

# **Altered States: Trade Cooperation in the Age of Insecurity**

Aaditya Mattoo

World Bank

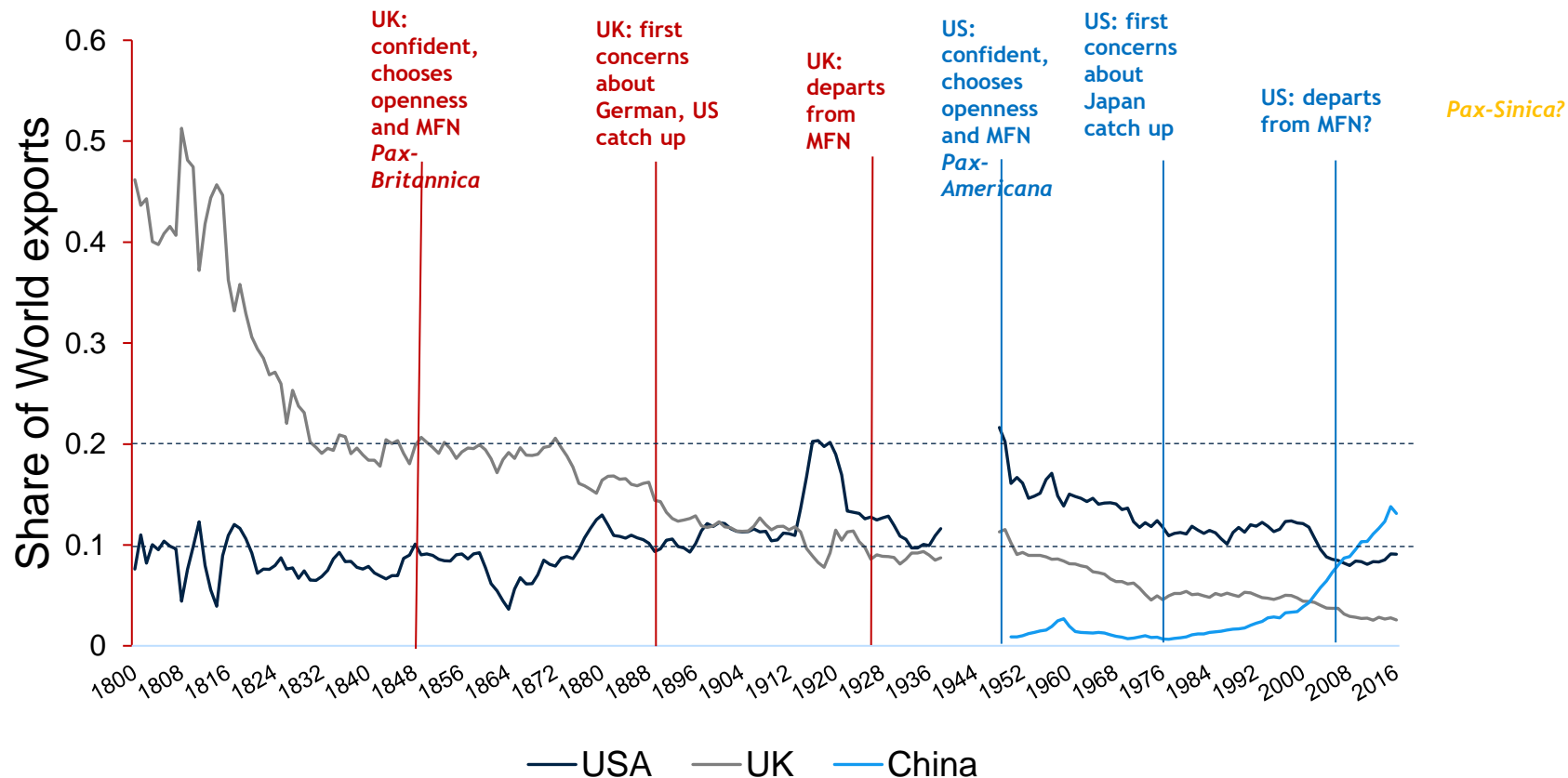
Presentation at “*Achieving a successful world trade system*” organized by the Confederation of Asia Pacific Chamber of Commerce and Industry (CACCI) on 29 October 2021 .

