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# World Trade: A new direction

**GLOBAL TRADE NEGOTIATIONS ARE MORIBUND**, with the World Trade Organization's agenda stalled and the neo-liberal ideology it serves confronted by a rising chorus of criticism. The trading system, built on the premise that promoting commercial interests necessarily advances the general interest, instead has fed a multi-faceted planetary crisis. At this juncture, trade policy must find a new way forward. The key to this change lies in reversing the priority that in the past made free trade an end in itself, thereby consigning the larger goal of sustainable development to an afterthought. From now on, economic, social, and environmental sustainability goals should set the criteria for designing and applying multilateral trade rules. We suggest concrete steps to help transform the WTO from an agent of privilege and profit into a force for an equitable, peaceful, and resilient world.

## GTI PERSPECTIVES ON CRITICAL ISSUES

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## Whatever happened to the WTO?

Comprising hundreds of bilateral, regional, and global agreements, the world trade regime is of a complexity with few equals in international public policy. The system is crowned by the World Trade Organization (WTO), an organization well-known for its dogged commitment to trade liberalization. In principle, nothing prevents the WTO from promoting a kind of trade compatible with human rights, environmental responsibility, and equitable development; indeed, its preamble puts sustainable development at the core of its mission. We urgently need a revised rules-based trade framework committed to this wider social and environmental agenda.

Lionized by free trade ideologues and demonized by anti-globalization militants, the WTO has been controversial right from its inception. Its meetings have been magnets for protest, most notably the 1999 Seattle meeting that provoked massive police action and hundreds of arrests. Even at the Hong Kong ministerial meeting in 2005, protesters swam across the harbor seeking access to the conference site.

Four years later, the protests have all but disappeared. The supposedly biennial ministerial meetings saw a gap of four years after Hong Kong and the recent Ministerial meeting in Geneva in late 2009 was a low-key and fairly uninteresting event. What happened? Has the trading system lost its self-confidence? Are more pressing problems – like climate change or the economic crisis – distracting us? Has the WTO smoked the peace pipe with the protesters? Has the perception of trade shifted significantly?

To an extent, all these questions may be answered in the affirmative. The WTO's failure to break the negotiating log-jam and conclude the Doha Round<sup>1</sup>, despite announcing endless last chances, has damaged the organization's credibility. Disenchantment with the dominant economic and social development paradigm following the financial crisis of late 2008 placed the problems of the trading system in a different context. The snail-like pace of trade liberalization has sapped the vehemence of those who saw it as the key front in the struggle against globalization; indeed, the correlation of plummeting trade with skyrocketing unemployment reminds us of the possible benefits of trade.

Having promised much and disappointed often, the WTO has studiously sought to downgrade expectations for the near-term future. Until the Doha Round is either concluded or put out of its misery, forthcoming WTO meetings will seek to focus on how trade can aid the economic recovery, cement a collective resolve to resist protectionist tendencies now spreading, and rebuild confidence in the organization and its capacity to contribute to shaping a robust macro-economic framework.

## The neo-liberal paradigm in crisis

These are worthy ambitions. Increased trade can stimulate the global economy more rapidly than other forms of intervention. Despite strong protectionist temptation among populist politicians, trade and development experts remind us that, as in the Great Depression, protectionist measures could do enormous damage to economic recovery. Also, few have benefited from the failure of the Doha Round: export op-

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opportunities have not opened for developing countries, and political attention has not shifted to poverty alleviation and environmental stewardship.

A reinvigorated trading system can be a powerful engine into the future. The critical question is: where do we want to go? Despite deep reservations about the direction the system has been headed, few have articulated alternative destinations. Whether one championed or criticized the WTO, its role was understood to be expanding the global economic pie, accelerating growth, and establishing common rules. Certainly, the trading system has not questioned the dominant economic paradigm; to the contrary, it has served it faithfully.

Two recent developments have combined to put these assumptions under critical scrutiny. First, the economic paradigm undergirding the multilateral trading system – the so-called Washington Consensus with its familiar mantra of liberalization, deregulation, and privatization – has shattered. Once adopted by many countries, and forced on many more by the World Bank and the International Monetary Fund, that consensus is seen increasingly as a bust for all except the corporate elite. Even as defenders may labor to shore it up, many others judge the paradigm badly flawed, incapable of addressing the profound social and environmental threats the global community faces. Indeed, the neo-liberal philosophy dictated the very economic measures that generated and aggravated many of these problems.

