

A WORLD TRADING SYSTEM FOR THE TWENTY-FIRST CENTURY

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March 2023

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 - hosted eight rounds of multilateral negotiations beginning with the Geneva Round of 1947 and culminating in the Uruguay Round which created the WTO in 1995
 - helped to dismantle a web of restrictive trade protections that had been erected in the 1920's and 30's, and ushered in a wave of globalization over the next 60 years that transformed the world economy
 - by the time the results of the Uruguay Round had been fully implemented, average tariffs on industrial goods had been reduced to below 4% and quantitative restrictions were largely eliminated

- But challenges to the WTO's position at the top of the world trading system are piling up

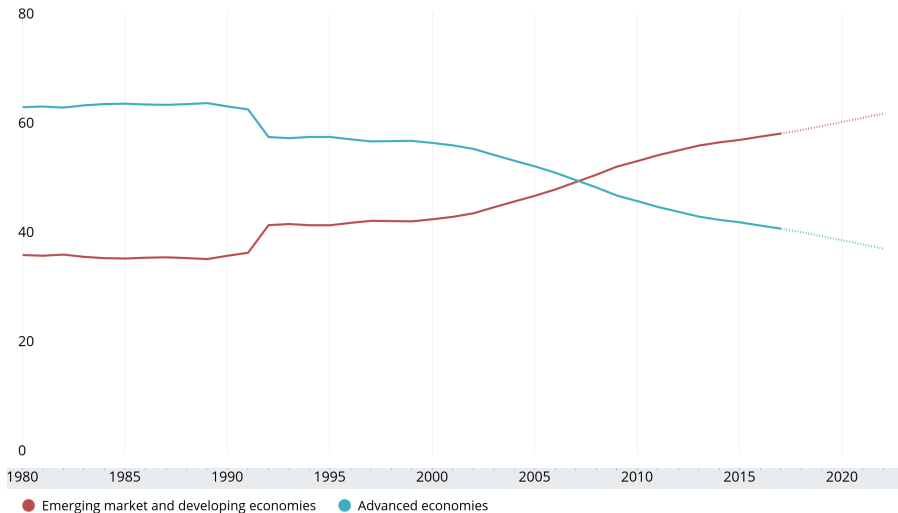
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• The rise of large emerging economies

IMF DataMapper

GDP based on PPP, share of world (Percent of World)

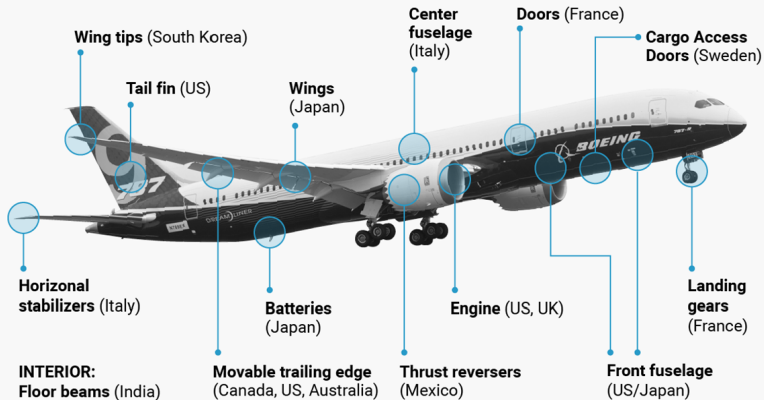


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- The rise of offshoring and global supply chains

THE GLOBAL ORIGINS OF THE BOEING DREAMLINER



SOURCE: Boeing; Reuters

BUSINESS INSIDER

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- Meanwhile
 - The shallow approach to integration pioneered by GATT has been eclipsed by deeper forms of integration with a focus on the trade effects of behind-the-border measures and increasingly on regulatory harmonization as an end in itself
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- Do we need a new world trading system to meet the challenges of the 21st century?

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- I consider the purpose of a trade agreement in a world stripped of the 21st century challenges enumerated above
 - I show that the fundamental design features of GATT are well-equipped to serve this purpose in such a world
 - and I argue that this harmony between purpose and design can help account for the success of the GATT/WTO in the 20th century

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 - and I argue that this harmony between purpose and design can help account for the success of the GATT/WTO in the 20th century
- I then ask: Do any of these 21st century challenges change the purpose of a trade agreement?
 - The answers can illuminate the nature of the challenges faced by the WTO and the world trading system

- I argue that the logic of GATT's design transcends many, though not all, of the current challenges faced by the WTO
 - The challenges posed by China's economic model, the rise of large emerging and developing economies in the world trading system more generally, digital trade, and accommodating efforts to address climate change can in principle all be addressed by exploiting the logic of GATT's design
 - The rise of offshoring and the push for regulatory harmonization as an end in itself may create the need for more fundamental changes to the GATT/WTO

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- With this advice I am not claiming that reforms to the world trading system are not needed, or that all is well at the WTO
- But I am claiming that the basic architecture of the GATT/WTO – and of the GATT, in particular – is well-suited to guide the design of the world trading system of the 21st century

A key starting point

- The WTO's legitimacy is not built on the case for free trade
 - rather, it's built on the case for internalizing negative externalities

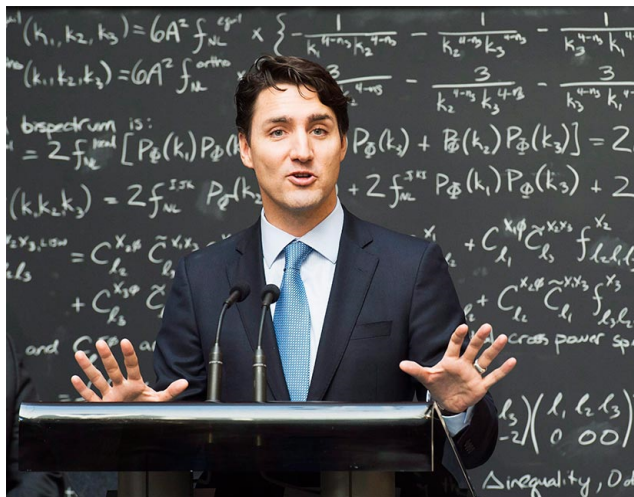
The World Trading System of the Twentieth Century: Theory

- In a broad set of environments the purpose of a trade agreement is the same: to eliminate terms-of-trade manipulation from tariffs and expand market access to efficient levels, and thereby to provide an escape from a terms-of-trade driven Prisoner's Dilemma

