

Multilateral Trade Cooperation post-Bali: Three Suggestions

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The agreement reached at the December WTO Ministerial meeting in Bali was important for the multilateral trading system—showing that progress can be made in developing new rules of the game. The Agreement on Trade Facilitation in particular will help countries around the world improve the operation and governance of national border management systems and reduce uncertainty and trade costs for traders. But as is well known, agreements on most of the subjects that are on the negotiating agenda of the Doha Round remain elusive. The instruction by Ministers to their negotiators to come up with a work programme to conclude the Doha round negotiations recognizes implicitly if not explicitly that a re-think of what is on the table is needed.

Efforts to negotiate liberalization and new rules of the game have increasingly shifted away from the WTO. Major preferential trade agreements are being negotiated among small groups of countries, including the Trans-Pacific Partnership (TPP), the Transatlantic Trade and Investment Partnership (TTIP) and a Trade in Services Agreement (TISA). These follow on a large number of bilateral trade agreements that have already been negotiated by countries that are pursuing aggressive trade liberalization and integration strategies in Europe, Latin America and East Asia. Whatever the reasons for the lack of movement in the WTO to further liberalize trade and define new rules of the game (see Wolfe, 2013), the action today has moved to other fora.

A key question is what the consequences will be for the many countries that are not players in the mega-regionals. The WTO as a multilateral institution is particularly important to small countries that do not have any market power. A breakdown in the ability of the WTO to extend the reach of disciplines to new policy areas may impact most detrimentally on the 100+ countries that are not included in the mega-regionals. These countries have options that they can pursue in the WTO. These include (1) using the WTO as a forum to engage on policies that are

currently not covered by the WTO; (2) learning about (from) the PTAs; and (3) using plurilateral agreements under the umbrella of the WTO to cooperate in new areas that are of interest to a subset of the membership.

1. WTO as a focal point for policy dialogue and learning. There are many policies not covered by the WTO that generate negative pecuniary spillovers. A precondition for cooperation on such policy areas is a shared recognition of the extent of negative spillovers and the benefits of cooperation. No mechanism exists in the WTO that provides a platform to identify and discuss how policies impact on trade costs and investment location decisions. Creating mechanisms that help identify how policies impact on economic outcomes/incentives and whether there are important “gaps” in the coverage of WTO rules would at a minimum be informative. But better knowledge may also support unilateral action by governments seeking to improve the competitiveness of firms located in their jurisdictions and, over time, prepare the ground for new agreements or the deepening of existing disciplines.

Hoekman (2013a) suggests one option to move in this direction while at the same time engaging more with business: establishing “supply chain councils” that would focus on identifying the most binding regulatory policy constraints that impact negatively on supply chain trade (SCT). Doing this for a number of ‘representative’ supply chain networks could help to improve both the understanding of policymakers how a broad variety of regulatory policies impact on SCT and identify priority policy areas that should be the focus of WTO members—including policies that currently are not covered by the WTO. This type of exercise could become the basis of an eventual SCT agreement that addresses policy matters that are relevant to the operation of global value chains. Such an agreement could be plurilateral in nature and most likely would be given differences in interests and preferences across WTO members.

2. Engaging with the PTAs: transparency and learning. PTAs offer opportunities as well as potential downsides for nonmembers. Innovations in PTAs that are successful may be transferable. Over time WTO members may come to the view that approaches that have proved successful in a PTA context should be embedded into the WTO. A precondition for this learning about what is done and what works. This can be facilitated by the WTO secretariat. Ideally PTA signatories would provide information and share their experiences with implementation with the broader WTO membership. But independent of whatever PTAs members are willing to provide

in this regard, the WTO secretariat could be mandated to analyze and report on the specific processes or approaches that have been implemented in PTAs and to assess their economic impacts. Current monitoring of PTAs by the secretariat focuses primarily on documenting the provisions of PTAs. This is not particularly informative for countries seeking to understand what is entailed in implementing those provisions and the outcomes that are generated.

