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GED Mini-Series: Inclusiveness in the Global Trading System | PART FOUR

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Collaboration between the Bertelsmann Foundation and IDEAS Centre

Global Economic Dynamics (GED) Mini-Series: Inclusiveness in the Global Trading System

PART FOUR: A Way Out of the Impasse? - How to create more inclusiveness in the global trading system

In 1995, a large portion of the international community set the tone for a more inclusive and open trading system. The establishment of the World Trade Organisation (WTO) that year marked a new era in global trade governance, where discriminatory trade measures and isolationist trade policies would be prone to challenge and scrutiny thanks to a rules-based system allowing Members to conduct



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trade in a more transparent and equitable manner.

Still, since the launch of the 2001 Doha round of trade talks very little progress has been made in multilateral talks and the world is now facing a vastly different kind of global trading landscape. One dominated by bilateral talks, preferential trade agreements (PTA's) and most recently mega-regional free trade agreements. The inclusiveness of the global trading system seems at stake. In our new GED-Project mini-series[1] we want to take a closer look at this on-going change. Over the course of the next four blog posts, we will delve deeply into the history of global trade and trade agreements, the various effects the current trading system is having on developed and developing countries, current trends in the system and a potential way out of the impasse and towards a more inclusive system.

Part four of our four-part series will examine potential solutions to the current situation and consider ways to promote a more inclusive global trading system. If you want to go back and read up on previous parts of our series you can click [here](#), [here](#) and [here](#) for parts one, two and three.

Ways out of the impasse

There are obviously no clear-cut solutions to the dilemma of the multilateralism crumbling down. The proposed points below are (ambitious) suggestions that could help alleviating any potential negative impacts of mega-regionals as well as the increasing fragmentation of the global trading landscape. But some of these solutions might match the interests of a group of countries and not others. The idea is then to strike a balance to find a compromise good enough for all parties, especially the most vulnerable economies.

Generally speaking, the broad approach to adopt would have to ensure that:

- Mega-regionals respect the WTO principles and the development interests of developing country non-parties, in particular LDCs and other low-income economies;
- The discriminatory aspect is minimised to the largest extent possible;
- The results of mega-regionals and wide-ranging plurilaterals do not lead to a multilateralization of solutions that have been agreed upon in an exclusive fashion and that cannot be adapted to take into account the interests of the outsiders.

This could be done through a two-fold line of attack.

1. Unilateral measures by insiders to the mega-regional trade agreements

- Establishing a platform under the auspices of the WTO that would enhance regulatory cooperation between insiders and third parties. Such platform would ultimately aim at raising awareness on harmonisation and mutual recognition of standards and norms, leading third parties to comprehend what steps their economic operators need to undertake in order to benefit from heightened standards. In order to do so, the extension of mutual recognition of standards to third parties is essential;
- Relaxing, simplifying and harmonising rules of origin to the largest extent possible. Exporters in developing countries need to

have the guarantee that their products can be integrated into value chains in the simplest way and that trade diversion effects are not exacerbated. Mimicking the same process in customs measures would undoubtedly assist in reducing trade costs for exporters. The implementation of trade facilitation measures is also key to such success;

- Multilateralising the market access commitments in all services sector covered as well as opening up public procurement processes to third parties as they are stated out in the mega-deals. It is clear that insiders would not accept to extend such preferences to all WTO Members without substantial concessions in return, therefore this treatment should be solely extended to LDCs and small and vulnerable economies. That would obviously mean that for the LDCs willing to benefit from such crucial preferences, they would need to satisfy stringent regulatory requirements. In order to do so, technical assistance and capacity-building programmes should be provided as a complementary measure. The request to obtain such assistance could be done through the abovementioned platform;
- Mandating specialised international institutions to carry out comprehensive analyses on the effects of deals like TPP, TTIP, TiSA, RCEP and others. The idea is to provide clear and easy-to-understand factual evidence of the impact of such deals on LDCs and low-income developing economies. Parties to the mega-deals should sponsor conferences and workshops on the findings. Such events should be used as a participative platform for exchanging ideas between insiders and outsiders, which in turn would allow outsiders to voice their concerns, and which would assist both parties in drawing out recommendations on how to maintain the inclusiveness of such deals. Additionally, technical assistance through aid-for-trade programmes should be provided to developing countries requesting so, in view of allowing them to understand better how they can benefit from the mega-regionals.
- Extending the duty-free, quota-free market access of the US, RCEP countries and other major emerging economies to 100% of tariff lines for LDCs and low-income developing countries.

2. Measures taken at the multilateral level

- Transforming and enhancing the current transparency mechanism for regional trade agreements. This proposal is not new and has been put forward by many trade experts and delegations. The idea would be to improve the collection and dissemination of information of regional trade agreements, with a specific emphasis on mega-deals and plurilaterals. It could also serve as a platform to analyse the key subjects that are dealt with by mega-deals and other PTAs. The WTO has actually been pushing for this, but to say it boldly, it would not trigger miraculous changes, although it would allow preferential processes to be scrutinised comprehensively by non-parties.
- Establishing a new committee or a working group at the WTO aiming at elaborating specific inclusive principles to be adopted by WTO Members engaged in preferential trade negotiations. All Members will be compelled to follow those principles, which could include transparency provisions; the right to be consulted; obligation to carry out impact studies on PTA effects on LDCs and other low-income developing economies; obligation to discuss the findings within the General Council; obligation to consider the concerns of non-members and detail out what mitigating measures they would undertake – within the relevant PTA or outside – to guarantee that any outcome would create trade and not divert it.

Also, opening up the accession of third parties to the mega-deals might seem enticing in the first place. Many countries have manifested their interest in joining sooner or later the TPP (most notably Indonesia, South Korea or the Philippines), but the path to accession is feasible for some and impracticable for many others. Accession clauses could only make the mega-deals larger and bigger at the expense of economies which do not possess enough economic and political leverage to become part of them. Enlarging the accession to any country – even if, say, membership requirements would vary according the development level of the acceding country

– would only defeat further the purpose of an inclusive system, unless accession principles are defined multilaterally. Moreover, newcomers would also have little or no influence to amend substantive provisions, but a bit of room with respect to the level of liberalisation of tariffs and services. The focus should ultimately remain on multilateralism if we want to save the inclusiveness of the system.

Conclusion

If rule-making continues taking place outside the WTO; if outsiders to the mega-deals must inevitably conform to their trend-setting power whilst not partaking in the rules-shaping process; if the centrality of the WTO is not becoming relevant again... we are clearly heading towards an inextricable dilemma. Inclusiveness as it stands today is bound to be eroded further, unless big and smaller actors take action. The demise of the TPP or TTIP will not solve the problem like magic. Policy and decision-makers hold the very serious responsibility to deal with this matter for building a fairer and more inclusive future for all economies of this world.

Giving more clout and importance to the WTO is the very first step towards a more inclusive system. The WTO decision-making structure has to be adapted to the growingly diverging interests of its Members. Consensus has to remain at the core of the system, but some principles that have been blocking positive outcomes for competing economies need to be revised and reformed. The current situation can only produce greater ostracisation and polarisation amongst trading blocs. We are irremediably moving towards a fragmented governance model where WTO Members will continue to be superficially adamant about the importance of multilateralism, whilst being concretely committed to preferential deals covering areas that the Doha talks do not mention.

There is still time to change that.

[1] Note: The text for this mini-series in large parts derives from an earlier draft by Xiankun Lu and Darius Rao, which resulted from a collaboration between GED-Project and IDEAS Centre in November 2016.

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