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Current and Future Challenges for the Multilateral Trading System – Development Perspectives from the MENA Region

Report of the FES/WTO MENA Regional Dialogue

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Background: The world economy is witnessing serious difficulties due to the unfolding food, energy, financial, and economic crises. Headlines have been dominated by dark prognoses on falling World Gross Domestic Product (GDP), shrinking trade and investment flows, wage deflation, and increasing unemployment. Various protectionist measures have been adopted and the world risks starting a new “beggar-thy-neighbour” process, which would have disastrous economic, social, and even political consequences.

The crisis has painfully confronted the world with the more systemic reasons behind it. Many renowned economists had to conclude that their models were not adequate to explain the processes occurring. This is why governments, international institutions and organizations, business, and civil society alike are frantically looking for solutions that will not only repair the damage done, but also better prepare the international community for the future.

The crisis has various repercussions on the multilateral trading system. The World Trade Organization (WTO) forecasts a dramatic decline in international trade of nine per cent in 2009. Contrary to earlier affirmations, G-20 governments have already applied a number of protectionist measures. Although these are still in conformity with their WTO commitments, vigilance is required. The WTO reacted actively to the crisis and started conducting regular reports that analyze trade developments as a result of the financial and economic crisis. The current protectionist tendencies do not bode well for the future of the WTO Doha Round of multilateral trade negotiations, launched in Doha, Qatar, in 2001.

Against this background, the Friedrich-Ebert-Stiftung (FES) and the WTO Secretariat jointly organized a regional dialogue on “Current and Future Challenges for the Multilateral Trading System – Development Perspectives from the MENA Region”. This dialogue aimed at bringing together different stakeholders from the Middle East and North Africa (MENA) region, fostering a regional exchange of views and ideas, and debating the following questions:

- (i) What impacts does the current financial and economic crisis have on the multilateral trading system and the development perspectives of the MENA region?
- (ii) What are the costs and benefits of WTO accessions of the MENA countries?
- (iii) What role plays the increasing number of Preferential Trade Agreements (PTAs)?
- (iv) How are trade policy formulation processes working in the MENA region?
- (v) What role will the WTO play in the economic and financial crisis and in the future global economic governance system? Which new topics will gain importance?

**The [program](http://www.fes-geneva.org) and [list of participants](http://www.fes-geneva.org) are available at www.fes-geneva.org*

1. The financial and economic crisis: Reactions from and implications for the MENA region

The financial crisis triggered a global recession and a drastic decline in international trade flows. This caused balance of payments problems, which gave rise to protectionist measures. Unemployment has increased and a major job, social, and development crisis is looming.

Arab countries have been affected by the crisis less severely than other regions, as their economies and financial systems are less closely connected to the world economy. Four negative im-

plications of the crisis for the real economy were highlighted: First, shrinking imports and exports resulted in lower export revenues and customs duties. Slower GDP growth led to higher unemployment and lower tax incomes. Second, there was an underperformance of external, intra-Arab, and domestic investment and production, as well as a shortage of financial liquidity. This was particularly felt in the Maghreb countries, since lower capital inflows came from the Gulf region that still suffered from the dramatic fall in oil prices in 2008. Third, the strong decline in international tourism, combined with fewer contracts in the real estates and building sector had negative impacts on the region. Fourth, migrant

workers returned from the Gulf states. The consequences were shrinking remittances and higher pressure on domestic labour markets. This trend has been particularly painful for Lebanon and Jordan, whose GDPs are highly dependent on remittances.

The financial crisis and economic recession revealed the deficiencies at many levels and the need for reforms became obvious. Thus, the crisis could also constitute an opportunity to find global and comprehensive solutions, and to rethink the economic and financial system.

Many participants questioned the prevailing neo-liberal economic model that caused or at least enforced the crisis. Labour representatives criticized the excessive reliance on and total freedom of the market, the injustice of the capitalist system, the unequal income distribution, the neglect of labor rights, the unsustainable production and consumption patterns, and the global surplus in services and commodities. It was pointed out that a new, more people-centered socio-economic system should be found.

At a more practical level, the role of governments and the balance between the state and the market were discussed. Governments should adopt the necessary laws and regulations, effectively supervise the market, and reduce the imbalances in the economic and financial system. They should also create social safety nets and facilitate the upgrading of skills, which could lead to increasing wages. A stronger focus on small and medium enterprises was called for, as the middle class shrank in many countries; and this trend should be reversed.

