

To Save World Trade: Plan B

Newsweek International

Dec. 19, 2005 issue - The mood among the trade ministers gathering in Hong Kong this week is likely to be downbeat. That's because after two years of struggling to move global trade negotiations toward a conclusion, the 149 countries of the World Trade Organization have failed to bridge huge gaps in their respective positions. If ever there was a time for a robust plan B, this is it.

Just a few months ago, the negotiators had expected to have in front of them this week a clear road map with specific outlines for an omnibus trade deal that they would conclude by the end of 2006. This was to be a landmark agreement because more than any other round of trade talks, what is being called the Doha Development Round was to bring developing countries into the heart of the trading system by dismantling restrictions that hit them particularly hard, such as barriers to their exports of sugar, wheat, fruits and cotton.

The centerpiece of the negotiations was supposed to be major cuts in agricultural protections among the G7 nations, which now spend \$300 billion a year shielding their food markets, about four times all the foreign aid that goes into the Third World annually. But the concessions offered by the European Union, in particular, fell far short of what agricultural exporters such as Brazil were demanding. That led them and others, such as India, to hold up on offering to lower their barriers to trade in manufactured goods and services. In addition, the really poor nations of Africa have not been offered what they want: tariff-free access to Western markets. Since in the WTO every nation has a de facto veto, the bargaining has become paralyzed.

Against the background of a fragile world economy, this is a dangerous situation. The WTO projects that trade in goods will decelerate from a growth rate of 9 percent in 2004 to 6.5 percent this year. The gigantic trade and financial imbalances between the United States, on the one hand, and Asian countries and oil producers, on the other, have markets worried that a disruptive correction could occur, creating significant currency turbulence and havoc in international trade. Economic nationalism around the world is rising, as evidenced by France's walling off certain sectors from foreign takeovers, tougher attitudes toward immigration in the United States and the renationalizing of industries in countries as diverse as Russia and Venezuela. Add to that the fact that a number of ill-advised bilateral trade agreements have been concluded around the world that serve to Balkanize trade at the very time that global supply chains require common rules and uniform enforcement of regulations. Every one of these trends could get worse if momentum toward global trade liberalization stops.

Moreover, the importance of integrating emerging-market economies from China to Brazil into the global trading system can hardly be exaggerated. These are the rising powers in the world, nations that are changing the map of where and how global production will take place. If they believe that the negotiations taking place in Hong Kong do not accommodate their interests, then the WTO would be greatly undermined. And if that happens, the world's capacity to establish and enforce trade rules would be severely set back.

What all this means is that the Hong Kong meeting can't be allowed to fail. Even if they fall way short of their original goals, ministers should avoid the usual *Sturm und Drang* about how the world is falling apart. More important, U.S. President George W. Bush should get on the phone early this week with key heads of state, including those of the most influential emerging nations—China, India and Brazil. He should invite them to Camp David early in 2006 to energize the global-trade negotiations and to deal with other issues that could hinder international commerce, such as growing trade imbalances. The willingness of key leaders to roll up their sleeves should be announced later this week, so that Hong Kong creates forward momentum rather than hand-wringing.

One idea for the 2006 summit: every major nation should come with a highly ambitious set of trade-liberalizing concessions, contingent on others' making similar commitments. Call it "competitive liberalization." This approach would be in contrast to current efforts to find the lowest common denominator.

A second agenda item: a pledge by each country to take specific steps to help its citizens adjust more easily to disruptions that come with rapidly increasing imports. These would include stronger social safety nets and more help in getting training for new jobs. Ultimately, addressing these issues is a sine qua non for freeing up trade.

In 1999, in Seattle, and again in 2003, in Cancun, global trade negotiations broke down. In each case key governments were caught totally off guard. This time there is no excuse for not having a powerful plan to turn a potential disaster into something much more positive. It's hard to believe this will happen at this late date, but it should.

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