Preface

If one casts a cursory look at the six decades of history of the multilateral trade regime, or the General Agreement on Tariffs and Trade/World Trade Organization (GATT/WTO) system, one is certain to see that while it has progressively evolved, its evolution has been anything but easy and smooth. As a great deal of scholarly writing is available on the genesis and initial, or the GATT, period of the multilateral trade regime, this phase has been treated briefly in this book. While it does not fail to establish linkages with the past – particularly the systemic evolution during the Uruguay Round – the essential focus of this book is the present, or the WTO, phase of evolution of the multilateral trade regime. One of the many important conclusions of this book is that of the two phases, the latter has turned out to be the more arduous, intricate and complex phase of evolution.

The GATT/WTO system was repeatedly pushed to the brink of utter and ignominious disasters. Yet the participating economies continued to be resilient and instead of abandoning it they persevered. Consequently the fabric of multilateral trade regime is stronger, its foundation deeper and its framework wider now than it was a generation ago. Unlike the GATT era, its membership is close to universal today. One glance at the recent history also indicates that evolution of the multilateral trade regime was far from even and steady. Two germane characteristics worth focusing on in this regard are: the unbalanced development of the multilateral trade regime over the preceding six decades and its evolution in fits and starts.

By means of various rounds of multilateral trade negotiations (MTNs), the multilateral trade regime has constantly adjusted itself to the new realities of the global economy. In the on-going Doha Round of MTNs it is once again endeavoring to fine-tune its alignment as well as correct its systemic tilt. With transformations and evolution in the global economy, dynamics of country groups and negotiations in the multilateral trade regime have constantly changed and evolved. In its short life span, the WTO has amply demonstrated that the multilateral trade regime has been undergoing a transformation in terms of both substance and process. That said, judging by the progress, or lack thereof, in the Doha Round, one can reiterate that evolution has not been kind to the multilateral trade regime. Yet, notwithstanding the contretemps and disappointments, the WTO members

and country groups are engrossed in finding ways to keep the MTNs on course.

Myriad small and large changes have occurred in the global economy over the preceding quarter century. Shifting contours of the global economy, the advent of new economic players on the global stage, the continuing global economic and financial integration, major advances in technology, all underscore that we are on the cusp of momentous changes in the global economic system. In consonance with them, the global trade architecture has also been in a state of flux. It has been discernibly evolving in accordance with the changing global *mise-en-scène*. The Doha Round of MTNs, like its predecessors, is not only an integral part of the evolving global trade architecture but also an instrument of ushering in to it essential modifications, enhancements and upgrading.

One significant change underway in the global economy has been the steady shift in balance of global economic power. Although it did not occur in a theatrical manner overnight, it was a gradual and steady process. It had, and is sure to have in future, a sizeable impact over multilateral trade as well as influence the evolution of multilateral trade regime. The surfacing of new groups of economies, christened the emerging-market economies (EMEs), is an economic event of global significance. The lax monetary policies in the mature industrial economies, particularly over the 2000–5 period, *inter alia* helped the EMEs to come into their own. In 2005, the EMEs produced slightly more than half of world output measured at the purchasing power parity (PPP) exchange rate. They also accounted for more than half of the increase in the global GDP in current-dollar terms. This is the largest realignment in global economic strength since the emergence of the United States as an economic powerhouse over a century ago. Some of the EMEs have also come forward as large traders. Several Asian economies, particularly China, epitomize this trend. Following the same streak, more EMEs can reasonably be expected to emerge in the foreseeable future. Slow but steady and methodical integration of the EMEs into the global economy, particularly Brazil, China and India, has given the biggest boost to the global supply since the industrial revolution.

Similarly, integration of global labor markets has had far-reaching consequences for the global economy and multilateral trade. Expanding trade in services in the form of outsourcing in the industrial economies, particularly business-process outsourcing (BPO), is one of the novel global trends that is affecting the domestic and global economies. Low-wage labor producing manufactured goods in the EMEs and exporting them globally has cut the cost of goods and kept the rate of inflation under tight control. The impact of rapidly expanding trade in commercial and professional services is the same. In the mature industrial economies, the threat that jobs could move offshore has helped hold down domestic wages. Although expanding demand from

EMEs – particularly Brazil, China and India – has fueled the surge in oil and commodity prices, the newcomers' effect on balance has been to restrain inflation in the industrial economies.

Since the early 2000s, the persistence of macroeconomic imbalances has emerged as another characteristic feature of the contemporary global economy. They were driven by macroeconomic causes in several economies, including some of the largest ones. To a degree, they have led to a climate of uncertainty and apprehension in the global economy. Strategic realignment in values of major currencies has been underway since the early 2000s, along with a shift and repositioning in the individual economic strengths of the large countries. These developments are of material importance to the world of trade. The member economies of the WTO also need to facilitate, adjust to and support these on-going transformations in the global economy.

