

# The Doha Development Agenda after Cancun: An Insider's View

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## *Abstract*

*The Fifth WTO Ministerial Meeting was held in Cancun, Mexico, September 10-14, 2003 and marked the halfway point in the negotiations of the Doha Development Agenda, which were launched at the conclusion of the Fourth WTO Ministerial Meeting, held in Doha, Qatar, November 2001. Paragraph 45 of the Doha Ministerial Declaration states the mandate of the Cancun Ministerial to "take stock of progress in the Doha Development Agenda (DDA) negotiations, provide any necessary political guidance and take decisions as necessary." The meeting ended without agreement on any of the agenda items, which means that the negotiations in a formal sense are exactly where they were before the Cancun meeting.*

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## *I. MISSED OPPORTUNITY*

The objectives of the meeting were stocktaking of the negotiations and to take decisions that could add momentum in order to achieve the completion of the negotiations on schedule, by January 1, 2005. This was not achieved and some have opined that the Cancun meeting was a once in a generation opportunity to advance the multilateral trade agenda. This gross exaggeration was employed to mobilize support for a decision and calculated to deter dissent. Others felt that the ingredients for a deal in which all parties left the table with sufficient benefits did not exist in Cancun. Developing countries, in particular, were determined not to sign on to a new agreement unless they were convinced that the resulting trade liberalization would promote their exports and economic growth. Minister Courtenay of Belize summarized the outcome from a developing country perspective when he stated: "no deal is better than a bad deal". Nonetheless, it was a missed opportunity to make progress on the Doha Development agenda and to forge a more balanced and comprehensive multilateral trading system.

## *II. THE GENEVA PROCESS*

The negotiations in the WTO in Geneva failed to produce a draft ministerial text, which commanded consensus, a situation similar to that which preceded the ministerial meetings in Seattle (Bernal [1999]) and Doha. The fundamental differences in Geneva were substantial and deeply entrenched, such that a series of mini-Ministerial<sup>1</sup> meetings was not able to resolve them prior to the Cancun meeting. In addition, the hastily conceived EU-US proposal on tariff reduction formulas, particularly in agriculture, did not assuage the concerns of the developing countries. As a result, the expectations of the Cancun Ministerial were extremely ambitious in that instead of taking decisions on a few substantive issues, an agreement in Cancun would have required Ministers to delve into fairly complex technical issues e.g., the coefficients for the components of a hybrid of tariff liberalization formulas, which were unresolved in Geneva.

The number of missed deadlines across the institutional bodies and issues was an indication of the difficulty, which could be expected in Cancun. In many areas there was a lack of consensus even on the modalities and there were different interpretations of the mandate. The most notable dichotomy was on the Singapore Issues where those advocating the commencement of negotiations based their assertion on a particular interpretation of the Doha ministerial text, while opponents (a clear majority) argued that the commencement of negotiations after Cancun required explicit consensus and pointed to that language in the Doha text.

## *III. THE CUNCUN MEETING*

The WTO Ministerial meeting consisted of an amalgam of formal plenary sessions, the "green room"<sup>2</sup> confab (where participation is restricted to countries whose inputs are considered to be essential either because of their economic importance or because they represent a group or type of country), and plethora of informal consultations including those by the "Friends of the Chair", subsidiary meetings on specific topics e.g. small economies, constituency conferences e.g. the Least Developed Countries as well as bilateral exchanges e.g. between U.S. and the Latin American and Caribbean Group or the E.U. and the African-Caribbean-Pacific Group. The plenary meetings involved formal ministerial statements and meetings of heads of delegations wherein short statements of national positions were made. Five friends of the Chair<sup>3</sup> were selected to assist Minister Luis Ernesto Derbez, Chair of the WTO Ministerial. The criteria for the selection of the friends of the chair were never known. Attention gravitated towards EU Trade Commissioner, Pascal Lamy and USTR Ambassador Robert Zoellick and to Celso Amorim, Minister of Foreign Affairs of Brazil, and Arun Jaitley, Minister of Commerce for India, who emerged as the most influential spokespersons among the developing countries.

The principal issue to be resolved in Cancun was the modalities for liberalization in agriculture and non-agricultural market access. There was no agreement on the formula or hybrid of formulas for tariff reduction in Geneva and consensus eluded the negotiators despite a EU-US framework proposal on agriculture released immediately before Cancun. The differences in agriculture remained intractable on the elimination of export subsidies and credits, the reduction of domestic support by capping the "Green Box", the more precise definition and control of the "Blue Box", the designation of special products and

the role of special safeguard mechanisms. The US and the EU differed substantially on the curtailment of export subsidies and domestic support while developing countries felt strongly that their proposals such as a category of “special” or “strategic” products had been almost entirely ignored.

Other important issues included TRIPS and public health, special and differential treatment for developing countries, the Singapore issues (investment, competition policy, government procurement and trade facilitation) and the treatment of cotton from the least developed countries from Africa. The struggle to get to a situation of consensus minus one on TRIPS and public health and then to get the US to finally desist from blocking the carefully crafted agreement dissipated a considerable amount of goodwill and contributed to undermining an already fragile belief among developing countries in the professed interest of developed countries in their welfare. The General Council of the WTO adopted the Decision on the Implementation of Paragraph 6 of the Doha Ministerial Declaration on the TRIPS Agreement and Public Health on August 30.

The commencement of negotiations on the Singapore issues were adamantly opposed by the larger developing countries e.g. India, Brazil, Malaysia, Pakistan and resisted by developing countries as a whole. The principal “demandeurs” were the E.U. and Japan who have championed this cause from its inception in the WTO. Prior to Cancun several developing country groups i.e. the ACP, the LDCs, the African Union, the Caribbean, had stated at the ministerial level their opposition to launching negotiations on these subjects.

Special and differential treatment has been a long-standing source of dissatisfaction for developing countries. Developing countries especially the least developed countries and small, developing economies are convinced that special and differential treatment can contribute to their economic development (Bernal [2003]). In recent years the view that preferential treatment for developing countries did not produce growth and may have hindered the production of internationally competitive exports has come to be widely held both among academics and policy makers. Most developing countries do not share this skepticism and have continued to agitate for the preservation and expansion of special and differential treatment. The Doha Ministerial Declaration stipulates that “all special and differential treatment provisions shall be reviewed with a view to strengthening them and making them more precise, effective and operational”.<sup>4</sup> Progress towards this goal has been slow and the potentially acceptable proposals are largely procedural in content and will yield little tangible economic value. Of the 88 proposals thought worthy of consideration, 38 were judged to be possibilities, a further 38 required more analysis by relevant WTO bodies and another 12 were less likely as they involved substantive changes to the WTO agreements. At the time of the Cancun meeting the list had been whittled down to a few innocuous measures.

