RESTORING MULTILATERAL TRADE CO-OPERATION: REFLECTIONS ON DIALOGUES IN FIVE DEVELOPING COUNTRIES

DIAGNOSTIC REPORT

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ABSTRACT

The World Trade Organization (WTO) is currently in a state of flux and unable to advance its rule-making function through the Doha Development Round. Out of this impasse a new architecture of negotiations has emerged, centred on mega-regional trade agreements and plurilaterals. Although a package was negotiated at the Bali Ministerial Conference in December 2013, since then WTO negotiations have largely returned to their quagmire. Accordingly, this report seeks to synthesise the various ideas that have been posited in five dialogues in key developing countries, across three regions, aimed at revitalising multilateral trade negotiations. Vital issues are discussed with a view to making recommendations on how best to retain the WTO’s central place in the multilateral trading system while accommodating the interests both of those eager to advance trade rules outside the WTO and of developing countries and least developed countries that are not part of mega-regional and plurilateral negotiations.
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**ABBREVIATIONS**

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tr>
<td>DSB</td>
<td>Dispute Settlement Body</td>
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<td>DSU</td>
<td>Dispute Settlement Understanding</td>
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<td>CEPR</td>
<td>Centre for Economic Policy Research</td>
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<td>DFQF</td>
<td>duty-free/quota-free</td>
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<td>FDI</td>
<td>foreign direct investment</td>
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<td>GATS</td>
<td>General Agreement on Trade in Services</td>
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<td>GATT</td>
<td>General Agreement on Tariffs and Trade</td>
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<td>GDP</td>
<td>gross domestic product</td>
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<td>GPA</td>
<td>Government Procurement Agreement</td>
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<td>GVC</td>
<td>global value chain</td>
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<td>ISDS</td>
<td>investor-state dispute settlement</td>
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<td>IPR</td>
<td>intellectual property rights</td>
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<td>ITA</td>
<td>Information Technology Agreement</td>
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<td>LDC</td>
<td>least developed country</td>
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<td>MFN</td>
<td>most favoured nation</td>
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<td>MNC</td>
<td>multinational corporation</td>
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<td>MPTA</td>
<td>mega-regional preferential trade agreement</td>
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<tr>
<td>NAMA</td>
<td>non-agricultural market access</td>
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<tr>
<td>PTA</td>
<td>preferential trade agreement</td>
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<tr>
<td>RCEP</td>
<td>Regional Comprehensive Economic Partnership</td>
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<tr>
<td>SAIIA</td>
<td>South African Institute of International Affairs</td>
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<tr>
<td>S&amp;DT</td>
<td>special and differential treatment</td>
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<tr>
<td>SOE</td>
<td>state-owned enterprise</td>
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<tr>
<td>TEGA</td>
<td>Trade in Environmental Goods Agreement</td>
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<td>TFA</td>
<td>Trade Facilitation Agreement</td>
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<td>TISA</td>
<td>Trade in Services Agreement</td>
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<tr>
<td>TPP</td>
<td>Trans-Pacific Partnership</td>
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<tr>
<td>TRQ</td>
<td>tariff rate quota</td>
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<tr>
<td>TTIP</td>
<td>Transatlantic Trade and Investment Partnership</td>
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<tr>
<td>WTO</td>
<td>World Trade Organization</td>
</tr>
<tr>
<td>WTO+</td>
<td>WTO plus (deepening rules covered in existing WTO agreements)</td>
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<tr>
<td>WTO-X</td>
<td>WTO Extra (rules not covered in existing WTO agreements)</td>
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1. INTRODUCTION

This diagnostic report reflects on a series of international dialogues, conceived by the Cordell Hull Institute, financed by the World Bank’s Development Grant Facility and implemented by the South African Institute for International Affairs (SAIIA) in co-operation with trade and economic institutes in primarily developing countries.¹ The project, now concluded, was entitled ‘Restoring Multilateral Trade Cooperation’. Its purpose was to explore, with particular emphasis on the views and needs of the developing world, the new paths that trade negotiations have taken since the 2008 stalemate in the Doha Round. Equally important, we hope to build an intellectual framework for restoring multilateral co-operation in multilateral trade negotiations, and to do so in a way that can enable meaningful agreements that further both trade liberalisation and economic development.

In the first half of 2014 dialogues were held in Seoul (February), Brasilia (April) and Johannesburg (June), bringing together trade experts from developing country governments, international organisations and the business community, present and former trade negotiators, legal experts, economists and academics. The Seoul dialogue set the bar high, resulting in the publication of a Centre for Economic Policy Research (CEPR) report setting out the issues framing the project.² That report has since been presented in four different settings:

- a closed meeting of World Trade Organization (WTO) ambassadors convened by the General Council Chair, in Geneva;
- a meeting in Washington hosted by the Cordell Hull Institute;
- a public forum in Johannesburg organised by SAIIA ahead of the third dialogue; and

The second phase began with a stocktaking and dissemination event on the margins of the WTO’s Public Forum in Geneva, in September 2014. This was followed by a dialogue in Dhaka, Bangladesh (November 2014) and the last dialogue in Beijing, China (April 2015). A preliminary report was presented in Hong Kong shortly after the Beijing roundtable.

Reports on all the dialogues have been produced, and are available on the project’s website along with materials derived from those dialogues.³

This report synthesises key issues emerging from all five dialogues, with a view to building on the CEPR report. In essence it aims to diagnose the current state of affairs in the multilateral trading system, as seen, primarily, through the lenses of influential developing country stakeholders. It is intended to be a diagnostic report that captures participants’ views on the WTO and the multilateral trading system in the different regions where the roundtables were held. It does not purport to represent the views of all those involved in the various roundtables, since those were diverse. Where relevant, regional and country-specific issues as canvassed in the dialogues are reflected, but only where they are of systemic or substantive significance. In other words, this report is focused on the multilateral trading system as a whole, rather than the views and opinions of key countries per se.
Notwithstanding these caveats, the dialogues in all five locations followed consistent themes, which are reflected in the structure of the report. Section two canvasses the state of play in multilateral trade negotiations in the wake of the Doha stalemate. Section three focuses on three key emerging systemic issues as viewed from the standpoint of developing countries. In reviewing those issues we put forward tentative proposals for how they could be approached with a view to retaining the WTO’s central place in the multilateral trading system. Section four concludes.
2. MULTILATERAL TRADE NEGOTIATIONS IN THE WAKE OF THE DOHA STALEMATE

There are many reasons why the Doha Round is stalled, and it is impossible to do justice to all of them here. We begin with a brief review of four key issues at the heart of the Doha impasse, based on discussions in our dialogue series. Then we address the emerging new architecture of global trade negotiations, notably mega-regional trade and investment agreements – mega-regional preferential trade agreements (MPTAs) – involving the major players, and plurilateral approaches in the WTO. The section concludes with a brief review of the WTO’s most recent response, in the form of the Bali package.

2.1 Multifaceted problems of the Doha Round

Shifting political economy

The dynamics of negotiating among 160+ WTO members would be challenging even if the members were like-minded. This is a broader problem with multilateralism, as is evident in stalemates in various negotiating forums such as the UN Framework Convention on Climate Change, although that may change soon as a result of approaches being adopted that we suggest are a possible way forward in the WTO as well: bottom-up, plurilateral forms of co-operation. Related to this, a significant portion of developing countries and large emerging nations are determined to pursue their priority interests and, as a corollary, to ensure that the old developed country ‘club’ (the US, EU, Japan, Canada) do not run the show as they did for so long under the General Agreement on Tariffs and Trade (GATT) framework. In this light, the branding of the Round reinforced old suspicions: the Doha Development Agenda (DDA) promised the preponderance of benefits to developing countries, but metamorphosed into a traditional trade negotiation by the time of the Cancun Ministerial. Such branding also created an additional and very fundamental problem. Development remains key to unlocking the impasse at the WTO, although there is no convergence on what it means within the context of the multilateral trading system, or how it is to be integrated with trade liberalisation and trade policy rules and disciplines. WTO members are looking at the notion of development in different ways. Recasting the Doha agenda and rebalancing interests in the Doha Round may not work outside an agreed definition of what is meant by development and what defines eligibility for being able to invoke development provisions.

