

Challenges and Prospects for International Trade Cooperation

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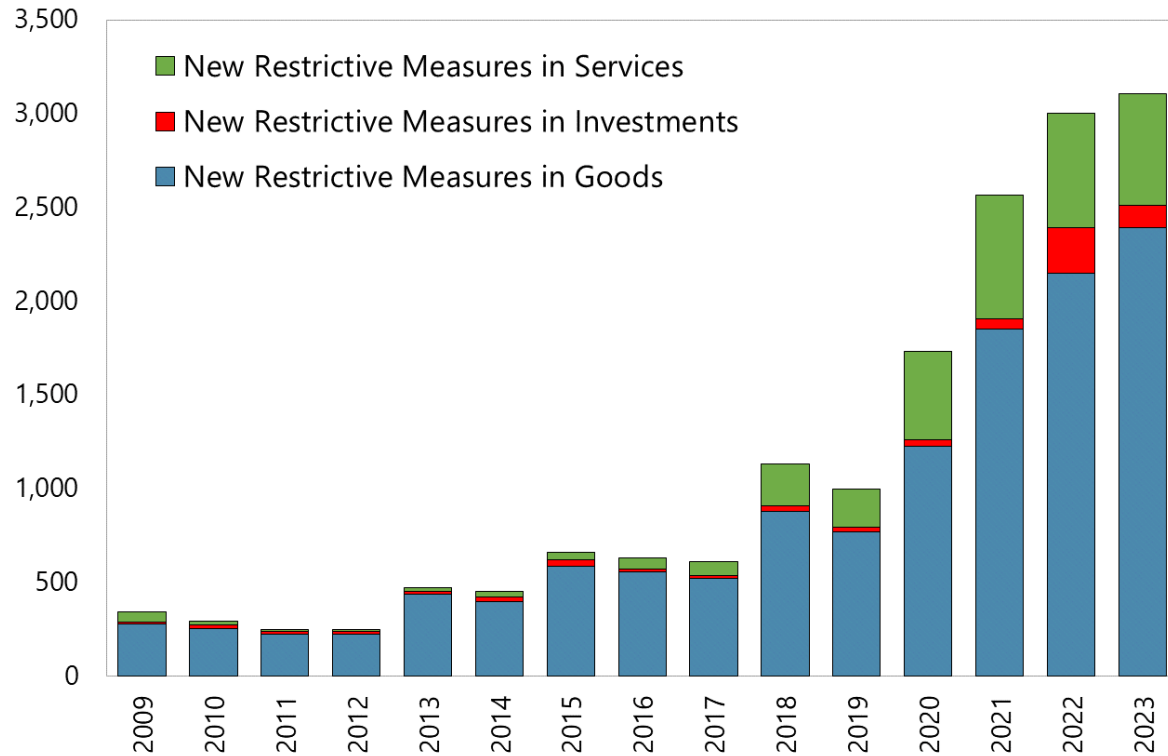
Columbia Business School Center on Japanese Economy and Business conference
“Navigating Global Challenges: AI, Innovation, Monetary Policy and Trade”