3. *Plurilateral agreements under the WTO umbrella.* Article II.3 WTO offers a little used mechanism for members to form a club to move forward on an agenda of common interest without necessarily extending the benefits to other WTO members: a Plurilateral Agreement (PA). The main PA extant is the Agreement on Government Procurement (GPA), which deals with a subject that is not covered by the WTO. There has been limited use of PAs to date because WTO members have taken the view that agreements should be multilateral and cover all members. As the world increasingly fragments into different regional blocs this rationale has become much less compelling—variable geometry is unavoidable. Given that the counterfactual increasingly is a PTA, greater effort to pursue PA among subsets of WTO members – on subjects such as global value chains, green goods and services, investment policies, competition policy, etc. – offers a mechanism for new rule-making in the WTO.

PAs offer a number of benefits relative to PTAs. They can be – and most likely will be – issue-specific; there is no need for complex issue linkage. They are open – any country can join if and when it perceives membership and implementation of the relevant disciplines to be in its interest. This is not the case with mega-regionals such as the TPP, TTIP or most PTAs. They can make use of the WTO dispute settlement mechanisms. They are also more transparent to outsiders. Any PA will involve the establishment of the types of WTO bodies that assist Members in the implementation of agreements, such as a Committee, with regular (annual) reporting on activities to the Council, and documentation that is open to all WTO Members. A constraint in pursuing PAs is that their adoption into the WTO is subject to consensus. While presumably intended to ensure that any PA is consistent with the objectives of the WTO (e.g., does not address an issue that has very little to do with trade), consensus is arguably too strong a constraint. Relaxing the consensus requirement – e.g., by accepting that “substantial coverage” of world trade or production is sufficient (Hufbauer and Schott, 2012) – would still ensure that truly controversial issues can be rejected.

Moving forward

A necessary condition for operationalizing the forgoing suggestions is leadership by some WTO members. Given that the US and EU are fully engaged in mega-regional initiatives this leadership must come from other countries. In the GATT years, one approach that was used to identify potential gains from multilateral cooperation on new issues was to agree on a work program. Services provide an example. After the failed 1982 ministerial where a US suggestion to negotiate on services was rejected, a work program was agreed involving a series of national studies and dialogue on services policies. A similar approach can be followed now. In the next 2 years – i.e., in the period leading up to the next ministerial – countries that are out of the mega-regionals and/or want to move forward in new areas can create working groups where technical issues are worked out and specific proposals developed. This would include matters such as establishing what information members of mega-regionals are willing to provide, what the Secretariat should be asked to do, and how to organize a mechanism to promote policy dialogue and learning. The objective would be to put forward a proposed agreement on enhancing the transparency of – and learning from – PTAs and a mechanism to promote greater analysis-based dialogue and interaction on economic policies affecting trade and investment at the next ministerial in 2015.

Working groups can also be formed in the post-Bali period to focus on specific policy areas that are of interest to a set of countries. This would be similar to the groups formed to assess the Singapore issues after 1997, with the difference that the presumption would be that the focus of cooperation would be to conclude new plurilateral agreements. A two-year period of deliberation should suffice to identify an agenda for negotiation-cum-cooperation. Specific agreements and modalities of cooperation could then be negotiated with a view to putting them forward at the 11th Ministerial conference in 2017, i.e., 4 years from now.

The lack of progress in the DDA should not be taken to imply a lack of relevance of the WTO. Multilateral negotiations have become more complex *because* developing countries have interests that are pursuing and objectives they want to achieve. At the end of the day it is likely that the majors – China, India, the EU and the US – will come back to the multilateral negotiating table, whether or not the mega-regionals are successful. Much can be done in the interim to use the WTO to better understand what is done in the new vintage PTAs and whether

this is worth emulating, and to pursue the opportunities that exist for subsets of countries to agree to plurilateral cooperation under the umbrella of the WTO. The proposals sketched out above would support such processes. They are elaborated in Hoekman (2013b).

References

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