

# At a Crossroads

Reforming the WTO is imperative, but consensus will be necessary

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To be, or not to be: That is the question facing the World Trade Organization (WTO) as it observes its 70th anniversary this year. Founded in 1948 as the General Agreement on Tariffs and Trade, the WTO, together with the World Bank, the International Monetary Fund and other international organizations built on the ruins of World War II, was once an important pillar of the international economic order dominated by the United States. However, the WTO is currently facing unprecedented challenges that, ironically, are largely posed by the U.S. itself.

## Heated debate

A product of globalization and a model for international governance, the WTO has 164 members, which comprise 95 percent of the world's trade volume. It was the first international organization to employ a dispute settlement mechanism, and it has successfully resolved hundreds of international trade disagreements. Over the decades, the WTO has also contributed greatly in the defense of the international free-trade system.

Yet criticism of the WTO has never quite gone away, and has become fiercer than ever in the 21st century, as seen in the breakdown of the Doha Development Round of trade negotiations that began in 2001 and the subsequent failure of revival attempts ever since. The lengthy bureaucratic process of dispute settlement and the principle of consensus have led to the inefficiency of the organization.

Moreover, the rapid development of the new global economy and the flourishing of new business models in the information age have left the WTO behind, its current

rules outdated and ill-suited to the realms of e-commerce, data flow, environmental protection, competition policy, investment facilitation and other contemporary international economic and trade issues. This obsolescence, coupled with the growing trend of regional and trans-regional free-trade agreements, especially among developed countries, has relegated the WTO to the margins.

In recent years, the organization has faced more severe and direct challenges, following the election of U.S. President Donald Trump, Britain's exit from the EU and the surge of protectionism and anti-globalization worldwide.

The Trump administration's trade measures have unleashed a string of damaging blows to the WTO. Proclaiming the policy of America First, Trump flouted WTO rules by unilaterally imposing tariffs on America's trade partners under the pretext of national economic security. More recently, the U.S. initiated a trade war with China and the EU, unprecedented in scale, by slapping tariffs on thousands of commodities worth tens of billions of dollars, while the WTO could only stand by and watch.

The U.S. has even threatened to withdraw from the organization, and has doggedly disrupted the judge nomination process for the WTO Appellate Body. In May, Ricardo Ramirez-Hernandez, a former Appellate Body judge, said that the organization is being gradually strangled "through asphyxiation" by the U.S.

## Different arguments

The WTO has reached a crossroads, and its members now face the choice of whether to restore or abandon it. It is impossible for the WTO to return to the past, and its future now depends on the decisions of the countries involved.

This predicament has been brought about by two major factors. Firstly, the international economic structure has been undergoing a major transformation. Globalization, following its rapid uptake,

has slowed as the negative side effects of unfettered integration become more apparent. Secondly, the willingness of traditional hegemonic powers to share global responsibility has declined, and these nations now want to reshape the international economic and trade order to cope with competition from emerging powers.

The U.S. has long been vocal about its dissatisfaction with the WTO. During Barack Obama's tenure as president, the White House sent repeated signals about WTO reform, and blocked the nomination of new judges to the WTO Appellate Body. The U.S. also excluded China from regional trade negotiations on the Trans-Pacific Partnership and the Transatlantic Trade and Investment Partnership, in an attempt to rewrite international economic and trade rules in its favor.

Trump, who considers the WTO a disaster for his country, has taken this line of thinking several steps further. The president has rattled the saber of unilateralism and protectionism, and his administration has initiated bilateral and regional trade negotiations in an attempt to reshape the international order according to his America First policy.

Although the two presidents have employed different methods, their aims are consistent. By signing a new generation of bilateral and regional trade and economic treaties, the U.S. is attempting to bring China and certain other countries to heel, and to finally reshape the WTO based on its own interests.

In July 2017, the U.S. issued reform proposals to the WTO, which would require that the organization make new rules on trade and improve its dispute settlement mechanism. It specifically advocated discussion of whether to retain the policy on the special and differential treatment of developing countries.

European Council President Donald Tusk and French President Emmanuel Macron have also called for WTO reform to respond to the current chaos of international trade, and to prevent the



An exhibitor promotes beer from the Czech Republic at the 20th China International Fair for Investment and Trade in Xiamen, in southeast China's Fujian Province, on Sept. 8.

proliferation of trade wars in the future.

WTO Director General Roberto Azevedo agrees that a reformed WTO could better solve the current challenges of world trade. Thus, the organization is set to accelerate its restructuring by honing its rules and improving its governance and decision-making mechanisms, so as to more quickly respond to the new realities of the information age and to the development of emerging powers.

## The way out

The expense of totally abandoning the WTO would be massive, not to mention impractical, and reform of the organization has widespread support worldwide. Macron has proposed that the EU, the U.S., China and Japan, along with other countries, make efforts to build consensus on a common reform plan before the G20 Summit in November.

But the question of how to reach agreement on a common reform plan remains. Both developing and developed countries naturally wish to pursue their own interests, and have divergent ideas on what form any reform should take.

Developed countries have already strengthened coordination to reach joint consensus and take the initiative in pursuit of change. Following the WTO ministerial-level conference in December 2017, the

U.S., the EU and Japan issued a declaration announcing that they would strengthen cooperation to eliminate unfair trade practices caused by problems such as excess capacity. In May 2018, the three parties reaffirmed their agreement on regulating technology transfer and industrial subsidies, and revealed plans to take internal action before the end of 2018 with the aim of starting negotiations shortly thereafter, with all major trading partners to be included in these negotiations.

Japan and the EU signed a free-trade agreement on July 17, and the U.S. and the EU reached an agreement on July 25 to reform intellectual property rights policy and to crack down on forced technology transfers, industrial subsidies and overcapacity, among other things, leaving little doubt that China is the main target of the reform plan of these developed countries.

Communication between the North and the South has progressed. In July, Canada's new minister of international trade, Jim Carr, invited a dozen trade ministers to meet in late October to discuss how to fix the WTO. Australia, Brazil, Chile, the EU, Japan, Kenya, Mexico, New Zealand, Norway, Singapore, South Korea and Switzerland are on the guest list.

Negotiations between developing countries are also in full swing. During the BRICS Summit in July, the representatives

of 22 countries acknowledged that the WTO now faces unprecedented challenges, and called for the world to defend the rule-based economic order and build a more open world economy.

China is a firm supporter of the WTO's core status in international trade and the global economy, and has strived to strengthen cooperation with other countries through ongoing negotiations and agreements, such as the China-EU Investment Agreement, the China-Japan-South Korea Free Trade Agreement and the Regional Comprehensive Economic Partnership.

There is still a divergence of opinions on matters such as industrial subsidies, developing-nation status and state-owned enterprises, among other issues. Reform of the WTO is bound to be complicated—but it ultimately needs to be successful. Without coordination and concerted effort, any attempt to change the WTO will likely die on the vine, and the world economy could regress to the law of the jungle which predominated before the organization's inception 70 years ago. ■



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