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ANALYSIS

SAVING MULTILATERALISM: THE G20, THE WTO, AND GLOBAL TRADE

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EXECUTIVE SUMMARY

As the world's premier international economic forum, the G20 should take a keen interest in the maintenance of a robust multilateral trading system. Although the initial leaders' summits did make strong references to the importance of maintaining open markets and completing the Doha Round of trade negotiations, subsequent meetings have seen trade slide down the agenda. Meanwhile, the multilateral trading system appears to be losing relevance as leading economies contemplate new, mega-regional trade agreements that would see global rules set outside the WTO.

Given its critical contributions to growth and employment, trade should play an important role in sustaining the health of the global economy. But for trade to do the most good, the world needs the kind of effective, credible, and broadly legitimate policy framework that only a revitalised multilateral system can provide.

It is time for G20 leaders to re-emphasise the crucial role played by both the WTO and the international trade it supports, and to use their collective political influence to help restore the flagging health of the multilateral trading system. To this end, leaders should do five things: place international trade at the heart of the G20's 'Framework'; extend the G20's standstill on protectionism for at least another two years, plus upgrade this pledge and support it with enhanced WTO surveillance; save the WTO from the Doha Round by setting a hard 'kill or complete' post-Bali deadline; encourage the WTO to focus on a new, twenty-first century trade agenda and; build on past G20 calls to strengthen and reform the WTO.

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SAVING MULTILATERALISM

For more than two centuries, international trade has been a spur to productivity growth and innovation and an important enabler for catch-up growth. As such, it has helped transform living standards across the globe.[1] Since the second half of the twentieth century, the expansion of world trade has been facilitated by a multilateral system that has helped set and police the rules of the game. As such, the multilateral trading system has made a major contribution to global prosperity.

That system is now in trouble. The most obvious symptom is the repeated failure to complete the Doha Development Round of world trade talks. But there are other problems too. Critics rightly complain that many of the world's most pressing trade policy issues are not even on the negotiating agenda, and deride the World Trade Organization (WTO)'s 'medieval' processes.[2] Others judge the current system as no longer fit for purpose in a world of international supply chains and emerging new trade powers. And while the global financial crisis and the subsequent collapse in international trade did not trigger a retreat into protectionism, recent years have nevertheless seen growing state intervention in trade flows and a gradual, cumulative rise in trade distortions.

Meanwhile, members have been voting with their feet, stepping outside the WTO to negotiate bilateral and regional trade agreements and, more recently, prospective 'mega-regional' deals. If this trend continues, the rules of the game for twenty-first century global trade will increasingly be set outside the multilateral system. That might work out but it represents a risk. After all, the current system has its origins in the chaos of the interwar period and the clear lesson that the world would do well to avoid the fragmentation and competing trade blocs that characterised that earlier period. A world economy that found itself splintering into, for example, competing Chinese- and US-based trading arrangements would not be a world conducive to international security and stability. It would also be a deeply uncomfortable place for countries like Australia that have close economic ties with China and strong security ties with the United States.

As the world's premier international economic forum, the G20 should take a keen interest in the maintenance of a robust multilateral trading system. Just as the Framework for Strong, Sustainable and Balanced Growth (the 'Framework') and its commitment to delivering growth and jobs for the global economy should be at the core of the G20, so should international trade be at the core of the Framework.[3] Yet trade and the multilateral system have not always been treated as central to the G20's interests, and in recent years they have slid down the group's list of priorities.

G20 leaders need to rectify this relative neglect and champion not just the importance of international trade but also the continued relevance of the multilateral trading system. They need to draw the disappointments of the Doha era to a close and help set the agenda for a new round of trade negotiations. They need to strengthen their past commitments to open markets and reinforce the WTO's surveillance role to backstop that pledge. They need to work to ensure that the current switch to regional agreements does not undermine the WTO. And they need to support reform of the WTO more generally in order to make it fit for the way trade works in today's global economy.

The repeated failures to successfully conclude the Doha Round indicate that all this will be extremely difficult to achieve. But the alternative is to stand back and let the multilateral system unravel. That would be unacceptable.

The state of global trade: bad news and good news

According to the WTO, world trade growth in 2012 fell to just two per cent, down from 5.2 per cent in 2011. That was the smallest annual increase since the WTO started collecting data in 1981. This year, 2013, growth is again likely to be sluggish, at around 3.3 per cent. Both figures are well down on the 20-year average growth rates of 5.3 per cent and the pre-crisis trend (1990-2008) of six per cent growth. Indeed, WTO economists note that the gap between the pre-crisis trend and current and projected values for world trade seems to be (slowly) widening, and that 'it appears that the fundamental growth rate of world trade volumes has also been reduced.'[4] At the press conference announcing these numbers, WTO Director-General Pascal Lamy emphasised the risks posed to the trade outlook by the Eurozone crisis and warned that the 'threat of protectionism may be greater now than at any time since the start of the crisis, since other policies to restore growth have been tried and found wanting.'[5]

Despite these gloomy messages, however, there is also some good news. For a start, it is true that trade flows have staged a significant recovery since the dramatic 12.5 per cent collapse in world trade volumes recorded in 2009 during the global financial crisis. In fact, in the years following the crisis, global trade has continued to expand, albeit at a less rapid pace than during the five-year period leading up to 2007. Over 2007-2012, for example, global exports of goods and services rose by US$5 trillion in value terms and by US$1.9 trillion in volume terms (2005 prices). That is a fairly impressive result, although it is less than half the increase recorded over the previous five years.[6]

More generally, the overall story of global trade, despite that significant crisis-induced drop, is one of steady growth. As a recent study looking at 160 years of world trade volumes (1850-2010) has pointed out, it is striking that, when viewed as a long-run trend, the volume of world trade has grown for nearly two centuries with relatively little interruption.[7] Over those 160 years, excluding the two world wars, there have only been 16 years in which the volume of world trade fell, with the longest and most severe fall occurring during three years of the Great Depression (1930-32).[8] That record shows that while global conflicts and severe financial crises leading to deep recessions have undoubtedly been very bad news both for trade and for trade policy, international exchange has otherwise proved rather resilient.[9]

This long-run story of resilience also applies to more recent history, which has been marked by continued growth in world trade alongside parallel increases in the degree of trade interconnectedness: there has been a rise in the number of systemically important trading economies at the same time as trade links between those economies have multiplied.[10]

Along with the impetus provided by technologically-driven falls in transport and (more importantly) communications costs, there have been two big and connected drivers of global trade in the modern era.

