

Baldwin, Richard E.; Frieden, Jeffrey; Kumar, Rajiv; Langhammer, Rolf J.

Conference Paper

Toward global trade under global rules

Session Handouts, Global Economic Symposium 2009 (GES), 10-11 September 2009, Plön Castle, Schleswig-Holstein, Germany

Provided in Cooperation with:

Kiel Institute for the World Economy – Leibniz Center for Research on Global Economic Challenges

Suggested Citation: Baldwin, Richard E.; Frieden, Jeffrey; Kumar, Rajiv; Langhammer, Rolf J. (2009) : Toward global trade under global rules, Session Handouts, Global Economic Symposium 2009 (GES), 10-11 September 2009, Plön Castle, Schleswig-Holstein, Germany, Kiel Institute for the World Economy (IfW), Kiel

This Version is available at:

<https://hdl.handle.net/10419/79106>

Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

Terms of use:

Documents in EconStor may be saved and copied for your personal and scholarly purposes.

You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.

If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.



The Global Polity

Toward Global Trade under Global Rules

The Challenges

Global trade flourishes, while rule making on global trade stagnates. This is a serious problem, since without rule setting, monitoring and enforcement, we risk a return of protectionism and economic fragmentation.

Especially in times of economic turbulence and recession, unilateral actions against trading partners could trigger a spiral of retaliatory measures with grave economic consequences for all.



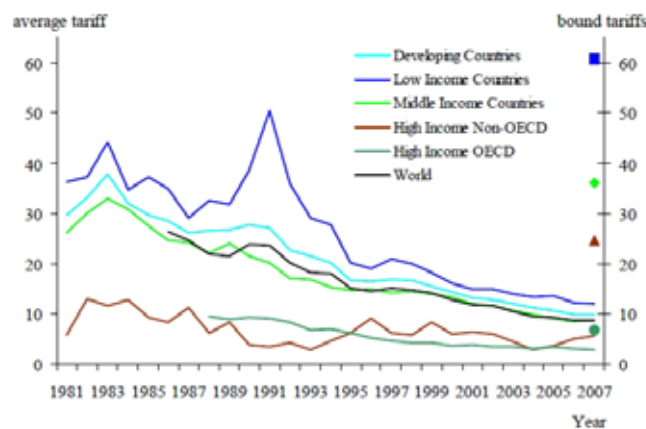
There are two major reasons for the widening gap between trade growth and trade governance:

- an increasing number of heterogeneous agents at the level of governments, the business sector and civic society, and
- an increasing number of conflicting targets that trade rules are expected to address.

What policy approaches encourages a broad-based commitment to global trade rules, while permitting the formation of groups with similar interests? How can the problem of heterogeneity of issues be addressed through non-discrimination at border level (market access) and behind-border level (national treatment)?

Should the principle of “one target, one instrument” guide global trade rules and, if so, how can it be implemented? Should negotiation mandates be allocated to individual agents on a temporary basis? How can the stakeholders from the private sector and civic society be included in negotiations that have hitherto been a public monopoly?

Grafik 1 — Average applied tariffs, 1981-2007 and bound tariffs by income groups



Source: Ng, Francis (2007). „Data on trade and import barriers”,
www.worldbank.org/trade.



Proposed Solutions

Richard E. Baldwin

Professor of Economics, Graduate Institute of International and Development Studies

Apart from a rash of hereto modest crisis-link murky protectionism (Baldwin and Evenett 2009), trade liberalisation is as popular as ever among policymakers. The new century has seen massive liberalisation of trade in goods and services – much of it by nations that disparaged trade liberalisation for decades. But unlike last century, almost none of this has occurred under the WTO’s aegis.

The world trade system under threat from the erosion of WTO centrality

There are two key elements driving the erosion:

Many emerging nations have cut their tariffs, opened their services sectors, and embraced foreign investment unilaterally or in bilateral trade agreements.