# IMPLICATIONS OF THREE CHANGES

- Hegemonic transition
- Increased inequality
- International market failure

# The threat to globalization may be a historical inevitability

## The UK and US Share of World Trade, 1800-2016



# RETHINKING RECIPROCITY?

- Problem: Relatively open incumbent confronts relatively protected rising power
- Changing reciprocity:  
from seeking liberalization in return for liberalization  
to seeking liberalization in return for avoiding protection
- How is success measured? Short-term terms of trade gain vs longer-term debasement of the currency of legal commitments
- Evading the Thucydides trap: will the incumbent refrain or the rising power concede?

Trade wars: What do they mean? Why are they happening now? What are the costs?  
Aaditya Mattoo, Robert W Staiger, Economic Policy, Volume 35, Issue 103, July 2020, Pages 561-584.

# The political economy of trade is being turned on its head

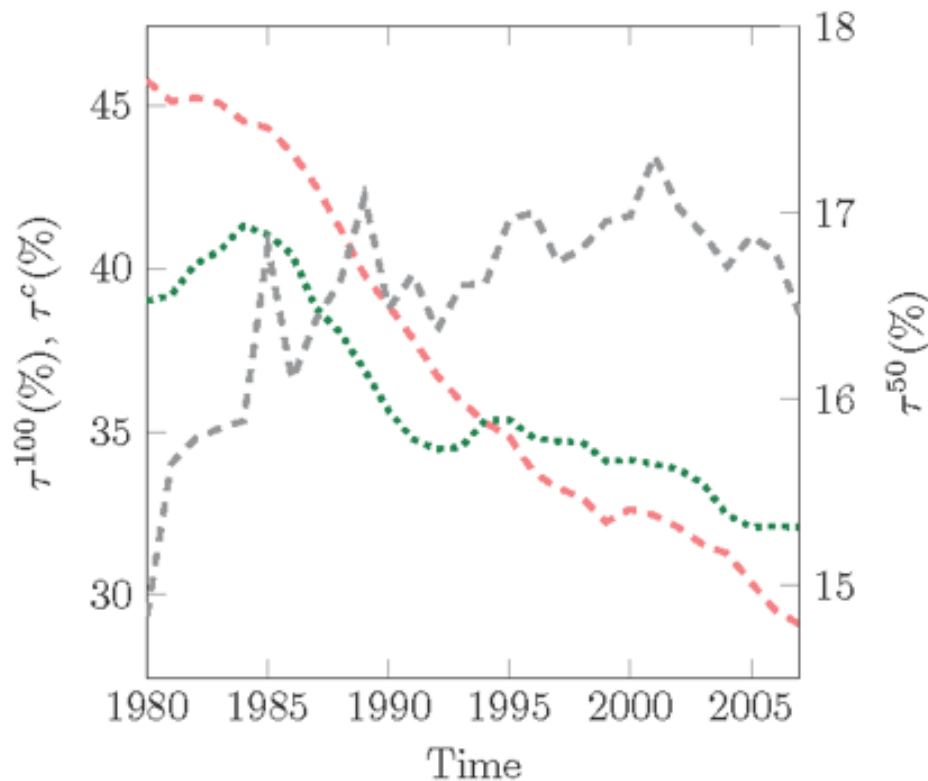
- Classical view of national trade policy and trade negotiations: driven by concentrated producer interests
- But globalized production and ownership weakens link between producer interests and national trade policy.
- The result: democratization of trade policy to favor diffuse and less-mobile labor and consumer interests.
- And that changes in international trade cooperation

## EMPOWERED WORKERS

- In industrial countries, trade is hard on blue-collar workers, so their increased political influence would only lead to greater openness if they shared in the gains from trade.

# GLOBALIZATION MAKES IT HARDER TO TAX WINNERS AND COMPENSATE LOSERS

Corporate tax rates and personal labor income tax rates for top 1% and median workers in 65 economies over 1980-2007



Failure of domestic redistribution leads to the use of **trade barriers as an imperfect means of social protection.**

Source: Peter Egger, Sergey Nigai, Nora Strecker (2019).

- ..... Top-1% income tax rate (left scale)
- - - Corporate tax rate (left scale)
- - - Median income tax rate (right scale)

# ADDRESSING EXTERNALITIES IN TAXATION

- Routes to international tax cooperation (esp OECD)
  - Initiatives to deal with base-erosion and profit shifting
  - Agreement on minimum corporate tax
  - More destination-based taxation?