Developed countries believed that there was need for greater effort at trade liberalization by the developing countries. In turn developing countries were disappointed by the attitude of the developed countries towards meaningful advancement on development issues. They correctly felt that the wealthier and more developed countries could and should make more substantial concessions. The gap between these opposing perceptions was never narrowed and this persistent divergence played a significant part in derailing the talks. The rebuff by developed countries of the plea for concessions on cotton subsidies by four least developed countries of Africa,<sup>5</sup> which depend heavily on exports of cotton, was taken as irrefutable evidence of the lack of serious commitment by rich countries to the development of the poor and by extension the developing countries.

The deadlock on the Singapore issues allowed the developed countries to blame the developing countries for the break-up of the meeting, ignoring the fact that the most contentious issue was the relatively meager offers by the developed countries in agriculture, and in particular the inadequacy of the proposals to reduce trade distorting subsidies and domestic support. All indications were that it was most unlikely that the entrenched position on agriculture could be resolved to attain a consensus in Cancun. Had the meeting foundered on agriculture, it would have revealed the fact that developed countries had made an unacceptable proposal, which did not adequately address the concerns of developing countries. The developed countries, therefore, cannot escape some blame for the collapse because of their disappointing stance on agriculture.

The parsimonious agricultural proposals of developed countries and the failure to sympathetically address the cotton issue shocked their public. The attitude towards the plight of cotton producing countries of Africa, all least developed countries, was symptomatic of the approach to development issues by the rich countries. Domestic support for agriculture in the Quad countries (U.S., E.U., Japan and Canada) is approximately US\$85 billion and export subsidies of developed countries account for US\$8 billion (WTO [2003]). The World Bank estimates that subsidies to cotton producers in the U.S. and other countries has lowered world market prices by 20-40 percent (World Bank[2003]). Subsidies estimated variously at between US\$3 to US\$4 billion per annum provided by the US government to approximately 25,000 cotton farmers directly results in a loss of US\$1 billion in export earnings to several million subsistence farmers in Central and West Africa, many of whom are surviving on less than US\$1 a day (Williams [2003]). The sense of incredulity and outrage was not confined to the development focused non-government organizations, for example, the Wall Street Journal in an editorial highlighted the fact that "cotton subsidies in Mississippi literally drive cotton farmers in West Africa out of business. The subsidies also raise prices for American consumers" (Wall Street Journal [2003]).

#### *IV. COLLAPSE OF THE CANCUN MEETING*

Many factors contributed to the collapse of the Cancun meeting, among the most prominent were:

##### LACK OF CRITICAL POLITICAL MASS

The inability to arrive at agreements on the key subjects and the failure to resolve the deadlocked issues may be a catalyst for change in the political environment. It is too early, however, to assume that some of the developments at Cancun are lasting, e.g., the developing country unity that was crucially important in determining the outcome of the meeting. The leadership asserted by China, (Wonnacot and King [2003]) Brazil and India, the emergence of the G-22,<sup>6</sup> the resolve of the ACP/LDC/Africa Union and the coalescing of the small economies forum were highly significant and could become more so in the future.

The differences among the developed countries, in particular the divide between the EU and the US, notwithstanding their pre-Cancun agreement, the dimensions of which extended far beyond trade issues to encompass a fundamental divergence of interests over a wide range of issues (Kagan [2003]), aggravated by acrimonious expressed differences over Iraq. The European Union and the United States, despite a belated compromise on agriculture, have not been able to find common ground on a multilateral trade agenda and

the relationship has been tempestuous, exacerbated by virulent disputes such as, bananas, genetically modified food, foreign sales corporations and steel. The discord between them debilitated their collective will, curtailed their capacity for joint action and reduced their effectiveness. The importance of the EU and the US acting in tandem is emphasized by former director general of the WTO, Mike Moore who recollects that Zoellick and Lamy “worked tirelessly to contain their differences” and the “chemistry between Lamy and Zoellick was a major component. Had they not been prepared to move, and convince others of their sincerity, we would not have launched” (Moore [2003]).

The EU-US rift may be temporary as efforts to repair the traditional working relationship are certain to be initiated. The G-7 has already called for a concerted effort to restart the negotiations (O’Brien [2003]). However, the US, from all indications is likely to focus primarily on bilateral and regional agreements, which can be completed before Trade Promotion Authority expires in mid-2004. Such a stance may well be a political strategy to leverage the U.S. position in the WTO and induce countries omitted from the ongoing bilateral and regional negotiations to re-engage in the multilateral process.

A vigorous and concerted effort by the US in the multilateral arena, may await a new administration in Washington DC in January 2005 and tangible improvement in employment. Growth has been sluggish in an economy encumbered by a growing fiscal deficit and a trade deficit of unprecedented proportions. The U.S. policy of trade liberalization has been carried out despite persistent demands for protectionism (Irwin, D. [2002]) and the Bush administration has responded with a substantial increase in domestic support for agriculture through the Farm Bill of 2002 and the imposition of quotas on steel imports. These actions have incurred the wrath of both developed and developing countries and salutary retaliation by the European Union. There is considerable and widespread concern about losses of jobs by the displacement of domestic production by imports and by the relocation of productive capacity in countries with lower wage levels. Organized labour is an unabashed advocate of barring imports from countries with wages lower than those of the U.S. arguing that these imports result in job losses and reduces the American standard of living.

Lower wages are invariably attributed to the lack of adequate labour standards and absence of worker rights and therefore the offending party deserves to be punished for knowingly engaging in unfair trade practices. Even the business sector is calling for measures to abate pressure of international competition. The president of the National Association of Manufacturers, the Chairman of the House Small Business Committee are pressing the Bush administration to pressure China, Japan, Taiwan and South Korea to revalue their exchange rates (Koffler [2003a and b]).

