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## Perspectives for Global Trade and the International Trading System

The authors review current developments and future prospects for international trade, arguing that despite the recent slowdown, trade remains an important driver of economic growth and development. Scepticism towards further trade opening needs to be addressed, notably via appropriate domestic adjustment policies. One challenge to advancing further global economic integration lies in the rapid transformation of trade itself and the nature of remaining barriers. The authors highlight new models of trade cooperation that can help to make progress at the global level while accommodating countries' diverse interests and levels of development.

Global trade is at a historic crossroads. For 60 years after the Second World War, trade grew faster than economic output – clear evidence that the world economy was becoming ever more open and integrated – as countries steadily broke down the economic barriers between them in a succession of multilateral and regional initiatives. Moreover, this process of trade-led integration – or globalisation – seemed to be accelerating. With the conclusion of the Uruguay Round, the expansion of the EU, the creation of the North American Free Trade Agreement (NAFTA) and the accession of China to the World Trade Organization (WTO), trade expanded at almost double the rate of gross domestic product (GDP) growth in the two decades after the mid-1980s – almost 6% versus just about 3%.<sup>1</sup> It did not escape notice that this unprecedented period of trade-led globalisation also coincided with an unprece-

dent period of global development, poverty reduction and economic expansion.

But since the Great Recession of 2008, trade-led globalisation seems to have stalled – with worrying implications for the future health of the world economy. 2016 marked the fifth year in a row that trade grew at the same speed or less than global output (Figure 1) – a pattern not seen in the post-war period. The Doha Round has made little progress in 16 years, the US has withdrawn from the Trans-Pacific Partnership (TPP), the Transatlantic Trade and Investment Partnership (TTIP) is on ice, NAFTA's future is uncertain and the UK has voted to leave the EU. All of these events are taken as evidence that global trade integration, if not going into reverse, is certainly not going forward.

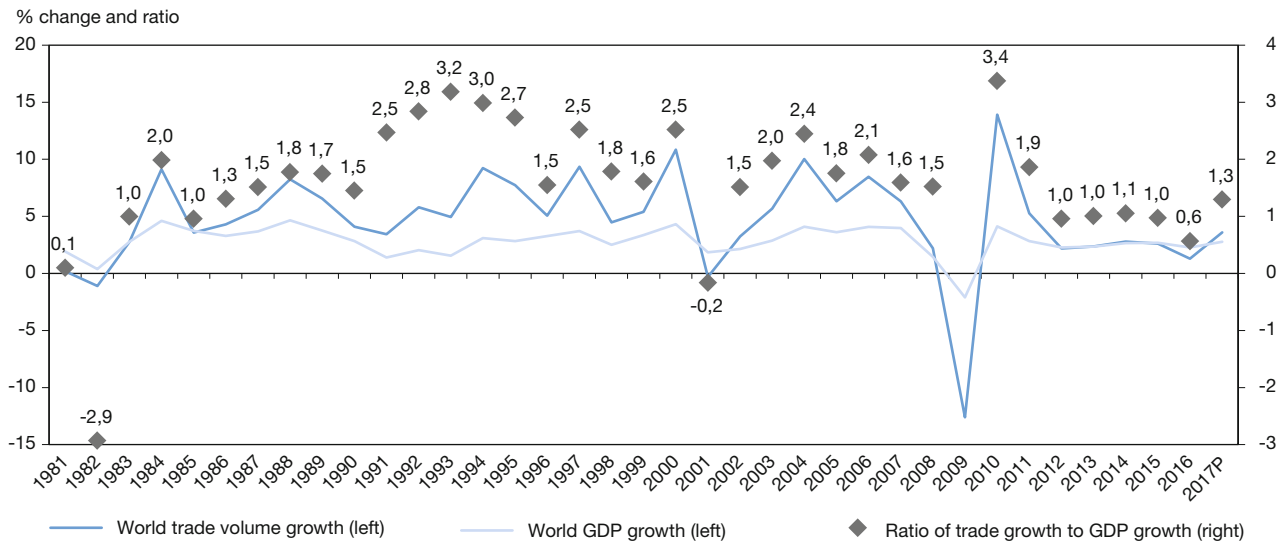
There are many explanations for why global trade expansion seems to have slowed, ranging from short-term cyclical influences, such as the lingering impact of the financial crisis on demand, to more long-term structural changes, such as slowing supply chain expansion. But one explanation that has surprisingly received relatively little attention is the rapid transformation of global trade itself and the inability of the existing system – so far – to come to grips with this newest trade frontier. While the world trading system proved highly successful in opening up trade in goods and raw materials – helping to drive 20th century globalisation – it has so far proved much less successful at opening trade in services, digitalised products or data flows – the new drivers of 21<sup>st</sup> century globalisation. Having said this, recent signs of the emergence of new models of trade cooperation and rule-making – overseen by new constellations of actors – suggest that the world economy may be on the cusp of a new wave of trade liberalisation, integration and globalisation.

