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What Should the Developing Countries Do in the Context of the Current Impasse of the Doha Round?*

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I. Introduction

If the Doha Round of multilateral trade negotiations fails, the biggest losers will be developing countries. In this paper we argue why this is the case and examine various options that may be available to developing countries either to avert or to deal with this failure.

After a brief look in Section II at the history of negotiations that brought us to the current impasse, we begin by examining in Section III the commonalities and differences in the interests of developing countries in the negotiations. These depend mostly on the sectors in which they export, either to developed countries or to each other. Their interests in reducing trade barriers and subsidies in developed countries are mostly either coincident or non-conflicting, but their interests in reducing barriers among themselves sometimes put them at odds. Nonetheless, we are encouraged by their recent efforts to negotiate collectively. It is important that the Group of Twenty and other such groups not limit their cooperation to pressuring developed countries for liberalization, but also that

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they work among their members to secure their own liberalization. Without that, the Round cannot succeed.

A confounding factor can be found in the preferences that some developing countries already enjoy from developed countries. They are well aware that multilateral liberalization will erode these preferences, giving them incentive to stand in the way of a successful negotiation.

In Section IV we examine the role of developing countries in the structure of past and current negotiations. In the past, their role has been limited largely because they were exempted from making "concessions" and the willingness of developed countries to provide "special and differential treatment." Special treatment is still needed, but not in that form, which has mainly had the effect of sidelining developing countries from getting the benefits of previous liberalizations. What is needed now is for developing-country liberalization to be met by resources from developed countries and international institutions to assist them in opening their markets.

Finally, in Section V we examine and evaluate several options that may be available to developing countries both within and outside the context of multilateral negotiations. The first and most promising option is for developing countries to act collectively to reinvigorate the WTO and the Doha Round negotiations. But for this purpose it is essential that they declare themselves willing to open their markets significantly in return for liberalization by developed countries. Not only is this necessary in order for the Round to succeed, it is crucial for developing countries to recognize that it is they, not the developed countries, who stand to gain the most from a successful round.

If the Doha Round does not succeed, and perhaps even if it does, developing countries have the option of entering into regional and/or bilateral arrangements, either among themselves or with large developed counties. We argue that there is little benefit for such arrangements among themselves, and we also see dangers in arrangements with large and rich countries because of the asymmetries in their leverage over the many nontrade issues that routinely enter such agreements. Nonetheless, we see such regional agreements as making small but positive steps in the direction of multilateral free trade. These steps could be improved, however, if such arrangements were designed to permit easier expansion to include more countries, as well as rules of origin that would be more all encompassing.

We also consider several other options in Section V. Aid for Trade is a small but obviously desirable initiative that is being encouraged both within the Doha Round and by the international financial institutions. Another option is negotiation of focused initiatives in sub-areas, such as a single industry or category of trade. We argue, however, that these are of doubtful benefit to developing countries, since they are likely to lack the potential for tradeoffs that would expand their benefits beyond the immediate gains from trade. For the same reason, we do not encourage unilateral liberalization by developing countries whose trade barriers are already low or moderate. High-barrier countries could gain from unilateral liberalization, of course, but we argue that, once barriers are low, the benefits from further unilateral liberalization are outweighed by the benefits of using those barriers as bargaining chips to secure greater market access abroad.

II. How We Reached the Impasse

The Doha Round of multilateral trade negotiations began in 2001, with high hopes that real progress would be made both by and for developing countries, for the first time in the history of such rounds. Although many issues were on the table, the central issues were also the most difficult to address: developed country protection and subsidies in industries of interest to developing countries, especially agriculture; and developing country tariffs on non-agricultural products and other restrictions on market access, including in services. In the event, these issues have proven so difficult that the negotiations have been characterized more by their lack of progress than their progress. At the Cancun Ministerial in 2003, the meeting ended without even the beginnings of a negotiating text agreed upon. Such a text was achieved during the following year, but the next ministerial, in Hong Kong in 2005, ended in success only because the criteria for success were reduced almost to the level of being meaningless. In July 2006, WTO Director General Pascal Lamy finally acknowledged that the negotiations were getting nowhere and would fail to meet the deadline imposed by the expiration of U.S. Trade Promotion Authority in mid-2007. He therefore suspended the negotiations. Today, although various efforts are being made to revive them, the negotiations remain in a state of suspended animation. Developing countries must ask whether their interests continue to lie with the uncertain future of the multilateral initiatives, or should instead be found in alternative approaches to integration with international markets.

