Global Trade Governance

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The 1995 establishment of the World Trade Organization (WTO) was the capstone of a gradual process of global liberalization of trade that started after the Second World War. Average tariffs for many countries in 1950 were in the 20-30 percent range, complemented by a wide variety of non-tariff barriers (NTBs). As of 2010, the average level of import protection had dropped to the 5-10 percent range in most countries, reflecting a process of economic liberalization that started in the 1980s. In conjunction with technological changes that greatly reduced trade costs—telecommunications, the Internet, containerization and other improvements in logistics—these reforms led to a boom in world trade. The value of global trade in goods and services passed the US$19 trillion mark in 2010, or 120 percent of global GDP, up from 80 percent of GDP in 1990.

The global trade regime played an important role in supporting globalization by providing a framework for countries to exchange trade policy commitments and establishing a mechanism through which such commitments could be enforced. The trade regime has proved to be quite effective in sustaining cooperation between members. The scope and coverage of policy disciplines expanded steadily since the creation of the GATT in 1947, as did the membership. The dispute settlement mechanism has been particularly noteworthy: over 400 disputes have been adjudicated since the establishment of the WTO in 1995, most of which resulted in the losing party bringing its measures into compliance. The regime proved resilient during the 2008 financial crisis—there was only limited recourse to the type of protectionist policies that

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characterized the inter-war period and the global recession of the late 1970s/early 1980s. Some 30 countries have acceded to the WTO since 1995—including China and Russia.

Most observers agree that the transparency and dispute settlement dimensions have worked rather well. However, following the successful conclusion of the Uruguay Round in 1994, Members proved unable to bring the Doha Development Round, launched in 2001, to closure. Efforts to include disciplines on investment and competition policies failed. The WTO also came to be subject to criticism by a variety of civil society groups, as well as developing country member governments. Concerns were raised about the unbalanced nature of the Uruguay Round which extended the trade regime into new areas such intellectual property protection including for medicines. Ministerial meetings of the WTO in Seattle (1999) and Cancun (2003) were accompanied with large demonstrations against the organization. But business—a core constituency—also became less enamored with the WTO in the 2000s as it became clear that issues of concern to them could not be addressed. This helps explain why many governments increasingly pursued bilateral and regional trade agreements in the 2000s. Over 500 such agreements have been notified to the WTO raising obvious questions regarding the efficacy and relevance of the WTO.

This chapter starts with a brief summary of major milestones and features of the institutional framework governing global trade. It then discusses some of the key debates on the governance of the multilateral trade regime, and major challenges and emerging issues that confront the WTO.

**History and Development of the Trading System**
The genesis of the multilateral trading system was the inter-war experience of beggar-thy-neighbor protectionism and capital controls put in place by governments as they sought to stimulate domestic economic activity and employment. Following the adoption of the so-called Smoot-Hawley Tariff Act, which raised average US tariffs from 38 to 52 percent, US trading partners imposed retaliatory trade restrictions. A domino effect resulted: as trade flows were diverted to other markets, protectionist measures were taken there, and further retaliation ensued.

Even before the Second World War was over, political leaders sought to establish international institutions to reduce the probability of a repeat performance. New international organizations were created with a mandate to help manage international relations and monetary and exchange rate policies (the UN and the IMF) and to assist in financing reconstruction and promoting economic development (the World Bank). An international organization was also envisaged to manage trade relations, the International Trade Organization (ITO). Greater trade was expected to support an increase in real incomes, and non-discriminatory access to markets was expected to reduce the scope for political conflicts or trade disputes spilling over into other domains.²

The ITO Charter, negotiated immediately after the war, regulated trade in goods and commodity agreements, as well as subjects such as employment policy and restrictive business practices. In parallel to the ITO negotiations, a group of 23 countries—12 developed and 11 developing—pursued negotiations on a General Agreement on Tariffs and Trade (GATT) and an associated set of tariff reduction commitments. The GATT entered into force on 1 January 1948, on a provisional basis, pending the conclusion and the entry into force of the ITO Charter. However, the ITO never was established as a result of the unwillingness of the US Congress to ratify the Charter. Thus, the only result of the trade negotiations was the GATT, which applied on a “provisional” basis for over 40 years until it became part of the WTO in 1995. While
formally never more than a treaty, over time the GATT gradually evolved into an international institution. Over time more countries acceded to the GATT, and the coverage of the treaty was expanded and modified. Some major milestones are noted in Table 42.1.

