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NEW ECIPE PAPER BY MARTIN WOLF

Does the Trading System have a Future?

Martin Wolf at the Financial Times delivered in late 2008 the first Jan Tumlir Lecture at ECIPE in Brussels. His thought-provoking lecture – Does the Trading System have a Future? – has now been released as a Jan Tumlir Policy Essay. Patrick Messerlin was the commentator and his comment accompanies Mr. Wolf's lecture in this essay. How does the trading system look today, asked Martin Wolf in his lecture on the eve of the financial crisis. In attempting to answer this question, we need to distinguish the state of world trade from the state of the trading system. The former is in the roughest health. The latter is looking rather sicker.

The dynamism of world trade is quite remarkable. Indeed, the evidence strongly suggests that as the emerging world increasingly opens up to the world economy, the underlying growth of world trade is also accelerating. The volume of world trade and of world trade in manufactures has been growing at a faster trend rate in each successive business cycle since 1981. It has also been growing at almost twice the corresponding trend rate of growth of output. World trade in commercial services is also growing rapidly: between 2000 and 2006, the value of world trade in commercial services grew at 11 per cent a year, the same rate as world merchandise exports. This, then, is a world in which trade leads economic growth and the world economy itself is becoming ever more open.

As important as the dynamism of world trade has been the rise of significant new trading powers. If we treat the European Union as a single economy, thereby ignoring its vast internal trade, we find that in 2006 China was the third largest merchandise exporter, with \$969bn, after the EU, on \$1.482bn and the US, on \$1.038bn, but already far ahead of Japan's \$650bn. Other important emerging exporters, apart from the oil and gas exporters, were Mexico, Taiwan, Malaysia, Singapore, Brazil and Thailand. China and India were also already the fourth and fifth largest exporters of commercial services (after the EU, the US and Japan), respectively, in 2006 (with EU internal trade once again ignored).

In all, then, we can detect two overwhelmingly important trends over the past quarter of a century. First, trade has consistently grown faster than output. This simple and powerful measure demonstrates that globalisation continues to be the most powerful economic (and, arguably, political) force in the world today. Second, the emerging countries – and, above all, China – have entered ever more powerfully into global trade. China's openness to trade is astonishing: its ratios of trade to gross domestic product are almost as high as those of South Korea, a country whose population is roughly a 30th of its size. These two developments –

the continued dynamism of world trade and the opening of the emerging countries - are, of course, closely connected.

The trading system, however, is not in good shape. The WTO is beginning to look like a tragic example of “advance into decline”. Its birth looked like a massive breakthrough, since it turned the GATT into the international organisation it was originally supposed to become, as the International Trade Organisation. Yet, in practice, the more institutionalised and comprehensive the trading system has become, the less effective it has also risked becoming, notably at the old business of trade liberalisation. One consequence of this has been that trade negotiators, frustrated by having to negotiate within the WTO for years, have increasingly turned to so-called free trade arrangements or, more precisely, preferential trade arrangements. As a result, they have dramatically increased the legitimacy and salience of discrimination as a fundamental feature of the trading system.

There is a great deal of ruin in the trading system. Yet, in many respects it has been a huge success. The opening of the world economy of the past three decades and the creation of the WTO itself are both aspects of this great success. The question, however, is where we go from here, at a time when the Doha rounds seems impossible to complete, preferential trade arrangements are exploding, the WTO is subject to constant political attack and protectionist pressures are rising, particularly in high-income countries. These difficulties are not new. Things looked even worse in the mid-1970s and, again, in the mid-1980s. Nevertheless, it is important to renew institutions and reinvigorate the move towards liberal trade that has brought such great opportunity to the world.

The essence of Martin Wolf’s recommendations can be brought down to four points:

- stress the value of unilateral liberalisation;
- discipline PTAs, ideally by creating just one PTA available to all;
- refocus the WTO, by reconsidering the idea of a single undertaking and by moving away from huge rounds;
- finally, focus on the sorts of domestic reforms that will allow societies to remain open to the world.

Publication details

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