The End of the Road for the WTO?
A snapshot of international trade policy after Cancun

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“When things fall apart, the centre cannot hold.”
(W. B. Yeats)

The Doha Round of multilateral trade negotiations, after listing heavily, finally keeled over at the WTO's Fifth Ministerial Conference in Cancun, Mexico, in September 2003. The round has collapsed and the WTO is crippled, seemingly incapable of making concrete decisions. All signs are that political attention has shifted decisively to bilateral and regional trade negotiations.

After failure in Cancun, now is an appropriate time to take a snapshot of international trade policy. Can the Doha Round be salvaged before it sinks to the bottom of Lake Geneva? Or is the round, and with it the WTO, shipwrecked? Will the scramble to conclude preferential trade agreements (PTAs) continue unabated? These questions are but tributaries of the biggest trade policy question today: Is the world trading system at one of its historical turning-points, this time swinging away from non-discriminatory multilateralism towards fractured, messy and discriminatory bilateralism and regionalism?

These questions are addressed as follows. The first section presents a brief account of Doha Round developments up to Cancun, and then examines why the Ministerial collapsed. The second section assesses the chances of salvaging the round and seeing it through to some sort of conclusion. It also weighs the implications of the shift to PTAs—whether or not the round is put back on the rails. The third section looks at the WTO's systemic problems—the underlying causes of Doha Round failure—and what must be done to remedy them. Tackling the WTO's structural faults will largely determine its longer-term future. It will make the difference between a reasonably well-functioning multilateral trading system with, at its heart, a workable, focused WTO; and, on the other hand, a patchwork of unbalanced, unstable bilateral and regional trade arrangements in which the WTO will be marginalised and close to irrelevant.

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The Doha Round before and at Cancun: an anatomy of failure

The present round of multilateral trade negotiations was launched at the WTO’s Fourth Ministerial Conference in Doha, Qatar, in November 2001. Without the events of September 11th, and the subsequent perception of global political and economic crisis, the round would not have been launched. The WTO was in a state of drift and deadlock after its disastrous Ministerial Conference in Seattle in late 1999; and it took over three thousand deaths in New York City to concentrate minds and force a major decision. Hence the “Doha Development Agenda”—the official title of the round—merits the sobriquet “the Bin Laden Round”.

WTO members agreed to a large, complex and ambitious agenda, with 21 subjects dealt with in eight negotiating groups, reflecting the post-September 11th mood of all-round compromise. There is a market access core to the new round, i.e. negotiations on further trade liberalisation, as demanded by the US, the Cairns Group (of leading developed and developing country agricultural exporters), Hong Kong and Singapore. Developing countries successfully flexed collective muscle with major concessions on the “implementation agenda” (flexibility and assistance in implementing Uruguay Round agreements), flexibility in interpreting WTO rules on patent protection, and, more generically, a reconsideration of Special and Differential Treatment (S&D—more favourable treatment for developing countries under WTO agreements). The EU forced other WTO members to dilute the commitment to abolish agricultural export subsidies; and extracted new commitments to negotiate on trade-and-environment and the “Singapore issues” (competition, investment, trade facilitation and transparency in government procurement, all introduced into the WTO work programme at the Singapore Ministerial in 1996).

Following Uruguay Round practice, it was agreed that the results of all the negotiations (with the exception of dispute settlement and not-a-little ambiguity on the Singapore issues) would be treated as part of a Single Undertaking, i.e. members would have to sign up to the whole package rather than accepting or rejecting individual elements of it. Finally, the round was given a three-year time-frame, with all negotiations to be completed not later than January 1st 2005.2

Very little progress was made after negotiations proper started in January 2002. Without a global crisis to concentrate minds, the WTO seemed to revert to pre-September 11th drift and deadlock. All pre-Cancun negotiating deadlines were missed.

