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Narlikar, Amrita

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Chapter 3

Trade Multilateralism in Crisis: Limitations of Current Debates on Reforming the WTO, and Why a Game-Changer is Necessary

Amrita Narlikar*

As the old adage goes: never let a good crisis go to waste. Many policy-makers across the world – representing individual countries and international organisations – deserve credit for having launched a serious debate about reforming the WTO, in light of the many serious challenges the system faces today. This reform debate has been a long time coming. But in its current state, the conversation remains largely inward-looking, and thus fundamentally inadequate. The problems confronting trade multilateralism have deep roots; technocratic fixes within the WTO, while important, can play only a small part in resolving them. A fundamental rethinking and renegotiation on the narratives that underpin globalisation is necessary if we are to address the crisis trade multilateralism faces today. This article offers some concrete recommendations to facilitate this.

3.1 Is trade multilateralism in crisis?

There are several reasons to believe trade multilateralism faces a crisis of existential proportions today.

The WTO – the central international body that oversees multilateral trade governance – has been in a quagmire for some time now. The Doha Development Agenda – the first round of trade negotiations launched under the auspices of the WTO, and the ninth if we take into account the trade rounds negotiated under the General Agreement on Tariffs and Trade (GATT) – has been plagued by deadlock. The negotiations were initiated with much fanfare in 2001 and were scheduled to be completed in 2005. Seventeen years later, the conclusion is still nowhere in sight; the Doha Round has the dubious distinction of being the longest-running trade round in the history of the post-war multilateral trading system.

* Amrita Narlikar is Professor at Universität Hamburg, and President of the German Institute of Global and Area Studies. Prior to moving to Germany in 2014, she was Reader in International Political Economy at the University of Cambridge and Fellow of Darwin College. She has authored or edited nine books, and published over sixty articles in international journals or edited collections. The views expressed in this essay are those of the author and do not necessarily represent those of the Commonwealth Secretariat. She thanks the editors, and especially Brendan Vickers, for their valuable suggestions.
Recurrent deadlocks and constant delay in the WTO have naturally produced discontent and disillusionment, as well as much recrimination and finger-pointing, from all sides. The turn to bilateral, regional and mega-regional trade agreements (including USA-led initiatives like the Transatlantic Trade and Investment Partnership (TTIP) and the Trans-Pacific Partnership (TPP)) was also, in good measure, a reaction to the failures of the WTO. But this turn to bilateralism and regionalism further exacerbated disengagement from trade multilateralism.

The year 2015 should have been a proud celebration of the 20th anniversary of the organisation but it turned out to be the year of the Nairobi Ministerial Conference, where the Ministerial Declaration was unprecedented in not reflecting a consensus; rather, the statement displayed fundamental division among the members of the WTO on whether or not to even reaffirm the Doha mandates. The Buenos Aires Ministerial Conference in 2017 marked a new low for the WTO: the membership failed to even produce a Ministerial Declaration. In 2018 things took a turn for the even worse.

On 2 March 2018, US President Donald Trump declared on Twitter, ‘Trade wars are good and easy to win,’ and announced that the USA had plans to slap tariffs on steel and aluminium imports. The USA not only followed through on this threat against major trading partners and allies (and thereby triggered a series of retaliatory and counter-retaliatory measures from different sides) but also chose to hold up the appointments of members to the WTO’s Appellate Body. Donald Trump as presidential candidate had repeatedly declared his intention of finally putting ‘America First’; as President of the USA, he has framed his hostility to global trade governance in terms of the same narrative, and even threatened to pull the country out of the WTO. Both the negotiating and the dispute settlement arms of the WTO now risk paralysis – an alarming proposition in its own right, but all the more so in a world of escalating trade wars.

The problem with trade wars is that they produce lose–lose situations (Narlikar, 2018a). Especially in a world of integrated global value chains, it is often difficult to restrict their adverse effects to targeted countries.1 They generate victims across the board, including within the country that has instituted protectionist measures (e.g. Huang et al., 2018). In the case of the USA, for example, it is predicted that the trade war with China will hit some of the poorest in the USA – the very same group in whose name the Trump administration claims to act via the tariff measures (Heeb, 2018). Trade wars create uncertainty and unpredictability in the system, which causes harm to all, as well as undermining one of the most promising engines for growth available to developing and least developed countries.