The Doha Round was never really about development per se, even though it may have been marketed as such. But it is nonetheless true that developing countries as a group may be the biggest losers from the failure of the Round. The Doha Round was christened the Doha Development Agenda, not because its purpose was to achieve the policies that would stimulate development, but because it was intended to pursue the usual objective of trade liberalization with the unusual proviso that developing countries would not be sidelined or put at a disadvantage. Trade liberalization may well be necessary for economic development, but it is hardly sufficient. The best that could have been hoped for from the Doha Round was therefore to remove barriers to development.

Those barriers exist – and may continue to exist, due to the Doha Round's failure – because developing countries have failed to participate in previous negotiating rounds where they might have pushed to open markets to their exports. Instead, first because they were late to sign onto the GATT, and then later because they sought and were granted "special and differential treatment" that exempted them from the negotiations, they sat on the sidelines while developed countries negotiated downward those trade barriers that it was in their mutual interest to eliminate. Developing countries benefited from these negotiations, to some extent, as their most-favored-nation (MFN) status allowed them the same market access that was granted to others. But this was usually not in the sectors where developing countries themselves were most able to export. As a result, the world today is characterized by its highest tariffs in developed countries on goods exported by developing countries, both labor-intensive manufactures such as textiles and apparel and various agricultural products. The latter are also subject to significant subsidies provided by developed country governments to their agricultural interests. In addition, and also because they did not participate actively in previous rounds, many developing countries also have high tariffs on numerous imports. If the Doha Round is not revived, this unsatisfactory state of affairs will continue, and the developing countries of the world will continue to be hobbled in their efforts to escape poverty.

By remaining exempt from the negotiations, developing countries not only failed to secure the benefits of foreign liberalization on their exports. They also failed to secure the benefits from the liberalization they might themselves have undertaken, although some countries did, eventually, see the benefits of liberalization and did it unilaterally. But by avoiding the negotiated commitment to liberalize, they also avoided the international discipline that might have assisted them in achieving reforms of internal policies as well.

III. Trade Interests of Developing Countries

A. Developing countries have a shared interest in exporting

The principal interest of any developing country in the context of trade negotiations is market access for its exports. Tariffs and other barriers to developing-country exports have always been very restrictive and have prevented these countries from harnessing their comparative advantages to the cause of economic growth. Indeed, it has been common for developing countries to seek to exploit a newly found source of comparative advantage, only to be met by new barriers to their exports as soon as these exports become large enough to be noticed by those who compete with them abroad. In that sense, therefore, developing countries share a common interest: reducing trade barriers in the rest of the world, both developed and developing, against their exports.

This shared interest is often illusory, however, since developing countries are themselves diverse and export many different things, sometimes to each other. And when they export to each other, the interest in exporting conflicts with a second major goal that many developing countries profess, even though it is contrary to what economists view as their interest: restricting imports. Very much like the developed countries whose protectionist instincts have to some extent been whittled down through earlier rounds of trade negotiations, developing countries seek to protect their domestic industries even in sectors where other developing countries may have an advantage. When that happens, the export interests of the developing world come into conflict.

Fortunately, this divergence of interests is not as severe as it might be. In the realm of manufacturing, many developing countries tend by definition to be labor abundant and to have their comparative advantage in labor-intensive goods such as textiles and apparel. This means that they compete with one another as exporters – a fact that may pose its own problems as we will note in a moment – but at least they have a shared interest in reducing barriers to the importing of such products in the developed world.

Their export interests are much more likely to diverge when based on something other than labor abundance, most obviously in agriculture or other natural-resource based industries. Here their interests tend not to be in direct conflict, in the sense that some import what others export, but rather that they care about different things. Thailand's exporters of rice are unlikely to care very much about the barriers that Argentina's exporters of beef face in the developed world. Furthermore, some natural resource products face little competition in the developed world and therefore face low trade barriers, while others are heavily protected. Getting oil-exporting developing countries to cooperate with exporters of both beef and rice may be difficult. However, it may not be impossible, especially in the context of a multilateral negotiation where broad reductions in trade barriers on many products simultaneously are being considered.

