



ACHIEVING A SUCCESSFUL WORLD TRADING SYSTEM

**A POLICY STATEMENT
BY CACCI**



**CONFEDERATION OF
ASIA-PACIFIC CHAMBERS
OF COMMERCE AND INDUSTRY**

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Primary members of CACCI

Australasia

Australia

- Australian Chamber of Commerce and Industry

New Zealand

- The New Zealand Chamber of Commerce and Industry, Inc.

Papua New Guinea

- Papua New Guinea Chamber of Commerce and Industry

East Asia

Hong Kong

- Kowloon Chamber of Commerce

Japan

- The Japan Chamber of Commerce and Industry

South Korea

- The Korea Chamber of Commerce and Industry

Mongolia

- The Mongolian National Chamber of Commerce and Industry

Taiwan

- The Chinese National Association of Industry and Commerce
- Chinese International Economic Cooperation Association

Russia

- The Chamber of Commerce and Industry of the Russian Federation

Southeast Asia

Cambodia

- Cambodia Chamber of Commerce

Indonesia

- Indonesian Chamber of Commerce and Industry

Philippines

- Philippine Chamber of Commerce and Industry

Timor-Leste

- Chamber of Commerce and Industry of Timor-Leste

Vietnam

- Vietnam Chamber of Commerce and Industry

South Asia

Bangladesh

- Federation of Bangladesh Chambers of Commerce & Industry

India

- Federation of Indian Chambers of Commerce and Industry

Nepal

- Federation of Nepalese Chambers of Commerce and Industry

Pakistan

- The Federation of Pakistan Chambers of Commerce and Industry

Sri Lanka

- The Ceylon Chamber of Commerce
- Federation of Chambers of Commerce and Industry of Sri Lanka

Iran

- Iran Chamber of Commerce, Industries, Mines and Agriculture

Central Asia

Tajikistan

- Chamber of Commerce and Industry of the Republic of Tajikistan

Uzbekistan

- Chamber of Commerce and Industry of the Republic of Uzbekistan

West Asia

Azerbaijan

- Republic of Azerbaijan Chamber of Commerce and Industry

Georgia

- Georgian Chamber of Commerce and Industry

Turkey

- Union of Chambers and Commodity Exchanges of Turkey

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With the usual caveat on remaining errors and omissions, CACCI would like to thank many people who have helped formulate this study and suggest improvements.

Firstly, Dr Andrew Stoeckel for his passionate approach to the need for an effective global trading regime in the face of many challenges. His independent study is the basis of this policy statement.

Credit for conceiving the study goes to Ken Court, a former President of CACCI from Australia and currently Chairman of the CACCI Advisory Board. Ken recognised the seriousness of the demise of the World Trade Organization (WTO) system and the need to prosecute the idea that, once again, small and medium-sized businesses around the Asia-Pacific needed to put concrete proposals forward on how to improve the world trading system. Bryan Clark, Director of the International Chamber of Commerce Australia, gave leadership to the project as well as many ideas and constructive comments.

Thanks also go to the Steering Committee formed to provide valuable comments and inputs on the substance and coverage of the study under the leadership of current President of CACCI Samir Modi from India. Beside Ken and Bryan, other members of the Committee were:

- Benedicto Yujuico from the Philippines
- Jemal Inaishvili from Georgia
- Peter McMullin from Australia
- Sheikh Fazle Fahim from Bangladesh
- Pedram Soltani from Iran
- Kazuo Nishitani (representing Teruo Asada) from Japan
- Mustafa Bayburtlu (representing Rifat Hisarciklioglu) from Turkey
- Ernest Lin representing the CACCI Secretariat.

Interacting with the Steering Committee members helped hone the arguments and hopefully present them to a wide audience. Many of these members sought and received helpful input from trade experts within their own countries. Two people whose comments were helpful were Professor Syed Ferhat Anwar, Institute of Business Administration, University of Dhaka, Bangladesh, and Dr Sait Akman, Director, G20 Studies Centre at TEPAV, Turkey.

Background

The Confederation of Asia-Pacific Chambers of Commerce and Industry (CACCI) represents the collective business interests of over 150 million businesses across the 25 member economies in geographical Asia, sometimes accounting for at least 97% of a nation's economic activity. These businesses employ perhaps one billion people, generating a living for them – many of them family owned and run businesses. Small and medium-sized enterprises (SMEs) are the main engines of most economies.

