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Multilateralism in Retreat?: A Trade Perspective

By Evan Rogerson

Synopsis

The Doha Round has failed to make more progress in the past 15 years partly because of shifting power in the world economy. While the multilateral trading system remains the bedrock for global rules on trade, governments need to revitalize the WTO's negotiating role so it can respond to new challenges and contribute to strengthening multilateralism overall.

Commentary

SO FAR the 21st century has not been a happy time for multilateralism. Across the whole spectrum of global issues existing multilateral structures are being challenged or simply ignored. Trade is no exception. The WTO is the newest of the global institutions, founded in 1995 on the basis of the GATT. Yet it too is challenged, to the point where its continuing relevance has been questioned.

True, member governments maintain that the multilateral trading system is still relevant and necessary. But it will not necessarily remain so in the absence of concerted action by them to adapt it to changing realities.

Lack of progress in Doha Round

The Doha Development Agenda is the WTO in the minds of many. It has now lasted nearly 15 years with no sign of a successful conclusion, though there have been some results along the way, chiefly the Trade Facilitation Agreement concluded at Bali in 2013. The WTO has failed to make more progress in the Doha Round in part because the negotiating effort has coincided rather precisely with shifting power in the world economy.

Between 1980 and 2000, industrial countries accounted for about 70 percent of world income while emerging economies took a 20 percent share. By 2012, the numbers were 57 percent and 30 percent, respectively. In the case of trade, the industrial countries' share dropped from 82 percent to 70 percent and the emerging economies' share rose from 14 percent to 23 percent. The figures for economic growth and the expansion of the middle class tell a similar story, and the rapidity of these changes has been remarkable.

Such shifts in economic weight strain international governance and challenge pre-existing power configurations. Successful trade negotiations inevitably require agreement on the balance of rights and obligations among nations, and compromise on this fundamental issue has proven frustratingly elusive.

The recent proliferation of regional trade initiatives must be seen in part as a response to lack of progress in the WTO, though there are also obviously other dimensions to the desire for deeper integration. Optimists believe the mega-regionals will not only consolidate and extend beneficial integration among the parties involved but also buy time to tame geopolitical rivalry and act constructively on common global interests.

A less rosy view is that the mega-regionals will only sharpen rivalry, embed exclusion and further fragment the world economy through the entrenchment of incompatible regulatory systems. In any case, regionalism can never be a perfect substitute for multilateralism. RTAs may rival the WTO in achieving more open markets. But they cannot match the WTO's global reach as the bedrock for rules on trade.

WTO must be responsive to new trade challenges

The WTO is much more than the Round. Its value as a force for stability has been underlined in the recent financial and economic crises. It has been a firewall against protectionism- not a perfect one to be sure, but one that has made a real difference. The system's importance as the only global forum for examining trade policies and their impact is also undervalued.

In fact, of the three main pillars of the system – monitoring and surveillance, dispute settlement, negotiation – the first two are generally effective. The negotiating pillar, though, has undoubtedly been weakened by the stalemate in the DDA. For the long-term health of the multilateral trading system, it needs to be reinforced. This means updating both the issues that the WTO negotiates and the way it negotiates them.

To some extent, the agenda of the future will have to be that of the past. Some issues that were put at the heart of the Doha agenda in 2001 - issues such as agriculture and food security- remain just as important today. However to regain negotiating momentum the WTO also needs to show that it is responsive to trade issues that have emerged more recently. In a world deeply integrated through globalised production and consumption, the WTO needs to move towards rules which reflect interdependence. The virtual economy, investment and perhaps competition policy are just some of the issues that could receive closer attention.

The fundamentals of the system are sound. The WTO has less of a so-called democratic deficit than many other international institutions. The consensus principle is fundamental and is likely to remain so. However consensus does not need to mean veto and immobility. The challenge is to apply it in a dynamic and enabling way. This could imply taking a broader and more flexible view of possible negotiating approaches and outcomes, on the understanding that the multilateral rules are respected and that the multilateral non-discriminatory system remains the fundamental framework.

Renew vitality of multilateral trading system, strengthen multilateralism

The WTO should be able to advance on agreements in specific areas as it did 15 years ago in financial services and basic telecoms; it should have enough confidence to be able to recognize that plurilateral approaches were an important element in its past negotiations and can also be in its future; it should be able to allow those members who want to go further or faster to do so provided that the results are eventually accessible to all; and it should be able to consider “soft law” agreements, especially where these could help build confidence as basis for something more solid. In this and other ways it shouldn’t hesitate to learn from and adapt the best practices of other trade forums, like APEC.

Renewing the vitality of the multilateral trading system will also help to strengthen the broader multilateral approach which is essential to resolving many global issues. Climate change, international financial stability, international migration, health pandemics, water management, and other global challenges require new approaches to transnational and global governance structures.

Within this broader multilateral framework the WTO should continue to play an important role in ensuring that trade contributes to solutions. For this to happen governments need to match their rhetoric with action. The default option would be the continuing erosion of a key component of the global architecture.

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