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<sup>1</sup> WTO: World Trade Report 2013: Factors Shaping the Future of World Trade, WTO Publishing, Geneva 2013; WTO: World Trade Statistical Review, WTO Publishing, Geneva 2017.

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Figure 1  
Ratio of world merchandise trade volume growth to world real GDP growth



Source: WTO data for trade and consensus estimates for GDP; own calculations.

### Current situation and future economic and trade scenarios

World trade growth was remarkably weak for several years following the global recession and trade collapse of 2009. Although trade rebounded strongly in 2010, merchandise trade volume growth averaged just 2.7 % per year over the next six years, including a 1.4 % increase in 2016.<sup>2</sup> This pace of expansion is well below the 4.7 % average rate of growth since 1980, not to mention the 6.0 % average for 1990 to 2008 leading up to the financial crisis (Figure 1).

Trade growth slowed not only in absolute terms but also relative to GDP. This is seen in the declining income elasticity of trade, defined as the ratio of world merchandise trade volume growth to world real GDP growth at market exchange rates (represented by grey diamonds in Figure 1). Between 1980 and 2008, world trade grew twice as fast as world GDP, producing an average elasticity of 2.1, but this fell to 0.9 during 2011 to 2016, as trade and output expanded at similar rates. The persistence of weak trade growth and low trade elasticities raised concerns about whether world trade might have permanently lost its dynamism.<sup>3</sup>

2 WTO: Trade and tariff data, [https://www.wto.org/english/res\\_e/statis\\_e/statis\\_e.htm](https://www.wto.org/english/res_e/statis_e/statis_e.htm) (15.3.2018).

3 For example, Financial Times columnist Gavyn Davies addressed the trade slowdown in a number of columns and blog posts, starting with G. Davies: Why world trade growth has lost its mojo, in: Financial Times, 29.9.2013.

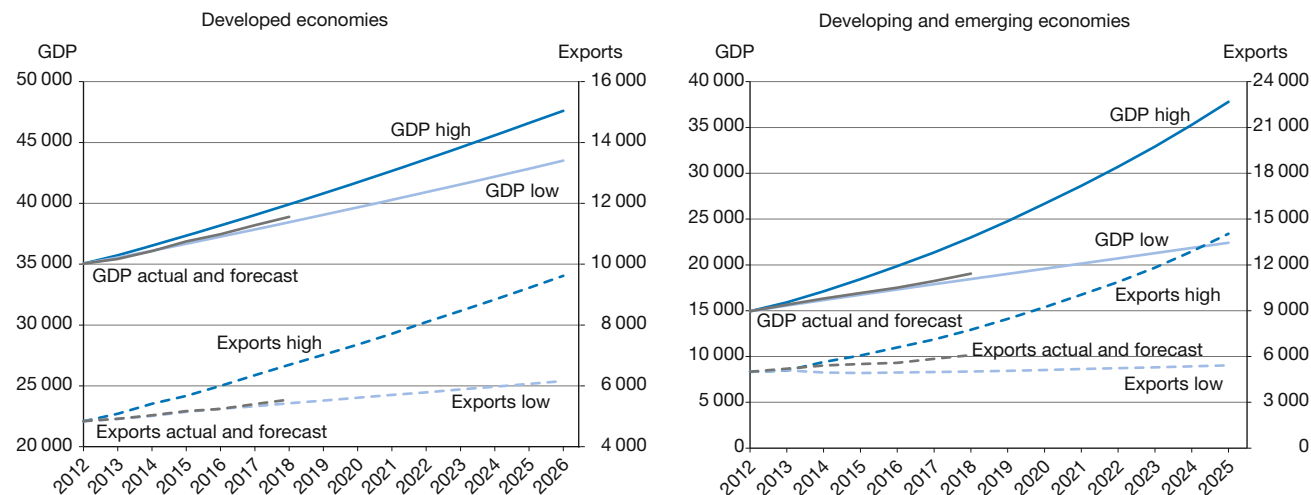
Economists have attributed the trade slowdown to a variety of cyclical and structural factors, including the maturation of global value chains (GVC), a reduced pace of trade liberalisation since the 1990s, weak demand as measured by output gaps and changes in the composition of demand. While no single factor is sufficient to explain all aspects of the trade slowdown, with some exceptions most researchers assign a major role to cyclical factors. One such exception is Constantinescu et al.,<sup>4</sup> who found that changing patterns of vertical specialisation could explain up to half of the trade slowdown since the 1990s. Specifically, a reduction in China's imports of intermediate goods as a percentage of its total exports seemed to imply more domestic sourcing of intermediate goods and reduced fragmentation of production processes across countries.