Table 1 shows one aspect of this, the gap between “bound” tariffs and applied tariffs. All tariff liberalisation in the GATT/WTO concerns “bound” tariff rates, i.e. the tariffs ceilings that members agree to in multilateral trade negotiations such as the Uruguay Round. Nations are, however, perfectly free to lower their tariffs below these ceilings; the actual rates in effect are called “applied” rates. As the table shows, there are two distinct groups of nations when it comes to tariff liberalisation. The first eight nations have cut their tariffs primarily in the context of GATT/WTO negotiations and thus find the bound and applied rates coincide very closely. The second group – which includes the new leaders of world trade flows India, Brazil and the ASEAN as well as several G20 members – has done most of their tariff cutting unilaterally. Many of them have also done a great deal of tariff regionally.

Table 1: Multilateral and unilateral liberalisers (MFN non-agricultural tariffs, %)

		Bound	Applied	Unilateralism Index (Bound – Applied)
Multilateral liberalisers	Japan	2	3	0
	US	3	3	0
	China	9	9	0
	EU	4	4	0
	Taipei, China	5	5	0
	Switzerland	3	2	0
	Canada	5	4	2
	Korea	10	7	4
Unilateral liberalisers	Indonesia	36	7	29
	India	36	12	25
	Mexico	35	11	24
	Argentina	32	12	20
	Brazil	31	13	18
	Philippines	23	6	18
	Thailand	26	8	17
	South Africa	16	8	8
	Australia	11	4	7
	Malaysia	15	8	7

Source: WTO Tariff Profiles (2008).



China and Taiwan are listed at multilateralists but this is an illusion. Their tariffs were cut and bound as part of their recent accessions to the WTO. In China at least, this was not viewed as an example of how wonderful the WTO multilateral tariff cutting process works. China viewed the demands of the rich nations that it slash its tariffs upon accession as exploitation. After all, they had already been enjoying low duties on their exports to the rich nations without having to lower their own tariffs. This exercise produced quite a different feeling concerning the WTO as a vehicle for tariff liberalisation than it did in the Europe, the US, Japan and Canada where the WTO tariff cutting was done in tandem and progressively over four decades. Traders in these nations view the WTO as a two-way bargain; they cut their own tariffs in exchange for getting foreigners to cut theirs. China was a free-rider on these reciprocal tariff cuts by the rich nations, so the demands made during their accession talks seem unbalanced and uncompensated.

Of course there is nothing wrong with unilateral tariff cutting from a national perspective. It is, by contrast, a worrying sign when it comes to WTO centrality. For most of the post-war period, the GATT multilateral tariff liberalisation was the key driver of trade liberalisation.

Rich nations have relied on regional trade deals to achieve their market-opening goals.

The deals signed this century are not commercially important, but this will change if the US-Korea deal comes into force and the EU's Asian negotiations succeed – especially if the US feels compelled to follow suit. The emerging trade powers – China, India, and Brazil – have had worryingly favourable experiences with unilateralism and regionalism in the new century while their commitment to multilateralism is relatively untested. The one part of the WTO system that works well – the dispute settlement mechanism – is increasingly used as a substitute for negotiated liberalisation with the result that de facto compliance by the United States, European Union and others is eroding.

Challenges or threats

To date, these changes seem more like challenges than threats. The key players believe the world trade system will continue to be anchored by the WTO's shared values, such as reciprocity, transparency, non-discrimination, and the rule of law. WTO-anchorage allows each member to view its own policies as minor derogations. Yet, at some point derogations become the new norm. The steady erosion of the WTO's centrality will sooner or later bring the world to a tipping point – a point beyond which expectations become unmoored and nations feel justified in ignoring WTO norms since everyone else does.

A polycentric trading system?

No one knows what happens beyond the tipping point.

My guess is that trade would continue to grow and the system would continue to function – but not equally well for all nations. Before the GATT was set up in 1947, the Great Powers settled trade disputes by gunboats or diplomats depending upon the parties involved. Only the naïve thought market access should be reciprocal or fair. A return to this “Belle Époque” extreme is unlikely, but a new Great Powers trade system is likely to emerge. Its core will be the US and EU networks of bilateral trade deals.

Domestic special-interest groups, newly freed from WTO constraints, would push the EU and US templates in divergent directions. Regional arrangements of the new trade powers and Russia could diverge even more markedly, since WTO norms have never fully been internalised by their domestic special-interest groups. This would be a world of “spheres of influence” and bare-knuckle bargaining.

