How trade became geopolitics

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Since the World Trade Organization (WTO) was first created in 1995, trade issues have ceased to be technical. Instead, they have become highly political, not only because trade issues have changed but also because the geopolitical context in which these exchanges take place has been altered. Why have trade issues become so profoundly politicized? How do the various actors, and particularly Europe, react to this new situation? These are two critical questions that beg for answers.

The creation of the WTO in 1995 in the wake of the General Agreement on Tariff and Trade (GATT), which was set up after World War II, was a direct response to three fundamental changes in the world order.

The first was the exponential growth in world trade. Between 1980 and 2005, the volume of trade quadrupled, while during the same period world gross national product (GNP) barely doubled. Trade has thus become the most powerful agent of globalization. This considerable increase was only made possible due to a significant reduction in tariff protection in southern countries, which dropped from an average 30 percent in 1985 to 10 percent some 20 years later.

The second change is more qualitative in nature. It has to do with the extension of the range of products subject to trade liberalization. For rich countries whose economies now rely on the creation of added value in the service sector, the issue is how to protect intangible products generated by these services with guarantees of intellectual property. Simply put, free trade no longer involves simply abandoning customs and tariff protection but requires scrupulous respect for the rules of intellectual property that so often accompanies broader trading relationships.

In exchange for this extension of the perimeter of trade liberalization, developing countries have obtained the inclusion of agriculture in the sphere of liberalization. This quid pro quo arrangement only seems logical. Each party wants to extend trade liberalization to the areas where it has a real comparative advantage. Rich countries take services; developing countries take agriculture. Yet even if the agricultural sector only represents 8 percent of world trade, its debut on the agenda has carried a heavy weight.

The third change has to do with the massive increase of developing countries now in the WTO system. This prefigured the advent of multipolar global governance and the reconfiguration of international relations in the twenty-first century. The WTO now has 153 member states; this transformation did not happen overnight.

In the first phase, developing countries that were not members of GATT and that joined the WTO did so with caution. They feared that a binding liberal agenda would be imposed on them in areas where rich countries had offensive interests (e.g., liberalization of services and setting up strong patent protection regimes) but less certain in areas where the interests of developed countries were more defensive (e.g., agriculture, social norms). These contradictions, which were scarcely discussed and thus not smoothed out when the WTO was created, burst out in the open at the summit in Seattle in 1999, where a new round of trade negotiations was supposed to be launched. Developing countries felt terribly uncomfortable in an institution without clear procedural rules and in which developed countries seemed to want to maintain the informal procedures inherited from GATT, like the famous "Green Rooms," which are sort of closed sessions for informed negotiators. This feeling was aggravated by the awkward, but probably deliberate, declarations of President Bill Clinton who publicly threatened developing countries that did not respect basic social compacts (e.g., labor and living standards, human rights) with trade sanctions.

The budding anti-globalist movement amplified this North-South collision and harnessed it to its advantage, taking advantage of the stalled negotiations to put forward new demands, such as the consideration of environmental questions and a refusal to see the world held hostage by the merchant class. Tapping into this current, the most radical non-governmental organizations (NGOs) demanded that the WTO simply be dismantled, claiming it was simply created to represent multinational corporations. But, paradoxically, most of the NGOs' demands regarding environmental matters, social rights, and better representation in WTO deliberations only amplified the fears of Southern countries for whom these organizations on the whole expressed rich country preferences.

Yet, far from leading to the premature death of a new institution, the Seattle conference actually prefigured a considerable change in the role of trade in global governance. This change was two-fold. It marked the end of the Euro-American duopoly on trade liberalization, which China's entrance into the WTO one year later spectacularly amplified. Furthermore, it accented the reality that trade liberalization interacts increasingly with a huge number of social concerns (e.g., environment, health care, civil rights) and that non-governmental organizations and non-state social actors can no longer be ignored.