The World Trading System of the Twentieth Century: Theory

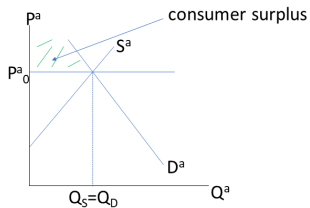
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 - Holds under a wide array of government objectives that include political economy and distributional concerns, and leads to an expansion of market access (Bagwell and Staiger, 1999, 2002)
 - Holds in a many-country perfectly competitive world provided that tariffs conform to MFN (Bagwell and Staiger, 1999, 2002), and holds for general equilibrium or partial equilibrium environments (Bagwell and Staiger, 2001a)
 - Holds for trade in goods and trade in services when governments have access to additional domestic regulatory/tax instruments (Bagwell and Staiger, 2001b, Staiger and Sykes, 2011, 2021)
 - Holds in models of Cournot or monopolistic competition with homogeneous firms (Bagwell and Staiger, 2002 chapter 9, 2012a,b, 2015) and in models of monopolistic competition with heterogeneous firms (Bagwell and Lee, 2020, Campolmi, Fadinger and Forlati, 2020, and Costinot, Rodriguez-Clare and Werning, 2016, 2020)
 - Does require a complete set of trade tax instruments, but not a complete set of policy instruments more generally (Ossa, 2011, Bagwell and Staiger, 2012, 2015, 2016)
 - Does require the absence of international non-pecuniary externalities associated with policy choices

- Explaining this is going to be a little tedious...



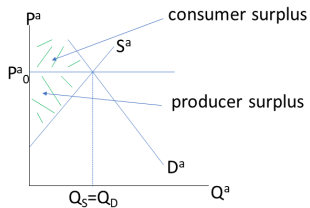
A closed economy

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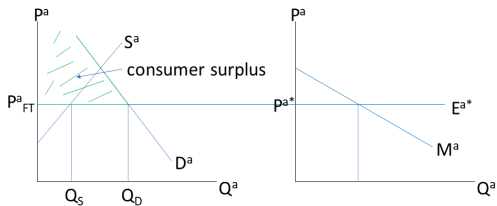
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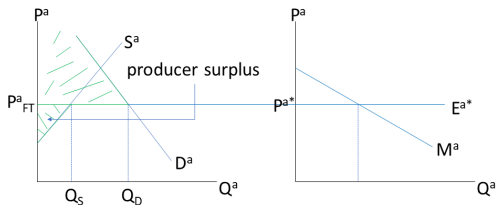
A small open economy

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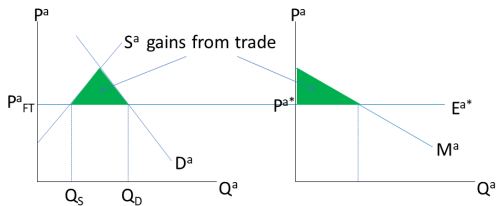
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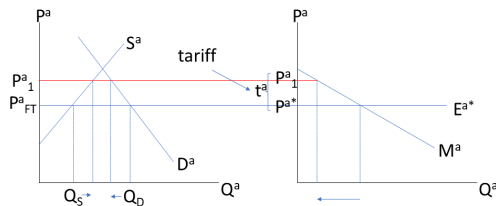
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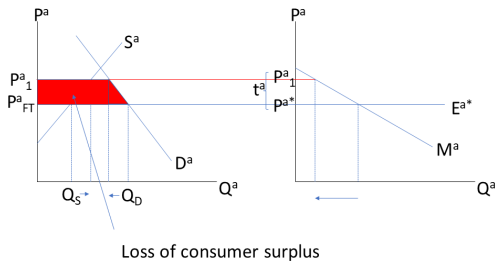
The purpose of Trade Agreements

- A *small country's* unilateral tariff choice



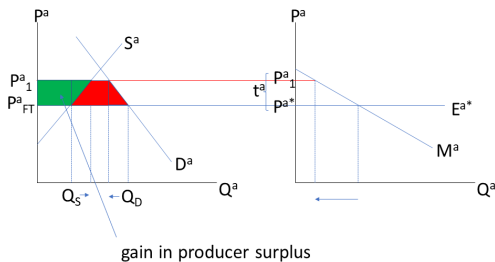
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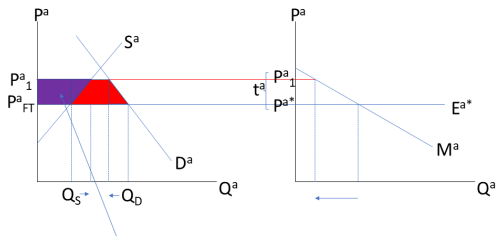
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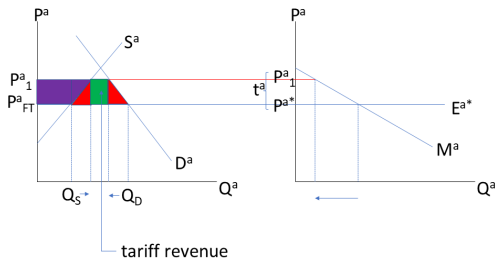
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gov's valuation of shifting surplus from consumers to producers

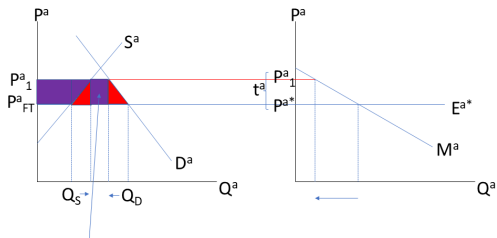
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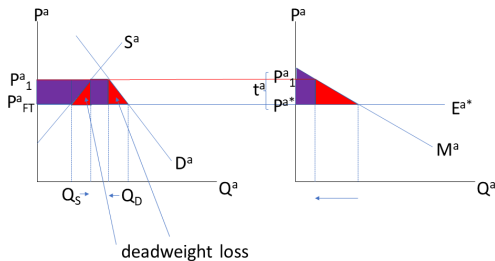
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gov's valuation of converting consumer surplus to tariff revenue

