

## **The WTO must be reformed in the interest of the poorest countries<sup>1</sup>**

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The World Trade Organization (WTO) is an essential plank of globalization. Imperfect and incomplete as WTO disciplines are, they provide a degree of predictability and stability to trade relations, the value of which has been brought home yet again by the global financial crisis. In a world of sluggish growth and burgeoning protectionist pressures, the importance of rules increases and the need to strengthen them becomes more urgent. Poor and vulnerable economies, whose ability to negotiate with, influence, or retaliate against the major trading nations is by definition limited, have a strong interest in a rules-based system, and in the WTO's ability to deliver on liberalization and the removal of trade-distorting subsidies.

But, to a worrying degree, the WTO is today living off the gains of its predecessor, the GATT (General Agreement on Tariffs and Trade) system, an institution forged by the advanced countries and focused on their areas of interest and in which developing countries had little voice. In crucial aspects of its mission, namely reducing actual and bound tariffs and agricultural subsidies, the WTO has been ineffectual. There has been no significant multilateral liberalization or reduction in bound tariffs or subsidies since the WTO was created in 1995. In newer areas, such as opening up markets for services trade, it has so far failed to deliver. Sluggish WTO negotiations have been overtaken by unilateral (that is, autonomous) liberalization as well as by bilateral and regional processes. Furthermore, in areas of crucial concern to the poorest countries, such as food security, and the trade aspects of climate change, the WTO is in effect absent. Not surprisingly, the poorest members of the organization, whose investment in WTO processes is proportionally most costly relative to their resources, are as frustrated with this situation as are the richest members.

Though the Doha Development Agenda, or Doha Round, is a greatly diluted version of what was launched in December 2001, its conclusion is critical to capturing the gains still on the table and to preserving the credibility of the WTO system. Provisions embodied in current drafts, including tighter ceilings on agricultural subsidies and duty-free-quota-free access for LDCs are especially important for the poor and vulnerable economies. However, given the long history of missed deadlines and the time needed for ratification, it is unlikely that a deal will be concluded before the end of 2011—the tenth anniversary of the start of the negotiations.

While Doha's conclusion —assuming there is one—would undeniably be a plus for the world economy, for the poorest countries, and for the institution, it will not end the need for reform. On the contrary, as members confront the need to address issues barely touched by the past decades Doha negotiations, they will be looking hard for a better

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<sup>1</sup> This note is based on a Carnegie Policy Brief by the author entitled "WTO Reform: the Time to Start is Now", prepared in September 2009.

way, making WTO reform even more crucial. The small and vulnerable economies are those that can least afford to wait.

### **Outlining the Reform Agenda**

The WTO responds entirely by the diverse political and economic interests of its many member states. Among the international organizations, the WTO is the least driven by its management and its secretariat. Not surprisingly, therefore, there is no champion, and much less an agreed blueprint for WTO reform.

In what follows, I outline 4 steps needed to reform the WTO. These steps may look unrealistic or even naïve, but they are needed for the world trading system to continue to evolve in a manner that supports globalization and reduces the risk of backtracking. In addition, these steps would amount to a wave of progress that would bring the WTO back to the center of global economic integration, and in a manner that is especially supportive of the poor and vulnerable countries.

*First, recognize that there is a problem.*

The first step in dealing with a problem, of course, is to recognize its existence. Some have argued that the WTO functions just fine and that, in any event, actual negotiations on reforming the WTO cannot be initiated before concluding Doha. But, short of negotiations, it is surely possible to begin a serious process of analysis, reflection, and consultation on WTO reform now without compromising Doha. Serious discussions on the functioning of the organization would enhance its credibility and might actually encourage negotiators to conclude Doha so as to move on to the next phase. WTO reform is likely to be at the top of the agenda of any realistic post-Doha scenario anyway.

