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STRENGTHENING THE GLOBAL TRADE SYSTEM

WTO in Times of Major Change

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ABSTRACT

The international trade world has been changing over the last decade or so. Since 2008 there has been a shift in the pattern of economic growth, away from western economies and towards Asia. There are now effectively four distinct groups in the World Trade Organization: the old “OECD” countries, the new “emerged economies,” other developing countries, and the least developed countries.

The relationship between these groups needs to be defined in order for the organization to move forward. The need for this is evident from the standoff in the Doha Round negotiations, where China, Brazil, and India acted within the core G-5 group as representatives in some sense of all developing countries. It makes little sense that Brazil and India argue that they need the same special and differential treatment as all other developing countries when their trade performance shows that they are competitive in global markets. It equally makes no sense for the United States and the European Union to insist that all developing countries should aim at impossible targets, in terms of levels of bound tariffs post-Doha, or much expanded services commitments, whereas it might work to ask for such efforts from the ‘emerged’ group.

One way of addressing this issue lies in a change in the institutional architecture. An intermediate body is needed between the current 159 members, who can be consulted individually, and the General Council, which acts for them collectively. This will lead to a re-examination of the relationship between developed and developing countries that has existed since the 1960s.

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INTRODUCTION

The objective of this paper is to analyse recent trends in world trade and to offer an idea for institutional change in the World Trade Organization (WTO).

The paper will explore this subject in three stages:

- First, it will demonstrate that the international trade world has been changing over the last five to ten years, and is now substantially a different place. Since 2008 there has been an obvious shift in the pattern of economic growth, away from western economies and towards Asia; patterns of trade, and trade and investment flows, have altered beyond recognition; and the fact that 'emerging economies' have emerged is now widely recognised (for example, in the composition of the global G-20).[1] The statistics of world trade are confirming these trends.

- There are now effectively four distinct groups in the WTO: the old 'Organisation for Economic Co-operation and Development' (OECD) countries, the new 'emerged economies,' other developing countries, and the least developed countries. The new group is a reflection of the change in trading power that follows from those changing trends. Each of the four groups has its own trade interests and agenda, and the precise relationship between them—in terms of mutual obligations and expectations—is no longer clear.

- This situation needs to be addressed if the future of the WTO as the institution in charge of global trade governance is to be secured. This is a delicate matter, with vital interests on all sides of the circle; it touches on basic principles such as most favoured nation (MFN) and the concept that there should be the same rights and obligations for all WTO members. However, it is difficult to discuss such an issue within the existing structure and governing bodies of the WTO, which are not well adapted to the deliberate consideration of issues that raise such fundamental concerns.

The paper will argue that what is needed, in terms of institutional change, is an intermediate body between the individual members (the grass roots) and the membership collectively (in the General Council). It will suggest that the functions of such a body should not be just consultative and advisory, but should have some executive character. It should be deliberative, to promote in-depth discussion of strategic issues, and it should engage in preparatory work to be a first filter on the WTO agenda, under a mandate from the General Council (GC).

NEW PATTERNS OF TRADE, INVESTMENT

Former WTO Director-General Pascal Lamy said, "Fifty percent of global trade is now done by developing nations, while last year was the year in economic history in which the South started producing more than the North." He added, "China is a rich country with many poor, or a poor country with many rich, is a question which geopolitics haven't succeeded in answering" (Interview, *Financial Times*, 18 July 2013).

The shift in economic growth and, therefore, trading power to Asia, with higher growth rates in the east than in the west, does not need much further demonstration. It is well established that the bulk of outward investment to the developing world in the years after 2001 was flowing in the direction of China. The European trade strategy "Global Europe", launched in 2006, was explicitly aimed at trade agreements with regions where there was higher growth and good prospects for expansion of trade.[2] Since 2008, with the banking/mortgage crisis and the recession that followed, recovery has been slow in the west, economic growth rates in Europe have been flat and not much better in the United States (US), while countries such as China and India have been able to maintain their much higher rates of growth.

