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**THE ROLE AND PRIMACY OF THE MULTILATERAL TRADING
SYSTEM IN GOVERNING INTERNATIONAL TRADE**

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Note by the secretariat

SUMMARY

The global economic crisis has confirmed the need for good trade governance. The best system of international trade governance is the multilateral trading system; the World Trade Organization oversees and monitors this system and provides a forum for trade liberalization through multilateral negotiations. However, as the Doha negotiations have stalled, members have been tempted to resort to protectionism in response to the crisis. This raises the question of how the role of the multilateral trading system and the World Trade Organization in governing international trade in times of crisis and beyond could be strengthened in order to perform their role with due authority while at the same time responding to the needs of all countries, in particular developing countries.

The present document makes the case for the primacy of the multilateral trading system in governing global and regional trade and briefly reviews the state of play of the Doha Round. It analyses how the multilateral trading system and Doha negotiations address countries' development needs and discusses the way forward for the World Trade Organization. It also gives a brief overview of the activities and the role of the ESCAP secretariat in providing technical assistance related to World Trade Organization and multilateral trading system issues. The Committee may wish to deliberate on the issues discussed in the present document and in particular on the role of ESCAP in addressing these issues.

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Introduction

1. The present document is based on chapter 2 of the *Asia-Pacific Trade and Investment Report 2009*.¹ It reviews the role and importance of the multilateral trading system (MTS) in times of crisis and beyond, the state of play of the Doha negotiations, and the role of ESCAP in promoting MTS. It concludes by summarizing the major issues for consideration by the Committee.

I. THE ROLE AND IMPORTANCE OF THE MULTILATERAL TRADING SYSTEM

2. The global economic crisis has prompted many countries to resort to using protectionist measures despite the rhetoric and pledges at various international forums to the contrary. In particular, some countries, both developed and developing, have opted for “buy-local” programmes as part of their recovery policies, using “murky” protectionism (that is, abuses of legitimate discretion under World Trade Organization (WTO) rules that are used to discriminate against foreign goods, companies, workers and investors, which also include so-called “green” policies and abuses of health and safety regulations).² As the Great Depression of the 1930s showed, protectionism can have potentially devastating effects and result in tit-for-tat action, triggering a vicious circle of collapsing trade and growth.

3. While countries have considerable leeway under WTO rules to protect their economies and while such protectionism may be necessary in some cases, it should be used as a last resort and with extreme care. Often, measures that are less trade-distorting can be implemented to help industries and companies to overcome the effects of the crisis and to boost their supply-side capacities while aiding long-term competitiveness.

4. In such an environment, the role of WTO becomes indispensable in monitoring protectionist trends and championing the role of trade in economic growth and recovery. In fact, MTS is the only system that comprises a universal body of non-discriminatory enforceable rules governing international trade as monitored and overseen by WTO. Though trade liberalization has been limited under MTS, compared with the unilateral action and commitments under regional and bilateral

¹ United Nations publication, Sales No. E.09.II.F19. Printed copies of the *Report* will be distributed at the Committee session. It will also be available online at www.unescap.org/tid/aptir.asp as of 10 October 2009.

² Richard Baldwin and Simon J. Evenett, eds., *The Collapse of Global Trade, Murky Protectionism, and the Crisis: Recommendations for the G20* (London, Centre for Economic Policy Research, 2009).

trade agreements, it is exactly this system of rules that has enhanced the stability, transparency and predictability of international trade. However, the issues covered by MTS and the current Doha Round of multilateral trade negotiations are many and complex, taxing the capacity of less and least developed countries. Nevertheless, a successful conclusion of the Doha Round would send a strong signal to traders and investors that the world economy remains open and committed to trade. One recent study estimated that the costs of *not* completing Doha, and in fact a return to protectionist measures within the allowed confines of existing rules and commitments, could reduce world welfare by as much as \$353 billion, while a resort to protectionism worldwide would contract world trade by \$728 billion.³

II. THE DOHA NEGOTIATIONS: STATE OF PLAY⁴

5. Since the collapse of the WTO Mini-ministerial Meeting in Geneva in July 2008, various draft texts have been circulated by the chairs of the negotiation groups and committees for review by members. However, little progress has been made as the crisis has deepened and administrations have changed in key WTO member countries. This means that the most tangible progress made so far is embodied in the July 2004 Package of Framework Agreements, which falls far short of the results needed to conclude a deal. However, WTO members are committed to concluding a deal in 2010, and the 7th Ministerial Conference of WTO is scheduled to take place in Geneva from 30 November to 2 December this year.

6. Much needs to be done before that time. Agriculture is the most controversial area of negotiations. The negotiations on agriculture consist of three pillars: market access, domestic support and export competition. While members had come close to an agreement in all three areas, the disagreement among key WTO members on conditions for triggering the special safeguard mechanism for developing countries has been widely recognized as the main cause for the failure of the Mini-ministerial Meeting in July 2008. ESCAP estimates of the aggregate welfare gains under current Doha proposals show modest annual gains of \$4.6 billion globally in the short term, increasing to \$5.2 billion in the long run.⁵ Two thirds of the total gains would accrue in Asia, with Japan gaining the most. These modest gains are the result of liberalization commitments based on bound rates rather than applied rates. However, the resulting commitments would limit the flexibility of countries to raise tariffs and therefore improve the predictability of the environment for agricultural trade. Failure to reach an agreement would jeopardize commitments that have already been made but are contingent on an overall deal, for instance the commitments made by developed countries and developing countries in a position to do so, to grant duty-free and quota-free market access for at least 97 per cent of products. These products would include agricultural products (such as tropical products) originating from the least developed countries before or in 2008 or no later than the start of the implementation of the results of the Doha Round, in a manner that ensures stability, security and predictability. The commitment to end export subsidies by 2013 may also come under threat.