Two notable initiatives surfaced in the immediate run-up to the Fifth

2 All the above elements are laid out in the Doha Ministerial Declarations. See “Ministerial Declaration”, WT/MIN (01)/DEC/W/1, November 14th 2001; “Declaration on the TRIPS Agreement and Public Health”, WT/MIN(01)/DEC/W/2, November 14th 2001; and “Implementation-Related Issues and Concerns”, WT/MIN(01)/W/10, November 14th 2001. All available at www.wto.org

1 The account of the launch of the Doha Round and subsequent pre-Cancun developments draws on Sally, 2003. The reasons given for failure in Cancun rely on Draper and Sally, 2003.
Ministerial Conference in Cancun in September 2003. First, the EU finally agreed to reform its Common Agricultural Policy (CAP), centring on the substantial (though partial and messy) “decoupling” of subsidies from production. This was followed by an EU–US joint “framework” document on agricultural trade. Second, a long-awaited deal on public health provisions in the TRIPS agreement (on intellectual property protection) materialised. The new agreement allows developing countries without domestic production capacity to import generic medicines to deal with pandemics such as HIV/AIDS, tuberculosis and malaria. This is subject to safeguards against abuse, so that generic drugs are imported for genuine public health reasons and not on extraneous commercial grounds.

The task at hand for ministers in Cancun was relatively modest: to put together a holding operation that would keep the round alive, but with the realistic expectation that negotiations would miss the end–2004 deadline and spill into 2005/06. To be avoided was the nightmare scenario: a replay of breakdown à la Seattle.

Why did Cancun fail? How was defeat snatched from the jaws of victory?

Failure was nearly averted. The EU and the US signalled significant concessions on agriculture. The EU made major last-minute concessions on the Singapore issues: it agreed to drop investment, competition and transparency in government procurement, leaving just trade facilitation on the table. Ultimately, overall agreement was thwarted by the refusal of the African–Caribbean–Pacific (ACP) and Least Developed Countries (LDC) groupings to negotiate on any of the Singapore issues, despite the EU’s last-minute concessions. The final straw was the lack of US concessions to reduce or abolish subsidies to its cotton farmers—the key demand of four Central African countries.

The Ministerial Conference ended in all-round acrimony, chaos and utter farce. As with Seattle, blame can be apportioned liberally.

The EU is arguably the first port of call. Throughout the round, it has been too defensive on agriculture and too offensive on the Singapore issues. It never managed to dispel the widespread belief that the regulation-intensive Singapore issues were loaded on to the agenda to distract attention from what was always the centrepiece of the round: agriculture. Its concessions in Cancun came too late. It is highly regrettable that the EU did not signal movement on both issues well ahead of Cancun. That would have saved the round from collapse.

The US can be blamed for insensitivity on cotton subsidies in Cancun, and more widely for its recent upsurge of protectionism in agriculture and steel. The Farm Bill, adding $180bn of agricultural subsidies, must be singled out. The crux of the problem is that trade policy and a free-trade agenda have not figured much in the Bush administration’s list of priorities. Political attention and advocacy from the top have been lacking. Nevertheless, the Administration’s trade policy team, ably led by Robert Zoellick, has played a broadly positive role in the
round. It is the US that has signalled high ambition and come forward with the boldest liberalisation proposals on agriculture, non-agricultural goods and services trade.

Japan has played a negative and largely passive role throughout the round. It remained extremely defensive on agriculture, and needlessly offensive on the Singapore issues, particularly on the politically-sensitive subject of investment rules.

The G20, formed on the eve of Cancun and choreographed by Brazil, stole the limelight. It brought together the four developing country majors (India, Brazil, China and South Africa), as well as other developing country members of the Cairns Group plus Pakistan, Egypt and Nigeria. It was and remains a one-issue grouping whose central target is developed country agricultural liberalisation. Its position in Cancun was one of extreme offence and extreme defence: it pressed for significantly greater developed country liberalisation, but rejected meaningful liberalisation of own markets.

The Cairns Group, led by Australia, took a backseat in Cancun, given that nearly all its developing country members, led by Brazil, concentrated their energies on the G20.

