

The future of Global Trade and the WTO

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Summary:

The global governance of trade is in a deadlock and the WTO is suffering from a long standing crisis of legitimacy. This is confirmed by the eventual failure of the Doha Round of multilateral trade negotiations in 2011. This paper shows the connection between this crisis and the restructuring of world trade which has been going on for the last few decades, and which is set to continue. New emerging powers (China, India, etc.) are increasing their share of world trade which corresponds to new forms of globalization. This process calls for a reform of world trade governance, especially of the missions of WTO within a renovated economic world order. In order to identify the key channels through which international trade integration will impact the world economy, this paper presents four scenarios of world trade governance from now until 2030.

Key words: International Trade, Governance, WTO, China, Regional Integration.

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In the long term, world merchandise exports grow almost twice as quickly as world production. This intensive and continuous opening up process of world economies goes together with a rapid restructuring of international trade over the last few decades (WTO, 2008). At the same time, there is a striking discrepancy between these rapid changes and the difficulties met in adapting the governance of world trade, as it was designed in 1994 when forming the World Trade Organization.

The Marrakech agreements forming the WTO marked the golden age of liberalism, when all countries converted to market economies and free trade. The spirit of the WTO was to apply a universal model of free trade to all developed and developing countries, and to all economic sectors. Following this model, the WTO has contributed to deepening and consolidating international trade liberalization since its inception. In this respect, the current crisis of the WTO is also the indicator of a more general crisis of global trade governance, which this paper seeks to analyze.

Section 1 describes the ongoing trends of globalization in relation to trade, with a prospective view. Section 2 analyses how and why the Doha cycle has failed, in relationship to the evolution of the world balance of power and of the respective roles of the State and markets. The decline of multilateralism and potential extension of regionalism which might result from the persistence of these difficulties in the next few years are analyzed in Section 2. Section 3 reviews the challenges concerning the extension of the world trade regulation to new areas, such as to include human development, the link with finance, energy and environment. Last of all, Section 4 presents four scenarios of world governance derived from the analysis conducted in this paper, focusing on trade regulation.

1. Restructuring of world trade and new forms of globalization

International trade has been changing deeply over the last decades. The most striking change is the growing world market share of China and, more generally, of big emerging countries, which will soon overtake industrialized countries of the Triad (USA, EU and Japan) following a declining trend. This restructuring went together with an increasing globalization of manufacturing production within international value added chains, contributing to the rapid growth of both world and regional trade.

The growing weight of emerging countries in world trade

The ongoing geographic restructuring of world trade characterizes by a rapid growth of the share of China and a few emerging countries in world exports. Since 2009, China has become the first exporter of goods & services in the world¹, its world market share increasing from 3.6% in 2000 to 12.1% in 2010;² starting from a low level, India has doubled its world market share over the 2000s (table below).

¹ The European Union remains the first world exporter if we consider it as one country and exclude intra-EU trade.

² The market share for China indicated here is slightly different from the official WTO statistics, because Hong Kong is aggregated with China (whereas trade data for Hong Kong are still presented separately in WTO statistics).

Table: Geographic restructuring of world trade

Evolution of world market shares of leading exporters 2000-2030 (%)

	Goods	Energy	Other primary	Manuf.	Services	TOTAL
2000						
Developed	65,3	26,9	63,6	70,0	75,8	67,3
European Union	39,1	17,2	37,9	41,9	46,5	40,5
USA	13,0	2,2	13,1	14,3	19,7	14,3
Japan	6,9	0,2	0,8	8,4	4,3	6,4
Other developed	6,2	7,2	11,8	5,4	5,3	6,1
Developing	34,7	73,1	36,4	30,0	24,2	32,7
China	3,9	1,0	2,8	4,4	2,3	3,6
India	0,7	0,2	1,1	0,7	1,1	0,8
Other East Asia	4,5	4,9	6,4	4,3	2,8	4,2
CIS	2,4	10,9	3,2	1,3	1,3	2,2
West Asia	2,6	6,5	8,7	1,3	1,7	2,4
South America	4,0	29,1	1,9	1,2	2,6	3,7
Africa	2,4	12,8	4,0	1,0	2,2	2,4
2010						
Developed	51,5	27,5	56,4	56,3	68,3	54,9
European Union	34,5	16,3	35,3	38,7	46,2	36,9
USA	8,5	3,5	9,9	9,4	14,8	9,8
Japan	4,0	0,6	0,9	5,3	3,4	3,9
Other developed	4,5	7,1	10,3	3,0	3,9	4,4
Developing	48,5	72,5	43,6	43,7	31,7	45,1
China	13,5	1,5	4,5	17,7	6,4	12,1
India	1,4	1,4	1,7	1,4	2,7	1,7
Other East Asia	4,4	4,8	8,1	3,8	3,0	4,1
CIS	4,0	15,8	4,2	1,2	2,5	3,7
West Asia	3,2	5,4	11,9	1,4	1,9	2,9
South America	6,3	23,7	2,2	2,8	3,1	5,6
Africa	3,2	11,7	4,6	1,0	2,5	3,1
2030*						
Developed	43,1	28,7	46,6	46,5	54,4	45,1
European Union	27,3	15,3	24,0	30,7	33,3	28,4
USA	8,3	2,6	13,6	9,3	14,2	9,4
Japan	3,5	0,9	1,8	4,3	3,4	3,5
Other developed	4,0	9,9	7,2	2,2	3,5	3,9
Developing	56,9	71,3	53,4	53,5	45,6	54,9
China	19,5	4,5	14,6	23,8	14,0	18,5
India	4,3	9,8	3,2	3,0	4,5	4,3
Other East Asia	5,2	7,2	6,5	4,6	3,8	4,9
CIS	3,6	15,9	2,9	0,5	3,1	3,5
West Asia	4,2	6,8	13,0	2,7	3,1	4,0
South America	4,9	9,4	2,2	4,0	3,8	4,7
Africa	2,8	9,6	5,7	0,8	3,0	2,8

