

What is the WTO for?
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It is a pleasure and an honour to be asked to speak to you today, and I am grateful to Daniel Drache and Sylvia Ostry for inviting me.

Sylvia is of course one of Canada's living national treasures. What may be less well known is that she also has a highly original way with statistics.

I discovered this when we first met several years ago at a conference in Australia. At that time I was still a smoker, and we would share occasional cigarette breaks. During one, I observed that it was not doing us any good. This drew an immediate rebuke, in that trademark throaty rasp that I will not attempt to imitate.

"Complete rubbish," she snapped – or words to that effect.

"How can you say that?" I asked. "I know," she replied, "Because when I was appointed Canada's chief statistician, I got my staff to re-work the data on smoking and health. And we showed conclusively that the risks have been greatly exaggerated."

So take that, Mark Twain.

That's enough statistics for one lunchtime. I want to talk today about two issues. One is how far the WTO can or should contribute to global governance by expanding its rule-making functions into new areas. The other is to examine whether the new multilateral trade round can do enough to help lift the WTO's poorest members out of poverty to justify the title the Doha Development Agenda.

We have heard a lot on the first question from the WTO's critics. They have demonised the organisation as a stealthy conspiracy between multinational companies and unaccountable bureaucrats to trample the world into submission. Among other things, it stands accused of despoiling the environment, pauperising entire nations and even of killing people.

Not bad going for an organisation with 500 permanent staff and an annual budget of less than \$90 million. World domination never came so cheap.

Many of the criticisms are based on the mistaken notion that the WTO has autonomous authority, which overrides that of its individual members. In reality, it is of course a voluntary arrangement for negotiating and implementing contracts between sovereign powers. The WTO as such has no mechanisms of its own to coerce or impose outcomes on governments. It is up to them whether to join, and they are free to pull out – though so far none has done so.

Behind many of the attacks lies resentment at the WTO's binding disputes procedures. Many recent disputes rulings have been castigated as undemocratic intrusions into

national sovereignty. However, critics are divided about solutions. Some simply want to demolish the organisation. For others, undoubtedly the majority, the problem is less with binding rules as such, than the purposes they are intended to serve. Their chief interest appears to be in getting the rules re-written and interpreted to uphold priorities other than trade. Indeed, some who assail the WTO as unaccountable and dictatorial appear eager to appropriate its machinery to promote diverse and sometimes conflicting alternative agendas.

In parallel, the role of WTO rules has recently aroused growing controversy among its members. First, in the context of developing countries' complaints about implementation, above all of the Trips agreement. And second, because of demands by the European Union, with Japanese support, for negotiations on rules in "non-trade" areas including investment and competition, and a "clarification" of rules on the environment. More surprisingly, Mike Moore, WTO director-general, has recently taken a public position in the debate, saying it is in developing countries' economic interest to subscribe to agreements on the four Singapore issues.

The EU failed to get its full wishlist accepted in Doha. However, it would be premature to conclude it has given up the struggle. Doha ducked tough decisions on whether, and in what form, to proceed with negotiations on the Singapore issues and environment, remitting them instead to the fifth ministerial. That may have set the stage for a showdown, even a crisis, in Mexico next year.

The most eloquent advocate of expanding WTO rule-making is Pascal Lamy, the EU's trade commissioner. He argues that rules on non-trade issues are needed to enable the WTO to "harness" globalisation – in the sense of controlling or taming it. That, he suggests, is not only a worthwhile objective in itself, but necessary to make further trade liberalisation palatable to sceptical public opinion.

Many outside the EU have dismissed such arguments as a cynical ploy to fend off pressures for agricultural liberalisation by tying negotiations up in knots. But the EU's position is also clearly influenced by its experience in formulating harmonised rules and standards for its internal market, and by a belief that its model should be applied to the wider world. This view is supported not only by France, where political and public opinion is still struggling to come to terms with globalisation, but of countries with such impeccable free-trade credentials as Sweden.

Such thinking marks a shift away from the GATT model, in which rules were essentially proscriptive. Many of the rules the EU has in mind would be heavily prescriptive. They would also not be designed to underpin market access undertakings, but would involve entering into additional commitments.

The WTO has, of course, already moved some way towards the prescriptive approach. It is evident, for instance, in the reference paper on regulatory principles in the telecommunications and SPS agreements. But its most notorious expression is the Trips,

which is both prescriptive and enshrines rules only tenuously related market liberalisation.

