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Whither Euro-American Leadership in the WTO?

Global trade liberalisation, as negotiated within the multilateral trade regime of the GATT, has been one of the paramount drivers of globalisation in the last decades. In particular, the two most recent – and most comprehensive – rounds, the Tokyo Round of the 1970s and the Uruguay Round of 1986-1994, succeeded in promoting the global exchange of goods, services and capital. Two factors may have been instrumental in achieving those results through multilateral trade negotiations:

- The consensus principle of decision making within the GATT and its successor organisation, the WTO. Unanimity in finalising a package deal has been the appropriate decision-making mechanism for a process that can best be described as an exchange where mutual asking and bidding for concession offers is matched to maximise turnover. In economic terms, the result might be described as the common optimum of participants' preferences. Of course, to succeed, this process requires a common understanding that trade does indeed have positive welfare effects for every party.
- The United States and, increasingly from the 1960s onwards, the European Union clearly had a leading role in this process. Since their respective markets could absorb the greatest volume of imports they were the dominant negotiating powers. Japan, the third big player in international trade, took a long time to come to grips with the view that imports, too, can be a source of wealth for its own economy. Therefore, despite its economic potential, its role in international trade negotiations has been that of an outsider.

The Doha Round has been designated a “development round” in order to give globalisation some institutional underpinning by focusing on those countries whose economies hitherto had been profiting only in a rather unbalanced way – if at all – from the growing interdependence of markets. The *leitmotif* of the round has been twofold: (1) opening up further the markets of industrialised countries for developing country exports, not least for agricultural products; (2) fostering the regulatory framework for efficient markets in developing countries by including a number of new issues such as foreign direct investment (FDI), competition policy, public procurement and trade facilitation into negotiations – essentially creating new incentives for "good governance".

As the WTO Cancún Ministerial broke off on September 15, 2003 the failure to reach any substantial results has been interpreted as indicating a breakdown of the two basic supporting elements of the multilateral trade regime. The first, consensus-building, with a membership of

148 countries, is seen by some major players as impossible to sustain without a more structured aggregation of interests in preparing negotiations. The second, the leading Euro-American role in the WTO, has been said to have taken a possibly fatal blow at the hands of the new Group of 21 led by Brazil, India and China.

To both interpretations I would like to object, with a special focus on the latter.

Eroding Multilateral Trade Consensus?

The issue of the WTO decision-making process being in a crisis became the subject of an intense and widespread academic and political debate soon after the spectacular failure of the WTO ministerial meeting in Seattle in December 1999. The more moderate recommendations brought forward then¹ are still valid. They include a formal establishment of the hitherto informal “Green Room” group of those major trading countries that have the greatest stake in the liberalisation process. All of the developing country members considered for membership in a formal “Green Room” grouping are, indeed, members of the Group of 21 that emerged as a major player in Cancún. But as we have seen in Cancún with the prominent role played by four West African cotton-growing countries, newly emerging or shifting interests may also require leeway for bottom-up aggregation of negotiating positions.

The debate on reforming the WTO negotiating and decision-making process, however, risks becoming moot. Any such reform discussion is based on the common understanding that trade liberalisation is wealth-creating for all participants, both for the country making market opening concessions and for the one that receives such concessions. In this regard, it is the erosion since the Doha Ministerial of American support for the WTO as an international organisation and for the multilateral trade regime as such that may matter most to the WTO’s future after Cancún.

Irritation with the WTO has been a constant feature of the US domestic policy process since the conclusion of the Uruguay Round in 1994, nurtured by each ruling of the WTO dispute settlement body that found the US in violation of WTO law. This is reflected in the failure of President Clinton to have the US Congress renew the Administration’s fast track authority for trade negotiations that expired in 1994. Thus, President George W. Bush’s positive attitude towards trade liberalisation and the WTO process and his nominating Robert Zoellick, an experienced and highly able international negotiator, to the post of United States Trade Representative (USTR), certainly were seen as a positive sign of renewed US commitment to the multilateral trade order. Zoellick’s strong showing in the difficult weeks between the

terror attacks of September 11, 2001, and the Doha Ministerial in November 2001, as well as his concessions, e.g. on anti-dumping, during the Doha meeting itself underpinned this perception.

However, the Administration's turning away from multilateralism in its foreign policy approach in the wake of September 11, was reflected in its trade policy as well. This became apparent when Zoellick and other members of the Administration tried to build support in the Congress for Bush's "Trade Promotion Authority" (TPA) – his version of fast track renewal. TPA was essentially promoted as a precondition for negotiating bilateral free trade agreements (FTAs).²

The Administration rallied further domestic support for TPA by imposing protective tariffs against an alleged "import surge" of steel (based on the "safeguard clause" of Article XIX of the GATT) in March 2002 and by adopting legislation consolidating and expanding farm subsidies (the "Farm Security and Rural Investment Act of 2002", signed on May 13, 2002). However, major trade disputes with other WTO members, notably with the EU, in which the US was defeated in the dispute settlement process, increased domestic resentment against the WTO. This was particularly true in light of the conflict on tax subsidies to US exporters through the Foreign Sales Corporation (FSC) mechanism, which was later replaced by the Extraterritorial Income (ETI) scheme. Members of Congress felt that the ruling of the WTO dispute settlement body (DSB) infringed upon their own sovereign power of taxation. Therefore, anti-WTO statements are playing an increasing role in the upcoming US election campaign. As almost all Democratic presidential candidates pronounce themselves more or less openly against the WTO, the Administration will be less than willing after the Cancún failure to come out in favour of WTO negotiations prior to the election in November 2004. The ongoing loss of well-paid jobs in the manufacturing sector, which makes the current slight economic recovery a jobless one so far, is seen as a result of "unfair" competition from other countries, notably from China (and, indeed, from Mexico, whose competition is attributable, however, not to the WTO, but to NAFTA). The current Administration's constituency in Southern and Mid-Western agricultural states that have a vested interest in continuing subsidies for cotton, wheat, corn and soy beans adds to a potential bipartisan coalition against major WTO concessions.