Developed	Developing		Least developed
Australia Japan New Zealand	Azerbaijan Georgia Hong Kong SAR India Indonesia Iran Mongolia Pakistan Papua New Guinea	Philippines Russia South Korea Sri Lanka Taiwan Tajikistan Turkey Uzbekistan Vietnam	Bangladesh Cambodia Nepal Timor-Leste

Source: https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/WESP2020_Annex.pdf

Members of CACCI have become concerned about the demise of the world trading system, as have world leaders and policymakers. This erosion of the system has happened over time but has now been brought to the fore by the worst global recession in a hundred years due to the global COVID-19 pandemic. The recession and pandemic have surfaced new problems of supply-chain resilience and export controls as countries look to beggar-thy-neighbour approaches and use protective devices such as local content schemes. These have compounded existing trade problems, weakened economies and led to lost jobs and incomes. Economic recovery is an imperative.

In the 1990s, CACCI was concerned about the plight of world trade just prior to the Uruguay Round of trade talks, when steps to a world forming into trade blocs threatening freer world trade was real. Back then, CACCI's response was to commission an independent study entitled *Western trade blocks: game, set or match for Asia-Pacific and the world economy?* by the Canberra-based Centre for International Economics. The success of that exercise in helping a fruitful outcome from the Uruguay Round has led CACCI to once again commission an independent study to advise on how best to reform the world trading system administered by the WTO.

The brief was to answer a series of questions:

- What has gone wrong with the WTO system (now described as being in ‘crisis’)?
- Do we need a WTO?
- If we do, what should its purpose be and what should we do to fix it?

CACCI commissioned Honorary Professor Andrew Stoeckel, now at the Australian National University – the lead author of the previous study – to undertake this work. It is published as *Rebuilding the world trading system*, and is available at www.cacci.biz. Having considered that report, some of it challenging ‘rusted on thinking’, CACCI has proposed the recommendations summarised in this booklet, along with some context.

The trade problem is well known and serious enough that many initiatives are underway, such as by the G20 through its Riyadh Initiative. Some of the G20 thinking overlap with findings here, but some do not. Several ideas are notably absent from this ‘official’ work. Tellingly, the one initiative that could really make a difference over time is not even hinted at, causing CACCI to question whether the current reform process is even on the right track. Hopefully, this contribution helps guide reform of the WTO system to a successful conclusion.

Introduction

The members of CACCI, acknowledging and reaffirming the profound significance and importance of this study, *Rebuilding the world trading system*, most appropriately timed for consideration in the 12th WTO Ministerial Conference (MC12), towards ensuring that the next generation of growth has the appropriate institutional framework for rules-based trade, and also recalling the role of the rules-based multilateral trading system in catalysing global growth, strongly urge members of WTO to work together as a team to ensure that MC12 is successful and delivers tangible results for inclusive growth for all.

We highly appreciate the WTO members appointment of Nigeria's Dr Ngozi Okonjo-Iweala as the director-general of the WTO. This is a highly encouraging indication that the nations will prioritise tackling key issues plaguing the global trade body. We note her call to 'do things differently', to which we have responded with our report and recommendations.

As the pandemic continues globally, we support the WTO Director-General's remarks that equitable access to medicines for COVID-19 is both the moral and economic issue of our time. We call upon WTO members to support the proposed temporary Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) waiver to combat the COVID-19 pandemic by ramping up production and distribution of diagnostics, therapeutics and vaccines to ensure equitable and affordable access worldwide.

The common goal of providing timely and secure access to high-quality, safe, efficacious and affordable vaccines and medicines for all cannot be disputed when, as noted by UN Secretary General António Guterres, 'if the virus is allowed to spread like wildfire in the global South, it will mutate again and again and that this can prolong the pandemic significantly, enabling the virus to come back to plague the global North.'

Least-developed countries (LDCs), many among the membership of CACCI, remain deeply and disproportionately disaffected with continuing disruptions to trade and services such as travel and tourism.

The WTO Director-General Okonjo-Iweala has correctly identified, with respect to the impacts of COVID-19, that LDCs' services trade is severely affected most notably in the tourism and transport sectors, where LDCs have a relatively high footprint in global trade, and fell by 69% and 16% respectively, with total services export revenue loss of nearly US\$17 billion in 2020.

