

Global Issues: Special Edition

Cancun Collapse Won't Halt Global Trade Reform

- The recent failure of the World Trade Organization (WTO) Ministerial meeting in Cancun, Mexico was a setback, but it did not mark the demise of the trade reform process. While the negotiations are certain to be protracted, the most likely outcome remains that an agreement will be hammered out.
- The Cancun talks failed because the agenda of the WTO's Doha Round is complex and ambitious. The low hanging fruits for trade liberalization have been picked already. The Doha Round is dealing with issues that have been the most difficult in the past, including agriculture, textile tariffs, and trade barriers in developing countries. Even the Round's formal name—the Doha Development Agenda—has presented major problems.
- Failure at Cancun reflected fundamental disagreements over the desirability of launching additional negotiations on several new issues. The Round is now more likely to succeed because these issues will not be included in subsequent negotiations.
- The Round's failure also reflected a fundamental split along North-South lines over agriculture and over the need for developing countries to reduce their trade barriers. A successful compromise is possible, but only if all sides are more forthcoming.
- If the Round fails, an important opportunity to reap additional gains from trade liberalization will be lost. The Round's failure would not necessarily result in a dire outcome, however, despite many experts' pessimistic predictions. For example, WTO rules will continue to discipline protectionism in the United States and elsewhere.
- Regional agreements are likely to proliferate regardless of whether the Round succeeds or fails. However, the Round's failure would make the prospects for a hemispheric agreement (the proposed FTAA) **less** favorable than if the Round succeeds. Failure also would increase the likelihood that the Free Trade Agreements that are signed in the future will achieve considerably less than full free trade.

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Interpreting the Cancun Collapse

The recent collapse of the Cancun Ministerial Meeting of the WTO¹ engendered strong responses almost everywhere. Some observers claimed to see new anti-globalization solidarity among the emerging economies. Others warned that the industrial countries were edging back toward protectionism. Still others indicated that the multilateral approach to trade agreements was becoming a thing of the past, to be replaced by a plethora of bilateral or regional arrangements.

The most plausible interpretation of events is both more mundane and more hopeful. After all, failures of ministerial meetings in the middle of multilateral trade negotiations are not shocking: In fact, they are normal. The ministerial meetings in Montreal in 1988 and Brussels in 1990 both ended with impasses, but the Uruguay Round was successfully concluded in 1993. The Tokyo Round, launched in 1973, was bogged down over agriculture for several years before reaching closure in 1979.

Contrary to the conventional wisdom, the current talks may stand a better chance for success after Cancun, because some intractable issues will be dropped and other positions have been clarified. In fact, the collapse of the Cancun discussions should not have been a surprise. The negotiations launched at Doha, Qatar in November 2001—the Doha Round—have missed every deadline the participants had set for themselves. The Round's formal goals are ambitious, bordering on the unrealistic. Moreover, despite subsequent hand wringing, many participants viewed failure at Cancun as preferable to meaningful success.

The pessimistic tone of post-Cancun commentary is misleading. Rather, the countries with the most to gain will drive the process forward toward a conclusion, once the parameters of a feasible agreement become clearer. Pressures will then build on the foot-draggers to go along. Thus, it is important to keep in mind that the current trade negotiations in the WTO—like their predecessors—have the potential to create substantial gains for virtually all participants.

High Stakes for Trade Liberalization

Any specific calculation of the potential impact of trade reform inevitably is only indicative. Nonetheless, it is impressive that a conventional model-based calculation suggests that full global liberalization by both high- and low-income countries would boost world GDP by \$254.3 billion, or almost one percent of global GDP (Figure 1).² By liberalizing alone, high-income countries would raise their own incomes by \$96.6 billion and incomes in low-income countries by \$43.1 billion. These amounts compare with a current annual total of around \$50 billion in foreign aid. Low-income countries, however, could reap even larger gains of \$65 billion by liberalizing themselves.

In addition to indicating that the potential payoff from the Doha Round is significant, these simulations underscore that the benefits from liberalization accrue mainly to countries that reduce their own barriers. For example, high-income countries would gain \$110.5 billion from eliminating their own farm protection, ten times the \$11.6 billion gains to the developing countries from such action.

1. For a brief description of the WTO, see the Appendix "What Is the WTO?"

2. This figure is based on a simulation using a general equilibrium model, and the results are reported in 1995 dollars. Since the model excludes the potential gains from the liberalization of trade in services, it undoubtedly underestimates the gains from comprehensive liberalization measured in current dollars.

