



Doha Still the Best Way to Go

In the absence of agreement on the Doha round of trade talks, Asia has embarked on a host of bilateral and region-to-region trading arrangements which have increased trade complexity. A global deal is safer.

The recent entry of Japan into negotiations on the Trans-Pacific Partnership (TPP), an 11-country free trade area including the United States, has been the talk of the town among trade officials in Asia. For the most part, the arrival of one of the world's biggest markets has been welcomed. But some have worried that Japan's entry will throw the October deadline for a deal: newly elected Prime Minister Shinzo Abe rose to power in part thanks to rural Japanese dead set against farm-trade liberalisation, hence the sense of urgency among the incumbents eager to forge an agreement.

The TPP is one of 60 such deals currently being hammered out over piles of buffet plates and gallons of coffee in hotels across Asia. Upon completion, it will add to the 166 trading arrangements the region already has in force.

"The bilateral arrangement does two things: It can lead to the creation of trade between pairs of countries or it could divert trade," says **Pushan Dutt**, INSEAD Associate Professor of Economics. "To the extent that trade creation takes place it's good, but to the extent that trade diversion takes place, it's not good, because it's just moving stuff around. Economists are actually skeptical of bilateral trade arrangements or regional trading arrangements having a big impact on trade creation."

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The European Union has also been strengthening ties with ASEAN countries, with the eventual goal of a region-to-region free trade agreement (FTA). Singapore concluded an FTA with the EU in December 2012. Elsewhere in Asia, the EU is also concluding trade talks with India.

To put things into perspective, there were just six trading arrangements in Asia in 1991. "While these will be useful in terms of increasing the role of Asia, the level of complexity is becoming very high," said Dutt in an interview with INSEAD Knowledge on his recent paper, **The effect of WTO on the Extensive and Intensive margins of trade**. Dutt argues that policymakers should continue to strive for a multilateral deal.

The relevance of the WTO

This rush to form regional and bilateral trade deals comes as the relevance of the World Trade Organisation is being called into question, especially as a new director general is scheduled to take the helm in May. The WTO has struggled to rebuild interest in a global deal on trade liberalisation since the collapse of the Doha round of trade talks in 2008. But are these bilateral deals, even between trading blocks of countries, the way to go?

Although bilateral arrangements are better at reducing barriers quickly, the question becomes “are they better at reducing barriers in a sustainable fashion? There, it’s not clear. Bilateral trading agreements are easier to reverse compared to multilateral trading arrangements. Multilateral trading arrangements are a stronger commitment to trade liberalisation,” said Dutt.

The WTO effect

The WTO and therefore the Doha round of trade talks remain the best way forward, Dutt believes. “The WTO is not just about these tariff barriers. It’s about creating certainty about the policy environment. When a country becomes a member of the WTO it basically commits to certain trade policies. Now at what level it commits we feel is less important, the commitment per se is more important,” says Dutt.

This certainty, he argues, reduces the fixed costs of trade and that is what helps to increase the “extensive margin” of trade – goods and services not previously traded – which rises 25 percent according to historical data. His research also demonstrates that this has a negative effect on the “intensive margin” or the overall volume of trade. This negative effect on overall volumes is caused by smaller entrants into the markets that dilute the market share of incumbent firms.

Trade resilience in crisis

Dutt points to the financial crisis of 2007/2008 to demonstrate the benefits of WTO membership on liberalised trading economies. “We did not observe trade wars,” he said. “During the Great Depression in 1930, countries got into trade wars with each other. We did not get the kind of tariffs and protectionist policies in response to this crisis. Trade fell off, of course, but it did not shrink so dramatically than if trade wars had started; and the WTO was responsible for that,” said Dutt.

Delivering Doha

That leaves the Doha round of trade talks as the most viable option to move trade liberalisation forward. Despite the urgency to form regional or bilateral deals, drawbacks remain in bilateral cases, according to economists. “Many of these bilateral trade agreements are between asymmetric partners. Think of the U.S. and Columbia. Obviously the U.S. has all of the negotiating advantage. In the multilateral Doha round of talks, the smaller countries have a much more powerful voice,” said Dutt.

But challenges to a final deal remain. The three issues stalling talks are: first, broad agreements on

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agriculture, textiles and services. Second, most countries wanting access to other markets but being guarded of their own and thirdly, the consensus that “nothing gets agreed at the WTO until everything gets agreed,” Dutt says.

This is “a recipe for things not moving quickly,” he concludes.

The next director general of the WTO has many hurdles to overcome.

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