

# Chapter **II.8**

## **Reflections on the Role of WTO in a New Context**

**Vo Tri Thanh**

Ministry of Planning and Investment, Vietnam

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## **II.8 Reflections on the Role of WTO in a New Context**

Vo Tri Thanh, Central Institute for Economic Management (CIEM), Vietnam

### **1. Introduction**

Together with world economic growth, trade and investment have emerged as key channels for improving prosperity and people's living standards. Various international institutions, most notably the World Trade Organization (WTO), have been established to facilitate trade and investment beyond the national level. Yet the development gaps between WTO Members, particularly between developed and developing economies, persist partly due to the unequal distribution of trade- and investment-related benefits induced by various distorting measures.

With a view to narrowing the gaps by making trade and investment more liberalized, but at the same time beneficial to developing economies, the Doha Development Round was launched in Doha, Qatar in 2001. The focus of the Doha Round was new negotiations, although a significant portion of the agenda also concerns the implementation of current agreements within the WTO framework. However, the negotiations have not advanced as expected. Despite progress on the Singapore issues and agriculture, and in narrowing the differences between Members' approaches, certain gaps remain hardly bridgeable and, after years of languishing, may threaten the conclusion of the Doha Round itself.

This chapter reviews the current context and some ideas that may have a bearing on the current WTO regime. The remainder of the paper is structured as follows. Section 2 examines the current context and perspectives of the WTO regime. Section 3 then reviews some new thoughts on global trade governance. Finally, Section 4 briefly notes some priority issues for the top of the next WTO Ministerial Meeting agenda.

### **2. WTO: Current context and perspectives**

Drawing from past achievements with trade liberalization, the conclusion of the Doha

Round is expected to bring about significant benefits to Member economies. Such benefits range from direct ones, such as improved market access and decreased vulnerability to unfavorable changes in foreign trade and investment regimes, to more indirect ones gained from domestic reforms and trade facilitation. It is worth noting that PTAs, although important, are by themselves not a replacement for multilateral agreements. They just seek to enhance trade and related opportunities between much smaller groups of economies. Nevertheless, PTAs typically fail to enforce disciplines, particularly on anti-dumping, agricultural subsidies, and rules of origin. This can only be done at the multilateral level. More seriously, different PTAs with different levels of commitments may distort the allocation of resources to the economies involved. As such, members have turned to the Doha Round for a more coordinated framework for trade liberalization.

ASEAN and East Asia remain, and should continue to be, open to the whole world. Meanwhile, countries within the region have deepened economic integration. ASEAN has set a target for building up the ASEAN Economic Community by 2015, and its Members are taking concrete steps towards meeting this target. Moreover, countries in ASEAN and East Asia also enjoy close cooperation and connectivity which go well beyond that foreseen under traditional PTAs. Replicating such efforts at the multilateral level is hardly possible at this stage, but it should be a target for all parties in Doha Round to aspire to.

Notwithstanding the original hopes of its progress, the Doha Development Round now seems to be heading for failure. Various meetings of Trade Ministers have failed to bring about significant progress. Talks on liberalizing agricultural trade are still stalled. Special and differential treatment proposals for developing economies have been deemed inadequate. Meanwhile, the negotiations under the Doha Development Round have so far failed to make way for a rebalancing of the power of major developed countries (such as the US and the EU) and that of the newly emerging

markets (especially Brazil, Russia, India, China and South Africa) in the global trading system. Disagreements on these issues, with the underlying concern about uncertainty of a win-win situation following further multilateral trade and investment liberalization, are impeding the progress of the Doha Development Round.

As a result of this stagnation, Member economies are searching for alternatives, albeit less so multilaterally, for moving the liberalization agenda forward. Preferential trade agreements (PTAs) are proliferating, with participation of various economies irrespective of their development levels. The proposed Trans-Pacific Partnership (TPP) agreement has attracted a wide membership. Other recent notable efforts include the negotiation of a US-EU PTA (TTIP), the Regional Comprehensive Economic Partnership (RCEP), and the trilateral China-Japan-Korea PTA (CJK FTA). This is not to mention a number of other smaller PTAs, which contribute to exacerbating the so-called spaghetti-bowl syndrome. The increase in PTAs – an exception provided for under the WTO regime – seemingly undermines Member economies' deference to WTO as the lead forum for global trade liberalization.

Nevertheless, the WTO, as the multilateral trading regime with the widest scope, maintains its relevance even in light of the current contextual changes. The regime serves as the best available foundation for promoting and deepening efforts towards trade liberalization, while still allowing for efforts to promote trade PTAs. Even with the increasing number of PTAs and plurilateral initiatives designed in an attempt to get around the stalled Doha Round, commitments made by WTO Member economies under such agreements *must* still be WTO-consistent. As such, even in an indirect sense, the WTO preserves the momentum for moving forward towards deeper economic integration.

