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Recent Challenges for Global Cooperation and the Future of WTO

Important events in 2020 have increased uncertainty over the future multilateral trade relations: the crisis at the World Trade Organization (WTO), increasing protectionism, Brexit, uncertainty about the US election outcome and, not least, the Covid-19 crisis. The year 2021 starts with good reason for hope for international trade and global cooperation, with the development of new vaccines in record time, the election of US President Biden and the recent letter of support from the United States Trade Representatives (USTR) for the candidacy of the Nigerian Dr. Ngozi Okonjo-Iweala as the next Director General (DG) of the WTO.



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In this article, I discuss recent challenges for global cooperation and the future of the WTO. What is the future of the WTO and globalization after the Covid-19 crisis? What does the inauguration of US President Biden and the new WTO DG mean for multilateralism? What are the options for reforming the WTO?

WTO AFTER THE URUGUAY ROUND: THE STANDSTILL OF MULTILATERALISM

In 1995, 123 countries agreed to establish free trade on a global scale and founded the WTO. This happened at the successful Uruguay Round, during which

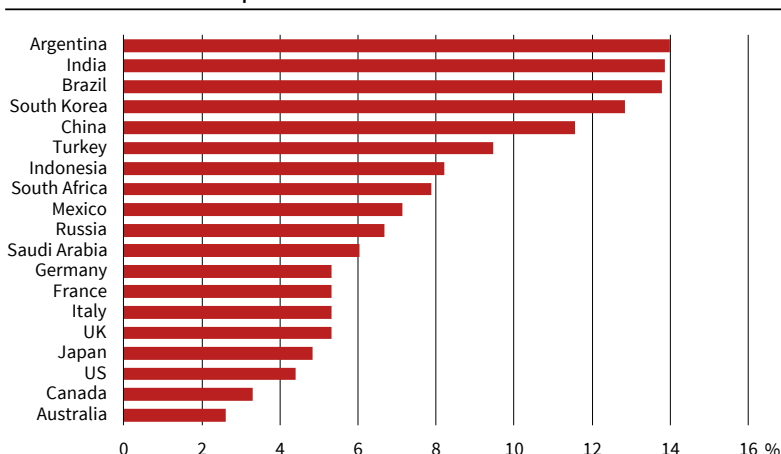
far-reaching tariff reductions as well as agreements on the protection of intellectual property, for example, were agreed. Further, large economies such as China (in 2001) and Russia (in 2012) became members of the WTO, and as of today, WTO members account for 98 percent of global trade.

However, since the conclusion of the Uruguay Round and the creation of the WTO in 1995, there has been no significant reduction in the bound most-favored nation (MFN) tariffs.¹ The Doha Round failed, in part, because the industrialized countries' tariffs are already very low, whereas tariffs in many developing countries are still high.

As discussed in Goldberg and Pavcnik (2016), import tariffs remained high in many developing countries as they did not actively participate in earlier GATT/WTO negotiation rounds. Large tariff disparities are also present within the group of G20 countries. Different from the bound MFN tariff, the applied MFN tariff has decreased since 1995. However, large differences are also present in applied MFN tariffs, as shown in Figure 1. For instance, the average tariff rate that is deposited with the WTO as the applied MFN tariff is 14 percent in Argentina, 13.9 percent in India and 13.8 percent in Brazil, whereas in developed countries tariffs are much lower: 4.4 percent in the US, 4.8 percent in Japan, 5.3 percent in Italy, France, Germany and the UK (Teti 2020). The large tariff differential makes future tariff reductions much more difficult as, when negotiating tariff reductions with emerging countries, developed countries can hardly offer further tariff reductions.

But policy instruments go far beyond tariffs. For instance, subsidies and export-related measures (including export subsidies) account for 60.4 percent of all protectionist measures imposed worldwide (Global Trade Alert 2021). One example is in the EU agricultural market. In the agricultural sector, there are enormous subsidies for farmers and quantity import restrictions for many products. Given that many developing countries have a comparative advantage in producing agricultural products, such barriers distort competition and worsen market access of developing countries. A reassessment of trade-distorting subsidies in the agricultural sector is in the interest of these countries. On this issue, the EU must find a way to make its agricultural sector compatible with free trade in the long term.

