

Future Directions for the Multilateral Trading System

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Outline

- Where the multilateral system is
- What was accomplished during the crisis
- Moving forward: rules vs liberalization
 - Multilateralizing regional schemes
 - Rebuilding the GATS
 - IP and investor/consumer protection
 - Standards and NTMs
 - Expanding the dispute settlement and adjudication role of the system



Where we are

Current Multilateral System

- Born from lessons of the 1930s and 1940s
- Linked to strategic use of exchange rates and trade policy during global collapse
- Re-engineered to handle the collapse of the gold standard (change in IMF focus), decolonization (GSP and change in World Bank), capital account crises (Latin America in 1980s, East Asia in 1990s, Eurozone), backwash from the Washington Consensus, fall of the Berlin wall.
- “Big Tent” philosophy in Geneva everyone negotiates on everything in huge collective negotiations.

Current Trade-Related Challenges

- Capital account imbalances
- Complexity of regional agreements with vague jurisdiction boundaries and enforcement mechanisms
- Heightened awareness of non-tariff barriers for goods and services
- Recognized global commons problems
- Emergence of IP enforcement for anticompetitive behavior
- Firms that are bigger than national economies of WTO Members
- RTAs that have moved past WTO competence
- “Big Tent” burnout



The Big Tent Approach to Negotiating Systemic Changes



Comprehensive or flexible approach to negotiated mechanism design?



The curse of Lot's wife: looking backwards

Current Multilateral System

- We are following a negotiating model developed in the 1950s for a smaller, more cohesive set of countries
- We are negotiating leftover issues from the Uruguay Round (launched in the 1980s).
- We have misplaced emphasis on liberalization over rules, safeguards, and guarantees.



What happened in the crisis?

- The system was built to prevent competitive devaluation and tariff wars in times of economic crisis.
- The Great Recession has been a test of the multilateral system
- It worked! We have had a Great Depression-Class shock to the trading system –measuring 8.0 on the GD Scale.

Finally, I conclude by commenting on how the lack of a substantial increase in new import protection resulting from the 2008-2009 crisis beyond that predicted from pre-crisis data raises important questions for research. If the world trading system does ultimately escape the 2008-2009 crisis relatively unscathed with respect to new and extraordinary protectionist initiatives, an open and fundamentally important question is, why?...

nontrivial, though relatively small (in product coverage terms) increases in import protection could have prevented greater market-closing forces from emerging and the overall multilateral system from falling apart

Bown (2010)