# EMPOWERED CONSUMERS

- Politically empowered consumers should support greater openness because they are the biggest beneficiaries from trade.
- But concerns about market failure in globalized markets – from information-based services to finance – are leading to the **use of protection as an imperfect means of regulatory precaution.**

# A SOLUTION: EXPORTING COUNTRY REGULATORY COMMITMENTS: E.G. DATA FLOWS

## The problem



## Solution

- *Regulatory commitment:* EU-US Safe Harbor Agreement; renegotiated as EU-US privacy shield.
- Also CPTPP Article 14

Exporting country (data destination) commits to adhere to importer (data source) standards of privacy in return for free data flows

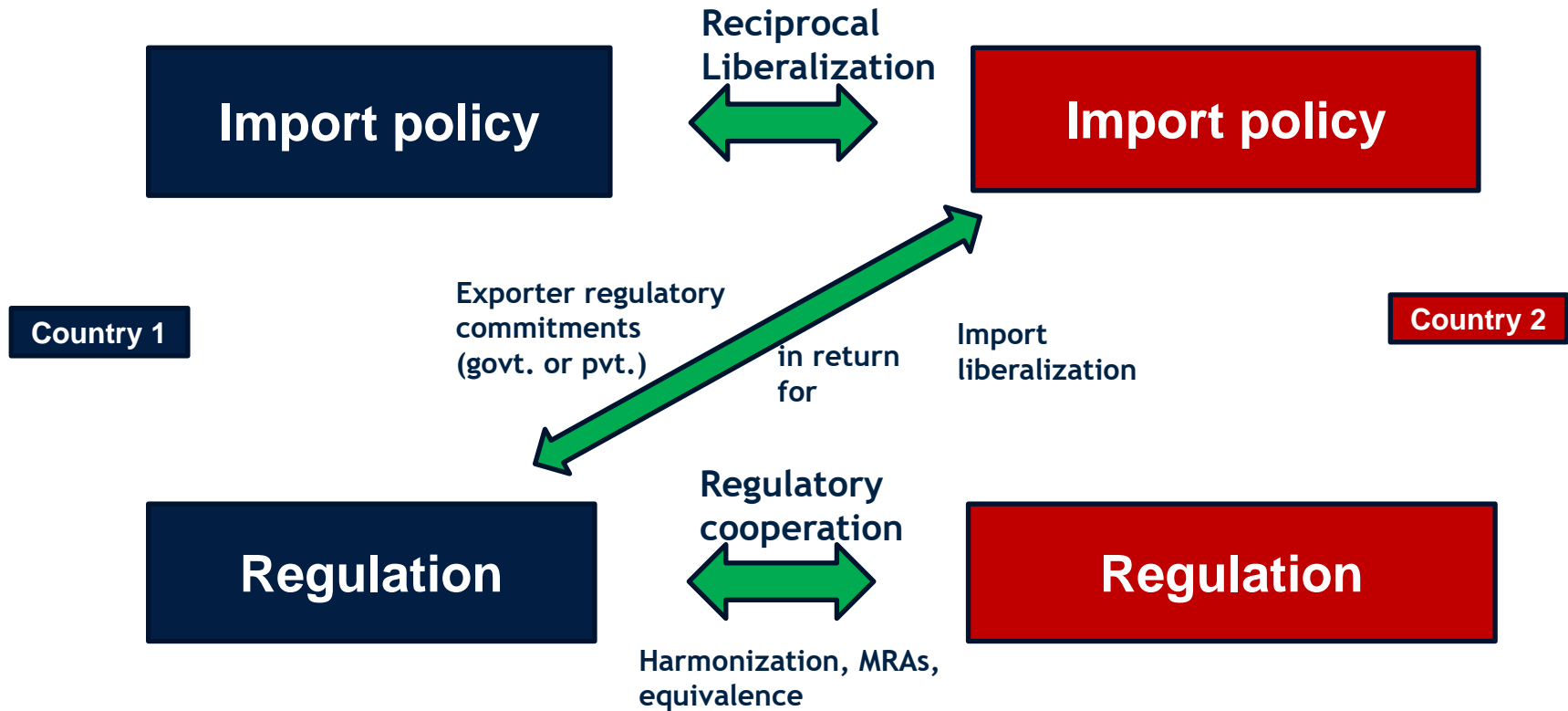


## “EXPORTER REGULATORY COMMITMENTS IN RETURN FOR MARKET ACCESS” COULD ADDRESS A RANGE OF CONCERNS

- *Financial internationalization*: instability
- *Monopoly power*: consumer/worker exploitation
- *State-related enterprises*: trade distortion
- *Carbon-intensive production*: climate change
- *Labor mobility*: illegal migration, etc.

