The WTO Before, During and After Corona

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Overview

• International trade in June 2020
• Causes of the crisis at the WTO
• Response to the WTO crisis
• The WTO of tomorrow?
International Trade in June 2020

- Unprecedented disruption of global economy and international trade due to COVID-19 pandemic
  - Global economy in 2020: -3%
  - International trade in 2020: -13% to -32%

- Responses to COVID-19 pandemic
  - Lockdown and supply/demand collapse
  - Export restrictions and prohibitions
  - Massive support to domestic industry
  - Restrictions on foreign direct investment
  - Advocacy for self-sufficiency, re-shoring of manufacturing & decoupling from GVCs
International Trade in June 2020

• Pre-COVID international trade
  • In 2019 trade in goods (-3%) and in services (2%)
  • EU Report on Trade & Investment Barriers in 2019: ‘worrying sea change in world trade’ & ‘protectionism has become deeply ingrained in global trade’

• Causes
  • Weak economic growth worldwide
  • Crisis of the WTO and the multilateral trading system

• Impact on recovery from COVID-19 pandemic
Causes of the Crisis at the WTO

• Beware of US bashing, but ...

• Fundamental shift in US trade policy under the Trump Administration
  • From champion of trade liberalisation …
  • … to demolisher-in-chief

• US trade policy actions since 2017
  • Withdrawal from or renegotiation of trade agreements (e.g. TPP and NAFTA/USMCA)
  • Reckless invocation of the national security exception to restrict imports (including from ‘allies’)
  • Trade war with China affecting $350bn of Chinese goods and $110bn of US goods
US-China Trade War Tariffs: An Up-to-Date Chart

Average tariff rate, percent

2018

China’s tariffs on US exports
8.0% → 7.2%
6 months → 3 months

US tariffs on Chinese exports
3.1% → 3.8%
6 months → 3 months

2019

+11.1 pp in three months
18.3% → 12.0%

+8.2 pp in three months
8.2% → 14.4%

+4.6 pp in four months
12.0% → 18.3%

+9.0 pp in three months
18.3% → 27.3%

2020

February 14
Phase one deal goes into effect
21.8%

20.7%
5 months

19.3%
0.8 pp

17.6%
-1.7 pp

21.0%
20.7%
21.1%
21.0%
20.9%
20.3%
Causes of the Crisis at the WTO

• Paralysis of Appellate Body and its impact on WTO dispute settlement

• Repeated threats to leave the WTO unless it reforms and rewrites its rules

• **Worldwide rise in anti-globalism and economic nationalism**
  
  • Populist politics catering to the ‘needs’ of the losers of globalisation and international trade
  
  • US/China geopolitical superpower confrontation and impact on trade policy
  
  • Ever-mounting concerns regarding the social and environmental sustainability of economic growth and international trade
  
  • COVID-19 experience and the ‘unacceptable’ dependency on trade
Response to the WTO Crisis

- ‘The world has changed, the WTO has not.’
  - Cecilia Malmström, EU Trade Commissioner (Sept. 2018)

- An all-compelling crisis
  - Unsuccessful negotiating function
  - Damaged dispute settlement function
  - Deficient monitoring function

- Efforts to address the crisis
  - Discussion papers on WTO reform (EU, Canada, China, …)
  - Specific proposals/draft decisions on *inter alia*
    - Notification requirements
    - S&D treatment
    - Subsidy disciplines
    - Functioning of the Appellate Body
Reform of the Negotiating Function

- Need for new rules addressing 21st century trade problems
  - Rules on market-distorting government support channeled through SOEs
  - Rules on digital trade/e-commerce
  - Rules ensuring that trade contributes to achievement of UN SDGs
  - Rules to better address future pandemics and other crises
  - Rules on developing-country status and effective S&D treatment

- Approach to negotiations?
  - Multilateral, plurilateral (MFN), plurilateral (non-MFN)?
Reform of Dispute Settlement Function

- US ‘concerns’ regarding the functioning of the Appellate Body
  - Judicial overreach
  - Disregard for procedural and institutional rules
- Draft General Council Decision on the functioning of the AB
  - Attempt to address the US concerns (15 October 2019)
  - Rejection by the US
- Multi-Party Interim Appeal Arbitration Arrangement
  - EU, China, Brazil, Australia, Canada, Mexico … (30 April 2020)
The WTO of Tomorrow?

- Wider crisis of multilateralism and re-emergence of superpower confrontation
- Increased insecurity and unpredictability in international trade relations
- Existential need for international cooperation on/ regulation of trade
  - Search for new consensus on the balance between trade and other societal values and interests
  - Institutional reform and reconstruction
- No alternative(s) for the/a WTO and MTS
  - ‘not created to take mankind to heaven, but to save humanity from hell’ (UN Sec. Gen. Dag Hammerskjold in 1954)