In a climactic fashion, the creation of the WTO demonstrated a major aspect of globalization--that trade liberalization in a globalized world no longer refers simply to competition between economies, but between social systems. A host of new factors now comprise world competition, including protectionist tariff systems, education, economic infrastructure and administration, and tax systems. Moreover, the WTO system demonstrated convincingly that lowering tariffs was no longer enough to harmonize trade competition. In WTO vocabulary, liberalization issues no longer include only "products" (downstream) but also "processes" (upstream). The system must be equally concerned, for instance, with how much the Chinese will pay in customs duties for toys entering Europe or the United States, as well as ensuring that these toys were not manufactured by prisoners and that they meet health and environmental standards in the consumer countries.

WTO and Global Governance

So while the WTO is not only the institution in charge of overseeing trade liberalization, it has become the body that is supposed to settle global governance conflicts. The change in issues related to trade liberalization was brought to light in the Doha Round negotiations in November 2001. During this summit, rich countries sought to erase the memory of the Seattle disaster while the southern developing countries, invigorated by China's entrance, for the first time sought to reprogram the WTO to their advantage. They succeeded in exploiting a factor rarely taken into account: at the WTO, there is no Security Council or supreme body--all nations have the right of veto, so all parties must agree in order to launch a negotiating round. Developing countries, despite their diversity, have realized that the WTO'S one-country, one-vote nature represents a considerable political asset.

As a result, the Doha Round was launched with a broad agenda designed to take into account the diversity of objectives and expectations among the vastly expanded membership of the original WTO. Indeed, Doha was even baptized the "development round" at the request of southern countries. Its agenda, which debuted in 2001 and remains open, includes no fewer than 21 subjects, ranging from agriculture, industry, services, and intellectual property to rules of origin, anti-dumping regulations, trade facilitation, environmental protections, basic social issues, special and differential treatment for the least-advanced countries, and fisheries--among a host of others. It has become easier to inventory subjects not listed on the WTO agenda than to count all those that appear on it.

This entire complex infrastructure exists within a geopolitical framework of new political coalitions among states and new political demands for trade liberalization. Basically, the geopolitics of the WTO is now built on four major pillars: the United States, the European Union, the G-20 and the G-90.

The G-20 bloc encompasses most of the emerging countries in Asia and Latin America that want to break up the EU-U.S. duopoly at the WTO. Most of these G-20 nations export agricultural products and feel disadvantaged either by the closed doors of certain European agricultural markets or by the unfair competition represented by domestic subsidies for American farmers. The G-20 coalesced in 2004 during the Cancun summit. The members derailed the conference to show the United States and the European Union that they could no longer resist the demands of developing countries to change agricultural protections.

Brazil and India dominate the G-20. However, these two countries do not necessarily share the same interests: Brazil, for example, has much more defensive positions than India. But both are united by a simple goal--not to yield ground on the protection of domestic industry and agriculture unless they are rewarded by an end to agricultural export subsidies, the opening of European agricultural markets, and the opening of service markets to qualified Indian workers.

China must also be added to this equation, though it had not, until the July session in Geneva, generally acted overtly. In part, Beijing wants to avoid scaring off developing countries that are afraid of its power, while it avoids campaigning for more trade liberalization on the multilateral level. Beijing believes it paid a high enough price in this area when China joined the WTO.

The birth of the G-20, which neither the United States nor the European Union saw coming, and whose importance they immediately underestimated (probably because they thought its members' interests were too diverse to suggest any possible joint negotiating positions), has created a de facto multipolarity in WTO governance. Yet, surprisingly, opposition to the creation of the G-20 did not come from the North but from other southern countries which banded together to form the G-90. This bloc was formed at the Cancun Conference as an umbrella alliance of emerging and least-developed countries--those nations classified by the United Nations as having the lowest socioeconomic development indicators.

Although much larger and much more diverse, the formation of the G-90 suggested the existence of a group of lesser-developed countries that were worried about the effects of trade liberalization and troubled by the potential loss of preferential access to American and especially European markets. The EU-U.S. duopoly came under fire, and the bloc of southern countries fragmented: emerging countries on one side and less advanced countries on the other. The G-90 therefore has a more defensive agenda than the G-20, which seeks better access to markets in northern countries--even if that means undermining G-90 interests.

