

## Reflections on the Debate

Topic #4: *The Multilateral Trade Regime Seen Through a Global Public Goods Lens: New Insights on Old Problems*

Discussion Open From 7 through 21 July 2003

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The gpgNet Discussion Forum ([www.gpgNet.net](http://www.gpgNet.net)) provides a platform for public debates on key aspects of public goods - local, national, regional, and global. The views expressed in the Forum are those of the Forum participants and do not necessarily reflect the positions of the organization with which the participants may be affiliated, unless stated otherwise.

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## Introduction

This discussion forum was timed to take place one month before the 5<sup>th</sup> World Trade Organization (WTO) Ministerial in Cancun, Mexico in September 2003. Participants in the gpgNet discussion forum were invited to discuss the multilateral trade regime through the lens of global public goods. About 500 policymakers, academics, students, officials and stakeholders from over 30 industrial and developing countries participated.

This report identifies some of the key messages that emerged from the discussion. It is not intended as a summary of the discussion. Instead, the purpose is to distil some of the novel ideas that could prove useful in the trade discussions on the road to Cancun, drawing on the myriad perspectives of discussion participants.

## Background

The debate over international trade—and in particular, on the benefits and costs of membership to the multilateral trade regime—is not new. Beyond the conceptual arguments that seek to analyze the abstract rationale behind international cooperation to create “a” multilateral trade regime, there are also those arguments, even at this early stage, that focus on the practical outcomes of “the” multilateral trade regime that we presently have today, more popularly known as the World Trade Organization (WTO). This discussion forum is intended to revisit this ongoing debate, with a specific value-added: to use the global public goods lens on the multilateral trade regime in order to thresh out new insights on its various policy-related dimensions.

It is the multilateral trade regime, and not international trade per se, that is the subject of this discussion forum. The conduct of international trade—or the exchange of goods and services—itsself is very much rival (or competitive) and exclusive. But the regime, which sets forth the “rules of the game,” displays many public good characteristics, i.e. non-rivalry and non-exclusivity. As with many regimes, the multilateral trade regime possesses these properties, by virtue of policy design and intent. Its members aim at bringing as many countries as possible into its fold—conditional, of course, on the countries’ meeting membership requirements and access criteria.

Starting from this definition of the multilateral trade regime as a global public good, global public good forum participants were invited to discuss whether the multilateral trade regime is a global public good in form only, or also in substance. Put differently, it was argued that goods that are public in consumption (i.e. non-rival and non-exclusive) may well affect all (i.e. be public in form). But do they also have positive utility or positive net benefits for all? Are they public in substance?

To leadoff the discussion, two questions were posed to the forum participants:

Question 1: From your vantage point, what are some additional facts and figures that could lend support to—or refute—the argument that the WTO regime is a GPG in form but not in substance?

Question 2: Assuming one would like to bring the multilateral trade regime closer to becoming a GPG in form and substance, what relevant reforms might be needed? Are such measures potential elements of a two-tiered multilateral trade regime? Are such measures included in the agenda of the upcoming trade ministerial in Cancun this September?

## **Highlights from the Discussion**

What surfaced from the discussion is a rich diversity in viewpoints on three main issues: a) the purposes and objectives of the WTO or multilateral trade regime; b) the process through which these objectives are accomplished (or not accomplished); and, c) the practical assessment of trade outcomes, revealing whether and to what extent the objectives have indeed been met.

### *Purpose and Objective of the WTO Regime—The Element of Policy Choice*

The lead-in questions generated a wide range of responses, revealing how important the expectations from this regime are. For the most part, what the contributions held in common was their focus on the *development impact* of various agreements that comprise part of the WTO regime. As various contributors noted, even at this relatively early stage, available research clearly demonstrate, among other things, the high developmental cost of TRIPS, the considerable resource burden of implementing some WTO agreements, the significant adverse environmental and gender impact in some countries and regions, and so far un-realized gains in the agricultural and textiles sector.