Source: *Forecast=AUGUR Baseline scenario (Alphametrics, 2012).

One can also underline South America's performance, due especially but not only to Brazil, and Russia's (together with neighbor ex-Soviet countries), thanks to the increase of energy price. Conversely, the share of industrialized countries in world exports is following a declining trend. Whereas the Triad countries made 61% of world exports in 2000, their share was reduced to 51% in 2010; the share of developed countries on the whole was reduced from 67% to 55% over the same period.

Beyond this general trend, three stylized facts deserve to be noticed:

-first of all, the emerging countries' progress concerns a wide range of products; of course, export growth for manufactured products is spectacular and benefits from these countries' comparative advantage in labour-intensive goods (garments, electronic products, etc.); but emerging countries are also improving their position quickly in agricultural products and food industries; this is especially the case in cereals, meat, sugar, etc. for Brazil (and Argentina to a lesser extent), two countries which have abundant fertile land resources (Pouch, 2012); the world market share of developing countries (China and India mostly) is also increasing for services; although the United States and other industrialized countries are still predominant in services exports, their share is also declining as it is for other products;

-secondly, a very limited number of developing countries is benefitting from this trend, that is mostly China and India; over the last decades, developing countries' exports have fluctuated because of the fluctuations of commodity prices, but the global market shares of developing regions (Africa, South America excluding Brazil, Asia excluding China) has remained pretty stable; especially, the market share of the Asian dragons and tigers has stagnated since the 1997 Crisis (Vietnam being an exception); China's remarkable performance has therefore been obtained partly to the detriment of Asian competitors, reflecting a well-known "crowding out" effect related to export-led growth strategies;

-last of all, the geographic restructuring of trade has also concerned imports; the share of developing countries (China and India especially) in world imports has also increased massively, while the share of industrialized countries has declined; the growth of services imports by developing countries is however slower than their export growth, which corresponds to a reduction of their huge deficit for services; to sum it up, developing countries are becoming major players for exports but also as markets for all traded products.

According to world forecasts conducted with the CAM model,³ these trends will continue over the next decades by 2030 (table). According to these forecasts, the combined world market share of China and India would reach almost 25% of the total; the share of developing countries would rise to 55% from 45% in 2010. The market share of developed countries would decrease to 45%, the EU being the main loser (almost -10 points), followed by the United States and Japan. The mediocre performance of the EU would result partly from a "structural effect" affecting its manufacturing exports (Stöllinger, 2012). On the whole period

³ These forecasts have been prepared for the EU AUGUR Project "Challenges for Europe in the world in 2030". The original version of this paper has also been prepared for this project.

(2000-2030) however, the EU and the USA would suffer from an equivalent decline of their world market share (around one third for each).

These results are striking inasmuch as China's and India's gains correspond approximately to the Triad countries' losses. Following past trends, we expect the market share of other developed and developing countries to remain relatively stable. Such would be especially the case for the Community of Independent States (CIS), South America and for East Asian countries (excluding China and possibly Vietnam). These forecasts are globally consistent with forecasts made by the Asian Development Bank also for 2030, one difference being that the ADB study anticipates a gain in market share for ASEAN countries and for Latin America (Anderson & Strutt, 2011).

New forms of globalization

Geographical fragmentation of production speeds up the emergence of new actors in world trade, and more generally contributes to the growth of world trade. This is all the more so as different stages of production of one good, which were before located in one country only are now increasingly disseminated in various countries which are part to the "value chain". This fragmentation process is fostered by the decrease of transport costs and by the development of new information and communication technologies, as well as by the continuous tariff reduction at the international level over the last few decades and massive Foreign Direct Investment flows.