## THE DOMESTIC POLITICS OF AGRICULTURE

Undoubtedly the most contentious issue was agriculture, as it divided the U.S. and the E.U. and the developed and developing countries. The political leadership in both the EU and the US, showed a disappointing lack of political will to reform agriculture and hence, the proposal which they belatedly made in agriculture was not sufficiently generous to induce developing countries to commit to the expansion and completion of the Doha Development Agenda. A genuine and comprehensive reform of agriculture would have entailed substantial reductions, not reallocation, of trade-distorting subsidies and domestic support. The tentative, gradualist and minimalist reform of the Common

Agricultural Policy (CAP) did not allow for the kind of offer or room for maneuver, which would have prompted significant movement on agricultural issues. With presidential elections in the U.S. in November, 2004, in an election year, it is extremely courageous and risky to announce significant adjustments in support for domestic agriculture in the name of securing the completion of the Doha Development Agenda in the WTO. While it is recognized that the reform of domestic agriculture cannot be postponed indefinitely, this was not the time, shortly before a presidential election in the United States and before the expansion of the European Union. This hesitation was compounded by the sluggish global economy, persistent fears in the US that trade liberalization causes job losses<sup>7</sup> and the resolute resistance of Japan on agricultural reform. The Japanese were not very vocal in Cancun, a calculated tactic of reticence that helped to ensure that the EU and the US were viewed as the leading protagonists.

The ostensible collapse of the Cancun meeting over the Singapore Issues allowed the EU and the U.S. to postpone the reduction of trade-distorting measures in agricultural trade until politically propitious circumstances exist. In particular, the European Union gave up nothing in agriculture and lost nothing on the Singapore Issues or geographical indications and therefore lives to fight these battles another day, all of this, while blaming the developing countries for their intransigence.

#### DIVERTED ATTENTION

Since the late 1980s there has been a pandemic of bilateral and regional trade agreements, prompting some observers to describe the proliferation of bilateral trade agreements, negotiations and initiatives as “trade promiscuity” (Naim and King [1997]). During the thirty-one years between 1958 and 1989, 28 regional trade agreements were notified to the WTO, jumped to 29 in the five-year period 1990 to 1994 and escalated to 64 in the five years ending in 1999. There were already 30 agreements in the three years 2000-2002 with a further 70 being negotiated (WTO [2003] p. 46). The process spawned a domino effect (Baldwin [1995]) and a competitive ethos emerged with countries sought to offset the “beggar thy neighbour” advantage other countries might have gained from increasing the number and coverage of trade agreements. Most countries are simultaneously engaged in multiple negotiations at the bilateral, regional and multilateral levels. The extent to which any of these become the priority or governments choose to deploy their financial and human resources is determined by their perceptions of the prospects of the respective negotiations coming to fruition and their evaluations of the likely contribution to expanding trade and increasing economic growth. An integral part of this calculus is always whether the sub-multilateral initiatives can be brought into operation sooner than the relatively more complex multilateral process.

Even before leaving Cancun, USTR Zoellick began to berate those countries which refused to accede to the commencement of negotiation on the Singapore issues, disparaging them as “won’t do’s” and accusing them of being involved in “political pontificating” and “tactical rhetoric” (USTR [2003]). In a thinly veiled threat, he stated that the U.S. would pursue bilateral initiatives with those countries deemed to be serious about trade liberalization. This bilateral process has been going since the FTA with Canada was transformed into NAFTA, and other initiatives that were moving apace before Cancun, with the recent conclusion and Congressional approval of free trade agreements with Chile and Singapore. Negotiations with Central America started months before anyone could have predicted deadlock in Cancun. Similarly, a commitment was given to the Dominican Republic to commence negotiations in

early 2004. This would be a continuation of a policy approach, which would intensify what Zoellick has described as “spurring a competition in liberalization” (Zoellick [2003a]). Countries would compete to have a bilateral FTA with the U.S. thereby increasing the leverage of the U.S. (Zoellick [2002]).

The bilateral route “indicates to the rest of the world that we, the United States, can make progress in opening borders and confronting trade barriers, either bilaterally or multilaterally. Our preference is the multilateral route, but if this route should prove fruitless, for one of a variety of reasons, this certainly indicates that we can achieve success bilaterally and that we are prepared to pursue these basic objectives on a bilateral basis, should that become essential”.<sup>8</sup> An unequivocal statement of the current U.S. position yet these are not the words of Ambassador Zoellick but those of US Trade Representative Clayton Yuetter in 1988 while giving testimony to the US Congress on the US-Canada FTA. The coexistence of the bilateral approach with the multilateral is by no means new but has been a tenet of US strategy since the late 1980s.

## MANAGEMENT OF THE MEETING

It is not clear why Chairman Derbez allowed the “green room” meeting to start with a discussion of the Singapore issues which were the subject of diametrically opposed positions on whether there was “an explicit mandate” to begin negotiations. Developing countries reiterated their position that there was no mandate and furthermore they would not countenance the inclusion of these issues in a post-Cancun WTO process. Despite the willingness of the US to acquiesce to the inclusion of the Singapore issues and an offer by Commissioner Lamy to “unbundle” the issues in the vain hope that he might salvage transparency in government procurement and some trade facilitation, the developing countries refused. The indication by Lamy of flexibility by the EU on the Singapore issues may have come too late (Elliot [2003]) to evoke adjustments in the position taken by developing countries but the unchanged stand of developing countries also partly derived from not having worked out all the permutations and their implications.

Unexpectedly, at one p.m. on the final day Derbez declared that he proposed to terminate the meeting because there was deadlock and that he could not see a resolution. He, however, acceded to a request to delay his peremptory action in order to permit delegations to consult their wider constituencies and return by 2:30 p.m. The consultations were largely perfunctory and the “green room” reconvened with no discernable shifts in previous positions of the protagonists, which were stridently reiterated. Confusion also contributed to the difficulty of finding a compromise solution. The E.U., eventually and perhaps too late indicated that it would drop demands for investment and competition policy. This major concession was met with a range of responses. The U.S., Chile, Costa Rica and Colombia were willing to go along with the Singapore issues, Japan insisted on all four Singapore issues and India, Pakistan, Egypt, the Philippines, Jamaica and Brazil refused even the scaled down package. Botswana, speaking for the ACP rejected all four issues. Some countries were willing to countenance two of the issues and others said that they could accept competition policy and trade facilitation but remained opposed to government procurement and investment. It was also proposed that there could be a two-stage process with the first phase being voluntary but this garnered no support.

