Commentary: FTAS and the WTO Doha Development Round—Asian Response to EEU and FTAA

Rajesh Chadha*

*National Council of Applied Economic Research, New Delhi, rchadha@ncaer.org
Commentary: FTAS and the WTO Doha Development Round—Asian Response to EEU and FTAA

Rajesh Chadha

Abstract

Commentary on FTAs and the Doha Development Round.

Rajesh Chadha is Chief Economist at the National Council of Applied Economic Research (NCAER) in New Delhi, India. His Teaching and research experience of more than 29 years includes the University of Delhi and the NCAER. Chadha's specialization is international trade with significant experience in applied economic research and economic modeling. His international experience includes Visiting Scholar in the Department of Economics, University of Michigan, and in the Department of Economics, University of Melbourne, Australia. He has also held visiting faculty positions at IIT, Delhi; IIT, Roorkee; IEG, Delhi; IIFT, New Delhi; IIPA, New Delhi; MDI Gurgaon and AIMA, New Delhi. Chadha was consultant to the World Bank in 1989, 1990, and 1999, and Consultant to the Australian Government in 2002. He was nominated as a GTAP Research Fellow for 2004-2007 by Purdue University. His research experience includes national as well as international research projects sponsored by the Ministry of Commerce and the Ministry of Finance, Government of India; Government of Australia, Ford Foundation, European Union, World Bank, USAID, and ESCAP. He earned a B.Sc. Honours in Physics and an M.A. in Business Economics at the University of Delhi and a Ph.D. at the Indian Institute of Technology (IIT), Delhi.

KEYWORDS: WTO, Doha, free trade agreements
INTRODUCTION

It is generally though not universally accepted that multilateralism is first best. It is the weak functioning of this system that has led to the growing regionalism around the world. The final goal of trade policy should be to minimize restrictions on the flow of trade across all countries. Reduction in trade restrictions leads to gains in economic efficiency.

However, there seems to be no conclusive note on strengthening multilateralism except for the lip service generally paid by the WTO members during their meetings only to go back and get increasingly involved in their respective regional pursuits.

The Doha Development Round negotiations offer governments an opportunity to demonstrate renewed commitment to multilateral cooperation and shared responsibility for addressing problems such as poverty and unemployment. A failure to reach a meaningful agreement on the Doha Development Agenda during the forthcoming Ministerial in Hong Kong might weaken lethally the cause of multilateralism.

The increasing number of regional trade agreements (RTAs) has already challenged the cause of multilateralism. Their number has grown from close to 124 in 1994 to about 300 now. Though certain exceptions to one of the central pillars of the WTO, namely the most favored nation (MFN) clause, are granted through the “Enabling Clause” and “Article XXIV” of GATT and “Article V” of GATS, the exceptions have fast been transformed into general practice. Even the minor rigors of exceptional clauses, like the coverage of “substantially all trade”, are not being adhered to in practice.

The lead in favor of simultaneous use of multilateralism and regionalism was first taken by the United States in the early 1990s though camouflaged under its disappointment with the progress of multilateral discipline. It shifted its track from a multilateral approach to a dual multilateral-regional combine. However, with the Uruguay Round having been successfully concluded, the rationale of the United States to simultaneously promote preferential regional agreements should have disappeared (Panagariya, 1999). The last decade has witnessed rapid moves of the developed countries in favor of regionalism. The developed countries including the EU, Japan, and the United States have proceeded forward on creating small RTAs, including bilateral RTAs, as well as titanic RTAs like the Enlarged EU and the likely Free Trade Area of Americas (FTAA).

The developing countries, in an attempt to mimic the developed ones, have latterly been entering increasingly into RTAs. The consequent growing global uncertainty is likely to pose profound challenges to multilateralism. The
Doha Development Round may face a deadlock unless focused political energy is applied to avert it.

**MULTILATERALISM VERSUS REGIONALISM: DEBATE**

The international economic and trade scenario appears to have reached the crossroads of chaos and confusion with regard to issues relating to regionalism versus multilateralism. While the advocates of regional arrangements view them as stepping stones towards freer trade, believers in multilateral discipline argue that such arrangements detract from liberalization and fragment the global trading system.

The debate on regionalism versus multilateralism, which started vigorously during the early 1990s, continues to be topical. Concerns have been expressed whether preferential or free trade agreements (FTAs) improve the welfare of member countries and the world as a whole. There appears to be no common agreement on whether the proliferation of FTAs will accelerate or retard the process of global trade liberalization. Bhagwati (1993) and Krueger (1993), among others, argue that the spread of FTAs poses a threat to the world trading system through their adverse welfare effects on certain member countries as well as through slowing down of trade liberalization. Others like Summers (1991) and Krugman (1991) tend to believe that the FTAs are likely to improve welfare and serve as ‘building blocs’ for global trade liberalization.

