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The Economic Policy Research Foundation of Turkey

The future and reform of the WTO

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TEPAV/TOBB

What happened in the last decade

- **Global financial crisis, 2008** had severe impact on economies and trade patterns.
- **Protectionism** and **unilateralism** have been steadily growing in the last 10-12 years,
- The **trade coverage of G20 import restrictions** rose in the last decade, from around 1.0% in 2010 to over 10.4% in 2019, impacting some USD 1.5 trillion of global trade.
- The **spread of the COVID-19** epidemic provoked a devastating human, social and economic shock, which is still ongoing.
- **Global Value Chains (GVCs)** were confronted with significant **disruptions** and restrictive measures.

(B20 Italy, Trade and Investment Policy Paper, 2021)

Confrontations in a changing landscape

- Behind these problems are ***confrontational issues*** embedded in a changing geopolitical landscape:
 - Rise of the emerging economies
 - Technological developments / digitalisation
 - Regulatory differences and the need for coordination
- They **undermine the role of the WTO** as center of the multilateral trading system.

WTO needs reform...

- An ***existential crisis*** as its main functions are becoming progressively ineffective?
 - Rule-making and negotiations
 - Monitoring and transparency
 - Dispute settlement

Calls for WTO Reform

G20 Leaders' Declarations (Osaka, 2019); (Riyadh, 2020); and (Rome, 2021)

*Reaffirmed their political support to undertake **necessary reform** of the WTO to improve its functions.*

DG Okonjo-Iweala, (Geneva, 2021)

*WTO can deliver results if members "accept we can do things differently to achieve **reforms necessary to keep the WTO relevant.***

Business- B20 Italy (2021)

*True multilateralism needs to be restored and the WTO must be reformed comprehensively.....Promote open markets over protectionism and unilateralism, **reform the WTO**, and revitalize trade negotiations ensuring a **level playing field.***

WTO «necessary reform»: same for everyone?

open, fair, equitable,
sustainable,
nondiscriminatory
and inclusive rules-
based multilateral
trade system

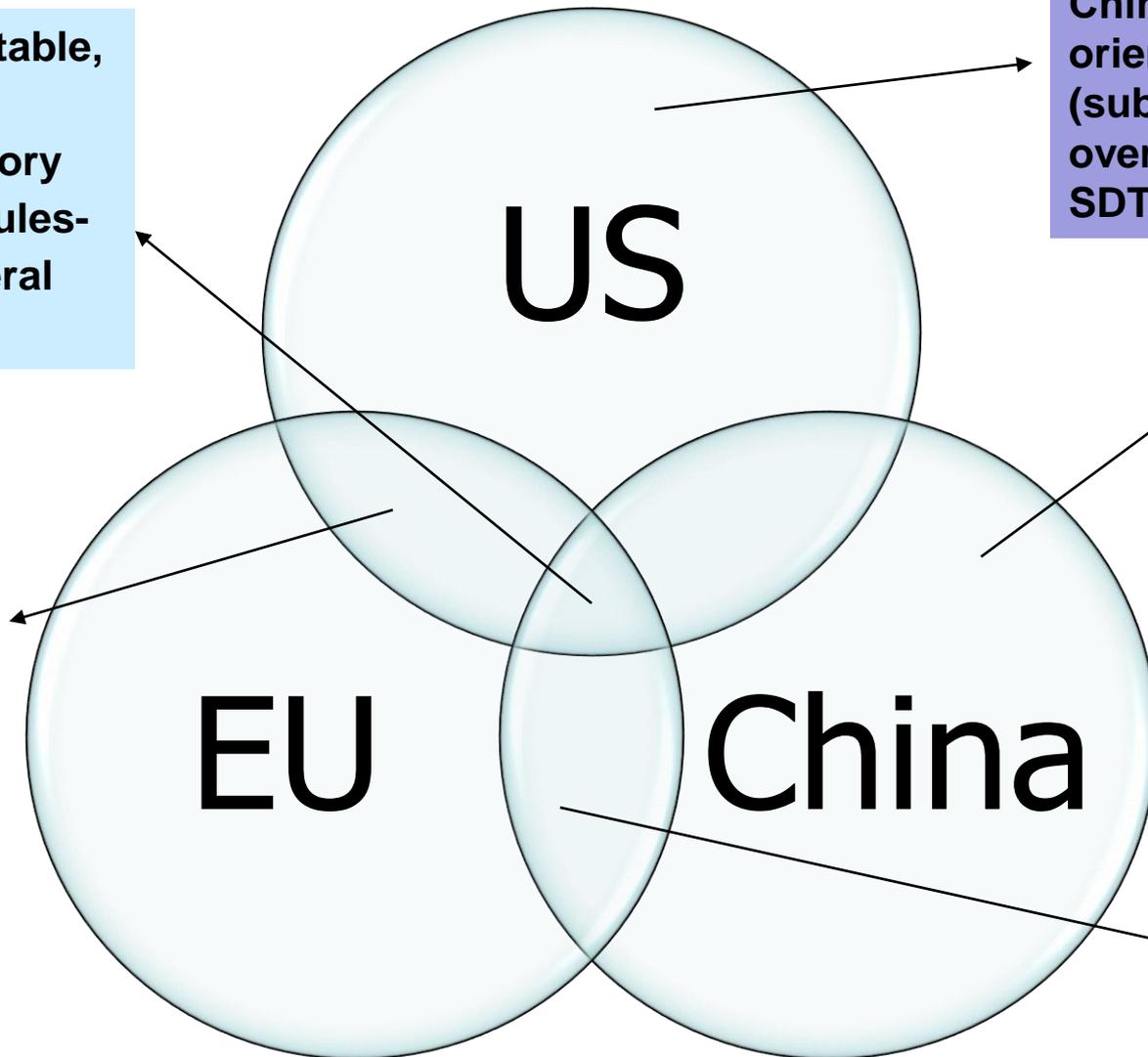
China's non-market
oriented policies
(subsidies, SOEs,
overcapacity...)
SDT

