

REFORMING THE REFORM AGENDA:

CRISIS AT THE WTO

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The World Trade Organization (WTO) was originally conceived by its architects to serve as an essential plank of globalization by promoting non-discrimination, free trade, transparency, and assistance to developing nations.² While the WTO's processes are incomplete, they have provided a quay on which to anchor the global trade system; by providing large degrees of predictability and stability in interstate relations, the world has grown more interconnected, more productive, and more equitable. Indeed, the World Bank estimates that by 2015 more than one billion people will have been moved out of absolute poverty thanks to the gains of the modern global trade system.³

The prospects for world trade agreements in the next decade are troubling, however. In the high stakes game of the international political economy, the system is still thoroughly Westphalian.⁴ Employing ever-expanding trade agreements as a way to open markets and settle disputes will inevitably lead to stalemates,

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2 BERNARD HOEKMAN, AADITYA MATTOO, AND PHILIP ENGLISH, *DEVELOPMENT, TRADE, AND THE WTO: A HANDBOOK* (2002).

3 RICHARD NEWFARMER, *GLOBAL ECONOMIC PROSPECTS 2007: MANAGING THE NEXT WAVE OF GLOBALIZATION* (2007).

4 DAVID P. FORSYTHE, *HUMAN RIGHTS IN INTERNATIONAL RELATIONS* (2006).

bias, and dissatisfaction. To a troubling extent, the WTO is an antiquated system limping along upon the gains of its predecessor, the General Agreement on Tariffs and Trade (GATT).⁵ With the Doha Development Agenda, commonly known as the Doha Round, languishing in perpetual gridlock, one is left to wonder what the future of the international trade system holds.

The heart of this issue is divided. While the desire to foster camaraderie among nations and cast out the demons of poverty in the developing world are key concepts in the current international political climate,⁶ Schumpeter's gale of creative destruction is painful⁷ and practicality acutely reminds leaders that outsourcing and retrofitting are costly, unpopular, and electorally unwise.⁸ For nations to move forward, the liberalization of trade will happen along bilateral and regional lines; the age of so-called "pluri-lateral" agreements has proven ineffective. Lip service to the good of global integration has been followed by a web of confusing international regulations that inhibit virtually every facet of the global economy.⁹

AN ENGINE OF GLOBALIZATION

The current system of trade disciplines has proven widely effective at underpinning international economic relations by promoting free and open markets. The system, embodied in the WTO, was crafted through a series of eight multilateral trade negotiations (MTN), culminating with the Uruguay Round in 1995. Since its inception, the WTO has sought to make negotiations more transparent while bringing developing countries along in the process. The measurable gains of the WTO as a driver of global integration stand out in four areas.

5 Gary Clyde Hufbauer, Jeffrey J. Schott, and Woan Foong Wong, *Figuring Out the Doha Round*, (Peter G. Peterson Institute for International Economics Working Paper, 2009).

6 THOMAS POGGE, *WORLD POVERTY AND HUMAN RIGHTS* (2008).

7 JOSEPH SCHUMPETER, *CAPITALISM, SOCIALISM, AND DEMOCRACY* (1962).

8 Stanley D. Nollen and Harvey J. Iglarsh, *Explanations of Protectionism in International Trade Votes*, 66 *PUBLIC CHOICE* (1990).

9 THE WORLD TRADE ORGANIZATION, *THE WORLD TRADE REPORT 2008* (2008).

First, new countries have been shepherded into the modern financial system. Twenty-five countries have joined since the signing of the agreement, bringing the total to over 150 members. China's accession to the WTO provided access to one of the world's largest and fastest growing markets that, with 9 percent of world imports, is soon expected to be the largest trading nation.¹⁰ China's membership helped to construct a framework that not only liberalized its own trade, but helped to reshape the global economy along market lines. Three more recent additions – Saudi Arabia, Vietnam, and the Ukraine – each account for more than 0.5 percent of world trade. Additionally, due to the requirements of Article XII, new member nations have largely assumed higher burdens with respect to balance of payment considerations than most of their counterparts.¹¹

Secondly, under the General Agreement on Trade in Services (GATS), substantial economic gains have been realized in several important fields. Telecommunications, financial services, and other infrastructure projects have been the focus of many economically significant agreements among a plurality of WTO members.¹² The gains realized from these projects are underestimated; stable infrastructure helps to promote economic growth in many areas.

