

WTO'S GOVERNANCE

Virginie ROBERT

That is interesting, I mean I think it should be very comforting for you because you see how the rules of WTO matter. At the same time, we know there is a problem with governance, and a lot of ills. Can we talk a little bit about it, because we see a lot of disruption on the worldwide stage, on trade, and WTO is not efficient in regulating it. Therefore, let us talk about the governance, the ills of this institution, and also we will try to talk about its remedies. Who wants the first shot from the WTO? Karl, he is the brave one.

Karl BRAUNER

I pick up where we were. The basic rule of the WTO is the most-favoured-nation principle, so you have to afford the same good treatment that you offer to one of the 164 members to all the other members. The free trade agreements are actually an exemption from it. They are an exemption in that you can offer your partner a more favourable treaty, treatment than you offer the rest. The justification for allowing this exemption is that you have to cover essentially all trade. We have a committee that deliberates on the notified free trade agreements, and it never produces a result that has a critical outcome for the parties, because there is not the courage for it.

Virginie ROBERT

Therefore, it is lack of political courage of the institution?

Karl BRAUNER

It lacks teeth. Yes, it lacks teeth. They speak about the agreement. The secretariat writes a factual report. The factual report could actually make it very visible that it does not cover essentially all trade, and then the parties-, not the parties, the members discuss, but there is no consequence.

Virginie ROBERT

Mr Bark?

Taeho BARK

Before we move to the multilateral trading system, I want to go back to the Section 232 on autos. I think USTR gave options for measures to restrict imports of automobiles to President Trump in May. He extended his decision for six months, so the time for decision after six months will come in November. Therefore, given the fact that President Trump is very unpredictable, we do not know whether he will postpone the decision again or declare specific measures. We have to wait and see. So the Korean auto-manufacturers are also concerned about President Trump's decision on the Section 232 on autos.

Karl BRAUNER

But the advantage of the free trade agreement between the US and Japan was just now described as avoiding a negative. It should actually create a positive, but it is only avoiding a negative. This is not what it is all about.

Gabriel FELBERMAYR



It goes at least against the spirit of Article 24 which says that parties engaging in preferential trade agreements should actually lower their tariffs, and if that is not happening, the fact that the opposite is happening, maybe, if you throw in the rules of origin, that is certainly not in the spirit of the Article.

However, if you are talking about the WTO, I think it is very easy to blame the WTO, but who is the WTO, you know, its members. It is a member-driven organisation, and when we comment about it, we often forget that, you know? We blame the WTO, the WTO is inefficient, it does not enforce its rules, etc., etc., but then it is just the sum of its 164 members. Then, you know, everyone, including the Europeans that at least pay lip service -

Virginie ROBERT

Mr Watanabe, and then Marcus Noland.

Yorizumi WATANABE

Well, thank you very much. One additional comment on this Japan/US recent agreement on Japan/US trade deal, one of the major sort of misgivings of this agreement is the fact that the United States could not offer the general duty treatment on the parts and components for car industries, that the United States offered in TPP 12 negotiations that was concluded in October 2015.

Therefore, you see the entire, you know, the passenger car duty is 2.5%. Even in the TPP 12 agreement, you know, there was the phasing out of 2.5% duties over 25 years, right? However, instead, for the car parts and components, Japan got more than 87% of their tariff lines dealing with car parts have been subject to general duty. It is immediate duty elimination. That was the agreement in October 2015.

Therefore, that is the thing that we could not get, and that is the major sort of misgiving, I would have thought. Thank you.

Virginie ROBERT

Okay, and Marcus, you wanted to add something?

Marcus NOLAND

Yes, so the WTO has all sorts of problems, but the WTO is only as good as its membership, and I want to re-emphasise a point I made at the outset, which is that for 80 years the United States government tried to promote an open, liberal rules-based trade system. It was not always effective, did not always adhere to its own norms, but it was basically supportive of that kind of system. That changed in 2016. We now have a government that would be perfectly happy to watch the WTO strangled by simply not appointing an appellate judges.

Virginie ROBERT

Yes, we are going to come to that.

Marcus NOLAND

And so the question is why? What changed in the United States, and is it aberrant, and can we expect a reversion to the norm, or is this the future? Because if this is the future then it really poses a different set of questions for the system.

There is a growing body of scholarly analysis in the United States that tries to explain the shift. I have done some of it, Jeffry Frieden who is sitting out in the audience has done some of it. Some of this work is based on looking at individual voter preference, some of it is done by analysing county level voting patterns, some of it is experimental. The lessons that seem to be emerging from this body of research are actually quite disturbing.

