Trade multilateralism is still our best bet

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World leaders met last week in New York to launch the 2030 Sustainable Development Goals (SDG) global agenda for development. Even as they celebrated the success of UN's multilateralism, hailing the success of the Millennium Development Goals (MDG) which ends this year, trade multilateralism as epitomised by the World Trade Organisation (WTO), and its predecessor the General Agreement on Tariffs and Trade (GATT), is facing the greatest challenge in its 70-year history.

There is no doubt that multilateralism in global trade has fallen on bad times, largely due to hardened positions between developed countries and some emerging market economies on the issue of agricultural subsidies. The Doha Development Round which began with a lot of fanfare in 2001 still remains inconclusive though at least one agreement, the Trade Facilitation Agreement (TFA), has seen the light of day and is on way to being operationalised by most developing countries that have much to gain from modernising their trade infrastructure and logistics.

The global impact of the TFA, when fully implemented, is estimated at one trillion dollars of gross domestic product (GDP), with gains significantly favouring the developing and least developed countries which suffer from high trade costs on account of poor or inadequate trade infrastructure. There is no doubt that Bangladesh's competitiveness in many traditional and non-traditional export products would be significantly enhanced with modernised trade logistics and improved technological capacities in customs administration. It would be worthwhile for Bangladesh to seize the momentum of Aid for Trade in lifting its ranking in the World Bank's Trade Logistics Index enabling our exporters to become more competitive in the world market.

Make no mistake, Bangladesh is a significant beneficiary of the multilateral trading regime right from the beginning. So what seems to have gone wrong with the multilateral trading architecture? To understand its current predicament, a bit of historical perspective might be in order. Note that trade multilateralism was conceptualised in the aftermath of the "beggar thy neighbour" contagious tariff surges across countries during the Great Depression that left global trade in shambles. As world leaders gathered after the Second World War to reconstruct the war-ravaged economies, they were convinced that trade openness was essential to stimulate global growth in incomes.

Along with the Brettonwood Institutions — World Bank and International Monetary Fund (IMF) — global leaders therefore felt the need for an institution that would be instrumental in dismantling tariff walls and other trade restrictions while fostering a rules-based trading system. This led to the trade liberalising negotiations under the GATT which finally morphed into the WTO launched on January 01, 1995. The fundamental principle of the WTO was the equal treatment clause epitomised by MFN (most favoured nation). Acknowledging that among the WTO members there were developed and under-developed trading nations, and realising that open trade could inflict adverse outcomes on the less prepared trading partners, rules were framed to accommodate special and differential treatment (SDT) for the less developed members, to which Bangladesh belongs. Most important, though it is not beyond reproach, the WTO's dispute settlement mechanism remains the best option available to rich and poor nations alike for resolving trade-related disputes in an international forum.

It is fair to say that Bangladesh has been a major beneficiary of the SDT and, to its credit, has taken full advantage of the facilities accorded in terms of non-reciprocal grant of market access under various preferential arrangements, including duty-free quota-free (DFQF) access in several countries (e.g. Canada, Japan, Australia) and country groups (European Union or EU). Though occasionally rules of origin (ROO) requirements undermine the concessionality of preferences, they are still better than nothing. The departure from MFN obligations come under the rubric of the WTO's Generalised System of Preferences (GSP) which allowed member countries to establish systems of trade preferences for other countries, with the caveat that these systems had to be "generalised, non-discriminatory and non-reciprocal' with respect to the countries they benefited.

The EU's Everything But Arms (EBA) is a major concession to the least developed countries (LDCs) including Bangladesh allowing DFQF access, under the GSP umbrella. So are DFQF access offered to Bangladesh by Japan, Canada, Australia, and other countries. Exporters know of the gains in competitive advantage resulting from DFQF access when competitors face higher tariffs. Of the $245 billion that Bangladesh exported in the past 15 years, rough and ready estimates suggest that some $50 billion of these exports would have been the incremental contribution of preferential access.