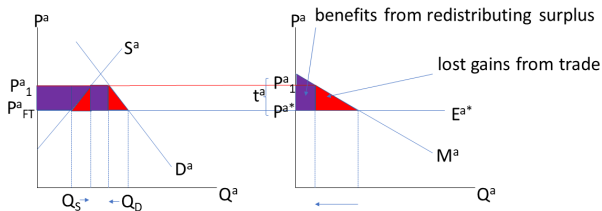
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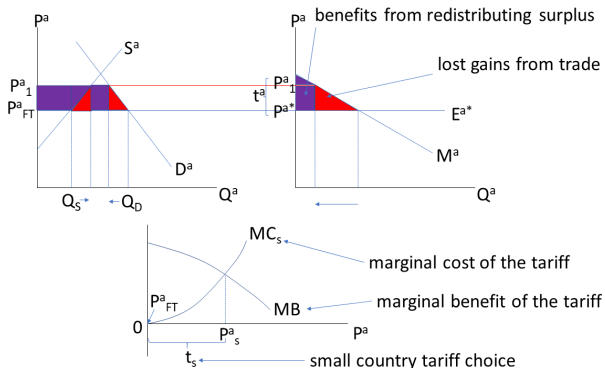
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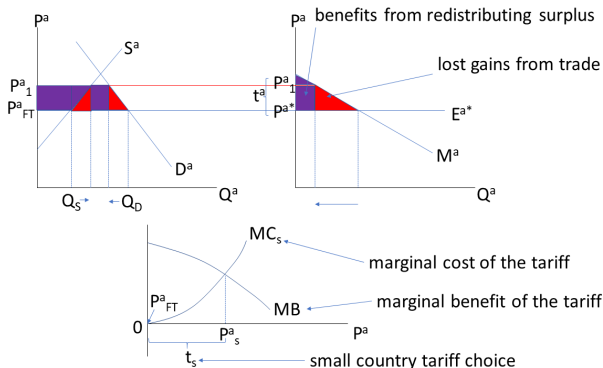
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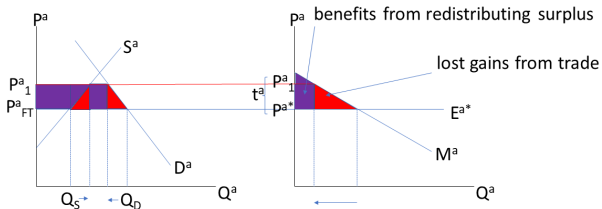
- A *small country's* unilateral tariff choice



- A *small country's* policy choices impose no externalities on the world
- \Rightarrow Policy choices are *internationally efficient* in a world of small countries, given national government objectives
- No international inefficiency, nothing for a trade agreement to do!

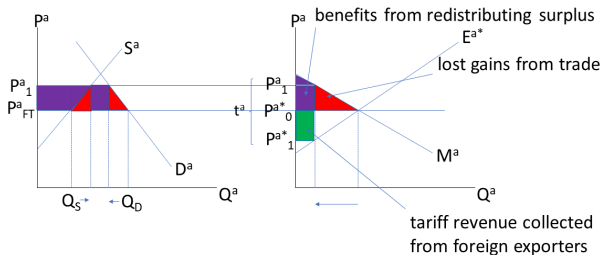
The purpose of Trade Agreements

- A *large country's* unilateral tariff choice (recall small country)



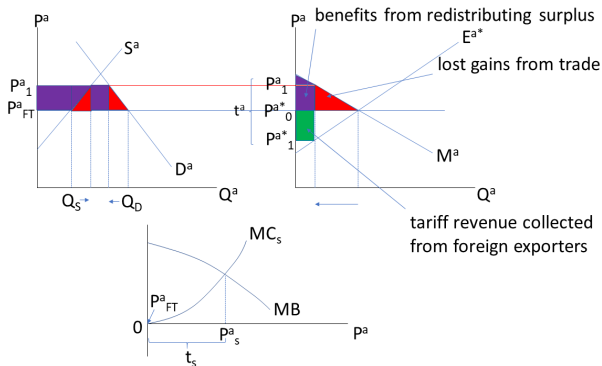
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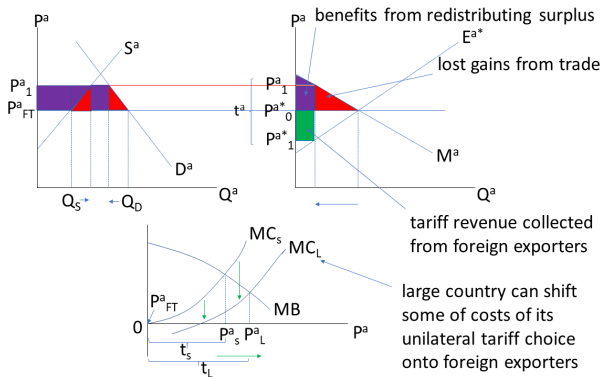
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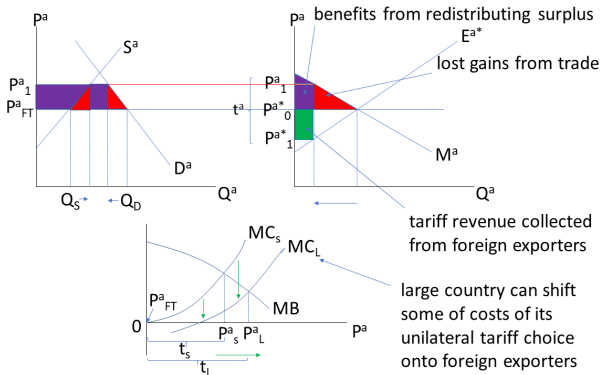
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- A large country's tariffs impose negative externalities on the world
- \Rightarrow Tariff choices are *internationally inefficient* (too high) in a world with large countries, given national government objectives
- Address the inefficiency, and a mutually beneficial agreement possible!

- If this is correct, the tariffs of non-WTO members should reflect their market power (monopsony power to depress foreign exporter prices)

VOL. 98 NO. 5

BRODA ET AL.: OPTIMAL TARIFFS AND MARKET POWER: THE EVIDENCE

2049

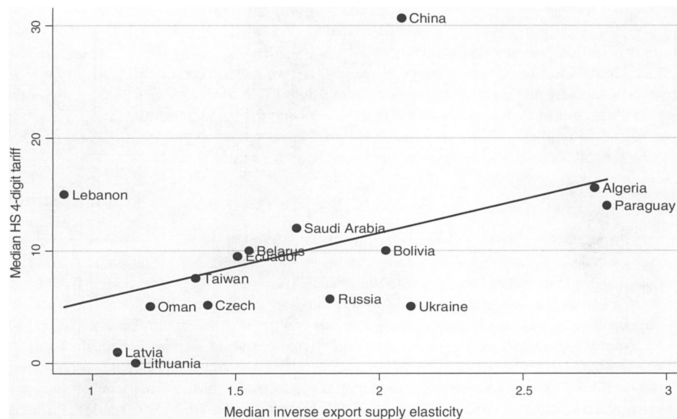
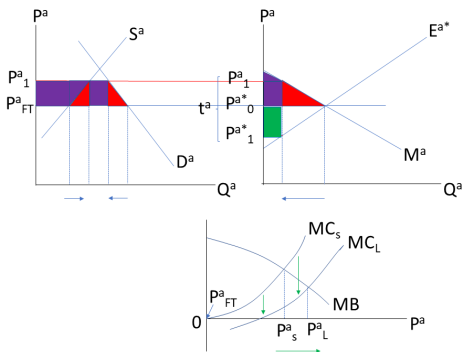


FIGURE 3. MEDIAN TARIFFS AND MARKET POWER ACROSS COUNTRIES

Is the WTO well-designed to serve this purpose?