Most other developing countries played an overwhelmingly negative role in Cancun. They came to Cancun with a long list of demands, but without credible negotiating proposals of their own. They expected entitlements (such as maintenance of their tariff preferences and increased aid) and were willing to block overall progress, but were unwilling or incapable of engaging positively. Their tactics resembled those of the UN more than those of the old GATT: long-winded speechifying, populist posturing, inflammatory rhetoric and adversarial point-scoring substituted for serious negotiating.

Lastly, the poisonous activity of anti-market NGOs cannot pass unremarked. Crude sloganeering and street-theatre protests in Cancun were to be expected. More insidious are the alliances several NGOs have forged with the governments of poorer (particularly African) developing countries with scant negotiating resources. They have significantly influenced these countries’ defensive, one-sided and ultimately untenable negotiating positions. In Cancun, NGOs’ active encouragement of developing country blocking tactics showed they were interested in a failed, not a successful, Ministerial Conference. That is what they got. Perhaps the most grotesque spectacle in Cancun was the sight of developing country ministers playing shamelessly to the gallery of “uncivil society”, i.e. anti-trade NGOs. This reminds one of Carlyle’s and Ruskin’s “insane rhapsodies” (in Schumpeter’s colourful language) against nineteenth-century free trade; and of John Stuart Mill’s prescient reference to “the numerous sentimental enemies of political economy, and its still more numerous interested enemies in sentimental guise”.

Several developing country ministers, egged on by NGOs, declared victory when Cancun failed. The sad irony is that the collapse of the Doha Round and the crippling of the WTO will damage their countries most. It is the poorest and weakest countries in
the world that most need a healthy, rules-based, non-discriminatory world trading system; it is they who will lose most from a decisive shift to discriminatory bilateral and regional trade arrangements governed more by asymmetrical bargaining power and less by fair and balanced rules.

How can the Doha Round be salvaged?
What are the prospects for a successful conclusion?
What is the alternative?

Senior trade officials have been trying to save the Doha Round by stitching together the compromises that eluded ministers in Cancun. The initial post-Cancun deadline of December 15th 2003 came and went without agreement. In January 2004 Mr Zoellick launched a US initiative to restart the round, with the aim of agreeing a negotiating framework by mid-year and holding a Ministerial Conference in Hong Kong by year-end. The Zoellick initiative is welcome. It indicates sorely-needed US leadership. On agriculture, it seems to steer away from the defensiveness of the EU–US joint framework document and back towards high ambition on market access. This moves the US slightly closer to developing country—especially G20—positions.3

In broad outline, it is clear what needs to be done to restart the round. First, the revised Cancun ministerial text on agriculture, which reflects major EU and US concessions, must, with some tweaking, form the basis for future negotiations. Negotiations on non-agricultural market access should also proceed on the basis of the (almost-agreed) Cancun text. Second, the EU must stick to its last-minute concessions on the Singapore issues. The Commission has indicated as much, offering to take investment and competition out of the Single Undertaking, leaving transparency in government procurement and trade facilitation within it. Investment and competition would be dealt with on a “plurilateral”, opt-in or opt-out basis, involving only a subset of interested WTO members. Developing country objections might well persuade the Commission to drop transparency in government procurement from the Single Undertaking, leaving just trade facilitation (for which there is considerable developing country interest). Third, “first-division” developing countries, especially the majors in the G20, must signal willingness to liberalise own markets, if only to a modest extent.4

Even if the above three conditions are met, negotiations will spill over into 2005/06. In 2004 the US will be distracted by presidential and congressional elections, and the EU by eastward

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4 China is exceptional among the developing country majors. Its new WTO commitments are by far the strongest of any major developing country, reflecting and consolidating massive internal and external liberalisation undertaken unilaterally prior to WTO accession in 2001. China’s reasonable argument is that it has already made the largest down-payment in the Doha Round and should not be expected to liberalise as much as others at the end of the round (Michalopoulos, 2003).
enlargement. Elections are also due in India and South Africa. The two senior trade negotiators in the process, Messrs. Zoellick and Lamy, will likely leave their positions. It will take the next US administration’s new trade negotiating team a few months at least to get up to speed on the issues. Thus negotiations may only get serious in mid-2005. This would leave about 18 months to wrap up a deal before the very final deadline: the expiry of US Trade Promotion Authority in 2007. This is the Damoclesian Sword hovering over the WTO.