Figure 1. Expected Economic Benefits Resulting from Elimination of Trade Barriers Beyond the Uruguay Round 2005

Billions of 1995 Dollars

	Agriculture and Food	Other Primary Commodities	Textiles and Clothing	Other Manufacturers	Total Benefit
If All Regions Liberalize:					
Benefits to High-income Countries	121.7	0.1	4.8	19.6	146.2
Benefits to Low-income Countries	43.0	2.7	12.6	49.9	108.1
Benefits to All Countries	164.7	2.8	17.4	69.5	254.3
If Only High-income Regions Liberalize:					
Benefits to High-income Countries	110.5	0.0	-5.7	-8.1	96.6
Benefits to Low-income Countries	11.6	0.1	9.0	22.3	43.1
Benefits to All Countries	122.1	0.0	3.3	14.2	139.7
If Only Low-income Regions Liberalize:					
Benefits to High-income Countries	11.2	0.2	10.5	27.7	49.6
Benefits to Low-income Countries	31.4	2.5	3.6	27.6	65.1
Benefits to All Countries	42.6	2.7	14.1	55.3	114.7

Source: Kym Anderson et al., *The Cost of Rich (and Poor) Country Protection to Developing Countries*, Center for Economic Studies, University of Adelaide, 2001.

Interestingly, these calculations indicate that eliminating barriers on textiles and other manufactured goods in high-income countries would provide developing countries with benefits that are almost three times larger than they would enjoy from agricultural liberalization in high-income countries. If trade negotiations were driven purely by economic analysis, it would be natural for the high-income countries to emphasize eliminating barriers in farm trade, while the low-income countries would stress reductions in manufactured goods.

Remarkably, market access outside of agriculture has not been at the forefront of deliberations so far in the Doha Round. Instead, the developing countries have emphasized the importance of developed country liberalization in agriculture, while the developed countries have been highly resistant to such liberalization.

Parsing the Doha Agenda

The agenda for the Doha Round of multilateral trade talks is complex and ambitious. It calls for further liberalization in agriculture, manufactured goods and services. It includes many other issues, such as the rules of the trading system (subsidies, anti-dumping, regional arrangements and dispute settlement), special and differential treatment for developing countries, trade and the environment, trade-related intellectual property, and providing assistance to developing countries in implementing previous decisions. But this isn't the whole story. Subject to approval at the Cancun meeting, additional talks were to be launched to cover the so-called Singapore Issues (investment, competition policy, the transparency of government procurement and trade facilitation).³

This entire list of issues is treated as a single undertaking, with the understanding that "nothing is agreed until everything is agreed". The WTO operates by consensus, and all members therefore must concur with every agreement. Despite these complexities, the timetable called for agreement to be reached by January 2005. Given the time it took to

3. These issues are commonly referred to as the Singapore Issues because they were originally proposed at the WTO Ministerial meeting held in Singapore in 1996.

complete the two previous rounds—seven years for the Uruguay Round (1986-93) and five for the Tokyo Round (1973-78)—termination by this date was never credible.

The Development Agenda

The current round of multilateral trade negotiations has a special focus on the needs of developing countries. Mike Moore, the WTO Director-General at the November 2001 Doha meeting, christened it “the Doha Development Agenda”. This label provided an immediate short-run political pay-off. It helped to rebut critics of globalization, while meeting the complaints of some developing countries that they had received meager benefits from the previous Uruguay Round, in return for agreeing to rules that were costly and difficult to implement. In the immediate aftermath of September 11, it also showed that the global community could cooperate.

But the Round’s appellation also presents difficulties. The outcomes of previous WTO negotiations were viewed as “win-win”. Representatives of developed countries are not likely to be able to sell an agreement based on altruism. Framing the discussions as a development round also could lead to an overlooking of the fundamental point, that the developed countries themselves would be the principal beneficiaries of reducing their protectionist farm policies.

Moreover, the steps that everyone agrees would promote development are politically difficult to take, while other policies remain highly controversial. Reducing or eliminating market barriers such as tariffs and quotas in developed countries on developing country exports obviously would be beneficial for both developed and developing economies. These barriers are particularly restrictive in labor-intensive manufactured goods and in agricultural products (Figure 2). The high-income countries subject imports from poor countries to tariffs that on average are four times as high as the tariffs that they impose on imports from each other.