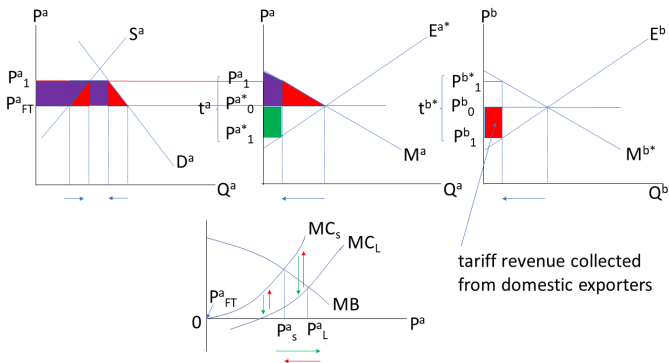
- Generally, designing an effective institution to address an international externality is challenging (think climate change)
 - for a member-driven institution, what is important is not so much *what* policy is chosen as *how* it is chosen
- Two pillars of the GATT/WTO architecture
 - Non-discrimination (MFN)
 - Reciprocity
- MFN
 - in a multi-country world, MFN keeps the trade policy externality as simple as in a 2-country world
- Reciprocity
 - defines a measured, *proportionate response* to a country's trade policy changes by its trading partners that *keeps it acting like a small country*

- Recall a large country's unilateral MFN tariff choice



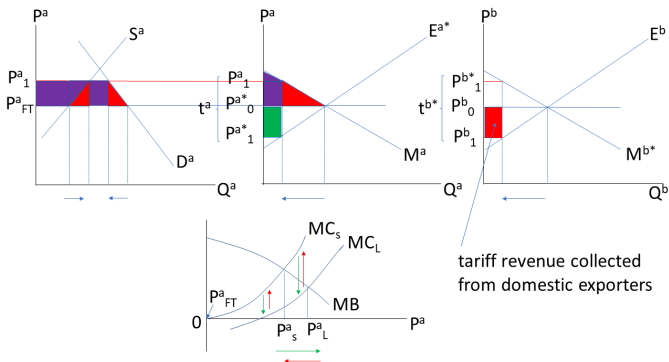
Unilateral MFN tariff choice in the presence of reciprocity

- A measured, *proportionate* response by its trading partners



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- A measured, *proportionate* response by its trading partners



- The large country faces the trade-offs of a small country
- \Rightarrow Legitimacy: A multilateral trade institution built on the pillars of MFN and reciprocity should work well to help governments solve the fundamental trade agreement problem

- If this is correct, the tariff cuts negotiated by WTO members should reflect their market power

VOL. 101 NO. 4 BAGWELL AND STAIGER: EVIDENCE FROM THE WORLD TRADE ORGANIZATION 1247

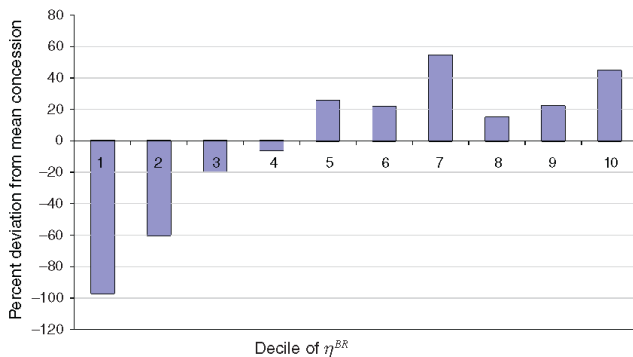


FIGURE 2. PERCENT DEVIATION FROM MEAN CONCESSION BY η^{BR} DECILE

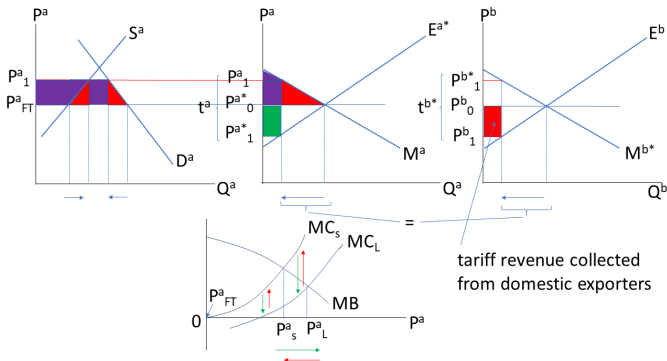
NYTimes March 2 2018 ***Trump's Tariffs Prompt Global Threats of Retaliation***

... The European Union detailed a three-step plan to penalize \$3.5 billion of American trade — the same amount of European steel and aluminum the bloc estimates would be harmed by the planned tariffs. It proposed taxing American exports including bourbon, bluejeans, orange juice, cranberries, rice and motorcycles. The European Union could then ... bring a case against the United States at the World Trade Organization.

A European Union official said that the bloc had been preparing for the announcement for months and that everything was in place for a swift, proportionate response. ...

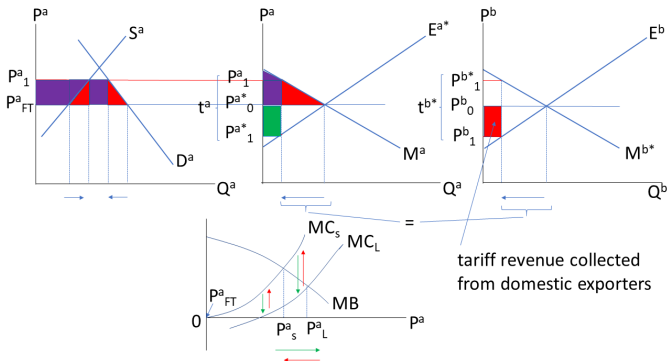
Unilateral tariff choice in the presence of reciprocity

- A *proportionate response* by its trading partners



Unilateral tariff choice in the presence of reciprocity

- A *proportionate response* by its trading partners



- The large country faces the trade-offs of a small country
- \Rightarrow Like a small country, it cannot reduce the costs to its citizens of its tariff choice by shifting some of those costs onto foreign companies
 - nothing left for a trade agreement to do!