**Table 42.1 From GATT to WTO: Some key events**

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
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<tbody>
<tr>
<td>1947</td>
<td>Tariff negotiations between 23 founding parties to the GATT concluded.</td>
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<tr>
<td>1948</td>
<td>GATT provisionally enters into force on 1 January 1948, pending ratification of the Havana Charter establishing an ITO.</td>
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<tr>
<td>1950</td>
<td>China withdraws from GATT. The US Administration abandons efforts to seek Congressional ratification of the ITO.</td>
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<td>1960-61</td>
<td>Dillon Round of tariff negotiations.</td>
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<td>1962</td>
<td>Long Term Arrangement on Cotton Textiles agreed, permitting quota restrictions on exports of cotton textiles agreed as an exception to GATT rules.</td>
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<td>1964-67</td>
<td>The Kennedy Round.</td>
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<td>1965</td>
<td>Part IV (on Trade and Development) is added to the GATT, establishing new guidelines for trade policies of–and towards–developing countries.</td>
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<tr>
<td>1973-79</td>
<td>The Tokyo Round results in a set of &quot;codes of conduct&quot; on a variety of trade policy areas that countries could decide to sign on a voluntary basis.</td>
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<tr>
<td>1986</td>
<td>The Uruguay Round is launched in Punta del Este, Uruguay.</td>
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<td>Date</td>
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<tr>
<td>1993</td>
<td>Three years after the scheduled end of negotiations, the Uruguay Round is concluded on the basis of a &quot;Single Undertaking&quot; including new rules on services and intellectual property, and agreement to create a World Trade Organization.</td>
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<td>1995</td>
<td>The WTO enters into force on 1 January with 128 founding members.</td>
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<td>1997</td>
<td>40 governments agree to eliminate tariffs on computer and telecommunication products on a MFN basis (the Information Technology Agreement)</td>
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<td>1999</td>
<td>Ministerial meeting in Seattle collapses amid large scale demonstrations and fails to launch a new “Millennium” round.</td>
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<td>2001</td>
<td>The Doha Development Agenda round of negotiations is launched in Qatar.</td>
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<td>2003</td>
<td>The “mid-term” Ministerial review meeting in Cancun fails to agree to start negotiations on investment and competition policies and ends in disarray.</td>
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<td>2006</td>
<td>The Doha Round is declared to be in a state of suspension.</td>
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<td>2008</td>
<td>After a concerted effort to overcome the stalemate, Doha talks break down again.</td>
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<tr>
<td>2012</td>
<td>Efforts continue to salvage some of the agreements negotiated in the Doha round. The number of WTO members reaches 157. The number of preferential trade agreements notified to the WTO passes 500.</td>
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The Contracting Parties to the GATT conducted eight rounds of multilateral negotiations between 1947 and 1993. Up to the Kennedy round, negotiators were essentially pre-occupied
with the reduction of tariff barriers. Starting in the mid-1960s, recurring negotiating rounds expanded the scope of the GATT to cover NTBs, such as antidumping measures, quantitative restrictions and product standards. An Agreement on Technical Barriers to Trade was negotiated in the Tokyo round (1979), followed by agreements on sanitary and phytosanitary measures, intellectual property rights and measures affecting trade in services in the Uruguay round (1993). The result has been a gradual extension of the trading system to cover a number of domestic policies that affected the conditions of competition prevailing on markets and that could impede “market access” abroad, even if the measures concerned did not necessarily aim at discriminating against foreign industries.

