Making Trade Multilateralism Work for All: The Role of WTO Accessions

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Abstract

Trade multilateralism, i.e. global trade based on negotiated and agreed rules by the World Trade Organization (WTO) membership, faces various challenges. Slow economic growth, changes in the balance of global economic power and inequitable distribution of growth benefits have called into question the benefits of globalization and the rules-based global order. Trade has been the target of a barrage of criticism from many quarters and has become a lightning rod for policy failures, weaknesses in international cooperation and the adverse effects of rapid technological advances on jobs and incomes. In this tortuous and uncertain environment, concerted policy actions along several strategic axes are needed to put trade back on track and make trade multilateralism work for all once again. First, trade multilateralism must be used as a tool to restart global economic growth and job creation, while managing uncertainty and risks. Second, a global trading system anchored in the WTO – with strong, well-enforced rules that continue to adjust to promote competition and a level playing field – remains critical. Third, the new realities of the twenty-first century compel an upgrade of the multilateral trading system by the building of its upper floors1 on the foundation of the existing trade rules and accumulated acquis and expertise. Such a system would preserve the fundamental set of rules at the core of the multilateral system, abolish or revise obsolete rules, which have not stood the test of time, and adopt new rules that would reflect new realities. Fourth, accessions to the WTO are arguably the most vibrant component of the multilateral trading system and have already made important contributions to each of these policy directions. The objective of this book is to draw on recent accession experiences to distil the impact of accessions on the constantly evolving architecture of the multilateral trading system.
Trade multilateralism at a crossroads

Trade multilateralism has been under stress following the transformation of the global environment in recent years. Political developments have revealed a fraying consensus on the benefits of international economic cooperation. While trade integration has helped to drive economic growth across the world for decades, recently an uptick in protectionism and inward looking policies have been a drag on trade and growth. The resurgence of mercantilism, attempts to substitute, rather than to complement, multilateral agreements with bilateral trade deals have put in question the entire post-war multilateral trade architecture and its applicability to new international realities.

With the global recovery on track, trade has also started to recover, although slowly. This momentum comes, however, with rising vulnerabilities and continuing imbalances. Global current account excess imbalances persist, insufficient productivity growth, and uneven distribution of economic gains limit growth going forward. The slow pace of economic reform continues to reinforce headwinds from longer-term trends, such as ageing populations and insufficient innovation, that may depress growth and trade again. There are also substantial risks, including from geopolitical tensions across the world, policy uncertainty in some countries, and tightening of global financial conditions. In the medium term, failure to lift potential growth and make it more inclusive could damage social cohesion, and – in a self-defeating feedback loop – make it even harder to find the political consensus for necessary reforms (IMF, 2017).

Insufficient global economic growth for several years and its current slow recovery have led to a worldwide search for those responsible, and trade was quickly identified as the first culprit. As a result, political support for freer international trade has weakened, especially in advanced market economies. Although resistance to free trade has been observed in the past, recently the opposition to trade has gathered strength and become more vocal than in the past. The main trigger for this has been the perception that the benefits of free trade have not been shared evenly and many individuals and communities have been left behind. The low-growth environment has led to a decline in per capita income in some countries and has brought frustrations to a boil.

Under social pressure, some governments have turned their back on trade and switched to protectionism. Many distanced themselves from the multilateral trading system and started negotiating bilateral deals in search of rebalanced outcomes and quick wins. Others started revisiting regional
trading agreements, the benefits of which are often perceived as favouring certain partners over others. Inward-looking policies have put in jeopardy not only multilateralism but even trade as an engine of growth per se. Protectionist trade measures have largely been kept in check although the number of new trade-restrictive measures being introduced is a cause for concern at a time of ongoing economic uncertainty.

Trade multilateralism, along with its rules-based policy and legal framework for trade, was put at risk of reduced relevance. The multilateral system, anchored in post-World War II (WWII) institutions, helped to overcome coordination failures and beggar-thy-neighbour behaviour. It brought a more open, stable and transparent global trade environment. The harm from any damage to the multilateral dimension of trade would be lasting because the principles and habits of multilateralism that were decades in the making would not be easy to glue back together again.

Recent WTO successes, including several accessions of new members and the conclusion of the Trade Facilitation Agreement, point the way to a positive transformation. Its strong and well-enforced trade rules help to promote competition and to reassure citizens that international trade is even-handed. Sustaining the dispute settlement system and further recognizing the value of transparency and other key WTO functions can help to upgrade the existing multilateral trading system. The WTO’s negotiating function has been delivering in recent years but it has done so by being more flexible. There are lessons to be learned from that (IMF/World Bank/WTO, 2017). Continued efforts in these areas would also discourage all types of protectionism, and further demonstrate that trade agreements provide a system of rules that is even-handed to all.

How can trade multilateralism be made to work for all? Three policy directions stand out: (i) use trade multilateralism as a tool to reignite global economic growth and job creation opportunities, while managing uncertainty and risk; (ii) make trade multilateralism more inclusive to reduce inequality in gains distribution by leveraging technology and structural reforms; (iii) build a new, self-updating and self-learning multilateral trade architecture, adaptable to constantly changing economic realities and policy circumstances. WTO accessions have made important contributions to each of these policy directions.

**Reinvigorating Trade Growth Amid Uncertainty and Risk**

The outlook for global trade and growth depends on the interplay between the forces driving the recovery and those adding to already
high vulnerabilities and external imbalances. There is some potential for upside surprises for growth in the near term if some of the cyclical forces underpinning the momentum prove stronger or more durable than expected. The expansionary factors on the macroeconomic front include personal and corporate income tax cuts and higher infrastructure spending. Larger fiscal deficits can stimulate aggregate demand and lead to a strong supply-side response, although at the expense of ever-mounting debt (Blanchard, 2016). High deficits would also lead to higher inflation. If inflation increases, central banks will have to raise interest rates. Higher interest rates in large countries may lead to appreciation of their currencies and, paradoxically, to larger trade deficits in deficit countries and shrinking surpluses in countries with trade surpluses.

