

Foreign Affairs Committee

International Trade Committee

Oral evidence: The UK's role in strengthening multilateral organisations, HC 513

Tuesday 17 November 2020

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Members present: Graham Stringer (Chair); Neil Coyle; Alicia Kearns; Andrew Rosindell; Henry Smith; Royston Smith; Claudia Webbe.

International Trade Committee: Mark Garnier; Sir Mark Hendrick.

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Witnesses

[I](#): Professor James Bacchus, Distinguished Professor of Global Affairs and Director of the Centre for Global Economic and Environmental Opportunity at University of Central Florida.

[II](#): Rt Hon Dr Liam Fox MP, Member of Parliament for North Somerset.

[III](#): Dr Yanzhong Huang, Senior Fellow for Global Health at Council on Foreign Relations and Professor at Seton Hall University School of Diplomacy and International Relations and Harpinder Collacott, Executive Director at Development Initiatives.



Examination of witness

Witness: Professor James Bacchus.

Q209 **Chair:** Welcome to the Foreign Affairs Committee, Professor Bacchus. Thank you for giving us your time this afternoon.

I will explain two or three very simple housekeeping things. I am in a Committee Room in the House of Commons. All the other members of the Committee are elsewhere in London and in the country, and they are joining us by Zoom.

Two members of our sister Committee, the International Trade Committee, are also interested in asking questions. In order that I can bring people in at the right time, we have a WhatsApp group. I am not being impolite if I spend my time looking down. I am looking to see who wants to speak next because there is nobody else in the Room who is a member of the Committee.

Please very briefly introduce yourself and we will get into the questions.

Professor Bacchus: Hello to you all. It is a great honour, as an American, to be asked to testify before a Committee of the House of Commons. Being a great Anglophile, I am especially gratified.

I would be remiss if I did not begin by thanking the United Kingdom for joining in the consensus of WTO members, not once but twice, to appoint and then reappoint me as a member of the WTO appellate body.

I ask that you give my kind regards to Dr Fox when he testifies later today. I had the pleasure of some very interesting discussions with him in Geneva, and he can certainly provide you with help in your efforts to examine the United Kingdom's ongoing work as a member of the WTO.

I am a former Member of the Congress of the United States, among my many sins, so I know that legislators are not particularly interested in opening remarks; they want to ask questions. I am here to answer your questions as best I can for as long as you wish. Mr Chairman, I will stop there and make myself available for any questions that anyone may have.

Q210 **Chair:** Thank you, Professor Bacchus. Dr Fox is at the back of the room waiting for the next evidence session, so he heard your remarks.

What have been the most significant successes of the World Trade Organisation over the last 10 years or so?

Professor Bacchus: There have been successes, despite all the many frustrations. In 2013, in Bali, we concluded a multilateral agreement on trade facilitation that is now being implemented over time and doing much to eliminate a lot of red tape that otherwise creates costs and difficulties in trading.



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The following year, we were able to revise the Government procurement agreement, which is one of the plurilateral WTO agreements. It establishes freer trade in Government purchases that in many WTO members comprise a very large percentage of their domestic economies.

We were also able that same year to revise and update the information technology agreement, which eliminates duties on hundreds of IT products worldwide. This not only increases economic growth and reduces poverty by increasing trade but speeds the flow of new technologies worldwide. Countries such as the United States and the United Kingdom have comparative advantages in those areas, so it is a great benefit to everyone.

In Nairobi, there was an agreement to eliminate export subsidies in agriculture, which are pernicious and distort what would otherwise be market outcomes in international trade. In particular, export subsidies undermine the comparative advantages of developing countries in engaging in international agricultural trade and thus reduce their abilities to diminish poverty and enhance economic growth in their own countries.

Unfortunately, the Doha development round was a failure. There are many other trade issues on which we have been unable to reach either plurilateral or multilateral solutions within the legal framework of the WTO. As we saw yesterday with the inclusion of the regional comprehensive economic partnership among the north-east Asian and south-east Asian countries, including China, this inability of the WTO to revise existing rules and write new rules that are needed in the 21st century has encouraged the drift away from the WTO towards regional solutions. It undermines the centrality of the WTO trading system. Although it creates freer trade in some parts of the world, it also creates more trade discrimination and encourages the development of trading blocs that could eventually be not building blocks towards free trade but barriers to free trade on a global basis.

This ought to be a particular concern to the United Kingdom at this turning point in your history when you want to maintain the best trade relations you can with every other country in the world, and when you especially are searching for the right approach in your new role as a member of the WTO.

Q211 Chair: Given the disparity in size between the three large members—China, the United States and the EU—how do the smaller countries manage to influence things? Are they at a huge disadvantage?

Professor Bacchus: The media assume that the WTO is merely the make-work of the largest trading countries. There was some truth in this 50 years ago in the GATT. There is not much truth in it now.

One of the great strengths of the WTO is that it is a forum in which every member has a say, and there are many examples of smaller countries having an outsized say in outcomes because of the combination of



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experience and expertise that they bring to bear in WTO deliberations. It can make a real difference who is representing you in the WTO. A number of countries such as Uruguay, New Zealand, Singapore and others have had an extraordinary role in the WTO because they have had extraordinary representation. One thing I would advise you do to is to send the best possible person to Geneva to represent the United Kingdom.

Beyond that, the UK in particular has a role waiting for it that is warranted by its history and its beliefs. The United Kingdom was of course one of the original members of the GATT. In recent decades, it has participated in the WTO as part of the European Union. The UK has had an outsized influence in the European Union on trade, which has been a benefit to the EU. Now that the UK will no longer be a member of the EU, it can be more forthright globally in some of the positions it has taken internally as a member of the EU on trade; by this I especially mean its traditional advocacy of freer trade. We Americans who support free trade learned how to do so by the example of the United Kingdom. Adam Smith, David Ricardo, John Stuart Mill, Richard Cobden and others are all people I personally follow in my own beliefs, and I am not alone in the United States or elsewhere. Britain has a tradition of being an advocate for freer trade, which of course is the ultimate goal of the WTO agreement.

Beyond that, Britain has a tradition of supporting the rule of law. It can certainly be argued that Anglo jurisprudence created the rule of law—John Locke had a lot to say about it a few hundred years ago—and that has been the tradition in the UK.

Equally important to the rules that we establish for global trade within the WTO is the need to make certain that the rules are upheld through the international rule of law in trade. The rule of law in trade is very much in jeopardy now, and a role Britain could play would be in speaking up for the rule of law as it has done in the past, but now in its role as a single member of the WTO.

Those could help the UK stand out, and as a tribune for free trade and the rule of law the UK could have an extraordinary impact on the multilateral trading system.

Q212 Royston Smith: Will you give us a bit more detail on the challenges and opportunities presented by issue-based plurilateral agreements and regional trade agreements, please?

Professor Bacchus: The great advantage of the WTO is that it offers the opportunity for multilateral agreements. These are by far the best agreements because, under the operation of the most favoured nation treatment rule in article 1 of the GATT, when any concession is made by one country to another on a traded product in a multilateral negotiation, it is automatically made to all the other countries in the WTO. This



multiplies the opportunities. It lowers the barriers to trade and thus increases the volume of trade.