Within this new organization of labour defined as "trade in tasks", "countries no longer export exclusively finished products but tend to specialize in specific stages of the production process" (WTO & IDE-JETRO, 2011). The concept of "International Production Networks" (IPNs) is also used to describe this process, the latter corresponds to an approach focusing more on the relationship between firms operating within the value chains rather than on the productive activities of the Global Value Chains (ARTNeT, 2011). The dynamism of intra-firm trade flows reflects the internationalization of value added chains: in the case of the United States, the only country for which direct data is available, 48% of imports and 30% of merchandise exports are considered to be intra-firm trade flows (Miroudot *et al.*, 2010).

Asia is the region the most advanced in the world concerning this fragmentation of production process, with a growing importance of vertical intra-industry trade and increased outsourcing especially for Japanese firms. If we adopt a value added content approach, estimates by OECD show that around 40% of the value of big Asian emerging countries' exports (China, Indonesia, Malaysia, Thailand, etc.) corresponds to imported inputs, often from other Asian countries (Miroudot *et al.*, 2010). Therefore, it is most difficult to evaluate properly the importance of bilateral trade. Over a few decades, the major US trade deficit with Japan has been replaced but a huge deficit with China, but this is partly an optical illusion as "usually it has been the last stage of the supply chain, the assembly of the final products, which has relocated to China, with the production of the core components remaining within the original country." Indeed, Chinese exports to the United States are grossly overestimated as it is clearly shown by the example of the I-phone: this product is exported for 200 USD a piece

but only 5 USD of value added in China, the rest coming from Japan, other Asian countries, Europe and the USA (Miroudot, 2010).

The growth of South-South trade derives partly from this process of regional division of labour (ADB, 2011). These elements help explain the increasing trade integration within the major world economic areas (Europe, North America, East Asia), and the need for countries belonging to these areas to sign regional trade agreements between themselves. This stimulates growth of trade in intermediate products: in 2009, trade in intermediate goods was the most dynamic sector of international trade, representing more than 50% of non-fuel world merchandise trade and 64% of the total imports of the Asia region (WTO & IDE-JETRO, *ibidem*).

2. Multilateralism and regionalism: complementary or alternative?

The Marrakech Agreements of 1994 were largely biased towards industrialized countries and to a lesser extent towards big developing countries (Benaroya & Cling, 2001). They created the conditions for a deep North-South conflict which is still going on at the beginning of the 2010s. The Doha Round had also been named "Doha Development Agenda", which recognized this unbalance and the necessity to rebalance trade agreements in favor of developing countries on the whole.

After several decades of trade liberalization limited to merchandise products, member countries were aiming within the Doha Round at continuing trade liberalization for these products but also at extending it to agricultural products and services, as they committed themselves to do when the WTO was started. Developing countries were trying to take advantage of these negotiations to rebalance new agreements in their favor. As we show in this section, these combined objectives of increased trade liberalization and new North-South balance in a changing economic environment met with numerous obstacles, which explains the eventual failure of the negotiations.

Difficulties to negotiate increased trade liberalization

The WTO has changed the rule of the game for trade negotiations, by creating a set of multilateral trade rules, which all member countries have to apply. Indeed, during the second half of the 20th century since the start of GATT, agreements were signed "à la carte" by voluntary countries while increased market access benefitted everybody, whether they signed the agreements or not, thanks to the Most Favored Nation (MFN) clause. By adopting a *single undertaking* approach, WTO obliges now all member countries to sign one single global agreement. At the same time, the WTO extends the scope of trade negotiations beyond industrial products. It covers all products (agricultural and industrial) and services, which are now potentially subject to trade liberalization. With this extended scope and with the new Dispute Settlement Understanding (DSU), the WTO is now involved in defining national norms and regulations (e.g. imposing reform of investment laws, prohibiting export and production subsidies, etc.). This increased WTO power interferes with sovereignty of countries and reduces the leeway of government policies.

This new ambition and power of the WTO has a drawback: WTO agreements have deeper implications and are therefore more difficult to obtain than before in the GATT framework, especially because of "*single undertaking*" and of the bargaining process where all commitments require reciprocity from one another, whether in the same area or elsewhere. Furthermore, as the WTO is now almost universal (more than 150 members), it is almost impossible to come to a consensus on a global agreement respecting the above mentioned principles. This is why for services, which were the main focus of the Doha Round for industrialized countries, no formal reciprocity had been required and member countries only provided a list of qualitative commitments. The weakness of this alternative approach was that it did not provide many incentives for ambitious commitments.

Another major problem is due to the players within the WTO and the trading system. In the WTO, the governments are negotiating on behalf of their national companies which they represent. This is consistent with the principles of international political economy as set out by Strange et al. (1991): international competition is not only between companies, but also between governments who defend the interests of their home companies. But, as underlined by Deblock (2010), this characteristic implies that rules and trade disciplines apply first to governments and to a lesser extent to companies. This is the reason why only governments can be prosecuted by the WTO's Dispute Settlement Understanding and not companies. Competition rules and policies are a good example of this focus: competition policies only apply at the national level and there is no international cooperation in this field.