The evolution of the GATT/WTO is the result of political bargaining, with the terms of the bargain at any point in time (and changes over time) influenced by both governmental and non-governmental actors. Initially largely a tariff agreement, as average tariffs fell over time, and attention shifted to non-tariff policies affecting trade, the set of interest groups/stakeholders expanded. Thus, the extension of the WTO to include agreements on services and intellectual property rights reflected the interests of industry groups in Organisation for Economic Co-operation and Development (OECD) nations—telecom providers, banks, pharmaceutical firms—to improve access to foreign markets for their products. The interest that these groups had in negotiating new disciplines allowed developing and other countries to demand a quid pro quo in areas that were important to them, including trade in agricultural products and textiles and clothing. These were sectors with above average levels of protection in many OECD countries because in the 1960s and 1970s they were to a large extent removed from the ambit of GATT rules and disciplines—reflecting not just the political power of the workers and farmers employed in these sectors in the industrial countries but also the negotiating strategies that were
pursued by developing countries during that period. Rather than engage in reciprocal exchanges of liberalization commitments, developing countries as a group demanded special and differential treatment and less than full reciprocity. As a result, OECD countries had little incentive to remove high trade barriers in sectors of export interest to developing nations.\(^3\)

For much of the GATT period (1947-1994), the United States acted as a hegemon, with limited concern for free-riding or non-cooperative behaviour by developing countries—which were mostly small players in the trading system. The focus of rule-making and negotiations revolved primarily around OECD nations, in particular the “Quad”—Canada, the European Community (EC), Japan and the US. This began to change in the late 1980s as a result of the growing economic significance of a number of developing countries in Asia and Latin America. An important development was the emergence of US unilateralism in the 1980s, as reflected in provisions such as Section 301 of the 1974/1988 US trade act, which required the US Trade Representative (USTR) to identify and potentially retaliate against countries that maintained policies that were detrimental to US exports, which was defined to include inadequate protection of intellectual property rights. While such exploitation of differences in size (“market power”) is an important feature of the operation of the trading system, the rapid increase in the national products of emerging market economies—most notably China—since the mid 1980s means that there are today more players in the WTO who can and will block efforts to push the system into a direction that they do not support. An illustration is the failure of EU and US efforts to obtain agreement to launch talks on WTO disciplines for investment, procurement and competition policies.

*Key features of the WTO*
The WTO has five major functions: (i) to facilitate the implementation, administration and operation of the Agreement; (ii) to provide a forum for negotiations; (iii) to administer the Dispute Settlement Understanding; (iv) to administer the Trade Policy Review Mechanism; and (v) to cooperate with the IMF and World Bank Group to achieve greater coherence in global economic policy-making.

Decision-making in the WTO operates by consensus. Voting is technically possible but in practice does not occur. Consensus implies that any motion or decision can be blocked if any member objects. While in principle this ensures that no country can be steamrollered into accepting decisions or agreements it objects to—giving it leverage to seek either concessions to agree to a matter or to refuse to consent to a change in the rules of the game—in practice the largest players carry more weight than do small ones. One way small countries seek to increase their weight in decision-making is through coalitions. Examples include the G20, an alliance that includes Brazil, China and India and the G11, a group of developing countries that were active in the nonagricultural market access talks in the Doha Round.4

In negotiations the analogue to consensus is the single undertaking: “nothing is agreed until everything is agreed,” that is, the results of a multilateral round are treated as a package deal. Note both the consensus principle and the single undertaking are practices, not formal rules. The consensus practice has a long history in the GATT/WTO, whereas the single undertaking is a practice that was first employed successfully in the Uruguay Round and was central to the creation of the WTO (that is, the WTO was a package deal, take it all or leave it).