A multilateral agreement requires a consensus. One country can block a consensus, as the United States has demonstrated, unfortunately, in a number of respects in the WTO under President Trump. Plurilateral agreements are perfectly permissible under the WTO treaty and are an alternative that I and many others think we should pursue more aggressively.

There are opportunities waiting for us right now on such agreements in areas such as digital trade and intellectual property. We could do more on investment facilitation. We are working now on agreements on environmental goods and fisheries subsidies. The ideal would be to have these as multilateral agreements from the outset, but each of them could be negotiated as plurilateral agreements. They could become fully multilateral over time. That is a more practical approach.

Q213 Royston Smith: What would be the disadvantages of those, if there are any?

Professor Bacchus: There are no disadvantages to plurilateral agreements if they are within the WTO legal framework. If they are within the WTO legal framework, they must be open to all other WTO members if they choose to comply with the obligations in them.

The potential danger of bilateral trade agreements, regional trade agreements, and other types of agreements that include trade measures outside the legal framework is that they create a potpourri of legal obligations that can undermine the smooth flow of trade worldwide. They create more trade, but they may also divert trade.

It has to be remembered that a free trade agreement between two countries is also an agreement between those two countries to discriminate against the trade of all other countries. This is fine if over time that free trade obligation spreads to include other countries, but it has the potential of impeding trade as much or more than advancing it.

Q214 Alicia Kearns: My question is about the challenges, the opportunities, and the threats around trying to integrate the Chinese economic model into the World Trade Organisation. Why is China's economy still classified as developing, and surely that allows Beijing to draw some form of advantage?

Professor Bacchus: I would point the Committee to a forthcoming book of mine on this issue that will be published by Routledge Press in the spring. A paper that I have written with a colleague at the Cato Institute on this issue is available online. To keep my answer short, I will point you there.

The issue of special and differential treatment has been debated for 75 years in the trading system. In my view, it needs attention. We need to



be able to do things differently to account for different stages of development between, for example, China and the least developed countries in sub-Saharan Africa.

In my examination of the issue with my co-author, we concluded that the real victims of special and differential treatment are not the developed countries—not the UK, the US or the EU—but the developing countries themselves, because this is often an excuse for delaying compliance with WTO obligations, which hurts the economic development of those countries.

Q215 Alicia Kearns: Is there a way we can use our relationships with other Asian countries—Taiwan and Japan, for example—to strengthen incentives for China to reform? What should we be doing to secure Taiwan’s place in the global trade order?

Professor Bacchus: Taiwan is a member of the WTO. It is called Chinese Taipei in the WTO. It is a very important member of the WTO. It is one of those countries that has outsized influence because of the quality of its leadership. It is also an example of what free trade can do for a country. I would encourage the UK to enhance its already strong trade relations with Taiwan. I supported that as a Member of Congress of the United States for my own country.

What happens and what can happen with UK leadership is that, when the UK is seeking something as an outcome, you could and should seek like-minded allies who would want to advance the same idea and same proposal within the councils of the WTO.

For example, there is a small group of countries—Singapore, Costa Rica, Chile, Iceland, Norway—seeking now to do a much better job of reconciling trade rules with climate change and sustainable development. Over time they will gather more support, I trust, and through their collective effort they will combine their clout.

The same is happening on fossil fuel subsidies reform, where a dozen countries are working together to try to encourage other members to impose special disciplines on fossil fuel subsidies.

Q216 Alicia Kearns: On your experience of the appellate body—in essence, the World Trade Organisation’s disciplinary body to deal with disputes between members—what are the current concerns of the USA around the appellate body? Are they shared by others? Do you think that with a new US presidency we are going to see a breaking of the deadlock? My concern is that the deadlock increases the vulnerability of the World Trade Organisation overall to unacceptable interference or abuse by member states.

Professor Bacchus: I am appalled by the actions of the Trump Administration relating to the appellate body. I have written and spoken audibly worldwide on that topic, so I appreciate the question.



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I believe that the incoming Biden Administration will change US policy and no longer block appointments of new appellate body members. That will restore the appellate body to its full complement of seven members and enable the resumption of the appellate process as contemplated in the WTO dispute settlement understanding.

For the most part, the charges made by the Trump Administration, and by others in the United States, against the appellate body are examples of the big lie technique. If you tell the lie often enough, at some point people begin to believe it. Within the Beltway, it is widely believed that the appellate body has routinely gone beyond its remit and overreached and ruled on areas that are not within its proper jurisdiction. This is not true. The appellate body is not perfect any more than the United States Congress or the United Kingdom House of Commons is perfect—it is a human institution—but its supposed transgressions are vastly exaggerated.

Q217 Sir Mark Hendrick: I have a couple of questions with regard to China's inclusion in the WTO. Is it your view that China warrants membership of the WTO? Do you think that the way in which it behaves means that it should be in the WTO?

Professor Bacchus: I am sorry, would you rephrase that, Sir Mark?

Q218 Sir Mark Hendrick: Yes. There have been a lot of questions with regard to what type of functioning economy China is in competition policy, for example, and how it behaves generally in the economic model of the WTO. What is your view?

Professor Bacchus: There are two ways of looking at this. One is in terms of dispute settlement. When China has been challenged in dispute settlement over alleged violations of its WTO obligations and found to have acted inconsistently with those WTO obligations, China has had a good record of complying with WTO rulings. But many aspects of Chinese trade practices have not yet been brought to the WTO. President Trump in particular has chosen to go it alone through unilateral actions rather than going through the WTO, which I believe is a violation by the United States of the WTO treaty. The Chinese trade practices include, in my view, many that are inconsistent with their WTO obligations relating to subsidies, technology transfer, intellectual property, and a lot more.

I believe that the right remedy is for those countries that are concerned about these trade practices by the Chinese to join as co-complainants and bring a WTO lawsuit against China.

Where the rules do not yet reach some of these Chinese practices, we need to negotiate new rules. You mentioned one area in which we need WTO rules: competition policy. The European Union and others—the UK was a part of that at the time—urged back in 1997 that the WTO launch negotiations on competition rules. This was not supported by the United States and it did not get a consensus. We still do not have any



competition negotiations. We need to start them because, in terms of, for example, the economic impact of state-owned enterprises from China and other countries, we have violations of what should be competition obligations.

Q219 Sir Mark Hendrick: You mentioned in your opening remarks the signatures the other day on the RCEP agreement. What is your view more generally on these regional trade agreements, and do you feel that in any way they undermine the work of the WTO, or do you feel that the WTO is probably a good lowest common denominator on how international trade should be conducted?

Professor Bacchus: My knee always jerks toward multilateralism and toward including multilateral agreements, for the reasons I mentioned earlier. They offer the biggest bang for the buck through the operation of the MFN rule, they lower barriers to trade everywhere when they do it anywhere, and this increases the volume of trade and the potential that countries have for doing more internally to help their people benefit from trade. That said, I am also a practical politician and a practical policy maker, and I have always supported plurilateral approaches. I prefer they be within the WTO, for the reasons I have mentioned.

Take the example of what is now called the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, formerly the TPP. A decade ago, when the Pacific countries began negotiations on the TPP, I wrote an article in *The Wall Street Journal* saying, "This is fine, but we should be doing this within the WTO." One of the advantages would have been that it would not have been viewed as a geopolitical act against China, because, under WTO rules, China could have participated in the negotiations if it wished and could have become a member of the agreement if it wished, so long as it was bound by the rules in the agreement. We would not have had this question of trying to isolate and contain China, which I do not think is an appropriate policy in any event.