First, the rising importance of emerging economies as global trading powers and the consequent arrival of new trading hubs and new patterns of international exchange.[11] As well as providing significant momentum to global trade growth overall, this development has also produced a dramatic shift in the balance of power in international trade negotiations by giving a much greater weight to emerging economies, and has simultaneously increased the number of 'serious players' in global trade negotiations from around ten at the time of the Uruguay Round to perhaps 25 now.[12]

Second, the role of global supply chains or global value chains (GVCs) in international trade and the consequent rise of what the WTO has described as the 'Made in the World' phenomenon. The growing *integration* of the global economy has combined with the *disintegration* of the production process, whereby countries 'increasingly specialize in producing particular stages of a good, rather than making a complete good from start to finish', as firms seek to exploit different economies' comparative advantages with regard to individual parts and components.[13] As WTO Director-General Pascal Lamy has pointed out, in a world of global supply chains 'the concept of country of origin for manufactured goods has gradually become obsolete as the various operations, from the design of the product to the manufacture of the components, supply and marketing have spread across the world, creating international production chains. Nowadays, more and more products are "Made in the World"'.[14]

Technology, the spread of GVCs that it has helped facilitate, and the rise of new trading powers have together delivered a strong impetus to international exchange in today's global economy. At the same time, however, these developments, and in particular the last one, have also made the governance of that trade more complex. While integrating powerful new players into the global trading system poses a difficult challenge, it is also a critical reason for working hard to maintain the health of that same system.

To see why this is so, remember that the core principle of the multilateral trading system is that of non-discrimination. So, for example, if a WTO member grants trade access to one other member, it is obliged to grant the same treatment to all other members. This is known as the most-favoured nation (MFN) principle.[15] The MFN rule obliges countries to treat their trading partners equally, a requirement that has important geopolitical as well as economic implications. MFN helps protect weaker economies from stronger ones, and rules out the manipulation of trade preferences, for example to reward allies or punish rivals. These are important features for a world economy that is simultaneously experiencing substantial trade integration, large-scale changes in the geography of international trade and production, and major shifts in the balance of economic power. All of these developments would be expected to create tensions and frictions in international trade. Having a robust international system in place to help manage and minimise those same tensions is, therefore, of great importance. It may turn out to be the case that the various bilateral, regional and mega-regional deals now being negotiated can provide useful complements to this system. It is, however, extremely unlikely that they will be able offer an effective replacement.

The state of the multilateral system: more bad news

Since the second half of the twentieth century, the expansion of international trade has taken place within a multilateral trading system that has its origins in the economic and political failures of the interwar period, a time when the international spread of protectionism saw quantitative restrictions affecting between 50 per cent and 70 per cent of world trade in the 1930s.[16] The consequence then was a fragmented international trading system and a collapse in global trade volumes that contributed to the economic dislocation and political extremism of the period. Policymakers learned from that experience, so that '[b]y the mid-1940s, protectionism in the field of economic policy was likened to appeasement in the realm of diplomacy, a mistake that helped make the decade of the 1930s a political and economic disaster.'[17] Those lessons were embodied in a package of trade rules and tariff concessions that became the General Agreement on Tariffs and Trade (GATT), which entered into force in January 1948 and which provided the multilateral framework that governed world trade until 1994. The GATT was succeeded by the WTO on 1 January 1995.

By some quantitative measures, including membership and coverage of world trade, this system would appear to be in good health. For example, while there were only 23 original signatories to the GATT in 1947, by March 2013 the WTO had 159 members. Likewise, while those original members accounted for about 63 per cent of world merchandise exports in 1947, by 2011, WTO members accounted for almost 94 per cent of world merchandise exports.[18] And despite the expansion in bilateral and regional agreements noted below, around 84 per cent of world merchandise trade still takes place on a MFN basis (70 per cent if intra-EU trade is included).[19] Unfortunately, this gives a rather misleading guide as to the true health of the system, which currently faces at least four major challenges.[20]

First, and perhaps most obviously, there is the ongoing failure to complete the Doha Round. Doha now spans four failed WTO Ministerial Conferences (five if the initial failure to launch a Round in Seattle is included).[21] The last chance of getting anything approaching a 'complete' Doha package came and went with the Seoul Summit of G20 leaders in November 2010 and its recognition that 2011 represented a 'critical window of opportunity.' That window is now shut and since then, both proposals to 'top up' the Doha offers in order to achieve a bigger package, and proposals to put together mini-packages based around trade facilitation and special treatment for LDCs have all failed to gain traction.[22] The ongoing inability to complete Doha entails significant costs that go beyond the modest foregone gains from trade liberalisation that a successful round would have brought and include the damage to the credibility of the WTO and of the G20 inflicted by repeated and public failures to reach agreement, as well as the lost trade security that would have been provided by locking in tariff rates and other trade disciplines under Doha.[23]

Second, there is the growing sense that the WTO's focus on Doha has meant that it has failed to grapple with other, potentially more important issues facing the global trading system. For example, Mattoo and Subramanian have argued that the WTO's Doha Agenda 'is an aberration because it does not reflect one of the biggest – indeed tectonic – shifts in the international economic and trading system: the rise of China.'[24] A longer list of trade policy issues that the WTO and the multilateral system should currently be dealing with would include: the trade policy implications of national and international efforts to reduce carbon emissions; resource (energy and especially food) security, including the role of export restrictions; the role and treatment of state owned enterprises (SOEs); and issues around exchange rate policy including the use of deliberately undervalued exchange rates.[25] Resource security is a particularly important issue here: under the multilateral system countries should feel confident that they can rely on international markets to get access to vital food and raw materials. When such confidence is missing – as it was for example in Wilhelmine Germany and interwar Japan – it can have profoundly destabilising consequences.[26] Developments during the 2008 food crisis and its aftermath, for example, suggest that this confidence may be wavering in some countries.[27]

