

# CONFERENCE ON "WHAT FUTURE FOR THE GLOBAL TRADING SYSTEM?"

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## TAKEAWAYS

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In search of a viable and mutually beneficial Future for the Global Trading System, the **Center for Commerce and Diplomacy** (CCD) at UC San Diego brought together leading academics, policy analysts, and business leaders in a virtual event on Feb. 23, 2021. The experts found broad agreement on the sources of these challenges, and a consensus emerged around some identifiable policy and institutional responses. This summary does not represent the views of any single participant, but rather the authors' impressions from the discussion.

Five main takeaways crystallized during the discussions. The first is a conceptual concern with "false choices" that emerged from multiple discussions, as participants rejected the notion that current challenges require extreme solutions. The next takeaway is diagnostic in nature and highlights 2008 as a pivotal year for globalization. The following three takeaways are forward-looking and involve the future of the WTO, new forms of trade and cooperation, and the benefits of self-restraint and focus. We conclude the summary with a reflection on this pivotal moment for the prospects of the global trading system. Finally, we highlight concrete policy and research proposals from individual participants for the near future.

### 1. False Choices

Policy responses to global tensions are often posed as stark alternatives: reform China into a market economy or decouple; keep the WTO or adopt regionalism; embrace globalization or address domestic inequities; allow free

flows of technology or manage national security; advance data liberalization or protect workers from artificial intelligence (AI). These are false choices. The global economic order of the 20th century was built on the middle ground, and policy objectives are not generally mutually exclusive. WTO members exchanged market access for market access, but included additional policy aspects when advantageous. Countries bundled agreements on services and intellectual property rights with rules on unilateral measures and more reliable ways of resolving disputes.

It is time to be creative again. The diverse membership of a multilateral forum offers a major opportunity for creative and effective bargaining to open market and non-market economies, while regionalism can simultaneously advance liberalization goals for the willing. Addressing climate change, employment prospects, and domestic inequities can and should be integral parts of the global trading system and not be regarded as alternatives or afterthoughts.

### 2. Turning Point 2008

On the diagnostic side, discussants independently documented from varying angles that some time around 2008 the global trading system came under new strain. In historic perspective, globalization progressed in waves, with intermittent periods of de-globalization such as during the interwar years of the 20th century. Recently, the 1990s and early 2000s exhibited a fast expansion in globalization but, since the onset of the global financial crisis, the growth of global trade has decelerated to a pace of "slowbalization."

*"It is time to be creative again."*

At around the same time in the late 2000s, China's insertion into the World Trade Organization (WTO) was largely complete. However, long-term members of the WTO and its predecessor GATT found their hopes dashed that China's integration into the world trade order would induce its transformation into an open, private-sector market economy. Instead, participants remarked, the community

highlighted the economic impact of climate change on countries who could least afford it, yet have contributed little, and proposed concrete steps by which global trade, investment and technology flows can help mitigate climate change. All the while, national security concerns in the technology sector and innovation policy have added a novel layer of complexity to global economic policymaking.

*"Don't move fast and break things."*

of open societies that had advanced the GATT and founded the WTO started to find itself confronted with both autocratic governments that tend to abuse multilateral rules to their own advantage, and a rising tide of domestic opposition to trade rules and institutions that stretches back at least to the formation of the North American Free Trade Agreement (NAFTA) in 1994. The year 2008 was pivotal because the ensuing Great Recession eroded faith in mainstream institutions and leaders. In response to the strains on the multilateral system from without and within, countries have increasingly turned to less ambitious regional and bilateral initiatives since the late 2000s.

There was broad agreement about the detrimental effects of the continuous disintegration of multilateral cooperation since 2008. Trade wars have disrupted supply chains and heightened policy uncertainty. Jeffrey Immelt, former CEO of General Electric, described during the preceding Global Leaders Forum in the morning of the conference, how policy risk prompts businesses to continually adjust costly sourcing strategies. At the global level, conference participants pointed to stalled multilateral negotiations that have turned into failed negotiations, except in a few novel areas such as e-commerce. Brexit, the U.S. departure from the Trans-Pacific Partnership, and U.S. disengagement from the WTO have further raised uncertainty and added to doubts about the future of global economic governance. Populism is turning nations inward just as the rise of China, the Covid pandemic, and climate change demand coordinated global responses. In the evening prior to the conference, Jamaican Prime Minister Andrew Holness, who co-chairs the global Climate Change Financing Initiative with French president Emmanuel Macron,

