



Doha Debacle: What's Next for Global Commerce

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Progress toward unfettered international commerce stumbled last week with the collapse of the World Trade Organization's Doha talks, a seven-year effort to establish new global trade rules. The lengthy talks, which commenced in Doha, Qatar, and ended in Geneva, were complicated by the rapid emergence of China and India as major economic powers with commercial and strategic interests to protect, and the clout to do so.



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It was far from clear in the aftermath of the collapse that the talks would resume in the foreseeable future. Some negotiators wondered if an agreement among so many nations -- the WTO has about 150 members, each with veto power over any measure -- is even possible.

"The fundamental reality is that it has become too complex," WTO director-general Pascal Lamy told *The Financial Times*.

The talks were tripped up over a last-minute proposal by China and India to be allowed to raise tariffs on key crops -- such as cotton, rice and sugar -- if domestic growers were suddenly battered by imports. Western economic powers could not agree with the emerging powers on how much those imports could surge before the tariffs could be applied.

Trade will continue, of course. The Doha round aimed to make the rules more inclusive of emerging economies and to help the world's poor by dropping barriers such as tariffs and reducing or ending subsidies paid by wealthy nations to their farmers and manufacturers. Many observers say the talks' collapse is a setback for those poorer nations, which need access to larger markets in order for their economies to grow.

Wharton management professors [Stephen Kobrin](#), whose research interests include globalization, and [Marshall Meyer](#), an authority on China's economy, recently spoke to Knowledge@Wharton about the collapse of the talks, global commerce and China's interest in the rules governing trade.

Knowledge@Wharton: The World Trade Organization's talks set the rules for governing international trade among more than 150 member nations. Now that the current rounds of the Doha talks have broken down, what's the practical effect? Trade is going to continue, no?

Kobrin: I think that in the short run, the threat isn't going to be dramatic. There will be some minor impact on world GDP. I think that the more serious threat in the longer run is the multi-lateral trading system as a whole, in terms of how seriously countries take the World Trade Organization, how willing they are to abide by its principles -- and especially how willing they are to abide by a negative decision, in one of their tribunals.

Knowledge@Wharton: If that's the case then what does trade look like in the absence of a global agreement of some sort?

Kobrin: The absence of a "global agreement" is the absence of a fairly major, but still marginal, extension of the rules. So, we still have a rule based international trading system. We've had a series of negotiations since the period immediately after World War II.

Knowledge@Wharton: With the GATT [General Agreement on Tariffs and Trade].

Kobrin: The GATT... through the current go around... they've been incremental; they've built on one another, culminating with the emergence of the World Trade Organization in 1994. We have a fairly broad-based system of rules to govern the international trading system. The question is extending those rules further into agricultural services and other issues; which this round was going to do.

Knowledge@Wharton: And, perhaps as you had mentioned, enforcing the rules, if this harms the WTO's authority in some way.

Kobrin: One of the major advances, with the creation of the WTO in 1994, was a serious tribunal. The big change with the WTO vis-à-vis the GATT is that it is much more difficult for a country to ignore a finding that wasn't in its favor. And to date, none of the major countries has. But, there's still no way to compel a country to go along with a WTO finding. It's based on a belief in mutual self interest and a belief in the benefits of a multi-lateral system. And, the danger is that without the talks proceeding that that could erode.

Knowledge@Wharton: There was a *Wall Street Journal* article immediately after the talks collapsed. It said that they could signal an end to some 60 years of continuous expansion of global free trade deals. That does sound pretty dramatic; but it sounds similar to what you've just described.

Kobrin: I think that it is overly dramatic. I think that it may signal an end to the incremental progress again, since the first GATT talks in the late 1940s. What's happened since then is, first the low hanging fruit was grabbed off of the tree earliest. And, second the world economy has become much more inclusive.

If you think about the 1960's, the Kennedy round, which was one of the major post-war rounds, you probably had 8 or 9 countries that needed to come to agreement, to reach a deal. Even in the Uruguay round, most of the developing countries were sidelined. All of a sudden and I think rightfully so, in the Doha round you have 163 countries, of which probably 60 or 70 have a major voice in the negotiations.

