

FUTURE OF WTO

- **Core role of GATT to facilitate negotiation of reciprocal reductions in tariffs, i.e., public good based on MFN clause and requirement of reciprocity**

GATT also had limited powers of rule promulgation – “bound” tariffs, procedures for dispute settlement, banning of some NTBs such as quotas

- **WTO is expanded version of GATT, but to date has been considerably less successful**

(i) Why was GATT successful?

(a) *History* – after World War II, developed countries saw need for trade liberalization, and other means of dealing with unemployment

Coordinated liberalization a way round balance of payments problems (Bretton-Woods)/exchange rate depreciation (flexible exchange rates)

(b) *Willing members/little free-riding* – focus on OECD countries with three key players, US, Japan and EU, made reciprocity easy, and too large to free-ride

Few developing country (DC) members, typically marginalized via “Special and Differential Treatment” (SDT) – i.e., did not participate in bargains, so concessions were “decorative”

(c) *Scope* – restricted to manufactured goods, and no attempt to negotiate agricultural liberalization

As a consequence, GATT was successful – by formation of WTO, intra-OECD manufacturing trade virtually free

(ii) GATT to WTO:

(a) *Going global* - trade liberalization agenda now almost all about DCs – OECD/DCs, DCs/OECD, DCs/DCs

(b) *Going multi-sectoral* - negotiations now multi-sectoral – DCs want better access to OECD countries in both manufacturing and agriculture; OECD countries want DC access in services, defense of intellectual property rights, and security for foreign direct investment

(iii) Why GATT is not a model for WTO success:

(a) *History* – collapse of USSR signaled to some DCs, e.g., India, should integrate in world economy - China proving feasibility

World different in other respects:

- DCs expect voice in decisions affecting them, and seeking some transfer of power from OECD

- voters in OECD expect governments to reduce poverty – trade policies cannot be based purely on self-interest

- expectation by DCs of transfers from OECD, principle having been conceded in GATT under SDT

Result – any deal seen as acceptable in OECD risks being unacceptable among DCs

(b) *Unwilling members/free riding* - two new groups of members in WTO:

- smaller/poorer DCs (G90), especially in Africa, who see no benefit from bargaining for trade liberalization – see only transfers in their interests

- larger/integrated DCs (G20), e.g., China, who have an interest in trade liberalization – but incentives to free-ride

- difficult for G20 to reach deal with OECD if G90 hostile

(c) Not just manufacturing

Will be harder to get a deal that is inter-sectoral – may require rules from which some governments see no benefit/reduces sovereignty

WTO needs a “grand bargain” with different benefits across countries – creation of EU was such a bargain, but it did not require agricultural trade liberalization

■ Possible solutions to deadlock in WTO

(i) Bargains vs. transfers:

Seen as hypocritical that OECD countries still have barriers against many DCs, but even integrated DCs see a need for some transfers

(a) *Core of WTO must be bargaining* – WTO crucial to G20, but without reciprocity, will not be offered much

(b) *Explicit transfers* – should be an element of non-reciprocated market access – negotiated among OECD members by WTO secretariat at start of a trade round:

- facilitates intra-OECD sharing of burden**
- contribution of individual OECD members to market access matched to their development aid**
- provides benchmark for future trade rounds**
- de-linking of transfer component from bargaining component reduces risk of “contamination” of negotiations by DC aspirations**

(ii) Rules vs. sovereignty

(a) *Rules* – increased complexity of trading relations inevitably requires more rules

(b) *Plurilateralism* – possible to allow WTO to promulgate rules applying only to countries that accept them – several precedents: EU, ILO and GATT itself

Rules should be limited to remit of WTO – exclude environmental/labor standards

(c) *Plurilateralism and transfers* – grand bargain might consist of explicit transfers being conditional on acceptance of plurilateralism and a core set of rules applied to all WTO members

(iii) Temporary preferences:

Small, marginalized countries in Africa – low income, slow growth, and undiversified export structures

Challenge is to get them integrated into world economy and give them a stake in success of trade rounds

Requires time-based, OECD-wide preference for such countries, with exemption from anti-dumping suits

(iv) OECD-G20 bargain:

MFN clause already gives DCs reasonable access to OECD in manufactures, key is agricultural liberalization and trade in services

(a) *OECD agriculture* – farmers need to be compensated for loss of trade distorting subsidies within trade round itself

(b) *Compensation for marginalized countries* – some low-income African countries will lose from changes in agricultural prices and costs of complying with WTO standards/codes – i.e., additional transfers necessary

(c) *Trade in services* – potential for large gains here, an intra-service sector deal could be based on: OECD not imposing restrictions on outsourcing in exchange for expanded market access for OECD firms in integrating DCs

(d) *Enforcement* – permit right to retaliation to be transferable

(v) *Intra-DC liberalization:*

Trade barriers between DCs higher than between OECD and DCs – allow DCs to cut tariffs among themselves, and not be bound by MFN

(vi) *Organization of WTO:*

Create blocs of countries – US, EU, other-OECD, big-5 DCs, other G20 countries, G90 countries – each represented on supervisory WTO board and with veto power