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Episode 37: Reinvigorating the World Trade Organization

Reinventing the World Trade Organization

VOICEOVER

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ERIC VAN BEMMEL

Hello and welcome to Up Close from the studios of the University of Melbourne, Australia. I'm Eric van Bommel. Whatever happened to the WTO? The World Trade Organisation. Created to co-ordinate and liberalise trade among the world's economically diverse nations, it has more recently not only become an object of scorn for those opposing globalisation, but in the eyes of some free trade pundits, an impediment to free trade itself. At 13 years of age, the WTO is struggling to remain an important part of the global trade landscape as it comes under fire for its failure to pass increasingly ambitious trade liberalisation measures. And for its perceived treatment of developing nations. So, does the World Trade Organisation have relevance and can it play a meaningful role in the future of multilateral trade arrangements? The Warwick Commission, based at the University of Warwick in the UK, took on the task over most of 2007, of examining the WTO and its methods and functions with a view to recommending ways in which the world body might re-assert itself as an affective proponent and arbiter of global multilateral trade. Joining me in the studio to discuss the WTO's plight and ways it might positively reinvent itself is University of Melbourne political scientist and Warwick Commission member, Prof Ann Capling. Prof Capling's research interests include trade policy, multilateral trade and global economic governance.

Ann, the WTO ? the World Trade Organisation ? for many of us, it is a bit of an arcane, dry and abstract sort of topic. It is not one that we pore over the newspaper for with a lot of glee, I guess, I'll be asking you to make it a bit juicy for us today. I spoke about it in the intro, about it being in a bit of a quandary at the moment ? the WTO ? things are a bit stagnating ? and I'll ask you to explain on that in a moment, but I thought I'd ask first to give us a bit of a potted history of the WTO and its

predecessors.

ANN CAPLING

Of course, the WTO was established in 1995 and as you said in your introduction it is only 13 years old, but in fact, the multilateral trade system has a much longer history. And at risk at giving a bit of a history lesson, it is useful to start that way. Certainly the origins of the multilateral trade system go back to the end of World War II, with the establishment of the General Agreement on Tariffs and Trade or the GATT ? I?m very sorry, but trade is an area that has many acronyms and I?ll try not to use any of them, as we talk today -

ERIC VAN BEMMEL

You can sprinkle a few around.

ANN CAPLING

There had been this golden period of relative free trade among nations beginning in the late nineteenth century, but in the 1930s, partly as a result of the great depression, and partly as World War II loomed, the world fragmented into highly protectionist and competing trade blocks. And not only did that not solve the problems that it was meant to address - namely, trying to end the depression, but many economic historians and politicians at the time actually thought that it contributed to the causes of World War II. And so, even when the war was on, the planners among the allied countries were trying to figure out how to solve this problem of how to prevent a return to the depression after the war, and how to have some sort of way of ensuring that nations could cooperate with each other. And really, the architecture that they established and this was at the same time that they were also establishing the World Bank and the International Monetary Fund, was the architecture for the multilateral trade system. Now, the most important features of the GATT at the time, and here is where we get a little bit technical, but I?ll try not to be boring. The first thing was the idea of non-discrimination. So, in any kind of trade negotiation, if you offered a concession, if you offered to reduce the level of protection that you had against a certain country?s imports, for instance, you would multilateralise that. You would offer it to all of your trade partners. Or, all of the members of the GATT. This is at the heart of the multilateral trade system. This notion that, whatever you do for your best trading partner, you do for everybody else.

ERIC VAN BEMMEL

And, I should treat your goods as if they were mine ? there should be no discrimination between -

ANN CAPLING

That?s the other part. Exactly. No discrimination once the product arrives and no discrimination amongst the sources of the product. That was only a small part of it though. That was a crucial part. Another of its purposes was to start to liberalise trade through trade negotiations. So, the idea was that nations would periodically get together and through a bargaining situation, trade, what we call concessions with each other. ?I will reduce my tariffs on wool, if you reduce your tariffs on cars?, for

instance. And the results of those became multilateralised. So, this is where this all-in, sort of, multi-nation bargaining sessions, that we call 'trade rounds' began. But, another important aspect of the GATT was this whole idea that it provided a forum for nations to negotiate rules with each other and there was a notion that international rules were really important - especially to protect the weaker countries. You know, the major powers could always fend for themselves in a stoush. You know they have the economic clout or the political power or the market size to be able to have their way. And the idea of having rules was really, in a sense to restrain the use of that power and, it is a protection of the smaller countries, of the weaker countries in the trade system. And then, last, but not least, there was the idea that the GATT would provide a place where nations could settle their differences, when they had a trade dispute, they could take it to the GATT and have it heard and resolved in a non-political situation. So, the GATT was very successful. Up until the early 1990s, there were seven rounds of trade negotiations and there was very significant trade liberalisation in goods achieved during this time - there is all sorts of calculations about what its contribution was to overall welfare. But it also suffered from a number of defects. The defects of the GAT, really, and the success of the last GATT round, the Uruguay round, which was held between 1986 and 1994, that lead to the establishment of the World Trade Organisation, in 1995 and -

