

Chapter **II.3**

Singaporean Perspectives on the WTO Ministerial and Asian Integration

Hank Lim

Singapore Institute of International Affairs (SIIA) and Chair of ERIA Academic
Advisory Council

November 2013

This chapter should be cited as

Lim, H. (2013), 'Singaporean Perspective on the WTO Ministerial and Asian Integration', in Fukunaga, Y., J. Riady, and P. Sauvé (eds.), *The Road to Bali: ERIA Perspectives on the WTO Ministerial and Asian Integration*. ERIA Research Project Report 2012-31, Jakarta: ERIA, UPH and WTI. pp.50-59.

II.3 Singaporean Perspectives on the WTO Ministerial and Asian Integration Hank Lim, Singapore Institute of International Affairs (SIIA) and Chair of ERIA Academic Advisory Council

1. Introduction

World trade governance is at a crossroads. For more than 60 years, the GATT/WTO advanced through two processes, liberalization and rule-making. In the past, the liberalization of world trade has been followed by a regular updating of trade rules to reflect the new realities of the world trading system. This twin process appears to have come to a halt as the Doha Development Round (DDR), launched in December 2001, is still not finished and appears unlikely to become so anytime soon.

Since the start of the 21st century, the WTO has achieved little success in negotiations on opening global markets. For the past 12 years, WTO Members have tried various negotiating modes and resorted to many different levels of engagement, including significant high-level participation. Yet many issues remain unresolved. The Doha Development Agenda is often cited as the most urgent task of the WTO at present. Underlying the immediate task of completing the DDR, the WTO is faced with major and unprecedented structural changes in the global trade landscape. Firstly, emerging economies and regions have become major growth poles. Secondly, the mode and process of trade have been changing and evolving. The recent work done on measuring trade in value added, by the WTO, the OECD and others, shows that global value chains are increasingly determining production location and trade and investment flows. Thirdly, another challenge for the WTO is the increase in the number of preferential agreements - bilateral and regional - that WTO Members are a party to. Lastly, global trade has become more complex as environmental, food and energy security issues have become intertwined with traditional trade issues.

2. Addressing key challenges

2.1 What should be the main agenda of the Bali Ministerial Conference if it

is to produce tangible outcomes?

It is often argued that one of the main objectives of the 9th WTO Ministerial Conference is to conclude the long-delayed Doha Development Round (DDR). Having considered that there is as yet no general consensus on the issues of market access for agricultural products, services, and the linkage of trade and development, the odds are very much against a successful completion of the DDR any time soon. There is also a policy focus on putting together an 'early harvest' package to be agreed at the 9th Ministerial Conference (MC9) in Bali. It has been agreed that a balanced early harvest package would cover trade facilitation, including capacity-building components, together with development components in agriculture and a least-developed countries (LDCs) package. A successful outcome of the early harvest package will necessitate an intensive process of negotiations on its various elements in Geneva.

At a minimum, the outcome of MC9 should be a strong reaffirmation and a concrete follow-up of the WTO principle of simplicity and predictability that comes with a single set of global trading rules that have benefited all countries and stakeholders for more than 60 years. Such an outcome, by maintaining confidence in an open, rule-based, fair and balanced trading system, would be in the shared interests of countries that have assigned to trade a central role as an engine of global economic growth.

The DDR impasse is attributable to the process as much as the outcome. Due to rapid and major changes in the global economic situation and the global trade structure, plurilateral, regional and bilateral free trade agreements (PTAs) have become major components of the trading system's landscape. Conceptually, the WTO-anchored multilateral trading system should remain the overarching framework to guide preferential trade agreements based on the basic principles of the WTO. Alternatively, the PTAs should serve as WTO building blocks rather

than representing potential stumbling blocks. The regional economic integration (REI) process could serve as the mechanism for achieving the eventual outcome of a transparent, high-quality, and comprehensive trade regime, on the assumption that REI is based on and consistent with core WTO principles

2.2 How can WTO Members use the Bali Conference to impart vigor to multilateral cooperation?

It is the intrinsic responsibility of WTO Members, despite the recent proliferation of PTAs, to respect certain principles and governance edicts embedded in the WTO. For example, global value chains will function more efficiently under the multilateral trading system with one set of rules, standards and market access commitments. This can be contrasted to the more inefficient and higher costs of doing business based on multiple rules, standards and schedules of tariff reduction under PTAs. A recent survey conducted by the WTO indicated that a large majority of businesses believed that the WTO was vital for doing business. In addition, feedback from various sources has clearly demonstrated that the role of the rules-based trading system, the WTO's unique dispute settlement procedures, and the monitoring of WTO commitments through peer review is important evidence of the continued relevance of the WTO. The current WTO system is deemed fair and equitable by the private sector, which is the driving force of trade as an engine of growth. Therefore, the Bali Ministerial needs to secure strong support from the private sector, consumers and other international organizations to impart vigor and strengthen international and domestic constituencies in support of multilateral cooperation.

