

Interview with Ken Ash, Director of OECD Trade & Agriculture Directorate

# WTO 2.0 to Be Complemented by Ambitious RTAs

By Japan SPOTLIGHT

The conclusion of the TPP negotiations certainly represents big progress in international trade liberalization efforts, though its ratification process does not look so easy. The WTO, meanwhile, has recently made good progress as well in concluding a Trade Facilitation Agreement. Though it does not represent progress in the entire Doha Round, another recent positive sign at the WTO is that some negotiation members are now ready to pursue a WTO 2.0 by not only fixing old issues but also looking at new issues that are not covered by the Doha Round. Will the TPP make a positive contribution to WTO 2.0? Or will the rise of nationalism and inward-looking politics seen around the world lead to a rise in protectionism, which would be bad news for trade policy practitioners? How can multilateral organizations like the WTO and OECD cope with this trend? To discuss these issues, *Japan SPOTLIGHT* interviewed Ken Ash, a distinguished trade policy expert and director of the Trade and Agriculture Policy Directorate of the OECD.

## Assessment of WTO MC 10 in Nairobi

**JS:** What is your assessment of last year's 10th WTO Ministerial Conference (MC10) in Nairobi?

**Ash:** The agreements at MC10 and earlier at MC9 were not as big as the full ambition of Doha, but we did see the Trade Facilitation Agreement at MC9, as well as a number of new agreements on issues that were particularly important for low-income countries: on constraints on export competition measures, agriculture, and so on. So there was some progress. It is interesting that while progress was not possible on the entire Doha Development Agenda (DDA) package, on specific elements there was a will amongst countries to proceed on a partial basis. So they could not agree on everything, but they could on some things.

The reason I think that is worth recalling is, when we look at the future priorities of the WTO, it is clear they want to consider two things. One is the range of issues, and clearly those that were a part of the DDA remain important: agriculture, non-agriculture market access, services, and a number of rules negotiations, among other things. There are other issues that many WTO members will want to address at the same time. Let me mention just two: one is the links between trade and investment, and the other relates to digital trade, including e-commerce. So looking ahead, there will likely be a bigger package of issues of interest to



Ken Ash, Director of the OECD Trade & Agriculture Directorate

countries.

But the second element, and why I think MC9 and 10 offer particularly important lessons, is the possibility to explore more flexible ways to move forward and open markets for trade and investment. Not moving till 162 countries agree has proved to be difficult. But moving when some countries are ready to proceed on some issues — that has proven to be possible. I would expect the WTO to look very closely at both new issues and new ways of negotiating on them, including perhaps in more plurilateral or regional formats. If WTO members can agree on a wider set of issues, and also on more flexible modalities, that would be very good news indeed.

## TPP & Future WTO Negotiations

**JS:** Do you think it would be useful for the WTO to pick up on some points agreed upon in the TPP negotiations?

**Ash:** Yes, I think so. The TPP is very comprehensive: there are 30 chapters covering many areas that are not addressed in the WTO. It would be very ambitious to try to address them all. Whether or not it is possible to look at environment and labor and IP and some other issues, I am not sure, but I think it is certainly possible to pick up further work on trade and investment and e-commerce, in addition to agriculture and services. It is also important to distinguish that at the WTO some of the discussion is more around developing a forward-

looking work program, as opposed to an immediate negotiating agenda. There is some work to be done first to get a common understanding across all members of the WTO as to future negotiation issues relating to trade and investment and digital trade, for example.

**JS: Many investment experts seem to be very positive about the TPP's progress on Investor-State Dispute Settlement (ISDS). What do you think about this?**

**Ash:** Well I think what is in the TPP builds very much on what is in many already-signed regional trade agreements (RTAs), with some improvements: there is more transparency, definition and clarity. So in that sense it is good progress. There is a wider discussion outside of the TPP that continues between the US and the EU in the context of the TTIP of course.