All would lose in this post-tipping point world but not equally. The US, EU, Japan, China, and India have enough market leverage to defend their interests. Small nations would suffer much more as they benefit the most from the WTO's consensus-based rules and negotiations.



Worse yet, moving towards a might-makes-right trade system would be extremely corrosive to global cooperation on the new century's greatest governance challenges – climate change, pandemics, water scarcity, and the Millennium Development Goals.

What is to be done?

Finishing the Doha Round this year would be a good start. Failing that, leaders must ensure it slips into a quiet coma rather than noisy death throes. But this would not be enough. We must figure out why nations find it so attractive to liberalise outside of the WTO and then change the WTO in ways that restore its central role in trade liberalisation and rule making. The GATT has faced several such historical moments in the past, and GATT members reacted by adopting the necessary reforms. The time has come again for such an effort. Once the old norms are gone, it will be exceedingly difficult to agree to new ones; much better to adapt the WTO's current norms to address the new century's realities.

A solution: "multilateralizing regionalism"

The WTO should engage in the massive proliferation of regional trade agreements. Before turning to some ideas on what to do, I present the argument that the WTO should engage.

Three facts and an implication

Fact 1. The world trade system is marked by a motley assortment of discriminatory trade agreements known as the "spaghetti bowl" for reasons that Figure ES1 makes clear.

Fact 2. Regionalism is here to stay. Even if the Doha Round finishes tomorrow, free trade agreements will continue to proliferate and the motley assortment will continue to get even more motley.

Fact 3. This tangle of trade deals is a bad way to organise world trade.

The discrimination inherent in regionalism is economically inefficient but its costs are rising rapidly as manufacturing becomes ever more internationalised. Stages of manufacturing that used to be performed in a single nation are now often geographically unbundled in an effort to boost efficiency. Supply chains spread across many borders. Unbundling, which accelerated since the 1990s, is the most important new element in the regionalism debate. It is the reason why business is pushing so many nations to "tame the tangle."

Regionalism is also unfair. While the spaghetti bowl is a problem for firms in big nations, it is much more of a problem for firms in poor nations. Rich nations have the resources and the negotiating leverage to navigate the tangle's worse effects. The governments of small and poor nations do not. The spaghetti bowl falls much harder on the heads of the world's small and poor nations.

Implication. As the spaghetti bowl's inefficiencies are increasingly magnified by unbundling and the rich/poor asymmetry, the world must find a solution. Since regionalism is here to stay, the solution must work with existing regionalism, not against it. The solution must multilateralise regionalism.

WTO's choice

The WTO has been an "innocent bystander" in the rise of regionalism. Now the WTO faces a choice. What that means is that the WTO membership faces a choice.

Should the WTO remain as an innocent bystander, or should it engage constructively and creatively in making regionalism as multilateral- friendly as possible?

Innocence or engagements are the choices. The problem will not go away on its own.

The innocence option poses many difficulties and pitfalls. Regionalism is so pervasive that some political leaders view it as an alternative to multilateralism – Plan B for the world trading



system. Starting from this situation, the continued and uncoordinated proliferation of regionalism might kill the proverbial gold-laying goose – the multilateral trade system that brought post-war prosperity to today's rich nations and helped to lift billions out of subsistence agriculture.

Engagement is also difficult. WTO members have shown little appetite for cooperating on regionalism. Recent progress on the Transparency Mechanism shows that they recognise the problem, but negotiating a WTO Action Plan on Regionalism would be difficult.

Ideas for a “WTO Action Plan on Regionalism”

I have elsewhere explored possibilities in depth (Baldwin and Thornton 2008). Multilateralising Regionalism). Here are the outlines of a few of the ideas.

Negotiate voluntary best-practice guidelines for new RTAs and modifications of existing RTAs.

Nations around the world recognise the spaghetti-bowl's threat. Not surprisingly, some have sought to tame the tangle by negotiating voluntary guidelines on RTAs (e.g., those of APEC and ASEAN). What is surprising is that the WTO has had zero involvement in these efforts. The spaghetti bowl is a global problem, so why should the guidelines be regional?

