Reform of the WTO: An Asian Perspective

Masahiro Kawai
Graduate School of Public Policy
University of Tokyo

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Introduction

• The world trading system under the WTO worked well until the turn of the millennium
• But new global realities have begun to pose new challenges for the WTO
• Emerging economies like BRICS demand trade agendas different from developed countries
• Development of global supply chains requires a new 21st century approach
• Mega and cross regional FTAs have become key drivers of setting new trade agendas
• The WTO needs to adapt to the new realities
Global share of GDP and trade for G7 and emerging & developing countries

GDP share

Trade share

Supply chains in East Asia: The iPhone example

Value-added Captured By Countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Value-added</th>
</tr>
</thead>
<tbody>
<tr>
<td>P. R. China</td>
<td>4%</td>
</tr>
<tr>
<td>United States</td>
<td>6%</td>
</tr>
<tr>
<td>Others</td>
<td>36%</td>
</tr>
<tr>
<td>Rest of East Asia</td>
<td>54%</td>
</tr>
</tbody>
</table>

Source: Author’s calculations based on ADBI research
Negotiating membership of RCEP, TPP

RCEP

- China
- Korea
- India
- Cambodia
- Indonesia
- Lao PDR
- Myanmar
- Philippines

ASEAN

- Japan
- Australia
- New Zealand
- Brunei Darussalam
- Malaysia
- Singapore
- Vietnam
- Thailand

NAFTA

- US
- Canada
- Mexico
- Chile
- Peru

TPP

Source: Author
Reform of the WTO

• Erosion of WTO relevance in global trade governance:
   Despite the Bali Package, lack of significant progress in WTO Doha Round negotiations still on 20th Century trade issues (tariffs and agriculture)
   Rise of merging economies (BRICS, etc) with new interests
   Spread of supply chains, demanding global rules beyond WTO
   Large region-wide or cross-regional FTA negotiations (TTIP, TPP, RCEP, Japan-EU) to address supply chain issues

• Rely on FTAs for market access and trade rules, and WTO for dispute settlement? Risks:
   Laxity about dispute settlement, disconnected from regional trade rules, with further erosion of the WTO
   Suboptimal use of WTO global knowledge & expertise on trade
   Developing countries may get marginalized in mega-FTA moves

• Case for WTO reform to address the 21st century agendas
(1) DDR trade negotiations

- Abandoning the Doha Round would further damage WTO credibility
- The Bali package focusing on trade facilitation and market access provisions for LDCs, i.e., a limited Doha deal, is a starting point, but even this encounters difficulties
- A full WTO Doha agreement on agriculture and NAMA is unlikely for some time
- Plurilateral agreements on single specific issues among like-minded countries (e.g., the Information Technology Agreement [ITA]) and open accession are an option
(2) WTO comparative advantage

Dispute settlement mechanism (DSM)

- Many agree that DSM is working reasonably well. However, only a few countries in Asia (Japan, China, Korea and India) have used the DSM.
- Key gaps in the DSM:
  - Resource constraints and costs of dispute settlement
  - Standing—only governments (not exporters) can bring disputes in the WTO
  - DSM panelists are part-timers which may reduce quality and consistency of reports
  - Lack of compensation for damages incurred
- WTO and each mega-regional FTA may collaborate on the legal and monitoring functions to ensure greater coherence between global and regional rules and among regional rules.
Knowledge and capacity building

- WTO has the world’s largest concentration of trade experts and notable convening power
- WTO can be a knowledge source on
  - New trade issues and rules (e.g. investment, services, government procurement, intellectual property, environment) to facilitate global supply chains
  - Best practices on negotiating techniques and designing trade agreements including FTAs
  - Ways and means to multilateralize regional FTAs
- WTO can provide enhanced capacity building on international trade law and dispute settlement
  - Setting up a regional center for international trade law in various parts of the world (with governments’ support)
(3) Multilateralizing regionalism

- FTAs and the WTO multilateral trade system are likely to continue to coexist for the foreseeable future.
- RCEP, TPP, TTIP, EU-Japan FTA, etc. under negotiation with differing trade rules and depth.
- The key is how best to make mega-FTAs multilateral friendly and pursue coherence between them, creating a path towards multilateralization.
- Though FTAs discriminate against third parties and diverge from one another, they do have some common features, for instance in anti-dumping, SPS and TBT.
- Ultimately, common rules across mega-regionals should be established through multilateral harmonization.
Practical steps for multilateralization

• Use WTO-consistent provisions
• Coordination across FTAs and mega-regionals
  - Make rules of origin (ROOs) multilateral friendly, e.g., rationalizing ROOs, adopting co-equals for ROOs, upgrading ROO admin, harmonizing regional ROOs
  - Consolidate bilateral FTAs into a comprehensive region-wide FTA in each region, with ROO cumulation
  - Connect mega regional FTAs
• Improve business support for SMEs (finance, technology, and marketing)

Role of WTO in multilateralization

- WTO based on MFN clause & its role in FTAs limited to:
  - Legal coverage for FTAs provided under the Enabling Clause and Article XXIV of the GATT
  - WTO Negotiating Group on Rules, a Transparency Mechanism for Regional Trade Agreements, and a Regional Trade Agreements Database
- Future role for the WTO to connect mega regional FTAs:
  - Enhanced soft law role—spreading best practices and sharing information on trade, trade rules and FTAs
  - Facilitator of harmonizing trade rules and provisions among mega regional and/or cross-regional FTAs
  - Possible forum for large region-wide FTA negotiations and dispute settlement
- WTO may work with regional institutions (ASEAN, ADB, IDB, AfDB) to support developing and emerging economies in promoting regional FTAs
WTO reform essential

To maintain relevance, the WTO needs to:

• Implement the Bali Package (trade facilitation and LDC provisions, etc) and continue to work on a comprehensive DDR
• Pursue plurilateral agreements on sector-specific issues for like-minded countries with open accession (Nakatomi, 2013/14)
• Develop a new program to tackle behind-the-border issues relevant to supply chain trade, e.g. trade facilitation, investment policy and non-tariff barriers (Baldwin, 2013/14)
• Work on FTAs to support developing countries and coordinate among regional FTAs for their multilateralization (Kawai-Wig.)
• Be a think tank on new trade issues, rules and best practices (Messerlin, 2012), and play a greater role in capacity building (negotiating and implementing FTAs, international trade law and dispute settlements)
• Explore reforming the voting system at the WTO before embarking on another WTO trade round
Conclusion

• Asia has achieved industrialization, growth and development through outward-oriented policies under the global trading system governed by the WTO
• However, WTO relevance in global trade governance is eroding and the credibility of its role in rule-making on trade is being questioned due to
  - Lack of significant progress on WTO Doha Round
  - Rise of emerging economies (such as BRICS)
  - Expansion of supply chains
  - Spread of bilateral and regional FTAs
Conclusion (cont’d)

• The WTO needs to be revamped to restore its global trade governance role and support global trade and investment liberalization

• A new WTO can work on
  - Consolidation of bilateral FTAs into a bigger regional FTA
  - Connecting regional FTAs and creation of cross-regional FTAs
  - Harmonization of rules across mega FTAs
  - Technical support for developing and emerging economies
Selected references by the author

Thank you
For more information:

Masahiro Kawai, PhD
Project Professor
Graduate School of Public Policy
University of Tokyo

mkawai@pp.u-tokyo.ac.jp