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## The global trading system at a turning point

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# The Current Column

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## The global trading system at a turning point

Bonn, 8 July 2013. Today marks the beginning of the Transatlantic Trade and Investment Partnership (TTIP). The delegations of the European Union and the United States are meeting in Washington for the first round of negotiations. In view of the extensive spying the US secret services have been conducting on the EU and various Member States, it was touch and go for a while last week whether the TTIP negotiations would start. The French President even threatened to veto the talks. In the end long-term economic interests tipped the balance, and the two delegations will waste no time in proceeding to the original agenda. The representatives of the two economic powers will be discussing a complex package of subjects that are of relevance to more than just the transatlantic economic area. Those who venture to look beyond the Atlantic rim will soon see that the likely global effects are enormous.

It is not only a question of the much discussed effects of the TTIP negotiations on the World Trade Organisation (WTO). The multilateral set of rules will, of course, be weakened to an even greater extent than in the past if the major trading powers conclude regional agreements among themselves. However, the Doha Development Round has been stalled for years owing to the confrontation between the industrialised countries and the emerging economies. There is much to be said for the view that the TTIP is more a consequence of that situation and not the real reason for the WTO's failure. The USA and the EU are trying to regain regionally the ground they have lost multilaterally. Any appeals to them to remember their multilateral roots that are not accompanied by practical reform proposals therefore fall short of what is needed.

The real challenge posed by the TTIP is that the USA and EU are trying to rewrite the rules of the world economy – and that has far-reaching implications.

The agenda for the TTIP negotiations includes far more than the removal of barriers to trade in agri-

cultural and other goods. The aim is to renegotiate the rules on cross-border investment, competition policy, public procurement, intellectual property and a wide range of arrangements only remotely associated with classical trade policy in many cases. This negotiating package extends well beyond what seem in retrospect to be the modest initiatives taken by the USA and EU during the Doha Development Round, which encountered the embittered resistance of such countries as Brazil, India and China.

The transatlantic talks will have uncertain consequences for any country that does not have a seat at the negotiating table. Regional agreements might lead to discrimination against non-members and impede their access to the European and American export markets. Recent studies show that such countries as Mexico, Canada and Japan and the countries of North and West Africa would be adversely affected. The negative, trade-diverting effects might be limited, however, if various regional agreements could be merged. The USA is currently negotiating with Pacific rim countries on a mega-regional similar to the TTIP. If such merging was possible, the result would be a gigantic transatlantic-transpacific free trade area with common rules.

Is it worth trying to introduce quasi-multilateral rules for the world economy by means of such regional agreements and so virtually by the back door? Notwithstanding the technical difficulties associated with the multilateralisation of regional agreements, the real problem with this strategy is far more hazardous. Any emerging economy or developing country wanting to join the "select circle" would face being not a rule-setter but a rule-taker: the new rules of the global economy would be laid down before they joined. The current debates in China on whether or not to participate in the well advanced transpacific negotiations are an example of this dilemma.

It should not be forgotten in such reflections that the clock cannot be turned back. Since the turn of

the century, if not earlier, we have witnessed a fundamental shift of economic power from West to East and from North to South. In these circumstances, it seems questionable whether such countries as Brazil, India and China would accept the role of rule-taker. More likely is a scenario in which the dividing line between two or more opposing trade blocs became increasingly distinct.

How can the world trade system be prevented from drifting apart into regional trade blocs? Any thoughts of reform should begin with the realisation that economic relations with up-and-coming emerging economies and developing countries in particular promise the greatest economic benefits.

From a German and European perspective, then, there is no way forward without the WTO. The momentum that has been triggered by the TTIP negotiations should be used to bring the Doha Development Round to an unpretentious conclusion. If this proves impossible in the near future, the best advice is to declare officially and definitively that the Doha Round is dead.

Regardless of the outcome of the Doha Round, the way should be cleared for fundamental institutional reforms at the WTO. At present, WTO negotiations are conducted by the “single under-

taking” principle: they can be completed only as a total package and with the consent of all members. These rules have proved increasingly ineffective, since disagreement on a few critical issues makes it virtually impossible for multilateral trade rounds to be concluded.

There should therefore be more scope for a multiple-speed WTO. Plurilateral agreements among a “group of the willing” would not require the consent of all WTO members to a large package. Plurilateralism is certainly not ideal, but it would provide more opportunities for negotiations in the WTO context to be brought to a successful conclusion. A further advantage of this strategy would be that the benefits of a plurilateral agreement would potentially be open to all WTO members. The merging of the mega-regionals should therefore be accomplished within the framework of such plurilateral negotiations.

The hope remains that the negotiations about to begin between the USA and the EU will generate positive momentum for more effective rules in the WTO and perhaps even for the Doha Round – and so counteract any further erosion of the multilateral system.



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