement. These conditions are magnified as the number of actors increases. With an increase in actors, not only does the potential for dissatisfaction increase but the zone of agreement where all parties can be satisfied with the outcome decreases. Consequently, more actors entails a greater potential for agreements to falter. What’s more, the agreements that do emerge from consensus

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often are more ambiguous in order to conceal underlying disagreements. As Hampson and Hart argue, “consensus or mixed rules of procedure, therefore, have a tendency to increase the risks of suboptimal outcomes in large groups where collective goods are concerned” (1995, 32-33). Indeed, while the Bali Package is a noteworthy achievement, it leaves a lot on the table in terms of suboptimal market distortions. As long as one country can impede an entire agreement the probability of reaching meaningful progress on the most contentious issues through the WTO is low. For this reason, parties abandoned the single undertaking approach – the principle that nothing is agreed until everything is agreed to entice tough concessions – and came to an agreement on the less contentious agenda items. This also makes agreement in the future on the tough issues much more unlikely.

The Bali Package and the American BATNA

While the WTO reduces the effects of power asymmetries, critics of the Bali Package argue that the agreement nonetheless disproportionately favours developed nations (Kanth 2014). Foremost, the agreement on Trade Facilitation requires developing countries and LDCs to make legislative as well as infrastructure changes to reflect practices already common in industrialized economies and streamline market access for foreign firms (Kanth 2014). Furthermore, while the agreement calls for the provision of technical and financial assistance by wealthy nations, these terms are non-binding. In reference to the development issues, negotiations took place between Nepal (representing the LDCs), the US and the WTO Director-General Azevêdo. Kanth notes that the US adopted a take-it-or-leave it approach and Nepal walked away from those discussions without receiving any binding commitments or any concrete, tangible and measurable benefits (2014). The text is full of mitigating language, such as ‘should endeavour to’ and “most of the decisions essentially reaffirm previous commitments” (“The WTO” 2013). As Kanth puts it, “the poorest countries agreed to the outcomes with which they remained unhappy” (2014). One has to also acknowledge the role of power here: in a closed-door negotiation between the US and Nepal, it is unsurprising that the US was able to use hard power tactics effectively. As such, developed nations have received what they’ve long campaigned for – trade facilitation – without having to make tough concessions in agriculture or development issues^[6].

Certainly, realists would argue power asymmetries are one explanation for this outcome. However, power alone cannot account for the agreement given the aforementioned mitigating effect of the consensus norm. Alternatively, Albin argues the higher the value of a party’s Best Alternative To a Negotiated Agreement (BATNA), the less dependent the party is on reaching an agreement and “the more it can afford to concede little, take risks and wait out the other side” (1999, 260). The BATNA – the worst deal a negotiator will accept – defines the potential zone of agreement. Odell argues that how parties perceive the alternatives to a negotiated agreement will affect behaviour (2009, 622). He goes on to hypothesize that “a worsening in a party’s perceived outside option during talks will lead the negotiator to shift her strategy in the integrative direction” (622). Indeed, the value of each country’s BATNA was subtly put into context prior to the Bali Conference by Director-General Azevêdo. In addition to painting the grim picture of a vacant WTO, Azevêdo stated that without an agreement the world “will move on with choices that will be not as inclusive or efficient as the deals negotiated within these [WTO] walls” (Kanth 2014).

