



## Rules of the game: why the WTO's next head needs to learn fast

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There are two people left standing for what is either the best, or the worst, job in world trade at the moment – Director General of the WTO: Nigeria's Ngozi Okonjo-Iweala and South Korea's Yoo Myung-hee. Whoever wins has a monumental task ahead of them – the previous Director, Roberto Azevedo quit earlier than expected. He left behind him an organisation that has had the rug pulled from under it: it can no longer arbitrate on major trade disputes between countries because the US has blocked appointments to its appellate body rendering its capacity to fulfil one of its three functions next to useless.

Its other two functions, to negotiate the rules of multilateral trade deals and to ensure compliance with those rules has also been undermined. The US-China trade war has pushed the WTO's negotiation and compliance roles into the background. Tariffs have been introduced outside of these frameworks and the existential conflict now between the two powers is in technology and finance. These are fundamental to the rules that govern services and digital trade as well as trade finance as its processes become ever more digitised.

Yet the imposition of restrictions and sanctions is not through the WTO, or the orthodox route of trade negotiations. Rather, restrictions on US businesses supplying China's semi-conductor sector with manufacturing equipment have been imposed by the US Department of Commerce. China's list of "unreliable entities" is put together by its Ministry of Commerce.

To make matters worse for the new boss of the WTO, the US Trade Representative, Robert Lighthizer, knows all the rules – their strengths as well as their weaknesses. Earlier this year he published a document which expressed clearly the US dissatisfaction with the WTO as it is currently configured: the dispute settlement system is undemocratic and favours China's ability to bend rules in its favour, and the historical fact that trade agreements are still made bi-laterally outside of the framework of the WTO (the free trade agreement "land-grab" as he calls it). More than that, large trading blocs, like the EU, can form "colonial-style" deals with smaller nations that distort trade power – for example by limiting the use of "geographical indicators" like Stilton cheese, or Champagne.

But far from the US working outside the rules-based system, his reforms suggest they should be tighter: baseline tariffs for all nations, most favoured nation status to take the place of bilateral Free Trade Agreements (UK take note), no special treatment on standards for any large nation, like China, or India, a legal requirement for a level playing field in terms of state aid to prevent state-led capitalism in China from distorting global competition, and a total re-think of the dispute settlement process.

If the next WTO leader is to keep the US within the fold, they will have to work with these requirements. Even if Joe Biden becomes President after the election, there would be the same approach to trade – his "economic security is national security" mantra is about "Made in America" rather than "Make America Great Again" and he may use a slightly more emollient tone with his allies. But the fact is, he also wants rules tightened so there is less scope for distortion by "strategic competitors."

These are all reasons why this might just be the job in world trade that you don't want right now. Whoever is chosen will have to navigate their way through the rules and nationalistic interpretation of those rules if they are to make a success of the WTO.

Lighthizer's case for reform is well-made and he is not alone in saying that it is necessary. While many may disagree with the America First formulation implied by his suggestions for reform, the need for a major shake-



up is largely not in dispute. There are opportunities out there that could well bring the multi-lateral frameworks for world trade back together again: common rules and standards for sustainable trade and supply chains have to be a positive outcome. Africa's development and integration into the global trade system is vital if its dependency on the vagaries of the global economy is to be reduced. The banking and trade finance sector urgently needs standardised frameworks for digital trade and trade finance.

Above all, the accepted world of trade has been damaged by Covid 19 – it has created economic nationalism, breaches of state aid and level playing field rules, and protectionism the like of which we have not seen since before the second world war. If trade is to re-establish itself as the means for “bottom up” economic development and sustainability, then it has to be structured multilaterally because every country in the world has an interest in this outcome. Perhaps this is what could make the job the best one in world trade after all.

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