The old order is ailing, perhaps dying, but a new order has yet to emerge. While developing countries constitute the great majority of WTO members, they have not grasped the mantle of leadership. Developing countries are, in WTO negotiations, fragmented into a multiplicity of groups with overlapping memberships. No single country or group of countries has stepped forward in advocating a way out of the impasse. Yet there is a pervasive discontent among developing country members about the structure and allocation of bargaining power at the WTO. The WTO membership still looks to the US, and to a lesser extent, the EU, for leadership.

While developed countries find the new contestation unsettling, they too have failed to provide effective Doha Round leadership. A major reason is that their business and agricultural communities
have offered only lukewarm support for the Doha Round. Their business communities see little hope for meaningful market access gains and, as discussed later in this report, are focused on issues that were long neglected by negotiators – most notably trade in services – or not covered by the Doha negotiations at all.

The lack of adequate and effective leadership in the WTO is particularly problematic in negotiations where there are substantial and fundamental disagreements on substantive issues. As discussed below, such fundamental disagreements clearly still exist among WTO members.

**Substantive blockages**

The foregoing broad concerns over power, influence and leadership in WTO negotiations reflect the deep divides on the substantive issues at stake. Many in the developing world hold the view that there must be a rebalancing of WTO obligations, which, in their view, were tilted in past rounds in favour of developed countries’ market access interests; and that these imposed excessive burdens on emerging and developing members. This emphasis on rebalancing obligations is reflected in both the offensive and the defensive positions of many developing countries on issues central to the Round. They have resisted developed countries’ demands on industrial tariffs and on services. Developing countries (with some variances among them) have also pressed for a reduction in agricultural supports, the provision of services by movement of people (Mode 4), the reform of trade remedies and other subjects notoriously difficult for developed countries to reform. All of this made agreement difficult and have sometimes led to political posturing, with governments spurning proposals for the sake of it rather than because of perceived negative impacts on their countries.

Doha has been further complicated by the fact that these ‘battle lines’ are not strictly a divide between developing and developed countries. For example, some developing countries strongly resist agriculture liberalisation and reform, both at home (eg, India) and in the EU (eg, African access to EU trade preferences), while others favour industrial tariff (eg, China) and/or services market liberalisation elsewhere (eg, India and Chile) since they stand to benefit from it. The result is a bewildering array of positions and alliances that greatly complicate the negotiating picture.

Despite the foregoing, the developing countries in which we held dialogues do not reject the Doha Round. On the contrary, they point to the emphasis on economic development issues in the DDA and urge that those concepts remain at the centre of the negotiations. These countries remain fully supportive of the multilateral trading system. However, they recognise the challenges that the Round faces, and they have groped – with visible frustration – for ways in which the Round might be concluded. For example, in Bangladesh a suggestion was made that WTO members attempt to conclude the Doha Round by focusing on specific commitments in the areas of non-agricultural market access (NAMA), agriculture and services on which members appeared to be near agreement before the 2008 impasse. The same sentiment was expressed by some participants in China, who pointed out that this was already the core focus of Doha, and without agreement on these issues there would always be a stalemate. Such suggestions reflect the fact that certain items included in the mandate of the Round have shown no promise at all. Services were for a long time put on the back burner. The rules negotiations on the goods side, on anti-dumping and countervailing duties, have not shown promise at any stage. The same observation applies to two other areas of negotiations, namely Trade
Related Intellectual Property Rights, and trade and environment. The non-tariff barrier texts in NAMA are also not ready for a quick decision.

Proposals made by some observers – aimed at lowering Doha ambitions by reducing the agenda rather than by reducing the level of liberalisation – would face daunting challenges. For one thing, as noted above, it seems unlikely that agreement is within reach on NAMA, or on agricultural tariffs, or on agricultural supports. In terms of tariffs, developed countries are now seeking (and seem to be obtaining) greater liberalisation in MPTAs than is foreseeable in Doha. And the new provisions of the 2014 US Farm Bill will prevent the US from maintaining its 2008 farm support proposals, let alone improve them further. Moreover, it remains to be seen how countries such as South Africa, which are intent on the Doha negotiations’ achieving their ‘developmental’ outcome, would react to this type of agenda-reducing suggestion. It is highly likely that this would be viewed as yet another attempt by developed countries, in particular, to subvert the development agenda (couched primarily in extended and more effective special and differential treatment of developing countries) of the Doha negotiations.

Another observation was that the current impasse is being driven in significant part by the issue of China. The US and the EU are struggling to figure out what they want to do with China, and many developing countries are reluctant to further liberalise their markets to industrial goods imports from China, whereas China needs to decide where it wants to go on the trade co-operation front.

This last observation highlights the interrelationship between substance and political economy problems and the question of leadership. Where a body (such as the WTO) has internal differences as a result of different groups’ views on important substantive issues, the resolution of these differences requires leadership. Here there is a leadership vacuum on both sides of the conceptual difference over trade negotiations. The US, which has historically provided the leadership in the WTO, is today focused on MPTAs and, to a lesser extent, plurilateral negotiations such as those on the ITA and the Trade in Services Agreement (TISA), as a more promising alternative to the Doha Round. There is no leader for those that seek rebalancing of WTO obligations and a negotiating agenda with greater emphasis on development issues. As to the latter camp, our dialogues in Brazil and South Africa showed no sign of willingness on the part of these countries to lead any effort to find common ground on the now-disputed conceptual issues. India seems equally unwilling. This leaves China, but, as noted above, China has not yet formulated its policy positions. One of the discussion points in Beijing was that while China is interested in signing up to the TISA, it is also involved in MPTA processes through the Regional Comprehensive Economic Partnership (RCEP), and has developed its own approach to deepening economic relations with countries in Asia and Africa – the ‘one belt, one road’ initiative. It still needs to clarify its national interests in the context of the WTO. China’s position in the WTO has been mostly defensive, mostly because of its newly acceded member status and the fact that the accession process resulted in the massive opening up of the Chinese economy. Consequently, it would be hard to imagine China steering the WTO until it knows what it wants.

Until and unless these leadership roles can be filled, it is hard to see how Doha can be revived and – more fundamentally – how the WTO can find a new consensus on an effective agenda for negotiating multilateral trade liberalisation in a way that takes adequate account of economic development issues.
The challenge of consensus

Since the WTO operates under a consensus culture, these underlying differences were always going to make it difficult to achieve the needed agreements. Related to this, the Doha Round makes use of a negotiating device successfully deployed in the Uruguay Round, namely the single undertaking, whereby nothing is agreed until everything is agreed. However, the single undertaking cannot function if the members are in fundamental disagreement, as is the case currently, and so the Round cannot be concluded. Thus the single undertaking has become a straitjacket, inhibiting piecemeal progress in specific negotiating areas. The single undertaking approach may no longer be viable, especially given the significant differences in the development levels of member states and even bigger differences in the areas in which existing multilateral disciplines should be deepened (WTO +) or lessened (WTO -), and the new areas in which multilateral disciplines should be established (WTO-X).

The world of global value chains

A further complication is the fact that accelerating change in the way global trade and investment is conducted has been underway for some time as global value chains (GVCs) proliferate. There are many different kinds of GVCs, depending on what type of lead firm is driving them – retailers vs. producers, developed world-headquartered firms vs. emerging market-based firms; e-commerce-driven value chains, such as Alibaba – on the increase in share of services in all this, etc. More generally, there are ‘new’ business models that may not be best captured under the GVC heading. Examples of these are small and medium enterprises selling directly to foreign buyers via B2B and B2C e-platforms; or General Electric’s ‘power by the hour’ where the product is not just a complicated, high-tech jet engine but a guaranteed amount of thrust per unit of time/distance, which gives rise to the need to be able to service engines anywhere, anytime, involving systems that monitor engine performance in real time and that generate large quantities of data that need to moved, stored and analysed.