This has led to new patterns of trade and investment, with larger flows between Asia and Europe and North America; and this trend has been reinforced by the phenomenon of the global supply chain, now increasingly adopted as a business model in sectors such as textile and clothing, electronic devices and automobiles. This was not entirely new: since the 1970s and the days of the "Four Asian Tigers", importers in Europe and in the US had established production facilities in South Korea, Taiwan, and Hong Kong, but the supply chain was relatively direct compared with the present day.

The current drive has been propelled by the desire to remain competitive in the global market, keeping costs to the consumer low, and it has been stimulated by measures to admit cumulative origin, for example, which has allowed more developing countries to take advantage of the Generalized System of Preferences (GSP) and other preferential schemes.

1 Without claiming to define countries that have emerged, I am thinking of China, South Korea, India, Brazil, Mexico, and several of the ASEAN group—Thailand, Malaysia and Indonesia. We might add Turkey and Argentina or Chile. South Korea and Mexico have already been OECD members for some time. Hong Kong and Singapore are, in statistical terms, leading trade entities and centres of trade, investment, and shipping.

2 This has led to negotiations with South Korea (completed), and with India and ASEAN countries, especially Singapore and Malaysia (ongoing).

In terms of trade flows, intermediate suppliers such as Sri Lanka, Vietnam, and Mauritius have taken a more visible place in the global picture.

Another sign that trade patterns are being modified is the recent interest in new ways of measuring trade flows—the "Made-in-the-World" initiative in WTO. Measuring the value added at various stages of the manufacturing process, to determine whether a product is American or Chinese, for example, rather than simply relying on customs documentation in the last port of export before the product enters the final market, has meant that the added value of processing can be more carefully allocated along the supply chain. This has led to remarkable results, and potentially to reassessment of bilateral trade surpluses/deficits.[3]

These shifts of pattern can be easily seen in the remarkable changes in the 'league tables' of international economic statistics. Absolute values for gross domestic product (GDP) are not going to be the definitive guide in deciding whether a country has already achieved a level in its economy comparable to the OECD countries or is still emerging; other indicators, such as the GDP figures per head and the data in the World Development Reports have to be studied also. But I note that for some time already China's GDP has been ahead of those of Japan and Germany; Brazil in 2012 moved above Britain, and more recently India has reached the same level as Italy. Mexico and South Korea are also shown as among the world's largest economies.

The shifts in the world trade data are even more striking. Table 1 shows data for 2011, with exports and imports of goods—and of services—aggregated into a single combined total. What this shows is that world trade continues to be largely dominated by the G-8 countries, with five European Union (EU) member states in the leading group, together with the US and Japan. Canada and Russia have been overtaken by China, South Korea and Hong Kong in the top ten. Only nine countries have exceeded the figure of US$1,000 billion in goods trade; and only two have more than US$500 billion in services trade.

However, if you look at the trends in comparative terms, with data from ten years ago compared with current figures, and you take trade in goods and in services separately, some features are striking.

- China in 2000 was the 6th/7th largest in trade in goods, but in 2010 it moved up to be first in exports and second in imports (leaving aside the EU as a group).
- India, which had been outside the top group in 2000, was edging into the top 15 in goods and as high as 7th in services trade by 2010.

3 See Figure 1. Studies have shown that items such as Apple's iPod and iPhone have much greater value added in the US than was previously assumed, and that the value added in final assembly and packaging in China is relatively low.