**JS: Do you view the TPP's new rules on e-commerce as a positive development?**

**Ash:** It is incredibly important that e-commerce is addressed in the TPP. There is a commitment not to apply customs duties to e-commerce, as well as again a number of other transparency and predictability-enhancing provisions. It is very important that e-commerce, and digital trade beyond e-commerce, be picked up in future negotiations, and what is in the TPP is a very good start.

**JS: The TPP has also achieved rules on state enterprises, which are especially significant in China, already a big player in international trade. Do you think the WTO can pick up on this progress too?**

**Ash:** What I think is useful on this in the TPP are the provisions that require notification in advance and improved transparency, so that when state-owned enterprises are engaged in trade the likely effects are more certain, more predictable, and to the extent that they result in an uneven playing field or uneven competition, they can be made more transparent and addressed in some way. Whether or not that will happen soon in the context of the WTO, though, I really do not know.

**JS: Regional or bilateral free trade agreements (FTAs) have tended to somewhat discriminate against small and medium-sized enterprises. Do you think the WTO ought to pay particular attention to these?**

**Ash:** WTO already supports SMEs in several ways. Improvements in market access, customs procedures, and technical regulations (SPS and TBT — sanitary and phytosanitary measures and technical barriers to trade) reduce trade costs that fall disproportionately on SMEs. An important advantage of the WTO is that it covers so many countries. It is bigger and more inclusive than any regional agreement, so by definition the multilateral system works for more countries and more firms, including small firms, within those countries. SMEs are very important for growth and jobs in every

country. Many of these firms, while not always contributing to trade directly, do contribute indirectly by supplying intermediate products and inputs to companies that subsequently export. So the relationship between the ability to export and import, and the well-being of small enterprises, should not be underestimated.

Anything governments can do to reduce unnecessary costs that their policies might impose on firms is worth doing. When, for example, on border procedures you have regulations that are relatively inefficient and cause delays, this is not good for any company, but it is particularly bad for smaller companies that are less able to absorb those extra costs. Things like excessively restrictive services regulations, or particularly high duties on food and agricultural products — these extra costs of trading are not good for any company, but are proportionally more difficult for small enterprises.

Now I am not saying regulations are bad. It is very important that we not constrain the right of any country to regulate — that is not the point. But along with the right to regulate comes a responsibility to ensure that those regulations are scientifically and technically based and are proportionate. In some cases there might be regulations that go further in controlling business than necessary, or that discriminate between domestic and foreign suppliers, and those kinds of regulations can impose unnecessary costs that should be removed.

## **Coping with Possible Nationalistic Protectionism**

**JS: These days nationalistic movements seem to be on the rise. Perhaps domestic policies would be influenced by such political movements, for example towards protectionism. How important would it be for the WTO to address this issue?**

**Ash:** I think there is always a risk that we fall back towards further closure of markets. The evidence is that over the eight or nine years since the economic crisis, we have not seen a wholesale rush towards protectionism, but rather a gradual accumulation of protectionist measures. During the first year or two since the crisis this protectionism was affecting around 1% of global imports; today this has grown to around 5%. This is not what we want to see, and it is worrisome. If you are a pessimist it is very bad news; if you are an optimist it is not as bad as it could be. But for sure, the threat of protectionism is something that governments all need to pay attention to. We see this in the WTO as well as here at the OECD and in UNCTAD. We continue to watch, and provide governments with a report every six months on recent developments in protectionist measures that could affect trade or investment. What we would like to see is for governments to begin to remove some of those measures they have put in place recently, and we have seen less of that than one would like.

**JS: A couple of years ago, the OECD and WTO reports on the benefits of trade liberalization seemed very convincing all over the world, and many countries**

Photo: EPA=JJI



Director-General of the World Trade Organization (WTO) Roberto Azevedo and Kenyan Foreign Minister Amiyah Mohamed address delegates during the official closing of the 10th session of the WTO ministerial conference in Nairobi on Dec. 19, 2015.