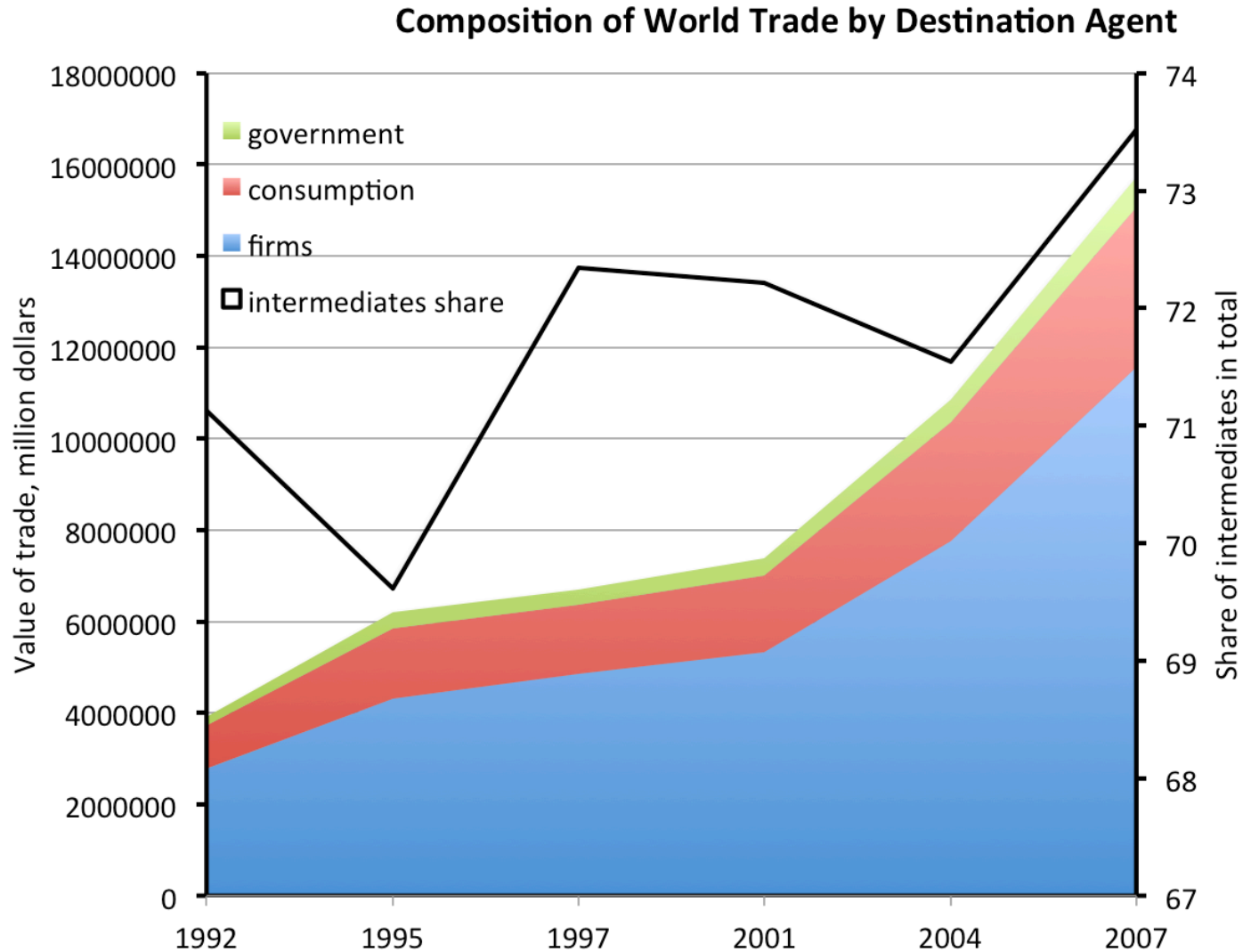


Looking forward

- Multilateralizing regional schemes (Baldwin)
- Rebuilding the GATS (OECD, World Bank, Francois and Hoekman)
- Standards and NTMs (Francois et al, OECD)
- Expanding the dispute settlement and adjudication role of the system
- IP and investor/consumer protection
IP litigation to block market access: In recent firm models, innovation hinges on investment climate and potential market (e.g. Egger and Keuschnigg 2011).



Most trade is in intermediates: uncertainty & complexity of rules reduce productivity