- This is how the GATT/WTO system works to *avoid* a trade war

The Organization's control over countermeasures of this kind enables it to keep such measures within reasonable limits: to allow countermeasures commensurate with the action which occasions them; and to hold in check emotional reactions which might result in punitive measures by countries injured against the country responsible for the injury. The control over countermeasures is a check on the development of trade wars. (US Council of the ICC, 1955)

- What keeps countries operating within this rules-based system?
 - the off-equilibrium threat of an all-out trade war
- What might the beginning of a trade war look like?

Escalating Trade Fight, Trump Threatens Higher Taxes on European Cars

By EMILY COCHRANE New York Times MARCH 3, 2018

WASHINGTON — President Trump warned on Saturday that he would apply higher taxes on imported European cars if the European Union carried through on [its threat to retaliate](#) against his proposed stiff new tariffs on steel and aluminum.

“If the E.U. wants to further increase their already massive tariffs and barriers on U.S. companies doing business there, we will simply apply a Tax on their Cars which freely pour into the U.S.,” Mr. Trump [wrote on Twitter](#) from Florida, where he was spending part of the weekend. “They make it impossible for our cars (and more) to sell there. Big trade imbalance!”

The World Trading System of the Twentieth Century: Theory

- The basic architecture of GATT, including MFN, reciprocity and a shallow approach to integration, seems well designed to serve this purpose with a minimal sacrifice of national sovereignty (Bagwell and Staiger, 1999, 2001b, 2002, 2018b)
- GATT's legitimacy as the constitution of the world trading system of the 20th century is not dependent on the case for free trade

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 - How could shallow integration work?
 - According to the terms-of-trade theory, a tariff is the first-best instrument for manipulating the terms of trade
- ⇒ Nash tariffs are inefficiently high, but by an application of the targeting principle Nash non-tariff policies are efficient, conditional on Nash trade volume

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- A trade agreement could focus on lowering tariffs as a means of expanding market access ("conditions of competition") and trade volumes to efficient levels
 - And put in place various "market access preservation rules" that apply to non-tariff policies and prevent governments from using non-tariff policies to back-slide on their market access commitments

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- Under GATT's approach, countries negotiate tariff bindings to make market access commitments, and GATT Articles provide the accompanying market access preservation rules
 - For example, Petersmann's (1997, p. 136) observes that "...the function of most GATT rules (such as Articles I-III and XI) is to establish conditions of competition and to protect trading opportunities...".

- The WTO's legitimacy is not built on the case for free trade
 - rather, it's built on the case for internalizing negative externalities
- ⇒ Spoiler Alert!
 - If the GATT/WTO was well-designed to handle the negative externalities emanating from unilateral trade policy choices in the twentieth century,
 - and if the nature of these externalities has not changed with the twenty-first century challenges faced by the WTO,
 - then the WTO will be well-designed to handle the challenges of the twenty-first century

The World Trading System of the Twentieth Century: Theory Details

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- I) Provides a reason why negotiators would view own-tariff cuts as “concessions” and seek foreign tariff cuts for their exporters
 - two-good two-country competitive general equilibrium trade model
 - gov objectives $W(p(\tau, \tilde{p}^w), \tilde{p}^w)$ and $W^*(p^*(\tau^*, \tilde{p}^w), \tilde{p}^w)$ satisfying $W_{\tilde{p}^w} < 0 < W_{\tilde{p}^w}^*$
 - Nash tariffs satisfy

$$W_p \frac{(+)}{dp} + W_{\tilde{p}^w} \frac{(-)}{\partial \tilde{p}^w} \frac{(-)}{d\tau} = 0; \quad W_{p^*}^* \frac{(-)}{dp^*} + W_{\tilde{p}^w}^* \frac{(+)}{\partial \tilde{p}^w} \frac{(+)}{d\tau^*} = 0$$

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$$W_p \frac{dp}{d\tau} + W_{\tilde{p}^w}^{(-)} \frac{\partial \tilde{p}^w}{d\tau} = 0; \quad W_{p^*}^{(-)} \frac{dp^*}{d\tau^*} + W_{\tilde{p}^w}^{(+)} \frac{\partial \tilde{p}^w}{d\tau^*} = 0$$

⇒ $W_p < 0 < W_{p^*}^*$ at Nash tariff choices; own-tariff cut a concession but matched with foreign tariff cut we can both gain

- James Meade on Trade Agreements and the Terms of Trade

The World Trading System of the Twentieth Century: Theory Details

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- \Rightarrow Shallow integration (James Meade on shallow integration)
- expand market access to efficient levels with tariff commitments
 - apply “market access preservation” rules to subsequent policy adjustments
 - and achieve policy efficiency

The World Trading System of the Twentieth Century: Theory Details

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 - Gov objectives still $W(p, \tilde{p}^w)$, $W^{*1}(p^{*1}, \tilde{p}^w)$, $W^{*2}(p^{*2}, \tilde{p}^w)$
- Each country's welfare impacted by the tariff choices of the remaining two countries through $\tilde{p}^w(\tau, \tau^{*1}, \tau^{*2})$
 - In general a collection of bilateral MFN tariff negotiations represents a setting of bilateral bargaining with externalities

The World Trading System of the Twentieth Century: Evidence

- There is evidence that GATT/WTO design features have helped governments achieve this purpose
 - Broda, Limao and Weinstein (2008), Bagwell and Staiger (2011), Bown and Crowley (2013), Ludema and Mayda (2013), Nicita, Olarreago and Silva (2014), Beshkar, Bond and Rho (2015), Beshkar and Bond (2017), Bagwell, Staiger and Yurukoglu (2020, 2021)

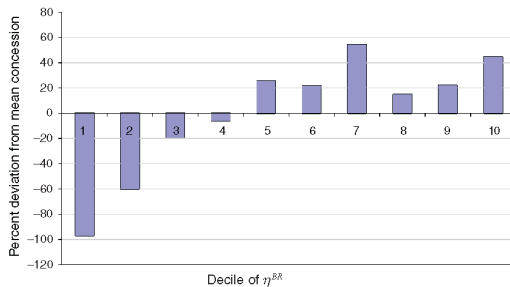
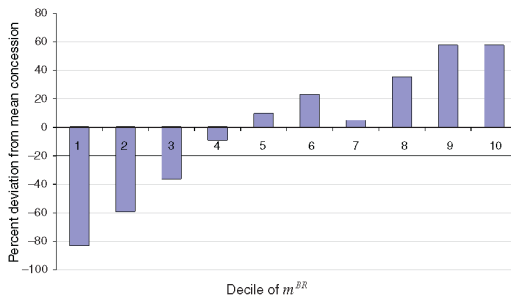
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 - Bagwell, Kyle, Robert W. Staiger and Ali Yurukoglu. 2021. "Quantitative Analysis of Multiparty Tariff Negotiations," *Econometrica* 89(4): 1595-1631
- I start with Bagwell and Staiger (2011), who focus on 16 countries that negotiated accession to the WTO after its creation in 1995 and ask whether their agreed tariff cuts reflect the removal of market power considerations from their unilateral tariff choices
 - In a linear model this tariff cut would be increasing in initial import volume m^{BR} , more generally it would be increasing in a measure of inverse trade elasticity η^{BR}

What Do Trade Negotiators Negotiate About?