ERIC VAN BEMMEL

I was going to ask you about that because that was an important round. You had what was called 'the grand bargain'. That sounds very high falutin', what's that?

ANN CAPLING

It was an extraordinary achievement that in fact, the world is still digesting today. In the past, in previous GATT rounds, most of the effort on negotiation and rule making had been around trade in industrialised goods and that of course, is of great interest to the affluent industrialised nations who were in those days the principle producers of these kinds of goods. But one of the many ambitions of the Uruguay round, was to include other areas for the first time ever, so, for instance, trade in services. Now that is a very hard thing to get your head around. How are services traded? We can understand how goods are traded, and economists often define goods as something you can drop on your foot, how do you trade a service? There was also an agreement on intellectual property rights - it is a very controversial agreement. There was also an agreement for the first time ever on liberalising agriculture or actually bringing agriculture into the rules of the trade system. This too was a signal achievement.

ERIC VAN BEMMEL

Strange too, though, that it would take so long for agriculture to come into the mix, given that poorer countries, particularly, would have little else other than perhaps mining goods to trade.

ANN CAPLING

That's right. Poor countries, developing countries, could never compete with the very deep pockets of the US and the EU when it came to subsidising exports,

though, these were all issues that were addressed in the Uruguay round. So, what you had instead of just the narrower focus on trade and goods you had negotiations on trade and services on trade and intellectual property, trade and agriculture and a number of allied agreements. Together, this is what constituted 'the grand bargain'.

ERIC VAN BEMMEL

Which was part of the Uruguay round. Which led to the formation of the WTO, because the Uruguay round was the last round of the GATT and the Doha round, which is the current round, was begun? The Doha round, sounds like a cookie or a biscuit, but it's not, is it? So, what is it, exactly?

ANN CAPLING

There had been an attempt in 1999 at the infamous Seattle meeting to launch the first round ever of multilateral trade negotiations under the then 'new' World Trade Organisation. Of course, what people will remember were the very violent protests against the launch of the round, not just from anti-globalisation groups on the extreme, but also on from development organisations that thought that developing countries had been given a raw deal in the Uruguay round, from trade unionists, from environmental groups? all of whom really had a lot of concerns about multilateral trade negotiations. In fact, that contributed to the failure of the WTO to launch the round but also countries and governments that had come to the negotiations weren't really ready to launch the round. And in fact, the round wasn't launched until after the events of September 11 in 2001. And it was really, that launch should be seen in the wreckage of September 11 because when we come to talk about the problems of the Doha round this starts to become significant.

ERIC VAN BEMMEL

The European Union is seen as one member, is that correct?

ANN CAPLING

That's right.

ERIC VAN BEMMEL

Okay, so that collection of generally wealthy countries is represented by one. In googling around for information for this episode, I came across the tidbit, which I believe is meant to be true, that in theory, it is a one member one vote system, but it has never been put to the vote, it has always been around consensus building and so, if the EU were needing to vote one day, it would be short-changed, would it not?

ANN CAPLING

Eric, I commend you on your research. One of the great strengths of the World Trade Organisation and one of the things it makes it so different from, say, the IMF, and the World Bank where there is weighted voting? that is, the more money you put in, the bigger your vote is worth, was the view, from the beginning, that it would be one country, one vote. Now, one of the reasons why the GATT and now the WTO has never put things to the vote, is because of the view that if the United States felt that its vote was as weighty as the vote of Liechtenstein, for instance, the organisation

would lose legitimacy. The major players would just say, 'why are we going to be bound by this?? And that is the reason why consensus has always been the way of the WTO. So, on the one hand, this is a great strength - the idea that nothing moves until everything is agreed - is a great strength of the organisation. But it is also one of the things now that is blocking progress in the Doha round of negotiations, so it has now become in a very large, complex diverse organisation, it has arguably become an obstacle.