Third, there is a widely-recognised need for trade policy to come to grips with the implications of GVCs and the 'Made in the World' phenomenon. These have changed the political economy of protectionism, by making some economies 'so interconnected and integrated that trade policy is no longer a very useful tool to assist domestic industries, even in the face of a massive external demand shock.'[28] In a world where imports include a large share of inputs critical to the competitiveness of a country's export industries, shutting off imports is more likely to cost jobs than to save them.[29] In this environment, many traditional tools of trade policy become obsolete, as do many traditional measures of trade flows.[30] The same changes also argue for an updating of the WTO, which 'has not kept up with the need for new rules governing the intertwining of trade, investment, intellectual property, and services', and which therefore requires an upgrade to what has been described as a 'WTO 2.0'.[31]

Fourth, failure to complete Doha, combined with the failure to meet the appetite for new and deeper forms of international economic integration more generally, has encouraged member economies to swap the multilateral system for preferential (bilateral, regional and now potentially 'mega-regional') trade agreements (PTAs). By 2010, there were almost 300 PTAs in force, with the average WTO member a party to 13. Intra-PTA trade had risen to about 35 per cent of world merchandise trade by 2008, up from 18 per cent in 1990.[32] Despite the marked increase in the number of PTAs in recent years, a large majority of world merchandise trade still takes place on an MFN basis. But PTAs are increasingly becoming the vehicle through which countries pursue the kind of 'deep integration' relevant for much modern international commerce. Since preferential agreements, by definition, discriminate against non-members, this shift to PTAs threatens to reduce the relevance of the multilateral system to the governance of global trade and undermine its core MFN principle. This would represent a major shift in the global trading order, not least since MFN has served to protect weaker economies from stronger ones and has helped minimise the international tensions that could otherwise arise from the proliferation of competing preferential trade blocs. A move away from MFN and towards 'rule-by-the-strong' risks making the world a less comfortable place for all but the biggest trading powers. These risks are likely to become even greater if mooted 'mega-regional' deals such as the Trans-Pacific Partnership (TPP) in Asia and the EU-United States Transatlantic Trade and Investment Partnership (TTIP) reach successful conclusions, since at this point many of the rules of the global game will have been negotiated outside the WTO.

What the G20 has done

At the onset of the global financial crisis, when trade was collapsing at a rate similar to that experienced during the Great Depression, it was natural to fear that policymakers might be tempted to succumb to protectionism as in the 1930s. After all, the world economy was not only experiencing a major financial and economic shock, but was doing so against a backdrop of major structural change impelled by the rise of the new trading powers and the consequent global shift in long-term comparative advantage.[33]

So, when G20 leaders held their first summit in Washington in November 2008, after listing their desired reforms to international finance and global economic governance, they also emphasised the importance of trade:

> 'We recognize that these reforms will only be successful if grounded in a commitment to free market principles, including the rule of law, respect for private property, **open trade and investment**, competitive markets, and efficient, effectively regulated financial systems.'[Emphasis added] [34]

They went on to make two specific commitments designed to support their rhetoric on the importance of open markets: a pledge to refrain from protectionism, and a promise to complete the Doha Round. These two commitments have since been central to the G20's approach to trade.

The standstill

At the Washington Summit, leaders introduced a one-year standstill on protectionist measures:

> 'We underscore the critical importance of rejecting protectionism and not turning inward in times of financial uncertainty. In this regard, within the next 12 months, we will refrain from raising new barriers to investment or to trade in goods and services, imposing new export restrictions, or implementing World Trade Organization (WTO) inconsistent measures to stimulate exports.' [35]

This initial pledge came with no monitoring mechanism, and with no sanctioning mechanism in case of its violation.[36] However, at the London Summit in April 2009, leaders not only extended the standstill until the end of

2010 but they also tasked the WTO and other international organisations with providing quarterly monitoring as to how well members were sticking to their commitments. At the Toronto Summit in June 2010, the standstill was again extended, this time until end-2013 and at the Seoul Summit (November 2010), monitoring was moved to a semi-annual basis.

Most recently, at the Los Cabos Summit in June 2012 the standstill was renewed once more, this time until end-2014. However, Argentina, Brazil and South Africa were all reported to have resisted this extension, while other countries had wanted to push the expiration date out to 2015.[37]

Assessing the standstill

An assessment of the standstill based solely on the G20's own commissioned assessment of its pledge paints a mixed picture.

On the one hand, according to the eight official joint OECD-WTO-UNCTAD reports on trade and investment protectionism, it is quite clear that G20 members did *not* fully honour their commitments. Indeed, the initial pledge had been broken within about thirty-six hours, after which Russia announced that it would hike tariffs on car imports. Moscow's actions were quickly followed by an increase in Indian steel tariffs and later by the EU reintroducing export subsidies – a combination of moves which seemed to leave the pledge 'in tatters'.[38] Despite repeated pledges to refrain from protectionism, the monitoring reports confirm that in fact G20 governments have put in place measures which have either restricted trade or which have the potential to do so (Table 1).

Table 1: Trade restrictive measures imposed by G20 economies

	Total number of measures	**Average per month**
First Report (Apr'09-Aug '09)	80	16.0
Second Report (Sep'09-Feb'10)	95	15.8
Third Report (Mar'10-May'10)	56	18.7
Fourth Report (May'10-Oct'10)	54	10.8
Fifth Report (Oct'10-Apr'11)	122	20.3
Sixth Report (May'11-Oct'11)	108	18.0
Seventh Report (Oct'11-May'12)	124	17.7
Eighth Report (May'12-Oct'12)	71	14.2

Source: Table 1 in OECD, WTO and UNCTAD, *Reports on G20 trade and investment measures (Mid-May to Mid-October 2012)*.

