



# After Doha: Protectionism Creep

*by Razeen Sally*



**T**HE WORLD TRADE Organization's Doha Round has collapsed, perhaps terminally. This predictable failure reflects a much deeper malaise. Policies governing international trade and investment have become hopelessly outdated. They are stuck in anachronistic 20th-century mindsets, institutions and regulations, increasingly disconnected from today's business realities. WTO malfunction is symptomatic, but so is the profusion of commercially nonsensical preferential trade agreements (PTAs), agreements that (on the surface) offer free trade to members but (implicitly) protection against non-members. Doha Round negotiations have been bogged down in obscure discussions on "special and differential treatment," "aid for trade," "special products" and "sensitive products" in agriculture, not to mention mind-numbingly complicated coefficients for cutting tariffs and subsidies—all a world away from commercial realities outside Geneva. PTAs, meanwhile, are creating a veritable mess of bureaucratic regulations that threaten to compli-

cate rather than simplify international commerce.

These policy faultlines are found as much in Asia as elsewhere. East Asian countries that were traditionally active and supportive of the system in the GATT/WTO have been defensive in the Doha Round and distracted by the creation of PTAs. India continues to be obstructive. China stayed on the sidelines of the Round. Then, together with India, it blocked a final deal. Similarly, nearly all Asian players have been cooking "noodle bowls" of potentially trade-restrictive PTAs. Most damagingly, nondiscriminatory unilateral liberalization—the hallmark of Asian opening to and integration with the global economy—has slowed down. Overall, trade policy in Asia has swung within a decade from nondiscriminatory unilateral and multilateral liberalization to discriminatory PTAs.

Five years of a "Goldilocks global economy" provided cover for misguided trade policy in Asia and elsewhere. But worsen-

---

∞ *Mr. Sally is director of the European Centre for International Political Economy and on the faculty of the London School of Economics.*

ing global economic conditions will expose the cracks left by a decade of both reform complacency and reform fatigue. Further postponing market reforms will be dangerous and costly. It will slow down globalization's advance and its spread of benefits. Worse, creeping protectionism threatens to unravel the historic market reforms of the 1980s and '90s. That would signal a retreat to a different era—the 1970s, which saw a disastrous combination of domestic market restrictions, beggarthy-neighbor protectionism and stagflation.

Why is trade policy in Asia not up to the challenge of containing emerging protectionist threats? And what must change to make policy relevant to real-world producers and consumers, and enable rather than hinder 21st century globalization? Five features merit consideration.

First, the climate of ideas has shifted against market reforms since the heyday of the Washington Consensus in the 1990s. Joseph Stiglitz, Dani Rodrik and others have contested the benefits of trade and investment liberalization in developing countries, and argued in favor of interventionist industrial policies (which subsume trade and investment protectionism). Lawrence Summers, previously a stalwart defender of free trade, now advocates global harmonization of tax and labor standards to protect vulnerable workers in the West.

The skeptics are wrong. Historical and recent evidence suggests that countries that have liberalized and globalized strongly have grown faster and seen bigger increases in living standards for the broad majority than countries that have liberalized less or remained closed. The outstanding success stories are the “new globalizers” of East Asia—China most conspicuously. South Asia, especially India, is following,

though at a slower pace. Furthermore, selective industrial policies of the “picking winners” variety have an abysmal record across the developing world, and a questionable one even in East Asia. Finally, “standards harmonization” is usually code for backdoor protection against exports from developing countries.

Whatever the liberalization and globalization skeptics say, there is much “unfinished business,” not least in developing

Asia. While substantial liberalization has occurred, developing countries retain relatively high tariffs and nontariff trade barriers, in addition to onerous restrictions on foreign direct investment (FDI), most prominently in

key services sectors. At least as important are all manner of domestic regulatory barriers that keep business costs high, impeding foreign trade and investment as well as internal trade and investment. These “trade related” barriers—to opening and closing businesses, protecting property rights and enforcing contracts, hiring and firing workers, licensing restrictions, dilatory and corrupt customs administration, opaque and discriminatory product standards, rigged public procurement, cosseted state-owned enterprises—prevent countries from reaping the full benefits of globalization and spreading them widely at home.

“Second generation” reforms are sorely needed to tackle these anticompetitive barriers, but they have hardly materialized. Regulations governing labor markets and the public sector are perhaps the most difficult nuts to crack. This picture is reflected in most Asian developing countries' bad scores in the World Bank's “ease of doing business” rankings. That includes “Big Beasts” like China, India and Indonesia.

