

World Trade Organization

Multiple Global Shocks Challenge World Trade as Momentum Slows

- Agreements reached at 12th Ministerial Conference, two years after scheduled date with 13th Ministerial expected for 2023.
- Global trade slowed in second half of 2022; slowdown expected to continue into 2023.
- Energy prices rose 78% year-on-year in August 2022 while food prices were up 11%, grain prices were up 15% and fertilizer prices were up 60%.

BACKGROUND

The World Trade Organization (WTO) is the only global international organization dealing with the rules of trade between nations. Its main function is to ensure that trade flows as smoothly, predictably and freely as possible. At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations, and ratified or approved in their parliaments or legislatures. The goal is to help producers of goods and services, exporters and importers conduct business.

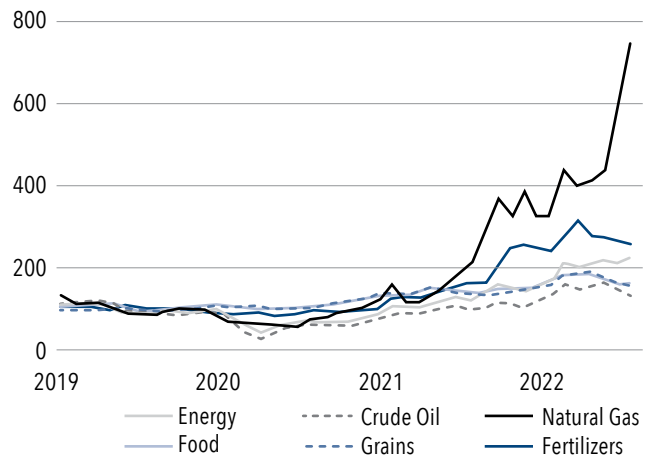
In 1994, the U.S. Congress approved the trade agreements resulting from the Uruguay Round of multilateral trade negotiations under the auspices of the General Agreement on Tariffs and Trade (GATT). The agreement liberalized world trade and created a new WTO, effective January 1, 1995, succeeding the 47-year-old GATT.

The GATT had been created in 1948 to expand economic activity by reducing tariffs and other barriers to trade. The Uruguay Round agreements built on past successes by reducing tariffs by roughly one-third across the board and by expanding the GATT framework to include additional agreements.

The WTO is a multilateral treaty subscribed to by 164 governments, which together account for the majority of world trade (with more than 20 nations negotiating their accession).

PRIMARY COMMODITY PRICES

(January 2019–August 2022)



Source: World Bank/World Trade Organization.

WTO FUNCTION

The basic aim of the WTO is to liberalize world trade and place it on a secure foundation, thereby contributing to economic growth and development, and to the welfare of people around the world. The functions of the WTO are:

- administering WTO trade agreements;
- providing a forum for trade negotiations;
- handling trade disputes;
- monitoring national trade policies;
- offering technical assistance and training for developing countries; and
- cooperating with other international organizations.

The ultimate goal of the WTO is to abolish trade barriers around the world so that trade can be totally free. Members have agreed to reduce, over time, the most favored nation duty rates to zero — along with abolishing quotas and other nontariff barriers to trade. There are more than 60 agreements dealing with goods, services, investment measures and intellectual property rights.

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Part of the Uruguay Round agreements creating the WTO requires the White House to send a report to Congress evaluating U.S. membership in the organization every five years. Following the report, members of Congress may introduce legislation opposing U.S. membership.

IMPACT

Successful multilateral negotiating rounds have helped increase world trade; the WTO estimates the 1994 Uruguay Round trade deal added more than \$100 billion to world income. The World Bank estimates that new successful world trade talks could bring nearly \$325 billion in income to the developing world and lift 500 million people out of poverty. Other studies have shown that eliminating trade barriers would mean \$2,500 per year in increased income to the average U.S. family of four.

For U.S. businesses, successful implementation of WTO negotiations would translate to:

- expanded market access for U.S. farm products;
- expanded market access for U.S.-manufactured goods;
- reduced cost of exporting to some countries; and
- improvement in foreign customs procedures that currently cause shipment delays.

2022 ACTIVITY

In 2022, the WTO finally held its 12th ministerial conference, which originally had been planned for June 2020 in Kazakhstan. The conference, which was held in Geneva and co-hosted by Kazakhstan, was extended by two days to allow for more discussion.

U.S. officials at the meeting, including U.S. Ambassador to the WTO Maria Pagan, who was confirmed in March 2022, were optimistic about meeting outcomes. WTO members agreed to formally launch a discussion on reforms, extend a moratorium on digital trade, partially curb fishing subsidies, allow developing countries to authorize generic production of COVID vaccines, and approve statements to discourage countries from imposing food export restrictions.

In 2022, world trade lost momentum due to multiple shocks on the global economy with import demand softening, high energy prices in Europe, the Russia-Ukraine war, tightening monetary policy, zero-COVID policy in China, and the food insecurity and debt in developing countries. The congestion and backlogs at U.S. West Coast ports at the beginning of 2022 that compounded supply disruptions worldwide

decreased by the end of the year, resulting in a small positive impact on the resurgence of imports.

At the end of 2022, global merchandise trade will have grown by about 3.5%, which was slightly better than what the WTO forecast earlier in the year, while world gross domestic product (GDP) will have increased by 2.8%. In the first half of 2022, total merchandise trade was up 32% compared to 2019, reflecting a change in prices as merchandise trade values grew at double-digit rates while trade growth in volume remained in the low single digits.

ANTICIPATED ACTION

The WTO is expected to stay on its previous pre-pandemic timeline and hold the 13th Ministerial Conference by December 2023, with either Cameroon or the United Arab Emirates hosting the gathering.

According to the WTO's trade outlook for 2023, trade momentum is expected to remain subdued as a result of multiple shocks on the world economy. World merchandise trade is expected to slow to 1% growth in 2023, with total world GDP growing by 2.3%.

Among the many potential risks to world trade in 2023 are a prolonged Russia-Ukraine war, rising inflation, global recession and a potential decoupling of major economies from global supply chains, which could exacerbate supply shortages and eventually reduce productivity. Despite these risks, the WTO is predicting the Middle East will see the strongest trade growth in 2023.

Conversations on WTO reform will continue in 2023, focusing on a dispute settlement system that can better help members resolve disputes in an efficient and cost-effective manner.

U.S. farm groups also are hopeful for new agricultural talks in the coming year to address core issues of market access, domestic support and export competition, as well as new issues of trade liberalization, biotech, agricultural sustainability, and climate change mitigation.

CALCHAMBER POSITION

The California Chamber of Commerce, in keeping with longstanding policy, enthusiastically supports free trade worldwide, expansion of international trade and investment, fair and equitable market access for California products abroad and elimination of disincentives that impede the international competitiveness of California business.

The WTO is having a positive impact on how California producers of goods and services compete in overseas markets, as well as domestically, and is creating jobs and economic

growth through expanded international trade and investment.

The WTO gives businesses improved access to foreign markets and better rules to ensure that competition with foreign businesses is conducted fairly.



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