

The Urgent Need of Reforming the WTO: Why and How?

The World Trade Organization (WTO) has gone through stormy times. There have been a number of serious controversies in recent years. Many of these have been attributed to the disruptive positions that former US President Donald J. Trump has taken on international trade and multilateral institutions. But that is just one of numerous, deep and long-standing problems plaguing the WTO. Most notably, it is struggling with the fact that its “trade liberalization” function has become a blunt sword. Discussions about reforming the WTO have been triggered by increasing competitive tensions among the United States, the EU and China. At the same time, China has become an increasingly powerful force within the global trading system. This edition of the CESifo Forum examines the current challenges facing international trade and global cooperation systems. The authors discuss the future of the WTO and proposals to reform it that will make trade multilateralism meaningful again.

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Rebooting the World Trade Organization: A Rethink on Purpose and Practice

The trials and travails of the World Trade Organization (WTO) in recent years have often been attributed to the unpredictable and disruptive positions that the former President of the United States, Donald J. Trump, took on both international trade and multilateral institutions. But the problems afflicting the WTO are numerous, run deep, and many predate Trump’s arrival on the trade scene. In fact, “tough love” may be an apt description of how the US has approached its relationship with the multilateral trade regime in the last two decades.

Different US administrations had developed a familiar pattern of expressing their dissatisfaction with certain aspects of the WTO’s functioning while also signaling overall support. Hence, on the one hand, it was commonplace to see various US trade representatives in the past (e.g., Robert Zoellick and Susan Schwab) berating the larger developing countries for their reluctance to open up their markets. On the other hand, they stayed engaged with the organization, both in its daily business and also in offering proposals for reform. The US was moreover not alone in working with but also criticizing the regime. Discontent was rife throughout the (still incomplete) Doha negotiations as countries sparred over the processes and substance of the negotiations and jostled with each other over shifting balances of power and conflicting visions of order (Narlikar 2010a and 2010b).

True, under the Trump administration, the “toughness” came to significantly outweigh any affection or support that the world’s largest economy might have had for the WTO. Trump himself denounced the WTO as “the single worst deal ever made,” (Trump 2018) while his administration took the unprecedented step of paralyzing the organization’s Dispute Settlement Mechanism by blocking the appointment/reappointment of Appellate Body members. Such rhetoric and action to discredit the WTO would have been damaging in its own right but was rendered many times more pernicious as it came from the United States—the world’s largest economy, which had played a leading role in creating and sustaining trade multilateralism over the last 75 years. Perhaps it was not surprising that media pundits breathed a sigh of relief when President Biden took office in January 2021. Headlines such as “Biden ends deadlock over first African and first woman to lead WTO,” (BBC 2021) greeted the administration’s expression of “strong support” for Dr Okonjo-Iweana (USTR 2021). But changes in leadership—and much goodwill besides—will not rescue the organization from its decline into irrelevance.



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In this paper, I argue that the WTO needs a reboot to make trade multilateralism meaningful again. For a member-driven organization, this means a fundamental reconsideration—by the members themselves—of the original bargain that brought the multilateral trade regime into existence. In the first section, I explain how new structural conditions make the old model of multilateralism ill-suited to the demands of the present day. Minor level tinkering will no longer suffice: the *purpose* of trade multilateralism needs to be reconsidered. In the second section, I suggest what a reboot of the WTO could entail in practice. The third and concluding section outlines concrete next steps in pursuit of the reform agenda outlined here.

RETHINKING THE PURPOSE OF TRADE MULTILATERALISM UNDER CONDITIONS OF “WEAPONIZED INTERDEPENDENCE”

The post-war multilateral order was premised on the understanding that prosperity and peace were inextricably linked. Speaking at the inaugural session of the Bretton Woods conference in 1944, Henry Morgenthau, US Secretary of the Treasury had declared, “economic aggression can have no other offspring than war. It is as dangerous as it is futile” (Morgenthau 1944). The corollary of this argument was that economic integration could serve as a vital pathway to not only prosperity but also security and peace. The system of global economic governance in the post-war era came to be founded on this logic, epitomized in the evolution of the European Steel and Coal Community into the European Union. The idea of a liberal peace based on progressive convergence—even socialization—among a diverse group of nations gained further traction with the end of the Cold War: “the notion that extending interdependence and tightening economic integration among nations is a positive development that advances peace, stability and prosperity” (Wright 2013). And while economic integration—often driven by smoother and increased trade flows, facilitated by the General Agreement on Tariffs and Trade, and subsequently the WTO—had indeed helped lift millions out of poverty for over half a century, this model of globalization is now under serious challenge.