ERIC VAN BEMMEL

You're listening to Up Close, from the University of Melbourne, Australia. I'm Eric van Bommel. Our guest this episode is Prof Ann Capling, and we're discussing the past, present and possible future of the World Trade Organisation or WTO. Ann, to bring this topic down to the retail, individual level, how does it change the lives of everyday people?

ANN CAPLING

It has changed our lives immensely. Of course in ways that most of us would never realise. From say, my position, sitting in an affluent country, but an unusual country in that most of its income comes from the export of commodities -

ERIC VAN BEMMEL

We're talking about Australia here.

ANN CAPLING

And agriculture, in Australia. I think that, for instance, the inclusion of agriculture into the rules of the WTO from the mid-1990s has made a significant difference to - for instance, the Australian wheat industry. Because it is no longer subject to these crippling subsidy wars between the US and the European Union that occurred in the 1980s that forced world-wheat prices so low that farmers couldn't get a good return - in countries like Australia - that couldn't afford to play the subsidy game. But, it has also affected our lives in other ways. Again, to use an Australian example, and this would apply in many other countries, the sparkling wine that we used to drink - to celebrate, for instance, the birth of a child -

ERIC VAN BEMMEL

Formerly known as champagne.

ANN CAPLING

Formerly known as champagne - but no longer except if it is French and that is because of a WTO rule.

ERIC VAN BEMMEL

Oh, okay. Now I know who to blame.

ANN CAPLING

That's right. Although I don't think it has dampened sales in Australia. So, that is a little, and maybe a trivial example - although, it wouldn't have been trivial for the

industries that are affected. But, another example, when I moved to Australia, from Canada in the mid-1980s, the price of cars was ? I found it amazing ? horrifying. Cars were very expensive in Australia. And that is because they were protected by very high levels of tariff and non-tariff protection. But, again, because Australia offered to reduce its tariffs on cars, and make those as part of its commitments in the Uruguay round, car prices now in Australia are now as competitive as you would see anywhere in the world, and what?s more I can now buy cars made by manufacturers in Europe that are not available for sale to my former Canadian friends.

ERIC VAN BEMMEL

If we move on to the Doha round, often described by the press as in trouble, as you say, it didn?t start in earnest until after the events of 9-11, but, it is now 2008 ? it was meant, originally, to be complete in 2003. Tell us about the Doha round in a bit more detail. What?s the problem with it?

ANN CAPLING

The Doha round, was probably the most ambitious agenda that had ever been put out there for trade negotiations. You take that, you take the fact that countries now are much more complacent about their opportunities to trade, a lot of the low-hanging fruit has already been picked. A lot of the easy liberalisation has already happened and what is still on the table is difficult liberalisation. Politically painful liberalisation in areas such as agriculture which is hotly opposed ? in the EU for instance ? and for political reasons, is resisted in the United States, but also for developing countries, the rich countries are asking them to make big cuts in their tariffs on industrial products that they?ve been exempted from doing in the past. These are really difficult and demanding areas. When you add to that, the fact that countries have loaded up the agenda with trade and the environment and when you add to that the expectation ? because it is called ?The Doha Development Round? ? that this round will deliver something extra and special, for developing countries, and you add the complicating fact that you?ve got 150-something odd countries at the table, and then you add to that the fact that almost every government in the world I think ? bar Mongolia ? is busy negotiating so-called free trade agreements, you have a recipe, for, I say, paralysis at best.

ERIC VAN BEMMEL

And, you say, ?free trade agreements?, these are regional trade agreements, bi-lateral, plura-lateral, to use from my Google term, is that right? These ones that are more regional, not encompassing the entire global system.

ANN CAPLING

Yes. Governments call them ?free trade agreements? because they do involve trade liberalisation, usually between two countries -

ERIC VAN BEMMEL

An example being NAFTA: the North American Free Trade Agreement.

ANN CAPLING

That's right. The WTO, just to complicate things, calls them 'Regional Trade Agreements' - so, 'RTAs'. And people like me, who are critical of these agreements, call them 'Preferential Trade Agreements'. Because of their inherently preferential or discriminatory nature. That is, unlike agreements negotiated through the WTO where Australia for instance, agrees to lower its tariff on car parts, it does it not just for car parts from the United States, it does it for car parts from every country in the world.

ERIC VAN BEMMEL

Yes. Or it should, under a non-discriminatory regime.

ANN CAPLING

That's right. But, in a so-called free trade agreement, you're doing this preferentially; you're doing it for one country - the other party to the agreement, but not for all the other members of the multilateral trade system. So, you're introducing an element of discrimination into your trade policies, which we were trying to overcome with multilateralism.