Q220 Sir Mark Hendrick: Do you think that the United States under the new Administration, when it eventually arrives, will be joining the CPTPP, and what scope do you think there is at some time in the future for China getting involved in some way?

Professor Bacchus: I certainly hope that President-elect Biden will return the United States to the CPTPP, and I hope he will do it sooner rather than later. There are many political obstacles in the United States to him doing so. It was a grave mistake for our country to withdraw from the Trans-Pacific partnership and it sent entirely the wrong signal throughout the Asia-Pacific region about the US interest in the region going forward. The best way to send the opposite message would be to re-join the TPP.

Q221 Sir Mark Hendrick: And on China's possibilities for the future?

Professor Bacchus: They were talking a decade ago about China joining the TPP—and China could—but the difference here between being a WTO



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agreement and not being a WTO agreement is that for China to join the CPTPP at this point, all the current members would have to agree that China could do so. Thus it becomes a geopolitical issue instead of purely a commercial issue.

I should point out it is also legally possible for the United States to join the RCEP. That was just concluded this past weekend. I am in favour of more countries joining and more efforts to lower barriers to trade and to harmonise their standards and regulations, to the end of increasing overall global prosperity.

Q222 Chair: The first question was: what were the successes of the last decade? My final question is: how do you see the next decade for the World Trade Organisation? What are likely to be its successes and potential pitfalls over that period?

Professor Bacchus: The World Trade Organisation is in an existential crisis. Therefore, I think that reviving the WTO and restoring it to its rightful centrality in world trade should be at the top of the trade agenda of every member of the WTO, including the United Kingdom and the United States. The blockade of new appointments to the appellate body is part of this, but for the most part it is a question of being able to negotiate and agree revised rules and new rules. Despite the successes I have mentioned, mostly since 1995, the WTO has been unsuccessful in negotiating new and improved rules.

A key will be what happens at the ministerial conference hosted by Kazakhstan next June. To my mind, WTO members should be working right now on negotiating some positive results that can be concluded and announced at that ministerial conference to prove anew that the WTO actually can do things. We should be concluding the agreement on environmental goods and duty-free treatment for environmental goods, hopefully expanding that into services later. We should be concluding the negotiations on imposing specific disciplines on fishery subsidies, which are undermining our ability to maintain our food supply and the sustainability of our oceans. We should be concluding at least a framework agreement on digital trade on which we can build later. We should be concluding an agreement on investment facilitation as well.

There are things we could be doing and things we are trying to do, but they are not getting the urgent attention of WTO members to the extent that they should. The things I have mentioned could all be done between now and next June. If even most of those things were done, it would restore the credibility of the WTO as a framework for negotiating trade agreements.

Q223 Chair: Thank you for the contribution you have made this afternoon, Professor Bacchus. It is very helpful to the Committee and it has been genuinely enlightening. Thank you very much for your time.



Professor Bacchus: Thank you all. As I said, it is a great honour and privilege. I wish you well and I look forward to seeing you other than virtually some time in the future.

Chair: We all look forward to that. Thank you.

Examination of witness

Witness: Rt Hon Dr Liam Fox MP.

Q224 **Chair:** Dr Fox, welcome to the Committee. One of the central issues of the debate about the membership of the European Union is whether we were stronger negotiating trade as a member of the EU or as an independent member of the World Trade Organisation. Will you give us your view on that now, having stood to become a senior member of the World Trade Organisation? What is your view of that debate now we have left the EU and we will completely be away from the regulations of the EU on 1 January?

Dr Fox: We have a huge overlap on trade interests with the European Union: we did while we were a member and we will when we are not a member. Being outside gives us the opportunity to add our voice to the arguments where we have a commonality of view, but to act independently if we think that there is a case to do so.

There is likely to be, and there was during the election for the director general's post, a huge overlap between where the EU thinks the global trade priorities need to be and where we, the UK, think that will be. When we were part of the EU, it contributed to 30% of global trade—that is down 25% now—but still combined, we have strong overlapping interests. As far as the UK goes, I do not see a disadvantage in the position.

Q225 **Mark Garnier:** I want to carry on with some of the questions about multilateral trade. Before I do, what is your reaction to Professor Bacchus's comments that the WTO is currently in an existential crisis? Would you agree with that?

Dr Fox: Completely. The fact that they were unable to choose a single deputy DG to take the place of Roberto Azevêdo when he stepped down early and the fact that we are now in a stalemate over who the director general should be gives you an indication of the endemic problems.

Professor Bacchus was perhaps a little more charitable than I might be on the successes of the WTO in the past decade. In fact, the trade facilitation agreement is the only liberalising agreement that we have had of any note since 1995. On the big issues around agricultural distortive subsidies and on illegal fishing subsidies, never mind some of the other issues that might fall into the plurilateral front on environmental goods, for example, the WTO is not making progress.



The key question is not whether it is facing an existential crisis but why. There are a number of issues behind that, which we could spend a lot of time exploring.

One of them is that, at a conceptual level, the term “consensus”, which most people would take to mean majority opinion, has come to mean unanimity, and that has really slowed any potential for wider reform. The reason why I think it is potentially an existential crisis is that, if we cannot get resolution on the appellate body issue, that is a real crisis because dispute resolution is perhaps the key benefit that WTO brings especially to smaller states—the ability for them to have disputes resolved on the merits of the case rather than the size of the legal team they are able to bring with them. That levelling effect is more valued by members of the WTO than any other.

Q226 Mark Garnier: You mentioned unanimity in the decision-making process, which I understand is certainly the case with multilateral agreements. One person can veto a multilateral agreement. I am interested specifically in multilateral agreements. Given how the UK participates in the agreement, there is going to be a certain element of the UK ceding sovereignty in making sure these go through. If we want a multilateral agreement, we have to cede a certain amount of sovereignty.

I am interested from a very specific legal point of view in how much sovereignty the UK should cede. I am also very interested in your view on the politics of ceding sovereignty. A few years ago, we had a big argument about taking back control. Is Britain, having moved away from the European Union, ready politically and emotionally, if you like, to cede sovereignty in multilateral deals when working with the WTO?

Dr Fox: I would draw a distinction between an agreement between equal parties with access to fair and equitable dispute resolution—I do not regard that as an unacceptable ceding of sovereignty—and being in an organisation that is able to change the rules against the will of a sovereign state, which I would regard as the ceding of sovereignty. That is why I would differentiate the European Union and the membership that we had from the agreement that we are likely to get when we reach a trade agreement with the European Union.

I would echo Professor Bacchus’s view that there is a hierarchy to these trade agreements. I agree with him about putting multilateral agreements at the top of that hierarchy. It is the gold standard of agreement and it multiplies the effect of trade liberalisation. Below that, I would put plurilateral agreements because they can have such a wide impact in such a range of different states and can be hugely liberalising. Below that, I would put regional trade agreements, and below that I would put bilateral free trade agreements.

Each of them gets a different level of liberalisation. I would agree with Professor Bacchus that all of them are welcome because they create greater liberalisation, but they all get different degrees. Some can have



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massively divergent degrees of liberalisation, which is why we need to find ways to make the WTO work better, because even those agreements that we have managed—the trade facilitation agreements—are of far greater benefit than anything that can be done inside a regional trading bloc.

