

Trend Topic:
The Future: On the precipice of promise

Pragmatism over purism:

Imagining a WTO 2.0 for our modern reality

By



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In a global trade landscape dominated by unilateral tariffs, retaliatory tariffs, and a rush to reciprocal tariff deals, it is hard to argue that the World Trade Organization (WTO) plays any significant role other than as an outside observer.

Even in trade that does not directly involve the United States, countries devote much more political capital, time, and resources to bilateral and regional negotiations among themselves, especially in the form of free trade agreements (FTAs), than they do in Geneva sitting through WTO meetings. It has been a decade plus since WTO members have negotiated on tariffs.

I start by acknowledging that I offer a patently radical idea on how the WTO could recover its mojo, essentially by turning its back on the foundation stone of the multilateral trading system that has been in place since 1947. To jump right to the punchline, I suggest a thought experiment in which tariffs among countries, or at least the largest ones (counting the European Union (EU) as one), are no longer bound at “most-favored nation (MFN)” or non-discriminatory levels, sec-

tor-by-sector, product-by-product, and instead are free to float through unilateral action or a network of bilateral or regional, reciprocal trade agreements.

Unilateral tariff actions or a network of bilateral or regional, reciprocal trade agreements might better fit our modern context.

Essentially, this would be a system in which there are no firm commitments to maintain stable, identical levels of tariffs for all trading partners — and, arguably, it fits more with our modern context, in which trade extends well beyond physical commodities and now includes an explosion of trade in digital services, where rules are rapidly shifting and evolving. In contrast, the existing system provides that tariffs can come down but never go up, with very limited exceptions. The foundation on which this structure was built nearly 80 years ago has been crumbling for some time now, with wide fissures growing between its building blocks as coun-

tries have used these exceptions to offer special deals on tariffs to select other countries through FTAs. The Trump 1.0 administration went one step further in veering outside the rules to raise and lower tariffs, treating the *WTO* foundation as no more than an afterthought, and the Biden administration effectively took no steps to reverse course. Now Trump 2.0 has taken a bazooka to the *WTO*'s MFN rules. The foundation is still in place, but its structural integrity is fundamentally compromised.

Admittedly, this idea to jettison MFN tariff rules as the default is likely to arouse protests from free-trader purists and dyed-in-the-wool market economists that it is a perverse upending of a global system that has a record of remarkable accomplishments in increasing trade and bringing economic growth over more than 75 years. Not so long ago, I would have even counted myself as an example of the former, with a fond attachment to the rich history of this system, and its many twists and turns over the decades, as I cut my teeth working on the predecessor General Agreement on Tariffs and Trade (*GATT*) and later the *WTO* when it came into being. But it remains a hard truth that the *WTO* is now a shell of what it once was when it dominated trade policy and trade negotiations for most countries up until the early 2000s.

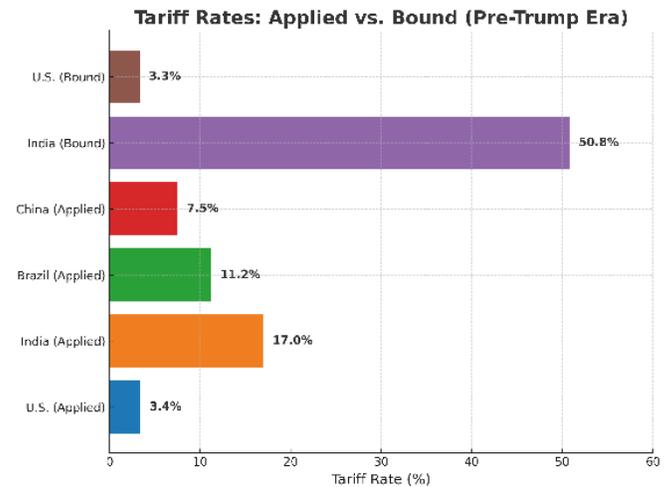
There are many factors that contributed to the colossal collapse of the *WTO* over roughly a decade and a half between 2005 and 2020. For many



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of us U.S. trade negotiators focused on the WTO, the central failure during this period was its inability to succeed at negotiations to bring tariff levels among the big players down to a uniformly lower level, or something close to that, taking account of legitimate arguments about the costs and benefits of market liberalization for struggling developing countries. The U.S. simple average tariff, according to the WTO and before the latest round of Trump tariff increases, was 3.4 percent. India's is 17 percent, Brazil's is 11.2, In fact, China's is relatively lower at 7.5, but as many of us know, China is highly adept at deploying trade management tools beyond tariffs, ones that seem to sneak out of scrutiny and disciplines in the WTO's current architecture.

These same countries have much higher "bound" tariff rates, meaning that they are free to increase their tariffs without violating their WTO obligations. India's average bound rate is a whopping 50.8 percent, while the United States is 3.3. It wasn't meant to be this way, at least from a U.S. perspective, shared by many others (e.g., EU, Australia, Canada, etc.). The large developing countries, despite a popular narrative that the system was somehow rigged against them, benefited hugely from lower tariffs in developed country markets over decades. Many gained bigger pieces of the pie in global



Note: No significant multilateral WTO tariff negotiations in over a decade.

trade and saw their economies grow and per capita incomes increase.