Writing in 2013, Thomas Wright noted that countries had been acting “as if increasing and freewheeling economic interdependence is a force for good in itself. Yet over the past five years, it has become increasingly apparent that interdependence and integration carries strategic risks and challenges with it.” While Wright had pointed to the perils of asymmetric interdependence, Henry Farrell and Abraham Newman (2019) have taken the argument further in their pioneering work on “weaponized interdependence” (WI). Farrell and Newman trace the interactions between network structures, state power and global value chains. They demonstrate that production pat-

terns today—at least in certain key areas—are based on closely integrated network structures; these networks are not “flat” but highly asymmetric. Only a few states occupy key network hubs and have the necessary institutional capacity to exploit their positions to coerce others via “panopticon” and “chokepoint” effects. The panopticon effect allows hub states to “extract informational advantages vis-à-vis adversaries,” while the chokepoint effect enables them to “cut adversaries off from network flows.” Network externalities under WI are usually high, which create significant barriers to entry for new players; natural monopolies emerge around some global supply chains that tend to reinforce and exacerbate existing power hierarchies (Drezner 2021). Farrell and Newman (2019) focus specifically on the US as a hub power, and its ability to exercise control over financial transactions and internet flows as cases that illustrate WI. Others have conducted similar studies on China, for instance in the area of semiconductors (Kim and VerWey 2019) and rare earth minerals (Gavin 2013).

Now the problem with the WTO—and indeed many of the post-war institutions of multilateral cooperation—in a world of WI is the following: the very ties of economic integration, which were supposed to serve as a route to prosperity and peace, can become weaponized. Under the old system, as still espoused by the WTO, well-integrated global supply chains should further promote global interdependence and convergence; under WI, the same global supply chains offer control of key nodes to just a handful of states, thereby exacerbating power asymmetries and the misuse of this control against trading partners. And there is enough scholarly research (Drezner, Farrell and Newman 2021; Farrell and Newman 2019) as well as real-world developments (witness the debate on 5G technology in Germany) to suggest that WI is gathering greater sway, presenting unprecedented challenge to liberal multilateral institutions.

Besides the structural logic of WI, there is a further twist to the way in which this challenge is playing out. Fundamentally different political systems may allow some states a higher capacity to establish control over network hubs, and also exercise panopticon and chokepoint effects than others. Even during the Cold War era, most members of the Eastern bloc were not contracting parties to the GATT; the old multilateralism worked well amid a group of reasonably like-minded countries. The WTO inherited many of the principles of the GATT but has come to include a much more divergent group of countries with competing political systems, within a transformed geo-economic context of WI. One does not even need to bring in the question of systemic rivalry to recognize that the WTO is ill-equipped to deal with the challenges of the present day.

In recent years, when the WTO found itself caught up between trade wars launched by the US on the one hand, and misuses/bending of WTO rules by China (via

forced technology transfers, IPR violations, export controls, subsidies) on the other, a standard defense in Geneva was: the member-driven WTO could only be as good as its members, no more, no less. This defense does not take us very far. The very purpose of multilateralism in its broadest sense, after all, is that members agree to coordinate relations “in accordance with certain principles;” institutionalization of “principled” meanings (along with other mechanisms, including iterated interactions, interests and norms) is meant to serve as a safeguard against rule violations (Ruggie 1993). In any case, though, awareness of WI should now enable the supporters of multilateralism to revise this defensive approach. Instead, they can use the opportunity to update the purpose of trade multilateralism and align it with the altered patterns of production and geopolitical reality.

Such an update requires a recognition that if trade flows can indeed be weaponized, then expanding trade per se cannot be an end in itself. The post-World War II rationale of peace *through* prosperity sits at odds with WI. If economic gains via trade come at the cost of security losses, then the WTO needs to have a system in place that allows countries to find a balance between these (sometimes) competing goals. What could such a rethink mean in practice?

REFORMING THE PRACTICE OF TRADE MULTILATERALISM TO MEET THE CHALLENGES OF WI

Even as the WTO has gotten mired in an ever-deepening crisis, a rich debate on reform has been underway. Several proposals have been advanced to improve the existing rules in order to prevent their misuse/close loopholes (e.g., on subsidies, state-owned enterprises, SDT provisions, export restrictions) and enhance the WTO’s crisis-management capabilities (Evenett and Baldwin 2020). Others have explored possible ways in which gratuitous securitization of trade via exceptionalism might be circumvented (Klaussen 2020). On the ground, under the leadership of the EU, a multi-party interim arbitration appeal arrangement has been set up as a temporary dispute settlement measure until the Appellate Body is functioning again. Negotiations are continuing on the important issue of fisheries subsidies. Many efforts are being targeted toward strengthening global supply chains, which are considered especially important to aid post-pandemic economic recovery. While many of these are worthy in their motivation and their attention to detail, these efforts represent reform *within* the system. They do not recognize that if increasing trade comes at the cost of security—if close trade ties risk weaponization by actual or potential rivals—then the direction and extent of trade expansion may need to be reconsidered.

The risks of deep integration were borne out in the early months of the pandemic, when shortages of life-saving medical equipment and drugs affected

many countries. Evenett and Baldwin (2020) have argued that these shortages occurred not due to a breakdown in global value chains, but inadequate stockpiles of medical supplies. It is important to note, however, that the WTO’s model of globalization has emphasized the efficiencies of trade over stockpiling (recall, for instance, the extent to which the issue of stockpiling in agriculture contributed to the Doha deadlocks, Narlikar and Tussie 2017). Under this model, countries are encouraged *not* to build stockpiles of essential or strategic products. We also know that, faced with shortages, many countries did put export restrictions on key medical supplies¹ and also sometimes used surpluses as bargaining chips (Walker 2020). The pandemic has thus provided some dramatic illustrations of how unreliable and prone to instrumentalization crucial trade flows can be.

