

TOP-DOWN SUPPORT FOR BOTTOM-UP TRADE LIBERALISATION

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The old days of multilateral trade rounds are over. Mercantilist bargaining is doing more harm than good. The World Trade Organization (WTO) should adapt to the new realities by promoting liberal ideas and facilitating sound policy-making at domestic level. In particular, the trade policy reviews written by the WTO Secretariat should become more compelling arguments for trade liberalisation.

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Ambition and creativity are the hallmarks when economists think and policy-makers talk about new foundations for the global financial system. In stark contrast, aspirations are modest when it comes to trade in goods and services. The advice to resist protectionist backsliding and conclude the Doha Round is ubiquitous, but the cornerstones of the World Trade Organization are rarely re-examined. However, this ignores the need for institutional reform: the WTO has to provide more top-down support for bottom-up trade liberalisation.

The WTO is generally seen as a bargaining forum where states exchange market access concessions. This approach worked decently well as long as a handful of developed countries negotiated tariff cuts in expert circles isolated from public scrutiny. The process broke down as the trade agenda expanded to include more complex, behind-the-border issues. While tariffs can be cut with the stroke of a pen, new issues, such as services, require elaborate rules that distinguish between legitimate government regulation and hidden protectionism. The fear that this balance might be biased, that governments may no longer be able to protect consumers or the environment, has politicised trade issues in the domestic realm. This, in turn, has restrained governments' room for manoeuvre. Another major change is that developing countries have made their voice heard – and often said 'no'. The legendary Green Room at the WTO's headquarters in Geneva, the place where the inner circle of decision-making gathers, has

become crowded. The Uruguay Round, concluded in 1994, marks the turning point between these two worlds of trade negotiations.

The following Doha Round of multilateral trade talks has been languishing since its painstaking birth in 2001. Its history is comprised of failed ministerial meetings, missed deadlines and abandoned expectations. Today, the chances of reviving negotiations are bleaker than ever. The Obama administration prefers to spend its political capital on stabilising the banking sector and reforming healthcare, rather than challenging the Democratic majority in Congress where protectionist rhetoric is rampant. The EU is handicapped by the upcoming elections of the European Parliament, followed by the nomination of a new Commission, and the Irish referendum on the Lisbon treaties. Elections also weigh on other key countries, notably India and South Africa. All this is aggravated by the backlash against liberalism and the surge of economic nationalism in the wake of the recent crisis. The public has become more critical of global markets, special-interest groups have turned more aggressive in their claims for protection, and politicians have grown more reluctant to stand up for liberal principles.

The mercantilist bargaining at the WTO fails not only to produce what it is there for, multilateral liberalisation, it also exerts an undesirable side-effect: stifling the increasingly important unilateral reform option. Since the 1980s, go-it-alone liberalisation has proven more powerful than

the multilateral track. Countries as diverse as the Asian giants China and India, Latin American middle-income countries Mexico and Chile, and developed Australia and New Zealand have opened up on their own initiative. In these countries, decision-makers had come to understand that the old ways of government protection and intervention were spiralling towards economic disaster: the more industries received public support, the heavier the burden on the entire economy became – pushing even more industries into state dependence. The structural adjustment away from ailing sectors was painful for some but tremendously beneficial for nations as a whole.

Regrettably, the WTO has been a liability for such unilateral reform. The mercantilist posturing where domestic market access concessions are decried as losses has distorted public perceptions of trade liberalisation. Exports are seen as good, imports as bad, though they are simply the two sides of one coin: the mutually beneficial specialisation of production through international trade. And even where reform promoters succeeded in demonstrating the advantages of liberalisation, the WTO proved to be a stumbling block. Governments and special-interest groups could argue that they must not unilaterally lower the barriers to their domestic market in order to preserve bargaining chips for the horse trading at the WTO.

In the future, the WTO should pursue much more vigorously a new avenue on which it has already made some cautious steps: fostering liberal ideas and facilitating sound policy-making at domestic level. Most notably, the WTO's Secretariat has the mandate to write regular reviews of members' trade policies. But the reviews are cumbersome to read, clogged with compendium-style information, and relentlessly uncritical. Instead, reviews should make trade policies comparable across countries and time, highlight the trade distortions the policies cause, and reveal the welfare losses they inflict at home and abroad. Reviews could thus convince readers of the benefits of liberal reform and serve as a reference in domestic policy debates. One step in this attempt to transform trade policy reviews from a diplomatic exercise in Geneva into an event in members' domestic politics could be to present and discuss reviews in the country concerned.

Another opportunity to strengthen the WTO's role in promoting bottom-up liberalisation is to introduce new 'good governance norms'. The leading example of such norms can be found in the Agreement on Sanitary and Phytosanitary Measures that disciplines members' protection of human, animal and plant health. The agreement requires states to justify their health protection measures by a systematic risk assessment that uses scientific methods and data. The characteristic of such disciplines is that they do not forbid

certain instruments – such as import quotas or tariffs above a ceiling – but that they prescribe *how* policies are to be made. Note also that this is very different from international harmonisation of social or environmental standards, another issue sometimes treated under the label of good governance. The good governance norms in the WTO are about decision-making processes that lead to results that are in countries' own best interest – they do not prejudge outcomes, let alone impose a one-size-fits-all solution.

If such an approach is acceptable in the extremely sensitive area of health, it could be expanded everywhere. A place where this would be particularly desirable is agriculture, a stronghold of state interventionism and repeatedly a stumbling block for multilateral negotiations. WTO rules could summon or oblige members to define the general objectives of agricultural policies and the specific objectives of each policy programme in concrete terms. Members could also commit to make all information about the effects and the recipients of their subsidy programmes public. Finally, each government could pledge to establish an independent review body and endow it with sufficient resources to conduct policy evaluations, organise public debates on policy reform, and communicate its findings to a larger audience.

More analytical trade policy reviews and additional good governance norms will not be to the liking of all governments – especially non-democratic ones. It could be pioneered by club-like, coalition-of-the-willing formations. Flexibility to sign up only to certain principles may also be granted. This would facilitate a gradual spread of better policy-making practices, driven by successful implementation, international herd behaviour and peer pressure, and lock-in through liberal governments that make WTO commitments which their successors find difficult to reverse. Such a gradual process sits well with the idea that international mechanisms for transparency and good governance serve countries' own interests even more than those of their trading partners. They can do without the old mantra of concession trading and reciprocity.

The economic crisis will not deliver the extra push to conclude the Doha Round. But it could offer the opportunity to adapt the WTO to the realities of the twenty-first century and lay the seeds for future unilateral and multilateral liberalisation. When the heads of states embark on a historic reform of international economic institutions, they should not forget the WTO.

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