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SOME DEFICIENCIES WITHIN THE WTO SYSTEM

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Abstract

The World Trade Organization (WTO), an international organization established in 1995, plays a special role of the global rules-based anchor that makes trade relations fairer and predictable. One of the challenges confronting WTO is to enhance liberal trade policies. Governments recognised the importance of trade liberalisation as a means to economic growth and progress. Open markets, non-discrimination, and transparency in international trade are essential to foster world economy through trade on the basis of global competitiveness. Thus, respecting various aspects of the multilateral trade disciplines is indispensable to boost trade and to support development strategy of the world economy. Global economic crisis revealed however, a number of major deficiencies within the WTO system. Among some significant weaknesses drawing an attention are: difficulties to resist protectionist pressures, the issue of efficiency of the WTO system for the actual “traders”, and the issue of universal membership. The purpose of the paper is to discuss these potential dangers as there is a need for increased vigilance to support the WTO system fulfilling its objectives. In general, deficiencies of the WTO system require members to work together to ensure its strength and vibrancy to adapt and adjust to existing and emerging trade priorities, especially in the context of the paralysis in the negotiating functions of the WTO (fears about unsuccessful conclusion of the Doha Round).

Keywords: protectionist pressures, liberalization, restrictions, trade measures, trade policy, market access, distortion, tariffs, trade facilitation, non-discrimination, transparency, barriers, membership.

JEL classification: F13.

Introduction

Since 1947, the GATT and, since 1995 the WTO have been the major instruments in creating multilateral trading system that facilitated trade expansion. The philosophy of WTO is that open markets, non-discrimination, and transparency in international trade are essential to reduce pressures for protection and are conducive to welfare of its members¹. The existence of multilateral trade rules helped to avoid trade wars, and some protectionist waves. Moreover, progress towards liberalization of trade fosters world economy through trade, as liberal trade policies enhance exchange of goods and services on the basis of global competitiveness².

The international trading system has evolved over time. Thus key aspects are how this system contributes to development and economic growth. Eruption of financial and economic crisis showed a number of significant deficiencies within this system. It resulted that WTO was not able to curb intensifying protectionist pressures and steady accumulation over time of restrictive measures by its members, not to mention non-members. Thus, it provided countries with a notion of a need to restore coherence in global economic governance³. On the other hand, however, the global economic crisis proved that WTO system continued to serve nations well, responded to changing needs, and its involvement was indispensable. Then, the message was contradictory.

However, the general conclusion is that work toward opening markets should be a priority what is important to boost trade. In this regard a special expectations are directed towards the multilateral trading system of the WTO. Thus, one of the challenges confronting this organisation is to ensure transparency of trade policy, to remain highly relevant and address simultaneously all countries. That is why WTO membership is essential to fully integrate economies in the international economy. Implementation of binding mechanisms, lower trade barriers, revised trade rules, cutting down red-tape and cuts in agricultural subsidies are crucial as a means to provide sustainable opportunities to emerge from the global economic crisis, and for the sake of further development. WTO should act as a catalyst of international collaboration. As WTO Director General Pascal Lamy says: “‘Stability’ should be the name of the game for 2011”⁴.

However, the multilateral trading system cannot be taken for granted. After 60 years of functioning the steady erosion revealed a number of major deficiencies within the international system, and the system needs changes. What do I mean by that?

In my opinion there are three important aspects of the WTO system which I recognize as crucial for further operation of the multilateral trading system: (i) WTO should respond to real picture of international trade; (ii) the WTO system requires an attempt to act more “down to

earth”, and (iii) WTO legitimacy will depend on the issue of universal membership. My goal is to provide challenges confronting the WTO in this respect⁵.

1. Rise in protectionism

The WTO is a venue to enhance trade inter-dependency among countries. Thus, in accordance to be an effective international institution, global rules-based system, WTO should respond to real picture of international trade. It should provide various mechanisms allowing to regulate trade relations, to make them more open, transparent and predictable. It also applies to reduction of protectionism such as industrial tariffs, barriers which contain environmental issues, cutting down red tape and trade-distorting subsidies, etc.