- I next describe results from Bagwell, Staiger and Yurukoglu (2020a)

Multilateral Trade Bargaining

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- Many GATT rounds utilized bilateral tariff bargaining, where requests for market access were matched by reciprocal offers, and with the results multilateralized according to MFN
 - According to the terms-of-trade theory, this approach to tariff bargaining can eliminate strategic bargaining behavior (Bagwell and Staiger, 2018a)

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 - According to the terms-of-trade theory, this approach to tariff bargaining can eliminate strategic bargaining behavior (Bagwell and Staiger, 2018a)
- The absence of strategic bargaining behavior is seen by GATT practitioners and legal scholars as a hallmark of the tariff bargaining that occurred in the early GATT rounds and as distinguishing GATT tariff bargaining from the tariff bargaining that preceded it
 - *... Their requests cannot be higher than their offers and negotiations start from this maximum position: if all requests are granted all the offers will be fulfilled. Similarly all other contracting parties are likely to make offers which match the requests they have made. As some of the requests are rejected, some of the offers are withdrawn. This procedure has been raised to a Gatt principle and is not laid down by any rule. It is a convention but one which creates a much better negotiating climate than the opposite trend which was a feature of the classical bilateral negotiations. Then, everyone put forward very low offers with the intention of increasing gradually if the bargaining proved profitable. A country never knew, however, when it had reached the maximum its partner was willing to concede. Curzon (1966, p. 74)*

Multilateral Trade Bargaining

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- For GATT oldtimers
 - The initial offer made by a country ("sales") reduced tariffs to 0.808 of the existing tariff level while the final offer made reduced tariffs to 0.806 of the existing tariff level
 - The initial offer received by a country ("purchases") reduced tariffs to 0.817 of the existing tariff level while the final offer received reduced tariffs to 0.802 of the existing tariff level

		Sales			Purchases		
		Ad Val	Specific	All	Ad Val	Specific	All
		Country-Specific					
Initial request over existing tariff	Mean	0.543	0.577	0.554	0.512	0.582	0.539
	SD	0.235	0.306	0.260	0.257	0.321	0.286
	Min	0	0	0	0	0	0
	Max	1	1	1	1	1	1
	N	17681	7971	25652	15621	9911	25532
Initial offer over existing tariff	Mean	0.804	0.817	0.808	0.796	0.845	0.817
	SD	0.195	0.233	0.208	0.213	0.218	0.216
	Min	0	0	0	0	0	0
	Max	1	1	1	1	1	1
	N	8387	3577	11964	6578	5008	11586
Final agreed concession over existing tariff	Mean	0.797	0.827	0.806	0.773	0.831	0.802
	SD	0.200	0.235	0.212	0.211	0.240	0.228
	Min	0	0	0	0	0	0
	Max	1	1	1	1	1	1
	N	5603	2394	7997	3384	3341	6725

Multilateral Trade Bargaining

- *Several newcomers to GATT unaware of this new technique and starting with low offers found that in the course of negotiations they were unable to reach the level of requests they aimed for. Their initially low offers were taken as proof of their intentions and they either had to go home with a tariff higher than expected or had to increase their offers in the course of the negotiations. Curzon (1966, p. 74)*

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- GATT newcomers
 - The initial offer made by a country ("sales") reduced tariffs to 0.855 of the existing tariff level while the final offer made reduced tariffs to 0.819 of the existing tariff level
 - The initial offer received by a country ("purchases") reduced tariffs to 0.833 of the existing tariff level while the final offer received reduced tariffs to 0.820 of the existing tariff level

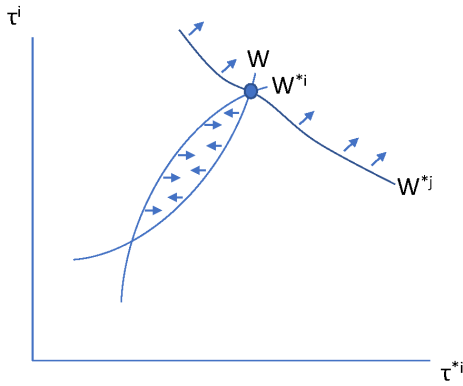
		Sales			Purchases		
		Ad Val	Specific	All	Ad Val	Specific	All
Country-Specific							
Initial request over existing tariff	Mean	0.471	0.611	0.544	0.571	0.617	0.585
	SD	0.294	0.327	0.319	0.223	0.290	0.246
	Min	0	0	0	0	0	0
	Max	1	1	1	1	1	1
	N	4306	4696	9002	6366	2756	9122
Initial offer over existing tariff	Mean	0.827	0.870	0.855	0.829	0.840	0.833
	SD	0.229	0.203	0.213	0.179	0.225	0.197
	Min	0	0	0	0	0	0
	Max	1	1	1	1	1	1
	N	1798	3445	5243	3607	2014	5621
Final agreed concession over existing tariff	Mean	0.725	0.846	0.819	0.807	0.849	0.820
	SD	0.179	0.241	0.234	0.183	0.232	0.201
	Min	0	0	0	0	0	0
	Max	1	1	1	1	1	1
	N	668	2271	2939	2887	1324	4211

Quantitative Analysis of Multiparty Tariff Negotiations

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Quantitative Analysis of Multiparty Tariff Negotiations

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- I describe results from Bagwell, Staiger and Yurukoglu (2021) who ask: Could GATT tariff negotiations have performed better if MFN had been abandoned?
 - MFN can create a free rider problem in bilateral tariff bargaining settings (a positive 3rd-party externality) that keeps countries from liberalizing all the way to the efficiency frontier
 - But in the absence of MFN and beginning from any point on the efficiency frontier, there is an incentive for each bilateral pair of countries to over-liberalize on a discriminatory basis and steal surplus from third countries (a negative 3rd-party externality)



Quantitative Analysis of Multiparty Tariff Negotiations

- Which 3rd-party externality is more damaging?