Thus the term ‘GVCs’ is useful shorthand for a process in which many different ‘moving parts’ are required to produce and/or sell a product, and that requires the cross-border movement and supply of all kinds of things, including investment, knowledge, data and people. The label only imperfectly captures how the world has changed. The real point is that a host of different policies affect the efficiency and ability of firms to do what they (and their customers) want to do. Therefore, the main relevance of GVCs as an analytical device is to help identify what policies help firms to specialise and expand, and will improve consumer welfare.

However, the trade and investment issues relevant to these changes are largely not addressed in the Doha Round. The majority of WTO member states are currently more interested in their ‘traditional’ negotiations on tariffs, anti-dumping rules, countervailing measures, rules of origin, safeguards and subsidies, etc., while the business community and multinational corporations’ (MNCs) interests are increasingly focused on ‘behind the border’ rules governing competition, investment, intellectual property rights (IPRs), state-owned enterprises (SOEs), services, and product regulation and standards (technical barriers to trade, and sanitary and phytosanitary measures). The absence of attention to GVC issues broadly defined is one reason for the international business community’s lukewarm support of the Round. Furthermore, those wishing to establish rules relevant to GVC operations are
obliged to look elsewhere. Bringing the two together would require significantly expanding the role of the WTO, based on the requirements of modern commerce as defined by GVCs.

**Concluding observations**

It is clear that the political economy of the WTO has changed since the launch of the Doha Round. As noted above, the thinking around agriculture is still largely dominated by the assumption that developed countries are driving the protectionist agenda, preventing developing countries from exporting, and subjecting agricultural exporters in the developing world to price depression (caused by developed countries’ farm supports). However, the rise of the emerging economies has changed the agricultural narrative and the locus of protection and support to farmers has also shifted, with countries such as India now taking the lead in the protection stakes. Or take the fact that Germany has decided it does not like investor–state dispute settlement (ISDS) or the prospect of EU–US regulatory co-operation in a variety of areas. More broadly, many points divide the EU and the US on ‘behind the border’ issues, and in a number of areas it is clear that both want to keep policy space along lines that are similar to what developing nations want to be able to do, for example favouring domestic firms in the application of government procurement contracts; having the freedom to subsidise investment; safeguarding culture; pursuing industrial policies; etc. In some instances, some developing countries are to the ‘right’ of the US and EU, such as when it comes to belief in openness and integration into the world economy, a good example being the Pacific Alliance. Consider Chile’s flat tariff structure versus that of the US, with hundreds of different tariff lines, complex rules of origin, the constant threat of antidumping, multiple agencies at the border that do not necessarily co-ordinate, etc.

In short, prospects for a revival of the Doha Round, even with a far lower degree of ambition, seem bleak. Consensus on the substance is lacking. Many developing countries feel rebuffed, both in their demands for a ‘rebalancing of obligations’ and in their desire to see issues of concern to them addressed in the negotiating process. The private sector – both industrial and agricultural – is lukewarm in its enthusiasm, especially because the new ‘behind the border’ issues relevant to GVCs are not being addressed. And there is as yet no leadership spearheading efforts to resolve these problems.

The question therefore arises whether the changed political economy could be used to redesign the WTO negotiating agenda, mechanism and process. In all dialogue discussions participants, while favouring continued focus on the Doha Development Agenda, acknowledged the difficulty of stemming the tide on preferential trade agreements (PTAs) and, especially, MPTAs. These arrangements are perfectly legal within the context of the WTO and changing the provisions that regulate regional trade agreements as provided for in GATT Article XXIV would take as much effort as is needed to conclude the Doha Round. This especially applies to the MPTAs, which have grown in significant part from geopolitical roots. The most pressing issue in relation to MPTAs pertains to containing any adverse impacts of the agreements on non-members. One possible avenue of stemming the impacts on non-members would be to seek to multilateralise some of the measures widely found in PTAs, using the example of the Trade Facilitation Agreement (TFA). In the absence of such initiatives, the momentum is coming from mega-regional trade agreements, to which we now turn.
2.2 New architecture of trade negotiations

In our view, MPTAs are negotiations that cover a significant proportion of world trade, and are deep in terms of their coverage, particularly of ‘behind the border’ issues. They have been launched and shaped by the big developed countries, particularly the US and, to a lesser extent, the EU, and are consequently of strategic significance. The centrepieces are the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP). On the margins of the WTO these are accompanied by plurilateral negotiations – TISA, and the talks on environmental goods.

Developed countries dominate all of these negotiations. They have stimulated a sort of ‘competitive liberalisation’ in the form of a proliferation of PTA negotiations, notably the RCEP and certain Asia-Pacific Economic Cooperation initiatives in the Asia-Pacific region; the Pacific Alliance on the western coast of Latin America; the Tripartite FTA in Southern and Eastern Africa; and numerous other negotiations (EU–Japan, EU–Canada, Japan–Australia, South Korea–China, South Korea–Japan–China, South Korea–Canada, South Korea–Colombia, South Korea–TPP, Turkey–TTIP, etc.).

With the exception of China and India, which are part of the RCEP discussions, the BRICS countries are not participating in MPTAs, and none is participating in the sectoral plurilaterals, although it is possible that China will participate in TISA and the embryonic plurilateral negotiations on trade in environmental goods. There is, in many developing countries (certainly in Brazil and South Africa) discomfort with the emphasis in the MPTAs and TISA on expanding the rules of trade to include ‘behind the border’ issues. There is a view that this infringes on developing country governments’ policy space, and a suspicion that this is intended to shift power away from governments to MNCs. Furthermore, some regard MPTAs as constituting an effort to impose an agenda on the trading system that the developed countries were unsuccessful in advancing in the Doha Round.

Yet all of this MPTA activity is a response not only to the Doha stalemate but also to the changes in the issues that are important to the new GVC-focused way of engaging in trade. GVCs require deep integration, consisting of comprehensive market access (for goods, services and investments) and a transparent and efficient regulatory environment across borders. As the WTO does not provide such deep integration, MPTAs are filling the gaps. Thus, the MPTAs and TISA focus on regulating a variety of issues that are largely absent from the Doha Round, including:

- security of investment;
- security of IPR;
- logistics (trade facilitation);
- market access for intermediate products;
- access to services markets;
- data security;
- SOEs;
government procurement;
harmonisation/reform of regulations;
harmonisation of standards;
e-commerce;
‘core labour standards’; and
level playing field in environmental rules.

A major, openly expressed motivation of the US and EU is to set the rules for world trade in the US–EU model before ‘the rise of the rest’ leads to different templates. In this light, some issues of central importance to developing and emerging nations are not on the agenda of these new negotiations, including:

- agricultural subsidies;
- tariff peaks that are sensitive in advanced countries (some of these are in the TPP, however);
- Mode 4 services; and
- special and differential treatment (S&DT).

The MPTAs tend to be unbalanced in the sense that developed countries are seeking (largely in new rules) a lot from developing countries but are offering relatively little in return. Various economists’ studies of the TPP and TTIP show quite small trade/economic gains. So why are the US and EU pressing these initiatives? At least four considerations are apparent:

- reform of rules (which show more potential for gains than MPTA tariff reductions);
- enthusiasm in their business communities;
- the prospect that agreements could be reached without the necessity of commitments to reduce or eliminate agricultural subsidies; and
- geopolitical considerations, with the US reasserting leadership over the global trading system.

While the success of these initiatives is not guaranteed, they have multiple implications whether they succeed or not.

One implication is the creation of new and significant rules in which non-participating countries will have no voice. This concern is heightened by the fact that the TPP and TTIP together, if successful, would include countries accounting for as much as 70% of global gross domestic product (GDP). This could be viewed by the MPTAs’ sponsors as a critical mass sufficient to warrant adoption of these rules by the WTO. But much of the world will not be in either the TPP or TTIP. Non-participating countries, constituting over 70% of the world’s population, would have had no role in the formulation of these rules.

