

# Introduction to the Symposium Issue on Structural Issues at the World Trade Organisation

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The papers in this Symposium issue complement two other compilations of research on the multilateral trading system published in Evenett and Hoekman (2006) and Hoekman and Vines (2007) and are a final output of the UK Department for International Development supported Global Trade and Financial Architecture project. The genesis of this Symposium was a CEPR workshop hosted by the OECD in March 2012 with support from DG Research (grant: *PEGGED* Collaborative Projects under the EU's Seventh Framework Programme, Contract no. SSH-CT-2008-217559). Draft papers were presented at a conference at the Elliott School of International Affairs, George Washington University, hosted by Michael Moore in April 2013. We are very grateful to Frank van Tongeren at the OECD and Mike Moore at the Elliott School for their support of the meetings, to Michelle Chester and Rebecca Martin at the World Bank for help with logistics, to the participants in both events, especially the discussants, and to Alan Winters and an anonymous referee for comments on the submitted papers.

In 2001, Members of the World Trade Organization (WTO) launched the Doha Development Agenda (DDA), the first multilateral trade negotiation (MTN) held under WTO auspices. The agenda comprised a mix of traditional market access policies that have been the bread and butter of MTNs since the 1960s – efforts to reduce the maximum permitted import tariffs for goods (so-called tariff bindings) and agricultural production support – and issues that had been added to the table in the Uruguay Round – such as policies affecting trade in services. Many WTO Members also wanted the DDA to focus on new subjects not covered by the WTO: policies on foreign direct investment, competition law, transparency in government procurement, and trade facilitation. Disagreement at Doha led WTO

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Members to defer a decision on whether to negotiate on these subjects to the 2003 Ministerial meeting in Cancun. Consensus proved impossible to achieve at Cancun, and only one of the four issues, trade facilitation, was eventually included in the DDA negotiations.

The DDA has been characterized by repeatedly missed deadlines and significant periods of deadlock. In recent years, many countries increasingly have turned their attention towards negotiation of preferential trade agreements, including so-called ‘mega-regional’ initiatives, such as the Trans-Pacific Partnership (TPP) and the Trans-Atlantic Trade and Investment Partnership (TTIP). Trade in services – a core element of the DDA – was effectively taken off-line by a set of countries that are now seeking to negotiate a Trade in Services Agreement (TiSA) on a plurilateral basis. These mega-deals are envisioned as going well beyond the current institutional mandate of the WTO. So far none of them include all three of the big players: China, the EU, and the US. Indeed, China is not part of any of them. More generally, the mega-regionals do not include most developing countries. There is a risk of the global trading system fragmenting into discriminatory blocs, with plurilateral systems running parallel to the WTO that cover regulations and standards well outside the mandate of the WTO, yet increasingly important to the basic mechanics of global production and trade.

At the 2013 Ministerial Conference in Bali, a ‘development package’ was agreed, comprising a set of decisions on matters of importance to developing countries, including a new Trade Facilitation Agreement (TFA). The TFA was innovative in several respects, including being conceived as a stand-alone agreement and in the approach taken to recognize differences in implementation capacity across the WTO membership. Bali was widely seen as a major positive result for the WTO as an institution, as it demonstrated it was possible to agree to new trade policy rules that applied to all Members. But hopes that Bali would permit additional progress on the DDA were dashed in July 2014 with the refusal by India to agree to the TFA Protocol unless its demands regarding the rules for agricultural production support were addressed. At the time of writing, it is unclear whether the Bali package will be saved. Even if it is, it is clear that the call by Ministers in Bali for a work program to be developed by the end of 2014 that offers a road map for concluding the DDA will not be met. And if the Bali package cannot be saved, the WTO membership will be confronted even more starkly with the question as to whether new multilateral rule-making is still desired; and if so, looking forward, what the lessons are from the Doha experience for cooperation in the WTO.

This last question motivates the articles included in this Symposium issue, which focus on the ‘legislative pillar’ of the WTO, as opposed to analysis of specific policies that create international spillovers, or of the successful elements of the current WTO architecture such as its dispute settlement and transparency functions. The articles assess what research suggests regarding the reasons for the failure of the DDA and the design of modalities for negotiating new multilateral rules of the

game for policies that affect international production and trade in goods and services.

The first three contributions reflect on the lessons of the DDA. Robert Wolfe analyses the various reasons that have been put forward for why the DDA has not been a success, arguing that this is primarily a reflection of the structural changes and power shifts over the past two decades, most notably the growth of China. The launch of the DDA and China's accession to the WTO both occurred at the Doha Ministerial meeting, with little thought given to the implications of the latter for the former. He concludes that although mistakes were made in the choice of negotiating modalities, there is nothing 'wrong' with the WTO and that a precondition for constructive engagement on new rules is a trans-Pacific accommodation between China and the US, something he argues that will not be delivered by the various regional trade arrangements that are being pursued.

Yvan Decreux and Lionel Fontagné analyse the negotiating set that was established by the DDA and show that this resulted in a 'landing zone' that was too small to make a deal feasible. The economic benefits of what was on the table once all exceptions and flexibilities are accounted for were not large enough to offset the political costs that would accompany implementation of a deal. The late stage effort to introduce zero-for-zero sectoral agreements would have given rise to asymmetrically distributed costs and benefits, as well as substantial political costs in some emerging economies, precluding agreement. They argue that the analytical tools used by economists to assess the impacts of trade agreements should have been taken more seriously by negotiators as they clearly revealed the limited prospects for agreement based on the modalities that were used, as well as the importance of considering the DDA agenda as a package – including services and trade facilitation.