**believed that it could be considered an economic growth strategy. But now the trend seems to be changing. What is your assessment?**

**Ash:** The economic argument remains as valid today as when we wrote those reports. What I think is happening is that when growth is as low as we currently see it in so many countries, there is a tendency to try to protect the growth you have. Governments try to support domestic jobs in the short term, perhaps without as much consideration to the medium and long term as one would like to see. But the evidence is that this does not work. If only one country in the world decided to protect itself, maybe it could succeed. But if two, three, four or a hundred countries decide to protect themselves, then you destroy the opportunities to get those efficiencies from both importing and exporting. The temptation is understandable; giving in to the temptation is regrettable and makes for bad policy.

I think there is one other element though we need to be honest about, which we tried to be very clear about in those reports. Trade openness can offer significant benefits. It is not necessarily immediately good for everybody. We need to do more to accompany trade opening with policies that help ensure its benefits trickle to more people. In other words, things like education and skills upgrading, investments in required physical infrastructure, active labor market policies, social assistance support, in some cases even redistributive taxes. But just assuming and hoping that everybody will benefit from trade openness is insufficient: trade openness needs to come with policies that ensure the benefits can be achieved and will reach more people than otherwise. This is a particular issue in the cases of less developed countries where they do not have the accumulated investment in human capital and infrastructure.

### RTAs as Complementary to WTO

**JS: Coming back to the relationship between the TPP and other FTAs or the WTO, do you think it would be highly risky for the world trade regime to be solely dependent upon mega-regional FTAs such as the**

**TPP because of the political challenges they face?**

**Ash:** I do not think that world trade is at all solely dependent on FTAs. The multilateral trading system continues to underpin all of these regional efforts, and remains the global rulebook. In some sense you can think about RTAs, including the TPP, as steps towards a more effective multilateral system. If countries are able to use regional negotiations and plurilaterals as a laboratory to explore innovative ways to move forward, to explore new approaches that can open markets further and in more areas than they have been able to do in the WTO, this could be a good thing. And it is also risky *not* to open markets. The first best option is the multilateral system, but when that does not deliver, moving to second-best options is preferable to doing nothing.

**JS: The OECD once talked a lot about the “trade diversion effect” of bilateral or regional FTAs. But you seem to be saying that these and the WTO could be complementary to each other.**

**Ash:** Yes, I am saying that. Let me be very clear. Some decades ago, our view on RTAs was different than it is today. Back then there were a lot of small RTAs, developing countries were not very much involved, and they did not really open markets that much. In the last 10 or 15 years we have seen an explosion in both the number of participating countries and the scope and level of ambition of RTAs. The TPP is the first mega-initiative, but many of the RTAs notified to the WTO in the previous 10 or 12 years are much more ambitious than those that we saw 15, 20 or 25 years ago. And this is really important, because when RTAs do not do much, they do create this plethora of rules that is hard for firms to follow. But when RTAs go beyond what is available in the WTO, and begin to show how more ambitious market opening could be achieved, then the possibility for them to be complementary is much greater. So what is important I think is for RTAs to be ambitious, and to remain open to other participants who wish to meet the standards of those agreements.

**JS: Are there any other points to be mentioned on the TPP in terms of consistency with and relevance to WTO rules?**

**Ash:** It is certainly our impression that the TPP is fully consistent with the articles and the obligations of the WTO. But the TPP does a couple of things. It extends rules to more countries in some areas, and here the best example is probably government procurement: this now covers more countries than were signatories to the government procurement agreement under the WTO. In some other cases it goes above the measures that exist in the WTO, and here SPS and TBT, some of the regulatory cooperation, and even some of the trade facilitation measures look to me to do so. In some areas it addresses measures that are not yet addressed by the WTO; here some of the labor provisions are of particular interest. So again, it is a very comprehensive agreement that explores some innovative ways forward to include more countries, a higher level of ambition, and even new issues.