The multiplicity of positions was complicated by the questions raised by the possibility of disaggregating the four issues. Among the several implicit but unanswered questions were whether the E.U. wanted trade facilitation and transparency in government

procurement in particular or would settle for any two? Was it still all or nothing for Japan? and if all concerned could agree to two, which two? Confronted by this deadlock Minister Derbez exercised his prerogative as Chairman and made the decision to close the meeting, and having done so proceeded to announce this decision to the plenary at 4 p.m.

Most ministers of trade were nonplussed by the “premature” (The Economist [2003]) and “unexpected closure” (Irwin [2003]). Most delegations made the tactical misjudgment of maintaining fixity of negotiating positions in the expectation that the meeting would not actually be closed so early in the day but would in all probability continue into the early hours of the following day. Surprisingly there was not a strenuous effort to insist that the Chair allow the meeting to continue by discussing other topics especially those, which appeared more amenable to achieving consensus. This is in contrast with the WTO ministerial meeting in Doha where the chair minister Yousseff Kamal in a determined attempt to force an outcome declared that the Doha meeting was extended by an extra day. This was an experience, which Derbez had been exposed to as one of six “friends of the chair” in the Doha meeting and he was certainly aware of the possibility of extending the meeting.

It was also surprising that no attempt was made in the “green room” to discuss agriculture, non-agricultural market access, TRIPS or other critically important topics. Perhaps starting the agenda with agriculture or deferring the resolution of the Singapore issues could have allowed progress to be made or agreement to be reached on some items, providing momentum to the deliberations. Maybe persisting into the afternoon and evening and even into the night might have yielded some results as it would have allowed more time for countries to review their positions and options with the benefit of an overview of an entire day's deliberations. Negotiators had come prepared for and expecting a protracted process of negotiations but never got beyond their opening statements on the Singapore issues.

#### DEVELOPING COUNTRY SOLIDARITY

The developing countries as a group remained united on issues such as special and differential treatment for developing countries, the Singapore issues, reduction of agricultural subsidies in the developed countries and in particular subsidies affecting cotton exports of the least developed countries in Africa. The stand of the developing countries on the Singapore issues was emblematic of a resolve whose gestation pre-dates even the Seattle ministerial meeting. It took the developed countries by surprise and occurred at a time when the “quad” countries of the U.S, EU, Canada and Japan were so disunited that they could not mount the traditional monolithic disposition towards developing countries.

Developing countries were united with respect to the paucity of meaningful proposals on issues of concern to them, and a commonality of interests in broad thematic issues. Importantly, the developing country strategic alliance remained firm despite the existence of sub-groups united around special interest issues e.g., the least developed country issues and small economy issues. Developing country solidarity embraced both long-established coalitions as well as collectives of recent vintage e.g. G-22. Traditional coalitions, such as the ACP, arrived in Cancun with previously agreed positions as expressed in the ACP Ministerial Statement, and maintained solidarity throughout the meeting. Nascent coalitions blossomed e.g. small developing countries and new alliances emerged, most notably the G-22, and the Alliance for Special Products and Special Safeguard Mechanism.<sup>9</sup> The Cairns Group<sup>10</sup> a usually influential aggregation waned in coherence and impact.

The developing country solidarity is a heartening sign of a new resolve and the emergence of a new dynamic in the WTO negotiation process, which augurs well for the achievement of developing country goals in the future. The consolidation of developing country unity, which occurred during the Cancun meeting, was indicative of several factors. First, the widespread and deeply felt view among most developing countries was that the developed countries had not sufficiently tackled long outstanding development issues such as special and differential treatment nor were trade liberalization goals, schedules and modalities advocated by developed countries tempered by genuine empathy for the plight of the poor. Nowhere was the lack of humanity more glaringly evident than in the absence of concessions on cotton for the least developed countries most affected. Second, developing countries have become more sophisticated politically and came to Cancun better prepared technically and better organized than they were in previous WTO ministerial meetings.

The Caribbean countries are an example of a group of developing countries that were better prepared technically and politically than they had been in previous WTO ministerial meetings. Their negotiating positions were based on a carefully developed technical brief, which involved through a series of technical working groups drawing on experts from the WTO, UNCTAD and other international organizations to supplement the technical staff of the Caribbean Regional Negotiating Machinery (CRNM). The technical recommendations and supporting argumentation became the mandate through a comprehensive consultative process involving the private sector and senior government officials and culminating in approval by trade ministers. Ministers, officials and the CRNM staff of trade specialists developed strategy and tactics on the approach to the Cancun meeting, including a Caribbean Ministerial Declaration tabled in Geneva preparatory process. Trade-offs and negotiating permutations were calculated and lead spokespersons designed with specific guidelines with an overall lead minister. All countries fielded delegations and they were supported by a team of CRNM technicians with logistical arrangements by the Caricom Secretariat. Meetings with Lamy, Zoellick, Derbez and the Director General of the WTO were confirmed before Cancun. The Caribbean held caucuses two or three times per day depending on the circumstances and remained in constant touch by cellular phone throughout the proceedings.

## *V. THE WAY FORWARD*

Predictions that the collapse of the Cancun meeting would lead to the demise of the WTO are overblown, as the outcome will not impair the essential functions of the Organization. The functions are negotiation of new rules, implementation of existing rules and adjudicating disputes in the application of rules. All three functions will continue as: (1) The Ministerial mandate to negotiate the Doha Development is still in place and has a schedule of completion of January 2005, (2) the process of implementation of existing commitments will continue unabated, and (3) disputes over the interpretation and application of rules and the WTO compatibility of policies by member states will undoubtedly continue to arise.

The process of negotiation will resume in the WTO in Geneva with the meeting of the General Council in mid-December being a critical date. There is however some level of uncertainty with regard to the exact form that the negotiating process will take as a result of the inconclusive outcome of the Cancun talks. Several factors will determine when meaningful negotiations can be resumed in Geneva, the most important of which are:

## AVOIDING THE BLAME GAME

It has been suggested that the losers from the inconclusive ministerial meeting in Cancun were the developing countries. Such a perspective is predicated on predictions of how much a deal in Cancun could have boosted world trade and thereby lifted exports and growth in the developing countries. The notion was being propagated by developed country spokespersons that developing countries were the big losers when the reality is that in today's world economy the growth of all economies increasingly depends on international trade and investment. A significant share of economic growth in the developed countries is export-driven and therefore all member states of the WTO were affected, some more than others.