Negotiate a hierarchy of best-practice guidelines for North-North, North-South and South-South RTAs.

The hope is that WTO guidelines would have some 'soft law' benefit if they are appropriate enough to actually be used. A more ambitious idea would negotiate more comprehensive disciplines for rapidly developing WTO members. One explanation for the embrace of regionalism by so many industrialising nations is that RTAs – especially North-South RTAs – provide anchorage for competitiveness-boosting reforms. Traditionally anchorage was a key role for the GATT/WTO, but WTO members have shied away from declaring themselves developed nations and embracing the WTO's full disciplines. This suggests the need for more creative thinking on how the WTO can provide reform-anchorage.

Negotiate a level of RTA discipline that was in-between that of Article XXIV and the Enabling Clause.

Nations would declare themselves and all of their RTAs as subject to this anchorage-building discipline. The benefit of self-declaration would be the signal it provided to potential investors that the nation was permanently committed to pro-market reforms. If the disciplines were well crafted, they could serve as a seal of good governance that would boost a nation's locational competitiveness just as Bilateral Investment Treaties do now, but on a more comprehensive basis. Note that many rapidly developing nations have already committed themselves to deeper discipline, but they have done it bilaterally where they have minimal negotiating power.

Taming the rules-of-origin tangle

Much of the spaghetti bowl's complexity arises from highly technical provisions of RTAs called “rules of origin.” To win duty-free status under an RTA, these rules typically require that a good contain a minimum share of parts and components produced in one of the partner nations. Because of this, overlapping and intersecting rules of origin pose big problems for businesses trying to set up competitive, international supply networks. It is difficult to have one supply network meet the requirements of several rules of origin. In this way, the rules balkanise supply chains and hinder industrialisation.

In reaction to business pressure, various nations have harmonised or are trying to harmonise rules of origin. The WTO has not been involved, but it should be since regional harmonization has spillover effects on third nations. To address this, the WTO Action Plan could:

- encourage nations to harmonise their rules of origin on a regional basis, but involve the WTO to ensure the harmonization is as multilateral- friendly as possible,
- make regionalism more development friendly.



Bilateral agreements are difficult to design, negotiate and implement, even for rich nations. For poor nations, negotiating multiple RTAs can overwhelm resources and result in poor policy choices. These problems are faced by developing nations all across the world, so a WTO Action Plan on Regionalism should set up a

- WTO advisory services and/or a Centre on RTAs for developing nations. This advisory centre would provide subsidised economic, legal and negotiation services and training to developing nations. The proposed centre's role and practical details could take inspiration from the Advisory Centre on WTO Law. To avoid waste, it should link up with the efforts of regional banks (Inter-American Development Bank, Asian Development Bank, etc.).

The rules of origin and rules of cumulation in many trade agreements have an anti-development bias. Since small developing nations need to import many of the parts and components to produce competitive exports, rules-of-origin calculations that limit the scope of international supply chains have a larger negative effect on poor/small nations.

The point has been recognised by some WTO members. The EU's bilateral with South Africa, for example, encourages South African firms to outsource some industrial activity to ACP nations by allowing both parties to count all imports from ACP nations in the minimum share calculation. The EU does not, however, allow cumulation in all of its deals. The WTO Action Plan could

- encourage nations to expand the cumulation zone of their RTAs to include as many developing country partners as possible.

Why the WTO must act

These ideas need more work, and they may not be the perfect answer as to what the WTO should do, but the wrong answer is "do nothing." If the WTO does nothing to adjust to the new realities of regionalism, it risks an erosion of its relevance.

The GATT/WTO survived and flourished during its half-century's existence since it adapted to new realities. When the colonies became countries, the GATT expanded from a cosy club of two-dozen members to a global organisation. When the distinct trade needs of developing nations were recognised, the GATT responded with the Enabling Clause. When non-tariff barriers began to replace tariff barriers, the GATT expanded its negotiating agenda. When the need for greater institutional stability became clear, the GATT was embedded in the WTO. For 50 years, the GATT/WTO has survived because it adapted to new realities.

