

ICRIER WTO Lecture Series
Relevance of the Multi Trading System & Doha Negotiations
in Today's World
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The relevance of any system or initiative could be examined in a number of ways. For example, we could:

- Consider the need for them, both at present and in future;
- Identify and compare with the attributes required in any well-functioning system,
- Examine what the situation would be if the system or initiative were not in place, and
- From their experience, get an indication of what is likely to happen in today's world in other similar contexts.

For this lecture, I will consider these aspects for the multilateral trading system and Doha Round.

Under normal circumstances, if we do not have a multilateral trading system with agreed rules and principles, international economic interactions will largely reflect the prevailing major economic and political imbalances. Vested interest groups would link trade relations with non-trade related issues, leading potentially to large number of disputes, with little possibility of addressing them amicably and objectively.

Today, we do not have normal circumstances. We face extra-ordinary concerns in several important areas such as financial crisis, food security, energy prices, sustained economic growth and distribution of its benefits, environmental

concerns, and the domestic pressure for protectionist policies. We need collective effort because no nation alone can address these issues and a collective ownership of the solutions is important for success. In these times of uncertainty and tension, we need a system which will provide stability in policy response, a predictable and low-risk operational environment, and allow for safety nets combined with increased opportunities. For us, the relevant system should be one which helps us achieve better globalization. Some years ago, the President of Germany, Mr. Horst Kohler, provided certain guide posts for achieving better globalization. He said, *inter alia*, that:

- we must recognize that globalization requires formulating "global domestic policy"
 - Increasing interdependence requires as a minimum that each country give more consideration to the consequences of its actions on others.
 - Many problems can no longer be solved without multilateral cooperation.
- Multilateral solutions can only work if they do not undermine national self-responsibility
 - Countries have to recognize even more strongly that good governance, the rule of law, and fight against corruption are essential for good investment climate and effective poverty reduction.
- While the market has proven itself as the best coordinating mechanism between free agents, the market forces alone will not suffice
 - Therefore, the need for, and thus the relevance of, an international regulatory framework for globalization, with stable and predictable rules and effective institutions.
- The social dimension of globalization has to be given more consideration.

- We must ensure that globalization is not misunderstood as imposing a global harmonization of economic and social models.

These views are even more relevant today because more than ever before we face common problems and need to develop common solutions. Add to this the fact that interactions among nations in one area, such as trade, can have spillover effects in terms of relations in other areas, e.g. climate change or political concerns. Thus, nations need to work together with all countries, big and small, to address the various concerns within a multilateral framework of rules and obligations, taking account of their inter-dependence, principles of fairness agreed mutually, and reflecting positions of both economically strong and weaker nations. Together with appropriate domestic initiatives, we need to strengthen, or where necessary build, systems which allow countries to work with each other within a transparent, balanced and fair framework, reflecting the principle of “common but differentiated responsibility”.

In this situation, the importance of a stable and predictable multilateral trading system is evident. If we consider what such a system should provide, we could come up with a list including the following:

- Stable and predictable policy regime which increases certainty and giving assurance against arbitrary or protectionist actions,
- non-discriminatory treatment among Member countries,
- specific recognition of the situation of weaker economies and provide them with greater flexibilities,
- stronger economies to bear a greater burden of obligations,
- transparency mechanisms to inform about relevant legal and policy changes in other territories,

- Bodies to monitor and discuss developments and concerns in areas covered by the system,
- increased opportunities for economic interaction and faster growth,
- flexibility to meet the relevant domestic concerns and objectives under the agreed disciplines,
- mechanisms for building capacity in Member countries, and
- a well functioning dispute settlement process.

The multilateral trading system that is encompassed in the World Trade Organization (WTO) embodies all these principles. Its 153 Members, which are Governments, administer it through various Committees and Councils. An important discipline in WTO is to limit adverse effects through arbitrary action in external markets. For example, the WTO's most favoured nation treatment and national treatment principles embody non-discrimination, and the first sentence in the general exception provision of the GATT imposes: *"the requirement that such measures are not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries where the same conditions prevail, or a disguised restriction on international trade"*

The WTO's Committees and Councils provide for monitoring and discussing concerns of Members, the transparency mechanisms inform Members of ongoing changes in other territories, special and differential treatment embodies the principle of higher obligations for developed countries and lower for poorer countries, and WTO has a well functioning dispute settlement process.