Tokyo, 4 June 2024

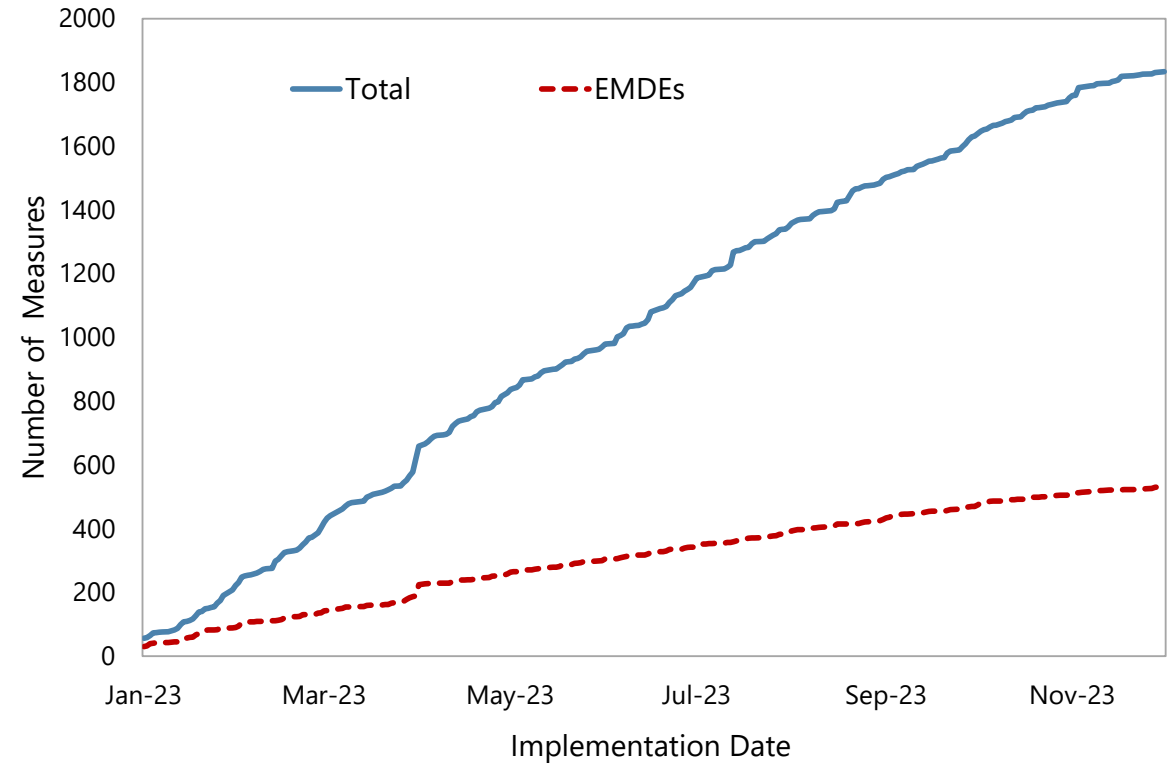
Context

- Geopolitical rivalry, system conflict & existential threats
- Increasing policy intervention motivated by (a mix of):
 1. Economic objectives (address market failures)
 2. Noneconomic objectives (e.g., autonomy, societal values; national security)
- Mostly unilateral actions – and responses
- GVCs impacted– and globalization more generally
 - Efforts – public and private – to bolster resilience and “de-risk” supply chains
 - Policy uncertainty and rising political risk affects investment decisions
 - Heterogenous effects for some developing countries in short run (investment/trade diversion), but unilateralism bad news in medium term/longer run
- Eroding support (willingness) to pursue multilateral cooperation
- Instead, small group trade agreements and domain-specific cooperation among “friends”
 - Not necessarily traditional trade agreements – viz Indo-Pacific Economic Framework, digital economy partnerships

New trade-restricting policy measures (number, 2009-2023)