However, data from the United Nations (UN) Comtrade database suggests that GVC participation is actually stable, not declining. Our calculations show that the share of intermediate goods in world trade in 2016 was 55 %, unchanged since 2000. The share did rise and fall slightly over time, mostly due to fluctuations in the price of oil, which is considered an intermediate good in the Broad Economic Categories (BEC) trade classifications. Meanwhile, the share of parts and components in world manufactured goods trade was remarkably stable over the same period, at around 35 %. This would seem to indicate

4 C. Constantinescu, A. Mattoo, M. Ruta: The Global Trade Slowdown: Cyclical or Structural?, IMF Working Paper, No. 15/6, 2015.

Figure 2  
GDP and exports by level of development

Billion constant 2005 dollars



Sources: Authors' calculations based on WTO data, L. Fontagné, J. Fouré, A. Keck: Simulating World Trade in the Decades Ahead: Driving Forces and Policy Implications, in: *The World Economy*, Vol. 40, No. 1, 2017, pp. 36-55; and World Trade Organisation: *World Trade Report 2013: Factors Shaping the Future of World Trade*, WTO Publishing, Geneva 2013.

that trade linkages through GVCs remain strong, which would allow them to act as a transmission mechanism to boost trade when GDP growth picks up.

Another important attempt to untangle the causes of the trade slowdown was made by the Organisation for Economic Co-operation and Development (OECD).<sup>5</sup> The paper seeks to quantify the contributions to the trade slowdown made by several variables, including trade liberalisation, GVC participation, the global output gap, investment and Chinese rebalancing. It found that all played a role at different times, but weak growth as measured by the output gap was most important (40%). In addressing the same types of questions, the International Monetary Fund (IMF) came to similar conclusions, finding that the overall weakness in economic activity, in particular investment, was the main culprit holding back trade growth, accounting for up to three-fourths of the slowdown.<sup>6</sup>

The WTO monitors current trade and economic developments using a variety of mechanisms, including biannual trade forecasts, quarterly world trade volume estimates, a composite leading indicator called the World Trade Outlook Indicator and trade policy monitoring reports. For the first time since the financial crisis, trade and GDP growth in 2017 have surprised on the upside, as statis-

tics and forecasts have been revised upward substantially.<sup>7</sup> Whether this marks a turning point in the trajectory of trade remains to be seen. Faster trade growth is driven not just by stronger underlying GDP growth but also by the composition of that growth. The IMF paper points out that investment spending tends to be the most import-intensive category of expenditure in most countries, and this has been conspicuously weak in advanced economies for several years.<sup>8</sup> As will be discussed below, sound macroeconomic policies, further trade opening as well as policies aimed at encouraging investment could raise the long-run growth projections for both trade and GDP, which currently tend to follow the low range scenario in the long-term projections established by Fontagné, Fouré and Keck and the WTO (see Figure 2).<sup>9</sup>

If both GDP and trade are picking up at the same time, the consequences for the elasticity of trade are unclear. The trade growth-to-GDP growth ratios of 2-to-1 or higher which characterised the 1990s and early 2000s are probably historical anomalies, driven by circumstances that are unlikely to be repeated. These include the economic opening of China, the collapse of the Soviet Union, and major trade liberalisations including the creation of NAFTA, the completion of the EU single market, and

5 OECD: *Cardiac Arrest or Dizzy Spell: Why is World Trade so Weak and what can Policy do about it?*, OECD Economic Policy Paper, No. 18, OECD Publishing, Paris 2016.

6 IMF: *World Economic Outlook: Subdued Demand: Symptoms and Remedies*, October 2016, IMF Publishing, Washington DC 2016.

7 WTO: Press/800, 17.9.2017.

8 IMF, op. cit.

9 L. Fontagné, J. Fouré, A. Keck: *Simulating World Trade in the Decades Ahead: Driving Forces and Policy Implications*, in: *The World Economy*, Vol. 40, No. 1, 2017, pp. 36-55; and World Trade Organisation: *World Trade Report 2013*, op. cit.

the establishment of the WTO. Escaith and Miroudot point out that the 1990s were a period of rapid economic convergence in which returns on investment in developing countries were high compared to developed countries.<sup>10</sup> The authors estimate that after a period of adjustment, the income elasticity of world trade should return to its long-run average, which is estimated by WTO economists at around 1.5.<sup>11</sup>

The outlook for world trade in 2018 is broadly positive, but several downside risks exist, including financial market volatility, monetary policy shocks and the increasing use of restrictive trade measures. On the latter, WTO monitoring since the financial crisis has shown that, despite the increased use of such measures, possible protectionist tendencies were kept at bay, notably owing to WTO commitments and enforcement possibilities.<sup>12</sup> The risk of policy reversal, in particular on measures not disciplined under WTO rules, has been documented, e.g. for export measures on staple products, where prices spiked by several multiples within just a few weeks due to sequential measures taken by countries in reaction to each other's policies.<sup>13</sup>

In sum, we note that the slow trade and output growth of recent years is not a permanent feature of the world economy. Macroeconomic conditions are improving, with consumers and businesses also feeling increasingly confident. While the economic upturn is expected to stimulate trade in the short run, trade, in turn, is likely to also be conducive to higher growth over the years to come.