In order to reap the full benefits of trade, the multilateral trading system has to be inclusive. This entails involving the LDCs so that they can also benefit from greater market access opportunities. For trade to support structural transformation, an appropriate international and domestic enabling environment

must be established to provide a level playing field enabling LDCs to overcome their many structural challenges. In other words, WTO Members have to re-affirm and supply operational forms of special and differential treatment for developing countries, for example, through aid for trade and the effective implementation of the existing Enhanced Integrated Framework (EIF) for LDCs. Special and differential treatment should be based on providing a longer period for LDCs to adjust, rather than lowering the standards aspired to by various WTO agreements.

2.3 What priorities should ASEAN and East Asian countries pursue at the Bali Ministerial?

For the past sixty years, ASEAN and East Asia have hugely benefited from an open and multilateral trading system. The economic prosperity and dynamism of the region owes much to the WTO system. It is, therefore, incumbent on ASEAN and East Asian countries to strengthen the process and applicability of the WTO system by aligning and harmonizing their many PTAs to make them consistent with WTO rules and obligations.

Specifically, as an open and dynamic region, it is advantageous to promote comprehensive, transparent, simple, rules-based and high-quality PTAs. For example, the ASEAN Economic Community's (AEC) Regional Comprehensive Economic Partnership (RCEP), and the Trans-Pacific Partnership (TPP) should strictly adhere to and be guided by the basic WTO principles. From an economic perspective, preferentialism is almost certainly sub-optimal, but from a political economy or practical viewpoint it offers a more feasible and convenient way of achieving desired integration outcomes.

ASEAN and East Asian countries should strive for the adoption of regional dispute settlement procedures, as well as for transparent and predictable rules-based trade and investment regimes consistent with WTO rules. In moving

forward on trade in services, ASEAN is striving to conclude a WTO-plus agreement. Many of the 29 chapters under negotiation in the TPP are new and are outside of the WTO's disciplinary purview, such as 'behind-the-borders' horizontal issues of competition policy, new aspects of intellectual property rights (IPRs), small and medium-sized enterprises (SMEs), and global value chains. These offer useful initial platforms for further, subsequent, discussions at the multilateral level.

ASEAN and East Asian countries should strive to build a solid consensus among their members for strengthening WTO principles and rules by negotiating on trade in goods and services, investment and behind-the-border horizontal rules and regulations that would facilitate global value chain production, trade and investment. Even though PTAs are proliferating, WTO principles remain valid and would facilitate the negotiations and conclusions of the AEC, RCEP and TPP. It often appears as though the WTO and preferential initiatives are at odds with each other and going in opposite directions. In fact, it is both feasible and desirable that the WTO and PTAs be complementary and mutually reinforcing. PTAs can serve as useful experimental platforms to eventually ratchet up existing WTO agreements (or adopt new ones) to cover more sectors and involve more WTO Members based on an open accession principle as embedded in RCEP and the TPP.

2.4 How relevant is the WTO to the process of deepening economic integration in ASEAN and East Asia and the trade governance priorities of EAS member countries?

The process of deepening economic integration involves a lot of behind-the-border issues such as competition policy, IPRs, standards and conformity assessment, harmonization and standardization of trade policies and domestic adjustment measures. The issue of relative benefits and costs is crucial to

participating members engaged in deepening economic integration. The rules-based, predictable and transparent (uniformity of rules to stakeholders) system of the WTO is better adjusted and more effective in distributing the relative benefits and costs of deeper integration as there is wider policy space for Members to negotiate than there often is under PTAs.

ASEAN and East Asia is a region of great diversity in terms development levels, modes of governance and the sophistication of public administrations. Therefore, by strengthening the WTO principles of transparency and harmonized trade governance, the AEC and RCEP processes would be facilitated and reinforced. In a situation of diversity and global economic uncertainties, a reinforced multilateral trading system can significantly contribute towards more global growth through a more efficient allocation of resources, division of labor and production networks. In fact, with the existence of a robust multilateral trading system, PTAs would be facilitated as the former provide guidelines, safeguards and a dispute settlement mechanism. The WTO system is a 'first-best' solution for engendering global growth, increasing employment, providing trade facilitation and achieving development goals.

2.5 How do the TPP, RCEP and the realization of the ASEAN Economic Community facilitate the process of multilateralizing regional advances?

The WTO is based on the most-favored nation (MFN) and national treatment principles embedded in the multilateral trading system. These principles are the 'first-order-conditions' for advancing and maintaining a rules-based, fair, and transparent global trading system. Paradoxically, this system is being gradually abandoned and eroded. If the multilateral trading system is robust and supported by its members, particularly by the world's major economic powers, the proliferation of PTAs would not pose a threat to the WTO. Rather, such agreements can serve as important building blocks of the multilateral system.

Therefore, it is vital to initiate and structure PTAs based on the principles of the WTO and, if necessary, through the WTO's variable geometry and other innovative approaches.

