The Evolution of the Global Trading System

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Five years ago, Moises Naim observed in Foreign Policy that the need for effective multicountry collaboration had been rising steadily since the 1990s but attempts to craft multilateral agreements had consistently failed. “Minilateralism,” the notion of conducting international governance by assembling the fewest parties necessary for the largest effect, was Naim’s alternative in light of the repeated failure of “big” multiparty deals. The trading system faces just such a challenge today.

The General Agreement on Trade and Tariffs (GATT) 1994 was one of the last “big” multiparty deals. Twenty years on, the World Trade Organization (WTO) members
have not once reached agreement to amend the structure on a multilateral basis. Even a small, universally beneficial agreement on trade facilitation—announced with great fanfare in December 2013—unraveled this summer when it came time to implement the deal. And never mind the Doha Development Agenda (DDA), launched in 2001 and scheduled to conclude in three years, which hangs around like a snoring party guest, obstructing discussion on other issues as the memory of its onetime relevance fades.

Thanks to the “win-win” character of voluntary exchange, trade goes on and traders muddle through. Total merchandise trade achieved a record-high $17.3 trillion in 2012, growing at an average annual rate of 9 percent since the launch of the DDA in 2001. The trading system works reasonably well, due in part to the strong core disciplines of the GATT, especially the principle of nondiscrimination and the obligation of members to act in the “least trade restrictive” manner. Additionally, GATT 1994’s Dispute Settlement Understanding continues to command respect among the parties and helps to avoid policy drift. Traders appreciate the rules and live with the problems and inconsistencies. In truth, trade would flourish even in the absence of trade rules. Consider hydrocarbons, which amount to 18 percent of world merchandise trade despite there being practically no agreed disciplines. Likewise, millions of people around the world have seen their diet improved over the past 20 years thanks to growing trade in agricultural products, despite persistent protectionist measures.

**Technology Leads the Way**

The WTO may be stuck, but trade policy has by no means stood still. Regional economic cooperation—in the form of regional trading arrangements (RTAs) or bilateral/regional free trade agreements (FTAs)—has been the political “path of least resistance.” Over 200 RTAs have been concluded and operate in concert with treaty-based protection for foreign investors, creating a network for efficient commerce. The rise in RTAs occurred in parallel to dramatic changes in information, communication, and transportation technology often referred to as “globalization.” Technological progress caused barriers to the movement of goods, services, people, ideas, and culture to fall; lowered barriers led to further innovation in the way products are designed, produced, and marketed. RTAs were a logical policy response to technological progress.

Even as technological change widens the gap between commercial realities and trade policy, sophisticated RTA negotiators are discovering solutions to new issues. Electronic commerce is an example. There was no commercial use of the Internet in 1994 when the most recent GATT agreement entered into force. Subsequent FTAs negotiated by the United States have steadily improved rules and practices, and today’s negotiators continue to refine and extend the disciplines. In the absence of a broad multilateral framework, RTAs have provided a vital outlet to develop international trade architecture (and innovations therein).

**Nothing Succeeds Like Success**

Why is international trade architecture evolving “bottom-up,” through RTAs instead of a multilateral agreement? Principally because of a split among the big traders. Trade policy views are divided between advanced industrial economies that support trade liberalization and large emerging economies that favor a larger role for state intervention. This split has been evident in the Doha talks since negotiations collapsed in July 2008. Disagreement about the liberal trade regime
will not be easily overcome, since state capitalism offers stability over growth, while allowing governments to capture rents. This basic divide exists not just among WTO members, but also in the G20 and other arrangements.

Over time, trade agreements that offer practical benefits tend to grow, in both members and the range of disciplines. GATT rules solved important problems in constructive ways, and the agreement’s membership grew from 102 economies in 1986 to 160 today. The Trans-Pacific Partnership (TPP) was conceived as a way to modernize and raise standards for trade and investment among a dozen diverse Pacific Rim economies with existing RTAs. If negotiators succeed in crafting broadly acceptable, neutral rules for issues like digital commerce, state-owned enterprises, or localization requirements, others outside of the talks may adopt the provisions, whether by joining TPP or incorporating similar disciplines in another agreement. Net, TPP could become the “next big thing” on grounds of utility. In any case, a new trade architecture is more likely to emerge in an organic, bottom-up fashion than as a colossal production of a big multilateral conference.