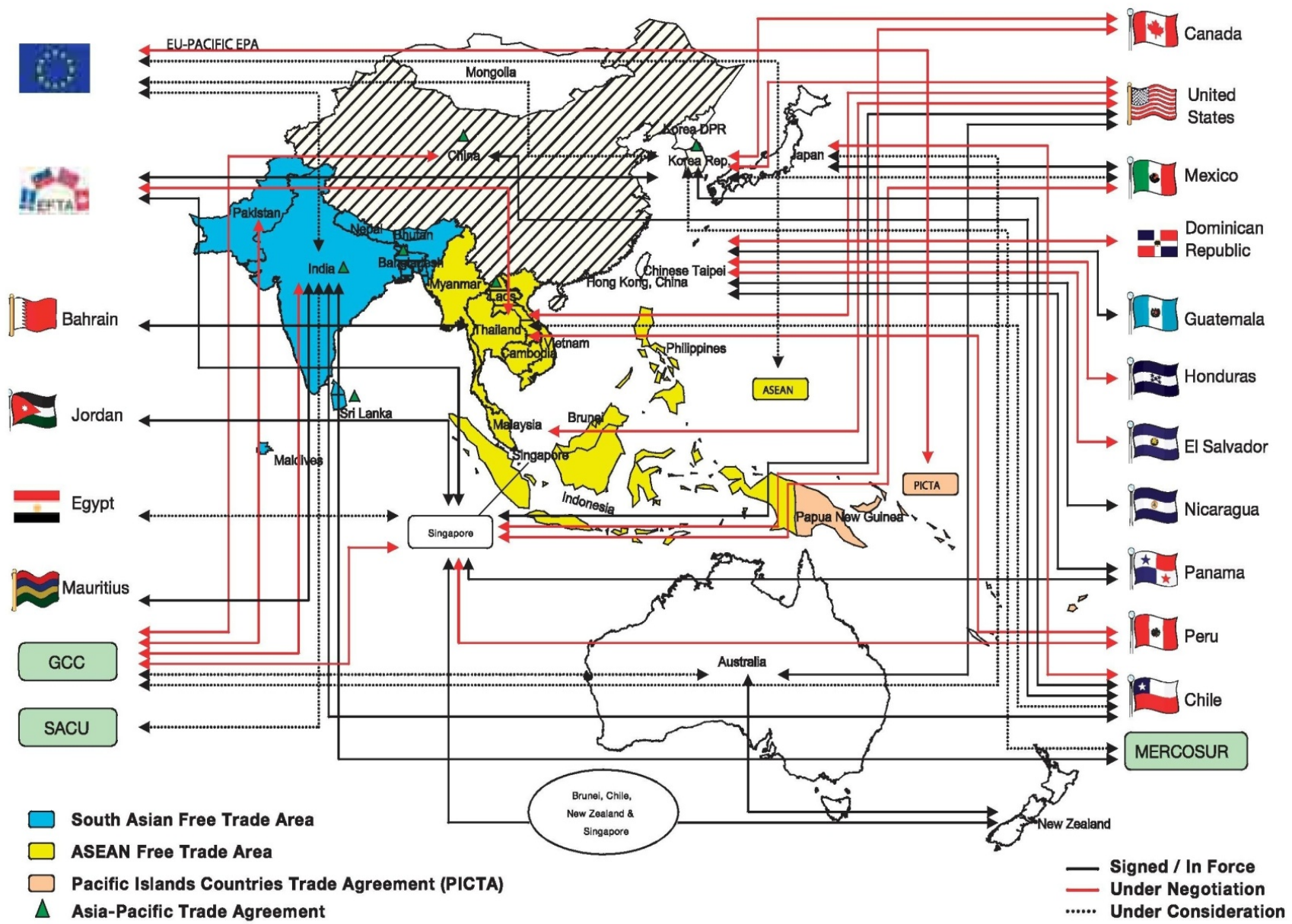


Source: GTAP data V3-8

Map 5

Asia-Pacific Cross-Regional RTA Network

The Complexity of Regional Schemes



Trade and Regulatory Burden on MNEs

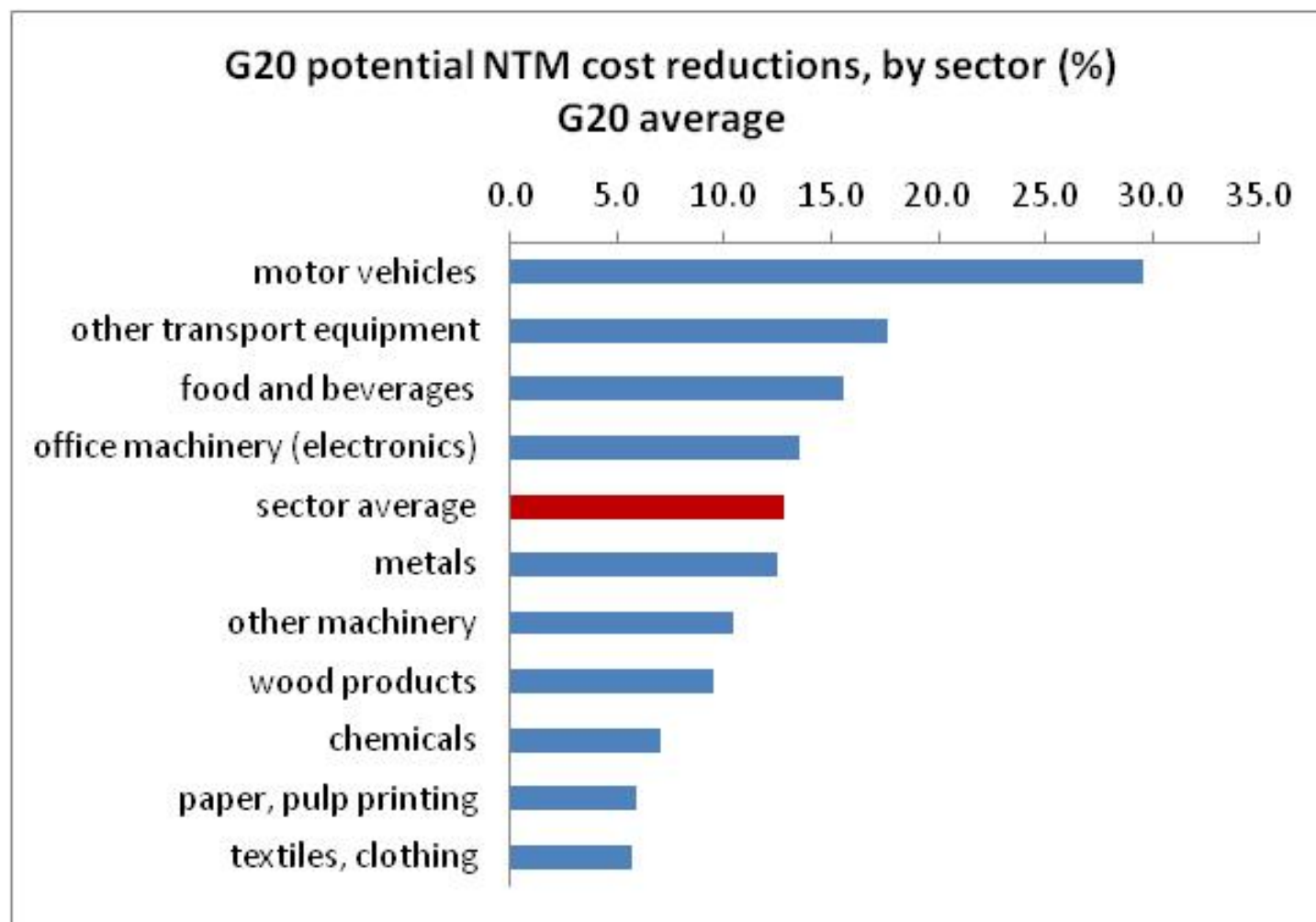
NTB indexes	Europe		United States		third country average
	intra-EEA	extra-EEA	intra-NAFTA	extra-NAFTA	
ISIC 27,28 metals	13.33	29.68	*	36.83	31.23
ISIC 17-19 textiles, clothing	30.94	49.92	22.00	44.45	44.71
ISIC 20 wood products	22.61	45.64	*	26.63	49.75
ISIC 21,22 paper, pulp printing	22.61	45.64	*	26.63	49.75
ISIC 24,25 chemicals	21.54	53.66	31.00	47.67	48.98
ISIC 30, 32 office machinery (electronics)	15.40	31.17	*	36.29	46.70
ISIC 29,31,33 other machinery	14.79	42.21	*	38.19	40.63
ISIC 34 motor vehicles	16.27	36.76	*	36.49	51.92
ISIC 35 other transport equipment	33.43	54.73	35.00	64.63	50.43

Open=0, closed = 100

Source: Francois, Manchin, Norberg, and van Tongeren (2012).
Regressions based on EU firm surveys and GTAP V8 data.