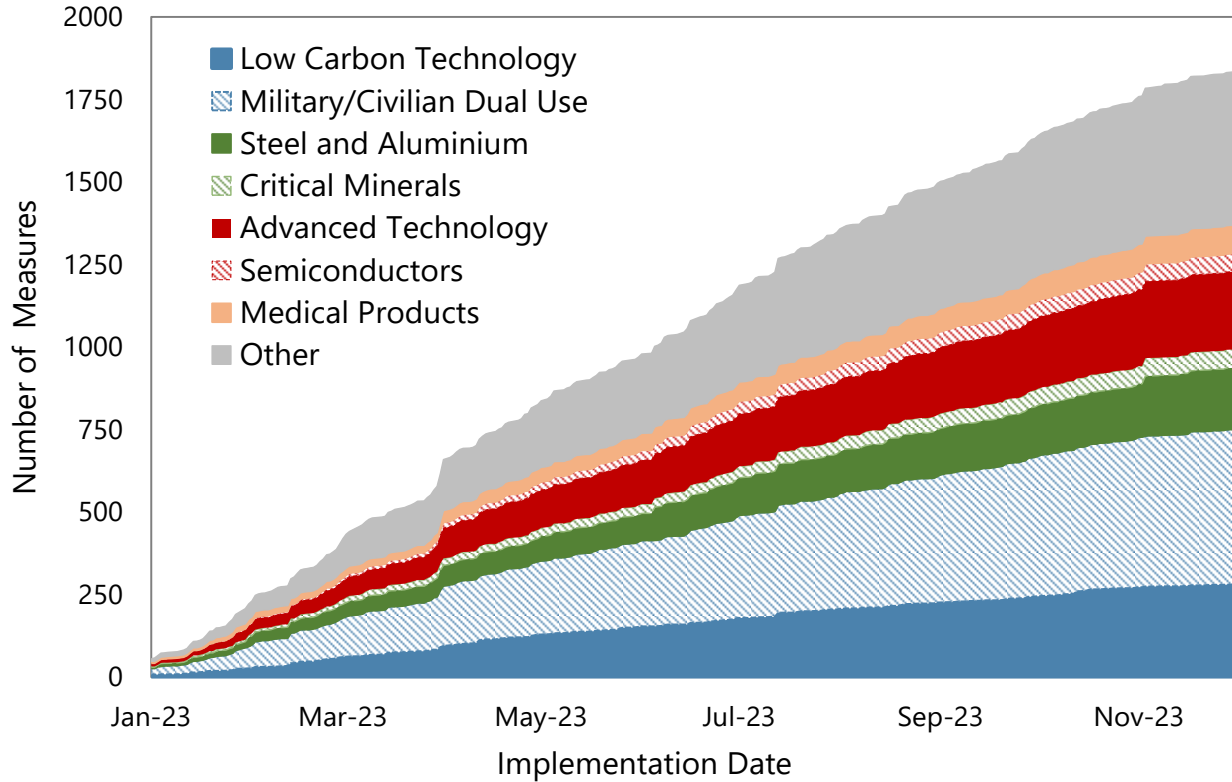


Source: Global Trade Alert. Note: Data accessed March 6, 2024; includes adjustment for reporting lags.



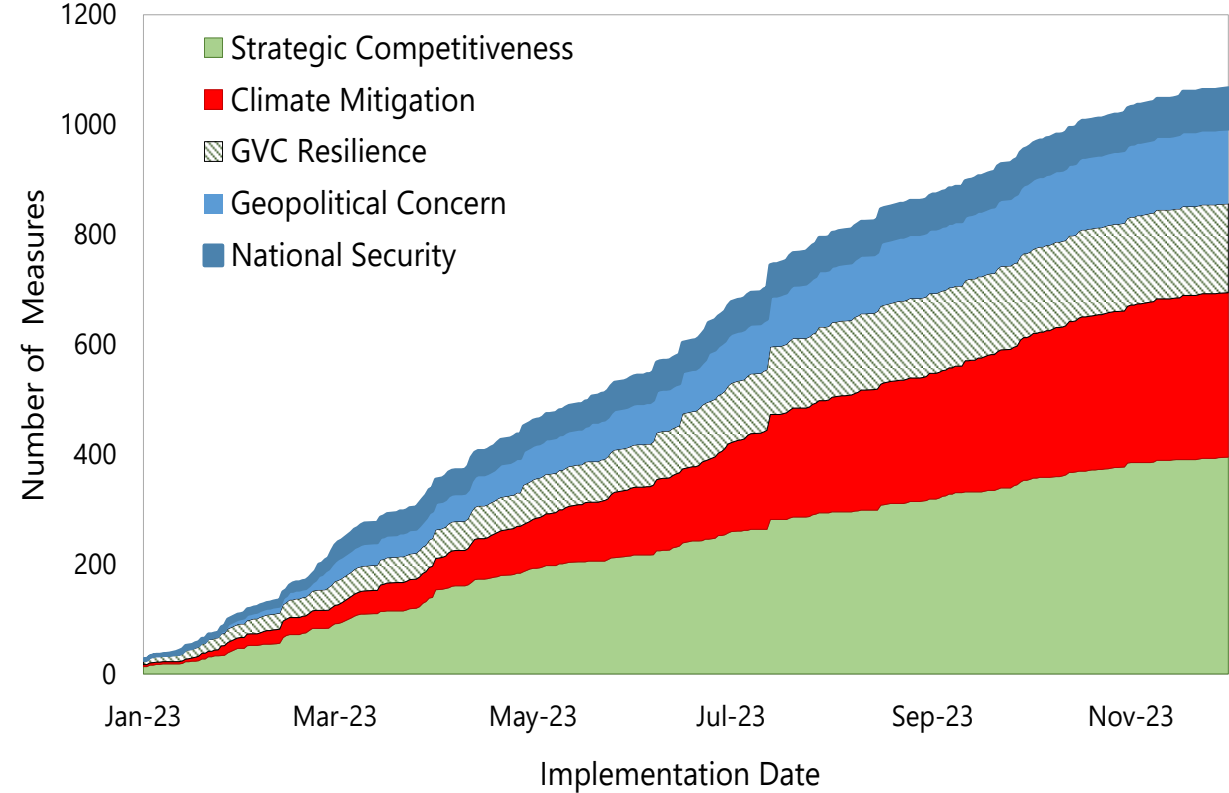
Source: Evenett, Jakubik, Martin and Ruta (2024)