### 3. WTO or WTO-Plus?

Despite inward turns of leading nations, and sideways turns to cooperate with regional partners, most participants spoke to the view that multilateral negotiations, and multilateral institutions themselves, retain an important role. Participants presented multiple proposals to advance the WTO into a more legitimate, more relevant, and more responsive multilateral organization. In its function as a negotiation platform, the WTO has become overextended after demands grew overly ambitious. A particular example of overstretch with lasting consequences is the failed "Doha Round." There is a case to be made for a return to incrementalism, with small steps in key areas of interest for multilateral undertakings to succeed. A key phrase was "don't move fast and break things." Many of the participants who advocated for a reformed and expanded WTO into new areas of cooperation also acknowledged the potential need for plurilateral collaboration of countries that organize themselves in a "club of clubs" to adopt novel agreements.

Dispute settlement at the WTO suffers an image problem. Industries in decline, whose protection regularly violates WTO agreements, achieve outsized prominence because of losses from litigation at the WTO that require the respondent country to change its laws or executive measures. In contrast, thriving industries, on whose behalf member countries such as the United States frequently win WTO disputes and achieve greater market access abroad, feature less prominently in public perception, media coverage, and even academic analysis.

#### 4. New Forms of Trade and Cooperation

New forms of trade require a global response, beyond the bilateral or regional reach. The development and production of vaccines under the ongoing Covid pandemic offer a concrete and pressing example that demonstrates which new types of trade are emerging. Beyond the conventional exchange of physical components and products, the flow of technical expertise and production capabilities is crucial for establishing viable supply chains and the local provision of vaccine doses. While the trade of physical commodities, parts and goods involve shipment across borders, traded services are typically delivered through multinational companies' own foreign affiliates, moving the deliverable service within the boundaries of the firm to clients across borders. As a consequence, protection of foreign direct investments and other investment-related components prominently feature in recent bilateral treaties and will matter in multilateral agreements.

New forms of trade pose new challenges for global governance. Conventional physical goods are subject to tariffs, not so services. Likewise, quotas, export restraints, and other non-tariff barriers to goods trade can be turned into tariff equivalents through "tariffication" for negotiation. In contrast, negotiations over regulations and restrictions of services and digital trade flows are not easily quantified or observed and therefore considerably harder to discipline for negotiation. These obstacles notwithstanding, services trade, and especially digital forms of trade, require global interoperability and are therefore natural areas for multilateral coordination to overcome local barriers.

Among the few ongoing and promising WTO-level negotiations are those on e-commerce, in which China actively participates. Similar to large-scale trade negotiation rounds in the past, a club of clubs of leading countries advances the negotiations, and the outcome may well serve as a litmus test for the relevance and responsiveness of a future WTO or WTO-esque system.

#### 5. Self-Restraint and Focus

In the areas of national security involving technologically sensitive products, participants called for restraint and focus. For products with only a loose connection to national security, existing national trade policies and international trade treaties suffice. Similarly, for specific products of geostrategic relevance, existing national security laws suffice. The policy focus should therefore be on the few highly sensitive and high-volume products that specifically require an integrated trade and national security response.

A leading image in the discussion of technology trade was that of "high fences and small yards." The implication for national security is to focus on the narrow aspects of technology that pose security risks. In these areas, appropriate and strict measures should be in place while liberal trade should prevail in less sensitive areas.

Discussions revolved around China as a country particularly prone to the misuse, and evasion, of multilateral rules for national benefit. Yet, blunt instruments are at the disposal of several leading countries. One example, discussed in detail at the conference, is the recent use of export controls in the U.S. to target specific foreign industries or companies so as to diminish their advantages, first through limiting exports of key U.S. components, then through export restrictions on critical U.S. production equipment, and simultaneously through the control of intellectual property. A crucial question associated with these instruments concerns the useful, and perhaps necessary, degree of self-restraint so as to preclude violating WTO rules and inviting retaliation, and to avert disruptions to industries with no direct connection to national security. When it comes to conventional trade remedies such as anti-dumping measures and countervailing duties, participants emphasized that even in the absence of an operational global dispute settlement system it can be in a leading country's long-term interest to exhibit restraint and thereby deter other countries' non-conforming behavior. The call for fences resonated, too, with views of participants

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## "High fences and small yards."

who would justify trade barriers to shelter domestic groups at risk of severe disruption in low-technology industries. In his remarks preceding the conference in the morning, former GE CEO Jeffrey Immelt had emphasized, in contrast, that closing to trade with China or other competitors is not a realistic long-term option, given the rate at which China graduates engineers and innovates. Instead, fearless engagement with foreign competitors, as he witnessed during the early years of his own career and practiced subsequently, promises the greatest mutual benefit. The tenet that open markets offer a crucial precondition for prosperity found widespread support at the conference.