Figure 1
MFN Tariff in the G20 Group



Note: The figure shows the average applied MFN tariff (in %) in the G20 group countries, year 2017. Source: Teti (2020).

¹ The maximum tariff rate that may be applied vis-à-vis all WTO members.

STANDSTILL OF MULTILATERALISM AND INCREASING NUMBER OF BILATERAL TRADE AGREEMENTS: THE GAINS FROM TRADE SINCE THE URUGUAY ROUND

Many countries responded to the standstill in multilateralism by increasing the number of bilateral trade talks. In fact, it is quicker to reach consensual solutions in bilateral negotiations as it would be in the case of in multilateral rounds under the umbrella of the WTO. For instance, opening services markets or removing non-tariff trade barriers such as product safety or phytosanitary standards are generally easier to resolve in bilateral negotiations.

During the first ten years of existence of the WTO, the number of regional trade agreements in force more than tripled, from 58 to 188 (Maggi 2014). These trade deals are within the rule of law of the WTO and are much more comprehensive than, for instance, investment agreements.

The EU, for instance, concluded several new trade agreements in recent years (e.g., with Singapore, Canada, Japan, Mexico, Vietnam) that benefit participating countries, as the agreement puts them in a better position in comparison to the most-favored-nation treatment that applies under WTO rules. Modern trade agreements include much more than tariff agreement, they also comprise harmonization of product safety and hygiene standards, approval procedures, recognition of geographical indications, as well as access to local service and procurement markets. For trade in services, deep trade agreements play an instrumental role: Dhingra et al. (2021) show that they have a relatively larger impact on trade in services than on trade goods.

An analysis beyond traditional trade policy instruments is relevant for quantifying the gains from trade following the Uruguay Round. Dhingra et al. (2021) quantify the welfare gains from trade through (i) tariff reductions and (ii) deeper trade policy commitments. Deeper trade agreements include, for instance, investment liberalization, recognition of professional qualifications for service providers, intellectual property protection commitments as well as policy areas such as anti-corruption, visa, and asylum. Using the universe of deep trade agreements, Dhingra et al. (2021) show that the welfare gains from commitments involved in deep agreements have played a crucial role in overall welfare gains since the conclusion of the Uruguay Round. The elimination of tariffs increased welfare by 1.8 percent on average, compared to 1.4 percent for non-tariff measures.

NEW PROTECTIONISM? NUMBER OF NEW PROTECTIONIST MEASURES EXCEEDS THE NUMBER OF NEW LIBERALIZING POLICIES

Whereas the number of trade agreements has increased in recent years, which indicates an effort

toward international cooperation, we also observe an increase in the number of protectionist measures worldwide. Data from Global Trade Alert—GTA (Evenett and Fritz 2020) show that since 2009, protectionist policy interventions have outnumbered liberalizing policies, with a sharp increase in 2018. In 2019, newly added protectionist policies exceeded liberalizing ones by a factor of 3.7.

In the year 2020, subsidies and export-related measures (including export subsidies) accounted for 71.6 percent of all protectionist measures imposed worldwide, according to GTA Data. Subsidies create a distortion in competition and account for 50.8 percent of all protectionist measures. Tariffs comprise 9.1 percent of the protectionist measures and are followed by contingent trade-protective measures and further trade barriers such as non-automatic licensing and quotas.

Disputes over subsidies can be long-lasting and lead to tensions in global cooperation. One example is the dispute on Airbus/Boeing subsidies. The EU has recently lost a WTO dispute over illegal subsidies to Airbus. As a result, the US may impose countervailing duties on goods coming from the EU, whose member states refuse to change their subsidy practices to make them WTO-compatible. This dispute puts a strain on negotiations between the EU and the US, at a time when these countries should realign relations and reactivate trade talks for a trade agreement.

COVID-19 CRISIS AND DISRUPTIONS IN INTERNATIONAL COOPERATION

The Covid-19 crisis increased the skepticism over global supply chains and the international division of labor. Not only has the virus led to disruptions in global value chains, but the responses of many governments in terms of export restrictions have also aggravated global supply shortages.

Dhar (2020) compiles all trade measures adopted by WTO members since the outbreak of the Covid-19 crisis. As of 21 September 2020, WTO members had submitted a total of 244 notifications related to Covid-19, most of which were technical barriers to trade (89), sanitary and phytosanitary standards (59) and quantitative restrictions (41) (Dhar 2020). While some of these trade measures were import liberalizing or export-promoting measures, the clear majority were trade-restrictive measures.