B. Competition among developing countries does not justify protection

A more serious conflict may arise not over what the developing countries are able to export, but over how much. The asymmetry in size between many small developing countries, on the one hand, and China and India on the other, leads the former to fear the effects of international competition in precisely the labor-intensive sectors where all of them export. The perception is that China, particularly, has so much cheap labor that other labor-abundant countries cannot possibly compete, especially now that China is a member of the WTO and is getting MFN treatment. In fact, of course, China was getting such treatment already before it joined the WTO, and the increase in competition with China is more a by-product of its remarkable growth since transitioning to a market economy. And like other fears of international competition that have existed for two centuries, the fear of China is largely misguided and certainly overblown. Small countries are already beginning to find that they can compete successfully in some products even as they may have to move out of others. The process of adjustment as comparative advantages evolve can of course be painful, but the view that countries cannot compete at all with China and India is surely false.

C. Some developing countries face erosion of preferences

Another conflict that may arise among developing country interests stems from asymmetries in the policies that have confronted them in the past. In the presence of largely high barriers to their exports, some developing countries have prospered from special treatment by particular developed countries as markets for their exports. Often based on former colonial relationships, these countries have been given preferential access to particular Northern markets. As multilateral trade barriers have been reduced, and as negotiations proceed toward reducing them further, these countries see themselves losing their markets to other developed countries who were previously not favored. Unlike the competition with China, which may be a problem more of perception than reality, this one is very real. The trade preferences enjoyed by members of the Lomé Convention, for example, have allowed high-cost industries to survive, and the extent of the preference is a measure of the cost disadvantage that they will experience when the preferences are eroded or removed. That does not mean that such countries have no comparative advantage or the ability to gain from trade. But it does mean that they are likely to have to transfer resources from these artificially favored sectors to those in which they can compete without the preferences, and that they will lose the benefits that the preference provided. In some cases, one hopes, the benefits from the preferences have been wisely used in the past to invest in the physical and human capital needed for these countries now to move into other industries without preferences. But there is no doubt that there are other countries where this has failed to happen. For these latter countries, the failure of the Doha Round may be their only hope of continuing to live in the style to which they have become accustomed.

D. Developing countries can gain by cooperating

In sum, although the trade interests of developing countries are not by any means coincident, it does seem that many of them share sufficiently common interests in reducing trade barriers, at least in the developed world, that they should be able to cooperate to pursue that end. We find it encouraging, therefore, that many of these countries were able to come together in what now seems to be called the Group of Twenty (G20) in Cancun, and that they have continued to cohere in the years since then. It is of course discouraging that they are resisting liberalization of their own trade barriers, but that is also understandable. And perhaps it is too much to expect them to give in on this before they get a clearer signal from the United States and the European Union that their trade barriers and subsidies will be given up.

An alternative that has to be considered, especially if the Doha Round fails to restart, is for developing countries to pursue trade liberalization by other means, most obviously by bilateral and regional trade agreements. The problem here is that such agreements, if they attempt to harness their common interests by negotiating among themselves, simply fail to address the most severe impediments that they face in international trade, the protection by developed countries. Alternatively, if they negotiate directly with developed countries, it is perhaps unlikely that their developed counterparts will willingly negotiate with them as a group. Although the Free Trade Area of the Americas was conceived by the United States as precisely such an arrangement, it never made much progress, and the United States most recently has seemed to prefer negotiating with individual developing countries (or with small groups, when the countries themselves are very small, as in the case of Central America). That preference may be accounted for by a desire on the part of the US to have a greater advantage in the negotiations so as to achieve other objectives than simple trade liberalization.

It might well be very much in the interest of significant regional groups of developing countries to insist on negotiating with the US and EU en masse, precisely so as to undermine this advantage that the larger players wish to exert. However, it seems unlikely that they will get agreement to do this, even among themselves, since the larger developed countries can offer incentives for them to negotiate separately.[1]

IV. Structure of the Negotiations

A. Developing countries have played only a small role in past negotiations

In the past, trade negotiations within the GATT and WTO have been conducted primarily between the largest negotiating blocs – the US and the EU – whose agreement when it was finally reached was then sold with minor modifications to the other participants. Smaller countries might press for particular concessions, for themselves or for a like-minded group such as the Cairns Group, but in practice that did not usually get very much. A smaller country might also play a larger role by acting as an intermediary between the United States and European Union, but that too gave only limited benefit. Most countries more or less had to accept whatever deal the United States and European Union had reached on a take-it-or-leave-it basis. And the pressure to take it became extreme.

