ERIA RIN STATEMENT No. 4

RIN Statement on the WTO

ERIA RESEARCH INSTITUTE NETWORK

A Statement by the ERIA Research Institute Network Meeting at Bandar Seri Begawan, Brunei Darussalam, January 2014

FOREWORD

I would like to express my appreciation and thanks to Dr. Vo Tri Thanh for drafting the Research Institute Network (RIN) Statement on the WTO.

This statement is supported by RIN members; Jenny Corbett (Australia), Tutiaty Abdul Wahab (Brunei) , Chap Sotharith (Cambodia), Wang Yuzhu (China), Biswajit Dhar (India), Yose Rizal Damuri (Indonesia), Daisuke Hiratsuka (Japan), Hyung-Gon Jeong(Korea), Leeber Leebouapao (Laos), Zakariah Rashid (Malaysia), Aung Myint(Myanmar), Gary Hawke (New Zealand), Gilberto Llanto (Philippines), Hank Lim (Singapore), Wisarn Pupphavesa (Thailand), and Vo Tri Thanh (Vietnam).

I would like also to register my appreciation and thanks to various members of RIN in submitting their comments, views and perspectives that are certainly useful for writing the final text of the 4rd RIN Statement.

Hank LIM
Chairperson, Research Institute Network Meeting

RIN Statement on the WTO

Introduction

1. The 9th WTO Ministerial Conference in Bali in December 2013 attained a very welcome, if modest, consensus on a limited package of measures. After years of stagnancy, therefore, the Bali package is important for showing that WTO members are still willing to make significant compromises to sustain the multilateral system. It leaves a lot still to be developed, but with revitalized efforts.

2. Since its launch in 2001, the Doha Development Round had the focus on new negotiations, though a substance of the agenda also concerns the implementation of current agreements within the WTO framework. Drawing from past achievements, bringing the Round to conclusion is expected to significantly benefit member economies. Such benefits range from direct ones such as improvement of market access and less vulnerability to unfavourable changes in foreign trade and investment regimes, to more indirect ones from induced domestic reforms, improved transparency and trade facilitation.

3. Despite importance, Free Trade Agreements (FTAs), even mega FTAs, are by themselves not a replacement for multilateral agreements. Some issues are inherently multilateral, such as disciplines on subsidies. Bilateral and plurilateral agreements, especially large ones, inevitably develop rules for trade and investment among their members. Rules are more likely to be effective among groups of economies which have trust in one another's regulatory systems, as evidenced in the deepened economic integration of East Asia with established production network. Still, the WTO constitutes the only institution capable of ensuring that these rules are transparent and consistent with the multilateral trading system.

Bali package adopted at the Ninth WTO Ministerial Conference

4. The WTO Ministers adopted the decisions on Non-violation and Situation Complaints under the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS); the Work Programme on Electronic Commerce; the Work Programme on Small Economies; Aid for Trade; *and* Trade and Transfer of Technology. These progresses under regular work were previously made under the WTO General Council. The mandate to continue work is welcome.

5. In terms of Trade Facilitation, the WTO Ministers approved the Agreement on Trade Facilitation. A Preparatory Committee will also be established to expedite effect and improve

enforcement of the Agreement. The provisions include publication and availability of information, opportunities to comment and information before entry into force and consultation, advanced rulings, appeal or review procedures, other measures to improve impartiality, transparency and non-discrimination, and other practical issues related to trade facilitation. In this regard, the non-discrimination principle of Article V of GATT 1994 remains valid. Again, the agreement is welcome, but further improvement of border processes and all aspects of logistics for better supply chain connectivity remains very important.

6. In terms of Agriculture, the WTO Ministers approved various decisions related to General Services; Public Stockholding for Food Security Purposes; Understanding on Tariff Rate Quota Administration Provisions of Agricultural Products as Defined in Article 2 of the Agreement on Agriculture; and Export Competition. The achievement of consensus in a difficult area is welcome.

7. Also, the WTO Ministers approved the Decision, seeking to pursue further progress on Cotton issues. In particular, transparency and monitoring in relation to the trade-related aspects of cotton will constitute the topic for further efforts.

8. In terms of Development and Least-Developed Countries (LDCs) issues, WTO Members agreed on the Decisions on Preferential Rules of Origin for LDCs; Operationalization of the Waiver Concerning Preferential Treatment to Services and Service Suppliers of LDCs; Duty-Free and Quota-Free (DFQF) Market Access for LDCs; and Monitoring Mechanism on Special and Differential Treatment (SDT). However, as with environmental issues, the whole relationship between the multilateral trading system and economic development apparently needs to be rethought with an emphasis on the modern international economy and its characteristic international production networks.

9. The WTO Ministers re-affirmed the importance of WTO as the only workable global forum for trade, and their commitment to the Doha Development Agenda. Nevertheless, there can be little confidence that continuation of “business as usual” that has characterized the WTO since the launch of the Doha Development Round can generate the desired results. The Director-General should be encouraged in his efforts to revise WTO processes. There is little doubt that there should be more emphasis on the role of international production networks and on monitoring the outcome of plurilateral agreements. There have been many suggestions in the academic literature for re-shaping the WTO agenda and one of the most persuasive is Biswajit Dhar “The Future of the World Trade Organization” *ADBI Working Paper* 444 (November 2013) which argues that to help the appropriate growth of global production networks, the WTO could focus

on trade facilitation measures, an equitable investment regime, and effective curbing of non-tariff barriers.

