

Cancun to Hong Kong: Prospects for the WTO

The 6th World Trade Organization Ministerial Conference will take place in Hong Kong from 13 to 18 December 2005. This Research Note looks at preparations for the Hong Kong Ministerial and its implications for the future of the World Trade Organization (WTO).

Introduction

The Ministerial Conference is the highest authority of the WTO structure and meets at least once every two years. The structure of the WTO places great emphasis on the meetings, and past Ministerial Conferences have marked major turning points in the multilateral trading system.

In 1999, the 3rd Ministerial Conference in Seattle established the modern era of global non-governmental organisation (NGO) activism in multilateral trade negotiations. The 4th Ministerial Conference, in Doha, Qatar, established the current 'Doha Round' and placed development firmly on the agenda of multilateral trade negotiations. The 5th Ministerial Conference, in Cancun, Mexico, is noted primarily for its failure to achieve consensus on key issues which continue to divide developed and developing nations.

It is similarly assumed that the 6th Ministerial Conference will mark a turning point—for better or for worse. As stated by the Australian Trade Minister Mark Vaile 'If we as an organisation try and slip through Hong Kong without making some really concrete decisions then this round is in trouble. It really is.'¹

Cancun

The [Cancun Ministerial](#) (10–14 September 2003) failed to achieve consensus between developing and developed nations. At the centre of this were agriculture and the so-called 'Singapore issues'.

The Singapore issues of investment, competition, transparency in government procurement and trade facilitation were considered in the Doha Round in return for European Union support for a strong mandate in post-Doha agricultural negotiations. Certain developing countries remained strongly opposed to inclusion of the Singapore issues in the talks, perceiving them to be relevant only to developed countries. Subject to reaching consensus on the broad outline from which to proceed, negotiations were to commence after completion of the Cancun Ministerial. The [Doha Declaration](#) provided no guidance in the event of a failure to achieve consensus.

Accordingly, after the Cancun talks stalled, the future of the Singapore issues in the Doha Development Agenda remained in doubt.

Agriculture has long been controversial in multilateral trade liberalisation and is of particular importance to developing countries, as well as to Australia and other middle-sized agricultural exporters. The relative size of the agricultural sector and its growth linkages to other parts of the economy mean the agricultural sector is the primary engine of economic development in many developing countries.² Doha Round negotiations have centred on the three key pillars; domestic support (agricultural subsidies), export competition and market access issues.

At Cancun, negotiations on agriculture were perhaps more difficult than previous Ministerial Conferences given the increased level of developing country coordination. However, it can be argued that it was neither the Singapore issues nor agriculture that directly led to failure in Cancun, but rather the failure of procedures and the organisation of the WTO itself.

Negotiations on the draft Ministerial text commenced on the Singapore issues, which were strongly opposed by developing countries. After failure to agree upon a way forward, the Conference Chair, Mexican Foreign Minister Luis Ernesto Derbez unexpectedly called an end to the Ministerial talks, prior to any negotiations on agriculture taking place. This effectively made the Singapore issues of primary importance to developed countries (particularly the EU, Japan and South Korea) the 'make or break' issue, ahead of agriculture which remained the priority for developing countries.³ If the procedure of negotiations had been reversed, the demonstration of achievable gains in agriculture for developing countries might have resulted in reciprocal accommodation of developed country interests in the Singapore issues.

The organisation of the WTO has also come under some criticism. The failure in Cancun reinforces wide-held views that the organisational structure of the WTO is unwieldy and outdated. The WTO decision making process is based upon consensus with key decisions being made by the membership as a whole. With 148 members at present and more yet to join; as well as the vast differences between members in terms of economic size, levels of development and capacity to negotiate; reaching anything near consensus requires substantial diplomatic effort.