TABLE VII
ESTIMATED URUGUAY ROUND AND COUNTERFACTUAL OUTCOMES^a

	Estimated Bargaining Parameters		All 0.5 Bargaining Parameters	
	MFN	No MFN	MFN	No MFN
	Δ% 1990	Δ% 1990	Δ% 1990	Δ% 1990
Δ Mean Tariff	-30.22%	-28.85%	-29.22%	-28.59%
Δ Trade Wgt'd Mean Tariff	-19.54%	-130.36%	-19.11%	-131.27%
Country Welfare				
US	0.01%	-0.13%	0.02%	0.11%
EU	0.02%	0.06%	0.03%	0.08%
Japan	0.10%	0.32%	0.06%	-0.24%
South Korea	0.17%	0.15%	0.32%	0.04%
Australia	0.06%	-1.71%	0.07%	0.18%
Canada	0.02%	-0.49%	0.02%	-0.59%
Africa NES	0.03%	-0.08%	0.02%	-0.09%
America NES	0.02%	-0.05%	0.02%	-0.04%
Asia NES	0.15%	-0.37%	0.17%	-0.33%
Europe NES	0.02%	-0.12%	0.02%	-0.16%
MENA NES	0.01%	-0.28%	0.00%	-0.49%
Mean	0.10%	-0.21%	0.11%	-0.19%
World Real Income	0.06%	-0.02%	0.06%	-0.07%

^aNotes: Each column represents changes in the row relative to the pre-Uruguay tariff levels. Tariff averages are computed among nonagriculture sectors for the bargaining countries. The mean across countries is weighted by population.

Meeting the Challenges of the Twenty-First Century

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- Below I consider
 - The rise of large emerging markets, led by China
 - Accommodating efforts to address climate change
 - Digital trade
 - The rise of offshoring and global value chains
 - The push for regulatory harmonization as an end in itself

The Rise of Large Emerging Markets, Led by China

- Three interrelated challenges

The Rise of Large Emerging Markets, Led by China

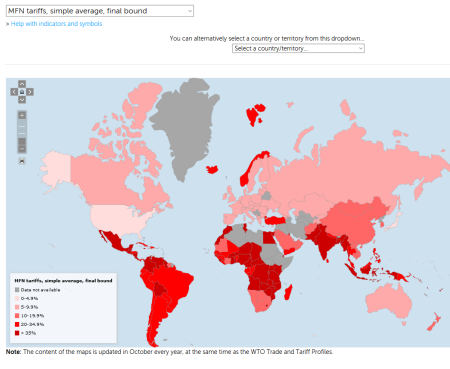
- Three interrelated challenges
- I) Non-reciprocity and the rebalancing of market access commitments with China
 - China's 2001 accession to the WTO has challenged an approach to globalization that was designed fundamentally with market economies in mind
 - But the presence of a "China, Inc." does not change the purpose of a trade agreement
 - What it does change is the nature of the commitments that China must make to translate its tariff bindings into secure market access commitments (e.g., Poland's protocol of accession to GATT)
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- II) Reconsideration by industrialized countries of the level of market access commitments they agreed to implement in 1995
 - Those industrialized countries that have experienced a significant increase in income inequality over the past several decades may now want to reconsider some of their existing tariff commitments
 - Article XXVIII renegotiations provide the liability-rule structure to achieve "efficient breach" of tariff commitments made in 1995

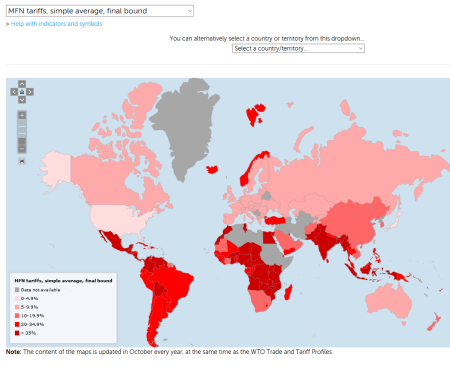
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- III) Solving the “latecomers problem” (Bagwell and Staiger, 2014) and better integrating the large emerging market economies into the world trading system



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- Countries need the negotiating flexibility to transition toward the set of tariff commitments that the current WTO membership would have chosen to negotiate were they not constrained in their negotiations by their pre-existing tariff bindings
 - Article XXVIII renegotiations together with Article XXVIII bis negotiations provide countries with the flexibility to escape from their existing GATT/WTO tariff bindings in an orderly way when necessary, in order to then engage in reciprocal MFN tariff bargaining with all willing partners

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- First, suppose countries find a way to negotiate an enforceable climate accord that implements the increase in carbon taxes necessary to solve the climate problem
- According to the terms-of-trade theory, GATT's shallow approach to integration can accommodate the solution to the climate problem while maintaining the solution to the trade problem
 - provided that carbon border adjustments are used to offset the competitive effects that the implementation of higher carbon taxes would otherwise create for each country

Accommodating Efforts to Address Climate Change

- The WTO is well-suited to accommodate efforts to address climate change
- First, suppose countries find a way to negotiate an enforceable climate accord that implements the increase in carbon taxes necessary to solve the climate problem
- According to the terms-of-trade theory, GATT's shallow approach to integration can accommodate the solution to the climate problem while maintaining the solution to the trade problem
 - provided that carbon border adjustments are used to offset the competitive effects that the implementation of higher carbon taxes would otherwise create for each country
- The role of carbon border adjustments according to the terms-of-trade theory resonates with the role as seen from the perspective of the policy debate
 - namely as a mechanism for addressing trade competitiveness impacts and "carbon leakage" concerns that arise when a country considers implementing more stringent carbon policies

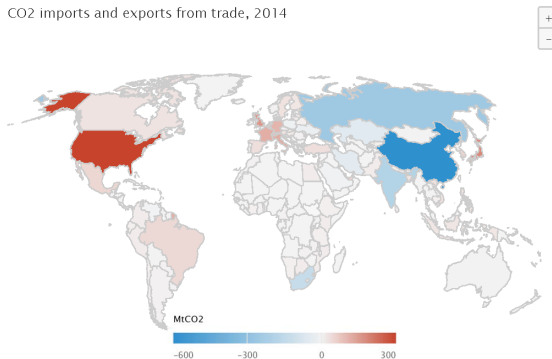
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- But there is a key difference: according to the terms-of-trade theory, these carbon border adjustments do *not* depend on the carbon content of the production of one's trading partners
 - These adjustments moderate the market access implication of a country's own increase in carbon taxes, and keep its market access at an efficient level as its carbon tax is raised to the efficient level
 - And while the market access implication of a country's carbon tax increase reflects the carbon content of its *own* production, it has nothing to do with carbon content in the country's trading partners

