

Governance For Global Trade

The world needs a stronger World Trade Organization.

By Vaibhav Tandon

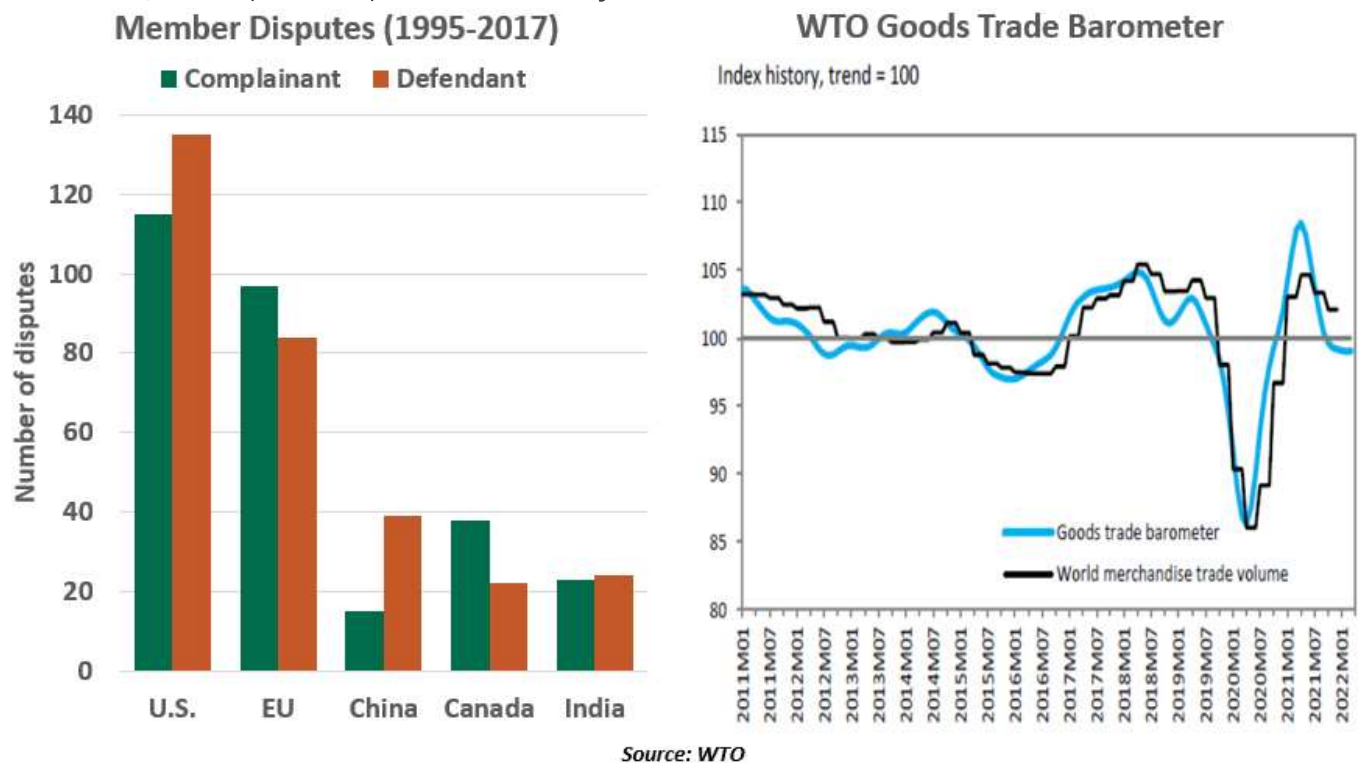


Among World Trade Organization (WTO) summits, the 1999 meeting in Seattle was the most memorable. Delegates were met by an estimated 50,000 protesters, an episode sometimes referred to as the Battle of Seattle. Central to the demonstrations was antipathy towards trade and globalization.

Twenty-three years later, WTO meetings continue to attract protests. When global trade ministers met in Geneva this week, they got a familiar reception; the sentiment against the prevailing international trading system has only grown stronger in recent years. But what's more worrying is that the WTO has become more divided from within, failing to find consensus on major issues. Without strong governance, global trade has become chaotic.

The 12th WTO Ministerial Conference in Geneva this week made some progress on small issues, but none on bigger issues. The delegates reached minor agreements on fishing subsidies, e-commerce tariffs and COVID-19 vaccines. But long-standing issues pertaining to agriculture subsidies, food security and protection of intellectual property rights remain unresolved.

The WTO's struggle stems from its structure. Any major decision requires a consensus of all 164 members. In an increasingly polarized world, getting all nations to agree on a solution is a herculean task. The WTO's appellate body no longer has enough members to adjudicate trade grievances, as the U.S. continues to block the appointment of new judges. The dispute settlement system has de facto regressed to the period of the General Agreement on Tariffs and Trade, when panel reports were easily blocked.



The goods trade barometer has dropped below the baseline value of 100, indicating weakness in global trade.

The WTO has failed to adapt to evolving economic realities. Industrial subsidies and forced technology transfer have not been effectively addressed. China, in particular, continues to offer support to its state-owned enterprises, and has failed to enforce intellectual-property protections.

As a result, the WTO has struggled to forge new trade deals and to settle disputes in recent years, amid an increased push towards deglobalization. Bilateral and regional trade pacts, known to promote protectionism, have gained prominence, as they are easier to negotiate and narrower in scope than broad global accords.