Decreased export revenues mean job losses and economic distress for people, along with increased financial and debt pressures for governments. Against this background, restoring and increasing the export performance of LDCs in services takes on even greater urgency ... We should not rest on our laurels. Our ultimate objective is to enhance LDCs' integration in

global services trade. We need to ensure that we are doing enough, that our actions continue to facilitate progress. And we need to ask ourselves if there are other things that we can do that would help us reach our objective.

World Trade Organization, '[DG Okonjo-Iweala calls for enhancing LDCs' integration in global services trade](#)', 2 June 2021

We call upon WTO members to resolve:

- TRIPS reforms that assist nations reliant on services to develop in an equitable manner
- the package of declarations and decisions adopted by the Working Group on Small and Medium-sized Enterprises (MSMEs) on how to help rural MSMEs introduce efficiencies to meet the international demand for their products
- negotiations on Rules on e-commerce
- negotiations on Agriculture, Fisheries subsidies, Rules, E-commerce, domestic regulation in services and environmental goods and services before the 12th Ministerial Conference to be held from 30 November to 3 December 2021 in Geneva.

Finally, our report is an ambitious attempt to 'do things differently'. It calls upon WTO members to adopt economic analysis to carefully analyse their national self-interest in removing barriers to trade and the impasse that has become common in the negotiation forum of the WTO.

To assist in the recovery from the global pandemic, we demand that the WTO members return to the common mission:

to ensure the international trading system gives each nation-state the best opportunity to improve living standards consistent with pursuing their sustainable development goals.

The importance of trade

The world has just witnessed the worst recession for a hundred years as a result of the COVID-19 pandemic. This recession has brought the deterioration in world trading arrangements to a head, so the G7 now calls for ‘root-and-branch’ reform of the world trading system. The world cannot afford the underperformance of world trade to hinder a badly needed economic recovery.

Advanced and developing countries have been hit hard, although there are signs of recovery in advanced economies where vaccination rates have been higher. But this recovery has depended on a massive fiscal stimulus to alleviate the employment and income effects of the recession. The extra fiscal deficit spending, typically 3 or 4 times the fiscal spend during the 2008 global financial crisis, has led to a large increase in government debt across the world.

There is a dire need for economic recovery to restore jobs and incomes, particularly in low-income economies. More than that, it is imperative to sustain better economic performance sustained in future to service the large increase in debt.

Sustained economic recovery across the globe will not happen without the contribution from SMEs. Why? SMEs are the main engines of economic activity of most economies – for incomes, inclusive employment and innovation.

The purpose of any product or service is for it to be consumed. Exports of goods and services are a source of foreign exchange earnings, but imports are not only a source of much-needed products, they are also a key driver of productivity through the forces of comparative advantage. This is the secret of trade and trade policy that we need to elevate in conversation about reforms to the global trading system. Recent focus by some nations on their trade surplus or deficit has also diverted understanding of the complete landscape of trade. Trade deficits are matched by investment surplus. Any serious consideration of trade policy needs to consider both the trade in goods and services together with the flows of investment.

Consider the supply chains needed for the manufacture and distribution of vaccines to overcome the COVID-19 crisis. At least a dozen nations provide the input for a vaccine, let alone the ‘last mile’ services needed to get it into patients. Only about 20 nations can produce vaccine, but 195 nations need it. Free trade is the only solution.

Almost every small business in every nation relies on some imports for their daily operations. But relatively few SMEs export. Think about our daily lives. We all use mobile phones and computers, live in houses and drive cars, bikes or scooters. We consume, food, electricity, gas and water. We wear clothes, and increasingly enjoy online content and social media. The supply chains needed for these goods and services to be available to consumers around the world are sophisticated, integrated and enormous.

Like all businesses, a large share of that economic activity by SMEs depends directly and indirectly on trade – the commercial exchange of goods and services across borders. Worldwide, the 2019 exports to GDP ratio was 31%. Notice that because world exports equal world imports (ignore the statistical discrepancy!), we could equally say the world import to GDP ratio is 31%.

But the rules and their enforcement surrounding trade are not functioning well – a problem recognised by major economies reflected in recent G20 and G7 communiques. The June G7 meeting this year highlighted the many problems with trade. Background documents to the meeting – dubbed the ‘Cornwall Consensus’ – noted how existing rules ‘failed to prevent the spread of protectionism, including unfair subsidies, oligopolistic market structures, overcapacities, and export restrictions’. It described how ‘...the gains from liberalization have accrued disproportionately to the top, while leaving many communities and regions behind’. It called for ‘...root-and-branch reform of the WTO to support open and rules-based trade’.

