

# **Reform of the WTO: An Asian Perspective**

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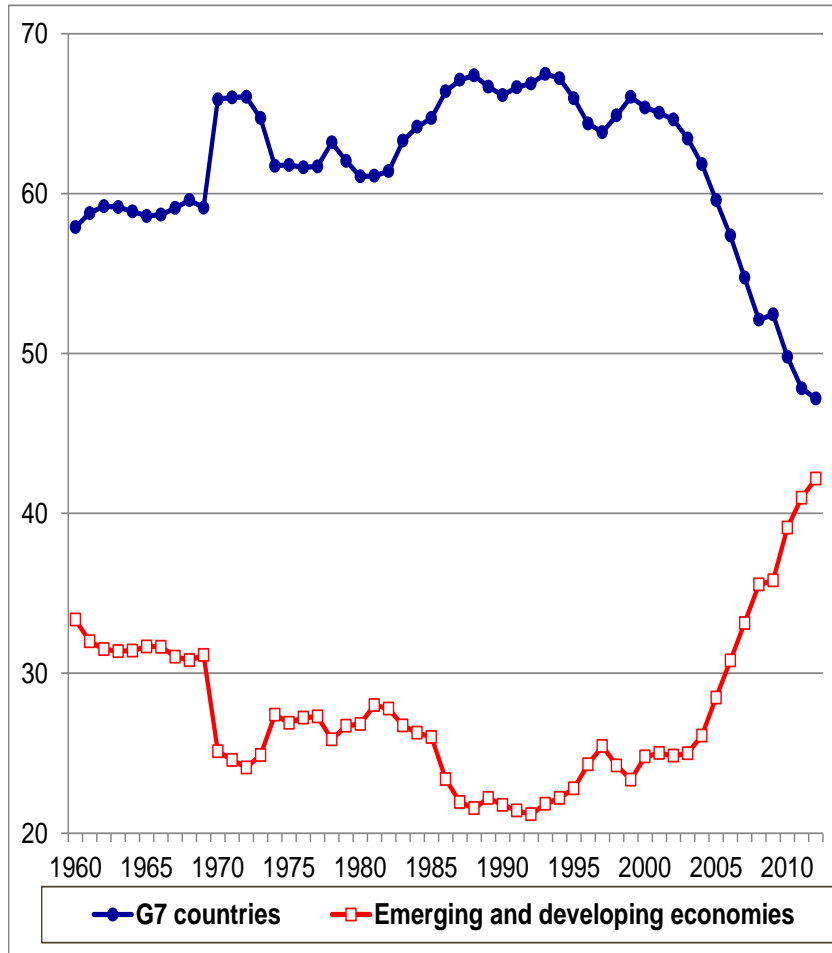
Tokyo, 8 December 2014

# Introduction

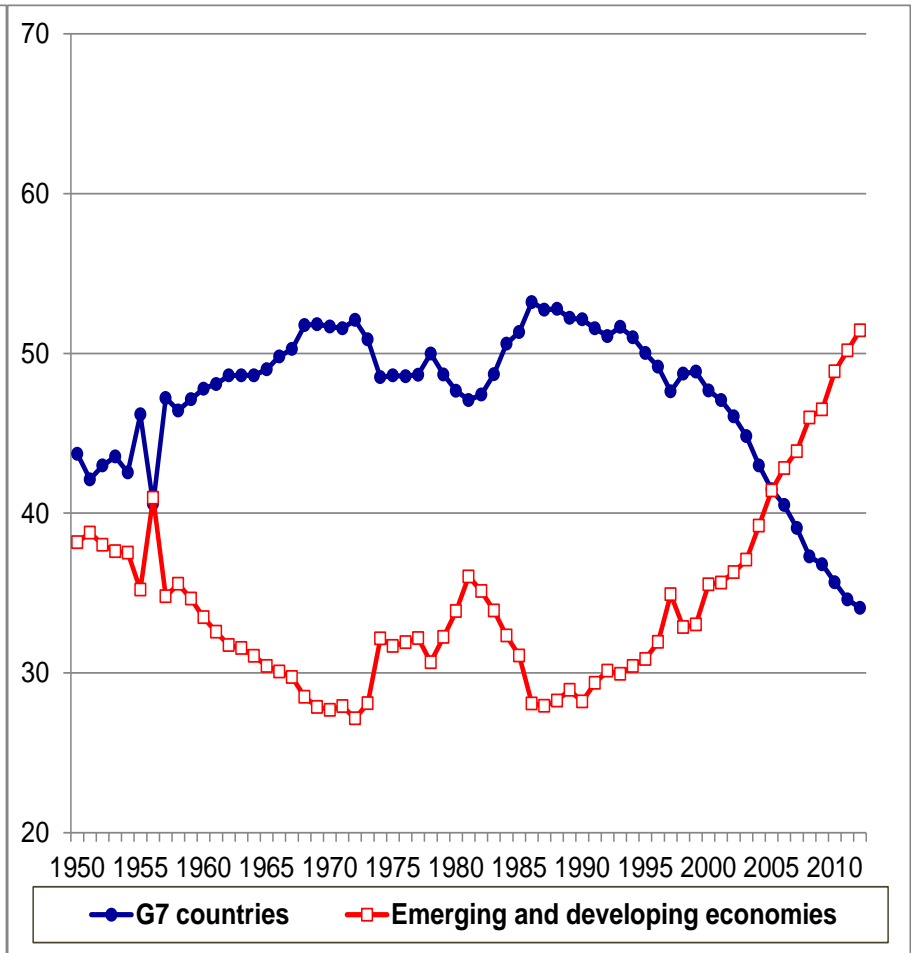
- The world trading system under the WTO worked well until the turn of the millennium
- But new global realities have begun to pose new challenges for the WTO
- Emerging economies like BRICS demand trade agendas different from developed countries
- Development of global supply chains requires a new 21<sup>st</sup> 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