Today's new reality is regionalism. If the WTO is to survive and flourish, it must adapt because regionalism is here to stay. Embarking on a "WTO Action Plan on Regionalism" would be an important move towards keeping global trade under global rules.

Jeffrey Frieden

Professor, Department of Government, Harvard University

The overall state of international trade politics and policies has been the cause of concern for a while. There is a general perception that forward motion has stalled, along with the Doha Round, and that the proliferation of regional agreements may threaten the fabric of multilateralism.

Yet while these concerns may be valid, I think that we currently face much graver problems in international trade. The aftermath of the current crisis will involve a substantial adjustment to new realities in many countries, and will involve the alteration of international trade patterns in ways that will be politically controversial. This is the most immediate challenge we face in the international trade arena.



The ultimate cause of the current crisis was the global macroeconomic imbalances that accumulated over the course of a decade and more. The United States, along with several other countries, ran major current account deficits and built up large external debts. This led, as is typical in the case of capital inflows, to an acceleration of economic activity, including a rise in the local relative price of nontradables; in particular, it led to a boom in financial and housing markets. External debt financing created consumption-led expansions, then booms, then bubbles, which eventually burst.

As the previous deficit countries adjust, they will have to compress consumption, investment and government spending, and they will have to increase output, savings, and government revenue. They will need to restrain wages. They will also, perforce, have to reduce or reverse their current account deficits. They will thus be under substantial pressure to reduce imports and increase exports.

These adjustment requirements are mirrored in the surplus countries. The run-up to the crisis was enabled by the policies of countries that had come to depend on substantial trade surpluses as their engines of growth, many of which pursued explicit macroeconomic policies to encourage trade surpluses (such as keeping their currencies artificially weak). Now that this pattern is no longer sustainable, they will have to reorient their economic activities, relying more on domestic markets and less on exports.

Both kinds of adjustment efforts, in deficit and surplus countries, will be difficult. Economic agents in the deficit countries, accustomed to easy credit and booming consumption, face austerity. Those in surplus countries, accustomed to easy exports and little trade competition, face much less openness to their products.

In this context, there will be substantial domestic and international tensions over trade policy. In former deficit countries, there will be protectionist pressures to try to reduce imports, and pressures to open foreign markets to increase exports. In former surplus countries, there will be pressures from previously economically and politically dominant exporters to maintain government support for them in the face of external hostility. In all instances, the potential costs of adjusting to new economic conditions will create demands for government support.

These domestic pressures will inevitably lead to inter-state disagreements over trade. Over the next decade, the principal challenge will be to manage these disagreements.

This implies that attempts to extend or expand the rule-making features of the WTO or other elements of the international trading system, while well-meaning and laudable, are likely to be irrelevant at best, harmful at worst. In an environment in which governments face powerful pressures to support their exporters and import competitors, simply insisting on adherence to the rules is of little or no avail.

Adjustment to the aftermath of the crisis, and to the unwinding of the global macroeconomic imbalances, will require first and foremost flexibility in responding to these pressures. While international legal or normative economic considerations might always insist on the notional first best, in the real world of political economy, insistence on the first best can be a formula for disaster. Success in responding flexibly to powerful protectionist pressures – whether at the national or regional level – is better than failure at opposing them rigidly.

So I think that the most productive way forward is likely to be to encourage imaginative and flexible policies on the part of major trading partners and international institutions. This means accommodating the needs of countries facing substantial payments difficulties as they attempt to reduce their current account deficits. It also means adapting to the concerns of previously strongly export-oriented countries being asked to open their markets more fully. In both instances, the goal should be to achieve forward motion – or at least avoid going backwards – while recognizing legitimate concerns about domestic social and political cohesion.

One area in which further cooperation should be strongly encouraged is currency policy. The powerful impact of monetary relations on international trade is widely recognized; the ability of



countries' monetary policies to impose (commercial) externalities on others is clear. In this context, there is a need for the major international institutions to attempt to work toward a common understanding of how to deal with currency misalignments in a way that does not exacerbate underlying trade disputes.