Overall, there is an obvious contradiction between the continuous extension of the scope of the market and the narrow scope concerning trade rules, and therefore of trade distortions. The latter are essentially defined as discriminations towards foreign enterprises (= *violation of national treatment*) and between enterprises of different country origins (= *violation of the MFN clause*). In fact, the WTO mostly has an objective of trade liberalization and not of trade regulation. But trade distortions can be of many other sorts. Let's just think of trade negotiators endlessly arguing about lowering tariffs on industrial products by a few points, while the USA are accusing China of undervaluing their currency by more than 20%!

Linking globalization and development

Over the last few decades, developing countries conducted active trade liberalization policies, which went together (contrary to standard economic theory) with diverging trends between developing and developed countries' growth paths (with a few exceptions such as China and a few emerging Asian countries). Special and differential treatment (SDT) granted within GATT tried to compensate development levels asymmetries and to reduce this divergence. But the single undertaking has forced all countries into a "one size fits all" model, whatever their development level, thereby strongly reducing or even abandoning SDT. Meanwhile, trade preferences granted to developing countries on a unilateral basis have been eroded by the multilateral liberalization process.

Linking globalization and development means making trade agreements more development friendly. It requires an increased SDT reversing the WTO agreements of 1994, which must be accepted by industrialized countries facing acute economic difficulties following the world

financial crisis. According to Bhagwati & Sutherland (2011): “ this assumption – that a development friendly trade deal must demand less of countries in a way that is proportionate to their state of development – permeates the Doha Round and the final package will rightly have to be measured against it”.

On the one hand, the Doha Round (also entitled “Development Round”) included asymmetric commitments between developed and developing countries concerning the depth of tariff reductions and of reductions in agricultural subsidies (and potentially for the use of safeguard measures). For all developing countries, and especially for LDCs (cotton), removing distortions to trade caused by European and American agricultural subsidies is also a major issue, as these subsidies tend to push world prices of these products downward. But developing countries should still be allowed some sort of agricultural subsidies.

On the other hand, Least Developed Countries (LDCs) were totally exempted from tariff reductions in the Doha Round (“Round for free”). The rationale was to compensate for the fact that LDCs are widely considered to be the main losers for the Marrakech agreements, but they would also have been from the Doha Round, as far as tariff reductions are concerned (especially through the erosion of trade preferences). In order to go further, LDCs should be granted a duty free access to the OECD markets, which was planned in the negotiations⁴.

One of the main problems raised by this new approach (or, should we say by the return to the traditional approach) is due to the increasing differentiation between developing countries. This problem is now becoming very acute as China has become the first world exporter and as other big emerging countries are becoming major players in world trade. How could we keep granting them the same preferences and derogations as to smaller or less developed countries? This is one of the main difficulties met by multilateral trade negotiations, knowing that big emerging countries refuse any differentiation between developing countries, which would reduce their benefits. This difficulty is also met in other multilateral negotiations such as the ones on climate & environment.

Contradictions between historic capitalisms and emerging capitalisms

A last major difficulty met by the multilateral trade framework concerns the difficulty to regulate a trading system where some very heterogeneous economic and development models coexist. To make it simple, one can define industrialized countries (or OECD countries) as capitalist economies with low demographic growth and low saving rates; but China and Vietnam for example have economies which qualify themselves as “socialist market economies” (which is also the case of India which is a market economy). In spite of their demographic transition, these countries have strong saving rates because of their demographic structure and still low dependency ratios, which is one of the causes of current trade and financial imbalances. They are also often opposed to further economic liberalization due to their economic and political situation. Let’s not forget that China and Vietnam are among the last countries worldwide to keep adopting and implementing five-year economic plans.

To sum it up, even if these countries have adopted market economy principles and have accessed WTO, government policies and companies keep playing an important role in the economy. This is the reason why China and Vietnam have accessed WTO as Non Market

⁴The European Union has been granting duty free access to LDCs since 2001 (“Everything but Arms” Initiative). However, in practice many products do not benefit from this duty free access. The same with the USA, who grant duty free access to LDCs subject to many restrictions (and excluding some of them).

Economies. This specific status allows other member countries to protect their market better against Chinese and Vietnamese products, and especially to implement antidumping measures almost at their will against these products.

The conflict on services at WTO can partly be explained by these differences. On the one hand, the USA – which is the first world exporter of services – plays a very active role and seeks an improved access to international markets. On the other hand, big emerging countries (Brasil, China and India especially) fear the opening of their market, which would make their national champions compete with American multinationals. The difficulty for China to sign the plurilateral agreement on public procurement, which the USA are pressing, can be explained by the same reasons.

