

## Speaking Note on the Future of Trade

Pradeep S Mehta<sup>1</sup>

*December 2012*

1. **Is multilateralism in crisis?**
2. **Is the multilateral trading system able to integrate the many concerns of civil society, concerns that range from food security, to the environment and human rights?**
3. **Are these issues truly new subjects?**
4. **Conclusion**

### **Is multilateralism in crisis?**

Yes and particularly trade multilateralism, because traditional supporters of multilateralism (the Scandinavians and the west Europeans) are unable to put pressure on traditional as well as emerging powers. Part of the reason is lack of recognition of the fact that the centre of gravity of economic activities is shifting towards the east.

Partly, it is also about mismatch between the level of ambitions of traditional and emerging powers, and lack of collective leadership. The Doha Round of negotiations is to be separated from the WTO's institutional functions for strengthening trade multilateralism, and should also be perceived clearly by the users of the MTS.

However, crisis gives opportunities to reform. A Geneva Consensus needs to be developed to strengthen trade multilateralism by addressing, among others, concerns on non-tariff barriers and linkages between trade and global public goods such as climate change and food security. The Consensus would need a convergence of all international organisations in and out of Geneva to think and act together. But these organisations will need to liaison actively with capitals around the world to build better ownership.

### **Is the multilateral trading system able to integrate the many concerns of civil society, concerns that range from food security, to the environment and human rights?**

Largely no, because there are less attempts to have more focus on development aspects of trade by addressing linkages between trade policy and other flanking policies which explain the relationship between trade with developmental subjects such as food security.

There are several reasons for lack of emphasis on this linkage:

- macro-micro gaps at the country level development; planning is still very much follows a top-down approach
- gaps between developmental concerns in national capitals and negotiating concerns in Geneva

Our survey on Defining the Future of Trade<sup>2</sup> revealed the importance of closing these gaps for better delivery on development vis-à-vis the multilateral trading system.

---

<sup>1</sup> Secretary General, CUTS International, psm@cuts.org

<sup>2</sup>[http://www.cuts-international.org/pdf/Making\\_trade\\_a\\_tool\\_for\\_poverty\\_amelioration\\_in\\_the\\_21st\\_Century.pdf](http://www.cuts-international.org/pdf/Making_trade_a_tool_for_poverty_amelioration_in_the_21st_Century.pdf)

Furthermore, many countries are addressing many of these concerns by behind-the-border non-tariff measures. Lack of mutual recognition and harmonisation of non-tariff measures are further eroding the possibility of better integration between the multilateral trading system and development concerns.

Incidentally, most of these concerns are also not dealt in preferential trade agreements, particularly those involving developing countries, because they are aware of further trade distortions if they deal with it bilaterally. Our survey has pointed out that non-tariff measures would be the major challenge of cross-border trade in the 21<sup>st</sup> Century.

All these require strengthening of the WTO's deliberative functions, the so-called missing middle. More capacity building on these linkages is needed at national and regional level as well as in Geneva.

Civil society groups, particularly those who are working at grassroots, are very much concerned about these issues. Many of them blame international trade on the deteriorating situation vis-à-vis these issues. Some of them may be right but some civil society's opposition to trade opening is due to lack of correct knowledge about these linkages.

They are to be studied at the local level so as to know better how positive linkages can be strengthened and how negative linkages are to be addressed. In this regard, institutional development, particularly at the micro and meso level, is the need of the hour. There will be more political buy-in for trade opening, provided we show positive linkages between trade opening and poverty amelioration and reduction in inequality leading to inclusive growth.

True that some sections of the society will be negatively affected as a result of trade opening; they are to be helped with appropriate safety nets – trade adjustment programmes. There should be studies on welfare gains before trade opening and if net welfare gains are positive then there should be more trade opening, provided there is an effective benefit sharing mechanism linking winners and losers.

Civil society, particularly at the grassroots, is to be better engaged with trade policy making and its implementation. Knowledge gaps between grassroots and capitals, and that between capitals and Geneva are to be bridged.

### **Are these issues truly new subjects?**

Yes as well as no.

Yes, because they are (their linkages with trade) are not being discussed at the multilateral level.

No, because many of them are there in the WTO acquis as part of the Uruguay Round agreements as well as in the built-in agenda for implementing the Uruguay Round agreements and for taking them forward.

They will pose significant challenges to the 21<sup>st</sup> Century trade agenda. They are to be discussed at the multilateral level to find negotiated solutions with a forward-looking agenda. They should not be subjected to WTO's dispute settlement mechanism and be implemented

in a phased manner with focus on capacity building and aid for trade including developing the capacity of poor countries to develop and implement trade adjustment programmes in a dynamic manner.

