The WTO at 30: Past triumphs and future dangers



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Those of us involved in the WTO's creation have always understood how vividly it reflected the remarkable decade in which it was born. The 1990s was a momentous decade, with free market democracy on the rise and historic political changes sweeping the globe.

Looking at today's headlines, it is hard to recall the hope and optimism of that era. But a journey back in time reminds us how those powerful geopolitical and economic forces contributed to our final success.

The seismic events of that period resonated clearly among the delegates gathered in Geneva for the long, tedious negotiations known as the Uruguay Round, which were conducted under the auspices of the General Agreement on Tariffs and Trade (GATT), the WTO's predecessor body.

Perhaps the most impactful was the demise of the Cold War, hailed by Free World leaders as a decisive victory for democracy and market economics over global communism. A long, ideological struggle had ended, and the nations who had bet their future on democracy and market-oriented trade had prevailed over the competing model of state-driven production and internal self-sufficiency. But the same trends were happening elsewhere, including in countries that, unlike the Communist world, had long been GATT members.

These changes were largely about political freedom. This was clearly the case in the former Soviet satellites of Eastern Europe and the Baltic states, which eagerly embraced democratic elections and turned their sights towards eventual membership of the European Union (EU), an enlightened, democratic alternative to the Soviet model. It was also true in the emerging economies of Asia, Latin America and Africa, where country after country had moved away from the legacy of authoritarian rule. This included the momentous victory over apartheid in South Africa.

But it was not political ideology alone that was winning the day. Rather, it was the powerful link between democracy and capitalism that proved most appealing.

East Germans, now citizens in a reunited and economically powerful Germany, sat atop the rubble of the Berlin Wall enjoying their first taste of

bananas and dreaming of one day owning Volkswagens or Mercedes instead of Trabants, those revealing symbols of communism's industrial ineptitude.

The robust, capitalist-style industrialization which had already raised the fortunes of the four so-called "Asian Tigers" – the Republic of Korea, Hong Kong, Singapore and Chinese Taipei - was being emulated by other Asian nations with great economic potential, including ASEAN members such as Malaysia and Thailand.

A similar trend towards greater free market capitalism was taking hold in countries big and small in Latin America. One Central American diplomat in Geneva described for fellow negotiators how that impacted his country's Uruguay Round aspirations. "Not so long ago," he said, "any populist politician in my country could gain votes by railing against capitalism. Now, our voters just want to share in its benefits."

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Without popular support at home, negotiators will give little and demand much. But when there is an outcry for change, far more can be achieved. In the last three years of the Uruguay Round, it became obvious that these sweeping geopolitical and geoeconomic shifts had expanded the negotiating table, and that a far bolder outcome than originally envisioned was now possible.

What emerged from that cauldron of revised ambitions and expectations was a shared willingness among GATT members to create a far more open and interconnected world, one that would facilitate greater interdependence between all nations, large or small, rich or poor.

The GATT, which had served a useful purpose in stabilizing trade for over 45 years, was seen as too weak and limited to support this change. The

first GATT Director-General, Eric Wyndham White, had half-jokingly described it as "a series of loopholes tied together with waivers". That was perhaps harsh, but it was clear to all of us that the GATT, with many negotiated exceptions and inconsistencies, was not capable of ensuring a durable, internationally credible foundation for economic convergence.

The closing months of the Uruguay Round were a whirlwind of breakthroughs. This included the removal or limitation of longstanding protections, such as textile quotas and agricultural subsidies, and the acceptance of new rules in areas never covered under the GATT, such as services trade and intellectual property protection.

The GATT was also institutionally weak, having never evolved from its original status as a temporary body. Its dispute settlement system was often ineffectual, allowing members to block rulings and ignore the most politically inconvenient disciplines. While it contained many useful agreements on non-tariff policies, there was a strong desire to make it a more permanent arrangement with a bigger family of adherents to spur greater integration.

Buoyed by this shared sense that we had a chance to forge an entirely new and more coherent global system to replace the dilapidated GATT, countries with very divergent interests and objectives began fashioning a bolder set of trade-offs.

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All these new accords were reinforced with a permanent institutional charter and tied together in a "single undertaking" that bound all members to the entire rulebook (with appropriate flexibility for developing countries). Buttressing the agreements was a more binding dispute settlement system. As later history demonstrates, this did not prevent members from

ignoring their obligations, but it ensured the legal rights of those affected in a way that justified their countermeasures and discouraged violative behaviour.

These changes created a far greater balance between the rights and obligations of all members. They also made the WTO among the most credible and enforceable in the vast system of Post-World War II international agreements. Governments around the world hastened to endorse this fairer, more enforceable outcome. A little more than a year after negotiations concluded, the WTO became a reality.

