

TRADE AND PROTECTIONISM

NO MORE GRAND BARGAINS

THE WORLD TRADE ORGANIZATION'S WHOLE APPROACH TO NEGOTIATING FREE TRADE NEEDS RADICAL CHANGE

THERE is a fine line between laudable perseverance and a stubborn refusal to admit that change is needed. Those running the World Trade Organization (WTO) risk falling into the latter category. On July 31st an agreement to lubricate trade by streamlining customs rules worldwide collapsed. Narendra Modi, India's new prime minister, refused to sign the deal, painstakingly thrashed out in Bali last year, because the WTO would not change its rules to let him expand food subsidies. The spat raises a new question-mark over Mr. Modi: sound economics was the most respectable bit of his chequered CV. But it also shows that the WTO needs radical reform to survive.

India is hardly the only protectionist when it comes to agriculture. Rich countries are the worst culprits. Japan's tariffs—778% on rice and 328% on sugar—aim to block trade completely, insulating its small and inefficient producers from competition. The European Union's common agricultural policy soaks up 40% of its budget. But Mr. Modi has run away from reform. India's food subsidies are massive, costing around 1% of GDP. They lead to huge stockpiles of unwanted, rotting produce, and fan pervasive corruption. Giving poor families cash or food stamps would be better at helping the neediest while minimizing waste—as Brazil, for example, has demonstrated. That is permitted under WTO rules. Mr. Modi should be working to change the subsidy regime instead of scuppering a deal that would have benefited India.

So blame Mr. Modi. But it was the job of Roberto Azevêdo, the WTO's director-general, to iron out such differences between members. Indian dissatisfaction with the WTO rules was allowed to build until it broke the Bali agreement—just as has happened before with other developing countries, even though the new emerging powers have most to gain from the stagnant “Doha round” of trade-liberalization talks.

The WTO's troubles run deeper still. Its core belief in the value of global trade liberalization is shared by this newspaper. But the way the WTO pursues this goal, by seeking grand bargains covering many industries, is not working. In theory it should promote deal making: Europe, say, will let in more South American farm produce in return for being able to sell more cars to South America. In practice, rioting French farmers don't care whether Renault's sales rise in Brazil. Attempts to strike comprehensive pacts have caused deadlock. The Doha talks have dragged on for almost 13 years. The last big trade round was concluded in 1994, before the WTO was created.

Dead as a Doha

As the WTO has stumbled on, year after year, a "spaghetti bowl" of regional and bilateral trade agreements has filled the gap. This tangle of treaties, often with mutually incompatible rules, makes global pacts ever harder to reach. It also makes the bit of the WTO that works best—mediating between countries in trade disputes—less relevant.

So Mr. Azevêdo should ditch the all-encompassing deals to pursue a number of modest ones covering specific industries: seek a deal on cotton, for instance, not one lumping together various bits of farming with customs facilitation (as in the Bali proposal). He should aim to get each done in a matter of months. In each case, if consensus is not reached, a "coalition of the willing" should be allowed to sign up and start reaping the benefits. The foot-draggers would be allowed to join later.

This would cut gamesmanship of the sort Mr. Modi has just displayed. It would be a drastic departure from the way the WTO has done business. But two decades of sustained failure is too long. Don't let the best be the enemy of the good. Better to have some small trade deals than none at all.

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