The Agreement with its commitments provides predictable and growing market access, thus creating incentives for further trade, investment and growth. It

combines opening up markets with a framework which allows Members to use domestic policy initiatives and regulation to meet desired policy objectives in an explicit manner. An example in the context of financial services is the prudential carve out, which allows Member countries to use whatever prudential regulation that may be required in the area of financial services. Likewise, the binding commitments can be breached for addressing import surges that seriously injure domestic industry, actions against dumped or subsidized imports that materially injure domestic industry, initiatives to form customs unions or free trade areas, and for taking trade measures to address other concerns, for example, relating to balance of payment problems, health and safety concerns, environment, critical shortages of foodstuff, exhaustible natural resources, etc. The discipline lies in the conditions under which such measures can be taken and the processes to be followed when taking such actions.

The WTO is thus not a regime which imposes free trade; rather, it is a system which provides for regulation of trade with increased market opportunities and interaction over time. The WTO therefore gives confidence to deal with policy concerns under stable and predictable conditions and helps avoid the protectionism that led for instance to the great depression in the 1930s. You will recall that higher tariffs under the Smoot Hawley Act of 1930 and the retaliation to that action in terms of tariffs and NTBs led to the great depression. The lessons from that subsequently led to creation of a multilateral trading system, and subsequent opening of markets under GATT. Today's multilateral trading system, the WTO, provides an insurance mechanism to prevent exactly the protectionist scenario of 1930s from unfolding. By this alone, the WTO and the multilateral rules it embodies prove beyond doubt their relevance for the globalised world that we live in.

The relevance of the system is also shown by the fact that countries big and small to have shown keen interest to become signatory of the WTO. In the period since 1995 when WTO became operational, 25 new Members have been added. Currently, 29 other countries, including 12 least developed countries, are in the process of accession to WTO.

The system is relevant also because it reduces trade tensions and disputes through a dispute settlement system which has functioned very well. Since WTO's establishment in 1995, Members have raised 380 disputes under the WTO's Dispute Settlement Understanding or DSU. Of these, more than half were addressed in the process of consultation that takes place under the DSU. As a result, 138 Panels to decide the disputes were set up. Both developed and developing countries have participated actively in this process. In certain years developed countries participated in more disputes and in others developing countries did so.

I have often heard that policy makers now have less interest in the multilateral trading system and more in bilateral agreements such as FTAs. It is worth noting that FTAs and customs unions are allowed under one of the exceptions of the WTO, provided specified conditions are met.

When considering the adequacy of FTAs we need to bear a number of points in mind. For instance, some key issues such as agricultural subsidy distortions and anti-dumping disciplines cannot be adequately addressed in FTAs. Further, FTA negotiations are more likely to favour stronger countries, because the economically weaker countries are more vulnerable to pressures in bilateral negotiations than in multilateral negotiations. FTAs do not take account of the concerns of a larger body of those nations which are not a part of it, and thus

create possibilities of tension. Moreover, with a proliferation of FTAs there will be multiple rules of origin and a stage will come when there will have to be a harmonization of these rules of origin. This is another way of saying that there will be a need to move towards the multilateral system. In addition, imagine the likely number of disputes that may emerge in a situation with multiple rules, and the added cost of doing business in such a regime. In today's world, as there is increasing pressure to start linking non-trade concerns with trade measures, think of how difficult it will be to contain such moves without the multilateral non-discrimination and non-arbitrary disciplines of a multilateral trading system.

Thus, it is important that the multilateral system continues to get due attention and does not become weaker. In a globalised world, a strong and vibrant multilateral trading system is essential.

WTO Members recognise that there is scope and need for further improving the system, including policy and structural imbalances in the area of agriculture; greater predictability in the area of trade in services; long time concern of tariff peaks which limit market access; the need to increase capacity and remove supply side constraints in less developed countries; and establish systems that facilitate trade and improve transparency and governance.

The Doha Round of trade negotiations focuses on these and other changes that Members seek in the system. There are a number of reasons for the relevance of the Doha Round, including the relevance of the stage at which we are at present in the Round:

- A successful Doha Round will help substantially improve the disciplines and opportunities under the existing multilateral trading system.