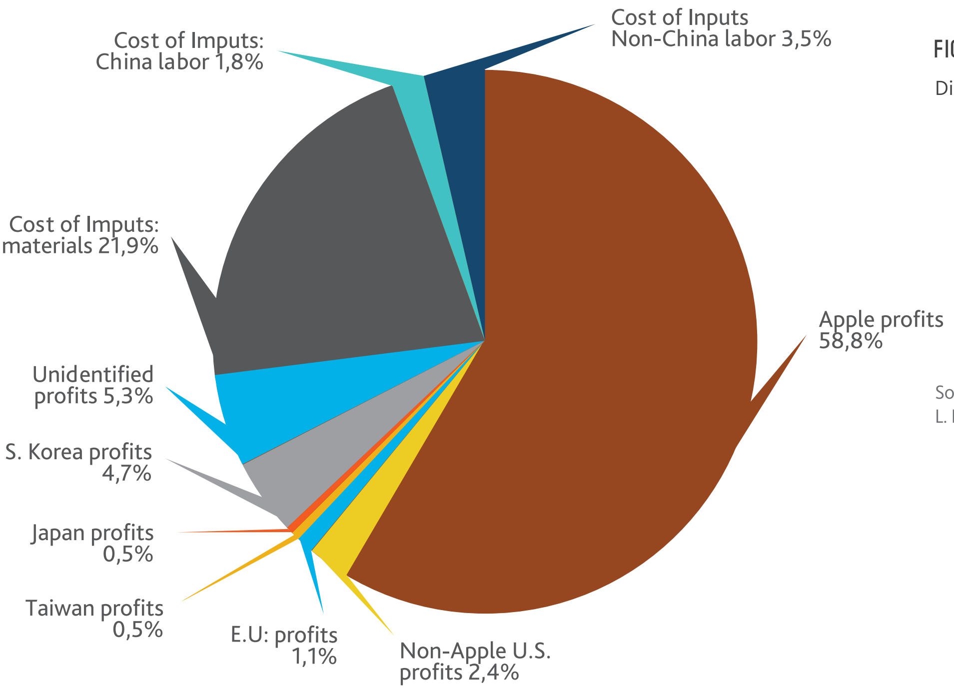

FIGURE 1:

Distribution of Value for iPhone, 2010

Source: "Capturing Value in Global Networks," Kenneth L. Kraemer, Greg Linden and Jason Derick, July 2011.

The point is that a number of emerging economies have been steadily moving up the table and are now in leadership positions. South Korea, Hong Kong and Singapore have established leading positions in the trade club; and if you pursue the analysis beyond the ten leading countries, Brazil, Turkey and several ASEAN countries begin to show. This raises issues about their status as developing countries or as virtual developed economies.

The same point can be made perhaps more dramatically by measuring world trade on a different basis, where the EU is shown as a single group of countries with common trade policies and WTO commitments. Table B in the Annex shows the top 20 trading countries, with a different country composition since EU member states are no longer shown individually. On this basis, India and Singapore join China, South Korea, and Hong Kong in the top 10 countries, with Mexico just below, followed by Brazil, Thailand, Turkey, Malaysia, and Indonesia in a cluster not far behind.

This demonstrates at the same time the shift of trade power to Asia and the fact that these countries are now comparable to some in the OECD group such as Canada, Switzerland, Australia, and Norway.

It is now time to move to the second proposition, that these changes have led to the creation of a fourth, distinct group within the WTO, located somewhere between the developed OECD countries and the other developing countries. I am certainly not arguing that the newly emerged group is exactly in the same place as the OECD, since there will be points about GDP per head and unequal levels of income within large populations. But neither am I arguing that they need as much assistance—through preferential trade schemes or Aid for Trade—as other developing countries that have grown less rapidly since 2000 and are less diversified in their trade.

The key point in this context is that the relationship between these groups needs to be defined in order for the organisation to move forward. The need for this is evident from the standoff in the Doha Round negotiations, where China, Brazil, and India acted within the core G-5 group as representatives in some sense of all developing countries. At lower levels in the negotiations—in agriculture and over food security—the position of developing countries has become even more fragmented with common interest groups flowering on all sides, at times in opposition to one another. What is required is to define the rights and obligations—and perhaps expectations—of the various groups towards one another in order for a less conflictual approach to be the norm.

For example, it makes little sense that Brazil and India argue that they need the same special and differential treatment as all other developing countries when the reality is that their trade performance shows that they are already competitive in global markets. For them to keep to this position in the name of solidarity with others is in fact to evade their responsibilities to work within the multilateral system. Similarly, it makes no sense for China to claim that it is a "recently acceded member" if that means that they expect to contribute less to the negotiation in a way similar to others such as Vanuatu or Samoa. On the other side of the equation, it equally makes no sense for the US and the EU to insist that all developing countries should aim at impossible targets, in terms of levels of bound tariffs post-Doha, or much expanded services commitments compared with existing levels, whereas

TABLE 1:

Trade in Goods and Services and Combined Total (US$ billion)

Note: Based on data from WTO International Trade Statistics that include intra-EU trade, and therefore show the exports and imports of all WTO Members (including the EU member states' trade with each one another).

