

Comment on “Can the World Trade Organization Act as a Bulwark Against Deglobalization?”

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The World Trade Organization (WTO) has not been effective in providing a forum for members to negotiate, monitor, and enforce trade policy commitments. Members failed to conclude its first (and only) multilateral trade negotiation (the Doha Round). Following the deadlock in 2008, veto players, empowered by the consensus working practice, impeded the ability of members to use WTO bodies to discuss ways to address trade tensions. The US has been a key veto player, defenestrating the Appellate Body by blocking new appointments. As Evenett (2024) documents, the danger is clear and present, reflected in the increasing use of policies to support domestic firms, notably subsidies and local content requirements, and recourse to export controls for essential products (medical, food, energy) and advanced technologies.

Evenett argues that governments contemplating large increases in protection are not (much) constrained by WTO commitments. In part this is because of significant policy space to increase protection if deemed necessary (contra the common canard that WTO agreements greatly reduce policy space), and in part because states accept the potential costs of retaliation. A point that deserves greater emphasis is that there is no collective (“WTO”) enforcement of commitments. The threat of withdrawal of concessions (retaliation) by affected trading partners sustains cooperation. Size and power matter in this regard. If a small nation unilaterally greatly increases protection, it can expect retaliation. If trade (exports) matter (more likely for small nations than major economies), WTO commitments may bind more than suggested by Evenett. Conversely, insofar as large powers target each other through subsidies and industrial policies this may benefit other countries by encouraging redirection of investment and GVC activities to their markets. It may also result in lower-cost access to green technologies insofar as global supply expands.

The evidence compiled by Evenett that many of the discriminatory measures post-2009 are less tightly or not constrained by the WTO suggests that the main issue concerns the incentives (prospects) for WTO members to negotiate a new understanding. Reestablishing the Appellate Body will serve little purpose in strengthening the WTO as a bulwark against deglobalization, as seeking to make the Appellate Body operational without a clear path towards updating and filling key gaps in the rulebook will not change the dynamics

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documented by Evenett. In the unlikely event this could be done it may disincentivize negotiations to address the underlying sources of trade conflicts. Instead, what is needed is to identify the incidence and size of spillovers and consider dispute settlement reforms as one element of a broader effort to revitalize the WTO as a forum for trade cooperation.

While clearly violating substantive and procedural WTO rules, implicit in the unilateral US decision to launch a trade war against China and to increase tariffs on steel and aluminum produced by allies to safeguard its national security is a determination that the outcome of past negotiations was no longer acceptable; that invoking dispute settlement procedures was not an option because key elements of what the US objected to were not adequately addressed in existing rules, and that renegotiating commitments (as foreseen by the WTO) with China would not serve because of the MFN rule. Increases in trade barriers would need to apply to all US imports, as would corollary increases by China, entailing a need for re-negotiations with all principal suppliers of the products concerned.

The prospects for returning to the multilateral, or, more likely, a plurilateral negotiating table may be better than apparent at present. Trade conflicts and spillovers from unilateral action drove the Kennedy, Tokyo, and Uruguay Rounds. Geopolitical rivalry between the US and China, and fundamental disparities in economic and political systems, foreign policy goals, and values no doubt will increase national security and “strategic autonomy” considerations in the use of trade policy. System differences may drive relocation of (parts of) value chains and diversification in sourcing critical supplies, but this may induce more rather than less cooperation from states that have been ambivalent regarding the value of participation in trade or plurilateral agreements.

System differences need not preclude cooperation. Most nations, including China, continue to have a major stake in being able to use trade as a driver of specialization and sustainable growth, and in associated rules of the road and guardrails for domestic policies affecting trade and investment. This extends to trade policy for national security and other noneconomic objectives, for example, processes to raise specific concerns and assess the extent to which measures support the realization of claimed objectives and at what cost (Hoekman et al., 2023). WTO members have substantial incentives and scope to pursue issue-specific cooperation to improve the effectiveness of policies and attenuate policy spillovers, including through plurilateral agreements.

Whether the US (and other countries) will engage in such efforts depends in part on whether domestic social-economic-development policies to facilitate adjustment to external competition and technological and climate change are put in place. Their absence arguably was an important factor driving the US revisionism towards the WTO and trade agreements. Domestic policies are a major determinant of the internal stability needed to sustain an open rules-based trade order.

References

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