New regional agreements

The current dead end at WTO does not mean that the trade liberalization process has been interrupted at the international level. In fact, it keeps progressing within regional and bilateral agreements. Following the failure of the Doha Round, the multilateral liberalization process might be interrupted for a few years, and conversely increased regionalism might occur.

Regionalism and its link with multilateralism is an old issue. The debate about its contribution to reinforcing the multilateral system or to weakening it has been going on for years, and the jury is still out about the question: *"stepping stone or stumbling block?"* The increased regionalization process in the recent past is a recognized fact and reinforces this debate. Trade between neighbours keeps increasing : according to Krugman (2008), the value of the distance coefficient has doubled in gravity models since 1960. At the same time, trade agreements are signed between these countries to increase trade but also between distant countries (such as North-South regional agreements).

Over the last two decades, most of trade liberalization has been observed not at the WTO but within regional and bilateral trade agreements. The main agreements signed since 1990 are: NAFTA (1994); Mercosur (1995); the Euromed agreements, which came into force from 1998 (with Tunisia), EU-Mexico free trade agreement (2000) and the ASEAN+China free trade agreement (2010).

Of course, WTO (2011) underlines that intra-regional trade (excluding intra-EU trade) only represents 16% of world trade. But this is a growing share and some new regional trade agreements might increase this share further in the medium term. Such would be the case if a transatlantic free trade agreement is signed between the EU and the USA, and potentially also between the EU and Japan.

Also, we can notice that the main innovation brought about by the Doha Round for industrial products concerned signing sector free trade agreements "à la carte" between voluntary members. These agreements drew from the two sector agreements of this kind signed in 1994 (chemical products and NTIC), and went further in terms of trade liberalization. Among 14 potential agreements, for half of them (chemical, electric & electronic products, industrial machinery) the potential signatories represented a major share of world trade. Other sectors

(such as textile & clothing) might have been concerned by these agreements later on, which is important to take into account into our prospective exercise.

The major change concerning regional trade integration is that regional agreements are not so much about trade preferences anymore (especially as MFN tariffs have declined substantially), but increasingly about non tariff barriers and national regulations. A good example is shown by the USA-Korea bilateral free trade agreement signed in 2010, which includes mutual validation of technical regulations for cars. More often, the change of regulations provoked by such agreements concerns all trading partners and not just the participants to the regional agreements. Because of this, regional agreements are redesigning the international normative framework, which could then influence the multilateral framework.

However, regional agreements benefit mostly big countries, which are in a very powerful position to impose their agenda in bilateral relations; on the contrary, small countries are confronted with an alternative: either they accept regional/bilateral agreements where their bargaining power is limited; or they are excluded from such agreements and left alone.

Whatever the case may be, signing regional agreements tends to reduce the motivation of the big players to reach an agreement at the WTO. Thus, increased regionalism is both a "stepping stone" and a "stumbling block" in relation to the multilateral trading framework. As the WTO is concerned however, this trend undoubtedly reduces its influence, and might even threaten its survival as a major international organization following the failure of the Doha Round.

3. The need to widen the scope of trade governance

Even if the WTO survives the failure of the Doha Round and if some of the anti-globalization organizations which want to close it down do not succeed, the need for reform has become stronger. But this question should be replaced in a more general debate around the reform of the architecture of the economic and financial world governance. Indeed, the world economic crisis has both deepened the legitimacy crisis of the international institutions in charge of world economic governance (mainly WTO, IMF and World Bank) and called for reinforcement of these institutions. Up to now, a "new Bretton Woods" which was talked about at the beginning of the crisis has not taken place, but the need for it is as acute as ever⁵.

In this section, we analyze the challenges of reforming the international economic institutions, limiting ourselves to the interactions between a "bigger" WTO, the United Nations and other international institutions such as the IMF. We promote an enlargement of the missions of the WTO, which should also be fully integrated into the UN system and explicitly

⁵ Let's remind the reader that the Bretton Woods Conference (1944) decided to create the IMF and the World Bank, as well as the International Trade Organization. The latter took 50 more years to start, due to the opposition of the United States who refused for several decades to put in place a powerful multilateral trading framework.

link trade and human development. Following Mattoo & Subramanian (2009), we also suggest three areas which deserve a better articulation with trade: finance; energy and environment.

Trade and human development

The main objective of WTO is to promote free trade. According to article 1 of the WTO Agreement, member countries consider that “their relations in the field of trade and economic endeavour should be conducted with a view to raising standards of living, ensuring full employment and a large and steadily growing volume of real income and effective demand, and expanding the production of and trade in goods and services”. (WTO, 1994) This mission is more restricted than the one which was assigned to the International Trade Organization by the Havana Charter. The latter also referred to the objective of expanding production and trade, but also included a wider objective of “realizing the aims set forth in the Charter of the United Nations, particularly the attainment of the higher standards of living, full employment and conditions of economic and social progress and development (...)” (United Nations, 1948).

