Multilateral Trade Cooperation and Governance Looking Forward

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

WTO, World Trade Report 2011
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