So, I think what's changed is the ease and that's too strong a word, but the process of multi-lateral negotiations with the WTO meeting as a whole and being able to hammer out an agreement among all of the members. So, I think that any further progress may require somewhat of a different process.

Knowledge@Wharton: There were a lot of reasons why the talks broke down, but in addition to having more inclusiveness and many more countries participating, the role in which they participated was different. I mean with China, India and Brazil emerging as major economic powers, they had a lot more clout than they did before. Certainly, they had interests that had to be contended with.

Kobrin: Yes and that's what I was talking about just previously. I think that that is true, in the sense that a lot of the developing countries have become serious players in the world economy and have a serious voice in the negotiations. And, that means that as diverse as the 30 or 31 OECD [Organization for Economic Co-operation and Development] members are, that pales when you start to consider China, India and Uruguay; whose levels of economic development, whose objectives, whose political systems, whose economic beliefs differ vastly among themselves and vis-à-vis the traditional members of the OECD.

Knowledge@Wharton: Do you think that it's possible for the traditional economic powers in North America, in Europe and Asia and these emerging economic powers to ever reach an agreement on trade; given their divergent interests and especially under the rules of these talks, in which I believe any one member can veto a particular portion of the agreement and make the whole agreement come to a crashing halt.

Kobrin: I think that in effect, one member can veto it; but I don't think that's what happened this time around. I think that it may represent, as I said before, a change in the nature of the process. Our ability to reach a multi-lateral agreement, on a wide reaching set of issues, among 160 different countries may be beyond our reach at this point. It may not be possible.

We may have to: a) negotiate on smaller pieces among all of the countries. Or, b) break down into regional negotiations, which then tend to come together in a committee of the whole -- so that you achieve free trade on a regional level and then move to a global level. As I said before, we may have to break the negotiations down into smaller pieces. I think that to use the standard analogy "The bicycle will keep moving ahead" - but I think that it's going to have to do it at a different pace and in a very different way.

Knowledge@Wharton: Given the change in the dynamic of the number of countries participating and the divergent interests, is there any reason to think that these talks would resume any time soon in their current form? Or, do you think that if they do resume, they'll resume in one form or another with some of the different scenarios that you've described; regional or one measure at a time?

Kobrin: They could resume, I think that it would be very difficult to reach a broad based agreement without some sort of major shock that got everyone's attention and forced people to make compromises and agree. I think that what's much more likely is that again; we take smaller pieces of the puzzle, solve those and then stitch them together.

Knowledge@Wharton: Do you think that it's possible that the collapse of the talks in this particular round will energize free trade critics in the United States? It's always been everybody's favorite whipping boy.

Kobrin: I'm not sure that they need energizing. I think that a lot of concerns about trade revolve around the business cycle. And, as times get more difficult, I think that more and more people will start to question the benefits of free trade, the value of outsourcing and the value of inward flows of investment. So, the collapse of the talks certainly isn't going to help. But, I suspect that it's not going to be a major factor in energizing opposition to globalization or free trade.

Knowledge@Wharton: Trade has always been a tough issue for U.S. voters to resolve. It's likely that it's going to be an important issue in this fall's presidential election. On one hand, people generally understand that free trade in the long term is necessary to spread economic opportunity globally. But, on the other hand, the long term could mean a very long time between paychecks. It's tempting for politicians to latch on to free trade, as an issue to beat each other over the head with. If you were giving advice to voters, how would you say they should approach this issue? How do you try to get a handle on the importance of free trade?

Kobrin: I believe in an open economy; that doesn't mean a lack of all regulation or restriction. In any open system, any country that's open to the world economy, there are going to be winners and losers and that's clear. People are more concerned about the losers, as they feel more threatened themselves economically. I think that one of the things that we need to do which has been talked about for 50 years and that is building more of a secure safety net for people who fall through the cracks of free trade. I think that it may be beneficial to the economy as a whole. And, it isn't clear in every instance, but I think that generally it is true.

Free trade doesn't represent a gain for every individual or for every industry. I think that there has to be more attention paid to providing some form of support for those who lose jobs, need retraining, need temporary employment, unemployment payments and the like.

Knowledge@Wharton: Thanks for joining us Professor.

Interview with Marshall Meyer

Knowledge@Wharton: When we first asked you about your reaction to the collapse of the trade talks, you said that "China wants to protect its inefficient farmers." What about their agricultural system is inefficient?

