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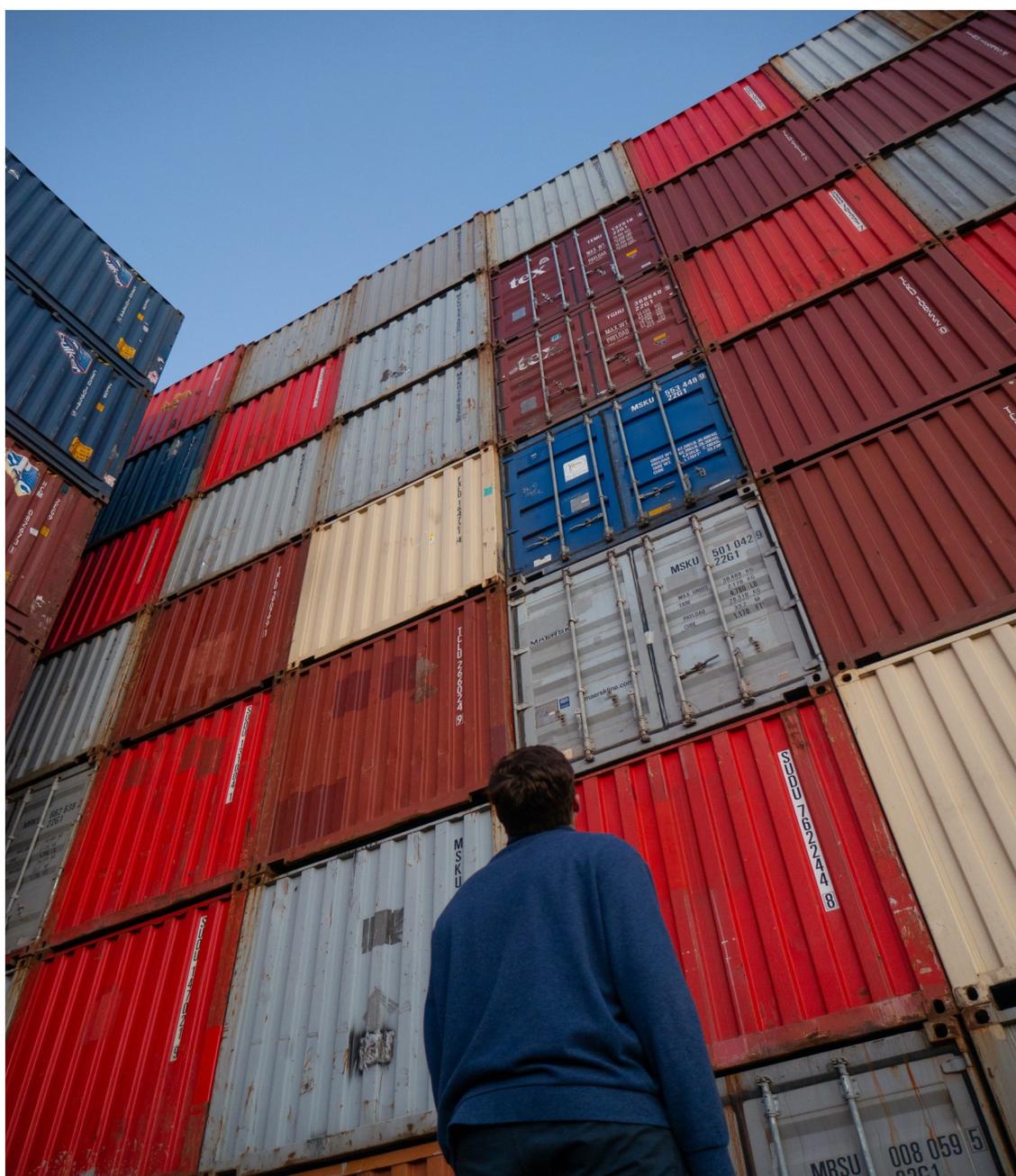
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Trade Multilateralism: Different or Dead?



Several crises in recent years have challenged the current orthodoxy of free trade. As the world enters a new era, will trade multilateralism transform itself? Or will it be one of the casualties? Photo taken by Pat Whelen on Unsplash.

