

OPINION

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## Why the Trade Talks Collapsed

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The WTO talks between the G-4 nations -- Brazil, India, the United States and the European Union -- have collapsed yet again. This time, the only surprising twist was that U.S. Trade Representative Susan Schwab put the blame primarily on India and secondarily on Brazil.

In truth, the breakdown of the Doha Round in Potsdam, Germany, had less to do with India and Brazil's protectionism than with the U.S.'s paralyzing inability to respond to long-standing, world-wide demands for the reduction of its (and the EU's) agricultural subsidies. Until we confront this central fact, success will remain beyond our grasp.

The good news is that the Doha Round has already made substantial progress on other contentious issues -- such as poor nations gaining easier access to generic drugs and the least-developed countries enjoying virtually free-market access without duties and restrictions. With many of these issues settled or taken off the table, and many players placated, the endgame came down to the four "big players": the U.S., the EU, Brazil and India. Each had to make substantive trade-barrier and subsidy concessions to close the Doha Round. The EU needed to make concessions on agriculture where its barriers and subsidies were huge. It did not seek concessions in this sector from India and Brazil, but rather, wanted reciprocal concessions in manufactures and services.

With its strong farm lobby, the U.S. could not permit meaningful reduction in its substantial subsidies simply in exchange for concessions in manufactures and services; it sought "sectoral reciprocity" in agriculture itself. It's not hard to see why the situation was unacceptable to India and Brazil. At Potsdam, Ms. Schwab refused to offer any real concessions on U.S. agricultural subsidies, while at the same time insisting that the poorer countries offer more. Even as the G-4 talks were in progress at Potsdam late last month, the agriculture subcommittee of the U.S. House of Representatives voted to retain the subsidy portion of the 2002 Farm Bill for another five years.

Ms. Schwab cannot ignore that it is politically impossible for a democratic, developing country such as India to persuade the public that its farmers, often at the margin of subsistence, should agree to competition from rich-country farmers who enjoy heavy subsidies. Furthermore, contrary to what U.S. officials might like to believe, India is hardly a protectionist spoiler that refuses to make concessions on manufactures and services.

Consider first the unappreciated fact that India is now substantially open on manufactures. With some tariff peaks (just like those in the U.S. and EU), its top applied (or actual) tariff rate is 10%. Customs-duty collection as a proportion of merchandise imports was down to 5% during the fiscal year 2005-2006. Meanwhile, tariff reductions since 1991 have helped imports expand at 29% annually (in current dollars) from 2002 to 2006, and the merchandise imports-to-GDP ratio has risen to 18% in 2005-2006 from 10.7% in 2001-2002.

Since 1991, India's budget has driven unilateral trade liberalization -- the finance minister used it to reduce tariffs again this year. Even as Doha was being negotiated, India's top industrial tariff rate came down to 10% in 2007 from 38.5% in 2001. The multilateral trade negotiations, on the other hand, have always related to the

ceiling, or "bound" tariffs established by GATT or WTO negotiations, and to "rules" such as on anti-dumping where the track record of the U.S. is unfortunately appalling.

The result of the massive unilateral trade liberalization in actual tariffs has been a large gap between India's bound tariffs and those actually applied by the country for manufactures, which are lower. For instance, the simple average of the bound rates is 35%. Brazil exhibits a similar distance between applied and bound rates.

Despite India's great strides in trade liberalization, Ms. Schwab now insists that India (and Brazil) cut the bound industrial tariffs sufficiently deeply to bring about substantial cuts in the significantly lower actual tariffs. Since there are currently many unbound tariff items, India would then have to cut its average (for all import categories) bound rates by an extraordinary 65% to even begin cutting its applied tariffs on the average. Brazil faces a similar situation.

Indian and Brazilian officials have also argued that the U.S. and EU have asymmetrically expressed no willingness to make matching drastic reductions in the bound subsidy rates in agriculture. Ms. Schwab has ruled out bringing the U.S. bound rate on agriculture down even to its current applied rate.

Unless the U.S. moves to cut its actual agricultural subsidies drastically, India and Brazil's actual industrial tariffs cannot move, nor can Indian commerce minister, Kamal Nath, persuade his people to open Indian agriculture to (heavily subsidized) U.S. farm exports.

In this situation, it is clear what the USTR should *not* do. Getting mad at India and Brazil and making the insulting argument that Brazil is simply toeing the Indian line is not going to work. Nor is it credible to scare other nations by saying that the U.S. will not renew fast track authority and will go the bilateral route. The fact is that the U.S. most of all needs fast track (or "trade promotion authority") -- an all-or-nothing vote in Congress -- to do even bilaterals, except in the case of simple "security-driven" FTAs such as Jordan and Morocco. In the absence of fast track, every other nation will pursue bilaterals but the U.S. will not be able to. The damage from not renewing fast track will fall on the U.S. alone.

Instead of scapegoating and bluster, Ms. Schwab can choose options to help push Doha forward. Her problem is that currently there is no political support from either party in the U.S. for reducing agricultural subsidies. The Democrats are salivating to take the White House; the Republicans are terrified that they will lose it. Neither will risk the farm belt's vote.

There is one politically viable solution: Take the estimated \$20 billion worth of these production-distorting subsidies and turn, for example, two-thirds into nondistorting ones -- unlinked from production levels and given instead, for instance, to farmers for environmental purposes, today's popular issue. That worked in far more protectionist Europe; let us try it here.

If that is done, Mr. Nath should be able to pry open more agricultural market access from Indian farmers. But the expectations must be modest. India's Congress-led government believes, for example, that they won the election because the previous government neglected farmers and that trade liberalization will harm, not help, agriculture. These beliefs, both exaggerated and even erroneous, will take time to overturn.

Ms. Schwab therefore needs to have patience, and perhaps should come to an understanding that, while the Doha round should conclude with significant reforms in U.S. subsidies, India will return to the agricultural agenda in the round to follow. In the previous Uruguay round the poor countries settled for almost no changes in the level of U.S. and EU agricultural protectionism. Now, the U.S. needs to do the same in its negotiations with India. Doha is not the endgame.

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