In order to illustrate this proposition, a number of studies have made long-term projections for different regions and time horizons. Fontagné, Fouré and Keck review this literature and provide trade and GDP estimates for all countries/regions in the world through the year 2035, the only study of a global nature for a long but reasonably foreseeable timeframe that employs a fully consistent modelling framework.<sup>14</sup> The authors develop two "extreme" trajectories (high and low) for each main economic variable,

resulting in an upper and lower projection for trade and GDP when combined and fed through the model. Among other things, they show that developing countries have a higher stake in continued economic and trade openness than developed countries. It is estimated that, on average, GDP growth in the latter would only vary between just over 2 % and 1.5 % per year, while for developing countries the range could stretch from over 7 % to less than 3 % under the high and low scenarios. For developing countries, the difference in trade costs alone would add/subtract ½ % to/from economic growth.

According to Fontagné, Fouré and Keck, the variation in economic performance under the different scenarios would also have particularly strong developmental and structural impacts in poorer countries.<sup>15</sup> For this group, per capita incomes in 2035 could be either about 50 % higher or one-third lower compared to the baseline. For individual countries, including countries with large populations, the variation would be even more extreme. In terms of economic structure, the authors show that, for a number of developing countries, revealed comparative advantage (RCA) in skilled manufacturing could either be further strengthened under the high scenario or fall below unity in the low scenario, thus further hampering efforts to diversify. Similarly, advanced economies would see their RCAs boosted in certain high tech sectors, but this would be significant only if there were a favourable economic and trade policy outlook.

While weak trade growth over the past years remains of concern, it is also clear that trade has not lost its potential to continue to act as an engine for growth and development in the future, i.e. trade has certainly not lost its "mojo". In the next section, we briefly review the channels through which trade supports economic growth and well-being, exploring as well how recent scepticism towards further liberalisation can be explained and better addressed.

### Trade, growth and development

In response to G20 leaders' concern about sluggish trade and GDP growth,<sup>16</sup> the IMF, World Bank and WTO provided a concise overview of the available evidence on the benefits of trade and the need for further reform.<sup>17</sup> On the production side, the study highlights how trade can improve productivity, e.g. by making available better intermediate inputs, fostering the more productive firms and providing incentives to innovate. Bustos, for instance, demonstrates that firms in Argentina increased research

10 H. Escaith, S. Miroudot: World Trade and Income Remain Exposed to Gravity, in: CEPR: The Global Trade Slowdown: A New Normal?, London 2015, pp. 127-160.

11 WTO: World Trade Statistical Review, op. cit.

12 WTO: WTO Report on G20 Trade Measures, WTO Publishing, Geneva 2016; WTO: World Trade Report 2009: Trade Policy Commitments and Contingency Measures, WTO Publishing, Geneva 2009.

13 M. Brahmhatt, L. Christiaensen: Rising Food Prices in East Asia: Challenges and Policy Options, World Bank Working Paper, No. 44998, Washington DC 2008.

14 L. Fontagné, J. Fouré, A. Keck, op. cit. The authors combine an economic growth model with a multisectoral trade model in order to construct global scenarios until the year 2035 examining the impact of key variables, such as demography, education, female labour force participation, migration, capital mobility, energy prices and productivity, technology and, of course, trade costs in the form of tariffs, other transaction costs related to goods and services measures.

15 Ibid.

16 G20: G20 Leaders' Communiqué, Hangzhou 2016.

17 IMF, World Bank and WTO: Making Trade an Engine of Growth for All: The Case for Trade and for Policies to Facilitate Adjustment, IMF Publishing, Washington DC 2017.

and development (R&D) investment by 20% to 30% following tariff reductions by Brazil.<sup>18</sup> Trade also has important benefits for consumers who can enjoy more product variety at lower prices. The latter is one channel through which poor households in both developed and developing countries benefit in particular, as illustrated by Faijgelbaum and Khandelwal, who estimate that in Germany, for instance, real incomes of the poorest 10% of the population would be 56% lower without trade compared to only 21% lower for the richest 10%.<sup>19</sup> Finally, IMF et al. highlight that trade openness can also foster other objectives, such as social inclusion, e.g. for women in Germany, who saw their relative incomes increase via trade according to a study by Klein, Moser and Urban.<sup>20</sup>