Regulatory externalities – where action or inaction in one state can impose costs on people in another state.

# HOW THE PROPOSED APPROACH IS DIFFERENT



## SUMMING UP

- Why now? Historical inevitability
- What is to be done? New forms of reciprocity
  - For firms: first difference to level?
  - For workers: destination-based taxation?
  - For domestic consumers: regulatory commitments?
- Cooperation beyond trade – not necessarily in the WTO - to keep trade open

# Rebuilding the World Trading System

Presentation to Virtual CACCI conference October 2021 [www.cacci.biz](http://www.cacci.biz)



Andrew Stoeckel

Honorary Professor

CAMA, Crawford School of Public Policy, ANU

<https://www.stoeckelgroup.com.au/new-publication-rebuilding-the-world-trading-system/>

# Main Points

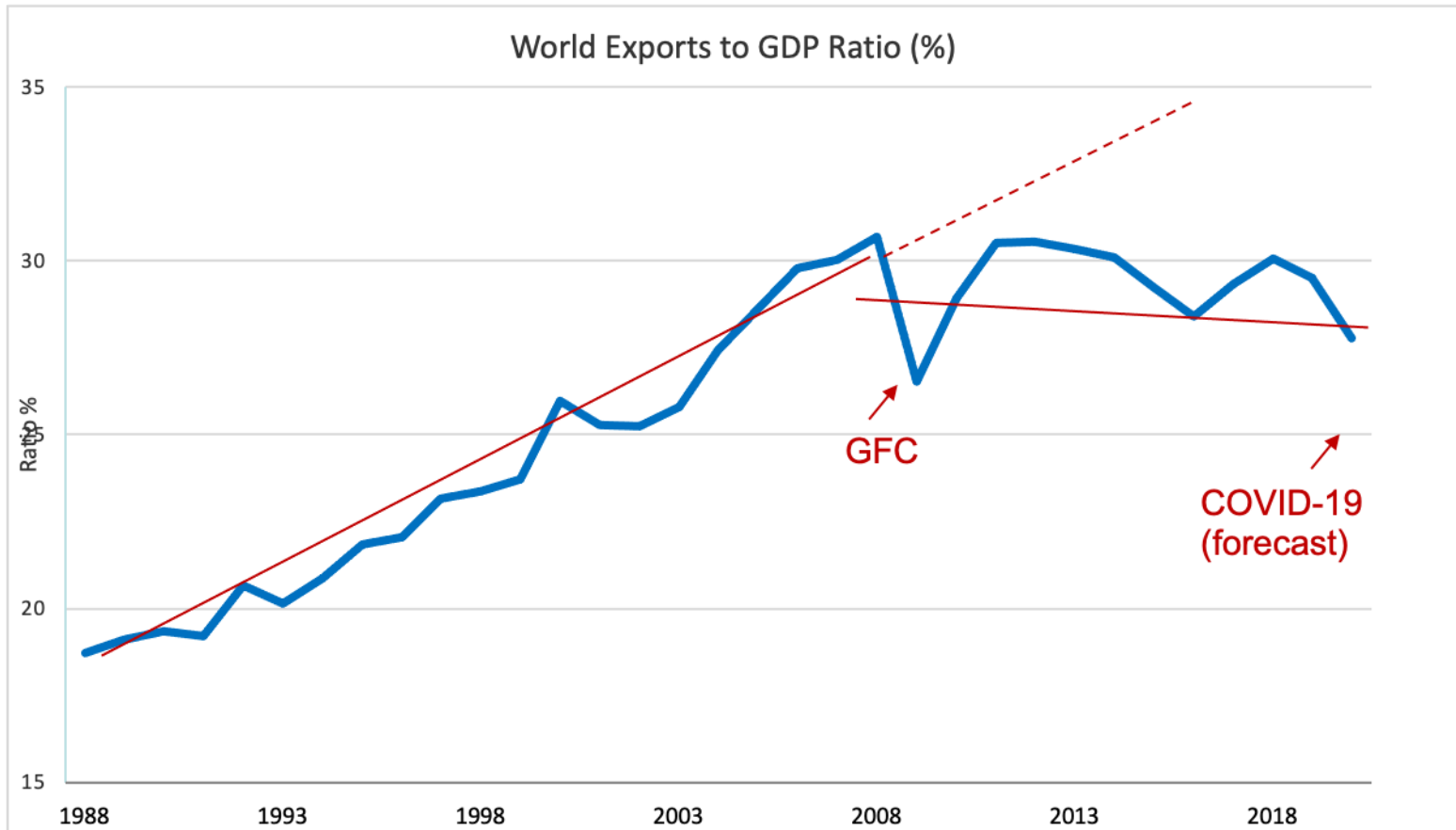
- Open, predictable multilateral trading system under threat
- Globalization potentially in reverse at potentially high cost
- Four main reasons for this
  - Building for some time and under-appreciated
- Steps required to fix problem
  - Identify the problem
  - Diagnose causes
    - (“can’t fix something if we don’t know what has caused it”)
  - Fifteen remedies advanced by CACCI