Q227 Mark Garnier: Professor Bacchus seemed to suggest in response to Royston Smith's question about the challenges and opportunities for the UK presented by issue-based plurality agreements and regional trade agreements that there were lots of opportunities and very few risks. Would you agree with that analysis?

Dr Fox: The risks are largely political. There was quite a row, if you remember, at the 11th ministerial conference in Buenos Aires that I attended on behalf of the UK. It was the point where Robert Lighthizer, the American trade rep, said to a number of countries over e-commerce that there is no point in taking hostages when no one is willing to pay the ransom. In other words, we are not going down the multilateral route that can be vetoed by a very small number of countries when it is clearly to the benefit of a large number. That is where a lot of the impetus for a plurilateral approach would come: on seeing e-commerce as a hugely liberalising, liberating, empowering tool for developing countries and particularly, from the evidence from the ITC, for women in a lot of these countries. There are benefits there.

On other things like an environmental goods agreement, we are facing a global climate crisis, but we cannot even agree to make the parts for wind-generated energy or solar panels free of tariffs. If we cannot agree on things like that, how can we agree on some of the much more complex issues facing us? This is a question of the WTO's relevance. How can it show that it is relevant in wider issues on the fishing dispute? If you cannot, for the sake of sustainability of fishing stocks, agree to phase out illegal fishing subsidies, if you cannot on climate change move to an environmental goods agreement, where is the wider relevance of the organisation? It is part—to answer your first question—of its existential crisis. It is as much a crisis of relevance and self-confidence as it is of mechanics.

Chair: Is Neil Coyle available? He was struggling with his technology.

Neil Coyle: I am here. I wanted to come in on the issue of China and international organisations. I know there is a question from Sir Mark on this. I thought I was coming in after that. I have had some sound problems. Has Sir Mark already asked that?

Chair: Yes.

Q228 Neil Coyle: Apologies. I missed that entirely.

China has used its economic growth and strength to exert influence and even control over some multinational organisations. What threats do you see to the UK and western liberal democracies from that and for the



efficacy of those organisations?

Dr Fox: Congratulations on getting about 10 questions into one sentence. That is always a great skill. There are those who believe—particularly some elements in the United States—that China’s entry into the WTO has been a large contributing factor to the difficulties that it faces today. There are huge differences between where China was when it acceded to the WTO and where it is today. A lot of people will find it difficult to swallow the fact that it is still technically defined as a developing country when it is the second largest economy in the world at the present time. What people would find even more strange is the fact that countries self-define whether they are developed or developing. That is one of the issues where there needs to be a sorting out.

The WTO is not able to absorb easily a country that is the second biggest economy in the world but does have some elements of development within it. Professor Bacchus referred to China as being quite good at obeying the rules of the WTO. The problem is not the rules that we have but the rules that we do not have, and how we can constrain some of those issues where we find China to be a problem rather than a help and an adjunct to the global trading system. China’s willingness on things like fisheries to declare that it is not a developing country for the purpose of that is a move forward, but it is not big enough. We need to find a new point of balance for China in its relationship with the WTO.

There are issues, as the professor said, where the rules are not yet developed. We have a gap in our ability to deal with the issue of transparency when it comes to China; what are state and what are not state-owned enterprises, and, therefore, how are subsidies being used in a potentially anti-market mechanism. We have issues around IP and other technical issues around that.

I would refer the Committee, if I may, Chair, to a paper that Members might want to read produced by a committee of the OECD, which I will give the Committee. It looked at measuring distortion in international markets, particularly Chinese production of aluminium. As President Reagan would have said, in any relationship you have to trust but verify.

What the OECD set out to do in this study was to be able to verify by objective means that China was overproducing aluminium and impacting the global competitiveness of that sector accordingly. This is one of the areas we will need to look at, because being able to provide independent verification of market distortions is key to being able to maintain confidence.

The Indians also had an interesting idea on subsidy disagreements. They said you have to reverse the burden of proof. At the moment, the complainant has to prove that a particular country has been distorting competition via subsidy, but if you can never find the data because it is not produced by that individual member, how can you possibly build a case? They said you should reverse the burden of proof and countries had



to prove that they could produce a particular commodity while using current market disciplines and prices.

We have to think widely because it is quite clear that we face an impasse. When people talk about a new American Administration, I would simply say that Congress has a lot of representatives in both the House and the Senate who take Chinese market distortions and the potential impact on their constituents very seriously. I do not think there is going to be necessarily a huge sea change in the attitude towards China, although we might see different instruments being deployed to deal with the issue.

Q229 Neil Coyle: Given that we do not have that new balance and the new rules as you have set out, do you think it is at all helpful to have a Cabinet battle ahead of the spending review to reduce our aid spending, which will reduce our soft power?

Dr Fox: We need to look at the arguments for and against that. In the global response to the pandemic, a lot of countries will be quite adversely impacted in terms of trade. You see not only a potential drop in commodity prices, which will be particularly hard on primary producers in developing countries, but, as you see demand drop and unemployment rise in developing countries, you may see it get more difficult for migrant workers to find employment. That has an impact on remittances, upon which a lot of countries depend.

In fact I am publishing an article later this week setting out the countries that might be adversely affected, to the potential of debt defaulting, if the economic impact of the pandemic floats through from the G20 to those developing countries. Remember that the G20 represents 90% of global GDP and 80% of global trade. A big downturn and depressed demand in the G20 can have a big impact.

When we look at what we do in terms of overseas aid, we also need to look at our role through the World Bank and our role through the IMF, and what we might need to do to mitigate some of the issues. It is not clear cut as a single tool that we have. We have to look at the levers that we can use to alleviate some of these problems in the other multilateral institutions in which we play a part.

Q230 Henry Smith: Apologies, I have had some technical issues where my connection has dropped out. Bear with me if I have missed some previous answers.

In Professor Bacchus's evidence, which was fascinating, he suggested that countries self-certifying as developing rather than developed was actually to their disadvantage. What are your thoughts on that?

Dr Fox: When countries acceded to the WTO and they were given special and differential treatment, there were both rights and obligations. If they acceded on that basis, they have a right to expect the contract to be honoured. The countries that gave that special and differential treatment to those accession countries also have an expectation that these



countries themselves are obliged to make the market changes and the economic changes to enable them to phase out that special and differential treatment as soon as possible; in other words, that everyone is tending towards exactly the same rules over time but that we accept that some need more time to make those changes.

What the professor was alluding to was the fact that some countries seem to have been willing to accept the special and differential treatment without having to make some of those economic reforms. Many of them have, and some of the reforms have been quite painful, which is all the more reason to expect all countries to do so. It is reasonable for us, and I would certainly agree with the premise that countries that came from a stage of economic development a long way behind the others need to be given time to make those changes. What is unacceptable is the concept that this should be a perpetual state of affairs where there should be permanent exemption. Members who join the WTO have to accept that sooner or later they will have to fulfil all the expectations if they want to get all the benefits of membership.

During the DG selection process, this was one of the key issues that was being discussed, and I took the view very clearly that permanent exemption is not compatible with the WTO as we know it today. We need all members to have a clear destination of full participation in the rules. That means that special and differential treatment has its benefits but it also has its obligations, and that must work in both directions equally.