**JS: We see today a wide and growing income gap between developed and less developed nations, as well as within countries. To address that, perhaps we would need strengthened WTO rules, rather than regional FTAs which (like the TPP) often exclude developing nations from their membership?**

**Ash:** Within the WTO, there are already of course special provisions for less developed countries. With respect to RTAs, we should not pretend that regional initiatives are somehow preferable to multilateral ones: that is not true. The multilateral system is the best for most countries, and again an important characteristic of the WTO is that it covers 162 countries, a coverage no RTA has. We have not done any quantitative analysis on the TPP ourselves, and would prefer to wait until it is ratified first, but there has been some very recent analysis by others that suggests there are either very small or no negative impacts from the TPP on non-participants. But what is important is that there are very large benefits to some of the countries, particularly the developing countries, that signed on. So in a sense, the bad news for a non-participant is not that they are hurt by the TPP, but that they are not a member of the TPP or have not liberalized their own markets themselves. I recall from this analysis that Vietnam, for example, would be one of the significant beneficiaries; some other Southeast Asian countries who are not participants are not hurt, but they do not benefit either.

**JS: Vietnam is considered one of the largest beneficiaries of the TPP because they adopted a new approach of unilateral voluntary trade liberalization. What is your view on this?**

**Ash:** Trade and investment policy are a part of an economic policy toolkit that governments have available to them. You can change your trade policies by negotiations, or by simply changing them nationally, unilaterally, by yourself. We have been advocating here at the OECD for quite some time that countries should look more to trade and investment as part of comprehensive structural policy reforms. This is in fact an option that was picked up under Australia's presidency of the G20 a couple of years ago, when they introduced a target to drive growth by 2% above trend, and roughly one third of that extra growth was envisaged to come from measures in trade and competition. So I think there is no doubt that as part of national structural policy reforms aimed at stimulating growth and jobs, trade and investment would be significant. This is as true for developed countries as it is for Vietnam.

## **Structural Reform & Trade Negotiations**

**JS: Structural reform is very important for any country today. Do you think trade negotiations, and in particular the WTO, could be useful in pressuring domestic organizations to adopt or promote structural reform?**

**Ash:** I think they can be very complementary. If you are an economic

policymaker working in your government, you can understand the economics of improving your trade policy and reducing the costs that these may currently impose on your businesses. But that is not always easy to convey to the public, who sometimes would like to see other countries change their trade policies at the same time. So that is one part of it, the political part. The economic part, though, is equally important. The benefits of a single country opening are significant and worth pursuing, but the benefits of all countries opening are even bigger.

## **Future Work of OECD on Trade**

**JS: Regarding the future work of your trade directorate at the OECD, what are your plans for dealing with rising protectionism in the world?**

**Ash:** First, what we would like to do even more is demonstrate not just how much protectionism there is, but to focus on the impact of that protectionism, so that we can help prioritize areas of reform where the benefits would be greatest. So to try in a sense to rank-order measures that governments have in place, and help establish an agenda that begins to roll back and eliminate protectionist measures put in place over the past years. It is important that we look at measures taken since the crisis, but I think we also need to go back and look more comprehensively at that stock of protectionist measures that existed before 2008. The second thing we want to do is to continue to support individual country efforts, regional and plurilateral efforts, and multilateral efforts to go further to open markets. And here we continue to do a great deal of work on agriculture and services sector reforms, both of which are incredibly important to many countries. There are also the two new areas of the relationship between trade and investment, and digital trade, in particular e-commerce. The latter is a large part of the future of business activity, and I would like to understand better what some of the emerging problems might be, and how we can ensure that markets for digital trade remain open while safeguarding privacy and security.

**JS: Will you be engaged in outreach activity, in particular in the Southeast Asian countries?**

**Ash:** I am glad you asked that. For around 15 years we have had a very active program with some of the big emerging economies like Brazil, China, South Africa and India. More recently we have been much more active in reaching out to Southeast Asia, working with APEC, ASEAN and so on. We are doing that with more and more success in fact: the interests of many Southeast Asian economies are converging with those of more developed economies. Working with Southeast Asia countries, learning from them as well as sharing OECD country experiences with them, is a very important priority for us. **JS**

*Written with the cooperation of Chaogang Ai, a Tokyo-based editor and blogger.*