

**The Multilateral Trading System and the Emerging Trade Policy Issues**  
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**Introduction**

The contribution of international trade for growth and development has been widely acknowledged. For example, the G-20 Leaders Declaration last year at Seoul stated that: *"We strongly believe that trade can be an effective tool for reducing poverty and enhancing economic growth in developing countries, LICs in particular."* There is abundant factual basis for this view. Between 1951 and 2010, while world GDP has increased about nine times, the volume of merchandise trade has increased 33 times, strongly pulling up the performance levels for global output.

Nonetheless, there is still a long road to cover and we need to work hard together. As Mr. Kuroda, the President of the ADB, recently stated when he launched the book "Asia 2050": *"Prosperity is earned. Asia has indeed done well over the past 40 years. Let us work together to ensure we stay on the path over the next 40 years."*

His message is valid also for the multilateral trading system. Nations have worked hard to establish and improve this system, and we all need to continue working together to maintain a strong and vibrant multilateral trading system.

In the deeply integrated world of today, good global governance becomes essential and this requires a robust and effective multilateral system. The multilateral system to manage international trade is the WTO, which is also referred to as the multilateral trading system.

**(1) The WTO System**

Let us compare the characteristics of a desirable multilateral trading system with the principles and features embodied in the WTO. A desirable system would provide:

- Assurance against arbitrary or protectionist actions, thus establishing a stable and predictable operational environment.
- Non-discriminatory treatment among Members
- Flexibilities for economically weaker economies.
- Assistance to improve capacity of developing countries.

- Safety nets for nations to meet their relevant domestic concerns and objectives.
- Transparency mechanisms to inform Members about relevant policy changes by individual Members.
- Bodies to monitor and discuss developments and concerns.
- Decisions being based on views of all Members.
- Well-functioning and credible dispute settlement system to address major differences and reduce tensions, and
- Opportunities to make periodic improvements in the system.

This is an impressive list. It is worth noting that the multilateral trading system encompassed in the WTO embodies all these criteria.

WTO is a system which explicitly recognizes that Members need to regulate and implement relevant policies for achieving national objectives. Thus the Agreement has several disciplines but allows Members to address specified difficult situations faced by them, such as import surges that seriously injure domestic industry, material injury from dumped or subsidized imports, balance of payment problems, health and safety concerns, environmental concerns, critical shortages of foodstuff, conserving exhaustible natural resources, and so on. The discipline and predictability of the system are encompassed in the principles of good governance embodied in the WTO system, emphasizing due process and objective assessment of the need and nature of policy intervention.

Decisions in the WTO are normally taken by consensus, implying that all Members play a significant role in the system. An important discipline under the WTO Agreement is non-discrimination. This is provided through its most favoured nation treatment clause and the national treatment provisions.

Another important focus is to prevent arbitrary action. A good example is the requirement in the provision on General Exceptions that policy measures shall not be applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries where the same conditions prevail, or a disguised restriction on international trade. This embodies fairness, non-discrimination and provides an insurance policy against arbitrary and protectionist measures.

Another important feature is the special and differential treatment for developing countries, providing them with more flexibility and easier conditions, with least developed countries having maximum flexibilities.

Predictability and a sense of security in the global trading system come from the disciplines and transparency of actions through the WTO's notification provisions that inform WTO Members about changes in relevant law,

administrative mechanisms, and policy measures; and the discussion of these and other concerns in the WTO Committees that monitor the implementation of the Agreements. The highly credible dispute settlement system of WTO helps reduce trade tensions.

Periodic reviews of trade policies are also conducted at WTO. These help Members to know about trade policy developments in other territories. The most recent addition to the Review process is the Monitoring Reports started by the WTO DG during this major economic decline in 2009. Informed peer review based on verified information in these Reports on policy measures adopted by WTO Members helped keep international markets largely open even during very difficult economic and political times. The value of these reports was recognized by G-20 leaders and at their request, WTO, OECD and UNCTAD together provide the monitoring reports on trade and investment to G-20 before each meeting.