By and large, for 60 years, countries have committed to resist different forms of protectionism. Effects of the financial crisis, however, result in creating favourable conditions to growing protectionist sentiment. It is mainly due to high levels of unemployment in developed economies, macroeconomic imbalances, weaknesses in government’s fiscal positions, rising commodity prices, environmental stresses, cyber penetration and geopolitical tensions. Nevertheless, closing markets is not a good solution and protectionist pressures are to be resisted. Since the crisis many countries have imposed new trade restrictive measures. It might be a sign of intensifying protectionist pressure, even though a number of measures to facilitate trade has also increased. One of the features of new trade protectionism is an increasing trend in imposing export restrictions, what becomes a cause of concern as there is no commitment for withdrawal.

According to data (Reports on G20 Trade Measures⁶) since the financial crisis began a number of trade restrictive measures introduced by a group of most influential economies (G20) has increased. Concerns are raised about increases in import tariffs, excessive customs procedures, more non-automatic import licensing, some actions regarding sanitary and phytosanitary measures as well as technical barriers to trade and less visible, such as discretionary administrative practices (administrative decisions, bureaucratic delays). Moreover export restrictions have also raised, mainly as export taxes for food products and export quotas on some metals and minerals. Table 1 shows an impact of new trade restrictions on both global world imports and G20 economies’ imports in the period 2008–2011.

Data collected in Table 1 reveals that new restrictions over the period October 2008–2009 covered 0.8% of total world imports, and 1.0% of G20 imports. Then, until May 2010 they fell down to 0.4% of total world imports, and 0.5% for G20 imports. Until October 2010 new

measures related to 0.2% of world imports, and respectively to 0.3% of G20 imports. Until April 2011 they raised again to 0.5% of world imports compared with 0.6% of total G20 imports.

Table 1. Share of trade covered by G20 restrictive measures

Description	October 2008 to October 2009	November 2009 to May 2010	May 2010 to October 2010	Mid-October 2010 to April 2011
In total world imports	0.8	0.4	0.2	0.5
In total G20 imports	1.0	0.5	0.3	0.6

Source: Report on G20 (2011), p. 4.

The trends in the overall number of such measures are presented in Table 2. The changes in number regard both import and export trade restrictive measures imposed by G20 governments in the period between April 2009–2011.

Table 2. Trade restrictive measures by G20 economies

Type of measure	Apr. to Aug. 2009 (5 months)	Sep. 2009 to Feb.2010 (6 months)	Mar. to mid-May 2010 (3 months)	Mid-May to mid-Oct. 2010 (5 months)	Mid-Oct. to Apr. 2011 (6 months)
Trade remedy	50	52	24	33	53
Border	21	29	22	14	52
Export	9	7	5	4	11
Other	0	7	5	3	6
Total	80	95	56	54	122

Source: as in Table 1.

This aggregation of restrictive measures illustrates the main trend. The number of applied trade restrictive measures has made the evolution from 80 at the beginning of the covered period to 95 later, decreased to 56 and 54 later in the analyzed period, and increased to 122 in April 2011. In the period examined the number of border restrictions has increased immensely, nearly 2.5 times. Moreover, all of these measures were either trade restrictive or potentially restrictive or distort. It should be also mention that their impact was probably larger as some measures could have affected not only one product or import origin.

In case of G20 economies share in total restriction amounted to 85% for industry products (HS Chapters 25-97), and 15% for agriculture products (HS Chapters 01-24). Among the most heavily affected sectors were machinery and mechanical appliances, vehicles, meat and edible meat offal, electrical machinery and parts thereof, iron and steel, aircrafts, ships and boats, plastic and articles thereof, and articles of iron and steel. Moreover, during that period some

G20 countries have also implemented instruments to stimulate economic growth (especially in assistance in financial area such as low-interest loans, export credits, etc.) that could have distort competitiveness on other markets. In total cumulative effect of restrictive measures in economies may lead to conclusion that post-crisis protectionism may be gaining momentum.

