



Global Spillovers, Multilateral Cooperation and WTO Reform

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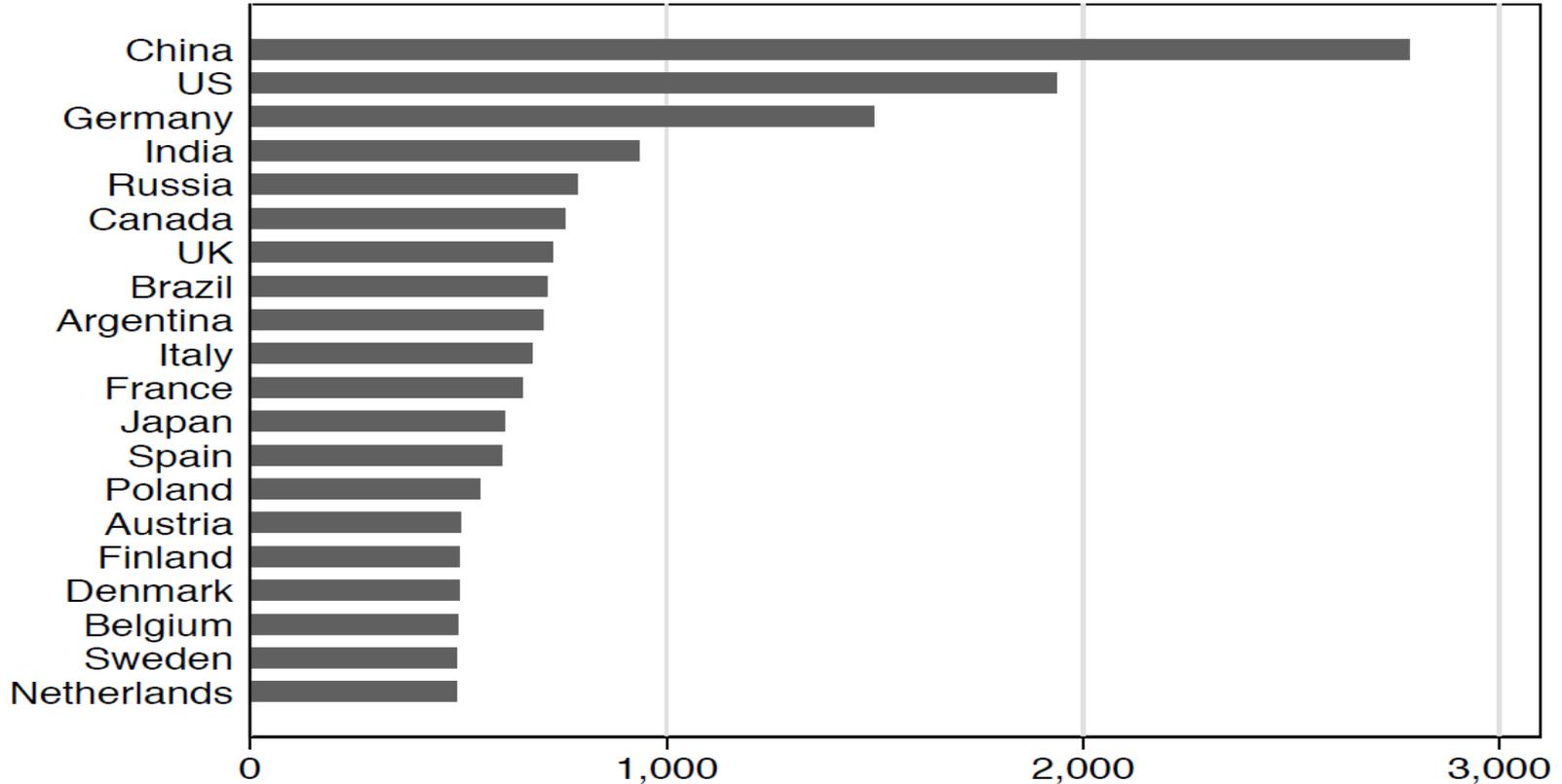
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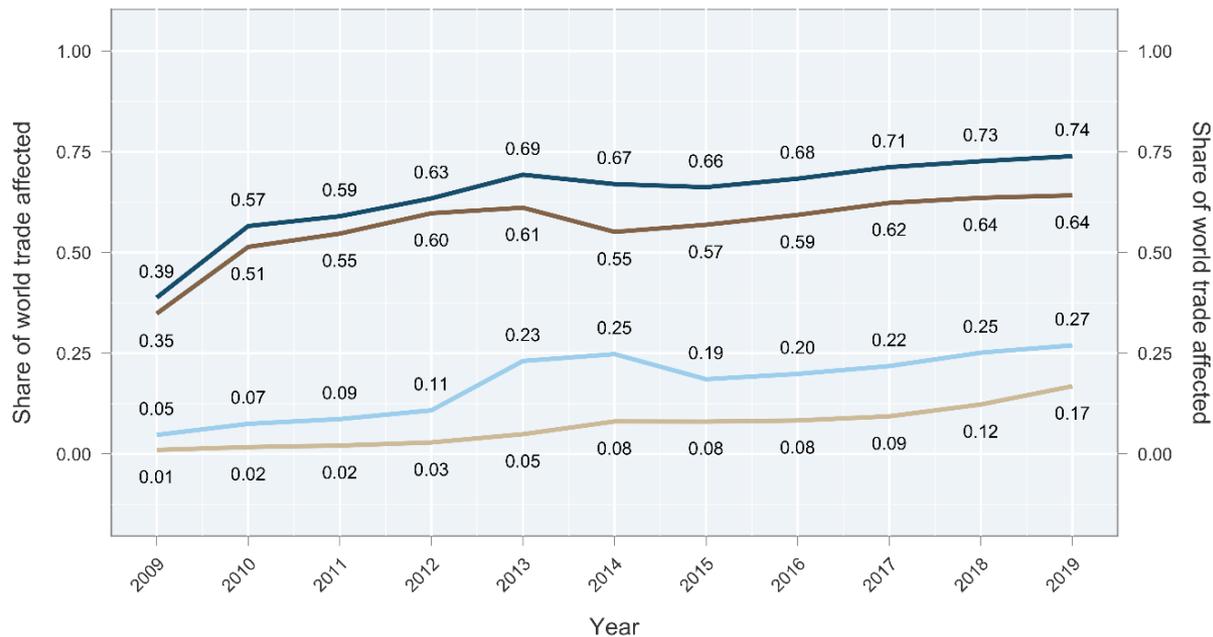
Background & context