The improvement of wages and working conditions (“as productivity may permit”) was a central objective of the Havana Charter, which fully acknowledged interaction between trade and labour standards in the name of “fair trade”. This implied strong collaboration with the International Labour Organization, an objective which has completely disappeared in the WTO (partly because of the developing countries themselves which feared the adoption of a “social clause”).

In the WTO articles, the reference to the UN Charter has disappeared. This means first that WTO has been designed as an international organization out of the UN system. Even the Bretton Woods Institutions (World Bank and IMF) which are largely independent from the UN refer to the UN Charter. This makes the WTO the only major international organization which does not refer to the UN principles. This especially implies that the WTO does neither comply with the Universal Declaration of Human Rights not with the UN Declaration of Economic and Social Rights. As Supiot (2010) underlines it, this corresponds to placing the market first before all other general objectives of human development (even if the objective of full employment and increasing standards of living is formally mentioned in article 1).

This regression is particularly obvious concerning the interest for development. The Havana Charter was very ambitious in this respect as it was assigned the objective “to foster and assist industrial and general economic development, particularly of those countries which are still in the early stages of industrial development”. The WTO is much more modest as it only aims to “secure a share in the growth in international trade commensurate with the needs of their economic development”. As mentioned before, the Marrakech Agreements are very biased against developing countries, which is consistent with this lack of interest for development.

To sum it up, the only way to solve the legitimacy crisis of WTO and to reinforce the power of this organization is to enlarge its scope while including it more narrowly in the United Nations system. A reform of its governance should take place simultaneously, in order to increase the voice of developing countries.

Linking trade and finance

“Inappropriate” levels of exchange rates are considered to be among the main economic distortions affecting international trade. However, as mentioned above, it is surprising that the WTO focuses on tariffs which increase the price of imported products, whereas overvalued exchange rates tend to do the same (or on the contrary). For historical reasons, the IMF is supposed to be the only one in charge of monitoring exchange rates but this mission is only partly fulfilled. To take again the example of the supposed undervaluation of the Chinese Yuan, the fact that the WTO has no right to discuss this source of distortion is a real problem, if we consider the huge growth of Chinese exports over the last few years. Up to now, only unilateral measures have been discussed such as « anti-dumping » measures which are supposed to be used for other purposes. Better coordination in this field would be huge progress as far as the regulation of the world economy is concerned. It could be supported by the WTO Dispute Settlement system, using the comparative advantages of each organization.

More generally, linking financial liberalization and the WTO raises a problem of global governance: the international crisis confirmed the danger of liberalization of finance without proper regulation. After this major crisis (which is not over yet), there exists an obvious contradiction between keeping liberalizing finance at the WTO within GATS and the necessary reinforcement of international financial regulation. This especially calls for increased coordination between WTO, IMF, IBS and IFB.

Regulating the price of commodities

The Havana Charter (1947), which was supposed to define the mandate of the International Trade Organization, proposed to improve trade regulation, with the objective to remove all sorts of distortions to trade (wage costs, price of commodities, etc.). Contrary to this, the WTO has no mission to regulate the price of commodities. This decision is mainly due to ideological reasons (the WTO is supposed to liberalize trade and not to regulate it). But one has to recognize that all the attempts to regulate the price of commodities for the last half century have failed (except for oil), which is both due to technical difficulties and to the opposition of the USA, who have achieved in making disappear all existing systems (see the example of coffee in the 1990s). This lack of regulation increases the volatility of prices, and is detrimental to producers (often developing countries) and to consumers overall.

Following the world economic crisis, this need for regulation is more pressing, especially as far as food security is concerned. The important increase in food prices is mainly due to the bio-energy policies conducted in industrialized countries, according to a World Bank study quoted by Mattoo and Subramanian (*ibidem*). These policies tend to reduce the offer of food products for consumption. In the long term, economists anticipate high prices for food products because of several factors: high price of energy; slow productivity gains in agriculture; pressure on production because of climate change. In this context, trade policies (and the WTO) should play a major role.

In the case of oil where OPEC has been a huge success, the cartel tends to increase prices well over their competitive market price. This problem is very acute for the world economy as oil is both the main traded commodity and the one for which competition distortions are the highest due to the very powerful price control exerted by OPEC. Better regulation of the world oil markets and prices would require starting an international institution where producers and consumers would meet, or widening the mandate of WTO.

Trade and environment

The WTO has no formal mandate to deal with the environment. However, the preamble of the WTO agreement establishing the organization states that "...relations in the field of trade and economic endeavour should be conducted with a view to (...) expanding the production of and trade in goods and services, while allowing for the optimal use of the world's resources in accordance with the objective of sustainable development, seeking both to protect and preserve the environment". The preamble also refers to the Rio Declaration on environment and development (1992).