The effects of the General Agreement on Trade in Services (GATS) on the financial sector were discussed controversially. Some participants noted that the liberalization of financial services facilitated the opening of foreign banks. This heightened competition and improved the quality and performance of the banking system in various countries. Others, however, cautioned that the liberalization increased the vulnerability of the financial system and further aggravated the global crisis due to inadequate domestic and international regulations.

Labour representatives claimed that capital was not being used sufficiently for production and the generation of jobs, but rather for real estates and financial speculation. They pointed to rising and disguised forms of unemployment, low

wages, and long working hours. They called for a just wage system, a fairer income distribution, the recognition of international labour rights, and a serious dialogue with governments, in particular in the Arab world.

2. WTO's role in the current crises and implications for the Doha "Development" Round

The crisis put the spotlight on the values rather than the deficits of the multilateral trading system and the WTO, whose existence prevented trade wars as of the 1930s. However, many countries have already applied a number of safeguard measures and are close to go the slippery way of protectionism.

The WTO reacted actively to the crisis and set up a monitoring mechanism under its trade policy review mandate to track, review, and discuss protectionist measures taken by WTO Members during the crisis. The resulting reports showed that Members are making full use of the "policy space" in their commitments. Arab countries were also reported to have introduced new import duties and other protectionist measures, which, however, were still considered in compliance with WTO agreements. There was agreement among participants that Members should refrain from applying protectionist measures that could lead to "tit for tat" actions. The WTO should continue its monitoring exercise; but the WTO Secretariat's capacity is limited and the reports depend to a great degree on the information provided by WTO Members.

The implications of the financial crisis on the Doha Round are ambiguous: On the one hand, the enthusiasm for further liberalization diminished. Countries that are overly dependent on international trade rather try to reduce this dependency. On the other hand, the Doha Round was considered a long-term insurance policy against protectionism, as the crisis illustrated that legally-binding commitments are an effective tool against protectionist measures. However, it was raised strong skepticism about whether the Doha Round – if concluded – could be a short-term solution to the crisis.

The Doha Round negotiations continue to be hindered by major gaps of perception on the level of ambition in new market access commitments. The main antagonists remain China, India, and Brazil on the one hand, and the European

Union (EU) and United States (US) on the other hand. The opportunity of reaching a deal at the Mini-Ministerial in July 2008 in Geneva was missed. Negotiations seem to remain stalled until the US, India, and the EU have in place their new administrations. The US is expected to take a more aggressive stance on environmental and labour issues. China's role in the negotiations has not yet become completely clear. Thus, the conclusion of the Doha Round is, in the most optimistic scenario, envisaged for the end of 2010.

In the second half of 2008, the costs of trade increased due to a severe shortage of trade finance. The WTO put the spotlight on this issue and the G-20 announced at its London Summit in April 2009 to provide additional funds targeted at financing trade. WTO's Aid for Trade (Aft) initiative was referred to as another important instrument. It seeks to build trade capacity and has a strong focus on infrastructure development. However, due to the crisis, there is the danger that Aft and overall official development assistance flows will also be reduced.

Coordination and cooperation between international organizations should be increased to allow for more coherent policies. This is not only required between the WTO, the International Monetary Fund (IMF), and the World Bank, but also between those organizations and United Nations agencies, including the International Labour Organization (ILO). The IMF and the United Nations Conference on Trade and Development (UNCTAD) had been pointing at global imbalances for years; but their warnings were not heard or ignored. While countries criticized IMF's inadequate governance structure, these calls stopped quickly, as more and more countries need IMF loans again. There remains the question of whether IMF reforms are still on the agenda and would be sufficient, or whether an International Finance Organization along the lines of the WTO was needed and realistic.

Concerning the future, the fundamental question was raised of whether "free trade" as a principle is still valid. There is a wide spectrum of scenarios between two extremes during and after the crisis: On the one hand, the world could be confronted with a short phase of protectionism, followed by a return to further trade liberalization. On the other hand, there could be a tendency to permanent protectionism, which would endanger the multilateral trading system.