The nondiscrimination principle—what in trade parlance is called most-favored-nation (MFN)—requires that any concession or commitment be accorded to all members. WTO members may not grant a sub-set of countries with which they have negotiated concessions
better treatment than countries that have not offered such concessions. The only exception is if members conclude free trade agreements with each other or negotiate a so-called plurilateral agreement. Under such an agreement, a subset of WTO members can agree to specific disciplines that apply only to them, and need not apply the associated benefits to non-signatories. However, a plurilateral agreement can only be appended to the WTO on the basis of consensus (and unanimity if there is recourse to voting. Thus, the plurilateral option offers a mechanism for groups of WTO Members to agree to rules in a policy area that is not covered by the WTO or goes beyond existing disciplines as long as the Membership as a whole perceives this is not detrimental to their interests. Plurilaterals are not without contention. Their use during the Tokyo round was one of the reasons why the single undertaking was pursued in the Uruguay Round, as many countries were of the view that the Tokyo Round plurilateral agreements had led to excessive fragmentation of the trading system.

The management of the WTO is collective. The WTO is governed by a Ministerial Conference of all members that is scheduled to meet, but has not always, at least once every two years. Between such meetings the WTO is managed by a General Council at the level of officials. This meets about 12 times a year, with WTO members usually represented by heads of delegations based in Geneva. The General Council turns itself, as needed, into a body to adjudicate trade disputes (the Dispute Settlement Body) and to review trade policies of the member countries (the Trade Policy Review Body). Three subsidiary councils operate under the general guidance of the General Council: the Council for Trade in Goods; the Council for Trade in Services; and the Council for Trade-Related Aspects of Intellectual Property Rights. Separate committees, working parties and sub-committees deal with specific subject areas covered by multilateral agreements.
All councils, committees, and so forth, as well as all negotiating groups are chaired by a WTO member representative. The only exception is the Trade Negotiations Committee, the body that oversees multilateral trade talks, which is chaired by the Director-General. The latter does not have a defined role in the agreement establishing the WTO. This was left to the Ministerial Conference to determine, which to date it has not done.

The main actors in day-to-day activities of the WTO are the officials that are affiliated with the delegations of members. The member-driven and network nature of the organization puts a considerable strain on the delegations in Geneva and officials in capitals. There are thousands of meetings in the WTO every year. This level of activity makes it very difficult if not impossible for citizens of members to keep track of what is happening. At the time of writing there are 157 members. Few, if any, members participate in all meetings and activities, but all committees are open to all members. WTO practice is for members to organize in informal small groups to develop proposals that may subsequently be put forward to the broader membership, either formally through existing bodies and committees or informally to other members/groups. In WTO speak this process is described as the “concentric circles” approach to agenda-setting.

The Secretariat provides technical and logistical support when requested by committees or Councils. It has very little formal power of initiative. It is prohibited from identifying potential violations of WTO rules by members and may not interpret WTO law or pass judgment on the conformity of a member’s policy. These are matters that are the sole prerogative of members. Similarly, dispute settlement panels are staffed by members of WTO delegations or outside experts drawn from a roster that has been pre-approved by the membership, not the Secretariat.

Dispute settlement in the WTO aims at maintaining the balance of negotiated concessions. If a member is found to have violated a commitment, the remedy is prospective: the
offending member is simply called upon to bring its measures into compliance. How this should be done is left to the member to determine. If a member does not comply with the ruling of the dispute settlement bodies, retaliation may be authorized in an amount equal in effect to the action taken by the country that violated a commitment. This introduces a significant asymmetry in that small countries that cannot affect their terms of trade cannot exercise much pressure through retaliation against large countries that continue to violate their commitments.