These costs are not to be scoffed at. But the harm that the current trade conflicts are causing goes considerably beyond the involved countries and third parties; rather, they are damaging the system as a whole. The fact that the WTO is being sidelined at each step (declarations to slap on new tariffs, retaliations and counter-retaliations, and even bilateral deals and arrangements among warring parties to de-escalate the situation, are usually made outside of the WTO, even though some of the actions are also in parallel being referred to the DSM) – is delivering bigger blows to an already emaciated system.
This combination of real and potential threats is tantamount to a crisis of trade multilateralism. If the system of trade rules were to break down, this would be suboptimal for all parties and especially for the poorest and weakest among them.

3.2 Explaining the crisis

It is commonplace to blame President Trump for the institutional paralysis the WTO faces today and escalating trade wars outside. But to do so is to confuse symptom with cause. There are at least three reasons for the crisis of trade multilateralism, and all three illustrate more fundamental and deep-rooted problems.

First, backing Trump’s narrative of ‘America First’ is a significant portion of the US electorate that is convinced that the gains of globalisation have passed them by. They attribute increasing inequality within their society, and the job losses and declining wages that they personally endure, to the costs of international trade. Usually, the extreme hardships these groups suffer have several causes. They range from technological change to inadequate welfare mechanisms that could allow for better distribution of the gains of globalisation. But trade is often the easy scapegoat, especially as blame can be all too conveniently attributed to the international level. Plus, imports are somewhat easier to control and curtail than technological change. The current US administration has harnessed this discontent very effectively – perhaps even fanned it further by building a narrative that links domestic inequalities and poverty within the USA to global trade governance. But the scepticism towards different aspects of globalisation – including international trade – had been building up for some time now, even prior to Trump’s arrival on the scene.

Second, while few major trading partners have escaped his ire, China has attracted particularly scathing accusations from President Trump for not playing by the rules. Here, too, it is worth recalling that this blame game is not new; prior US administrations also pointed their fingers at the rising powers in the course of the Doha negotiations. Susan Schwab, for instance, famously compared the unwillingness of the rising powers to make concessions to ‘elephants hiding behind mice’; Bob Zoellick similarly expressed his frustration with the ‘can’t do’ countries at Cancún. Nor was this mere “cheap talk” on the part of US trade negotiators; the same behaviour patterns were evident at the highest echelons of power, and expressed themselves through not just talk but action. It is often forgotten that the Obama administration also had some strong protectionist leanings, which were not so far removed from President Trump’s. It was under President Obama that the USA imposed a fivefold increase on steel import duties from China, dabbled in the rhetoric of protecting US workers, showed great reluctance to make concessions in the Doha negotiations and precipitated a turn away from the WTO’s multilateralism and towards the mega-regionals of the TTIP and TPP.

In large measure, this behaviour pattern (which predates Trump) is a reaction of the USA to a changing balance of power. As the BRICS (Brazil, Russia, India, China and South Africa) – and especially China and India within this group – have acquired
greater economic clout and political weight in the WTO, the expectation that will take on greater global responsibilities has risen. Amid the changing international balance of power and the domestic discourse of discontent, it is perhaps not surprising that the ability of the large middle-income countries to use/misuse loopholes in the trading system appears galling to the developed countries. Local content requirements, intellectual property rights’ violations, forced technology transfer requirements and the use of subsidies might have been tolerated in the early years of Chinese accession to the WTO but now attract hostility, with China’s now the world’s second-largest economy and the dominant geo-political power in Asia.

Third, frustration with trade multilateralism is not unique to the USA or other Organisation for Economic Co-operation and Development (OECD) countries. The rising powers and other developing countries have also expressed their dissatisfaction with the system in the past few years. Brazil, for instance, has long pointed to the hypocrisy of the USA and the EU in demanding market access in developing countries, while keeping their own markets in agriculture highly protected. India has argued that the agricultural negotiations of the Doha Development Agenda disregard the food security concerns of its poorest farmers. The development focus of Doha, in fact, reveals just how polarised the trade debate can be between countries that often have very different visions of development and how development may be achieved with reference to individual governance structures, social priorities and national/local histories and cultures (Narlikar, 2010).

The persistence of the Doha deadlocks (going back to 2003, when the first deadlock of the round shook the Cancún Ministerial) is an important indication of just how dissatisfied virtually all parties are with the workings of the WTO. Trade multilateralism has been in desperate need of fundamental reform for a long time now.

### 3.3 Limitations of the current reform debate

The crisis of trade multilateralism has finally triggered a serious debate on reform. This debate now involves members, and concrete proposals coming from their governments (Australia et al., 2018; Canada, 2018; EU et al., 2018; European Commission, 2018). As such, it goes beyond the commendable but limited impulses provided by independent commissions, which lacked the necessary leader-level political backing to put their innovative ideas into practice. The proposals offer different levels of detail on vision, substance and process. Some have been advanced by individual coalitions, others via coalitions of like-minded countries. But, for all the good intentions that underpin them, these efforts suffer from three limitations.