But the growth momentum could also falter. The downside risks include a more protracted period of policy uncertainty reflecting the uncertainties regarding future US regulatory and fiscal policies, negotiations of post-Brexit arrangements, or existing geopolitical risks (IMF, 2017). Weak productivity growth and a lack of inclusiveness are additional factors that limit the growth outlook. Over the longer term, failure to lift the growth potential and make it more inclusive could fuel protectionism and hinder market-friendly reforms. The outcomes could include lower global output, disrupted global supply chains, and price increases including for consumer goods.

The sharp slowdown in global trade in 2012–16 relative to 2003–07 has been both a symptom of, and a contributor to, low growth. The overall weakness in economic activity, in particular in investment, has been the primary restraint on trade growth, accounting for up to three-quarters of the slowdown (IMF, 2016). While rates of investment and of economic growth have weighed on trade, recent trade growth has been more positive, with growth of 3.6 per cent forecast for 2017.

The macroeconomic impact of weaknesses in trade in the future would not be trivial. On the demand side, higher import prices would lead to further interest rate increases, with an ensuing negative impact on growth. On the supply side, higher tariffs would disrupt further global supply chains and shrink productivity. Risks to the global economic outlook are substantial, especially over the medium term. Unpredictable policy shifts may lead to sharp exchange rate swings that can potentially widen global imbalances. Increased trade restrictions would hurt productivity and incomes and worsen market sentiment. In addition, geopolitical risks and a range of other non-economic factors continue to weigh on the economic outlook in various regions. If these geopolitical tensions intensify, they can further dampen investor and economic confidence, and therefore growth and trade.
The direction of the world economy would depend in part on the direction of trade policies. For instance, imposing bilateral tariffs to reduce imports to level the playing field with trading partners would clearly dampen growth and lead to a prolonged recession. Tariffs may indeed reduce imports, increase domestic demand and increase output. However, the exchange rate would also appreciate because of tariffs, hampering exports and all export-driven growth sectors. Moreover, tariffs imposed to reduce imports would likely invite retaliation, with the risk of a tit-for-tat confrontation and substantial damage as the negative spill-overs of restrictions may hamper otherwise competitive sectors. The effect under such a scenario would be depressed growth and shackled exports.

On the other hand, taking policy steps to address the general weakness in economic activity, especially in investment, will stimulate trade. This in turn could help strengthen productivity and growth. In addition, further trade reforms that lower barriers, coupled with measures to mitigate the cost to those who shoulder the burden of adjustment, would boost the international exchange of goods and services and revive the virtuous cycle of trade and growth. Further trade reforms in areas such as services and digital trade can make a particularly strong contribution to growth, and innovations from bilateral and regional agreements should eventually be brought to the global level.

The economic arguments in favour of free trade have been well known, in particular on the supply side. But they are worth repeating. Trade supports growth by improving productivity, i.e. the efficiency in the use of global resources to produce goods. Comparative advantage is the main reason why trade enhances productivity. In exploiting their comparative advantages, trading partners can specialize in the products that they can produce more cheaply relative to other goods, and trade them. Trade boosts productivity by promoting reallocation of resources, as production shifts to sectors and firms with comparative advantage and higher efficiency (IMF/World Bank/WTO, 2017). Import competition can also spur technology upgrading, as it pushes local producers to upgrade to survive. Trade contributes to growth through knowledge diffusion as exporters and importers can learn better techniques and technologies through their engagement in foreign markets. Trade enhances productivity indirectly by encouraging institutional reform, improving governance, and contributing to financial deepening. In short, trade always raises productivity. Hence, to accelerate growth, trade and market-based policies remain critical – a point often missed in the current public debate.

The arguments for trade on the demand side are equally strong, although they often do not figure prominently in the debate. Trade supports
consumers and welfare by delivering a greater variety of goods and services to households and businesses at lower prices, thus contributing to higher real incomes. Trade reduces consumer prices directly, through lower tariffs on imported final consumption, and indirectly through the productivity gains of domestic and foreign firms. This reduction of consumer prices has disproportionally higher positive effects for the poor as they spend relatively more on tradable goods (e.g., food and beverages) and thus benefit from lower prices. Single-parent households also typically spend more on tradable goods than households at the top of the income distribution and tend to benefit disproportionately from trade. The pro-poor bias is stronger in advanced economies as trade reduces the relative prices of the products in which a country does not specialize. These are often the products mostly consumed by the poor. Trade is estimated to have reduced by two-thirds the price of the household consumption basket of a typical advanced economy, low-income household and by one quarter the consumption in a high-income household (IMF/World Bank/WTO, 2017). Finally, trade can also contribute to greater social inclusion across several dimensions, such as gender, race and migrant labour.

WTO accessions have already contributed substantially to reinvigorating growth through trade and they can contribute even more. Their impact on growth has been multidimensional, but it has come primarily through increased trade, improved institutions and strengthened competitiveness (see Dadush and Osakwe, 2015, for a detailed literature review). For example, Subramanian and Wei (2007) find that there is robust evidence that the WTO has had a powerful and positive, albeit uneven, impact on trade. WTO membership has been associated with a large increase in imports, mainly for industrial countries and for developing countries that joined the WTO after the Uruguay Round, but not for other developing countries. Osakwe (2011) shows that trade by all recently acceded members increased significantly as they began to implement their accession-related reforms, some pre-accession, others upon accession, and some through an agreed phased transition. Allee and Scalera (2012) explain the differentiated impact of WTO membership on trade volumes by the level of trade liberalization commitments accepted by countries in accession negotiations. Countries facing greater scrutiny from the WTO usually engage in greater trade liberalization and usually experience increased trade volumes upon joining.

