



**S. RAJARATNAM SCHOOL
OF INTERNATIONAL STUDIES**
A Graduate School of Nanyang Technological University

RSIS COMMENTARIES

RSIS Commentaries are intended to provide timely and, where appropriate, policy relevant background and analysis of contemporary developments. The views of the authors are their own and do not represent the official position of the S.Rajaratnam School of International Studies, NTU. These commentaries may be reproduced electronically or in print with prior permission from RSIS. Due recognition must be given to the author or authors and RSIS. Please email: RSISPublication@ntu.edu.sg or call (+65) 6790 6982 to speak to the Editor RSIS Commentaries, Yang Razali Kassim.

No. 049/2013 dated 1 April 2013

Global Risk from Trade Wars: Time to Return to WTO

By Barry Desker

Synopsis

The WTO Doha Round of negotiations is deadlocked and adrift amid increasing global protectionism. The profusion of bilateral and plurilateral free trade agreements is adding to the confusion. A global solution is necessary for global problems.

Commentary

SINGAPORE recently played host to the 16th round of the Trans-Pacific Partnership (TPP) membership talks. Soon after, Japan announced plans to join the TPP. The next round of talks in May will be held in Peru and optimistic negotiators say that member countries are on track to reach an accord by the end of the year.

The recent proliferation of regional free trade agreements (FTAs) spells good news for the parties involved. But it is important that they do not become substitutes for a global solution in world trade. There remains a need for global rules to provide stability in world trade, given that the World Trade Organisation's (WTO) long-running Doha trade negotiations are deadlocked amid increasing global protectionism. A global problem needs a global solution, and the Doha Round needs to get back on track with ministerial conferences.

The roots of failure

Singapore is keen for a successful conclusion to plurilateral trading agreements such as the TPP because the island has lived by trade since its early history. Our global trade accounts for \$1 trillion annually, or three times the gross domestic product. Singapore trades with developed countries such as the United States and Japan and advanced developing countries such as China, under international rules set by the WTO and its predecessor, the General Agreement on Tariffs and Trade, which ensure open markets and fair and equitable terms. A high point of such negotiations was the first WTO ministerial conference in Singapore in 1996.

Since the global financial crisis in 2008, protectionism has increased and global trade negotiations have stalled. The East Asian economies have retreated to accepting second-best choices in trade deals - the bilateral and plurilateral preferential trading arrangements usually known as FTAs. This is unlike in the past, when they were the foremost advocates of global trade negotiations, until the WTO ministerial conference in Seattle collapsed in 1999.

The irony is that, as global trade increased, countries which benefited from existing conditions took positions

that suggested they had no stake in the outcome of the WTO negotiations. The political will to trade concessions declined and posturing by marginal players in global trade increased the difficulty of reaching accords on contentious issues.

Rival trade regimes

In an interconnected world, there is a greater need for global rules as they provide predictability and stability in international trade. The drift in global negotiations has led to a frenzied pace of bilateral and regional talks involving the major trading states, regional groupings and even cross-regional arrangements in the past decade.

Major cross-regional agreements being negotiated right now include the US-EU FTA and the TPP. Unlike bilateral FTAs, which often yield relatively small trade benefits, the TPP could bring significant benefits. But progress is slow in key areas such as electronic commerce, intellectual property rights, state-owned enterprises and textile market access.

ASEAN, along with Australia, China, India, Japan, New Zealand and South Korea, will begin negotiations on the Regional Comprehensive Economic Partnership (RCEP) in May. One advantage of such a broad grouping is that the benefits are likely to be greater than those of bilateral FTAs.

One problem is that the new regimes being negotiated reflect current big power preoccupations. The reality is that the TPP reflects current American preoccupations - ensuring export opportunities for the US, protecting its domestic industries and focusing on issues which may be beyond the interests of participating states such as Vietnam.

While the US underwrote global prosperity after World War II, its approach today is mercantilist - its trade policies promote its exports and discriminate against imports. The US has focused on ensuring "competitive neutrality" for state-owned enterprises of its negotiating partners, so that US businesses can offer goods and services in foreign markets without being disadvantaged by subsidised foreign competitors. Yet excluded from these trade talks are US federal enterprises still subsidising its agricultural exports.

Strict US rules of origin for textile and apparel manufacturers in East Asia undermine efficient regional supply chains as they prevent manufacturers from sourcing components from other countries in the region. The US requires that clothing be wholly or substantially produced in the exporting country, whereas liberal rules of origin would allow East Asian economies exporting clothing to the US to include components from different countries in the region.

Instead of Vietnam or Malaysia creating a yarn manufacturing industry, US negotiating strategies privilege American yarn exports to the region. Relaxing these rules of origin would improve the integrated supply chains in industries such as clothing and apparel manufacturing. Some bilateral and plurilateral trading agreements suffer from the noodle or spaghetti bowl phenomenon, where there are overlapping rules and difficulties in exercising the benefits from successful negotiations. SMEs do not have the capacity to monitor the different rules of origin in each FTA, and cannot take advantage of the negotiated benefits.

Singapore and other countries that straddle both the RCEP and TPP could play a positive role in working towards greater conformity between the two while negotiations are still taking place. This would improve the prospects of harmonisation later. But the current negotiating structures offered by bilateral and plurilateral trading agreements do not deal with the fundamental change in global trade - the emergence of global supply chains and the need to enable governance of such logistics networks.

In the fashion and apparel sector, for every dollar earned in manufacturing, four dollars are made in distribution, logistics and retail sales. There is also a shift towards distributed manufacturing, with parts and components being manufactured in different locations. While final assembly of an iPad may be in China, the components come from around East Asia and the value-added attributed to China may be as little as 10 per cent.

Time for a different approach

Since the problem has global dimensions, global solutions are necessary. It is time to return to the WTO and global trade negotiations. A different approach should be adopted. The focus should be on reaching agreements at WTO ministerial conferences held every 18 to 24 months, which would conclude agreements on issues such as government procurement as well as new issues such as facilitating global supply chains.

Instead of grand bargains unlikely to be concluded with universal membership, the focus should be on a built-in agenda to which new items could be added as agreements are reached on current areas of negotiation. Where

issues may not be of interest to the entire membership, interested parties could agree where there is a critical mass. Such an approach has led to some of the WTO's most noteworthy agreements.

As a global slowdown occurs, populist pressures for protectionist policies need to be combated by a willingness to address the issues facing the multilateral trading system. While we pursue the second-best option of FTAs, it is critical that the attention of policymakers be focused once again on global risks and global solutions.

Barry Desker is Dean of the S. Rajaratnam School of International Studies (RSIS), Nanyang Technological University. This commentary first appeared in The Straits Times.