

International Agricultural Trade
Research Consortium

**Is the WTO Still Relevant to the
Global Economy?**

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Working Paper #99-4

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March 1999
ISSN 1098-9218
Working Paper 99-4

Is the WTO Still Relevant to the Global Economy?

My question – “Is the WTO still relevant to the global economy?” - is deliberately couched in rather provocative terms in order to present the problems the World Trade Organization is facing today, a point in time not too distant from its 50th Anniversary celebrations, in a sharper focus. The question is posed because the recent economic turmoil, which began in Asia but has been spreading throughout the whole world, prompted some renowned experts, economists and politicians to raise certain doubts about the ability of multilateral international regulatory institutions, if not the market system as such, to successfully cope with these problems. George Soros, himself, an epitome of capitalism, for example, wrote in the first February issue of *Newsweek* an article entitled, “The Crisis of Global Capitalism.” The global economic upheavals that affected the international community of nations present this community with enormous problems that it must solve.

At the same time, one must not be tempted to succumb to a catastrophic vision of the hitherto victorious march of the global liberal market system being brought to an end by the Asian financial crisis. On the contrary, it was the inadequate speed and scope of liberalization of access to markets for goods and services, financial markets and direct foreign investment, taken together with structural deficiencies, that allowed the crisis to spread so far. Korea Inc., or for that matter Japan Inc. have not proven that they have a recipe for lasting self-sustained growth.

The GATT, and later on the WTO, as its membership has grown to 132 members as of today, have been instrumental in promoting global trade liberalization. That, in turn, has contributed to sustained economic growth and social development. This can be seen reflected in the post-war history of the industrialized world, which experienced the steady

growth of the fifties and the sixties that followed the first GATT rounds of tariff negotiations, which reversed the disastrous recourse to economic nationalism between the wars. More recently, it has been patently manifested by the achievements of those developing countries, which embraced economic and trade liberalization and made efforts to integrate into the world economy. From this it can be seen in what way the World Trade Organization can be supportive in the great task of eliminating disparities in the levels of economic advancement which still exist between industrialized and developing nations. But it also points out the fact that slow integrators are confronted with the prospects of lagging still further behind the more prosperous members of the international community.

Current problems have not, however, appeared out of the blue. They are but reflections of the deeper underlying causes of a malaise, which has been generated by the emergence of the two countervailing forces that have driven developments in the international economy. One, is the rapid globalization of economies to which GATT/WTO efforts to promote trade liberalization contributed to a considerable extent. They were aided in this by the growth of international investment and the expansion of the transnational corporation, and by way of feedback, assisted this growth and expansion. The spread of multinationals compounded by the recent wave of huge mergers and acquisitions seems to make the nation state an inadequate instrument to deal with global issues. At the same time, the phenomenal development of telecommunications and information technology has allowed commercial transactions to be carried out in 'real time' leaving a very limited time-span for governments to react by shifts in economic policies. This may represent, by the way, the principal difference between the 19th century and the contemporary globalization paradigm.

The other, is the growth in divergences between the policies of individual nation states, especially those which are of great importance in the world economy, which has

been enhanced by the recent difficulties experienced due to the world's financial turmoil. The principal issue is the growing reluctance of the United States to bear the whole brunt of adjustment of current balances necessitated by the global financial crisis. Recently, the US Secretary for the Treasury declared: "The international system cannot sustain indefinitely the large current account imbalances created by the disparities in growth and openness between the US and its major trading partners."

Further deterioration in the USA's balance sheet may endanger the continuation of the present momentum of the American economy – the last and the only locomotive that is currently in a position to avert the global deflationary threat. It may well strengthen calls for the erection of protectionist barriers against entry to the US market. Pressure for this is always latent in the American political climate, and will be now even harder to resist.

Paradoxically, growing nationalism, sometimes even isolationism, in economic policies with the protectionist pressures which ensue from them constitute, a response, though a wrongful one, to globalization fears. As Peter Drucker wrote in one of his articles in "Foreign Affairs" in 1994: "...simply because trying to thwart protectionism is not enough. What is needed is a deliberate and active – indeed, aggressive – policy that gives the demands, opportunities and dynamics of the external economy priority over domestic policy demands and problems." In any case, the present drive towards market openness, though successful to a great extent, has not led to full accessibility to markets. Significant impediments to free exchange in goods and services still exist and prevent nations from reaping full benefits from international trade. Markets still do not constitute a level playing field.

The problem is compounded by the emergence of the two new poles of global economic interaction – the US and the EUROland. These are almost equal in terms of economic power and both economies are becoming more self-contained and, to an ever-greater

extent, potentially oblivious of the requirements of their trading partners. The bigger and the more self-contained economies are, the greater the impact domestic policy preoccupations have upon the direction of their foreign economic policies.

The growth of tensions between these two global economic giants, accentuated to a considerable extent by the contemporary slowdown in economic growth, may lead to mutual recriminations, economic clashes and even to the threats of waging trade wars. Furthermore the world economic situation could worsen if the recession that affected Japan lasts longer or if the looming serious downturn in the Chinese economy takes place.