Q231 Chair: Does the self-definition of developing status in the World Trade Organisation automatically carry over into other multilateral organisations, or do they each make their own definition?

Dr Fox: This is a WTO exercise, and some people have tried to bring in the concept of objective measurements of what would mean you qualify as a developed country, a developing country, and a least developed country. There has so far been no agreement—that is probably the understatement of the day so far—on being able to take such concepts forward. Some of the ideas put forward by the United States were met with a pretty aggressive response from some others, yet there is widespread understanding that countries cannot indefinitely declare themselves to be developing countries when they have clearly reached a stage of material and economic development that, for most rational people, would suggest they are developed countries in the way we would understand it.

Q232 Claudia Webbe: Thank you for being here to answer our questions.

Could you describe and evaluate the work of the FCO—now FCDO—in supporting your candidature?

Dr Fox: It was a candidature in which the DIT took the lead—the accounting officer was DIT—so there was quite a joint effort, including our trade commissioners globally. Some of the campaign materials, which I have here and am very happy to send to any members of the



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Committee, were probably the best of the materials that we saw circulated during the contest and dealt with far more of the key issues. They did an extremely good job. The team in London headed by Martin Kent did a tremendous job. Our combined team in Geneva did a tremendous job by acting as the conduit between what was happening at the WTO and back in London.

In terms of posts around the world, as a very rough rule of thumb, I would have said about a third did way more than they needed to in pushing our candidacy. About a third did what we would have expected for them, and other groups were maybe not as enthused by the contest as they might have been. That, I believe, will be subject to a joint DIT-FCDO post mortem. In fact I received a letter from the Prime Minister confirming that this morning.

If I had a criticism for our own approach, we entered the contest too late. We were very late deciding to join. We did remarkably well considering that we joined with 42 minutes to the deadline to go, but we had been waiting to see whether the EU would put up a candidate. They had been intending to put up a candidate, but there was a lot of internal tension about that candidate. In the contest, we were then able to say that we were not a regional candidate, we were not from any particular group of development—neither developing nor LDC—and set out an objective picture.

The most important thing that we said, which is on the front of our brochure, is that we believe that free trade is a right: people have a right to sell their goods, services and labour to whomever they believe they should, and consumers should have a right to buy whatever they choose to buy without undue interference by governmental authorities.

It was that restatement of that basic part that brought together the different Government Departments and was able to give a coherent and intellectual British view of where trade should be, which I have to say was welcomed in the over 200 bilaterals that I did. It was actually surprising how many people said it was very refreshing to have a DG candidate who is so explicit about his support for free trade. That might go back to some of the problems Professor Bacchus identified as an existential crisis for the organisation and why.

Q233 Claudia Webbe: I would like to explore your work on multilateralism, trade and the EU a bit more. Another area of British trade that is governed by multilateral agreements is the European Union common position defining common rules governing control of exports of military technology and equipment. As the International Trade Secretary from 2016 to 2019, you had statutory responsibility for ensuring arms export licences were compliant with Britain's interpretation of the common position, namely the consolidated criteria.

Last year, you will be aware that the Court of Appeal found that you had unlawfully ignored safeguards designed to protect civilians by approving



weapons transfer to Saudi Arabia and its coalition allies, which, as you know, have targeted hospitals, schools and water infrastructure. Do you think you are qualified to discuss with this Committee how multilateralism agreements affect British trade when your own record is to unlawfully break such agreements?

Dr Fox: You should read the report and the full judgment, which also set out that we had taken quite radical measures to make sure that we put in place proper safeguards. It was not that we had acted in any way improperly. It was simply a matter of some of the legal safeguards that were put in place.

Your entire question is loaded with a premise that is quite untrue. The UK has very strict criteria, and we stick to the consolidated criteria. If you look at the whole of the judgment, you will find that it came to a rather different interpretation from the one that you have put on it.

Chair: I hope we can go back to the World Trade Organisation. We are slightly off the main objective, which is multilateral organisations and the World Trade Organisation. Dr Fox has come to give evidence on that. Members of the Committee are entitled to ask what they like. I would prefer them to stay on the main subject.

Q234 **Sir Mark Hendrick:** Dr Fox referred to China having changed over the years, and it has. When it joined the World Trade Organisation, it was seen as a workshop of the world and it was manufacturing goods at high levels and at cheaper prices, which most other countries around the world were happy about because it helped their businesses. Nowadays, China is more of an innovator and a competitor, and from that we see the United States initiating a trade war. To call China a country when in fact it is the size of two continents is not more valid than calling the EU a country, even though it is made up of lots of countries themselves. Because it is so big, many parts of it will be developing and many parts of it are well developed, particularly the big cities in the east. There will be elements of the country that are developing, and it is still technically developing in parts.

It is not a country as we would imagine it. It is actually something the size of two continents. Therefore, to have this simplistic definition in that it either is or is not a country is a difficult concept to grasp.

Is there not some way in which you feel that the WTO could handle China in a fair and even-handed manner? China is so big and has different characteristics from other so-called countries. The EU is dealt with as a regional economic bloc, so the WTO should be able to incorporate that in some way and get away from the obvious prejudices that there are in the West, and particularly in the United States.

Dr Fox: There is a good range of questions in that one question. First, China joined the WTO as a single country, and it has to operate the rules as any other member. Although the United Kingdom was a member of



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the European Union and acted within the EU bloc, we were a member of the WTO in our own right; we joined as a sovereign nation.

I go back to the point I made earlier. It is not that China does not obey the rules. In fact, people in Geneva will say that China is quite good at obeying judgments handed down by the WTO. It is just that it feels the rules themselves are not adequate to deal with some of the issues that have come up. Even how we measure trade as an issue is one that is quite current at WTO.

For example, the way in which we measure trade does not really take account of the fact that China has been a major player in the development of complex global supply chains, yet we measure global trade on the basis of gross value, which does not take into account the implications of those global value chains. If we moved to trade and value-added as the basic measure of trade, we would get a much better idea of the difference in trade balances between countries. I was very keen to push that at the WTO, but it is possible to deal with it.

China also has to be willing to make changes around issues of theft of intellectual property, transparency and state-owned enterprises and subsidy. We have to have greater transparency from China; otherwise the system will not be able to operate effectively.

If we are going to get the WTO to move from its current position, these issues will need to be dealt with. It is not just the United States; there was a very strong push from the European Union during our discussions at the WTO to see China adopt far greater transparency in a lot of these issues, and that also goes for other parts of the world. I would not portray it, as is often done, as a US-China standoff. There are a lot of other countries that have strong concerns about China's transparency over trade issues.

Q235 Alicia Kearns: Dr Fox, I want to thank you for flying the flag for the UK in a very effective manner during your campaign to be director general, for making the case for free trade so passionately and for your long history of engaging with multilaterals on the UK's behalf.

Given that extensive experience and history, this inquiry is about the resilience of multilaterals like the WTO to hostile attack from nation states, both members and outside of the organisation. What attempts have you seen to undermine the World Trade Organisation, and which nation states are most hostile to our goals at the World Trade Organisation?