And this failure is at the root of some of the grievances felt by many on the Trump team and many average Americans, as I wrote recently for the Hinrich Foundation. They feel that the U.S. unilaterally disarmed and did so specifically to encourage multinational companies to invest in manufacturing in other markets or provide aid to developing countries at the expense of U.S. manufacturing. Of course, the picture is much more complicated than this, and these perspectives conveniently ignore benefits to the U.S. economy and the role of automation in declining employment numbers in manufacturing. I know as a long-time U.S. trade negotiator that previous U.S. administrations made earnest efforts to expand markets for U.S. manufacturers, farmers, and services providers.

Certainly, the U.S. deserves its share of the blame for the demise of the multinational trading system. It failed to foolproof it against populist and unfair criticisms, which included accusations that the WTO defaulted to unfettered trade at the expense of environmental or labor concerns and sovereign nations handed power over to faceless Geneva bureaucrats. And, centrally, the U.S. single-handedly



rendered what many considered the WTO's crown jewel, the Appellate Body, powerless and hence the dispute settlement system non-operational. The WTO has also been undermined by the readiness of so many in the membership to negotiate tariffs outside the organization in FTAs. The default for tariff negotiations is clearly bilateral or regional, and certainly not multilateral in the WTO.

The WTO may already be too far past a crossroads on its future. Frankly, it is hard to envision how it can reverse course when so much of its early energy is only a distant memory and even unknown history to the latest generations of trade negotiators. These new trade diplomats have never known a period during which the WTO made a real difference in global trade.

But a new lease on life for the WTO might be the launch of a negotiating round centered on dumping the WTO's elaborate structure of MFN tariffs and replacing it with a structure of transparency and procedural guarantees that would apply to unilateral tariff actions or renegotiated bilateral or regional tariff schedules. In fact, this approach might draw inspiration from another radical idea that is just emerging in U.S.-India bilateral trade, which is why I suggest the blatant gimmick of a "Trump-Modi Round" to work out the details. As recently as the

Trump 1.0 administration, when the U.S. and India sought and failed to negotiate a mini trade deal on tariffs and non-tariff barriers, leveraging India's benefits under the U.S. "Generalized System of Preferences," or GSP program, the idea of a comprehensive bilateral trade agreement was a bit looney. Now, however, that is exactly what President Trump and Prime Minister Modi have agreed to do.

In the long history of the GATT and the WTO, the U.S. and India have been the two most consequential players, although predictably as opponents on the key issues facing the organizations. Both were leading contributors to the existing structure, and both are complicit in its slow demise. It seems only natural that the two might be expected to take up the lion's share of responsibility to encourage others to accept that the world and global trade have changed, and that the WTO MFN system is no longer compelling as an argument for returning to multilateralism on trade. There is a precedent for naming a trade round after a U.S. president — the Kennedy Round from 1964 to 1967. It was the first round to go beyond negotiations exclusively on tariff cuts to take up non-tariff trade restrictions. Aside from feeding the egos of two of the most prominent world leaders, a Trump-Modi Round would mark the transition to a reality that passed the WTO by in recent years.

What this Trump-Modi Round could do is focus initially on a new architecture for freedom of maneuver on tariffs. Many, although, perhaps, not the U.S., may want to maintain their current MFN tariff levels with most other WTO members. They should be free to do this. But for those that prefer more flexibility to raise or lower tariffs, to essentially rebuild the foundation, all would benefit from new rules that impose some order on the tariff chaos into which world trade has been descending. This could involve negotiations on notifying intent before making tariff changes, allowing for consultation and timetables in transitioning to tariff increases, and even a form of dispute settlement if procedures and transparency requirements were not adhered to. The current WTO provides these kinds of provisions already, but they are structured for an MFN-based system, not one in which unilateral and preferential tariff actions, such as the new (and somewhat half-baked) U.S.-UK deal, might predominate. Who knows – maybe the Trump-led U.S. or the next administration might even agree to some objective limits on how far and fast tariffs can go up, even if not down.

Additionally, a Trump-Modi Round could examine and update other existing WTO agreements, many

of which deal with non-tariff barriers and trade in services and may be generally sound in their current form. Non-market behaviors that have escaped effective disciplines should be a priority in renegotiations. Finally, new areas of trade should be on the table. This already seems like a given, as there have been discussions in Geneva for years about updating the rules, particularly in areas such as digital trade. For example, a Trump-Modi Round should provide a clear pathway to conclude negotiations on the Joint Statement Initiative on Electronic Commerce, building on innovations in digital trade agreements that have been negotiated outside the WTO. In May, WTO Director General Okonjo-Iweala emphasized that existing WTO agreements should be kept dynamic and relevant, and that the WTO should be responsive to future developments.

In the end, current WTO members would have a choice between staying in the current WTO or leaving it for a newly reformed and reoriented WTO 2.0. This is hardly utopia. The purist perspective that favors a world without tariffs in which all benefit from the efficiencies of unfettered comparative advantage is much closer to this unattainable goal. However, it doesn't have to be dystopia either. Over time, countries might find themselves gravitating



back towards tariff liberalization, especially if tariff increases don't play out as advertised, and with stronger assurances that it can be truly reciprocal.

Some may see this as giving in or giving up. However, I believe any fervent hope that the U.S., or others without the U.S., might seriously turn back to policies that reflect a period in which the WTO was highly relevant is a pipedream. That will not happen. Instead, facing up to reality before the WTO ends up definitively in the dump heap of history, could provide the spark of new life the aging and teetering multilateral system needs. This won't happen through baby steps of incremental or modest reforms, whether through voting protocols or committee procedures. Going big is the only path to a future for the organization and multilateral trade. —