Accommodating Efforts to Address Climate Change

- Second, carbon border adjustments would create additional MFN tariffs in industrialized countries that could be cut in exchange for reciprocal tariff cuts from large emerging markets

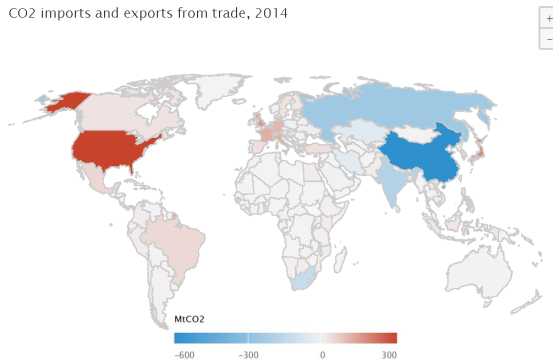
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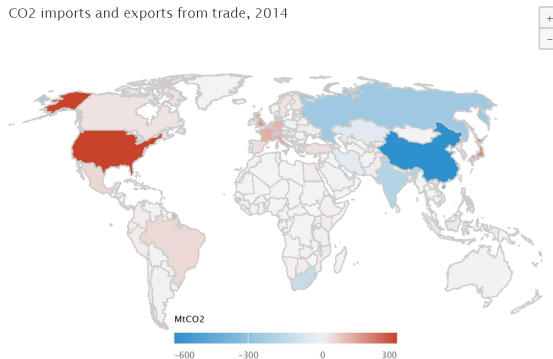


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- could help solve the latecomers problem
- could help with enforcement of climate commitments, since indirectly the tariff cuts from large emerging markets would be contingent on the increase in carbon taxes promised by industrialized countries

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 - The purpose of a trade agreement for both trade in goods and trade in services is unchanged by the advent of the digital world
 - This implies that the existing shallow-integration features of GATT can in principle be applied to digital policies impacting goods trade in such a world
 - And while GATS is a deep-integration agreement, a GATT-like shallow-integration approach to trade in services is possible along the lines suggested by Staiger and Sykes (2021), and could be applied to digital policies impacting services trade as well
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 - With digital trade blurring the distinction between goods and services, the redesign of GATS to bring it closer to the design of GATT could be all the more attractive
- Where the non-pecuniary externalities associated with digital openness cross international borders
 - The purpose of a trade agreement is more complex
 - But even in this case there may be an approach to integration for goods and services trade in a digital world that lies somewhere between the WTO's shallow integration approach and a fully deep approach

The Rise of Offshoring and Global Value Chains

- Does offshoring create new problems of global policy cooperation whose solutions require international agreements with novel features?

The Rise of Offshoring and Global Value Chains

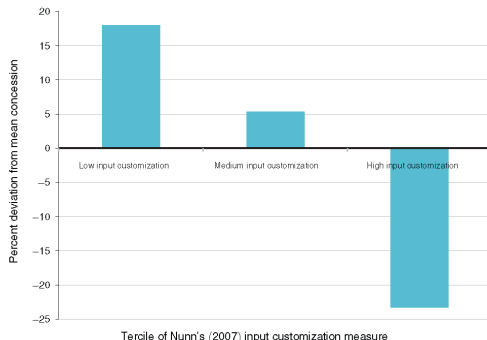
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 - In that case, GATT/WTO architecture not well-suited for achieving efficient liberalization

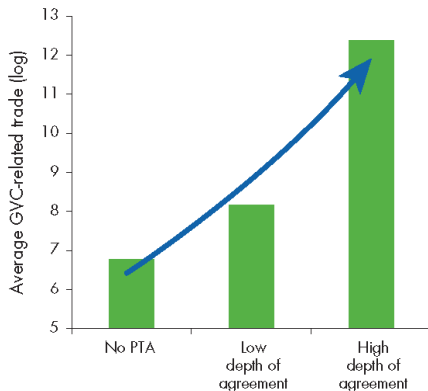


The Rise of Offshoring and Global Value Chains

- If buyers bargain bilaterally with their foreign suppliers over the price at which customized inputs are exchanged, more than just tariffs will be set inefficiently in the Nash equilibrium
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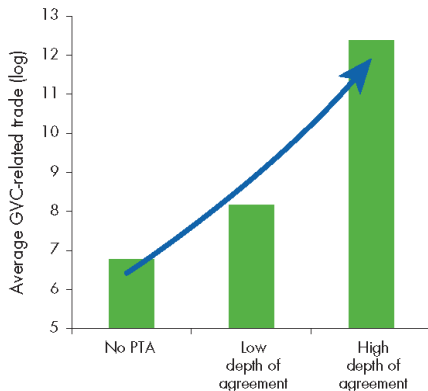
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⇒ The rise of offshoring could necessitate fundamental changes to the design of the WTO, but thus far the evidence for this is only suggestive and indirect

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- The terms-of-trade theory cannot take us very far in answering these questions
 - according to that theory, harmonizing regulations would be desirable only to the extent that it is needed to secure the property rights over negotiated market access, not as an end in itself

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- ⇒ Countries might negotiate selectively over standards where externality problems are present, and rely on some combination of national treatment and the non-violation clause combined with mutual recognition to achieve efficiency for standards that are not directly negotiated

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- What is the WTO's role in preparing for the next pandemic?
- The self-enforcement constraints (as in Bagwell and Staiger, 1990) faced by the WTO are likely to be extreme with the onset of a pandemic
 - This suggests that the WTO's role in preventing export restrictions during a pandemic will be limited
 - And the WTO may be most effective in helping countries cooperate over measures that could reduce the probability of pandemics in the first place, perhaps partnering with the WHO in this effort

A World Trading System for the Twenty-First Century

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ANNEX B

Draft Schedule LXV - Poland

1. Subject to paragraph 2 below, Poland shall, with effect from the date of this Protocol, undertake to increase the total value of its imports from the territories of contracting parties by not less than 7 per cent per annum.
2. On 1 January 1971 and thereafter on the date specified in paragraph 1 of Article XXVIII of the General Agreement Poland may, by negotiation and agreement with the CONTRACTING PARTIES, modify its commitments under paragraph 1 above. Should this negotiation not lead to agreement between Poland and the CONTRACTING PARTIES, Poland, shall, nevertheless, be free to modify this commitment. Contracting parties shall then be free to modify equivalent commitments.