Dr Fox: I do not think there is an innate hostility from anyone to the WTO. There is a frustration that it is not able to deal with its problems more effectively. As I said at the beginning, here is an organisation that has doubled in membership since it was created on 1 January 1990—now with 164 members—but has been unable to produce a single liberalising agreement other than the trade facilitation agreement. We are no further



forward than a lot of the Doha issues and we are no further forward on issues like investment, without which countries cannot reach the level of development that enables them to come out of special and differential treatment. There is a bit of a Catch-22 there. There are different levels of frustration. The way that will play out is that you will see more plurilateral negotiations being taken forward.

The government procurement agreement may well be seen, as Professor Bacchus also intimated, as a model that countries might want to follow: in other words, coalitions of the willing who are willing to see liberalisation because they believe those members will be able to carry it out in a clear and verifiable way. That is where we will go. The inevitable fallout from Buenos Aires and MC11 was that that is the route we are going to take, and you may see an acceleration of that.

The new American Administration is going to be more instinctively aligned to the concept of multilateral organisations, but very quickly the same frustrations will become apparent about what the practical difficulties are. It is in dealing with those practical issues rather than the conceptual ones where the work needs to get done.

In the near future, we will be looking at plurilaterals on e-commerce and plurilaterals on environmental goods. We might get the multilateral over the line on fisheries disputes and fisheries subsidies. You are looking at new issues along carbon border tax and other ways to deal with some of the disparities in the global economy. It may take place before your Committee goes much further from tariffs being used as a primary instrument in global trade. Some of these others may take their place, and it will bring with them new opportunities but also new challenges.

Q236 Alicia Kearns: To end on a positive, what investment do you think we can see in the World Trade Organisation as we come out of Covid? What will be your vision for what the World Trade Organisation could do on a multilateral front?

Dr Fox: This was a question that came up a great deal during the discussions in Geneva, and it was very apparent that the very same proposal—investment facilitation—is seen as two very different things, depending on your perspective. A lot of the least developed countries in the world were afraid that this meant new rules being handed down from on high, particularly from the G7, as to how they could carry out investment policy. I took a very different view. My view was that investment facilitation should be about the sharing of best practice.

The UK, which is the world's third top destination for foreign direct investment, has done a great deal of work around why the UK is so attractive to foreign direct investors. We could share that work with a lot of developing countries on issues around rule of law, regulation on taxation, access to higher education, access to tech, access to IP protection, and all the issues that we know matter. Unless we can get these countries to be more attractive to foreign direct investment, they



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will not be able to develop the economic capacity to be able to move out of that special and differential treatment, which is what we all want to see. The UK has a unique role to play in this because we have great expertise and great objective data to support it.

As we move out of Covid, we will need to give support through, as I mentioned earlier, other multilateral institutions such as the World Bank and the IMF. One of the things we could do to push things forward is to help take that investment facilitation agreement into a place that is much more consensual than some people seem to believe at the moment, although I believe that the perception is itself flawed. There is a great opportunity for us to practise multilateralism, free trade, and all the things we believe in by leading by example.

Chair: Thank you, Dr Fox for spending time with us this afternoon and sharing your experience both as a Trade Secretary and as a candidate for the DG of the World Trade Organisation. I am sure we would agree with what Alicia said: thank you for flying the British flag within the World Trade Organisation. It is a pity you did not get the job, but thank you very much.

Dr Fox: Of course, Chair, no one has the job.

Chair: That might be part of the problem.

Examination of witnesses

Witnesses: Dr Yanzhong Huang and Harpinder Collacott.

Q237 **Chair:** Ms Collacott and Dr Huang, thank you for joining us this afternoon. Will you introduce yourselves to the Committee?

Harpinder Collacott: Thank you, Chair, and I thank the Committee for giving me the opportunity to present the evidence.

I am the executive director of Development Initiatives, an organisation headquartered in Bristol in the UK. We provide data and evidence to inform policy and practice to build sustainable solutions that create an equitable and resilient world.

Dr Huang: My name is Huang Yanzhong or Yanzhong Huang, depending on whether you are in China or in other parts of the world. I am a senior fellow for global health at the Council on Foreign Relations, where I organise the global health governance roundtable series.

I am also a professor at the School of Diplomacy and International Relations at Seton Hall University in New Jersey, USA, where I built the first academic concentration explicitly to address health issues from a foreign policy and national security perspective. Thank you very much for having me.

Q238 **Mark Garnier:** Ms Collacott, will you talk us through how the changes in



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funding multilateral organisations have developed over the last 10 years, and where you see the advantages and disadvantages? I am thinking in particular of that earmarked and un-earmarked funding—where the money goes into an organisation they choose or where the donor chooses how it is spent.

Harpinder Collacott: Before I begin going into the data, I will provide a little bit of context. Fundamentally, there are hundreds of multilateral organisations, each with its own size, mandate and government structures. Some of them operate very much within the UN system and many of them outside the UN system. Some are operational; others are financing facilities like the development banks that Dr Fox mentioned. Then you have those who are the global norm setters and standard setters such as the WTO, the ICC, and others that I know this Committee is looking at.

What is really interesting about this system of multilateralism is that it has proliferated in many ways since 1944 as it started to be established at that point. It is very much based on democratic principles aiming to stabilise and adapt to new challenges where they occur, and we see new and more different bodies being set up in response to some of the global challenges that we face.

One thing that is particularly pertinent to this question is that the proliferation is a bit of a reflection of the dissatisfaction with the multilateral system and particularly the UN system to some degree as well, where reform is much needed.

Regulation is not the way the organisations have been set up and the governance structures as established are not nearly serving the purposes of the world today, and, therefore, other systems and new organisations are set up. The Global Fund and Gavi would be good examples of that.

As a result, the profile of the funding for the multilateral system has also changed over time. This has really led to the diversification of the donors that are responsible for keeping the system alive, and it has moved away from being largely bilateral and Government-driven to a much more diverse, multi-stakeholder landscape.

It is within this landscape that in the last 10 years in particular we have seen organisations such as the Bill & Melinda Gates Foundation become equivalent to a Government donor in the size and scale of its grants but also its political influence.

The UK remains one of the largest donors of that multilateral system in absolute terms and continues to play a very important role as one of the UN assessed contributions as a P5 member, and that gives it tremendous influence within the multilateral system overall.

I will make four quick points on the key trends, and there is plenty of data behind this that I am happy to go into if that is useful.



Multilateral funding fundamentally has been growing in the last 10 years, but increasingly it is the earmarked component—the restricted component that goes to specific projects and programmes—that has been on the increase over the core contributions that are fundamentally funding the system overall. It is during this period that some multilateral institutions that I know the Committee are looking at have actually found that their core contributions have reduced so significantly that they are much more reliant on voluntary contributions from other donors and potentially private sector bodies to fill that gap.

While the proportions remain largely small in aggregate terms, ultimately, when you look at them by institution, for some institutions like the WHO or the Office of the High Commissioner for Human Rights in particular, these are large, substantial contributions, and they are growing—they have been growing over the last 10 years—while other organisations that are much more reliant on assessed contributions of their other members, such as the WTO, the ICC, and the development finance institutions, remain predominantly core funded by their members.

It is largely the UN agencies that have seen a substantial part of their funding earmarked above and beyond other institutions. Their funding is already annual by the nature of humanitarian relief, and now it is being further earmarked by geography, project, programmes and thematic areas, which really restricts what the organisation can do and where they must deliver as a result of this earmarking.