How realistic are the prospects for salvaging the Doha Round?

Since Cancun, the US has manifestly given priority to bilateral and regional trade negotiations (with Central and South American countries, Morocco, Australia and Thailand) in preference to the WTO. As far as the Doha Round is concerned, the Administration has passed its maximum point of flexibility. Despite the recent US initiative to breath life back into the round, protectionist pressures ahead of elections in late 2004 will severely narrow Mr Zoellick’s room for manoeuvre, especially in making concessions in sensitive areas like agriculture, textiles and clothing, and anti-dumping regulation.

The EU’s post-Cancun commitment to the WTO must also be in some doubt. The Commission’s Doha Round strategy has blown up in its face. It seems uncertain what to do next, whether in the WTO or with bilateral and regional initiatives. It is also evident that several major developing countries have been turning political attention and negotiating resources away from the WTO and towards new PTA initiatives. This is particularly noticeable in Southeast Asia, where ASEAN (Association of Southeast Asian Nations) members are preoccupied with an expanding set of resource-intensive bilateral and “ASEAN-plus” trade negotiations with third countries.

All indications point to a Doha Round that will, at best, lie dormant for a few years. The WTO will probably be marginalised for a while, with real business shifting decisively to bilateral and regional negotiations. Even if the Doha Round is officially revived in 2004, it will probably not make much difference in the short-term. Very little of negotiating consequence is likely to happen in Geneva, while more serious trade negotiations will continue apace elsewhere. The main advantage of salvaging the Doha Round in some form or other is from a middle-distance or long view: a framework will be in place if and when WTO members decide the time is ripe politically to get serious about multilateral negotiations.

In the meantime the WTO will continue to have residual importance, especially through dispute settlement, and in administering the machinery of international trade rules. But it will be marginalised as a vehicle for trade liberalisation. Worse, in the absence of negotiating momentum, WTO members may be tempted to unpick existing agreements and flout legal obligations. This would result in more politically sensitive and controversial cases going to dispute settlement.
The marginalisation of the WTO and the turn to bilateralism and regionalism is not a catastrophic 1930s-style scenario. Trade and investment liberalisation would probably continue. Failure at Cancun makes the short-term gratification of PTAs more appealing. Bilateral negotiations in particular can get down to serious business on market access and rules; they are driven by national capitals, not caught up in a Geneva bureaucratic circus; business constituencies are engaged, whereas they have lost interest in the WTO; there is no S&D for developing countries; NGOs do not derail negotiations (at least not yet); and decision-making is businesslike, free of UN-style antics.

Nevertheless, there are real costs and risks to this approach. The sacrificial victim is the GATT/WTO’s cardinal principle: non-discrimination. The world economy is rapidly fracturing into discriminatory and overlapping trade arrangements, probably revolving around US, EU and China hubs. Power relationships will shape distorted, lop-sided and insubstantial liberalisation—especially in agriculture. For example, G20 exporters would have far less access to US, EU and Japanese agricultural markets through PTAs with market access and subsidy carve-outs than they would through more comprehensive, non-discriminatory multilateral liberalisation.

The chief losers in a world where multilateral trade rules count for less are the poor and weak: low-income and least-developed countries, effectively shut out of preferential access to the markets of the bigger powers, exposed to severe non-tariff protection, and perhaps forced to accept minimum environmental and labour standards that may be inappropriate to their levels of development. These are the 100-plus developing countries that are hardly integrated into global trade and production networks. Unlike the G20 majors, they are of minimal commercial interest to businesses in the developed world. Hence their bargaining power is insignificant. To repeat, they are the biggest losers from Cancun failure.

