



# THE COLLAPSE OF THE WTO DOHA ROUND

What does it mean for business?

By Professor Jean-Pierre Lehmann – August, 2008

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What does the collapse in July 2008 of the WTO Doha Round mean for business? A quick historical review will help put things in context.

### Historical perspectives – how we got here

When President George Bush (father) announced in 1991, as the Soviet Empire was collapsing, a new world order, a friend of mine commented: “it’s not a new world order; it’s a chaotic transition to uncertainty”. What an amazing amount of transition there has been. Today the one and only thing that is absolutely certain is that the world has irretrievably changed. The rise of China, symbolized by the Beijing Olympics “Coming Out Party”, along with a number of other emerging economic powers, usher in the end of over two-hundred years of uncontested Western economic and political dominance. This is further confirmed by the announcement that in 2009 China will overtake the US as the world’s largest manufacturer, bringing to an end over one-hundred years of American dominance ... while returning China to the number one position it enjoyed until the first quarter of the nineteenth century.

In the spectacular opening ceremony of the Games, episodes of Chinese history were depicted, with perhaps the most striking being the age of commerce and exploration at the time of the exploits of that great fourteenth century mariner Zhen He. In 2006, two years before the Games, the Chinese Television Station, CCTV, presented a 12-part series entitled *Daguo Jueqi* (The Rise of the Great Powers), with the first chapter being the rise of the Portuguese Seaborne Empire. Thus began the irreversible rise of Western power, prefaced by what Asian historians refer to as “the age of Vasco da Gama”. China, instead of expanding its power, turned in on itself, lived in splendid aloof isolation (or so they thought) for several centuries, until the combined commercial, shipping, military and political power of the industrialised Western nations, led by Britain, followed by others, overwhelmed the Middle Kingdom. With the Opium Wars starting in the late 1830s, China declined and entered into what it sees as its century of humiliation. The Opening Ceremony of the Beijing Olympics was China’s way of saying: “we’re back – big time!”

The Global Era that evolved in the course of the 19th and 20th centuries was in fact the Western Era – with the exception of Japan, which, alone among non-Western nations, managed to join the club of industrialized imperialist powers. As Western (and Japanese) dominance of the planet resulted in the subjugation of Asian, Arab and African societies, rivalry for resources, markets, territory and power among Western nations intensified.

And although the concept of the “Concert of Powers”, elaborated following the defeat of Napoleon, worked quite brilliantly for several decades, by the time of the early 20th century it was hopelessly obsolete. There was no institutional framework or international jurisprudence that could prevent the outbreak of World War I or the carnage that followed.

Once it was over, World War I was hailed as the war to end all wars. In 1919 the International Chamber of Commerce (ICC) was founded with the motto “world peace through world trade”. The post-WWI settlement, however, was fraught with recriminations and conflicts. It was backward, not forward, looking. Economic revitalization did briefly occur in the twenties and trade flourished, but then came the Great Depression, followed by the outbreak of trade wars. The rest is very tragic history. In contrast to 1919, the institutional foundations for global economic governance laid after World War Two in the period 1945-47 proved full of foresight and remarkable in many ways. In the ensuing decades, business has flourished, while trade has outpaced global economic growth by a significant margin. The second half of the twentieth century has proved for the West – and for those nations that joined the “Western” economic system – an era of unprecedented growth and prosperity.

The victory in the Cold War was above all the victory of the market oriented economic system founded on a rules-based multilateral global trading institution, the GATT (The General Agreement on Tariffs and Trade). Though the global economy faced a number of challenges and tensions, notably the oil crises of the seventies and the Japanese-US trade friction of the eighties, it managed to weather through and emerge stronger and more integrated. This was due not only to the institutional underpinnings of the world economy, but also to the political will of the major players. In the period from 1947, when the GATT was established, until 1995, when it was supplanted by the WTO, there were a total of 12 multilateral agreements, all of which both lowered barriers and extended the number of sectors covered by the GATT. And membership increased, especially following the end of the Cold War and the economic liberation of countries that had been under the Soviet yoke. The expansion of the global market economy has been great for business.

### **Economic boom – policy paralysis: Where we have just been**

The last dozen years have witnessed a seemingly paradoxical situation whereby the global economy has done unbelievably well – virtually every nation on the planet has experienced high growth, and global trade and investment have boomed – while the global economic institutional process has stagnated. In contrast to the 12 multilateral agreements between 1947 and 1995 – an average of one every four years – in the period since the establishment of the WTO in 1995 there have been zero multilateral trade agreements. There was the spectacularly unsuccessful attempt to launch the so-called Millennium Round in Seattle in 1999. In 2001 a round was launched in the Qatari capital of Doha, known as the Doha Development Agenda, with the alleged purpose of providing a more level playing field for developing countries that have suffered from considerable trade discrimination; the “successful” launching of the Doha Round, however, was in great part due to the sense of global solidarity that with 9/11 had occurred a few weeks prior to the meeting, but, alas, very quickly dissipated. Every attempt since 2001 to move the Doha Round forward to successful closure has failed. The institutional framework is there, but the political will has clearly been lacking.

As business boomed, business leaders (with very few exceptions) took their collective eye off the WTO and the multilateral trading system generally. This will prove a possibly quite costly case of myopia. The main protagonists in the global trade arena for a while were the so-called anti-globalization protest community, though they too lost interest. Perhaps the greatest insult to the negotiators gathered in Geneva in July 2008 was that the protest community presumably decided the event was too irrelevant to give it their attention. This was the first ever “protest-less” WTO ministerial meeting.