The impact of WTO membership on growth has been found to be generally positive. Focusing on developing countries, Tang and Wei (2009) found that accessions to the WTO tend to raise per capita income of
acceded economies, as higher growth and investment generally last for about five years after accession. This conclusion is valid only for those acceded countries that have undertaken substantial reforms. Li and Wu (2004) found that only high-income economies experienced significantly faster growth after accession. This conclusion implies that openness by itself is not sufficient to promote growth and needs to be combined with well-functioning economic institutions. The reasons for the positive impact of WTO accessions on growth are not entirely clear. It can be explained by the fundamental commitment to reforms and the long-lasting nature of accession commitments, which are legally binding as long as the country remains a WTO member.

Accession to the WTO has been found to have a generally positive impact on acceded countries’ governance as well. Drabek and Bacchetta (2004) point out that WTO accession goes hand in hand with higher institutional quality and efficiency, and reduces rent-seeking behaviour and corruption. Tang and Wei (2009) find that the beneficial effects of policy commitments made during WTO accession negotiations seem more pronounced among countries with initially poor governance. Maggi and Rodriguez-Clare (1998) show that by committing to free trade, governments may credibly distance themselves from domestic lobbies. However, Ferrantino (2010), using a number of governance indices, finds little impact of WTO accessions on governance and the overall policy environment. Using incidences of tariff evasion as an indicator for the evolution of governance, Javorcik and Narciso (2013) find that WTO accessions helped limit tariff evasion because the implementation of WTO rules limited the discretionary power of customs officials in assessing unit values of goods.

Accessions also have been instrumental in propelling member countries’ competitiveness so that they can contribute more to global growth. The overall impact of accessions on competitiveness has been generally positive so far. About two-thirds of Article XII members (i.e. WTO members that acceded under Article XII of the Marrakesh Agreement Establishing the World Trade Organization, also known as the WTO Agreement) have not yet felt any impact on their competitiveness from accession-related reforms, as the difference-in-difference method did not detect any statistically significant differences between the treatment and the control groups (see Kireyev in Low et al., 2016, for details). This outcome should have been expected as earlier empirical evidence suggests that structural reforms translate into better macroeconomic outcomes and competitiveness only with a substantial lag. This may be driven by the fact that accession-related reforms take substantial implementation time as
they require deep institutional changes. Also, these reforms are designed mainly to improve access by new WTO members to international markets and therefore may translate into better macroeconomic outcomes and competitiveness with time. The remaining one-third of Article XII countries seems to have experienced the impact of WTO accessions already. In most cases, the impact was positive and statistically significant.

**Making Trade Multilateralism More Inclusive**

Inequality has been traditionally and misleadingly blamed on trade. A comprehensive review of academic literature of the past two decades on the impact of globalization on wage inequality concludes ‘the prevalent view that globalization is primarily responsible for the large increase in the inequality of labor compensation has no basis in the evidence. Yes, globalization impacted the wages of different types of workers to different degrees, and yes, it contributed to an increase in the wages of skilled relative to unskilled workers through multiple channels. Yet, in sum, all these effects explain only a fraction of the rise in wage inequality in rich and poor countries alike. This conclusion does not deny the fact that foreign trade, foreign investment, and offshoring have adversely affected certain workers.’ (Helpman, 2016).

Clearly, there are short-run adjustment costs of resource relocation under free trade. Such adjustment costs can negatively impact groups of workers and some communities. The impact would depend on the depth of the trade shock. It will also depend on the overall macroeconomic environment, impediments to resource reallocation, including labour market rigidities, and public policies, including social protection policies. Understanding the factors behind the adjustment costs is critical to designing appropriate domestic policies to address them. Several recent publications emphasize the need to distinguish carefully between the impact of trade on adjustment pressures disadvantaging some individuals and communities from the impact of trade on overall intra-country real income distributions, which are positive or neutral (IMF, 2016, IMF/World Bank/WTO, 2017). Public policies that help to sustain strong economic and job growth can ease the costs of adjustments to trade.

Impediments to labour mobility may make adjustment more costly and prolonged. These impediments include the costs of relocation between occupations, industries or regions, and imperfect job legislation and credit markets. These frictions for female, older and less skilled
workers tend to be higher and can exacerbate the impact of trade adjustment on these groups. Many labour market frictions are sector-specific, and unemployment spells tend to be longer in sectors that face higher frictions. However, the impact of trade on unemployment through this channel is minor. Overall, trade openness is usually associated with somewhat higher levels of employment.

Job losses in certain sectors or regions have resulted to a large extent from technological changes rather than from trade. Technological improvements benefit some parts of the economy more than others. The consequences of the introduction of new technology and of trade opening are almost identical. Free trade allows goods to be produced in countries and sectors where they can be produced more efficiently relative to other countries and sectors. Similarly, new technology allows commodities to be produced more efficiently in countries and sectors that have adopted the necessary technological advances, compared to countries and sectors still using older technologies. As a result, those who are involved in production in a more efficient way – be it through trade, technology or both – win, while all others lose. Technological improvement is thus analogous to trade because it tends to redistribute income in a similar manner (Obstfeld, 2016).