On balance, if the WTO is not working, it is reasonable to shift attention to PTAs as a means of keeping up the liberalisation momentum, with a view to reviving multilateral liberalisation when the time is ripe politically. This is the “competitive”, or “stepping-stone”, liberalisation Mr Zoellick has in mind (also see Griswold, 2003). The trade economist’s mantra of rejecting PTAs and putting all eggs in the WTO basket (as exemplified by Bhagwati, 2002) is simply wrong-headed. It is the ivory-tower economics of the political ingénu, instructive for blackboard exercises or computer modelling but not for practical public affairs. Given the parlous state of the WTO, no sensible policy-maker would put all eggs in that particular basket. Furthermore, such a Manichean view overlooks the ability of some (by no means all) PTAs to take liberalisation and pro-competitive regulatory innovation wider and deeper than would be the case in a more diverse and unwieldy WTO (Sampson and Woolcock, 2002). For the strategically-minded politician and trade official, the task at hand is, first, to think of what should be in (or out) of
PTAs, and to choose the right partners; and, second, to try to restore the WTO to good health so that it keeps pace and interacts positively with bilateral and regional liberalisation.

**Systemic problems in the WTO: how can they be overcome?**

Lack of progress in the Doha Round and failure in Cancun are but symptoms of a deep-seated malaise in the WTO. This has to be recognised, diagnosed correctly, and followed by proper and timely treatment. Otherwise the WTO will wither on the vine: it will be relegated to a mere bureaucratic sideshow while real business is transacted elsewhere.

In many ways the WTO is a victim of its own success. To be precise, its problems issue from the successful conclusion of the Uruguay Round and the huge transition from GATT to WTO. The Uruguay Round agreements take the WTO wider, with broader sectoral coverage, and deeper into domestic regulations, all underpinned by much stronger dispute settlement. WTO membership has hyperinflated—to 148 at the last count, almost double the membership at the beginning of the Uruguay Round in 1986. Four underlying trends need to be highlighted, all of which ring alarm bells (Sally, 2003):

1. **The WTO is in danger of regulatory overload and has a creeping standards harmonisation agenda.** Detailed, prescriptive regulations are intended (at least implicitly) to bring developing country standards up to developed country norms. The TRIPS agreement on intellectual property sets the precedent for pressure to harmonise labour, environmental, food safety and other product standards. This “intrusionism” (Bhagwati, 2002) in the domestic policies and institutions of the developing world is noxious: economically, it raises developing countries’ costs out of line with comparative advantages and has a chilling effect on labour-intensive exports; politically, it goes too far in curtailing national regulatory autonomy.

2. **The legalisation of the WTO is double-edged.** Dispute settlement has generally worked well. However, given its quasi-automaticity, governments have more incentive to fill in regulatory gaps in WTO agreements through litigation. This is a dangerous and slippery slope. A large, diverse gathering of sovereign nations such as the WTO, with at best a brittle political consensus, must make collective policy choices through diplomacy and negotiation, not by default through dispute settlement (Ostry, 2001).

3. **The WTO is increasingly politicised.** Externally, it is buffeted by a combination of old-style protectionist interests and new-style NGOs. Even more worrying are its deeper internal fissures. The vast expansion of membership since the late 1980s has made decision-making more unwieldy and snail-like. Day by day, the “UN-isation” of the WTO gathers pace. Windy rhetoric, adversarial point-scoring, political grandstanding...
The End of the Road for the WTO?

To get out of its present rut, WTO members need to do two things: first, rediscover a core purpose; and second, revive an effective negotiating mechanism.

To begin with, the WTO needs to rediscover a core purpose, something lost in the post-GATT transition. This should be the old GATT’s raison d’être: the progressive reduction and removal of barriers to trade, underpinned by reasonably simple, transparent and non-discriminatory rules based on the Most Favoured Nation and National Treatment principles (as embodied in GATT Articles I and III). In post-GATT conditions, this market access agenda has to range wider (broader sectoral coverage) and venture deeper (procedural disciplines to make trade-related domestic regulations more transparent).

At the same time, WTO members—especially the two majors, the EU and the US—should stop overloading the negotiating agenda with multiple and conflicting objectives. This means steering clear of excessive standards harmonisation and regulatory intrusionism, nowadays especially on environmental and other product and process-related standards. Excessive legalisation should also be avoided: dispute settlement should not drift into an exercise in judicial policy-making, used to resolve entrenched political differences that really should be a matter for intergovernmental negotiations.