The viewpoint that the failure of the talks is attributable to the stubbornness of the developing countries, characterized by Zoellick as "won't-do countries" (Zoellick [2003b]), diverts attention from the unacceptable proposals of the developed countries on agriculture, and their determined disregard for developing country interests in special and differential treatment, implementation and development issues in general. All participants are partly responsible for the inconclusive Cancun meeting and the developing countries cannot be exonerated from blame. The last minute U.S. acquiescence to the agreement on TRIPS and public health, an issue pending since Doha conveyed the impression of reluctance and seemed less than genuine. Furthermore, the agreement creates a cumbersome procedure for developing countries with a capacity to manufacture pharmaceuticals to export their products to those developing countries in need of affordable medicines. In the same vein the lateness of the EU-US compromise proposal on agriculture did not allow time to mobilize support or to revise the proposal. Developing countries felt strongly that the draft Ministerial text did not adequately address their principal concerns, including the preservation of preferences, exemptions from tariff reductions for certain products, a safeguard mechanism, and differences in the rate of tariff reductions between the developed and the developing countries.

## COOLING OFF PERIOD

This is not a time for despondence or complacency, therefore the pause, which inevitably follows Cancun, is an opportunity for a thorough re-examination encompassing all the disciplines and issues. It is a time to realize that in a globalized world national economic well being can best be attained and sustained in a multilateral trade system in which there is opportunity and development for all. After a period of sober reflection member states must resume the negotiations in Geneva as soon as feasible. They must review their positions technically and politically and recommit to full engagement in the WTO negotiations without being substantially diverted by simultaneous involvement in bilateral and regional initiatives such as the Cotonou process between the EU and the ACP group, and the FTAA.

The decision has wisely been taken to suspend all negotiations except in services, which seems to be among the least contentious issues, a fact which reflects the development-friendly orientation of the GATS. This hiatus is a useful cooling off period in which informal consultations in Geneva and in capitals can take place. The Director General of the WTO, Supachai Panitchpakdi and Ambassador Carlos Perez del Castillo, Permanent Representative of Uruguay to the WTO and Chairman of the WTO General Council, have key roles to play in this process of consultation and reconciliation. It will, however, also require constructive signals from the highest political levels of Member States, particularly the European Union, the United States, Brazil and India.

How long the cooling off period should be, is difficult to judge. It should not be decided by dates that were set before the Cancun meeting because any such calendar of meetings was predicated on the assumption that the ministerial would have produced decisions which would allow negotiations at the WTO in Geneva to continue unabated or even with more momentum. The realization that the multilateral trade system and the negotiations for expanding its coverage and improving the character of multilateral rules and disciplines is central to other forms of trade liberalization is already evident. The influential Asia Pacific Economic Cooperation, which includes the United States, China, Russia and Japan and G-22 members Indonesia, the Philippines and Thailand have called for the earliest resumption of the WTO negotiations, which collapsed in Cancun. They propose that the talks take as the starting point the Derbez text (Perlez [2003]) that failed to elicit consensus at the WTO ministerial in Cancun. The text is still not acceptable to some countries, including India, which has rejected it as the "starting point", indeed it was "the main cause of the stalemate" because it "completely buried the development dimension of the Doha agenda" (Press Trust of India [2003]).

While the original deadline for completion of the Doha Development Agenda seems to be in jeopardy, it is far more important to achieve a balanced development promoting agreement than to adhere to any particular schedule. Holding to or establishing deadlines are thought to galvanize decision-making but when they are surpassed it can severely damage the credibility of the process, debilitate the participants and waste time and scarce resources. The key dates in the process of resuming serious negotiations must be arranged through a transparent consultative process and be based on a realistic assessment of readiness of the substantial majority of member states to negotiate in earnest. Lamy has cautioned against a premature attempt to re-start the negotiations. Indeed, the European Commission will not outline its thinking to member states until mid-December (Jonquieres [2003]).

## THE POLITICS OF RECONCILIATION

All parties must accept some responsibility for the lack of a result and should therefore, in good faith, refrain from attempting to place blame on others particularly in the media. All parties involved must now re-evaluate their positions and find the flexibility, which can infuse the negotiations with renewed momentum. Creation of an atmosphere in which a constructive dialogue can take place will require sober, open-minded diplomacy. An end to intemperate, bellicose statements is a prerequisite for the goodwill and reason that will be the basis for successful negotiations. Threats of reprisals such as those by Senator Grassley, chairman of the U.S. Senate Committee on Finance: "I'll take note of those nations that played a constructive role in Cancun and those that didn't" (Sullivan [2003]), may resonate with domestic political interests but only aggravate an already tense situation.

The prospects for progress in the WTO negotiations will center on the negotiations in agriculture. The reform of the elaborate system of subsidies and domestic support in agriculture in the U.S., Japan and the EU is an extremely difficult task and commitments to reducing or eliminating these trade distorting measures through the WTO would not be welcomed in an election year in the U.S. nor in capitals in Europe determined to reform the CAP over the longest possible time period.

The revival of the negotiations will require more than hortatory pronouncements and the recital of the platitudes about the munificent impact globally and nationally of

further multilateral trade liberalization. What will be necessary is a stronger commitment to the multilateral trading system, the political will for sustained participation and the recognition by the developed countries that self-interest encompasses the trade induced growth and adjustment in the least developed and developing countries, which have derived limited benefits from the Uruguay Round. All parties, developed and developing countries will have to exhibit more flexibility based on a reconsideration of the positions advanced in Cancun and an avoidance of retracting the possibilities signaled in those deliberations. For example, the proposal of the EU to scale down the Singapore issues to transparency in government procurement and trade facilitation and eschew investment and competition policy is the kind of gesture that could be the type of catalyst that is needed to jump-start the dormant negotiations. A reiteration of this proposal would be a noticeable demonstration of good faith and serious of purpose and could help to create an atmosphere more conducive to negotiations by the goodwill it would generate among developing countries (Lal Das [2003]). Unfortunately the Etui's decision embodied in its paper to the Commission appears to indicate the intention to resurrect investment and competition policy. Having dropped these issues from the subject matter of the Doha Development Agenda during the deliberations in Cancun their reintroduction will cause distrust. It will be interpreted as disingenuous tactics or that the Etui's lead negotiator acted without authorization either of which is harmful to the credibility of the European Union.

