

# A DIPLOMAT'S ECONOMICS: DEVELOPMENT AND TRADE PERSPECTIVES ON THE DOHA AGENDA

J. Michael Finger

April 2002

World Trade Organization (WTO) Ministers at their Doha meetings of November 2001 agreed to open a new round of multilateral negotiations. Viewed from a development perspective the strength of the Doha outcome is the persistence of its commitment to helping developing countries – though it provides little perception of how to do so. My objective in this paper is to help to develop such a perception: to inform the development community of the Doha Agenda and to begin a dialog on how the development community might help to turn the Agenda's commitment to development into action. To do so I review the outcome of the Uruguay Round of trade negotiations under the General Agreement on Tariffs and Trade (GATT), then apply the lessons I draw from this review to the Doha Agenda.

A lot that is good for development did come from the Uruguay Round. For one thing, it brought developing countries to use multilateral negotiations as a vehicle for their own reform. On tariff reductions developing countries' commitments were larger than those of developed countries and all were fully implemented by the January 2000 deadline. Services is another area where developing countries made substantial commitments—though less here than developed countries—and there is no implementation problem. The difference between where there is a Uruguay Round implementation problem for developing countries and where there is not offers a basis for suggesting where the Doha agenda should move, and what it might avoid. It also offers a basis for arguing that development institutions such as the Asian Development Bank should take an active role. On traditional trade liberalization they have a lot to offer, in the new areas they are indispensable.

I come to this conclusion by drawing these lessons from Uruguay Round (and earlier) trade negotiating experience:

- GATT never evolved a capacity for project design or for cost-benefit analysis because none was needed. With tariff reductions, legal obligation and project design are identical. What trade negotiators describe as a “concession” is, in real economics, a benefit for the giver as well as for the receiver. No need for cost-benefit analysis, a “diplomats' economics” is good enough.
- The new areas demand better economics. The new areas (services, standards, intellectual property) deal with behind-the-border regulations and institutions that establish the fundamental structure of the domestic economy. There is a wide span between what it is possible to write as generic obligation and what is

needed *country-by-country* to develop functioning economic regulations and institutions and *the commercial capacities* to take advantage of them.

- Trade Ministers have no money. If we confine ourselves to what we can do in the new areas without money we can serve (perhaps) the already existing commercial constituencies in the advanced countries, we cannot *build* those commercial constituencies in the poorer countries.

Multilateral trade liberalization has been an indispensable part of development. It provides export opportunities, stimulus for domestic reforms and discipline against domestic backsliding. The part of the Doha Agenda most directly linked to poverty reduction and economic development is the removal of distortions to agricultural trade and of import restrictions on industrial goods.

To keep development moving, reducing developing country protection is as critical as reducing developed. The groundwork for developing country participation in the Uruguay Round was the domestic politics of several decades of unilateral reform; active participation in the Uruguay Round has increased the dependence of their domestic politics on outside pressure for continued reform. Having seduced them to be mercantilists, trade negotiators now have the obligation to feed them the mercantilist manna for trade reform—outside pressure.

Perhaps the least development-friendly side of the Doha Agenda is its willingness to ladle out “special and differential treatment” without a perception of where developing countries would be better off if *they themselves* observed the disciplines the negotiations aim to establish. On this score the Agenda comes close to getting it backward; soft on trade liberalization where it should be hard; insistent on expanding trade negotiations into new areas of behind-the-border policies and institutions, where the Uruguay Round indicates that trade negotiations provide a troubled approach to development. On services the Doha Agenda got it right.

At the Uruguay Round the trade community addressed itself to several dimensions of economic structure—of development—that the development community had until then minimally noted. On services liberalization under the General Agreement on Trade in Services (GATS), the trade negotiators’ casualness to the relevant economics has not been a problem because the agreement allows each party to work out the relevant economics step-by-step. In other areas, where the Uruguay Round imposed generic legal obligations, there are problems; the agreement on intellectual property rights is the glaring example. Knowledge is critical for development; helping poor people earn more from knowledge and depend less on muscle is a noble objective. Building property rights in poor countries is critical. The Uruguay Round may have set back rather than advanced formation of the needed commercial constituencies in developing countries.

Development institutions must get in the game. Subjects such as standards and intellectual property are important to development. The development institutions’ approach is more appropriate than the trade negotiators. Development institutions are more comfortable with the (dull) technicalities of project design and cost-benefit analysis. Their legalities are country-specific and project-specific, more suited to the one-off problems and trial-error rhythm of what is needed here than is WTO’s generic approach to legal obligation.

Two guidelines to ensure that trade negotiations advance development:

- Apples for apples.

- All reciprocity is local.

Grand bargains over wide spans do not work, particularly bargains in which what you pay is written into the contract, what you get will come from “economics.” Rubens Ricupero was on the right track, he noticed that the promised technical assistance in the Uruguay Round new areas was unbound. He did not however go far enough, he overlooked that the *economic benefits themselves* were unbound. First, make sure the benefits are as legally bound as the costs, *then* look that the frills such as adjustment assistance are also legally bound. Do not trust trade ministers when they talk about money, they do not have any. In tariff negotiations each country’s costs are in the same coin as its benefits, one as legally bound as the other. GATS allows the same, stick with that model.

The softness (wiggle room) in TRIPS and other agreements that take the form of generic obligations over behind-the-border regulations and institutions is more than creative ambiguity. It is reality. There is no generic way to eliminate the gap between legal obligation and project design. It is not (technically or otherwise) possible to address in a one-size-fits-all way the specific needs of many different countries. If this mode of agreement is proposed for additional areas of behind-the-border regulations and institutions, negotiators should be aware that “project design” becomes then the turning of general legal obligations into specific commercial realities. That activity depends on the business skills of the commercial constituencies with interests at stake. Commercial, not just diplomatic interests must be brought to bear *early* –on the negotiations that create the legal obligations that commercial skills later turn into commercial realities. If the negotiators are not serious about the money when they create the legal obligations, then the commercial constituencies will not be serious about the legal obligations when they count out the money. The shift of power from diplomacy to business is not easy; it took the US Congress 25 years to reorient the US delegation. If some have and some have not accomplished the shift, those who have will dominate.

An agenda of agriculture, industrial tariffs and services would have considerable potential. In each part each party would gain from its own concessions as well as from those of others. This is the situation in which traditional trade negotiations have done a lot of good in the past. Remember, the contribution of trade negotiations stems from their capacity to overcome the political incorrectness of good economics, not from their capacity to supply good economics.

A broad agenda, some argue, is needed to provide something for everyone, but this is contradicted by GATT’s history. The *domestic* politics of winners versus losers will not support it. A broad agenda can trade nothing for nothing as well as something for something. If the developed countries put in competition policy only to have a “receivable” to nullify their “payable” on agriculture, shame on them.

Financial negotiations recognize that the subject is money and they send the accountants first. The diplomats do not come until the parties agree on the numbers, and diplomats not comfortable talking to accountants do not come. Trade negotiators, Run the numbers! Particularly if you stray into behind-the-border matters, Run the numbers. Development institutions, Get into the game. And play your game. What you do is more what is needed in the new areas than is what trade negotiators do. If there is momentum behind the development dimensions of the new areas, then the trade dimensions can be managed; but you cannot push the string. Run the numbers. This is about money, not diplomacy.