



Will the Doha **Deadlock Persist?**



Final Presentation for Case Study
International Political Economy

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Outline



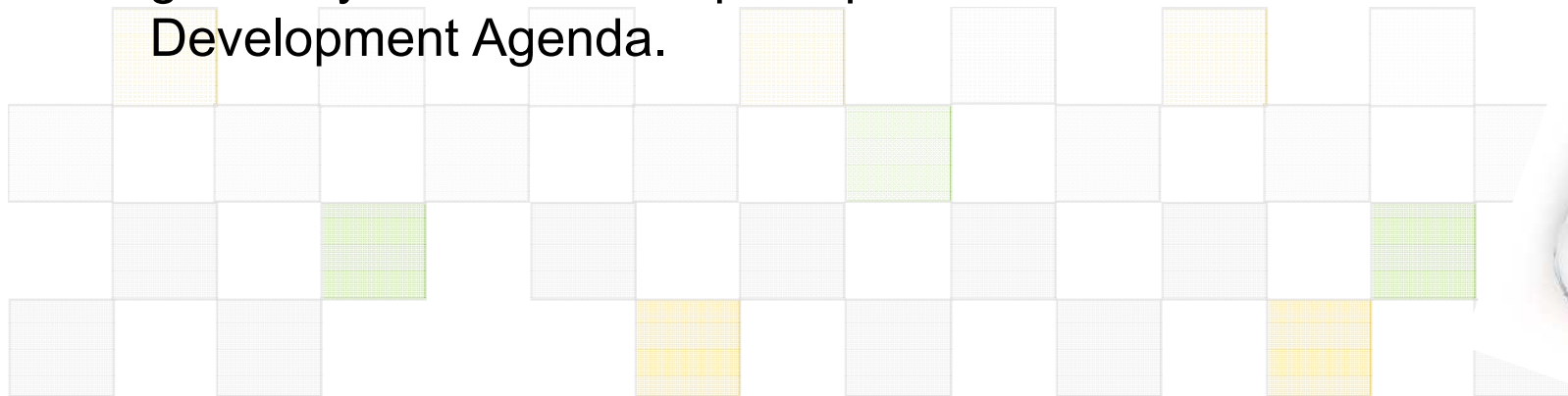
- Research Question
- Argument and Methodology
 - The outsider game
 - The compensatory outsider game
- Conclusion: FTA, the new possibility



Research question



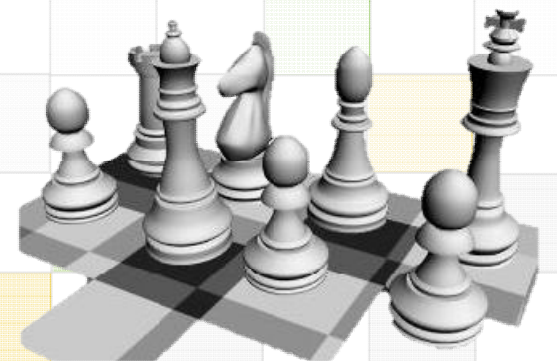
- **Question: Will the Doha deadlock persist?**
- The Doha Round is the latest trade negotiation of the World Trade Organization (WTO). Since November 2001, the Doha Round has sought to reform the international trading system by introducing lower trade barriers and revising trade rules to address developing countries' appeal and focus on development.
- Although it was touted as the development round, today's analysts generally have a slim hope of productive outcome from the Doha Development Agenda.



Argument and Methodology



- YES, as long as actors are rational and structural conflicts of interest exist, Doha's deadlock will persist, while multilateral efforts or temporary compromises will have no lasting benefits for solving this deadlock.
- Some literatures made conclusions about the causes of the Doha deadlock without coherent logic through analytical causal connections. In fact, government positions on and reactions to specific issues on the bargaining table are only a superficial phenomenon rather than the core of disputes.
- This paper applies game theory to rationally demonstrate actors' decision making.

