

The world must go beyond Doha

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The recent [G20 summit communiqué](#) included a commitment by world leaders not to impose protectionist measures. The ink was barely dry before a number of countries took measures to protect domestic companies. Russia imposed a number of import tariffs. India slapped restrictions on steel. France created a fund to protect French companies. The US and the European Union are contemplating state aid for the domestic auto industry. Earlier, China had increased its value added tax rebate for exports and is now publicly worrying that the renminbi is, yes, overvalued.

As the financial crisis has morphed into a crisis in the real economy, the world is facing a sharp and perhaps prolonged economic slump. In these circumstances, resurgent protectionism is a real threat, especially since pre-existing anxieties about globalisation are widespread. Restrictions on trade and investment would deepen the recession and undermine efforts to reduce poverty.

Recognising these dangers, and to head off protectionist pressures, leaders at the G20 summit called for a completion of the Doha development agenda of trade negotiations at the World Trade Organisation. But the current Doha agenda cannot adequately deal with all the challenges facing the trading system.

First of all, any likely Doha deal would deliver little by way of new market opening. It would also provide only limited insurance against future reversal of trade policies. The recent trade restrictions attest to the fact that the WTO does not bind developing countries' policies effectively. Even if the Doha talks had not [stalled earlier this year](#) and had resulted in a deal, the outcome would not seriously have changed that. Doha also would do little to tighten disciplines on contingent protection in the form of anti-dumping and safeguard actions. Such instruments, which some industrial countries adopted in past recessions, are now employed by many developing countries.

Moreover, pressures for protection are coming from new areas. Concerns have already been expressed in the US and EU about undervalued currencies that tax imports and subsidise exports, hurting the profitability of industries in other countries. Capital can relocate to escape these adverse effects, leaving immobile, generally low-skilled labour to bear the brunt of these states' declining competitiveness. New multilateral rules are needed to address genuine trade distortions arising from such exchange rates while precluding unilateral action.

As the pace of climate change quickens, there is increasing talk of using trade as an instrument for furthering environmental objectives. The most prominent climate bills in the US Congress envisage some form of trade restrictive action against imports from countries that are not deemed to take "comparable action" to that of the US. The EU too

has been contemplating similar action. Without multilateral rules, environmental concerns could easily become an excuse for trade restrictions.

Similarly, the industrial countries are going to be under pressure to subsidise declining industries, starting with cars and trucks. Such support, regardless of its merits, will adversely affect competitive conditions and distort trade. A fresh look at multilateral rules will become necessary to discipline the granting of such subsidies.

Finally, there are challenges for collective action from agricultural and oil markets. Prices in these markets have dropped sharply recently, but we should not forget that only a few months ago, we witnessed a new and dangerous form of protectionism – on the export side – in agriculture, and a cartelised oil market interacting with high demand to deliver unprecedentedly high prices. The global trading system does not effectively regulate export restrictions in agriculture and, most strikingly, no mechanisms exist for blocking collusive government action in the most important traded commodity – oil. Multilateral rules will have to address these gaps.

Is it realistic for the trading system to aim for a broad agenda which includes exchange rates, environment, state aid, and oil and agricultural markets? Ironically, a bigger agenda that addresses the new concerns would improve the prospects of success because there would be greater scope for give-and-take between the major trading countries. China will have to recognise that its exchange rate policies can provoke a protectionist reaction; the US and EU will have to refrain from excessive recourse to contingent and environmental protectionism and to subsidies; and emerging market countries such as India will have to appreciate that keeping markets open will require an effort on their part to lower their significant trade barriers.

In the wake of the financial crisis, the challenges on trade are becoming more urgent. The new Bretton Woods process is an opportunity to rethink not just the architecture for international finance but also international trade. How much a successful Doha will deliver can be debated but the importance of issues that Doha does not address is becoming glaringly evident. It is in this sense that the world must now look beyond Doha.

The writers are, respectively, lead economist, development economics research group of the World Bank, and senior fellow, Peterson Institute for International Economics and Center for Global Development. This piece is based on an article, “From Doha to the New Bretton Woods: A New Multilateral Trade Agenda,” forthcoming in the next issue of Foreign Affairs