Current Debates

The one-member, one-vote, consensus-driven modus operandi of the WTO, combined with a binding dispute settlement mechanism that works well helps explain why it is difficult to amend the WTO or to conclude multilateral trade talks on a timely basis. There has been much discussion of the reasons for the inability of WTO members to conclude the Doha Round. The failure of the Doha negotiations is a major negative for the WTO as an institution as it is the first multilateral round to have been held under its auspices. Not surprisingly, current debates on the WTO often focus on the reasons for—and implications of—the difficulty of “getting to yes.” There are many strands of argument and analysis. Is it because of the governance of the WTO—the consensus rule? Is it a consequence of the negotiating modalities that are employed—such as the single undertaking? Or is the deadlock and disagreement more a function of the (rapid) shifts in relative economic fortunes—the “rise of the rest” and in particular the explosive growth in the share of world trade that has been realized by China? Or, related, that the membership has been expanding rapidly—standing at 157 today compared to ‘only’ 128 in 1995—and that the resulting heterogeneity in interests, commitments and capacities across members is making agreement difficult to obtain?
Some proposals to address the failure to conclude a Doha deal have centered on the Single Undertaking practice and consensus-based decision-making. One of the premises of the Single Undertaking approach in multilateral trade negotiations is that it ensures that all participants will obtain a net benefit from an overall deal. By allowing for issue linkages and requiring a package deal, countries can make tradeoffs across issues and increase the overall gains from cooperation. However, the approach also creates potential “hold-up” problems and can have the effect of inducing negotiators to devote (too) much time to seeking exceptions and exemptions. This has led to proposals that WTO members shift towards “variable geometry” and approaches that permit a subset of the membership to move forward on an issue, while allowing others to abstain. Two types of approaches have been suggested, with some advocating that agreements apply only to signatories (as in the case of Plurilateral Agreements) and others arguing that any agreements between a smaller group of WTO members should abide the MFN principle, implying that any such deals would need to be so-called critical mass agreements (implying that a sufficiently large number of countries participate so as to address potential concerns about free-riding by non-participants). 6

While agreements among a subset of the membership would allow countries to move forward on issues that are not yet the subject of WTO rules, it is not clear that pursuit of either of these options would make much of a difference in addressing the problems that have helped to hold up a Doha Round agreement. The lack of progress in the Doha Round reflects the assessment of major players that what has emerged on the table is not of sufficient interest to them—it is not that a small group of small countries are holding up a deal. Trade agreements are self-enforcing treaties: if the large players do not see it in their interest to make a deal, they will not—whether the proposed deal involves just a small number of countries or all of the WTO
membership. Any outcome, even if endorsed by a majority, will not be implemented if one or more large countries find it unacceptable. Because the WTO is an incomplete contract, governments have a revealed preference for maintaining tight control over the functioning of the organization. There are good reasons why there seems to be a “consensus on consensus.” Indeed, economic analysis suggests that the effects of moving away from the status quo on the incentives to cooperate may be perverse—reducing the willingness to agree to rules and to make commitments.\(^7\)

Another likely factor is the increasing complexity of the policy agenda that confronts countries.\(^8\) As tariffs have come down in recent decades, the policies that create negative pecuniary spillovers for trading partners are increasing “behind-the-border” and regulatory in nature. Agreeing on ways to reduce the market segmenting effects of policies that are aimed at achieving social objectives or addressing market failures is inherently a more complex endeavor than negotiating down tariffs or agreeing to abstain from using quantitative restrictions. Related to this are arguments that some of the policy areas that are critical for international business are not on the WTO table, and that the very slowness of the processes used in the WTO makes the negotiations (and the organization) less relevant. In the span of the decade following the launch of the Doha Round, for example, technologies have changed dramatically, the use of mobile telephone networks and mobile broadband has exploded, giving rise to a host of new policy issues that are not on the table—for example, relating to data security and privacy of cross-border flows of information and data.