As import intensity of exports is increasing (regional and global value chains in cross-border trade) and trade in services is increasing--impacting trade in goods-- it would be interesting to study how these "trade and other" issues are being addressed in regional/global value chains. That knowledge will help in finding the contours of a multilaterally-agreed solution on these issues.

## **Conclusion**

Whether the multilateral trading system is ready to face 21<sup>st</sup> century trade challenges is to be addressed in the light of the following two conditions:

- WTO, as an institution, acts as a platform where diverse expectations are harmonised
- The new Quintile of the WTO Members, consisting of Brazil, the EU, India, the US, and China, collectively provides stability to the multilateral trading system

The first one fundamentally deals with the purpose of the WTO as an institution. For the multilateral trading system to work better, there should be more emphasis on reciprocal obligations including less than full reciprocity on the part of all of its players as per common but differentiated responsibilities principle for trade liberalisation to act as an effective means for poverty amelioration and reduction in inequality leading to inclusive growth. Countries should focus on absolute gains that would accrue to them as a result of taking part in the multilateral trading system as against relative gains.

Secondly, for the WTO to become a more effective institution to deliver trade as an important tool for inclusive growth, there should be stability in the system. The new Quintile should be responsible for collectively providing stability to the WTO as an institution governing the multilateral trading system. 21<sup>st</sup> century trade challenges are such that in order to address them there should be adequate lubrication in the governance of the multilateral trading system, so that conflicts are the least. Collective leadership can provide the much-needed stability in the multilateral trading system by both reducing the possibilities of conflicts among the WTO Members and their ability to reduce conflicts through the use of economic power. They should exercise their economic power collectively and through economic diplomacy as against coercion.

Given the two conditions which can determine whether 21<sup>st</sup> century trade challenges can be successfully addressed or not (in other words, effectiveness of the multilateral trading system), there are four possible scenarios:

- An ideal scenario is where there is a high degree of possibility of the fulfillment of both the conditions: the WTO, as an institution, acts as a platform where diverse expectations can be harmonised and collectively the new Quintile of the WTO Members provides stability to the multilateral trading system.
- The most undesirable scenario is where none of the two conditions are fulfilled. That could lead the world to an economic chaos as witnessed during the inter-war years in early part of the 20th century. The impending economic crisis in Eurozone countries may prove to be more than just some flapping of butterfly wings.
- The other two scenarios (combination of the two conditions) are unlikely to happen. This is because the two conditions necessary for addressing 21<sup>st</sup> century trade

challenges are to be looked at as per the principles of normative economics as against those of positive economics. In other words, 21<sup>st</sup> century trade challenges should be addressed by not considering the ideal situation rather than business as usual.

The WTO Secretariat should be empowered by its Members so that it can live up to its purpose, as stated in the Preamble Establishing the WTO, by persuading the WTO Members to create an enabling environment for the fulfillment of these two conditions.

Assuming that the two conditions will be fulfilled with a reasonable degree of success, a non-exhaustive agenda to address 21<sup>st</sup> century trade challenges is as follows:

- Trade policies of countries should be reviewed in respect to their ability to fulfill the role of trade as an effective means for poverty amelioration and reduction in income inequality leading to inclusive growth. In other words, the relationship between trade and consumer welfare (as described in the Preamble Establishing the WTO) should be the guiding principle of reviewing trade policies.
- The impact of non-tariff measures on trade under imperfect competition should be studied so as to negotiate multilaterally-agreed rules, including quantification of non-tariff measures and their gradual reduction on the basis of countries' ability to reciprocate, to reduce their scope to distort trade.
- Trade in tasks cannot be performed well unless there is equal emphasis on all three factors of production: capital, labour and knowledge. As their use is increasingly getting integrated, in some sense they are endogenous as well. While trade in capital and that in knowledge is drawing political attention among the policy-makers, that is not so in case of trade in labour. More emphasis on addressing labour market rigidities through trade in labour will not only strengthen the role of trade as a tool for inclusive growth but will also help poor countries to get integrated with global efforts on trade in tasks.
- Based on the principles of reciprocity and non-discrimination, there should be multilaterally agreed rules to address trade-related market contestability issues arising out of competition-related trade distortions and trade-related competition distortions.
- The WTO Secretariat should do joint studies and capacity building with United Nations Framework Convention on Climate Change, Food and Agriculture

预览已结束，完整报告链接和二维码如下：

[https://www.yunbaogao.cn/report/index?reportId=5\\_7189](https://www.yunbaogao.cn/report/index?reportId=5_7189)