Trade has been increasingly used by anti-traders as a scapegoat to mask their own incapacity to promote technology and improve international competitiveness. However, ‘a proper argument for trade must recognize that it is not a panacea or silver bullet. Trade will not fix widespread shortcomings in terms of economic, social and educational policies that lead to low productivity and asymmetries in wealth distribution’ (Azevêdo, 2016). Such quandaries would require a much more encompassing set of economic policies – fiscal, monetary, structural – in addition to trade and its companion policies. A proper case for trade would also need to recognize that it is not perfect just as other policies are imperfect and there is no silver bullet.

The responsibility of governments and their leaders is to address the adjustment costs of trade with pointed domestic reforms. As unemployment and other dislocations are not mainly a trade issue, so trade measures alone will not address this disorder. Broader public policies remain critical for addressing trade-related adjustment costs as well as for strengthening overall economic flexibility and performance. A more far-reaching response is required to deal with the challenges of a global economy driven by technology and innovation. Easing worker mobility can help to minimize adjustment costs and promote employment. Labour
market policies, such as job search assistance, training programmes and wage insurance, can enhance worker skills and facilitate their reemployment. Social safety nets, unemployment insurance and targeted trade adjustment assistance programmes, including to hard-hit communities, could play a greater role. Economic policies should protect vulnerable people, not antiquated jobs. Beyond the labour market, the education system needs upgrading to act as a springboard to new skills and therefore to new jobs. Housing, credit and infrastructure policies need to facilitate mobility and promote competitiveness. Such programmes already exist in many advanced economies. In short, a coherent package of strong macro-policies and structural reforms is needed.

WTO accessions have contributed to WTO rule-making by bringing greater precision and clarification, and by strengthening the inclusiveness of the rules-based system. On market access, the outcomes of accession negotiations codified in goods and services schedules have already improved commercial opportunities for WTO members and therefore contributed to growth inclusiveness and job creation. To illustrate, the rules-based multilateral trading system, which covered 91 per cent of world trade in 1995, has expanded to cover approximately 98 per cent of world trade in 2017. This is the result of the WTO’s strategic focus on ‘universality of membership’.

**Building the Upper Floors of the Multilateral Trade Architecture**

Cooperation and coordination are important aspects of global policymaking but have often been overlooked, in particular recently. With the resurgence of ultra-nationalism, mercantilism and protectionism, many countries pressured by domestic policy priorities may be tempted to revert to old ways of policy-making. Without doubt, the current situation – insufficient growth and anaemic trade – requires an expeditious and coordinated policy response. Although this stagnation, sometimes labelled the ‘new mediocre’, may seem less acute than a full-blown crisis, it is highly disruptive and, if left unaddressed, it can have durable negative effects. In these circumstances, the policy response should not only be sophisticated but also well-coordinated. Although implementation is complex, the principle applicable to growth is also applicable to trade and is simple: ‘If all countries act decisively to stimulate their own growth, the positive spillovers reinforce each other. And as everyone is working to expand growth, everyone benefits from the efforts of others, to a much greater effect overall’ (Lagarde, 2016).
The multilateral trading system has been a coordinating system for trade and related issues. The General Agreement on Tariffs and Trade (GATT) and, since 1995, the WTO, which became the institutional body that oversees trade agreements and facilitates negotiations and dispute settlement, have been instrumental in helping overcome coordination failures. The global trading system and the WTO have brought a more open, stable and transparent global trade environment. However, this multilateral coordination system has been anchored in post-WWII trade institutions and bulky legal texts. It has accumulated institutional features that require an update to keep up with the new realities of the twenty-first century. Its continued effectiveness will depend on the modernization of its agenda, processes and capacity for expeditious delivery. Although more openness is needed in growing areas of the global economy, such as services and electronic commerce, multilateral negotiations in these areas have stalled. While promoting competition, stronger provisions in areas like subsidies, climate and state-owned enterprises are generally recognized as important, questions are still being raised as to whether these issues really belong to the scope of the WTO. While there is a clear need to move faster, the consensus-based approach to multilateral deal-making often impedes forward leaps and may require adjustment, such as acting in a plurilateral context.

The multilateral trading system is a public good that should be protected, but this does not mean that it should not be reformed. Making the case for trade amid a rise in anti-globalization sentiments in many countries remains an important endeavour to preserve the vital components of the multilateral trading system while pressing ahead with an agenda for its reform and modernization. Beyond the multilateral level, governments also need to work on creating a better, more inclusive model of globalization and to ensure that the benefits of trade reach further and wider through new trade reforms and companion policies. But no government will be able to develop a blueprint for a multilateral trading system that can last forever. Indeed, the world has been changing rapidly, and it will not stand still. A new, adaptable model of trade multilateralism is needed, a model that can reinvent itself each time that new systemic challenges emerge or crises strike. This self-learning system should have the ability not only to adapt to change, but also to lead it.

WTO accessions, at times somewhat spontaneously, have been delivering valuable building blocks for such an adaptable multilateral trading system of the future. New members accede to the WTO 'on terms to be agreed' between the acceding government and the WTO. This is
specified in Article XII of the WTO Agreement, which does not limit the requests that WTO members may make of applicants and the degree to which these terms can be extended beyond the general requirements of the WTO. This provision, in the absence of other appropriate instruments and multilateral negotiations, gives accession a valuable leeway to lead the building process of the new multilateral system.

First, WTO accessions are making the multilateral trading system more flexible by advancing new rule-making on trade. WTO accessions have become the main instrument for upgrading, clarifying and developing the rules of the contemporary trading system in its multilateral, plurilateral and bilateral configurations. A close look at the accession packages suggests that accessions have already contributed to clarifying existing disciplines and developing new ones in virtually all key trade areas. In Trade-Related Aspects of Intellectual Property Rights (TRIPS), geographical indications, competition, agriculture, WTO-plus obligations and many other areas where the current multilateral negotiations have been progressing slowly, accessions have made significant contributions to shaping the new multilateral trading system. The new trading rules developed in the accession process reflect changing international circumstances in real time and therefore most likely will be complementary to the rules written in the course of multilateral negotiations of the past, as well as more durable and practically applicable.