- Success in the multilateral negotiations of Doha is crucial for preparing the conditions necessary for the comity of nations to deal with the other areas of major concern that I mentioned in the beginning of my lecture.
- In Doha negotiations, we have walked the long road since December 2001 to reach the final stretch where there is agreement on most issues, and for the few key issues that remain we mainly need political flexibility rather than technical solutions. Thus, a successful result for modality is not far from the collective reach of the Membership.

Let us consider these in some detail, starting with the likely results of the Round

Doha Round

In terms of sequencing, WTO Members have decided to first have modalities in agriculture and NAMA (or non-agriculture market access), based on a formula based approach. In NAMA, the application of the Swiss formula would result in all industrial tariffs in developed countries becoming single digit tariffs. Since developed countries have no flexibility in applying the formula, their peak bound tariffs would come down to no more than 8 per cent at most, and the weighted average tariffs of developed countries would be 1.6 per cent. This will address two long-standing concerns of developing countries, namely tariff peaks and tariff escalation in the tariff structure of developed countries.

Developing countries have more flexibilities, and least developed countries do not have to undertake reduction commitments. Thus, developing countries will have both higher final bound tariffs under the applicable Swiss formula, with some flexibilities for deviating from the formula. This will lead to greater predictability and stability, which is of enormous value to economic operators.

Such a result will also encourage an increase in South-South trade, which now accounts for a large portion of the trade of developing countries.

For least developed countries, developed countries have agreed to give duty free and quota free treatment for at least 97 per cent of tariff lines, and developing countries which are in a position to do so will also provide extensive duty free quota free access to least developed countries.

NAMA negotiations also address non-tariff barriers to trade (NTBs). Members have discussed proposals to ease the trade problems arising due to NTBs, including proposals for a horizontal mechanism. On horizontal mechanism, Members have reached near convergence.

In the area of agriculture, developing countries have long felt that they face an uneven playing field on account of subsidization of agriculture by richer countries, and their aspirations to development by accessing processed product markets abroad have been frustrated partly due to tariff escalation. The results of Doha Round will give more certainty of policy response, a more level playing field, encourage agricultural trade based more on efficiency than public treasury and protectionist policies, and enhance opportunities particularly for those countries whose capacities are presently suppressed due to the existing distortions in agriculture markets.

In agriculture negotiations, the disciplines relate to three areas, namely domestic support or domestic subsidies, export subsidies, and market access or tariffs reductions. As in the case of NAMA, for agriculture too, developing countries have more flexibilities such as special products and special safeguards mechanism, and least developed countries are not subject to reduction

commitments. For countries which benefit from preferences, WTO Members have agreed to provide a longer transition or adjustment period for specifically agreed products.

Often a concern is expressed that the binding level to be agreed by large economies on their trade distorting agricultural subsidies is much higher than the actual level of subsidies provided at present. In this regard, it is worth considering the historical levels of such subsidies in the past decade, the current pressures to have a much higher level of subsidy limits in the large economies, and the possibility of changes in commodity prices, and hence support level, in the foreseeable future. Further, more usually than not, the binding levels in the WTO system are above applied levels, and in these cases they provide insurance through an upper limit on policy flexibility under normal conditions.

Under the Doha Round, export subsidies on agriculture are to be phased out by 2013. Significant disciplines are envisaged for curbing domestic support, reducing the current levels of bound overall trade distorting support levels by 70 to 80 per cent for the developed countries which give large subsidies to agriculture. Additional level of disciplines are envisaged in the specific case of cotton.

For agriculture market access disciplines, substantial reductions in bound tariffs are proposed for developed countries, with a minimum reduction of their average bound levels by 54%. For developing countries this is a maximum of 36%. In addition, market access is also available through the tariff rate quotas (TRQs) that are to be given mainly by developed countries under the flexibility provided in the framework for sensitive products. These TRQs have been negotiated involving large exporters and importers of agricultural products.

There is thus significant ambition encompassed in the results on TRQs because the result broadly meets the market access ambitions of these large exporters.