Second, WTO negotiations have been

*Creeping protectionism threatens to unravel the historic market reforms of the 1980s and 1990s.*

drifting away from the realities of 21st century commerce, and in the direction of U.N.-style irrelevance. As the WTO-commissioned Sutherland Report put it, “In recent years, the impression has often been given of a vehicle with a proliferation of backseat drivers, each seeking a different destination, with no map and no intention of asking the way.”

The WTO’s much expanded agenda goes deeper into politically sensitive domestic regulations. It is riven internally with inter-governmental divisions and buffeted externally by protectionist interests and antimarket NGOs. A bigger and more active developing country membership also makes it more difficult to find common ground. The traditional reciprocal bargaining model—exchanging concessions over relatively simple border tariffs and quotas on manufactured goods—does not work with complex regulations covering a wide range of goods and services. Consequently, the WTO has broken down as a negotiating mechanism. “U.N.-isation”—flatulent rhetoric, petty point scoring and political grandstanding—has replaced serious decision-making. All these structural problems have played into the miserable failure of the Doha Round.

What should be done to get the WTO out of its rut? To begin with, the Doha Round should be scrapped. What was on the table was so full of exemptions and escape clauses that only the Geneva circuit of trade negotiators, academics and NGO junkies could understand the details. Even if outstanding issues had been settled, a resulting agreement would have been impossible to understand for businesses looking for foreign expansion. Pursuing such a largely commercially irrelevant deal would be a distraction from more important business.

Attention should now switch to a post-Doha agenda. Above all, the latter should shift emphasis from liberalization to rules. Substantial multilateral liberalization is

highly unlikely. At best, future WTO agreements will “bind” pre-existing liberalization measures, that is, lock them in legally and prevent protectionist reversal. But more important than extra multilateral liberalization is closing loopholes, safeguarding the principle of nondiscrimination, making trade procedures more transparent and user-friendly, and generally updating vital multilateral rules for stable and open international commerce.

This presupposes a different, more differentiated kind of WTO. The reality outside Geneva is that the Organization for Economic Cooperation and Development plus about 20 advanced developing countries account for about 90% of world trade and FDI. They comprise about a third of the WTO membership. From Asia, they include Japan, China, India, South Korea, Taiwan, Hong Kong, the more developed Southeast Asian countries, Australia and New Zealand. Within this outer core there is an inner core of “Big Beasts”: the United States, the European Union, and now China, India and Brazil. Both cores should come together in self-selecting “coalitions of the willing” to create stronger rules. Such opt-in coalitions would vary from issue to issue. They would cover elements of the Doha agenda. But they should also cover new rules to contain 21st century protectionist threats, such as trade-restrictive border security measures, “carbon tariffs” to enforce climate-change policies, and foreign investment restrictions in “strategic” sectors.

The other two-thirds of the WTO membership (about 100 countries) account for 10% or less of global economic activity. These countries have almost without exception been archdefensive in the Doha Round. They should not be expected to sign up to new commitments, and should be given a free ride—providing they do not block overall progress.

Finally, the WTO should adapt to a more modest, politically realistic future. That

means an end to big trade rounds with high ambitions and expectations. It is better to think in terms of a serviceable multilateralism with limited, realistic means and ends rather than ambitious—but mostly flatulent and fluffy—“global governance.”

Third, given the parlous state of the WTO, it is not surprising that governments have turned to PTAs. These have spread like wildfire. About 400 have been notified to the WTO and over 200 are in force, with many more on the way. According to the Asian Development Bank, East Asia has almost 40 PTAs on the books and over 100 PTA initiatives in total. If South Asia is added, 90 PTAs have been concluded as part of 198 initiatives overall.

Governments argue that PTAs take liberalization faster, wider and deeper than in the WTO. But nearly all PTAs are “trade light,”—in the sense that they hardly liberalise trade—the deformed offspring of foreign-policy driven, gimmicky initiatives bereft of economic strategy. They carve out politically sensitive sectors as well as crucial rules (e.g., on antidumping duties and agricultural subsidies). They barely advance on weak WTO disciplines on domestic regulatory barriers. They deliver little, if any, net liberalization. Finally, PTAs get tied up in knots of overlapping, contradictory and restrictive regulations on rules of origin, tariff schedules, services and investment—the “spaghetti-bowl” or “noodle-bowl” phenomenon. This is the emerging reality in east and south Asia, reflecting what has already happened in other developing country regions. It characterizes the PTAs of Japan, South Korea, China, the members of the Association of Southeast Asian Nations and India.