The WTO also helps improve the capacity of developing nations to achieve greater benefits from international markets. In this context, the WTO DG launched a major initiative under Aid for Trade, which emphasises high and additional levels of funding for demand-driven projects that build physical and skill-related infrastructure to improve trade capacity. Aid for Trade integrates trade policy with development policy at both the conceptual and operational levels, and promotes a comprehensive policy consideration. Within the ADB, this initiative is given direction and focus through the large number of projects which build trade capacity and infrastructure at the national and regional level. The ADB's very substantial role in important initiatives such as the Regional Technical Group (or RTG) on Aid for Trade for the Asia-Pacific also needs to be recognized and commended in this context.

## **(2) Emerging Trade Policy Concerns**

With this background, let us now examine some important emerging trade policy issues and concerns. For ease of discussion, I have grouped the emerging policy issues and concerns into four broad categories, with some possible overlaps among the categories.

### **(i) Trade Policies More Likely To Be Used In The Foreseeable Future**

- Regulations and standards (health and safety standards, and technical barriers to trade)
- Private standards
- Subsidies to service industries
- Contingent protection measures
- New types of trade measures that may appear in future

### **(ii) Developments in International Trade leading to Policy Issues Affecting Trade Measures**

- The increasing role of services in trade
- Increasing inter-linkages through supply chains or trade in tasks
- Proliferation of Free Trade Agreements
- Policy areas that affect trade (regulatory regimes for services, competition policy, investment policy, government procurement)

**(iii) Concerns in Economic, Financial, Environment and Social Sectors Affecting Trade Measures**

- Food security
- Effects of exchange rate changes
- Overlap between trade and environment
- Social concerns and trade (labour issues, animal welfare)

**(iv) Structural Changes and Developments Unrelated to Trade Per Se with Possible Implications for Trade Measures**

- Emerging economic interactions
- Demographic changes
- Changes on account of new and emerging technologies
- Water shortage, energy crisis, financial crisis

(i) I will address these points sequentially, starting with standards. WTO has rules and disciplines to deal with standards. Its Agreements on Technical Barriers to Trade and on Sanitary and Phyto-sanitary Measures comprise a system of disciplines to prevent arbitrary actions while allowing the use of standards for the legitimate reasons for which they are required. These rules provide greater certainty in international trade, and allow the monitoring and evaluation of the standards used by Governments. Trade concerns relating to these measures are discussed in the Committees established under these two Agreements, which also require establishing Enquiry or Contact points in the territory of each Member to respond to queries from other Members. The notifications and discussions of trade related concerns in these Committees are like a multilateral review of such measures and thus increase transparency for a broad range of non-tariff measures. Major concerns could of course be addressed through the WTO dispute settlement process.

For many developing countries, complying with standards is often a challenge. This may be for a number of reasons, such as:

- inadequate capacity to cope with standards applied in their export markets
- inability to get timely and adequate information for exporters to prepare themselves to meet these standards
- proliferation of private standards which are perceived as being ad hoc

Technical assistance projects are being used to enhance capacity, but much more is needed to adequately prepare exporters and policy makers in developing countries. This should also include improving capacity to use the established

SPS and TBT Enquiry Points and to engage more effectively in the Committee processes in the WTO. In the Doha Round negotiations, Members are trying to improve exchange of information and establish a practical mechanism to better deal with a growing number of standards-related trade concerns.

The WTO Agreement is a legal agreement amongst Governments. Thus, for private standards, we do not yet have any adequate legally negotiated and agreed provisions which would properly address them. Nonetheless, such standards have become increasingly important in international trade. The WTO Committees have discussed these issues but more needs to be done. A number of co-ordinated international efforts are in place to bring more predictability in private standards, as well as improving domestic capacity to meet such requirements. However, these concerns should be addressed more comprehensively in order to reach a satisfactory situation.

Subsidies to services is another area that is not yet covered by WTO disciplines. Specific concerns regarding these measures were raised by WTO Members during the recent sharp economic downturn when certain Governments subsidized financial services and other areas of domestic operation. Further negotiations within the WTO framework would be required to establish disciplines on subsidies to services.

Contingent protection through anti-dumping, countervailing measures, and safeguard measures are subject to disciplines under the WTO Agreements. Members want to further improve the existing disciplines for contingent measures. The Doha Round negotiations include efforts to address such concerns, under the Rules negotiations which also cover negotiations on fisheries subsidies and on transparency of regional trade agreements.