Laborde and Martin assess the formulae that were used in the agricultural and non-agricultural market access (NAMA) negotiations. Formulae approaches have long been favoured by economists in MTNs on efficiency grounds – it is not feasible for countries to negotiate on thousands of products with 150+ other countries on a bilateral basis. The non-linear formula for NAMA that was adopted in the DDA would have reduced tariff peaks much more than other tariffs. While this increased potential welfare gains, it also increased political pain, reducing the scope for an agreement.

Paola Conconi and Carlo Perroni turn to a key feature of the WTO: special and differential treatment (SDT) of developing countries. SDT is a response to the heterogeneity of the WTO membership, involving 'less than full reciprocity' by developing countries in negotiations and calls on developed countries to provide preferential access to markets. They provide a theoretical analysis of SDT, concluding that it is in fact consistent with the principle of reciprocity that is at the core of WTO negotiations, as it helps developing nations liberalize trade gradually. A key element of the argument is that deeper and more rapid liberalization by developed nations helps developing countries build trade (export) capacity so that over time

the relative size of import substituting industries can shrink and imports can then be liberalized. A key element for SDT to ‘work’ is that there is conditionality in the sense that SDT is a time-bound mechanism. Thus, there must be a credible mechanism that results in ‘graduation’. The insistence of many OECD countries in the DDA that large emerging economies do more to liberalize access to their markets – such as the proposal for sectoral deals – can be understood on the basis of this analysis.

Emily Blanchard discusses the implications of the changes that have occurred in the structure and organization of world trade: the rise of supply chain trade, international production sharing, and cross-hauling of foreign direct investment (FDI). She summarizes recent research on the incentives for governments to manipulate domestic behind-the-border policies that affect trade and welfare through their impacts on investment; how these incentives may be one of the factors underpinning the rise in preferential trade agreements (PTAs); and what this implies for policy cooperation in the WTO – including a need to revisit the decision not to negotiate disciplines on investment policies.

Bernard Hoekman and Petros Mavroidis argue that WTO Members should pursue more club agreements under the umbrella of the WTO, both critical mass agreements where benefits are extended to all WTO Members, and plurilateral agreements where benefits are conditional on signing the agreement. They note that the outside option for WTO Members – the formation of a PTA – will often be less desirable from a trading system and multilateralist perspective than plurilaterals, as the latter ensure open access, are more transparent, and provide access to a common dispute settlement mechanism. Moving towards more plurilaterals will require measures to reduce the scope for only a few countries to block the consensus needed for adoption of new agreements into the WTO. Work is also needed to allow incorporation of new agreements that involve cooperation on regulatory measures that are applied on a non-discriminatory basis.

John Odell discusses what research suggests on how WTO Members should go about setting the agenda for another comprehensive round of negotiations if they decide to do so. He emphasizes the large information problem that confronts governments in designing an agenda that will not suffer from the problems identified by Wolfe and Decreux and Fontagné and suggests the WTO Membership should do much more than it has done to commission objective, outside negotiation analysis to identify issues that are complementary in the sense that joint action will substantially increase the potential gains from cooperation. He also argues for adopting negotiating modalities that encourage countries to form clubs on issues, with the outcomes of club agreements linked to each other in a limited single undertaking that binds only club members.

Finally, Doug Nelson turns to the question of whether and how the WTO Membership can address fundamental questions of legitimacy that are likely constrain efforts to expand the organization to other policy areas and may even affect the ability of the system as it exists today to continue to operate. He discusses

the prospects and preconditions for the WTO to evolve into a more constitutional order, highlighting the critical importance of civil society in this regard, the huge challenge that exists in defining this concept in a global context, and the likelihood this challenge will preclude greater constitutionalization of the WTO.

A common theme of many of the Symposium articles is the importance of analysis of both the economic incentives and political constraints confronting rule-making in a multi-polar world economy, and on the need to take process and design questions seriously. Many of the authors conclude that for the WTO to remain relevant, greater acceptance is needed of small group cooperation inside the organization. This may take the form of critical mass or plurilateral agreements, or building on the approach taken in the TFA by explicitly addressing differences in implementation capacity on a country-by-country basis. A more concerted effort to form clubs in the WTO would recognize the heterogeneity of the membership while addressing the difficulty of making SDT time-bound and limiting it to the countries that need it. However, as also emphasized by several contributors, plurilateral agreements in core areas of trade policy, such as market access and agricultural support, may not be desirable or feasible if they are a final outcome rather than an intermediate step. At the end of the day, full internalization of the spillovers created by many domestic policies can only be achieved through multilateral agreements. Investing more effort in identifying *ex ante* a negotiating set that offers greater economic and political ‘gains from trade’ than was the case in the DDA, as well as adopting simpler negotiation modalities that avoid the need for extensive exceptions and flexibilities to address country heterogeneity and facilitate cross-issue linkages between the main players are two suggestions made by several contributors to this Symposium.

## References

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