core values need to
be preserved;
-developing country
status to be
safeguarded;
-consensus
decision-making to
be followed;
-address existing
problems;
-respect
development
models (i.e. China's)

Level playing
field / China

-Subsidies;
-SOEs;
-Forced tech.
transfer;
-IPRs

SDT (DCs)



Functioning
DSU; and AB

WTO: some facts

- **WTO aims to liberalize trade by eliminating barriers in a rules-based framework**
- **WTO is member-driven by consensus ruling**
- **WTO governance still imposes checks on state autonomy**

Need a roadmap to reform the WTO

WTO: what role?

SDT

Negotiations and rule-making

DSU

Do not overburden WTO

(CACCI Report, *Rebuilding the World Trading System*, 2021)

- **WTO agenda:** to be restricted to issues where trade policy constitutes the first-best option to deal with the failure. 

- **Subsidies** WTO, need to address subsidies to the extent that they cause trade distortions (transparency..)
- **Climate and SDGs i.e. carbon border tax** cannot be the only leverage to enhance environmental standards and achieve SDGs.

*WTO is not a mechanism to achieve most policy objectives. A **mission creep** into areas where it is not the first-best institution, only cause WTO to fail.*

Circles of policy domain



SDT

- *MS can make commitment to undertake a more **pragmatic, flexible and tailor-made approach** to SDT,*
- *Self-designed development status and SDT would not preclude such an approach.*
- Prazeres, et.al (T20 Italy PB, 2021)

Negotiations and rule-making

Need to be revitalized and improve the rule-book:

→ Go multilateral

→ Benefit from ***RTAs experiences*** as best practices (Carlos Braga, S. Akman, B. Aran et.al T20 Italy PB, 2021)

→ Permit ***open plurilaterals*** (see, Akman et.al. T20 Italy PB, 2021)



Plurilateral route

Which plurilaterals?