Now consider the new trade policies that may emerge in the future. It is difficult to predict them. In such a situation, we need a systemic approach to limit the adverse effects of unforeseen developments. The disciplines in the WTO system are very valuable for this, both to conduct orderly international trade and avoid trade friction. They provide an important insurance against ad hoc, arbitrary or discriminatory trade policies. The value of this insurance is shown by the fact that on a number of occasions countries have not adopted proposed ad hoc or discriminatory measures on the grounds that they would not be consistent with the WTO disciplines. However, it is also evident that further disciplines would be required in the multilateral system to provide greater certainty with respect to some emerging areas, such as regulatory policies

(ii) Let us now consider the second category, starting with the increasing role of services in international trade, especially for developing countries. The WTO disciplines for services are more recent than for trade in goods and it is

recognized that further negotiations are required to build a system of disciplines that substantially increases trade opportunities in this area. The Doha Round negotiations cover services also. It is noteworthy that the policy regime for services that is actually being implemented by countries is far more liberal than the level of obligations undertaken by individual Members under the WTO Services Agreement. Furthermore, several Members are rationalizing and opening up their services markets or plan to do so in the foreseeable future. This flexibility to engage more actively in the services negotiations.

Another important development is the remarkable increase in supply chains or trade in tasks in international trade. Take any product, your computer, shirt, car, phone, the film you watch, the projector in the lecture hall, and many more. You will see that each such product is a confluence of ideas, technology, individual products used as inputs, transport, packaging, data management and sales which involve value addition from several nations for even a single final product. This is a reflection of:

- unbundling of products and technologies,
- More rapid product cycles in international trade,
- emergence of several developing countries as producers of the unbundled products, and
- spread of investment by multinational companies from the North and now also from the South.

To augment economic opportunities by linking up with international supply chains, countries need to implement trade facilitation policies. For instance, recent studies on AFTA show that it succeeded in reducing trade costs not through preferential liberalization, but through concerted trade facilitation significantly motivated by participation in international production networks.

An interesting implication of expansion of the scope of international supply chains is that they may change the commonly presumed analytical results based on the previous simpler models of international trade. For example, with supply chains, if we impose a trade restriction on a product we may be more likely to harm our domestic value addition for that and other products in the supply chain. Thus, it is worth considering whether the conventional way of looking at trade policies may need to be changed to better address our national objectives.

To better understand this development, statistics on international trade need to be collected within a new and more relevant conceptual framework. Keeping this in mind, the WTO has launched a "Made in the World" initiative to support the exchange of projects, experiences and practical approaches in measuring and analysing trade in value added. A recent contribution of particular interest to all of you would be the publication titled "*Trade Patterns and Global Value Chains in East Asia: from trade in goods to trade in tasks*", jointly produced by

the WTO and the Institute of Developing Economies - Japan External Trade Organization.

Let us now consider the proliferation of Free Trade Agreements or FTAs. The WTO rules allow FTAs if they cover substantially all trade and the new measures are not more restrictive than in the situation prior to the FTA. A number of analysts have studied the likely effects of FTAs on the evolution of the trade policy regime. A recent very rich analysis of these developments is in the WTO's World Trade Report 2011, whose theme is: "*The WTO and preferential trade agreements: From co-existence to coherence*". FTAs account for more than three-quarter of the Preferential Trade Agreements in force.

Regarding FTAs, some interesting points are worth keeping in mind. FTAs open markets more than under the multilateral trading system, but they do so in a patchy and widely varying manner. One implication is that FTAs create varying rules of origin. To avoid confusion and adverse effects, these rules of origin would over time need special efforts to harmonize them. Harmonization means moving towards multilateralization, which implies that the WTO system should remain strong to accommodate such efforts. The multilateral system needs to be strong also because many of the key policies which adversely affect the level playing field in trade transactions, such as subsidies, cannot be adequately addressed through FTAs. They can be comprehensively addressed only through a multilateral trading system.

