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Abstract

This paper discusses the challenges that confront the WTO, inspired by the recent appointment of a new Director-General for the organization and various views that have been expressed by knowledgeable observers as to how these challenges should be addressed. The paper focuses in particular on the prescriptions expressed by Ambassador Robert Zoellick, a former United States Trade Representative, regarding what the Director-General should focus on, and lays out an alternative view of the path forward for the WTO and for sustaining multilateral cooperation on trade.

Keywords

WTO, trade negotiations, multilateral trading system, developing countries, trade agreements

Introduction*

All observers agree that the World Trade Organization has arrived at a critical juncture. For almost 60 years, the WTO – and its predecessor, the General Agreement on Tariffs & Trade – went from strength to strength in leading a movement for trade liberalization that has fueled remarkable growth in both trade and prosperity. With the arrival of the new century, however, something has gone badly wrong. A new round of multilateral trade negotiations was launched, aimed not only at further trade liberalization, but more specifically at enhancing the benefits of trade for the developing countries that now constitute the great majority of WTO Members. But as Robert Zoellick correctly observed in a Financial Times op-ed piece ("Questions for the World's Next Trade Chief," April 1, 2013), the Doha Round "has foundered on differences between developed countries and the major emerging markets."

Now we have selected a new Director-General of the WTO. Make no mistake about it, the task of that new D-G must be the revival of multilateral trade liberalization. True, the WTO has other important functions, most notably the administration of the rules-based trading system. But the Organization's core function – and certainly the function that gives credibility to all of its other tasks – is to be both the engine and the steward of trade liberalization. And though it is also true that trade negotiations continue on bilateral and plurilateral terms, those routes are a poor substitute for multilateralism. They do not include – and indeed are opposed by – the emerging economies. By their nature, they do not reach some of the issues – notably trade-distorting agricultural supports – that are important to developing and emerging economies. And their promise of some trade liberalization is accompanied by a very real threat of trade balkanization.

Because of the central importance of reviving multilateral trade liberalization, it was with a good deal of anticipation that I read Ambassador Zoellick's prescriptions in his April 1, 2013 op-ed. U.S. Trade Representative, head of the World Bank and, with Pascal Lamy, the architect of this Round as the "Doha Development Agenda" – it would be difficult to conceive of someone whose background would better qualify him to lay out the path back to successful multilateral negotiations. In this paper I discuss Ambassador Zoellick's prescriptions, which I argue are both disappointing and counterproductive and lay out an alternative vision and approach to support greater multilateral cooperation on trade.

Ambassador Zoellick's Prescriptions

Amb. Zoellick begins with an exhortation that the new Director-General support concluding the Doha Round by agreement on a "small package" that he advocates as being "of special benefit to poorer countries." But the "small package" he supports turns out to be of minuscule benefit to those countries because it accepts a reluctance by both developed and emerging economies to agree even to quite small increments that would make that package truly beneficial.

Even more disappointing are Mr. Zoellick's proposals for future trade liberalization negotiations. Rather than seek ways to revive multilateral liberalization, he urges the new Director-General to "encourage" the completion of an international services agreement – not on a multilateral or even most-favored nation basis, but rather on the basis of "liberalization by the willing." Because numerous WTO Members – read: "most developing and emerging economies" – "are not yet willing to commit to openings" in services trade, he would envision a plurilateral regime whose benefits would only accrue to the developed (and a few developing) countries. The rest of the WTO Membership, not having participated in the shaping of that new services regime, would be told "Here it is, take it or

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leave it. You can join later, but only on these terms, and only then will you receive any of the benefits of services liberalization."

Next, and equally disturbing, the Ambassador would have the next Director-General "support zero-for-zero 'plurilateral' accords that bind all signatories to eliminating tariffs and other barriers reciprocally, sector-by-sector." Here again, this would be a sharp rejection of the multilateral, MFN approach that has been the cornerstone of the GATT/WTO success in building and liberalizing the global trading system. Besides that, the emerging economies – for quite logical reasons, as discussed below –have already rejected U.S. efforts to negotiate such plurilateral sectoral deals. [Note: I will not address here Ambassador Zoellick's proposals that the WTO "press for" negotiations on rules governing state-owned enterprises (SOEs) and the "manipulation" of exchange rates "to gain unfair trade advantage." Whatever their merits, and these are exceeding complicated issues, unlike Mr. Zoellick's other proposals they do not relate to the processes of trade liberalization.]