3. WTO accession processes: Costs versus benefits

The World Trade Organization is a multilateral organization with 153 Members; but it still falls short in terms of membership compared to the United Nations system. Currently, around 30 countries are in the process of acceding to the WTO, among them Algeria, Lebanon, and Yemen. Jordan, Oman, and Saudi Arabia joined the WTO after 1995 under the WTO accession process and are part of the group of "Recently Acceded Members", which is granted special flexibilities in the Doha Round negotiations.

The WTO accession process is technical, complicated, and takes around six years on average. It consists of two tracks: The multilateral track, where acceding members need to bring their policies into compliance with existing WTO rules and disciplines; and the bilateral track, where the acceding country needs to agree with all interested WTO Members on the terms of accession, particularly on market access commitments in the goods and services sector. Thus, the bilateral track is equally important or even more important than the multilateral one.

The success and duration of the process depends largely on the political will, coordination, and technical capacity of the accession country. It was critically mentioned that there are frequently "WTO-Plus" conditions imposed on accession countries and that few transition periods were granted. Although WTO Members had agreed to facilitate the accession of Least Developed Countries (LDCs), this decision was rarely implemented in practice.

In the case of Yemen, there were particularly three motivations for starting the WTO accession process: The decision to open up the economy with the expectation of increasing exports and new development possibilities; the access to the WTO Dispute Settlement Mechanism; and the perspective of enhanced regional integration. The bilateral negotiations with the EU and the US were characterized as the most difficult ones. With regard to the multilateral track, the Agreements on Sanitary and Phytosanitary Measures (SPS) and Technical Barriers to Trade (TBT) play a central role. It was expressed surprise that countries, such as Honduras and Nicaragua, are also engaged in the accession process, although they do not have trade relations with Yemen.

In the case of Algeria, WTO accession means another structural reform of the country's economy. Although Algeria has already concluded a number of bilateral agreements, such as the EU partnership agreement, WTO membership is much more comprehensive and implies far-reaching commitments and rights. The following reasons for starting the accession process were mentioned: The expectation that productivity, competitiveness, and product diversification will increase; the possibility to influence future multilateral trade agreements as a WTO Member; and the access to the WTO Dispute Settlement Mechanism. On the other hand, legally binding commitments limit the available "policy space", such as the prohibition to subsidize exports. It was stressed that the economy needs to be competitive before opening up in order to benefit from WTO membership. The bilateral negotiations again turned out to be the most complicated ones.

In both cases, a major bottleneck was the lack of information and knowledge about the specifics of the WTO system and the accession process. It was mentioned that governments should provide parliamentarians, enterprises, civil society, the media, and the interested public with better information about the positive and negative implications of WTO membership.

The following key factors for a successful WTO accession process were identified: A clear strategy and roadmap, as well as efficient coordination; knowledge of the rights and obligations arising from WTO membership; transparency of the negotiations; benefiting from the experiences of past accession countries; and clear identification of technical assistance needs.

4. Preferential Trade Agreements (PTAs): Building or stumbling blocks for the multilateral trading system and the development perspective of the MENA region?

Since the mid 1990s, the number of PTAs has been exploding. Currently, around 300 PTAs are in force, another 100 are under negotiation or waiting for ratification. Various countries in the MENA region signed Bilateral Trade Agreements, particularly with the US and the EU. The Gulf Cooperation Council (GCC) is the dominant Regional Trade Agreement (RTA).

PTAs undermine WTO's main principle, the Most-Favoured-Nation (MFN) principle. Nevertheless, except for Mongolia, all WTO Members are part of at least one PTA. The subsequent reasons for concluding PTAs were highlighted: First, the protracted negotiations of the Doha Round make PTAs attractive. They are easier and quicker to conclude, and allow for tailor-made regulations. Second, PTAs offer the possibility to include issues that are not covered by the WTO, such as investment or labour and environmental standards, or to go beyond existing WTO regulations. These "WTO Plus" conditions can become problematic if the more powerful partner imposes them on the weaker partner; this has been detrimental in the area of intellectual property rights for example. Third, even small preference margins may constitute enough incentive to conclude PTAs, in particular with large economies, such as the US, EU, or China. Fourth, PTAs also follow a political logic and can be a means towards a broader aim.