Also, given its multilateralism, the regime allows less distortion of the trade and welfare of member economies. This is demonstrated by the large literature on the ex

*ante* and/or *ex post* welfare-improving effects of WTO accession for various recently acceding Members. Accordingly, the questions now are whether the scope of WTO commitments can be expanded, and whether the depth of such commitments can be rationalized consistently with Members' development context, rather than whether the WTO process can be reversed.

Moreover, in spite of certain claims that it is limited in power and enforceability, the WTO's dispute settlement mechanism is still regarded as instrumental in encouraging more rules-based trade practices of Member economies. In turn, this will improve the overall transparency of the global trading regime. The increase in the number of trade disputes reported in recent years apparently does not show that the current trade practices are mutually respected, but it does imply that member economies are turning towards a more commonly agreed multilateral mechanism for dispute settlement.

Finally, as its name implies, the Doha Development Round incorporates greater cooperation for development. Specifically, provisions by more developed Members to developing ones constitute an important topic for discussion. These provisions have been quite a remarkable characteristic of PTAs in East Asia (Vo and Nguyen 2010), but raising their incidence at the global level faces difficulties not only in terms of lack of consensus on their necessity, but also in terms of the extent of their applicability. In this respect, the WTO still provides the leading global platform on aid for trade. Accordingly, the provisions on development cooperation, if adopted, will ensure that aid for trade will provide the largest possible improvement of welfare, particularly to developing Member economies.

Nonetheless, the WTO regime in general, and the Doha Development Round in particular, are facing the strongest ever criticism. There are various dimensions to these criticisms. On the one hand, the challenges lie in the attempts of WTO

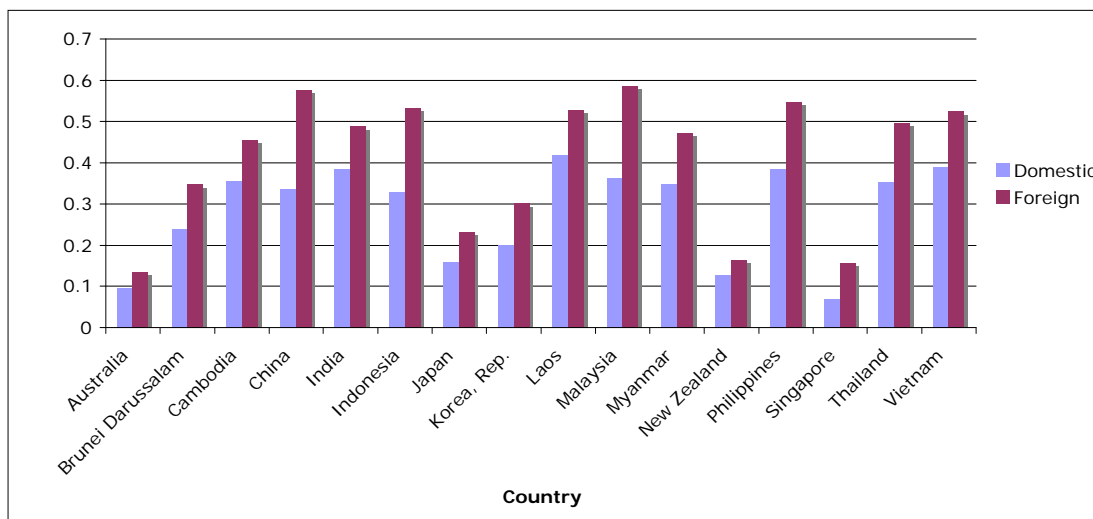
Members to adopt the commonly agreed single undertaking for trade and investment liberalization. Given that most of the small and/or developing Member economies are rule-takers, this seems to result from failure of major trading partners to propose, develop and bring into negotiation such a package. On the other hand, the WTO is increasingly referred to as a talking club. Member economies are raising more issues related to their development needs and what they expect from other trading partners. Meanwhile, the same Member economies have been reluctant to discuss and/or make needed concessions on the liberalization front. This problematic Doha-Round-impeding reluctance is even prevalent among the advanced Member economies, if not more so. These issues are real and solvable, but they require more concrete actions than talk in order to realize the objectives of the Doha Round. Otherwise, the fear is that the stalled Doha Round negotiations could undermine the transparency of the WTO as the single global trading regime.