My objection to Ambassador Zoellick's proposals is that he has apparently concluded – unwarrantedly, I submit – that the stagnation of the Doha Round marks the end of multilateralism and MFN in trade negotiations. Faced with the fact that the developed and emerging nations have been unable to reach a meeting of the minds, Ambassador Zoellick concludes that it is not worth trying to find ways to bridge that gap. Instead, he urges that the WTO "encourage" or "support" what are essentially developed country initiatives to establish regimes based on the developed countries' agendas. If the developing and emerging economies find those regimes unattractive, providing insufficient benefits to them and ignoring their trade agenda items – well, then, they need not participate and will not share in the benefits until they decide to sign on to deals that were shaped without regard to their views.

Put bluntly, Ambassador Zoellick would have the WTO support the position of some developed countries that "If you developing and emerging nations do not like the multilateral liberalization terms that we developed countries propose, we will take our bat and ball and go play in another arena without you." His argument is that, if the WTO fails to "support" developed countries' non-MFN, non-multilateral initiatives, it will be "pushed aside," because "the action – and the creation of new rules for new issues – will move elsewhere."

I disagree fundamentally with Ambassador Zoellick's recommendation. I submit that this would make the WTO little more than a cheerleader for initiatives that are conducted by, and for the benefit of, a minority of WTO Members and that have been rejected by Members that represent the growing portions of the global economy. To avoid being "pushed aside," he urges the WTO to stand down from its historic agenda and watch as new agendas, with significant risks for the trading system, are pursued. In taking this position, Mr. Zoellick denies any possibility of finding new multilateral approaches that could bridge the developed versus emerging countries gap. And he ignores the emergence of economic and political forces that might be brought to bear in developing such new multilateral approaches.

Before turning to what I would see as a more constructive WTO agenda, let me expand upon my concerns about Ambassador Zoellick's proposals as to how trade negotiations should proceed.

First, concluding the Doha Round by constructing a "small package." I understand the view that this Round has become an albatross that poses threats to the Organization's credibility. I agree (with some reservations) with Ambassador Zoellick's assessment that the core problem has been an inability of the developed and major emerging economies to reach agreement on the agenda presented by the DDA. I even agree that one way – perhaps the best way – to proceed – would be to wind up the Round with a "small package" of measures beneficial to the least developed countries. After all, this round was advertised by its architects as one whose primary goal was to aid the economic progress of the developing world.

But if we are going to craft such a "small package," surely it must be a package that provides real and significant benefits to the LDCs. After all the disappointments during the long years of these negotiations, after announcing to the LDCs that this "development agenda" would, for them, be "a round for free," we absolutely cannot conclude the Round with a meaningless agreement, devoid of significant LDC benefits. Yet that is precisely what Ambassador Zoellick recommends that the new Director-General support:

The Ambassador's "small package" would have as its centerpiece the proposal now on the Doha table for "removing quotas and tariffs on <u>almost all the exports</u> of the least developed countries, which account for less than 1 percent of world trade." (emphasis added) the "almost all" phrase presumably refers to the Doha proposal that this liberalization for LDCs would allow each developed country to exclude 3 percent of products (tariff lines) from the duty-free, quota-free (DFQF) treatment for imports from LDCs. This provision would permit a developed country to exclude a substantial portion of trade from DFQF treatment, by focusing the exclusions on product categories (textiles, for example) that constitute the major exports of developing countries. Another problem is that some LDCs – those that benefit from tariff preferences in their exports to particular developed countries – would actually be damaged in DFQF treatment, losing the tariff preferences that give them a competitive advantage over other LDCs. Finally, the export opportunities for many LDCs lie in the markets of major emerging economies as well as the developed countries, and those emerging economies are not participating in the DFQF initiative. As a result of these shortcomings, a 2011 analysis published by the World Bank and the Centre for Economic Policy Research, <u>Unfinished Business? The WTO's Agenda</u>, edited by Will Martin and Aaditya Mattoo of the World Bank, Washington, D.C. concluded at page 170 that the benefits to LDCs "are likely very small, if not negative."

A similar conclusion seems appropriate as to the second element of Ambassador Zoellick's proposed "small package" – elimination of agricultural export subsidies. In the same set of analyses just mentioned, David Laborde and Will Martin note at page 36 that

> Given that export subsidies have been used to a minuscule extent, the proposed abolition of these measures also has little measurable benefit ….