This somewhat understates the role of developing countries, however. Each of the many issues that enters a round of negotiations is considered within a negotiating group, which includes delegates from many more countries than just the United States and European Union. Developing countries do sit at the table in these groups, as they do in the "green room" discussions that attempt to reach final agreement on particular issues. These groups are assembled on a somewhat ad hoc basis by the Director General, and

[1] See Evenett (2005) for a model of how dominant countries can get smaller countries to compete for access to their markets.

some have viewed this process as inadequately representing the interests of developing countries. But the fact remains that a selection of them are at the table, expressing their views, and they certainly have had a nontrivial affect on the outcomes of the negotiations, if not a major one.

B. The "Development Agenda" should provide assistance to liberalization, not exemption from it

The official "development" orientation of the Doha Development Agenda might be thought to represent an example of their interest. In fact, however, it seems likely that the stress on development in the Doha Declaration was more a reaction to the post-9/11 need by developed countries to accommodate others than any particular push by the developing countries themselves.

In fact, there is real question about the extent to which trade negotiations should have such a development orientation. As we have already noted, previous rounds had created impediments to development by leaving developing countries on the periphery of the negotiations, and it is important that this be corrected. But it is within neither the purview nor the expertise of trade negotiators to implement many of the changes that are necessary for poverty reduction and economic growth by developing countries. The best that they can do is seek to remove impediments. That is an important objective, but if it is advertised as solving the manifold problems of developing countries, it can only raise expectations that will be disappointed.

That said, one might ask whether the current trade round, if it is able to proceed, should include a bias in favor of developing countries. The fact that previous rounds have arguably been biased against them, mostly by exclusion, may suggest that this would be appropriate. Unfortunately, such a bias would undoubtedly be interpreted as meaning that developed countries should make greater "concessions" than developing countries, lowering their trade barriers and removing their subsidies while developing countries do little of that themselves. As economists we know, however, that such a bias in their favor is actually against their interests and is really a bias in the opposite direction. Trade negotiations are about giving countries external incentives to implement painful but desirable policy changes that they would otherwise be unable, politically, to achieve. Seeming to "favor" developing countries by exempting them from this process is not a favor at all.

The trick, therefore, is to find additional ways to address developing country interests without exempting them from trade liberalization themselves. This was the intent expressed in the Doha Declaration, where in numerous places developing countries were identified for special assistance in implementing whatever agreements might be achieved. Unfortunately, the WTO lacks any mechanism for providing such assistance, and it is unclear how a Doha Round agreement, even if it were achieved and were to include such promises, would actually deliver on them.

From this perspective, renewed progress in the Doha Round may depend on initiatives outside the WTO to mobilize such resources for assistance. A credible commitment by the US, the EU, and other developed countries, as well as by international financial institutions, to provide greater resources for implementing liberalization in developing countries, might be just the incentive needed to get them to be more forthcoming in the negotiations. The Aid for Trade initiative, which we will discuss further below, is a step in this direction.

V. Options for Developing Countries

In this section we discuss several options that might be considered for developing countries that are disappointed with the current impasse in the Doha Round negotiations.

A. Developing countries should act collectively to reinvigorate the WTO

Given that, in our view, a successful conclusion to the Doha Round would offer great benefits to developing countries, the first option that must be considered is whether they can play a role in getting it back on track. The answer is surely yes, in that it has been their refusal to offer meaningful trade liberalization that has led, along with stubbornness on the part of the US and the EU, to the current impasse.

In order to reverse that, it will first be necessary for a number of major developing countries to recognize that trade liberalization is in their interest. Economists' arguments to that end have largely fallen on deaf ears, or at least uninfluential ones. The likelihood in the near term of greater understanding of the benefits, not just the costs, of reducing trade barriers is probably too small to count on. Somewhat more likely would be a greater appreciation of the benefits to be had from liberalization abroad, making it seem worth the cost of their own liberalization. In fact the emphasis by the G20 and other developing country groups (such as the cotton exporting African countries) on the need to change developed-country policies suggests that the costs of these policies are becoming better understood. It may even be the case that the costs of these policies are being overstated – agricultural subsidies, after all, harm only those countries who are net exporters of the subsidized products, while they benefit those who are net importers. But if exaggeration of the costs can help to enhance the perceived benefits of liberalization, perhaps to the point that the developing world is ready to "pay" something to achieve it, then it may serve as a tool to unite that world in a willingness to participate in the negotiations more constructively.

