

Doha Round, Multilateralism & Future of WTO

By Guy de JONQUIERES

Photo: Jiji Press



WTO's headquarters in Geneva

As the devastating consequences of the credit crisis have spread across the world, so too has enthusiasm for decisive multilateral policy responses. In many national capitals, particularly in Europe, the talk is of forging closer inter-government cooperation, common rules and stronger global institutions to manage financial markets. However, the troubled recent history of the World Trade Organization offers a sobering antidote to such lofty ambitions.

When the WTO was established in 1995, it was widely hailed as the model of a modern multilateral institution. Armed with new powers to enforce the rules and nondiscrimination principles that have underpinned international economic stability for more than 60 years, it was expected to lead the charge in promoting and managing global integration. Today, after a succession of setbacks and upheavals, it is waging what many observers view as a battle to remain relevant to that task.

Last summer, yet another in a series of “make-or-break” WTO negotiations on the seven-year-old Doha world trade round collapsed in disarray in Geneva. In November, leaders of the Group of 20 countries pledged at their summit in Washington to “strive” for a breakthrough in the talks by the end of the year. Although it was not known at the time of writing whether renewed efforts would succeed, it was clear that they faced a number of political hurdles. The impending change of US administration, India’s forthcoming election campaign, the departure last autumn of Peter Mandelson as chief European Union trade negotiator and the appointment next November of a new European Commission all stand in the way of rapid progress. Many observers still doubted whether a final deal could be struck before late 2009, at the earliest.

What’s Gone Wrong?

Beyond those hurdles, other big uncertainties loom – starting with the attitude of the United States. The campaign rhetoric of Barack Obama, the president-elect, and of the Democratic Party majority in the next Congress has, disconcertingly, been about building up trade barriers, not about tearing them down. That suggests that even if a deal can be struck, its ratification by US legislators may be a struggle. Some EU leaders, such as President Nicolas Sarkozy of France, have also expressed increasing skepticism about free trade.

Overshadowing everything is the recent rapid deterioration in the state of the global economy. If the world plunges into deep recession, with sharply rising unemployment levels, there will be a growing risk that governments will start putting up trade barriers, a development that could unleash a spiral of destructive tit-for-tat protectionism.

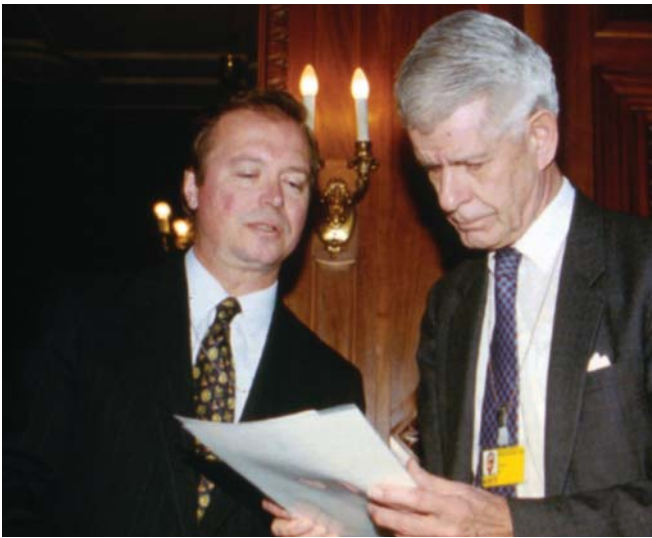
If that threat became severe enough, it might yet jolt governments into completing the Doha talks in a concerted effort to limit the damage. Proposals on the table would oblige many, mainly developing, countries legally to cap – or “bind” – their tariffs in the WTO at the usually much lower levels at which they are actually applied. That might help stop markets closing. However, as things stand, a Doha agreement would do little to remove existing trade barriers or to boost growth: independent estimates suggest it would add as little as \$60 billion, or just 0.1%, to global GDP. Nor would it embody any major advances in global rule-making.