A second implication is the economic effects on non-participating countries. Any preferential trade agreement, while it has trade creation benefits for participating countries, diverts trade away from
non-participating countries. Both the TPP and TTIP address ‘behind the border’ issues that affect foreign direct investment (FDI). This is especially worrisome for developing countries. To them, the prospect that FDI will be diverted away from them to TPP and TTIP participants is a matter of serious concern.

A third implication is the potential for a balkanisation of trade – especially in the Asia-Pacific region – as other regional arrangements are created in response to the US-led MPTAs. China is well advanced in creating a structure of this nature. The RCEP, led by China, has a mix of developed and developing countries, some of which are also in the TPP. While the RCEP is less ‘ambitious’ substantively than the TPP, that very fact makes it more attractive to those countries that are averse to trade agreements that infringe on their policy space. China is also well advanced on both overland and over-sea ‘silks roads’ aimed at Asian economic integration under Chinese leadership. The prospect of the Asia-Pacific region coalescing around two rival trading blocs raises obvious concerns from the viewpoints of both multilateral trade liberalisation and geopolitics.

Such impacts of the MPTAs on the WTO and its members raise some interesting technical questions about the WTO+ and WTO-X rules, particularly the consistency of these rules with the WTO and how such new rules and disciplines would interact with the WTO. In Beijing, for example, an interesting discussion point was whether the WTO’s Dispute Settlement Body (DSB) mechanism could be used for disputes under the mega-regionals. While MPTAs are allowed under GATT Article XXIV, if their disciplines are not covered by the WTO, can they still use WTO processes to resolve disputes? Another question relates to how this would be received by non-participants if such disputes were to be heard under the DSB. One concern relates to the multilateralisation of MPTA disciplines through DSB jurisprudence such that disputes be heard in the WTO. Consequently some participants in the Beijing roundtable argued that the WTO’s committee on regional arrangements should be reinforced and mandated to discuss the implications of MPTAs for the DSB.

The US has stated that the TPP (and perhaps the TTIP as well) will be open to joinder by other countries. This point is often made in response to concerns about diversion of trade and FDI. But our dialogue discussions revealed that developing countries are averse to joining the US-led MPTAs. There is also the problem that all such joiners would presumably require ratification by the US Congress and by the legislatures of the other MPTA members. In many cases – for example US ratification of China’s inclusion – this could be a high barrier indeed.

### 2.3 The WTO response: The Bali deal

Considering the many obstacles to achieving consensus in the Doha Round, the collective goal for the ninth Ministerial Conference in Bali, in December 2013, was understandable: a mini-Doha deal, focused primarily on addressing the needs of developing countries. It achieved the following, inter alia:

- the first new set of multilateral trade disciplines agreed under WTO auspices: a TFA that, if it is implemented fully, will generate substantial benefits, weighted toward developing countries;
o The TFA embodies a new approach to S&DT, in which implementation by developing countries is directly linked to a country’s capacity to implement as defined by itself in its schedule of commitments, and, where requested, high-income countries voluntarily provide funds to help developing countries and least developed countries (LDCs) with implementation. While this is voluntary, the initial level of funding commitments is promising.

o The TFA includes binding dispute settlement for those provisions that are enforceable, conditional on (linked to) delivery of funds where these have been requested.

  • a (questionable) ‘commitment’ to give early priority to resolving the issue of the US’ cotton support programme;
  
  • a meaningful agreement to establish a system for re-allocating unused portions of agricultural tariff rate quotas (TRQs);8
  
  • a commitment to implement the duty-free/quota-free agreement (DFQF) covering 97% of a developed country’s tariff lines for imports from LDCs, initially agreed to in Hong Kong in 2005;
  
  • at the insistence of India, a provision that no member would challenge a developing country’s programme for subsidising farmers to enhance food security by purchasing crops from domestic farmers at subsidised prices and placing them in a stockpile (this ‘peace clause’ was to remain in effect until new Agricultural Agreement rules on such stockpile arrangements could be negotiated, with a 2017 deadline for such negotiations); and
  
  • a services waiver permitting developed countries to provide LDCs with preferential access to their services markets.

While proclaiming victory and new momentum for the Round, WTO Director-General Roberto Azevêdo tried to develop a consensus on some way, or ways, to move forward on trade liberalisation, either by completing Doha or by some other approach. Unfortunately, this intention was sorely tested by the membership’s failure to adopt the protocol of implementation for the TFA and the rest of the Bali Package by the specified deadline of 31 July 2014. Two principal issues, one structural and the other substantive, emerged in opposition to implementation of the Bali Package. First, a group of (mainly African) developing countries objected that implementing the TFA and the other Bali commitments now would comprise only part of the Doha agenda and would thus be inconsistent with the single undertaking. In the end, these objectors relented. India, however, raised a major substantive objection. It refused to accept an arrangement that might end the ‘peace clause’ (preventing a WTO Agriculture Agreement challenge of its food stockpiling programme) if definitive Agriculture Agreement rules on stockpiling were not agreed by 2017. India demanded instead that such a definitive resolution be agreed by year-end 2014, and that Bali implementation be deferred until then. Efforts to find a compromise on this Indian objection were only rewarded in November 2014 when India and the US reached a political agreement on both the TFA and the decision on Public Stockholding for Food Security Purposes, paving the way for implementing the Bali Package and resuming work on the post-Bali work plan.

Nonetheless, at the time of writing (October 2015) it is not clear that much progress has been made in the broader effort to reconstitute the round. Consequently the WTO membership finds the
multilateral trading system at a crossroads: unable to proceed with even a limited agenda, or to escape from the straitjacket of the single undertaking, while being bypassed by new forms of negotiation constructed by the major trading powers. It is very difficult to see how the multilateral system can be extricated from this situation, and it faces a future of increasing irrelevance, absent major changes to the way business is being done. This necessarily requires focusing on key substantive and systemic issues at the heart of the impasse, and it may require a re-thinking of important elements of the WTO’s mandate, agenda and approaches towards defining new rules of the game. The next section reflects on our dialogue discussions concerning some of those issues.
3. TOWARDS RECONSTITUTING THE WTO: EMERGING SYSTEMIC ISSUES

Flowing from our analysis of the root causes of the WTO’s unfolding crisis, this section focuses on four key interrelated areas in which sufficient consensus will be required in order to generate momentum towards reconstituting the WTO to ensure its continued centrality in the global trading system.

3.1 Evolving debate on global value chains

In all six countries in which we held roundtables, and in Hong Kong, there was agreement that the conduct of international trade and investment has undergone a qualitative shift in recent decades, as GVCs driven by MNCs have spread, intensified and deepened. The inescapable reality is that trade is shifting to a GVC structure, with the corollaries that competition for investment is increasingly important and that trade rules will focus more and more on ‘behind the border’ issues relevant to GVC-related FDI.

However, there was substantial disagreement among the governments in the international dialogue venues over the resultant implications for trade and investment policies. In the South Korean case, GVCs are embraced and regarded as the key to multilateral trade governance in the future. In Brazil the liberalising policy agenda associated with the GVCs discourse is regarded with suspicion, and as potentially intruding on domestic industrial policy space. Similarly, in South Africa the discourse is labelled a ‘narrative’ and rejected for being a replay of the ‘Washington consensus’: an agenda regarded as privileging liberalisation at the expense of state action through purposive industrial policies. In Bangladesh, there was general acceptance of the GVCs narrative as reflective of the reality of modern-day commerce, but the major concern was how to facilitate the participation of LDCs in, and upgrading within, GVCs. The importance of the WTO’s recalibrating both its negotiating modalities and operational approaches in response to the GVCs narrative and other developments was also emphasised. Similarly, in China the GVCs narrative is widely accepted, but concerns remain over how Chinese companies can upgrade within them and what kind of policy packages this may require. Having entered the value chain ladder, China is now able to change the rules in order to capture more value domestically. A good example is the mobile phone sector, where it has developed its own standards and requires MNCs to conform to them. In all six venues, however, the dominant (but not universal) view of business sector participants supported negotiations that would facilitate GVCs and GVC-related FDI.

