

DDG Wolff: WTO reform crucial to restoring confidence in the trading system*

Ongoing WTO reform efforts will be crucial to restoring confidence in the trading system's ability to meet the needs of its users and adapt to changing economic realities, Deputy Director-General Alan Wolff said on 21 September. In virtual remarks delivered to the Trade Law Centre for Southern Africa, DDG Wolff cautioned that the full range of challenges the WTO's membership faces cannot be addressed overnight, and that more proposals are needed from members on how to enhance the WTO's effectiveness. His remarks are below.

“A WTO FIT FOR THE 21st CENTURY TRADE GOVERNANCE”

TRALAC Annual Conference

Trade Governance in Africa Amidst a Pandemic and other Global Challenges
Organised by The Trade Law Centre for Southern Africa (TRALAC)

I would like to thank the Trade Law Centre (TRALAC) for inviting me to speak at its virtual Annual Conference. I am pleased to join Mr. George Lipimile, Chair, TRALAC Board and H.E. Mr. Wamkele Mene, Secretary General, AfCFTA Secretariat, my fellow participants in this webinar.

Since the outbreak of COVID-19 about nine months ago, close to 30 million people have been infected worldwide, with case numbers still rising. As of last week, the death toll was approaching one million. In Africa, the virus has been spreading more slowly than was initially expected, but it still has taken a significant toll on human life with 24,000 deaths out of around one million cases. In Africa as elsewhere, the economic cost of pandemic has been immense, though the precise cost of the shutdowns, the slump in exports, and the fall in remittances is yet to be fully calculated. Hunger and poverty rates are rising after years of trending downwards.

Looking to the continent's economic future, I am pleased that trade under the African Continental Free Trade Area (AfCFTA) will enter into force on the 1st of January 2021. This is a great achievement. I believe that the AfCFTA has the potential to play a strong role in driving the post-pandemic economic recovery as well as longer-term growth and addition of value to its trade.

I have been asked to speak about three main topics: first, about whether the WTO is fit for the 21st century; second, on what we can learn for the world trading system from the COVID-19 pandemic; and third, on the WTO's Trade Facilitation Agreement (TFA)'s potential benefits for Africa.

A WTO fit for the 21st Century

Before addressing the WTO's fitness for the future, it is worth reflecting on the value of the organization at present.

The global trading system we have grown accustomed to over the past 70 years was not built by accident. It was intentionally created out of hard-learned experience, in the shadow of the devastation of a second world war and the end of the colonial era. The multilateral trading system was designed for and delivered on the promise of peace and increased economic well-being fostered by trade. Absent cooperation in international economic relations, everyone is left worse off and growth opportunities are lost. Businesses and consumers benefit every day from certainty and predictability about access to products and markets by having a global framework of rules.

The value to Members of the trading system does not end with substantive rules. It also consists of procedural rights and legitimate expectations, among which are: The right to be heard; the right to participate in committees; the right to make proposals; the right to help to shape the rules; the right to choose who leads; the right to consultations; and to be supported in these endeavors by a professional Secretariat.

In the 25 years since the WTO was created, global trade has tripled in volume. Trade barriers have fallen. Poverty rates have hit historic lows. Most world merchandise trade occurs under WTO's non-discriminatory rules. Bilateral and regional trade agreements together account for less than 20% of world trade (counting the European Union as a single economy). And even under these preferential terms, WTO rules are still present, as their rules draw inspiration from them, thereby providing stability and predictability. When trade flows smoothly, it helps keep the global economic engine running.

Since its creation in the 1940s, evolution and reinvention have been part of the multilateral trading system. During the GATT years, the system incorporated new members and new issues. Governments have found new and creative ways of doing things, from the plurilateral codes on subsidies and other non-tariff policies, to the creation of rules in areas such as services and intellectual property.

The multilateral trading system is best positioned to provide a forum for meeting global challenges. Whether the objective is food security or access to medical supplies, mutual commitments on openness to trade, backed where necessary by emergency stockpiles, is a more effective solution than the unilateral closing of borders.

The real value of WTO membership is most appreciated by countries seeking to join the system, as they must negotiate their entry into the WTO. The path is not easy. Fortunately, other countries' representatives, along with the working party chairs and the Secretariat are there to assist. Market access and rules-based commitments are made over the course of many years of negotiations. These commitments are usually deeper and more comprehensive than those undertaken by original Members. This is where WTO reform continuously takes place.