Figure 2. Patterns of Protection in Manufacturing in 1995

	Importing Region	
	High-income Economies	Developing Economies
Exporting Region		
<i>Import-Weighted Average Tariffs</i>		
	— Percent —	
High-income Economies	0.8	10.9
Developing Economies	3.1	12.8
World	1.5	11.5
<i>Implied Tariff Paid</i>		
	— Billions of US Dollars —	
High-income Economies	16	93
Developing Economies	23	57
World	40	150

Source: Hertel and Martin, 2000. Table from Sam Laird, “Market Access Issues and the WTO” in Bernard M. Hoekman, Philip English, Aaditya Mattoo (eds), *Development, Trade and the WTO: A Handbook*, World Bank.

Likewise, workers in developing countries would gain from more opportunities to sell their services in developed countries—either through electronic outsourcing or through temporary movement of people. But the principal problems on these matters are political, rather than analytical. This is not exactly surprising, given that the existing barriers in agriculture and manufacturing reflect the considerable political power of farmers and specific groups of workers in developed countries.

More controversy relates to practices such as developed countries’ subsidies on the production and exports of farm products. To be sure, developing countries that are large exporters of agricultural goods—such as Argentina, Brazil and Thailand—would gain if

these were eliminated. Nonetheless, many developing countries are net food importers, and as such they benefit from the lower world prices that these policies induce. For example, countries in the Middle East and Africa derive considerable benefits from the European Union's agricultural subsidies.

Another controversial issue relates to what developing countries themselves should be expected to contribute to the Round's success. For some policymakers from developing countries, the "Development Round" title implies that the developed countries will reduce their barriers while they do very little. But this mercantilist thinking neglects the benefits that developing countries could reap by reducing their own import barriers.

This "us-versus-them" attitude also ignores the increasing importance of South-South trade. Reducing developing country barriers would stimulate developing countries to sell to each other. For example, developing countries impose average rates of 12.8 percent on exports from other developing countries. The \$53 billion worth of duties paid on these exports was more than twice as large as the duties paid on developing country exports to high-income countries.

Finally, there are differences over the desirability of rules that constrain "behind-the-border" policies. Many trade agreements now include provisions relating to intellectual property, foreign investment, anti-trust, regulation, product standards, labor and environmental policies. Some see these as essential for promoting globalization. However, developing countries with limited resources and administrative capabilities question the desirability of making such commitments.

Why the Cancun Talks Failed

The Cancun breakdown essentially reflected the deep divisions described in the previous paragraphs. The proximate cause was differences over the negotiations on the Singapore Issues that were to have been launched at Cancun. But if the talks had not foundered on these issues, they might well have broken down over agriculture. A review of what happened in these areas is essential to understand where things stand now.

The European Union (EU) was the primary supporter of negotiations on the Singapore Issues. Although the EU was joined in this pursuit by Japan and Korea, the United States and most developing countries were singularly unenthusiastic. Many developing countries were particularly reluctant to be burdened with expensive new administrative requirements relating to government procurement and trade facilitation and were dubious over the merits of new disciplines on investment and competition.

One might have thought that the disastrous efforts to reach a Multilateral Agreement on Investment in the late 1990s would have dampened European enthusiasm for these issues. Nonetheless, European governments and the European Commission had pressed hard, arguing that it was politically necessary to create more European winners to help offset the losses to European farmers. But this argument was never very convincing, because, aside from some economists and Eurocrats, it is hard to find firms anywhere that are enthusiastic supporters of heightened anti-trust enforcement. Instead, there is a suspicious correspondence between countries supporting these issues and those reluctant to liberalize agriculture. As a result, a *prima facie* case exists that some of the authorities that promoted these issues viewed them as a convenient "poison pill" that could stymie the negotiations, thus allowing them to avoid liberalizing agriculture.

At any rate, the Europeans became persuaded on the final day at Cancun that they were fighting a losing battle. After a meeting of the European Council of Ministers, the EU announced its willingness to give up on investment and competition policies. In response, Japan and Korea called for all four issues to be retained, while Botswana—representing a group of African and Caribbean Countries—insisted they be treated as a package and be rejected as such. In response to these disagreements, the meeting's President, Mexican Foreign Minister Luis Ernesto Derbez, declared the talks dead, terminating the meeting several hours before their scheduled end.