Targeted sectors/activities



Note: Cumulative stock of measures. For measures affecting multiple sectors, each sector is given equal weight.

Objectives (2023)

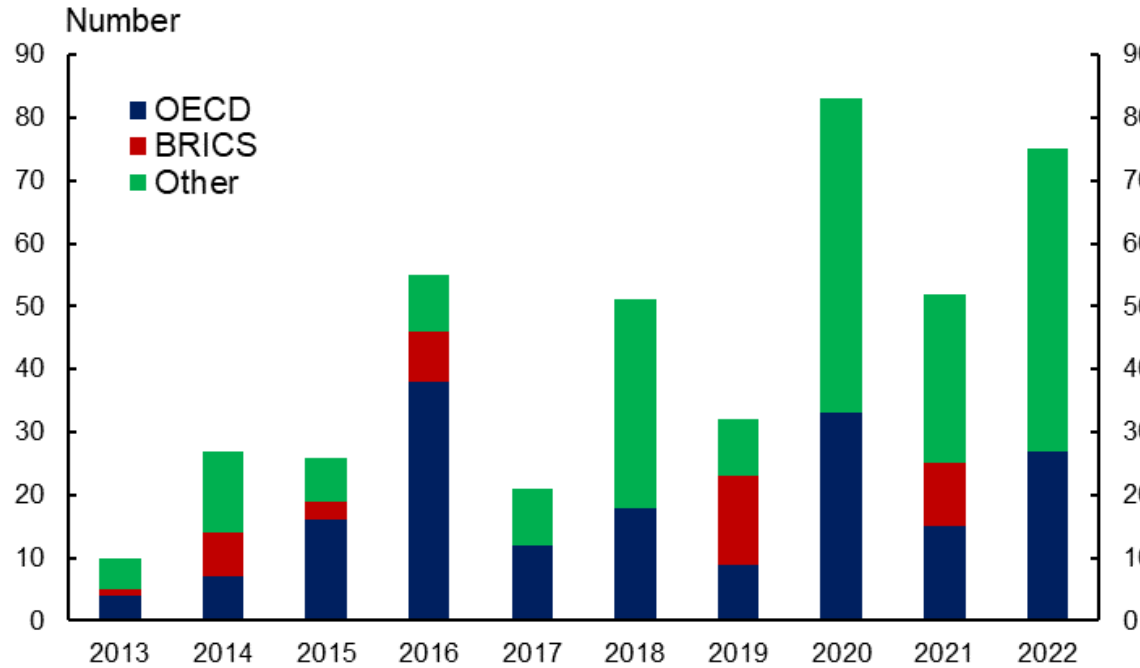


Note: Cumulative stock of measure with IP-related motive. For measures with multiple motives, each motive is given equal weight.