Problems with the world trading system

Four problems need to be considered in fixing the world trade system. To foster economic recovery means fixing the world trade system. But what to fix and how? What are the right rules? For what purpose? There are some major misunderstandings here and gaps that CACCI draws attention to along with the solutions.

Problem 1: International trade differs from domestic commercial transactions because we live in a world where sovereign nations interact

Domestically, sovereign governments set and enforce the rules that dictate the efficient working of markets. International exchange also benefits from rules, but now the setting of the rules facilitating international commerce needs cooperation among nation-states and the mechanism for complying with those rules is totally different. That gives rise to Problem 1.

The root of Problem 1 is that, in a world of nation-states, the one over-arching principle, more or less agreed, is *respect for the sovereignty of borders* (despite the odd skirmish that features in the media headlines). Also, it follows that there is respect for sovereignty over what happens behind those borders. That means the only way nation-states will comply with international rules is *voluntarily* out of their *own self-interest*. Trade sanctions are not an option for compliance because barriers to imports primarily hurt the country imposing them.

Trade is win-win. The case for free trade is overwhelmingly unilateral – it pays to remove your own barriers to trade out of self-interest. As often stated by others, ‘just because some other country throws rocks in their harbours does not mean you throw rocks in your own’. But the public mostly do not see it that way. The predominant view is mercantilist – ‘exports are good, imports are bad’. That view is dead wrong: imports are good, as they allow people and business access to more things on better terms, lifting their welfare. Exports are good too, but only because they earn the money for the nation to pay for the imports that expand the welfare of its citizens.

When trade policy is not well explained to a society, it is easy for people to feel threatened that their jobs or businesses could be challenged by imports from another nation. In turn, this advances the interests of populism and politically expedient defence of these local interests. Economics can win the economic argument, but populism wins votes! It is essential that trade liberalisation is also accompanied by appropriate support for the necessary structural adjustment and redistribution policies that comes from exposing each economy to greater international competition.

Imports cost jobs in select industries – but, in effect, release resources to work in more-efficient activities – the whole basis of trade and specialisation. The principle behind the gains is no different from the gains from specialisation within an economy. How that increase in welfare is distributed throughout an economy is a burning issue. It depends on domestic redistribution devices, taxation policies, social safety nets, education and training and more, not just on trade policy. That generates vigorous internal political debate between winners and losers but, too often, narrow vested interests win out over the national interest and protection from imports is the result.

Since imports lift welfare, restricting imports is a cost. But it is a cost that can't be seen in a government's budget papers or national statistics. It is the value of what is foregone by restricting imports – the opportunity cost – that matters. This cost is real but it can't be seen. The opportunity cost has to be measured, but here's the thing: this is rarely done and even where it is done, mostly it is not done particularly well. How can a nation make a decision on trade policy in the national interest if they do not measure what the national interest is?

This leads to one of the powerful recommendations by CACCI (listed at the end of this paper). It also paves the way for another 3 recommendations that will remove some existing contradictions in the WTO rules, based on flawed economics.

Problem 2: Overburdened WTO is moving away from its original mission

Problem 2 stems from the fact that, for all its problems, the market economy is the *only* arrangement capable of delivering what people want. But, as is well known, market outcomes do not always align with society's wishes due to spillovers from economic activity that are not adequately incorporated into the incentives people face. These spillovers can be positive or negative, but it is the negative spillovers that receive the most attention in the media – pollution of the air or water, loss of biodiversity, rising inequality, insecurity of employment and many more ... it is a long list. As well, people need adequate public goods, such as infrastructure, for society to function effectively.

The role of government is to deal with these spillovers efficiently and provide the public goods people want. It is the political process of responding to these public pressures and to be seen to be 'doing something' that the agenda of international institutions expands through 'mission creep' – Problem 2.

The problem with mission creep is *NOT* the importance of each issue – they are all important, albeit to varying degrees. The issue is that you can't kill two birds with one stone. For every independent goal there is a best way to address it successfully. Under the WTO system, sovereign nation-states have one basic tool: to allow trade across their borders, or not, and under what conditions. Asking that one tool to address many different global issues ends in diluting effort, deflecting attention from the best way to address each global issue, absolving accountability on the right institution to fix the right problem and ultimately the failure of the WTO system to satisfy society's desires.

The result of this failure is disrespect for the institution. The WTO system needs to focus on core business, which is to facilitate commercial exchange across borders to raise living standards, albeit in a way that does not compromise other sustainable development goals.