My point is not to criticize the concept of winding up the Doha Round with a package of agreements that would – as was promised at the outset – confer benefits on the least-developed countries. And Ambassador Zoellick is certainly on sounder footing in advocating an agreement on Trade Facilitation (especially if that agreement could be coordinated effectively with Aid for Trade).

Rather, my concern is that today, after a decade of Doha negotiations that must surely have been increasingly disillusioning and dispiriting for LDC Members of the Organization, it is imperative that such a "small package" provide truly meaningful benefits to the LDCs. The Zoellick package is not designed with that objective, but rather with the goal of putting something together that the developed countries and the emerging nations can accept without any significant sacrifices. The WTO can and must do better, and I will have some thoughts later about how that can be accomplished.

The turn away from MFN and multilateralism: plurilateral, non-MFN negotiations on services trade and in sectoral AMA negotiations. It is this aspect of Ambassador Zoellick's prescriptions that I find repugnant in its assumptions and frightening in its likely consequences. Boiled down to its essentials, this is nothing more than a thinly-veiled ultimatum from the developed nations to the emerging markets:

> After a decade of multilateral negotiations, we now understand that you major emerging economies are simply unwilling to agree to the agriculture and NAMA market access liberalization that we industrial nations want from you. We have offered you concessions – for example in reducing the bindings on our agricultural supports – but we have now concluded that such concessions, even if we were to go further, would not induce you to agree to real increases in access to your agricultural and merchandise markets. So we are going to play a new game called "liberalization by the willing." And make no mistake, "the willing" who will determine the rules

> and the market access in these plurilateral deals will essentially be us – the major developed countries. You emerging nations can join this process, but only if you commit to levels of market access liberalization that you have found unpalatable in Doha. Oh, and by the way, some of the things that you wanted in Doha and that we found difficult – agricultural supports, for example – won't be on the table in these plurilateral initiatives.

Let us not delude ourselves that these initiatives are replays of movies we have watched before. This is not, for example, a replay of NAFTA, where the U.S., Canada and Mexico embarked on a regional free trade negotiation in part out of frustration with lack of progress in the Uruguay Round. The NAFTA nations were not, as Mr. Zoellick posits here, "moving the action elsewhere" or "pushing the WTO aside." Rather, NAFTA was seen by its three countries in part <u>as a spur</u> to the multilateral Uruguay Round process, and thus the NAFTA countries continued, ultimately successfully, to work for a Uruguay Round multilateral conclusion. Similarly, there is nothing wrong with groups of countries pursuing bilateral or plurilateral liberalization initiatives – the TPP and the TTIP are good examples. But such initiatives should be pursued as complementary to, and perhaps as a stimulus to, multilateral liberalization. It would be very wrong – and destructive to the trading system – to see such initiatives as replacements of multilateral negotiations or to abandon multilateralism to pursue such initiatives.

Nor is this a replay of the early years of the GATT, where negotiations took place essentially among the developed countries, without significant participation by the developing world. In the GATT era, contrary to what is envisioned in Ambassador Zoellick's plurilateral initiatives, agreements were reached on an MFN basis. Developing countries by and large got the benefits of the GATT liberalization even though they did not assume the agreement obligations.

And this is not a replay of such previous plurilateral deals as the GATT Agreement on Trade in Civil Aircraft or the WTO Information Technology Agreement. The success of those agreements was predicated on the fact that the participating WTO Members represented a "critical mass" – that is, they accounted for the great majority (80% might be a good rule of thumb) of global trade in the products covered by the agreement. Where that is the case, elimination of access barriers by the participating countries can produce, even without participation by other countries, what Ambassador Zoellick describes (concerning the IP Agreement) as "a boom in global sourcing and supply chains." But reaching such "critical mass" is not in the cards in the negotiations that Ambassador Zoellick would have the WTO endorse. For example, of the 14 sectoral initiatives, none has sponsoring countries representing as much as 60% of world imports and only three (gems/jewelry, chemicals and industrial machinery) exceed 50% of world imports. [See <u>Unfinished Business? The WTO's Doha Agenda</u>, Table 11.1 at pages 282-284.] The fact is that the emerging nations have no interest in playing this game and, without them, "critical mass" is unreachable.

