

Multilateral Trade Cooperation and Governance Looking Forward

Bernard Hoekman
World Bank

WTO Public Forum, September 26, 2012

The DDA morass: Why no deal?

- ***Bad “PR”?*** Too much focus on reductions in applied tariffs/protection; neglect value of rules & “binding”
- ***Bad design?*** Agenda does not generate enough gains; not enough there to harness businesses (political economy)
- ***Too many players?*** Single Undertaking; 150+ countries
- ***Bad process?*** “modalities” (formulae); sequencing and resulting limited focus on services
- ***China:*** “fear factor” growing over time?
- ***Irrelevance?*** traditional protectionism declining (unilateral reforms); global trade booming for much of period
- ***US politics:*** loss of trade promotion authority (fast track); insistence on (greater) reciprocity
- ***Lack of leadership:*** G20 communiqués ...

Other functions of WTO do better

- Transparency—monitoring and review
 - Progress being made steadily
- Dispute settlement
 - General agreement operates well
- Coherence – aid for trade; trade finance
 - Lot of progress made relative to GATT days
- Committees – SPS, TBT, etc.
 - Little known or appreciated but are effective mechanisms for dialogue and cooperation

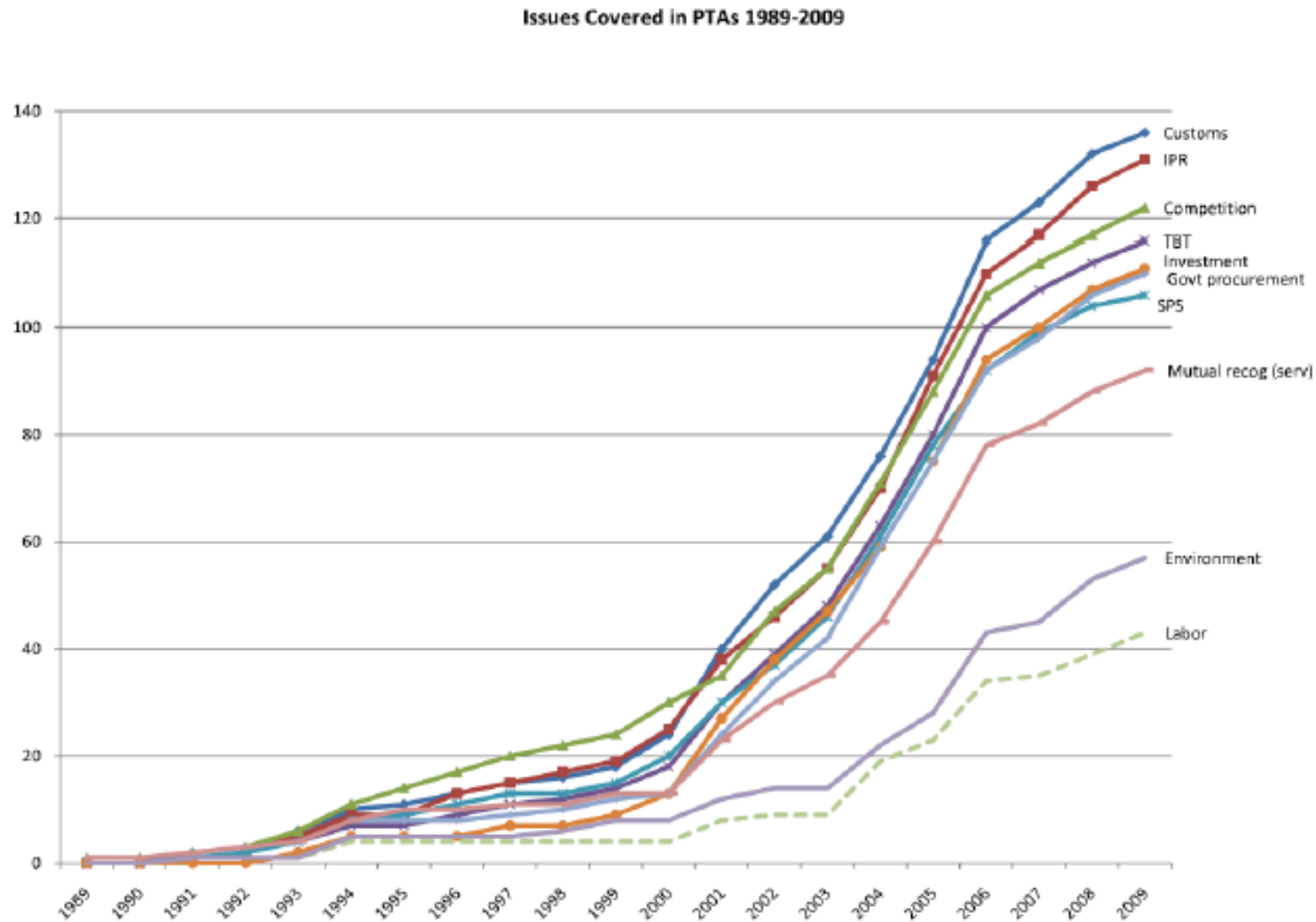
World has changed

- High growth in developing countries has led to:
 - Emergence of multi-polar world economy
 - 500+ million people out of poverty
 - Rapid rise of a “middle class” outside OECD
- Less incentive to use trade policy—value chains
 - Exports need imports; vertical specialization and interdependence (supply chains; cross-hauling of FDI)
- Rising importance of services – generates most value added along a value chain
- Support for national industries takes other forms
 - Subsidies/industrial policy (fiscal; export restrictions); procurement preferences and local content policies
- Policy spillovers increasingly involve regulation and access to resources/feedstocks; climate change

Global Value Chains

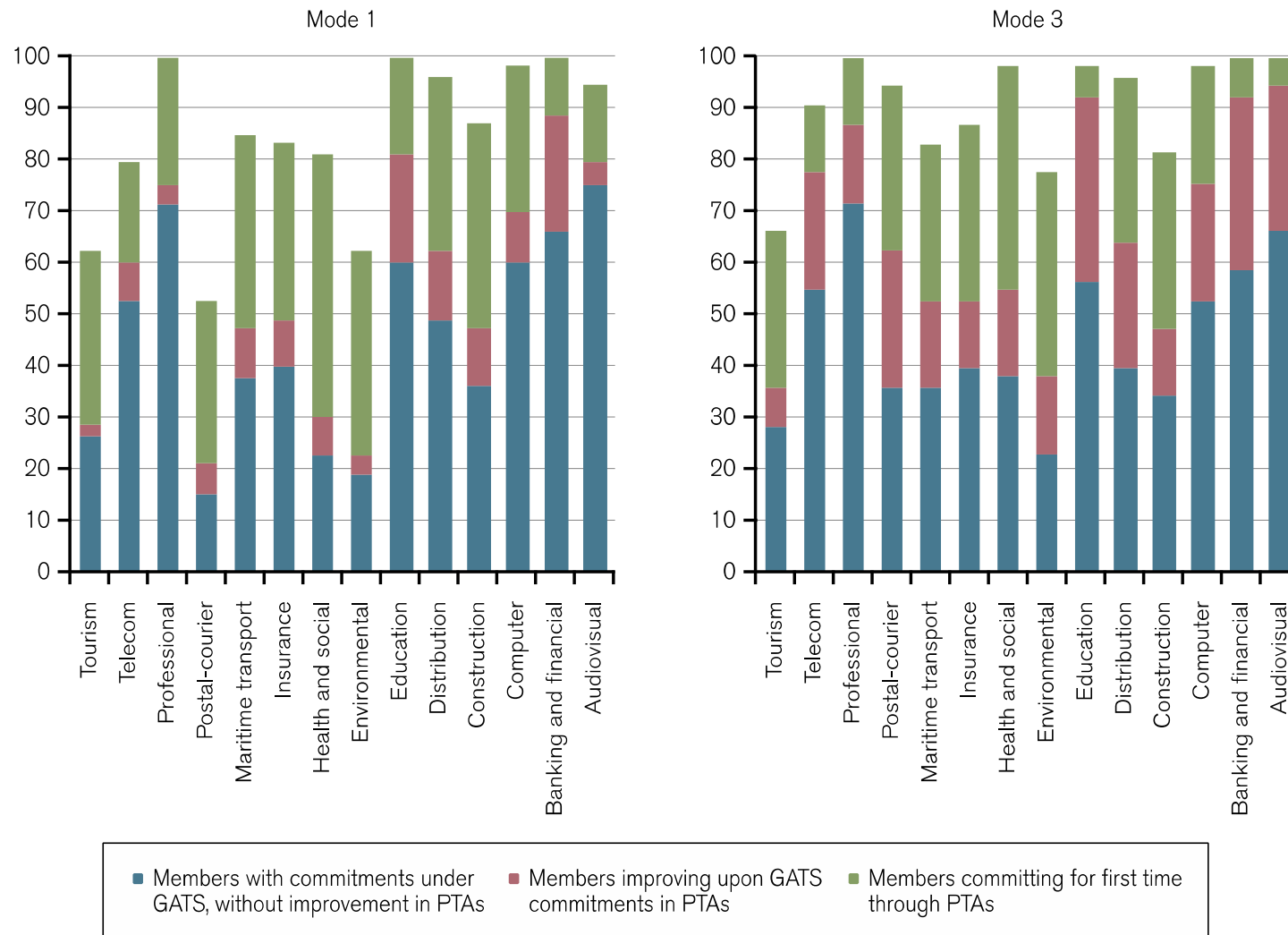
- Increase in “vertical specialization”—slicing up the value chain (Baldwin’s 2nd “unbundling”)
- Ratio of value added to gross value of trade declined by 10-15 p.p. since 1990 (Johnson/Noguera, 2012)
- Reduces incentives to use restrictive trade policies (Gawande/Hoekman/Cui, 2012)