Meyer: Well, you know China still has more farmers, more rural population than urban population. The last numbers that I saw were 42% urban and 58% rural. The rural population is shrinking maybe 1% a year which is a very, very dramatic rate of urbanization, given the size of the country, but still a huge rural population.

Now, let's look at Chinese geography. You have 1.3 [roughly] billion people, 58% are rural and that translates into roughly 770 million "rural residents." They live in very high density. Almost all of them are in an area that's like the equivalent to the U.S. -- east of the Mississippi River.

So, you have a large rural population concentrated in a very small area. Some say that 40% of the world's farmers live in China; maybe it's 38% today; working 10% of the world's arable land. Now, this tells you that farm plots or rice patties in China are very, very small. And, they're not really conducive to consolidation, large scale farming. This is because in the south of China at least, Inner Mongolia would be a little different where they have grasslands; but the south of China, much of this is terraced. This is historical and this has been going on for years.

And it is very hard to convert terraced rice patties into large efficient farms. So the consequences, small scale at least for grains is small scale production; which by global standards is going to be inefficient.

Knowledge@Wharton: Absolutely. So are there other geographic areas in China where agriculture could occur but does not? Or, are all the areas that are farmable being farmed?

Meyer: Most people in the U.S. don't realize that China's land mass is about the same as the US, but two-thirds of it is desert, or mountainous that you can't really do anything about. And so, the answer is yes, if they had a lot more water and water is becoming a huge crisis in the north of China. They are planning to divert water like the old Grand Canal, you know from three gorges up north in China to relieve the pressures on the Beijing and Tianjin water supplies.

No, no, no they are losing through urbanization and desertification a lot of farmland. The obvious place would first be again, to try and get the grasslands of Inner Mongolia more productive, keep the sand storms down and then if they find any water, anywhere, begin to irrigate say Qinghai province and get some intensive agriculture as Israel has done. They have Israel as a model, but so far their attempt to emulate that model has not been very successful.

Knowledge@Wharton: Is there a problem with access to the technology that the American farmers have, or would the technology not make a big difference, given the nature of the farming there?

Meyer: Well, it does make a difference but, in an area not critical to China. A small plot and intensive agriculture is great for produce. And, there's a very active and very profitable produce market in China. Some of the produce is high value, is exported and brings money into China.

You can go to this town called Shouguang, which is in the middle of Shandong province, between Jinan the capital and Qingdao, where large companies like Haier and Hisense are located. And you will see trucks from all over China coming together and you've never seen so much produce in your life. They have to move it very quickly because obviously it deteriorates. This is a city, or a town of about a million; you know one traffic light, one Movie Theater.

But, you can see how active this kind of high value produce industry is in China; but that is not going to feed the masses of China. What China needs is rice for the south, wheat and also soy beans and presently they are importing huge quantities of these. But, because of the price gap, even with elevated world prices, they've got to do something to protect their farmers. They've formally used direct subsidies but I think that they want the right to impose tariffs, if they think that their domestic producers are going to be overwhelmed. And, this is a matter of national self sufficiency, as mentioned to you earlier.

China sees what is happening with petroleum in the United States. They don't want to be dependent on foreign sources for fundamental food items, again wheat, and rice and to some extent soybeans. And, their dependence is already much greater than you think it is. This is because; let's say that they are importing 12% of their food supply, which I think is approximately a good number to use as a rough number.

It could be 10%, it could be 15%, and I want to say 12%. It doesn't sound like too much, but if you've got 58%-60% of your population, sort of growing food for themselves -- that means you're really not looking at 12 over 100, you're looking at 12 over 42 -- in other words, food that is in the market. And, 12 over 42 is roughly 30% of the food that's in the market that is imported. This means that they are just terribly vulnerable to global price fluctuations, at least in the urban areas of China.

Knowledge@Wharton: This is why you had said that this is very much a strategic issue for them.

Meyer: Very much a strategic issue. And, there is something else going on aside from the global fluctuations and price of grain, for many, many reasons including some say ethanol. China's had a particular problem this year, not with grain, but with meat. They've had something called Blue Ear disease which has destroyed a lot of their pigs. And, as a consequence the price of meat in China has shot up between 40%-50% in the last twelve months.