Referring to this preamble, several decisions made by the DSU have started designing common law in this field. These decisions were made following complaints by member countries against other countries restricting imports for environmental reasons (shrimp/tortoise case USA vs Thailand; tires Brasil vs EU, etc.).

Because there is no International Environment Organization, there is a risk that big countries might use trade sanctions for protectionist purposes in order to restrict imports from developing countries. The same worry has been expressed by developing countries concerning the introduction into the WTO of other subjects such as social standards (the so-called "social clause"). In fact, we agree with Mattoo & Subramanian that such sanctions should not aim at forcing countries to cooperate in this field but should be restricted to incentives to enforcement of international agreements on environment and climate change (the same proposal could be made concerning social standards adopted by ILO).

Beyond the technical aspects (« who should do what and how ? »), the purpose of these reforms would be to enlarge the scope of the WTO (or of other organizations working in coordination with the WTO) which would not be restricted to trade liberalization but which would include wider subjects connected to the regulation of international trade, working with the Bretton Woods institutions on these subjects. Of course, such an enlargement would require institutional reform, which is not the subject of this paper.

4. Four macro-economic scenarios for international trade and trade liberalization

The four scenarios presented in this section correspond to different anticipated evolutions of the world economy and therefore of world trade. Four key issues distinguish these scenarios concerning the articulation of trade policies and the governance of world trade: the respective weight of governments and of international regulation versus markets; the balance between the industrialized and developing countries within the multilateral trading system; the possibility of reaching better coordination between countries at the world level or rather at the regional level; the size of international financial and trade imbalances, where the China/USA relationship plays a role which is not exclusive. In the analysis conducted here, the European Union does not play a major role in contributing to the probability of implementation of these different scenarios. Even more, it is projected to be a slow growth area (at last during all the 2010s) following the Euro crisis, with bleak export growth prospects.

Reduced government

In this first scenario reduction of government spending is implemented. Also, the process of trade liberalization goes on during the next decades (this also implies further financial liberalization). We hypothesize that a new multilateral agreement is signed at the WTO in the next few years, which means going towards zero tariffs on most industrial goods which also means generalized free trade for these products and the conclusion of a long process started in the middle of the last century.

The real remaining challenges concern agricultural products and services. For agricultural products, further liberalization (reduction of tariffs and removal of subsidies) mostly benefits developed countries and big emerging countries but increases the vulnerability of other developing countries. The price increase due to trade liberalization should be limited except for cotton where the reduction of American subsidies and the production price increase will benefit African countries.

This option means that the WTO is going to potentially liberalize most services in the long term. Following a liberal globalization path will stimulate foreign direct investment with the perspective of signing a multilateral agreement on investment (which was refused by developing countries and by anti-globalization protesters at the end of the 1990s). This investment surge will contribute to location shifts of global industries.

In this scenario, the WTO will limit itself to organizing the trade liberalization process and a smooth free trade respecting multilateral agreements, using the DSU. This "universal Washington consensus" corresponds basically to following recent trends: for international trade. This scenario is considered as our baseline scenario, with projected market shares presented in the table at the beginning of this paper. As recalled before, this anticipates a continuing declining trend of the share of developed countries (especially EU, but also USA and Japan) in world trade going together with a growing share of developing countries (especially China and India). A reduction of international trade and financial imbalances (reduction of US debt especially) is also anticipated; no catching up by other developing countries is expected.

China and US hegemony

This scenario is based on the hypothesis of increased coordination between China and the USA (trade, finance, environment, etc.), who impose their leadership on other countries. In this scenario, government interventions are increased.

Concerning trade policies which are our main focus in this paper, this scenario is consistent with the current situation where the two major players at WTO are the USA and China. Their conflict went as far as having a major contribution to leading the Doha Round to a dead end. So we presume that the USA and China will remain the dominant players but also that they will come to an agreement of mutual benefit in the short to medium term. This situation could be justified by two major reasons:

-first of all, the EU (which is the first world exporter, even excluding intra-EU trade) is rather taking a back seat in current debates, which reflects the difficulties encountered for designing European policies in general; because of lack of consensus between EU countries on shared objectives and principles, the EU is mainly taking a defensive stance (on agriculture especially); European liberalization policies are therefore significantly unilateral, especially in the services sector without getting any reciprocity at WTO (Mazier, 2005a et 2005b);

-second, the mercantilist (or “commercialist” according to Deblock, 2010) logic of WTO and not taking into account strategic alliances, it is normal that the two main world traders (apart from EU, see above) should be the two main players of multilateral negotiations as they are negotiating reciprocal opening of their markets.

