Global Trade Talks Fail As New Giants Flex Muscle

By John W. Miller
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GENEVA -- A seven-year effort to forge a new global trade pact collapsed over farm tariffs Tuesday, reflecting a dramatic shift in the influence and the interests of trading powerhouses China, India and Brazil.

The failure by negotiators from over 30 countries and blocs at the World Trade Organization in Geneva leaves the so-called Doha Round of talks dead in the water for "the foreseeable future," said European Union trade chief Peter Mandelson. The setback could also signal an end to some 60 years of continuous expansion of global free-trade deals, some trade diplomats and experts said.

The trade summit, among the longest global trade summits diplomats could remember, came undone over what seemed to be a simple bargain: rising titans such as China and India were to lower their tariffs on industrial goods, in exchange for European and American tariff and subsidy cuts on farm products.

China and India, however, demanded a "safeguard" clause that would allow them to raise tariffs on key crops such as cotton, sugar and rice if there were a sudden surge in imports. The two sides couldn't agree, however, on where to set the threshold for any import surge that would trigger the clause. The U.S. wanted to set the trigger at a 40% jump. China and India wanted the trigger set much lower, at a 10% increase.

Diplomats emerged exhausted Tuesday to trade blame over who had derailed the negotiations, whose original goal in 2001 had been to benefit farmers in poor countries by giving them greater access to wealthy markets.

"In the face of the global food crisis, it's unconscionable that this came down to how much countries could raise their barriers to imports of food," U.S. trade representative Susan Schwab said in an interview, referring to positions taken by China and India.

Ms. Schwab said President George W. Bush had called her on Monday night to say "we should do everything possible" to secure a deal. "To see this fail is heart-breaking."

Negotiators from big developing countries were equally scathing over U.S. claims that Washington had made significant sacrifices, while demanding more access to emerging economies.

"It's unfortunate that in a development round, we couldn't agree to an issue of livelihood and security," said Indian trade and commerce minister Kamal Nath, who emerged as one of the dominant negotiators in the talks.

Trade experts watching the round said the Doha Round suffered a key problem: None of the major players in the talks saw enough gain in a deal to make it worth selling any significant sacrifices to skeptical populations back home.

"Previous trade rounds picked the low-hanging fruit," said William J. Bernstein, author of "A Splendid Exchange: How Trade Shaped the World.""We may have reached the end of the line for trade deals."

Economists disagree on the Doha round's potential benefits; estimates of economic gain that could have been reaped through additional trade range from $4 billion to $100 billion. Set against the rapid expansion of global trade to $13.6 trillion last year from $7.6 trillion five years ago, however, the bottom-line loss from Doha's failure is "not a market issue," said Julian Callow, an economist at Barclays Capital in London.

Nor is the world on the edge of the kind of protectionist wave that ended the last period of globalization in the early 20th century and contributed to two world wars, analysts say. Countries are likely to go on negotiating bilateral trade deals with each other, such as U.S.-South Korea free trade deal earlier this year.

But the failure of the Doha round could have long-term effects. For one thing, it could weaken the authority of the WTO, which also plays a key role in settling trade disputes between countries. And it could make even bilateral deals harder to strike.

In Washington, Tuesday's failure is likely to energize critics of free trade, who've already managed to scuttle much smaller U.S. deals with Colombia and Panama this election year. Even with trade skepticism high, the White House had hoped to ink a Doha deal and add to Mr. Bush's legacy before he leaves office at year's end.

That prospect is now gone, meaning the responsibility for reviving Doha -- or finding another path for trade expansion -- will fall to either Republican Sen. John McCain, a free trader, or Democrat Sen. Barack Obama, a trade skeptic. Hours after the collapse in Geneva, Senate Finance Chairman Max Baucus (D., Mont.) was already looking ahead, vowing to work with the "next administration to get back to the drawing board...and lead these talks to a successful conclusion."

Said Mr. Baucus, "No deal was better than a bad deal."