ERIC VAN BEMMEL

And these regional regimes would need to be taken down in order for a WTO blanket agreement to be reached?

ANN CAPLING

No, not necessarily. And I think most people now would say, there are so many of these, there are hundreds and hundreds of these, now in the world, and they've proliferated dramatically in the last seven or eight years. Maybe in part because of the difficulty now of negotiating multilaterally. I think that most trade experts would agree that they will co-exist now with the World Trade Organisation. But the challenge and one of the things that we talk about in the Warwick Commission report, the challenge here is how do you prevent all these Preferential Trade Agreements from undermining support and the legitimacy of the multilateral trade system? How do you keep governments interested in putting energy and resources into both the WTO and Preferential Trade Agreements. And, how do you restrain the worst aspects of some of these aspects of Preferential Trade Agreements.

ERIC VAN BEMMEL

I'm speaking with Prof Ann Capling, political scientist from the University of Melbourne, you're listening to Up Close, I'm Eric van Bommel. You and your Warwick colleagues named a number of challenges to the multilateral trade regime, one of them being to counter the growing opposition in industrialised countries to trade liberalisation and you specifically said, 'industrialised countries' is there no opposition in industrialising countries?

ANN CAPLING

That is one of the really interesting aspects of globalisation of say, over the last 15 years. Just as developing countries are coming to realise the huge benefits of trade liberalisation and in fact, many of them are now doing it unilaterally; they're lowering

their tariffs, they're removing their barriers to trade and investment, themselves. They're not negotiating this. Just as this is happening, and just as increasingly in developing countries, populations are becoming very supportive of globalisation, and believe it, the Gallop polls show that there is very strong support for globalisation. Developing countries see this as good for them.

ERIC VAN BEMMEL

At a public, grassroots level.

ANN CAPLING

At a public, grassroots level. At exactly the same time we're starting to see ? especially in North America and Western Europe ? a backlash against globalisation. One of the promises of trade liberalisation, is yes, there are always losers from trade liberalisation, there are always industries that will be adversely affected, but, you know, there will be gains. And there will be winners. And, one of the problems is that governments are not managing the issue of losers very well.

ERIC VAN BEMMEL

Can I ask for an example of a loser?

ANN CAPLING

Sure. Let's take in the US, for instance, one of the arguments would be, if you lower your tariffs on industrial products, yes, we are going to lose some manufacturing to lower wage locations in South America, Mexico, or in South East Asia. But, what you will get in return, for instance, is more and better jobs in areas that the economy is competitive. So, in services for instance. Or, in intellectual property. But, of course what is happening is that many of those services jobs are now being off-shored to places like India. So, for instance, call centers. Or, the more highly educated jobs, software development is moving from Silicon Valley to India. Americans will turn around and say ?Hey! We knew we were going to lose our textile factories and we knew we were going to lose our steel industry, but there was never anything on the table about the software development industry.? So, you could say, that's exactly the way that comparative advantage works. That's the way trade liberalisation works. One the other hand, maybe the problem is that, the social safety nets in the US are not adequate; that income distribution is not done in an equitable way, that the losers aren't being properly compensated by governments. And this is one of the things that governments could actually do something about in managing the downsides of globalisation.

ERIC VAN BEMMEL

But that is seen as internal interference isn't it? For the WTO to suggest -

ANN CAPLING

Yeah, the WTO can't suggest that. But it is much easier for many groups to turn around say, ?it is the WTO's fault?.

ERIC VAN BEMMEL

Yes.

ANN CAPLING

People like to find a reason for their grief and because it is very easy to accuse the WTO of all sorts of things ? even though there is no such thing as some sort of separate WTO out there that makes up rules and forces them on governments. Every rule and every agreement was negotiated among governments. So, when you are mad at the WTO, you're actually mad at your own government.

ERIC VAN BEMMEL

Your colleagues also came up with a number of recommendations. Why I think that needs a bit of expanding is the Warwick Commission is recommending less reliance, or no more reliance on consensus decision making in future negotiations. Better to look at critical mass decision making ? can you explain a bit about that?

ANN CAPLING

Sure. One of the great outcomes of the Uruguay round was what they call the single undertaking. That is, everybody agreed to everything and agreed to adopt it, so, for instance, there was nothing agreed in the services negotiations or the trade negotiations until there was an agreement in agriculture and so on and that allowed countries to make linkages between areas, make trade offs. And it was seen as highly important to the negotiating process. With the agreement on agriculture was made possible because the US could turn around to its farmers and say, ?but we are getting really good stuff on intellectual property rights in return.? But the problem is, that that approach is now holding up the Doha round negotiations. This is probably one of the things that has now made it impossible. Because all it takes is one country to say, ?no, we're not going to go along with that? and then, there is no consensus.