The turn towards protectionism in the United States seems to be based on a pernicious sense of victimhood, through two different channels. One is conventional, and is familiar to everybody in this room: import-competing sectors, especially declining industries, are hurt by imports, and they want protection. If you look at the Trump administration, a lot of the people in it, or his advisors are people who were owners or managers in declining industrial sectors of the US economy. The other one is less familiar. At the level of the individual the evidence seems to suggest is that this turn towards protection is very much driven by, or associated with, white identity politics, or racism. It is the expression of a growing anxiety among part of the white population in the United States about loss of group status and their ability to control the system for their own benefit. That insecurity is reinforced among the elites by notions of declining US status at the international level. The fact that China is regarded both as an economic and geopolitical rival contributes to the focus on China.

Looking towards the future, an electoral strategy that emphasises anger in the white population is a losing hand demographically in the long run, whether it can work in 2020 or not. If Trump is able to avoid impeachment and does get re-elected, it will be Katy bar the door on the kind of issues that we are discussing.

Virginie ROBERT

Can you tell us what that means exactly, for non-Americans?

Marcus NOLAND

It means batten down because catastrophe is looming. If the Democrats win, that is no panacea. While the Democrats – and these are not just my opinions, there is a lot of data to support this – are much more positively inclined towards international cooperation, their views on trade are not necessarily liberal. If we got certain candidates, a reasonable trade policy might emerge, but with some of the others, the policy could be challenging. Given the political economy in the United States, future outcomes range from kind of okay to disaster.

Virginie ROBERT

Disaster, well that is very comforting.

Gabriel, you wanted to add something, and then Mr Bark?

Gabriel FELBERMAYR

Yes, I just wanted to say that certainly this intra-national US-centred discussion about the white grumpy man, but there is also, and I think here is where the Republicans and the Democrats converge, there is also this geo-strategic issue with China. When China entered into the WTO in 2001, no one really envisaged that in a period of 15 years or so they would be able to challenge the United States by having an economy that is almost as big, and growing twice as fast. Also, this geo-strategic discussion will not stop, and it will not stop when there is a different person in the White House.

It also has implications for Europe of course because we too must ask ourselves, and we have seen in the session here today about, you know, the values of democracy, these are important components too in this discussion that do not lend to very much optimism either, because that geo-strategic struggle, which is not just power, military economic power, it is also about values that will not go away.

Taeho BARK

I would like to say that we should be sorry to talk about the WTO in Marrakesh, because, as you know, in 1994, Marrakesh hosted a ministerial meeting and Ministers had agreed to establish the WTO. However, we now talk about the gloomy aspects of the WTO. In fact, seven years ago I visited Rabat for the bilateral ministers' meeting between Korea and Morocco. At that time, Morocco's Foreign Minister asked me, 'Where do you want to go after Rabat?' I answered that I would like to visit Marrakesh because Marrakesh is the place that produced the WTO. We came here and tried to find which hotel hosted the ministers' conference in 1994. We found the hotel which was huge and I forget the name of the hotel. The hotel manager came down and introduced about the hotel. I asked, 'Do you know this place

hosted a meeting for the WTO?' The manager responded, 'What is the WTO?' There was no plaque, no record about the ministerial meeting. I felt quite disappointed at that time.

Virginie ROBERT

Well, it is good you are here to, you know, give it the right-

Taeho BARK

However, you know, I am also very pessimistic about-

Virginie ROBERT

About WTO.

Virginie ROBERT

Well, Karl is going to speak, and we are going to talk a little bit about the settlement problem with the WTO, and then we will open up for questions.

Karl BRAUNER

I want to say that the US has been the positive leader for more than 70 years in trade policy, starting before the GATT, and they have used trade policy as an element of their foreign policy, as an instrument of peace policy. If the US takes this role that you have described just now, this does not solve the real issue, because it only deals with the external elements that are the challenges for the US. The real challenges are inside the US.

The problem is America is not great anymore. When America was great they could behave in the way they behaved, as positive leaders, and to make America great again is not happening via external conflicts.

Virginie ROBERT

Well, it comes back to the disgruntled, you know, white people you were talking about who elected Trump, and expressed that, but somewhere America has been expected this on appointing judges for the WTO, because it is the only way for countries to settle their differences. We know that this part of the organisation is really at a standstill, and in December, if no judge is appointed, it is gone, it is dead. Therefore, what can we do about this?

Karl BRAUNER

I mean this problem started in 2017, and I think the efforts to resolve the issue have started pretty late. Right now, we are having a group of countries that are under the leadership of the New Zealand ambassador trying to tackle issues on technical level, and here I would come to one of the elements of the title of our meeting this afternoon, Trust. One could try to rebuild trust by solving a few of the technical issues, and one has to get the Europeans and the Americans talking to one another, because I think the Europeans have made some very good proposals, picking up all the grievances of the Americans, one by one, without saying that they share the concern, but they offer some approach to it. However, the Americans are not yet engaging, and I must say my suspicion is they have other issues. They are dealing with China, they are dealing with USMCA, and the WTO is a third priority for them at this point in time.