WTO in the decade
2001-2011: the Doha round fails, China takes off and Russia joins

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**ABSTRACT**

The World Trade Organization (WTO) encourages global trade by eliminating or reducing tariff and non-tariff barriers through successive rounds of multilateral negotiations. The multilateral Doha round was launched in Qatar in November 2001 – just two months after the 9/11 attacks in America. In the same year, in an event that would change the landscape of the international economy, China was given the green light to join the WTO. Ten years later, the Doha negotiations ended without significant progress. Following this failure of the multilateral approach, various nations are seeking to encourage foreign trade with regional or bilateral agreements. China has benefitted from its firm commitment to globalisation and is now the world’s second largest economy. Its share of world trade has risen from 4.3% to 12% in ten years. At the most recent WTO ministerial summit held in December 2011, Russia, the last emerging economy that was not a member of the WTO, was accepted for membership – which will be effective in 2012 after accession is ratified by the Russian parliament.

1. WTO Doha round fails. The Asia-Pacific region integrates economically

The WTO Doha Round ended on 31 December 2011 without reaching substantial agreements. Achieving a consensus among the 153 members has been virtually impossible. During the decade 2001-2011, the world has changed following the emergence of major economies such as China, India, and Brazil. Moreover, some developing countries rich in natural resources are growing, thanks in part to China. Russia, an old power that had lost much of its former greatness, still remains a major economy and will become an effective member of the WTO in 2012.

Multilateral negotiations during the Doha round became complex and an impasse was reached. Disputes were mainly about agriculture and between the
developed and developing countries – although other disputes involved a variety of issues affecting emerging nations. India and Brazil fear Chinese export expansion. The interests of the US and the European Union did not always coincide with those of Australia, Canada, and Japan. The round almost collapsed in Geneva in 2008 when the US conditioned the removal of cotton subsidies on a substantial dismantling of industrial tariffs by emerging nations. The national positions on major issues remained almost monolithic. Deadlock was certified during the eighth WTO ministerial meeting held between the 15 and 17 December 2011.

Achieving a consensus among 153 nations is extremely difficult. Nobody wants to make concessions without gains. Some nations or groups of advanced nations such as the US and the EU explored the possibility of reaching ‘plurilateral agreements’ on specific sectors. For example, the EU and 15 other countries tried to reach a plurilateral agreement to enhance the 1994 agreement on access to public markets. But the emerging nations resisted changing the rules to reach consensual agreements. The emerging BRICS nations include the major creditor to the US and the EU, yet as a group claimed to still be developing nations when negotiating with developed countries within the WTO framework. Even Pascal Lamy, WTO director general, said that some of the trade negotiation was really geopolitical bargaining. The WTO is in reality now blocked. The model of WTO negotiation will have to change if the aim is to further open markets for goods and services. Moreover, calls for trade protectionism will gain strength if there is no progress in negotiations.

However, the era of multilateral agreements seems finished in a context that is full of geostrategic and economic tensions, mainly focused on the Asia-Pacific region – the global economic engine of the current century. The collapse of the Doha round after ten years of negotiation has called into question the credibility of the WTO and revealed the absence of a plan B. However, world trade is now advancing through alternative and complementary regional and bilateral agreements. These include the establishment of free trade areas covering several countries and major examples include the China-ASEAN and South Korea-EU agreements. In fact, there is now a complex network of bilateral free
trade agreements – including agreements between China and Taiwan, South Korea and India, and South Korea and the US.

The China-ASEAN agreement, in force since 1 January 2010, forms an extensive trade area between China, Brunei, Indonesia, Malaysia, Singapore, Thailand, and the Philippines. Cambodia, Laos, Myanmar and Burma will be included in 2015 and the market will have grown to encompass 1.9 billion consumers. This agreement further increases the economic interdependence between China and the ten ASEAN countries. Another initiative is the framework agreement on economic cooperation between China and Taiwan in force since 1 January 2011. Both agreements leave Japan and South Korea at a commercial disadvantage compared to the ASEAN countries and Taiwan when competing in the Chinese domestic market. China signed other agreements with Chile (2005), Pakistan (2006), New Zealand (2008), and Peru (2009) and is studying agreements or negotiating with another 20 other countries.

South Korea, the 15th largest economy in the world and 4th in Asia (after China, Japan and India) is further opening the door to the exterior. On 1 July 2011 a free trade agreement with the EU came into force. It is the most ambitious agreement that the EU has signed with an Asian nation. Brussels is negotiating similar agreements with Malaysia, India, Singapore and Vietnam. As a result, South Korea is in the European internal market with better tariffs than China, Japan and Taiwan. The aim is to help remedy South Korea’s excessive dependence on China – which accounts for 25.8% of South Korean foreign trade, ahead of the EU (18.3%), Japan (13%), and the US (12.2%). Seoul and Washington finally ratified in 2011 another free trade agreement signed in 2007. South Korea has other agreements with Chile (2004), Singapore and EFTA (2006), ASEAN (2007 and 2009), India (2009), and Peru (2010). Negotiations are going ahead with Australia, Canada, and New Zealand.