With the mainstream economic worldview in tatters, to what engine do we wish to hitch the trading system? What do we want to come out of the Doha Round? Answers depend on our approach to the second major development – the rapidly unfolding global ecological crisis. A linked set of grave environmental threats compounds economic, social, and financial upheaval, a Great Disruption<sup>2</sup> that challenges us to rethink our approach to development and trade.

The twin crises of climate change and trade illustrate the complexity of the dilemma. Our leaders hope that trade will kick-start the economic recovery and that concluding the Doha Round will put it in high gear. However, this would require serious concessions to major developing country exporters, sending them into a phase of rapid economic growth. This, in turn, would increase greenhouse gas emissions (as occurred with the rapid, trade-led growth of China), undermining efforts to stabilize atmospheric carbon and increasing risk of catastrophic climate change. Trade liberalization may offer a mechanism for economic recovery, but will exacerbate other problems unless its rules are designed with great care.

At its core, the stalemate at WTO is rooted in narrow perceptions of national interest. The noble aim of the Doha Round was a more inclusive form of globalization and wider development. However, the negotiations revealed that many trade powers are unprepared to make the deep changes this would require. With several developing countries emerging as significant trade players, an agreement that does not deliver on development is inconceivable. Yet, the rich countries and blocs show no signs of reducing their ambitions for the sake of a consensus solution that serves the greater good.

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## Re-envisioning the trading system

Seen through a global and long-term lens, the central goals for a revised trading system come into focus: supporting a transition to an economy that operates efficiently while reducing the gap between rich and poor, generates adequate employment, strengthens social equity and justice, and repairs the damage to the biosphere. Within such a framework, trade liberalization becomes a tool rather than an objective -- a means to an end, not an end in itself. A wide consensus on the proper end is needed to implement the trade rules that can get us there.

While images of desirable futures may vary, the plausible range of acceptable options is narrowing. Without a rapid shift toward sustainable development, life as we have known it on the planet simply may not have much of a future. We need sustainability action in three distinct dimensions: economic, social, and environmental. Failing to redirect the economy means sinking deeper into recession with the massive job loss and social displacement that would bring. Failing to act on the environment risks catastrophic ecosystem degradation and irreversible climate change. Failing to act on social issues invites civil conflict, large-scale movement of desperate immigrants, and the unrelenting destitution of the global underclass. Yet if we proceed on old foundations with the archaic blueprints of the past, we will fail.

What sort of trading system, then, can help guide development toward sustainability? The answer is, of course, a system very different from the present one. Nonetheless, WTO's basic principles remain valid: non-discrimination, transparency, and the peaceful settlement of disputes. We still need a rules-based system that applies predictable, equitable norms to world trade. Expanding access to rich country markets for developing countries remains an imperative for promoting equity and poverty reduction. What must change are the priorities.

Trade policy, influenced heavily by vested actors, now emphasizes narrow commercial considerations, thus advancing a highly constricted concept of the national interest. Although the concerns of national exporters and producers may raise legitimate issues, they have become essentially the exclusive focus of a trade policy that largely ignores other priorities. Worse still, issues of common global concern receive virtually no attention, although short-term national commercial interest is often not in the global interest or, ironically, even in the long-run national interest.

Exemplifying such contradictions, rich countries are understandably concerned about illegal immigration, yet give little consideration to the ways trade policy can stimulate the kind of economic development that offers would-be immigrants alternatives in their home country. Rather, they place heavy pressure on developing countries to lift obstacles to intellectual property rights, privatization of national assets, and repatriation of profits, all leading to investments of little benefit to the recipient country. The single-minded defense of investor interests shrinks policy space in the country hosting the investment, trumping efforts to address social and environmental challenges. Trade agreements designed to dissolve any obstacle to profit are often counter to the interests of both nations and the planet.

It is time to revise our fundamental approach to the trading system. We need to man-

age trade openness in a manner that promotes equity between rich and poor countries, social inclusion and poverty reduction, good governance and the rule of law, and environmental sustainability. This implies no less than a reversal of the present priorities, from considering sustainable development subsidiary to trade liberalization, to making it a core imperative and condition for designing trade arrangements. In this reframing, measures to liberalize trade would still be welcome, but only if they clearly contribute to sustainable development.