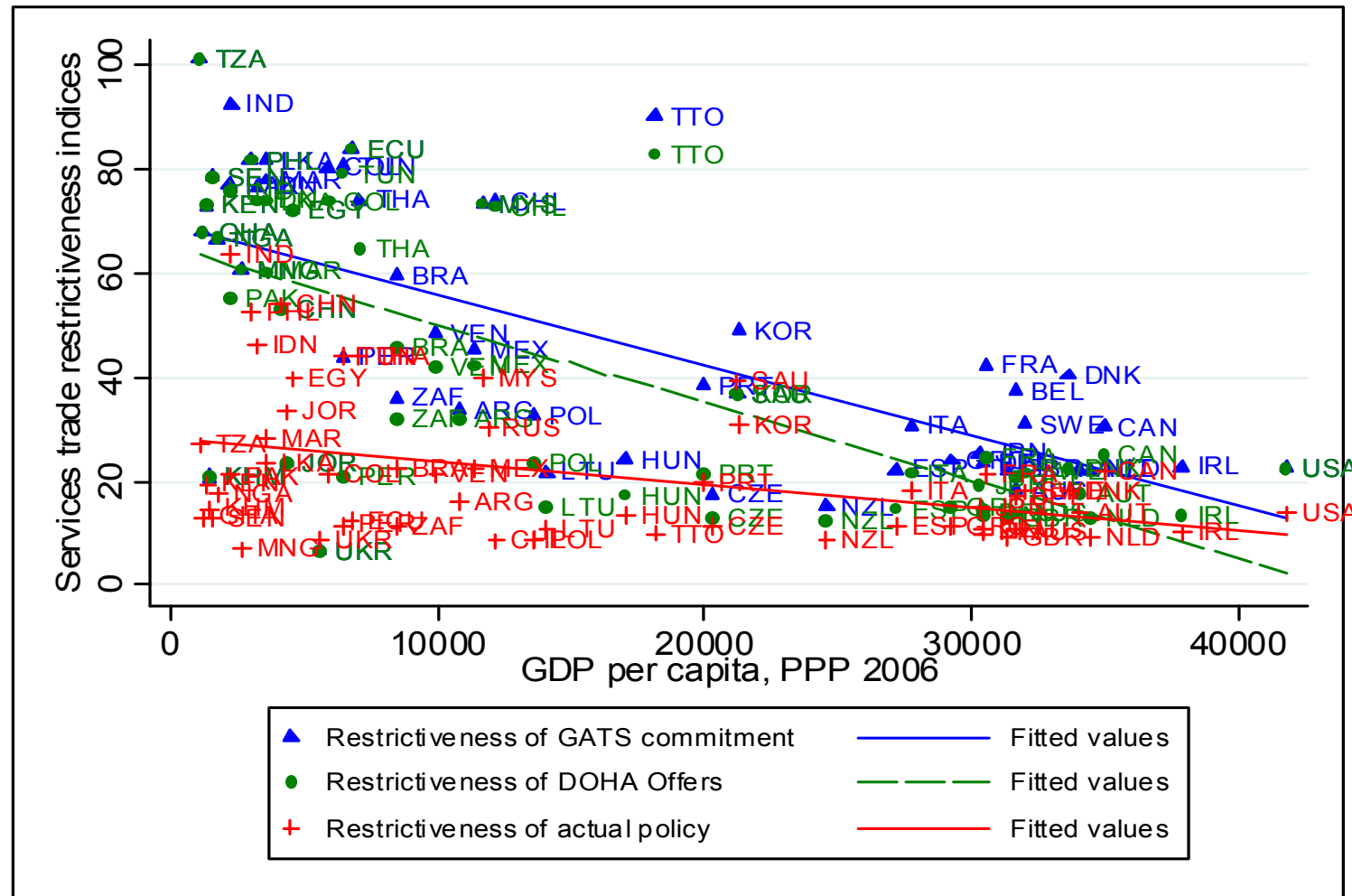
Feasible NTM trade cost reductions



Source: Francois, Manchin, Norberg, and van Tongeren (2012). Takes intra-EU levels as benchmark.

