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Finally a Director-General: WTO at the Crossroads

By Dipinder S Randhawa

SYNOPSIS

Dr Ngozi Okonjo-Iweala's election as the WTO's new director-general was confirmed after President Biden cleared the hurdle placed by the previous Trump administration. But Okonjo-Iweala faces the toughest challenges since the inception of the world trade body.

COMMENTARY

ON 5 FEBRUARY 2021, President Joe Biden lifted the objections placed by the Trump administration to the appointment of Dr Ngozi Okonjo-Iweala as the new director-general (DG) of the World Trade Organisation (WTO). After an extended search and selection process, Okonjo-Iweala was elected as DG in November 2020, but the Trump administration withheld confirmation at the last-minute contending that she did not have sufficient experience. The selection of a new leader requires a consensus among all WTO members.

Born in 1954 in Nigeria, Okonjo-Iweala studied at Harvard University, and earned a PhD at the Massachusetts Institute of Technology. She worked at the World Bank for 25 years, rising to be the position of managing director, second only to the president of the Bank. She was twice Nigeria's finance minister and briefly served as foreign minister. Okonjo-Iweala also sits on the boards of Twitter, Standard Chartered Bank and the Global Alliance for Vaccines and Immunisation (GAVI).

Manifold-Challenges Ahead

The cornerstone of the multilateral rules-based global trading system, the WTO currently has 164 members accounting for 98 per cent of global trade. Entrusted with a mandate for free and non-discriminatory trade, the organisation has been without a

DG over some of the most turbulent times for the global economy since the early departure of Brazil's Roberto Azevedo in August 2020.

The Biden administration's embrace of multilateralism has ended the endemic uncertainty engendered by the inimical approach towards multilateral institutions of the previous US administration. An effective WTO holds out great promise for ASEAN as it recovers from the pandemic.

The challenges facing Okonjo-Iweala, however, are manifold: The WTO is in crisis. Aside from coping with protectionist moves during the pandemic it is experiencing fundamental challenges to its mandate as well as emerging challenges stemming from technological change and geopolitical tensions.

The near paralysis in decision-making has led regional groupings like ASEAN to forge mega free trade agreements (FTA), such as the Regional Comprehensive Economic Partnership (RCEP).

Vaccine Distribution

The immediate challenge that the new DG needs to confront is the distribution of vaccines. Developed economies have adopted a me-first approach by using advanced purchase agreements and export bans that could indefinitely delay access to the vaccine for developing countries resulting in extending the pandemic, recurring border controls and the risks of further mutations and economic slowdown.

In comparison the costs of global immunisation are minimal. The WTO needs to consider this emerging area of contention. Its existing powers, however, are weak with no clear rules governing the supply chains for medicines, vaccines and medical equipment.

Developing countries led by South Africa and India have sought waivers on related patents to allow countries to manufacture the vaccines themselves. Thus far, under pressure from the pharmaceutical companies, developed countries have refused to accede. Most developing economies are yet to secure contracts for vaccines and are dependent on the COVAX programme led by GAVI.

Problems Within the WTO

The WTO was created in 1995 as a successor to the GATT to serve three main functions: 1. offer a forum for negotiations to liberalise trade and formulate new trade rules to adapt to the changing structure of the global economy; 2. monitor these trade rules; and 3. provide a framework for resolution of trade disputes among members. Since the mid-nineties the three functions of the WTO have been in urgent need of reform.

1 Negotiation Function

Despite changes in the global trading landscape, the WTO has failed to revise trade rules to adapt to contentious issues including intellectual property rights, subsidies, non-market economies, and address concerns revolving around labour rights and the

environment. Its members are far from formulating rules on digital trade and the use of new technologies.

2 Monitoring Function

The COVID-19 pandemic has reinforced the existing trend of the failure to notify imposition of non-tariff as well as tariff barriers, necessary to ensure transparency and predictability of trading rules. This has engendered a trust deficit and an escalation of disputes.

3 Dispute Settlement System

The most visible failure is the near collapse of the dispute settlement mechanism. Several developed countries, led by the United States, contend that the WTO's appellate body has gone beyond its brief, formulating rules without seeking a consensus and applying them inappropriately to non-market economies.

Since December 2019 the US has withheld appointments to the tribunal, effectively precluding a quorum. Concurring with this perspective, Okonjo-Iweala has identified reform of the dispute settlement process as one of her main priorities.

Looking Ahead

Through the multilateral trading system manifest in the GATT and now the WTO, international trade has been an important engine of employment, productivity, innovation, growth and development across the world, and quite vividly in Southeast Asia.

However with the rise of the Internet, e-commerce, servicification of manufacturing, growing inequalities and escalating geopolitical tensions, the WTO is confronted with serious challenges to its mandate.

There is a pressing need to clearly define what constitutes a 'developing' or a 'developed' economy; to restore transparency; and trust to member's actions and establish clear rules on how to deal with departures from market economies. Until multilateral negotiations at the WTO achieve progress, pro-trade members, such as ASEAN, will find recourse in a plurilateral approach, manifest in the creation of RCEP.

The new WTO DG faces an immensely difficult task, with the pandemic compounding existing divisions and tensions in the international trading system. Comprehensive reforms and bold initiatives at the WTO offer the best path forward towards an open, inclusive and sustainable regime for global trade.

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