### **3. New thoughts on global trade**

Although actual progress in terms of improving global trade governance and promoting multilateral trade liberalization under the Doha Round has been limited, new thoughts on global trade are still being expressed. *First*, more scholars are documenting how improving supply chain connectivity is a means to facilitate global trade. Following periods of reducing and/or eliminating tariff and non-tariff barriers against imports as *per* the old generation of PTAs, impediments to the international flow of goods, services, labor and knowledge now lie mainly in various forms of domestic policies that exhibit regulatory attempts to segment markets. In fact, these impediments are popular in those various developing and newly emerging markets that follow a mercantilist approach to promoting exports and restricting imports (see **Figure 1**). Basically, the regulatory impediments either purposely or unintentionally impose additional compliance costs on traders and enterprises that may well shift their minimum efficient scale. More importantly, these impediments cannot be managed at the border. The costs can be larger in the economies which lack strong

regulatory coordination across government agencies, which may in turn lead to different standards and regulations that affect trade.

**Figure 1: Logistics restrictiveness indices, selected economies**



Source: Hollweg and Wong (2009).

The scope for reducing supply chain barriers is greater than that available for abolishing or reducing prevailing tariffs. In the recent report by the World Economic Forum, in collaboration with Bain & Co. and the World Bank, it was found that reducing supply chain barriers could have an impact – up to six times larger than that of removing all remaining import tariffs – in terms of increasing global GDP. Meanwhile, with a projected improvement in both border administration procedures and transport and communications infrastructure services,<sup>48</sup> global GDP may rise by 4.7 per cent, as compared with a 0.7 per cent increase in global GDP following complete worldwide tariff elimination.

The impacts of non-tariff measures on trade are acknowledged by governments, though they tend to adopt measures against imports and intentionally persuade partners to facilitate their exports. With insufficient mutual confidence, this may lead

<sup>48</sup> All countries raising their performance in these two areas halfway to global best practice as observed in Singapore.

to a situation in which no one would want to proceed unilaterally towards trade liberalization. Moreover, as argued by Hoekman (2013), the current approaches jointly pursued by governments are suboptimal because they focus on specific policy instruments independently. Small and developing economies that are followers in the process, would therefore want to wait to see the offers/actions of major advanced economies in the process. Meanwhile, major advanced economies act for their own sake and generally refrain from transparently making their concessions or proposals for trade liberalization.

An alternative approach would be to have the participating governments thinking about moving towards supply chain connectivity. Thanks to trade expansion at the global level and the promotion of foreign direct investment at the regional and domestic levels in recent decades, the production process of final products is increasingly divided into more and more segments and production networks. As such, one can hardly imagine a product that is completely produced in any single country. Governments also need to alter their perspectives. Encouraged by thought of forming an important link in a supply chain, governments should take more action to facilitate trade and investment activities. In turn, this may require a change in approach, which should no longer be product- or industry-targeted. Underlying this process is the willingness of governments to incorporate the participation of the business communities at all stages of policy formulation.

*Second*, the view on agricultural trade liberalization is now increasingly linked to food security. In fact, demand for agricultural products in various regions, especially staple foods, has increased rapidly while the availability of arable land and/or cultivation areas has not expanded significantly. The consequent shortage has to be met either through improved productivity of agricultural production, which has almost reached its limits, or via imports from other regions that have a surplus of agricultural products. Perceptions on agricultural subsidies thus become more complicated, as they involve



consideration of food security for local populations (not to mention job security for farmers). Undue dependency on imported products can be risky due to the possibility of adverse climate shocks in exporting countries, and the extent of risk may be subject to political tensions between trading partners.

De Schutter (2009) lists the key challenges in agricultural trade that cannot be resolved within the current Doha Round negotiations. The fundamental issue in his view is that the negotiations fail to incorporate people's right to food. This issue could have several consequences such as: (i) vulnerabilities to weakening balance of agricultural trade, resulting in a loss of foreign exchange reserves, and to increasing import prices of agricultural products; (ii) reliance on imports of agricultural products leading to greater bargaining power of agricultural traders, which are mostly transnational corporations; *and* (iii) supply chains over long geographical distances and unsustainable modes of production. Taking these considerations into account, it may require more than the Doha Round to meet the need for jointly promoting agricultural trade liberalization and ensuring food security.

*Third*, recent literature also puts greater emphasis on sustainable development issues which need to be integrated into the future trade agenda. On the one hand, the lessons from the global financial crisis show that focusing too much on promoting exports and achieving a trade surplus may result in prolonged global macroeconomic imbalances which, after reaching a certain cumulative level, may hinder the economic growth of participating economies. Moreover, the adverse impacts of any regional or international crisis may be transmitted more rapidly to member economies which, as demonstrated by the experience of the recent financial crisis, failed to acquire sufficient resilience. In fact, the crisis even increased incentives for economies to revert back to protectionism, thereby undermining the credibility of their own recent liberalization efforts.

