

WTO – Facing the threat of insignificance

As the recession wears on and brings with it a collapse in demand, global trade is experiencing a contraction unseen since the Great Depression. With an expected fall of 13 percent in global trade, the OECD painted a bleak picture in May. Accordingly, OECD Director for Trade and Agriculture Ken Ash called on governments not to discriminate against foreign goods, services, firms or workers in order not to exacerbate the situation. Earlier on in March, the annual assessment of global trade of the WTO looked less grim but still gloomy; the forecasted 9 percent decline in exports in 2009 gave ground to sound the alarm in Geneva as well. Like Ash, WTO Director-General Pascal Lamy, doesn't tire of warning what devastating effects protectionist measures could have on the global economy.

While economists seem undivided over the question of protectionism, the opposite seems to hold for the actual policymakers. Although politicians worldwide rhetorically embrace trade and praise its beneficial effects, concrete measures speak a different language. The most prominent examples are France and the US. When French President Nicolas Sarkozy agreed to subsidize the auto industry, he tried to do so under the precondition that government money would be spent in France only. The "Buy American" provision in the US financial stimulus package is also everything but beneficial to global trade. Thus, while the WTO presses for further liberalization, its influence is starting to wane as the downturn deepens.

1.1 Manifold reasons

Using recent economic developments to explain the WTO's flagging falls short of the complex issues it faces, however. Its problems are more deeply rooted. The Doha Round serves as a perfect example to illustrate the structural deficits the WTO needs to work out in order to guarantee its survival. The Round was launched in 2001, when no global recession was in sight. Regardless, negotiations have stalled for years and no movement is expected any time soon, no matter how urgent Lamy's calls may be.

Reasons for this liberalization stalemate are staged on various levels. First of all, many countries are bypassing the strict WTO regulations by negotiating bilateral or regional free trade agreements (FTAs). The number of those deals has increased substantially in recent times. Underlying is a simple insight that negotiations among a few are easier to handle than multilateral negotiations. In addition, they can go deeper in substance. While granting preferential conditions to selected partners clearly violates the most-favored nation clause that all WTO member states agreed upon, the WTO explicitly allows FTAs under the assumption that all trade agreements eventually reduce trade barriers even if they undermine efforts to regulate trade on a global level.

1.2 Redistribution and mistrust

Not only have numerous governments retreated to bilateral negotiations, the atmosphere in the WTO in general has deteriorated to where it has become almost impossible to reach any kind of deal among the 153 member states. On the one hand, this is related to the awakening of the developing countries. Since they have decided not to give any more “concessions,” any progress in the negotiations has been blocked. Frederik Erixon of the European Centre for International Political Economy argues that the demand for redistribution between rich and poor countries has caused an inherent conflict of objectives within the WTO that needs to be addressed sooner rather than later.

Another reason for the strained negotiations is China. Diplomats state that the entry of the country, with a population of 1.3 billion, to the WTO has caused other member states to resist liberalization measures. Some fear striking deals within the Organization due to the prospect of being flooded with cheap Chinese products, preferring bilateral negotiations instead.

1.3 Remodel the basics

Along with the previously mentioned issues comes the most profound one – the high flying ambitions of the WTO to reach an all-inclusive grand bargain, as Erixon describes it. The idea of global governance may be viable in theory and even desirable from an idealistic point of view, but when those ambitions and expectations end in agreements loop-holed by countless exceptions, one might as well scrap big trade rounds altogether. The WTO should adopt a more realistic approach and scale down its global ambitions. Several commentators have argued that the WTO should adopt a more modest role in order to lock in liberalizations negotiated outside its walls and assist them with multilateral rules. This may be less prestigious than a comprehensive trade governance framework, but more rewarding. Consent is also growing within the Organization for an overhaul before any future trade rounds are announced.

One thing is certain: although global trade may be faltering in the economic downturn, it will recover. The economy is too entangled and interdependent for any government to ignore the need for the international movement of goods, services and workers. Business will continue to thrive and expand across borders. When the economy rebounds, the only remaining question will be whether this will happen with a WTO sliding into insignificance or with a reformed, and above all, strengthened Organization at its core.

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1.4 Resources

1.4.1 Intergovernmental Organizations

The World Trade Organization (WTO)

The WTO handles rules of trade between nations. It aims at liberalizing trade and offers a forum for governments to negotiate agreements and settle disputes. The WTO also operates a system of trade rules.

The Organization for Economic Co-operation and Development (OECD)

The OECD brings together governments committed to democracy and the market economy. Its mission is to support sustainable economic growth, boost employment, raise living standards, maintain financial stability, assist other countries economic development and contribute to growth in world trade.

The United Nations Conference on Trade and Development (UNCTAD)

The UNCTAD helps developing countries integrate into the world economy. Established in 1964, it has evolved into a knowledge-based institution whose work aims to help shape current policy debates and thinking on development with a particular focus on ensuring that domestic policies and international action are mutually supportive in bringing about sustainable development.

1.4.2 Research and Academia

Growing World Trade: Causes and Consequences, by the Brookings Institution

Paul Krugman, Richard N Cooper and T N Srinivasan discuss the evolution of global trade and its vast growth in recent time. The authors analyze potential causes and consequences of world trade and point out common mistakes in its analysis. They stress that the volume of world trade is not completely determined by technology as often portrayed, but is rather a political decision.

From Twin Towers to Fawltly Towers: The Story of the Doha Round, by the European Centre for International Political Economy (ECIPE)

This paper outlines the evolution of the Doha Round and discusses reasons for its failure to date. The author offers suggestions for WTO reform and argues for the Organization to adopt a more small-scale but realistic approach.

The Peterson Institute for International Economics

The Peterson Institute for International Economics is a private research institution that specializes in the study of international economic policy. Among other topics, it features a broad range of articles related to world trade, the WTO and the Doha Round in particular.

The Institute of Economic Affairs (IEA)

The IEA is an independent think tank dedicated to explaining free market ideas to the public, including politicians, students, journalists, businesspersons and academics. The organization's research and education programs focus on development, economic theory, education, environment

and transport, ethics, the EU, fiscal policy, industry and privatization, labor, monetary policy, regulation, trade and welfare.

The Institute of Developing Economies (IDE)

The IDE aims to foster the expansion of trade relations and promote economic cooperation with developing countries and regions by conducting research to meet social needs.

1.4.3 Media

Financial crisis boosts trade reform calls, by *The Economic Times*

This article discusses the implications of the economic crisis for global trade. It also analyzes the Doha Round and assesses the impact of a potential failure of the negotiations.

WTO warns on barriers to trade, by the *Financial Times*

This article discusses the recent increase in trade barriers and the rise of protectionist measures. It describes some of the measures taken and gives an outlook of what is expected.

1.4.4 Nongovernmental Organizations

The Institute for Liberty and Democracy (ILD), Lima, Peru

The ILD is a nonprofit organization that aims at moving the assets of the poor from the extralegal economy into an inclusive market economy. It provides governments with technical assistance to furnish entrepreneurs with fundamental legal tools to participate in both local and international markets.

War on Want, London, UK

War on Want is a nongovernmental organization fighting poverty in developing countries in partnership and solidarity with people affected by globalization. It leads campaigns mainly in five areas – one of them trade justice – to change British government policy and the way international institutions operate.