There are, of course, good reasons why the emerging countries have no interest in these plurilateral initiatives. Such negotiations effectively take off the table major subjects of importance to emerging and developing countries, such as agriculture, textiles and light manufactures, and the sectoral process deprives the emerging and developing countries of trade-offs that could be used to gain concessions in those areas. Moreover, while the sectoral plurilateral agreements could, if successful, "in fact deliver large market-access gains and potentially even double the overall welfare effects of the Doha Round," they also "involve a redistribution of the gains from emerging economies to developed countries, a challenging feature in a 'development round.'" [Unfinished Business? The WTO's Doha Agenda, at p. 279.]

Without participation by the emerging nations – which seems highly unlikely – the plurilateral sectoral NAMA initiatives should not be pursued. The market access gains to be had in NAMA are concentrated in the emerging and developing countries. Those are the markets in which growth in demand is and will increasingly be the greatest. And those are the markets where levels of protection – and thus potential for liberalization – remain highest. So the concept of "liberalization by the willing" just won't work in NAMA without the emerging nations. And by "won't work," I mean that it will not achieve the gains needed by the developed countries.

The plurilateral services initiative offers greater promise for developed countries, even if the emerging market countries do not join. This is because, unlike NAMA, there is ample room for services trade liberalization in the developed countries, even if emerging and developing nations do not participate. But do we really want to create a bifurcated world of services, in which developed countries agree on principles and regulations that other countries do not share? And, in the long run, failure to include emerging and developing countries in a plurilateral services regime would be to exclude the faster-growing parts of the world economy from the liberalizing regime to the detriment of the developed nations, as well as to exclude the developing world from liberalization of a sector critical to their future economic development.

In sum, the initiatives that Ambassador Zoellick appears to endorse seem to me to be both unproductive and inconsistent with the objectives of an organization that calls itself the World Trade Organization. I submit that following these courses of action would, far from bridging the divide between developed and emerging nations (which the Ambassador currently diagnoses as the fundamental problem in trade liberalization), in fact substantially widen that gap. That is not in anyone's interest. For the emerging nations, it would enhance feelings of isolation and confrontation. For developed nations, it would diminish prospects for increased access to the markets that are growing more rapidly than theirs. And for the WTO, it would risk a serious loss of credibility for its role as steward of the trading system.

An Alternative Approach and Vision

What, then, should be considered for the agenda of the next Director-General? Any discussion of that question should begin by returning to that divide between the negotiating positions of the emerging and developed countries, thinking about why that divide exists and then developing ways to deal with it. In the discussion and suggestions that follow, remember that I come to these issues, not as an economist or a politician, but rather as a lawyer and a negotiator. What you are about to hear from me then is a view of the negotiating dynamics of the current impasse, not an analysis of welfare benefits and with only tangential reference to any country's domestic political issues.

From a negotiator's standpoint, it is not difficult to understand why this Round has posed particular difficulties in finding common ground between developed and emerging countries. It is not because either camp is dominated by evil protectionists, although all countries have domestic interests that resist competition from foreign rivals. Nor is it primarily attributable to differences in trade or economic philosophy, although differences exist between countries as to the relative importance of trade liberalization versus economic development (a largely illusory dichotomy, in my view), and there are complexities posed by differences among countries' views concerning the role of the state in economic matters. And the problem is not exclusively one of an absence of leadership, although any multilateral negotiation benefits from the type of leadership that the United States and (to a somewhat lesser extent) the European Union have provided in the past.

Rather, any negotiator looking at the sad current state of affairs in the Doha Round would tell you that the fundamental problem is a wide disparity in "offensive interests." Any party to a negotiation will offer something to the other party (in this context, offer concessions on issues of access or supports in the face of opposition to such offers by domestic constituencies) to the extent the offering party has something it wants to get in return (i.e., an "offensive interest") from the party on the other side of the table. Where one party feels it has much to obtain from the other party, it will be motivated to make a larger offer in the hope of obtaining it. As a corollary, a party that does not believe it has much to gain in the negotiation will not be motivated to offer very much.

It is quite apparent that, in the Doha Round, a substantial disparity exits between the levels of perceived "offensive interests" of the developed countries (particularly the United States and the European Union) and the major emerging nations (notably India and China).