While each individual report suggests that the share of G20 and world imports covered by new measures has been quite small, the cumulative impact of these measures has grown over time. Thus, according to the eighth (and to date latest) joint report on trade restrictions:

> 'Many of the trade restrictions introduced since the start of the global crisis are still in

place. According to information provided to the WTO Secretariat by G-20 delegations, only 21% of the recorded measures (put in place since October 2008) were removed by mid-October 2012 . . . Import restrictive measures implemented by G-20 economies over the past four years (since October 2008), excluding those that were reported as removed, account for around 3.5% of total world merchandise imports or the equivalent of 4.4% of G-20 imports.' (Table 2)[39]

Table 2: Share of trade covered by import restrictive measures imposed by G20 economies (per cent)

Report date	Share in G20 imports	Share in world imports
Oct'08-Oct'09	1.0	0.8
Nov'09-May'10	0.5	0.4
May'10-Oct'10	0.3	0.2
Oct'10-Apr'11	0.6	0.5
May'11-Oct'11	0.6	0.5
Oct'11-May'12	1.1	0.9
May'12-Oct'12	0.4	0.3
Cumulative total Oct'09-Oct'12	4.4	3.5

Source: Table 2 in OECD, WTO and UNCTAD, *Reports on G20 trade and investment measures (Mid-May to Mid-October 2012).*

On the other hand, it is certainly not all bad news. Taken together, the series of eight OECD-WTO-UNCTAD reports suggest no widespread retreat to protectionism but, to the contrary, indicate only a fairly modest shift to restrictions on trade. Indeed, given the sheer scale of the initial collapse in trade, the lack of recourse to protectionist measures is arguably quite striking.[40] This finding is supported by empirical work looking at the use of tariffs and trade defence (anti-dumping) measures taken by about 100 countries over the 2008-2009 period, which finds no evidence of any widespread resort to protectionism, and which estimates that increases in tariffs and anti-dumping duties explain less than two per cent of the collapse in world trade during the crisis period.[41] Indeed, in the second and third years after the onset of the crisis, the pursuit of trade-liberalising measures meant that tariffs were more frequently *lowered* than hiked.[42]

On this basis, then, while far from perfect, the G20's trade policy record still looks quite respectable.

Unfortunately, however, other trade policy assessments tend to be somewhat less sanguine than the official accounting. A series of independent assessments have been produced by the Global Trade Alert (GTA), a body coordinated by a UK-based think tank, the Centre for Economic Policy Research.[43] At the time of writing, GTA had produced eleven reports on protectionism, with the most recent released in June 2012.[44] According to that June 2012 report:

> 'This report demonstrates that the amount of protectionism in 2010 and 2011 was considerably higher than previously thought. An additional 226 protectionist measures were found in those two years, representing a 36% increase on the number of beggar-thy-neighbour policies implemented during 2010 and 2011 . . . What is more, the evidence presented in this report casts doubts on the strength of international restraints on the resort to

> protectionism by governments, in particular by G20 governments.' [45]

With regard to that final point, the GTA report emphasised two supporting facts. First, that the share of G20 countries engaging in global protectionist measures had risen from 60 per cent in 2009 to 79 per cent in 2012, a result that it felt 'cast the repeated G20 commitments to eschew protectionism in a particularly bad light'. Second, it emphasised that rather than violate their WTO commitments, governments had instead tended to circumvent WTO rules by resorting to policies 'subject to less demanding or no binding multilateral trade rules'. Since many of these policies were non-transparent, the GTA described this as 'murky protectionism.' [46]

According to the GTA, G20 countries were responsible for roughly two-thirds of all protectionist measures taken since the first G20 summit in November 2008, and 69 per cent of all measures still in force. Indeed, the proportion of worldwide totals of protectionist measures accounted for by G20 governments has risen every year since 2009.[47] Moreover, looking at the GTA's rankings of the top ten offenders by country on various indicators of protection, 'it is striking how often G20 members are mentioned.' [48]

The relatively non-transparent nature of this policy response makes it harder to track than standard tariff changes and anti-dumping actions, with estimates suggesting that the more transparent trade policy instruments governed by tougher WTO rules (tariffs, trade defence instruments) have represented less than half of the measures taken in any given calendar year during the crisis.

Overall, then, the evidence on the effectiveness of the G20's repeated commitments to limit protectionism is mixed. It does seem likely that there was some restraining effect on the use of tariffs and trade defence measures.[49] Supporting evidence for this proposition is provided by the likelihood that if this were not the case then those economies that balked at the renewal of the standstill pledge at Los Cabos would not have felt any need to object. And clearly there has been no re-run of a 1930s style protectionist backlash. Set against this, however, is the fact that G20 members have sought to find alternative, less transparent approaches to protectionism as a way of avoiding their commitments, and at other times have been prepared simply to ignore them.

There have also been other unfortunate trends. In particular, the text relating to protectionism in G20 summit communiqués has shown signs both of being weakened over time and of being given less prominence.[50] So, by the time of the Pittsburgh Summit, for example, references to trade policy had been demoted to the end of the leaders' declaration, and the previous commitment to eschew protectionism had been replaced with a weaker one to 'fight' it. This relative de-emphasis of trade has led one pair of observers to conclude that any 'strong views of the deterrent value of G20 commitments are hard to square with a body that has given less and less attention to open markets over time.'[51]

The promise to conclude Doha

Along with the standstill on protectionism, the other big trade commitment made at repeated G20 leaders' summits has been an undertaking to complete the Doha Round. At their inaugural summit, leaders promised:

> '. . . we shall strive to reach agreement this year on modalities that leads to a successful conclusion to the WTO's Doha Development Agenda with an ambitious and balanced outcome. We instruct our Trade Ministers to achieve this objective and stand ready to assist directly, as necessary. We also agree that our countries have the largest stake in the global trading system and therefore each must make the positive contributions necessary to achieve such an outcome.' [52]

In subsequent meetings, the promises continued to be made. Notably, however, they have become weaker and less specific over time:

- At the London Summit, leaders committed themselves to reaching an 'ambitious and balanced conclusion' to the Doha Round.[53]
- At Pittsburgh, they targeted a 'successful conclusion in 2010'.[54]
- At Toronto, they avoided a hard deadline altogether and said only that they would deliver a conclusion to Doha 'as soon as possible'.[55]
- By Seoul, they were only reminding themselves that '2011 is a critical window of opportunity, albeit narrow'.[56]
- And at Cannes the ambition had been pared back to a promise to 'pursue in 2012 fresh, credible approaches to furthering negotiations.'[57]
- Finally, by the Los Cabos Summit, leaders were reduced to promising to 'continue to work towards concluding the Doha Round . . .'.[58]

Indeed, by the time of Mexican summit, leaders were left contemplating what little they could salvage from Doha – a sort of mini-Doha – based around those few areas where agreement might be possible, such as trade facilitation and special treatment for the least developed countries (LDCs). By this stage, the urgency expressed for a conclusion of the Doha Round at the Washington and London Summits had long disappeared, along with any serious belief that G20 leaders were going to be able to deliver on their increasingly weak commitments.