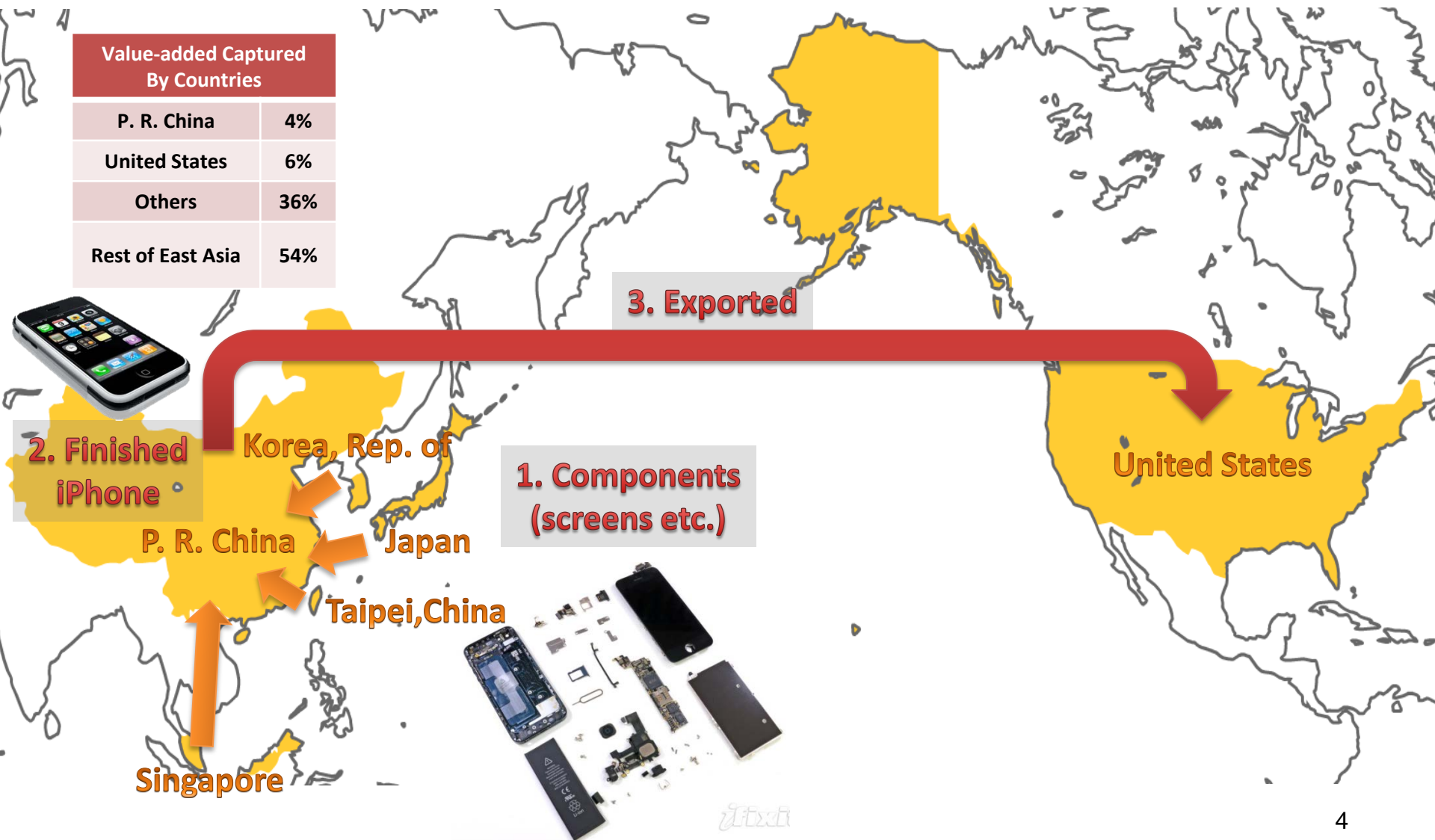


Source: World Bank, *WDI database* for GDP; IMF, *International Financial