



Engagement with Stakeholders in the Trading System

Recommendation from the Report of the High-Level Board of Experts on the Future of Global Trade Governance

The High-Level Board of Experts on the Future of Global Trade Governance

The Bertelsmann Stiftung has called into life a High-Level Board of Experts on the Future of Global Trade Governance. Composed of eminent experts and seasoned trade diplomats, it elaborated a number of recommendations to increase the effectiveness and salience of the WTO. The entirety of these recommendations and underlying analysis of the changing political economy of international production and trade can be found in the Board's report "Revitalizing Multilateral Governance at the WTO", authored by Prof Bernard Hoekman. This briefing is part of a series of six, each of which details one specific recommendation from the report. The full report can be accessed under https://www.bertelsmannstiftung.de/fileadmin/files/BSSt/Publikationen/GrauePublikationen/MT_Report_Revitalizing_Multilateral_Governance_at_the_WTO.pdf

Outreach and communication strategies

Trade agreements, including the WTO, are increasingly contested by critics of globalization.

The open, rules-based multilateral trading system has helped to provide a supportive environment for integration of developing countries into the world economy. Reforms by many countries and a rapid increase in participation in global value chains has led to major changes in world trade shares. Looking forward further changes – and associated adjustment costs – can be expected as a result of expansion of the digital and international trade in services. Providing a governance framework that assists countries to manage the further internationalization of economic activity in ways that minimize negative effects on partner countries is a major function of the trading system.

In considering potential areas for WTO reform, attention should be given to re-thinking how the trade community – the leadership of the WTO, national politicians, business representatives, scholars – describe what the multilateral trading system does and delivers. Too frequently public outreach and advocacy are framed in terms of prospective analysis of the additional exports and jobs that will be generated by a new agreement. Often this is based on economic models that are complex and difficult to explain. These can easily be criticized

and the results of such models increasingly have become a focal point for groups that oppose international cooperation and greater integration of product markets. Engaging in debates on technicalities and efforts to document why critics are making incorrect claims is a counter-productive exercise as it is likely to result in a further erosion of perceived credibility. More compelling is to focus on explaining what trade agreements are intended to do and to engage greater efforts in assessing their effects over time.

The objectives of the WTO range far beyond trade policy disciplines. The preamble of the WTO Agreement mentions improvement of living standards, preservation of natural resources, and attainment of sustainable development, among other goals. Communication strategies should be based on what the WTO does (has done) to attain these common objectives – and where it has failed to do so. Given that a key function of the WTO is to provide a platform for its members to establish rules and to enforce them, greater attention should be given to the role played by the organization in reducing uncertainty for firms and providing a mutually agreed governance framework that helps governments pursue welfare-enhancing policies. This extends far beyond the narrow interest of exporters – it benefits all citizens. Systemic stability and transparency about what governments do both in terms of national policies and of engagement in the WTO matters for citizens as well as firms.

What is needed is more explanation and knowledge (evidence) on the ‘system at work’; how the procedural rules intended to reduce uncertainty for traders do so; how this affects actual investment decisions by specific firms; what the WTO system does to help members address trade concerns raised by firms; what it does to give consumers access to better products and greater choice; etc. A necessary condition for such information generation is analysis of the operation of the WTO and the implementation and effects of both agreements and the functioning of WTO bodies. Highlighting what is not working well and doing more to point out areas where WTO members could do more to support operation of the organization is as important as documenting the system at work.

Some WTO members have begun to go down this track in their engagement with national stakeholders, although most countries continue to put too

much emphasis on exports as the primary lens to motivate participation in the organization. The recent OECD-WTO initiative to measure trade in value added has been important in documenting that in a world economy that is increasingly organized around global value chains imports matter for exports, and that services constitute a major share of the value that is embodied in traded products. Leveraging this ‘macro’ perspective with more micro analysis of specific firms and local communities that rely on both imports and exports across a range of WTO members can help illustrate the importance of trade policy rules as part of the enabling environment needed to support the associated investments and economic activities.