# Problems

- Decline of multilateralism, rising protection, Doha failure...
- Three functions of WTO not working
  - Negotiating
  - Monitoring trade policies
  - Dispute settlement
- Calls for ‘root-and-branch’ reform
- Rot in system started long ago
  - Plus some new ones arisen
- Lack of appreciation of causes
  - Hence some solutions not advanced by reform initiatives by G20



# Why it matters – trade growth stalls



Source: World Bank database. Total exports of goods and services as % GDP

# What has caused the problem?

## Four main reasons

### 1. The rules themselves

Too many inconsistencies, contradictions, ambiguities and exemptions

Reciprocity

### 2. 'Mission Creep' – agenda is too big

Trade rules used to remedy problems they cannot fix

-Multilateralism strongest when world united around a simple clear goal

### 3. 'New' issues to deal with as things change

Digital economy, e-commerce, internet standards, capital flows as driver of trade

### 4. Declining hegemony by US and rise of China,

Trade war

# Problem #1: The rules themselves

- Example: Contradiction between Article 1 (Non-discrimination) and Article 24 (can form discriminatory PTA's)
  - Non-discrimination is the bedrock of the system,
  - Open competition conducive to maximum incentive to innovate
- Anti-dumping and export subsidies, special and differential treatment
- Reciprocity based on wrong mercantilist “exports good, imports bad” thinking
  - But case for free trade is unilateral
  - “Don’t throw rocks in your own harbors because others throw rocks in theirs!”
- **Root cause** is a world based on nation-states where sovereignty over borders respected
  - Co-operation between nation-states essential which means compromise

# Problem #1 contd : A little deeper.....

- Modern markets are sophisticated and complex
- Would not exist without government providing “scaffolding” (rules)
  - Secure property rights
  - Enforcement of contracts
  - Trusted financial system and basis for payments clearance; a currency
  - Addressing external effects from operation of markets
  - Standards
- Different nation-states have different cultures and systems to provide “scaffolding”
  - But globalization implies harmonization
  - So co-operation and compromise needed to respect sovereignty of nation-state
- Compliance with international rules is voluntary out of self-interest
  - Have to assess what is the national interest if we want compliance with rules

## Problem #2: 'Mission Creep'

- Sovereignty of nation-state gives 1 tool to affect trade
  - Control flow of goods and services over the border
- “Can’t kill two birds with one stone”
  - Tinbergen’s principle; 1 instrument, 1 goal !
- Yet multiple goals being pursued
  - Human rights, labor standards, environment.....many more
  - Countries signed on to UN’s Sustainable Development goals
  - Legitimate for governments to pursue these
  - But what is the best way? 1 tool cannot deliver these
- Trade ‘weaponised’, WTO set up for failure
  - Multilateralism strongest when world united around 1 goal

# Problem #3: 'New' issues unaddressed

- Digital revolution which can easily transcend borders
  - internet and cross-border tax issues, e-commerce, privacy, cybersecurity
- Intellectual Property – a 'pure' public good but a conundrum
- Rising incomes so more calls for more international public goods and solving global externalities
- Supply chain security and self-sufficiency post COVID-19
- Question of what issues need addressing, in what forum, in what way
  - Answers not clear, more analysis needed

