

# The WTO's lonely struggle to defend global trade

What role does the organisation have in an era of fracturing multinational alliances and fears of deglobalisation?

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For almost three decades, the World Trade Organization has been lowering barriers to trade and smoothing the path of globalisation. Yet its ministerial meeting in Geneva this week could result in something that would do the opposite: new tariffs.

As the summit begins, trade ministers from the WTO's 164 members have yet to agree whether **to continue a 25-year-old moratorium on customs duties for ecommerce**. If India, South Africa and Indonesia continue their opposition it will expire at the end of the meeting on Wednesday, permitting countries to impose charges on messaging apps, video calls and data flows. If an organisation whose purpose is to make global trade easier allows a new protectionist measure, says Jane Drake-Brockman of representative group the Australian Services Roundtable, "the WTO will have lost the plot".

**It might also reinforce fears that the WTO is unfit for purpose in an era of fracturing multinational alliances, isolationist politics and possible deglobalisation.**

The history of the WTO traces the evolution of globalised trade. Since it was created in 1995, global trade volumes have more than doubled and average global tariffs have fallen to 9 per cent, with billions lifted out of poverty by participating in the global economy. Companies established global supply

chains, taking advantage of cheap labour or abundant raw materials in developing countries such as China. But in about 2015, this period of so-called hyperglobalization began to come to an end. The election of US president Donald Trump in 2016, who inflamed a trade war against China and put tariffs on allies in Europe in the name of national security, threatened to unwind years of integration.

Then came the Covid-19 pandemic and its lockdowns, which caused a dramatic fall in global trade. Countries closed borders and imposed export restrictions on face masks, drugs and food to protect supplies when the pandemic shut down factories. Finally, Russia's invasion of Ukraine, which cut food supplies to countries reliant on its vast grain harvest, exacerbated protectionist trends.

Today, many nations are deeply worried about dependency on others and anxious to shorten supply routes. The picture has rarely looked bleaker for advocates of free global trade. Pierre-Olivier Gourinchas, the IMF's chief economist, this month warned of a world fragmenting into "distinct economic blocs with different ideologies, political systems, technology standards, cross-border payment and trade systems, and reserve currencies". The question is what the WTO can do in its "MC12" meeting, the 12th ministerial conference in its history, to keep these disparate blocs together — or at least find consensus on some of the key issues under discussion: fishing subsidies, food security, Covid-19 vaccine equity and WTO governance.

Ngozi Okonjo-Iweala, the former Nigerian finance minister who took over as WTO director-general in Geneva in March 2021, has staked her reputation on finding an answer. She insisted the meeting should go ahead, despite strained relations and stalled talks. In recent weeks, she has been a whirlwind of activity, popping between negotiating groups to urge progress. In May, she told members to consider what is at stake. "Let us all remember that the WTO is about people — about using trade as a tool to raise living standards, create jobs and promote sustainable development. So, let's redouble our efforts, let's deliver results and let's reinvigorate the WTO," she told ambassadors from developing countries.

**WTO economists have estimated that if the world split into two trading blocs it would lower the long-run level of real global gross domestic product by about 5 per cent**

**On the eve of MC12, Business Europe and the US Chamber of Commerce said in a joint statement that the “primary objective” of the meeting must be to “reaffirm multilateralism and rules-based trade as the preferred path to boost global economic growth... The WTO also needs to demonstrate that it can respond to the most pressing challenges of our time, particularly health, climate change and food security.” That might sound like a tall order when the WTO is in danger of failing to agree even on averting ecommerce tariffs. But the stakes are too high for businesses and consumers for the organisation to fail, Drake-Brockman says. “This is a dangerous time for trade.**

**We really need ministers to get a quality outcome that signals the WTO is still a pro-trade organisation.” Seeking consensus The WTO was established by 123 countries on January 1 1995. It has been in crisis almost ever since. In November 1999, huge protests at a ministerial meeting in the US spilled into rioting and fighting with the police, dubbed the Battle of Seattle. Protesters focused on issues including workers’ rights, sustainable economies, and environmental and social issues. No longer could technocrats simply cut tariffs and preach about the economic benefits of comparative advantage. The Uruguay round that created the WTO was the last multilateral trade deal. The Doha round, launched in 2001, collapsed in 2015. A subsequent ministerial meeting, MC11 in Buenos Aires in 2017, also ended without agreement.**