I have no explicit solutions to offer, other than to suggest that unyielding attempts to insist on legalistic rules and normative benchmarks will almost certainly be counter-productive. The world is going through an extremely difficult re-balancing, with major economic, social, and political implications for almost all major nations. In these circumstances, it would be a terrible mistake to allow the best to be the enemy of the good.

Rajiv Kumar

Director and CEO, Indian Council for Research on International Economic Relations

Global trade under global rules: No alternative to strengthening the WTO

The Doha Round has been comatose since July 2008. This is despite the exhortations from successive G-20 summits. I realize that a successful outcome from the Doha Development Round (DDR) is seen as an increasingly remote possibility. And some of us have started to talk of "multilateralizing regionalism" which honestly I find to be a trifle inconsistent. And practical wisdom may demand that we simply accept a failed DDR as a *fait accompli* and start to look for second best options (if there are any which avoid an inevitable slide in to protectionism). However, in my view, it is dangerous at this time when unemployment in advanced economies is still rising and the recovery looks at best to be fragile and could take a while to take hold to give out signals that even faintly reflect a move away from multilateralism and the WTO members commitment to further strengthening it. Moreover, I think emerging economies will and should find it difficult to accept such a pessimistic prognosis. Therefore, emerging economies should work towards trying to ensure that the DDR, even if with a lower ambition level is successfully concluded.

But the fact is that chief negotiators have not met as a group in Geneva since December 2008. The US chief negotiator based in Geneva has just left his post to join the private sector and key positions in the US administration responsible for trade negotiations remain unfilled. After eight years of trying, there is expectedly a negotiating fatigue and in the absence of any real push for concluding the Round from the industrial and private sector in any major member country, even the functionaries in the William Rappard house are beginning to accept long hiatus in negotiations as a given and do not appear to be keen to push the Round forward. This situation could easily result in a near complete breakdown of conversation and lack of constructive engagement. This often results in an erosion of trust and confidence between capitals. This is to be avoided at all costs because this can be the beginning of the end of coordinated response to global events which so far has been key in preventing the current recession from being deeper and more prolonged. A stalemated DDR will inevitably result in a weakened and less credible WTO. This would surely be less than desirable at a time murky protectionism is already evident and when there are clear signs that governments across the world are already under tremendous pressure to take protectionist measures to save jobs. I hope therefore that there is general agreement among GES participants that a successful conclusion of the Doha Round will be an important structural safeguard in support of globalization and against any reversal from continued liberalization.

It is in this context that the Indian initiative to hold a mini-ministerial conference in Delhi (on 5–6th of September) is welcome. It is also heartening to note that most major economies have agreed to send their trade ministers including those from the US, China, Brazil, EU. The participation in this purely informal get together will hopefully be fully representative of the entire range of interests and constituencies within the WTO. This is important as in the absence of such a broad based representation, the mini-ministerial could well be criticized as



being exclusionary in nature and focusing only on issues of interest to advanced and large emerging economies. This also points towards the need to change the negotiating modalities in the WTO such that all 150 members feel included and the process is seen as transparent and not one in which deals are reached behind closed doors by a handful of countries and others are simply asked to accept the outcome. This will inevitably require a much more active communications stance by the major negotiating countries, the so called New Quad and also the formation of “issue-based negotiating groups” which could reflect fluid negotiating geometries and coalitions. With an enlarged membership, likely to expand even further, WTO has to figure out modalities to ensure that not only the outcomes but the negotiating processes are also inclusionary, equitable and transparent. Thus, it may be useful at this stage for the WTO secretariat to give more attention to these issues while negotiators try and find the common ground for successfully concluding the Round.

The most important change that has happened in the WTO negotiating modalities and practices since the ending of the Uruguay Round is the emergence of three or four large emerging economies like Brazil, China, India and South Africa which have had to be included among the small core group of negotiators. The emergence of the New Quad (US, EU India and Brazil with China and South Africa) marks a major transition in global trade negotiating architecture and necessitates a building up of trust and confidence amongst the major negotiators. The best means to build this trust and confidence is to try and achieve some collective success on issues which may require least degree of compromise on all sides. This would also lend support to accepting a less ambitious outcome if that is what is needed for a the successful conclusion of the DDR.