The developed countries – increasingly as the Round has progressed – have encountered slow growth or even economic decline and have a strong interest in achieving greater access to foreign markets in goods, agriculture and services. The developing and emerging markets are where that growth in demand exists, and also where access barriers – that might be reduced through negotiation – are significantly higher than in the developed world. Therefore, the U.S. and EU have strong "offensive interests" in negotiating better access to developing and emerging country markets.

The emerging market countries, on the other hand, have significantly less "offensive interests." This is not because they have no interest in increasing exports to the developed countries' large markets. Rather, it reflects the fact that developed countries' NAMA tariffs and other barriers, after numerous rounds of multilateral trade negotiations (and with the exception of scattered "tariff peaks"), have been reduced to very low levels. This greatly narrows the areas in which the emerging nations, in return for reducing their substantially higher NAMA (and agricultural) tariffs, might seek gains in access to developed countries' markets. Emerging nations' potential Doha gains focus, therefore, on areas that have limited value and moreover are politically difficult for the developed countries:

- access for certain light manufactures (notably textiles, mass-produced apparel, etc.),
- agricultural market access (principally the EU, but also sugar in the U.S.), and
- reduction in (principally U.S.) agricultural supports.

The potential for effective quid pro quos between developed and emerging nations is further reduced by the fact that, in most emerging nations (China being something of an exception), applied tariffs are today quite substantially below those nations' tariff bindings. The emerging countries believe that they should "get credit" for those unilateral tariff reductions and therefore insist that the negotiations focus exclusively on reductions in bound rates. This process has left almost all emerging nation bound tariffs, after the negotiated reductions, still higher than their current applied rates. While this reduces the "water" in the system, and thus the potential for emerging nations to increase their applied rates, it means that the developed countries' potential gains in market access from the package now on the Doha table are negligible or non-existent.

What Doha presented, therefore, was a negotiation in which the developed nations have substantial offensive interests but in which the emerging nations have relatively limited offensive interests, limited expectations that developed countries will make significant concessions even in the limited areas where they have something to offer, and a belief that their previous unilateral tariff reductions justify them in not offering further reductions in applied tariffs.

How might one go about addressing this dispiriting negotiating situation? There are three theoretical approaches:

First, an economist may read the foregoing analysis and say that the mercantilist approaches of both developed and emerging nations are the wrong way to assess the pros and cons of a multilateral negotiation. It would be more constructive to focus on a broader analysis of global welfare benefits that would flow from reduction in access barriers by all parties. The "rising tide lifts all boats" concept, after all, has been a fundamental premise of trade liberalization for over 60 years. A perfectly valid argument, but not an argument likely to change significantly the negotiating goals or limitations of either developed or emerging nations.

Second, there is the approach that has been followed throughout this Round: each side offering progressively greater concessions contingent on, or in the hope of, the other side responding with improvement in its offers. While the results of this exercise to date do not offer much hope that a mutual access-increasing resolution can be reached, there are reasons to believe that the developed countries today may have somewhat greater ability to improve their offers. In the United States, the debate over reducing the governmental budget deficit is clearly bringing pressure to bear on U.S. agricultural supports. It may be recalled that reform of the EU's Common Agricultural Policy in the 1990s was brought to fruition by a confluence of the domestic cost of the CAP and pressure from the Uruguay Round negotiations. A similar dynamic may be emerging today with respect to U.S. agricultural supports. At the same time, the European Union is experiencing quite serious economic difficulties, and there seems to be a growing perception that policies stimulating growth need to be pursued, and that this could include measures to stimulate exports through improved access to foreign markets. That perception has led to the EU's enthusiasm for the Transatlantic Trade & Investment Partnership, and the same thinking might also lead to a willingness to be more forthcoming in the Round.

The existence of such factors leads me to a reluctance to terminate the Doha Round at this point. Rather, it seems worth looking for ways to seek further improvement in the developed and emerging countries' offers. But I am pessimistic that this process, without something more, can bring Doha to a satisfactory conclusion – i.e., to an "ambitious" result. The main reason for my pessimism is that the developed countries – especially the United States – have reached the conclusion that improvement in their offers will not bring the emerging nations to a willingness to agree to "real increases in market access." The failure of the U.S. effort to promote sectoral plurilateral zero-for-zero agreements appears to have greatly reinforced U.S. skepticism. Put another way, the developed countries have reached the same view that I stated at the beginning of this piece – namely, that the emerging countries believe that the Doha Round offers to them insufficient offensive gains to make it worthwhile for them to offer real increases in access to their markets (i.e., for them to offer reductions in applied tariffs in NAMA or to reduce the "flexibilities" that developed countries see as largely negating any access improvement in either NAMA or agriculture).