Preparing for Hong Kong

A little less than a year after the Cancun failure, on 1 August 2004, the General Council of the WTO agreed to a new Doha Round work program. Known as the 'July Package', the agreement promised a new hope for the failing Doha Round. July Package changes included:

- **Singapore Issues.** Only trade facilitation to be included in the Doha Round work program. Substantial emphasis was placed upon the developmental aspects of trade facilitation including technical support, capacity building and assistance for developing countries, as well as special and differential treatment for developing and least developed countries.
- **Agriculture.** Reduction in tariffs using a tiered formula (higher tariffs to attract greatest reduction); the overall level of trade distorting domestic support to be reduced using a similar tiered formula, with twenty per cent of the total reduction to occur in the first year on conclusion of the round; and all export subsidies to be phased out over an as yet to be specified time period, with exceptions for developing countries.
- **Non-Agricultural Market Access (NAMA).** Use of a harmonising formula approach to reduce all tariffs, reduce tariff peaks and tariff escalation, reflective of Doha mandate requirements. Developing countries to be provided with a longer implementation period and least developed countries are to bind tariffs.⁴ Agreement to pursue further negotiations on non-tariff barriers.
- **Services.** Request for all members to submit 'improved' services offers by May 2005, to enable pursuit of further negotiations, and request for members who have not submitted 'initial' offers to do so as soon as possible.

Australia strongly supported the July Package as a positive step to move the trade negotiations forward. In July 2005 the deadline for finalising the July Package passed without agreement. Members failed to agree upon on key aspects including agriculture (structure of tiered formulas for tariff reduction and domestic support) and NAMA (tariff harmonising formula), as well as how to greater reflect the [Doha Development Agenda](#).

In July 2005 the outgoing WTO Director-General Supachai Panitchpadki reported to the General Council, noting both the successes and failures to date. The report also emphasised the need for a change in attitude towards negotiations by member countries.⁵

Negotiators to date tended to use end-game 'brinkmanship', in which concessions were released only at the final moment. This results in a strong potential for misunderstanding and an inability to capitalise on opportunities. The negative consequences of such methods were soundly demonstrated in Cancun. The report also recommends that negotiations should emphasise the

principles of transparency and inclusiveness; be supported by strong Ministerial leadership with a focus on substance; and be regularly reviewed to avoid loading the Ministerial Conference with unresolved problems.

Australian Interests in Hong Kong

Australia, as a middle-size economy, has traditionally 'punched above its weight' in multilateral trade talks. This is primarily due to skills in coalition building and negotiation, underpinned by research of the highest international regard. Despite this, Australia like other regional economies, has hedged its bets with a series of bilateral trade deals. However, multilateral liberalisation and the success of the Hong Kong Ministerial Conference continue to promise the greatest benefit to the Australian economy.

The clearest example of the greater level of benefit on offer from a multilateral approach is agriculture. In bilateral deals Australia can negotiate greater market access (although this also remains difficult given relative differences in bargaining power). At the WTO, Australia, as leader of the 'Cairns Group' of agricultural exporting nations, can potentially enhance its negotiating power.⁶ More importantly, at the WTO, Australia can also negotiate reductions in trade distorting export and domestic subsidies—something beyond the scope of bilateral deals.

Uruguay Round (1986–1994) liberalisation in industrial and agricultural products added approximately \$4.4 billion a year to real GDP.⁷ Potentially, Australia stands to benefit by as much as \$7 billion a year from the successful completion of the Doha Round.⁸

Regardless of success or failure, wider issues will also be addressed through the Hong Kong Ministerial Conference, including the role of trade in development, efficacy of the multilateral system, and even the future of the WTO itself.

Trade and Development

As the primary international body in the development of a rules based international trading system, the WTO is in the midst of the ongoing debate over the role of trade in international development. Since its launch in November 2001, the current Doha Round has sought to keep development at the heart of the WTO work program. Despite this, the failure to progress issues important to developing countries, such as reductions in agricultural subsidies, has led to accusations that the WTO acts only in the interest of its developed country members.

The pursuit of development goals within a multilateral trade liberalisation framework was an ambitious agenda from the outset. There remains substantial support within developing countries for the protection of nascent export sectors in order to allow an equal playing field with developed countries. It is argued that protecting infant industries will allow more equal terms of trade, reduce developing country dependence upon primary exports, and

ultimately lead to a more vibrant and competitive economy. These views are also supported by a range of well funded and influential anti-globalisation non-governmental organisations (NGOs).