FEATURED COMMENTARY

Global Trade Governance: Whither Post-Ukraine War?

By Pradumna Bickram Rana, Jason Ji Xianbai



As the world deals with the ramifications of the Ukraine war, trade multilateralism is given two choices: whither or prosper? The answer may, however, lie in a transformation and rewriting of the old rules of the game. Photo taken by Jorge Fernandez Salas from Unsplash.

Some argue that trade multilateralism is dead. This view is incorrect, trade multilateralism has taken a different form. Global trade governance in the Post-Pandemic and Post-Ukraine War era could be more fragmented and challenging.

Commentary

THE CENTRALISED global trade architecture established with the enactment of the General Agreement on Tariffs and Trade (GATT) in the late 1940s worked well and brought about economic prosperity and social development all over the world.

Impediments to global trade, both tariffs and non-tariff barriers, were brought down significantly across a broad range of participating countries. This momentum towards trade liberalisation and investment facilitation had culminated in

the establishment of the World Trade Organization (WTO) in 1995 as the sole legitimate governor of world commercial affairs.

Decentralising Multilateralism

More recently, there has been slow progress in multilateral trade negotiations including the Doha Development Round, and the establishment and proliferation of new regional trade agreements (RTAs). These include mega-scale trade deals such as the Regional Comprehensive Economic Partnership (RCEP) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) in the Asia-Pacific region.

This trend towards alternative trade liberalisation strategies have led some to argue that trade multilateralism is dead.

Indeed, the viability of multilateralism in the narrow sense of being a broad-based global deal-making exercise is being called into question given the tectonic shifts in the global balance of power. But trade multilateralism is not dead.

Rather, it has taken a different form. The world is moving from centralised global trading architecture embodied by WTO-centrality to a decentralising one with the WTO as the “senior” institution working with bilateral, regional, inter-regional and mini-lateral RTAs in the lower rung.

Rise of Nationalism and Populism

In other words, today’s global trade governance architecture is defined by the co-existence of multilateralism and regionalism as two complementary ap-

proaches to the provision of global public goods namely open trade and investment regimes.

In addition to slowing multilateralism, rising nationalism and populism worldwide, as well as Brexit, are other factors that are leading to the establishment of new RTAs.

For example, in 2021, the WTO saw a large number of RTA notifications thanks to Britain entering into RTAs with countries that had free trade relations with the European Union (EU).

Interestingly, many such RTAs had been negotiated during the transition period but could only take effect after Britain formally left the EU. Britain is now also negotiating a trade deal with India in accordance with its ‘Global Britain’

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campaign.

Pros and Cons of Regionalism

There are a number of benefits from regionalism, though. First, regionalism provides a feasible approach to liberalising trade and is useful when WTO negotiations stall as in the present time. Second, modern RTAs typically promote deeper integration as compared to the shallower integration of the WTO which mainly tackles 'on-the-border' barriers.

RTAs 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 large component of global trade.

RTAs also have several costs. The first is that they are discriminatory in nature. Granting preferences to some countries effectively discriminates against trade with others. That said, problems with trade diversion are more serious at the theoretical level than in practice.

The second category of risks are the so-called 'spaghetti bowl' effects. This arises when overlapping RTAs 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.

In a forthcoming volume co-edited by us, using a benefit-risk framework rather than the 'contested multilateralism' argument which focuses solely on the costs of decentralisation, we find that, so far, decentralisation of the trade architecture has not led to its fragmentation.

In fact, global trade governance might have improved. RTAs appear to be complementary to the WTO and this architecture is more appropriate in the present context of a multi-polar world.

Governing Trade in the Post-Pandemic and Post-Ukraine Era

There are, however, limits to the complementarity between the WTO and RTAs. A new question is whether the above conclusion will hold in the future in the Post-Pandemic and Post-Ukraine War era?

The answer is that it depends on when the pandemic will end and how the relationship between the United States and its allies, Russia, and China will evolve in the future.