In addition to studies focusing on particular transmission channels for the benefits of trade in individual countries, there is also evidence of its positive aggregate effects, as documented by papers linking trade openness to higher per capita incomes across a wide range of countries,<sup>21</sup> even though the size of benefits may vary strongly depending on individual country characteristics and policies.<sup>22</sup> This has helped to foster economic convergence between rich and poor countries. Kernel density estimates of the world income distribution in 1990, 2000 and 2011 show rising per capita incomes for both groups.<sup>23</sup> However, some middle-income countries pursuing a substantial liberalisation agenda over this time period appear to have converged with high-income economies even more quickly. As a result, the world income distribution took on a three-peaked shape by 2011, in contrast to the bi-modal shape in earlier years.

Despite overwhelming evidence on the benefits of trade for growth and development, scepticism towards further opening has increased in recent years.<sup>24</sup> IMF et al. ack-

nowledge that reaping trade benefits often requires a degree of structural change (e.g. via the reallocation of resources), which could lead to sizeable adjustment costs that predominantly fall on certain regions or groups of individuals.<sup>25</sup> Especially in light of common frictions in labour markets and obstacles to geographic mobility, adjustment costs could be sizeable and last over an extended period of time, with some studies arriving at estimated transition periods of up to ten years and as much as 30% lower aggregate gains from trade owing to adjustment.<sup>26</sup>

At the same time, a range of papers have shown that trade is unlikely to be the main factor behind structural change, notably compared to the role of technology.<sup>27</sup> Therefore, the literature emphasises the need for appropriate adjustment policies, in particular those that respond to any type of “shock”, be it triggered by technology, trade or other economic developments.<sup>28</sup> IMF, World Bank and WTO give an extensive overview of existing practices and policies, emphasising that

1. any policy mix needs to be responsive to country-specific conditions and needs;
2. putting in place broad-based flanking policies as an integral part of trade reform can soften the adjustment process significantly;
3. active/passive labour market policies need to be complemented with policies from other areas, such as housing, credit, education and region-specific policies; and
4. more studies on best practices and policies are needed in light of the limited amount of research available.

It is encouraging in this regard that the G20 leaders in Hamburg agreed “to exchange experiences on the mitigation of the adjustment costs of trade and investment liberalisation and technological change, and on appropriate domestic policies”<sup>29</sup>. Also, building on its flagship World Trade Report last year,<sup>30</sup> the WTO will deepen its

18 P. Bustos: Trade Liberalization, Exports, and Technology Upgrading: Evidence on the Impact of MERCOSUR on Argentinian Firms, in: *American Economic Review*, Vol. 101, No. 1, 2011, pp. 304-340.

19 P. D. Faijgelbaum, A. K. Khandelwal: Measuring the Unequal Gains from Trade, in: *The Quarterly Journal of Economics*, Vol. 131, No. 3, 2016, pp. 1113-1180.

20 IMF, World Bank and WTO, op. cit.; M. W. Klein, C. Moser, D. M. Urban: The Contribution of Trade to Wage Inequality: The Role of Skill, Gender, and Nationality, NBER Working Paper, No. 15985, 2010.

21 E.g. J. A. Frankel, D. H. Romer: Does Trade Cause Growth?, in: *American Economic Review*, Vol. 89, No. 3, 1999, pp. 379-399; J. Feyrer: Trade and Income-Exploiting Time Series in Geography, NBER Working Paper, No. 14910, 2009.

22 With Rodrik et al., highlighting, for instance, the importance of domestic institutions in order for trade to positively impact GDP. See D. Rodrik, A. Subramanian, F. Trebbi: Institutions Rule: The Primacy of Institutions Over Geography and Integration in Economic Development, in: *Journal of Economic Growth*, Vol. 9, No. 2, 2004, pp. 131-165.

23 WTO: World Trade Report 2014: Trade and Development: Recent Trends and the Role of the WTO, WTO Publishing, Geneva 2014.

24 G20: G20 Leaders' Declaration: Shaping an Interconnected World, Hamburg 2017.

25 IMF, World Bank and WTO, op. cit.

26 E. Artuç, C. G. Bet, I. Brambilla, G. Porto: Trade Shocks and Factor Adjustment Frictions: Implications for Investment and Labor, Universidad Nacional de La Plata, Department of Economics Working Paper, No. 101, 2013; R. Dix-Carneiro: Trade Liberalization and Labor Market Dynamics, in: *Econometrica*, Vol. 82, No. 3, 2014, pp. 825-885.

27 See e.g. E. Helpman: Globalization and Wage Inequality, NBER Working Paper, No. 22944, 2016; and further literature reviewed in WTO: World Trade Report 2017: Trade, Technology and Jobs, WTO Publishing, Geneva 2017.

