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Whither WTO – The Multilateral Trading System After Bali

It is now almost twenty years ago that the Uruguay Round of multilateral negotiations under the General Agreement on Tariffs and Trade (GATT) was concluded in April 1994. The Uruguay Round also created the World Trade Organization (WTO), which replaced the GATT in 1995. One year before, the North American Free Trade Agreement (NAFTA) had entered into force, while the European Single Market had been largely completed at the beginning of 1993. In both cases, regional economic integration among the partner countries was much deeper than the global integration provided for among WTO members. Accordingly, NAFTA and the European Single Market also offered models to further extend and refine the original WTO rules and disciplines. In actual fact, though, the WTO has not notably changed over the past two decades. Rather, it took more than 12 years of bargaining in the Doha Round until the WTO's first new multilateral agreement – on trade facilitation – was reached at its Ministerial Conference last December in Bali, Indonesia.

The years since the WTO's foundation have for the most part been marked by strong global trade growth. World trade in goods and services has more than quadrupled during this period, developing much more quickly than domestic production. In particular, the strong growth in global trade has fuelled dynamic economic expansion in emerging economies like the BRICS states (Brazil, Russia, India, China and South Africa). The emergence of these new players is one of the central facets of the evolution currently taking place in global trade and global governance mechanisms (as evidenced by the new Brazilian Director-General of the WTO, Roberto Azevêdo). It was not until 2009 that international trade collapsed in the midst of the global economic, financial and debt crisis, from which it has yet to fully recover. However, the Bali Package might provide a small shot in the arm to recently rather sluggish world trade and economic trends.

Over the same time span, sweeping structural change has occurred in the international division of labour. This is particularly reflected in the pre-eminence of international value chains or production networks which combine goods, services and knowledge trade as well as foreign direct investment within multinational corporations and labour migration. Such "supply-chain trade", which is about *making* things internationally, as distinct from traditional trade in the form of *selling* goods and services internationally, is the most dynamic segment of international commerce.[1] It has largely been facilitated by rapid advances in information and communication technologies while calling for a deep integration framework of rules and disciplines. Existing provisions in WTO agreements are seemingly ill-suited to this development, though. Instead, the demand for such governance has mainly been filled by a variety of preferential trade agreements between individual WTO members or among groups of member countries. In fact, a close two-way relationship appears to exist between deep integration, as captured by a set of indices constructed in terms of policy areas covered in preferential trade agreements, and trade within production networks.[2]

As indicated, the main component of the Bali Package is "trade facilitation", which is basically an attempt to cut red tape in customs through increased speed, efficiency and trans-

1 See R. Baldwin: WTO 2.0: Global governance of supply-chain trade, in: Policy Insight No. 64, Centre for Economic Policy Research, 2012.

2 See G. Orefice, N. Rocha: Deep integration and production networks: an empirical analysis, Staff Working Paper ERSD-2011-11, World Trade Organization, 2011.

parency in operations and to improve the trade-related infrastructure. While this could boost the volume of world trade by an estimated USD 400 to 900 billion annually and stimulate foreign direct investment, it could also promote the integration of trading partners into global value chains. Main beneficiaries could be the least developed countries (LDCs), which face high transaction costs in importing necessary inputs and exporting the processed goods. Besides trade facilitation, the Bali Package includes provisions on a variety of issues like food security, export subsidies, and tariff- and quota-free market access for LDC goods. However, the respective commitments and pledges by WTO members are often not legally binding and lack fixed implementation dates. Altogether, the outcome of the Bali Ministerial Conference therefore looks rather modest. In particular, the central dossiers of the Doha Round negotiations – market access for non-agricultural goods and services, domestic agricultural subsidies, and agricultural import tariffs – remain unresolved.

Given the intricacies of this three-way trade diplomacy among three major players – the European Union, the United States and the emerging economies – and the unanimity principle in the WTO, it would appear difficult to finalise the Doha Round in the near future. The Bali deal demonstrates, however, that the BRICS countries have given up their blockade of recent years and have a reinvigorated interest in multilateral progress. This is – inter alia – due to the negotiations of "mega-regional" and "mega-bilateral" preferential trade agreements (PTAs) like the Transatlantic Trade and Investment Partnership between the EU and the US or the Trans-Pacific Partnership between the US and Pacific Rim states, as well as a number of other big PTAs, e.g. the EU's negotiations with Canada, Japan or the Association of Southeast Asian Nations, in which the BRICS most often are not involved.

The major drivers of the upsurge in PTAs were the deadlock in the Doha Round and a need for deeper forms of integration that was not satisfied by the WTO. The "mega-regionals" and "mega-bilaterals" can thus be regarded as a complement to the multilateral trading system, but also as a risk, as they may lead to fragmentation and create a multiplicity of trading regimes with high transaction costs. They also distort trade flows, mainly through preferential and consequently discriminatory tariffs. Hence, the WTO is still the right forum to negotiate market access issues like import tariffs. In view of strong incentives for free-riding, the same holds true for subsidies – a sizeable reduction of which can only be reached at a multilateral level. Moreover, WTO members should try to resolve more ambitious supply-chain trade issues like multilateral rules for competition and foreign direct investment policies or stronger protection of tangible and intangible property.

As much as multilateral solutions are preferable, plurilateral agreements are a way to move forward in specific topic areas. For instance, the EU, US, Japan and ten other WTO members just announced negotiations to lower tariffs and trade barriers for green goods and services at the World Economic Forum in Davos. Similarly, the EU and US engaged in a plurilateral Trade in International Services Agreement (TISA) with 21 other WTO members in 2013. TISA is meant to advance the stalled multilateral negotiations on trade in services, even though it is negotiated outside the WTO. Developing countries like the BRICS states did not participate in the TISA negotiations but would reap the benefits without in turn being bound by the rules of the agreement. TISA negotiators have decided to temporarily push back the automatic multilateralisation of the agreement as long as there is no critical mass of WTO members joining it. Nonetheless, if a critical mass of WTO member countries accede to a plurilateral agreement, it seems to be a viable option to expedite specific topic areas rather than negotiating a comprehensive package deal for years – despite the fact that it represents a deviation from the WTO's single undertaking principle and often contradicts most-favoured-nation treatment. In sum, we might ultimately see a push for the finalisation of the Doha Round as a result of the Bali conference, but nonetheless an increasing number of area-specific plurilateral agreements as well as regional and bilateral PTAs accounting for the variable geometry of the 21st century.

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