This action has been the subject of considerable debate. International meetings typically last at least as long as their formal termination deadline. Why, even if there was an impasse on these issues, did the chairman not try to obtain agreement, or at least clarify differences that remained in agriculture? Several participants probably were holding out to make a point, while still intending to make concessions at the last moment.

Whatever the reasons, there is no doubt that the differences Minister Derbez confronted on the Singapore Issues were fundamental and not bridgeable. Over the past decade, there have been numerous attempts to deepen the trade agenda by moving beyond traditional border barriers and negotiating agreements on policies that were once considered as matters of purely domestic concern. One reason for the famous failure of the Seattle Ministerial meeting in 1999 was the effort by the United States to introduce core labor standards into the WTO. At Doha, the rules for intellectual property relating to essential medicines were eased while at Cancun, efforts to introduce investment and competition policy were resisted. One lesson to be drawn from Cancun is that an institution as diverse as the WTO is unlikely to be able to negotiate agreements that bind all its members on these difficult issues.

While not broached at the end, the other major stumbling block in the talks was agriculture. On this topic, the members became polarized along North-South lines. On the one side were the United States and the European Union, having reached a common compromise position just prior to the Cancun meeting. On the other side was the Group of 22 (G22), a diverse set of countries that included almost all the most important developing countries such as Brazil, China, India, Mexico, Egypt and South Africa. Despite strong efforts by the United States and the European Union to split this coalition, the G22 stood firm on two basic principles. First, the US-EU agreement on agriculture was rejected as insufficient. Second, they agreed that developing countries deserve considerable special and differential treatment and should not be expected to reciprocate market-opening measures.

The US stance on agriculture at Cancun was a comprehensive failure on both policy and tactical grounds. About a year earlier, the United States had formulated a far better approach. At that time, the Bush Administration announced its willingness to agree to deep cuts in domestic agricultural subsidies and trade barriers if others would reciprocate. Since US farm supports are considerably lower than those in other developed countries, and its tariffs are lower than most other countries, reducing protection to similar levels looks like a very good deal to US interests.

So surprising was this initiative, that some observers at the time questioned the Bush Administration's sincerity in presenting an approach so at odds with the farm bill it had just signed into law. Others questioned the ability of the Administration to deliver

congressional concurrence with the proposal. Nonetheless, the proposal placed the United States in a strong tactical position, allowing it to side with both developing countries and the so-called Cairns group of major farm exporters to put maximum pressure on the EU, Japan and others with high barriers to agricultural trade. The radical US proposal helped avoid a split of the members along North-South lines.

By signing the new joint proposal with the European Union, however, the United States undermined its ability to attain its two principal objectives in this area. That is, by trying to protect its own domestic farm programs, the United States seriously weakened its ability to demand lower farm subsidies from the European Union and Japan and enhanced market access from the developing countries. While many specifics in the US/EU proposal remained to be negotiated, two features particularly infuriated the G22. The agreement would not have required completely eliminating agricultural export subsidies—a key demand of food exporters. It also would have allowed the United States to keep its agricultural export credit program, while retaining most of its current farm income supports by classifying them as so-called “blue-box” measures that would not be subject to WTO disciplines.⁴

The G22 regarded these aspects of the proposal as unacceptable. They were further angered when major elements of the proposal appeared in a draft agreement presented by the WTO Secretariat. The G22 responded with a proposal of their own that required more radical cuts by the developed countries, while giving developing countries considerably more flexibility.

Adding salt to the wounds was a dispute over cotton. Cotton is a vital export for many developing countries. It is particularly important for millions of very poor farmers in West African countries such as Chad, Mali, Burkina Faso and Benin. The United States, by contrast, provides huge subsidies to its 25,000 cotton producers, thereby depressing world cotton prices. The West African countries demanded that developed countries agree to future cuts in these subsidies while providing them with interim financial compensation. The United States resisted these demands. Moreover, the WTO Secretariat—supported by the United States—issued a draft text that counseled the WTO to cooperate with other international organizations to channel existing aid into efforts to induce diversification of economies in which cotton accounts for a major share of GDP. This US stance, adopted by a country professing to believe in the virtues of free markets as a means of development, struck many as hypocritical. The resulting anger felt by many African countries contributed to the solidarity of their positions.