These and other contributions implicitly or explicitly suggested that trade per se is not the ultimate objective, but simply a means to an end. That end, for many developing—and perhaps even industrial—countries, is continued human development. This is probably the best justification for calling the multilateral trade regime an intermediate global public good. It is not to be consumed by the global public by itself—rather it feeds into broader production processes aimed at realizing final global public goods, such as global public health, sustainable energy use, or more broad-based economic and growth and development. Here then is an important insight that needs further emphasis: Both the intermediate and final goods could be fully excludable. For instance, the net benefits of the trade regime could be distributed in a highly skewed manner, adding to global inequity and potentially political instability and unsustainable development. Hence, the key is whether or not the international community has expressed and demonstrated enough political and economic “will” to make both types of goods (i.e. intermediate and final) non-exclusive, with net benefits for all.

The element of policy choice surfaces as the key ingredient for the trade regime when viewed as a global public good. As with all regimes, the multilateral trade regime is the product of an amalgam of policy choices. It could be made excludable—in fact some of its dimensions, as noted by various interlocutors in the discussion, still are—but it need not be. Hence, it is

crucially important to identify what the objective and purpose of the regime is. As reiterated by its developing country members and noted in various ministerial level declarations, one of the most important objectives from participation in this regime is *development*.<sup>1</sup> Yet the rhetoric significantly departs from the reality, as many contributors to the discussion noted. The multilateral trade regime, given its present imbalanced participation structure and skewed net benefit outcomes, often hampers rather than facilitates development among the less developed member countries, and imposes a significant developmental cost on certain groups, e.g.. the poor, women, and commodity producers, within countries.

### *The Bargaining Process—A Limited Framework to Ensure Adequate Provision of this GPG*

One further common thread among the many contributions to the discussion was the recognition that the construction of the multilateral trade regime is driven first and foremost by power relationships among its member countries. In light of this, the commonly suggested reform was the building of negotiating capacity among developing countries with the support from the industrial countries. While definitely useful as a first step towards more even bargaining in the WTO, one could take a step back at this point to analyze whether and to what extent this reform could indeed lead to a more balanced multilateral trade regime.

It could be argued that developing countries, no matter how prepared for trade discussions, will, individually, comprise a small component of total international trade. And even recent efforts to form developing country groupings (in order to improve these countries' bargaining strength in the WTO) have proven difficult as the diversity of developing country interests has been a major stumbling block towards forming a unified developing country front during negotiations.<sup>2</sup>

In order to produce a sufficiently balanced multilateral trade regime, that, perhaps, would first and foremost, do no harm to the development of the poorest countries, the language of trade negotiations itself—that of bargaining—may need to be complemented with a more democratically based framework for identifying and correcting “imbalances” in the regime. Such a mechanism is not uncommon in the provision of most (if not all) public goods today. Building a public park, for example, involves not only intense bargaining among those who would benefit from it most (i.e. presumably the poorer segment of the population which could be expected to use public facilities more). Such projects also entail broad based consultations that seek to incorporate the views of all who would be affected—particularly those expected to shoulder part of its cost of production and upkeep (e.g. perhaps the richer strata of the community).

The multilateral trade regime, viewed as a global public good, is not very different. As noted by various discussants, this regime imposes significant development costs on its poorest member countries. The political process to accompany the formation of the multilateral trade regime could be viewed in a similar way: Those who are likely to benefit and those who are likely to “pay” should have a say in its provision. Yet, de facto, there exists a major difference between

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<sup>1</sup> For more on this point, see Mendoza, Ronald U. and Chandrika Bahadur (2002) “Towards Free and Fair Trade: A Global Public Goods Perspective” in *Challenge* 45(5): 21-62.