Undoubtedly, Azevêdo was putting the pressure on the developing countries to make greater concessions alluding to the industrialized world moving on and negotiating outside of the WTO. For instance, many of the world’s leading economies have pushed ahead with bilateral, regional and plurilateral trade agreements while negotiations at the WTO have stalled. At the end of 2012, WTO members reported 546 such agreements. In fact, Mongolia is the only WTO member not to be a part of one or more RTAs. Furthermore, prior to leaving, outgoing WTO Director-General Pascal Lamy indicated that more will be done to align these agreements with the multilateral trade regime (WTO 2013, 14). As such, developing countries and especially LDCs face a growing threat of having to accede to these agreements or face isolation from the global trade system. Therefore, LDCs placed more emphasis on the importance of preserving the multilateral trade system by reaching an agreement rather than pushing for additional concessions, thereby reducing the value of their BATNA relative to that of the US (“The WTO 2013). In this sense, although developing countries are able to borrow power through procedural tactics, the underlying systemic power dynamics still influenced the outcome of the negotiations by strengthening the alternatives for the developed economies. After all, as articulated by Azevêdo, countries like the US do not require meaningful multilateral trade agreements considering their success negotiating on a selective bilateral or regional basis. Evidently then, the

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perceived alternatives to an agreement are a suitable predictor of state behaviour but nonetheless underlying power dynamics remain influential.

The WTO: Moving Forward

If, as realists argue, power does play a significant role in multilateral trade negotiations, what will happen to the multilateral trade system if international power dynamics shift? In 2012, for the first time in economic history, the GDP of developing countries surpassed that of the developed economies (WTO 2013). In a blunt statement, the WTO noted that “the essence of future world growth will come from developing countries” (WTO 2013). This entails that the distribution of global power is shifting toward emerging markets, especially economies like China, India and Brazil (Wilkinson 2012, 400; Hopkins 2012). If the last 12 years is any indication, it is likely that a further shift in power will result in more paralysis in the Doha Round. Wilkinson argues that paralysis at Doha is a symptom of the rise of these countries along with the growing complexity of trade negotiations and the growing consensus that the global economic system requires significant reform to address inequality. He states, the “only way to move beyond this is to provide answers to more foundational questions about the purpose, function, future and value of the WTO” (Wilkinson 2012, 400). Yet, through the current liberal world economy, the US elevated itself to a position of nearly unrivalled world leadership. And, it is unlikely to capitulate to the demands of emerging economies. As a consequence, the trend toward preferential trade agreements and regionalism will continue, as will paralysis at the Doha Round.

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^[1] Measurements of power include economic resources, military capacities, population, quality of the governance (Pfetsch and Landau 2000, 28).

^[2] Integrative tactics involve proposing agenda items beneficial to all sides, communicating information more fully, joint exploration for opportunities to create joint gains, and imaginative searches for new arrangements outside the parties' opening positions (Odell 2009, 621).

^[3] Divisible issues are those where a distributive compromise is possible. Indivisible issues are those that are inherently exclusive in nature that cannot be distributed (i.e. value-based judgments).

^[4] A coalition is a set of parties that co-ordinate among themselves and defend the same position. In multilateral negotiations, parties attempt to build and preserve the coalitions and split rivals (Odell 2009, 625). Hampson and Hart argue that coalition building is critical to handling the complexities of multilateral negotiations (1995, 23).

^[5] Trade facilitates the movement of non-excludable, public goods that would otherwise be scarce in certain countries due to differences in climate, factor endowment, etc. Trade creates economies of scale in production, whereby a country can produce fewer types of goods at a larger scale, allowing it to produce these goods more efficiently (Krugman & Obstfeld 2003, 11). In this sense, international trade increases world output.

^[6] Issue linkage involves combining multiple issues to change the balance of interests in favor of a negotiated agreement. Issues are linked when they are simultaneously discussed for joint settlement. This definition encompasses side-payments, log-rolling bargains, or a formal agenda on a broad range of issues (Davis 2004, 156).

^[7] Blocking coalitions act to prevent agreement on or of an otherwise desirable treaty. Such coalitions have the

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capacity to prevent agreement. Smaller actors without structural power can also block agreement if negotiations are governed by unanimity rules or consensus procedures (Hampson and Hart 1995, 29-30).

^[8] Analysts suggest that protectionism and subsidies by industrialized nations cost developing countries approximately US\$24 billion annually in lost agricultural and agroindustrial income (Charlton and Stiglitz 2005, 296).

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