ERIC VAN BEMMEL

It amounts to a veto, almost.

ANN CAPLING

It amounts to a veto and it can be a tiny country that uses the veto or right now, it is the large countries all sort of in a stand off against each other. So, I think the Warwick Commission felt that we needed to think about the way decision-making occurs in the WTO to overcome the impasse that we expect would be more likely now giving the complexity and size and diversity of the membership. Again, this wasn't a new recommendation, but I think what was quite good about our proposals was the idea that there would be very tight conditions about when a subset of the membership could come to an agreement. So, they would come to an agreement but all 150-odd members would not be compelled to implement, whether that is a rule change or a tariff cut; it wouldn't be incumbent on anybody, it would only be incumbent on the volunteers.

ERIC VAN BEMMEL

And applied only to the volunteers?

ANN CAPLING

Applied only to the volunteers, but with some very important caveats. First of all, countries involved in a critical mass negotiation or agreement would have to first of all, establish that the agreement was going to contribute overall to net global welfare. Another caveat would be that the agreement would have to be multilateralised ? that is, the obligations of the agreement would be assumed only by those who chose to sign up to it, but the benefit would be there for all other members, regardless of whether they were signatories or not. Another caveat would be that any country that wanted to join at a later date would be able to do so without any additional obligations or conditions being imposed on them. So, what we are trying to do is to break away from this idea that 150-odd countries have to agree before the members can move forward on something. And we're trying to think of having an agreement that is still to the overall benefit of the multilateral trade system, is to the overall benefit of global welfare, and doesn't in any way discriminate against those who feel that for whatever reason they can't sign onto it at that current point.

ERIC VAN BEMMEL

Another recommendation was around aid-for-trade. What does that mean?

ANN CAPLING

It is in the interest of developing countries to be able to participate more effectively and more broadly in the trade system. And that is one of the things that stopped them from doing that right now, is not just, for instance, the still relatively weak treatment of agriculture in international trade rules compared to the treatment of industrialised products, but rather, problems to do with lack of infrastructure, lack of roads, lack of harbour facilities, lack of administrative know-how to be able to efficiently-process imports and exports. So, there is very much a view that these issues that they call trade facilitation could be funded by developed countries as a way of assisting developing countries to participate more fully in the trade system. And this is very important as an engine for growth. And so, aid-for-trade, is not about aid for poverty alleviation, but aid to help countries participate more effectively. We presented a number of recommendations that talked about a role for the WTO that wouldn't see it responsible for ensuring that governments ducked to their commitments but would give it a role to being able to in a sense, collect data on what was happening and to introduce some level of transparency about what was happening and aid-for-trade.

ERIC VAN BEMMEL

I'll just very briefly mention a couple of other things that were recommended by the Warwick Commission: an increasing of financial compensation as a way to resolve disputes, and also, what was called a high-level reflection exercise on the future of the trade system. And I guess that is having governments of member states think very carefully about what they want from world trade and to re-commit themselves to WTO.

ANN CAPLING

This idea of a period of critical reflection: I think we were recommending strongly that

this happens regardless of whether the round ends in failure or ends in success. Today's leaders have in a sense lost sight of the lessons of the past. They've lost sight of why, where the idea for an international multilateral non-discriminatory trade institution came from. And I think we had a view that it is taken for granted now and that in fact the world is at risk ? certainly in good times ? but in bad times, and bad times will most surely come we know this from the broader course of economic history, what might happen, if in fact the world is left with these preferential and discriminatory trade arrangements as its default? What will happen if governments turn away from the WTO, they say, ?oh, that's all too hard, negotiations take too long.? Does that de-legitimise the institution as a whole, does that de-legitimise its role as a rule maker, or a place where governments can negotiate conflict, or negotiate their differences? I think that there is a great risk that the institution is being taken for granted, while there are good times and what the idea of a period of critical reflection was precisely that ? to get the 150-odd members to really think about what does the institution mean? What value does it have? Where are the areas where it might be drifting? And do they want to recommit to the organisation?

ERIC VAN BEMMEL

Ann Capling, Melbourne University professor of politics and Warwick Commission Member, thanks for your time today.

ANN CAPLING

A pleasure.

ERIC VAN BEMMEL

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