The Impasse Won't Last

The US and EU representatives reacted testily to the failure of their strategies at Cancun. The head of the US delegation, Ambassador Robert Zoellick, decried “won't-do countries” that were more willing to score debating points than make deals. Ominously, Ambassador Zoellick threatened to “move towards free trade (regionally) with ‘can-do countries’”. Several members of Congress in the US delegation to the talks threatened to deal harshly with prospective free trade partners that failed to “play ball” with US positions. Similarly, EU Trade Commissioner Pascal Lamy argued that the WTO’s “medieval” institutional

4. WTO rules for reducing agricultural subsidies generally focus only on those that affect trade (e.g. domestic production subsidies). Other payments to farmers (e.g., income transfers or payments for environmental improvements) and that are not contingent on production are allowed (so-called green box payments). In the Uruguay Round, however, EU compensation payments and US deficiency payments—both of which affect production—were also exempted from reduction requirements in a separate ‘blue-box’. The EU-US Agreement prior to Cancun sought to broaden payments allowed under this category.

arrangements prevented agreement and called for reforms. On the other hand, many developing-country representatives reacted with jubilation at their ability to prevent the United States and the European Union from imposing an agreement.

It is clear that for an agreement to be reached, both sides will have to alter their positions. The developed countries will have to be more forthcoming with their offers, while the developing countries will have to retreat from what Ambassador Zoellick called their “rhetoric of resistance” and be prepared to make concrete concessions.

There are good reasons to think that this could happen. Although the negotiations have been suspended, efforts are already underway to restart the Doha process by resolving several issues prior to a WTO meeting of Deputy Ministers scheduled for December 15. The key issues are agriculture, the cotton subsidies initiative, non-agricultural market access and Singapore issues.

At Cancun, the G22 proved remarkably effective in resisting efforts to fragment their coalition during the talks. They stood united in large part because the United States and the European Union provided such meager offerings. If the developed countries improve their offers, it is highly likely that the differing interests among the G22 will surface and their coalition will fragment.

Some of the more pragmatic G22 members were frustrated at the premature termination of the Cancun talks. Once they are convinced that they have received the developed countries’ best offers, major agricultural exporters such as Brazil will prefer to claim their gains (and to make concessions of their own) rather than to walk away with nothing. China, as well, will wish to secure additional market access for its industrial products.

Likewise, cotton exporters will see gains from a reasonable US offer to reduce its cotton farm payments. This will lead to a split with the recalcitrant naysayers, such as India and several African countries that appear intent on maintaining their existing barriers. In addition, while they were able to resist US pressures at Cancun, several of the G22 members from the Western hemisphere realized that they cannot afford to permanently alienate the United States. Indeed within a month of the Cancun meeting, the G22 had already lost several members who succumbed to enticements of Free Trade Agreements with the United States. Among these breakaway countries were Peru, Colombia, Guatemala, El Salvador and Costa Rica.

Even if an agreement is concluded eventually, the results undoubtedly will fall short of the hopes that had been built up for this round. Of course, this simply would repeat a pattern set in previous rounds. Generally, the results are first judged disappointing in terms of the goals set by the most ambitious participants. Nonetheless, the achievements of each major round have come to be seen as substantial. The same is likely to be the case with the Doha Round.

Failure of the Round Won't Spur Protectionism

It is common to read dire warnings about the effects of the round’s delay or failure. These include arguments that: (1) an outbreak of protectionism could ensue; (2) the world will break up into discriminatory trading blocks; and (3) developing countries’ futures would be dealt a serious blow. The truth almost certainly is far less dramatic. Failure would represent the loss of an important opportunity, but it would not be the disaster that many claim.

All existing WTO trade rules remain binding on their members until a new agreement is implemented. As a result, even a complete breakdown of the talks would not automatically lead to greater protection than is the case at present. These rules will continue to serve as a break on what is probably the most serious current global threat of protection, the danger that the United States Congress would unilaterally impose across-the-board barriers on imports from China. In contrast to the Cancun failure, any actions taken without WTO authorization could seriously damage both the trading system and the Doha Round and call into question any claims the United States might have to global leadership in this area.⁵

There may be some who will point to China's participation in the G22 at Cancun as an additional reason to erect these barriers. China, however, has been a responsible participant in the Doha talks. It provided one of the more promising proposals for non-agricultural market access that would have required liberalization from all participants and has generally played a constructive role.

