

Revitalizing Multilateral Governance at the World Trade Organization

Executive Brief based on the Report of the High-Level Board of Experts on the Future of Global Trade Governance

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The trading system is in crisis. Urgent action is needed to revitalize its central organ, the World Trade Organization (WTO). Such action must come from its Members and be based on renewed multilateral dialogue on the use and effects of trade-distorting policies in both developed and developing nations. Dialogue is also needed to resolve conflicts regarding the operation of the WTO dispute settlement mechanism and to assess the functioning of the organization.

The fundamental consensus norm has been abused to resist multilateral discussion of new policy areas and concerns regarding the functioning of the organization. Members should reflect on whether WTO bodies provide them with the information they need to assess implementation of existing agreements and identify gaps where the rules need to be updated. Without discussing how the WTO operates, Members will not be able to create a framework for issues such as the governance of digital trade or how to enhance trade's contribution to societal goals.

All WTO members benefit from the rules-based trading system. Participating in mega-regional trade agreements offers a complementary vehicle for cooperation to countries willing to deepen integration of markets, but this is not a viable alternative for many developing countries and risks fragmenting the rules that apply to global value chains. Nor will such agreements discipline key trade-distorting instruments such as subsidies.

Safeguarding the WTO is particularly important for smaller countries. Only the multilateral trading system offers them the opportunity to influence the development of new trade rules.

Friends of the multilateral trading system can pursue four complementary avenues to revitalize the WTO as a forum for trade cooperation and conflict resolution:

- 1. Policy dialogue.** WTO members need to establish a new work program to address both long-standing and more recent use of trade-distorting policies that are systemically important. Dialogue is necessary for WTO members to determine what those issues are and to agree on a road map for the future. Dialogue should include a focus on the functioning of WTO bodies – the Committees overseeing implementation of WTO agreements, the Appellate Body and the dispute settlement system more broadly. It should encompass a process of self-reflection by WTO bodies to identify (i) how to enhance their usefulness to their constituencies; (ii) the information needed to enhance their relevance; (iii) whether trade measures help economic development; and (iv) how trade can be more fully used as a tool to realize the sustainable development goals.
- 2. Support open plurilateralism.** Members need to consider whether all Members must participate in the launch of every new negotiation or initiative. Greater pursuance by groups of WTO members of open, non-discriminatory plurilateral initiatives offers the opportunity to move forward on issues where concerns about free-riding do not exist or can be addressed. Such initiatives do not require consensus to start. Others can always join the discussion when they are ready to do so. Four subjects are already being discussed in plurilateral groups. Others may emerge from the suggested policy dialogue processes.

3. **Enhance the scope for the Secretariat to provide inputs.** The WTO is a 'member-driven' organization in which the Secretariat is given too little voice. Empowering the Secretariat to do more to support policy dialogue in WTO bodies and the work of WTO Members engaged in open plurilateral initiatives will bolster the trading system.
4. **Review WTO institutional performance.** The operation of the WTO as an institution is not subject to regular assessment. Establishing a review mechanism that incorporates self-assessment by WTO bodies can present Members with facts they may not be fully aware of, and information on working practices, Member engagement and outcomes.

A precondition for revitalizing engagement at the WTO is that its work program deal with matters of systemic import and does so without undercutting the scope for poor countries to pursue development policies. The recommendations are aimed at satisfying these desiderata.

Policy dialogue is critical to establish a new work program. Such a work program must include subjects that matter to all WTO members. In practice this will mean a mix of old and new topics. Long-standing subjects of great importance to many WTO members include eliminating tariff escalation, managing global overcapacity in specific industries, disciplining agricultural subsidies, and protection of intellectual property. New subjects are likely to include digital economy-related policies that may distort trade and investment in services, e-commerce regulation and the development of (access to) new technologies. What is needed is a balanced work program that offers a credible prospect for addressing priority issues for all WTO members, whether developed, emerging or developing.

Self-reflection in WTO bodies can help to (re-)establish a common understanding of the strengths and weaknesses of existing agreements. It can identify opportunities to expand cooperation in a policy area and enhance economic development impacts. Many WTO members want emerging economies to make more extensive trade policy commitments while developing economies cite their need to address their development challenges. Greater differentiation in the rights and obligations of developing countries is a sensitive political issue but is essential if development concerns are to be properly addressed.

A committee-by-committee process of deliberation – including the Dispute Settlement Body – can help re-build the trust needed for constructive, good faith engagement on substantive policy questions based on solution-oriented proposals. To do so, deliberations must be inclusive and engage the whole membership. Regular assessment of the performance of the WTO as an organization – spanning both WTO members and the Secretariat – will enhance transparency and improve information on implementation of WTO agreements.

There is no presumption that what is needed is a new round of multilateral negotiations. Nor that every Member must engage on every element of the work program. Policy dialogue may identify opportunities for cooperation that are not of interest to all WTO members. In such instances open plurilateral initiatives provide a mechanism for subsets of the WTO membership to deepen cooperation. Such initiatives differ from preferential trade agreements by being both open to any WTO member and not discriminating between participants and non-participants in the application of benefits. This is nothing new for the WTO – examples include the Information Technology Agreement and the Telecom Reference Paper establishing regulatory principles for telecommunication services. WTO members can decide to apply these agreements if they wish to. Open plurilateral initiatives permit countries seeking to retain policy space for development reasons to do so – they need not participate.

Objective and timely information is vital for constructive deliberation. The heterogeneity of the WTO membership implies that knowledge about issues and international experience may vary substantially across countries. Ensuring that the WTO Secretariat, working in conjunction with other international organizations, can provide the required support to WTO members is

important. This includes better monitoring and analysis of implementation and effects of WTO agreements, information on the experience with approaches that have been used in preferential trade agreements for a given policy area, and synthesis of extant knowledge of development effects and good practices.

If successfully implemented, the recommendations can help WTO members develop a road map to resolve current trade conflicts, clarify and improve the operation of the dispute settlement process, and move towards a trading system that entails greater use of open plurilateralism as a complement to the expansion of membership in mega-regional trade agreements. At the 2017 WTO Ministerial Conference in Buenos Aires the US called for WTO reform. In May 2018 President Macron did the same. Ideally, all large players, jointly with others, will work together to consider reforms to the WTO.

Due in part to the rise of global value chains and the success of the system, many more countries are today participating in international trade. This creates opportunities and incentives for groups of WTO members to take on a greater role. Different possibilities may exist to constitute a critical mass large enough to provide leadership. For instance, three of the four largest trading powers – China, the EU and Japan – account for more than one-third of world trade in goods and services and more than half of the WTO budget.

Leadership cannot come from large trading powers alone. Even more powerful would be if East Asia as a region played a greater role, with shared leadership between China, Japan and middle powers such as Korea and Indonesia (combined with ASEAN). A coordinated effort to invest more of their soft power to support reform initiatives could do much to change the dynamics.

Economies pursuing deep integration of markets are best placed to play a complementary, catalytic role. Examples include the members of the Comprehensive and Progressive Agreement on Trans-Pacific Partnership, the Pacific Alliance, the East Asian countries in the Regional Comprehensive Economic Partnership, and, more broadly, the WTO 'Friends of the System' group of smaller economies. Together with the EU these countries account for more than 75 percent of world trade. They constitute a critical mass that can help sustain multilateral cooperation and drive the trading system forward.

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