Multipolarity at the WTO

The result of this entire system is four basic, though often fluid, coalitions that fluctuate depending on the subject. First, there is the United States plus the European Union versus the G-20. In this case, the priorities for the first two are to open the industrial and service markets of emerging nations, while the G-20 seeks agricultural liberalization in the EU and the United States. In other cases, the United States and the G-20 are pitted against the EU on the issue of access to agricultural markets protected by customs or sanitary barriers. A third set of issues--elimination of agricultural export subsidies--pits the United States and the EU against the G-20 and G-90. And finally, the EU, G-20, and G-90 may line up against the United States in efforts to dismantle market-distorting domestic support for agricultural products, especially cotton.

From this analysis, it's clear that American and Europeans frequently have congruent interests, but may not always be able to articulate them. The G-20 and the G-90 have fundamentally opposite interests, but Third World solidarity prevents them from admitting it. Lastly, China scares everyone. Thus, Beijing it seems, is pleased with the status quo. Still, and perhaps most fundamental, it would be utterly misleading to assume that the lack of results in the Doha Round of negotiations has in any way prevented world trade from moving ahead.

The multipolar geopolitics of the WTO largely flows from the global redistribution of wealth in favor of emerging powers, even if the weight of the United States and the European Union remains considerable. But this reality is also accompanied by increased expectations that trade liberalization will provide more and more societal benefits. In fact, within the WTO there are three major visions of trade liberalization. Naturally, these visions are not airtight and not necessarily mutually exclusive. But they reflect the preferences and the priorities of the main groups of countries.

The first, the so-called market access strategy adopted by Brazil, the EU, and the United States, is a managed trade vision that sees the WTO as the privileged instrument to obtain better market access through a reduction in tariff and nontariff barriers. In this sense, free trade refers to the strong priority given to opening up one's competitors' markets. In a way, all countries except for those of the G-90, which have a very defensive attitude, share this priority. The United States and the European Union are seeking to obtain access to emerging countries that have the strongest potential for economic growth. This is a priority for the United States and Japan, which have seen dwindling export market shares since the middle of the 1990s, and for Europe, which has better preserved its market share of world trade, but must hedge against future trends that appear substantially less favorable.

In fact, European exports are high in countries where demand is static, and lower in those where it is growing rapidly. On this level, the EU is at a greater disadvantage than the United States and Japan. This weakness is important to note, as it has a very strong social and political impact. Indeed, in recent years, globalization is the yardstick by which European citizens judge and assess the legitimacy of a united Europe. But Eurobarometer surveys continually indicate that Europe does not offer its citizens enough protection against globalization. In concrete terms, this means that Europe is expected to use trade to create more wealth in Europe, and in particular more jobs. This demand, which was notably expressed during the French debate on the European Constitutional Treaty in 2005, led the European Commission to reorient its trade policy after 2006. Significantly, the commission report entitled "Global Europe: Competing in the World" is subtitled "A Contribution to the EU's Growth and Jobs Strategy." The concern has become all the more acute since one of the major social benefits of globalization--the deflationary effect that kept down costs of imported products and thus compensated for low growth in wages--is starting to dwindle.

Certainly, EU commitment to multi-lateralism has been clearly reaffirmed. But emphasis is presently on access to emerging markets with a strong potential (namely, growing middle classes with rising consumer power). This shift has been confirmed by an increase in bilateral free trade agreements (FTAs) with countries that have high market potential or restrain penetration of European products due to import restrictions. This reorientation is all the more striking since it occurs after the freeze on free trade agreements from 2000 to 2004 in favor of a very pronounced multilateral engagement. Europe had also to renegotiate its preferential agreements with the least-developed countries to comply with WTO regulations which prohibit discrimination on a regional basis. But this move created a bilateral tension between the European Commission and African states. Some of these states believe that European Trade Commissioner Peter Mandelson is not really interested in Africa--his major concern is emerging countries and large markets.