**Technocratic content in the face of populist challenges**

First, the proposals – although showing considerable variation in their degrees of generality versus specification – remain restricted to the functioning of the WTO. As such, they operate at a fairly technocratic level. And, given the scale of the problems the system faces today, even the most far-reaching of them come across as a case of being ‘too little too late’.
The European Commission’s Concept Paper – perhaps the most detailed and wide-ranging in reform ideas thus far – offers a case in point. In contrast to the relatively trite and unenforceable platitudes (e.g. agreeing to fight protectionism together or reinforcing the multilateral trading system) that usually abound in many proposals and political declarations, this proposal deals seriously with some concrete problems. It tackles a variety of issues, including decision-making processes to overcome the recurrence of deadlock in the WTO and the functioning of the Appellate Body (i.e. efficiency concerns); ‘levelling the playing-field’ via improved transparency mechanisms, notification of subsidies, curtailment of forced technology transfer requirements and graduation requirements (i.e. fairness concerns, with measures targeting some restrictive practices of developing countries, especially China); and addressing sustainability and development concerns (i.e. fairness and legitimacy concerns, seen from the perspective of developing countries and especially least developed countries).

In identifying a range of problems that afflict the WTO, as well as opening up the discussion on reform by suggesting some concrete lines of action, the proposal is timely and useful. It works at the level of feasible technocratic detail rather than just grand political rhetoric. But in this strength also lies its biggest weakness. The paper effectively ends up preaching to the choir of the same global ‘elites’, and remains broadly within the same framework of a liberal institutionalism, which many trade sceptics are up in arms against. Hence, although one might expect the paper to rightly generate much interest in Brussels, Geneva and New York, it is unlikely to reassure the many groups of people – across countries – who genuinely believe they have been short-changed by the multilateral trading system. If anything, reform proposals that fail to acknowledge and address the concerns of those who fear globalisation and the power of international bureaucracies – even when well-intended and equipped with innovative ideas – risk exacerbating the resistance against free trade and strengthening the hands of the demagogues who drive it.

Preaching to the choir

Second, there is a serious danger that the reform debate will be perceived as being dominated by the usual suspects – that is, major OECD economies plus a few token developing countries.

The Canada-led ministerial initiative, which comprised 13 parties (Australia, Brazil, Canada, Chile, the EU, Japan, Kenya, Korea, Mexico, New Zealand, Norway, Singapore and Switzerland), provides a powerful illustration of the problem. At face value, this would appear to be an important exercise in leadership and responsibility. With the USA and China at loggerheads in the past few months, it is perhaps not surprising that they were not at the mini-ministerial table. And one can also imagine that this mini-ministerial was not just a knee-jerk reaction to the recent months of trade drama, but a response to the years of deadlock in the WTO, during which a cacophony of multiple voices has seemed to have drowned out any attempts to reach consensus.

But this initiative seems to have forgotten another very important lesson of the multilateral trading system of the past decades, which remains relevant even today.
Multiple parties still believe that they have been marginalised not only from the gains of free trade but also from the key decision-making processes that govern it.

Several states have shared resentments about exclusion and marginalisation from trade multilateralism in the past. Recall, for instance, the long-standing complaints of developing countries that the GATT operated as a Quad-dominated ‘Rich Man's Club’, and their persistent bitterness about similar practices in the early years of the WTO. Similar grievances today unite a motley crowd of states and peoples: we have not only countries that refuse to accept the status of ‘rule-takers’ but also people within rich and poor countries who believe their absolute or relative poverty stems from a system of international rules in which they have no say.

Against this backdrop, the Canada-led initiative – which included neither any least developed countries/small and vulnerable economies and only one of the BRICS group of rising powers (i.e. only Brazil was included) – appears to be unfortunate. While one can see the merits of having a small group of countries revitalise the reform debate, the G20 (both at the leaders’ level and at the trade ministers’ level) provides just such a forum with greater legitimacy and greater critical mass. Its legitimacy derives from the more systematic representation of countries across regions and development levels as well as its extensive public outreach activities (via the T20, B20, W20 and so forth). Its critical mass stems from its inclusion of the world’s largest economies. It is difficult to see what value-added initiatives like the recent Canadian one can bring that can go beyond the reach and influence (however limited) of the G20. Additionally, such an approach risks creating new fault-lines by exacerbating perceptions of marginalisation among excluded parties and ignoring their concerns.