*Second, bring the WTO into the centre of action*

The WTO must be allowed to break away from its immobility – from its splendid isolation amid a sea of fast changing trade relations. The membership must allow it to move from a single-minded focus on reciprocal multilateral concessions based on consensus— negotiations that are bearing insufficient fruit—and find ways to contribute actively in arenas where actual liberalization is taking place. This implies addressing the following three crucial issues:

#### **1. How can the institution assist its members in enacting autonomous trade reforms?**

Experience shows that WTO members, including the developing countries whose quantitative restrictions and applied tariffs and barriers have come down sharply over the last 3 decades, are inclined to prefer autonomous reform to negotiated reductions. In fact, contrary to the prevailing mercantilist logic of negotiators — trade theory and empirical evidence point overwhelmingly to the benefits that countries derive from

opening to global markets. How can the WTO secretariat draw on the extensive experience with autonomous liberalization (much of which has been carefully documented by the World Bank and UNCTAD for example) and work with countries on programs of trade reforms and, in collaboration with the aid agencies, promote complementary reforms and investments, including technical assistance and aid-for-trade? In this regard, how can the WTO exploit its Trade Policy Review Mechanism? The trade review mechanism is now a useful monitoring and diagnostic instrument, but it has the potential to provide the basis for an ongoing dialogue on trade reform, as well as –when needed - for an articulated long-term program of trade reform.

## **2. How can the WTO reduce its reliance on the single undertaking/consensus rule and instead promote agreements among a critical mass of members, including the poorest and most vulnerable economies?**

Such plurilateral agreements would establish new rules or achieve new market access in important sectors, including those most important to the poorest countries. They would have to comply with some well-identified criteria to minimize the adverse effects on nonmembers, and they would be extended to nonmembers on reasonable terms, including favorable treatment for the poorest countries. They would also be subject to dispute settlement (See piece by Peter Draper, and the WEF report by the Global Agenda Council on Trade, for a fuller description of rules that should govern such agreements).

Such “plurilateral” agreements can be challenged—especially by the smallest and poorest countries—on the grounds that they will be dominated by the major economies, that they will discriminate against them and that they can preempt the broader agenda. These fears are well-grounded, and the ground rules proposed on plurilaterals are designed to minimize these risks. Surely, the alternatives of global deals that are struck outside the WTO, or those like Doha that absorb enormous amounts of time and resources for little gain, or outright immobility are worse.

Moreover, small and poor countries may find that there are agreements of primary interest to them, and that there are ways to link agreements in these areas with agreements in other areas, without negotiating a global deal covering everything.

The answer is for the small and vulnerable economies is not to forbid plurilateral agreements but to proceed on a small set of such agreements that reflects the interests of smaller and poorer countries as well as those of larger and richer ones. It is crucial, however, to agree on procedures that make plurilateral agreements less exclusive and subject to an effective dispute settlement process that protects the weakest.

## **3. How can the WTO harness the energy behind regional agreements?**

While research has shown that many regional agreements are badly designed and implemented (and that some exist only on paper), it has also shown that others—starting with the EU, the North and Central American free trade agreements, and even

some South-South agreements, such as the Pan-Arab Free Trade Area, the Gulf Cooperation Council, and the Southern Africa Customs Union—have been genuinely successful in removing barriers, increasing the certainty of access, and creating trade. Regional agreements can also more easily deal with difficult behind-the-border impediments to trade, and they provide fertile ground for experimentation and advancing disciplines that can be adopted more broadly.

How can the WTO cease viewing regional trade agreements solely as a diversion and start treating them—as do large segments of the business community around the world and the officials in capitals—as an opportunity to advance trade? A large body of research has identified the essential characteristics of welfare-enhancing regional agreements that minimize discrimination: a low external tariff; simplified rules of origin; and coverage of all forms of trade. How can the WTO support and even encourage—rather than ignore or frown upon—the formation of well-designed, welfare-enhancing regional and bilateral agreements among its members, including among the small and vulnerable economies? How can it facilitate the harmonization and reduction of their external tariffs, and how can it foster accession to them of smaller and poorer countries that might otherwise be excluded? How can it provide technical assistance in the establishment of effective regional agreements?

Establishing effective rules to govern regional agreements should be the WTO's long-term objective, but its constructive engagement with regional processes is a prerequisite to achieving that goal.

### *Third, encourage multilateralization*

In the interest of the whole membership, but especially of the small and vulnerable economies, the WTO must decide on how the progress achieved along the unilateral, plurilateral, and regional channels can eventually be “multilateralized” and translated into a set of enforceable rules. Recent experience demonstrates conclusively that a good way *not* to do this is to have a big, comprehensive trade round.