Assessing the Doha pledge

While there is scope for disagreement over the relative effectiveness of the G20's efforts on the protectionism standstill, no such comforting ambiguity is available when it comes to an assessment of the group's attempts to provide leadership on Doha. Leaders have clearly failed to move the round to a conclusion, and done so publically and repeatedly in a way that has been damaging for the G20's overall credibility.[59] Even the more modest plans to use the eighth WTO Ministerial meeting of December 2011 to 'harvest' some limited agreements from the negotiations held up to that point – duty-free, quota-free access for LDCs and trade facilitation – also failed.[60]

Ernesto Zedillo, the former President of Mexico, summarised this sorry state of affairs rather well back in April 2011:

> 'Undeniably, the Doha Round has been one of the standard subjects at the G20 gatherings. Leaders have produced grandiloquent statements about the

importance of finishing it and have even issued deadlines for such a conclusion, but any serious effort to bridge the gaps that have precluded that outcome has been absent from the summits' proceedings. The G20's tone at the top, as far as the Doha Round is concerned, can be characterised as disappointing if not outright deceptive, given leaders' failure to deliver.'[61]

What the G20 should do now

Taking into account both the challenges currently facing the multilateral trading system and the limitations of the G20's past engagement with international trade, there are five things that G20 leaders should do to bolster the multilateral system and the international trading environment.

First, leaders should place international trade where it belongs, at the heart of the Framework and of the G20's commitment to deliver economic growth and employment. In doing so, they would reverse the demonstrated drift of trade policy issues down the G20's agenda and send a clear signal about the important contribution trade and the trading system can make to the G20's objectives. They should acknowledge forcefully that in the absence of a robust international trading system and the growth in world trade that this supports, it would become much harder to fulfil the G20's mandate of delivering strong, sustainable and balanced growth.

Second, before the current standstill agreement on protectionism expires at the end of 2014, leaders should not only extend the agreement for at least another two years, but they should also seek to upgrade and refine it, in order to take into account both the post-crisis shift to new, WTO-consistent measures of protection and the need to unwind the restrictions on trade imposed since 2008.[62] In order to support this more robust commitment, leaders should also pledge to ensure that the WTO secretariat is supplied with the enhanced resources required to pursue the independent surveillance needed to monitor compliance with this commitment.[63] While it is true that past experience with the standstill agreement has demonstrated the limitations of surveillance in keeping protectionist impulses in check, there are still worthwhile benefits to be had from the transparency and hence the (limited) accountability that this process delivers. The reluctance of some countries to renew the standstill suggests that it does act as a constraint on policy, and even powerful economies tend to dislike being 'named and shamed' by official bodies like the WTO. In addition, enhanced WTO surveillance could also provide helpful support to the WTO's broader policy agenda.[64]

Third, the time has come for leaders to help save the WTO from the Doha Round.[65] Ideally, that should involve harvesting what can be salvaged from the negotiations so far. For example, Hufbauer and Schott have identified five parts of the existing Doha Agenda which they argue offer the possibility of delivering significant benefits to WTO members at relatively little cost or pain: trade facilitation; duty-free, quota-free access for LDCs; the phasing out of farm export subsidies; reforms to the WTO's dispute settlements system; and new disciplines on food export controls.[66] Leaders should use their political weight to push seriously for the conclusion of a mini-

Doha agreement along these lines, and then allow the WTO to move on to other matters.

If, however, leaders conclude instead that there is no realistic possibility of reaching even a modest agreement along these lines (keeping in mind that previous attempts to follow this approach failed in 2011 when the developed economies were unhappy at the lack of reciprocity on offer from the major emerging markets), then they should declare Doha dead from their point of view and urge the WTO to find a new way forward on trade negotiations. Such a decision would of course be highly controversial, not least since leaders will not want to be seen to have the blood of the Doha Round on their hands. But in the absence of such a resolution, the continued failure to complete Doha will serve only to erode the credibility of both the WTO and of the G20 itself. If leaders conclude that Doha really is beyond saving, they should help put it out of its misery. This approach would also have the benefit of presenting leaders with a clear choice: to help save Doha or to kill it.

The upcoming Ninth WTO Ministerial Conference in Bali in December 2013 will provide a good opportunity to assess the current state of play with the Doha Round and make a final assessment as to the likelihood of any further progress.

Fourth, leaders should encourage the WTO to devote more time to a trade policy agenda fit for the twenty-first century. As discussed above, there are a range of issues that fall into this category, including food and energy security and the use of export restrictions, the treatment of SOEs, the role of exchange rate policy, and the intersection of climate change and trade policies. The importance of services trade, and of GVCs, could offer particular scope for WTO-led initiatives that go beyond Doha.[67] A 'whole of the supply chain' approach that spanned a range of sectors including transport and distribution services, border protection and management, product health and safety, foreign investment, and the movement of business people and service providers potentially offers an approach that could stimulate trade and growth while also increasing the relevance of the WTO for business.[68]

Two other related issues also deserve particular attention in this regard. The first of these is the relationship between the multilateral trading system and the proliferation of PTAs, including the looming mega-regionals like the TPP and TTIP.[69] There have been a range of suggestions for further work in this area: proposals for standstills on new PTAs; action on tightening up and effectively enforcing Article XXIV on regional agreements in the GATT (and the corresponding Article V in the GATS); measures aimed at improving the design and transparency of PTAs: proposals to multilateralise agreements on investment, e-commerce and transparency from existing PTA agreements on an MFN basis: and the provision of 'docking mechanisms' for PTAs.[70] G20 leaders should consider to which of these proposals they are prepared to offer their collective political support.