Ultimately, the Uruguay Round succeeded beyond the wildest dreams of its original sponsors. The final package owed much to the discipline and creativity of key negotiators, who found a way to balance competing interests and fashion a "win-win" deal out of a complex, multi-faceted negotiating agenda.

It was a landmark achievement, but one that only succeeded because participants accepted its basic premise, namely that all would prosper from an international trading system that reduced barriers, reinforced market- driven behaviour and placed clearer limits on government intervention in trade.

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What a difference 30 years makes! Few would describe today's global geopolitical and economic setting as anything close to the 1990s. In the past decade, growing frictions among the WTO's biggest and most powerful economies, as well as an accelerating trend towards economic nationalism and its attendant forms of protectionism, have conspired to undo support for the Agreement's free market underpinnings.

Recent developments suggest that the pendulum has swung dramatically in the other direction, threatening to take the world back to the trade dynamics that existed even before the GATT itself came into being, back to a world of mercantilist behaviour and beggar-thy-neighbour actions. How this has happened and what can be done about it deserves considerable analysis far beyond the capabilities of this short essay. But some brief thoughts are offered here while a wider assessment is underway around the world.

The struggle to maintain belief in the WTO and its principles is nothing new. The institution and

its rules have faced resistance and backlash since its inception. Despite the tremendous global economic growth of the post-Uruguay Round years, critics from all sides have found fault with its basic philosophy and framework. Much of that attack comes from domestic constituencies in key countries who decry increased competition from foreign goods and its impact on local jobs. Some stems from a basic belief that the WTO favours corporate interests or increases environmentally unsustainable practices, even that it undermines the fight against climate change.

Many in the developing world believe the rules favour rich countries while rich countries themselves complain of lower-cost competition from those same nations. A growing number of critics are fundamentally opposed to the entire concept of international rules, viewing them as unacceptable constraints on national sovereignty.

Despite these perennial complaints against the WTO and its link to the downsides of globalization, few members departed widely from its disciplines during its first two decades. Even in the face of two global financial meltdowns and other economic disruptions, support for the system remained strong. After all, most of the WTO era has been characterized by a stable and growing world economy with a remarkable resilience. A globalized economy has even been credited by economists for making it easier for countries to withstand internal economic shocks.

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Adherence remained strong even after the collapse of the Doha Round, the first major effort to expand WTO rules since the Uruguay Round. Although this was a massive setback, the WTO remained in force, proving useful as a bulwark against protectionist measures in the aftermath of the 2008 global financial crisis. While countries turned their negotiating energy towards regional and bilateral free trade efforts as a substitute for WTO reform, they remained committed to its obligations.

In the past decade, however, more powerful existential threats to the WTO's primacy and effectiveness have emerged. At the heart of this mounting crisis are the policy choices and changing priorities of certain major members, choices

that severely challenge the effectiveness and relevance of WTO rules. These include actions that constitute a direct contravention of commitments, such as massive tariff increases and subsidies that deny national treatment, but also the use of less transparent policies that undermine commitments, such as state-owned enterprises and informal import barriers.

How the broader WTO membership will react to this new reality is still uncertain. The ground has shifted ominously in recent days.

Some countries may hope to avoid the fray and seek accommodation with the major powers. Others, including those worst hit by mounting restrictions, will fashion retaliatory actions targeted exclusively against those who have violated their WTO rights, even without waiting for a dispute settlement ruling. But there is also a risk that a growing number of vulnerable countries will join the march towards greater economic nationalism, raising their own barriers in a desperate attempt to protect their economies.

As the experience of the 1930s teaches us, this unravelling of open trade will be far more likely to breed deeper economic and political despair than to correct whatever excesses and wrongs the era of WTO globalization has spawned. Its chief result may be a far more divided and dangerous world.

In the end, how the current trade conflicts play out will be determined by economic realities and the impact these realities have on future trade policies in the world's major capitals. How will countries fare economically as they shift against trade expansion and turn towards more domestic production? What will be the effects on inflation, investment, employment and competitiveness? How will it transform public opinion as well as the support from business and other stakeholders on which political leaders rely?

International officials in a global institution such as the WTO can only influence that outcome with thought leadership and patient explanation of facts and economic realities. There may be

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strategies to maintain adherence to parts of the WTO's rulebook even as others are being abandoned but the power to determine the broader outcome of these new conflicts lies in major capitals, not in Geneva. In the meantime, the Secretariat should urge governments to remain engaged, offering a neutral forum where dialogue and debate can perhaps help them overcome their deep differences. WTO officials should of course defend its principles but must otherwise rely on their "good offices" to calm the discord.

In the final analysis, the WTO system can only remain effective if the leading nations ultimately recognize the multitude of benefits from global integration that far outweigh its downsides and realize that unbridled economic nationalism, unconstrained by global disciplines, is a far worse alternative.