This means that the overall food prices have shot up about 25%. In a country, where say 45%-50% of the household budget is food, this has had a very, very dramatic impact on people. The Chinese need to do what they can to kind of keep these prices in check, on the one hand, but also to protect their domestic producers and their incomes.

Knowledge@Wharton: Right. For China and in many nations, the government will try to protect its farmers for domestic political reasons. One might think that that's less important in China.

Meyer: Because they don't vote.

Knowledge@Wharton: They don't vote, but they do other things.

Meyer: They vote with their feet.

Knowledge@Wharton: Yes.

Meyer: And the meaning of voting with their feet is they riot. In 2005, the Chinese government actually published statistics on what they called "Mass Disturbances." No one knew quite what that meant -- was it 2 or more people -- or was it 12 or more people? But what ever it was, it was - and you could see the graph going up exponentially -- and they stopped releasing these numbers.

But, your anecdotal accounts tell you that discontent in the rural communities in China has shot up. Some people have told me that the first thing that Premier Wen Jiabao looks at, in the morning are these reports of discontent, particularly in rural areas. We've read in the newspaper, various accounts of riots and the government is very, very sensitive to this. This is a historical thing in China. It's not just under Communism. They've had spontaneous riots. It was part of the political process in China. Instead of going to the ballot box, people would just get out there and riot -- and sometimes for 5 years in a row. But, the Chinese government really wants to minimize this for all kinds of reasons, as you can imagine.

Knowledge@Wharton: Of course. So, then is it in China's interest to return to the talks or to see the talks revived? I mean a lot of people are saying that they threw in this last minute demand on some of the tariff negotiations, to derail the talks. It would seem that it is in their best interest to have some sort of a trade agreement.

Meyer: I would think so. Again, I'm not an expert on trade. But, I would think that from the point of view of the export economy, which they've so heavily depended on, yes, it is in their interest to have a trade agreement. But, I think that right now, the priority for the current Chinese government is national self sufficiency in food and again, protecting the farmers, among whom discontent is very high right now, for all kinds of reasons.

Knowledge@Wharton: Given the geographical situation there, is it a reasonable expectation for them to be self sufficient agriculturally?

Meyer: That's a very interesting question because just as... think of this geopolitically, just as the world depends heavily on the Middle East for oil; the world unfettered would depend heavily on the English speaking countries U.S, Canada, Australia particularly for the global supply of grain. There are many reasons for this. And, the question that is being raised is: Can the world afford to be that dependant one block of countries? And, the answer I think remains unknown. But, I think - there lies the issue. U.S., Canada and Australia, particularly U.S. and Canada are uniquely positioned to supply the world with grain. And, that has to do with the nature of weather patterns.

I don't know if you recall, but the Soviet Union used to go through periodic, I won't say starvations, but

the Soviet Union used to have periodic food shortages, and it wasn't just because of socialism. If you look at the crop bands in the Soviet Union, you know the wheat is grown in the south, say in Georgia and the Ukraine, and so on and so forth -- the crop bands run east to west.

In the U.S. and in Canada the crop bands run north to south. Where is our wheat belt, where is our corn? You can just see these vertical stripes across the map -- U.S. and Canada. Weather patterns shift, but you still get production. Somewhere you are getting production. That doesn't happen in Eurasia, they are much more vulnerable to climate changes.

And, China in particular, as well as India by the way, have another huge problem called water.

The north of China called the wheat area is arid. Desertification is happening. If you've ever been in Beijing in a sand storm, you'll know what the word desertification means. You know, that when they tell you that over a good week 318,000 tons of sand were deposited in Beijing -- and it's not the kind of sand that's in your kid's sandbox. I mean this is the kind of stuff that when it gets into jet engines, it makes the engine manufacturers very happy. It's like throwing an abrasive into your vehicles engine, or in the aircraft engine.

When you see this happening, you know that their capacity to grow food is going to be constrained going forward, unless the climate change reverses or they find some way to engineer water supplies in north China. I don't know the topography of India all that well, but I understand that there are similar problems in India.

Knowledge@Wharton: Well this has been fascinating. Thank you so much for joining us.

Meyer: You're more than welcome. It was fun.

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