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International Trade: The Demise of Multilateralism?

By Jikon Lai

SYNOPSIS

Policy makers should heed the widely accepted lesson of the virtue of freer trade in charting the path towards a post-pandemic economic future.

COMMENTARY

WHATEVER THE shortcomings of the body of knowledge produced by the field of Economics, there is [wide consensus](#) among economists that removing barriers to international trade will benefit all countries in the aggregate. While it is true that not necessarily every single person in every single country will see an improvement in economic position, each country that liberalises its international trade regime could expect to improve its economic position in the aggregate.

With the economic gain, the population of the country could collectively choose, if it so wished, to compensate those citizens that might have been set back by the process of liberalisation. Of course, in practice this does not necessarily happen; therein lies the heart of the challenge of the liberalisation of international trade: it is not an economic issue but rather one of political economy. How do we distribute the gains from trade to ensure universal support for liberalising trade?

National Interest vs International Cooperation

National policy, and by extension the 'national interest', on international trade is generally the outcome of the battle between winners and losers from trade measures. This imbues trade negotiations with a transactional and positional quality. Trade negotiators are incentivised to focus on not just what they can get for 'winners' but also how they might protect 'losers'.

Since it is not possible for every single country to get something without giving anything away, trade negotiations tend to become exactly that: a negotiation over what a country has to give away in order to get something. This institutional effect of domestic politics is sometimes compounded by the systemic effects of international politics that train policy makers to focus on relative gains (who gets what? will I get more than my rivals?).

As a result, while economists emphasise the collective benefit of international trade, the policy makers and trade negotiators of most countries tend to approach international trade in a transactional and competitive manner.

This tension between the shared benefits of an open, rules-based trading system and narrow national-interest is a long-standing feature of the international trade system. It is the classic face-off between international cooperation (or multilateralism) vs nationalism that has coloured virtually all facets of the trade regime and is often the underlying reason for the difficulty with making progress in international trade negotiations.

Mercantilism in the WTO

The history of the World Trade Organisation (WTO) since it was established in the mid-1990s is a vivid example of this dynamic. One of the key roles, if not the main role, of the WTO is to facilitate trade liberalisation, mainly through trade negotiations.

However, the primary set of trade negotiations sponsored under the WTO, known as the Doha Round, was ultimately [acknowledged to be dead](#) after 14 years of discussions when it was buried under the inability to confer market access that largely pitted developed countries with less developed ones, all of whom focussed more on their respective national, rather than joint, interests.

While an agreement on trade facilitation and one on government procurement were completed under the banner of the WTO, both are narrow in subject matter and the latter also narrow in terms of number signatories which reflect the challenge of securing wide international cooperation.

More recently, the Appellate Body that is part of the WTO's dispute settlement system was rendered inoperative from December 2019 onwards because the United States unilaterally withheld support for the appointment of new members to the Body as it felt that the implementation of the system no longer served its national interest.

The inability of members of the WTO to forge new trade outcomes on a multilateral basis, that is, in a way that includes all members of the WTO, has prompted member economies to seek unilateral, bilateral, regional and/or plurilateral solutions. The growth of [regional trade agreements exploded](#) in the period after the WTO was established.

More dramatically were the trade wars initiated and unilateral trade measures adopted by President Donald Trump. These developments have cumulatively prompted many to question the fate and on-going relevance of economic multilateralism in recent years.

The Search for First Best Outcomes

This brings us back to our starting point. The demise of multilateralism in international trade might not be such a terrible thing except that there is near universal agreement that freer trade achieved through multilateral approaches would result in first-best outcomes. Anything else would lead to fragmented and less good outcomes.

Recent measures related to COVID-vaccines offer a good example. In an ideal world, international cooperation would result in orderly supply of inputs to maximise the production of vaccines that are then distributed around the world to ensure that individuals are vaccinated according to universally agreed ranking of priority.

Instead, nationalistic measures have resulted in [disrupted production of vaccines](#), unproductive (and arguably unfair) [hoarding of vaccines](#) and the [distribution of vaccines](#) not according to need but instead wealth. These nationalistic measures might benefit a small handful of countries in the short-term, but it will leave the entire world much poorer and at continued risk of the virus. They will arguably also ultimately harm the small handful of countries that have adopted these measures.

As the world slowly struggles to emerge out of the fog of the COVID-19 pandemic, there have been a number of seminars, workshops and conferences on economic multilateralism in recent months that appear to reflect anxieties about the state of international economic cooperation.

As the world ponders a post-pandemic economic future, it would be good if policymakers could heed the lesson of the virtue of international cooperation on trade (and more generally, economic) policies, exercise leadership at the domestic level and overcome their nationalistic urges at the international level.

Let economic multilateralism, and not nationalism, live.

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