Ultimately, however, the reason that such proposals are necessary is that there is a demand for 'deep integration' which is currently not being met by the WTO. This leads to the second point, which is the need to look for ways in which the WTO might offer a compelling alternative to PTAs. The most realistic approach is to revisit the idea of 'variable geometry', based in large part around the opportunities provided by plurilateral agreements. There are a range of issues here that need guidance from the key players in international trade before they can be ironed out, with a particularly critical one being whether plurilateral agreements of this kind would still be subject to the MFN principle, or whether the agreements would apply only to signatories.[71]

Finally, leaders should build on the promise they made at Cannes and then again at Los Cabos, to strengthen the WTO. At Los Cabos they said:

> 'We support strengthening the WTO through improving the way it conducts its regular business, and its dispute settlement system. We also direct our representatives to further discussions on challenges and opportunities for the multilateral trading system in a globalized economy.'[72]

Much as leaders have already used their political capital to urge reform of the IMF and World Bank, they should now do the same for the WTO. While they would need to be very careful not to be seen as inappropriately usurping authority from the member-controlled WTO, the fact that the G20 includes most of the key players in global trade means that a coordinated G20 opinion on reform would carry significant weight. Areas for potential reform include the WTO's practice of consensus, the 'Single Undertaking' in multilateral negotiations, the role of MFN, the operation of the Disputes Settlement Mechanism, and the conduct and scope of WTO surveillance.[73] The main problem facing WTO reform is not a shortage of ideas, but rather an absence of political will to give impetus to reform.[74] This is where the G20 should have a comparative advantage.

Conclusion: Saving multilateralism

The multilateral trading system is in trouble. Symptoms of its difficulties include: the repeated failure to complete the Doha Round; the absence of many of the world's most pressing trade policy issues from the current negotiating agenda; the spread of PTAs including the recent emergence of 'mega-regional' deals; and the rise in post-crisis state intervention in trade flows along with a gradual, cumulative increase in trade distortions.

Optimists might respond that there is nothing fundamental to worry about. The forces of technology and the logic of global supply chains will continue to bind the world economy together and undermine the case for protectionism. After all, they could point out, hasn't the world economy just successfully negotiated the biggest slump in global trade since the Great Depression, and done so while avoiding the protectionist excesses of the 1930s? And hasn't global trade continued to expand for getting on for two hundred years now? If the WTO doesn't deliver the kind of deep economic integration the global economy wants, other alternatives will.

The optimists may yet prove to be right. But opting to stand by while the multilateral system unravels is precisely the kind of risky, high-stakes gamble that world leaders should be working hard to avoid. In that context, as the world's premier international economic forum, the G20 should have a keen interest in supporting a robust multilateral trading system. It is time, therefore, for G20 leaders to re-emphasise the crucial role played by both the WTO and the international trade it supports, and use their collective political influence to help restore the flagging health of the multilateral trading system.

NOTES

[1] An earlier version of this paper was presented at the Regional 'Think 20' Seminar held on 22-24 May 2013 at the Lowy Institute. This version has benefitted from the comments of several participants at that meeting, which the author gratefully acknowledges.

[2] While serving as the EU's trade commissioner, before he became WTO Director-General, Pascal Lamy famously described the WTO as a 'medieval' organisation. Charlotte Denny, Larry Elliott and David Munk, Brussels urges shakeup of 'medieval' WTO. *The Guardian*, 16 September 2003. The criticism has stuck.

[3] On the importance of the Framework, see Mike Callaghan, *Strengthening the core of the G20: Clearer objectives, better communication, greater transparency and accountability*. Analysis. Sydney, Lowy Institute for International Policy, 10 April 2013.

[4] World Trade Organization (WTO), *World trade 2012, prospects for 2013*. WTO Press Release PRESS/688. Geneva, World Trade Organization, 10 April 2013.

[5] Quoted in Tom Miles, WTO cuts 2013 trade forecast, sees protectionist threat. *Reuters*, 10 April 2013.

[6] Julian Callow and Tal Shapsa, *Global trade: A post crisis assessment*. London, Barclays Economic Research, 29 April 2013.

[7] Douglas A. Irwin and Kevin H. O'Rourke, Coping with shocks and shifts: The multilateral trading system in historical perspective, in *Globalization in an Age of Crisis: Multilateral economic cooperation in the twenty-first century*, ed. Robert M. Feenstra and Alan M. Taylor. Chicago, University of Chicago Press, Forthcoming.

[8] In addition, there were two periods when trade declined in consecutive years, in 1861-2 and 1981-2. All other falls outside the two world wars spanned just a single year. Ibid.

[9] Not surprisingly, war has been particularly bad news for international trade. The first world war saw world trade drop by perhaps 30 per cent, while the second world war probably saw a fall of more than 50 per cent. Reuven Glick and Alan M. Taylor, Collateral damage: Trade disruption and the economic impact of war. *Review of Economics and Statistics* 92 (1) 2010.

[10] International Monetary Fund (IMF), *Changing patterns of global trade*. IMF Policy Paper. Washington, DC, International Monetary Fund, 15 June 2011. For an earlier review of the evolving global trade landscape, see Mark Thirlwell, *The new terms of trade*. Lowy Institute Paper 07. Sydney, Lowy Institute for International Policy, 2005.

[11] See for example Willem Buiter and Ebrahim Rahbari, *Trade transformed: The emerging new corridors of trade power*. Citi GPS: Global Perspectives & Solutions, Citigroup, 18 October 2011. Also Stephen King, *The Southern Silk Road: Turbocharging 'South-South' economic growth*. HSBC Global Research. London, HSBC Bank, June 2011.

[12] The numerical estimate is from Gary Clyde Hufbauer and Jeffrey J. Schott, *Will the World Trade Organization enjoy a bright future?* Policy Brief PB12-11. Washington, DC, Peterson Institute for International Economics, May 2012.