Another subject of debate concerns the implications of the difficulty that states are having to agree to expand the WTO rule book and deepen their commitments to open domestic markets to foreign competition (that is, to reduce the extent of discrimination against foreign products). A
specific focus of debate in this connection is the outside option that is now being pursued by virtually every country in the world—preferential trade agreements. There is a long-standing debate among political scientists and economists whether preferential trade agreements (PTAs) are good or bad for the trading system—building blocks or stumbling blocks. Much of the relevant literature tends to focus on agreements liberalizing trade in goods, but the practice in the last decade has been for PTAs to deal with the very issues that have proven to be controversial in the WTO. In practice PTAs are often mechanisms for sub-sets of countries to move forward in liberalizing access to markets for goods, services and investment (FDI) and to agree on rules of the game for policies that are not subject to WTO disciplines. Fears of large scale trade diversion and discrimination against non-members of PTAs have not materialized—in large part because countries often have implemented trade reforms on a nondiscriminatory basis as well. But the proliferation of PTAs generates significant transactions costs for businesses as provisions differ across agreements. So far the largest trading nations/blocs (EU, US, China) have yet to negotiate PTAs between themselves.

Yet another area of vigorous debate concerns the appropriate approach in the WTO to economic development. Historically, differences in size and power were addressed through “special and differential treatment” (SDT) of developing countries. This involved agreement that developing countries were not expected to reciprocate fully in trade negotiations and a promise by rich countries to provide preferential access to their markets. As a result, developing countries have greater legal latitude to use trade policies (sometimes called policy space). An example is the rule banning use of export subsidies, from which the poorest countries were exempted. A major motivation for SDT was a perception that trade policy can be a useful instrument to promote industrial development by sheltering nascent (‘infant’) industries from
international competition. Technical and managerial changes have greatly increased the
importance of international production chains and created opportunities for firms in low-income
countries to specialize in a specific part of a supply chain. These developments have greatly
reduced the effectiveness of border protection as an instrument of industrial policy because firms
need to be able to import materials that they process into what they export. This has led to
greater emphasis on other instruments to assist developing countries, including “aid for trade”—
development assistance that is targeted towards enhancing trade capacity. The design and impact
of trade-related development assistance in low-income nations is a subject of active debate.\textsuperscript{11}

**Key Challenges and Emerging Issues**

The economic theory of trade agreements is premised on the notion that the motivation for
governments to negotiate trade agreements is to improve access to export markets. The objective
is to “level the playing field” for foreign firms. Numerous policies can affect access to markets,
not just tariffs and quotas that are applied at the border. A major challenge confronting the WTO
looking forward is what to include and what not; what should remain sovereign and what should
become subject to common disciplines. The WTO has established a good track record when it
comes to providing a framework for disciplines on border measures, but has done less to deal
with other policies that may also negatively affect foreign firms. Examples include climate
change motivated policies, subsidies of varying types, and the market-segmenting effects of
regulatory regimes more generally. Increasingly this is an agenda that involves services
activities. In most countries upwards of 60 percent or more of Gross Domestic Product (GDP) is
generated in services sectors, where competition/contestability is often affected by regulation
that may have disproportionate effects on foreign providers. This confronts policymakers and
polities with the challenge of how best to proceed in ensuring that markets are contestable while attaining social and economic regulatory objectives.

The lack of progress in the Doha Development Agenda raises the question whether the political economy dynamics that generated large-scale merchandise trade liberalization carry over to the “new(er)” agenda of “behind-the-border” pro-competitive regulatory reforms. In the 1980s and 1990s domestic policy reform was primarily a function of autonomous decisions by developing country governments, reflecting domestic political economy forces. Multilateral trade negotiations were primarily used as a vehicle to lock in national trade reforms. It is not clear that when it comes to services sectors and regulatory areas whether a similar dynamic will prevail. The mechanics of trade negotiations—a process of bargaining on quid pro quo “concessions”—is not necessarily effective in driving domestic reforms that improve national welfare. Indeed, the mercantilist nature of such efforts may create perverse incentives by inducing governments to make what would be welfare-enhancing policy changes conditional on actions by trading partners. Even if these eventually can be agreed, the history of the Doha Round illustrates that such an approach will take much time and thus can give rise to potentially large opportunity costs of delay. More fundamentally, a process of negotiating regulatory reforms may never be successful or appropriate given the large differences in country circumstances and social preferences that exist.