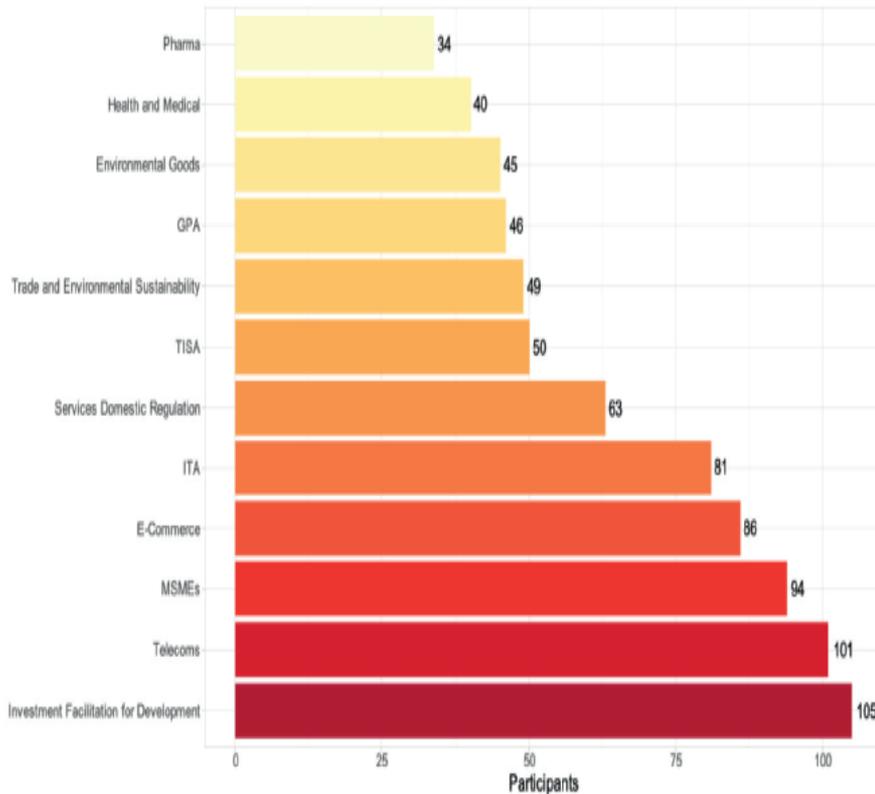


Figure 1: Number of participating members per plurilateral

Who participates?

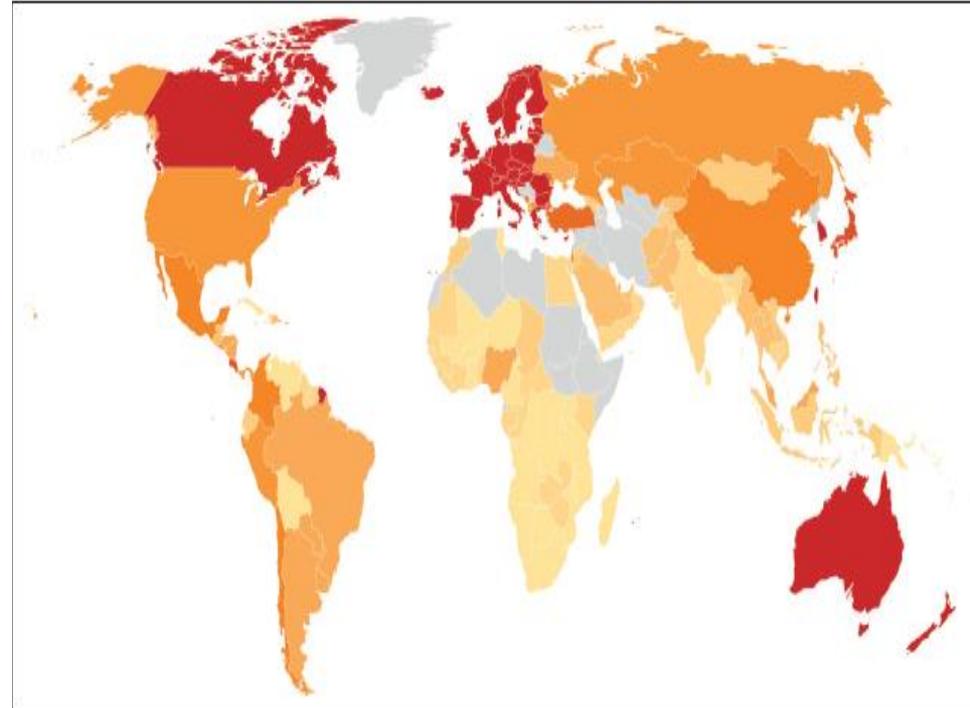


Figure 2: Participation in plurilateral agreements and ongoing negotiations per member

Source: Akman et.al, T20 Policy Brief, 2021

- Primarily OECD economies
- LDCs, Africa, South Asia notably absent

Dispute settlement and AB

- The US should unblock the system to work (appointment of AB members)
- AB should stick to resolving disputes, not to fill in the gaps of rule-making («no judicial activism»).
- However, the first-best for DSU to be effective is to strenghten WTO's rule-making function, and that the rules are revised and upgraded.