# Problem #4: Changing hegemony

- Rise of China a major change over last two decades
- Global governance post-war delivered by global institutions lead by dominant power – the USA
- USA no longer dominant power
  - But can dominate ‘good ideas’
  - Can form coalitions
- Calls for WTO ‘reset’, root-and-branch reform G7
  - Even calls for new Bretton Woods agreement by IMF chief

# What to do

- 1: Adopt a common simple purpose for the WTO system
- 2: Adopt and apply a set of principles to achieve objective
- 3: Establish a domestic transparency institution in each domestic capital to assess national self-interest from trade policies
- 4: Stop mission creep
- 5: Multilateralise all preferential trade agreements
- 6: Only permit subsidies that address market failures and externalities
- 7: Assess anti-dumping on both a cost and benefit basis



# What to do

8: Reassess differential treatment for developing countries

9: Assess best arrangement for digital economy rules

10: Reassess intellectual property

11: Redesign the dispute settlement system

12: Allow plurilateral agreements only if they are open to all at a later stage

13: Do not use climate change for protection purposes

14: Adequately reflect the views and priorities of businesses and SMEs in trade agendas and the WTO

15: Address shortcomings in the operation of WTO

# Narrative

- International trade is commerce across borders
- Buying and selling happens in markets
  - Need right rules to function well
    - Legitimate role for government to address spillovers
  - No one set of 'right' rules – depends on culture, preferences....
- Rules pointless unless complied with
- Domestic law different from international law
- In a world of nation-states where sovereignty respected, compliance with international rules is voluntary out of self-interest

# Narrative

- Countries cannot act in their own self interest if they do not measure what is in their national interest
  - Domestic transparency process does this, must done within a country
  - Rarely done in a *proper* way
- Domestic transparency process changes the politics of protection!
  - Identifies what is the national interest
  - Informs and educates government and public, improving accountability
  - Exposes narrow vested interests, weakening their influence
  - Identifies who bears burden, encouraging reforming coalitions to form
  - Leads to more predictable policy environment, encouraging investment
- Several elements needed to work well (independence, etc)
- Works! While labelled as unrealistic, which is why only a few adopt it so far, with the challenges ahead what is unrealistic is to ignore it.

# tepav

The Economic Policy Research Foundation of Turkey

## **Achieving a successful world trading system**

### **CACCI**

*October 29, 2021*

**M. Sait AKMAN**

**TEPAV/TOBB**

# Major proposals for WTO reform

## Akman et.al. T20 Policy Brief, 2020

Initiated by	Proposal	Date	Main message and top issues addressed
<b>US</b>	US proposals in WTO General Council	July 2017	-WTO is becoming a litigation-centred organisation -clarify understanding on development issue within WTO <b>-more focus on SOEs and overcapacity</b>
<b>US-EU-Japan (Trilateral)</b>	11th MC in Buenos Aires	12 December 2017	<b>-unfair market-distorting conditions (subsidies; SOEs; forced technology transfer...)</b> -overcapacity in key sectors
<b>US-EU-Japan</b>	Trilateral Statement	31 May 2018	<b>Need to clarify China's economic system and non-market oriented policies</b>
<b>US-EU</b>	Leaders' communique	July 2018	Push forward reforms asap (mainly vis-a-vis China in unfair trading practices)
<b>EU</b>	Concept paper on WTO modernisation	20 September 2018	<b>-Rule-making: subsidies, SOEs to level the playing field;</b> -new rules: address barriers in services, investment, forced technology transfer; -new approach for flexibilities and development objectives (incl. SDT)-WTO transparency and monitoring; -dispute settlement
<b>Canada</b>	Communication from Canada	21 September 2018	-improve WTO monitoring efficiency and effectiveness -safeguard and strengthen dispute settlement system <b>-modernize trade rules: priorities (agricultural subsidies; digital trade; SOEs, techn. transfer...) means (plurilaterals); development dimension</b>
<b>2+3 (Argentina, Costa Rica+</b>	Proposal	September 2018	-improve notification and transparency by means of concrete measures against members which fail to keep their commitments