That leads to 2 of the recommendations listed at the end. The WTO should apply a test to the issues it deals with and those better left to others. That is, if no trade occurred, would the issue still exist? If so, then it is best dealt with by another organisation (who may of course seek the advice of the WTO to assist, but not have the WTO as the primary responder).

For example, if a nation thought labour rights were being abused in another nation, it might decide to ban trade with that nation to coerce improved labour practices. If the alleged abuse continues, trade was not the key issue. It is possible that the withdrawal of trade could in fact make the situation worse for the people deprived of trade. Withdrawal of trade could actually exacerbate the problems – a scenario to be avoided. We must ensure that the right organisation is dealing with the issues to get the optimal outcomes. Weaponising trade is not a solution.

Problem 3: Things have changed dramatically since the agreed rules of the WTO system under the Uruguay Round completed in 1994

The biggest change over the last 2 decades is the massive digital transformation touching every aspect of business and human interaction. It has given SMEs the opportunity to go global both for imports and exports. SMEs serving domestic customers need free access to imports to, in turn, be able to offer best products to their customer base. From cafes to gyms, these operators can improve their businesses by sourcing the best value-for-money inputs, whether it is local or global. The digital revolution allows SMEs to reach millions of potential suppliers but there are many hurdles for purchases across borders.

Likewise, the digital revolution allows SMEs to potentially reach billions of customers, vastly expanding their prospects for recovery via international trade. Former Bank of England Governor, Mark Carney, expresses it this way:

... the time has come for free trade for small and medium enterprises. They are the engine rooms of most economies, yet they account for only a fraction of exports. A large part of this underrepresentation reflects the much higher costs of doing business across borders – from regulation to the costs of transferring money.

Mark Carney, '[A chance to reboot globalisation](#)', *Financial Times*, 19 March 2021.

Harnessing digital platforms can give SMEs the opportunity to globalise and help drive inclusive growth. Expanding international trade and increasing SMEs contribution from an import and export perspective has the potential to add enormously to the badly needed economic recovery. But rules governing digital policy issues, such as privacy and cybersecurity, have not been developed or agreed and must be a priority.

The digital revolution also has implications for intellectual property rules under the WTO. The issue is that it has become far easier to copy and transmit knowledge, potentially making enforcement of intellectual property rights globally more difficult. Without enforcement of rules, this can erode the incentive to produce new knowledge in the first place. Conferring a reward for producing new knowledge by granting monopoly rents for a limited period through patents and copyright is but one mechanism to encourage innovation. There are alternatives, such as government R&D or prizes for specific discoveries. But innovation involves risk and is best left to private interests to take on. A rethink on intellectual property is warranted.

Problem 4: The erosion of multilateralism

The fourth problem is the erosion of multilateralism and the lack of a global hegemon to lead to a first-best trading system. Multilateralism has weakened with a lack of a unified purpose behind the WTO system and erosion of leadership on global trade. Promising noises have been made under President Biden, but proof will have to come from concrete simple, unified stances to facilitating commerce across borders. Part of the erosion is also due to some old problems of coherence in existing rules not being addressed.

Recommendations

CACCI now make 15 recommendations to deal with these problems.

Recommendation 1: Adopt a common, simple purpose for the WTO system

The purpose of trade needs to be understood and aligned to the calls for reform of the WTO system. Without agreement on what the world's nation-states want to achieve from trade, there will never be agreement on the rules to follow. Multilateralism is strongest when there is agreement around a single purpose. The purpose of the WTO system should also be outcome-orientated, reflecting not what the WTO does but what the desired outcome from the agreed system of rules is. As trade is a commercial activity across borders, CACCI's suggested purpose would be:

to ensure the international trading system gives each nation-state the best opportunity to improve its living standards, consistent with pursuing its sustainable development goals.

Recommendation 2: Adopt and apply a set of principles to achieve the WTO's objective

These principles are the means by which commerce across borders can be facilitated to lift living standards. Competition and removal of barriers to trade are essential here. Non-discrimination across countries and across products (national treatment) are requisites for fair competition. Openness to trade is another where the default position should be no barriers to trade *except* where the national benefits exceed the costs, as established by a domestic transparency institution described below.