Second, accessions are making the multilateral system more resilient against protectionism and political mood swings. The course of accession-related reforms is not easy to reverse. The implementation commitments are locked from both sides – domestically, through domestic institutional and legal reforms, and externally through internationally enforceable agreements, including under the DSU. At the domestic level, WTO accession protocols are subject to ratification by the national legislature, which also adopts WTO-consistent laws and regulations that are subject to enforcement and compliance. At the international level, WTO accession protocols are an integral part of the WTO Agreement and specific accession commitments in working party reports are enforceable in WTO dispute settlement. The updated trading rules embedded in such a solid legal structure cannot be reversed overnight by an executive order or a unilateral policy action. This fact instils more credibility and stability into the multilateral trading system, while allowing it to grow and adapt as needed.

Third, WTO accessions have set new and more advanced standards for the techniques of multilateral trade negotiations. A new type of
negotiating technique (the so-called ‘diplomatic engineering’) developed in the accession process can be used as a model for future multilateral trade negotiation. This method involves splitting a complex negotiation problem into sub-problems, and de-politicizing it to create space for a rational dialogue. The fast-track approach to negotiations is yet another useful technique pioneered by accessions. With many WTO negotiating rounds and most accessions themselves lasting for up to a decade, WTO members have created a fast-track alternative. When applied to Liberia in 2015, the fast-track procedure demonstrated that accession negotiations – or, indeed, any trade negotiations – need not be a complex and drawn-out process and can be wrapped up in a short period of time, provided there is political will and due preparation on all sides, and proactive support from the WTO Secretariat.

Finally, WTO accessions have demonstrated how to bridge international rules with domestic interest. This link between internationally agreed disciplines and the grass-roots-level trading practices was largely missing in the existing multilateral architecture. As it turned out, the answer was quite simple – to make these internationally agreed trading rules reflect the interests of the common man and woman. If accession-related reforms help improve growth, create jobs, foster good governance and reduce corruption, they create strong traction not only with the acceding government but also with the private sector and the broader population. The experience of accessions has shown that reaching international trade agreements becomes much easier when governments lay the groundwork at the national level by involving all stakeholders and cementing domestic support. This bottom-up approach to upgrading the multilateral trading system – largely pioneered by WTO accessions – usefully complements the top-down approach traditionally prevailing in multilateral rule-making on trade.

**Roadmap to the New Trade Multilateralism**

In the past few years, both the global economy and trade have lost momentum, and recovery has been slow. Trade growth has slowed to well below that of the global economy, reflecting the weakness of economic activity around the world. Faced also with numerous non-economic challenges – from military conflicts to terrorism – national policies have turned increasingly inward, and the future of globalization has become blurry. In these testing times for the global economy, Part I of the book argues that WTO accessions have indicated a number of pathways to the new trade
multilateralism. Among them are the use of new negotiating techniques, the bonding of public and private interests, raising the bar of governance standards and leveraging big data.

The new multilateral trade architecture could become an important addition to the traditional policy mix of fiscal, monetary and structural policies aimed at reinvigorating global growth and trade. The second chapter of this book offers a blueprint to building the upper floors of the multilateral trading system by introducing new features that could facilitate growth and trade. In discussing the global macroeconomic setting, Alexei Kireyev argues that in the interconnected world economy, multilateral efforts can have clear multiplicative effects in solving both common and individual problems. This architecture would require reforms at all levels – starting by revamping the structural foundations for growth and trade, conducting solid macroeconomic policies in individual countries, and rebuilding the upper floors of multilateral cooperation on economic and trade issues. In the trade area, key pillars that would support this structure include innovative mechanisms for trade liberalization in new and traditional areas, increased inclusiveness of trade, recognition and financing of transitional costs, upgraded communication on trade, redefined WTO functions and role, upgraded multilateral rules and strong political leadership. WTO accessions could play the role of a heavy-duty tower crane that could help move the building blocks of reform across all levels, from the foundations all the way to the upper floors.

To accelerate the transition to the new trade multilateralism, governments can use novel negotiating techniques, including ‘diplomatic engineering’. Developed by Switzerland, this process-based approach splits a complex negotiation problem into sub-problems and de-politicizes it by focusing on technical issues, thus creating space for a rational dialogue. Micheline Calmy-Rey and Svenja Rauch discuss the new negotiating technique and illustrate its use with the case of the Swiss mediation between Georgia and Russia in the course of the latter’s accession to the WTO. In diplomatic engineering, every step of the negotiation process needs to be carefully planned, predictable and acceptable to all parties to help create an atmosphere of trust. Each negotiation should be broken down into technical sub-components that can be solved one by one, irrespective of geopolitical and trade policy considerations. Expert knowledge needed to develop creative solutions to technical problems is available within the WTO, and interested parties can also request external expert assistance. Beyond accession negotiations, the diplomatic engineering approach can be used in the broader context of the new multilateral trading system to foster the WTO’s role as a convener,
negotiating platform, hub of technical expertise, accumulated acquis and honest broker.