These differences reflect the broader debate over the policy implications of GVCs and what that means for the WTO. It is clear that this debate is deeply ideological, and therefore may well be unresolvable. Consequently, it is unlikely that those favouring adoption of a ‘GVC attraction’ policy package with attendant liberalisation will be able to convince its detractors, and vice versa, at least in the near term. In the WTO, positions are thus likely to become more entrenched over time as the Doha impasse deepens.

Consequently we cannot yet see a way out of this conundrum in the WTO context, without explicit agreement that those who wish to pursue GVC-related negotiations through non-multilateral
negotiations should be free to do so, provided they do not harm the interests of other WTO members. This means allowing groups of like-minded countries to proceed with plurilateral negotiations, but on the basis of safeguards for those choosing not to join.

However, such a course poses serious concerns for many developing and emerging economies, as well as LDCs. In addition to the fact (noted earlier) that the new GVC-related rules will be established in MPTAs (TPP, TTIP) in which developing and emerging nations will have little or no voice, the establishment of MPTAs has potentially serious practical effects on countries outside the MPTA grouping. These potential adverse effects include both diversion of trade and diversion of GVC-related FDI. The two diversions are inter-related. A country participating in the TPP or (if it is extended to countries beyond the US and EU) the TTIP will be more attractive for FDI than a non-participating country, not only because of rules (or domestic policies) that favour FDI, but also because production in countries in the MPTA will have preferential access for their exports to other countries participating in the MPTA. This suggests that these non-multilateral negotiations, both MPTAs and plurilaterals, deserve the WTO’s serious attention in its role as guardian of the global trading system. LDCs urgently need to hold the WTO to this responsibility. While it does not seem feasible to halt these non-multilateral initiatives, there should be an examination of ways, in the short term, to develop safeguards to protect the interests of non-participating countries (especially in the developing world) and, in the longer term, to move the arrangements resulting from these negotiations toward multilateralism.

In Dhaka several prescriptions for how the WTO should approach this were proffered. Firstly, the WTO should insist on maximum transparency of the new MPTA and plurilateral negotiating processes. Secondly, pursuant to the stated desire by the US to open up the MPTAs for accession by other countries, the WTO should supervise the terms and process for accession by developing countries. This would ensure that the accession criteria are consistent with the S&DT principle, and that there are special interim processes for developing country accession accompanied (as in the TFA) by ‘aid for trade’ to enable them to accede effectively and meaningfully. Thirdly, ongoing discussions and negotiations on the post-Bali work plan should include the issues of multilateralisation of MPTAs and plurilaterals, as well as the associated accession and S&DT issues. For example, MPTA parties could automatically extend regulatory approvals to imports from a non-party state if another MPTA party has granted such approval, rather than requiring additional approvals; in other words, through extending conformity assessment recognition automatically. Such a step could, in fact, create significant trade and FDI for non-parties, and would boost the operation of GVCs.

3.2 Plurilateral approaches and the GVC dynamic

In addition to the MPTAs, the stagnation of the Doha Round has given rise to a number of issue-specific plurilateral negotiations, including TISA, the Trade in Environmental Goods Agreement (TEGA) and now-completed updates of the Government Procurement Agreement (GPA) and the Information Technology Agreement (ITA). As discussed below, there was mention in our dialogues of the possibility that some variant of this plurilateral approach could be applied to issues relating to GVCs and agriculture.
Plurilateral agreements can take several forms. The ITA and the TEGA are inclusive arrangements, in the sense that participation is voluntary and the results are extended on a most favoured nation (MFN) basis to all non-members. There is consequently no strong objection to these negotiations. The GPA, on the other hand, operates under GATT Annex 4 as an exclusive arrangement in the sense that participation is conditional and the results are available only to signatories. Such Annex 4 agreements require the consent of the full WTO membership.

The legal form of TISA has not yet been settled. At present it is best considered a PTA, since it will be compliant with General Agreement on Trade in Services (GATS) Article 5, thus not requiring consent from the full WTO membership. It remains to be seen whether its results will be extended to non-signatories, a question that will likely turn on the degree of critical mass represented by the signatories.

An important question – for plurilaterals as well as MPTAs – is whether and how these non-multilateral agreements can be brought into the WTO. This is especially important, not only because of the importance of issues involved in these negotiations, but also because of the danger of fragmenting the rules of world trade if these agreements operate independently of the WTO and of each other. There is also the question of dispute settlement and the desirability of having all trade-related disputes adjudicated by a single Dispute Settlement Understanding (DSU). Accordingly, it is important to devise docking mechanisms for these plurilateral arrangements. As discussed above, there are various WTO provisions, including GATT Annex 4 and GATS Articles V and XVIII, by which such docking can be achieved. The optimal docking process would be for the plurilateral to achieve sufficient participation to constitute a critical mass that would enable the signatories to extend the results to all countries on an MFN basis.

The politics of this may be more difficult than the legal issues. At present, most developing countries are not participating in the plurilateral negotiations. In part this reflects a view that the Doha Development Agenda, as originally promised, should be the vehicle for setting new rules of trade. Equally important, however, is the concern that developing countries may have difficulty in advancing their views in these plurilaterals because the negotiating dynamic tends to be dominated by the US and other major developed countries. Put another way, there is a concern that these plurilaterals pursue an agenda that could not be brought to fruition in the Doha Round. This suggests that docking these plurilaterals into the WTO complex of agreements may entail modifications, particularly in the area of S&DT, to address developing world concerns.

With these considerations in mind, we now discuss three plurilateral negotiation concepts that figured in the discussions in our dialogues: possible plurilateral negotiations on GVC-related policies and on agriculture issues, and the ongoing TISA negotiations.

### 3.3 A plurilateral package on GVC-related issues?

What issues could constitute a meaningful GVC-related plurilateral negotiating agenda? It is clear that GVC issues are primarily about rules, particularly those governing trade and investment, with ancillary attention to traditional bargaining on market access. One way to think about this, as explicitly
proposed in the CEPR paper\textsuperscript{12} and prior work done for the World Economic Forum,\textsuperscript{13} is to construct a GVC package consisting of, inter alia: trade facilitation (already done); logistics, finance, and distribution services; investment rules; IPR; and a market access package for goods. Some of these issues, notably the market access component, could be negotiated plurilaterally on a critical mass basis and extended through MFN to all WTO members. The market access dimension would not require the broader membership’s consent, nor should it harm their interests. Indeed, those in a position to do so would benefit. The challenge is to identify and agree on additional policy disciplines that are deemed to be particularly salient from a GVC facilitation perspective, and to convince China and other BRICS countries to join since, from the narrow mercantilist standpoint permeating WTO negotiations, they may think that there is not enough on the table for them.

The political economy of negotiating a GVCs package is formidable in the current and foreseeable WTO environment. Since very little is advancing in Geneva, how would such negotiations get off the ground? Some participants in our Geneva consultation argued that such negotiations are best conducted by prospective GVC host countries, and should take place at the source of investment rather than in Geneva. In other words, countries would be better served by pursuing a GVC-centred approach to policy reform by engaging with large multinational businesses and their associations and focusing on what would make a difference nationally or regionally to enhance the ability of firms to participate in and benefit from GVCs.

**Incorporating LDCs**

The underlying theme of development for poorer countries was also very evident in our consultations. It was emphasised that GVCs are not just about trade policy but also about supply side constraints, industrial policy, services trade, and how to overcome the barriers faced by poorer countries in entering value chains. In this light, some of the specific challenges posed by GVCs for LDCs include:\textsuperscript{14}

- Countries are competing aggressively for the location of production for various stages of MNCs’ GVCs. This extends to the production of services as well as goods, intermediate products and raw materials. An aspect of that type of competition will be countries’ development of their own businesses to make them attractive as suppliers of intermediate physical inputs and services. Upper-tier developing countries are already doing this in a big way, using a variety of subsidising and facilitating techniques.