Recommendation 3: Establish a domestic transparency institution in each domestic capital to assess national self-interest from trade policies

A rules-based system is important for a predictable business environment. But international law is different from domestic law where there are a legislature, judiciary and police force. International law works because nation-states comply with the rules because it is in their own self-interest to do so. Retaliation is not an effective option because a country hurts itself when it imposes barriers – it shoots itself in the foot!

For a rules-based system to work, countries have to be able to assess what is their own self-interest.

A suitable domestic institution that can do independent, credible, economy-wide assessments of the benefits and costs of trade protection has to be established. Each country has to get its own 'house in order' by doing what is best for itself, consistent with pursuit of sustainable development goals whether these are local or global. *Good domestic policy is good trade policy.* Where nations are not able to undertake this internally, the WTO, OECD, or the World Bank, development banks and aid programs should be commissioned to assist.

This recommendation is important. It means nations should intervene in trade only after a proper domestic transparency process assessing national costs and benefits. Part of the problem with the WTO arrangements now is there are too many exemptions, and 'anything goes.' There are exemptions for balance of payments, national security, formation of 'free' trade agreements and more.

Nation-states will seek comfort in exemptions to be able to agree to a set of binding rules. But there should only be one exemption: a restriction on trade should only be allowed if it is genuinely in the national interest. If national security is an imperative for a country, that will show up in any properly conducted national interest test. 'Properly' here means following the elements outlined above and detailed in the full companion report referred to in the preface. The key words are 'independent', 'credible' and 'economy-wide', so the public will trust the findings and in the process improve their knowledge of what trade is about and demand the best policies from their government

Recommendation 4: Stop mission creep

The WTO has one main tool governing commercial trade across borders. It is not an effective mechanism to achieve most sustainable development goals. The political imperative to deal with sustainable development goals is understandable, but 'mission creep' into areas where it is not the first best institution to succeed only sets up the WTO to fail.

The United Nations (and its many agencies such as the International Labour Organization and World Health Organization), the World Bank, International Monetary Fund, OECD, and more, have the mandates, skills and resources to be engaged as the appropriate interlocutor on different issues (which is why they were established in the first place).

Assigning the right issue to the right institution is better than loading the WTO with issues it is not capable of successfully addressing.

Recommendation 5: Multilateralise all preferential trade agreements

The core of the WTO system is non-discrimination. Yet preferential trade agreements (PTAs) are discriminatory. The ‘stampede’ into bilateral and regional arrangements erodes this core principle. Multiple bilateral or regional agreements are a poor substitute for an open multilateral system. Each PTA requires rules of origin, which sometimes run to hundreds of pages. They are a large regulatory burden, especially on SMEs. It is an unnecessary burden. But countries will be reluctant to give up their bilateral agreements. The best way forward to get a better outcome is for countries to systematically multilateralise each of their PTAs. That means offering best terms from each bilateral arrangement to all WTO members on a most favoured nation basis. The rules-of-origin problem disappears and there will be some more trade liberalisation as a result.

Recommendation 6: Only permit subsidies that address market failures and externalities

State interventions and subsidies are increasing to address economic recovery needs. However, the use of subsidies needs to be examined in line with national interests (linked to Recommendation 3), and in ways that are least costly to trade.

Recommendation 7: Assess anti-dumping on both a cost and benefit basis

Anti-dumping is oriented around costs or injury only. But dumping can also offer benefits to consumers, often making a country, on balance, better off. The one-sided injury view makes anti-dumping the protectionist device of choice. Genuine cases where predatory arrangements are detrimental to the long-term harm of a nation will show up with any properly conducted assessment, as under Recommendation 3 above.

Recommendation 8: Reassess differential treatment for developing countries

Developing countries have sought and secured Special and Differentiated Treatment (SDT) as a feature of the WTO, based on the view that non-reciprocal preferential market access was an aid to development. This is a well-intentioned approach that has natural appeal; however, economic assessments of the benefits demonstrate that SDT may not always be realising the anticipated benefits.

SDT under its existing form also discourages many advanced economies to make further concessions to smaller economies, and they argue that SDT in WTO needs reforming. This inherent tension between developed and developing nations leads to accusations of asymmetry within the WTO system that has prevented progress in the past.

Preferences erode the non-discrimination principle, which, as in the case of PTAs above, has ended up, in some cases, creating perverse incentives and unintended side effects. The effectiveness of preferences as aid to developing countries needs to be re-examined. The question needs to be posed whether there is a more effective way for advanced economies to deliver aid to developing countries that would avoid the problems this causes for the world trading system. The World Bank would have expertise here.