<sup>2</sup> There are some exceptions of course. For instance, the developing country position on the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) and health was pushed successfully in the 4<sup>th</sup> WTO Ministerial in Doha, Qatar.

the “park” example and the “trade regime” case. In the former case, the poorer members are likely to benefit more and the richer ones are likely to pay. In the case of the trade regime, the richer members benefit and the poorer ones shoulder high costs. The challenge to mitigate some of these costs strictly within a bargaining framework is therefore a formidable (if not almost impossible) one. Recognition of the limitations of the bargaining framework—particularly as the now well-accepted practice of public goods provision today does not solely depend on this—could be one of the most important insights to emerge from this discussion. Hence, it might prove fruitful to explore alternatives to the bargaining framework, such as proposals that seek to ensure greater coherence between the rules of trade and the preservation of “policy maneuver” for developing countries.<sup>3</sup>

*The Assessment of Trade Outcomes—The Need for Better Cost-Benefit Analysis and the Impetus for Immediate Corrective Action*

Finally, the issue of assessing the benefits and costs of the multilateral trade regime generated many contributions citing the various dimensions of developmental costs (e.g. in health and the environment) as well as absent benefits (e.g. unrealized export earnings due to import protection) for many developing countries. Although it is still relatively early for many of the aspects of the trade regime to be fully evaluated (and in fact the causal relationship between some of the trade agreements and elements of the regime with actual trade outcomes may need to be verified first), there is already some evidence of skewed benefits and costs, focusing mainly on: a) the unrealized developing country gains from lower industrial country protection of its agricultural sector; b) high implementation costs of various WTO agreements; and c) high developmental and resource transfer costs of the Agreement on TRIPS; and d) significant entry costs for developing country latecomers that wish to accede to the WTO.

Two main points emerged from the discussion on this topic. First, as with any public good, there is an ongoing need to assess the multilateral trade regime, in order to determine the distribution of its net benefits to member countries. The necessity of this constant evaluation—and perhaps any grounds for correction and adjustment—draws largely from the point noted earlier: that the multilateral trade regime is shaped by policy choice. There is therefore nothing inherently inevitable in the agreements that we see produced from trade negotiations, nor the actual outcomes of conducting international trade. Second, despite the limitations of data at this relatively early stage,<sup>4</sup> there is already a strong justification for corrective action on several key fronts within the regime, in order to make it more balanced. And by this, the objective would be to mitigate the developmental costs that the regime somehow exacerbates, as well as proactively ensure a more equitable distribution of its net benefits.

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<sup>3</sup> For further discussion on this point, see, among others, Dani Rodrik’s “The Global Governance of Trade as if Development Really Mattered.” (UNDP, 2001) and Ronald U. Mendoza’s “The Multilateral Trade Regime: A Global Public Good for All?” in *Providing Global Public Goods: Managing Globalization* (Oxford University Press, 2003).

<sup>4</sup> Note that the Uruguay Round of Agreements was concluded only in 1995.

## Conclusion

This discussion revealed several important insights on the multilateral trade regime when viewed as a global public good:

- 1) The multilateral trade regime is constructed through cooperation among its member countries, and its shape— and, hence, impact—is largely the result of policy choice.
- 2) Bargaining, which is the primary language of trade negotiations and the construction of the multilateral trade regime, is a limited framework to ensure the objective of producing a trade regime that proactively supports development. Alternatives that seek to bring more coherence between the rules of trade and the development objective could be explored further.
- 3) As with any public good, the multilateral trade regime needs to be assessed continuously in terms of the distribution of its net benefits for its member countries, if not for all countries that are affected by the existence of this regime.

In light of these points, perhaps then, this is the essential message that emerged from the discussion: The GPG lens offers a unifying—indeed simplifying—framework for assessing how “public” the regime is in terms of both form and substance. It also facilitates a normative analysis and helps identify where shortcomings in terms publicness exist and what could—or should—be done to correct those.

It would be ideal to see the global public good concept reflected in the discussions at Cancun during the 5<sup>th</sup> WTO Ministerial this September. Each negotiating point could be put to the test and reviewed from the twofold perspective of whether it is a step towards building a multilateral trade regime that is both a global public good in form and in substance.