- A second aspect – and this is not new, but has an increasing focus on intermediate GVC-related input production – is that countries are negotiating deals with MNCs to establish or increase in their country the production of goods and services relevant to the MNCs’ GVCs. At present, other than low labour rates (and in some cases plentiful minerals, energy or crops), LDCs have real disadvantages in such negotiations, compared with more developed countries.

- MPTAs can give their members significant advantages in attracting MNCs to locate GVC elements in their countries. One advantage is the freer flow among the MPTA members of intermediate goods and services, resulting from the MPTA’s reduction of tariffs and other market access barriers. Equally if not more important, the TPP member countries will have established structural conditions – legal, regulatory, etc. – that significantly increase their
attractiveness for FDI compared to countries that do not create such conditions. Examples are protection of investment, protection of intellectual property rights, open government procurement, regulation of SOEs, competition policy, regulation of employment and environment, non-restrictive rules of origin and harmonisation of standards and/or (although this is much more difficult) regulatory regimes.

In making a case for the integration of LDCs into GVCs and in dealing with the above issues, three types of issues were identified in the Dhaka consultation: horizontal issues (more participation); vertical issues (better quality participation); and diagonal issues (sustainable development). Participants agreed that being landlocked, and having poor connectivity and cumbersome business processes, border infrastructure, etc. were major barriers that needed to be addressed if LDCs were to more effectively participate in the emerging value chains. If LDCs are stuck at the lower end of the value chain, it will be difficult for them to translate more trade into the greater well-being of people through increased value retention, higher productivity and higher wages.

Facilitating and maximising the global integration of low-income countries, especially the LDCs, and strengthening compliance capacity through targeted support, will be critical to building their competitive strength in view of these emerging developments and the increasingly competitive global trading regime. In Dhaka, some participants emphasised that the WTO’s rules relating to market access and preferential rules of origin will need to follow the patterns of GVCs and production networks; that trade facilitation-related obligations should gain due importance in the WTO system; and that market opening in the services sector should parallel the pace of market opening in the goods sector. Supporting measures and compensatory mechanisms for LDCs therefore become essential.

Even if negotiations for a GVCs package were to get underway in Geneva, the rules component, which is its core, is much more challenging to bring into the WTO context, and therefore requires much more serious thought. It is difficult to see how new rules could be applied to subsets of the membership and be subject to WTO dispute settlement without the full membership signing off. There may be a way, theoretically, to build sufficient consensus so that the full membership would sign off, notably through negotiating, upfront, a code of conduct to govern the subsequent negotiation of exclusive plurilateral and MPTAs.15

Special and differential treatment

Such a code would have to pay careful attention to S&DT. However, given the political currents swirling around Geneva, this result looks unlikely in the short to medium term. Nonetheless, the S&DT provisions in the WTO in support of LDCs need to be strengthened from the perspective of implementation and enforcement. The newly proposed monitoring mechanism could serve as an important tool in this context if its mandate and operational modalities are appropriately designed. While Dhaka roundtable participants welcomed the Bali decision in terms of the monitoring mechanism for S&DT provisions, some argued that this mechanism should not just be a forum for diagnostics but should also be endowed with a prescriptive role. There was a perception that the decision’s failure to mention any time-bound commitment to address the concerns raised by LDCs was a weakness that needed to be corrected through further follow-up discussion. However, caution was advised with regard to undertaking responsibilities vis-à-vis LDCs that cannot be effectively
differentiated. There is already agreement in the WTO on DFQF goods, a services preferences waiver, preferences in the rules of origin, flexibility in implementing the TFA, and Aid for Trade. It was pointed out by one of the participants that if the trading partners of LDCs followed up on these decisions and commitments, it would facilitate the integration of LDCs into GVCs. It remains to be seen what will be agreed in Nairobi at the 10th WTO Ministerial on some of these issues, eg, what high-income nations will be willing to offer in the way of preferential access to services markets and whether they will significantly reduce the trade-impeding effects of the rules of origin that they apply to goods and services produced in LDCs.

There is, of course, the general problem of graduation and eligibility for special and differential treatment, notably the fact that S&DT applies to countries that are substantial players in certain areas of trade. The broad distinction between states is hindering the current horse-trading approach to multilateral negotiations. One of the causes of the present impasse in the Doha Round is the insistence of many developing countries on enlarging the S&DT envelope. S&DT for LDCs is accepted without reservation, but more broadly it creates tensions. Developed countries want to see more advanced countries take on more obligations, in part because this would focus S&DT on the developing countries that need it most. Abstracting from LDCs, a case can be made for reduced emphasis on S&DT and differentiated rules for developing and developing countries, and to rather focus on common rules that take the development dimension into account. For example, in agriculture the Blue Box was designed for the EU, and sensitive products were designated for certain developed countries without being formally recognised as special treatment of these countries. Thus, S&DT is not limited to developing countries. It would be desirable to focus greater attention on policies that will make a difference in promoting development, including provisions in the WTO that benefit specific interests in developed nations to the detriment of developing countries. The new TFA shows that an alternative, more effective, approach to recognising development concerns and capacity differences is possible.

The TFA as template

On the positive side, the ‘behind the border’ issues relevant to GVCs and related FDI are analogous to the types of issues encountered in the TFA negotiations. As emerged from the Johannesburg dialogue, the TFA negotiations had a substantial co-operative, as opposed to mercantilist trading-off, element. This was because both importing and exporting countries had a common interest in reducing or eliminating logistical impediments to trade flows. It is possible to see GVC-related rules negotiations in a similar light; that is, developing countries in need of investment and MNCs desirous of building more efficient GVCs have many common interests in reducing or eliminating barriers to GVC-related FDI. The TFA offers a window to addressing customs-related barriers, but the need for aid for trade facilitation, and the SD&T provisions in the TFA, was perceived by Dhaka participants to be the key enabler.

Politics of plurilaterals on GVC issues

It has also become clear in the course of our dialogues that some (not all) developing and emerging country governments have an abiding distrust of MNCs and a consequent reluctance to adopt rules that might inhibit their ability to regulate the activities and investments that MNCs make in their countries. There are concerns that MNC investments may be transitory, moved to another country as
Some need insistent attention. However, mean rooted challenging to assessment. We agree with the Bank, genuinely domestic trading, buttressing formidably. Currently it is difficult to conceive of Brazil and South Africa, to mention two countries where we held dialogues, opting to sign up for a piecemeal approach, since agricultural issues are of critical importance to them and they regard the approach as a stratagem on the part of developed countries to avoid agricultural reforms. Therefore, in Brazil and South Africa we explored some possibilities around initiating an agriculture plurilateral – an interesting but challenging proposition. It is challenging because the interest groups buttressing agricultural protection in the developed world are-formidably entrenched, and because some key developing countries have similarly intractable domestic lobbies – India being a current case in point. But simply because it is challenging does not mean it should be ignored, given that key developing – and developed (eg, Australia) – countries insist on progress in this area. Furthermore, if the US and the EU, and the emerging powers, genuinely wish to retain (the former) or assume (the latter) a position of leadership in the multilateral trading system this is one nettle they will have to grasp.

However, recent events in both developed and emerging nations make it substantially more difficult to get a deal (especially on domestic and export subsidies):

- The US Farm Bill embodies ‘price triggers’ that make it extremely unlikely that the US could today offer anything like the $7.5 billion cap on domestic farm supports that it put on the Doha table in 2008.

We turn next to the vexed issue of agricultural trade.

3.4 The urgent need to fix agriculture: Towards a plurilateral?

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However, recent events in both developed and emerging nations make it substantially more difficult to get a deal (especially on domestic and export subsidies):

- The US Farm Bill embodies ‘price triggers’ that make it extremely unlikely that the US could today offer anything like the $7.5 billion cap on domestic farm supports that it put on the Doha table in 2008.
• The EU, in addition to maintaining high market access barriers, is giving its farmers much larger domestic supports than any other nation, doing so under Blue and Green Box categories to which some developing countries strongly object. One senior BRICS country trade official told us that redefining ‘the boxes’ so as to control EU supports is, for his country, the sine qua non of success in the Doha Round.