7. While agriculture has appeared as the make-or-break issue, other areas of negotiation are not less important, and agreements in these areas potentially have much higher welfare effects. In the area of non-agricultural market access, the major

³ Antoine Bouët and David Laborde, "The potential cost of a failed Doha Round", IFPRI Issue Brief No. 56 (Washington, D.C., International Food Policy Research Institute, 2008).

⁴ Chapter 2 of the *Asia-Pacific Trade and Investment Report 2009* and its annex give a more detailed overview of the state of play and recent proposals.

⁵ *Economic and Social Survey of Asia and the Pacific 2008: Sustaining Growth and Sharing Prosperity* (United Nations publication, Sales No. E.08.II.F.7).

issue of contention is the insistence of some developed countries that some advanced developing countries enter into sectoral agreements. Without such agreements, there would be insufficient market access for industrial products from developed countries. Industrial tariffs are already very low and a further reduction would have limited effects. However, tariff peaks and escalation, for example in agriculture, continue to undermine the exports of key industrial products for which developing countries have a competitive advantage. At the same time, non-tariff barriers have assumed increased importance as the main barriers to trade. While non-tariff barriers are not covered under the negotiations on agriculture, they are covered under the negotiations on non-agricultural market access. However, apart from efforts to set up databases and categorize non-tariff barriers, little progress has been made so far.

8. Services, trade facilitation and rules are other important areas of negotiation. Negotiations on services have taken a back seat to negotiations on agriculture, which is unfortunate as a comprehensive deal in this area, including meaningful commitments under mode 4 of the General Agreement on Trade in Services, would have significant development and welfare effects. Only in the area of trade facilitation has progress been tangible—more than 150 proposals have been submitted since 2004, in many cases joint proposals by developed and developing countries—but, again, a final deal depends on an agreement in the area of agriculture. In the area of WTO rules, agreements are necessary on fishery subsidies and the reduction of barriers to trade in environmental goods. In the most recent development, the Chair of the Negotiating Group on Rules issued a road map identifying the main questions that need answering. The road map has been under discussion in various meetings throughout 2009. In the meantime, WTO negotiators are still debating the definition and categorization of environmental goods. With regard to regional trade agreements, some progress was made with the adoption of a transparency mechanism for regional trade agreements.

9. In conclusion, the outstanding issues are many, and time is pressing. However, there are signs that WTO members are speeding up the process, and the possibility of a final deal in 2010 is not only highly desirable, but necessary and certainly possible. Such a deal should take development concerns into due account.

III. THE MULTILATERAL TRADING SYSTEM AND DEVELOPMENT

10. MTS and WTO came into existence as the result of multilateral compromises to develop an international trading system that is stable and fair on the one hand and free and efficient on the other. The system has to benefit developing countries, otherwise it would defeat its own purpose. However, MTS faces an imbalance where developed countries tend to dominate both the system and the negotiations. On the other hand, developing countries have increased their clout considerably in the Doha negotiations and have been able to join various coalitions to strengthen their bargaining power.

11. Because a successful outcome of the negotiations among 153 countries requires compromise on commitments, it will inevitably constrain policy space. Restricted policy space is not really a problem as long as all countries have the opportunity to share in a net benefit from MTS. However, where restrictions undermine the ability of governments to implement measures deemed necessary for development, they are a cause for concern. Restrictions that prevent governments from resorting to trade-distorting measures should be the least cause for concern as, in most cases, less trade-distorting measures are available that could have a similar effect. In other cases, the argument can be made that commitments undertaken under

WTO agreements pose an undue burden on governments that do not have the capacity to implement those commitments without a detriment to national development.

12. In this context, the concepts of special and differential treatment and Aid for Trade become important. With regard to special and differential treatment, it is absolutely necessary to allow developing countries to implement a reform that suits local circumstances. However, for special and differential treatment to have meaning, it is generally recognized that both current and pending provisions on special and differential treatment are made precise, effective and operational. Negotiations on these issues are ongoing, and the lack of substantive progress is certainly a cause for concern. On the other hand, the pursuit of both special and differential treatment and flexibility for policy space, while important, should perhaps not be the single most important negotiation objective for developing countries. Instead, they should strive for negotiation outcomes that would balance gains from more access to foreign markets with other countries' gains from access to their markets. The opening of the domestic market spurs national economic development if it is granted in a sustainable manner where potential short-term losers are turned into long-term winners.

13. In this regard, Aid for Trade has assumed special importance. It is widely recognized that, without effective supply-side capacities, market access itself is rather meaningless. However, the Doha negotiations have focused on market access. Therefore, pledges towards Aid for Trade, as were made most recently during the 2nd Global Review of Aid for Trade, which took place in Geneva in early July 2009, need to be turned into actual disbursements that are needs-driven with the full involvement of the recipient. It is also recognized that a regional dimension to Aid for Trade would be a welcome complement to national and global efforts, in particular with regard to promoting regional cooperation in trade development.

14. There are also concerns that further reductions in most-favoured nation tariffs resulting from the negotiations would lead to higher levels of preference erosion. Clearly, as tariffs continue to fall, benefits from the Generalized System of Preferences continue to fall. The Generalized System of Preferences should be considered as a form of special and differential treatment to allow developing countries to strengthen their national supply-side capacities but should not become permanent features as they by definition undermine the most-favoured nation principle of MTS. Again, Aid for Trade would go a long way towards helping countries to graduate from the Generalized System of Preferences and to participate in reciprocal arrangements that would help national development.

15. Another important development issue is accession. The ESCAP region is

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