The bitter recent disputes about Trips should give grounds for caution – particularly as an object lesson in trade negotiators' limitations as rule-makers. Not only are they poorly equipped to deal with highly technical issues outside trade; but the dynamics of complex multilateral negotiations tend to breed second or third best outcomes. When negotiators cannot agree, they habitually paper over their differences with woolly compromises and semantic ambiguity that leave unclear what, if anything, they really meant.

Such lack of clarity mattered less in the old Gatt, which had more built-in escape valves for avoiding the strict application of rules. But in the WTO, it has increasingly left disputes panels and the appellate body open to damaging charges that they are making, rather than merely interpreting, rules. Such accusations are now heard not just from NGOs, but from jurists and sections of the US Congress. Loading the apparatus with yet further layers of poorly thought-out rules would risk heightening, rather than allaying, public resentment and mistrust of the organisation.

In reality, much of the pressure to bring non-trade issues into the WTO arises not because it is institutionally well constituted to deal with them, but simply because other international forums have failed to provide answers acceptable to the petitioners. Labour standards and the environment are cases in point.

Some of these failures arise not because alternative forums do not exist, but because of internal contradictions and conflicts in national policy-making. Governments frequently face one way on trade policy and another on other issues. In the negotiations on the Cartagena biodiversity protocol, some countries took positions diametrically opposed to those they have long fought for in the WTO. This incoherence, I would suggest, is at the root of the potential conflict between WTO rules and multilateral environmental agreements. While such tensions persist at national level, the idea that they can be reconciled in the WTO appears fanciful.

Finally, there are questions about how far efforts to impose uniform standards of conduct through more active prescriptive rule-making will achieve their advertised purpose. As many commentators have pointed out, imposing minimum labour standards on poor countries would be more likely to rob them of their chief source of comparative advantage, low costs, than to improve their workers living standards. Then again, perhaps that is the real agenda of some of those calling for such rules in the WTO.

Or take competition policy. While it clearly overlaps in certain areas with trade policy, advocates of WTO competition rules appear less concerned with clarifying the relationship than with strengthening and harmonising national approaches to anti-trust enforcement. The EU, for instance, talks of fostering an international "competition culture" by elaborating WTO rules and principles for the conduct of policy.

Yet surely this is going about the task the wrong way round. About 80 countries currently have competition laws, and their number is growing steadily. Yet few – even in the industrialised world – have agencies with the resources, experience and institutional maturity to apply them effectively. Even within the EU, which has supranational competition laws, quality and standards of implementation vary widely between countries. What likelihood is there that WTO rules would be any more effective in encouraging uniformity?

Surely, what is most needed to create a “competition culture” are more education, learning-by-doing and the gradual development of mutual trust between regulators. That seems more likely to be achieved informally through dialogue and peer pressure in the new International Competition Network than through the more formal mechanisms of the WTO, in which anti-trust enforcers are not even represented.

If the case for expanded globe rule-making in the WTO remains to be made, what of the prospects for what many consider its mainstream role, opening markets?

Much emphasis was placed in Doha on the development dimensions of the new round. This reflected awareness among richer WTO members that being seen to respond to poorer ones’ complaints about inequities in the multilateral trade system was indispensable to winning their support for a round. Indeed, one of the most striking features of Doha was how many members of the WTO’s formerly silent majority discovered they had a voice.

But how, in practice, will the new Development Agenda differ from earlier rounds? Axiomatically, all trade liberalisation aims to promote economic development. Making that objective more explicit seems to promise more, implicitly fuelling expectations that trade will deliver greater benefits to developing countries than in the past. It has also created an onus on the WTO’s richer members to do what is needed to deliver the goods.

The agreement on reinterpretation of Trips, despite strong counter-lobbying by western pharmaceutical companies, was one response. US willingness to improve Pakistan’s access to its textiles market – albeit by a niggardly amount was another. Since Doha, rich countries’ efforts to prove their *bona fides* have focused largely on the search for “capacity-building” measures, to equip the least developed to negotiate and operate more effectively in the organisation.

There is certainly much that could be done. Many least developed countries lack even the basic tools of information-gathering and analysis needed to participate fully in the WTO. Some cannot even afford permanent Geneva representation.