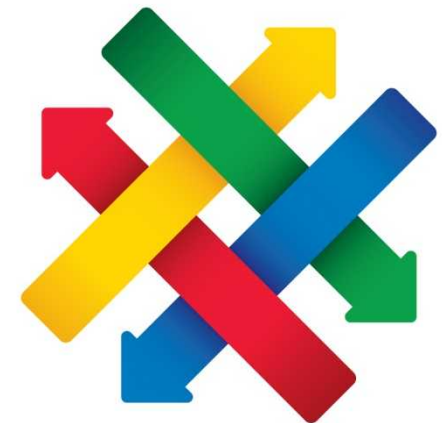


Before joining the WTO

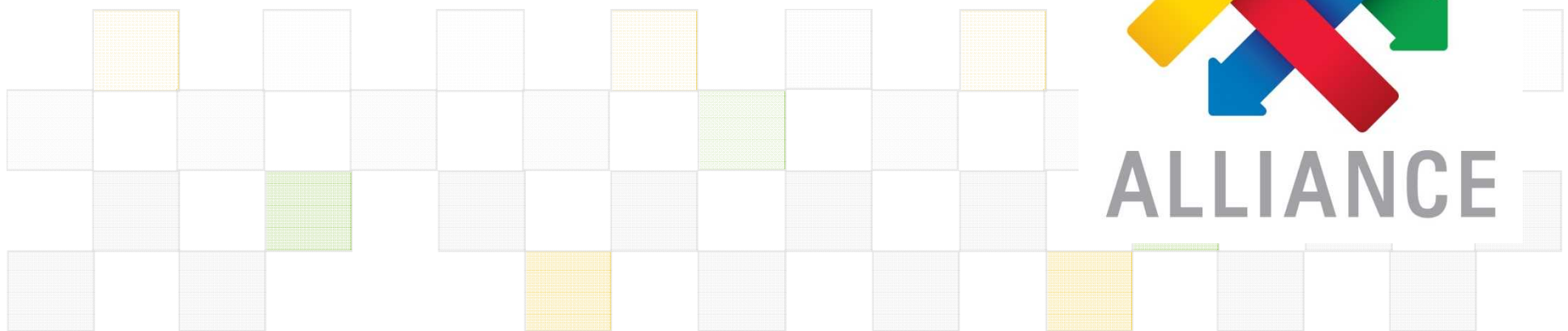


- Two reasons for joining trade integration : **either to gain from the trade or to avoid being marginalized in trade competition.**
- Regardless of their different motives, actors all realize the urgency to participate in the global trading system.

FREE TRADE



ALLIANCE

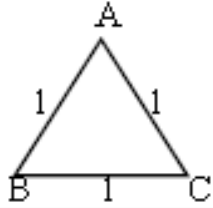
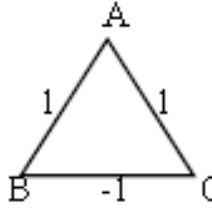
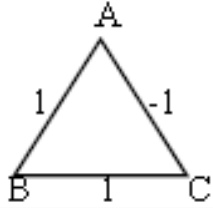
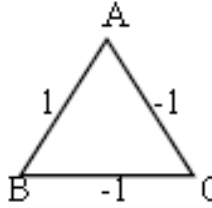


The outsider game



- Engagement or containment are two options available to players. Engagement will be indicated by a “+” sign; containment will be indicated by a “-” sign. Players only act pursuant to rational choice.
- Free trade will only be established when both players choose engagement, and the deriving gains are indicated by 1. If either one chooses containment, then the cooperation will fail, and the resulting losses are indicated by -1.

Table 1. The Payoff in the Strategic Triangle

Figure				
A-B relation	free trade established	free trade established	free trade established	free trade established
A-C relation	free trade established	free trade established	cooperation failed	cooperation failed
B-C relation	free trade established	cooperation failed	free trade established	cooperation failed
A's Payoff	$1+1-1=1$	$1+1-(-1)=3$	$1+(-1)-1=-1$	$1+(-1)-(-1)=1$
B's Payoff	$1+1-1=1$	$1+(-1)-1=-1$	$1+1-(-1)=3$	$1+(-1)-(-1)=1$
C's Payoff	$1+1-1=1$	$1+(-1)-1=-1$	$1+(-1)-1=-1$	$(-1)+(-1)-1=-3$

The outsider game



Figure 2.