<b>12+1 (EU+Australia, Brazil, Canada, Chile, Japan, Kenya, Korea, Mexico, New Zealand, Norway, Singapore, Switzerland)</b>	Ottawa Ministerial conference	25 October 2018	<ul style="list-style-type: none"> <li>-reinvigorate negotiating function (unfinished issues; subsidies; and fisheries subsidies);</li> <li>-address dispute settlement;</li> <li>-strengthen monitoring and transparency</li> </ul>
<b>China</b>	WTO reform document	23 November 2018	<p><b>-Three principles:</b></p> <ul style="list-style-type: none"> <li>-core values of the system need to be preserved;</li> <li>-developing country status to be safeguarded;</li> <li>-consensus decision-making to be followed;</li> </ul> <p><b>-Five opinions</b></p> <ul style="list-style-type: none"> <li>-primacy of multilateral trading system;</li> <li>-address existing problems;</li> <li>-safeguard SDT</li> <li>-address imbalance between rules and developments;</li> <li>-respect development models (i.e. China's)</li> </ul>
	Communication	13 May 2019	
<b>China-EU-India et. al.</b>	Two reform proposals	26 November 2018	<ul style="list-style-type: none"> <li>-proposals on the functioning of the Dispute Settlement, esp. the Appellate Body</li> </ul>
<b>G20</b>	Leaders' Declaration	1 December 2018	<p><b>-Support necessary reform of the WTO to improve its functioning</b></p> <ul style="list-style-type: none"> <li>-Review progress at Osaka Summit</li> </ul>
<b>G20</b>	Leaders' Declaration	28 June 2019	<p><b>-Reaffirm support for the necessary reform of the WTO to improve its functions;</b></p> <p><b>-Agree action is necessary regarding the functioning of the dispute settlement system;</b></p> <ul style="list-style-type: none"> <li>-Recognize the complementary roles of bilateral and regional free trade agreements that are WTO-consistent.</li> </ul>
<b>US</b>	2020 Trade Policy Agenda and 2019 Annual Report	28 February 2020	<ul style="list-style-type: none"> <li>- Reform of Appellate Body (Overreach and Rule-Breaking)</li> <li>- Transparency and Compliance with Notification obligations</li> <li>- Reform of SDT</li> </ul>

# Riyadh Initiative, 2020

- **As political support necessary to reform of the WTO, launched by Saudi G20 presidency.**
  - Focusing on **Strategic Questions** :
    - *How can WTO system help advancing shared objectives: Growth, innovation, jobs, development...*
    - *What objectives the WTO should pursue? And the foundational principles...*
    - *How to fulfil agreed functions of the WTO?*
    - *Which sources of trade and economic policy principles help to support WTO's functioning?*
- **Chair's Summary:**
  - **Common objectives:**
    - To realize a free, fair, non-discriminatory, transparent, predictable and stable trade and investment environment...
    - Objectives enshrined in Marrakesh Agreement establishing the WTO
  - **Foundational Principles: (different views were expressed on various issues)**
    - Rule of law, transparency, non-discrimination, inclusiveness, fair compt., openness, resist protectionism; sustainability, market-orientedness (by many); SDT and consensus-building (by some)
  - **Collective vision:**
    - Fully adhere to obligations of *transparency* and comply with *notifications*.
    - Most suggested «open plurilaterals» to move ahead on particular issues, while others asked new rules to be adopted by consensus.

# Trade policy is a part of domestic policy

- The **best trade policy** is the one:
  - that aims to **facilitate trade than restricting** it;
  - that is well **supported by proper domestic policies** (macroeconomic, social, industrial, competition so on);
  - that is coupled with a **domestic transparency procedure**;
  - that **addresses trade distortions** than *any* market failure;
  - that is **not** implemented to achieve **non-trade policy** objectives.



# Points that need further attention

- 1. Subsidies and SOEs**, two major conflicting issues and growing source of trade tensions -that need to be addressed under contractual commitments (new rules) to address externalities
- 2. Trade barriers in vaccines and medical products** in the wake of **COVID-19 pandemic**.
- 3. Declining hegemony of the US:** Instead of a **collective hegemony** we need a **collective leadership** to avert potential crisis in trading system and to put WTO reform on track? Re-global public good aspect of WTO.
- 4. How to revitalize and strengthen** the often neglected function of the WTO; i.e. **“achieving coherence in global policy-making”** in cooperation with other regimes like IMF, World Bank etc.
- 5. Shortcomings in the WTO’s operational aspects** (Dr. Ngozi stated the need for procedural reforms, transparency, notifications, decision-making...)