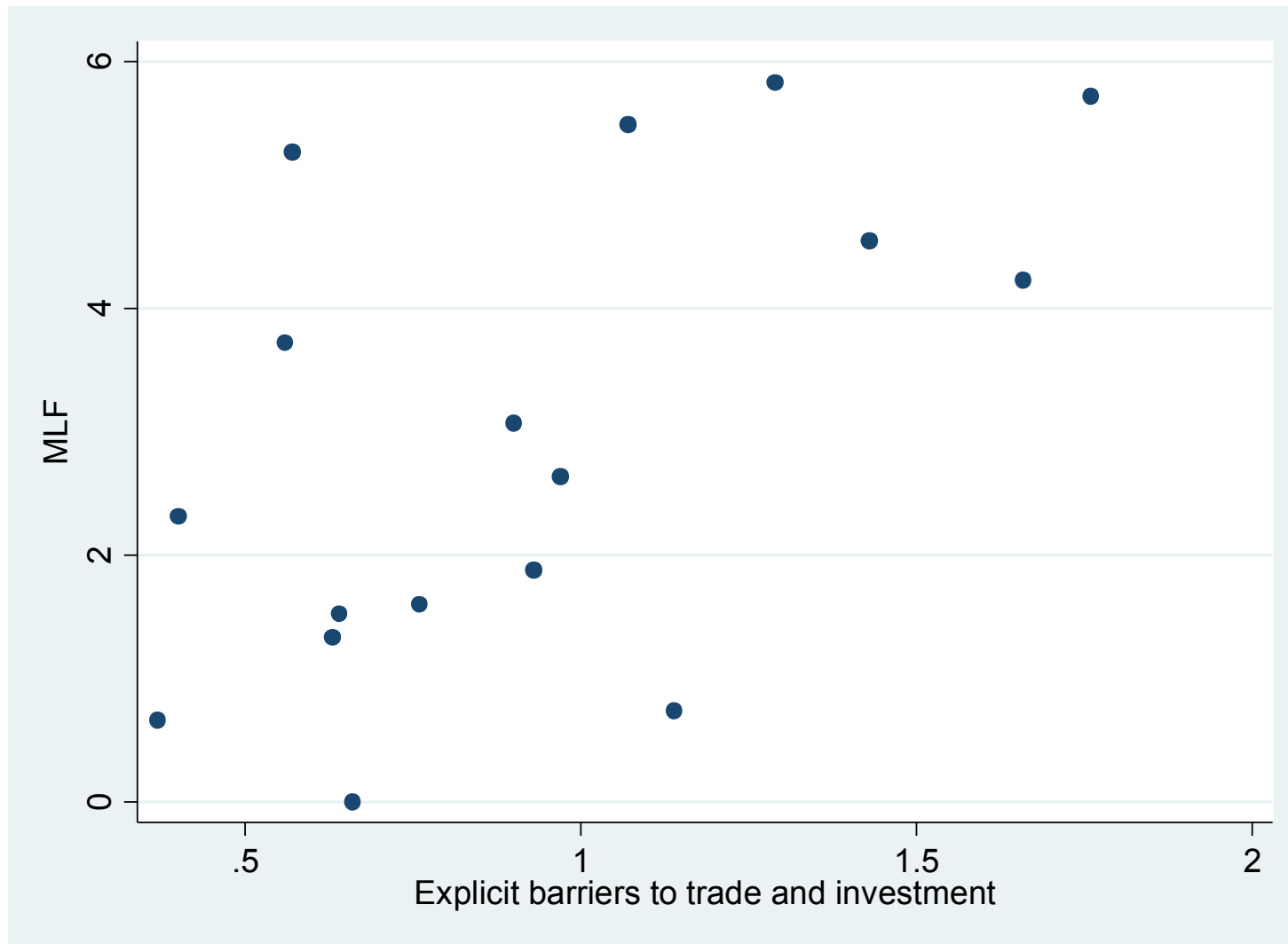
The GATS: qualitative binding overhang

Openness in services and income levels



Source: Gootiz and Mattoo (2009).

Barriers in Services do Matter



Source: Francois, Manchin and Norberg (2012).

Note Inklaar et al (2007), Barone and Cingano, and Jorgensen et al (2010) link services productivity to overall performance, also in manufacturing.

Estimated impact of closing EU productivity gaps in services

			annual rates, % contribution to output	
	actual real growth 1996-2007 (output basis) EU KLEMS	GDP value- added shares for services	static contribution in CGE	additional from induced investment
Austria	3.33	0.58	1.47	0.67
Belgium	2.96	0.62	0.65	0.22
Czech Republic	5.05	0.47	2.33	1.01
Denmark	2.89	0.63	0.60	0.15
Spain	4.57	0.65	1.40	0.62
Finland	4.20	0.58	1.14	0.41
France	2.82	0.66	0.78	0.28
Germany	2.28	0.63	0.59	0.22
Hungary	5.92	0.49	1.96	0.85
Italy	2.02	0.60	1.62	0.86
Netherlands	2.89	0.65	0.27	0.05
Slovenia	4.01	0.52	2.38	0.78
Sweden	3.07	0.67	0.42	0.15
United Kingdom	3.12	0.71	0.98	0.30

Source: Francois, Manchin and Norberg (2012), based on GTAP estimates. Note Inklaar et al (2007), Barone and Cingano, and Jorgensen et al (2010) link services productivity to overall performance, also in manufacturing.