Most importantly, Dhar (2020) shows that notifications issued during Covid-19 fall short of transparency. Members have not complied with transparency obligations, with long delays for notifying standards, and most notifications have not been in conformity with international standards. A WTO reform should increase transparency of technical regulations. In a period of crisis, such restrictions have the potential to disrupt trade and supply chains.

Especially for essential goods and medical equipment, trade disruptions aggravated global supply

shortages and had negative consequences for the containment of the virus. As discussed by Bown (2020), in the first months of the crisis, not only the EU and US imposed export restrictions on personal protective equipment, but also G20 members including India, Brazil, Argentina, South Korea, Turkey, Indonesia, UK and Russia imposed similar restrictions. One recent example of a protectionist measure related to the Covid-19 crisis is the temporary export control on Covid-19 vaccines imposed by the EU on 30 January 2021. It is questionable whether further countries will impose similar control regimes, which could trigger a vicious cycle that would have a devastating effect on the health and economic fronts.

The Covid-19 crisis might deepen some prior tensions and lead to an increase in the number of protectionist measures, especially for critical goods such as medical equipment or human medicines. However, the fear that the crisis would lead to a jump in the number of export restrictions across all sectors of the economy did not become reality. A possible explanation is that countries realized the importance of global cooperation in dealing with the crisis, as international trade may alleviate the negative effects of the crisis, rather than being the source of the problem.

Because lockdown measures took place at different times around the world, shortages due to production shutdown in a country could be in part replaced by imports. Hence, international trade can act as an insurance against production shortfalls and alleviate the effect of negative shocks. International trade and a diversified supply chain allow countries to reduce the risk of negative shocks and to reduce dependencies on one single source. Finally, recent research has shown that an increase in trade barriers would be the wrong response to the current crisis, as it leads to large decreases in welfare worldwide and does not make the economy more resilient to shocks. Moreover, as shown in Steininger and Sforza (2020), the impact of such a crisis would be only marginally smaller in a less globalized world. The results emphasize the welfare-promoting effects of international trade.

The global economy is frequently confronted with negative shocks: prior to Covid-19, other pandemics, financial crises, natural disasters or extreme weather events led to supply-chain disruptions worldwide. Given the magnitude of the current crisis and the likelihood of further negative shocks in the future, the Covid-19 crisis might offer an opportunity for multilateral organizations such as the WTO to show the importance of increasing the level of global trust by setting common ground for cooperation.

THE ABILITY OF THE MULTILATERAL TRADING SYSTEM TO FUNCTION IS CURRENTLY LIMITED

In the case of trade disputes, a member state can appeal to the WTO Appellate Body (AB), which consists of seven members. Three members are required for

a quorum. Because of the US blockade to fill vacant judgeships, the AB stopped its activities at the end of 2019. The US argues that the AB has exceeded its mandate and should perform the role originally assigned to it in 1995 in the agreement negotiated in the Uruguay Round. Hoekman and Mavroidis (2019) evaluate the negotiating history and discuss conditions under which it should not be difficult to ensure operation of the AP under the 1995 mandate. In the absence of its activities, it is no longer possible to ensure compliance with global trade rules. On the one hand, WTO members should take US concerns seriously, as there is room for improvement in the AB from an institutional perspective. On the other hand, reestablishing the AB is in the interest of the US. In fact, the recent letter of support from the USTR for Ms. Okonjo-Iweala as new WTO DG might give hope for reforms and a revival of the AB.

A REVIVAL OF MULTILATERALISM UNDER NEW US PRESIDENT JOE BIDEN?

The election of Joe Biden provides room for hope for multilateral organizations and potentially a WTO reform. First, US trade policy becomes more predictable in comparison to the prior administration. Second, the democratic party does not want to pursue a unilateral tariff war with China and gives an opportunity to revive the transatlantic partnership and negotiate common standards in trade, technology and investment. Third, various sentences in the Democrats' party platform suggest that they seek cooperation within the framework of international institutions such as the WTO. The recent letter of support from USTR for the candidacy of Dr. Okonjo-Iweala as DG of the WTO confirms the willingness to cooperate with multilateral organizations. Overall, his views on multilateralism are crucial to secure the future of WTO as well as to reduce global uncertainty and trade tensions.