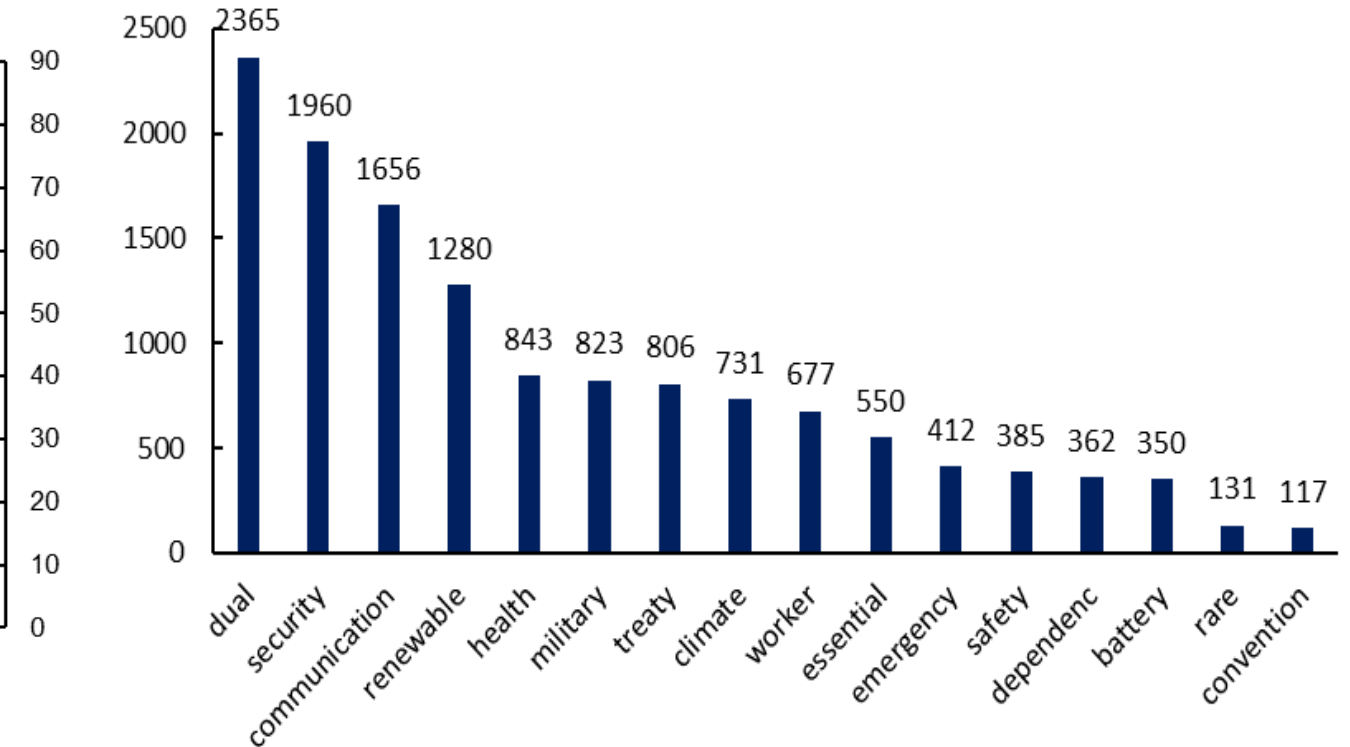
Source: Evenett, Jakubik, Martin and Ruta (2024)

Many interventions are motivated by non-economic objectives (NEOs)

Notifications to WTO of quantitative restrictions mentioning 'essential interests', 2013-2022

