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## **LESSONS TO BE LEARNED FROM THE HISTORY OF MULTILATERAL TRADE NEGOTIATIONS UNDER THE WTO AUSPICES**

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1. Until the Second World War, the analysis of what shaped relations among states was relatively straightforward. Nations needed military power to exert influence and security was achieved through military alliances. In the second half of the twentieth century, however another system of relationships with economic rules governing international relationships has emerged. It was based on dialogue, negotiations and collective decisions.

2. The years preceding World War II was characterized by absence of a strong rule-based trading system. This resulted in a surge of protectionist measures from both developed and developing countries, discriminating against each other. It is widely agreed that such protectionist policies, especially from the United States and other major economies precipitated the Great Depression. This is one case where the international community appears to have learnt the lessons of history, since the cost of protectionism proved to be too high. The creation of a multilateral trading system was felt necessary to prevent a recurrence of market disturbance. In retrospect, the more significant handover of power in that immediate, postwar period was therefore economic, with the establishment of a rules-based system to regulate trade, the General Agreement on Tariffs and Trade (GATT). In parallel with establishment in 1945 of the new UN institutions to enforce peace, economic institutions to create a new global system for trade, payments and finance were also negotiated at Bretton Woods. The IMF and the World Bank were established. The ambition to create an International Trade Organization (ITO) however failed. The failure of the ITO to see the day in 1947 has another important lesson for Parliamentarians. It showed to what extent the US President could not get the support of his congressmen to ratify the ITO Treaty. The idea of setting up an ITO was in fact the brainchild of the US President. The US officials were instrumental not only in the drafting of the Treaty, but also in getting the acceptance of other countries. But when it came to the internal process of getting the approval of the Congress, the US President became helpless. The Congressmen criticized the ITO as they alleged that it would erode the sovereignty of the US in international trade relations. This gave a death-blow to the ITO. The other countries which were ready to ratify the Treaty thought that it would be futile to pursue with the ITO without the largest and the most dominant trading partner. They, therefore, settled in having an interim arrangement in the form of the General Agreement on Tariffs and Trade which came into force in 1947.

3. The extent to which leading Western economies were prepared to apply the rules of the GATT was striking. Successive US Administrations and Governments in Western Europe, led by the UK, regularly negotiated collectively to reduce trade barriers under the rules of the GATT. During successive rounds of negotiations, the scope of liberalization expanded to include non-trade barriers as well. Each time that a round of negotiations was completed, it became a tradition for the entire GATT membership to look towards the US Presidency for ratification. In order to avoid the embarrassing situation of 1947, it became an important consideration for GATT members to

ensure that the US President was invested with a fast-track Trade Promotion Authority. This Authority spared the US President from the obligation of sending an internationally agreed Treaty to the Congress for endorsement.

4. There is a strong case to be made that the contribution made by the GATT to increases in prosperity and to stability in the global order in the second half of the twentieth century exceeds that of the United Nations. On reflection, one can understand why governments were willing to cede authority to an international system to regulate economic activity but not to a system regulating international political activity. When economic authority is shared it is easier for governments to demonstrate the benefits of such cooperation.

5. Almost fifty years of extensive negotiations ultimately led to the creation of the World Trade Organization (WTO) in 1995. The idea of ITO was finally vindicated. Unique among international organizations, it administers several international agreements, including the General Agreement on Tariffs and Trade (GATT), the General Agreement on Trade in Services (GATS), the Trade-Related Intellectual Property Rights Agreement (TRIPS). The basic principles underlying the WTO promote free and fair trade without discrimination, in a predictable and competitive environment, which is more beneficial for developing countries, giving them time and flexibility as well as special and differential treatment to adjust.