WTO remains the single most important multilateral mechanism for trade and investment liberalization

10. Despite some dissent about accessibility and enforceability, the WTO dispute settlement mechanism remains instrumental in enhancing more rule-based trade practices of member economies. In turn, this will improve the overall transparency of global trading regime. The recent increase in number of reported trade disputes was apparently not showing that the current trade practices are mutually respected, but it does imply that member economies are turning towards more commonly agreed multilateral mechanism for dispute settlement. Maintaining confidence in the disputes resolution service is most important, and requires continued use of the WTO for maintaining and developing transparent and enforceable global rules.

11. The proliferation of bilateral and regional FTAs relied on no 'new' approach. Instead, the key contents and principle for accelerating trade and investment liberalization under such agreements had for long been negotiated under the WTO fora, albeit with few compromises. Advocating resolution of at-the-border and behind-the-border issues impeding market access, standard recognition and conformance, dispute settlement, intellectual property rights, etc. has already been tabled in the WTO work agenda for years, but failed to achieve substantial consensus and therefore could only proceed by means of bilateral and regional FTAs. With the sufficient momentum gathered from such FTAs, the multilateral efforts to liberalize trade and investment under the WTO can be resuscitated.

12. The Doha Development Round also incorporates greater substances of cooperation for development. Specifically, provisions of development cooperation by more developed members to developing ones constitute an important topic for discussion. East Asian experience, particularly in reducing intra-regional development gap alongside 'WTO-plus' economic integration, shows that this effort should be officially incorporated to induce trade and investment liberalization more effectively. More importantly, the process can leverage on the upgraded capacity of members – after development cooperation – for support to newer ones. Facilitating technology transfer and human resource development are among the top priorities under development cooperation. The WTO is well-placed to stimulate dialogue among all international bodies, such as the international financial institutions, the World Customs

Organization, and World Intellectual Property Organization for ensuring consistency in efforts to that aid for trade will provide the largest possible improvement of welfare, particularly to developing member economies.

New Perspectives of WTO in Global Trade Management

13. Improving supply chain connectivity becomes a more important direction to facilitate global trade. In fact, impediments to international flow of goods, services, labours and knowledge now lie mainly in various forms of domestic policies that exhibit regulatory attempts to segment markets. Basically, the regulatory impediments either purposely or unintentionally exert additional compliance costs for traders and enterprises that may well shift their minimum efficient scale. The impediments are not always visible and/or transparent, which may lead to selection of traders and enterprises that can cope best with the compliance costs, rather than conducting trade activities efficiently otherwise. More importantly, these impediments can not be managed at the border. The costs can increase in the absence of strong regulatory coordination across government agencies which may lead to different trade-affecting standards and regulations.

14. The room for reducing supply chain barriers is more ample than for abolishing/reducing the prevailing tariff. In the recent report by the World Economic Forum, reducing supply chain barriers could produce impact – of which the magnitude is up to six times larger than removing all remaining import tariff – in terms of increasing global GDP. Meanwhile, with a projected improvement in both border administration procedures and transport and communications infrastructure services,[1] global GDP may rise by 4.7 per cent, as compared with 0.7 per cent increase in global GDP following complete worldwide tariff elimination.

15. The impacts of non-tariff measures on trade are acknowledged by governments, though they tend to adopt those against imports and intentionally persuade partners to act more facilitatively to their exports. With insufficient mutual confidence, this may lead to a circumstance where no one would want to proceed unilaterally to trade liberalization. For small and developing economies that are followers in the process, they would wait and see offer/actions by major advanced economies in the process. Meanwhile, major advanced economies act for their own sake and would refrain from transparently making their concessions/proposals for trade liberalization. At any level, including the WTO, thinking towards supply chain connectivity

[1] All countries raising their performance in these two areas halfway to global best practice as observed in Singapore.

thus provides an alternative for further promotion of trade and investment expansion.

16. Aiming for further efficiency of trade and investment activities, WTO should promote more fundamental reforms to reduce transaction costs for traders and enterprises. The APEC Ease of Doing Business initiative, focusing on major pillars of business environment to cut 25% of costs, time and burden for doing business by 2015, is under way and represents a good example. Reducing transaction costs for dynamic but vulnerable groups such as agricultural producers, small- and medium-sized enterprises (SMEs), etc. may also fit with the work agenda of WTO. Tackling the transaction costs for traders and enterprises originating from the 'noodle-bowl' of FTAs with the 'noodle-bowl' of trade rules. That is, multilateralizing these initiatives will enhance WTO's role in global trade governance.