TRADE IN GOODS & SERVICES, and COMBINED TOTAL			
EU	4,483	1,428	5,911
US	3,746	976	4,722
China	3,641	419	4,060
Germany	2,726	542	3,268
Japan	1,678	285	1,963
France	1,310	330	1,640
UK	1,111	444	1,555
Netherlands	1,260	252	1,512
Italy	1,080	219	1,299
Korea	1,079	192	1,271
Hong Kong	968	177	1,145

it might work to ask for such efforts from the "emerged" group.[4]

This brings us to the third proposition: that one means of addressing this kind of issue lies in a change in the institutional architecture. As stated above, an intermediate body is needed between the current 159 members, who can be consulted individually, and the GC, which acts for them collectively—one is too time consuming as a vehicle for securing the consensus views of all members, and the other is too large for the proper debate of sensitive and important issues.

The question of the right institutional architecture for strategic discussions and decision-taking within an organization of 150 members or more is not a new problem. Within international organizations—and notably the United Nations group—it has been generally solved by creating an executive body of the kind proposed. A smaller group debates the issues in depth and makes recommendations to the membership in a plenary format.[5]

To quote another trade expert,

> Unlike the IMF and World Bank, the GATT does not have an executive body or a board comprising a sub-set of members… Such executive boards facilitate decision-making by concentrating discussions within a smaller but representative group of members. (Hoekman 2002)

Why has WTO never done the same? The General Agreement on Tariffs and Trade (GATT) in its day did set up a body of this kind, called the Consultative Group of 18 (CG.18), which was established in 1975 and met at regular intervals until 1985. This provided a bridge from the end of the Tokyo Round through to the start of the Uruguay Round. The intention behind the group was to discuss both "existing and emerging" issues of trade policy, and to recommend to members how the organization should react to such issues. The group was chaired by the Director-General (Olivier Long, later Arthur Dunkel) and serviced with papers from the Secretariat, as well as notes from the members. In theory limited to 18 members, in practice it grew almost immediately to 25 or more.[6]

The CG.18 discussed issues such as how the rules for examining balance of payments measures could be improved, and the need for better coordination with the International Monetary Fund (IMF) on monetary reforms. Trade in services (not yet integrated into GATT) was also discussed and proved to be highly contentious with widely divergent opinions. Annual reports were made to the Council but members were not obliged to follow up on recommendations.

The major weakness was that the group did not have—and was not intended to have—any executive function or a direct role in preparing decisions in the GC. Given frequent lack of consensus, it developed into little more than a talking shop.

In the background to this experience was—and is—the difficulty in taking decisions when a consensus of all the members is required. The Marrakesh Agreement does lay down voting procedures, as did the GATT 1947; but it also stipulates that the normal procedure is to arrive at a consensus. Since the days of the CG.18, the problem has become more difficult because of the growth of the membership and more active participation by members—following the establishment of the WTO. Current practices of consultation involving regional or functional groups of members can stretch out the decision making process to many months.

There are of course other consultation mechanisms: the Green Room process, with its varying shapes and formats, and informal consultations between the Chairs and members in the work of Committees (specific trade issues) or in negotiating contexts.

This suggests that it would be wise to found any proposal for a new intermediate body on the concept that 'the new is built up on the basis of existing processes.' Trade representatives and policy-makers are a fairly conservative breed, and prefer gradual evolution to radical reform. The model for the new body would therefore be partly the Green Room—a smaller selective forum for more open exchanges than is possible in the Councils or Committees—and partly the process now applied to Trade Policy Reviews and monitoring of trade measures—where interaction between Secretariat factual reports and the views of members leads to a consensual agreement on the issues.