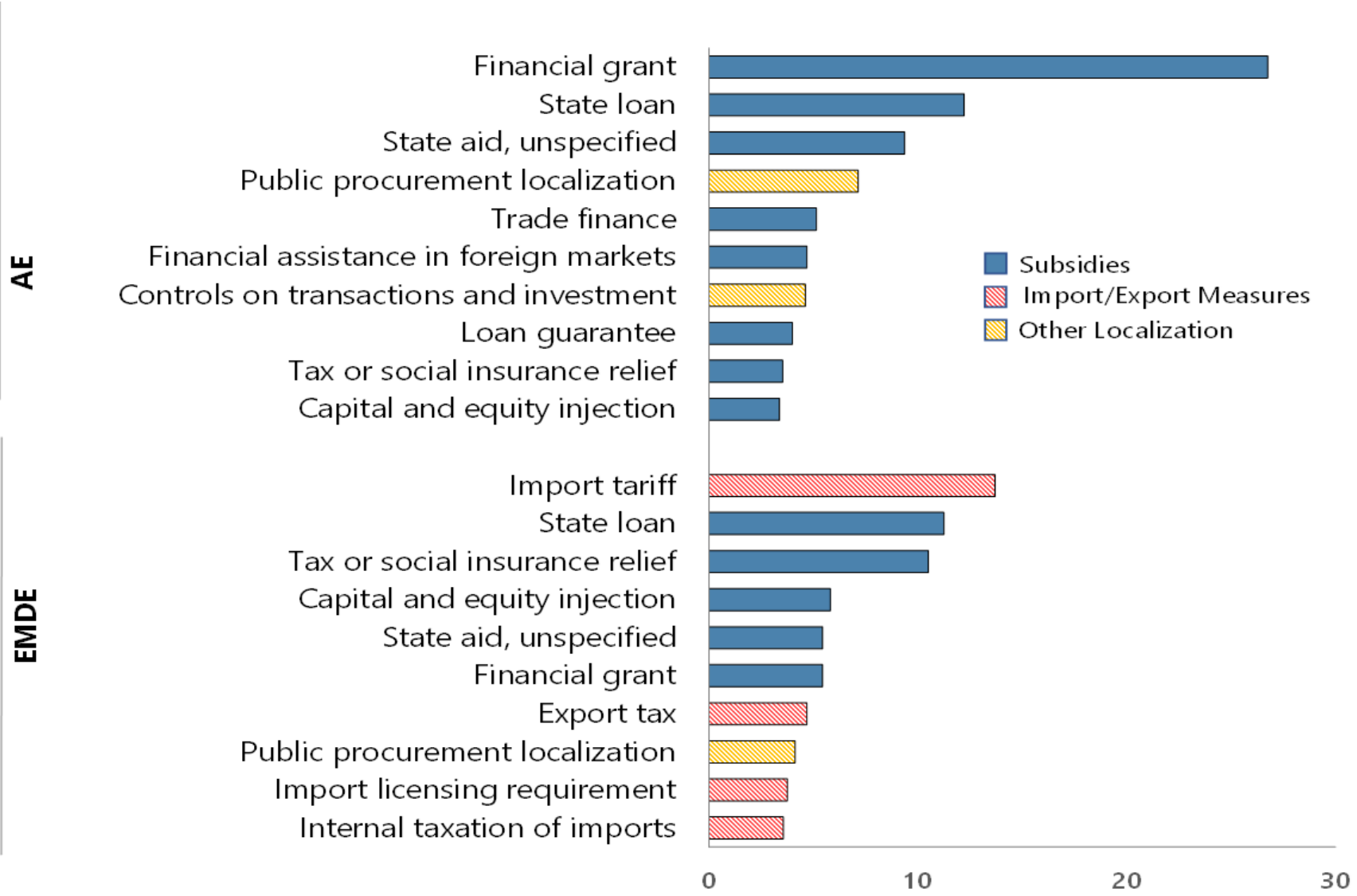


Number of times a NEO-related keyword appears in description of a GTA measure, 2009-2022



Source: Hoekman, Mavroidis, Nelson, *Noneconomic Objectives* (CEPR, 2023)

Use of policy instruments across country groups (shares, 2023)