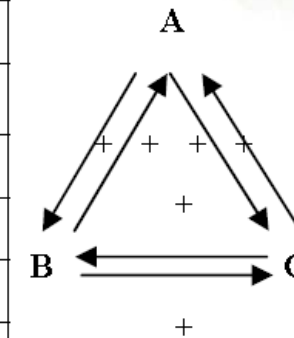


Table 2. The Outsider Game

		a	b	c	d	e	f	g	h
		C				C			
		+A , +B		+A , -B		-A , +B		-A , -B	
		B		B		B		B	
		+C	-C	+C	-C	+C	-C	+C	-C
1	A	+C	(1,1,1)	(3,-1,-1)	(3,-1,-1)	(3,-1,-1)	(-1,3,-1)	(1,1,-3)	(1,1,-3)
2	A	-C	(-1,3,-1)	(1,1,-3)	(1,1,-3)	(1,1,-3)	(-1,3,-1)	(1,1,-3)	(1,1,-3)

- Free trade may bring a certain degree of profit for the outsider's competitors, and therefore jeopardize the outsider's position in trade competition by enhancing its competitors' competitiveness.

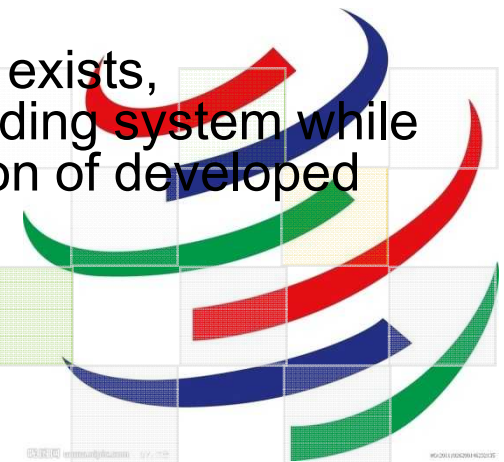
- Considering the negative impact, it is likely that **any rational actor will participate in the WTO** in an integrated global economy as illustrated by the game.



After joining the WTO



- WTO principles and rules that establish the free trading system include:
 - (1) Non-discrimination: most-favored-nation and national treatment,
 - (2) open market and free trade
 - (3) predictability and stability of trade
 - (4) promoting fair competition
 - (5) encouraging development and economic reform
- These seemingly fair and harmless values instead exposed actors, especially developing countries, to a formally equal but essentially unfair trading environment as evidenced through their imports and exports.
- As long as the **developed-versus-developing structure** exists, developing countries difficultly benefit from the free trading system while they still face challenges form the aggressive expansion of developed countries' export sectors.



After joining the WTO



- Since most developing countries have democratic governments, their free trade participation **will face public pressure** if unequal trading relations under the WTO framework compromise their domestic industries or even lead to unemployment and dumping.
- In such case, the governments must consider **both trade and non-trade factors**, which skews their decision.



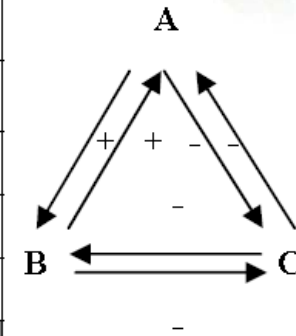
The compensatory outsider game



Table 3. The Compensatory Outsider Game

Figure 3.

		i	j	k	l	m	n	o	p	
		C				C				
		+A , +B		+A , -B		-A , +B		-A , -B		
		B		B		B		B		
		+C	-C	+C	-C	+C	-C	+C	-C	
1	A	+C	(1,1,1)	(3,1,-3)	(3,-3,1)	(3,-1,-1)	(-3,3,1)	(-1,3,-3)	(-1,-1,1)	(-1,1,-1)
2	A	-C	(1,3,-3)	(3,3,-7)	(3,-1,-3)	(3,1,-5)	(-1,3,-1)	(1,3,-5)	(1,-1,-1)	(1,1,-3)



