

World Trade Likely to Grow Even as WTO Talks Sputter

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NEW YORK -- The collapse of global trade talks for the third time in as many years may be only a bump in the road for world commerce, which continued to expand while negotiations sputtered.

A nine-day summit at the World Trade Organization ended yesterday in Geneva without an agreement on a plan to cut agriculture subsidies and open trade in industrial goods. The sticking point was a clash between the U.S. and India over how poor nations could raise tariffs when farm imports surge.

While negotiators depicted the breakdown as a setback for the global economy, the lowering of trade barriers and signing of bilateral deals suggest such predictions may be overstated. The value of an accord narrowed to as little as \$50 billion annually from as much as \$850 billion when the Doha Round of talks began in 2001, a rounding error in a world economy of \$54 trillion.

"World trade will be the same as it was before," said Andrew Freris, chief Asia economist at BNP Paribas SA in Hong Kong. "The talks aren't going anywhere. There's always going to be an issue of subsidies from the U.S. and European sides."

The average tariff on manufactured goods among developed nations dropped to less than 5 percent today from 40 percent in 1947, according to the International Monetary Fund.

Global Output

Trade grew by almost 6 percent a year over the past decade, exceeding global output by 2 percentage points, according to the WTO. The rate of trade growth will probably fall to 4.5 percent this year, not because of the impasse in trade talks but because of "financial-market turbulence," the WTO said in April.

"In the short and medium term, this won't have any impact at all on trade volumes," said Claude Barfield, a scholar at the American Enterprise Institute, a research organization in Washington that supports free markets.

The Doha talks tripped up over triggers for safeguards that would enable developing countries to increase tariffs to protect their farmers should agriculture imports surge and

prices fall. The U.S. accused China and India of refusing to open their markets to foreign competition and snubbing a compromise on agriculture and industrial goods.

The failure ``will have a major impact on the fragile multilateral trading system," Chinese Commerce Minister Chen Deming said yesterday. It added to a ``world economic downturn, serious inflation and imminent financial risks," he said.

Insurance Policy

On top of that, the lack of an agreement may lead to higher import duties rather than lower ones, European Union Trade Commissioner Peter Mandelson told Bloomberg Television today.

``This deal would have very much restricted the ability to put up tariffs in the future," he said. ``That is an essential insurance policy which we have now lost. That is a great regret for the global economy and the international trading system."

No deal may come now before the U.S. presidential election in November. Japanese Prime Minister Yasuo Fukuda said the collapse ``has pushed back the possibility of an agreement within the year." WTO Director-General Pascal Lamy said before the negotiations that there was no ``Plan B."

Reaching a consensus probably wouldn't have eased prices of commodities such as wheat and soybeans, which have soared to records this year, said Freris of BNP Paribas.

``Had the talks been successful, could the recent jump in food prices be avoided? Unlikely," he said. ``Liberalization of trade of agricultural products doesn't necessarily increase the supply of food."

Emerging Powers

The deadlock also reflects the growing economic and negotiating might of emerging nations including Brazil, Russia, India and China.

``BRIC countries have acquired strength in the global stage because of their rapid economic growth," said Tapan K. Bhaumik, chairman of economic affairs at the New Delhi-based Associated Chambers of Commerce and Industry. ``The emergence of regional trade blocs will be the way forward."

Negotiators in Geneva said the collapse may unnerve an already shaky global economy, set back the world's poorest farmers and undermine the WTO's credibility.

``The impact on our farmers will be very grave," Mamadou Sanou, Burkina Faso's trade minister, said today. ``There is a risk that the whole system will collapse in our countries."

The breakdown is "a very bad sign to give at this time to the world economy," said Shada Islam, a trade specialist at the European Policy Centre in Brussels. "People had been looking to the WTO for a sign of confidence at this very critical time."

Financial markets were unmoved by the collapse. The Standard & Poor's 500 Index yesterday added 28.83, or 2.3 percent, to 1,263.2. The MSCI Asia Pacific Index gained 1.7 percent to 132.31 as of 5:30 p.m. in Tokyo today while the MSCI World Index advanced 0.6 percent to 1,361.6 at 11:34 a.m. in London.

Bilateral Deals

One result of the failure of the Geneva talks may be more bilateral trade agreements. Countries from China to Chile are already pursuing their own paths.

When the Uruguay Round of trade talks ended in 1994 there were 80 bilateral free-trade acts. Since then, that number has more than doubled and will reach 400 by 2010, the WTO predicts.

"If Doha doesn't work, bilateral deals matter even more," Jagdish Bhagwati, a senior fellow at the Council on Foreign Relations, who published a book critical of such free-trade deals. "What they do is cut up so many markets, so you get a huge chaotic mess." In the U.S., Democrats have refused to renew President George W. Bush's fast-track trade negotiating authority, leaving the nation on the sidelines for bilateral deals. Congress won't approve pending deals with Colombia, South Korea and Panama.

New Faces

"We're not going to do anything until after this session is over," Kansas Republican Senator Pat Roberts said at a Senate Finance Committee hearing yesterday. "Then we're back next year at square one with a new president."

Along with a new president, many of the key negotiators will be gone when diplomats return to pick up the pieces.

U.S. Trade Representative Susan Schwab will go in January, when the U.S. administration leaves office. Mandelson's term as EU trade chief ends next November while Indian Commerce Minister Kamal Nath's tenure is up in May. Lamy will be out of office next September unless he seeks a second term.

Still, the U.S. isn't suffering. U.S. exports climbed more than 18 percent in the first five months of this year, and that's a key to avoiding a recession, said Jim O'Neill, global head of economic research at Goldman Sachs Group Inc.

The Doha Round collapse may not really mean it's all over. Ministers from many countries including the U.S., India and Brazil said a new effort should follow. ``We would like to see a resumption as soon as possible," Kenyan Commerce Minister Uhuru Kenyatta said today.

Former U.S. Trade Representative Carla Hills yesterday recalled the words of her former counterpart from Canada, John Crosbie, after Uruguay Round talks fell apart in 1990.

``She's dead, but she won't lie down," Crosbie told Hills.

Four years later, the Uruguay Round was completed.

--With reporting by Cherian Thomas in Mumbai, Nipa Piboontanasawat in Hong Kong, Paul Panckhurst and Takashi Hirokawa in Tokyo in Beijing and Paul George in London. Editors: Bill Arthur, Michael Arnold.