

Commentary



JANUARY 2022

Whither (or wither) the International Trading Order?

Lawrence Herman for *Inside Policy*

There is a critical need for governments to come together to revitalize the WTO and the multilateral rules-based order, writes Lawrence Herman.

Another tough year lies ahead for the World Trade Organization (WTO), for both the institution itself and for the integrity of the global rules embodied in the WTO Agreement.

The Economist recently called it a “fraying system,” one in danger of collapsing from its own weight, aided by ongoing discord and antagonism among member governments, centred on the US and China, both of whom “have flouted the underlying principle of the multilateral system, which is that trade should be governed by rules not power.”¹

Others have voiced concern about the future of the multilateral trading order and whether the WTO, the keystone of the system, can overcome internal tensions and divisions, complicated by the twin crises of climate change and the continuing COVID-19 pandemic. The question is whether the WTO will show itself capable of modernizing the rules of the trading system. Or will it continue to be bogged down in political wrangling and institutional in-fighting, unable to agree on anything, as the world moves on?²

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It was hoped that progress on a set of critical issues – freeing up trade in pandemic medicines, addressing climate change, subsidies, as well as steps toward institutional reform – might have been possible at the WTO Ministerial Conference originally set for last November. However, because of Omicron that meeting was postponed, with no firm agreement on the agenda or date for the re-scheduled Conference in 2022.

Important facts have emerged during all of this hand-wringing and agonizing about the WTO's future. In spite of talk about the fraying of the global order and political paralysis in the organization, the global economy actually rebounded in 2021 even with COVID-19 unchecked.

Major international bodies like the International Monetary Fund (IMF), the World Bank and the Organization of Economic Cooperation and Development (OECD) went on to say that economic growth will be sustained in 2022 and into 2023. The trade outlook of each of these organizations is surprisingly positive, notwithstanding risks related to COVID-19, inflationary factors and supply chain disruptions.

For example, the OECD's forecast for 2022 and into 2023 – released last December but before the full impact of the Omicron variant was evident – said that growth would be sustained, albeit at reduced levels.³

With Omicron in full ascendency, the forward view has become less rosy, the World Bank's January 2022 report warning that inflation, debt and income inequality could jeopardize the recovery, especially in emerging and developing economies. Global growth was projected to decelerate from 5.5 percent in 2021 to 4.1 percent in 2022.

The IMF's World Economic Outlook from last October forecast 4.9 percent world growth in 2022, down from 5.9 percent expected for 2021, before Omicron. In its just-released update, the IMF's growth forecasts have been reduced to 4.4 percent in 2022, half a percentage point lower than in the October 2021 report, reflecting effects of mobility restrictions, border closures, and health impacts from the spread of the Omicron variant.

There are two important points that emerge. First, while less optimistic than before, these organizations forecast positive economic growth notwithstanding geopolitical tensions and the continuing spread of COVID-19. The other point is that none of these major organizations had very much to say about the WTO or the so-called fraying global trading order. The January 2022 IMF update, for example, talks about COVID-19 and climate-related risks, noting supply chain disruptions and general trade concerns but without any direct reference to the WTO or the global trading order, saying only this:

reducing tariffs and trade barriers can help ease supply disruptions and inflation pressures globally while also facilitating better resource allocation over longer horizons. These efforts, combined with global

cooperation on strengthening supply chains, would help reduce precautionary hoarding incentives and allow for smoother adjustment to future shocks.⁴

The OECD report lists a range of policy requirements for governments going forward (fiscal/monetary, health, structural, etc.) but likewise makes no mention of the WTO's travails or a weakening global trading order. There is no reference to the WTO or its challenges in the last World Bank report, somewhat surprising given the Bank's mandate for assisting developing country programs, with those countries most exposed to increased protectionism and the weakening of the General Agreement on Tariffs and Trade or GATT-based system.

The fact that prominent intergovernmental organizations see global growth remaining on a modest but still upward trend, and not directly at risk as a result of protectionist tendencies or weakening of respect for GATT-based rules, is a good sign. On the other hand, lack of reference to the multilateral trading system and the WTO is curious given very real concerns about the "fraying" system, as *The Economist* called it, which some think will have a direct bearing on the future global economic picture.

Whatever the forward-looking economic picture, unless it is repaired the fraying global order will remain a limiting factor. Unilateral measures, increased protectionism, special tariffs, use of state subsidies in one form or another, all need attention. Many commentators also say that returning that order to full health will be dependant on WTO institutional reform, including getting the dispute settlement system functioning again and agreeing on new negotiating paradigms.

The take from all of this is that, even if global business dealings and international commerce move ahead and continue to grow, modestly or not, there is a critical need for governments to come together to revitalize the WTO and the multilateral rules-based order. It is that system that has provided stability for global business for over seventy years and, if nurtured to health, will provide the same stability for continued growth in days ahead.

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Endnotes

- 1 The article calls the system “fraying” as opposed to “frayed,” leaving some room for hope.
- 2 For example, even in his carefully modulated presentation, former WTO Deputy Director General Alan Wolff does not downplay the challenges.
- 3 According to the OECD Economic Outlook, “As demand patterns normalise, production capacity expands and more people return to the labour force, supply-side constraints and shortages should wane gradually through 2022-23. The global recovery is projected to continue but with global GDP growth moderating over time, from 5.6% in 2021 to 4½ per cent in 2022 and 3¼ per cent in 2023.”
- 4 With a comment that alludes to these concerns, while not mentioning the WTO specifically, the IMF report notes “reducing tariffs and trade barriers can help ease supply disruptions and inflation pressures globally while also facilitating better resource allocation over longer horizons.”



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