The complexity linked with the level of commitments upon entry keeps increasing over the years, reflecting the evolving nature of the interests of the participants in the multilateral trading system. This also means that the costs of staying outside the system are increasing, as the coverage of WTO rules and principles has already reached over 98% of world trade.

That the multilateral trading system is absolutely worth keeping does not mean keeping it as it is. There are areas where it could improve — where it must improve.

The last major update of the WTO rule book took place during the Uruguay Round. These negotiations were concluded in Marrakesh in April 1994, just as the world was beginning to hear of the internet. The world has changed over these last 25 years in ways that could scarcely have been imagined. Not only has technology revolutionized how we trade but even the main actors in the global economy have changed with new groundbreaking economic and business models.

Ongoing WTO reform efforts will be crucial to restoring confidence in the system's ability to meet the needs of its users and adapt to changing economic realities. However, the full range of challenges as well as opportunities that the WTO's membership faces cannot, and will not, be addressed

overnight. More proposals need to be tabled and discussed, on how to update the WTO to enhance its effectiveness and assure that it evolves alongside changes in world trade.

Trade rules will have to adapt to economic transformations such as the fourth industrial revolution, characterized as the advent of “cyber-physical systems” involving entirely new capabilities for people and machines.⁽⁴⁾ If they do not, the likely outcome is unilateral action and fragmentation, which means unpredictability and higher costs for business, especially micro, small and medium enterprises (MSMEs). International cooperation can offer a path forward to a global economy where everyone can participate and benefit.

Currently, WTO members are progressing on multiple fronts. At the multilateral level, they are working to reach an agreement that would limit fisheries subsidies and contribute to the health of our oceans. They are looking at how to liberalize and reduce distortions in agriculture trade.

At the same time, groups of WTO members are considering potential future rules on investment facilitation, e-commerce and on domestic regulations that can unnecessarily obstruct services trade. These ‘joint statement’ initiatives, as they are called, address issues at the heart of the 21st century world trade. They also represent a quiet revolution in the way governments negotiate at the WTO. Like-minded members are free to pursue issues of interest; the initiatives are open to all Members, but no Member is required to join. As one example, the e-commerce talks, bring together 82 members, accounting for around 90% of global trade. Establishing joint rules of the game would facilitate electronic transactions and digital trade and could help manage wider tensions over technology.

WTO Members must deliver on both the multilateral front and the joint initiatives as these are vital for the future of the system. For the road ahead, the WTO's Twelfth Ministerial Conference, next year in Kazakhstan, will be a key landmark. It must deliver credible agreements and map the way for further reforms.

As you have probably heard, WTO Members are currently in the process of selecting a new Director-General. Three strong African candidates entered the race in a field of eight. This has sent a clear message to the World that Africa is committed to the WTO and the Multilateral Trading System.

I will now turn to the COVID 19 pandemic and what lessons we might learn for the trading system from it.

Covid-19 Pandemic: What Can We Learn from it?

Covid-19 has attacked the world's peoples and the global economy as if it were extra-terrestrial. No national governments or international organizations were fully prepared to respond to the pandemic. Once it emerged, the danger of the virus was not sufficiently appreciated. The multilateral trading system, first created as the GATT nearly 75 years ago, did not have a packaged, ready-made, off-the-shelf response to a pandemic.

All countries, without exception, developed and less developed, have been struggling to cope with the socio-economic consequences of the pandemic. It has disrupted the lives of hundreds of millions. The Trade Forecast initially published by the WTO estimated the contraction of world trade by between 13% and 32% in 2020. This was subsequently revised to 18%. The final cost in terms of lost trade will depend on the duration of the pandemic, including subsequent waves and the measures implemented by governments.

African countries have been seriously affected by this pandemic. Suppressed global demand for goods and services, coupled with huge disruptions in regional and global supply chains, low commodity prices and a decline in tourism and remittance inflows, added to the strains facing already-fragile African economies with poor infrastructure and relatively weak health systems.

The pandemic will result in negative economic growth. The IMF noted in its latest Regional Economic Outlook for Africa report that the pandemic may substantially reverse development and policy gains in the region. Global exports and imports of African countries are projected to drop by at least 35% from the level reached in 2019, with a loss in value estimated at around US\$ 270 billion.