CACCI calls for a flexible and pragmatic approach to the SDT issue, where increased transparency and tailor-made implementation should be allowed for any country if they have a legitimate and targeted need.

Recommendation 9: Assess best arrangement for digital economy rules

The explosion of digital technology into all aspects of economic and social activity is obvious, as are the emerging problems. It touches on privacy, cybersecurity, standards and more. The speed of the digital revolution has meant the regulatory arrangements required, and what needs to be agreed globally, is not clear. The OECD is well advanced in thinking and analysis in this area, so CACCI recommends that the OECD devote resources to this aspect and advise the WTO accordingly.

Recommendation 10: Reassess intellectual property

Intellectual property rights rules are within the WTO's 1995 TRIPS agreement. The problem with intellectual property is that there is a conundrum: new ideas can be transmitted virtually freely and doing so enhances their adoption, enabling prosperity and progress. Being able to freely adopt new innovations is of obvious benefit to developing countries. But there has to be an incentive to produce these new ideas in the first place.

While governments have a role in providing new ideas, particularly basic research, practical innovations are risky and best handled by the private sector. The system devised has been to offer temporary monopoly rights (patents and copyright) to the inventor to create the incentive to innovate. A balance has been struck, as reflected in the 1995 TRIPS agreement. Since most innovation occurs in advanced economies, where the skills, knowledge and resources lie, paying a reward for encouraging innovation also results in a transfer from poor countries to wealthy ones. Is the balance right?

New arrangements on intellectual property have often been struck in regional and bilateral agreements. As well, different cultures among the nation-states alluded to earlier gives rise to different attitudes to enforcement of these property rights. In the new digital age, where knowledge can be more easily copied and transmitted, there is a need to revisit the 1995 TRIPS agreement and test whether the alignment with various regional agreements ensures that the right balance between access to new knowledge and granting temporary monopoly rights has been struck. The OECD would be one place to review this aspect along with the World Intellectual Property Organisation.

Recommendation 11: Redesign the dispute settlement system

Recommendation 3 will radically reduce the disputes before the WTO, as it is in a country's own self-interest to allow free trade, irrespective of what others do. Any proper transparency process will identify this and any barrier to trade will be in a nation's self-interest, so if there is good justification, it should be permitted. Trying to make international 'law' enforceable is a fool's errand that ignores the basis of the sovereign nation-state. Disputes will still occur and so mediation or arbitration should be applied if the current Appellate Body cannot be resurrected.

Recommendation 12: Allow plurilateral agreements only if they are open to all at a later stage

Part of the lack of progress on reform and why the WTO system now needs 'root-and-branch' reform is that negotiations have been too slow or have failed altogether. Speed has been limited to the 'slowest ship in the convoy', preventing change by those wanting to move forward. Plurilateral reforms should be permitted, providing these are on an open basis, meaning others can freely join and adopt new rules on their own time.

The danger is that these arrangements can be discriminatory in themselves, weakening a core principle. But if arrangements are made on an open basis, this should alleviate this potential problem. Many developing countries refrain from participating in plurilateral negotiations due to capacity problems. Plurilateral initiatives that consider developmental problems will encourage their participation. Clarifying legal aspects of plurilaterals with respect to their incorporation into the WTO rulebook can facilitate their use.

Plurilateral approaches are also seen by some developing nations as asymmetrical, as they seek to advance the interests of a limited group to the exclusions of others. Developed nations are more likely to engage in and lead such negotiations as they have greater capacity. However, there doesn't appear to be any impediment in principle to developing nations from also seeking and leading such approaches. CACCI encourages all nations to constructively offer thought leadership for increasingly liberalised trade rules to be developed that reflect the 21st century economy and pathways that leave no-one behind.

Recommendation 13: Do not use climate change for protectionist purposes

The increasing need to prevent climate change is one of the United Nations Sustainable Development Goals, but unilateral measures risk becoming trade protection tools. Article 3(5) of the United Nations Framework Convention on Climate Change states:

Measures taken to combat climate change, including unilateral ones, should not constitute a means of arbitrary or unjustifiable discrimination or a disguised restriction on international trade.

[United Nations Framework Convention on Climate Change](#)

CACCI urges all nations to ensure that climate response measures are compliant with the WTO rules for international trade reflecting the need for international trade, investment and movement of people and skills to assist in creating solutions to our modern challenges.