The other transition being attempted in this Round is to bring Agriculture within the ambit of the multilateral trade regime from which it has so far been excluded. This is a historical undertaking much more strategic in its implications than was for example the inclusion of textiles within the multilateral regime which itself took very long and required tremendous efforts and compromises. Agriculture is seen as a strategic sector in the context of food security. This gives extraordinary and disproportionate clout to domestic agriculture lobbies which have been therefore successful in thwarting any move towards a multilateral trading regime in this sector. Therefore, a necessary condition for bringing in agriculture into the multilateral fold would be for WTO members to agree to an international convention on food security that would essentially disallow food being used as a strategic instrument against any member country. This would also include protocols for banning export restrictions and against food cartels and hoarding and empower the WTO, backed with the force of a legally binding international treaty to enforce this.

In the meantime, we may agree to move forward on the basis of the understandings that were reached in July 2008 which apparently gave sufficient protection to emerging economies about their concerns for the livelihood of small and marginal farmers and cut agriculture related subsidies in advanced economies to levels that these governments could get past their domestic constituencies. In the NAMA too, there is broad agreement on the quantum of coefficients to be applied by advanced and emerging economies. It is best to go forward with these and not at this stage open up new issues on either sectoral agreements or applying these to the applied rates . It is time also to bring Services back on the table as the Hong Kong mandate of reaching an agreement on modalities to be followed in agriculture and NAMA can be seen to be broadly achieved with what has already been agreed. It is clear that without a substantive agreement on services, the DDR can hardly be concluded. It is therefore important to follow up on the outcomes of the signaling conference that was held in August 2008 and firm up the understandings so that a comprehensive package can be put on the table for negotiators to seek political endorsement.

Any argument that a possible package that essentially includes agreement on the three principal sectors as discussed above does not provide sufficient incentive for any major WTO member to mobilize domestic support is really not a convincing one. US as the leading



economic power has to take the lead in making the shift towards achieving an outcome that may be less ambitious than originally envisaged but which lays the foundation for successfully achieving two major and indeed historical transitions – the emergence and establishment of a new trade negotiating architecture which is more globally representative and bringing agriculture within the ambit of a multilateral trading regime.

Rolf J. Langhammer

Vice-President, Kiel Institute for the World Economy

Limit issues under negotiations to the core tasks of the WTO, that is ensuring non-discrimination and alleviating market access.

Excessive heterogeneity of issues under negotiations in the WTO has proven to be a strong stumbling bloc against consistency and transparency of old rules and decision-making on new rules. Rules for trade-related issues such as development, balance of payments restrictions, competition, investment or environment should be in the hands of other stand-alone organizations such as the World Bank or the IMF. The latter should have the right to veto trade restrictions which are legitimised with these trade-related issues. Promising elements of such multilateral organizations already exist within the framework of the UN, the OECD and the Bretton Woods organizations. They should be given more enforcement powers.

Limit the number of negotiating countries to those which can serve as anchors or speakers for other WTO member states based on temporary mandates for negotiations.

Rising WTO membership comes at the price of rising divergence between interests in trade rules among WTO members. Interests comprise the defence of privileged treatment, financial transfers and vested interests in specific sectors. To contain the spread, groups should be formed which represent actors with similar interests. Within such groups, negotiation mandates could be allocated to individual “speakers” on a temporary basis. Groups should include representatives of the business sector and the civic society as these groups are important stakeholders in rule making.

Concentrate more on strengthening discipline and transparency of the rule-making process rather than on trade liberalization.

In recent years, the discussion on global rules for trade had a bias towards further liberalization and against the strengthening of the rule-making process. While this bias reflects both the “sunny days” period of unilateral market opening in recent years and the targets of the ongoing Doha Round, it did not contribute to more discipline and transparency in multilateral rules. Just the latter, however, is now needed in the “rainy days” of world trade following the world financial and economic crisis. This need should be met by calling upon each member to abstain from further unilateral steps. At best, a standstill agreement would be instrumental first to freeze the gap between unilateral and multilateral concessions and in a second step to reduce it.