Complexity is an important feature of the current multilateral trading system, and accessions have shown how it can be handled. Using the example of Kazakhstan – one of the longest, most complex accessions concluded over the last twenty years – Alexei Kireyev, Chiedu Osakwe and Anna Varyanik highlight how creative technical solutions can be found to bridge gaps with geopolitical decision-making. In particular, unconventional technical solutions were developed on tariff adjustment and on sanitary and phytosanitary measures related to the formation of the 2010 customs union (and subsequently the Eurasian Economic Union) and on Kazakhstan’s commitments on agriculture. Such commitments accommodated domestic circumstances and indicated the future direction of WTO negotiations. The complexity of the accession negotiations was deepened by regional geopolitics, which brought various external factors into the final negotiating phase. Despite its complexity, Kazakhstan’s accession demonstrated to the international community the ability of WTO members to negotiate compromises on some of the toughest issues with a technocratic pragmatism that prevailed over politics and geopolitics.

A strong partnership between governments and the private sector is another building block of the new multilateral architecture. In the past, multilateral trade negotiations were perceived mainly as an undertaking between governments, but Arancha González argues that the new trade multilateralism cannot be built without a strong buy-in from the private sector. Using WTO accessions as an example, she discusses the modalities of cooperation between the private and public sectors to make the most of the accession while mitigating its risks. Since the business community values predictability, gaining a thorough understanding of the objectives and implications of accession, in particular for small and medium-sized enterprises, is a good starting point for building a partnership between the acceding government and its private sector. To increase traction, the acceding government should also seek consensus with the private sector on key accession commitments, agreement on the direction of reforms at the local level, and allow sufficient time to prepare the private sector for the expected changes in the business environment. The experience of recently acceded governments has shown that regular engagement with the private sector before, during and after accession enables new WTO members to make relatively higher liberalization commitments with higher chances of successful implementation.
The new trade multilateralism can benefit from the experience accumulated under free trade agreements (FTAs) and regional trade agreements (RTAs). With the proliferation of FTAs and RTAs, questions have been raised repeatedly about their compatibility with WTO rules. Maša Lekić and Chiedu Osakwe address the core question of whether RTA experience contributes to new trade disciplines, including in accessions, or distorts them. Based on the review of the WTO accessions acquis and the provisions of RTAs, the authors find strong complementarity between the innovative elements of RTAs and accession commitments. Such complementarity can be detected in market access, systemic strengthening of trade rules, instruments for domestic reforms, and a non-discriminatory fostering of international cooperation. The results point to mutual supportiveness and a healthy competitive impetus for trade liberalization from RTAs and accessions that contributed to building the new multilateral trading system, although some discriminatory effects are also present.

The new multilateral architecture would require new governance standards. Based on WTO accession protocols and the TFA, Juneyoung Lee, Nora Neufeld and Anna Varyanik show that good governance has been an increasingly important issue in WTO discussions and is already embedded in WTO rules. The binding WTO accession commitments contribute to improving governance for Article XII members by establishing a legal basis for the increased rule of law, in addition to ensuring greater market openness and integration in the rules-based global economy. The commitments undertaken by new members demonstrate their greater adherence to principles of transparency and predictability of trade policies, as well as their overall commitment to subject domestic trade regimes to international trade law. In the TFA, WTO members took a multifaceted and indirect approach, seeking to improve integrity by increasing transparency, strengthening due process rights and reducing space for discretionary action. Together, the TFA and good governance provisions in accession protocols contribute to building the upper floors of the new multilateral trading system by creating a binding set of rules and standards that will be respected by virtually the entire trading world.

WTO accessions generate large amounts of data. Chiedu Osakwe, Hubert Escaith, Vicky Chemutai and Ying Yan show how these data can be transformed into useful knowledge. The data are accumulated not only during WTO accession negotiations and codified in accession documents, which may run into thousands of pages, but also in the process of
subsequent domestic reforms. The depth of commitments and extent of post-accession implementation may influence the benefits new members can derive from WTO accession in terms of trade, foreign direct investment and GDP growth. The authors transform otherwise dispersed accession data into an accession commitment index. Using this index as a basis for a statistical exploration of the impact of WTO accession, they find that accession commitments have a positive and significant impact on an economy’s trade and economic performance. For example, the impact of WTO membership on the trade-to-GDP ratio has been found to be significantly higher than in previous studies, driven in particular by trade in services. Moreover, greater openness does not negatively affect the trade balance of Article XII members, showing that increases in imports are balanced by larger exports. Accession commitments have already created substantial additional knowledge, which can be quantified and used as an analytical block of the new multilateral trade architecture.

Part II of the book presents the negotiators’ perspective on the WTO accession process. First-hand experience should become an important tool for guiding future rule-making in international trade. Personal accounts from political leaders, chief negotiators and other top officials who have recently navigated the intricacies of the WTO accession process teach important lessons not captured by aggregated empirical studies. New challenges and procedures – fast-track negotiations, complexity, the special needs of small countries, and the intertwined political, commercial and legal aspects in any trade talks – have been shaping the new trade multilateralism for years. However, the lessons from these new cases can often be learned only from the individuals directly involved in negotiations. Learning from such expertise is emerging as an important tool not only for capacity-building in the countries currently negotiating their WTO membership, but also to apply accession savoir faire as a new avenue to multilateral rule-making.

While multilateral trade talks have been criticized as slow and clumsy, the case of a fast-track accession shows how they can be stepped up and streamlined. Ellen Johnson Sirleaf, President of Liberia, and Axel M. Addy, Liberia’s Chief Negotiator, discuss their experience with fast-track accession as a model for making the WTO more fluid and efficient, and as a useful example for other acceding governments. The fast-tracked accession of Liberia was completed in a little over two years of actual negotiating time, compared to eleven years, on average, for all recently acceded members. This unprecedented efficiency was the result of a combination of factors. First, Liberia’s determination and
commitment at the highest political level allowed the accession negotiations to be conducted based on the government’s adherence to the fast-track procedures. WTO members appreciated this determination and were ready to move faster than usual to help Liberia overcome the hurdles of accession and to put the country on track with trade-related reforms, in particular those aimed at overcoming the twin shocks of the Ebola epidemic and the sharp drop in commodity prices in 2012–15. The outcome of this effort was the Liberian fast-track accession, now commonly referred to as the Liberian accession model. Looking forward, its impact may extend far beyond accessions. The model can be used as a guide for streamlining and accelerating trade negotiations in other WTO areas, which would inject dynamism and energy in the new multilateral trading system.