Recommendation 14: Adequately reflect the views and priorities of businesses and SMEs in trade agendas and the WTO

Recognising that the WTO already offers business engagement opportunities, CACCI calls for even greater direct business engagement in the decision-making process of the WTO. Global value chains are not constrained within the traditional notion of 'nations'. Most consumers rely on goods and services that are combined across many nations.

Global rules need to reflect the 21st century terms of trade. Large businesses usually have the resources to make their voice heard, and they do. But SMEs (and, in the Indian context, MSMEs) are the heart of all national economies and their voices must also be heard. Most MSMEs are importers or rely on imported products and services to service their customers. The 'exports good, imports bad', approach by national governments disenfranchises their local business community and consumers. It is essential that all nations undertake appropriate economic assessment of their trade landscape to ensure that government policy reflects the true state of each economy and the 'right' economic outcomes are achieved to assist with national development and advancement.

Recommendation 15: Address shortcomings in the operation of the WTO

Besides more efficient methods of negotiations and dispute settlement, compliance with and surveillance of notification obligations by members needs to be enhanced; transparency under Third-Party Risk Management (TPRM) need to be reinvigorated and strengthened; and possible recourse to voting mechanism under current rules must be allowed.

Conclusion

The bottom line is that international trade is commercial business across borders. It differs from domestic transactions in that in a world of sovereign nation-states, different rules and enforcement characteristics apply. But like all commerce, the aim is the same: to lift living standards. The fewer the barriers to commerce – whether technical or government imposed – the more commerce there will be, lifting living standards directly and indirectly through enabling resources for government to provide public goods and pursue sustainable development goals. An agreed simple clear purpose for the WTO system is necessary for countries to support multilateralism which is CACCI's first recommendation.

The way to deliver this objective can be summarised in a sentence:

An open, non-discriminatory, rules-based multilateral system.

Open means the presumption is that there are no government-imposed barriers to trade, the only exceptions being where the national benefits from imposing the barrier exceed the costs as assessed by a *proper* domestic transparency process. If there are genuine national security or other reasons for restricting trade, these will surface in the national interest test where the words 'proper process' is spelt out in the accompanying background study to this booklet.

Non-discriminatory means all countries are treated the same and foreign products are treated the same as domestically produced ones.

Rules-based is important to lower risk of commerce across borders and encourage investment and trade. But rules are worthless unless there is compliance. Respect for sovereignty by nation-states means compliance with international 'law' is voluntary out of a nation's *self-interest*. In turn, that means assessing national interest through a proper domestic transparency process as outlined above. As said elsewhere, 'decisions cannot be made in the national interest if people do not know what is in the national interest'. Sadly, this is rarely done in a proper way. It means those advocating a 'rules-based' system, as the G20 does, is just hollow words unless a proper process of assessing national costs and benefits from trade policies is also advocated.

Multilateral stands its best chance where countries around the world unify around pursuit of a simple goal. It implies resisting the natural political pressure for 'mission creep', diluting the WTO's efforts into areas where it is not the first best way to deal with the issue proposed, irrespective of the validity of the importance of the 'extra' issue. Pursuing multiple agendas where different countries have different values and priorities weakens multilateralism.

CONCLUSION

CACCI believes the 15 recommendations will make a material difference to the improved performance of the world trading system. There will not be an effective global recovery without the success of SME's who are members of CACCI. The ideas here have been distilled after much effort and reflection, an expansion of the logic behind them in the background study mentioned in the preface. A good place to start is for governments to engage with CACCI and listen to what SME's are saying.

In this regard, CACCI believes these recommendations will be considered by WTO members in MC12.

Adopting the 15 recommendations would simplify and strengthen the multilateral trading system. It would create more certainty in trade, encouraging investment and enhance commerce across borders. Higher living standards would be the result. That will not be at the expense of other environmental and social goals if the right policies are in place to address those issues.

The focus of this study is on trade, but CACCI notes that this is but one aspect of the need for better global governance. Other pressing aspects of global governance are the pandemic and climate change. Before that it was finance and the global financial crisis. There are more. The WTO system is not the only institution where the effectiveness of global governance arrangements is called into question. That is behind the calls for a new 'Bretton Woods' type conference to revisit how nation-states should work together in the modern age considering how much has changed since WWII. CACCI would support such a move to examine whether the global institutions we have now, along with the WTO system, are still fit for purpose.

CACCI members

Australasia



East Asia



Southeast Asia



South Asia



Central Asia



West Asia





Samir Modi



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