The global trade architecture is presently under severe strain and the world is moving towards trading blocs. It is not inconceivable for the conflict in Ukraine to lead to global economic bifurcation and fragmentation as in the past (the Western system versus the Council for Mutual Economic Assistance of the Soviet Union).

On 8 April, President Biden backed by the Congress signed into law a bill to end permanent normal trade relations with Russia thereby ending Russia's most-favoured-nation status.

The move authorising imposition of discriminatory

trade policy measures with Russia is being replicated by other members of the Group of Seven (for example, Japan) as well. On the same day, Biden also signed another bill prohibiting importation of oil, gas, and coal from Russia.

Russia's Counter Response: Will WTO Reform Finally Come?

Russia's countermoves include, among others, building and enlarging a regional trade order around itself. The Russia-led Eurasian Economic Union (EAEU) is concluding an expedited trade deal with Iran.

Russia could also extend its geo-economic influence by making inroads into the Balkans. Bosnia Herzegovina is, for example, particularly keen on a trade deal with the EAEU. Russia's economic relations with China and India are also improving. In such a context, how should the decentralising global trade architecture be managed?

The WTO must engage in serious reform, lest it fades into irrelevance. Being a member-driven organisation, the WTO is legitimate and universal in membership but it falls short on effectiveness.

The WTO needs to reform its decision-making modality (consensus) and negotiation formula (single undertaking) in order to strike a better balance between the three objectives of institutional legitimacy, membership universality, and output effectiveness.

The WTO also needs to strengthen its cooperation with RTAs. The WTO should tighten up transparency protocols to monitor the negotiation, conclusion, and implementation of RTAs.

Where possible, a WTO-sanctioned RTA textual template could be offered to countries to guide their ensuing negotiation efforts. This way, cross-RTA inconsistency could be minimised to enhance the global coherence of the RTA networks.

What Does the Future Look Like?

Governing trade in the Post-Pandemic and Post-Ukraine era will be more challenging. But challenges also come with opportunities. The WTO and the RTAs should seize the opportunity to reinvent themselves to enhance complementarity to better regulate, promote, and facilitate global trade for a better future.

The Buenos Aires G20 Summit in 2019 had introduced the subject of WTO reforms as an agenda item for the G20 for the first time. But unlike in the area of global finance, the G20 has yet to come up with principles for WTO-RTA cooperation. ■

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The book "From Centralised to Decentralising Global Economic Architecture: The Asian Perspective" on which the commentary is based was published by Palgrave Macmillan in October 2022 and is being launched on 23 December 2022.

Multilateral Security Cooperation in the Shadow of Ukraine



L-R: Dr Frederick Kliem, Research Fellow, RSIS, Mr Lawrence Anderson, Senior Fellow, RSIS, and Dr Joel Ng, Research Fellow and Deputy Head of the Centre for Multilateralism Studies (CMS), RSIS, debated whether small state strategic autonomy only exists when great powers allow it.

Small state strategic autonomy only exists when great powers allow it – agree or disagree. It was on this resolution and debate format that the topic “Multilateral Security Cooperation in the Shadow of Ukraine” was discussed on 19 August 2022. The Centre for Multilateralism Studies (CMS) hosted the RSIS Seminar Series on Multilateralism Studies on the topic.

Proposition speaker, Dr Frederick Kliem, Research Fellow with CMS, argued in favour of the motion stating that small states have strategic agency in one of two cases: (i) when great powers allow it; and (ii) when small states can play several equally great powers to their advantage.

He also argued that spheres of influence are a reality in international relations and there are limits to what the great power will tolerate within those spheres.

Therefore, small states that exist in a geographical space that a great power sees as consequential to their primary national interests will struggle even with basic degrees of agency in their foreign and security policy.

Dr Kliem concluded this opening statement by stating that realism is not a normative theory but an attempt to realistically predict the behaviour of states under conditions of international anarchy.

Opposition speaker, Dr Joel Ng, Research Fellow and Deputy Head of CMS, argued that the normative shift is relevant because the debate does not sit in a vacuum of bilateral relations but against the backdrop of the global community with other states also involved. The history of postcolonial movements since the end of World War 2 was a push back by small states against domination.