On the other hand, however, lowering of barriers has also accelerated. Out of around 550 trade restrictive measures applied since October 2008 more than 18% were removed or amended during period October 2010–April 2011 while it was 15% during May 2010–October 2010. Additionally a great deal of actions were implemented that are aimed at reducing barriers to trade or to facilitate trade⁷.

So the challenge is to manage impacts of restrictions taken in response to the crisis and to refrain from imposing new barriers. Providing sustainable opportunities for countries requires keeping trade open. Otherwise it creates serious danger to market competition. Thus, government's priorities should be given to removing restrictive measures. In this respect we need nations to understand it and to act accordingly. Trade helped the world in response to the crisis, but countries must continue to be vigilant and resist protectionist pressures with an assistance of the core disciplines of the WTO.

2. Global business to guide WTO

The second aspect regarding deficiency in contribution of the WTO system to development and to recovery of world economy is its efficiency on the ground. The WTO requires definitely an attempt to act more “down to earth”, especially in the context of significant changes in the international trade landscape⁸. It is crucial that organisation responds to what is actually happening on the ground, and reacts on actually existing trade conditions. Active intervention of such an institution must be visible and understood on the level of just normal, European or international entrepreneur. Unfortunately, business community is often not aware of global rules and their efficiency. The voice of business (small and medium as well), the actual “traders” in international market, it to be heard. On the other hand “traders” must guide WTO in how to make business environment better. Its trade regulations should be associated better with needs of business, and mirror trade problems of many industries as they truly exist in most countries. It is necessary to prevent stakeholders (business, citizens, NGOs) to perceive organization as remote or obscure. In order to enhance trade expansion, WTO trade policy regime must be backed by public (business) opinion, as it is to business that it is accountable. Thus transparency and monitoring of trade policies are an important instrument for maintaining

appropriate system with respect to decision-making by companies. It should enable to assist companies to understand and operate in international environment. In this context I would like to emphasize that the international trading system requires a further evolution. I believe that WTO should better associate needs of “traders”, meet their requirements, and create conditions to address new and emerging trade barriers. These issues are even more significant and it is an immense challenge in the context of inability to reach agreement on Doha Round negotiations and decisions.

By and large, the WTO system should serve the business community well and to respond to new and changing needs. It must definitely eliminate its remoteness and should be close to actual “traders” for whom multilateral trade rules are crafted. It may be also argued that “good international governance is not about globalizing local problems, but localizing global problems”⁹.

3. Universal membership

Among deficiencies of the trading system we may also emphasise the problem of WTO membership. WTO legitimacy will depend on both a proper compromise between interests of its members and the issue of universal membership. As there was a major shift in global economic and geopolitical situation, the WTO regime should focus and remain highly relevant not only on members of WTO but also on non-members of organisation, among others a huge group of countries in transition. The international trading system needs participation and should address simultaneously all nations. This is why universal membership of WTO is so important. It will make it imperative for them to keep the multilateral trading system strong. It is important that those national standards are not allowed to deviate from the common rules. It follows that in order to reduce the scale of protectionism, it is essential that all countries in the world become members of the WTO, especially those which exert a particularly high impact on the situation in global markets. And having in mind this notion, it is difficult to understand that the elapse time of application procedure has increased (in 2008 – “only” 101 months, in September 2011 – 154 months)¹⁰. I would argue that accession process requires more flexibility.

The WTO was created on the assumption of seeking to achieve universal membership, whereas there are still 26 countries in the process of accession (Table 3) and 17 countries that are not even among applicants¹¹.