The new conventional wisdom in Asia is that region-wide PTAs are the answer—to

substitute for a stalled WTO, and to clean up the noodle-bowl of overlapping bilateral PTAs. “Asean Plus Three”, “Asean Plus Six” and other regional initiatives fit this bill. These attempts at top-down regional economic integration are politically naïve and thoroughly misguided—an open door to shallow conferencitis, another policy dead-end. Intra-Asian political and economic divisions will prevent strong agreements from emerging: they are likely to be as trade-light as current bilateral PTAs. They will also add extra layers of discriminatory

regulation. And they will distract attention from the core business of domestic reforms.

Hence PTAs, whether bilateral or regional, are not going to tear down the protectionist barriers that matter. On the contrary, a bewildering

array of discriminatory regulations only adds to red tape and increases business costs. This makes no sense in a 21st century world of spliced-up cross-border production networks brought together in complex global supply chains. Companies plugged into global supply chains need simple, transparent, nondiscriminatory rules, not spaghetti-bowl complications that increase business costs.

PTAs make more sound than sense, and are what some would call pure wind. Governments should be much more cautious with PTAs. They should also contain the damage to global commerce by simplifying and harmonizing rules of origin and other discriminatory provisions.

Fourth, most recent trade and FDI liberalization has come not from the WTO and PTAs but from a different source: governments have taken down barriers unilaterally, outside trade negotiations. This is the Nike strategy: “Just Do It!” or, as Mart Laar, the former prime minister of Estonia puts

*Most recent trade liberalization has been unilateral. This is the Nike strategy: “Just do it!”*

it, “liberalize first, negotiate later.” In fact unilateral liberalization accounts for two-thirds of developing country tariff liberalization since the early 1980s. This stands in contrast to the severe limitations of the WTO and PTAs. Indeed, trade negotiations overall are subject to diminishing returns.

Nowhere has unilateral liberalization of trade and FDI been stronger than in East Asia. That is how countries in the region inserted themselves into global supply chains. China followed from the early 1990s—well before it joined the WTO. Indeed, China today is what the United Kingdom was in the second half of the 19th century: the unilateral engine of freer trade. This has had a powerful spillover effect elsewhere in Asia. It has prevented a reversal of liberalization post-Asian crisis, and spurred it elsewhere in east and south Asia—including India. To repeat, this has occurred outside trade negotiations.

It is imperative that unilateral liberalization does not stall in dynamic Asia, and especially in China. Future global market reforms depend on it. Now the paramount challenge is to stimulate unilateral reforms of “behind-the-border” regulatory barriers to trade, FDI and the cross-border movement of workers. They lie deep in domestic policies and institutions. They are administratively complex and politically very sensitive—hence much more difficult to liberalize than manufacturing tariffs. But bottom-up unilateral reforms are still a better bet than trying to remove barriers top-down through remote, lumbering international institutions.

Fifth, there are several emerging protectionist threats, now more dangerous with the end of benign global economic conditions. There will be a backlash in the West and in other developing countries against China’s and India’s advancing global economic integration. There will continue to be widespread resistance to migration, and to people moving across borders more

generally. Investment and energy nationalism are on the rise—note the increasing incidence of foreign-investment restrictions in “strategic” sectors. Price and trade controls are being used to combat food and fuel inflation. Initiatives to combat climate change are set to become the new trojan horse of protectionism. They are adding another layer to “standards protectionism” aimed at developing countries.

Overall, it is time to make trade policy less of a foreign-policy plaything in far-away international institutions. Instead, trade policy should be hitched to domestic economic policy and its institutional framework. It has to be grounded in bread-and-butter domestic reforms, especially on the trade-related regulatory barriers that constitute a second-generation reform agenda. This is essentially a matter of unilateral action and competitive emulation among governments; something to be “initiated from below and diffused by example” as the economic historian David Landes has put it.

Unilateral reforms are by no means a panacea. They are inevitably partial and patchy. Above all, they are no substitute for transparent, predictable and nondiscriminatory multilateral rules. The WTO role, therefore, should be to assist unilateral reforms with stronger multilateral rules, rather than misguidedly trying to drive liberalization “from above.”

The challenge in Asia is to rediscover unilateral pro-market reforms at home and to help set the WTO on its legs again after Doha. That is the best trade-policy combination for 21st century globalization and the benefits that flow from it. Globalization skepticism is not the answer. At worst it is Luddite protectionism; at best mercantilist old wine in new designer bottles. Going further with PTAs and discriminatory regional-integration initiatives is not the answer either. These threaten to hinder, not promote, Asia’s lifeblood of global economic integration. ■