The second vision, which I call the regulatory approach, is based on a concept of liberalization, which in turn breaks down into two dimensions. First is the instrumental dimension that seeks to frame trade with rules regarding competition, investment, and trade facilitation. Facilitation, for instance, includes such realities as the two weeks (on average) that it takes to unload a container in India versus six days in Organization for Economic Co-operation and Development (OECD) countries. These types of issues had been high on the European Union's agenda until the Cancun Conference in 2003 and 2004, where Europe felt the full hostility toward its regulatory approach. Second, and more broadly, there's the more ambitious dimension that amounts to positioning trade as part of a broader social framework. In this sense, environmental, health, and social protection issues need to be fully taken into account. This was at the heart of Pascal Lamy's political agenda when he was European Trade Commissioner. Lamy is now, of course, spearheading the entire Doha Round as head of the WTO. European concern over genetically modified foods and fears of foot-and-mouth disease have moved trade into a new realm, linking market access to environmental, health, and societal requirements.

This vision is shared by such countries as Japan and South Korea, as well as the United States. But Europe has gone the farthest in defining this regulatory strategy--one imposed by the rise of European demands for social, environmental, and health safeguards. Europe seeks to apply enlightened social norms to trade relations, and thus has every interest in encouraging its partners to align, so as not to find itself at a comparative disadvantage or caught up in a race to the bottom. This debate has been rekindled today by the issue of climate change and over taxing products that come from countries that do not respect the Kyoto Protocol. This European exceptionalism is all the more marked since it is strongly resisted by most developing countries. They see it as a new form of imperialism--wanting to impose European norms on others--or the expression of a neo-Machiavellianism that wields protectionism through Western standards. The paradox is that, within Europe, many politicians argue that, on the contrary, Europe is too open and not protected enough. That is the main argument of French President Nicolas Sarkozy, who regularly attacks the European Commission for not protecting Europeans against globalization.

Developmentalism

The third vision is a developmentalist vision held largely by the least-developed countries. Until Doha, this was entirely absent from the global discussions. Since then, it has constantly been reinforced, at least on the level of discourse. For even if the G-90 countries are economically weak, they are strong in number. Moreover, they have the support of many western NGOs that have made them aware of the unfairness of world trade rules. In the case of cotton protections and subsidies, for instance, Oxfam has helped African countries make their case against the United States at the WTO. While these countries do not have the heft to obstruct the world dynamics of trade liberalization, they can certainly slow down the entire process. In a multilateral system where opting out is not allowed, they strive to obtain special, differentiated treatment in order to prepare their markets for the harsh realities of global competition. Therefore, their position is very defensive. They have to be convinced that more opening will bring more development.

Which of these three visions will win out? Are they mutually compatible? In fact, the deadlock of multilateral negotiations at the WTO reflects the difficulty and complexity of this tripartite struggle. The European Union and Brazil may each prioritize access to their respective markets. But that doesn't mean they have the same interpretation of what market access means or implies in terms of concessions. With respect to agriculture, for instance, Europeans will never be able to go as far as the Brazilians want them to go, even if rising agricultural product prices are likely to encourage Europe to yield more ground.

These divergences very often become extraordinarily technical matters that are impenetrable to non-specialists in world trade. But that is not where the root of the problem lies. The fundamental problem lies in the fact that trade liberalization has made considerable progress in the world over the past 20 years. Furthermore, and contrary to what common sense would dictate, two-thirds of the tariff reductions in developing countries are the result of unilateral choices rather than multilateral negotiations. But due to the social and political costs--in countries both rich and poor--that further steps towards liberalization will require, the political will is very weak at this point.

Simply put, trade issues have become too political to submit to purely market demands. Therefore trade negotiations will be always difficult and unpopular for one major reason: the benefits of trade are rarely immediate and visible whereas the costs are viscerally and instantly felt. For the Doha Round to succeed, its negotiators must paint a coherent and positive picture of a future that may be quite opaque for the moment.

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