Despite historical wounds and territorial disputes, the nations of China, South Korea, and Japan are becoming increasingly interdependent economically and
a trilateral trade agreement is being negotiated. The US does not want to see such an agreement signed although it has reacted rather late. Barack Obama has focussed on the Asia-Pacific region as America’s major strategic priority; and as part of the 19th APEC Summit, held in Hawaii in November 2011, the American president pushed forward an ambitious initiative: the Trans-Pacific Partnership (TPP). Launched in 2005 by Chile, New Zealand, Singapore and Brunei, the partnership proposes a free trade area that is compatible with WTO rules and open to all APEC members. Four other countries joined the negotiations: Australia, Malaysia, Vietnam and Peru. The TPP could become very important if after attracting the interest of the US it manages to bring Japan, Canada, and Mexico on board. Obama did not specifically invite China to join the TPP. Washington’s officially deniable aim is to contain China. America was previously focussed militarily and politically on the Middle East; but now wants to economically penetrate the vast region that links Asia to the American coast. Congress ratified on 12 October 2011 trade agreements with South Korea, Colombia, and Panama. Obama needs to correct high trade and fiscal deficits while creating more American jobs as the presidential election on 6 November 2012 draws nearer.

America is recovering while Europe remains politically disunited, economically stagnant, and socially depressed and distressed. The ghost of protectionism hovers overhead. The WTO Doha round has failed. In contrast, the economies of the Asia-Pacific region, and China in particular, continue to boom and globalise.

2. Ten years of China in the WTO

After 15 years of complex negotiations, China entered the WTO on 11 December 2001. This single event transformed the world economy. Ten years later, China has quadrupled its GDP and grown from the sixth largest world economy in 2001 to the second largest in 2010, after overtaking Japan. China grew an average of 10.5% annually and tripled its share of international trade – rising from 4.3% to 12%. In 2001, China was the world’s seventh largest
exporter and eighth largest importer of goods; as well as the tenth largest exporter of services and the twelfth largest importer of services. Ten years later, China has become the world’s largest exporter and the second largest importer of goods; as well as the fourth largest exporter and third largest importer of services. Finally, it is now the second largest destination for foreign direct investment after America. In 2010, China received a record $100 billion of investment. However, China is also the fifth largest overseas investor and overtook Japan and Britain to invest $68 billion in 2010 (figures from UNCTAD). The 2006 Fortune Global list of the world’s top 500 included just 16 Chinese companies. Ten years later, 61 Chinese firms had made the list. China’s share of the global economy is even higher if we add Hong Kong, which is a separate member of the WTO and a leader in trade and global finance. The growing influence of the Chinese diaspora around the world is also important.

China is now the world’s main economic engine and accounted for more than 40% of global growth in 2011. Commercial transactions with the West continue to grow. South-South trade between developing countries is also growing and now exceeds 20% of global trade. China’s entry into the WTO has benefited both China and world. Beijing plays a growing role as a contributor to international financial organisations such as the IMF and World Bank – and is leading the emerging nations. China is America’s biggest creditor.

From a Chinese perspective, the results are very positive. Beijing claims that Chinese imports created 14 million jobs worldwide. At the ceremony celebrating China’s tenth anniversary in the WTO, President Hu Jintao said China’s 12th five-year plan (2011-2015) will continue a process of liberalisation to gradually correct trade imbalances and encourage economic growth. Once again, he called on the US and EU to grant China market economy status (scheduled for 2016) and facilitate high-tech imports.

Yet from a western perspective, the assessment is also positive. Beijing managed a gradual reform of the legislative framework to accommodate the international legal system of the WTO. Tariffs were reduced from an average of 15.3% in 2001 to 9.8% in 2010. Non-tariff barriers were reduced and foreign
investments were encouraged. Beijing has quantified the profits made by foreign companies established in China as $261 billion since 2001. In addition, consumers in America and Europe have been able to buy cheaper products and this has helped control inflation in advanced economies. Beijing has also opened part of the services sector – including banks and telecommunications.

But the overall balance is mixed. In March 2000, Bill Clinton defended China’s accession to the WTO with the following political and commercial arguments: access would favour political reform in China while rebalancing trade and thus creating jobs in America. The West envisioned a huge market of 1,350 million consumers of western goods. However, the opposite has happened. China is still controlled by the Chinese Communist Party; and China enjoys an immense trade surplus while it continues to further penetrate Western markets.