### Final Reflections

When it comes to the United States and its diverse residential communities, a striking and globally uncommon feature is the widespread lack of fences or walls. Neighbors nevertheless respect each others' property. In their own long-term interest, neighbors appreciate the yards' openness and their inviting nature to get together, exchange ideas, and share neighborly services. It is perhaps this spirit of neighborliness and mutual respect that not only permeates residential communities in the United States, but also undergirds the nation's historic willingness to abandon unilateralism for the greater good of cooperation. Another moment for such leadership in thought and action is now.

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### Learn More

- **Conference on "What Future for the Global Trading System?"**  
<https://ccd.ucsd.edu/conference-on-global-trading-system>
- **Global Leaders Forum: Fireside Chat – Mobilizing Climate Financing for a Sustainable Future**  
*with the Most Honorable Andrew Michael Holness  
ON, MP, Prime Minister of Jamaica*  
<https://youtu.be/SvmFFlOX4bc>
- **Global Leaders Forum: Fireside Breakfast Chat – The Future of Manufacturing and Global Supply Chains**  
*with Jeff Immelt, Former CEO, GE*  
<https://youtu.be/UN1EQqotwio>

## A Collection of Concrete Calls to Action

Beyond the major takeaway themes, participants proposed several specific policy measures and research objectives to address in the near future. Here is a collection of these individual ideas:

1. Globalization has brought enormous benefits to developing nations but has just begun to reach the world's poorest continent. **Africa represents an immediate opportunity** to promote global agreements for shared growth and prosperity.
2. A creative solution to stalled multilateral negotiations is to **bundle negotiations on climate change with market access**: Industrialized countries (and perhaps China) would offer concessions on climate "border tax adjustments" – agreeing to forgo such adjustments as they implement their own climate policies – in exchange for tariff concessions from developing countries of similar market access value. This kind of issue bundling could jump-start a potential successor to the stalled Doha Round negotiations.
3. **Issue bundling** is also a path to rebuilding consensus for multilateralism. Given its large and diverse membership, the **WTO can be a focal point for creative bargaining** over rules on subsidies and state-owned enterprises, trade in services, digital trade, policy transparency, IP protections, and dispute settlement. While regional agreements may cover some of these issues, markets are global and global organization and oversight is needed.
4. A concrete proposal to improve WTO dispute settlement is to **create separate Appellate Bodies with dedicated specialties**.
5. Global agreements that ignore domestic distributional effects do so at their own peril. **Bundling trade agreements with domestic redistribution and reskilling** may help sustain support for open markets. Similarly, data liberalization efforts can be bundled with supplements for workers that are displaced by artificial intelligence at the workplace.
6. Trade cannot be the reason why the share of manufacturing in total economic activity is in decline because trade leads countries to specialize in different traded industries. Technological and structural change drive sectoral shifts, especially from a traded sector such as manufacturing to a largely non-traded sector such as services. The consequences of trade are being confused with general sources of economic change. Policy may nevertheless benefit from recognizing the political vulnerability of trade and provide more **place-based support and investment in workforce development**, even if trade is not the culprit.
7. There was a call for **economic research into the benefits of the WTO to thriving industries**. Globally-successful industries and world-class firms have always been core beneficiaries of open markets and therefore supporters of multilateralism.
8. The pressing problem for national security is to **demarcate the specific industries and products that raise legitimate national security concerns** and promote international rules for national security restrictions on trade and foreign direct investment screening.
9. The United States should **address corporate tax avoidance** not only because the federal debt is surging but also because tax avoidance undermines the legitimacy of the current global order. The ongoing OECD/G20 project on Base Erosion and Profit Shifting (BEPS) is a promising forum to conclude successful negotiations in the near term.