Another benefit accruing to Bangladesh from the multilateral platform comes from the flexibility allowed for the LDCs in the Trade-Related Aspects of Intellectual Property Rights (TRIPS) regime. By delaying the implementation of patent system provisions for pharmaceutical products for the LDCs until 2016, it allowed Bangladesh the scope to develop a vibrant pharmaceutical industry producing generic versions of a wide variety of patented drugs on the international market so much so that by now domestic production is able to meet close to 98% of all local requirement of medicines. Bangladesh is pushing for an extension of the facility beyond 2016 at the multilateral forum and chances are fair that the extension might be granted. Again, the WTO rules do provide the scope for an LDC member to apply for an extension of the transition period through a "duly motivated request", which Bangladesh has placed before the TRIPS Council in February 2015.

The combined benefits of just these two WTO compliant facilities could be evaluated at billions of dollars, not to mention the lives saved from cheap pharmaceutical drugs made available to Bangladeshi consumers and jobs created from the incremental export production. These benefits could continue at least until 2018 when Bangladesh will have qualified to graduate out of the LDC status, though it would still have a moratorium period until 2021. Thus the time is now for Bangladesh to make preparations in order to cope with stiffer competition in the context of “preference erosion” that will result from graduation out of the LDC status in the coming years.

That said, it must be acknowledged that the multilateral trade institution, the WTO, is going through rough times. Trade talks under the Doha Development Round, which began in 2001, made progress until 2008 when it stalled following strong disagreements between the USA and India on agricultural issues, of which subsidies related to food security appeared to be the deal breaker. The gridlock apparently was not cleared even at the Bali Ministerial Conference in December 2013.

No doubt there is a lot of disillusionment among the WTO members many of whom have lost interest in the multilateral route opting, instead, for bilateral and regional trade agreements to reduce trade barriers and seek improvement in trade and investment rules. What has become clear is the polarisation among North and South groups of countries on various issues that makes multilateral trade negotiations more protracted for anyone’s comfort. For one, the consensus rule does not make WTO’s decision-making process any easier if they have to be based on consensus of all 193 members — a key guiding principle in the WTO. Another equally intractable guiding principle is the ‘single undertaking’ approach in negotiations which implies that every item in a negotiation is inseparable from the whole package.

Small wonder that every round of negotiations is becoming more and more protracted and testing the patience of members. A quick glance at the periods taken by each round of the WTO negotiation (Table 1) will show that the rounds are taking longer and becoming open ended. As proof, the conclusion of the Doha Round is still up in the air after almost fifteen years of negotiations. Consequently, the global appetite for multilateralism is being seriously tested.

Rising from the shadows of seemingly moribund multilateralism in the WTO are at least two mega trading blocs – Trans Pacific Partnership (TPP) and Trans-Atlantic Trade and Investment Partnership (TTIP). Covering 60% of world GDP, the emergence of these two trading blocs could pose a serious challenge if not weaken the WTO further, according to most analysts of world trade.

While Bangladesh is unlikely to benefit from these trading blocs, there is a more promising trade and investment partnership emerging in its neighbourhood out of the ASEAN (Association of Southeast Nations) PLUS grouping (ASEAN + China, India, Australia, New Zealand, Japan, and S. Korea), which is expected to morph into a mega bloc under the title of Regional Comprehensive Economic Partnership, encompassing much more than trade. Yet, to strike an association with this group will require the sort of eligibility that could take Bangladesh a while, given its current structure of tariffs and protection. Until then, making the best out of our WTO membership appears to be the only game in town.

Thus, for all its shortcomings, it would be too early to write the obituary of the WTO, a multilateral institution that has been driving the notion that trade, in the words of its Director-General Roberto Azevêdo, works to create jobs and lift people out of poverty, and it connects economies, business and people across the globe. That is still so true for developing economies like Bangladesh.