The following shortcomings of PTAs were identified: First, there are issues that cannot be dealt with under PTAs, first and foremost agricultural subsidies. Second, different Rules of Origin (RoO) complicate trade and pose a huge challenge for customs authorities. In this regard, the Agadir Agreement was considered progressive, as it allows for cumulation of RoO. Third, the negotiations of PTAs shift capacities away from multilateral negotiations, which is particularly problematic for small developing countries. Fourth, the relationship between PTAs and the WTO is contentious, since the relevant regulation, i.e., Art. 24 of the General Agreement on Tariffs and Trade (GATT), is too vague and has been subject to different interpretations for a long time.

In 2006, a new transparency mechanism on RTAs was established. It requires the early announcement and notification of any RTA to the WTO. However, it does not provide for an examination of the RTA and does not include any reference to the Dispute Settlement Mechanism.

For the Arab region, Bilateral and Regional Trade Agreements are relevant. Trade volumes with the EU are reportedly higher than intra-Arab trade. Thus, there was a strong call for increased intra-Arab trade facilitation.

Jordan, for instance, concluded a number of Bilateral Trade Agreements, among others with the EU, US, and Singapore. Since trade is supposedly not that important for the country, there

might have been strong political motivations. It was also argued that Jordan did not benefit sufficiently from these agreements, which is illustrated by a negative balance of payments and trade balance.

In Jordan, a number of Qualified Industrial Zones (QIZ) were created in the mid 1990s. They provided numerous export-based jobs; but after some time the results turned negative. It was criticized that employment conditions in QIZ are characterized by low wages, sometimes even below minimum wages. Moreover, violations of workers' rights occur. With the end of the quota system, competition increased, particularly with Egypt and Morocco, and Jordan's exports shrank. It was stated that, instead of importing consumption products, Jordan should rather import production assets, such as machines, and start building up more domestic production capacities.

It was concluded that PTAs can be useful to extend market access, but that they are no alternative to the WTO system with its established rules, backed by the Dispute Settlement Mechanism.

5. Transparency and decision-making processes in national and multilateral trade policy: Actors' perspectives

Trade can be a strong force for development; but free trade is not necessarily beneficial for sustainable development. The role of trade policies has become more important, because they increasingly affect also domestic areas. The far-reaching implications of trade rules, however, are complex and difficult to explain to a broader public. Thus, the WTO, governments, and Civil Society Organizations (CSO) have a role to play by raising awareness, increasing transparency, and providing for more inclusive decision-making.

Under WTO's Trade Policy Review Mechanism (TPRM), the trade policy of each WTO Member is being reviewed regularly. The TPRM is mainly a transparency exercise with the following objectives: It increases public accountability; it facilitates policy evaluation; and it improves policy-making and reforms. However, it is not intended to monitor compliance with existing WTO rules; it is not a basis for the enforcement of obligations under WTO agreements or for dispute settlement purposes; and it is not intended to impose new commitments on Members. Moreover, the process is Member-driven, since the WTO,

unlike the IMF or the World Bank, does not follow an own policy.

The subsequent benefits of the TPRM were identified: It provides a framework for trade policy formulation; it strengthens inter-agency cooperation at national and international levels; it stimulates internal discussion on and awareness of trade-related issues; it makes reforms better known; and it helps identifying technical assistance needs. At a systemic level, the TPRM is an external and collective evaluation and assessment of coherence of the full range of policies and measures. It also opens dialogue and facilitates the exchange of policy experiences.

It was cautioned that the TPRM should not be politicized. Moreover, it was criticized that LDCs and small developing countries that could benefit most of TPRs are the least frequently reviewed; normally every six years. On the other hand, it was argued that conducting a TPR poses a lot of burden on national institutions, which often lack capacity and the necessary data.

The WTO started a process of enhancing overall transparency, which resulted in some concrete improvements. In 2006, a new transparency mechanism on PTAs was established. It requires Members to notify PTAs and provide details on their regulations. The WTO Secretariat also increasingly opened up to CSOs. Regular briefings are organized in Geneva, outreach activities have been conducted worldwide, and an annual WTO Public Forum is being held in Geneva. However, it was cautioned that the WTO is run by governments and can only be as transparent as its Members want it to be.

The role of CSOs in the Arab world was discussed. It was pointed out that there is a general mistrust between governments and CSOs; their relationship depends on a country's political structure, culture, and dialogue processes. It was noted that there are two sorts of CSOs: The ones that are funded by the state to implement certain projects; and the ones that try to monitor public policies and comment critically on them.