Q239 Mark Garnier: There are a couple of points that come out of that answer. You talk about the Bill & Melinda Gates Foundation, which is an extraordinary example of philanthropy on a truly epic scale. As you said, they give as much money as, in many cases, some medium-sized countries. Does that not bring about questions of non-democratic influence? It is one thing to have a democratically elected Government being a major donor, and, therefore, being in place through a democratic process. Bill and Melinda Gates happily are very generous philanthropists, but they have effectively bought influence. While they are very good, you could have a malign actor who may do the same thing. You could have somebody whose views you do not necessarily agree with.

The first point is that democratic influence. The second point I want to ask you about is earmarked funding. One thing in particular that I would be very interested in your views on is the recent announcement from the UK Government of the ODA funding through DAC, the Development Assistance Committee. The Prime Minister made a clear statement that he very much wants to continue to pay the 0.7%, but looking more at the UK's interests. A lot of people would agree that, if we are going to give £15 billion a year, we should do that. None the less, is that a good thing or a bad thing in how this money is spent?

The wider question is: does earmarked funding not then lead to a possibility that you end up with un-co-ordinated outcomes between various countries?



I have brought three quite complicated elements into that question, but I am sure you are up to the job of answering it.

Harpinder Collacott: Let me give it a go anyway at least. Let us look at earmarking versus the core funding component first. This is a really interesting one because the agencies that are being compromised more are those that are losing their core funding—fundamentally that has the ability to dilute their core mission. It increases bureaucracy and creates quite a lot of perverse incentives within an organisation. The WHO, for example, found that it reduced their agility and flexibility to respond to crises. We have seen that very much in response to Covid.

If an organisation has to stop and raise funding before it can respond to a crisis, it is already three to six months behind where it should be. That agility is a critical aspect of what organisations are losing with this new move from core towards earmarked funding.

It is also preventing it from having a cross-organisational approach. This wraps up with the question around the responsibility and the influence of private donors such as the philanthropic sector, largely led by the Bill & Melinda Gates Foundation. A quite important point is that we know what the Bill & Melinda Gates Foundation is doing because the data is available and it is transparent. They publish to the OECD DAC database. There are many other private donors that do not publish, so we get a very murky and half picture as well of what is happening.

Where you have these large philanthropic foundations that are not on the governance of these institutions or multilaterals—because member states tend to be on the governance side—they are then bringing in their own agenda and their own priorities, which may not always align to the core mission, or, if they do align to the core mission, they may not align to the objectives that have been set at the governance level. Fundamentally, the funding that is received has to be programmed according to its restrictions. This is where we end up seeing that increasing bureaucracy and dilution of focus, but also the perverse incentives that this can create within an institution that then virtually becomes a fundraising body constantly seeking funding externally as opposed to trying to deliver on its core mission as a multilateral.

Q240 **Mark Garnier:** Which presumably makes it a servant of the donors ultimately.

Harpinder Collacott: This is where the mix varies. It will really depend on the organisation. It is that mix of funding: how large is that private contribution is interesting. The WHO has one of the largest contributions from the Bill & Melinda Gates Foundation; 12% of its budget. That is quite a substantial contribution.

Other organisations have very minimal private sector bodies influencing them. It really will play out according to the size and scale of the various different funders and the institution as well as the executive role that is



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played in managing that and monitoring how funding is then reported on and managed, and how the objectives of the donor are not paramount over the objectives of the institution. I want to come back to your ODA point as well.

Q241 **Mark Garnier:** I was going to attempt to keep to that question. Please address that.

Harpinder Collacott: I will come back to your point on ODA funding. A controversial discussion is going on today in the media. It is a very important point because one thing people fail to realise is that ODA is much more tightly earmarked than other official financing. When ODA is allocated, it has to be allocated within the rules of the DAC and within the rules of our own Administration as well and our legal responsibilities under the International Development Act.

When ODA is spent, it has to be spent according to those rules, which very often lead it to be very finely earmarked towards geographical focus—programmes, diseases—but it is the official but non-ODA financing that can often come as core contributions to organisations that are the core that allow them that flexibility.

ODA is an interesting discussion, but it is not always as clear cut as it can appear in the media simply because a lot of the funding tends to be largely earmarked, and less and less of ODA now is core funding. More of it is being allocated according to the Government's key priorities as opposed to general contributions on development alone.

Q242 **Claudia Webbe:** What are the implications, given the rise in significance of private donors in funding?

Harpinder Collacott: It is a really important point. Funding is very much a blunt instrument if we think it can be used to determine the objectives of an organisation. Absolutely, it can bring in the priorities of a particular donor, but what is really important is that the private sector funding is still very minimal and is going only to certain organisations. Many organisations are not eligible to receive it, and they are still largely funded by member states or through UN-assessed contributions.

The Office of the High Commissioner for Human Rights is an unusual agency within the UN. It has really ruffled political feathers. As a result, member states tend to be not as keen on contributing. Member states' contributions remain largely up to a third of its budget, while two thirds of the funding comes from philanthropy and philanthropic organisations—quite a substantial amount. You have others that have very little or no funding at all from the private sector.

What is important is that there are some potential negative aspects to private funding. It can reduce accountability, as we have heard already. The transparency around private funders is just not good enough, and it needs to be improved if they are going to be a larger part of multilateral institutions, and it can to some degree erode mandates.



There is, however, a plus side. Private funders can have an appetite for risk that is much greater than bilateral states. They do not have that same sense of accountability to their domestic constituency, so the risk appetites can be higher and they will be willing to take on projects that are not necessarily as appealing to bilateral member states.

Q243 **Chair:** Dr Huang, do you want to come in on this?

Dr Huang: These are all great questions. Private donors play an important role in strengthening multilateral organisations, but they also represent a vulnerability to multilaterals. The Bill & Melinda Gates Foundation contributed \$530 million in the biennial budget year 2018-2019, and is the second largest contributor to the WHO, followed by Gavi and the UK. It is also the largest private global health funder.

These are good stories to tell, especially after the United States decided to terminate its relationship with the WHO. It committed more than \$115 million to the organisation. It also poses a risk to WHO financing. What if the foundation chooses not to support the organisation next year? What if it chooses not to work with the WHO if it changes its mind? This earmarked funding is essentially not flexible. It is also not predictable. In a way, it also distorts the global health agenda when the programme areas are essentially guided by donor priorities. For example, 61% of Bill & Melinda Gates Foundation money is earmarked for polio eradication, compared with only 1% that goes to NCDs, non-communicable diseases, and 0.41% to prevention and control of outbreaks. This is indeed a risk.

In addition, I want to point out the potential impact of private funding on WHO reform. In the dynamics of what Professor David Fidler of Indiana University has called open source anarchy, both states and non-state actors that are resistant to governance reforms that would significantly restrict their freedom and action. You would see non-state actors, including the private funders, that prefer to remain independent of these formal structures and processes of government and inter-governmental organisations. Governing Bill Gates may prove as challenging, in its own way, as governing the United States in terms of global health.

Q244 **Royston Smith:** What I want to ask has been covered in Ms Collacott's comprehensive answers. What is China's approach to funding multilateral organisations?