A final possibility is to rebalance the developing world's understanding of the *relative* gains from liberalization in North and South. The perception right now is understandably that the greatest beneficiaries from liberalization are the rich countries and especially their large corporations that are seeking to extend their reach into developing country markets. This perception is enhanced every time a rich-country spokesperson harangues the developing world for its failure to cooperate. In fact, however, precisely because they are rich, the developed countries already enjoy much of the benefits from trade that they will ever achieve, and extending trade liberalization to new markets will benefit them relatively little. By the same token, the rich-country multinational corporations do indeed seek to profit from selling in new markets, but the size of their operations in the rich world suggests that these benefits too, important as they may be, are *relatively* small.

In contrast, the developing world stands to gain far more from liberalization, including their own. Their markets are small and seriously distorted in ways that international competition can readily correct. The trade barriers that they both impose themselves and face on the part of others cover a much larger part of their trade than these same barriers account for in the developed world. In our earlier work on the NAFTA, for example, we found that the economic gains to Mexico, as a share of their GDP, were an order of magnitude larger than the gains to the United States and Canada.[2] Thus the perception that trade liberalization is mostly a benefit to the rich world is simply wrong.

[2] See Brown, Deardorff, and Stern (1992).

This matters, because many in developing countries are suspicious of entreaties from rich-country governments for them to go along with trade negotiations, thinking that the motive is to benefit the rich, not the poor. They may even be correct about the motive – we suspect that many in rich countries *do* believe that their constituents will reap the lion's share of the benefits from liberalization. But that belief is incorrect. In fact, if the Doha Round never recovers and if trade liberalization comes to a halt indefinitely around the world, the harm to the rich countries will be minimal. They have already achieved most of their gains from trade, and unless the process of liberalization is actually reversed, they will be just fine. It is the poor countries that stand to lose most, by far, from this impasse.

So we must somehow convey this message to opinion leaders in developing countries. They must come to understand that the Doha Round is not primarily a rich-country game, played by and for the people and corporations of developed countries. Rather, after half a century of trade liberalization that sidelined developing countries, it is now, for the first time, a game that must include and will primarily benefit the poor countries. If it fails, there will in fact be plenty of people in the rich world who will breathe a sigh of relief.

B. All countries should encourage and cooperate in Aid for Trade initiatives

In recent years, there has been a growing awareness that developing countries' participation in international trade is hindered, not just by the barriers put in their way by countries with whom they might trade, but also by physical and institutional deficiencies within their own economies that make it difficult to export and import. Thus has grown the recognition that assistance to these countries should include "aid for trade." This, as stated in a recent report from the IMF and World Bank (2005), is "provision of assistance by the international community to help countries address supply-side constraints to their participation in international markets and to cope with transitional adjustment costs from liberalization."[3]

Such aid for trade is an explicit part of the Doha Round negotiations, but if the Doha Round does not proceed, it is even more essential that aid for trade initiatives be pursued. The IMF and World Bank are committed to providing such assistance, but as always, developing countries themselves need to play an active role in seeking this assistance and making sure that it is tailored appropriately to their needs. Fortunately, this is one area where resistance to change ought to be minimal, since the benefits to developing countries are much easier to see and understand than the benefits from trade itself. And even though aid for trade, if it succeeds, will lower the costs of trade and thus have many of the same effects as tariff reductions, that fact may be less apparent to import-competing interests and thus not excite the same degree of opposition.

The bottleneck instead is likely to come from the providers of such aid, who bear its budgetary cost. Fortunately, there seem to be plenty of initiatives available both from the international financial institutions and from rich countries individually that have already been funded. What is needed now is for developing countries to submit well-conceived proposals for the use of these funds, then to make sure that the projects are carried through.