This scenario corresponds to a contradictory process of further trade liberalization on the one hand and of progress of world regulation on the other hand: this better world regulation (dominated by the USA and China) implies improved monetary cooperation (reevaluation of the Yuan parity) as well as better regulation for energy (stabilization of oil prices) and a reduction of trade and financial imbalances (this reduction process has already started following the world crisis). The USA and China benefit from their joint hegemony, especially in terms of international trade: China almost doubles its share of world exports of goods & services by 2030 compared to 2010.

Regionalisation

While it is becoming increasingly difficult to adopt new global norms at the international level due to diverging objectives followed by the main players, globalisation of business and markets oblige national governments in each part of the world to undertake important new initiatives at the regional level in order to spur economic growth (Alphametrics, 2012).

Following the failure of the Doha Round, and if there is no turn towards stronger government policies, one can expect a certain weakening of WTO in the next few years (if it is not reformed, which is the condition for reinforcing the influence of this organization). Trade liberalization and the growth of international trade can then go on, but at a regional level, following past trends described above.

This process goes on with a reinforcement of regional trade agreements, which multiplied during the last decades, especially since the 1990s (see above). According to Bhagwati & Sutherland (2011), “For the time being, the momentum is behind the RTA [Regional Trade Areas/NDA] solution”.

The main free trade agreement which remains to be signed is the transatlantic agreement signed between the EU and the USA, which are the two major economic powers. The signature of a free trade agreement within APEC (USA, Japan, China and other countries bordering the Pacific Ocean) would be an alternative to the transatlantic agreement. This vast free trade area would stimulate exports by China and BRICs of their value chains (Baghwati & Sutherland, 2011).

Stronger regional integration implies better coordination of exchange rates at the regional level (Asia, Europe, etc.), which especially implies that the Euro zone will not disappear. It also implies higher trade performance (both exports and imports) for the European Union, the USA and China especially due to increased intra-regional trade. But no reduction in international imbalances will occur, as regional integration means reorientation of trade and financial flows but still basically the same growth model for the main economic players.

Multipolar collaboration

Increased regulation of the world economy and stronger cooperation policies will improve economic convergence between countries, and benefit low income countries which will posit faster economic growth. Better coordination on environmental issues is also expected leading to more environmentally friendly world growth (with less carbon emissions).

Concerning trade issues, this implies an interruption of the trade liberalization process from now on, but without an increase of tariffs or trade protections (no such protectionist back-turn has occurred even during the international crisis). A reform of the WTO could go along a wider reform of international economic governance, within a "new Bretton Woods". The need for a reform of the WTO is increased by the failure of the Doha Round, which expresses the deadlock of "single undertaking", the opposition to further worldwide liberalization for all products and the preference for adopting new regulations.

This "rosy" scenario correspond to the highest anticipated economic and trade growth at the world level. A slower restructuring of the world trade is also anticipated, with better performance of developed countries and a slightly worse performance of developing countries (Asian countries especially). Two main trade issues relevant to this scenario should be solved:

- enlarging the scope of trade regulations (whether within the WTO or other *ad hoc* new international organizations); this covers better regulation of energy and commodities markets which will support better incomes for producer countries (this means that the oil price will remain controlled by OPEC with improving market mechanisms) and taking into account environmental issues; also needed is a better coordination between trade and exchange rate policies, which means joint work of WTO and IMF; last of all, taking into account the relationship between trade and environment (and potentially social standards);

- rebalancing the international trading system towards developing countries and human development implies increasing asymmetries at the WTO (SDT, etc.) and also balancing the DSU towards poor countries, which need to be able to lodge complaints and to see the decisions applied quickly (this means adopting financial sanctions for example);

This scenario also means an improvement of the international monetary system and a reduction of international trade and financial imbalances (including a rebalanced Chinese growth model). We anticipate stronger capital flows received by developing countries on the whole and, as in the previous scenario an increased role of the Yuan among international currencies, next to the dollar and euro.

Conclusion

This paper analyzed new forms of trade globalization observed over the last few decades, which included fast growth of world trade going together with a deep geographic and sector restructuring and increased regionalization, leading to a new international division of labour. Our analysis also delved on the long standing crisis of the governance of world trade, which culminated with the failure of the Doha Round after ten years of multilateral negotiations. The paper eventually drew some perspectives for reform, and connected them with different scenarios for the world economy. We can draw an important lesson from these scenarios: although the main trends of restructuring of world trade are set to continue, especially the decline of developed countries and the growing weight of developing countries, policy options will influence these evolutions and will nuance these trends.

The international crisis which started in 2008 increased the questioning of the international economic architecture on the whole, although this has not provoked any substantive reform at the time of writing, apart from purely "cosmetic changes". But it is more important than ever to understand, which this paper tries to justify, that current characteristics of world governance (trade, finance, environment, etc.) reflect choices of society. Therefore, the evolution of international power relationships and decisions made on world governance will have a major influence on the paths followed by the world economy in the medium term.

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