Table 3. Countries in WTO Accession Negotiations (26)
According to Date of Application Procedure (September 2011)

Country in accession process	Application	Number of months till 01.09.2011
Algeria	Jun-87	295
Russian Federation	Jun-93	222
Belarus	Sep-93	218
Sudan	Oct-94	206
Uzbekistan	Dec-94	204
Seychelles	May-95	198
Vanuatu	Jul-95	197
Kazakhstan	Jan-96	190
Iran	Jul-96	184
Azerbaijan	Jun-97	172
Lao P.D.R.	Jul-97	172
Samoa	Apr-98	163
Lebanese Republic	Jan-99	153
Bosnia/Herzegovina	May-99	150
Andorra	Jul-99	148
Bhutan	Sep-99	145
Yemen	Apr-00	138
Bahamas	May-01	125
Tajikistan	May-01	125
Ethiopia	Jan-03	105
Libya	Jun-04	88
Iraq	Sep-04	85
Afghanistan	Nov-04	82
Serbia	Dec-04	82
Montenegro	Dec-04	82
Sao Tome & Principe	Jan-05	81
Average:		154

Source: Author's compilation based on WTO database.

From the start of its existence, WTO members repeatedly stressed their commitment to making the WTO universal in scope and coverage. It was also shared by a large number of countries outside the system. As of September 2011, there were 153 member countries representing approximately 91% of the world's population, 98% of world GDP, and 96% of world trade, including over 94% of the foodstuffs. Nevertheless remaining economies, with total population of 630 million (9.1% of world total population, 2.3% of world GDP, and 4% of

world trade) are still non members of the WTO¹². The Russian Federation is the most prominent in the group of applicant countries¹³.

However, declarations of Director-Generals, *...and the dream of a universal, rules-based economic system is now within our reach... The challenge is universality – the need to bring Russia and all the other countries still outside into the WTO system. We can only reap the full benefit of a rule-based global trading system when this is achieved. No-one is under any illusion that the process is an easy one...*, seeking to achieve universal membership, are still not met¹⁴. Chinese accession process took 15 years (1987–2002), similarly Ukrainian accession lasted 15 years (1993–2008). Some important economies almost two decades after applying to accede, are not WTO members. It may be argued that the membership is essential to fully integrate those remaining countries in the international economy and slow accession procedure is not a way to achieve it. But aspiring and existing members alike share in the responsibility to ensure that the accession process does not last “for ages” and cannot lead to quite a few frustrations. Thus, “accession fundamentalism” requires revision and flexibility.

Concluding, one of the challenges confronting the WTO is to manage the process of integrating Russia and other countries in accession into the trading system (“knocking door” in various stages of the process)¹⁵. It will cause benefits of WTO membership, not only for acceding country but for international business society. WTO membership is significant in terms of a better market access, improved governance and a recourse to better economic policies. It brings commitments to lower tariffs and other barriers backed by sanctions.

On the other hand what is noticed – at least from the perspective of Polish entrepreneurs – that one of the most important partner in business, the Russian Federation, is still outside the organisation¹⁶. The issue of Russia’s accession to the WTO may be treated as a benchmark of the accession process to organisation¹⁷.

By and large, WTO membership may not be used as a gift to any country, it is in global interest. Countries should be allowed to join non-political organisation as WTO to be confronted with rules and disciplines of world trading system. It means to grant a new member – nothing else but – normal rule of the same unconditional market access. Accession to the WTO may potentially change country’s economy and its trade policy. It will also send a strong message to the business community that these countries are committed to reforming and modernizing their economy.

I would also emphasis as accession terms and conditions are concerned, that some countries, especially LDCs and many countries in transition should not be subject to the same level of rigor (or even higher) than they applied to past applicants. Their accession should be

based on a “modest” set of commitments. Otherwise there is a risk that these countries will not be forced to change an attitude to deeper integrating with world economy, to ensure more smoothly functioning states and reduce rampant corruption in many of them. Keeping trade open has been and continues to be crucial in providing sustainable opportunities for countries to accelerate sustainable economic growth over the long term.