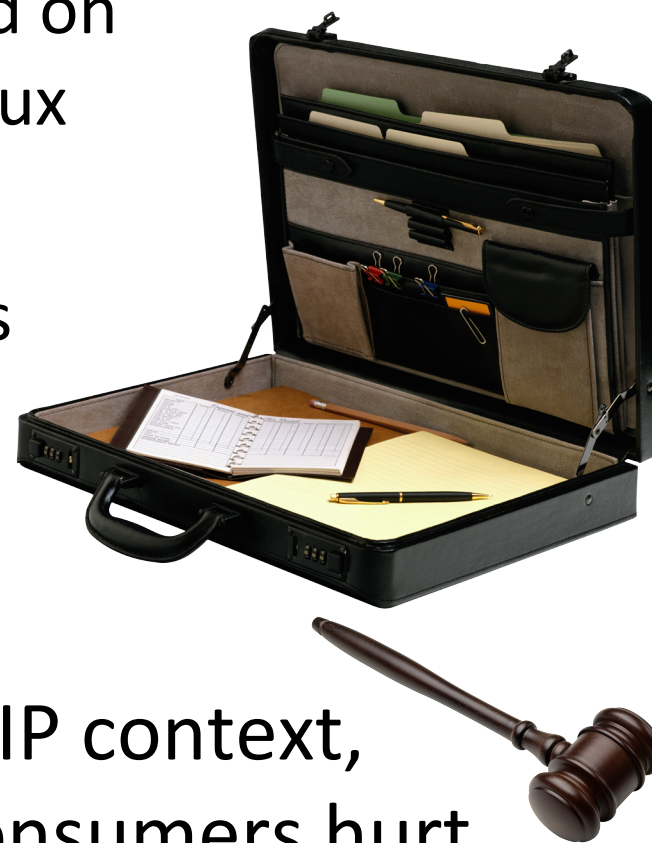
Liberalizing productivity rather than liberalizing trade

- The GATT/WTO system features mechanisms to reduce uncertainty, and to pursue remedies through the DSB so as to ensure uncertainty is bound by agreed commitments and rules.
- Expansion of the DSB to cover new areas – rules of origin, structure of bilateral investment treaties, product standards, etc would itself be “liberalizing”.



On the horizon – IP and trade/FDI

- MNEs are gearing up for massive IP based litigation to block market access
 - Nuisance suits by Microsoft based on the old SCO strategy to attack Linux
 - Apple vs Samsung vs Google vs ...
 - Chinese and Korean governments buying patent pools
 - Google buying Motorola
- We left Antitrust out of Doha.
If we do not tackle it now in an IP context, innovation will be stifled and consumers hurt.



Concluding comments

- Move away from the big tent as a business model (a question of appropriate mechanism design)
- Refocus on development of rules, and standardizing what has emerged outside the WTO. A more piecemeal and pluri-lateral approach to systemic issues, emphasizing “solution platforms”
 - Platforms for streamlining: standardized rules of origin, standardized model for investment agreements – “Since 1994, some 180 RTAs combining investment and trade in services rules have come into existence” (OECD 2007) This might be a role for WTO in “new issues” found in BTAs (no longer FTAs...)
 - Platforms for standardization and cross-recognition to reduce unintended NTMs
 - Platforms for transparency: move GATS to meaningful benchmarking and classification -- a model for regime binding – OECD and WB services TRI databases.
 - Platforms for enforcement: ROO, bilateral investment, standards codes, IP
- Research questions: trade and MNE costs, mechanism design, systems for regulatory streamlining, scope for BTA & BIT consolidation and integration, political economy of trade with MNEs and cross-border value chains, IP protectionism.