Addressing policy spillovers

- GATT dealt mostly with border measures that generally reduce economic efficiency
 - Lent themselves to reciprocal reduction/removal negotiations for mutual gain
 - GATT benefitted from like-mindedness of original 23 members (dominated by UK and US)
- WTO today confronts rise in “traditional” trade and subsidy policies
- And a growing ‘behind-the-border’ policy agenda – regulatory diversity as a source of trade costs
- More heterogenous/large membership (164) with diverse preferences & priorities
 - Legacy of Uruguay Round single undertaking: lack of trust that a package deal that is argued to constitute a net benefit is in fact welfare improving
- Doha deadlock: Centrifugal forces increase
 - PTAs proliferate as an instrument to enhance market access – not just tariffs but lower trade costs and become the loci for rule-making on behind the border policies
 - But, large emerging/developing nations are mostly not part of deep PTAs (RCEP an exception)
 - Increasing focus on bilateral/plurilateral issue-specific agreements

Bolstering scrutiny and dialogue

- Presumption in WTO: sovereignty reigns in defining national goals and choosing instruments (WTO as a negative integration mechanism)
- Need to tackle both use of trade for economic and for noneconomic objectives
- Recognize that NEOs now a more prominent focus of national trade policy
 - Revisit the general and national security exceptions provisions in WTO
 - What falls under “essential security” in the 21st century (e.g., cyber; digital)?
 - Revise subsidies disciplines to consider underlying goals and effects/effectiveness
- Calls for more informed deliberation, peer review and policy dialogue
- WTO weakness: limited analysis-informed policy dialogue to
 - Clarify underlying policy objectives
 - Jointly discuss effectiveness of proposed and applied national measures
 - Analyze magnitude and incidence of cross-border spillover effects
- Scrutiny must go beyond “transparency” to encompass effective peer review

Rulemaking

- Should not give up on multilateral agreements – viz. recent Agreement on Fisheries Subsidies
- But club-approaches to rule making are a way forward
- Plurilateral agreements as a response to consensus constraint in WTO
 - Recognizes differences in preferences, priorities and capacities
- Potential tool to reduce spillovers from pursuit of NEOs through trade
 - E.g., criteria for due diligence in supply chains; assessment of carbon footprints;
 - International standards; good regulatory practices; mutual recognition; equivalence regimes
- Basic question: open or closed plurilateral cooperation?
 - In some domains closed clubs likely
 - National security-related technologies and supplies
 - But insofar as states like US and China have common goals (greening; resilience; essential supplies) open plurilaterals should be feasible

Supporting plurilateral cooperation in WTO

1. Address concerns of non-participating WTO members
 - Option: Adopt a code of conduct that governs OPAs. Possible elements:
 - Voluntary, open ex ante and post (accession clause with clear criteria)
 - No discrimination against acceding members satisfying club conditionality
 - Full transparency – reporting; information exchange; WTO Secretariat support;
 - Members needing assistance will be supported by OPA incumbents
 - Consideration of stepwise schedule of compliance for countries that cannot meet all requirements at once
 - Monitoring and evaluation of outcomes
2. Deal with problem of how to legally incorporate OPAs (non-discriminatory) into WTO
 - Prospects of #2 may be improved by action on #1
 - Agreement on “responsible” use of consensus would help a lot, but if not feasible members of prospective clubs should proceed

Implementation: Variable geometry

- Traditional adjudication critical for “bread-and-butter” issues: economic measures generating negative spillovers
 - Does not necessarily require the type of encompassing review the Appellate Body engaged in
 - Strengthen panel process; narrow ambit for appeals; put onus on membership to clarify/develop rules
- Standard dispute settlement less salient for regulatory ‘behind the border’ policies
- Build on innovations in area of product regulation (SPS/TBT): thematic sessions of Committees, identify good practices, peer review
 - Premise: leverage ‘epistemic communities’ interested in/with knowledge and expertise in a policy area
 - E.g., subsidies and SOEs: finance ministries, competition agencies, international organizations
- Bolster use of alternative conflict resolution mechanisms
- Example: Make greater use of “specific trade concerns” type scrutiny by peers
 - Notably for pursuit of essential security interests where recourse to formal dispute settlement panels is unlikely to be effective – and arguably is not desirable
 - Use multilateral mechanisms to guide retaliatory responses if a matter is not resolved