Accessions have also contributed to settling long-lasting conflicts. Humayoon Rasaw discusses the challenges of WTO accession in a post-conflict environment. For Afghanistan, WTO membership has long been an integral part of its overall strategic objectives. For a post-conflict, landlocked, least-developed country (LDC), joining the WTO was seen as a chance to achieve economic stability, improve regional security and cooperation, alleviate poverty and achieve peace. Afghanistan’s WTO accession was a learning experience and a capacity-building journey, as the country’s governmental and academic institutions, its private sector and civil society all upgraded their capacity in the process. The authorities used the accession process as a catalyst to accelerate structural reforms and strengthen market instruments. The reforms accomplished through this process have allowed Afghanistan to build a more favourable trade and investment regime, with effective laws and trade policies based on WTO agreements. The accession process and the corresponding domestic transformation have helped to maximize the benefits of Afghanistan’s WTO membership, which became a tool for cementing its long-standing commitment to an open economy, the rule of law, good governance and international cooperation.

Treatment of small economies is yet another feature that needs to be modernized in the multilateral trading system. Drawing on the lessons learned from the accession of Seychelles, a small island economy, Pierre Laporte, who conducted the accession negotiations, Charles Morin and Cillia Mangroo emphasize that WTO accession is an arduous process, and very demanding on a small country’s resources. Overall, small and developing countries should not expect any special treatment from larger and older members of the WTO, but rather they ought to be prepared
to implement a broad-based modernization agenda. Reforms should start during the negotiation period to demonstrate the willingness of the country to move in the right direction. After accession, reforms usually intensify as the accession commitments provide a pragmatic platform for the modernization of a country’s trade regime. However, the impact of reforms can go well beyond the trade regime and improve a country’s ratings among rating agencies, international financial institutions and private investors. This, in turn, stimulates investment, growth and jobs.

As the multilateral trading system matures, its political, commercial and legal aspects inevitably become more intertwined, which makes compromises even more difficult. Using the negotiations on the accession of Russia and Samoa as two case studies, Atsuyuki Oike, who was directly involved in both, analyses how such political constraints, economic interests and legal commitments can be coherently and comprehensively considered in the course of the negotiation. In the case of Russia, the focus was on trade-related investment measures that were inconsistent with the Agreement on Trade-Related Investment Measures. Hard, prolonged negotiations, including at the ministerial level, were required to find a solution that was satisfactory for all members. In the case of Samoa, the debate addressed the appropriate level of flexibility that ought to be granted to an LDC accession, as the WTO had been encouraged to make efforts to expand LDC membership. With political, commercial and legal complexities at play, cooperation and goodwill were needed from all parties to facilitate negotiations, counter negative pressures and achieve results acceptable to all.

Part III of the book looks at the contribution of accessions to the new trade multilateralism through the prism of key modules and implementation challenges. The modules of the new trade architecture – intellectual property, competition, geographical indications, WTO membership, regional trading agreements, competition, e-commerce, the role of the private sector, agricultural commitments, post-accession reform challenges – have been debated on the margins of the trade community. In formal multilateral trade rounds, accession negotiations have provided a natural platform for the discussion of many of these issues. In each area, they have led to new rules and disciplines that have now become part of the WTO Agreement, thus upgrading the multilateral trading system.

For example, multilateral accession negotiations have contributed to the upgrade and revision of TRIPS. Antony Taubman argues that while the policy and legal framework defined by TRIPS has gained acceptance in the past two decades, it has also been revisited and further developed
by two parallel avenues of negotiation: (i) multilateral WTO accession negotiations and (ii) bilateral and regional trade negotiations outside the WTO. These negotiations produced a layering of rules upon the foundation of TRIPS. In each case, TRIPS standards have been further elaborated and timelines for their implementation altered. However, the institutional, legal and policy implications of these two lines of development contrast sharply. The development of rules relating to intellectual property in the WTO accession processes and in parallel developments outside the WTO can be seen as complementary.

Accessions have contributed to upgrading competition rules, even in the absence of multilateral negotiations in this area. Robert D. Anderson, Anna Caroline Müller and Nivedita Sen point to important synergies between trade liberalization and competition. Both anti-competitive practices implemented by private firms and state policies that restrict competition can undermine the gains from trade in myriad ways. However, more explicit linkages should be established between national competition policies and the multilateral trading system. If such linkages were developed, the appropriate content of related disciplines remains an unresolved question in debates on the future of the WTO. The role of competition policy is, however, increasingly being addressed by accession working parties because most acceding governments are requested to provide information on their domestic competition policy regime. In approximately 80 per cent of all accessions, the acceding parties have made notifications of the objectives of their competition regime, enforcement mechanisms and associated reforms. The complementarity between WTO law and competition policy, however, is broader than what is reflected in notifications by members to the WTO. Some aspects of the competition policy are usually included also in the information on state monopolies, state-owned enterprises, and other issues.