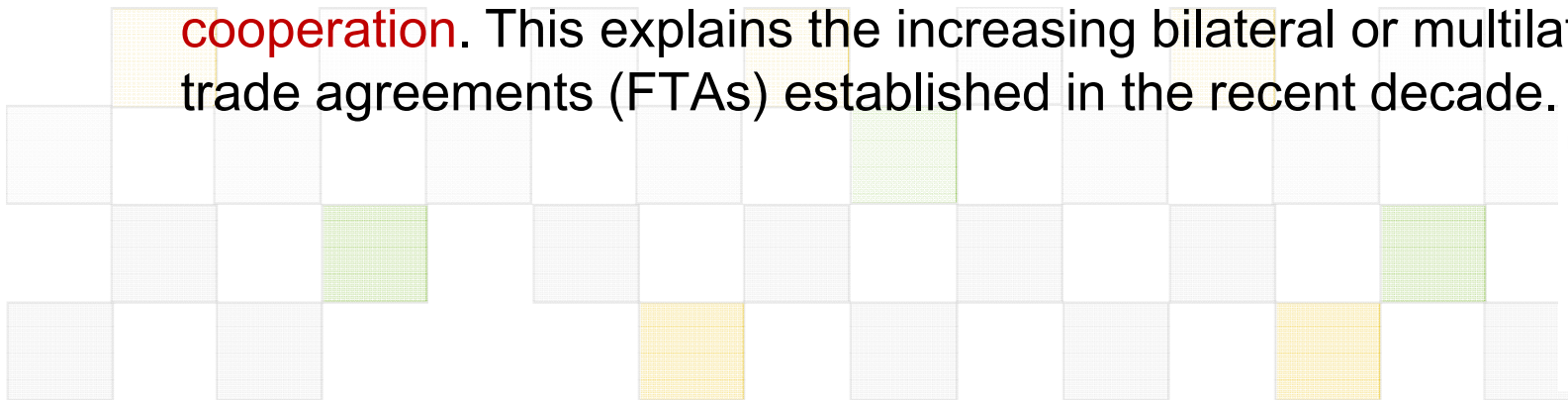
- I therefore revise the outsider game by taking “el” for example. C receives two points of utility (-1→1) if it engages A. For non-trade factors to influence C to contain A, C must benefit at least 2 points from non-trade factors to compensate for its trade losses.
- Due to trade competition between A and C, C’s 2 point gain in non-trade factors will be A’s losses, so the 2 points should be deducted from A’s payoff, resulting in e1 = (-1,3,-1) → (-1-2,3,-1+2) → (-3,3,1).
- I remodel the new payoff distribution as Table 3 by using the same method to calculate the payoff in each chart. **The equilibrium is at p2: even though its competitors ally in the WTO, the outsider will still contain them and disrupt free trade by considering the greater non-trade interests.**

The compensatory outsider game



The implications are two-fold:

1. Under the current rule of most-favored-nation treatment and national treatment, abdicating WTO membership would lose these rights and significantly increase export product costs. The competitive reduction would further increase risks of marginalization. **Hence, rational actors may prefer to remain in the WTO after weighing the costs and benefits, except they would insist to modify the current arrangement and protect their stripped interests, causing trade negotiations to deadlock.**
2. Rational actors may refocus on **alternative bilateral or multilateral trade cooperation**. This explains the increasing bilateral or multilateral free trade agreements (FTAs) established in the recent decade.



Conclusion



- Doha's deadlock has exposed conflicting interests in the structure of the WTO. Since states are rational actors, the deadlock is inevitable under the developed-versus-developing structure.

How could state actors pursue trade liberalization without the WTO framework?

- FTA is a better approach than a global trade regime.
- FTA is exceptions to the principle of non-discrimination. With the bottom-up nature. It allow countries trading with each other based on their needs and advantages without constraint from comprehensive liability under the WTO framework.
- By removing the developed-versus-developing structure and allowing certain special rules, FTAs empower actors to design a trade regime which best suits each participant's needs and interests.





Thank you!

Q&A