**Its shadow hangs long over MC12 in Geneva, originally scheduled for 2020 but postponed by the pandemic. The geopolitical winds do not look favourable. The invasion of Ukraine looms large; the US, EU and Canada stripped Russia of its most-favoured-nation status, the WTO rule that means you must offer every member the same minimum trade terms. Ambassadors from several countries walk out of the room whenever the Russian ambassador speaks — and ministers have said they will do the same in Geneva. The discord does not end there. Even the EU, historically an enthusiastic cheerleader of open, globalised trade, is pursuing what it calls a policy of “strategic autonomy” in response to aggressive actions by the US and China. 2.**

***Reducing agricultural subsidies.*** What's at stake Governments globally provide farmers with \$540bn per year, making up 15 per cent of total agricultural production value. This distorts trade and pushes up prices. Who is blocking it? India and others, who want to block cheap imports and pay farmers to stockpile foodstuffs in case of emergency.

The bloc has introduced unilateral trade defence tools, including an anti-coercion instrument, which would allow it to respond unilaterally to new trade barriers without seeking WTO approval, and a carbon border tax, which will put tariffs on imports of steel and other goods where the producer is not paying a cost for emissions.

Cecilia Malmström, the EU's trade commissioner from 2014 to 2019 and now an adviser at law firm Covington & Burling, is worried by the combination. "The EU has always been a big friend of the WTO and has helped it with other allies to reform and change," she says. But right now it is "focusing much more on trade defence than on opening up trade. And I think that is a real pity."

**In the US, Trump may be gone but protectionism is not. Joe Biden's Democratic party, which also controls Congress, says "the global trading system has failed to keep its promises to American workers".**

The Democrats want more subsidies for domestic manufacturing, with goods stamped "Made in America", and say they will "end policies that incentivise offshoring and instead accelerate onshoring of critical supply chains, including in medical supplies and pharmaceuticals". Seeking re-election in 2024, Biden has maintained populist messages about protecting workers and bashing China.

He has temporarily dropped tariffs on steel from the UK, Canada and the EU but only if they agree within two years to team up to keep out "dirty Chinese steel" with a new agreement to put tariffs on countries without a carbon price mechanism forcing polluters to pay for emissions. **"President Biden's trade agenda in all but rhetoric is exactly the same so far as President Trump's. It's still America first,"** says Malmström. Don Graves, US deputy secretary of commerce, says Biden "has recommitted to the WTO, has stated his support

for working with and through the WTO, working with [US] partners to provide necessary reforms”. Workers pour molten steel at a foundry in Wuyi, China.

**Yet the US has undermined one of the fundamental pillars of the WTO system: dispute resolution. Any member can bring a case against another for breaching its obligations, for example by blocking imports or raising tariffs.** A panel of experts rules on the complaint, after which the loser can appeal to the appellate body. **The US refuses to allow new members to be appointed to the panel, rendering it useless.** Washington was particularly irritated that the WTO partly backed the EU in a long-running dispute over aircraft subsidies to Airbus and Boeing.

So countries are reduced to imposing unilateral measures that often provoke a response from the other side. “The US is the problem,” says Arancha González, a former senior WTO official and Spanish foreign minister. “It needs to accept that compliance is not weakness.”

**The greater threats to rising global trade are in fact the powers that have grown richer on the back of it, according to Chad Bown, a fellow of the Peterson Institute for International Economics in Washington. Exhibit A, he says, is China,** whose entry 20 years ago was supposed to prove the relevance of the WTO, bringing the chief beneficiary of globalisation into the system. As it grew richer and more interconnected with the west, so its politics would become more western too, ran the arguments of proponents such as then President Bill Clinton. “It will open new doors of trade for America and new hope for change in China,” he said at the time. But in recent years President Xi Jinping has tightened the grip of the Communist party on all facets of life. The party grants many companies state subsidies and cheap loans. The services economy is largely closed. Engineers make semiconductors in Jiangsu, China.

