

# WTO trade talks head for a stalemate

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The ministerial meeting of the World Trade Organisation (WTO), which starts in Hong Kong tomorrow, is shaping up as a last-ditch effort to save the so-called Doha round of trade liberalisation. Billed as a “development” round when it was launched in 2002, aimed at lifting world economic growth and the position of poorer countries, the Doha process has been bogged down in a series of conflicts, especially over subsidies and tariffs on agriculture.

Now the fear is being voiced that failure to make progress toward an agreement could spell the end of the multilateral trade agreements that have formed a crucial component of the post-war economic order.

The EU has proposed tariff cuts on agricultural products averaging 40-45 percent while exempting some import sensitive commodities. But the US wants bigger cuts of between 55 and 90 percent with few exemptions for goods such as beef and dairy products.

In response, the EU has warned that it cannot go much further on agriculture because it is restricted by its Common Agricultural Policy (CAP), which has set limits on payments to farmers until 2013.

According to the EU trade ambassador to Washington, John Bruton: “Our limits—as far as how much we can go on market access—are set by the CAP reform program.” He said cuts in subsidies to domestic farmers, already agreed to by the EU, would be undermined if Europe agreed to lower tariffs because the consequent fall in prices would lead to increased payments to farmers.

The EU trade commissioner Peter Mandelson also emphasised there was little room for manoeuvre. But probable disappointment from the failure of the talks should not be put on Europe, he insisted. Europe was prepared to do business with others “if they are prepared to do business with us”. He accused the US, India and Brazil of not pulling their weight. “We would like Brazil and India to make firm and clear offers that

create real market access for trade in industrial goods and services. Let’s have some offers on the table.”

On the other side, Christin Baker, the spokeswoman for US trade representative Rob Portman, said that without more progress on agriculture it would be difficult to secure agreement from developing countries to open their markets to manufactured goods and services—one of the European demands.

As the ministerial wrangling continues, the longer-term implications of the impasse in negotiations have been analysed in a series of articles commissioned by the US journal *Foreign Affairs*.

C. Fred Bergsten, the director of the Institute for International Economics and a well-known writer on the global economy, warned that the Doha round was “faltering badly” and “could become the first major multilateral trade talks to fail since the 1930s”.

“Since history clearly shows that trade policy must move forward continuously or risk sliding backwards into protectionism (which at present also means accelerating the tendency toward bilateralism) the consequences of Doha’s failure for international security as well as economic relations around the world could be enormous.”

Bergsten maintained that the main problems undermining the prospects for an agreement lay outside the negotiations themselves. Three factors stood out: the massive balance of payments and currency imbalances, centring on the US, which are leading to increased protectionist pressures, “anti-globalisation sentiments” that weaken prospects for trade agreements, and “the absence of a compelling reason for the political leaders of the chief holdout countries to make the necessary concessions to reach an agreement”.

The WTO’s founding director-general, Peter Sutherland, held out the hope that “something valuable” could be realised from the Doha round, “but

to achieve it many governments will have to display an uncommon measure of will and foresight”. And in an insightful comment on the free market philosophy on which the whole process is premised, he noted that “a vision supporting an ambitious result to the Doha round is still lacking” and that “in particular, there is no credible consensus view of how trade reform can inspire development”.

Sutherland’s comments point to the vast changes in the international economic environment that have taken place since multilateral trade negotiations were launched in the wake of World War II. The push for free trade was championed by the US in the belief that protectionism and trading blocs had been an underlying reason for the conflicts of the 1930s that eventually led to war. Free trade, it was argued, would prevent the re-emergence of such conditions and the US won wide support for its agenda from the other major capitalist powers.

But the weakening of the global economic position of the US over the past three decades has led to rising frictions as the US “free trade” agenda is seen increasingly as a means through which American economic interests are advanced at the expense of other major powers. This shift is reflected in the belief in some sections of US ruling circles that the system of multilateralism is breaking down and that America must aggressively pursue its own interests.

These sentiments were given voice in the *Foreign Affairs* contribution of former US trade representative Charlene Barshefsky. She began by quoting from Franklin Roosevelt’s last message to Congress in the spring of 1945, setting out his perspective for the postwar world, in which he described global trade talks as the chance to “lay the economic basis for the secure and peaceful world we all desire”.

According to Barshefsky, while that remained the basis of American economic policy, 60 years on the US confronted with a “series of challenges that are at least as urgent as Doha and which the Doha negotiations are not going to solve.” Global capital and trade flows were “dangerously unbalanced,” South America was “drifting”—a reference to the deepening hostility to the US across the continent—and Asian integration was a “powerful challenge to US leadership of the global economy” that could “unsettle international politics and diplomacy”.

Among other policies, Barshefsky called for an increased push by the US for trade agreements with the countries of South America and to “reengage in trade and diplomacy across the Pacific by negotiating comprehensive agreements with Japan, South Korea, and the major economies among the Association of Southeast Asian Nations (ASEAN)”.

But, according to well-known international economist Jagdish Bhagwati, the rapid spread of such bilateral free-trade agreements (FTAs) is posing a threat to the stability of the international trading system. “These bilateral and less-than-multilateral FTAs are... dangerous, not merely in constituting a threat to the support for multilateralism... but also because they multiply preferences worldwide and create a ‘spaghetti bowl’ of multiple tariffs depending on the source of the product and, in turn, a flood of rules of origin to determine which source is to be assigned to a product.”

With more than 300 such preferential agreements in place and more in preparation, most economists considered them to be a “pox on the trading system”. The disease began in Europe, but instead of putting a stop to its spread the US joined in, and, with Asia following suit, “we now have a pandemic,” Bhagwati said.

With the plan for a detailed agreement dropped a month ago, the Hong Kong meeting has been set up so that, whatever the result, it will not constitute a “failure”. Nevertheless, the continuing stalemate could bring the world economy a step closer to the formation of a twenty-first century version of the kind of rival trade blocs that proved so destructive in the 1930s.



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