An “Ambitious Agenda” Leading Nowhere

A year ago, there seemed to be less reason for scepticism. After Congress had ratified TPA and the President had signed it into law on August 6, 2002, Zoellick supplemented those two protectionist measures with a radical free trade agenda. He brought forward two very ambitious proposals for multilateral trade negotiations – so ambitious, indeed, that they could hardly be taken seriously in the midst of an ongoing trade round. First, he proposed to eliminate all export subsidies on agricultural products within 5 years, limit production subsidies to 5% of production value and slash all agricultural tariffs world wide to a maximum of 15%. Then, in November 2002, he tabled an initiative for a tariff-free world, abolishing all tariffs on industrial and consumer goods by 2015.

In their multilateral aspirations, Zoellick’s proposals certainly topped those of his European counterpart Pascal Lamy who had initiated in 2000 his own ambitious “everything-but-arms” initiative to grant free market access to 48 least-developed countries for all of their products (but arms). Lamy’s initiative came into force in March 2001 even though it was slightly watered down to an “everything but arms, sugar, bananas and rice” initiative, since for those latter products a transition period up to 2009 was implemented. The EU initiative followed the traditional EU method of granting unilateral market opening concessions to those poorer countries whose competition did not hurt European producers too much. The US proposals, however, asked other countries for substantial – and even comparably larger – concessions of their own in exchange for US trade liberalisation and subsidy cuts. Therefore they were perceived as biased against developing countries and thus not well suited for serious negotiation, especially since most developing countries believed that this time *they* should primarily be on the receiving end of trade concessions.

It is hard to say whether those two USTR initiatives were meant to be serious or whether – to take literally the wording of the USTR press release for the “Tariff-free World” proposal – they were to be merely “*demonstrating* continued U.S. leadership in the Doha Development Agenda”³ (emphasis added, JvS).

Challenging Trade Policy Power Parity

US-EU partnership in keeping the multilateral trade regime moving was based on both powers’ view that trade liberalisation, including market opening concessions of their own, was in their vital interest. Each arrived to this conclusion from a different point of departure:

the US from its own post-Second World War position of strength, the EU from its self-perceived role of a rising and dynamic trading power that was keen to catch up in trade expansion while leveraging its own import capacity for global economic influence. For both, the Uruguay Round may have been the one point where their paths finally crossed. The Marrakesh Treaty of 1994 that gave birth to the WTO may be seen as the ultimate institutional structure of a US-European balance of power in trade policy. Similar perhaps to the US-Soviet nuclear balance of power in the 1970s, both were bound to some extent by a contractual framework to refrain from unilateral acts while third countries were able to take advantage of their mutual competitive balance.

Similar, however, to the greater balance of power, the United States has never fully accepted a situation that left it bound by rules which it could not set – and change – itself by will. This has been especially true for the Bush administration. The Administration's post-Cancún attitude, as expressed by Robert Zoellick,⁴ mirrors to some extent its foreign policy approach: Either you follow our ambitious agenda or you are against us. The turn towards regionalism – and this should be considered a euphemism for bilateralism – actually may turn out to be a course towards unilateralism. Bilateral free trade agreements provide the maximum leverage with the minimum cost to the country that predominates in such an agreement.

The European Union on the other hand, having followed a regionalist course of its own for many years, has refrained from concluding any new FTAs in recent years. In addition, the EU has shown more flexibility in core contentious issues of the WTO negotiations, such as agricultural subsidies, than anticipated by most countries. Clearly, for the EU, more is at stake regarding the future of the World Trade Regime than there seems to be for the US.

But given the eroding consensus for the multilateral trade system in the US, it is hard to envisage how joint US-European leadership in trade policy can resume after Cancún.

¹ See especially Jeffrey J. Schott, Jahashree Watal: Decision-Making in the WTO, Policy Brief 00-2, Institute for International Economics, Washington DC, March 2000. More radical proposals envisage a switch in WTO decision making – in particular for dispute settlement, the "hard core" of the WTO regime – to a principle of weighted voting, that reflects a country's trading volume, among other economic factors. See for instance Thomas Cottier, Satoko Takenoshita: The Balance of Power in WTO Decision-Making: Towards Weighted Voting in Legislative Response, in: *Aussenwirtschaft*, 59 (II), 2003, pp. 171-214.

² See Zoellick's exemplary op-ed "Falling Behind on Free Trade", in: *The New York Times*, April 14, 2002, Section 4, Page 13, in which he stated that "worldwide, there are 150 regional free-trade and customs agreements; the United States is a party to only three," asking the Senate for "trade legislation that could help remedy this imbalance."

³ U.S. Proposes Tariff-Free World. WTO Proposal Would Eliminate Tariffs on Industrial and Consumer Goods by 2015, Office of the United States Trade Representative, November 26, 2002; <http://www.ustr.gov/releases/2002/11/02-112.htm>

⁴ Robert B. Zoellick: America will not wait for the won't-do countries, in: *Financial Times*, 22.9.2003, p. 15.