• India has demanded a dispensation, under the rubric of food security, for massive stockpile purchases from its farmers at subsidised prices.

In addition to these new developments, Doha Round obstacles remain in various issues, inter alia: India’s (supported by China) demand for a special safeguard; the US’ sugar barriers and cotton subsidies; the EU’s export subsidies; Japan’s pervasive access barriers; and the US and Canadian dairy and poultry regimes. The basic quid pro quo in the Round – developed countries offer concessions on domestic and export subsidies in return for developing and emerging countries’ concessions on NAMA – ultimately did not work. And today, in light of the developments discussed above, that negotiating dynamic seems even less likely to succeed.

As a result of these difficulties, in our dialogues we explored different approaches to the agriculture stalemate. These discussions addressed both procedural changes and the substantive dynamics of negotiating agricultural issues.

On the procedural side, we received productive views and suggestions, focusing in particular on conducting a plurilateral agriculture negotiation, one that does not involve either the single undertaking or a strict requirement of consensus (ie, unanimity of all participants in agreement on final terms).

The central concept of a plurilateral approach is that, in the politically sensitive area of agriculture, it is extremely difficult to reach consensus – or even to negotiate effectively – among all the 160+ members of the WTO. Many of those members have insignificant shares of world trade in agriculture, whether viewed as an exporter or as an importer. This suggests that it would be better to limit the negotiating group to those countries that, in the aggregate, constitute a critical mass of world trade in agriculture. A study by a former senior US, then-WTO trade official, and a former senior Australian trade official, argues that such a critical mass could be achieved with as few as 38 participating nations.17

Such a plurilateral agreement would, as to the agreed issues, cover a sufficiently high percentage of agricultural trade to minimise concern about free riders. Incentives could be built in to encourage additional countries to accede later to the agreement, bringing it nearer to a true multilateral deal.

Another aspect of this proposal would be that neither a single undertaking nor full consensus would be required. If agreement could be reached on market access, export subsidies and food security, for example, but not on domestic supports, the participating countries would determine whether to proceed with the agreed issues and leave domestic supports for another day. In addition, if one or several countries could not accept the agreement crafted by the other participants, the agreeing
countries would decide whether a sufficient critical mass would exist if the dissenting countries were to drop out.

This plurilateral approach, it was argued, would limit the negotiation to issues and viewpoints important to countries that matter in agricultural trade. It would also permit agreement on issues where agreement proved possible, even if agreement on other issues proved impossible. Finally, it would limit the ability of individual countries or small groups of countries to block an agreement desired by countries constituting the bulk of agricultural trade. To prevent an agreement, those dissenting countries would have to persuade enough other countries to join their opposition such that a critical mass would no longer exist.

In considering this approach, thought should be given to which countries are essential to make up a critical mass. Major agricultural exporters – the US, EU, Canada, Australia, New Zealand, Brazil, South Africa, and other Cairns group countries – would be important. Some of those countries are also major importers, along with China, Japan, South Korea, etc. India, it was suggested, is a desirable participant, but its history (Geneva 2008, Bali 2013, Geneva 2014) in the Doha Round raises concerns that India, although a participant, might not in the end join in an agreement favoured by a critical mass of participants.

Even with the current shift in the political economy of the WTO, some participants were sceptical of any resolution of the agriculture question that did not involve the current key protagonists, because the current stalemate is really about them and what they are willing to concede, or not. A plurilateral resolution for the agriculture problem, based on the critical mass approach, therefore holds more promise for a multilateral solution. However, regarding the substantive dynamics of how an agriculture agreement might be resolved, our roundtables did not bring us to a satisfactory resolution. For some countries, achieving greater access to other countries’ markets is the paramount goal, while the greatest sensitivity is preserving domestic supports for their farmer communities. For other countries, the principal objective is to protect their domestic farmers from imports. Still other countries, including a number of developing and middle-market export-oriented nations, focus overwhelmingly on reducing trade-distorting domestic supports elsewhere (especially in the US and the EU). Perhaps most frustrating, some countries are intensely devoted to protecting and subsidising their farming sectors but have little or no ‘offensive interests’ (such as India).

This kaleidoscope of different, conflicting interests poses difficult questions in determining how to construct the trade-offs necessary to reach a meaningful agreement, and whether internal consistency within the proposed plurilateral could be found. An agreement focusing only on market access (and perhaps also export subsidies) might have a traditional dynamic of countries offering to reduce their agricultural access barriers (tariffs, quotas and TRQs) in return for other countries’ doing the same. This can be done in a variety of ways, involving across-the-board formulas, perhaps modified by S&DT considerations and safeguard mechanisms. It might also be augmented by negotiating special deals between or among major players, as is now being attempted between the US, Japan and Canada in the TPP.

From the standpoint of many developing and emerging nations, however, as well as some export-oriented middle-market countries, an agriculture agreement may not be acceptable without reducing
or eliminating trade-distorting domestic supports in developed countries, especially in the US and the EU. Domestic support could be used to block market access and act as a substitute for export subsidies, thus it is inconceivable that the Cairns group, in particular, would accept an agreement on agriculture that excludes the domestic support issue. One way to address this is for the US and EU to trade off reductions in their domestic supports for further reductions in other nations’ agricultural access barriers. This negotiating dynamic, however, failed to culminate in agreement in the Doha Round.

These challenges were reflected in a view expressed in both the Brazil and South Africa dialogues that an agriculture plurilateral might ultimately not be self-balancing. This suggests that an agreement limited to agriculture would require a degree of leadership by some of the major WTO members that has not been seen in the Doha Round to date.

It may also be that trade-offs need to be developed in new ways between agriculture and other issues. In the Doha Round, countries contemplated trade-offs between developed country concessions on agriculture and developing country concessions on NAMA, but such trade-offs never reached fruition. It could be that trade-offs involving other trade areas (perhaps services) need to be considered. This might be accomplished by pursuing an agriculture plurilateral as far as possible, and in the end considering trade-offs between that plurilateral and other plurilaterals, such as the TISA or NAMA sectorals.

In short, our roundtables reached several conclusions on the subject of agriculture negotiations:

- Agriculture is for many developing and emerging countries a sine qua non of acceptable results in trade negotiations. For that reason, many developing countries object strenuously to the fact that agriculture – and, in particular, domestic supports – is basically off the table in the current MPTA and plurilateral initiatives.
- There seems little prospect that the agriculture negotiations as currently constructed in the Doha Round can reach a result acceptable to the developing world.
- It is worth exploring the possibility of resorting to a plurilateral agriculture negotiation, one that could not be hamstrung by the single undertaking and full consensus requirements of the Doha Round. However, careful thought needs to be given to the substantive negotiating dynamics of such a negotiation, especially if – as developing and emerging countries are likely to insist – such a negotiation addresses domestic supports as well as market access.

Finally, we turn to another important plurilateral negotiation: TISA.

### 3.5 The emerging importance of the plurilateral Trade in Services Agreement

The TISA negotiations are significant owing to the contribution services make to modern economies, and to the ‘critical mass’ nature of the TISA effort. The TISA countries currently cover about 70% of world trade in services; many of those services underpin the operation of GVCs. Services now constitute some 70% and more of GDP in developed countries. There have been numerous negotiation
rounds since TISA's inception in 2012, with the aim being to open up markets, reduce policy uncertainty by increasing the level of policy bindings, and improve rules in areas such as licensing, financial services, telecoms, e-commerce, maritime transport, and professionals moving abroad temporarily to provide services. Although participating countries have made a lot of progress in the negotiations, a number of areas are proving resistant to progress, such as opening markets to foreign services providers (Mode 4). Some aspects of services trade have been taken off the table altogether – eg, trade in health services.