Some political realignments will occur in the hiatus between Cancun and the resumption of negotiations in Geneva. The political landscape may change as countries reconsider their positions, especially those that have assumed leadership roles and strategic alliances assemble, reassemble and disassemble. The political configuration of the Cancun meeting may be different by the time the negotiations begin in earnest. Two critically important developments will be the relationship between the US and the EU and the consolidation or weakening of the G-22. The G-22 is already experiencing difficulty in sustaining itself as strong pressure has been exerted on countries to disassociate themselves from the group.<sup>11</sup> Less than a month after Cancun the much-vaunted unity of the G-22 is unraveling as the three Central American member countries, Costa Rica, El Salvador and Guatemala and at least two South American members, Ecuador and Peru have already dropped out of the group. This sudden quiescence has been attributed to a significant escalation in pressure from the United States (Alden, Thompson and Buck [2003]) and their desire not to jeopardize bilateral free trade agreements, which they are either currently negotiating or requesting. Thailand's Minister of Commerce in a letter to Ambassador Zoellick explained that "the Group is of a temporary nature, and was formed with the sole purpose of advancing the negotiations on agriculture in Cancun. We did not see the G-21 to be a permanent force or expand to cover other issues". It also assured the US that "Thailand never believed nor supported a North-South or confrontational approach".<sup>12</sup> The October 15<sup>th</sup> letter was followed on October 19<sup>th</sup> by a U.S. announcement that it would commence negotiations with Thailand for a bilateral free trade agreement in mid-2004 (Inside U.S. Trade [2003] pp. 1,12-13). Despite centrifugal tendencies the large countries, which constitute the core, are moving to strengthen their cooperation and trade links (Jonquieres and White [2003]).

#### RECOMMITMENT TO MULTILATERALISM

All parties must reconsider their positions with a view to identifying areas of flexibility. The continuation of attention to the negotiations in the WTO has co-existed and can continue to coexist with negotiations of bilateral and regional agreements and the

strengthening of regional integration arrangements. This multi-track approach is one, which virtually all countries are practicing in some form and can even complement the WTO process. Although the U.S. has threatened to emphasize bilateral initiatives and is actively involved in negotiating regional arrangements such as the FTAA, this is certainly not the time for the U.S. to resile from its natural and traditional role of leadership in the development of the multilateral trade system. As the U.S. continues to pursue bilateral and regional trade agreements (Hilaire and Yang [2003], it is likely to press for completion of the FTAA on schedule in December, 2004, even if it has to accept a reduced scope of coverage. The success of such a strategy by the U.S. will largely depend on its ability to persuade Brazil<sup>13</sup> and the other MERCOSUR countries to refrain from insisting on a delay in the date of completion. The FTAA negotiations will also be affected by the WTO process because progress on the vexed issue of trade distorting agricultural subsidies will depend significantly on how this issue is dealt with in the WTO.

The political atmosphere in the United Nations following the acrimonious debates on Iraq and the subsequent action of the US, Britain and the "coalition of the willing" remains toxic. The deep divergences between the US and Britain and France and Germany, long standing allies in NATO and the OECD have not been bridged, even on the reconstruction of Iraq. This situation had a negative impact on the environment in which the Cancun meeting was held. George Yeo, Minister of Trade and Industry of Singapore who served as the "friend of the chair" charged with facilitating the agriculture negotiations told the World Economic Forum that a "major factor was a political reaction in the world to the war in Iraq" (World Economic Forum [2003]. He contrasted this with the salutary effect of post-September 11 state of mind on the Doha ministerial meeting.

The attitude of the United States towards multilateralism in general will certainly be a decisive influence on what emerges in the WTO negotiations. The foreign policy of the US including trade policy has traditionally been characterized by a blend of unilateralism and multilateralism with the balance shifting depending on the administrations perspective, the issue and the circumstances.<sup>14</sup> Similarly US trade policy has been a combination of "aggressive unilateralism" (Bhagwati [1992]) and a commitment to an increasingly liberalized multilateral trade system. While bilateral and regional trade agreements are believed to be inimical to the multilateral trade system (Bhagwati and Panagariya [1996]) they can be building blocks rather than stumbling blocks because advances achieved in these agreements can influence the multilateral agenda and multilateral negotiations.<sup>15</sup> Regional agreements compatible with the WTO<sup>16</sup> can also contribute to support structural change, institutional reform and improved international competitiveness (Devlin and Estevadeordal [2003]) and thereby prepare developing countries for the multilateral trade system. This is especially true of the new genre of regional trade agreements (IDB [2002]).

It is often suggested that it is easier and quicker to achieve progress in a regional or bilateral forum because the number of entities engaged in the negotiation is much smaller than in the multilateral arena. Small numbers tend to make cooperative solutions more likely. The large numbers involved in multilateral trade negotiations in the WTO and the myriad of interests and perspectives encompassed does complicate the negotiating process and reduce the probability of attaining consensus. Whenever the multilateral process has experienced severe difficulties or a prolonged delay the developed countries have opted for giving more attention to regional possibilities, which could be concluded relatively quickly. It has been posited that difficulties during the Uruguay Round prompted

the U.S. to embrace regionalism (Whalley [1993]) in the form of the Canada-US Free Trade Agreement and the North American Free Trade Agreement. These actions may or may not have influenced the course and outcome of the Uruguay Round but the present prospect is cause for concern because the option of regional and bilateral trade negotiations is available to so many countries and is already absorbing considerable time and resources, human and financial. The scale of activity in pursuit of these initiatives fragments the focus on the Doha Development Agenda as the priority and diverts attention from the negotiations in the WTO.

