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BEYOND THE G-20: WHY THE WTO IS MORE IMPORTANT THAN EVER



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Let's super-size the IMF. No, we should turbo-charge the FSE. Or how about pumping up the BIS?

For international institutions with three initials, ideas abound as world leaders prepare for their November 15 summit on the global economic crisis. Naturally, the institutions just mentioned—the International Monetary Fund, the Financial Stability Forum, and the Bank for International Settlements—are getting much of the attention, because their responsibilities involve the financial problems at the heart of the crisis. But the leaders would be severely remiss if they neglect another tri-initialed institution, namely the World Trade Organization. Shoring up the WTO could be one of the most significant measures the summiters take, because as a bulwark against protectionism, the Geneva-based trade body has suddenly become more important than ever.

What's at Stake

The specter of rampant protectionism has seemed almost laughably remote in recent years. Despite periodic bouts of hand-wringing about how the world is verging on trade wars like those of the 1930s, when America's Smoot-Hawley tariff triggered a disastrous cycle of retaliation and counter-retaliation, such fears have always proven exaggerated. Now, however, the threat should be taken much more seriously. The spread of recessionary forces to every major region on Earth, combined with the groundswell of revulsion against unfettered capitalism, is bound to generate in-

tense pressure on politicians to raise trade barriers. In the United States, those pressures will be all the greater because the plunge in foreign currencies—from the Korean won to the Brazilian real to the South African rand—will make imported products much cheaper.

The WTO, for all its flaws, plays a crucial role in keeping protectionism in check. It is the current embodiment of the multilateral trading system that was established after World War II to prevent a reversion to the thirties. The WTO's rules keep a lid on the import barriers of its 153 member countries, and members take their trade disputes to WTO tribunals for adjudication rather than engaging in tit-for-tat retaliation. That keeps trade wars from erupting, just as any rule-of-law system helps contain tendencies toward the law of the jungle.

Unfortunately, the WTO's centrality to the global trading system is in doubt, for two main reasons. The first is the prolonged stalemate in the Doha Round, the negotiations that the WTO launched in 2001 with the aim of bringing developing countries into the mainstream of the world economy. The second is the proliferation in recent years of bilateral and regional trade agreements. More than 200 of these are currently in force, ranging from the big and well-known, such as NAFTA, to the small and ridiculous, such as the Singapore-Jordan free trade agreement (yes, there really is such a thing).



Governments are increasingly tempted to think of these pacts as reasonable substitutes for multilateralism, especially as disillusionment deepens with the WTO's ability to foster new deals. Although the WTO is hardly going to disintegrate overnight, the danger is that its authority will erode to the point that members will start to flout their commitments and ignore the rulings of WTO tribunals. That would greatly increase the threat of trade wars and a breakdown in the system that has helped keep trade blocs and protectionism at bay.

The world lost a chance for an even stronger "insurance policy" against protectionism when the latest effort to agree on a detailed blueprint for the Doha Round collapsed in July, after nine days of grueling negotiations. The deal that was on the table, though hardly the bonanza for global growth that its boosters sometimes claimed, would have prevented countries from erecting significantly higher tariffs. It would have left most existing trade barriers in place, but would have lowered "bound" tariffs, the legal maximums that countries can impose without triggering economic sanctions.

Some leaders and commentators are clamoring for the summit to order negotiators back to the table so that the Doha Round can be finished quickly. President Bush has even said that he hopes to see a deal struck before the expiration of his term. But calls for such a breakthrough will be dismissed, rightly, as empty rhetoric. The chances are minimal for reviving the July accord anytime soon. Leadership from the United States is essential to any such endeavor, and the Obama administration will need to take time to sort out its trade policy; until then, the negotiations will be effectively frozen. Moreover, economic forces have sharply dimmed the prospects for a deal. Thanks to the slump in economic growth, and the plunge in commodity prices, political resistance is stiffening against the dismantling of trade barriers and farm subsidies.

This is not to say that the summiteers should omit Doha from their official declarations; on the contrary, they should include a ringing statement of their determination to complete the round. It is also essential that they strongly vow to resist protectionism and maintain unwavering support for the WTO. But talk is cheap. To bolster their rhetoric, the leaders ought to take some concrete steps.

What Should Be Done

First, they should pledge that they will keep tariffs at their current, "applied" rates, and refrain from using the flexibility that they have to raise duties to bound levels. This wouldn't bar nations from exercising their rights to impose higher "safeguard" tariffs on a temporary basis when their industries need time to adjust to surges of imports.

Second, they ought to impose a moratorium on export bans of the sort that were used by certain countries during the recent food crisis to keep grain prices in check. This would help improve the atmosphere for open world markets. And it should be politically easier for governments to accept, now that grain prices have plummeted.

Third, here's an admittedly unorthodox idea: The leaders ought to accept a moratorium on new bilateral and regional trade agreements. Many bilateral trade deals, while providing nice photo-ops for the leaders of the countries involved, do little to liberalize trade. They typically contain numerous exceptions and exclusions, and while they may expand commerce between the participating countries, they naturally diminish trade with other countries that aren't included in the preferential arrangement. The Bush administration argued that by pursuing bilaterals, it would help generate pressure on recalcitrant countries to agree on a Doha package. But this strategy, dubbed "competitive liberalization," failed, even though Washington signed accords with



a raft of nations—mostly small ones, such as Bahrain, Morocco, and five Central American countries plus the Dominican Republic.

The Bottom Line

The time has never been better for putting an end to the destructive trend toward a trading system splintered into bilaterals and regionals. To be sure, I recognize the irony involved in proposing to fight protectionism by scrapping plans for trade agreements. But forsaking bilateralism, and embracing multilateralism, would send a heartening signal that the world's leaders are prepared to work together, on a worldwide basis, to strengthen an institution against forces that could turn a global recession into something much worse. The WTO needs such a boost, and the world certainly needs the WTO.

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