As with critical mass market-access plurilaterals such as the ITA, the Environmental Goods Agreement and the MPTAs, the TISA negotiations are driven by the failure of the Doha Round. They represent a different approach and raise different pros and cons. A major Doha problem was the initial prioritisation of agriculture and NAMA negotiations, to the relative neglect of services liberalisation, whereas many developed country MNCs want to see progress on services negotiations. A basic political economy reality, associated with the fact that developed countries are services economies, is that most firms have a strong interest in services. Putting services on the back burner for much of the Doha Round discussions – making movement on services conditional on first obtaining agreement on the broad outlines of a deal on agriculture and NAMA – eventually led to the services industries’ pushing for negotiation on services outside the WTO. The route chosen was a plurilateral negotiation which, while not MFN, would seek to cover a critical mass of services trade. Unfortunately, some countries that offer the most dynamic opportunities in global services trade, such as China, are not yet part of TISA, despite having indicated an interest in participating. Admitting countries such as China will be necessary to give TISA critical mass. If critical mass is not initially achieved, the agreement will be open for accessions, but the experience of the GPA cautions that this may be difficult.

The TISA negotiations are deliberately based on the General Agreement on Trade in Services (GATS) so as to make possible the integration of the results into the GATS in the future, if this was to be decided by participating nations. The key provisions of the GATS – scope, definitions, market access, national treatment and exemptions – are also found in TISA. Thus, there is a great opportunity to introduce new commitments at the multilateral level. For the most part, negotiations are occurring among states that already have a PTA with each other covering trade in services. The states that stand to gain the most are those that have no or only one services PTA. However, none of the TISA members has deals with all of the big three members (the EU, Japan and the US). The idea is to extend ‘best’ PTA deals to all TISA members, focusing mostly on locking-in existing commitments rather than new liberalisation, and ‘new and enhanced disciplines’. From a market access point of view, TISA offers relatively little except to the extent that members can find value in making binding commitments. TISA participants are considering some early harvest agreements that include financial services, telecommunication services, e-commerce, movement of natural persons\(^{19}\) and transparency.

In principle, regulation should be non-discriminatory, as regulators care about outcomes, not nationality. However, the degree of discrimination depends upon how the agreement will be implemented. If it is going to be an Article V economic integration agreement under the GATS then in principle the members will be able to discriminate, and market access is all about discrimination. Nevertheless, since TISA focuses on regulation there might not be a lot of room for discrimination, especially if the focus of market access commitments is primarily on policy bindings as opposed to liberalising applied policies.
The TISA negotiations are relatively more important to states whose domestic economy is already reliant on services, such as the US, for whom the services sector contributes more than 70% of GDP. However, the negotiations are also of increasing importance to those developing countries that are looking to pre-emptively negotiate favourable trading terms in services. This is evident in China’s case as its economy seeks to move away from manufacturing goods towards value added services; from ‘Made in China’ to ‘Served in China’. China regards participation in the TISA negotiations as a way to spur domestic economic reforms. Nevertheless, China is not yet a part of the TISA negotiations, owing to the US’ insistence that China ‘put its cards on the table’ to demonstrate its commitment to high TISA standards.

As an alternative, both to Doha and (on services issues) to MPTAs, TISA has created an opportunity for states interested in furthering global services regulation to do so. It should also be noted that TISA purports to be open access and not limited to a regional agreement, meaning that the end result could be an inclusive plurilateral.

TISA, unfortunately, does have a few drawbacks. As mentioned previously, a subset of countries are writing the rules, which concerns non-participants. There are open questions, making it unclear whether there will be much on binding new rules. For example, will there be a necessity test for domestic regulation? How will it be enforced? Will TISA go beyond the DSU for remedies? And what about ISDS? Yet lack of ambition may help eventual multilateralisation. For this to happen, however, TISA needs to become a critical mass deal. So far the exclusion of China is a major drawback, as China’s participation is necessary for this to happen. Another problem is that the WTO Secretariat is not being permitted to observe and support the negotiations.

The developing countries where we held dialogues are not, as yet, embracing TISA. We understand that view, as much depends on the way in which TISA develops. If China joins and critical mass is achieved, that would be a major plus. The higher the ambition in the substance of the agreement, the more favourably we would view it, but the key is that TISA is consistent with the GATS and thus allows multilateralisation. The fact that the inclusion of TISA as an MFN WTO agreement remains a possibility is a good thing.

In the final analysis, TISA stands with other plurilateral negotiations and with the MPTAs as options that are being pursued as an alternative to a failed Doha Round. Like the other alternatives, it has pluses and minuses. One observation that can be made is that TISA’s critical mass plurilateral approach may have a more visible route to return to multilateralism than the MPTAs.
4. CONCLUDING REMARKS

Trade negotiations are heading down new roads, orchestrated by the US and EU, and without the participation of most of the developing world. This should be a serious concern for the WTO membership, as the WTO is the central pillar of the world trading system. While the toothpaste cannot be put back in the tube, it is critical that WTO members find ways to influence these new initiatives and in particular hold the US to its stated hope that these non-multilateral arrangements will lead back to multilateralism. The US has espoused a ‘build it and they will come’ concept. The TPP, for example, is held to be of such obvious benefit to its participating countries that other countries will beat a path to the TPP ‘door’, asking to join. The WTO’s responsibility, we submit, is to make it clear that this can happen only if the new non-multilateral agreements take into account the interests of the full WTO membership (including, in particular, agricultural exporting countries aggrieved by US and EU trade-distorting domestic agricultural supports and developing countries needing appropriate S&DT).

Every effort should be made to determine whether and how the new GVC-based way of conducting trade can be the basis of a greater community of interest between developed and developing countries. In this regard, see some of the thoughts in this report about codes of conduct for MNCs, about WTO involvement in the development of GVC- and FDI-related rules, and about the roles of the WTO and other international bodies in accelerating analyses of the dynamics of GVC-based trade and investment.

Most fundamentally, the WTO needs to set in motion – outside of any specific negotiation – processes to find common ground between those countries that focus on liberalisation and those countries whose primary interest is development. These would include studies, forums, working groups and a concerted effort to find leadership on both sides of that issue. A large number of policy areas have a direct bearing on rapidly growing segments of global trade – including services, digital trade, data flows, e-commerce, product market regulation, etc. – that call for multilateral co-operation. If the WTO is to remain relevant, it is important that deliberative processes in Geneva be started as soon as possible to discuss these policy areas. Such discussions may or may not result in operational agreements. If they eventually do, they are much more likely to materialise if they take plurilateral forms, as opposed to involving all WTO members from the start. What matters is that any such agreements are open and, to the extent feasible, are applied on an MFN basis. In some cases this may not be feasible, and non-participating countries will not benefit from what is being done in a plurilateral agreement. We would argue that this is more desirable than the alternative of the world splitting into a set of MPTAs. But the first priority is for WTO members to begin to do more of what is now limited to the MPTAs – discussing good regulatory practices and ways to reduce the trade-impeding effects of domestic, ‘behind-the-border’ policies – in the WTO.
5. ENDNOTES

1. The core partners were the Centre for Policy Dialogue (Dhaka); China Centre for International Development (Tianjin); Cordell Hull Institute (Washington); Fundaca Getulio Vargas (São Paulo); Instituto de Pesquisa Econômica Aplicada (Brasilia); Korea Institute for International Economic Policy (Seoul); South African Institute of International Affairs (SAIIA, Johannesburg); Indian Council for Research on International Economic Relations (New Delhi); and the European University Institute’s Global Governance Programme (Florence). Other institutes participated in individual dialogues.
5. Problems with Article XXIV and the PTA assessment process notwithstanding.
7. For an exploration of this, see ibid.
8. A system whereby imports that fall within a certain prescribed quota are charged a lower tariff than those falling outside of the quota, effectively creating a two-tier tariff regime for one product.
18. It should be noted that India’s ‘food security’ programme is largely a method of providing subsidies to its farmers. Thus the issue of domestic support is no longer a developed country issue exclusively, and India’s programme has similar potentially adverse effects on agricultural exporting nations. The effect of this on the dynamics of a domestic supports negotiation is not yet clear. The programme also raises issues under the National Treatment obligations of Article III of GATT 1994.
19. This would not necessarily address developing country interests in Mode 4, since ensuing liberalisation (a) would be for participants only unless offered on an MFN basis, and (b) would be designed around participating states’ interests.