Statistics* for trade

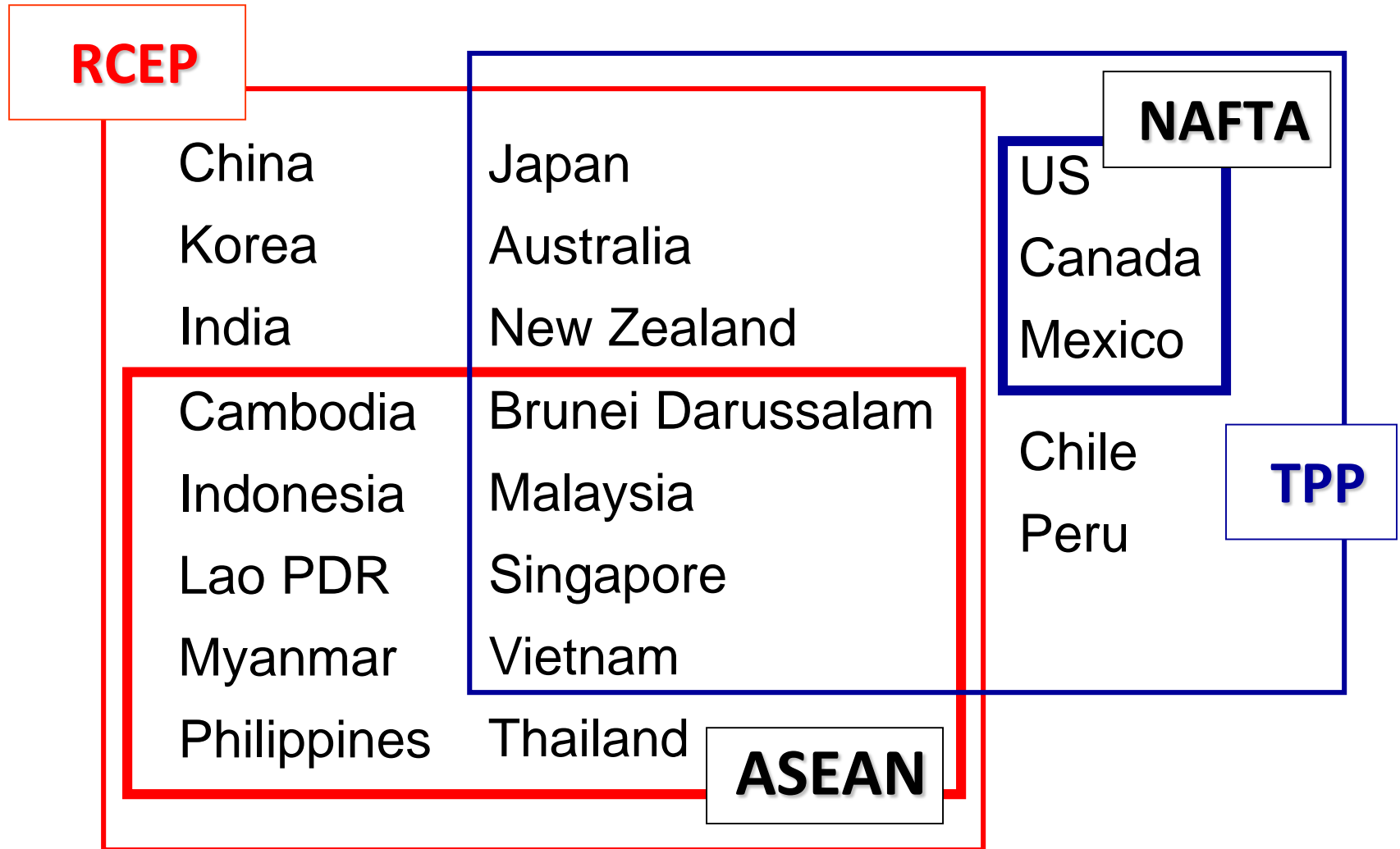
# Supply chains in East Asia: The iPhone example