The first two problems then can be summarised as follows: if trade multilateralism is to be injected with new life, it needs the support of the many different constituencies that are affected by it (and its breakdown). This cannot be done solely through technical discussions on the workings of the WTO behind closed doors among small groups of self-selected states.

It’s the geo-economics, stupid!

The third problem with much of the conversation on reform is that it takes place in an echo chamber of trade issues. This reinforces the first two limitations: the debate continues to operate at a narrow technical level, and takes place largely among those who are generally still convinced about the merits of the system. But it does something even more detrimental: by keeping the conversation focused mainly on trade issues, the reform debate fails to capture critical linkages between trade and security concerns. The severity of the challenge to trade multilateralism derives at least in part from a factor exogenous to the WTO: the changing balance of power in the system. And, while the use of economics for geostrategic purposes is far from new, fears about this are rife today in light of China’s meteoric rise and controversial expansionism. This rise has certainly been facilitated by the multilateral trading system, which created new market opportunities for China’s state-led economy. The fact that there are loopholes in the system that China and others have been able to exploit has contributed to the fundamental questioning of the WTO by President Trump and others.
Even if the first two problems were to disappear, and large swathes of populations across the world did not need convincing on the gains of globalisation, this third problem would remain serious enough to wreck trade multilateralism. Technocrats need to recognise that trade need not always represent a ‘good’ for its own sake, or even a potentially positive force for growth and development. Rather, it can and has been used and misused also for geostrategic purposes. Functionalist ideas of reform that focus solely on the trade silo are unlikely to find feasible and lasting solutions, precisely because they miss out on the bigger picture of power politics and global governance.

3.4 Developing a game-changer: Recommendations

The WTO, and the system of trade multilateralism that it underpins, is in a rut. The reform debate thus far, while a step in the right direction, has not been able to break free from this rut and create new points of departure. Can a game-changer be developed? And, if so, how?

Despite all the caveats highlighted in the last section, there is considerable scope for action. Below are two routes whereby steps might be taken to rescue and reform trade multilateralism – one develops an academic agenda for researchers, and the other offers policy recommendations for practitioners.

Academic agenda

The academic community bears a share of the responsibility for the backlash against globalisation and the imminent breakdown of trade multilateralism, in two ways. First, scholars from different academic disciplines, but perhaps especially from the field of economics, assumed that the gains from multilateral trade were so obvious to everyone that they did not explaining. In contrast, the tirades of the anti-trade brigades have been much louder and better organised in recent years. And second, different disciplines were so caught up in the stories of aggregate success that they did not take seriously enough the anger of those who had incurred losses from different aspects of globalisation. Through these omissions, academia helped fuel misunderstandings and exaggerations against ‘elites’ and ‘the establishment’. Four steps may be important, if we wish to correct some of the damage that has resulted from these academic inadequacies.

First, the study of narratives needs more academic attention. Systematic analysis of why some narratives win over others is imperative today (e.g. why the anti-trade rhetoric has acquired so much credence in the USA in recent years, or why nationalist narratives are driving domestic politics and international policies across countries). Interestingly, and partly in cognisance of the failures of the ‘dismal science’, behavioural economics has taken some pioneering steps in this direction (Akerlof, 2007; Akerlof and Shiller, 2009; Shiller, 2017). Other fields can also make valuable contributions to this cutting-edge field of research, including on the important normative implications of particular narratives (Narlikar, 2019 forthcoming).

Second, while the Doha deadlocks offer us several interesting and detailed insights into the problematic workings of the WTO, a particularly important lesson relates
to the extent of polarisation among the members. If trade multilateralism is to be brought into functioning order again, it will not be enough to come up with new formulae for decision-making within the WTO. Rather, it is extremely important to understand and integrate not only the interests of groups and countries that believe themselves to have been marginalised from the agenda-setting process, but also the different values and visions they bring to the negotiating table.

To do this effectively, we need to adopt a ‘global approach’ to social science research, which decentres the West and tries to understand the countries of the Global South (and also groups of people in the North and the West) on their own terms and based on their own experiences (rather than only Western lenses) (Narlikar, 2016). For example, to understand India’s recalcitrance to make concessions in the Doha Development Agenda’s agriculture negotiations, one must take into account the country’s historic concerns with food security as well as its negotiating culture. Similarly, to understand President Trump’s antipathy towards multilateralism, it is essential to study this administration’s preference to engage in bilateral deals, as well as the long-standing isolationist streak in US foreign policy. In order to achieve negotiation breakthroughs in a world of increasing multi-polarity, the study of the human cultural dimension will be essential.