[3] The report goes on to list the following elements of aid for trade: "technical assistance; capacity building; institutional reform; investments in trade related infrastructure; and assistance to offset adjustment costs, such as fiscal support to help countries make the transition from tariffs to other sources of revenue."

C. Regional and/or bilateral arrangements are not optimal, but they are often worth pursuing

The obvious alternative to multilateral trade liberalization is for individual developing countries to enter into trade agreements with other countries or groups of countries. The current wave of regional trade agreements, which began with US negotiations, first with Canada and then with Mexico to form the NAFTA, was itself in part a response to failure of multilateral negotiations, progress on which was then stalled in the Uruguay Round. Even though the Uruguay Round ultimately finished successfully, subsequent difficulties first in starting a new round at Seattle in 1999, and later in pursuing the negotiations of the Doha Round, have undoubtedly contributed to the willingness and often eagerness of almost every country in the world to enter into such agreements. Today almost 300 of them have been notified to the WTO.

Economists are largely in agreement that such preferential trading arrangements are, at best, inferior to multilateral liberalization, and that they have the potential to be distinctly harmful, even to their participants and certainly to outsiders. That makes it difficult for us to provide guidance on the form that such agreements should take. Nonetheless, if multilateral liberalization turns out not to be an option, then many developing countries will undoubtedly take the preferential route.

i. Developing countries should choose their partners carefully

If they do, then they must choose what sorts of partner countries they should select to negotiate with. An obvious choice is to form free trade agreements (FTAs) with their neighbors, whoever they may be. The economic case for doing so is not clear, but if one adds the desirability of making or maintaining peace with one's neighbors, then such regional trade agreements probably make most sense.

Another choice of partner for some countries is between developed countries on the one hand, and other developing countries on the other. The problem with FTAs among developing countries is that they are likely to involve competing exporters of many of the same products. That means that the potential for trade among them is either minimal or likely to be particularly disruptive. The same similarity of trade patterns also often exists among developed countries, which have quite successfully pursued economic integration especially in the European Union. But there what appear to be common industries in fact often produce differentiated products, and there is ample scope for intra-industry trade. Such seems much less likely to be the case in FTAs among developing countries, who tend to find their comparative advantages in more standardized products.

This suggests that developing countries might better seek to form trade agreements with developed countries, such as the United States or European Union, as indeed a great many of them are currently doing. In terms of the economics of trade alone, this seems a fruitful approach, since it opens import-competing industries in both parties to competition from comparative-advantage-based exports, but does so in a smaller way than might have been feared from multilateral liberalization. Indeed, one can hope that such agreements will lead these import-competing industries to gradually shrink, thus over time reducing the resistance to broader liberalization.

The downside of such arrangements, however, is the extreme asymmetry between the two sides that negotiate them, one rich and the other poor. This would not matter if FTAs consisted simply of reducing all tariffs to zero among themselves and nothing else.

But FTAs are never that simple. In addition to the troublesome rules of origin that we will discuss in a moment, they typically carry all sorts of other baggage to protect labor and environmental standards, intellectual property rights, investment, and much else. These additional features of an FTA are not necessarily undesirable, but they sometimes are. And whether desirable or not, they pretty much always operate in only one direction, constraining or requiring change in the policies of the developing country partner without any extra expectations at all of the developed country partner. Thus, even though in principle trade agreements should be able to yield substantial net positive benefits for both parties, this asymmetry is likely to mean that the developing country partner is pushed to the lower limit of the benefits that it will accept, with the larger share going to the developed country.

We spoke above of the fear that multilateral trade liberalization might primarily benefit the developed world, and we argued that, for tariff liberalization at least, that fear was unfounded. But when agreements extend well beyond the setting of tariffs into many other issues – as they do in FTAs even more than in the multilateral system – that fear may well be justified. Indeed, one might suspect that some of the recalcitrance that we have seen on the part of developed country negotiators in the Doha Round may be intended to assure exactly this outcome.

ii. Free Trade Areas should be structured to approach and approximate multilateral free trade

FTAs will nonetheless continue to be negotiated between developed and developing countries, and we must then ask how they can be constructed so as to be most beneficial, or least harmful, to the developing-country partners. The answer is to approximate, as closely as is possible within an FTA, the benefits of multilateral free trade.