- Technological change, servicification and shift to digital/data economy
- Climate change and policies/preferences to reduce carbon footprints
- Increasing use of trade distorting/restrictive policy measures by some countries
 - “Make it here!” as opposed to “made in the world”
- Rising geopolitical/systemic competition/tensions; US pursuit of aggressive unilateralism and questioning multilateral institutions / cooperation
- Calls for “fair trade” and action against “unfair” competition
 - At industry/firm level: subsidies; market power; inward investment/M&A policies
 - At individual/community level: labor & product standards, climate change
- WTO increasingly challenged
 - as a platform for dialogue-cum-negotiation of new rules; and
 - a venue to settle trade disputes – viz. US attack on (demise of?) the Appellate Body)

Increasing use of potentially trade-distorting policies (number, 2009-19)



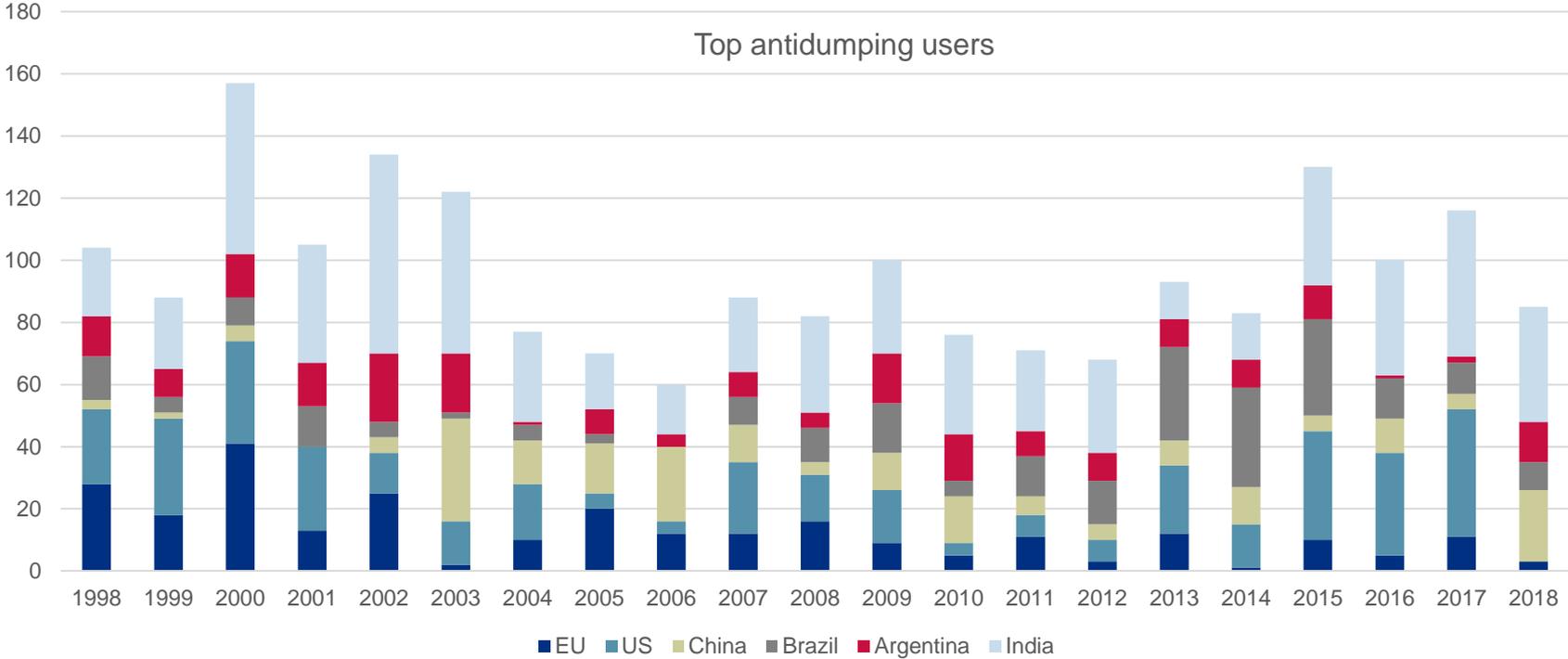
Share of trade affected by post 2008 trade-related measures



MAST Chapters

- All included MAST chapters
- P: Export-related measures (incl. subsidies)
- L: Subsidies (excl. export subsidies)
- Tariff measures