28 IMF, World Bank and WTO, op. cit.

29 G20: G20 Leaders' Declaration ..., op. cit., p. 3

30 WTO: World Trade Report 2017, op. cit.

work in this area by studying adjustment policies in selected countries.<sup>31</sup>

So far, we have established that trade remains an important engine of growth, but that more attention needs to be given to the design of appropriate policies that spread the benefits from trade more widely and reduce the costs of adjustment to technology, trade and other sources of structural change. This conclusion is also supported by the continued high level of support for trade, as documented e. g. by recent surveys in advanced and emerging economies, where favourable attitudes towards trade are still above 75 % in the majority of countries surveyed.<sup>32</sup> Given the relative lack of new trade liberalisation initiatives over the past 20 years, which we identified above as one of the sources of weak trade growth in recent years, it seems reasonable to ask what remaining trade barriers could usefully be addressed and, equally important, how this could be achieved at a global level.

### Trade policy implications

Over the past two decades, most countries have further reduced trade costs, including through the liberalisation of trade policy. Two features stand out: First, trade opening in several major developing countries has been more significant than in the developed countries, which were more open on average to begin with. Second, the pace of liberalisation in a range of policy areas has slowed in recent years.<sup>33</sup> Moreover, monitoring of trade-restrictive measures since the global financial crisis revealed that 6.5 % of G20 countries' imports were still covered by such measures by the end of 2016.<sup>34</sup> Hence, despite the progress made thus far, considerable potential remains for further trade reform.

As far as tariffs are concerned, it is true that applied rates are, on average, very low in developed countries and have come down significantly in much of the developing world in recent decades. However, while WTO members' average applied tariff stands at 9 %, the average bound rate remains as high as 39 %.<sup>35</sup> This large gap is principally driven by bound rates that are often much higher than the

applied tariffs in developing countries, with several estimates pointing to the large detrimental effects of policy uncertainty on economic activity.<sup>36</sup> Concretely, Osnago et al. estimate for a large sample of countries that the “tariff water” (gap between bound and applied rates) corresponds to a tariff equivalent to 2 to 9 percentage points.<sup>37</sup> On the export side, this uncertainty is particularly severe for least developed countries, notably in developed markets, where least developed countries exports face a trade-weighted average bound duty more than double the rate faced by other developed countries.<sup>38</sup> Average rates hide the continued existence of tariff peaks, including in applied duties, in a range of sectors in both developed and developing countries.<sup>39</sup> These again have the potential to affect poor countries' exports in particular, especially when combined with a pattern of escalating tariffs along the value chain, notably in the area of agriculture.<sup>40</sup>

Besides remaining tariffs, it appears that certain non-tariff measures (NTMs) have become more widespread. The WTO observes that both the frequency and coverage ratios of specific trade concerns brought to the attention of the WTO Sanitary and Phytosanitary (SPS) and Technical Barriers to Trade (TBT) Committees have gone up in recent decades.<sup>41</sup> Beverelli, Boffa and Keck demonstrate that at least part of this phenomenon is due to policy substitution, i.e. an increased use of NTMs as applied tariffs have come down.<sup>42</sup> IMF et al. highlight that regulatory NTMs affect over 75 % of imports in advanced countries (more than other forms of NTMs) and almost 50 % in developing countries.<sup>43</sup> Regulatory measures – especially when they diverge among countries – along with other restrictions also act as major barriers to services trade.<sup>44</sup> These studies show that average levels of restrictiveness in practically all sectors are highly dispersed across countries, with relatively high levels of restrictiveness in

31 This research is carried out with financial support of Sweden. See R. Azevedo: High-level Seminar on Global Deal and Trade: Making Globalisation Work for Everyone, Speeches, 22.11.2017, WTO, [https://www.wto.org/english/news\\_e/spra\\_e/spra200\\_e.htm](https://www.wto.org/english/news_e/spra_e/spra200_e.htm) (15.3.2018).

32 Pew Research Center: Spring 2014 Global Attitudes Survey, Washington DC 2014.

33 WTO: World Trade Report 2014, op. cit.; IMF, World Bank and WTO, op. cit.

34 WTO: WTO Report on G20 Trade Measures, op. cit.

35 WTO: World Trade Report 2015: Speeding up Trade: Benefits and Challenges of Implementing the WTO Trade Facilitation Agreement, WTO Publishing, Geneva 2015.

36 See e.g. K. Handley: Exporting under Trade Policy Uncertainty: Theory and Evidence, in: *Journal of International Economics*, Vol. 94, No. 1, 2014, pp. 50-66; K. Handley, N. Limao: Trade and Investment under Policy Uncertainty: Theory and Firm Evidence, in: *American Economic Journal: Economic Policy*, Vol. 7, No. 4, 2015, pp. 189-222.