Moreover, while these rules do help keep protectionism at bay, it is important to note that many of the tariffs actually applied by developing countries are far lower than the maximum rates they are allowed to maintain under WTO rules. This suggests they have reasons for maintaining lower trade barriers, independent of WTO rules. These motivations would remain intact without a new agreement. Some might argue that the failure at Cancun will strengthen the hands of those who would have developing countries reject globalization. On the contrary, one way to read what happened at Doha is that many developing countries have been motivated to stake out tough bargaining positions precisely because they understand that global engagement is a vital component of any viable development strategy.

Cancun could accelerate the trend towards preferential trading arrangements. However, free trade agreements (FTAs) had been proliferating even before the difficulties facing the Doha round became clear. The EU has long maintained a large number of these agreements. To be sure, it could now drop its self-imposed moratorium on additional agreements until the Round is completed, but even if the Round had ended on schedule, it would undoubtedly have eventually resumed negotiating additional arrangements anyway. The United States has recently stepped up the pace, with recent FTA agreements with Jordan, Singapore and Chile. Moreover, the US authorities have launched FTA talks with the Central American countries, Morocco, the South African Customs Union and Australia, and talks are about to start with Bahrain and Thailand. Other candidates include Colombia, Egypt and Peru. Similarly, agreements have been proliferating throughout Asia. China is negotiating an FTA with the ASEAN countries while both Japan and India, once ardent defenders of multilateralism, have joined the FTA trend.

In some cases, failure of the Doha round would make it more difficult to reach new bilateral arrangements. This is particularly likely when partners have agricultural subsidies that can only be dealt with in a multilateral context. Without a Doha agreement, for example, the negotiations of the US-sponsored Free Trade Agreement of the Americas (FTAA) are unlikely to succeed.

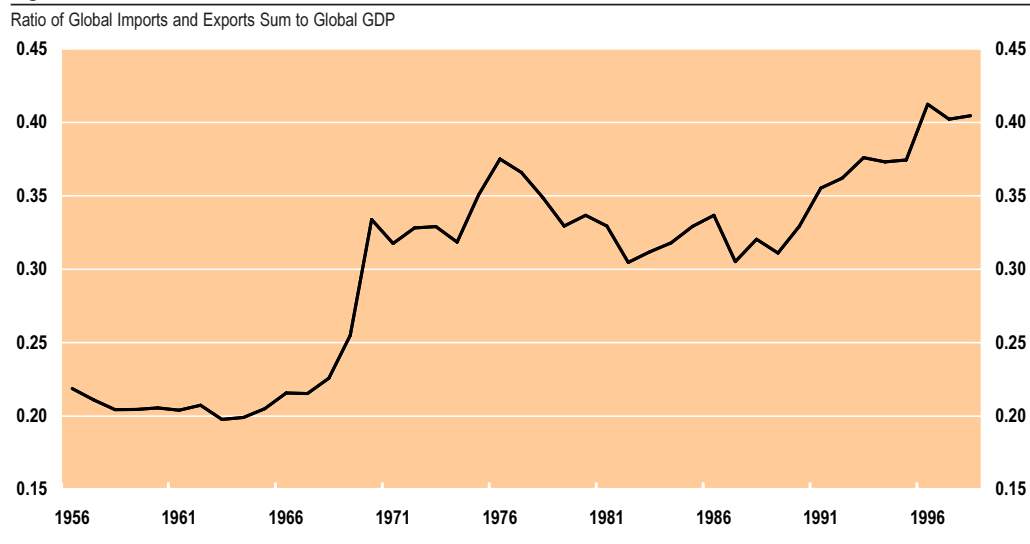
5. WTO rules do allow members to impose safeguards on particular products when imports cause (or threaten to cause) serious injury. However, such measures cannot be imposed selectively on imports from just one member. WTO rules (GATT Article XV) also state that members "shall not by exchange action frustrate the intent of the provisions of this agreement". As the recent steel case between the United States and the EU indicates, if the United States were to bring a case against China on the basis of this provision, it would probably take several years to obtain a decision and even longer for any authorization to retaliate.