Market access is (or should be) the bread and butter of the Doha Round. Direct border barriers to trade remain high in both developed and developing countries. Although the EU and the US have low average tariffs, they

and procedural nit-picking seem to have substituted for serious decision-making.

4. The *bilateralisation* and *regionalisation* of the world economy, i.e. the accelerating spread of discriminatory bilateral and regional trade agreements, seems to be pre-programmed, not least in reaction to stalled multilateral liberalisation. PTAs are by no means uniformly bad, but they do lead to a “spaghetti-bowl” of discriminatory red tape, especially in the form of incredibly complex and overlapping rules of origin requirements, and risk diverting political attention and negotiating resources away from the WTO (Bhagwati, 2002).

Taken together, these pressures have virtually crippled the old GATT’s traditional strength: its ability to deliver results through effective diplomacy and negotiation. A wider and more intrusive regulatory agenda makes it more difficult to maintain political legitimacy with governments and interest groups (now including NGOs). Stalled negotiations increase the temptation to settle sensitive policy dilemmas through adversarial litigation, which further tests the political legitimacy of the system. The hyperinflation of membership, with the attendant desire to widen the decision-making circle and make it more inclusive and participatory, strains the workability of the system to its limits. For these reasons, the WTO as a negotiating mechanism has not really functioned since the late 1990s.
retain high- to very high tariffs in agriculture, textiles and clothing, and other labour-intensive goods—the sectors of major export potential for developing countries. Huge agricultural subsidies in the OECD (to the tune of about $300bn a year) continue to massively distort trade. Widespread anti-dumping actions and unreasonably onerous food safety, technical and other standards also have a chilling effect on developing country exports.

Developing countries have noticeably higher tariffs and non-tariff barriers than developed countries, the main effect of which is to severely restrict imports from other developing countries. Significant developing country liberalisation would not only improve own productivity; it would also allow low-income and least-developed countries to better exploit their comparative advantages by exporting to the fast-growing markets of middle-income countries.

The World Bank estimates that cutting agricultural and industrial tariffs to a maximum of 10 per cent in developed countries and 15 per cent in developing countries would boost world income by $520bn by 2015, $170bn of which would accrue to developing countries. This would lift 140m people out of poverty. There would be even bigger gains from liberalising services and simplifying customs procedures (World Bank, 2003).

Hence negotiations on core market access in agriculture, non-agricultural goods and services—including inter-developing country negotiations to bring down the barriers that throttle South-South trade—are far more important for development than all other aspects of the Doha Round put together. They should have top, overriding priority. A sign of a round going nowhere is when more attention is devoted to squabbles over implementation issues, S&D, TRIPS-and-public health, and the Singapore issues than to market access. This is indicative of the WTO’s wider malaise.

Second, mending the WTO’s broken negotiating mechanism depends, in the first instance, on intergovernmental political will, not so much on the reform of formal decision-making procedures. The headlong descent into UN-style decision-making may make for therapeutic multilateralism, but it is not a recipe for making serious policy choices. It is no substitute for practical, businesslike diplomacy and negotiation among the capable and the willing. This is crucial if the WTO is to refocus on market access, where the real development gains lie, and avoid further drift.

Unfortunately, the WTO seems to have taken an extended vacation from wider political and economic realities. In Geneva the conventional wisdom is that ever-greater numbers of developing countries can and should participate proactively in collective decision-making, with the help of technical assistance and associated “capacity-building” provided by international organisations and national donors. This is fanciful, not to say Utopian. The vast majority of developing countries have intractable domestic problems, not least chronic misgovernment that often descends into ethnic strife, civil war and state collapse.
Competent and experienced trade officials and negotiators are few and far between—one of the many signs of institutional weakness. The governments of these countries, whether singly or in “common characteristic” coalitions such as the Africa, ACP and LDC groups, exercise “negative” bargaining power in the WTO, i.e. they can and do block negotiations; but, frankly, they are incapable of exercising “positive” bargaining power in the foreseeable future. References to technical assistance and capacity-building are spattered across the Doha Ministerial Declarations, but they are not going to make any difference when so many things go wrong on the domestic front.