The WTO, which is equated with liberalization of trade, is one of the three critically important supranational institutions of the global economic governance. It is at the center of the present global economic integration phenomenon. Its institutional role in the continuing transformations of the global economy is a necessary, albeit not a sufficient, condition. It contributes meaningfully to the smooth functioning of the global economy and enhances the synergetic forces in it. Evolution and modifications in the multilateral trade regime is vitally important so that it grows more equitable and relevant for healthy, if not vigorous, trade expansion and growth in the twenty-first century. To that end, successful culmination of the Doha Round of MTNs is an indispensable objective. It will indubitably make an invaluable and far-reaching contribution to the evolving multilateral trade regime, a global public good (GPG) of progressively increasing significance in the contemporary global economy.

Since its post-War birth, the multilateral trade regime has developed, or evolved, almost ceaselessly. The GATT was amended and supplemented progressively, with the passage of time. While the Kennedy Round (1964–7) of MTNs, and more so the Tokyo Round (1973–9), helped in consequential institutional development, it was the Uruguay Round (1986–94) that should be credited with bringing about the largest systemic transformation in the multilateral trade regime in an effective manner. It was the most ambitious and comprehensive round of MTNs, which enhanced the systemic relevance of the GATT to the closing decades of the twentieth century. Although neither rapidly nor efficiently, the Doha Round is presently attempting to achieve the same objective, that is make the WTO more relevant to the demands of changing global economy of the twenty-first century.

As the GATT/WTO regime grew, *pari passu* it became significantly more intricate and complex. The WTO is a much larger organization in scope, reach and effectiveness than its predecessor the GATT, which was not even an

organization. As the multilateral trade regime evolved, simple and compelling basic principles, like promoting non-discrimination through the most-favored-nation (MFN) clause, that lay at the foundation of the GATT, have been repeatedly compromised. Numerous deviations and exceptions to these basic principles have evolved over the years. As the evolving multilateral trade regime adjusts to the ever-changing realities of the global economy, this trend seems likely to continue. For all appearances, the Doha Round seems set to make more such compromises. The possibility of plurilateral agreements in trade in services is one such case in point.

Since its launch in 2001, the Doha Round has suffered from a multitude of contretemps and setbacks, emanating from serious dissensions in opinions and positions among the WTO member countries, and groups thereof. These disagreements repeatedly purveyed negative reports of disappointments and failures. The achievements of six years of negotiations have been quite insubstantial, to say the least. Progress in this round of MTNs has been conspicuous by its absence, making the Doha Round an antithesis of the earlier GATT rounds of MTNs. Further evolution in the multilateral trade regime is in the throes of mercantilist mindset of the negotiators. That is not to deny the presence of multilateral and domestic economic factors as well as the changing contours of the global economy that have decisively contributed to the stagnation in the MTNs. For historical reasons, many deep seated disagreements in the MTNs tended to take a North–South axis. Under this set of circumstances, who should be squarely blamed for deficient advancement and frequent under achievements in the MTNs? Accusations of a lack of political energy and commitment among the governments of the member sovereign countries have been made frequently. It is open to question whether they are just and fair, or were impetuously made injudicious and disingenuous allegations. Could there be a more complex set of factors contributing to stagnation?

One causal factor comes to the fore most frequently. The mercantilist mind-set among the negotiating delegations is often named as the principal obstruction, or one of the outsized stumbling blocks, in the on-going MTNs. To be sure, there is an imperious need for the negotiating delegations to abandon it for a successful culmination of the Doha Round. Adam Smith excoriated the age old doctrine of mercantilism. It has no place in today's globalizing world economy. Member countries of the WTO need to take a liberal, pragmatic and open-minded approach and earnestly seek trade liberalization under the MFN principle of the GATT/WTO system. There are meaningful welfare gains to be derived by achieving the benevolent goal of establishing a free-trade regime in the global economy, or something as close to it as feasible. The free-trade doctrine propounded by the classical economists of yore is a source of enormous economic synergy. Its welfare

implications continue to be robust. Free trade, or even freer trade, is more than likely to lead the global economy and the members of the multilateral trade regime to a win-win set of circumstances. Several economies, including developing ones, testify to this probability. The high-performing economies of East and Southeast Asia are a hopeful showcase.

As regards the question how the multilateral trade system should evolve in the near future, a pragmatic answer is that it needs to go on changing, growing and recreating itself endlessly. In the process, it needs to go on legitimizing itself as well as its institutional structure in such a way that it continues to liberalize trade and favorably influence the economic and financial globalization process, resulting in a decisive welfare impact for the member economies of the WTO. To what degree and effectiveness the WTO will underpin, first, the expansion of multilateral trade in goods and services, and second, the on-going globalization phenomenon will be the litmus test of its institutional efficacy and relevance to the contemporary global economy.

