The Future of the World Trading System

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\textit{It is easy to be pessimistic amid uncertainty. Doha has its problems, but all is not lost. There remains scope for a scaled-down Doha deal and formulating a post-Doha agenda. Moreover, emerging Asian regionalism is setting an example of an effective bottom-up approach to trade. Asia’s experience also points to a pragmatic approach to aid for trade to close development gaps. This note examines several policy options.}

\textbf{Conclude Doha; Its Important.} Concluding the WTO Doha Development Round can add around $155 billion to world income (ADB, 2006). But progress has been slow. For the past decade, Doha sought to reduce world trade barriers and uniquely place developing countries at the centre of the talks. Key issues, such as liberalizing agriculture and non-agricultural market access (NAMA), have been more contentious than envisaged. Closure has been complicated with 153 WTO members involved in negotiations. And there have been problems with the WTO negotiating machinery - the large-scale single undertaking and the formula approach to tariff cuts. Political decisions are needed to strike a Doha deal (Baldwin and Evenett, 2011; Wignaraja, forthcoming). The world’s largest traders – the Peoples Republic of China and the US - are critical. Thus, it appears that a “deep” Doha deal (with significant reduction in tariffs and subsidies) may prove difficult. Nonetheless, it makes economic sense to persevere.

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Even a scaled down Doha deal will foster a faltering global economy recovery, bring welfare gains to the poorest and help restore credibility in multilateralism.

**“Plan B” Offers a Step-by-Step Approach.** With a comprehensive Doha deal unlikely, the WTO is pursuing a “Plan B” to salvage parts of the agenda. Plan B includes:

1. a fast lane on LDC specific issues (such as duty free and quota free access for LDC exports);
2. a middle lane on issues close to maturity and maintain a development focus (e.g. trade facilitation); and
3. a slow lane on contentious issues (agriculture, NAMA, services, trade remedies and intellectual property).

Plan B has elicited a variety of responses. On one hand, it delivers some of Doha’s development aspects by benefitting least developed countries (LDCs). On the other, middle income economies see little enhanced market access for industry or agriculture. The real point about Plan B is that it at least takes the process forward. Political considerations (upcoming elections in the US and France along with the PRC’s changing leadership) mean that the 10-year Doha negotiations must bear some fruit this year, or it could be another decade before a multilateral trade agreement can be reached (Baldwin and Evenett, 2011).

**Initiate Post-Doha Agenda Early.** The WTO is the cornerstone of a rules-based international trading system which treats large and small countries alike. Some aspects are effective – the dispute settlement mechanism, global trade policy monitoring and
administration of agreements from the original GATT and eight past trade rounds. The time is ripe to think strategically about a post-Doha agenda---so that the WTO can continue with liberalizing trade and removing barriers. An important goal for such an agenda is achieving results within a reasonable time period. Negotiating smaller sector-specific deals (in areas such as services and environmental goods) seems more fruitful than previous large-scale single undertaking talks. As the examples of the Information Technology Agreement (ITA) and the Government Procurement Agreement (GPA) show, pursuing narrower projects can pay off. Also relevant are reforms to the WTO negotiating machinery such as simplifying the formula approach to tariff cuts and modifying the consensus approach towards critical mass decision-making. While the details need careful discussion, the latter reform means that a sufficiently large subset of membership would be sufficient to foster cooperation under the WTO processes.

Another important post-Doha agenda item is attempting to improve coherence between free trade agreements (FTAs) and the multilateral trading system. Several recent proposals merit serious consideration. These include: fixing gaps in the WTO legal framework, spreading best practices in FTAs, and extending existing preferential arrangements in a non-discriminatory manner to additional parties (WTO, 2011).

**Region-Wide Free Trade Agreements (FTAs) – a Bottom Up Approach to Doha?**

Continuing with liberalization helps the spread of production networks that underlie Asia’s spectacular export success. Slow progress in Doha has encouraged many countries to consider FTAs as an alternative means of liberalization. One way Asia plans to deal with the proliferation of FTAs ---and the risk of an Asian “Noodle Bowl”--- is by consolidation (Kawai and Wignaraja, 2011). There are two options: an Asian process
(driven primarily by the PRC and Japan) and the Trans-Pacific Strategic Economic Partnership (driven by the US). The former process includes ASEAN and major regional economies (e.g. PRC, Japan, Korea, India, Australia and New Zealand) and the latter several APEC members. Both have their adherents and are gathering steam. Short-term, these processes work in parallel with overlapping membership and coverage of issues. Long-term, they will likely converge, setting the groundwork for an eventual deep region-wide agreement. Ideally, such an agreement should cover as many countries and issues as is politically feasible. Provisions on goods, services and investment should form the core of such an agreement. Inclusion of provisions on competition, intellectual property rights and trade facilitation would also be desirable. Thus, Asian regionalism provides a bottom-up framework to move Doha (or a post-Doha agenda) forward, as many contentious issues will have been resolved.

**Make Aid for Trade More Effective.** Liberalization under Doha or region-wide agreements is likely to work best when supported by Aid for Trade (i.e. concessionary development assistance to facilitate trade-led growth) to close development gaps. Given fiscal constraints, future flows of Aid for Trade may be scarce in the future. Thus, we need to ensure available aid is used effectively. The WTO has a major initiative on Aid for Trade in close partnership with regional development banks. Asia’s experience suggests that a regional approach backed by national strategies offers the optimal way forward (ADB and WTO, 2011). This means an integrated approach that invests in economic corridors, reduces costs through trade facilitation and trade finance, supports structural reforms to boost competitiveness, and builds on policy making capacity. It also means that we must blend grants with less concessional aid (such as loans and
guarantees) and private sector finance. Finally, improved monitoring and evaluation of
Aid for Trade projects helps project value for money and facilitate lesson learning. The
Asian Development Bank’s Greater Mekong Subregion and Central Asian Regional
Economic Cooperation programs are two prominent examples.

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