This means that, first, when overlapping FTAs are formed, with countries A and B both forming FTAs with country C, then they should more or less automatically form an FTA between A and B as well. Without that, country C – which is often a developed country – gets to play the other two countries off against each other while being immune to such gaming itself.

Second, when A, B, and C form FTAs of A&B, A&C, and B&C, they should specify the rules of origin of each bilateral FTA to allow the accumulation of content from each of the three countries. Thus, if each of the bilateral FTAs requires, say, 30% local content to qualify for tariff-free access, then that 30% should be calculated to include content from all three of the countries.

Once that is done, if the FTA were no more than a trade agreement, it would make most sense to redefine it as a single FTA encompassing all three countries. Unfortunately, as already noted, trade agreements are never this simple, and their other features may provide impediments to merging them, and even incentives not to do so. Developing countries should vigorously resist such features that cannot be easily extended to new members, however, as these are likely to be used as leverage against their interests by the more dominant partner.

All of this advice is intended not just to allow FTAs to approximate multilateral free trade as far as is possible, but also to smooth the transition toward that ideal over time. It is probably hopeless to ask for this, but we would advocate revising Article XXIV of the GATT/WTO to require that FTAs always permit new entrants, essentially at will, under the same conditions as existing members. That would assure that FTAs would make it easier, not harder, for regions of free trade to expand. Unfortunately, such a requirement would not be on the table for discussion even if Doha negotiations were proceeding. And we can hardly hope that those who negotiate FTAs will impose it themselves, since members of FTAs always value the exclusivity of market access that their arrangement provides.

All is not lost, however, even if bilateral and regional trade initiatives do become the dominant form of liberalization at the expense of further multilateral negotiations in the WTO. A lively debate has raged in the economics literature between those who see regional liberalization as "stepping stones" toward multilateral free trade and those who see it as "stumbling blocks."[4] We will not take a side in that debate, which has too many merits on both sides. But it does seem clear from our own work that even though regionalism is distinctly inferior to multilateralism if it fails to lead to multilateral free trade, it does seem to be moving the world in the right direction. Brown et al. (2006) and other papers cited therein report calculations of the effects of a considerable variety of FTAs, almost all of which yield net benefits to the world as a whole. Table 1 shows a sample of the calculated welfare effects of FTAs formed by the United States and Japan with various trading partners on the participants, the rest of world, and the world as a whole. In all cases, the global effects are positive, because the benefits to the participating countries far outweigh the (often negative) effects on outside countries.

[4] Bhagwati's (1991) terms, of course.

D. Focused initiatives in sub areas are of limited benefit to developing countries

An alternative to negotiating broadly over many categories of trade but with a single country or a small group is to negotiate narrowly over trade in a single industry, perhaps with a larger group. Developed countries have pursued this strategy, often successfully, as they have struck agreements over such industries as aircraft, finance, and telecommunications. Conceivably developing countries could do the same.

Certainly, if developed countries do initiate such discussions, it may well be in the interests of developing countries to participate. But for most industries, it seems unlikely that developing countries themselves could initiate such negotiations, except perhaps if an industry were of interest only to developing countries, both as exporters and as importers. It seems doubtful though that many such industries may exist. We therefore do not see much potential for a sectoral approach initiated by developing countries.

This leaves the question of whether developing countries should participate in sectoral negotiations initiated by developed countries. Here we are skeptical. Such negotiations are bound to occur only in sectors where the developed countries have interests as exporters. This works fine among themselves, where with intra-industry trade they often can strive to open each other's markets within the same sector. But developing countries seldom are in this position. If they participate in such negotiations, unless they merely act to block agreement, they will be pushed to open their own markets without getting anything in return.

Now we do not, of course, deny the benefits to developing countries of opening their markets to foreign exports, in any sector. But if such sectoral negotiations proceed outside of a more comprehensive multilateral negotiation such as the Doha Round, they will inevitably lead to market access for the rich world into the markets of poor countries, but not the reverse. That is too close to the situation in which we find ourselves today, after fifty years of trade rounds with developing countries playing little role. It would be better, therefore, if they limited their negotiations to ones where tradeoffs across sectors are possible, either multilaterally or bilaterally.