A number of FTAs have deeper integration through harmonisation or mutual recognition of regulations, competition policy, or investment policy. There is evidence to show that in such situations, regulatory frameworks are de facto extended to non-members of FTAs also. Nonetheless, it is important to ensure that the standards adopted in different FTAs are not so dis-similar that they make it difficult for subsequent multilateralization of such disciplines. This is crucial also if nations seek to promote growth opportunities through better integration in the global supply chains.

To be meaningful and effective, any trade Agreement would need to be inclusive and balanced. The FTA is not large enough to comprehensively cover all the main economies. Hence, lopsided and unequal terms of international trade could develop over time. This would create problems for developing or sustaining global systems that are necessary to deal with our major concerns in the inter-connected world of today. In this context, it is worth recalling the message given by Indonesia's Trade Minister Mrs. Pangestu in her speech at Davos this year, where she said: "*Is there an alternative to the multilateral trading system? The answer is no.*"

Thus, we need to build greater consistency between FTAs and the multilateral trading system. Furthermore, additional multilateral disciplines would be required for policies forming deeper integration in FTAs, such as regulatory policies, investment policies, and government procurement.

(iii) Now consider the third category, starting with the food crisis. Since the recent food crisis, countries have started emphasising greater self-sufficiency in food production. If we analyze the policies important for achieving food security, we will see that we need a combination of policies and that international trade is part of the solution for achieving food security.

International trade makes food available and helps to counter scarcity. For net food importing countries, international trade is the only means for providing food security. In fact, when nations face a food crisis, they normally take steps to facilitate trade. For example, trade policies used during the 2008 food crisis largely market opening, i.e. they reduced tariffs or facilitated imports of food.

Restrictive measures that were imposed during the food crisis were mainly on food exports, and caused major concern for most countries facing food shortages. Since international agriculture markets are relatively thin, even a single key exporting country with export restraint can have a major effect to raise food price. Thus, global leaders have begun to focus on the possibility of further disciplining the use of food export restraints, with a special emphasis that such restraints should not be imposed on food meant for humanitarian aid.

In this context, it is worth recalling Prof. Amartya Sen's insight that an important cause of hunger is shallow markets. International trade allows markets to have depth and facilitates supply to reach where the product is required. International trade works as a conveyor belt, with food taken from where it is efficient to produce it and transported to places where it is needed. Thus, international trade results in greater efficiency of production than would be possible with closed or restricted markets. Trade also helps to reduce the burden on resources. For example, if Egypt domestically grows all its food requirements, it will need three Nile rivers.

Of course, a major concern arises due to policies such as subsidies which create a non-level playing field and militate against efficiency of production. These are precisely the kind of policies which the Doha Round negotiations are trying to discipline, so that a more fair and efficiency-oriented international opportunities could become available.



An important insight from recent research is that food price rise and its volatility increases when food stocks are low. International trade helps both to build food stocks and to increase the effectiveness of available stocks.

Of course, all these efforts need to be combined with raising domestic food productivity. This would require:

- investment and timely provision of inputs for the farmers
- better infrastructure to transport food to markets,
- trade facilitation measures to more quickly transport food, and
- focused efforts to reduce the wastage of food, especially perishables. Some estimates suggest that up to one-third of food is destroyed in the process from farm to marketing of the products.

Trade barriers *per se* are not required for increasing food productivity. Of course, they may be required if imports are causing injury to domestic production. In such a situation the WTO provisions allow the use of trade restrictions to address the situation.

Let us now consider the issue of exchange rates. The key questions here are the relevant forum to address this issue, and whether trade restrictions are the answer to address this concern. The answer becomes clearer if we bear in mind the important point that closing product markets is never a good answer to a macroeconomic concern because they can be addressed properly only through appropriate macroeconomic response.

Consider now the issue of overlap between trade and environment. It may come as a surprise to some of you that sustainable development is one of the main objectives of the WTO Agreement, and that the WTO provisions explicitly provide for policy tools to address the objective of environment. So the relevant issue whether something over and above the existing WTO tool box is required.