CSOs should be consulted by governments before and during the negotiation process of trade agreements, which is often not the case. This could help reduce the negative effects of trade liberalization on society and in particular on the marginalized people. Impact assessments before and after the conclusion of trade agreements could be a useful instrument. CSOs should also

raise people's awareness of trade. Studies on trade policies in Arab countries should be made available more broadly and ties should be strengthened between experts and CSO. There is also a need for capacity building projects on international trade for Arab CSOs.

Morocco's negotiations on the partnership agreement with the EU and the free trade agreement with the US were mentioned as positive examples of civil society involvement. There were regular consultations with the private sector, trade unions, and to a lesser extent with civil society. Manifestations on the streets also exerted a huge effect on the negotiations, particularly in the area of intellectual property rights. Something comparable did not happen yet on issues related to the WTO.

The decision-making process at the WTO is based on the consensus principle. In practice, however, key decisions in the Doha Round negotiations are taken by small groups. It was argued that most Arab countries are not part of these inner circles of decision-making. Contrary to other regional groupings, such as the African Group, Arab countries do not have a common position due to their heterogeneity. It was stressed that many Arab countries' missions in Geneva have few personnel and, therefore, a low capacity. Moreover, the presidency of the Arab Group changes every three months, which complicates an effective coordination even further. There is a need for a strong, active, and coordinated Arab coalition in the WTO that pursues common interests more vigorously.

6. WTO's role in the future global economic governance system and topics that will gain importance

The financial and economic crisis showed once more the need for a reform of the global economic governance system. It illustrated that the world is closely connected and strongly exposed to international crises. The WTO is an important part of the global economic governance system and needs to increase its effectiveness, relevance, and transparency. One recommendation of the Report of the First Warwick Commission on "The Multilateral Trade Regime: Which Way Forward?" in 2007 was to start a process of reflection on the challenges for and opportunities of the multilateral trading system. It was emphasized that the Arab world should engage more

actively in this reform debate, involving governments, civil society, and academics.

According to the FES Geneva Scenarios on "Global Economic Governance 2020", four scenarios are possible for the year 2020. First, a world that continues business as usual, described as "Decaying National Park". Second, a world dominated by competing regional blocs, described as the "March of the Elephants". Third, a world heading towards the abyss, described as the "Law of the Jungle". Fourth, a world of true multilateralism, described as "Harmonious Nature Reserve". Some participants criticized the scenarios for being too radical. However, it was also mentioned that, by their drastic descriptions, the scenarios underlined the need for changes in the global governance system to avoid the bad scenarios from coming true. The future will depend on whether today's political and business leaders take the wrong decisions, seize the opportunity and take the right decisions, or take no decision at all.

New economic models will be evolving and could lead to a new world economic order. These models should be more comprehensive, less dominated by ideological considerations, and not only focus on commercial concepts, but also have in mind the broader sustainable development concepts. In this regard, the role of universities and heterodox economists will be increasingly important.

The WTO is a complex system and there have always been forces among the membership that were either supportive for or hesitant to changes. Before being able to move ahead, it was argued, power constellations need to become more favorable. At the same time, there is the danger that the current reform discussion will lose momentum, once the financial and economic crisis no longer dominates the headlines.

Five WTO reform proposals were highlighted: First, accountability and transparency should be increased. Second, mechanisms should be established in the WTO that allow for early and quick reactions to crises. Third, decision-making processes need to become more inclusive to guarantee more balanced outcomes. In the Doha Round negotiations, there is still an imbalance between developing and industrialized countries, although the representation of developing countries in the so-called Green Room has improved. LDCs, in particular, should be better integrated. Fourth, there is a need to adapt ex-

isting rules or to adopt new ones to effectively address arising challenges, such as climate change. Fifth, coordination and cooperation should be enhanced between the WTO and other international organizations, including UNCTAD. The joint ILO/WTO study on "Trade and Employment: Challenges for policy research" in 2007 was mentioned as a good example for cooperation which could be built on.

Finally, it was reminded that WTO Members should work towards the objective of conducting trade with a view to raising standards of living and ensuring full employment in accordance with the objective of sustainable development, as stated in the Preamble of the Marrakesh

Agreement Establishing the World Trade Organization.

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