Nonetheless, whether strengthening negotiating capacity is a sensible use of scarce development resources remains a much-debated question. Not only is it costly; it does not tackle poor countries’ biggest challenge: how to translate the opportunities offered by trade liberalisation into economic growth. This is a huge and unresolved conundrum. Colombia, for instance, has some excellent trade negotiators. Yet all their efforts to win

better access to foreign markets have failed to contribute measurably to the performance of its economy.

That in no way excuses rich-country protectionism, and the fact that most OECD members impose much higher tariffs on imports from developing ones than on trade with each other. Nor is it a reason for not lowering their barriers. Politically, without a clear signal that rich countries are ready decisively to open their markets, particularly for agricultural products, textiles and footwear, the Doha round risks failure.

Yet it is far from clear how far such action will lead to real economic benefits for the very poorest. The 48 least developed countries account for 0.4 per cent of world exports, and Africa's share has continued to slip since the Uruguay Round, even though developing countries' exports have grown substantially overall.

The benefits of any such liberalisation in the Doha round may turn out in practice to be very unevenly spread. Brazil's efficient agriculture sector looks likely to profit from better access in the US and Europe, but what about Tanzania or St Lucia? Some countries could even end up worse-placed than before. China's surge in exports to the US has been largely at other developing countries' expense, and it stands to do better still once the Multi-Fibre Arrangement ends. Some competitors, such as Bangla Desh, are already taking about trying to extend the MFA in another form, so as to continue benefiting from guaranteed historic market shares.

Of course, removing your own trade barriers is not a favour you do to others. It is a favour you do yourself. Economic gains from liberalisation stem not from increased exports, but from efficiency improvements stimulated by keener competition from imports. On this score, the high levels of border protection in many developing countries suggest they owe themselves a lot of favours.

But here again, there are big questions. While an apparent strong correlation has been traced between growth and economic openness among developing countries, cause and effect are still poorly charted. How far open trade regimes produce growth, and how far they result from it, remains an unsettled argument.

What is clear is that an open trade policy cannot substitute for inadequate and flawed domestic policies. And, too many poor countries are poor because they lack the domestic conditions needed to support sustained growth. At a minimum, these include political stability, functioning public institutions and the rule of law, sound macro-economic management and some basic level of market regulation. Yet in Africa, as many as a third of countries have latterly been engaged in ruinous wars. Some are, quite simply, failed states, ruled by corrupt elites concerned solely with preserving power.

Of course, there are exceptions. Some, such as Uganda, have made courageous efforts to lay the foundations for growth and open up to the world. Continuing trade liberalisation clearly can contribute significantly to their future economic development. But in too many, a half-century of international development efforts have failed to prevent a

downward spiral. It is unrealistic to suppose that it can be reversed simply by endowing poor countries with better trade negotiating and administrative resources - just as it is plainly wrong to condemn trade liberalisation when it fails, due to other factors, to enhance prosperity.

All of this raises serious questions about whether the prospects for this round. Outside the field of agriculture, achieving the trade-offs necessary for a workable bargain is likely to require more concessions by developing countries than by developed ones, because the latter have the highest barriers. But without greater assurance that liberalising trade will bring tangible economic returns, how many will be prepared to move? And even if the round is successfully concluded, and they fail to see benefits from, there is a risk of a relapse into bitter arguments about the alleged inequities of the multilateral system.

In conclusion, there are, I think, three lessons to be borne in mind.

First, whether in rule-making or development matters, realism is needed about what the WTO can and cannot do. It can no more produce miracles than coerce sovereign governments into taking particular actions. At best, the multilateral system can nudge them further down a path they were already disposed to follow and buttress domestic reforms. But the driving impetus must come from within countries themselves.

Second, as multilateral trade policy extends further “beyond the border”, frictions at the interface are likely to become more frequent. How these can be contained, and the extent to which they require reform of the WTO and its disputes settlement mechanisms, is one of the biggest longer-term questions confronting trade policy-makers. All I would say is that such frictions risk being made more severe if the response is to try to turn the WTO into an institution for dealing with a range of global governance issues only indirectly related to trade. That could lead to paralysis and further recrimination.

The final lesson is to beware of building up exaggerated expectations. Equipping all the WTO’s members to participate in its deliberations is clearly desirable to ensure its proper functioning and management. But giving the impression that it will automatically assure them of the benefits of more open world trade is a formula for disillusionment and disenchantment. Whatever happens on the way from Doha, the WTO cannot afford a return to the corrosive bitterness and resentment that set in after Seattle.

Thank you.

