



The *Financial Times* (FT.com)  
17 October 2008

## ***The ultimate stimulus package: reform world trade***

by **Stuart Eizenstat**, heads the international practice of Covington & Burling LLP in Washington, DC. US ambassador to the European Union from 1993 to 1996.

Governments in the developed world have injected the equivalent of over \$1,000bn of their taxpayers' money into financial institutions to save the global economy from a financial meltdown. To mitigate the depth of a certain worldwide economic slowdown, there is one step that can be taken that will inject a significant stimulus into the world economy, and restore confidence, to the benefit of developing as well as developed countries, without any expenditure of public funds: completing the Doha Trade Round, and then making major changes in the multilateral trading system to make the World Trade Organization relevant to the new realities of the 21st century.

The next US president will have to make an early decision on how to save the multilateral trade system from extinction. The WTO and the multilateral trading system suffered a grievous injury with the collapse of the Doha Round trade talks in Geneva. Though each of the multinational trade negotiations over the past five decades – the Kennedy, Tokyo and Uruguay Rounds – had bumps in the road, the implosion of Doha is more profound and potentially more long-lasting. If the WTO is to survive as a viable 21st century international institution, the Doha Round must be completed and the WTO that emerges from it must be fundamentally reformed.

The multilateral trading system has been an enormous contributor to global prosperity by opening up markets around the world. The WTO, which administers the system, has been one of the world's most effective international organisations, providing a forum for worldwide trade liberalisation and a non-political trade dispute mechanism which encourages the rule of law and helps even the playing field for poorer nations. In the short run, every effort should be made to salvage the Doha Round, which would provide a \$100bn stimulus to the world at a time of slowing global growth. The parties made significant progress in narrowing their differences, with the main barrier to an agreement the insistence by India, with support from China, on a mechanism to protect their subsistence farmers from a "surge" of agricultural products. New offers were recently made by the US to break the impasse, but to no avail. It is clear that India will not budge until their elections in the Spring of next year. Then, with new governments in place in the US and India, an urgent new effort should be made to close the Doha deal.

However, even if Doha is saved, due in large part to the current WTO rules, the final result will be disappointing in the degree of trade liberalisation it actually provides. If we are to avoid a world which devolves into more and more bilateral and regional trade accords, sewing confusion among business and diverting trade to favoured partners, it is time for the US and the EU to take the lead in presenting the WTO member states with a clear choice: either take steps to genuine liberalisation of trade within the WTO framework or face the prospect of the WTO withering away as an effective international organisation.

Global trade is too dynamic to wait for a liberalisation process that has already taken 15 years between the completion of the Uruguay Round in the Clinton administration and the current impasse in the Doha Round.

WTO rules are ill-suited to today's economic realities. The WTO mandates unanimity to conclude traditional

multilateral trade agreements, a requirement that allows one or two countries, such as India in the recent talks, to play spoiler. Achieving a consensus was difficult enough in past trade rounds when the US and Europe dominated world trade and could impose their will on other countries. But, today, emerging trade giants such as Brazil, India, China and others, have interests that sharply diverge from both those of large industrial states and from those of the poorest developing nations. These new economic powerhouses have rightly demanded an equal seat at the WTO table, but have been unwilling to take on commensurate responsibilities to open their own markets to world competition.

Meanwhile, the WTO's "Most Favoured Nation" (MFN) requirement dissuades willing countries from negotiating deeper, more extensive agreements with one another. MFN often requires countries reaching a non-universal trade agreement to extend the agreement's benefits to all WTO members, a process which allows countries unwilling to bear the burdens of any agreement the right to nonetheless enjoy its fruits.

To avoid irrelevancy, the WTO must develop faster and more flexible negotiating formats. It is time for a new "variable geometry" in the WTO system which would modify both the requirement for consensus and the MFN orthodoxy.

The WTO could learn from the European Union, which has long since abandoned the imperative of consensus by adopting the principle of a "multi-speed Europe" in which member states desiring deeper integration can do so without being held hostage to those unprepared to embrace closer co-operation. The adoption of the euro as the EU's currency by some but not all member states is the most well known variable "requirement" in the EU.

The WTO must pursue a similar multi-speed international trade system and can employ a spectrum of approaches in doing so. It can do sector by sector agreements in which a critical mass of major players come together under the WTO to eliminate restrictions in particular sectors, as the Clinton administration did in the 1990s with information technology and telecommunications agreements. Emerging fields such as nano or green technologies, which are concentrated in relatively few states and which rise and change so quickly as to render lengthy negotiations anachronistic, are the most obvious candidates for sectoral accords. In such agreements, the MFN rules are less debilitating since it would be possible to get most, if not all, of the major players in a particular industry to the negotiating table. Spill-over benefits to non-participating states would be relatively minor.

More extensively, countries willing to engage in liberalisation across several sectors could do so through "plurilateral" agreements, made up of "coalitions of the willing," rather than the full WTO membership. To deal with the "free rider" problem participants in such accords would have the flexibility to focus negotiations on those goods and services of most importance to the countries willing to negotiate, with sectors important to non-participants excluded from the benefits. For example, both China and India are eager for labour market liberalisation; if Beijing and Delhi chose not to participate, this issue could be left off the table. More effective still would be a change to MFN rules to allow a delay, for example for five years, of the extension of MFN trade benefits secured in plurilateral agreements to those states who chose to remain outside them.

Even more far-reaching, the US and EU could invite countries to join in a negotiation for a full-scale free trade accord covering substantially all trade, which under current WTO rules, would not be required to provide commensurate benefits to non-participants.

The advantages of a new system would mean that trade liberalisation deals could be negotiated more efficiently, countries would be less able to play spoiler and resulting agreements could be laboratories for hopeful eventual multilateral agreements.

So it is time for a short-term global stimulus by completing the Doha Round early next year, and then rescuing the multilateral trading system with wholesale reforms. It will take a willingness by the next US administration to use political capital, but it would be well worth expending.

*The writer, US ambassador to the European Union from 1993 to 1996, was a senior official in the Carter and Clinton administrations and heads the international practice of Covington & Burling LLP in Washington, DC*