That is a far cry from the glorious new deal for international economic development that Doha was supposed to be. That WTO members have labored so long for so little, still without reaching agreement, is a dismal reflection on multilateral trade diplomacy. What has gone wrong? The most obvious explanation is a widespread lack of ambition and flexibility. With a few notable exceptions, larger members’ negotiating goals have been modest. Many have seemed more interested in preserving their existing trade barriers than in seeking out the tradeoffs and constructive compromises that would be essential to a substantial package deal.

Bilateral/Regional Deals: Pros & Cons

Indeed, the political fragility of the project was highlighted by the circumstances of last summer’s collapse. The cause was US objections to an emergency mechanism demanded by China and India to shelter their markets from sudden surges in farm imports. The issue was highly technical – and hypothetical at a time of high and rising food prices. Deft diplomacy might well have defused it. That it did not, nor was it seriously attempted, raises questions about the parties’ determination to seek common ground.

In truth, the plight of the Doha Round looks more like a symptom than a cause of problems piling up at the WTO. These first surfaced after the disastrous failure of the organization’s ill-starred ministerial



Andrew Stoler (left), deputy chief of mission at Geneva office of US Trade Representative (USTR), deposits ratification documents for WTO treaty at GATT Secretariat in Geneva to Ake Linden, Swedish assistant of GATT's director-general, on Dec. 30, 1994.



Japanese Foreign Minister Yobei Kono addresses a WTO ministerial conference in Seattle on Dec. 1, 1999, which collapsed amid violent street protests.

meeting in Seattle in 1999. Though widely remembered for the violent anti-globalization protests on the streets outside the conference center, the meeting actually foundered on rancorous disagreements and deadlock between the negotiators inside.

Since then, growing disenchantment has set in. Galvanized briefly by the shock of the 9/11 terrorist attacks, WTO members managed to launch the Doha Round in late 2001 in a display of political solidarity. But, increasingly, they have chosen to conduct their trade diplomacy outside the organization, and beyond the reach of its rules by opting for bilateral and regional deals as a preferred way of opening markets. Some 400 such arrangements are estimated to be in effect or under negotiation, and half of world trade is between countries belonging to one or more of them.

Defenders say such deals are relatively quick to negotiate, can go further than the provisions of existing WTO agreements, promote “competitive liberalization” and can serve as building blocks for an eventual grand bargain at the multilateral level. Critics, however, point out that many preferential deals are weak, riddled with exceptions and, unlike WTO agreements, are usually backed by no legally binding enforcement mechanisms. They also argue that by creating complex and disparate regulations, the arrangements distort, rather than free, trade.

New Players' Active Role Needed

Because the WTO lacks effective mechanisms for evaluating and policing the arrangements, the debate about the economic impact of bilateralism and regionalism remains unresolved. But either way, it is clear that a growing amount of international trade policy-making no longer takes place at the WTO. One common explanation is that its procedures, which require all decisions to be reached by consensus, are too unwieldy to work properly in an organization that has expanded fast to embrace 153, mostly developing, economies. There is some truth in that. But it is far from clear that procedural reforms, even if they could be agreed, would be enough to get the WTO moving again.

The organization must contend not only with the challenge of a widely diverse membership, but with a leadership vacuum. Its predecessor, the General Agreement on Tariffs and Trade, was largely a creation of the United States, which for many years exercised benign

stewardship over it. But those days are long gone. Not only does the United States no longer possess the incentive or the capacity to continue playing that role; the emergence of China, India, Brazil and others as increasingly self-confident and assertive economic powers has rendered the idea unthinkable.

The active involvement of those new players is now indispensable to progress in the WTO. But none of them aspires to – or probably ever could – step into the shoes once filled by Washington. Nor does the idea of some form of shared leadership appear realistic, at least in the short term. The United States and EU have, of course, had to take account of the growing clout exercised by the bigger emerging economies. But cooperation, when it has occurred, has been largely ad hoc and tactical, with little sign of convergence on broader strategic goals.

That has left the organization's mandate confused and its direction unclear. The 2004 report by the Sutherland Commission, chaired by the WTO's first director-general, described it as “a vehicle with a proliferation of backseat drivers, each seeking a different destination, with no map and no intention of asking the way.”