The African continent has engaged in a number of efforts to contain the pandemic, both at the national level and with a collective response at the level of the African Union. The Union promptly developed, jointly with the Africa's Centre for Disease Control (CDC), a Joint Continental Strategy for COVID-19 Outbreak, and appointed Special Envoys to mobilise support.

Covid-19: Response by the International Community

Multilateral financial institutions were set up to respond to economic turmoil regardless of the cause, and credit became more available relatively quickly. The Bretton Woods institutions provided rapid responses in addressing Africa's immediate needs and challenges. These include: the temporary suspension of debt payments to IDA — up \$57 billion for Africa⁽¹⁾ and the extension of emergency assistance to Sub-Saharan Africa. The World Bank deployed US\$55 billion for Africa to help countries protect the poor and the vulnerable, support businesses, and bolster economic recovery.⁽²⁾

The pandemic has revealed that uncoordinated responses can be particularly damaging to global trade where events cause many countries to take trade-restricting measures on the same range of goods at the same time. WTO Members are considering possible collective actions — prior notice and timely consultations for export restrictions, sunset clauses, rolling back trade restrictions, and trade liberalizing measures. A large number of Members have committed to refrain from limiting exports of food. The WTO Secretariat was called upon to increase monitoring and to collect notifications of measures to yield greater transparency.

In addition to the notifications by Members at the WTO, the WTO established a cross-divisional WTO COVID 19 Task Force. In its recent report, the Task Force has highlighted the following positive developments:

- The shortages of medical personal protective equipment (PPE) encountered around the world in the early phase of the pandemic have eased, as production and trade have expanded to meet the unparalleled demand spike.
- Initial data for 94 countries suggests trade in medical goods grew by nearly 30 per cent in the first half of 2020. Despite this positive news, certain specific products remain subject to periodic shortages, with sourcing a particular challenge for some developing countries.
- Duties, taxes and charges on COVID-19-critical medical goods and other essential supplies have been temporarily removed or deferred by 40 WTO members, including 12 G20 members. These actions help reduce the cost of the goods needed to fight the pandemic, both for the health sector and for the general public. Measures to reduce or eliminate of import tariffs made up around two-thirds of the import trade facilitating measures reported to the WTO.

The WTO Trade Facilitation Agreement

The WTO Trade Facilitation Agreement is particularly relevant in the context of the pandemic.

The costs of trade, moving goods across borders from farm and factory to another country average 24%, dwarfing most tariffs in terms of the dampening effect that is had on trade. The WTO's Trade Facilitation Agreement (TFA) was designed to address this drag on economic growth. It is the first and only multilateral agreement since the establishment of the WTO in 1995. Trade Facilitation regulates behind-the-border measures — those which may seem invisible at first sight but are very much felt on the ground. In cutting back on hampering red tape and placing a premium on transparency, the TFA is a powerful tool to fight corruption and to reduce widespread inefficiencies.

The exploratory and analytical work on the TFA was launched in December 1996 at the first Ministerial Conference of the WTO. Negotiations were formally commenced following a decision in July 2004. Agreement was reached at the Bali Ministerial Conference in December 2013. Two-thirds

of the signatories ratified the Agreement by 22 February 2017 allowing it to go into effect, just over 20 years from when serious consideration of the planning for a TFA began.

The TFA focuses on 3 broad categories of measures (which originated from three GATT Articles: V, VIII and X):

First, transparency-related measures. This includes publication of all trade related information; setting up enquiry points for traders; and having appeal procedures in place for traders.

Second, customs related measures. These measures are designed to help speed up the release and clearance of goods and measures and to lower the fees and formalities related to trade transactions.

Third, transit-related measures. The purpose is to help facilitate the flow of goods in transit which is of particular importance to landlocked countries. On the African continent, 16 countries are landlocked.

The Trade Facilitation Agreement is unique in its approach to accommodating diversity among members. It allowed each country to specify the flexibilities, the time and technical assistance and capacity building it needed to implement the Agreement. It did so without compromising the high level of ambition that is the final destination, the goal of reducing unnecessary friction in moving goods across borders. This is an extraordinarily positive achievement

According to the WTO, full implementation of the TFA's 36 measures could generate USD 1 trillion in additional global trade each year. It could potentially reduce trade costs by 14% for African countries and increase African exports by 35%.⁽³⁾ Studies have also shown that small and medium-sized enterprises — the predominant business form in African countries — are amongst the biggest beneficiaries of the reforms introduced by the TFA.