17. Induced by the thought of themselves as important part of a supply chain, governments should take more actions towards facilitating trade and investment activities. ASEAN and APEC have developed various programs and plans to facilitate trade, reduce logistical restrictiveness and enhance supply chain connectivity. In turn, this may require a change in approach, which should be no longer product- or industry- targeted. Instead, services liberalization should proceed to the extent that can help improve sound competition and make the business environment more enabling to overall economic activities. Underlying this process is the governments' willingness to incorporate participation of the business communities at all stages.

18. Perspectives of agricultural trade liberalization is now increasingly associated with food security. Perception of agricultural subsidies becomes more complicated, as it involves consideration of food security for the local people, not to mention job security for farmers. Depending on imported products can be risky at times due to adverse climate shocks in other countries, and the extent of riskiness may be subject to relations between trading partners. However, achieving self-sufficiency is likely to be costly as well as incurring other risks such as lack of alternative sources of supply in adverse circumstances. It also risks concentration on a few products when the variety and quality of food being sought by consumers is changing significantly. "Food security" is therefore a multifaceted issue and its incorporation into international trade requires creative thinking. WTO needs strengthened mechanism and capacity to fulfill the need of jointly promoting agricultural trade liberalization and ensuring food security.

19. The majority of literature contends that the current WTO regime fails to work at its best. Instead, the regime should be upgraded with better capacity and authority to address the fragmentation and/or exclusion of various major trading partners in mega FTAs or

mega-regional trade agreements – such as the Trans-Pacific Partnership (TPP), Regional Comprehensive Economic Partnership (RCEP), US-EU FTA or the China-Japan-Korea-FTA. This regime should attain similar multilateralism as the current one, but wider scope of participation may also entail more practical challenges and difficulties. Once this first-best option fails to progress, another solution is probably to involve adoption of plurilateral approach by a group of countries/economies to address common negotiable issues. The key to success remains to include the major WTO member as signatories, but they still need to help address the trade-related need of developing economies. In that case, WTO still retains an important role of ensuring transparency and GATT-consistency of such prurilateral trade rules. It is now the moment to leverage on Bali progress for making WTO more instrumental in fulfilling such a role, starting with the development of work agenda for the time ahead.

Key issues for the post-Bali Work Agenda

20. The Meeting should further concretize the foundations for smoother subsequent negotiations by agreeing to in-principle changes.

21. The framework for agricultural trade liberalization should be amended, in better line with food security as a public good for concerned economies. Negotiation of agreement on public stockholding of food security purposes should begin promptly with the development of appropriate negotiation modality and mandates. This process should incorporate more substantial participation of LDCs and developing economies.

22. Negotiations on industrial goods (i.e. the Non-agricultural Market Access) should also make critical breakthrough towards improving developing economies' access to developed markets. Designation of appropriate liberalization roadmap as well as SDT for sub-groups of developing economies can be necessary.

23. Services liberalization should be given higher priority in the negotiation agenda. This may not happen without concrete mutual understandings of the scope and implication of service liberalization. To ensure greater feasibility, focusing on liberalization of logistic sector in line with the approved Agreement on Trade Facilitation may open the way forward.

24. WTO members should also develop a clear, enforceable and transparent work agenda to officially promote development cooperation within themselves, ultimately helping reduce the development gap among members and ensuring their fair participation in global trade regime. Specific areas of development cooperation include human resource development, domestic

trade policy reforms, supply chain connectivity, technology transfer and standard recognition and conformance. In doing so, the WTO may refer to the relevant experience of East Asia and APEC.

25. Environment issues should also form a substance under negotiation. Differentiating the long-term need for environment protection and specific commitments and associated supporting mechanisms to produce environment-friendly goods from a non-tariff measure against trade is crucial. Managing the development of international standards is crucial, and particular attention is needed to the development of mechanisms for ensuring fair and reasonable access to proprietary patents and other intellectual property.

26. WTO members need to rethink whether a single package is still appropriate. A single package approach is more transparent and less distorted, but should be considered with caution given its relatively weaker capacity to produce material progress, compared with those observed in recent mega FTAs. Evidence from East Asia suggests that liberalization progress in separate substances can drive the momentum toward deepening integration, so long as consistency of rules and negotiation outcomes are maintained. In this regard, the Director-General and Members of WTO should consider and work towards a mechanism to ensure such consistency.

27. The above attempts should proceed alongside other plurilateral approaches to trade liberalization. From the experience of the Asia Pacific region, any intermediate progress would pave the way to the final objective – i.e. trade liberalization for the whole region as a whole. In this regard, WTO should build further capacity to coordinate and harmonize integration tracks. East Asian economic integration process so far suggests that centrality of a small group of economies can in turn play a key role.

RESEARCH INSTITUTE NETWORK (RIN)

The Research Institute Network consists of research institutes from 16 East Asia Summit countries. Economic Research Institute for ASEAN and East Asia (ERIA) requests Research Institute Network for continued cooperation in the following:

- To support ERIA's research activity through providing ERIA with country information and research findings from individual countries and giving advice to ERIA's research theme and policy recommendations;
- To encourage the dissemination of ERIA's research outcome to policymakers and political leaders who implement policy as well as opinion leaders in the countries;
- To support ERIA's capacity building programs;
- While ERIA will seek the best available talent for its research activities, it will look especially for participation from within members of Network.

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