Thirdly, the WTO has provided effective boundaries to tariff, subsidy, and non-tariff barrier increases. Nations, using the WTO's Dispute Settlement System, have frequently utilized successful arbitration to resolve disagreements. Of the roughly 370 disputes that have been filed, only 84 rulings have been appealed, and most disputes have been settled by the parties in question amiably outside of the formal process.¹³ Increasingly, emerging markets have resorted to using the system to leverage their power to protect against exploitation from the developed

10 Data from *Global Trade, Assistance, and Production: The GTAP 8 Database*, (2009).

10 HOEKMAN, *supra* note 1.

12 Horace A. Bartilow and D. Steven Voss, *Market Rules: The Incidental Relationship Between Democratic Compatibility and International Commerce*, 53 *INTER. STUD. QUART.* (2009).

13 WORLD TRADE ORGANIZATION, *THE FUTURE OF THE WTO: ADDRESSING INSTITUTIONAL CHALLENGES IN THE NEW MILLENNIUM* (2004).

world; those emerging markets have been active in 80 percent of all cases.¹⁴ Genuine legal disagreements do exist, but even when the rulings have been against the largest trading nations, most disputes have been settled cordially with compliance or appropriately stated intentions to comply, as in the case of Norway's salmon dispute with the European Union (EU) or Brazil's cotton case against the United States.

Finally, thanks to incessant prodding by Director-General Pascal Lamy, the Aid for Trade initiative, which includes much technical help for the poorest countries, has become a driver of wealth creation in several development agencies.¹⁵ Born out of a resolution at the Hong Kong meeting of finance ministers in 2005, this program has given the WTO a monitoring role in helping to develop infrastructure within emerging nations. By assisting poor nations in the development of their technological capabilities and expansion of their trade capacity, developed countries are realizing more gains to global trade while helping to pull their developing counterparts out of poverty.

These indubitable successes have helped cement the role of the WTO as the engine driving globalization on the level of trade and poverty alleviation. Without the WTO, many of these gains may not have been realized on a nearly comparable scale, since the aforementioned gains were shepherded along in WTO programs. Even in the midst of a global financial crisis, the G20 leaders turned to the WTO Secretariat to help monitor the sharp rise in protectionist measures, provide advice, and stymie the tide of isolationism.

The financial crisis has also underscored the inadequacy of the WTO disciplinary actions in areas ranging from agricultural policy to industrial tariffs and from access to natural resources to antidumping practices to government procure-

14 Self Calculations based on Ibbotson Data. This calculation is a simple percentage based on the number of cases in which an emerging market nation has been present as an official party in a WTO dispute.

15 Personal Interview with Uri Dadush (June 2009).

ment. The recent resurgence of “Buy American” campaigns has highlighted, for example, the shortfalls of a government procurement agreement that does not include Brazil, Russia, India, or China. Leaving these so-called BRIC countries, who have large and fast-growing economies, off the agreement meant that they held no obligations under the treaty, but also no recourse against discriminatory trade practices. The raising of steel tariffs in the EU with facility to combat Chinese antidumping concerns and the analogous move on various products in India illustrates the weaknesses of the antidumping provisions and shows the large disparity between bound and actual tariffs in most developing countries.¹⁶

The financial crisis has also exposed the dangers of stalling the moves towards WTO extensions in illiberal markets.¹⁷ Here, pressing concerns linger; among others, chief issues include the huge agenda of codifying and opening trade in general services, lowering actual and bound tariffs in developing countries, creating bilateral trade preferences between lower developed countries, and reforming agricultural protections in both industrial and emerging markets.¹⁸