The most recent, but by no means the only, manifestation of such dangers was the recent 'banana dispute,' which perhaps, took us all back to the unfortunate experiences of economic relationships between the wars. Another was the clash over trade in hormone-treated beef or genetically modified agricultural products. The growing trend in anti-dumping actions against steel exporters (with the recent proposals in the US Congress to introduce import quotas), the reinstatement of the Super 301 and the EU threat to challenge it within the WTO, could all undermine the principal achievement of the Uruguay Round – the establishment of a more reliable dispute settlement mechanism. Of even greater potential danger to the dispute settlement mechanism would be the submission, for its adjudication, of complaints concerning the USA's extraterritorial legislation, especially if the USA invokes national security issues in its defense.

Alternatively, emerging conflicts may lead world trading giants to seek resolution of their disputes in bilateral settlements to the detriment of the multilateral system of regulation of world trade. The external economic policies of the global economic Goliaths may, therefore, reflect a position of benign neglect for the rest of the international community of nations. They may also cause the great economic powers to abdicate their

leadership role in the process of liberalization of global trade with dire effects on world interchange and development.

This, by the way, places the globalization *versus* regionalization challenge to the world economy, on the agenda again. The recurring question as to whether regionalization assists in the movement towards global rules or impedes it, is being posed again and again with no definite answer being offered. Smaller protagonists in the international economic scene therefore undoubtedly look to the WTO to provide a framework for the operation of the regional economic groupings that would be able to restrict their potentially harmful effects. As Fred Bergsten once said with regard to potential conflicts between regional and global liberalization: "Avoidance of conflict has required the maintenance of effective global trade rules that both define the regional arrangements and govern relations between them, as well as an institution to enforce those rules."

Even for members of any regional integration groupings a two-pronged strategy seems to be in order, this involves strengthening integration links within the group, on the one hand, and reinforcing the global multilateral system on the other. Poland, my country, as is well known, is in the process of joining the European Union. Even as a full member of the EU, Poland, which will have a minor role to play in EU decision making, would like to see WTO's monitoring of regional economic groupings, in its own interest. The recent world economic tremors put the continuation of the hitherto successful liberalization of international trade in goods and services at risk. One of these risks, compounded by the emergence of powerful economic blocks in the world arena, may lie in the transition of the point of gravity in protectionist policies - from a defense of the domestic market to the use of the threats of retaliation to open foreign markets. This may be considered as protectionism *à rebours*. Such a qualification of this phenomenon is justified if the pressure serves to support inefficient domestic producers and exporters. The extraterritorial

application of domestic priorities and laws could be regarded as a manifestation of such policies.

All this creates new challenges to the World Trade Organization as the principal force that could counterweigh the deplorable steps taken backward from liberalization of international transactions to more nationalistic external economic and trade policies. Economic history as a whole (including GATT 's and, subsequently, the WTO's) testifies to the fact that only the establishment of a multilateral system of rules governing international transactions, the strict monitoring of adherence to such rules and implementation of a stronger dispute settlement mechanism, allowed for an unprecedented growth of global prosperity through a faster expansion of international trade in goods and services.

The World Trade Organization may be even better suited than national governments to establish and enforce norms regulating international commercial interchange in a global environment characterized by the spread of multinational corporations. The WTO would then act as a guardian and protect the public interest against the more selfish interests of transnational companies. Thus, the WTO, which is being challenged by the globalization phenomenon, serves at the same time as the prime mover towards globalization in the world economy.

Such a system of protection would be of even greater importance to medium and small sized countries, be it industrialized, developing or countries in transition, that do not command sufficient bargaining powers to participate on the same footing in the international commercial intercourse, and which cannot – individually – affect the decisions of the world community. It is only in international forums, like the WTO, that they would be able to build alliances of interests, cutting across various formal divisions or international groupings, in order to make others take their concerns into account. I do know

that countries finding themselves at the receiving end put immense faith in the WTO as an instrument for defending their interests. Weaker partners in global trading interaction will need, however, legal support to put forth, substantiate and defend their claims against stronger protagonists in the international trading system. Therefore, the new initiative to establish a legal advice center to support developing countries in their dealings in the framework of the World Trade Organization merits serious debate, if not outright support.

Incidentally, countries in transition, in particular Poland, are in a position to enrich the operations of the World Trade Organization with their experience of a successful match of trade liberalization policies with fast growth and deep structural transformation not only of their economies, but also social relationships and institutions. The resilience of the Polish economy to the Asian, Russian and Brazilian crises indicates, for example, that it has something to offer by way of a lesson. It might provide an illustration as to how the combination of openness with radical structural change and proper macroeconomic policies fortifies an economy against external shocks.

This experience may prove valuable for developing WTO members eager to integrate faster with the world economy as well as for those developing nations and economies in transition, which have expressed an intention of joining the WTO. In this respect, countries in transition that are already in the WTO may contribute by instilling some new dynamism into its operations.