E. Developing countries with high levels of protection stand to gain from unilateral liberalization

For the same reason, we are also somewhat skeptical of unilateral liberalization, in some cases and by some countries. It is not the case that unilateral liberalization is not beneficial; it surely is, as two centuries of international trade theory have convincingly established. But if done alone, unilateral liberalization generates only the benefits from itself, not from any foreign liberalization that could have been secured in exchange through negotiation.

For small countries, that does not matter. Their markets are not large enough for anyone except possibly a close neighbor to be willing to pay anything for market access. Even for large but very poor countries, that may be true as well. But as some of the larger developing countries have made economic progress, and especially as they have begun to join together for negotiating purposes, their levels of protection have become bargaining chips that should be able to get them something in return.

Of course, if their tariffs are very high, then the harm that they do before they are negotiated downward is too costly to justify hanging on to them. Countries with very high tariffs certainly should reduce them substantially and unilaterally, especially if negotiations for reciprocal liberalization do not seem to be forthcoming.

But once their tariffs are down to a modest level, we can see the case for keeping them in place as long as their exports confront protection abroad. Without that, they may never be able to get those foreign tariffs removed.

VI. Conclusions

Looking at the various options that we have discussed, it is clear that the most desirable alternative from the perspective of developing countries would definitely be for the Doha Round to be restarted and for it to proceed to a successful conclusion. As time passes, however, this option seems less and less likely to happen, unless U.S. negotiating authority is extended beyond mid-2007. But no progress will be made as long as developing countries continue to insist on offering nothing in exchange for the policy changes that they seek in the developed world. They simply must accept that substantial trade liberalization is in their own interest, if not for the sake of the gains from trade that economists universally tout, then for the sake of the policy changes that they seek abroad. If they were to come to the negotiating table offering significant market access to developed country exporters, that might mobilize those exporters to push their own governments to be more forthcoming in the ways that everyone agrees would benefit developing countries – reducing subsidies and tariffs on developing country exports. Without such an offer on the table, it is only the protected and subsidized interests in the developed world that are paying attention to the negotiations, and they are successfully blocking any progress.

Of the other options we have discussed, we certainly favor the provision of aid for trade, whether or not it is done within the context of the Doha Round. But useful as it certainly is, it will never even begin to serve as a substitute for real liberalization of policies that distort trade in both the developed and developing worlds.

If the Doha Round does not restart, then we find ourselves somewhat more sympathetic to bilateral and regional initiatives than we would otherwise be. Although not guaranteed to be beneficial, these initiatives do by and large seem to have moved the world in a positive, albeit very messy, direction. Rather than condemn them, we would encourage that their terms be better designed so that they are more likely to lead us down a path toward more liberalization rather than less.

And finally, with or without the Doha Round, we encourage very small countries and those with high tariffs to reduce them unilaterally. The harm they are causing to their own economies exceeds whatever benefits they may perceive for the beneficiaries within their countries, and this is also too high a cost to pay for negotiating chips that may someday buy them concessions abroad. For large developing countries whose tariffs are already low or moderate in size, we suggest that they postpone reducing them further, that they join together to the extent possible, and that they then offer to eliminate these tariffs in exchange for whatever liberalization they can elicit from developed countries, either individually or, we hope, en masse.

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Table 1
Welfare Effects of Bilateral Negotiating Options for the United States and Japan (billions of dollars)

United States and…	U.S.	Partner	Other	Global
Australia	19.4	5.4	−1.7	23.1
Central America & Caribbean	17.3	5.3	−6.9	15.7
Chile	6.9	1.2	−0.2	7.9
Morocco	6.0	0.9	0.6	7.5
Singapore	15.8	2.5	4.2	22.5
Southern African Customs Union	9.6	2.2	0.0	11.8
Thailand	17.1	5.6	−0.8	21.9
Free Trade Area of the Americas	67.6	45.4	−3.6	109.4
Japan and …	**Japan**	**Partner**	**Other**	**Global**
Chile	2.8	0.9	−0.2	3.5
Indonesia	10.7	1.7	−1.3	11.1
Korea	18.7	2.2	−1.2	19.7
Malaysia	10.5	0.3	−0.7	10.1
Mexico	8.2	3.3	−0.9	10.6
Philippines	2.2	0.5	0.3	3.0
Singapore	5.0	0.6	1.1	6.7
Thailand	19.5	−0.5	−5.5	13.5

Source: Brown, Kiyota, and Stern (2006)