A realistic approach to multilateralization must first recognize that its principles (such as most-favored nation status and nondiscrimination) exist only as ideals. WTO multilateral agreements, not least the current Doha drafts, are rife with exceptions, special treatment, and nonreciprocity. Thus, the choice between partial agreements and all-encompassing ones that treat everyone the same is in reality a false one. WTO agreements are always partial and selective.

Bearing this in mind, there are at least three nonexclusive ways to achieve multilateralization:

- One approach is to encourage the “flexible geometries” of agreements to become wider when possible, by extending plurilaterals to a larger group of members. China and the United States, for example, have agreed to pursue China's inclusion in the WTO's

Government Procurement Agreement. Over many years, great advances in open trade have been made on the basis of autonomous and regional processes alone, but the WTO can make a big contribution by consolidating the gains made under these agreements (see below) and complementing them with plurilateral approaches. Such extensions should include the poor and vulnerable economies on preferential terms.

- Another response is to seek specific opportunities to consolidate liberalization that has already occurred or that requires only modest steps across the board. WTO members might act to, among other things, agree to eliminate all tariffs under 3 percent; ban export subsidies in agriculture; adopt a unified code for rules of origin (or at least adopt a voluntary code on rules of origin); or provide duty-free, quota-free access to least developed countries. More than one of these steps could be promoted simultaneously to address a diversity of interests without going through a full-fledged negotiation on everything.

- Yet another approach is to promote agreements in which one country or a group of countries bind actual tariff levels or service schedules in specific sectors, both as a self restraint mechanism and as an inducement to others to do the same. One could imagine, for example, a G6 group consisting of the United States, EU, Japan, China, India, and Brazil—which together account for more than 80 percent of world trade—agreeing on such a step and adopting a common approach to encourage other countries to do the same, with preferential treatment for the small and vulnerable economies.

#### *Fourth, strengthen the WTO Secretariat.*

Implementing a more flexible, multidimensional, and opportunistic program of global trade reform requires both a more empowered WTO Secretariat and a more engaged membership, including more active and ongoing (rather than sporadic) participation of ministers. A stronger WTO secretariat, capable of providing world class impartial advice and technical assistance would be especially helpful to the poor and vulnerable economies.

It is important that the WTO secretariat become more independent and idea driven. The Secretariat's expertise, which is already considerable, would have to be strengthened in specific areas, including country and behind-the-border reform. Its research and policy functions should aim to become *the* centers of excellence on matters related to trade reform, such that they become obligatory ports of call for countries contemplating trade reforms or trade negotiations generally.

This outline of a reform agenda is intentionally limited to badly needed reforms that go to the heart of the WTO's mission. A more comprehensive treatment of WTO reform would include improvements in areas where the institution is already delivering, for example, dispute settlement (making it faster, less costly, and less reliant on trade sanctions – all needed to encourage its greater use by the small and vulnerable

economies), and accession (making negotiations more transparent, and achieving a better balance between the acceding country's commitments and the benefits it receives).

## **Conclusion**

The poorest countries have a vital interest in a vibrant WTO that can continually enhance and support the rules-based-trading system, but the WTO as it currently operates is not delivering for them. This must change, and the poorest countries can play an important role in driving the needed reforms. The institution needs to be brought into the arenas where trade reform is happening but where trade reform needs to be rationalized and multilateralized, including autonomous liberalization and regional agreements. In addition, members need to recognize that the single undertaking/universal consensus approach to negotiations is not capable of delivering in a timely fashion the ambitious and highly specific reforms needed to deal with a diverse, fast moving, and globalized economy. Accordingly, they need to promote instead agreements focusing on specific sectors that are of interest to a critical mass of members. These plurilateral agreements must be covered by protocols which promote and protect the interests of the small and vulnerable economies as well as the whole membership.

These proposals will be branded by some as naïve, as betraying a lack of understanding of the political realities. The skeptics will argue that the major economies are content to leave the system as it is, since it affords them the maximum flexibility, and avoids taking tough political decisions. But who is more naïve, those who believe that reforms must come, or the skeptics, who believe instead that the system of trade rules that govern globalization can be left indefinitely to wither on the vine – and that taxpayers, including the poorest among them, will continue to foot the bill regardless?