The United States has been unwilling to discuss a reduction in its agricultural subsidies in the FTAA because to do so would give the EU and other agricultural protectionists outside the hemisphere a free ride.⁶ On the other hand, countries such as Argentina and Brazil would not be interested in the FTAA if it were to exclude agriculture. In the case of agricultural trade, therefore, regional and multilateral liberalization negotiations are more likely to be complementary than to be substitutes. Moreover, because countries have difficulties in dealing with agriculture, there is a considerable danger that many FTAs will fail to meet the basic WTO requirement that these agreements cover “substantially all trade”.

For the United States, it may be relatively easy to negotiate bilateral arrangements with small countries such as Chile, Singapore and Morocco. However, the FTA approach is less useful when it comes to dealing with more substantial trading partners such as the EU, China or India. Because the United States is a global trading power, regional agreements are not likely to suffice to meet US interests. The large and more global players inevitably will have to return to the WTO’s negotiating table.

While the Round’s success unquestionably would aid developing countries in general and several very poor agricultural exporters in particular, its importance for development prospects can be exaggerated. The Round’s focus on developed country farm subsidies sometimes provides a convenient excuse for developing countries to blame others for their failures. There is overwhelming evidence that the global trading system is sufficiently open already to permit countries that have adequate domestic policies and institutions to develop through export-led growth. This conclusion is reflected in growing trade volumes (Figure 3). The success of Japan in the 1960s, the Asian tigers in the 1970s and 1980s, the spectacular performance of China over the past two decades and the recent growth in Vietnam all provide vivid examples of this claim. For the most part, many of the least developed countries already have virtually tariff-free access for their exports to developed countries. Their export failures therefore reflect more their inability to supply products rather than barriers to selling them.

Figure 3. Growth of Global Trade



Source: JPMorgan.

6. Since it would lower total US output, a reduction in US farm production subsidies in the FTAA would automatically imply less competition for EU exports in world markets.

This is not to denigrate the potential importance of the Round's success. This is demonstrated by the estimated gains from the liberalization of trade in goods noted earlier. Thus, even if failure does not result in a protectionist or developmental crisis, the Round's failure would represent a significant missed opportunity. Today's trade rules reflect decisions taken a decade ago at talks launched in Uruguay in 1986. It is reasonable to expect that the Doha Round, if successful, will set the rules for 2020 and beyond. Liberalizing agriculture, reducing tariffs in labor-intensive manufactured goods in industrial countries and opening markets in developing countries could make important contributions to future global prosperity.

Appendix. What is the WTO?

The WTO is an international organization⁷ that provides a forum in which its 148 members can negotiate trade agreements and settle their disputes. Trade liberalization and agreements on rules occur through multilateral negotiations or Rounds, of which eight have been completed since 1947. The organization's major purpose is to promote trade by encouraging liberalization and establishing a system based on the rule of law. There are Four Major WTO Agreements covering Trade in Goods (the GATT), Trade in Services (GATS), Trade-Related Intellectual Property Rights (TRIPs) and Dispute Settlement. These WTO rules aim at ensuring non-discrimination. Each member is expected to grant all other members equal or Most-Favored Nation (MFN) treatment and not to discriminate between domestic and imported products (National treatment). The organization tries to ensure that trade becomes freer and that members avoid non-tariff barriers but it does not require members to eliminate all tariffs. Members are, however, generally expected to commit not to raise tariffs above agreed upon (or bound) rates. WTO rules also seek to eliminate trade at below cost prices through rules relating to dumping and subsidies. Generally, agreements are viewed as based on reciprocity in which each member opens its markets in return for others doing the same. However, developing countries are not expected to reciprocate fully and are granted special and differential treatment.

More information can be obtained from the excellent publication *Understanding the WTO* available on the WTO website <http://www.wto.org>. The site's materials are also invaluable for following WTO negotiations, reports and dispute settlement proceedings.

About the Author

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Prof. Lawrence is a prolific writer on international trade issues. He is the author of: *Can America Compete?*; *Regionalism, Multilateralism and Deeper Integration*; and *Single World, Divided Nations?* He co-authored a number of books, including: *A Prism on Globalization*; *Globophobia: Confronting Fears About Open Trade*; *A Vision for the World Economy*; and *Saving Free Trade: A Pragmatic Approach*.

⁷ In formal terms, the WTO is a Specialized Agency of the United Nations, equivalent in status to the International Monetary Fund and the World Bank. Like the other Specialized Agencies, the WTO's membership is distinct from that of the United Nations, and is controlled by the WTO itself.

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