From the perspective of many developing economies, the recent crisis offers an opportunity to rethink development paradigms. The target paradigm should retain the core components of economic growth, underlying institutions (specifically the right interactions between the state–market–integration), and policies for the efficient allocation of resources (particularly capital). Market-based institutions, and further trade and investment liberalization continue to be of relevance, but are insufficient by themselves. Instead, they should be complemented by efforts to establish efficient markets of all types, and to develop a system of efficient ‘hard’ and ‘soft’ infrastructure to facilitate and encourage cross-border economic activities. This opens up space for newer forms of development cooperation between developing and developed economies.

*Finally*, some ideas about an alternative regime for global trade also need to be elaborated. Given the current contextual changes as well as the issues and challenges underlying the stalling of the Doha Round, most of the literature contends that the current WTO regime is failing to work at its best. Baldwin (2013) suggests that a new WTO regime that can address the fragmentation and/or exclusion of various major trading partners from mega-PTAs – such as the TPP, RCEP, or the US-EU TTIP – is necessary. This regime should attain similar multilateralism to the current one, but wider scope for participation may also entail more practical challenges and difficulties. There is likelihood that such a variable geometry regime may never be put in place. Another possible solution involves the adoption of a plurilateral approach by a group of like-minded countries or economies to address common negotiating issues. This approach is examined by Nakatomi (2013), who notes that the key to success lies in including a critical mass of major WTO Members as signatories. Although the plurilateral approach may not work as a replacement for the WTO it may under certain conditions help to address the trade-related needs of developing economies.

#### **4. Key issues for the WTO Ministerial Meeting**

Given the insufficient, albeit hard earned, progress made in the previous Ministerial meetings, one can hardly expect breakthroughs in the forthcoming WTO Ministerial Meeting that can push the Doha Round towards conclusion. Nevertheless, the Meeting can lay the foundations for smoother subsequent negotiations by agreeing in principle to certain changes. Several specific issues for negotiations in the forthcoming Meeting are listed below.

*First*, the framework for agricultural trade liberalization should be amended. It should be brought into line with food security as a public good for concerned economies. Specifically, as argued by De Schutter (2009), this framework should address the issue of people's right to food. Merely retaining the current permitted support to agriculture, even with some special and differential treatment (SDT) for less developed economies, will not be sufficient.

*Second*, similar to agricultural trade liberalization, negotiations on industrial goods (i.e. non-agricultural market access) should also make a critical breakthrough towards ensuring that developing economies get a fairer share of access to developed country markets. Given that the developing economies vary in terms of their own development level as well in terms of their experience with industrial production and exporting, the design of an appropriate liberalization roadmap as well as provision of SDT for sub-groups of developing economies may be necessary.

*Third*, services liberalization should be given higher priority on the negotiation agenda. This may not happen without a concrete mutual understanding of the scope and implications of services liberalization. An ambitious plan for services liberalization is still desirable, but may not be feasible at this stage. As such, focusing on liberalization of the logistics sector alongside trade facilitation may pave the way forward.

*Fourth*, environmental issues should also be a subject for negotiation. While Members can agree on the long-term need for protection of the environment, specific commitments and associated support mechanisms can facilitate the production of environment-friendly goods and services, very few Members see this as being different from negotiations on traditional non-tariff measures. Requiring transfer of standard-compliant technology from more advanced members should be compulsory, although this can be conditioned on the absorptive capacity of receiving economies as well.

*Fifth*, WTO Members need to rethink whether a single undertaking approach is still appropriate, or whether they should endeavor to address as many commonly agreed priorities as they can. A single undertaking is more transparent and less distorted, but it can take forever to make material progress. Meanwhile, given the past delays in the negotiating process, achieving any priority now could be pivotal to the success of post-Bali negotiating advances.

It should also be borne in mind that the above-described attempts may proceed alongside other plurilateral approaches to trade liberalization. From the experience of the Asia Pacific region as a dynamic subset of the global trading system, any intermediate progress towards the final objective – i.e. trade liberalization for the region as a whole – would be considered essential. A decade ago, one would not have expected a PTA for the Asia Pacific region (i.e. the FTAAP) to materialize. This vision now seems more likely thanks to efforts to negotiate and conclude various intermediate PTAs such as ASEAN+1 FTAs, RCEP, CJK FTA, and the TPP. These achievements came almost as a surprise given the great diversity of regional economies and development levels. In this regard, the capacity to coordinate and harmonize integration tracks is essential and, from regional experience, small groups of countries can in turn play a key role.

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