Regional integration: substitute for WTO?



source: WTO RTA database; World Bank Global Preferential Trade Agreements database; Global Economic Prospects (World Bank 2005); and additional observations based on Horn, Mavroidis, and Sapir 2008.
Note: IPRs, intellectual property rights; SPS, sanitary and phytosanitary; TBT, technical barriers to trade.

Commitments on services in PTAs compared to WTO, by sector, cross-border and FDI (%)



Shifting gears: a multi-track approach

- Negotiating rules: remains a critical function. But need to do more to address issues that matter to stakeholders
- Beyond negotiation as a form of interaction—leverage other mechanisms:
 - The many committees as well as the councils
 - Transparency mandates/activities
 - The flexibility to create working parties etc.
- These mechanisms are a neglected feature
 - Use them to make negotiations more productive
- Accept/adapt to the need for more variable geometry
 - Proliferation of PTAs of different “types” illustrates demand for greater flexibility in coverage of commitments

Implications

- Greater reliance on “plurilateral” critical mass approaches
- Shift to “business process” approach to identify issues on which to negotiate – clusters of policies across existing “silos”
- Greater flexibility in defining negotiating agendas – e.g., to add issues
- PTAs – move from toothless disciplines to knowledge sharing/learning and “multilateralization” of good practices
- Reduce emphasis on reciprocity and binding commitments
 - Fora to identify good practices and spillovers created by domestic regulatory policies – e.g., ICN example
 - Issue-specific consultative mechanisms that bring in regulators, firms and consumer interests
- Boost transparency/analytical functions
 - Comprehensive data on applied policies and analysis of effects of policies to inform and build common understanding

Examples

- Trade facilitation and services trade policies
 - Distribution, transport, logistics, etc. are not addressed as part of trade facilitation agenda
 - Identify “clusters” of policies that matter from a business process/supply chain perspective
- Services trade impeded by domestic regulation
 - Do not lend themselves easily to negotiation
 - ‘Knowledge platforms’ – bring regulators, trade officials, businesses, etc. together to define agenda/action plans
- Develop common understanding of policy areas that (can) generate negative spillovers
 - Access to and efficient use of natural resources – e.g. export restrictions and FDI regimes; policies that affect competitiveness of firms

Governance issues in a narrower sense

- Consensus. Key feature of WTO DNA—critical for legitimacy and “ownership”
 - But can block a plurality/majority from moving
 - Relaxing rules on approving Plurilateral Agreements (for new issues) unlikely to be feasible or fruitful
- Linkage and “package deals” are needed to obtain commitments on policies that generate spillovers
- Better: rely more on voluntary frameworks such as the ICN and build up consensus
 - ICN has gone from 16 to over 120 members
- A Steering Committee or Executive Board?
 - Long-standing debate; revealed preference for status quo
 - Better: standing advisory bodies with industry/consumer representation