In assessing the performance of the WTO attention is appropriately on governments – the members. But governments can be assisted by actors that have a great stake in ensuring the continued viability of the rules-based trading system. Businesses especially have been missing in action and arguably been either too complacent or too risk-averse in supporting the institution. All businesses have an interest in lobbying governments for changes in policies that will benefit them and many do so, either directly or through trade or industry associations. This is a normal and desirable dimension of the political process in every country. Business has been disappointed by the inability of the membership to conclude the Doha Round and, starting in the mid- to late-2000s, many industries shifted more (most) of their attention to preferential trade agreements and mega-regional initiatives.

What has been missing is vigorous public defence of the trading system. While international business has been active in engaging with G20 leaders through the B20 and international institutions such as the WEF and ICC, greater investment in public advocacy for the multilateral trading system would help demonstrate to governments and national polities that they have a strong interest in safeguarding and improving operation of the institution.

Adopting the terminology introduced by Albert Hirschman to describe potential responses to dissatisfaction by actors regarding the performance of an organization, the business community – as the core stakeholder in the system – has a choice between exit, voice, loyalty and neglect. Arguably,

business has engaged in neglect – the reallocation of support and attention to other venues, notably preferential trade agreements, in turn reducing government incentives to engage in the WTO. No government has chosen the exit option yet, but it is nonetheless something that can be exercised. Loyalty and voice – supporting the system and identifying areas for improvement and reform – are necessary conditions for sustaining the viability of the WTO.

Clearly CEOs and corporate boards must do what they deem best for their businesses, workers and shareholders. One action that CEOs can take is to do more to make the case to their workers and suppliers why the WTO matters to their livelihoods. They need to tell governments and parliaments the same thing. This extends beyond multinational enterprises – small and medium-sized companies need to be part of this equation given that they are the source of most employment. But it is the largest companies that have the greatest capacity to engage. In doing so, the focus should be on documenting the local benefits of their international supply chains – identifying their local suppliers and the total employment that is generated by their activities because of the mix of imports and export activity that occurs in their production networks.

Firms need to make a conscious decision which of Hirschman's options to exercise vis-à-vis the WTO. It is not clear that the survival of the WTO is a matter that has risen to the level of boardrooms and corporate strategy. Undoubtedly, the Trump Administration's approach towards trade policy has greatly increased the attention being given to the consequences of a sharp reversal towards protectionism in the United States and retaliatory responses for the viability of international supply chains. But this has not translated into a concerted defense of the rules-based trading system and a call to deal with the sources of deadlock that prevail currently. To date business has not been very vocal about the need for governments to use the WTO to address the global rise in protectionism or the need to reconsider WTO working practices that have impeded its effectiveness.

Many policymakers and citizens may not understand how the mutual dependence that is part and parcel of supply chain-based production depends on a web of contracts and investments. These are premised on a functioning system of rules – the WTO. They can unravel quickly, at great cost.

There is a public good dimension associated with what is suggested here as it will generate information on the employment dimensions of their trade relationships that only firms have regarding their value chains. Such data and the associated stories and examples can be used by the politicians, the WTO Secretariat and journalists to make a more compelling case for why the system matters than one that stresses export volumes and growth in exports.

One action that the WTO membership can consider to encourage greater engagement with businesses is via the normal business of the Committees and other WTO bodies – including critical mass-based deliberative groups. Reaching out to business leaders along the lines of the Director General's 'Trade Dialogues' initiative – which aims at providing stakeholders, including business, labour organizations, and consumer bodies with the opportunity to discuss trade-related matters – is useful but ad hoc and not very demanding upon business. These dialogues for the moment remain closed door events and little is known about how any conclusions are taken up and how they relate to WTO members, which reduces their effectiveness. Making business and other stakeholders a more integral part of the WTO 'production function' may help raise the visibility of the organization and sense of ownership in board rooms.

This already happens to a small extent in some of the Committees. Thus, the Committee on Rules of Origin held two information sessions on non-preferential rules of origin in 2016 where business representatives explained how such rules affected their operations. Other Committees have organized workshops with the private sector – e.g., the Information Technology Agreement Committee has allowed industry representatives to raise concerns regarding standards for recognition of test results, e-labelling and energy efficiency that could be the subject of work. Although not present in the Technical Barriers to Trade Committee (dealing with industrial product standards), the private sector has engaged in informal thematic sessions which are held back to back to Committee meetings. Such interactions help delegations to better understand the concerns of business and vice versa. More such initiatives can put business to work in helping the WTO stay relevant for the global trade community collectively.

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