Against this background, and in a context of WI, simply advancing the cause of more market opening, now additionally in the name of post-pandemic recovery, will not be useful. Such efforts to return the WTO to a “business-as-usual” approach may, in fact, be counter-productive and push countries to adopt more inward-looking policies. What might work better is a model of variable geometry. Deeper integration could be pursued among like-minded allies, willing to commit to tighter rules; supply chains would have to be restructured accordingly (which in turn would require partner states to adopt several systematic policy measures, including domestically, Gertz 2020).² Any such reform would not be easy, not least because it would require a new set of exceptions to the most-favored nation (MFN) status that the WTO grants all its members. Alternatively, membership criteria would have to be revised according to adherence to the (stricter and updated) rules, which would transform the WTO from a universal body to a limited-membership one (Narlikar 2020b).

Even an ambitious reboot of the WTO, such that the organization is better able to deal with WI, would not be a silver bullet in solving all its problems. But if variable geometry were allowed to facilitate shorter and more integrated value chains among like-minded countries, this could also enable a corresponding reform of the organization’s clunky consensus-based decision-making processes (which have contributed to recurrent deadlock during the Doha negotiations). Concentric circles of integration, and voice and veto that corresponds to the circle, would further help

¹ As early as April 2020, the WTO reported that “80 countries and separate customs territories have introduced export prohibitions or restrictions as a result of the Covid-19 pandemic, including 46 WTO members (72 if EU member states are counted individually) and eight non-WTO members” (WTO 2020). These developments were enabled partly by the fact that the WTO has weaker language on export restrictions and has traditionally paid greater attention to import controls and quantitative restrictions (Korinek and Bartos 2012). This gap in the rules is an illustration of how the WTO, while well-suited to address older (and often still relevant) problems, has not kept up with the changing instruments and goals of trade diplomacy.

² I am suggesting here a concentric circles’ model, rather than one based on a plurilateral approach.

reduce the problems that have arisen from large numbers and divergent goals amidst the great diversity of members. Expanding the mandate into pressing issues such as e-commerce and digital economy would take place within the framework of variable geometry.

Importantly, the variable geometry model proposed here would be based not only on economic criteria or development levels; an initiative to build closer value chains with reliable friends and allies would have to take into consideration shared security concerns and shared values. To ensure the viability of deeper integration amid smaller groups of countries, allies from the global south will also have a key role to play (Narlikar 2021). It is worth mentioning that while the global south has acquired significant agency in the WTO (in comparison to the limited influence that developing countries exercised in the GATT), this battle is far from won (Narlikar 2020a). The fact that there is an ongoing debate over a TRIPS waiver to facilitate vaccine access during a global pandemic at all (let alone when the global north too could benefit from expanded production capacity in the global south) shows that there is much room for improvement in how the WTO engages with and integrates the global south. By directing reform efforts to address WI, though, rich countries would have reason to engage seriously with developing countries for reasons of not only ethics but also Realpolitik.

NEXT STEPS

In the last two sections, I have argued that the WTO faces a fundamental challenge. The emergence of WI has turned some of the founding tenets of post-war multilateral cooperation upside down. To play a constructive and meaningful role in the current context, the organization would need to undergo a major reboot, revising prior assumptions of a trade-induced liberal peace.

Below I outline the next steps to facilitate reform with the necessary ambition. First, much of the discussion on WTO reform takes place in a largely technocratic bubble. The hope that technical solutions would be the panacea for all problems may have been a by-product of an “end of history” mindset in the 1990s. But this line of thinking has considerably less resonance today amid problems that are often political in nature. Geopolitical/geoeconomic competition among great powers cannot be resolved simply by technocratic solutions. Trade in some strategically important sectors is no longer “just” a tool for growth, development and welfare; it has emerged in recent years as a powerful instrument of coercion and geopolitics. The sooner trade enthusiasts recognize these political constraints—and opportunities—the greater will be the possibility for WTO reform.³

³ This does not mean the end of technocracy. Details of any reform plan will have to be worked out in close cooperation with the WTO’s

Second, a possible reason why much of the reform debate still involves proposals that suggest low-level tweaking and tinkering is because it takes place mainly in the echo chambers of trade economics and trade law. To some extent, this is understandable, given the traditional mandate of the WTO. But if the WTO is to have even a remote chance of catching up with the altered basic realities of the present day, the organization (and its members) will be well-served by complementing trade-specific expertise with know-how from security studies, foreign policy analysis, international political economy. The sooner economists and trade lawyers start including political scientists in their conversations on WTO reform, the more real-world relevance will such exchanges acquire. This also paves the way for an important—and thus far still unexplored—research agenda. There is much give-and-take to be had between the lively debate on WI in political science, and the rich repertoire of studies in economics and law on governance and markets.

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