Given the complexity of many of the regulatory issues that are the subject of discussion in trade agreements a greater effort is needed to build an understanding at the national level of the effects of prevailing policies and the likely impacts of alternative proposed reforms. Many such reforms do not require—and should therefore not be made conditional on—actions by other governments (trading partners). This does not mean that there are no gains from multilateral
agreements on the rules of the game or that negotiations cannot be used as a mechanism to improve access to foreign markets. Nor does it imply that international cooperation cannot help countries identify beneficial reforms. International cooperation can be a mechanism to harness the potential for greater services trade and investment to support more inclusive growth. But it appears that this requires a shift away from a focus on reciprocal negotiations and towards a process that centers attention much more on the potential gains from unilateral (autonomous) action by governments.

Different approaches can be envisaged in pursuing cooperation between states on policies that negatively affect foreign firms. Binding international law—the standard modus operandi of the WTO—is one option. Others include “soft law” forms of bilateral or multilateral cooperation and delegation to independent entities that are given a transparency and analysis mandate—for example, tasked with assessing whether and how large any negative spillovers are. In many cases there will be a significant degree of uncertainty as to what the net effects of policies are, taking into account the overall impact of the relevant policy measures that have a bearing on firm-level competitiveness. A key precondition for agreement on binding international rules is a shared recognition that the negative spillovers associated with a policy (set of policies) are significant and that a specific set of binding disciplines will result in greater efficiency (lower costs). At present there is no such recognition when it comes to important policy areas that are argued to generate negative competitiveness spillovers. This suggests that countries need to work towards putting in place the preconditions for stronger forms of international cooperation—by improving the transparency of applied policies; supporting independent analysis of the effects of policies; and establishing mechanisms through which governments can consult and exchange information.
The importance of policy coherence has already been noted. Much of the literature on policy coherence in the WTO context has focused on the extent to which the activities of other international organizations (IOs) promote the objectives of the WTO and allow countries to exploit the policy space that is provided by WTO rules. Other dimensions of policy coherence are likely to become increasingly prominent looking forward. An example is the consistency of the macroeconomic policies pursued by countries with their trade policy commitments. A perennial issue in this regard—going back to well before the creation of the WTO—is concern regarding the potential for manipulation of exchange rates to affect trade competitiveness and undermine negotiated market access commitments. Another example concerns climate change related policies and their direct and indirect impact on trade policies and trade and investment flows.

A final challenge to the trading system that must be mentioned is the proliferation of PTAs. As mentioned over 500 PTAs have been notified to the WTO. The implication is that the trading system is increasingly fragmented—the famous spaghetti bowl analogy.\(^\text{12}\). While PTAs are a challenge for the WTO, they are also an opportunity as they indicate that governments are willing to make binding commitments on trade matters, even if they are not able or willing to make progress in the WTO. The proliferation of PTAs offers the WTO membership as a whole an opportunity to learn from the many experiments and approaches that are being pursued. PTAs are in some sense laboratories. Over time the best of what is pursued in specific PTAs may be transferable to the WTO. A precondition for such learning is transparency: WTO members need to have information on what is being done in the PTA context, suggesting an important role for the WTO is to provide this information through monitoring and facilitation of regular discussion of the experiences of different PTAs.
Conclusion

The WTO and the GATT that preceded it is in many ways a unique international organization. It has played an important role in supporting global economic growth and poverty reduction by creating a framework of rules of the game for trade policies. Since its creation in 1995 the WTO membership has confronted major difficulties in agreeing on where the institution should go. Many developing countries want to see the rules and processes adapted to better support development objectives. Many high-income countries are of the view that the emerging market countries need to do more to open their markets. The disagreements among the membership are leading to ever more regional trade agreements and splintering of the trade regime. The suggested readings below provide accessible analyses of the genesis of the trading system, the Doha Round, the many challenges confronting the WTO and possible ways forward.

Further Reading


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8 Hoekman and Kostecki, op cit.


10 Hudec, op. cit.; Hoekman and Kostecki op. cit. chapter 12.