Dr Huang: On China's approach to funding multilateral organisations, let us look at China's funding to WHO as an example. Assessed funding, as we know, is a relatively small percentage of the WHO budget—less than 20%. China's contribution was 8% of the WHO budget, now increased to 12%. That would make it the second largest funder of assessed funding, compared with the US at 22%. In total, if you also include voluntary contributions, which account for a larger share of the WHO financial flow, China contributes only 1.5% of the total WHO biennial budget. That is because the voluntary contribution remains very small. It used to make only very nominal voluntary contributions to the WHO and other



international organisations. During 2018-19, total contributions were \$85 million, but the earmarked voluntary contributions were only \$10 million.

Despite its status as the world's No. 2 economic power, it historically has contributed far less than donors such as the Bill & Melinda Gates Foundation, the UK and Germany. It is now increasing its funding to international organisations and we are seeing some evidence suggesting it is slowly shifting its funding from bilateral funding to multilateral funding. It has contributed \$10 million to UN Women, which makes it the largest contributor from the developing world. In September 2015, China announced it would establish a 10-year \$1 billion China-UN peace and development trust fund to support UN work.

More recently, especially after the United States chose to withdraw from the WHO, it made additional voluntary contributions to the organisation by pledging a total of \$50 million, mostly to fund the Covid pandemic control and prevention in the developing world.

During the western Africa Ebola outbreak in 2014, it contributed \$5 million to the FAO. It also contributed \$47 million to the OCHA, even though the total of that funding was dwarfed by the \$1.8 billion from the United States.

If you use different indicators adjusting it according to GDP per capita, its contributions are still no match for those of the United States, but they are close to that of the UK and higher than the contribution of other OECD countries.

Q245 Royston Smith: What should the UK be aware of in ensuring that China's influence remains constructive? As China starts to play a larger role in the multilateral organisations, what should the UK be aware of?

Dr Huang: It is very interesting if you look at China's influence at the WHO. Even though it contributes only 1.5% of the WHO's total budget, it plays a disproportionately large role in the organisation. We have seen how the United States is criticising the WHO for becoming dominated by China or calling it China-centric. Indeed, China has played a very important role in the WHO decision-making process. Even with those relatively small contributions financially, one of the reasons it can still play a larger role is that it is a staunch supporter of WHO's irreplaceable leadership role in global health governance.

The second reason is that China is the largest and most populous country in the world. It has been the origin of many disease outbreaks. With China becoming geopolitically more important, that also gives it the incentive to play by its own rules, and, interestingly, that is also giving China more leverage in dealing with the WHO. When the WHO found an outbreak in China, it found it necessary to seek co-operation from China in disease prevention and control. The concern is that the WHO sometimes has to succumb to Chinese demands and requirements. It has to be more accommodating to China's requests in exchange for its



cooperation. That also explains why during this recent pandemic response the WHO praise China for its response to the pandemic outbreak even though there was mishandling of the initial stage of the outbreak, which was dismissed by the organisation.

Harpinder Collacott: I would like to add one thing to that answer. One of the other important ways China has been able to leverage its influence is through ensuring that key senior level appointments of Chinese nationals are made within critical multilateral organisations. It has been very effective in making sure Chinese nationals are appointed within particular multilateral institutions, and at a very senior level.

The UK has been a little amiss in this space. We have been never been as good at lobbying for the senior level appointments. This is always a matter of geographical representation that needs to be reflected within any UN or multilateral body. Because the UK often could be seen as a dominant voice or a dominant partner through the role it plays on the P5 and other places, it does not automatically get those senior level appointments. That is where the UK could be playing an important diplomatic role in thinking of who are the countries that could be aligned or that are aligned to the UK's diplomatic priorities and could also take on some of the senior level appointments as a way of working through alliances.

Q246 **Chair:** Can one generalise that answer away from China and say that the biggest influence of the origin of money on multilateral organisations is on the secretariat and other senior administrative positions?

Harpinder Collacott: It would depend on the institutions, but it is largely at the secretariat level. It is the senior appointments that are done through a lobbying campaign. That has to happen because they have to be appointed through a wider consensus behind them. The junior appointments are much more done on merit as opposed to consensus by the member states.

Q247 **Alicia Kearns:** I have a follow-up to the points that Ms Collacott made. Some countries will have less of a commitment to international norms and values. Do we have concerns about countries tying their funding to ensure that certain people get appointed or elected?

Harpinder Collacott: I do not have an example for you. It is not that apparent that the funding is assigned with the appointments at all. It seems that those two things are relatively separate. As I said earlier, the funding tends to align more with the priorities of where the organisation undertakes its work and what issues it takes on as opposed to necessarily aligning with appointments that have been made. The appointments are largely driven through a much more advocacy and diplomatic-based appointment process that has to bring on the consensus of the wider member states.



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For some institutions, there are countries that are always seen as leading. The UK always leads OCHA. We get to appoint the senior official in that group. Others will be taken on by the US and other partners. There is an automatic division that happens between some of the larger multilateral organisations, but that is not necessarily the case with more of the newer ones that have emerged post 1940s to 1960s.

Dr Huang: China has a total of 40 staff members at the WHO, which is a very small percentage of WHO staff. If you look at the senior staff—the WHO cabinet—there is only one Chinese citizen. I agree that there is no strong correlation between funding and staff appointments at those multinational organisations.

Senior staff appointments have more to do with regional distribution considerations and potentially informal ties. The relationships play an important role in the WHO DG deciding who to invite to serve in his cabinet.

Q248 **Chair:** China is responsible for the audit of 11 UN bodies. Is that a cause of concern, and is it a major form of influence for China, Dr Huang?

Dr Huang: First, it is important that international organisations such as the WHO have external auditing. That is necessary for ensuring the accountability of the organisation. Remember that there are a lot of issues and challenges associated with the organisation, and internal auditing finds a lot of those issues. By May 2019, they said they had more than 90 recommendations on the things that needed to be fixed, but only 59 have been taken care of. Having a state actor, whether it is China or other countries, would help to strengthen the accountability mechanism, but it will not be sufficient to address the risks associated with the structural problems of the organisation such as lack of funding.

There are also potentially morale hazard issues: the risk of collusion between external state actors and the secretariat of the organisation that allow the external actor to have extra influence in the decisions.

Q249 **Chair:** Is that not the real point? China scores pretty low on the corruption perception indices. It is the auditor of 11 UN bodies.

Dr Huang: Could you repeat the question?

Q250 **Chair:** Is that not the point you made about influence? China can use its influence, possibly for malign purposes, when it is perceived to score low on the corruption indices?

Dr Huang: For that, I really do not have much information to offer. China could work with other countries by playing a proactive role in auditing the organisation and making sure the organisation is efficient, nimble and effective, and identifying issues that should be fixed, including potential problems of corruption in the organisation.

Q251 **Chair:** Ms Collacott, do you think the audit system is working well, and



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are there any areas that could be improved? Which areas need improving?

Harpinder Collacott: I am not sure I am best placed to answer this question because the external and internal audit system is a very complex system. One point I would make—but I would be very clear that we are not experts in this area—is that combined assurance with internal/external audit and evaluations is really critical. It is fundamental to get a much better system working around these areas. Often it is a governance body that would commission the evaluation while the executive is responsible for internal audits. As you say, an external audit is carried out by a particular allocated member. The importance of bringing this combined assurance is going to be critical to ensure it is fit for the future.

Chair: I thank both our witnesses, Dr Huang and Ms Collacott, for sparing their time and giving us some very valuable information and advice for our inquiry. Thank you very much.