[13] Robert C. Feenstra, Integration of trade and disintegration of production in the global economy. *Journal of Economic Perspectives* 12 (4) 1998. Also David Hummels, Jun Ishii and Kei-Mu Yi, The nature and growth of vertical specialization in world trade. *Journal of International Economics* 54 2001. For a more recent take on global supply chains see Richard Baldwin, Trade and industrialization after globalization's second unbundling: How building and joining a supply chain are different and why it

matters, in *Globalization in an Age of Crisis: Multilateral economic cooperation in the twenty-first century*, ed. Robert M. Feenstra and Alan M. Taylor.

[14] Pascal Lamy, *Globalisation of the industrial production chains and measuring international trade in value added*. Speech by the WTO Director-General to the French Senate. Paris, 15 October 2010.

[15] The idea is that a WTO member must treat every other member as if it were its 'most-favoured' trading partner. Note also that the current rules do provide for some exceptions to the MFN principle, by permitting preferential and regional trading arrangements among members.

[16] Nicholas Crafts, *Globalization and growth in the twentieth century*. IMF working paper WP/00/44. Washington, DC, International Monetary Fund, March 2000.

[17] Douglas A. Irwin, *Free trade under fire*. Princeton and Oxford, Princeton University Press, 2002.

[18] Table I.5 in World Trade Organization (WTO), *International trade statistics 2012*. Geneva, World Trade Organization, 2012.

[19] World Trade Organization (WTO), *World Trade Report 2011. The WTO and preferential trade agreements: From co-existence to coherence*. Geneva, World Trade Organization, 2011.

[20] See for example the following piece by one of the two shortlisted candidates for the post of Director-General of the WTO: Herminio Blanco, Guest post: the status quo is not an option for the WTO. *beyondbrics blog, Financial Times*, 3 May 2013.

[21] Seattle (1999), Cancun (2003), Hong Kong (2005) and Geneva (2008 and 2011). Ministerial Conferences are the peak decision-making body of the WTO, bringing together all members and typically meeting every two years. The next and ninth Ministerial Conference will be held in Bali in December 2013.

[22] This judgment is made by Hufbauer and Schott, *Will the World Trade Organization enjoy a bright future?*

[23] International Monetary Fund (IMF), *The WTO Doha Trade Round - Unlocking the negotiations and beyond*. Note prepared by the IMF Strategy, Policy and Review Department. Washington, DC, International Monetary Fund, 16 November 2011. Bernard Hoekman, Will Martin and Aaditya Mattoo, *Conclude Doha. It matters!* Policy Research Working Paper 5135. Washington, DC, World Bank, November 2009.

[24] Aaditya Mattoo and Arvind Subramanian, *China and the world trading system*. Policy Research Working Paper 5897. Washington, DC, World Bank, December 2011.

[25] John Weekes, *What next for the WTO: Challenges for the WTO's eighth ministerial conference*. VoxEU.org, 23 November 2011; Hoekman, Martin and Mattoo, *Conclude Doha. It matters!* Also Aaditya Mattoo and Arvind Subramanian, From Doha to the next Bretton Woods: A new multilateral trade agenda. *Foreign Affairs* 88 (1) 2009.

[26] Irwin and O'Rourke, Coping with shocks and shifts: The multilateral trading system in historical perspective.

[27] See the discussion in Mark Thirlwell, *The spectre of Malthus: Lessons from the 2007-2008 food crisis*. Working Papers in International Economics No.3.09. Sydney, Lowy Institute for International Policy, 2009

[28] Bernard Hoekman, Trade policy: So far, so good? *Finance and Development* 49 (2) 2012.

[29] Richard E. Baldwin and Simon J. Evenett, Beggar-thy-neighbour policies during the crisis era: causes, constraints and lessons for maintaining open borders. *Oxford Review of Economic Policy* 28 (2) 2012.

[30] For example, Sungjoon Cho and Claire R. Kelly, Are world trading rules passe? *Virginia Journal of International Law* 2013 (forthcoming).

[31] Richard Baldwin, *WTO 2.0: Thinking ahead on global trade governance*. VoxEU.org, 22 December 2012. See also Bernard Hoekman and Selina Jackson, *Reinvigorating the trade policy agenda: Think supply chain!*, VoxEU.org, 23 January 2013.

[32] World Trade Organization (WTO), *World Trade Report 2011. The WTO and preferential trade agreements: From co-existence to coherence*.

[33] Irwin and O'Rourke, Coping with shocks and shifts: The multilateral trading system in historical perspective.

[34] G20, *Declaration of the summit on financial markets and the world economy*. Washington, DC, 15 November 2008.

[35] Ibid.

[36] Simon J. Evenett, *The role of the WTO during systemic economic crises*. Paper presented at the first Thinking Ahead on International Trade (TAIT) conference. Geneva, Centre for Trade and Economic Integration at The Graduate Institute and the World Trade Organization, September 2010.

[37] Krista Hughes, G20 extends free trade vow despite split. *Reuters*, 20 June 2012.

[38] Alan Beattie, *Who's in charge here? How governments are failing the world economy*. London, Penguin Special, 2012.

[39] OECD, WTO and UNCTAD, *Reports on G20 trade and investment measures (Mid-May to Mid-October 2012)*. Paris, Organisation for Economic Cooperation and Development, World Trade Organization and United Nations Conference on Trade and Development, 31 October 2012.

[40] Hoekman, Trade policy: So far, so good?

[41] Hiau Looi Kee, Cristina Neagu and Alessandro Nicita, Is protectionism on the rise? Assessing national trade policies during the crisis of 2008. *The Review of Economics and Statistics* 95 (1) 2013.

[42] Mohini Datt, Bernard Hoekman and Mariem Malouche, *Taking stock of trade protectionism since 2008*. Economic Premise Number 72. Washington, DC, World Bank, December 2011.

[43] Information about GTA as well as copies of their reports and access to the associated data is available from http://www.globaltradealert.org/.

[44] Simon J. Evenett, *Debacle: The 11th GTA report on protectionism*. VoxEU.org, 14 June 2012.