There is much disagreement, for instance, over how far it should seek to break down “behind the border” barriers and shape regulation of domestic markets, particularly for services. Many experts argue that such action is essential in order to keep trade free. But many countries, developed as well as developing, resent it as an unjustified intrusion into sovereign domestic policy. There has been no convergence either, nor even much discussion, on how to reconcile WTO rules with the impact on trade of a future international climate change convention. Conflicts may flare if rich countries decide – as some politicians in the United States and Europe have proposed – to impose discriminatory tariffs on imports from poorer ones that they judge to have been made using environmentally damaging production methods.

Lacking Clear Mission, Agenda

Meanwhile, public support for free trade has grown shaky, particularly in the developed world. The uneven distributional effects of liberalization have long made it politically contentious with constituencies that stand to lose from the removal of protection. However, trade and globalization more generally have increasingly been made



World leaders meeting for a financial summit pose for photos at National Building Museum in Washington on Nov. 15, 2008. Third from right in back row is Japanese Prime Minister Taro Aso.

whipping boys in the United States and parts of Europe for much broader sources of popular discontent, including widening income inequality, stagnating real wages and loss of blue-collar jobs. Many of those problems actually arise from technological change, labor market deficiencies and inadequate domestic policies. But until unease about them is tackled effectively, popular support for open trade may remain at a low ebb.

Globalization generally excites less hostility in developing countries, many of which have taken important steps to open their markets unilaterally in recent years. However, most have balked at formalizing such liberalization by translating it into legally enforceable WTO commitments. Whatever the reason for their reluctance, it hardly speaks of an enthusiastic acceptance of the primacy of multilateral disciplines.

All this suggests that much more is needed to get the WTO back on track than a reform of its rules and procedures, beneficial as that might be. The organization's central problem is that it increasingly lacks a clear mission and agenda, based on a common definition of its central purpose and objectives. Formulating one is likely to prove a lengthy task that will require both painstaking diplomacy in order to bridge differences and build trust between its disparate membership and national actions to strengthen popular support for open trade at home. That cannot be left to trade diplomats in Geneva, schooled in traditions of gladiatorial combat in the negotiating chamber. It will call for high-level commitment and political courage in national capitals.

A serious collective reevaluation of the WTO's mandate and role is unlikely to be launched while the Doha Round is still under way. However, it is also unclear whether completion of the negotiations would lead governments to devote the necessary time and effort to strengthening and reengineering the organization. With the "unfinished business" of Doha out of the way, some might simply declare mission accomplished and turn their attention to other, more pressing, issues. That would be understandable. But it might be dangerous.

Test of Commitment to WTO's Core Principles

If the WTO's legislative activities were effectively consigned to limbo, it would throw all the weight on its quasi-judicial responsibili-

ties as arbiter of trade conflicts. The effectiveness of the organization's dispute settlement tribunals has been its greatest success and is the bedrock of its authority. However, the procedures have operated so far in relatively benign economic conditions: they have yet to undergo trial in really bad ones.

That trial will come if governments respond to a slump in growth and rising unemployment by resorting to retaliatory protectionism, as happened during the 1930s depression. In that event, the WTO dispute tribunals would almost certainly be thrust into the thick of the hostilities. However, their ability to enforce the rules is only as strong as sovereign governments' willingness to respect them. If just one large WTO member rejected an important ruling against it, that could undermine the credibility of the entire system.

It is also possible that if WTO members did not find satisfaction in the Doha Round, some would seek to gain through litigation what they had failed to achieve through negotiation. Brazil and other countries are already considering challenging the legality of US and EU farm subsidies. Being required to mediate in such politically charged disputes could place immense strains on the WTO tribunals.

These are, of course, worst-case scenarios. Cool heads and self-restraint may prevail in the end. But if they do not, the WTO, once described as a preeminent forum for managing globalization, could end up instead as one of its victims, condemned to playing a marginal role in setting the rules for the world economy. How well the organization weathers the challenges confronting it will be a test of its members' commitment to its core principles. It will also be, more broadly, a measure of how far governments that champion the virtues of multilateralism are ready to put their faith into practice. **JS**

Editor's note: This article was written in November 2008, reflecting the prevailing world trade situation then.

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