MINIMAL GAINS AT MAXIMUM COST

Over the past three decades, world trade has boomed, tariffs have plummeted to a fraction of their previous medians, and the GATT/WTO system has acted as a backstop against recidivism in these areas.¹⁹ The interesting observation, however, is that during the fifteen years of the WTO’s existence, trade liberalization has taken place in virtually every administrative capital except Geneva. While hundreds of new regional agreements have been signed and unilateral and bilateral tariff cuts have characterized the liberalization, the multi and plurilateral approach

16 Uri Dadush, *WTO Reform: The Time to Start is Now*, 80 CARNEGIE POLICY BRIEF (2009).

17 CHAD P. BROWN AND RACHEL McCULLOCH, *DEVELOPING COUNTRIES, DISPUTE SETTLEMENT, AND ADVISORY POSITIONS ON WTO LAW* (2009).

18 ALEJANDRO FOXLEY AND DANIEL HANSON, *RECOVERY: THE GLOBAL FINANCIAL CRISIS AND MIDDLE-INCOME COUNTRIES* (2009).

19 Eswar Prasad, *Protectionism Exposed*, (Brookings, Working Paper 2009).

has spun its wheels. The last general multilateral accord was signed at the Marrakesh Ministerial in 1994.²⁰ A recent analysis by the World Bank indicates that, since 1995, the reduction in applied tariffs on goods is attributable predominantly – to the tune of 65 percent – to autonomous reductions, followed distantly by the Uruguay Round at 25 percent and then regional agreements at 10 percent.²¹ Essentially, no significant gains in liberalization over the trade of goods or reductions in bound tariffs have come from multilateral accords since the WTO's inception.²²

Indeed, a review of the eight rounds of MTNs suggests that as a general trend each round takes longer and yields less per month than the preceding round. The first round, held in Geneva in 1947, included twenty-three participants and concluded in less than a year.²³ The reduction in bound tariffs as a result of this meeting was 26 percent from excessively high levels.²⁴ Uruguay, by contrast, ran from 1986 to 1994 and included 123 members,²⁵ yet the reduction in bound tariff rates was only 38 percent from significantly lower initial levels.²⁶ The languishing ninth round, Doha, involves more than 150 countries, and as it spirals into its ninth year, there is no realistic end in sight.

Various explanations have attempted to account for why successive rounds are increasingly difficult and increasingly ineffective. In particular, solutions to the stagnant Doha round are the topic *de jure* in ministerial meetings. Among the compelling explanations are the increased sensitivity of the issues, the growing diversity among players' interests, the increased assertiveness of emerging markets,

20 REPORT OF THE FIRST WARWICK COMMISSION, *THE MULTILATERAL REGIME: WHICH WAY FORWARD?* (2007).

21 WORLD TRADE DIVISION, WORLD BANK, *INCIDENCE OF TARIFFS IN WTO MEMBERS' TARIFF SCHEDULES AND POSSIBLE APPROACHES TO THE ESTIMATION OF REDUCTION EQUIVALENTS* (2008).

22 SUPACHAI PANITHPAKDI AND PETER SUTHERLAND, *THE FUTURE OF THE WTO: ADDRESSING INSTITUTIONAL CHANGES IN THE NEW MILLENNIUM*, Report to the Director of the Consultative Board, WTO, (2004).

23 WORLD TRADE ORGANIZATION, *UNDERSTANDING THE WTO* (2009).

24 Self-Calculations based on GTAP data. See note 8.

25 WORLD TRADE ORGANIZATION, *supra* note 22.

26 Self-Calculations based on GTAP data. See note 8.

the growth of regional blocks, the complexity of behind-the-border trade-offs in service regulations, and the instability of reserve currencies.²⁷ Against this backdrop, finance ministers meet to search for a unanimous consensus on a single, non-optional undertaking. The result is that all progress has come around extremely low common denominators, and private sector players, realizing the effort-to-results ratio is quite low, have failed to show up in support of any particular policy. The politically costly but pragmatically vapid concessions required from larger countries like the United States, India, and Russia have also contributed to the mess.²⁸

While commentators argue that concluding the Doha Round successfully is crucial to enshrining the credibility of the WTO, it is nearly impossible to escape the conclusion that the process is obfuscating growing dissatisfaction with the current system. Doha, largely touted as a “development round”, has progressively whittled down its estimates of possible annual development gains from \$100 billion at the outset to less than \$20 billion now.²⁹ This figure, roughly on par with the cost of bailing out a medium-sized US bank, comes with strings attached; the binding commitments are politically costly and the real gains are virtually inconsequential.