Thus, in terms of the agenda, the new body should be able to discuss any matter of interest within the ambit of the WTO agreements, but it would be chaired by the Chairman of the GC rather than the Director-General. This would allow a smaller, representative group to engage in the more deliberate and considered exchanges that are needed when delicate issues that relate to the institution and the relationship between different members arise.

A principal item for discussion initially would be the question raised earlier in this paper: the emergence of four main groups among the membership and how they should interact with

4 A recently published study of trade integration in the 21st century, by the Peterson Institute, makes this same point. "China has become the world's largest trader and a major beneficiary of the current rules of the game. It will be called upon to shoulder more of the responsibilities of maintaining an open system."

5 In the UN itself, and in the agencies in Geneva (ILO, WHO, WIPO, UNCTAD, among others) this pattern is well established and works reasonably well even when treaty making is involved.

6 One problem arose from EC participation. The EC was a member of the group, together with its member states, several of whom attended, especially at the start when discussions outside the historic GATT areas of tariffs and non-tariff barriers was expected; and additional members from groups such as EFTA and ASEAN also attended. Instead of 18 it was often 25 or more.

one another. This will inevitably lead to some degree of re-examination of the relationship between developed and developing countries that has existed since the 1960s—an asymmetrical balance between full obligations, the same for each member, and the concept of non-reciprocal rights enshrined in the phrase 'special and differential treatment.'

Another recent paper by trade experts makes this same point,

> The WTO seems to be different [from the IMF]... because it works on the basis of the exchange of concessions, which ensures that all players feel that they have derived a fair political 'bargain'. Reciprocity ensures political buy-in to cooperation. Periodic negotiations in the GATT/WTO have updated this political contract between countries, redressing some old grievances and papering over others, with the implicit understanding that there will be a future occasion to take up the unsolvable problems of the day.[7]

It would also, I suggest, have an executive function, to prepare the agenda of the GC, and could in particular discuss more general issues arising from the management of the main agreements—the GATT 1994, the General Agreement on Trade in Services (GATS), the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), and the Agreement on Government Procurement (GPA). Horizontal matters such as the relationship between Article I on MFN and the growing number of regional or preferential trade agreements could also be on its agenda. It would not discuss specific negotiating matters, which have to remain within the responsibility of each member; but it could usefully debate a wider issue such as whether the Doha Round should be continued under the same mandate or in some way updated to include topical issues that touch the field of international trade—climate change or global warming, and the potential impact of measures to mitigate its environmental effects, for one.

There are of course some important but lesser issues that would need to be resolved if such a new body is to be established. These include its size and composition (a mix between Ambassadors in Geneva and policy-makers from capitals?), and whether membership would be fixed for a given period or rotate among members annually or every few years. In any event, it must be duly representative of all the members and all regions. As author of this proposal, I do not think it is my function to settle all these issues, which should be discussed by members as the question advances. It should be clear, however, that any disagreement on these matters should not prevent the new body from being set up if there is broad agreement that it is needed for the purpose I have described.[8]

7 "The Hyperglobalization of Trade and its Future," by Subramaniam and Kessler, Peterson Institute, Washington, DC.

8 I will not hide, however, that my preference would be for around 20 members (a structure similar to the G-20) with appropriate representation from all the major groups and regions. Rotation of members would allow, over time, a wider selection of countries to participate.

ANNEX

In a first group 1-10: China, Korea, Hong Kong, India and Singapore. In a second group: Mexico (for goods) and Brazil, Turkey, and three members of ASEAN.

TABLE 2:

Exports and Imports, Goods and Services Combined, with Intra-EU Trade Excluded, 2011 ($ billion)

GOODS		SERVICES
EU		EU
US		US
China		China
Japan		Japan
South Korea	5	India
HK		Singapore
Russia		South Korea
Canada		HK
Singapore		Canada
India	10	Switzerland
Mexico		Russia
Taiwan		Australia
S Arabia		Brazil
UAE		Thailand
Australia	15	Taiwan
Brazil		Norway
Thailand		Malaysia
Switzerland		Turkey
Malaysia		Indonesia
Indonesia	20	Israel

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