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The WTO's Uncertain Future

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The World Trade Organization (WTO) is made up of three major groups of nations: the developed industrial, or post-industrial, countries; the emerging countries that are important traders; and the developing countries, including the least developed among them. There is some overlap, but this tripartite division is useful in understanding what happened at the Hong Kong ministerial meeting in December; and it is even more valuable in assessing the future dynamism of the WTO.

The trade objectives of the three groups vary considerably. The significant trade liberalization that has been realized over the past 60 years—in the General Agreement on Tariffs and Trade and then in the WTO—has been led by the first group, the developed industrial countries, especially by the United States, working closely with the European Union. The second group, the emerging countries, are now beginning to play a large role in the WTO's deliberations, but their conviction in taking on significant new obligations is not yet established, even as they are increasingly aggressive in seeking new benefits. The developing countries have long played a secondary role in trade negotiations: they seek "special and differential treatment," and that amounts to seeking trade benefits from the industrial countries without undertaking counterpart obligations. They are by no means ignored by the developed countries, but because they grant little in return for the benefits they receive, they have no priority in the negotiations other than to define what is "special" as they seek "differential" treatment. This, in essence, was the role they played at Hong Kong and can be expected to play as the Doha Round proceeds.

The problematic behavior at the Hong Kong ministerial meeting, as it has been from the outset of the Doha Round, was that of the industrial and emerging countries. They matter most because they are the countries one would expect to take on obligations equivalent to the benefits they seek, but there is now considerable doubt about their willingness to do this.

Following are some examples of the less-than-stellar behavior of the industrial countries: the European Union insisted on 13 years before phasing out export subsidies on farm products, three years more than had been anticipated; the United States said it was not yet ready to deal with domestic and export subsidies on cotton, despite having lost the legitimacy of these subsidies in a WTO panel; and Japan refused to allow quota-free access to its rice market. The director-general of the WTO, Pascal Lamy, is convinced that the Doha Round negotiations must be completed by the end of 2006 in order to leave enough time for legislatures of the member countries to ratify the results before U.S. trade-promotion authority runs out in mid-2007. There is no confidence that President George Bush will be able to obtain renewal of this authority from the U.S. Congress. Put differently, there is little faith that the United States is prepared to continue its leadership role in trade liberalization.

Some important emerging countries left considerable doubt about their willingness to undertake new obligations: South Korean farmers led protests to avoid any diminution of import protection on agricultural products; and Brazil and India withheld any offers on trade in services until there is a settlement on agricultural trade. China has yet to take meaningful steps to deal with its undervalued exchange rate; and despite all the explanations put forward for this refusal—and there are many—there is no doubt that China's exchange-rate policy stimulates the country's exports. Other emerging countries in East Asia also have undervalued exchange rates and are accumulating large foreign-exchange reserves, and they are reluctant to change exchange-rate policy until China takes the lead. The large imbalance in the world's current account positions needs correction, in my view, before it leads to a costly trading collapse.

Is it worth completing the Doha Round even if significant sensitive issues are not resolved? My answer is "yes." If the United States needs some time to resolve its upland cotton subsidies, what will be needed is a date definite negotiated in the Doha Round for doing this. Japan and South Korea will be put under great pressure to open their markets more to agricultural products if the United States and the EU do so. Brazil and India could have played a more constructive role by setting forth a maximum offer on services in exchange for benefits they seek—Brazil for agricultural trade—and then withdraw some offers if equivalence is not obtained; and obtaining equivalence requires a completed Doha Round.

The more salient question has to do with the future of the WTO itself. The primacy of the WTO is that it is the closest the world has to a global trade body. It is also important to keep the WTO viable in order to maintain its central principle, the most-favored-nation (MFN) clause: namely, that trade should be nondiscriminatory. Unfortunately, this principle is increasingly breached in practice as countries enter into preferential agreements. The EU, the United States, and now the Asian countries have and are concluding numerous bilateral and plurilateral agreements—so much so that more trade probably takes place under discriminatory arrangements than under the MFN principle. This can be corrected only if import and other trade barriers are substantially lowered in the WTO.

International trade rules are established in the WTO. The WTO is the most important body for settling trade disputes. And, as stated earlier, the WTO is the main forum for discussion of trade issues and management of global trade negotiations. If the WTO did not exist, it would have to be invented.

Opening trade in agriculture and other sensitive areas was deferred for decades in trade negotiations, and it is only in recent years that we have seen progress. Yes, there has been progress. Import restrictions still exist in trade in clothing and apparel, but these are only a shadow of earlier limitations. Border protection in agriculture now takes the form of transparent tariffs, and their reduction can be negotiated in a more straightforward manner than more occult quotas and variable levies. Some progress will be made in the Doha Round in lowering domestic farm subsidies, even if much is left for the next round. And the elimination of agricultural export subsidies will be fixed for a time certain, even if three years later than had been hoped. Opening trade is probably something that will never be fully concluded; there is little possibility of a single world market with no restrictions other than transport costs. But this objective can be approached for the developed and many emerging countries only in the WTO. Globalization is pushing the world in this direction.

The foregoing arguments were not fully convincing at Hong Kong—or not convincing enough to override country political problems at home. The *Wall Street Journal* argued in an editorial comment that "If trade is to become freer, it may be necessary for a coalition of the willing to simply bypass the obstructionists and fashion a broad agreement of its own." (December 19, 2005) The main problem with this suggestion is that the most important obstructionists were the industrial and emerging countries, and a broad agreement requires that these countries show their willingness to negotiate one.

World Bank studies have demonstrated that the best performers among the developing countries, and among the current group of emerging countries when they were developing, were those nations that opened their markets, not those that insisted on keeping markets closed. Based on this record, the unwillingness of developing countries to take on greater trade obligations, to open their markets more fully than is now generally the case, is not in their best long-term interest. However, the reluctance of developing countries to do this was not the reason for the lack of solid progress in Hong Kong.

It was the behavior of the developed and emerging countries that makes this observer less than confident about the future of the WTO. If the United States is not prepared to provide leadership for further market opening, what country will? The EU perhaps, but clearly not for agricultural trade. And surely not the leading emerging countries, such as Brazil, India, South Korea, and China; the future of the WTO would be bleak if it were left to them to assume greater trade obligations. That conclusion is based on their actions in Hong Kong.[1]

The Doha Round is not over. The can was kicked down the road, as Charles Grassley (R- Iowa), chairman of the U.S. Senate Finance Committee said, and that still leaves time for progress in the Doha Round. If the WTO can maintain its viability, that also leaves room for future global trade negotiations.

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[1] Some emerging countries have shown leadership in trade issues, such as Mexico and Chile.