37 A. Osnago, R. Piermartini, N. Rocha: Trade Policy Uncertainty as a Barrier to Trade, WTO Working Paper, No. ERSD-2015-05, 2015.

38 WTO: World Trade Report 2014, op. cit.

39 WTO, International Trade Center (ITC) and United Nations Conference on Trade and Development (UNCTAD): World Tariff Profiles, WTO Publishing, Geneva 2016.

40 World Bank: Low-Income Developing Countries and G20 Trade and Investment Policy, Washington DC 2015.

41 WTO: World Trade Report 2012: Trade and Public Policies: A Closer Look at Non-Tariff Measures in the 21st Century, Geneva 2012.

42 C. Beverelli, M. Boffa, A. Keck: Trade Policy Substitution: Theory and Evidence”, mimeo 2018.

43 IMF, World Bank and WTO, op. cit.

44 H. Nordas: Services Trade Restrictiveness Index (STRI): The Trade Effect of Regulatory Differences, OECD Trade Policy Papers, No. 189, Paris 2016; OECD: OECD Services Trade Restrictiveness Index, OECD Trade Policy Note, June 2017, Paris 2017.

sectors such as air transport, legal services, and accounting and auditing, with some sectors completely closed in individual countries.

Our intention here is not to give an exhaustive list of remaining trade policy barriers, but to illustrate that while important market access issues remain, and hence the need for traditional negotiating trade-offs, an increasing number of areas for international trade cooperation are about coordinating regulatory and other administrative approaches to reach shared objectives. This is perhaps best illustrated by the recent WTO Trade Facilitation Agreement (TFA), which entered into force in February 2017 and represents the first multilateral agreement since the WTO came into being over 20 years ago. A number of studies estimate that the streamlining and acceleration of customs procedures and other features of the agreement would lead to an important expansion of world trade and GDP. Fontagné, Fouré, Beverelli and Keck as well as the WTO, who provide some of the more conservative projections, predict annual export increases of between US\$ 750 billion and over US\$ 1 trillion, and GDP increases of between US\$ 345 billion and US\$ 555 billion (in constant 2007 dollars) at the global level.<sup>45</sup> The authors also highlight the importance of a full and speedy implementation of the agreement, which could boost annual growth rates in developing countries by up to 1% and hence accelerate the economic convergence process. Similar approaches may also work with other emerging issues, such as the rapid expansion of e-commerce, and in light of their worldwide reach, these issues may be more efficiently addressed at the global level than within regional or bilateral trade agreements.

This fast-changing global trade landscape may require a parallel change in global trade governance – a process that is only now starting to take shape. One significant – and surprising – development is the growing relevance of the WTO and multilateral approaches to 21<sup>st</sup> century trade issues. It is becoming increasingly clear that many of the trade challenges facing countries today – from managing the trade-environment interface, to facilitating trade and investment flows, to governing digital trade – are inherently global in nature and can only be solved through global cooperation, negotiation and rule-making.

This could mark a reversal of the trend in recent decades. The growing number of new trade players – combined with the increasing complexity of trade issues – led many countries to adopt regional trade agreement

(RTA)-focused trade strategies in the 1990s and 2000s, believing that smaller groups of like-minded countries could address the complex challenges of deeper integration more easily and more quickly than the broader WTO. Whereas 124 RTAs were notified during the half century of the General Agreement on Tariffs and Trade (GATT), over 260 RTAs have already been notified in the first two decades of the WTO<sup>46</sup> – and negotiations continue on other agreements, including large plurilateral initiatives such as the Regional Comprehensive Economic Partnership Agreement in the Asia-Pacific or the Tripartite Agreement in Africa.

But while RTAs have played an important role in opening trade and advancing rule-making in recent years, they also have inherent weaknesses and limitations. By design, bilateral and regional agreements are exclusionary and preferential, making them structurally ill-equipped to facilitate cooperation in an increasingly multi-polar trading system – the absence of RTAs amongst the major trade powers is perhaps an indication of this limitation. The proliferation of RTAs can also create overlapping and inconsistent trade rules, thereby raising transaction costs, complicating global sourcing and risking the fragmentation of rules at a time when increasingly globalised production systems demand convergence and coherence. Perhaps most significantly, because RTAs lack the global coverage of the WTO, their ability to address the emerging regulatory challenges posed by services or e-commerce – all inherently global and even borderless sectors – is limited. In short, the global nature of the WTO's institutional and legal framework – and its near universal membership – carries benefits that cannot be replicated in RTAs.

As the WTO's membership continues to expand, the trade landscape grows more complex, and trade agreements enter into new and more diverse areas, the challenge is to find ways to advance global economic integration while accommodating countries' diverse interests and varying levels of development. While multilateral approaches are becoming more, not less, important in an increasingly borderless, multipolar global economy, these approaches also need to be more flexible, variable and multispeed. The days of the “single undertaking” negotiation leading to one-size-fits-all rules seem to be over.