Secondly, domination entails significant costs that must be backed by military force and coercion. But the acceptability of this has diminished—the costs of enforcement have skyrocketed while the gap in material power has closed in our multipolar world with a rise in the economic power of emerging markets.

Thirdly, Dr Ng argued that the ‘right to rule’ is conditional, stating that legitimacy is a force multiplier and the only means that present-day great powers have to mitigate the costs of enforcement.

In conclusion, Dr Ng argued that great powers should not and would not have the capacity to restrict small state strategic autonomy unilaterally. Doing so would entail enormous costs that could reduce their capabilities and allow other great powers to overtake them. ■

Security in the Indo-Pacific: The Asianisation of the Regional Security Architecture



Dr Felix Heiduk, Head of Asia Research Division, German Institute for Foreign Security Affairs, examined the nature of the emerging security architecture in the Indo-Pacific.

Dr Felix Heiduk, Head of Asia Research Division, German Institute for Foreign Security Affairs, delivered a talk on “Security in the Indo-Pacific: The Asianisation of the Regional Security Architecture?” at an RSIS Seminar held on 22 August 2022.

Dr Heiduk noted that the regional security architecture in Asia has been underpinned by the US-led hub-and-spoke system of bilateral alliances since the 1950s. While ASEAN-led multilateral security forums began to flourish in the 1990s, they complemented rather than challenged the prevailing system.

However, Dr Heiduk shared that China has begun to openly challenge the future of the hub-and-spoke system by calling for a regional security architecture “by and for Asians”. In response, Washington has launched the Free and Open Indo

-Pacific as a concept widely seen as a counter-strategy to a Chinese-dominated reorganisation of the region and its security architecture.

Dr Heiduk examined the nature of the emerging security architecture in the Indo-Pacific by identifying four key regional actors: (i) US as the region’s central security actor; (ii) Australia as a US ally in the region; (iii) India as an emerging regional power with corresponding leadership claims but traditionally focused on the Indian sub-continent; and (iv) Indonesia as an important actor within ASEAN.

He highlighted that the prevailing understanding of how regional security in the Indo-Pacific should be maintained differs among the actors. Washington and Canberra hold an antagonistic view that regional security in the Indo-Pacific must be defended against a revisionist China.

New Delhi shares the threat perception of increasingly assertive Chinese foreign and security policies, but also views growing strategic instability in the region as a direct result of increased relative US weakness.

Jakarta perceives regional security to be threatened by the US-China rivalry, instead espousing inclusive multilateral security mechanisms rather than antagonistic ones directed against China.

Dr Heiduk concluded by saying that the emerging Indo-Pacific security architecture will not be a simple hub-and-spoke 2.0, but will be accompanied by strengthening the role of the spokes and like-minded partners below the threshold of formal US alliances. These changes are characteristics of a security order in transition. ■

Multilateral Matters: News Roundup

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The G7's Global Infrastructure and Investment Drive: Not So Attractive For Southeast Asia

Fulcrum | 12 August 2022 | [Full Report](#)

The Group of 7's new infrastructure and investment drive seeks to provide what Southeast Asia needs, such as financing for hard infrastructure. But the need for multiple stakeholders and financing issues might not garner much buy-in from the region.

Digital provisions play a key role in Asia Pacific agreements

Hinrich Foundation | 30 August 2022 | [Full Report](#)

Using the CPTPP as a baseline, digital trade provisions in Asia Pacific's trade agreements can be grouped into four categories. But to foster their digital sector, developing countries in the region will need to focus on the build-up of the right infrastructure and a regulatory environment that strikes a balance between risk control and market liberalization.

The Quad needs a stronger economic message

Lowy Institute | 14 September 2022 | [Full Report](#)

Trade is the path to regional prosperity, but the four partners stand divided on how this can be achieved.

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Multilateral Matters is the quarterly publication of the Centre for Multilateralism Studies (CMS), analysing the most recent developments regarding multilateralism by our team. It covers articles on relevant economic and political issues as well as programmes and latest publications from the research centre. The objective of the newsletter is to promote the research being done by our centre, raising awareness of the many events that we hold on a regular basis.

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