Opposed to this view are a host of intergovernmental organisations that view trade liberalisation as an essential ingredient in the reduction of global poverty. Classical economic theory suggests that free trade results in the most efficient use of a country's resources. It leads to a higher national income, access to more advanced technology, greater productivity, and ultimately improvements in the standard of living. Notable examples of countries that have been transformed through trade include South Korea, Singapore and more recently Chile.

The World Bank sees trade as a key to lifting least developed countries out of poverty. Measures recommended by the World Bank include:

- reduction of developing country barriers to allow productivity gains from cheaper imports
- assistance for developing countries to enforce intellectual property rights and the rule of law, reduce corruption and strengthen infrastructure with the aim of increasing trade capacity
- abolition of developed country policies that distort or prevent entry to markets, such as agricultural subsidies.

The 2003 Cancun Ministerial Conference failed largely due to divisions between developing and developed countries. With more than three-quarters of its members claiming developing country status, the WTO itself as an organisation will suffer if the objectives of trade liberalisation and development cannot be addressed simultaneously.

Multilateralism and Preferential Trade

Preferential trade agreements (PTAs), such as free trade agreements, represent a systemic challenge to multilateralism. They are easier to negotiate; can cover a wider array of subjects—even labour and environmental issues; and importantly can result in immediate economic gains within the democratic election cycle.

However, it is not just the strengths of PTAs that have led to their rise, the weakness of the multilateral system has also contributed. PTAs have inherent weaknesses. They are often concluded for reasons other than trade; there is potential for trade diversion and disruption of cross-border supply chains; and trade becomes more complicated. The WTO has failed to impose disciplines on bilateral negotiations to ensure that they are complementary to the multilateral system. Initiatives to increase the complementarity of PTAs to multilateralism could include:

- further clarification of GATT Article XXIV 8(a), which allows PTAs under the condition that 'substantially all trade' is covered. Interpretations could be quantitative (for example able to exclude

agriculture, as long as a certain percentage of total trade is covered) or could be qualitative, where no major sector should be excluded.

- clarification of GATT Article XXIV 5(b) and its applicability to rules of origin (ROO). Article XXIX states PTAs should not raise barriers to third party trade. ROOs regulate which goods are eligible for preferential access in a PTA. Accordingly, they also indirectly raise barriers to third party trade, given the high level of integration in cross-border supply chains prevalent in modern industry.

Australia supports the tightening and clarification of existing regulations.⁹ More extreme options could include mandating:

- WTO dispute settlement in PTAs, and
- the requirement that PTAs accept any WTO member seeking to join, provided it meets transparent and specified conditions.

WTO Reform

It is widely recognized that reform is needed at the WTO. The WTO and its predecessor, the General Agreement on Tariffs and Trade (GATT), were originally very different to what exists today. Comprised of only a handful of members with similarly developed economies, the WTO/GATT, was once a commerce-oriented body with objectives limited to the reduction of trade barriers. Today, with 148 members, ranging from the world's richest to amongst the world's poorest nations, the priorities and concerns of the WTO have substantially expanded and become more complex.

The need for reform has been recognised by the WTO itself. In early 2005, a report to the Director-General highlighted the ongoing malaise that is threatening the WTO.¹⁰ Amongst other issues, the report covered:

- erosion of the 'Most Favoured Nation' principle. The GATT/WTO was founded on the principle that market access for one member is accorded to all other members. The amount of world trade under MFN terms is expected to shrink to less than 50 per cent by the end of 2005. The absurdity of the situation is such that Australia is one of only nine countries that trade with the European Union on MFN terms.¹¹
- closer cooperation between intergovernmental organisations. This could assist developing countries to achieve greater policy coordination across economic issues covered by differing bodies. It could also potentially result in better development solutions than are currently possible.
- streamlining of the negotiating process through a 'variable geometry' approach which allows members to undertake differing obligations, such as already occurs in services negotiations.