The WTO fell prey to, and the Doha Round was thus hijacked by, narrow sectoral lobbies of uncompetitive industries, the ones that least benefit from or contribute to globalization, the ones that seek protectionism, the ones that add little or nothing to either national or global welfare, the ones that cause economic stagnation. The situation today is that the protectionists are winning while the globalists have been out to lunch.

### So what?

Does all this matter? Isn't the WTO just a bureaucratic waffle illustrating a by-gone age? Is it not markets that are in the driving seat, rather than nations, hence rendering inter-governmental organizations, such as the WTO, obsolete? The answers are: emphatically yes; not entirely; and emphatically no! Starting with the last question, the notion that nations have been outpaced by markets is not necessarily entirely wrong, so long as one's worldview is purely Western. Try telling the Chinese, the Indians, the Indonesians, the Arab Emiratis, the Brazilians, the Mexicans that the nation is obsolete! Indeed contrary to what was predicted in many liberal Western economic circles – most notably by Francis Fukuyama in *The End of History* – the market is being increasingly influenced by state capitalism and the various instruments, for example Sovereign Wealth Funds, that state capitalism has spun.

As to the second question about the WTO being a bureaucratic waffle, there is no doubt that there is an element of that. In this age when the business world operates on nano seconds, the manner that the WTO negotiations plod along with unlimited time given to what appears to be trivia and invariably in incomprehensible jargon, is awesome in a depressing sort of way. While the world economy is at its most exciting since the industrial revolution, the news emerging from the WTO negotiations is dullsville. And while the big picture is fraught with immense challenges and opportunities, the mantra from Geneva at the regular intervals that the negotiations have failed has been: "the devil is in the details."

There is no doubt that the WTO is in bad need of reform. But there is a huge difference between reform and destruction, or, the more likely scenario at present, marginalizing the institution to irrelevance. The rules-based multilateral trading system may, to paraphrase Churchill's remarks about democracy, be the worst possible system of global economic governance, except of course for all the others. International public institutions are necessary, just as national institutions are necessary: to correct market failures and to produce public goods whether at national, regional or global levels. And a solid framework of global governance is all the more vital when there are big geopolitical tremors and shifts of power as is the situation at present. The massive re-entry of China on the global economic scene is all the more reason for having strong trade institutions and the global rule of law.

Hence the answer to the first question, does it matter? oh yes, and how!

## Perspectives and some prescriptions: Where do we go from here

It is said that economic forecasters were invented to make weather forecasters look good. We have NO idea what the world economy will look like in the next few months, let alone the next few years. Economic history is full of unexpected twists and turns – driven in great part by the unpredictable and often seemingly irrational acts of men. But that should not be an excuse for assuming the ostrich-position.

Here, therefore, are some perspectives that can be made with a reasonable degree of certitude.

The credit crunch, the quite extreme volatility in prices of energy and commodities, and rising inflation will combine to have negative economic and social impacts: there will be more social unrest with varying degrees of political instability. While, therefore, China, India and other dynamic developing economies should continue to enjoy relatively strong growth, greater political risks could put this perspective in jeopardy.

It also seems reasonably certain that trade and financial flows will increasingly be impeded by barriers of various forms. Pressures for protectionism have been rising, notably in the US, but also elsewhere, while the clash of systems between “market capitalism” and “state capitalism” may become more acute. As greater uncertainty envelops the multilateral trade regime, there will be increasing concentration on regional and bilateral trade deals. By no means, however, is it clear that these will proliferate and flourish as is often suggested. The refusal of the US Congress to endorse the proposed Columbia-USA FTA (free trade agreement) last April is indicative of the generally negative political mood in respect to trade generally. According to the respected Pew Research Institute, a staggering 60% of Americans believe that trade is harmful to their interests. Rival economic nationalisms – and indeed other forms of nationalism – are likely to feature as a prominent feature of this so-called age of globalism. For the first time since the depths of the OPEC crisis in the early/mid seventies, the spectre of the thirties is again being raised. For now it remains unlikely that history should repeat itself in this way; yet evoking the past may have the salutary effect of seeking to ensure that it is not repeated.

It would be wrong for business to be cast in a mood of gloom. All of the clouds on the global economic horizon notwithstanding, there are many opportunities to be seized and a host of market, product and technology developments that should fuel the growth and profitability of business in the years and decades ahead. At the same time, however, it will pay to be prudent. The multilateral rules-based trade system is frequently compared to insurance.

One does not take out house insurance because one expects one's house to burn down, but one is quite happy to have one if it does. During the boom times, the insurance may seem unnecessary, indeed irrelevant. But boom times are unlikely to be sustained even at the best of times, and the times we are facing now are for sure going to be turbulent on many fronts: social, economic, geopolitical and environmental.

The most important force to try to generate in order to ensure that business will be in a position to seize and exploit the opportunities is that of global collaboration. By having distanced itself from the global public trade policy fray, business has allowed the situation to deteriorate, with confrontation having, at least temporarily, trumped collaboration.

Whether the Doha Round should be rescued or whether it should be scrapped in order to start anew is a matter of some dispute. But what cannot be in dispute is that the early 21st century really needs a strong and effective institutional framework of global economic governance.

As was stated above, at the moment the protectionists have gained the high ground and may increasingly dominate the commanding heights of global economic policy making, the consequences for business could range from negative to catastrophic.

The process of globalization that has occurred over the course of these last two decades is far from perfect. There are dangerous imbalances, inequality is said to have increased, the consequences for global warming are believed to be harmful, and business can rightly be accused of excesses. There is most emphatically no cause for complacency in believing that things are fine as they are. They are not. What is needed is the collective effort of agents of globalisation and especially business to promote a constantly improved process of globalization as a critical means to prevent protectionism from prevailing.

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