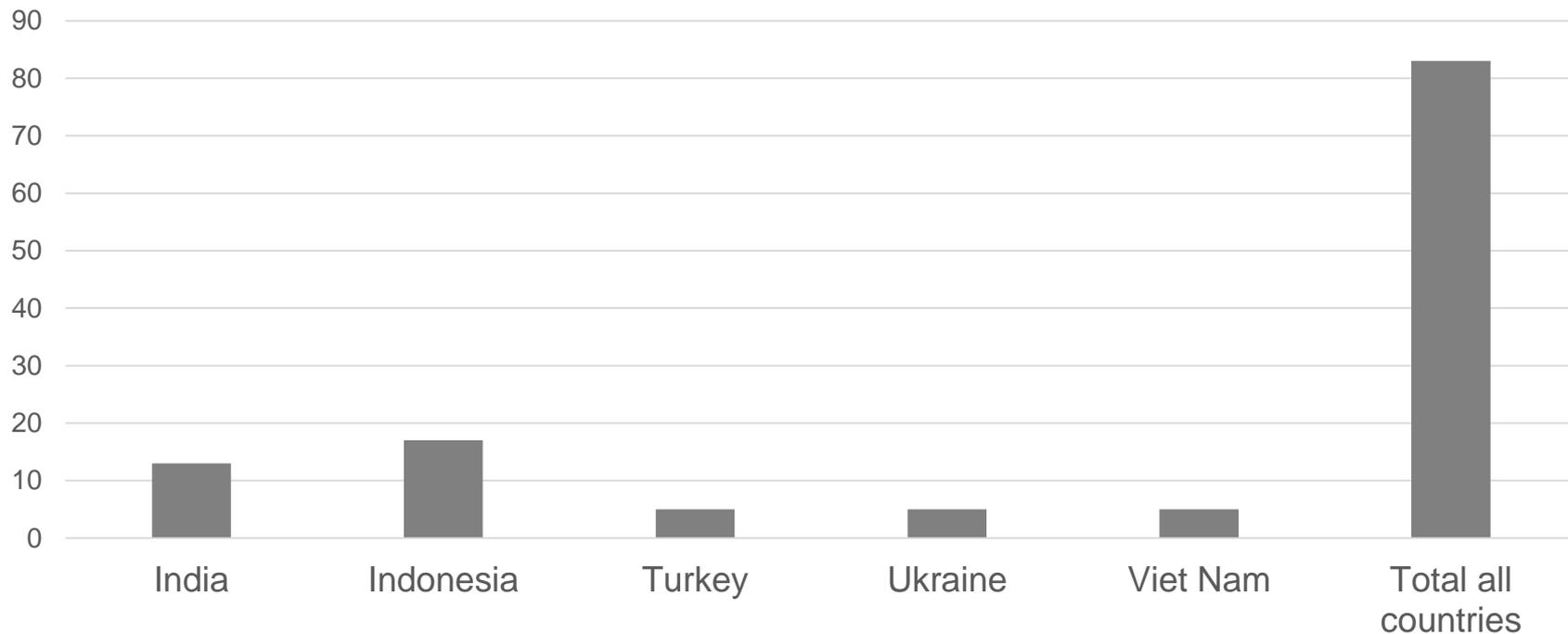
Antidumping – India, Brazil, China and US are leading users; EU less so (new measures imposed, 1998-2018)



Source: WTO.

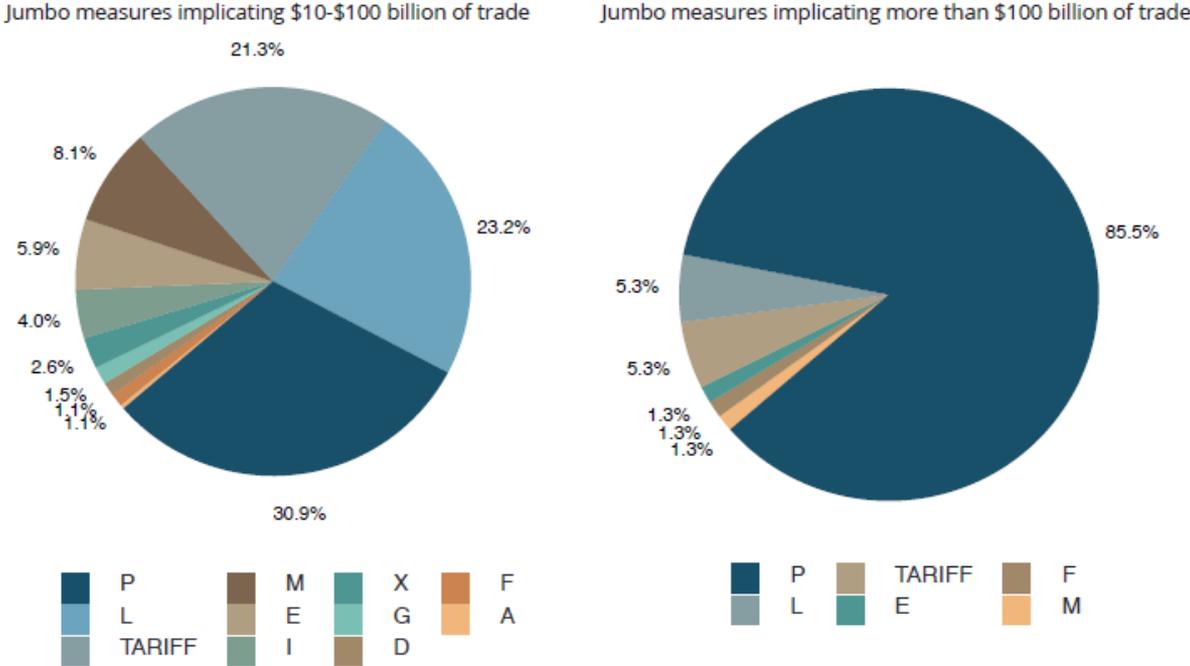
Global safeguard measures, 2009-18 (total for EU = 0)