The variable geometry approach relates to suggestions to pursue sectoral agreements. Examples include an agreement on environmental goods and services and the Information Technology Agreement 2 (ITA2). Another approach would be to pursue a plurilateral agreement on services outside the Doha mandate. The objective is to continue the process of opening up trade in a gradual, step by step, manner within a subset of like-minded Members. The vital issue is how these different approaches can be taken while at the same time respecting the principles of transparency and inclusiveness that are embedded in the WTO.

Sectoral agreements among a subset of members are feasible if these members account for a critical mass of trade in the sector and if the benefits of the negotiations are extended to all WTO Members on an MFN basis. The ITA and the proposed Agreement on environmental goods and services are designed to be applied on an MFN basis. Both the ITA and the EGS (environmental goods services) were brokered within APEC and then taken to the WTO for multilateral adoption. These approaches are good examples of the complementarity that can and should be nurtured between regional and multilateral processes. In the same manner, many chapters being negotiated in the TPP, RCEP and the AEC can be extended on an MFN basis if they meet the criteria applied in the ITA and proposed agreement on EGS. Specifically, objectives relating to trade facilitation, to narrowing development gaps, as well as formula-based approaches to services negotiations in the AEC process could all lead to WTO-plus agreements. Many chapters being negotiated under the TPP are WTO-plus in design, and new issues outside the purview of the WTO can gradually be integrated into the WTO

process.

In the second category, on a non-MFN basis, are formal plurilateral agreements under the auspices of the WTO. One example is the Government Procurement Agreement (GPA), which was approved by all Members in Marrakesh and was recently upgraded and expanded in Geneva. Such non-MFN agreements may be negotiated within or even outside the WTO if they do not impinge on existing WTO rights and obligations. A plurilateral agreement on services that is currently being negotiated by a group of countries interested in deeper liberalization in services trade offers another example. Its application to other (non-participating) WTO Members has not yet been determined. If the negotiations are successful, the agreement could be structured as an Article V-compatible PTA agreement under the GATS.

Indeed, high-level and non-discriminatory agreements in the TPP, in some chapters of the RCEP, and in the AEC, can serve as initial platforms to devise agreed negotiating modalities to widen the scope and application of new agreements on an MFN basis to all WTO Members. With increasing faith and confidence in the virtues and benefits of the multilateral trading system the process would, in turn, facilitate and expedite the ongoing process of PTA talks. In an increasingly polarized, uncertain and fluctuating global economy, there is a clear and convincing imperative for a workable and functioning WTO. Without its overarching global framework, regional integration through PTAs may engender instability and uncertainty in the global economy. Ultimately, the role of trade as an engine of growth could be greatly diminished.

It is one of the great paradoxes of our time that we live in an interdependent world, but one that is administered and ruled by a governance system often driven by geo-political and geo-economic considerations. Such a fragmented

system is intrinsically non-transparent, arbitrary and unpredictable.

The ASEAN Economic Community (AEC) is based on the AEC Blueprint and its various pillars to achieve its objectives by 2015. The second AEC pillar relates to the creation of a competitive region and the fourth pillar concerns connectivity to the global market. The AEC concerns the regional economic integration of 10 Southeast Asian Member States, but it subscribes strongly to the idea of an open region. The strengthening of the WTO would facilitate the realization of the AEC and subsequently of RCEP. In turn, ASEAN-initiated PTAs would become one of the building blocks of the multilateral trading system.

The 9th WTO Ministerial Conference provides a strategic opportunity with potentially far-reaching implications for global growth over the next 20 years. With Roberto Azevedo of Brazil as the new WTO Director-General and holding the Ministerial in Bali, the birthplace of the ASEAN Economic Community and RCEP, all WTO stakeholders harbor high expectations that an important benchmark could be reached. Such a spark of confidence would instill faith in and impart dynamism to the WTO at this critical juncture of its young history.

3. Conclusions

At the 9th WTO Ministerial Conference, Trade Ministers must agree on innovative and workable mechanisms by which to reach a consensus on moving forward with the DDR and beyond. The traditional approach to negotiations has not been successful in concluding the DDR, as the WTO's increasingly diverse membership has not been able to reach a consensus on a number of important issues. The central contention is not so much on the objectives of the DDR per se but on the process and approach to negotiations and the trade-offs needed to reach a consensus. Trade Ministers should seriously consider a confidence-restoring 'early harvest' package, and explore avenues where WTO-anchored

variable geometry and other innovative approaches may be pursued beyond Bali. Forward movement at MC9 would go a long way towards restoring trust and confidence in the validity and applicability of a transparent, fair, rules-based and non-discriminatory multilateral trading system. It is particularly incumbent on East Asia and the Asia Pacific region, as the most dynamic economic region in the world, to take a pro-active, leading, role in restoring confidence in the WTO. In so doing, PTAs, at least initially those pursued in the region, must set visible and important examples by clearly upholding WTO principle and rules. The re-affirmation of such a commitment requires an important agreement on the negotiating approach towards the DDR and beyond at MC9. Failure to reach a concrete milestone to move the WTO forward would further erode and undermine the principles that have served the world economy so well for more than 60 years.