### An action agenda

Of course, even under the best of scenarios, the WTO is not a panacea for the world's deepening crisis. Trade policy interacts with a widening set of issues; getting that policy right is only one part of a wider systemic challenge. Indeed, in response to external pressure, the organization has taken on topics, such as its environmental agenda, that it is poorly qualified to address and consequently bungled them. The WTO is ill-suited and unable to serve as the exclusive forum for redesigning the global economy. Social and environmental objectives are often directly at odds with trade objectives, and nations at dramatically different stages of development will weigh the trade-offs differently. The fair balancing of divergent objectives involves important trade-offs being made in the context of differing national needs and abilities, and that cannot be achieved only through the design and enforcement of rules, however complex and well-designed. Ultimately, a just system must be established through some form of democratic global governance. However, it is vital, in fact urgent that in the meantime the WTO become, as far as is possible within the present rules-based paradigm, a more positive force for global sustainability and social justice.<sup>3</sup>

**Assessment:** The WTO should rigorously assess its performance in achieving sustainable development objectives. This would entail both monitoring ongoing negotiations<sup>4</sup> and a regular overall assessment against a set of well-defined and broad sustainability criteria. Ideally, both functions would be conducted by credible third parties with expertise on the relationship of trade law to economy, environment, and development.

**Environment:** The WTO should liberalize trade in environmental goods and services, eliminate perverse subsidies that promote unsustainable practices (such as in fisheries and fossil fuel production), and amend the TRIPS Agreement<sup>5</sup> for compatibility with obligations under the Convention on Biological Diversity (CBD). Under TRIPS, only private rights to intellectual property are recognized, while the CBD calls for recognition of traditional or community-held knowledge. The Secretariats of Multilateral Environmental Agreements (such as the CBD) should have permanent observer status on relevant WTO Committees and should help the WTO illuminate such issues as market access, standards and labeling, and the impacts of trade on the environment.

**Development:** The WTO should play a leading role in technical assistance and capacity building, collaborating with others to develop trade-related infrastructure, productive capacity, and domestic institutions for a healthy investment climate (e.g., administrative, judiciary, and regulatory bodies).

**Negotiations:** The WTO should create an independent advisory body, along the lines of the Intergovernmental Panel on Climate Change. Such an "Intergovernmental Panel on Trade and Sustainable Development" would provide advice regarding the advancement of sustainable development through trade law and policy.

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**Multilateral governance:** In frustration with the lack of progress at the WTO, countries have been turning to regional and bilateral trade agreements. The WTO should carefully evaluate whether this trend harms or promotes sustainable development in participant nations. Although much research has been conducted, a dedicated WTO effort could clarify this important and methodologically complex question.

**Accession:** The WTO should create a new agreement on induction of new members that lays out objective criteria for acceptance and delineates obligations of the acceding Member. It should eliminate the time-consuming and disruptive need for bilateral negotiations with all interested parties.

**Dispute settlement:** Through the so-called Dispute Settlement Mechanism, the WTO should consider monetary penalties for non-compliance with rulings. This albeit imperfect solution would help address the problems smaller economies encounter with the existing system in which countries are allowed to place trade sanctions on the country that loses the dispute, but only larger economies have any real clout. Dispute settlement proceedings should be open to the public and all submissions made publicly available.

It is not utopian to imagine a global trading system that advances sustainable forms of development, and not difficult to improve the current performance of the system in that regard. The first step is to recognize that the WTO exists to serve a set of public policy ambitions far broader than simply generating greater trade in goods and services. That principle was established long ago in the 1994 Marrakesh Agreements that led to the establishment of the WTO and committed it to serve sustainable development. It is time to make it a reality.

### Endnotes

1. The Doha Round of negotiations was launched in 2001 with the aim of increasing participation of developing countries, e.g., through lowering barriers to trade in agricultural products and reducing farm subsidies.
2. The phrase is from Paul Gilding: <http://paulgilding.com/writing/scream-crash-boom-2>.
3. For details, see A. Cosby, *Sustainable Development Roadmap for the WTO*, Geneva: IISD 2009. <http://www.iisd.org/publications/pub.aspx?id=1196>
4. This aspect would build on paragraph 51 of the Doha Mandate, which entrusts the WTO's Committees on Trade and Environment and Trade and Development with monitoring the impact of proposals.
5. Agreement on Trade Related Aspects of Intellectual Property Rights

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*This Perspective was prepared by Mark Halle, Director of the Trade Programme at the International Institute for Sustainable Development (IISD), and edited by Paul Raskin, Director of GTI. It benefited from a lively discussion among GTI's international network, a diverse group that found broad consensus on the directions outlined here.*

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