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Trade Multilateralism: Alive and Well Despite Trump

By Pradumna B Rana

SYNOPSIS

Many analysts have argued that with the election of President Trump, the rules-based multilateral trading system established in the post-World War II period has ended. This view is wrong. Trade multilateralism has taken a different form and is functioning fairly well.

COMMENTARY

THE FOCUS of the Bretton Woods Conference of 1944, led by the United States and other Western powers, was to establish a number of rules-based international economic institutions to provide global public goods. In the area of finance, the International Monetary Fund (IMF) was established to provide short-term finance for macroeconomic stability, and the World Bank was created to provide long-term development finance for poverty reduction in developing countries.

The General Agreement on Tariffs and trade (GATT) was established to promote an open global trading environment. In 1995, the GATT was replaced by the World Trade Organisation (WTO) which at that time had 123 member countries as compared to 164 at the present. This rules-based multilateralism has brought about unprecedented economic prosperity and social development all over the world.

From Centralised to Decentralising Multilateralism

Presently, however, the world is moving from the system of centralised multilateralism towards decentralising multilateralism or a multi-layered system with the WTO as the senior global institution and various regional and inter-regional free trade agreements (FTAs).

The European Union (EU), Japan, and China have taken a stand against Trump's "America First" and his emphasis on "bilateral and reciprocal trade" and signed a large number of regional and inter-regional FTAs with other trading partners. Soon after Trump's inauguration, the European Parliament gave its consent to the Canada-EU Comprehensive Economic and Trade Agreement.

The Japan-EU Economic Partnership Agreement came in force on 1 February 2019. The EU approved the EU-Singapore trade pact in February 2019, signed the agreement with Vietnam in June 2019, and is negotiating with Indonesia, Australia, and New Zealand. EU negotiations with China for a bilateral investment agreement are also progressing albeit slowly.

Japan is playing an active role in promoting regional and inter-regional free trade areas (FTAs) as the US retreats. It has played a key role in driving the 11-country Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTTP). A number of high profile officials from Beijing have recently voiced opinions about China's interest in joining the CPTPP, although no official contact has yet been made.

Contested Multilateralism

Japan is also working with China and ASEAN on the Regional Comprehensive Economic Partnership (RCEP). Recently, India announced that it would not join the grouping. The remaining countries are expected to sign the RCEP Agreement later this year. Thanks to Tokyo's persistence, progress is also being made on a China-Japan-Korea trade agreement.

China has taken a complimentary approach to regionalism and inter-regionalism, by focusing on infrastructure and physical connectivity. In this regard, President Xi Jinping's signature project, the Belt and Road Initiative, is the main game in town.

How has the establishment of new regional and inter-regional FTAs, which has led to the decentralising trade multilateralism, affected the governance of international trade? Unlike the "contested multilateralism" theorists who focus only on the costs, one has to consider both the benefits as well as the costs of the process.

Decentralising Multilateralism: Benefits and Costs

On the side of benefits, first, regional and inter-regional FTAs provide an alternative approach to liberalising trade and are useful when WTO negotiations stall, as is the case at the present time. Second, modern regional and inter-regional FTAs typically promote deeper integration as compared to the shallower integration of the WTO which mainly tackles "on-the-border" barriers.

Regional and inter-regional FTAs can therefore address "behind the border" issues such as rules for protecting investments, intellectual property, environment and labour rights, and regulations on product standards that are relevant to supply chain trade which now constitutes a bulk of global trade.

There are, however, a number of costs for regional and inter-regional FTAs. The first is that they are discriminatory in nature. Granting preferences to some countries

effectively discriminates against trade with others which could be more efficient trading partners, resulting in potentially costly trade diversion. That said, problems with trade diversion are more serious at the theoretical level than in practice.

The second category of risks associated with regional and inter-regional FTAs are the so-called “spaghetti bowl” effects. This arises when overlapping FTAs create a web of trade agreements with different documentation rules, inspection procedure, and rules of origin, in effect raising the transaction and compliance costs for businesses.

While there is some element of truth, a number of studies including one by the Asian Development Bank and the other by the Inter-American Development Bank have found that these costs tend to be overestimated.

Going Forward: Strengthening "WTO Centrality"?

The third cost is the fear that regional and inter-regional FTAs, especially the mega-FTAs which are sizable and cover large segments of world trade and GDP, could undermine “WTO Centrality” mainly in litigating trade disputes. But again several other authors have found that, in actuality, the dispute settlement procedures contained in regional and inter-regional FTAs have not introduced direct competition with the WTO.

A significant number of disputes tabled at the WTO have involved members of existing regional and inter-regional FTAs using the WTO to resolve their bilateral disagreements. On the whole, the benefits of new regional and inter-regional FTAs and the decentralising multilateralism appear to have outweighed the costs, mainly because the latter are overstated.

The move from centralised to decentralising trade multilateralism, therefore, may have improved global trade governance. The move could have also enhanced the resilience of Asian countries to global shocks like COVID-19 by enabling diversification of trade and supply chains.

Looking ahead, a number of policy measures should be taken to manage the decentralisation process by reforming the WTO. The WTO should also enhance further its collaboration with regional and inter-regional FTAs.

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