Since the eighties, Western companies have been attracted by tax breaks and low labour costs to invest and relocate production to China. As a result, China became ‘the world's factory’. Many products that are ‘made in China’ would be better described as ‘produced in China for locally established Western companies’. The value added in China was generally negligible. This process accelerated after China entered the WTO in 2001. According to the Economic Policy Institute, the trade deficit with China has caused the loss of 2.4 million American jobs. China is now much more than the world's factory. It has climbed the technology ladder and now makes high value-added products. Chinese brands are increasingly recognised around the world.

Barack Obama frequently complains that China does not play by the rules of international trade and repeated this claim at the APEC Hawaii summit in November 2011. He took the opportunity to complain in person to Chinese Vice-President Xi Jinping during his official visit to Washington in February 2012. Obama says that the yuan is under-valued, and that intellectual property rights are ignored. He also claims that direct and indirect subsidies are offered to large public companies and these companies access low-cost Chinese funds to finance foreign investments and achieve hegemonic market control at home. Foreign companies say that they must compete on unfair terms against some
100,000 Chinese companies that are publically owned and protected by the Chinese authorities. Even the Chinese private sector must compete with public enterprises.

China protects various economic sectors from foreign competition. Just three days after the ceremonies of the tenth anniversary of WTO membership (and Hu Jintao’s promises to reject protectionism) Beijing announced antidumping measures on imports of American cars with large engines. Both nations have referred several disputes to the WTO. Foreign companies in the automotive sector must have a local partner, a Chinese strategy to gain technological know-how and business management experience. The automotive sector, including foreign brands, is growing constantly. Some 15,000 vehicles were exported in 2000, compared with 560,000 in 2010. A large part of the service sector (financial, medical, education, etc.) is still mostly denied to foreign investors.

Despite these tensions, foreign investment in China continues. Walmart opened 339 supermarkets in 124 Chinese cities and created 94,000 jobs by June 2011. Coca-Cola announced in August 2011 new investments worth $4 billion for the next three years. Foreign companies in China previously prioritised manufacturing for export, but today the trend is to establish a presence and compete for clients in the Chinese market. We will have to wait and see if the government eventually opens the service sector.

Nevertheless, China is increasingly concerned about the international economic situation on two counts.

Firstly, Beijing is worried about the prospect of a prolonged financial crisis in the EU. In 2011 Chinese exports to the EU fell by 12%. The situation worsened from the last quarter and expectations for 2012 are worrying. Japan, South Korea, Taiwan and other south-eastern Asian countries that export raw materials or components to China for processing and re-export to European markets are also suffering. In response to slowing demand from developed countries, Beijing is intensifying economic ties, trade, and finance with emerging
countries in Latin America, Africa, and the rest of Asia. Although the EU remains its main trading partner, China is diversifying its foreign trade to more robust markets.

Secondly, domestic demand in China is stalling. The threat of an implosion in property prices haunts the economy. After a decade of construction boom, housing prices began falling in 2011. Despite these price falls, more dwellings are being built to add to the stock of millions of unsold properties throughout the nation. According to Credit Suisse, China has enough unsold stock to meet demand for the next 20 years. Construction now represents 14% of the economy and a slowdown is affecting those industries and services most closely associated with construction.

The outlook for the Chinese economy is thought to be positive – yet questions remain. Western economists offer two possible scenarios: firstly, that the targets of the 12th five-year plan (2011-2015) are met and the economy grows at 7% per year; the second scenario features a hard landing – which Nouriel Roubini predicts for 2013. Paul Krugman also asked when China will crash in an article published on 19 December 2011 in the New York Times. In the article he pointed out that the economic stimulus plans implemented by Beijing since 2009 to overcome the effects of the Western crisis have weakened the Chinese financial system. Nevertheless, China still has the capabilities and size to continue growing during the next decade.

3. Russia joins the WTO

According to the IMF, Russia is the world’s ninth largest economy and the seventh largest exporter – with a GDP that equals 2.8% of the world economy. It is expected to reach a global sixth place by 2016. Russia is one of the four BRICS nations and a major exporter of natural resources. Foreign reserves total some $514 billion. It was previously the only G20 nation not in the WTO.

Russia was accepted in the WTO after 18 years of negotiations. Negotiation became difficult in the final stretch when Putin pressed for Russia’s entry to be accepted alongside Kazakhstan and Belorussia, two of Russia’s partners in the
trilateral customs union established in 2010. This claim was later withdrawn as the WTO only negotiates the accession of individual nations and not groups of nations. The last obstacle – opposition from Georgia – was resolved thanks to the mediation of Switzerland on 3 November 2011. The Georgians had blocked the Russian bid since 2008. Bilateral relations between Russia and Georgia had been broken in August of that year when, after a military confrontation, Moscow recognised the independence of South Ossetia and Abkhazia. The problem was resolved when it was agreed that a private company would control the entry and exit of goods across the border and serve as a mediator between Russian and Georgian customs.