## Value-added Captured By Countries

P. R. China	4%
United States	6%
Others	36%
Rest of East Asia	54%



# Negotiating membership of RCEP, TPP



# 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 21<sup>st</sup> 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)

\* Richard Baldwin and Masahiro Kawai, “Multilateralizing Asian Regionalism.” ADBI Working Paper Series, No. 431 (August 2013), Tokyo: Asian Development Bank Institute.

# 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

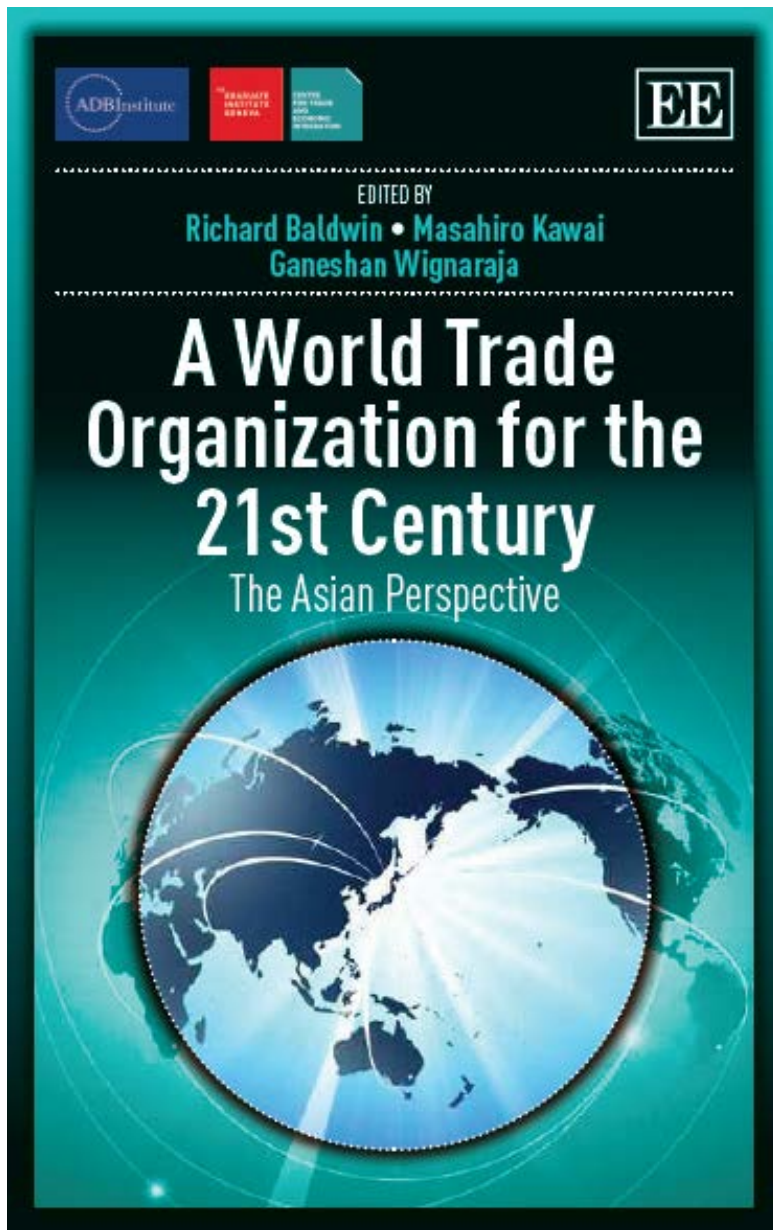
# Conclusion (cont'd)

- 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 dreation of cross-regional FTAs
  - ▣ Harmonization of rules across mega FTAs
  - ▣ Technical support for developing and emerging economies

# Selected references by the author

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***A World Trade Organization for the 21<sup>st</sup> Century: Asian Perspectives (2014) and The Future of the World Trading System: Asian Perspectives (2013)*** examine key changes taking place in the world trading system and explores policy implications for Asia. They also offer lessons for other regions.

### The Future of the World Trading System: Asian Perspectives

Edited by Richard Baldwin, Masahiro Kawai and Ganeshan Wignaraja



A VoxEU.org Book

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