[45] Ibid.

[46] Ibid.

[47] Simon J. Evenett and David Vines, Crisis-era protectionism and the multilateral governance of trade: an assessment. *Oxford Review of Economic Policy* 28 (2) 2012.

[48] Evenett, *Debacle: The 11th GTA report on protectionism*.

[49] Although, as discussed earlier, some of this restraint may simply have reflected the GVC-induced change in the political economy of trade protection.

[50] Evenett and Vines, Crisis-era protectionism and the multilateral governance of trade: an assessment.

[51] Baldwin and Evenett, Beggar-thy-neighbour policies during the crisis era: causes, constraints and lessons for maintaining open borders.

[52] G20, *Declaration of the summit on financial markets and the world economy* .

[53] G20, *London Summit: Leaders' Statement*. London 2 April 2009.

[54] G20, *Leaders' Statement: The Pittsburgh Summit*. Pittsburgh 25 September 2009.

[55] G20, *The G20 Toronto Summit Declaration*. Toronto 27 June 2010.

[56] G20, *The G20 Seoul Summit Leaders' Declaration*. Seoul 12 November 2010.

[57] G20, *Cannes Summit Final Declaration: Building our common future: Renewed collective action for the benefit of all*. Cannes 4 November 2011.

[58] G20, *G20 Leaders' Declaration, Los Cabos*. Los Cabos 19 June 2012.

[59] Mike Callaghan and Mark Thirlwell, *Challenges facing the G20 in 2013.* G20 Monitor, G20 Studies Centre, Lowy Institute for International Policy, December 2012.

[60] Bernard Hoekman, *The WTO and the Doha Round: Walking on two legs.* Economic Premise Number 68. Washington, DC, World Bank, October 2011.

[61] Ernesto Zedillo, *The Doha Round doomed once again: Blame it on the G20.* VoxEU.org, 28 April 2011.

[62] See for example Biswajit Dhar, Simon J. Evenett, Guoquiang Long, Andre Meloni Nassar, Stefan Tangermann and Alberto Trejos, Disavowing protectionism: A strengthened G20 standstill and surveillance, in *The collapse of global trade, murky protectionism, and the crisis: Recommendations for the G20*, ed. Richard Baldwin and Simon J. Evenett. London, Centre for Economic Policy Research (CEPR), 2009.

[63] The WTO Secretariat is mostly funded by contributions from the membership, which are based on a formula reflecting countries' share of international trade in goods, services and intellectual property.

[64] Baldwin and Evenett, Beggar-thy-neighbour policies during the crisis era: causes, constraints and lessons for maintaining open borders.

[65] Simon J. Evenett, *Saving the WTO from the Doha Round.* VoxEU.org, 17 April 2011; Ernesto Zedillo, Save the WTO from the Doha Round. *Forbes*, 21 May 2007.

[66] Hufbauer and Schott, *Will the World Trade Organization enjoy a bright future?*

[67] The best offers on services in the Doha negotiations are on average still twice as restrictive as actual policy. In other words, Doha offers no *actual* liberalisation. Bernard Hoekman and Aaditya Mattoo, *Services trade liberalization and regulatory reform: Re-invigorating international cooperation.* Policy Research Working Paper 5517. Washington, DC, World Bank, January 2011.

[68] As proposed by Hoekman and Jackson, *Reinvigorating the trade policy agenda: Think supply chain!*

[69] In fact, the Transparency Mechanism for Regional Trade Agreements – established on a provisional basis in December 2006 – has been the only result of the Doha negotiations that has been allowed to go forward independently of the results of the rest of the Round. World Trade Organization (WTO), *World Trade Report 2011. The WTO and preferential trade agreements: From co-existence to coherence.*

[70] Mattoo and Subramanian, *China and the world trading system*; Hoekman, *The WTO and the Doha Round: Walking on two legs*; Susan C. Schwab, After Doha: Why the negotiations are doomed and what we should do about it. *Foreign Affairs* 90 (3) 2011; Weekes, *What next for the WTO: Challenges for the WTO's eighth ministerial conference*; World Trade Organization (WTO), *World Trade Report 2011. The WTO and preferential trade agreements: From co-existence to coherence.*

[71] Hufbauer and Schott argue that while such plurilateral agreements should take place inside the WTO, they should not be subject to unconditional MFN in order to avoid free riders 'the size of Brazil, India or China'. They instead argue for conditional MFN 'to maintain the logic of reciprocity as the price of taking on new obligations.' Hufbauer and Schott, *Will the World Trade Organization enjoy a bright future?* For a view on the costs associated with moving away from MFN in this way, see Philippa Dee, What can the G20 do about the WTO? In *East Asia Forum*, 24 February 2013: http://www.eastasiaforum.org/2013/02/24/what-can-the-g20-do-about-the-wto/.

[72] G20, *G20 Leaders' Declaration, Los Cabos.*

[73] As summarised in Bernard Hoekman, *Proposals for WTO reform: A synthesis and assessment*. Policy Research Paper 5525. Washington, DC, World Bank, January 2011.

[74] On reform proposals, see for example Peter Sutherland, Jagdish Bhagwati, Kwesi Botchwey, Niall Fitzgerald, Koichi Hamada, John H. Jackson, Celso Lafer and Thierry de Montbrial, *The future of the WTO: addressing institutional challenges in the new millennium. Report by the Consultative Board to the Director-General Supachai Panitchpakdi.* Geneva, World Trade Organization, 2005; The Warwick Commission, *The Multilateral Trade Regime: Which way forward?* The Report of the First Warwick Commission, The University of Warwick, 2007. For a more recent report, see Talal Abu-Ghazaleh, Sharan Burrow, Helen Cark, Frederico Pinheiro Fleury Curado, Thomas J. Donohue, Yoshiaki Fujimori, Victor K. Fung, Pradeep Singh Mehta, Festus Gontebanye Mogae, Josette Sheeran, Jurgen R. Thumann and George Yeo, *The future of trade: The challenges of convergence*. Report of the panel on defining the future of trade convened by WTO Director-General Pascal Lamy. Geneva, World Trade Organization, 24 April 2013.

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