

Regionalism and the WTO: Political Economy on a World Scale?

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The Thesis

- The GATT/WTO is influenced by politics
- In regionalism, it is dominated by politics
- It always has been and it still is
- The trade policy agenda is now regulatory rather than about tariffs, and WTO can't cope
- The mega-regionals reflect these two forces
- So now **politics** is undermining multilateralism

Outline

- Negotiating regionalism in the GATT
 - Discrimination and multilateralism
 - Article XXIV
- Failing to implement Article XXIV
- Failing to reform Article XXIV
- Where did the mega-regionals come from?
- Why it is all so worrying?

Non-discrimination

- Cordell Hull, US Secretary of State 1933-1944
 - “wars were often largely caused by economic rivalry conducted unfairly” (1948, p.84)
- Actually rather a bilateralist
 - Bilateral negotiations extended by MFN (RTAA)
 - Multilateral enforcement – proposed 1916, but then dropped
- Not heavily involved in the negotiation of the ITO or, therefore, the GATT

Multilateralism

- Percy Bidwell
 - Multilateral negotiations proposed in 1933
 - Overcome interests; help others liberalise
 - Multilateral arbitration and oversight (1943, 1944)
- James Meade
 - International Commercial Union, 1942
 - Multilateral limits on protection and subsidies
 - ‘International Commerce Commission of a semi-arbitral semi-judicial nature’

Bidwell and Meade on Customs Unions

- Maximal degrees of preference or maximal durations
- Restricted to recognised groups or specific circumstances,
- Multilateral over-sight to represent the interests of non-partners, with, at least implicitly, the right to veto agreements.

The Havana Charter

- Initially only CUs, along Bidwell-Meade lines
 - No provision for transition period to CU
 - UK Imperial Preference were grandfathered
 - CUs treated not as an MFN but a technical matter
 - the definition of a customs territory
- Free Trade Areas added at last moment, and
- Disciplines weakened (notably RTAs need only cover ‘substantially all’ trade)

Why add FTAs?

- Secret negotiations of a USA-Canada FTA (see Kerry Chase, *WTR*, 2006)
- USA induced others to seek the amendments
- USA foreign policy shifted
 - from military response to Russian threat to economic re-inforcement of allies (to meet internal threat too)
- CUs were essentially domestic policy
- but FTAs were part of foreign policy

Politics!

Article XXIV: CUs and FTAs

- Cover substantially all trade
- Abolish duties and other regulations on internal trade between members
- Not raise average levels of protection against third countries
- Agreements to be reviewed for consistency with the GATT – implicitly scope to reject
- Too vague to enforce?

Article XXIV - put to the test

- First cases - procrastination
 - South Africa-Rhodesia Customs Union, 1949
 - Nicaragua-El Salvador FTA, 1951
- First big cases – flunked
 - European Economic Community (EEC), 1957
 - EEC's treaties with overseas territories, 1958
- Strong EEC pressure, backed by USA

Politics again

Failure to enforce, 1957-1994

- No agreement accepted or criticised
- No dispute cases
- The Uruguay Round Negotiations →
Understanding onXXIV
 - Some definitions and clarifications
 - No big issues – couldn't agree
- USA: NAFTA; EU: Europe Agreements

More politics

Failure to Reform - the WTO

- Committee on RTAs (CRTA)
 - Expertise and higher standing
 - One RTA approved, none criticised
 - Two disputes (India-Turkey, EU-Argentina)
- Prohibition of unilateral preferences → EPAs
- 2006 Transparency Mechanism
 - More information
 - *De facto* no attempt to judge at all

Meanwhile ...

- Tariffs declining, NTMs become relatively more important
- In fact, NTMs becoming more demanding
- Business pressing for solutions
- Developing countries suspicious of regulatory agenda in WTO
- Mega-Regional solutions look easier.

Mega-Regionals

- *The Trans-Pacific Partnership (TPP)*
 - GDP 37% of global total; trade 26% population 11%
- *The Trans-Atlantic Trade and Investment Partnership (TTIP)*
 - GDP 46%, trade 44%, population 12%
- *The Regional Comprehensive Economic Partnership (RCEP)*
 - GDP 31%, trade 27% population 48%

The Trans-Pacific Partnership (TPP)

- P4 in 2006; USA seeks entry 2008
 - “participate in the regional trade architecture”
 - “Asia-Pacific countries ... pursuing preferential trade agreements, ... important commercial and strategic implications for the US” (USTR, 2008).
- Also: energise DDA, the ‘pivot’, bind Asians to USA, please business, wrong-foot the Democrats
- Others rush to join – the Juggernaut

TPP aims to lead on standards

- “high standards ... enter the bloodstream of the global system and improve the rules and norms.”
- New issues are “model for future negotiations”
- “eclipse ... FTAs ... offered by China ... EU and Japan that ... could be seen as disadvantageous to U.S. businesses and workers”

Vice President Joseph Biden

But TPP is designed to exclude China !

- China may have applied (before window closed)
- Disingenuous given China's policies
 - No waivers or flexibility, such as Vietnam will require, because of China's
 - asymmetric gains from WTO accession
 - size and competitiveness
- Exclusion is only partly commercially inspired

Politics again

The Trans-Atlantic Trade and Investment Partnership (TTIP)

- Europe proposed, desperate to rekindle growth, reclaim leadership in trade/standards
- USA agreed – it bolsters exclusion of China
 - ‘contribute to the development of global rules that can strengthen the multilateral trading system’, President Obama
 - ‘to enshrine Europe and America's role as the world's standard-setters’, van Rompouy

The Regional Comprehensive Economic Partnership (RCEP): ASEAN + 6

- Originates from ASEAN
 - Japan seeks to avoid ASEAN +3 – counter China
 - China wants anything excluding the USA
- Greater gains from shallow integration – but unlikely to achieve much on deep integration
- May foster combination with TPP?
- More likely generate fractures in WTS
- China's *One Road One Belt* plan is deeper ?

Why it matters

- Trade policy is not a technical or commercial issue, but in this case, one of high politics
 - It is a pawn in a bigger game
- Encirclement and exclusion are risky, and probably misguided, policies
- Selecting global standards in the absence of the second largest economy in the world seems highly divisive

And it threatens multilateralism

- China's exclusion erodes multilateralism
- Any attempt by a major bloc to impose global standards is either
 - Accepted,
 - non-discriminatory, but not multilateral procedurally, or
 - Rejected,
 - discriminatory

And all because of politics

Where is the WTO when you need it?

- The WTO is still useful, e.g.
 - Dispute Settlement
 - Trade facilitation
 - Day-to-day standards processes
- But with RTAs it is just out-gunned and always has been

The Tragedy

- Two forces have come together over 50 years:
 - Tariff reductions have raised the profile of NTMs
 - The GATT/WTO cannot resist RTAs
- RTAs are the perfect instrument of exclusion
- But its collateral damage will be multilateralism
- Cordell Hull was right!
 - Discrimination is corrosive
- We need to call a halt soon

Thank you