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Commitment to modernising the WTO

The G20 summit and the future of the World Trade Organization

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The G20 summit and the future of the World Trade Organization

Bonn, 3 December 2018. The G20 summit in Buenos Aires drew to a close on Saturday with an appeal for the modernisation of the World Trade Organization (WTO). While this commitment by the group of the world's leading industrialised nations and emerging economies is important, it remains unclear what it actually means. The WTO is in a situation akin to a patient whose doctors are uncertain as to whether he or she is suffering a temporary loss of consciousness or has had a severe stroke and whether recovery is still a possibility. Unless they are aware of the cause of the illness, there is a risk that they will use the wrong treatment and make the patient's condition worse. The commitment to modernise the WTO should be understood first and foremost as a plea to develop a common understanding of the problems in the multilateral trade system and to rebuild trust between the key actors. The Japanese G20 Presidency, which succeeded that of Argentina on 1 December, could play a key role in this regard.

International cooperation will succeed when the involved actors pursue common objectives, agree on the problems to be tackled and are able to engage in communication with one another based on trust. None of these requirements appears to have been met to date. Of course, the initial focus is on Washington, where President Trump has threatened on numerous occasions to pull out of the WTO. Additionally, the United States is blocking the appointment of new judges to the WTO's Appellate Body. This runs the risk of the much-lauded independent body becoming incapable of acting by the end of 2019. It has to be feared that the United States' primary objective is to further weaken the WTO. However, in focusing on the United States, it is often forgotten that there are also other countries currently expressing little interest in multilateral solutions. The stubborn insistence by South Africa and India on asserting their national interests is similarly serving to weaken the WTO.

And there also appears to be little consensus at present when it comes to analysing the underlying problem of the multilateral trade system. One might say that the WTO has become the victim of its own success. Established in 1994, the organisation and its multilateral regulations have encouraged freer trade in goods and services, without which many developing countries and emerging economies would not have risen to their current status in the first place. WTO regulations have been unable to keep pace with these radical shifts in the balance of power, the most notable of which has seen China become the world's largest exporting nation. It is the market-distorting subsidies and conditions for technology transfer in China that have ignited

criticism by the United States and the EU, who continue to call into question the country's status as a market economy. And many WTO members are shaking their heads at the fact that China still counts as a developing country in the multilateral trade system. The example of China illustrates the need to readjust the distinction, now over 20 years old, between industrialised nations and developing countries.

At the same time, the WTO's members are arguing over the prioritisation of future challenges. For many developing countries, the focus is on working through the agenda of the Doha Round launched in 2001 and, for example, making headway with the liberalisation of agricultural trade. However, industrialised nations and, increasingly, middle-income countries are instead turning their attention to new topics such as digital trade and investment, usually driving these topics through plurilateral negotiations within a coalition of the willing.

Last but not least, it would seem that communication between the principal actors has become fundamentally impaired. US President Trump's unilateral tariff increases are undermining mutual dialogue on key steps for the future and running the risk of a destructive upward spiral of tariffs or even a trade war. Nonetheless, some tentative steps are also being taken in the right direction. In October, representatives of a number of WTO member states met in Canada to advance a reform of the WTO, though the key actors, namely the United States and China, were not in attendance. They discussed possible solutions for making the WTO more efficient and effective, strengthening the Appellate Body and reviving the organisation's negotiating function.

The Japanese G20 Presidency should build on this work by giving priority to the modernisation of the WTO. It is necessary to leverage the strengths of the G20 as an informal forum for cooperation between heads of state and government but without weakening the WTO as a central forum for discussing reforms to the multilateral trade system. In this context, the G20 should focus on promoting dialogue on the objectives and issues of the WTO members rather than on the technical details. Most of all, there is also a need to improve communication between actors and build mutual trust. With the next summit taking place in Osaka in late June 2019, the Japanese Presidency cannot afford to waver for long.