That brings me to a third possible way to address the imbalance in the two sides' offensive interests – namely, restructuring and expanding the Round agenda in ways that might give the emerging economies the prospect of real gains in return for granting increased access to their markets. There are, I submit, evolving trends in the nature of world trade that strongly suggest that thinking along these lines could be productive.

Perhaps the most striking change occurring today in world trade is the evolution of global supply chains and the consequent geographical dispersal of production of both goods and services. The importance of this trend cannot be overstated. As noted in the recent study organized by Director-General Lamy, The Future of Trade: The Challenges of Convergence (April 14, 2013) at page 22:

> Gone are the days when production was largely about fabricating products from beginning to end in single countries, either for domestic sale or export. Whether within large multinational corporations (MNCs) or through networks of small and medium-sized enterprises (SMEs), the production process today often involves several countries, each specializing in different tasks along the supply chain, from the earliest production stages to final consumption.

This change in the structure of trade has important implications for trade negotiations. As the Director-General's study puts it, "this reality has forced us to think of trade in a different way." One aspect of the new structure is the intertwining of trade and foreign direct investment. As the same study puts it (at page 22):

> This more realistic view of trade also emphasizes key complementarities between trade and investment. These are no longer just alternative means of accessing markets, they are essential partners in supply chain production.

Trade negotiations cannot ignore – and, as I will discuss, can greatly benefit from – recognition of the new structure of world trade. Pradeep Mehta, Secretary General of the Consumer Unity & Trust Society, has stressed that future trade negotiations must include issues relevant to "trade in tasks" – that is, relevant to this global dispersal of production in the creation and maintenance of global supply chains. The Panel on Defining the Future of Trade (at page 23) also argues for such an expansion of the trade negotiation agenda:

> These realities make a strong case for a more holistic approach to barriers affecting trade. We need a more comprehensive approach. By focusing narrowly on particular obstacles, we may misunderstand the real obstacles to reaping the benefits of efficiency through trade.

All of this, I submit, argues strongly for the proposition that what the multilateral trade negotiations need is not a shrinking, but rather an expansion of the negotiating agenda. Specifically, the agenda should expand to include the issues relevant to facilitating the creation/maintenance of global supply chains and the consequent geographical dispersal of production. This would include "behind the border" regulatory, transportation, intellectual property, services and trade facilitation issues. Market access barriers would also remain important, but they would be considered in the context of facilitating cross-border supply chain flows. Similar assessments of the importance of adapting trade liberalization to global supply chains and the geographic dispersal of production abound in the recent economic literature.[1]

Why would this expansion of the agenda facilitate multilateral trade negotiations and help bridge the gap between emerging and developed economies? I suggest that there are at least three reasons to believe that it would do exactly that:

First, but perhaps least important, an expansion of the agenda in a deadlocked negotiation is a recognized tool for breaking the deadlock. Properly done, such an expansion can provide opportunities for additional trade-offs among the hitherto deadlocked parties. The trick here is to structure the expanded agenda to include issues that offer potential gains to the party or parties that have heretofore had insufficient incentive to offer the concessions necessary to reach an agreement.

Second, an expansion of the agenda in the manner discussed above would give the emerging economies and other developing countries a greatly increased stake in the success of the Round. Put another way, it would provide them with major new "offensive interests." As discussed earlier, added access to the markets of the developed countries through cuts in those countries' already-low tariffs is not seen by the emerging nations as of sufficient value to warrant them offering substantial new access to their own markets. But their interests could change dramatically in negotiations that hold out promise that production of goods and services in their countries would expand as part of global supply chains. In that scenario, it would become very much in their interest to reduce developing and emerging country tariffs and barriers. As exporters of semifinished goods to a member of the supply chain in another emerging or developing country, or as importers of components or raw materials from others in the supply chain, companies in the emerging (and developing) economies would have an interest in reduction of applied tariffs in the emerging and developing world that would be in most respects congruent with the interests of developed country exporters.