Further clarity is required on whether restraining trade is consistent with environmental objectives. There is significant work which shows that opening of trade would be beneficial for the environment. Open markets provide easier access to environmentally friendly goods, services and technologies. As we collect better information on environmental issues, we can see that in a large number of instances, international trade is actually better for the environment in comparison to producing the product locally. Thus a broad-brush policy approach restricting trade would not be correct for achieving environmental objectives. We must consider each situation factually and objectively. Interestingly, if our assessment shows that a policy response is needed to

address environmental concerns, the policy makers may find that the WTO toolbox already provides them with a basis to address their environmental concerns. A policy gap which is clear, however, is that countries need to further open markets and provide opportunities to facilitate trade in environmentally friendly products and technologies. The Doha Round negotiations on trade and environment are seeking to make progress in this regard.

We now consider the possibility of using trade measures for addressing social concerns. Again, the key question is whether trade measures are the appropriate answer to achieve the objectives. This is particularly so if the relevant concern is multilaterally dealt with through non-trade related initiatives. If the link with trade is not straightforward, then it would be worth evaluating whether trade measures are considered mainly as a means to build additional pressure. This would reflect a very short-term view and could give rise to some difficult situations, because our trade interactions do not finish with only a single action by any specific country. There are reactions, and possible retaliations. Such developments could also open the door to more wide-scale use of ad-hoc and discriminatory policies. These are important reasons for nations to have displayed considerable care and restraint in using unilateral trade measures to achieve social objectives. The presence of the WTO disciplines has played an important role in this context.

(iv) Issues in the fourth category need to be assessed in the context of the likely global developments in the next decade or two. The economic fulcrum in the global economy is shifting and will continue to do so in the medium-term; shortages are likely to emerge for some key resources which could be obtained mainly through trade; demographic changes could imply a need to rely on populations and skills from other countries; and a larger number of nations are today in a position to generate or sustain new or emerging technologies. These changes will create political pressures to close markets in some parts of the world, but each such reaction will have repercussions and retaliatory effects in an ever more inter-dependent and changing world. The emerging trends strongly indicate that more than ever before, our concerns and our solutions require nations to work together and rely on each other. Thus, we need to avoid policy measures which are seen by others as ad-hoc and unfair. For this, we need to sustain and keep improving the multilateral trading system so that good governance can be combined with an inclusive and interactive approach in formulating trade policies. Many of these policies are likely to be market opening policies that would facilitate adjustments and continue enhancing our potential.

However, as we have seen time and again, in general politics is local and there is a tendency to give in to some political pressure to use trade restrictions. Nonetheless, the policy-makers, such as in the audience here, can have a much

wider perspective than this. Thus, they can contribute in important ways to nation-building, bearing in mind the key issues that I have shared with you today. At the level of individual nations, each of us has to recognize that we have far too many common interests. Without multilateral or common efforts, we will find it very difficult to manage change and sustain positive momentum in our evolving world, whether through trade policies or other measures. As the WTO Director General, Pascal Lamy, clarified recently, *"Whether it is about addressing the inequalities of multilateral trading system, combating global warming or addressing hunger and poverty, the only way forward is with governments working together. Reaching decisions in a multilateral framework is difficult, but there is no real alternative."*

### **Conclusions**

Rapid increase in international trade has strongly boosted economic growth, bringing about historically unprecedented improvements. The multilateral trading system has played a very important role in this process. Today, the multilateral trading system is more significant than ever before. The present WTO system is well-placed to address several emerging trade policy concerns, but it needs to be strengthened further to deal satisfactorily with several of them.

The WTO Members have considered strengthening the system in two different ways. One is through improving the system's effectiveness and capacities of nations to derive greater benefits from the system. Such efforts, which do not require negotiations per se, are an important part of the ongoing preparatory work for the WTO's Ministerial Conference this December.

The second set of improvements require negotiations, such as in the Doha Round. However, after making major progress, we now have lack of progress in these negotiations. This weakens our capacity to adequately deal with many emerging concerns. Unfortunately, these difficulties reflect the present global political situation which adversely affects not just the Doha Round but also other multilateral efforts. The way out requires leaders and policy-makers to recognize that the multilateral system is essential for seeking national solutions.

Thus, in summary, a three-pronged effort is required. One, is to keep the present multilateral trading system strong and effective. Second, is to build further on the existing structure, such as through the Doha Round negotiations. Third, is for policy-makers to remember that they operate within a framework of an ever more interactive and inter-dependent world. In this way, we all need to show statesmanship and sagacity.