

What Does the WTO Need From its Next DG?

Fredrik Erixon , Director and co-founder of the European Centre for International Political Economy (ECIPE), a world-economy think tank based in Brussels says:

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QReviving the mechanics of effective mercantilism

As so often these days when I think, write or comment about the World Trade Organisation I feel, when responding to Bernard and Petros's questions, torn between idealism and realism. It is tempting to argue the way something ought to be – but my comments below are rather, as Spinoza would put it, about the way something is: where the WTO finds itself now. First, I don't think the WTO is going through an existential crisis. It is not about to be extinct. Nor are the accomplishments of the multilateral trading system since 1947 seriously challenged. Most governments in the world appreciate the WTO and respect its role as adjudicator in trade disputes. There are slippages here and there – but they don't add up to a significant challenge to what has been achieved in terms of MFN market access and multilateral rules in the past. Nor do we have a general crisis of free trade. Most governments in the world are engaged in negotiations or acts of market-access liberalisation. They are, for the most part, suboptimal strategies, but they show governments are not contesting the post-war compact for freer and more trade. No one is offering a credible alternative to the idea of foreign economic cooperation based on progressive reductions of barriers to trade. None of this is to suggest that there ought not to be profound improvements in the policy and politics of world trade. But it sets the framework for a meaningful dialogue about the future of the WTO and alternative strategies to liberalise trade. Second, leadership for the WTO is important, but in current circumstances that leadership role has very little to do with the current or the future Director General of the WTO. The leadership challenge for WTO is much more broad and complex than the immediate task facing WTO members now: electing a new DG. All contenders in this race have been able people – with solid knowledge and

experience of the WTO, and with executive qualities in trade policy. They could all do a fine job. But, in the spirit of frankness, none of them look to be the sort of exceptional leader that really could make a big difference for the WTO as a body for negotiations of new market access and rules. The problems for the WTO as a relevant body for future trade reforms are structural rather than individual. A truly exceptional individual could perhaps play a critical role in dissolving those structural problems. But I can't think of anyone today who would fit that bill. My conclusion is this: let us not pretend this leadership race is about profound substantial matters, let alone the future of the WTO. This contest is rather about who is going to be the ringmaster of the Geneva trade circus. That is not a very exciting issue.

Third, I find two structural problems to be particularly important to address. The first one is about leadership for global trade liberalisation. The question is: now that the United States has resigned from its Cold-war role as prime leader for trade liberalisation, what formation of countries could substitute the US in offering real leadership (backed up by requisite political, economic, and institutional qualities) for new global trade reforms? The U.S. was never a hegemonic power in global trade. It was dependent on a group of systemically important and willing followers that supported the direction for trade liberalisation that typically was set out by U.S. governments. That era is now gone. And that is good news. The bad news is that those countries that are necessary to get behind an MFN-based trade deal have had conflicting positions on what has been negotiated in the Doha Round. That Round should now be put to rest: key elements of the Round will resurrect in new forms (or have already done so), but the design of the agenda reflected preferences and positions that have changed. But can there be alternative negotiation agendas that systemically important countries can support? That is a tough question for a member-driven, consensus-based organisation to address. Yet no MFN-based liberalisation will happen unless the bigger economies are all supportive.

The second challenge is about the growth of government and arcane, trade-distortive governmental regulations. Trade liberalisation has effectively been about expanding the scope of the market economy by reducing barriers to trade and disciplining government interventions in the economy. Yet that agenda is much tougher today than in the past. In most parts of the world, there is little political appetite for such a free-market

agenda. And now that tariffs and other traditional barriers to trade have been significantly reduced, the new areas for market-access liberalisation and rules are much more intimately connected to the welfare state and the regulatory state – or views on the role of government in an economy. Past rounds of trade liberalisation have been driven by a spirit of expanding the size of the market economy in the world and within countries, and/or to facilitate greater and mutual industrial-sector expansion. And these sentiments don't seem to guide many countries today. Lastly, going forward I see two areas that the WTO as an institution, and its Director General, should be engaged in. The first is how various coalitions of the willing could negotiate new trade agreements and bring them into the WTO without risking punitive action from other member states, even if these agreements are non-MFN. The second area is how to revive effective mercantilism – especially how to get firms to be directly affected by efforts to liberalise trade. I say this as a free trader. For the likes of me, GATT/WTO has always been a pact with the devil. Mercantilism is a flawed ideology. It is a bad master. But it has been a good servant in several rounds of trade negotiations. Trade negotiations are still efforts guided by generating as much export gains as possible. The problem for the Doha Round is that it was never really felt as a trade-liberalising effort that would affect the bottom line of many export-oriented firms. In an ideal world, countries would negotiate with the aim of creating economic efficiency – boosting import gains as much as export gains. And companies reaping the import gains would be as heavy lobbyists as companies capturing the export gains. But that is not how the world of trade negotiations operates. The question now is: what trade negotiation agenda could revive the mechanics of effective mercantilism?