Trade diplomats across the board said Tuesday's failure showcased as rarely before the emergence of China, India and Brazil as trade powerhouses. Their interests are increasingly complex, making any deal logistically far more difficult to reach than in the days of Western economic dominance, diplomats say.

Brazil's and India's status as trade powers grew along with their economies and exports -- but their enthusiasm for Doha waned after 2001. With foreign investors pouring money into factories and offices, they had little reason to further crack open their markets. They especially feared a flood of cheap imports from China, diplomats said.

"This is a round where we're supposed to be getting, not giving," India's Mr. Nath said during the talks last week.

Domestic political concerns also played a role. India's ruling coalition, led by the Congress Party, faced pressure from left-wing parties to kill a deal. "It was easier for Mr. Nath to leave Geneva without a Doha deal than with one," said an Indian diplomat.

The Indian government's left-wing allies withdrew their support from the government a few weeks ago over their objections to a civilian nuclear energy deal between the U.S. and India. Now the Congress Party faces national elections by next May, and is expected to pursue a populist agenda to try to shore up support in the face of rising inflation and slowing growth. Small farmers are a key constituency for the Congress Party, and a global trade deal may have been interpreted by Indian farmers, who aren't big exporters, as exposing them to unwelcome international competition.

Brazil in a Key Role

Brazil, the world's second-biggest exporter of soy and No. 1 in beef, chicken, sugar and coffee, played a key role during the talks. Brazil had taken a lead with India in 2003 in forming a coalition of developing nations that sought to drive a harder bargain with the U.S. and Europe.

For Brazil, the rise of other regional economic powerhouses such as China and India has meant new outlets for its goods, diluting the importance of the U.S. Soaring commodity prices also allowed Brazil and other developing nations to push the U.S. harder on subsidies. Their argument went like this: With food prices so high, why do your farmers need so much government help?

But Brazil, whose agriculture exports make up a bigger portion of the economy than do China's or India's, eventually broke with its allies on Friday. It sided with the U.S. and EU by accepting a compromise deal proposed by WTO chief Pascal Lamy. Mr. Lamy's proposal would have capped U.S. farm subsidies at $14.5 billion annually, improving on the latest U.S. offer of $15 billion. In exchange, emerging economies would agree to cuts in industrial tariffs. Brazil, for example, would have accepted a 56% cut in its industrial tariffs.

Breaking Silence

Brazil's willingness to deal made little difference in the end, however. China broke its traditional silence in global trade talks and dug in its heels over the weekend.

Emerging for the first time as a power player in multilateral trade negotiations, China blocked Mr. Lamy's proposal. Although China stood to gain if Europeans and Americans opened their food markets, it feared the effects of lower tariffs on its own farms and factories. In particular, China argued, it should be allowed to raise tariffs on sugar, cotton and rice if imports should increase. That, U.S. diplomats objected, would have been a blow for farmers from California to Cameroon.

"Having protected its own interests, the United States is asking a price as high as heaven," Chinese Commerce Minister Chen Deming retorted Monday, according to Xinhua news agency.

U.S. farmers and their representatives had opposed Doha, even as Washington pushed to clinch a deal. The sugar, dairy and cotton lobbies feared losing subsidies and tariff protection, while corn and ethanol lobbies opposed cuts in tariffs on imported biofuels that would have accompanied an agreement. U.S. manufacturers, meanwhile, had largely supported a deal, as long as it opened more foreign markets.

Tuesday's difficulties also showed that the involvement of more countries makes it harder to strike a deal. Past rounds were largely set by a handful of negotiators from Washington and Brussels. Now that developing countries are involved, more people are in the room and a broader range of interests and concerns have to be incorporated.

According to Ms. Schwab, Mr. Lamy described the Doha round to her during the talks as a cathedral -- a complex organism with more players and more issues to agree than any previous trade round.

"In the future, we could have a global trade round, but we'd probably have a building block process, agreeing on issues one by one, instead of waiting until you've agreed on everything," she said.

--John Lyons in São Paolo, Paul Beckett in New Dehli, Ian Johnson in Berlin and Greg Hitt in Washington, D.C., contributed to this article.