Two criteria are generally used for assessing whether FTAs qualify as ‘building blocs’ or ‘stumbling blocs’ for a more open international trading system. Firstly, the formation of a RTA should enhance economic welfare of its members as well as global economic welfare, while avoiding negative effects on the welfare of non-member countries. Secondy, RTAs should leave open scope for the negotiation of further arrangements satisfying the first criterion as well as for further progress toward global free trade via multilateral liberalization (Scollay and Gilbert, 2001). However, it appears to be a complicated and accident-prone route to achieving the ‘first best’. It is difficult to forecast ‘conjectural reactions’ by the non-member countries as well as by other FTAs to the formation of a new one. The likely casualties might lead to divergence from rather than convergence to the scenario of multilateral liberalization.

The complex series of overlapping deals, each with its own pattern of preferences, schedules and exclusions, undoubtedly adds to the political and technical difficulties of negotiating a multilateral WTO arrangement. It makes it less likely that governments will even try. The leaders around the world must think and then react to save the Doha Development Round. It may be this would be the last good chance to resuscitate multilateralism.
MULTILATERALISM AND REGIONALISM: COSTLY APPROACH FOR DEVELOPING COUNTRIES

Countries across the globe are competing with one another to enter into bilateral and/or regional trade agreements. The benefit-cost analysis of expenditure incurred on such negotiations is regressive with the smaller countries losing a relatively bigger chunk out of the total pie of government expenditure for undertaking regional trade ventures. In fact, they can ill afford to undertake any meaningful work on the pros and cons of engaging in RTAs. Moreover, most of these countries also have to afford their embassies in Geneva for participating in the multilateral agreements. There is every possibility that these countries might not actually get any significant benefits, matching with the costs incurred, through their participation in the dual games of international trade policy.

On the other hand, the industrialized countries can afford the luxury of maintaining a galaxy of experts dealing with issues of respective national interests both at the regional as well as the multilateral trade policy platforms. Armed with results of plenty of homework done, these countries may be able to justify costs incurred on studies of regional pursuits since they may be able to demonstrate much larger potential gains to be reaped in this dual game.

With the weakening of the multilateral discipline, the developed countries may well continue to maintain domestic as well as export subsidies on their agricultural products but at the cost of interests of farmers in the developing world. Nevertheless such gains may only be short-term in nature. In the long run, this would hurt the interests of their own economies through inefficient allocation of domestic productive resources. Further, in the absence of strong multilateral trade disciplines, their interests would be hurt due to relatively weak ‘market access’ provided to them by the growing and large markets of the developing countries.

INDIA’S POSITION ON MULTILATERALISM AND REGIONALISM

India has been one of the founding members of GATT and holds multilateral trade discipline in high esteem. Though it had been indulging itself in a South Asian RTA for about two decades, it has latterly started negotiating/signing bilateral RTAs with high speed. The fact, however, remains that a very large proportion of India’s exports still takes place under the umbrella of the MFN clause. Hence India cannot afford to ignore the success of multilateral rules and values under the banner of the WTO.

While it is difficult to stop the momentum that India has already attained in adopting a regional path simultaneously with its multilateral goals, it is important to minimize the likely costs and maximize expected benefits. This
would happen if India raises a voice for creating a Pan-Asia RTA, which would be an apt response to the two titanic western blocs.

Chadha and Pratap (2005) have experimented with the possible implementation of a South Asia Free Trade Agreement (SAFTA) and the likely one-by-one joining in of China, ASEAN, the newly industrializing economies, NIEs, Japan, and Australia and New Zealand so as to form a Pan-Asia FTA (PAFTA). We term this titanic bloc a Pan-Asia FTA/RTA (PAFTA). We ran simulations of SAFTA expansion into PAFTA under two assumptions: a) preferential liberalization and b) autonomous simultaneous liberalization or open regionalism. The gains to the participating members of the proposed SAFTA to PAFTA undergo an upward change when more regions of Asia join this Agreement. The gains are larger under the autonomous regionalism as compared to the preferential regionalism.

CONCLUDING REMARKS

The success of the Doha Development Agenda in the forthcoming Hong Kong Ministerial is crucial for the future growth of the developing countries as well as for good future economic prospects for the developed countries. In case the Asian developing countries would like to adopt a dual strategy of mix of regionalism and multilateralism, they need to adopt careful approach while treading this path. Small and narrow RTAs can be costly as well as trade diverting. Larger and broader RTAs may be a better option. Open regionalism through autonomous liberalization within a pre-fixed period of time is a better option than preferential trade liberalization.

REFERENCES


