Near future for international trade: who’s behind the wheel – the WTO or regional trade agreements?

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As we approach the end of 2013, international trade negotiations are facing a crucial stage. The multilateral front, led by the World Trade Organization (WTO), is in the midst of a foundational crisis, while regional and sub-regional trade negotiations have come to fill the multilateral vacuum. The Bali Ministerial Conference, which will take place just a few days before the Australian Think20, is probably the last opportunity for the WTO to salvage at least part of the Doha round, but the prospects don’t look very encouraging at the moment.

The future of international trade, at least in the short and medium term, depends heavily on the outcome of regional negotiations. Two trade initiatives stand out for their economic and strategic relevance: the Trans-Pacific Trade Partnership (TPP) and the Trans-Atlantic Trade and Investment Partnership (TTIP).

WTO and the Doha impasse

The WTO has been a victim of its own success. As the WTO’s predecessor, the General Agreement on Tariffs and Trade (GATT) promoted eight successful rounds of trade liberalisation, establishing the rules that have reduced barriers to trade in goods, services and investment for the past fifty years. Thanks to these efforts, international trade flows have exploded over the last decades and have become the main engine of world economic growth.

GATT’s success also resulted in a dramatic increase in its membership and a huge transformation from the original freestanding agreement into a fully-fledged international organisation. The institutionalised world trade community has gone from the twenty-three countries that signed the founding agreement in Havana in 1948 to the 159 members that are today part of the WTO in Geneva.

Despite this historical performance, the pillars of multilateralism – key for GATT and WTO success – have recently become one of the main obstacles to further progress. The principles that provided discipline and order to multilateral trade negotiations in the past – such as the consensus rule, single undertaking and most-favoured-nation (MFN) principles –
have given place to free riding and a slower pace for the negotiations, imposed by the least ambitious of the participants.

For decades, developing countries benefited from progressive trade liberalisation driven by the developed countries that founded the GATT. More recently, developing latecomers have little motivation to open their economies. The consensus principle, on the other hand, has punished those seeking more ambitious disciplines and benefited countries not willing to move forward at the same pace. It is nearly impossible to obtain consensus in a 159-member club with such different levels of development and integration into the world economy.

If the Doha round is to advance, a structural reform of WTO operational rules is unavoidable. Until that happens, many countries willing to enter into ambitious trade agreements, with substantive trade and investment liberalisation, have opted for bilateral, regional and sub-regional negotiations.

**Regional and sub-regional trade negotiations**

The last round of successful multilateral trade negotiations concluded under GATT auspices in Uruguay in 1995. Since then, an impressively large number of separate trade agreements have been concluded all over the world.

Under Mexican leadership, the North American Free Trade Agreement (NAFTA) gave way to a wide range of NAFTA-like agreements in Latin America. Today, Mexico has trade liberalisation and/or economic cooperation agreements with over forty countries in its own region, Europe and Asia. The United States has also subscribed to NAFTA-like agreements with twenty countries, including, in the Western hemisphere, with Central America, the Dominican Republic, Chile, Colombia, Panama and Peru. Brazil is still trying to conclude an FTA with the European Union, while Canada and the EU have just successfully finalised four years of difficult negotiations.

Meanwhile, across the Atlantic, the European Union has continued deepening and expanding its own regional integration. In the twenty years that have elapsed since the conclusion of the Uruguay round, the EU has more than doubled its membership, going from twelve countries in 1993 to twenty-eight today. It has also signed FTAs with countries from other regions of the world, including agreements with Mexico, the Andean and Central American countries, and most recently with Canada.

Free trade fever also spread to the Asia–Pacific, with bilateral and sub-regional agreements being discussed or concluded by several countries in the region. The Pacific Alliance, comprising Chile, Colombia, Mexico and Peru, is another recent example of a
successful sub-regional agreement that transcends the pure trade agenda to include political
and social integration mechanisms. Similar agreements are in force between China and some
of its East Asian neighbours.

Currently, two major plurilateral trade negotiations are underway: the TPP and the TTIP. These negotiating processes involve the most important players on the international trade
scene. If the United States, the EU and Japan agree on WTO plus trade arrangements, the
resulting agreements would most probably become the transpacific and transatlantic
integration platforms.

Successful TPP and TTIP negotiations would result into two categories of economies:

1. those willing to engage in substantive liberalisation, and
2. those not ready to go much further than current WTO rules.

In this scenario, the Geneva trade organisation would either continue to be a forum for
global dispute settlement on current multilateral disciplines, or to engage in two-track/two-
speed negotiation strategies, recognising that some members will not be able – at least in the
medium term – to reach the same level of engagement as the leading majority of countries.

Final comments

The coming months are crucial for determining the future of international trade liberalisation.
A new Director-General, who has promised to revitalise the negotiating process and at least
reach partial breakthroughs on certain parts of the Doha agenda, will lead the WTO
Ministerial Conference in Bali. It remains to be seen whether what has been promised will be
achieved.

On the regional front, although TTIP is still in its very early stages, TPP discussions are
rapidly reaching their conclusion. Negotiations between the United States and the EU were
delayed by the government shutdown in Washington, and it will be interesting to see how
quickly they can advance from now on. Although Mexico and Canada have both signalled
their interest in joining the TTIP, the United States has decided not to expand the membership
for the time being, until it can better ascertain the prospects of a successful negotiation.
Already, several of the EU members have indicated exclusions and exceptions, which do not
bode well for a smooth, quick agreement. For their part, TPP member countries have
signalled December as a deadline to finalise negotiations, although the consensus is that it
will take some months more to reach the end. TPP will constitute an interesting test for the
United States, Japan, Canada, Mexico and other G20 members on their commitment to trade liberalisation.

Insofar as the G20 summit in Brisbane is concerned, it should provide an opportunity for members to assess the success or failure of the Bali WTO Ministerial Conference, and act accordingly. If there is little or no agreement at Bali, the G20 will need to seize the initiative and decide whether to continue a hopeless effort to conclude a multilateral trade round, or whether to endorse the many regional and sub-regional agreements already concluded or under negotiation, as a better way of accomplishing the goal of a freer global trading regime.

Notes

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