Third, expanding the agenda to include reduction of barriers to establishment of supply chain production is consistent with the trade objectives of both developed and emerging countries. For emerging and developing countries, facilitation of investment in supply chain production in their countries is obviously beneficial to their economic development. But this behind-the-border agenda is also important for developed countries. Indeed, such issues play a large role in the agenda, largely constructed by the United States, of the Trans-Pacific Partnership (TPP) negotiations. In this regard, I would call attention to a paper published on May 1, 2013 in Real Clear Markets by Claude Barfield of the American Enterprise Institute, entitled "A Realist's View of the Global Trading System." Mr. Barfield, among other recommendations, urges that the WTO move forward on "major new trade issues," including "behind-the-border barriers to trade and investment" and, in so doing, draw upon

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[1] See, for example, "Global Supply Chains, Logistics Services and International Trade Cooperation," pp. 8-10 in *Outlook on the Logistics & Supply Chain Industry 2012* World Economic Forum Global Agenda Council report, June 2012. http://www3.weforum.org/docs/WEF_SCT_GAC_OutlookLogisticsSupplyChainIndustry_IndustryAgenda_2012.pdf

the work being done in such negotiations as the TPP. For an analysis of the benefits to U.S. economic growth and jobs, see "American Companies and Global Supply Networks – Driving U.S. Economic Growth and Jobs by Connecting the World" (December 2012), a report prepared by Matthew J. Slaughter for the Business Roundtable, the U.S. Council on International Business and the United States Council Federation.

Concluding Remarks

In conclusion, therefore, I would urge the next Director-General to consider the proposition that the Doha Round as now constructed is not conducive to significant further multilateral liberalization, primarily because its agenda does not provide sufficient "offensive interests" for the emerging economies. The solution to that problem, however, is not to turn the Organization's back on multilateral liberalization and instead support non-MFN plurilateral initiatives. Rather, the solution is to revise the multilateral agenda by addition, not subtraction, and to do so in a way that both better reflects the current realities of global trade and fosters community of interest between developed and emerging economies.

The way to do that, I suggest, is to add to the Doha Agenda the issues relevant to facilitating the creation and maintenance of global supply chains and the consequent global dispersal of production of goods and services. The United States is already pursuing these issues in the TPP, and voices in the emerging nations have also advocated the expansion of the trade agenda to encompass "trade in tasks."

From the standpoint of negotiating dynamics, the objective is to enhance the incentives for emerging and developing nations to support trade liberalization. Inclusion in the agenda of issues that promise to promote those nations' role in production as part of global supply chains gives them the same motivation as the developed countries – the goal of having access to the markets where demand is growing. A country in which production is established as part of a supply chain for the manufacture of, say, automobiles has an interest in removing barriers that deny access to automobile imports, and access to the growing markets in emerging and developing countries is particularly important.

I am more or less agnostic as to whether this approach should be engrafted onto a continuing Doha Round, or whether that Round should be terminated with agreement on a "small package" with the understanding that a new Round should be convened (after suitable preparations) with an expanded agenda.

Whatever decision is made as to continuation of Doha versus commencement of a new Round, I suggest that it is essential first to get agreement of the developed and emerging economy WTO Members that, in one form or the other, multilateral negotiations will continue with an agenda that offers promise of reaching a deal that provides substantial further liberalization. (I emphasize that this does not mean abandoning the issues currently on the table in Doha. Agriculture, in particular, is of critical importance to many WTO Members, including many in the developing world.) If Doha is allowed to lapse without such a clear understanding, I fear the multilateral game may be over.

I would also suggest, as a subset of an agreement between emerging and developed Members to continue multilateral negotiations with a workable agenda, that those two factions should also agree on a "small package" that truly provides benefits to the least-developed nations. The components of such a package might include:

- Modifying the DFQF agreement in two ways: expansion to 100% product coverage (perhaps excluding weapons) and emerging country participation.
- A Trade Facilitation Agreement embodying commitments on Aid for Trade to assist LDCs in implementing that Agreement, and
- In agriculture, agreement to end export subsidies (largely an EU issue) and a modification of the U.S. cotton support program.

An announcement at Bali of such a "small package," coupled with announcement of agreement by the emerging and developed countries on the outlines of an expanded and more productive agenda for either the continuation of the Doha Round or the construction of a new round, would both revive the legitimacy of the WTO and put multilateral trade liberalization back on track.