The silver lining is that there are about 20–25 first-division developing countries with increasing trade policy capacity. They are mostly middle-income countries from Latin America and East Asia, but include South Africa and two low-income but fast-rising powers from Asia: India and China (Michalopoulos, 2001). These “recent globalisers” (not-so-recent in the case of Hong Kong, Singapore, South Korea and Taiwan) are increasingly integrated into world trade and production networks, have accumulated considerable trade negotiating experience dating back to the Uruguay Round, and can hold their own in current and future trade negotiations.

WTO members have to come to terms with these uneven and hard-boiled global realities, not least the increasing differentiation and divergence within the developing world. The politically correct pretence of a democratic, inclusive, participatory WTO must be dropped. Maintaining such a posture is a recipe for continuing deadlock and irrelevance. Rather the necessity of a two-tier or multi-tier WTO must be recognised—which would only be consonant with the real world outside the rarefied atmosphere of international bureaucracy in Geneva. Stated baldly: only a minority of the WTO membership have the bargaining power and capacity to advance negotiations. These are the OECD countries and about a score or so of advanced developing countries (most of them in the G20). Hence the key liberalising and rule-making deals in the WTO must be done by the 30-plus countries (counting the EU as one) that account for over 80 per cent of international trade and an even bigger share of foreign direct investment (Wolf, 2003). This core group must concentrate first and foremost on market access, i.e. negotiations on agriculture, non-agricultural goods and services. New issues (such as the Singapore issues and trade-and-environment) should be dealt with plurilaterally through opt-ins or opt-outs. This would give developing countries the comfort zone to join negotiations only if and when they feel ready to do so.

The remaining 100–plus developing countries should be accorded generous S&D—essentially a free ride. Through Most Favoured Nation status, they should have rights to whatever liberalisation is negotiated by others; and preferably duty and quota-free access to OECD and leading developing country markets. At the same time, they should not be obliged to reciprocate with own liberalisation, nor should
they be under pressure to sign up to other new obligations if they feel unready to do so. There should be a “peace clause” on dispute settlement: an understanding that they will not be taken to court, even if in breach of existing obligations. Finally, WTO members could settle on a “graduation” principle: an understanding that if countries reached a certain level of development, they would be expected to participate in reciprocal negotiations and adhere to stronger rules and obligations. These terms should not pose a problem for the core group of 30–plus. The 100–plus second and third-division developing countries are of minimal commercial interest and not of significant strategic-political interest to the major developed and developing country powers. However, these terms should be conditional on the countries concerned not blocking overall negotiating progress. They must be left in no doubt that, as free-riders, they will be on the sidelines, not at the centre of decision-making.

Modern political correctness in the WTO also extends to seemingly limitless indulgence of so-called civil society, the noisiest elements of which are well-organised, well-funded, Western anti-market NGOs. Their economically nonsensical arguments against trade liberalisation and associated market-based reforms in developing countries have been a notable feature of the Doha Round. This mollycoddling of all the wrong sorts of NGOs has to stop. Their rising influence in trade negotiations must be arrested and reversed. Not to put too fine a point on it, the barbarians really should be kept outside the gates.

Finally, the WTO has to work with the grain of wider geopolitical realities and underlying power relationships. The GATT/WTO is arguably the foremost expression of multilateralism, the most successful example of post-1945 international economic co-operation. But this only worked in a specific geopolitical context. American leadership was the driving force, with successive US administrations choosing to advance the goals of security and prosperity for the non-Communist world through international institutions.

There have been marked shifts in international politics since the end of the Cold War, and more recently after September 11th. No serious challenge exists to US leadership abroad; Europe and Japan are internally sclerotic and externally pusillanimous; other powers are on the rise, notably China, India and Brazil; the transatlantic alliance is no longer the fulcrum of international relations; and politics and economics are moving inexorably in an Asia–Pacific direction, from the Indian Ocean to Tierra del Fuego.