#### MORE EFFICACIOUS DECISION-MAKING PROCESS

When a WTO ministerial conference arrives at a consensus, it is in spite of the structure of decision-making, which entails convening a plenary meeting of the full membership. The Cancun meeting involved 146 member states. A meeting of such proportions is not appropriate for negotiations and is limited to the ratification of proposals formulated elsewhere in the proceedings. Indeed this turgid, time consuming and enervating process described by Commissioner Lamy as “medieval” (EU News Release [2003]), is not an efficacious mechanism of decision making. Such an unwieldy structure and cumbersome process is inevitably a part of the format of WTO ministerial meetings. The similarly encumbered operation of the General Council suffers from the same disability and puts a disconcerting burden on the chair to capture the gravamen of the discussions without the benefit of explicit consensus. Almost inevitably the Chair’s text is criticized as not an accurate reflection of the state of the debate or there is the accusation that the Chair has interjected his own interpretation.

The “green room” process, which started as the “inner sanctum” of the rich and powerful countries has been broadened to include selected “key” countries in an attempt to find a forum that is more conducive to decision making. However, it suffers from the serious deficiency of a lack of transparency and, therefore, the outcomes of these deliberations do not command the legitimacy of an inclusive, democratic process. Those who do not participate in the Green Room process not only feel disenfranchised but harbour the suspicion that the more powerful member states use this device to circumvent the plenary meetings where developing countries by weight of numbers can forestall certain decisions and even at times have their views prevail.

The fact that two of the last three Ministerial meetings have failed is partly due to the process of decision making in the WTO and reform of the organizational structure of decision-making should no longer be postponed. One way to streamline its decision-making process is the establishment of some kind of executive committee (Sutherland, Sewell and Weiner [2001]). Such a committee would be a smaller, democratically elected representative body, more conducive to decision-making. This body should comprise 25 member states and its composition must include the ten largest countries by share of global trade in goods and services. The remaining membership of 15 countries should be elected by a democratic process. To ensure adequate and balanced representation, members could be elected on the basis of regions (Schott and Watal [2000])<sup>17</sup> or categories of countries or some combination of both criteria. Decisions would be made by consensus and would then be taken to a meeting involving all Member States. It would enjoy legitimacy because the elected Member States would be charged to represent the views of particular constituencies and to report to them.

The state of the world economy and the plight of millions of the desperately poor in developing and least developed countries could benefit from the achievement of a multilateral round of trade liberalization, which is development promoting. Such an accomplishment is not synonymous with the completion of a round of WTO negotiations but depends on the character of the resulting agreement. The World Bank has calculated that a “pro-poor scenario” of the Doha Development Agenda would generate US\$291 billion in global economic gains of which US\$159 billion in additional income would accrue to developing countries in 2015, raising income levels by 1.5 percent. The number of people living at or below US\$2 per day would decline by 144 million by 2015 (World Bank [2003] pp. 50-52). The important point is that gains of this magnitude can only materialize if there are asymmetrical tariff reduction schedules, elimination of export subsidies, decoupling of all domestic subsidies, and abolition of the use of specific tariffs, termination of tariff rate quotas and cessation of antidumping duties (*Op. Cit.* p. 48).

If the Doha Development Agenda is to achieve its goals it must employ an approach, which recognizes the differences in levels of development, size and institutional capacity and design specific measures to promote the growth and transformation of developing countries, in particular the least developed countries. An integral component of such an approach must be meaningful special and differential treatment<sup>18</sup> and this must be complemented by trade capacity building through technical assistance and development financing.

While trade liberalization and increased openness are associated with accelerated economic growth (Dollar [1992]; Sachs and Warner [1995]; Harrison [1996]; Frankel and Romer [1999] and [2002]), there is no automatic causality between trade liberalization and increased economic growth.<sup>19</sup> Hence while trade liberalization may be a necessary condition for growth it is not a sufficient condition, it has to be complemented by other development supporting policies (Rodrik [1999]). In addition to appropriate domestic policies, developing countries may need development financing to both undertake trade liberalization and carry out the requisite adjustment process in both the public and private sectors.

Trade liberalization creates opportunities to export and to import less expensively, both of which result in resource reallocation and require investment in new productive capacity and/or improved efficiency to attain international competitiveness. The resource mobilization and investment needed to bring opportunities to fruition will entail both the private and public sectors and the process in developing countries can benefit from inflows of capital, technology and management. Even in the most favourable scenario where the private sector can secure the requisite inputs there is a role for development financing of the public sector, as the costs of implementation of a Doha Development Agenda could be enormous if the Uruguay Round is an indication (Finger and Schuler [2001]). In most situations the local private sector may have to resort to development funding to successfully undertake the adjustment process.

## *POSTSCRIPT*

The General Council meeting held on December 15, 2003 did not achieve a reanimation of the negotiations on the Doha Development Agenda because the fundamental differences, which undermined the Cancun Ministerial meeting remain unresolved. In the period since Cancun the Chairman of the General Council Carlos Perez del Castillo has

conducted extensive consultations with delegations in Geneva and the Director General of the WTO has traveled to capitals to consult Ministers in an effort to “decide how to move the process forward”. They concluded that all parties were willing to resume their engagement in negotiating the Doha Agenda and were prepared to introduce some flexibility in the positions taken in Cancun. There were four crucially important issues that had to be addressed if there was going to be an agreement to resume negotiations early in 2004. These issues were agriculture, non-agriculture market access, the Singapore issues and cotton. Two intensive rounds of consultations were devoted to the four key issues. General Council Chairman detected persistent difficulties as he had “witnessed little real negotiation, or movement towards accommodation among positions, or searching for common ground, with some exceptions. Gaps remain wide, not only among positions but also, and this must be cause for concern, between generalized statements of commitment, engagement and flexibility on the one hand, and any concrete manifestation of those statements in negotiating positions on the other”.<sup>20</sup>

The consultations took as their starting point their Derbez text, the structure and elements of which were acceptable but about which most delegations had several reservations on substance. Within each of the four critical issues there were more specific topics which were the cause of contentious divergences: (1) In agriculture three topics will require extensive discussions: (a) domestic support; (b) market access and (c), special and differential treatment; (2) In non-agricultural market access the persistent question is the formula or blend of formulas; (3) There was a general acceptance that the Singapore issues should be unbundled; and (4), The outstanding issues in cotton were the procedural aspect of treatment as a stand alone issue or as part of agricultural negotiations, domestic support, financial and technical assistance.