By helping to bridge development gaps, the Agreement is to provide a powerful boost to African economies, supporting their integration into global value chains. The TFA is also expected to support the diversification of their exports and to make it easier for African countries to enter new markets. In addition, the Agreement helps countries attract foreign direct investment and increase customs revenue.

To date, 153 WTO Members have ratified the Agreement, and over 93% have begun their implementation process. Forty African countries out of 44 have ratified the TFA and almost all have notified to the WTO their implementation commitments.

In the response to the COVID 19 pandemic, WTO members put into place several trade facilitation measures to speed up or simplify the clearance of goods. These measures include:

- Prioritization of customs clearance for COVID-19 goods. For example, simplifying import and export declaration forms for relief goods and granting more time to complete customs procedures, including those for payment of customs duties.
- Establishing special procedures to further expedite consignments of medical equipment/pharmaceuticals to authorized operators.
- Accepting the electronic submission of documents for pre-arrival processing.
- Simplification of import and export forms.
- Implementing green lanes under the guidelines for border management measures to protect health and ensure the availability of goods and essential services.
- Establishing special and priority health controls for crews operating land, air and maritime transportation, including shipments in transit.

One recommendation of the G20's Trade and Investment Working Group meeting on 14 May 2020 was accelerating, to the extent possible, implementation of the TFA — a process many developing and least developed countries were engaged in when the pandemic hit. This step would expedite access to critical COVID-19 medical supplies.

Conclusion

The COVID-19 pandemic crisis should prompt both the desire and need for more multilateralism, not less, including making improvements to the global trading system. Not to be forgotten is the need for WTO reform discussions to plan for the future of the trading system.

Economic growth and sustainable development across the African continent will be greatly assisted through increased intra-African trade as well as trade with the rest of the world. African countries need to deepen their reforms to improve transparency, reduce trade costs, enhance competitiveness and make the continent more attractive to foreign investors, particularly in the non-extractive sectors.

With the entry into force of the AfCFTA, the WTO remains fully committed to supporting Africa's continued economic integration, growth and development, through the participation of African Members in the WTO, supporting accessions of African countries that still remain outside of the WTO, providing training on the WTO's rules and procedures and facilitating coherence and complementarities between the AfCFTA and the WTO.

The African continent is expected to account for a quarter of the world's population by 2050. With its abundant resources, Africa could become a magnet for foreign direct investment. Africa has to continue elevating its profile in the WTO and take a leadership role in the reform of the organization to make it more responsive to changing dynamics of the global economy. A vibrant multilateral trading system will provide opportunities for all countries, including African countries. The future of the trading system will need to draw strength from the aspirations, vitality and energy of this growing continent.

Thank you. I look forward to our discussion.

Notes

1. Official creditors have mobilized up to \$57 billion for Africa in 2020 alone — including upwards of \$18 billion from the IMF and the World Bank each — to provide front-line health services, support the poor and vulnerable, and keep economies afloat in the face of the worst global economic downturn since the 1930s. Private creditor support this year could amount to an estimated \$13 billion. [back to text](#)
2. In addition, the African Development Bank (AfDB) set up the COVID-19 Response Facility to assist regional member countries in fighting the pandemic, with a US\$10 billion virus response plan to governments and the private sector, a US\$3 billion Fight COVID-19 Social Bond and a US\$2 million grant for the WHO for its efforts on the continent. The African Export-Import Bank (AFREXIM) created a US\$ 3 billion Pandemic Trade Impact Mitigation Facility (PATIMFA), etc. [back to text](#)
3. WTO World Trade Report (2015) https://www.wto.org/english/res_e/booksp_e/world_trade_report15_e.pdf [back to text](#)
4. The Fourth Industrial Revolution can be described as the advent of “cyber-physical systems” involving entirely new capabilities for people and machines. While these capabilities are reliant on the technologies and infrastructure of the Third Industrial Revolution, the Fourth Industrial Revolution represents entirely new ways in which technology becomes embedded within societies and even our human bodies. Examples include genome editing, new forms of machine intelligence, breakthrough materials and approaches to governance that rely on cryptographic methods such as the blockchain. <https://www.weforum.org/agenda/2016/01/what-is-the-fourth-industrial-revolution/> [back to text](#)

* Please note: This is not an official WTO document. It is for information purposes only.