Additional and enhanced market opportunities will arise also due to the greater liberalization that will take place for tropical products. Likewise, the specific focus on reduction of tariff escalation in agriculture too will help make available increased market opportunities for processed and semi-processed products, and benefit commodity exporters also.

In services, during the July Ministerial meeting this year, Members had a signalling conference where extremely positive offers were indicated by several Members. Therefore in the area of services too, there is a very substantial and attractive result that is likely in the Doha Round.

We also have other areas in the negotiations, such as trade facilitation, environmental goods and services, anti-dumping, and fishery subsidies, for which the results will add to the value of the overall results.

The overall result will thus lead to improved market opportunities for a large range of products, and will address many of the conventionally acknowledged trade barriers faced by developing countries. Moreover, the improved rules based system of WTO, will give greater stability and predictability which, as a major Trade Minister said recently, is in effect equivalent to "*having a good insurance policy combined with reduction in risks.*" In today's economic environment, the relevance of this cannot be over-stated, especially for the relatively more vulnerable such as small scale producers and exporters, and developing countries.

An important part of the package is special and differential treatment, which is provided in all parts of the Doha results. These imply flexibilities for developing countries, with much greater flexibilities for least developed countries and for small and vulnerable economies. An important focus of this initiative is also to augment capacities through technical assistance programmes. Without the ability for countries to take advantage of the opportunities and stable conditions that are created through the WTO system, the opportunities remain only potential or aspirational, especially for the poorer developing countries.

This brings me to Aid for Trade, which focuses on bringing finance, development and trade policy makers and constituencies together to address assistance to developing countries to improve their productive capacities and trade performance. The Aid for Trade initiative also addresses the needs of countries to adjust to changes brought about by the results of trade negotiations, and to transition to a path of higher inclusive growth over time by improving and adjusting their trade-related production and infrastructural capacities. The WTO has been a major advocate of Aid for Trade, an initiative in which it works with many other international organisations, as well as individual donors and beneficiaries.

In this background we see that a lack of agreement on Doha Round results would imply, for example, a continuation of the tariff peaks and tariff escalation, high levels of agricultural subsidies in rich countries, reduced opportunities in the area of services, and a missed opportunity to add stability to a world which is facing uncertainty and pressures for protectionism. This becomes even more relevant because in WTO today we are very close to reaching our common goal for achieving modalities.

The general view after the July Mini-Ministerial meeting this year was that major progress was made in the discussions, and this progress should be captured and the process should continue to try and have further results. Work has continued after the July meeting. Substantive and serious engagement is being shown in on-going consultations, with Members focusing on key concerns that need to be addressed. For instance, on the issue of Special Safeguard Mechanism or SSM in agriculture negotiations, which was the issue on which the July meeting broke down, there has been progress beyond the point in July.

If we are able to reach a Doha deal quickly that will imply not only that we have an important multilateral trade deal. Since the main players and the type of process in Doha are the similar to those required to deal with other major concerns, a positive result in Doha would help with meaningful interaction in other areas also. Today we need to take collective action to cope effectively with the several major problems we face. In each case we need to show political flexibility and understanding that with relatively small individual adjustments by any country, we can together have a large combined gain for the world. It is today essential to strengthen those systems which provide stability and enhance mutual economic interests and opportunities. Systems which show the ability of nations to work together towards a common goal.

The multilateral trading system is such a system. The political flexibility required at present in Doha is much smaller than would be required for other key challenges facing the world today, for example climate change. If political adjustment is not made in Doha then to expect even larger adjustment in other fora becomes a question mark in the context of global governance.

The Doha Round is relevant also for understanding the evolving structure of global governance. It shows clearly the increased importance of several developing countries in the process of negotiations, and that negotiations in any area will involve various interest based groups. The conventional North-South groups are no longer the norm, and much more important that it is not possible to have any multilateral agreement without concurrence of several groups of developing countries. The consensus based process of WTO and Doha negotiations also shows that to have a functioning multilateral system, it is important to have all countries on board.

The relevance of a multilateral trading system has been acknowledged for over half a century. It is even more relevant in today's world, as noted by several world leaders. The Doha Round negotiations aim to make the system even more relevant. Given the multiple ways in which these efforts are linked to seeking solutions to the major issues facing us today, its relevance increases in a major way.