Conclusions

WTO system is not taken for granted. Members need to keep investing in the system. It requires permanent “maintaining” appropriate transparent systems and its further evolution. Today, the WTO system needs some improvement to bring significant economic benefits for the entire membership. Thus, it is particularly important that WTO members would clarify what is expected from this organization and what is intended to be done. So it would be useful to consider the road ahead the WTO. Additionally, due to the fact of not being able to conclude the Doha Round started 10 years ago, its future seems to be difficult. The only solution is not to allow to weaken the WTO system as it would serve no economic purposes. It will also make it harder to launch new negotiations. The current impasse needs a diagnosis to develop possible solutions.

Let me now summarize some of the main points:

- governments should continue to resist protectionist measures,
- there is the challenge for WTO members to decline in the number measures that restrict or distort trade,
- keeping trade open, transparent and predictable is crucial for providing sustainable opportunities for all nations,
- governments should look at the wider picture and keep some distance from narrow national interests,
- an effective WTO system should be more “made to measure” in accordance with requirements of the actual “traders”, through trade experience what is actually happening on the ground and respond to the posed questions,
- policy of “accession fundamentalism” to be replaced by flexible and based on a “modest” set of commitments to ensure universal membership and benefits to all nations.

In today’s turbulent world the WTO system is one of the examples of reasonably effective “global rules-based system”. Thus, the message is to strengthen the WTO, and business community must guide WTO in how to makes things better.

Notes

- ¹ Hoekman, Kostecki (2009), p. 1.
- ² *The Results of the Uruguay Round of Multilateral Trade Negotiations*. The Legal Text (Article XII). (1995). Geneva: WTO Secretariat, p. iv.
- ³ *Crisis is opportunity...* (2010).
- ⁴ World Trade 2010 (2011).
- ⁵ This article draws some findings on paper by Żołądkiewicz. (2011).
- ⁶ The Group of Twenty (G20) was established in 1999. It brings together the finance ministers and central bank governors of major advanced and emerging economies: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, Republic of Korea, Turkey, United Kingdom, United States of America, and the European Union (represented by Council presidency and the European Central Bank). Its aim is to provide opportunities for discussion on key issues related to global economic stability as well as to support and promote development. <http://www.g20.org/index.aspx> (20.08.2011).
- ⁷ More on new trade measures see: Report on G20... (2011).
- ⁸ *As trade changes...* (2011).
- ⁹ *Crisis is opportunity...* (2010).
- ¹⁰ Żołądkiewicz (2011). Own calculations based on WTO database (Table 3).
- ¹¹ Among remaining countries (17) not yet applying for WTO membership (September 2011) are: Comoros, Equatorial Guinea, Eritrea, Kiribati, Korea PDR (North), Liberia, Marshal Islands, Micronesia, Monaco, Nauru, Palau, San Marino, Somalia, Syrian Arab Republic, Timor-Leste, Turkmenistan, Tuvalu.
- ¹² Jones (2009) p. 279; Tarr (2007), p. 2.
- ¹³ Russia has population of 140,4 million, GDP of US\$1,465.1. billion and merchandise trade valued at US\$648 billion as 2010 (<http://www.gks.ru>). Excluding the Russian Federation, among the most populated acceding countries there are: Ethiopia, Iran, Afghanistan, Sudan, Algeria, Uzbekistan, Iraq, Yemen, Kazakhstan, Belarus, Azerbaijan, Serbia and Tajikistan.
- ¹⁴ See D-G Renato Ruggiero, who declared in 1997 the priority for the WTO “to continue momentum towards universal membership” (1997). All other D-Gs since then continued to refer to universal membership as a goal. For example, Pascal Lamy’s reference to universal membership in WTO. (2007, 2011). www.wto.org (21.08.2011).
- ¹⁵ More see Żołądkiewicz (2010), p. 79–92.
- ¹⁶ Orłowska, Żołądkiewicz (2010), p. 97–115.
- ¹⁷ In May 2011 DG Pascal Lamy announced with great satisfaction that Vanuatu’s accession is at final stage: “Vanuatu’s accession brings us one step closer to our goal of universal membership”. He has not mentioned, however, that the negotiations proceed more than 16 years. Not undermining the role of Vanuatu, one of the least-developed countries, there are bigger players in international trade waiting for membership. News Items. (2011).

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