Main users of global safeguards, 2009-18



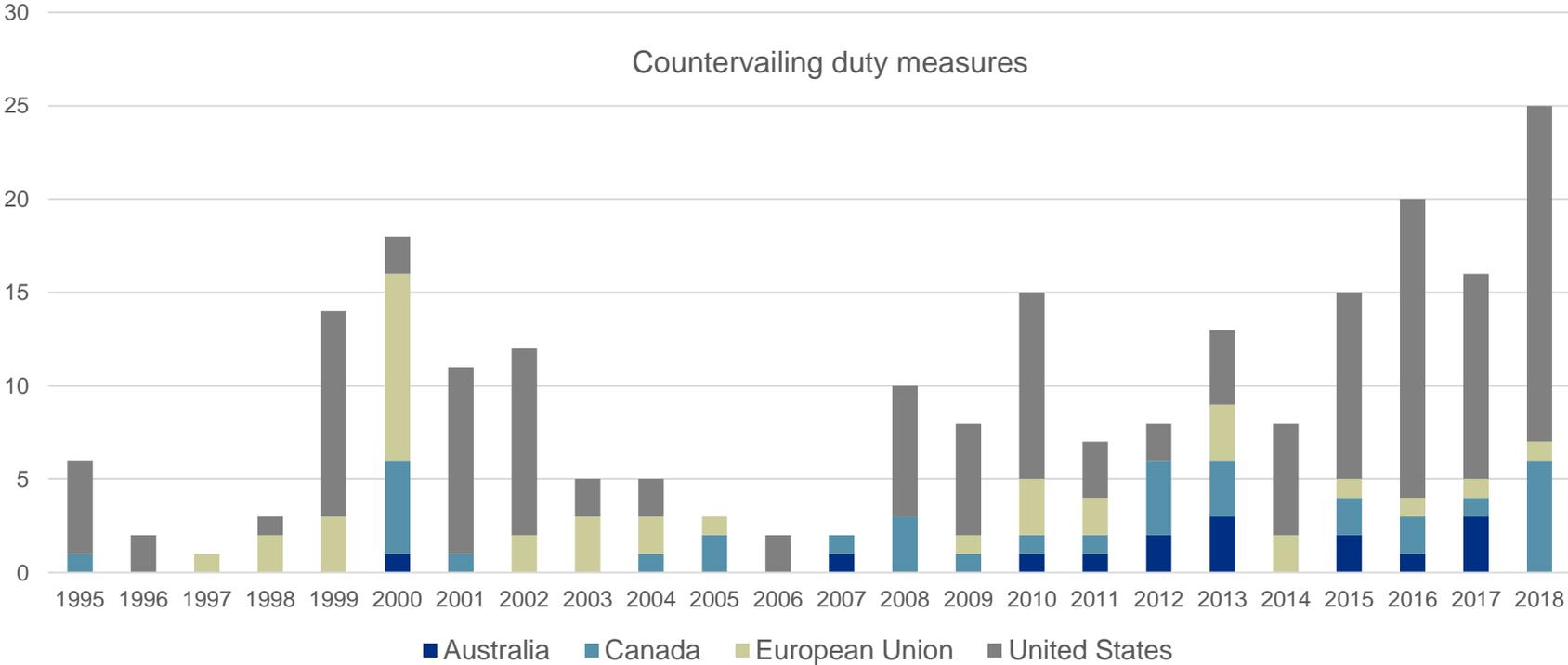
Post-2008: subsidies dominate in terms of potential trade coverage

Subsidies—for import-competing firms and exporters—make up the lion's share of jumbo protectionism implemented over the past 10 years



Note: The legends to these pie charts refer to the chapters in the UN MAST classification system for non-tariff measures. In that system "A" refers to a health standard, "D" to contingent protection measures, "E" to non-automatic licenses and quotas, "F" to price control measures, "G" to finance measures, "I" to trade-related investment measures, "L" to subsidies except export subsidies, "M" to government procurement-related measures, "P" to export subsidies and incentives, "X" to policy instrument unclear/not otherwise classified, and "TARIFF" to import tariff measures.