The understanding achieved during the process of accession negotiations on the regulation of geographical indications has set new standards in the multilateral trading system. Accessing governments have reformed their rules on geographical indications – signs used to identify the origin of goods – in a tailor-made process to achieve WTO-consistency. Tatiana Yanguas Acosta argues that in doing so, they have added value to the multilateral trading system. This value addition consists in clarifying the scope of WTO obligations in a number of important areas, such as minimum standards of protection; the requirements for application to geographical indication protection (in particular, the evidence needed to
demonstrate that the indications are protected in their country of origin); the relationship between geographical indications and trademarks; and the scope of substantive provisions with regard to geographical indications. Accessing economies have followed international best practices and have sometimes gone a step further by undertaking commitments that exceed those in effect among incumbent WTO members. The rule-making on geographical indications has also helped proactively prevent disputes on related issues.

The new multilateral trading system would be unthinkable without upgraded rules on agricultural issues, and accession negotiations have furthered these rules. Diwakar Dixit reviews the existing multilateral disciplines in the area of agriculture relative to those agreed in accessions. He finds that a number of commitments have helped to establish higher benchmarks in this area, including extensive market access commitments, ambitious domestic support commitments and comprehensive bindings with regard to export duties. Each of the three pillars of the Agreement on Agriculture has benefited from inputs from accessions. In market access, most Article XII members have agreed to a reduction in tariffs and to limit the use of tariff rate quotas to a minimum. This is unlike the commitments of original members, where tariff rate quotas can be used, albeit according to certain rules. In domestic support, the commitments of the acceded members have been negotiated based on the use of such support during a more recent three-year period and are generally more ambitious than the corresponding commitments by the original members, which were derived based on the domestic support from 1986 to 1988. Similarly, on export subsidies, the acceded governments’ commitment to zero use of such subsidies created a strong momentum in agriculture negotiations that led to an agreement in 2015 to eliminate agricultural export subsidies.

Many accession-related commitments do indeed go far beyond the traditional WTO disciplines. Obligations inscribed in accession protocols that go beyond the multilateral trade agreements are known as ‘WTO-plus’ obligations. Nannan Gao and Fangying Zheng review these provisions and argue that WTO-plus obligations do not create two separate classes of WTO membership, as some have claimed, but rather help upgrade the multilateral trading system. First, all accession processes are conducted on a case-by-case basis and thus naturally result in different obligations for each acceding government. In addition, the WTO legal system is continually evolving and therefore, if the goal is to advance and refine this legal system, new obligations cannot remain the same as in previous
agreements. Also, non-discrimination remains one of the fundamental principles in the multilateral trading system, and hence WTO-plus obligations have been set, and will continue to be set, on a non-discriminatory basis. Good examples of the contributions of WTO-plus commitments to the rules-based multilateral trading system include filling gaps in WTO rules in the anti-dumping, countervailing and safeguard regimes, and advancing WTO rules by promoting plurilateral agreements.

Accessions have shown how the new multilateral trade system can be made to involve key stakeholders other than the acceding government through consultative mechanisms. Such mechanisms, which are the subject of a comprehensive review by Josefita Pardo de León and Mariam Soumaré, represent a two-way information channel: the authorities can obtain the foundations to formulate, rationally present and defend national negotiating positions, while other stakeholders have the opportunity to present sectoral interests and trade concerns. In many jurisdictions, consultation mechanisms have been set by the authorities responsible for trade negotiations in collaboration with the private sector, which, in turn, has organized itself to represent its own interests. The analysis suggests that WTO accession agreements do indeed include the results obtained through trade policy consultation mechanisms, though their effect is quite discrete. Consultation mechanisms vary from country to country in the degree of their formality and sophistication. Ideally, the consultation mechanisms established to promote and ensure support for WTO accession should continue to function post-accession to support the implementation of commitments. Consultation mechanisms could also be used to discuss trade negotiating positions, to participate in trade policy reviews and to contribute to dispute settlement. At the WTO, support through consultation mechanisms has been instrumental for reaching the Trade Facilitation Agreement and for expanding the Information Technology Agreement. Trade consultation mechanisms can be viewed as yet another building block that WTO accessions have contributed to the new multilateral trading system.

Finally, accessions have shown that continuity and persistency in post-accession reforms are the keys to success. Maika Oshikawa discusses the integrated WTO Post-Accession Platform (PASP) for Article XII members, a new tool that emerged from accessions and can be used by all WTO members willing to accelerate domestic reforms. WTO obligations, including notification requirements, and specific accession commitments are complex. Most of them become effective on the date of WTO membership. From a centralized accession process, new members have to adapt
to decentralized WTO procedures and participate in parallel in its multiple bodies. The twenty years of post-accession experience by Article XII members suggests that most new members have faced major implementation challenges and could have benefited from post-accession support, which until recently has been very limited. The PASP is an integrated analytical tool developed by the WTO Secretariat to facilitate the transition of recently acceded economies to full-fledged WTO membership. It includes individual post-accession implementation strategies, technical assistance and capacity-building, best international practices, a dedicated website and specific internal Secretariat procedures. The PASP has already been applied to two recently acceded LDCs (Liberia and Afghanistan) and helped improve the effectiveness of their WTO post-accession transition process.

Note

* The views expressed are those of the author(s) and do not necessarily represent the views of the IMF, its Executive Board or IMF management.

1 The concept of the Upper Floors of the Rules-Based Multilateral Trading System is the architectural metaphor referring to the contributions from accessions, over time, from GATT '47 through GATT '94, to the present. These contributions have consolidated the foundations, strengthened and expanded the trading system, raising the system to its ‘Upper Floors’. This book is a collection of contributions from accession results on rules, market access, domestic reforms and international cooperation for trade that have contributed to the building of the Upper Floors of the Rules-Based Multilateral Trading System.

References