6. Trade policy has tremendously evolved over the past fifty years. It goes beyond the conventional market access issues at the border and now encompasses a wide range of issues that have direct bearings on domestic regulations and national sovereignty. It is a passionate debate on to what extent the WTO must have its grip on all trade-related issues and even on some non-trade concerns. The Uruguay Round brought two new subjects on the trade agenda – services and intellectual property rights. While many developing countries were still grappling with these new subjects, the Singapore Ministerial Conference and subsequently the Doha Declaration expanded the scope of the negotiations further including environment, public health, investment, transparency in government procurement, competition policy and trade facilitation. An attempt to bring in labour standards at the Singapore Ministerial Conference was foiled at the very outset. These new subjects were imposed upon the WTO by developed countries. But following the widespread opposition from the developing countries at Cancun, the three “Singapore issues”, namely Competition Policy, Investment and Transparency in Government Procurement were dropped from the Doha Development Agenda. This shows to what extent the boundaries of the WTO agenda are fluid and dynamic: they are heavily influenced by the rapport de force between the developed and developing countries.

7. The old practice of determining the rules of the multilateral trading system by a handful of powerful economics is no longer possible. Developing countries are becoming more and more assertive and want to ensure that the rules are just and fair. Experience has shown that rules which are negotiated on the basis of economic power fail to instill confidence and credibility in the system. The emergence of groups of alliances, like G20 and G90, is in reaction to the decades of domination of the multilateral trading system by the developed world.

8. The decision-making process in the WTO needs to be reviewed. Although the WTO provides for voting-system, there is a long established tradition in the WTO to take decisions by consensus. While the consensus approach provides an assurance to the smaller and weaker members that they cannot be sidelined, it has recently given rise to situations where the entire negotiations have been held hostage by few members. The recurrent feature of withholding consensus, at times when a silent majority wants to move forward, is in fact paralyzing the WTO.

9. Critically linked to the decision-making is the consultation process which actually shapes the nature and substance of the decisions. Although the WTO provides for universal participation of all members in all meetings, there is an entrenched practice of “cooking” decisions through the

"Green Room Process". Despite the outcry of protests against this "Green Room", it seems that WTO cannot do away with this malady. With 150 members wrangling over a wide range of issues, it has been found difficult to manage the consultation process. There is now a tacit acceptance of the "Green Room" concept which manifests itself in form of the mini-Ministerial meeting or the Informal Consultative Group. In whatever circumstances, the main challenge of the WTO is how to make consultation and decision-making processes really open, transparent and inclusive.

10. It is now generally accepted that "one-size-fits-all" approach will not work in the WTO. Different countries are in different stages of development and, therefore, one prescription for all of them would not help achieve the basic objective of economic progress of developing countries. Special and Differential treatment remains the core of the development dimension of the WTO. However, there has been little progress on this front as the S&D clauses are merely best endeavour measures. The considerable efforts deployed during the Doha Round talks to make the S&D provisions clear, enforceable and mandatory have miserably failed. The final outcome of the Doha Round runs the risk of being development deficit.

11. The constituency of developing countries itself has witnessed drastic changes in the recent years. It includes the emerging economies, the middle-income developing countries and the LDCs. Among the middle income developing countries, there are many of them which are small, weak and vulnerable economies and are exposed to external shocks. Just like the LDCs, this group of countries also deserves special treatment in the WTO to enable them to integrate the global economy.

12. Market access, howsoever generous, is meaningless to developing countries if they do not have the capacity to produce and supply. There is now a general agreement that aid for trade can be an effective instrument to complement the development agenda and to provide means and resources to developing countries in addressing their supply-side constraints and in building their trade-related infrastructure.

13. Trade liberalization incurs adjustment costs that become huge burden for many developing countries to bear alone. Donor funds are necessary to mitigate the short-term losses and to sustain the reform process and the industrial restructuring.

14. Trade negotiations are driven by experts and technocrats. It is important to understand how to deal with technocrats in order to give political impulsion to the negotiations. Parliamentarians and NGOs can provide the connections between the WTO and their constituencies by passing information to the grassroots and by ensuring better public understanding of the workings of the trade regime.

15. With the advent of globalization, economic relationships are becoming increasingly complex. Although international relations will still be governed by traditional notions of military and political power, economic diplomacy (multilateral, regional and bilateral) is likely to play an increasingly important role. And this trend is likely to continue with the recent deadlock in negotiations in Geneva. In fact, regional and bilateral arrangements may increasingly be used to denote close political relationships and, where appropriate, to enhance security, the latter being secured by the deeper economic interdependence created by the trading arrangement.