Both the US and EU pressured Georgia to reach a compromise with Moscow. The EU is the largest trading partner and investor in Russia after China and USA; and Russia is the EU’s third largest trading partner. European imports from Russia in 2010 totalled $216 billion, mainly oil and gas. European exports to Russia were mostly industrial machinery and automobiles and totalled $117 billion.

WTO membership will help improve the battered image of Russian business. The Russian political climate is complex after the irregularities reported in the first round of presidential elections on 4 December 2011. Corruption is widespread. Capital flight totalled $80 billion in 2011. WTO membership could favour a gradual modernisation of the Russian economy. Russia is traditionally protectionist and secretive; and the national legislation will now have to absorb the body of international law that derives from WTO membership. Russia will also have to gradually lower tariffs, eliminate non-tariff barriers, open markets and service industries to foreign companies, as well as respect intellectual property rights from third countries. Government subsidies to businesses will also have to be reduced – especially to the automobile and aircraft industries.

It is hoped that Russia will honour its commitments in order to recover international respect. But, as in the case of China, there are fears that Moscow may ‘bend the rules’ of international trade. It is worth asking if the great Russian oligarchists, closely linked to the government, will abandon the business habits
acquired after years of secretive backroom dealings. These oligarchists must accept the international obligations arising from WTO membership – as well as the rights and benefits.

4. Stopping protectionism and opening doors to more trade
UN financial organisations are urging the G20 member countries to give a coordinated response to the current crisis. Confidence must be restored. Without a common response, calls for protectionism or economic nationalism – deglobalisation – may grow louder. These calls are in part a reaction to the emergence of ever more competitive nations that are gaining market share and attracting ever greater investments in every market sector. In times of crisis and high unemployment, free trade is in the spotlight. The ‘delocalisation’ of companies in developed countries towards the emerging and developing world has eliminated many jobs in Western nations. However, greater cooperation and economic interdependence with emerging economies can revitalise economies and create new jobs – providing that inertia and fears are overcome and new opportunities are grasped. America has reacted thanks to the vitality of its private sector and unemployment fell to 8.4% in January 2012. Barack Obama also revised his foreign trade strategy and opted to launch and lead the Trans-Pacific Partnership (TPP).

The Asia-Pacific region represents a challenge and an opportunity for the West. According to the UN Conference on Trade and Development (UNCTAD), the US has been the largest foreign investor – as well as the largest recipient and beneficiary of foreign investment. Many of these inward investments that created jobs in America came from the Asia-Pacific region. Europe is benefitting in the same way. According to a study published on the 14 February by the A Capital equity fund, some 34% of Chinese overseas investment in 2011 was made in Europe (two and half times more than in 2010). The old continent was – for the first time – the preferred destination for Chinese investors. Asian influence will undoubtedly grow in the future. These increasing interactions with the Asia-Pacific region are unstoppable and can benefit rather than harm the West.
France is immersed in a presidential campaign at the same time as the euro crisis – and another debate on ‘deglobalisation’ has opened. Critics from both left and right blame globalisation for many evils – including increased unemployment. Some propose raising trade walls around Europe for social and environmental reasons and claim that they wish to protect the European social model. Other voices explain that the crisis cannot be resolved by raising barriers. These voices are especially loud in Germany which has strong export industries aimed towards the East.

For Pascal Lamy, director general of WTO, deglobalisation is the wrong answer and impossible when the boundaries between domestic and foreign trade are diffuse – and even the concepts of import and export are increasingly fuzzy. In the nineteenth century, a steam engine could be made in one country such as England. Today, industrial production chains are global, so if we stop imports we slow down exports. Is a German branded car assembled in a Chinese factory strictly speaking ‘Made in China’? The manufacture of the various components in an industrial product can now be based in different countries depending on various factors. The cost, productivity, and quality of labour are important. But the quality of the transport infrastructure and logistics, the price of foreign exchange, and tax and customs systems are also influential.

We should better manage cases of social and environmental ‘dumping’ and violations of intellectual property rights by some emerging countries such as China. However, these rights were also violated by European and Asians nations when they were developing. Joseph Stiglitz is right to urge a thorough reform of international institutions to make globalisation work in a fairer, more democratic, and effective manner. Development should transform societies and improve the quality of life for everyone – and not just a select few.

Both East and West should immediately begin the structural reforms necessary to adapt to a changing world. The roots of the crisis in nations ranging from the US to India are internal and not external. Problems will not be overcome by raising walls – but by better managing scarce financial resources, producing more than is spent, reinforcing industry and services, saving, investing,
producing, and innovating to export more. The most important factor is improving human resources. Countries that are open to the outside grow more than nations that close the doors to trade.

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