The WTO now faces huge new challenges. At the end of the year a new 'millennium round' of international trade negotiations is to be launched at a ministerial meeting in Seattle. It could, if successful, bring, new areas not previously covered by multilateral rules, like for example agriculture, under the scrutiny and control of an international system of multilateral rules of behavior for the first time. The WTO is confronted with the enormous task of adjustment of its norms and of their extension into the novel, yet untried,

area of relationships between trade and investment, working standards, environment and competition policies. Some regulations of the WTO, like e.g. those concerning dispute settlement procedures, require further elaboration and specification to be wholly effective.

This is all the more complex because a common view on the desirability of WTO's moving into this territory, or, at least, some parts of it, does not exist. In fact, only a tenuous line separates reasonable and justified calls for the establishment of trade-related work standards or environmental rules from their use as a cover for protectionist policies. On the other hand, the intensification of disputes concerning genetically modified agricultural products will inescapably involve the WTO in consideration of environment-related trade problems.

A fresh challenge to the world trading system is being posed by the expansion of the flow of financial resources in the world's economic interactions. Nowadays, the volume of international financial transactions has greatly overtaken trade in goods and services. This has reversed the natural sequence of economic developments. Global economic crises may nowadays appear simply in the financial sector and only then spread into the real economy. What is more, such financial crises have proved to be contagious. They have become all the more unpredictable because they can be prompted by the erratic behavior of international speculative capital with its highly volatile response to economic signals.

Much criticism has been recently addressed to the IMF and to the World Bank for their alleged incompetence in resolving current financial crises. Such criticism is misplaced. International financial institutions were called in to redress the rapidly deteriorating situation engendered primarily by the faulty policies and structural deficiencies of the countries affected by the crises, though the irrational behavior of international speculators should not be overlooked. This situation called for a quick, though painful treatment and cure. As the experience of most of the Southeast Asian countries that took the medicine

and consistently implemented the prescription proves, the strategy has been effective. The countries that procrastinated in taking decisive action have been less successful in reversing their economic decline.

It is another question, whether surveillance was adequate, whether it was extended to all areas, which generated financial and economic stresses, and whether some preventive action was not called for. The operations of international institutions should be reviewed with a view to the improvement of their performance in this respect. Some cooperative mechanism, including the WTO and international financial bodies, is required for monitoring developments in the vulnerable areas of the globe and for crisis management. This is indispensable precisely because financial crises result, not only from the erratic responses of the international speculative capital but predominantly from structural and institutional weaknesses in the countries concerned and from the flawed economic and trading policies of their governments, which can include resistance to liberalization of access to markets.

All this requires the WTO itself, however successful it has been up to now, to improve its regulations, operations and performance. This necessitates deft steps to be taken to streamline these operations even further and to eliminate the duplication of work. This also applies to the organization and the functioning of its staff and would include perfecting the division of areas of competence. The great task lying ahead is to increase of the openness of the WTO and the improvement of its relations with the public at large.

It is my sincere view that the WTO would benefit from a larger degree of participation by the business community in its daily work. This would be advantageous and would also bring it closer to the public and to the very fabric of social life. It would also be advisable because drawing on business expertise may improve the outcome of WTO's

activities and neutralize criticism, it may be subjected to, as a body divorced from the realities of life.

I want to stress, at the same time however, that I do not believe that calls for the construction of a new 'international architecture', be it in the area of finance or trade, are substantiated. We have no need for revolutionary and dramatic changes either in rules or in institutions. The operation of the existing multilateral organizations has proved satisfactory, especially in times of crisis. As the Polish saying goes: "better may sometimes be an enemy of good."

One more issue I would like to refer to here is the EU's recent initiative to accelerate the admission to the WTO, of a host of countries that have applied for accession, in particular, the least developed of them. This proposal envisages the application of more lenient conditions for accession. In my view, it is always advantageous to bring more countries into the framework of multilateral rules and disciplines for conducting trade in an internationally recognized manner. However, such a rapid expansion of the WTO, especially if the conditions for accession become diluted, enhances the risks for the whole system and the danger that it may fall victim of such action as its standards become compromised. Therefore, any decision in this respect requires thorough advance examination.

To revert to my basic question, I believe that the World Trade Organization is now even more necessary than it ever was. The more difficulties and challenges face the global economy, the more indispensable becomes a multilateral system of rules of behavior, an organization to enforce and monitor their implementation, and a strong dispute settlement mechanism to ensure its unimpeded operation.

It has been always the mission of the GATT and of its successor, the World Trade Organization, to save the world economy from repeated turbulence brought about by

mounting pressures caused by self-seeking international policies triggered off by global economic upheavals. The World Trade Organization could be up to the challenges evoked by this mission in spite of the fact that, at its foundations, lies the mercantilist concept of the mutuality of trade concessions. Perhaps, that very concept could provide an effective barrier to the growth of economic nationalism at the current stage of economic awareness of the international community.

Warsaw, March 1999