Third, even the most innovative efforts to reform the WTO will not yield success if researchers do not devote enough attention to understanding issue linkages between trade policy and security. To facilitate a better understanding of the matter, scholars will have to step outside of their comfort zones and engage in research that transcends disciplinary/sub-disciplinary divides. For example, collaborations between political economists and those working in strategic studies, and also economists and political scientists, could be fruitful for exploring the links between Chinese trade policy and geo-political ambitions and thereby generating appropriate policy responses.

Finally, more research needs to go into the impact that automation and Artificial Intelligence will have on our societies, economies and possibly even identities. A good proportion of the anger about job losses in Western countries is usually misdirected towards trade and migration, whereas technological change is often the real ‘culprit’. Social scientists need to systematically distinguish between the different effects of different aspects of globalisation, and also communicate these distinctions more clearly through public engagement activities. They also need to engage with philosophers as well as natural scientists and engineers to develop ways in which societies might best harness the opportunities of technological innovation, and also manage the challenges.

Policy recommendations

Given the severity and urgency of the problems that trade multilateralism faces, is there any scope for or hope of policy action? Three avenues may be especially timely.

First, the temptation to secure bilateral deals under conditions of uncertainty at the multilateral level is high, but it must be avoided. But this is a risky strategy for two reasons: it fails to address the real problems that afflict the system and it weakens multilateralism further by bypassing it via bilateral arrangements. And, the greater
the number of major economies that give in to such deal-making, the more likely it is that there will be a further unravelling of the system, with costs to everyone involved.

Second, bypassing the system through bilateralism is not the only strategy to be avoided. Practitioners would also be well served to go beyond the usual banal statements that reiterate support for the rules-based multilateral trading system. The time for empty promises is over. Concrete measures need to be taken to reform the system. While the reform debate represents an important step in this direction, as per the reasons outlined in the previous section, this narrow and technocratic approach will not suffice. A more holistic approach is necessary, which should include technocratic fixes but also bring together a broader vision for making trade fairer and more sustainable. While this process was begun under the German Presidency of the G20 in 2017, it has stalled amid the escalatory dynamic of trade wars in 2018. Many of the ideas developed as part of the G20 process then (such as the idea of ‘legitimate trade defence instruments’ (G20, 2017) are still worth reviving and developing further.

Third, the most difficult but also the most important policy response would be for practitioners to work hand in hand with scholars on the issue of narratives. Politicians and policy-makers, especially of liberal and pro-trade persuasions, have been at least as remiss as most scholars in assuming that the benefits of trade multilateralism are obvious to everyone. This positioning stands in stark contrast to the much more systematic and concerted efforts from both the Left and the Right to discredit different aspects of globalisation and trade multilateralism, as well as other values such as the rule of law and democracy. Even if we were to come up with a silver bullet of a solution for reforming the WTO, and we were to do this in tandem with other measures for reforming global governance across multiple fronts, all these efforts would be futile if they were not framed with reference to credible causal stories that people could identify with.

Importantly, the last two measures – adopting a more holistic approach to reform and developing better narratives – cannot be restricted to the international level. Debates about reforming trade multilateralism need to bring in voices from within states and also across countries. Any proposed policy measures would need to encourage and open up space for countries to come up with new social contracts with their people, which would allow for better welfare measures to make use of the national gains from globalisation. Smarter narratives would need to work within countries at all levels, and also across countries to build networks and alliances around these narratives. Such multi-level, cross-country action will certainly not be easy to achieve. But a new bargain on trade multilateralism, built on such measures and reinforced via such narratives, holds unprecedented promise for being not only more inclusive and egalitarian but also more efficient and more sustainable.

**Endnotes**

1 The scale of potential damage was likely to be higher still, given that the Trump administration, especially in its first few months, chose to target a range of countries, from its competitors like China to close allies like Canada and the EU.

2 This section draws directly on Narlikar (2018b), as do parts of the previous section.
3 Scholars and technocrats, by assuming that the gains countries and people accrue from the WTO are self-evident, have certainly not helped bolster the cause of trade multilateralism.

4 The USA, moreover, is not the only country where we are seeing an emergence of anti-trade, anti-multilateralism narrative. The result of the Brexit referendum represented a triumph of the Brexeters’ narrative, for example on ‘Take Back Control,’ in contrast with the somewhat complacent and lackluster Remain campaign.

5 Examples are the Warwick Commission, the Bhagwati-Sutherland Commission and the Bertelsmann Commission, usually comprising independent experts, retired international civil servants and former trade ministers.

References