The raw reality is that GATT/WTO-style multilateralism can only work in the future if it fits into this broader political template. Above all, robust US leadership is required.

The present understanding is that the US and the EU co-lead in the WTO enterprise. The EU, sadly, is one of the biggest headaches in the WTO. Its scandalous agricultural protectionism is the main stumbling block, but it is also trying to insert dubious regulation into the WTO, e.g. on environmental standards and geographical indications of origin.
No doubt the EU will continue to be a WTO heavyweight, and transatlantic co-operation will remain vital. Nevertheless, co-equality is not the right recipe for the WTO’s future: the US must move out in front. Only US leadership can push the WTO in a clearer market access direction. However, for leadership to be effective, like-minded coalitions are needed. They are to be found mainly in Asia–Pacific. Here there are countries large and small with a strong market access focus in the WTO: agricultural exporters in the Cairns Group, industrial exporters in East Asia, and the services-oriented global cities of Hong Kong and Singapore. Crucially, these potential “coalitions of the willing” include China, whose pragmatic and constructive behaviour post-accession is the only really good news the WTO has had in the last few years. Taking the long view, a strategic partnership between the US and China, notwithstanding tensions in the bilateral relationship, would be very good news indeed for the WTO.

The scenario sketched above is of course hedged about with ifs and buts. Big question marks hang over the US: Internally, will the Administration be able to rise above short-term protectionist politics to exercise credible leadership abroad? Externally, will it have the sensibility and staying power to construct and sustain viable and genuinely two-way coalitions of the willing?

Conclusion

To the “WTO junkie”, trade policy begins and ends in Geneva. In this scheme, the WTO is the central trade pillar in the architecture of “global governance”. This view is highly misleading, indeed damaging. Trade policy, like internationalism and charity, begins and ends at home, not in the WTO, nor indeed in the IMF and the World Bank. Credible and sustainable policies towards trade, foreign investment and the cross-border movement of workers emerge bottom-up as part of broader national economic strategies for growth and development. Thus trade policy should be made in the first instance at the national level, and it should be consistent with national macro- and microeconomic priorities. Unilateral liberalisation and pro-competitive domestic regulatory reforms, now as in the nineteenth century, should occupy centre-stage. International trade negotiations should then be used to help achieve nationally-set goals.

Hence the WTO is at best the second instance of trade policy. With the right market access focus and workable decision-making, it can bolster domestic market-based reform efforts, particularly in the developing world, and help keep up the momentum of global trade liberalisation according to non-discriminatory rules.

However, this does not correspond to the WTO’s actualité. Far from it. The Doha Round, rather than being considered a useful adjunct to good policy practice at home, has been viewed as a means of delivering development (or salvation) “from above”. That is a pipe-dream. The round has been little more than a vast exercise in multilateral political therapy. Worse, instead of
giving succour to progressive trade liberalisation, including liberalisation in the developing world, governments and NGOs have used the round as a vehicle to advance anti-liberalisation positions, thereby turning the raison d’être of the WTO on its head.

If the WTO is to retain any constructive relevance, it must have a reality check. On the economic front, this means advancing a liberalisation agenda in tandem with bilateral and regional trade initiatives “in between” and unilateral reforms “from below”. On the political front, it means working with the grain of US power and leadership. If the WTO is to be a hindrance to the one and a gadfly to the other, it does not deserve to be taken seriously.

One hopes that a combination of future events, powerful interests and concentrated minds will salvage the WTO. One also hopes the Cassandras are wrong: that the WTO has not yet crossed the Rubicon; that its UN-style infantilism has not quite advanced so far as to prevent it from crossing Joseph Conrad’s “shadow line”—from a world of callow irresponsibility to an adult world of real, solid, fixed things. If that shadow line is not crossed, responsible adults will walk away and do serious business elsewhere. The pity of it is that this alternative world would be governed by the more illiberal exercise of US power and by trade coalitions shaped exclusively by PTAs. It would be a more unbalanced, unstable, protectionist world trading system in which the poorest countries would be squeezed most.

References