Countervailing duties only an imperfect response – mainly used by US (main users of CVDs, 1995-2018)



Source: WTO

WTO: largely missing in action

- Current WTO rules were developed 30+ years ago—need to be updated
- Working practices – and their use by Members – part of the problem
 1. Consensus decision-making
 - Used to constrain regular WTO operation incl. discussion on non-DDA issues
 - US decision to block new appointments to the Appellate Body
 2. Special and differential treatment
- Responses to WTO stasis:
 1. Preferential trade agreements (do not address systemic problems)
 2. (Aggressive) unilateralism – US trade war; French digital tax; EU carbon border taxes?
 3. Shift to plurilateral cooperation under umbrella of WTO
 4. Call for / launch of WTO reform discussions

Three related challenges for multilateral cooperation

1. Revitalizing the deliberative and rule-making functions of WTO to deal with policy tensions perceived to give rise to large cross-border spillovers
 - Not only standard discriminatory (protectionist) policies
 - Increasingly a regulatory-cum-tax/subsidy agenda
 - Measures that affect the operation of markets and competition – consumer protection; norms; data privacy; security
 - Measures to address global collective action problems
 2. Helping countries to identify and implement policies that promote sustainable development
 3. Ensuring that commitments are implemented through effective transparency and dispute settlement mechanisms
- <https://www.bertelsmann-stiftung.de/en/publications/publication/did/revitalizing-multilateral-governance-at-the-world-trade-organization/>

Four premises regarding international cooperation

1. Many legitimate rationales for government intervention to attain economic and noneconomic objectives.
 - The unobservability of goals and the many ways they can be pursued by countries often makes a “hard law” approach inappropriate
 - Attempting to impose changes in national economic systems is bound to fail if “targets” are large economies
2. A “diplomatic” approach will not address spillover effects – power will rule
3. Need to focus on identifying instances where there are potentially serious negative (systemic) spillovers
4. Doing so calls for greater use of economic tools and analysis as opposed to bright red lines (hard law criteria)
 - Note: The last 2 points apply as much to efforts to write hard law – e.g. the trilateral discussions among EU, Japan and the USA

Improving the information base

- One input into a potential foundation for cooperation and legitimation is the creation of commonly agreed forms of information
 - Necessary to build trust and help legitimate reform
 - viz. OECD example of Producer Support Estimates for agriculture
- Need an institutional focal point. WTO is the obvious candidate but lacks capacity.
- Any effort should be anchored in the WTO and comprise a collective effort in terms of analytical and data inputs from government agencies implementing policies that affect trade / generate potential large spillovers
- Needed: leadership to support collection, sharing and analysis of data and contributing the necessary resources for this effort
 - Focus on new economy: services, digital, platforms
 - Effects on / utility for addressing global externalities (climate change...)

Diagnostics: (when) are national policies an international problem?

- Basic theory of economic policy:
 - Production (consumption) tax-cum-subsidies more efficient (less distorting) than tariffs
 - Especially if designed to be general, allowing entry (exit) of more (less) efficient firms
- Are interventions effective? Do they cause large adverse international spillovers?
- Recognize that measuring incidence of spillovers is difficult
 - Negative effects on competitors may be offset by positive welfare effects
 - Take into account market structure and barriers to entry: what matters for welfare is whether markets are contestable
 - Apply basic insights from economics of predation and competition policy
- Calls for more economics, less reliance on “hard” rules
- This especially the case for regulatory, domestic policies

Special and differential treatment (SDT)

- Simple rules of thumb criteria not appropriate even if they were to be accepted
- Not a binary issue: all WTO members get some type of “SDT” in WTO
- To be useful as opposed to divisive need approaches that are:
 - Enabling, not exempting
 - Dynamic (not entail permanent differences in obligations)
 - Flexible and customized – one size does not fit all
 - Inclusive – defined jointly through engagement / cooperation
- Focus on substance – what are efficient options given set of feasible policies?
 - Will a (proposed) rule be conducive to attaining national objectives?
 - Is technical assistance needed?
- Elements already in place: Trade Facilitation Agreement approach based on common set of good practices; national determination of priorities; Aid for Trade

Looking ahead: can plurilateral agreement keep the MTS relevant?

