

TCS Daily

Hong Kong Phooey

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Doha is dead, long live Doha. The last-minute agreement reached by negotiators on Sunday in Hong Kong to cut wealthy nations' export subsidies is being portrayed as a modest step forward and may help temporarily save the World Trade Organization's credibility, which had been seriously damaged by its inability to find a way out of the Doha deadlock. However, the core issues remain untouched.



In a sense the agreement reflects what had been the prevailing expectations before the sixth ministerial conference began. That is, to use EU Trade Commissioner Peter Mandelson's [words](#), it is "not enough to make it [the meeting] a success, but enough to save it from failure". So the WTO's survival is secured along with European farmers' interests. The Hong Kong agreement is theoretically a step forward, yet the protectionist lobby can keep its lock on the European market.

Developed countries have promised to cut farm subsidies by 2013. The European Union has already made it clear that no cut will be undertaken before then. Moreover, politically speaking 2013 is next geological era: all European countries will go through national elections at least once, while European elections will be held twice. That means that those who have taken the commitment now will have no power when the decisions must be implemented, or -- to put it another way -- those in charge in 2013 will have to re-negotiate everything with their own constituencies, including the strong agricultural lobby.

Secondly, subsidies are only a part of the story -- a small part. The big problem for developing countries is trade barriers that prevent them from selling their products in Western markets in general, and European markets in particular. Finally, as James Glassman has [pointed out](#), developing countries will not review their own protectionist measures until the EU takes the first step, and this is a huge pain in poor nations' neck. While developing countries' governments are pursuing a cynical and economically harmful strategy, Brussels bears at least part of the responsibility. One might well regard those governments as untrustworthy, but the EU provides them with a credible excuse to not fully open themselves to free trade.

The truth is the problem goes way beyond Doha, and can't be solved in a multilateral negotiation. The European Union will never be able to accept the WTO logic abroad until it commits itself to free trade internally.

One thing that was well known in advance, and that helped determine Hong Kong's outcome, is that the EU has not yet been able to develop a real internal market. The UK Presidency's failed struggle over the EU budget reveals a lot on this score. If you look at France, no prominent politician even dares to question the Common Agricultural Policy (CAP), and even a "free market reformer", as opponents picture him, such as Nicolas Sarkozy, is a defender of agricultural subsidies and trade barriers, including regulatory barriers. The EU constitutional referendum was lost in France not because of the many fallacies of the proposed Constitution; rather the Polish plumber scam -- fear of cheap labor from abroad -- was the reason the French overwhelmingly voted "non". Even the "Bolkestein directive" on the liberalization of services inside the EU can't find its way to adoption. Despite some [significant changes](#) that partly neutralize it, the directive is strongly opposed by trade unions, interest groups, and member states.

The CAP's nature is such that it harms even those who are supposed to be its major beneficiaries -- farmers. A study by the Group d'Economie Mondiale showed that less than 1 percent of all French farms receive more subsidies than the bottom 40 percent. Before Hong Kong, GEM's Pierre Boulanger and Patrick Messerlin [wrote](#) that "The French position is even less understandable when it is recalled that, on the whole, French agriculture is amongst the most efficient in Europe. French farmers seem not to realize that they will be the main beneficiaries of even the limited farm liberalization that the Doha round appears capable of delivering".

Sadly, Hong Kong couldn't deliver.

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