One recent innovation has been to advance trade opening and integration through more focused but continuous negotiations rather than giant, “all or nothing” rounds. Past multilateral negotiations – especially the Uruguay Round – required that all issues be considered part of a “single

45 L. Fontagné, J. Fouré, C. Beverelli, A. Keck: Medium-Run Impacts of a Multilateral Trade Facilitation Agreement, mimeo 2018; WTO: World Trade Report 2015, op. cit.

46 WTO: Regional Trade Agreements and the Multilateral Trading System, 2016.

undertaking” to which all members had to agree. Not only did the agenda become increasingly complex – as the number of subjects, countries and trade-offs expanded – but linkages meant that the most difficult issues often slowed or blocked progress on the easier ones. One of the reasons for creating the WTO was to address this challenge by facilitating the continuous flow of agreements of all kinds. Indeed, recent breakthroughs at the WTO’s Bali and Nairobi Ministerial Conferences involved smaller “packages” of issues – where the range of subjects covered was narrower, a convergence of interests was possible and members had a shared stake in reaching agreement.

Another innovation has been to engage in more limited membership or “plurilateral” negotiations as well as universal ones. Multilateral trade rules have always recognised that not all members can be expected to accept the same rules or commitments – and this is increasingly true in a diverse WTO of 164 members. The expansion of the Information Technology Agreement (ITA), for example, was negotiated among a sub-set of WTO members – a so-called “critical mass” – but its benefits are extended to non-signatories on an Most favoured nation (MFN) basis. In contrast, the Government Procurement Agreement (GPA)’s benefits and obligations are limited to its signatories – but it remains open to accession by other WTO members. The fact that rules in many new trade areas are inherently non-discriminatory – because they involve domestic regulations that cannot easily be tailored to benefit specific trade partners – may mean that calculations of “reciprocity” are becoming less relevant to multilateral negotiations and that there is more scope for “critical mass” undertakings. It is no coincidence that the vehicle for progress on newer issues such e-commerce and investment facilitation at the Eleventh WTO Ministerial Conference (MC11) was a new process of “open plurilateralism”.

A third innovation has been to approach new trade negotiations not just as the exchange of market access trade-offs but as a search for cooperative solutions to collective action challenges. The trade facilitation negotiation, for example, was focused on ways to cooperate on standardising customs procedures, harmonising documentation or improving information exchanges. There was broad reco-

gnition that while members would benefit by individually reforming their trade procedures, they would benefit even more by collectively taking these steps. This emphasis on expanding cross-border cooperation – in order to smooth and speed up trade – is relevant to many cross-border regulatory issues in services, investment or e-commerce where the objective of negotiations is not to reduce or remove regulations but to minimise regulatory frictions or distortions by exploring ways to advance shared policy objectives in a least trade-restrictive way.

Finally, the TFA broke new ground through its flexible design. Not only did developing and least developed countries members determine their own “individualised” implementation schedules, but their commitment to implement the Agreement is explicitly linked to their technical and resource capacity. As noted above, the fact that many of the issues under negotiation were inherently global underscored the logic of reaching flexible, inclusive solutions in the WTO. It made little sense, for example, to streamline customs procedures or create a “single window” for documentation on a preferential basis – doing so for one member effectively meant doing it for every member. In this respect, the TFA offers potentially useful lessons for future rules negotiations in the WTO.

## Conclusion

The key message from this paper is that global trade integration is not over – on the contrary, there are clear signs that a whole new phase of “globalisation” is opening up – and that finding innovative ways to advance global trade cooperation and governance in the future, as in the past, will be key to expanding development, reducing poverty and increasing economic growth. Of course, finding new trade negotiating approaches to navigate a new trade policy landscape is not the only challenge. Helping workers acquire the skills needed to fill high-quality jobs in a more services-focused and digitalised global economy will be equally important – domestic reform must be an integral part of global reform. But likewise, there is little point in training workers for the jobs of the future if trade cooperation, as one of the key engines of future employment, growth and prosperity, is left idle.

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### Title: *Perspectives for Global Trade and the International Trading System*

**Abstract:** *The authors review current developments in international trade and its prospects for the future arguing that despite the recent slowdown, trade remains an important driver of economic growth and development. Scepticism towards further trade opening needs to be addressed, notably via appropriate domestic adjustment policies. One challenge to advancing further global economic integration lays in the rapid transformation of trade itself and the nature of remaining barriers. The authors highlight new models of trade cooperation that can help to make progress at the global level, while accommodating countries’ diverse interests and levels of development.*

**JEL Classification:** F13, F14, F17