In a May 2004 paper presented to the WTO Public Symposium 'Multilateralism at the Crossroads', the NGO Oxfam International recommended that WTO short-term reform should respect smaller member countries by adopting realistic work agendas and deadlines; refrain from mini-ministerial conferences and 'green-room' discussion which exclude the majority of the membership; and strengthen transparency in the drafting of texts, the election of conference chairs, and setting of mandates. In the longer-term, Oxfam International recommended a rebalancing of the intergovernmental system so that other bodies specialising in health, environment and labour have an equal status to the WTO, IMF and World Bank; and improved technical assistance to aid developing countries achieve full potential in the international system.¹²

In contrast, there is widespread dismay in developed countries at what former WTO Director-General Supachai Panitchpadki called the current 'crisis of immobility' that pervades the WTO Doha Round. Reforms recommended by developed countries include the establishment of an executive board, to streamline decision making as occurs in intergovernmental bodies such as the World Bank and the International Monetary Fund (IMF). An executive board with permanent representation of major economic powers to direct, and in certain cases impose initiatives, could ensure more rapid reform of the multilateral system which, it is argued, would in turn aid developing countries.

Change at the WTO requires consensus among the 148 member states. As such, any one member may block a proposal. Failure to reform could potentially result in erosion of the multilateral system itself. Immediately after the failure of the Cancun talks, both the United States and the European Union signalled that multilateralism was under challenge by competitive bilateralism.¹³ Such views have been backed up by research papers that question the economic gains previously accorded to multilateral liberalisation.¹⁴

Multilateralism is not a spent force. After Cancun it was widely remarked that 'failure' is an integral part of the negotiating process, which can result in more amenable negotiating positions, new initiatives and renewed vigour in achieving future success. Thus, it could be argued that failure in Hong Kong could be beneficial in the long-term as the WTO would be encouraged to address ongoing challenges to the multilateral system.

1. Mark Vaile, Press Conference Transcript, Furama Hotel, Dalian China, 13 July 2005.
2. Merlinda Ingco and John Nash, 'What's at stake? Developing country interests in the Doha development round', *Agriculture and the WTO: Creating a trading system for development*, World Bank and Oxford University Press, 2004.

3. International Centre for Trade and Sustainable Development (ICTSD), 'Cancun collapse: Where there's no will there's no way', *Bridges Daily Update*, 15 September 2003.
4. Binding tariffs imposes a commitment on participants not to increase tariffs beyond an agreed level. Bound tariffs cannot be raised without compensation of affected parties.
5. World Trade Organization, 'Report by the Chairman of the Trade Negotiations Committee to the General Council', 28 July 2005.
6. The 'Cairns Group' is a negotiating coalition of 17 agricultural exporting countries established in 1986.
7. Ashton Calvert, 'Multilateral trade negotiations – the challenges and potential rewards', Speech to the Fourth Annual Trade Lecture to the Melbourne Business School, 28 April 1999.
8. DFAT, *Global Trade Reform 2000: Maintaining Momentum*, 1999.
9. WTO Negotiating Group on Rules, 'Submission on regional trade agreements by Australia', March 2005.
10. Peter Sutherland et al, 'The future of the WTO', Report by the Consultative Board to the Director-General Supachai Panitchpakdi, Geneva, 2005.
11. Other countries include Canada, Chinese Taipei, Hong Kong, China, Japan, South Korea, New Zealand and the United States.
12. Celine Chaveriat, 'How to improve the functioning of the WTO in the short to medium term', Presentation at WTO Public Symposium Multilateralism at the Crossroads May 2004.
13. Pascal Lamy, *European Parliament Press Release* 'After Cancun – Lamy queries fundamentals of trade policy', 2 October 2003.
14. See Andrew Rose, 'Do we really know that the WTO increases trade?', *American Economic Review*, American Economic Association, vol. 94, no. 1, pp 98–114; or Arvind Subramanian and Shang-Jin Wei, 'The WTO promotes trade, strongly but unevenly', *NBER Working Papers*, National Bureau of Economic Research Inc, 2003.

Jeffrey Robertson
Foreign Affairs, Defence and Trade Group
Information and Research Services

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