However, trade relations with the US will not necessarily become easier under the new president, given his highly protectionist agenda. For instance, the Democratic Party Platform (2020) stresses on page 85 that the US "will not negotiate any new trade deals before first investing in American competitiveness at home." They also threaten penalties if China or another country engages in "unfair" trade practices: "Democrats will protect the American worker from unfair trade practices [backed] by the Chinese government [...]. We will rally friends and allies across the world to push back against China or any other country's attempts to undermine international norms" (Democratic Party Platform 2020, 88).

President Biden's nomination for the USTR also indicate the willingness to level the playing field and to address long-term challenges with China. In her first speech after being nominated by President Biden for the USTR, Katherine Tai emphasized that the new administration's policy priorities include confronting

China over its trade practices and helping American workers by ensuring trade agreements protect and enhance US jobs.

Joe Biden voting history, his nominations and current agenda indicate that he seeks multilateral cooperation without abstaining from a protectionist agenda. A closer look at the voting history of Joe Biden as member of the United States Senate reveals that he voted in several circumstances against pro-trade liberalizing issues. For instance, in 2003, he voted against approving free trade area between United States and Singapore and against approving free trade area between United States and Chile.²

Finally, and perhaps most importantly, there are the domestic market policies that will be competing with trade policy. There is no doubt that the new administration offers an opportunity to realign multilateral relations and to reactivate trade talks. But domestic market policies will have priority in the new administration. For example, the Buy America campaign, which existed earlier under former US President Barack Obama, could lead to trade conflicts with the EU. But something must be done in terms of international relations: the US should take the opportunity to realign international relations.

REVITALIZING WTO UNDER THE NEW DIRECTOR GENERAL

In the view of the current tensions and the fact that the appointment of the new DG must be unanimous, it is a great success to achieve an appointment. This is a unique opportunity to revisit the grounds for multilateral trade cooperation.

To carry out reforms, the DG must have the support from all members. Hence, the WTO should look for common causes for all members. Even if further trade liberalization is not expected soon, the WTO offers grounds for negotiations and for addressing global trade concerns. WTO standards reduce uncertainty and are a good fallback option in case of bilateral conflicts. The WTO should increase transparency to build a collaborative environment and trust, both of which are urgently needed among WTO members. Ms. Okonjo-Iweala's development and financial expertise will be an asset for the WTO. But also, her ability and experience as a world leader are key: given tensions between WTO members, being a leader and a peacekeeper are important characteristics of a new WTO DG.

The Covid-19 crisis imposes additional challenges for multilateral cooperation. As shown by Dhal (2020), hundreds of new Covid-19-related trade-restrictive measures have been adopted by countries. WTO members should adopt a commitment not to impose restrictions beyond the necessary and increase trans-

parency of trade-restrictive measures. In a period of crisis, such restrictions can exacerbate disruptions in global supply chains. Finally, it is important to strengthen the advantage of global cooperation in a global crisis. In this aspect, having a WTO DG with experience in key challenges such as global coordination of vaccines such as Ms. Okonjo-Iweala is a key asset for future reforms in this area.

The new WTO Director General undoubtedly faces many challenges: reforming the dispute settlement and reducing global trade tensions, updating trade laws with a focus on digital services trade and CO₂ border taxation, as well as regaining trust and credibility for the organization.

An optimistic view of the current challenges is the fact that none of the WTO members left the organization, which is not the case of other multilateral organizations, and 23 other nations are seeking to join the WTO, as discussed in Baldwin and Evenett (2020). Members agree that WTO reforms are needed, but these reforms must be aligned with the interests of its members, implying that to start reforms in accordance with the purpose of the organization, the WTO needs common causes all members agree on. The post Covid-19 crisis and the WTO DG election offer an opportunity to realign relations and to reanimate trade talks toward a more cooperative and stable multilateral system.

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² Vote summaries are available at US Senate's webpage, see https://www.senate.gov/legislative/LIS/roll_call_lists/roll_call_vote_cfm.cfm?congress=108&session=1&vote=00318 and https://www.senate.gov/legislative/LIS/roll_call_lists/roll_call_vote_cfm.cfm?congress=108&session=1&vote=00319.