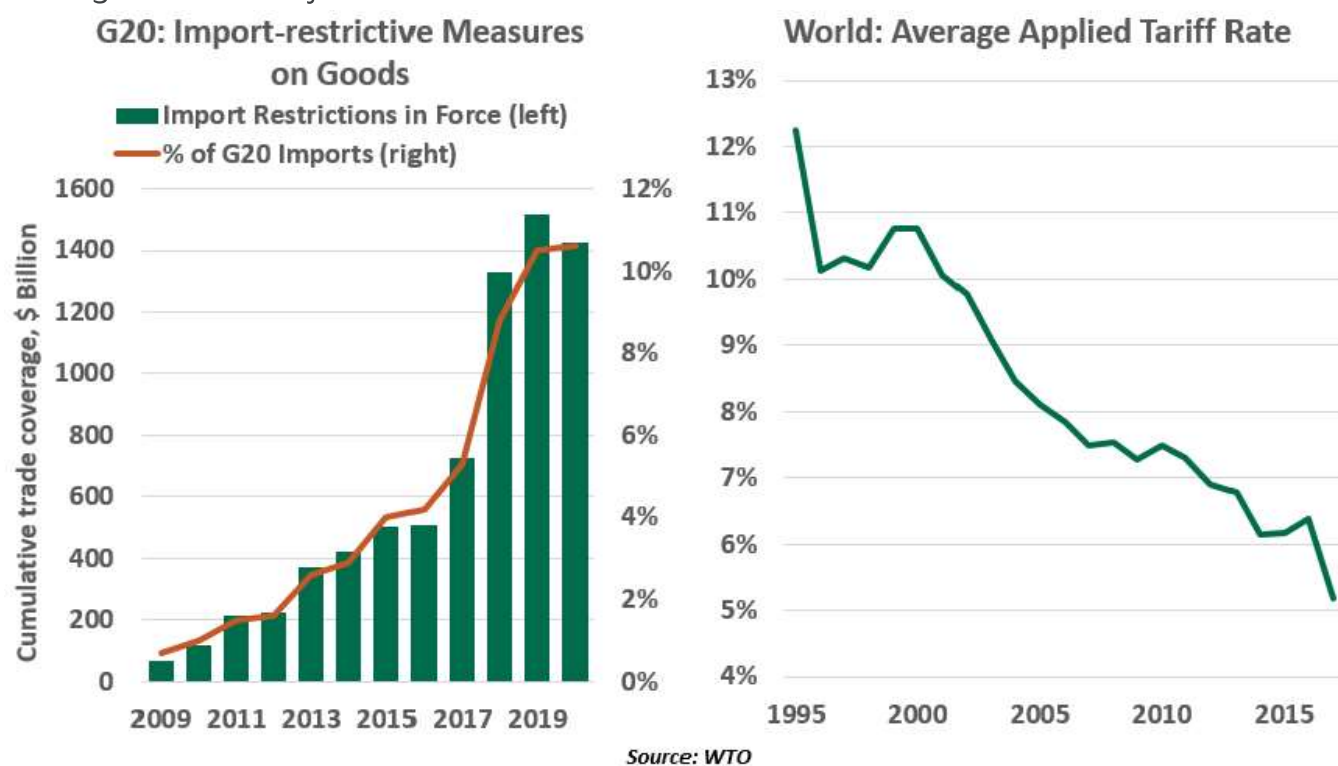
Trade disputes are now being settled on the frontier by raising barriers. In recent years, the U.S. has implemented a long series of tariffs using national security grounds as justification. India has also been a key roadblock to a series of WTO initiatives over the years. Advanced economies are increasingly embracing self-reliance, and using industrial, technological and

agricultural subsidies to achieve goals. Climate change is another hurdle to trade, as nations seek to impose tariffs on imports of carbon-intensive goods.

COVID-19 and the war in Ukraine have complicated global commerce.

The pandemic and the war in Ukraine have only added to the challenges for the WTO. Russia has been stripped of its most-favored nation (MFN) status by the U.S., the European Union and Canada in retaliation for the Ukraine war. COVID caused a sharp decline in international trade and has caused a rethink about the future of global supply chains.

Greater emphasis is being given to reshoring or “friendshoring” i.e., bringing supply chains closer to home or sourcing from like-minded nations. This has the potential to minimize disruptions, but moving production to high wage countries will lead to higher prices of goods, adding to inflationary concerns.



Despite facing backlash, the WTO has been instrumental in setting global norms for trade and lowering barriers to international commerce. Global trade volumes have more than doubled and applied tariffs have declined by more than half since the WTO was founded in 1995.

The most-favored nation principle, which limits discrimination between goods and services from different trading partners, has been a cornerstone of the multilateral trading system.

About two-thirds of European Union trade is conducted on MFN terms, including with countries like the U.S. and China. Though dysfunctional now, the dispute settlement mechanism has helped manage trade frictions.

However, not all have reaped the benefits of free trade. In spots, it has led to dislocation of firms, industries and workers. Some view WTO rules as infringement of national sovereignty, and the reason behind erosion of labor and environmental protections. Studies show that promoting imports and motivating firms to move manufacturing abroad has hurt American wages and led to the loss of up to three million jobs.

Global trade would look very different without the WTO.

In absence of an arbiter of global trade, the world will see emergence of new trading blocs run by major powers. This would be used as a device to reward allies and arm-twist less developed nations to conduct business on unfavorable terms. Firms will suffer from uncertainty over tariffs and other trade barriers, as in the case of Brexit.

The WTO is not perfect, and the world would be poorer for its absence. The WTO is fighting for survival, but the odds are not favorable.

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Vaibhav Tandon is an Economist within the Global Risk Management division of Northern Trust. In this role, Vaibhav briefs clients and colleagues on the economy and business conditions, supports internal stress testing and capital allocation processes, and publishes the bank's formal economic viewpoint. He publishes weekly economic commentaries and monthly global outlooks.