Looking beyond the state of the negotiations and the difficulties that will confront the resumption of the process in 2004 there is the impact of the U.S. presidential election, the reform of the European Union’s Common Agricultural Policy, the change in the leadership of the Commissions and the expiration of the Peace Clause. The political events and the reform of the CAP could delay a meaningful resumption of the negotiations and are likely to slowdown the negotiations. Article 13 of the Agreement on Agriculture, known as the Peace Clause provides that farm subsidies that comply with AoA disciplines are exempted from being challenged until December 31, 2003. Views on whether it should be renewed differ widely but the EU and the G-10 are proposing its extension for a period, the length of which remains to be determined. If it lapses there is the distinct possibility that there will be challenges.

The G-20 met in Brazil in December immediately prior to the meeting of the General Council and with its leadership and core founding members intact announced its unity and its resolve. New members replaced those that had dropped out since Cancun and the countries of the Caribbean Community (CARICOM) were the first observers signaling a broadening of its alliances and reiterating its influence as part of the vanguard of developing countries in the WTO process. Meanwhile the hiatus in the negotiations of the Doha Development Agenda has been a fillip to interest in and negotiations of regional, bilateral and plurilateral trade agreements.

## *Notes*

<sup>1</sup> Mini-ministerial meetings were held in Australia, Japan, Egypt and Canada. The countries which participated in this process were Australia, Bangladesh, Brazil, Canada, Chile, China, Costa Rica, Egypt, the European Union, Guyana, Hong Kong, India, Indonesia, Japan, Jordan, Kenya, Korea, Lesotho, Malaysia, Morocco, Mauritius, New Zealand, Nigeria, Senegal, Singapore, South Africa, Switzerland, Thailand and the United States.

<sup>2</sup> The countries in the Green Room in Cancun were Argentina, Australia, Bangladesh, Botswana, Brazil, Chile, Colombia, Costa Rica, Egypt, the European Union, Japan, India, Jamaica, Kenya, Korea, Mali, Malaysia, Mauritius, Mexico, New Zealand, Nigeria, Pakistan, the Philippines, South Africa, Switzerland and the United States of America. Each country was allowed a delegation of a minister plus one official. The meeting also included the friends of the chair and the Director General of the WTO.

<sup>3</sup> The "friends of the chair" and their subject areas were (a) Agriculture -George Yeobon, Minister of Trade and Industry of Singapore, (b) Non-Agricultural market access- Henry Tang Ying-yen, Financial Secretary of Hong Kong, (c) Development issues including Special and differential treatment, implementation, technical cooperation, LDCs, Commodities, small economies, trade, debt and finance, and technology transfer -Mukhisa Kituyi, Minister of Trade and Industry of Kenya, (d) Singapore issues i.e. investment, competition policy, government procurement and trade facilitation- Pierre Pettigrew, Minister of International Trade of Canada, (e) Other issues including TRIPS, services, e-commerce, trade and environment, rules, geographical indications -Clement Rohee, Minister of Trade of Guyana and (f) Cotton- Supachai Panitchpakdi, Director General of the WTO.

<sup>4</sup> Doha Ministerial Declaration, Paragraph 44.

<sup>5</sup> Benin, Burkina Faso, Chad and Mali.

<sup>6</sup> The group formed at the Cancun meeting and is variously referred to as the G-21 or the G-22. The members of the group were Argentina, Bolivia, Brazil, Chile, China, Colombia, Costa Rica, Cuba, Ecuador, Egypt, Guatemala, India, Indonesia, Malaysia, Mexico, Pakistan, Paraguay, Peru, the Philippines, South Africa, Thailand and Venezuela.

<sup>7</sup> The majority of Americans associate trade liberalization with job losses and lower wages. See Scheve and Slaughter [2001]. This view is propagated by Tonelson [2000] and Buchanan [1998]. These claims do not stand up to careful analysis and empirical investigation see Burtless, Lawrence, Litan and Shapiro [1998], and Slaughter and Swagel [1997].

<sup>8</sup> Cited in Bernal [1993].

<sup>9</sup> The Alliance for Special Products and Special Safeguard Mechanism included Antigua and Barbuda, Barbados, Belize, Botswana, Cuba, Dominica, the Dominican Republic, Grenada, Guyana, Haiti, Honduras, Indonesia, Jamaica, Kenya, Mongolia, Monserrat, Nicaragua, Nigeria, Pakistan, Panama, the Philippines, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Sri Lanka, Suriname, Tanzania, Trinidad and Tobago, Turkey, Uganda, Venezuela, Zambia and Zimbabwe.

<sup>10</sup> The members of the Cairns Group are Argentina, Australia, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Guatemala, Indonesia, Malaysia, New Zealand, Paraguay, the

Philippines, South Africa, Thailand and Uruguay.

<sup>11</sup> Pressure by developed countries on developing countries persuade or induce them to change their negotiating positions is the “real politick” of negotiations in the WTO. Numerous instances before and during the Doha Ministerial meeting are documented in detail in Jawara and Kwa [2003].

<sup>12</sup> The full text of the letter is reprinted in Inside US Trade [2003] p. 13.

<sup>13</sup> For a review of U.S.-Brazil trade and trade relations see Schott [2004].

<sup>14</sup> This is lucidly analyzed in Nye [2002]. It has been argued that in recent years there has been a pronounced shift away from multilateralism, see Prestowitz [2003].

<sup>15</sup> For a discussion of the relationship and synergy between regionalism and multilateralism see Faini and Grilli [1997]; Winters [1999] and Bhagwati [1990].

<sup>16</sup> For the rules governing regional trade agreements under the WTO see World Trade Organization [1995].

<sup>17</sup> Schott and Watal suggest global geographic representation, with at least two countries from all “major regions”.

<sup>18</sup> There are a variety of approaches to special and differential treatment see Hoekman, Michalopoulos and Winters [2003].

<sup>19</sup> A recent review of the literature concludes that these studies have not conclusively established causality see Rodriguez and Rodrik [1999]. Birdsall goes further to argue that “Openness is not necessarily good for the poor. Reducing trade protection has not brought growth to today’s poorest countries” (Birdsall [2002]).

<sup>20</sup> Statement by the Chairperson of the General Council. WTO News-2003 news items-General Council. December 17, 2003. <http://www.wto.org>.

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