There are regular boycotts of companies who speak out on human rights issues, such as Nike and H&M. Indeed, since December China has boycotted an entire country’s produce: Lithuania, after it improved its relations with Taiwan, the independently governed island, which Beijing considers sovereign territory. **The EU has filed a complaint at the WTO about China’s behaviour, one of two anti-China cases this year.** “China’s economic system is not one that works

within the WTO,” says Bown. “They have so many economic policies that nobody else would even think of using.”

**Then there is India. In trade, Delhi wants the special treatment of a small developing country,** Geneva trade officials say. It is helping to hold up a deal on fishing rights by insisting it gets “special and differential treatment”, reserved for the poorest countries, despite having a big fleet. On agricultural subsidies, it insists on the right for the state to buy grain at inflated prices from farmers to stockpile in case of food shortages. 3.

What’s at stake WTO intellectual property protections prevent poorer countries making cheap generic versions of **Covid-19 vaccines.** India and South Africa have been leading a push to allow governments to override IP. **There is growing consensus to allow governments to issue compulsory licenses to make drugs domestically, with some compensation for rights holders.**

Who is blocking it? The US. Many in Congress are opposed, since the pharmaceutical industry says it would deter investment in future vaccines. The US wants China excluded from using the IP waiver/compulsory licensing scheme as it already produces its own vaccines. Large sectors of its economy are closed to international companies even as its homegrown IT and manufacturing businesses grow in the EU and US. Delhi has recently shown signs of engagement. It signed a partial trade deal with Australia this year and has reinitiated trade talks with the EU.

It has also compromised on its demands at the WTO for drug companies to hand over their Covid-19 vaccine recipes for free. (See box.) But its attitude in multilateral talks remains intransigent, diplomats say, and it has a veto power. “As long as there is India you are never going to get anything agreed,” says Bown. ‘The WTO will stagger on’ Yet despite all that trade is still thriving, González, who was chief of staff to ex-WTO director-general Pascal Lamy, said this month at a seminar at the European Policy Centre think-tank in Brussels. “When I look at the figures, I don’t see deglobalisation, I don’t see it in trade. I don’t see it in investment and I certainly don’t see it in digital exchanges,” she said. Cross-border trade and foreign direct investment are higher than they were before the pandemic. But she warned of “fragmentation”.

**The US is seeking to invest in strategic minerals and manufacturing in allied countries, a policy it calls “friendshoring”. China is building a network of African trading partners through its Belt and Road Initiative. Even the EU is looking to friendly states such as Norway and the US for alternatives to Russian oil and gas. This activity illustrates that there is still a role for the WTO to play, she said. “Europe thrives on an open economy and European businesses thrive on having one set of rules, which is what multilateral organisations and agreements bring to Europe and European businesses, as much as they bring it to Chinese businesses and to American businesses.”**

**The WTO has not concluded a multilateral trade round since it was founded in 1995. It has struggled to deal with bilateral trade disputes and growing areas such as ecommerce, modern slavery, sustainable development and how to incentivise environmentally friendly production. Who is blocking it? Almost everyone has a different view of what the WTO should do. There are still global issues that can only be solved by multilateral forums,** Bown adds. “Look at climate change. We only have one planet.” He suggests countries might form “plurilateral” groups that agree things and have the WTO rubber stamp and perhaps police them. But for all the efforts of Okonjo-Iweala to pursue wider goals at this week’s summit, politics is still likely to get in the way of meaningful progress.

**In the current environment, democratic governments have a hard time convincing lawmakers and the public to endorse bilateral trade deals, let alone comprehensive multilateral deals.** As a result, MC12 is likelier to see incremental deals than maximalist agreements. Ministers are likely to agree to roll over a deal to allow ecommerce to flow freely until the next meeting in two years, for example, but not even attempt a comprehensive framework to manage the fast-growing trade. “The WTO will stagger on,” Bown says. “We will have as much, or more, trade but just going to different places.” It’s possible **too that the fragmentation of the multilateral world order is a problem only the members of that order can repair.** The International Chamber of Commerce, with more than 45mn companies in more than 100 countries, says it is incumbent on national governments to compromise and bind the trading system back together. “Leaders and ministers have not realized how significant

**failure to reach outcomes would be for global business,” says ICC secretary-general John Denton. “If ministers can’t spend real political capital in making the WTO work, they risk sinking the organisation into further irrelevancy.”**