- Prospects for multilateral cooperation are not good
- Package deals and associated linkage strategies unlikely to be pursued given post-2008 experience and DDA hangover
- Joint statement initiatives: a positive development given deadlock that prevailed too long
- Basic question: can (will) plurilaterals deliver enough to keep the WTO relevant?
- And can agreement be obtained on matters where there are large spillovers?
 - Can US-EU-Japan agree with China on subsidies & associated systemic tensions?
 - Can progress be made on climate change related trade policies on a plurilateral basis?
- Near term tests:
 - Progress on “joint statement initiatives” notably E-commerce: given major differences on key policy areas – will a deal be possible on digital trade facilitation dimensions?
 - Willingness to engage in substantive deliberations to revamp WTO dispute settlement?

Open plurilateral agreements (OPAs)

- A response to consensus constraint in WTO but also to differences in preferences, priorities and capacities
- Could address market access issues and/or regulatory cooperation
- Nondiscriminatory in the sense of open to any country, ex ante and ex post
- More feasible for policy areas that are regulatory in nature and apply equally to national and foreign firms or products
 - E.g., good regulatory practices or initiatives to lower trade costs for firms
 - But also can span market access-related issues where the “critical mass” needed to permit cooperation is relatively small
- See Hoekman & Mavroidis (*World Trade Review*, 2015); Hoekman & Sabel (*Global Policy*, 2019)

OPAs not a panacea – but can help break stasis

- GPA and Tokyo Round codes illustrate OPAs may not be easy to additional members
 - How much this matters depends on free-riding/critical mass considerations
- Open processes critical: openness an asset, not a liability
 - Secretariat support; non-parties kept informed
- Must address concerns of non-participating WTO members that:
 - OPAs will be open ex post – e.g., by making this enforceable (also for outsiders)
 - WTO Members needing assistance will be supported – e.g., build on TFA model
- Can help multilateralize regulatory cooperation (e.g., EU data adequacy; regulatory equivalence regimes; regulatory cooperation chapters in PTAs ...)
- Could also be a way to revisit judicialization of enforcement
 - E.g., duty to explain (require reason-giving); third party review (TFA precedent)

What about India?

- Has always been active player in the WTO; strong focus on Doha Round and strong proponent of GATT-style special & differential treatment
 - Opposed to plurilateral approaches as a matter of principle; and because this undercuts use of cross-issue linkage strategies
 - Is only reluctantly engaged in preferential trade talks (RCEP, etc.)
- Reconsider strategy, both to improve competitiveness and to reduce protection abroad
 - Deeper integration is still the game going forward – centered on regulatory standards and related “conditionality”
 - Engagement in plurilateral initiatives ensures India retains voice
 - Multilateral package deals unlikely any time soon – too much baggage; geopolitics
- To safeguard the rules-based trading system invest in WTO reform debates
 - Reflect on the benefits and (opportunity) costs of past stances towards trade policy and the WTO
 - Threat points are changing if major players focus more on geopolitics and unilateralism drives trade and investment policies

Conclusion

1. Deliberation informed by analysis focused on systemic issues
 - Policies or lack of policies that generate large spillovers as opposed to narrowly sector-specific ones
2. Pursue OPAs and include focus on OPA governance
 - Including on key contested policies –industrial subsidies; SOEs; etc.
 - Much depends on outcome of e-commerce and other joint initiatives
 - And on willingness by proponents to address legitimate worries of opponents
3. Broader WTO reform
 - Revisit enforcement—greater focus on specific trade concerns and peer review?
 - Lessons from product standards area; PTAs (implementation bodies; monitoring)
 - Nexus of notifications/transparency & regular WTO Committee work
 - Technologies to generate information (big data)
 - Lessons from other IOs re: transparency and related analysis