Although growth rate of multilateral trade in goods and services is still robust, its recent performance was a trifle dispiriting. In dollar value terms the growth rate has decelerated since 2003. The value of world merchandise exports rose by 13 percent in 2005, compared to 21 percent in 2004, but it exceeded the \$10 trillion mark for the first time. The value of world exports of commercial services increased by 11 percent in 2005, compared to 19 percent in 2004. Its dollar value was \$2.4 trillion in 2005. Together multilateral trade in goods and services amounted to \$12.62 trillion in 2005. Notwithstanding the deceleration, multilateral trade is an enormously significant variable for the global economy, both quantitatively and qualitatively. It decisively influences the global growth and that in individual member economies of the WTO. Equally decisively it can potentially underpin poverty alleviation endeavors in the developing member economies. It can be a compelling instrument of achieving the first Millennium Development Goal (MDG) of halving the income poverty by 2015.

The essential focus of this book is the evolution of the multilateral trade regime in an ever-changing global economic environment, particularly during the WTO era. As this cannot be done without paying a lot of attention to the various rounds of MTNs, particularly the on-going Doha Round, this book also examines the progress, or lack thereof, made during the Doha Round. As alluded to earlier, it is an instrument of upgrading and modifying the WTO system. Comparable accounts for the GATT period were attempted in the past by noted scholars. An outstanding feature of this book is that it is written in a comprehensive and authoritative manner and covers large areas of the multilateral trade regime. In taking a contemporary view of the various Ministerial Conferences and their achievements, this book offers the latest

knowledge related to relevant themes on the multilateral trade regime. The selection and rejection of the thematic strands for coverage in this book has been done exceedingly carefully.

The style of writing is neither overly technical nor highly model-oriented. This book essentially employs narrative analysis and avoids utilizing empirical analytical tools provided by econometric analysis (time-series analysis, cross-section and panel data analysis) or applied general equilibrium analysis. Excessive emphasis on technicalities, equations and econometric modeling discourages many potential readers. These characteristics narrow down the market to a small expert readership. The book is easy to access for the target readership because of its descriptive analysis style, which stops short of mathematical formulations and econometric modeling. Many students and other readers who have good analytical minds and sound knowledge of economic principles feel lost in mathematical formulations. This writing style makes the book accessible to a much larger number of readers.

It is written in a reference book style, as scholarly books are written. As noted above, students and other readers find the latest knowledge and concepts on several important themes on the multilateral trading system, in a manner in which they can appreciate and absorb them as well as use them as input in their decision making. Students, particularly those from business schools, who may hold global economy and multilateral trade related jobs after completing their studies, would find this knowledge extremely relevant, usable and helpful.

In a succinct manner, this tightly written volume covers a great deal of ground and imparts a great deal of knowledge on the economics of international trade. The number of academic institutions, including business schools, offering courses related to international trade is already significant and growing. The target readership of the book is master's level students in economics, international trade, international political economy and international relations as well as MBA students. Ambitious senior level undergraduates as well as policy mandarins and researchers can also benefit from the book. A background of initial microeconomics, macroeconomics, and economics of international trade should be sufficient to comprehend this book because definitions and explanations of terminology and advance concepts used in the text are provided in the notes to each chapter.

As regards the structure of this book, Chapter 1 prepares the background by dwelling on the initial phase of development of multilateral trade regime and the delayed active association of the developing economies with it. It also deals with the imperative issue of trade-growth nexus and the role of multilateral trade in achieving the first MDG of poverty alleviation. The on-going Doha Round has been named the development round; Chapter 2 provides the rationale for organizing such a round. The focus of Chapter 3 is the special treatment of the developing economies in the multilateral trade

regime. This issue has become controversial and has become more significant since the 1980s. The Fifth Ministerial Conference in Cancún collapsed completely, and this provided the first glimpses of a possible failure of the Doha Round. The divergences in negotiating positions and difficulties of the Cancún Ministerial Conference are the subject of Chapter 4. The developing economies began playing a proactive role in the multilateral trade regime in the 1980s, which transformed its landscape. Chapter 5 provides a detailed analysis of this transformation. For various reasons, it was known that the Hong Kong Ministerial Conference would not be able to achieve a lot, although it succeeded in eschewing a complete fiasco. The hows and whys of it have been examined in Chapter 6. Success still eluded the Doha Round after the Hong Kong Ministerial. The evolutionary process of the multilateral trade regime has continued to be a difficult one. Chapter 7 delves into these difficulties.

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