By contrast, if a country is able to deploy 10% of GDP – and more than 80 developing countries of the world do – through the current system in a way that yields an extra 5% above historical central sovereign trade investments, the gain is 0.5% of GDP in free capital to meet national priorities.³⁰ In clearer terms, the

27 William Shaw, Uri Dadush, and Richard Newfarmer, *Global Economic Prospects 2005: Trade, Regionalism, and Development* (2005).

28 Will Martin and Patrick Messerlin, *Why is it so difficult? Trade Liberalization Under the Doha Agenda*, 23 OXFORD REVIEW OF ECONOMIC POLICY (2007).

29 WORLD TRADE ORGANIZATION, DOHA DEVELOPMENT AGENDA: NEGOTIATIONS, IMPLEMENTATION, AND DEVELOPMENT (2010).

30 Daniel Hanson, *Competition, Cooperation, and Capitalism: An Analysis of Emerging Sovereign Wealth Management*, (2010). (Paper Presented at the Annual Meeting of the Eastern Economic Association).

121 developing countries, as classified by the International Monetary Fund, with excess reserves earn more than \$100 billion in excess profit per year above the standard investment scheme of central reserve managers. This amount is small relative to the global economy, but large relative to developing nations. It is 1% of the GDP of this block of countries; it is greater than the developed world's yearly financial assistance to Africa.³¹ Additionally, it is a number that has grown at 24% per year since 2001 without costly political ramifications.³²

THE ROAD FORWARD

Little agreement about how the process should move forward exists, but the facts present several attractive options that will help sustain growth in the global economy and revive the trend of global economic integration. First, it is necessary to recognize that a problem exists. Negotiations that deal with salient problems cannot begin until Doha ends; as a result, Doha must necessarily be brought to a swift conclusion. Preferably, the outcome would indicate wide support for unilateral, bilateral, and regional trade agreements to buttress the WTO's agenda.³³

Second, the WTO must recognize that it can no longer afford to be a bastion of isolation in a turbulent sea of evolving trade relations. The single-minded focus on multilateral concessions based on consensus is bearing diseased fruit, and actual liberalization is not taking place. The WTO allows participation from groups of nations – like the EU – while refusing to officially recognize officially the de facto economic influence of other trade blocks, like the Association of Southeast Asian Nations (ASEAN), the North America Free Trade Agreement (NAFTA), or the Southern Common Market (MERCOSUR), despite the obvious economic importance of their input. The WTO can help to foster wide gains in

31 Lawrence Summers, *Opportunities in an Era of Large and Growing Official Wealth*, in SOVEREIGN WEALTH MANAGEMENT (Malan Rietveld, ed., 2009).

32 Hanson, *supra* note 29.

33 Aaditya Mattoo and Arvind Subramanian, *From Doha to the Next Bretton Woods: A New Multilateral Trade Agenda*, FOREIGN AFFAIRS (January/February, 2009).

line with their own objectives by embracing the contributions of these blocks and pushing for reform along similar lines.³⁴

Contrary to the prevailing mercantilist rhetoric of international trade negotiations, experience and theory both dictate that the gains to countries that autonomously liberalize far outstrip the costs of liberalization. The WTO can help countries move towards autonomous liberalization by exploiting its Trade Policy Review mechanism to reveal the inefficiencies inherent in the status quo. The instrument is a powerful diagnostic tool, and it has the potential to provide ongoing dialogue for trade reform to the international community.³⁵

Plurilateral agreements are politically popular in theory, but damning in practice, as they are always condemned for discrimination, preemption, or inefficiency. The alternatives appear to be worse at first glance, as no one desires a litany of vacuous trade deals that paralyze progress. The reality is that small and poor nations are increasingly finding themselves empowered by latching on to highly specific or localized trade disciplines.

While research has shown that many regional agreements are badly designed and poorly implemented,³⁶ it has also shown that many – including the EU, the North and Central American Free Trade Agreements (NAFTA and CAFTA, respectively), the Pan-Arab Free Trade Area, the Gulf Cooperation Council, and the Southern Africa Customs Union – have been wildly successful at curtailing protectionism, removing barriers, increasing certainty of openness, and creating genuine trade increases. Regional agreements are more flexible, and consequently, they find themselves better able to deal with behind-the-border impediments to trade. Such agreements are further able to experiment with new ideas and adopt more broad-reaching policies. Most of the business world has begun to view re-

34 Dadush, *supra* note 15.

35 BERNARD M. HOEKMAN AND MICHEL M. KOSTECKI, *THE POLITICAL ECONOMY OF THE WORLD TRADING SYSTEM: THE WTO AND BEYOND* (2001).

36 Jose Daniel Rodríguez-Delgado, *SAFTA: Living in a World of Regional Trade Agreements*, (IMF, Working Paper 2007).

gional organizations as the new way forward in expanding trade opportunities, but the WTO has continued to see these agreements as a threat.³⁷

The WTO holds clout in international circles and fosters tremendous research; both of these tools can be of immense help to the growth of regional agreements. A large body of literature confirms that welfare-enhancing regional agreements utilize low external tariffs, simplified rules of origin, and coverage of all forms of trade, yet many regional agreements still lack one or more of these characteristics. By helping craft agreements that contain these elements – as well as efficient enforcement mechanisms – the WTO can help to foster the accession of poorer countries that have historically been excluded from the benefits of trade. While the long-term goal in this respect should be establishing effective rules and guidelines for the governance of regional agreements, constructive engagement of these processes is a prerequisite for any glimpse of that goal.

Finally, the WTO must explore new avenues in which to be effective. In the chief areas of concern to the international community, such as food and water security,³⁸ the trade aspects of climate change,³⁹ illicit weapons trade,⁴⁰ capital flows in the aftermath of the current recession,⁴¹ and so forth, the WTO is nowhere to be found. With respect to multilateralizing the principles of the cosmopolitan system, such as most-favored nation status and nondiscrimination, the WTO has failed to realize these exist only in the realm of ideals. A good way not to bring about a global consensus on their pragmatic implications is to have a big, compre-

37 Dadush, *supra* note 15.

38 Daniel Hanson, *Water Scarcity, Hydropolitical Conflict, and the Emerging World*, INTERCONCILIATION (2009).

39 William Shaw and Uri Dadush, *Global Governance and the Developing Countries*, (forthcoming).

40 Judith Large, *Democracy and Trade: The Impact of the Anti-Terror Agenda*, (IDEAS Centre, Working Paper 2010).

41 Hui Tong and Shang-Jin Wei, *The Composition Matters: Capital Inflows and Liquidity Crunch During a Global Economic Crisis*, (2009). (Paper Presented at the Federal Reserve Bank of Dallas).

hensive trade ministerial.

The smaller multilateral gains the WTO can realize could come by codifying some common themes in regional agreements. A new push might focus on, say, eliminating all tariffs under 3 percent, adopting a unified code for rules of origin, or banning export subsidies in agriculture.⁴² Most of these changes could be enacted by formalizing the consensus opinion, and perhaps more importantly, they could happen without a showy international meeting. While such a move would require significant engagements from finance ministers, it would also be much more low-key, and thus be more politically viable and yield a larger economic impact.⁴³

This precursory outline for WTO reform is intentionally sparse, for it focuses on reforms needed to remove the crippling blockages to the WTO's mission. A comprehensive treatment would include considering reforms of things the WTO does relatively well, like streamlining the dispute settlement process, rebalancing the accession requirements, and expanding its research functions. Ultimately, these are issues where improvement leads to minimal gains; improvement in other areas will reenergize a stagnating global trade regime.

42 Dadush, *supra* note 15.

43 Martin, *supra* note 27.

