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ARE WE FACING A NEW INTERNATIONAL TRADING SYSTEM?

*Reflecting on Trump and the New Wave of
Protectionism*

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ARE WE FACING A NEW INTERNATIONAL TRADING SYSTEM?

Reflecting on Trump and the New Wave of Protectionism

Nicolas Albertoni¹

Abstract. In international relations as in many other areas of study, we normally define a system as an assemblage of parts, units, and objects integrated by some form of regular interaction. The World Trade Organization (WTO) is an example. But what happens with that system when some of its parts and units, change? Or, when new actors try to upset some of the fundamental notions and norms of that system? It's clear that a new wave of protectionism is likely next. The WTO may be our best hope for avoiding a trade war. This article aims to discuss this 'international system' debate from the perspective of the new dynamics of the international trading system.

Introduction

In international relations as in many other areas of study, we normally define a system as an assemblage of parts, units, and objects integrated by some form of regular interaction. The World Trade Organization (WTO) is an example. But what happens with that system when some of its parts and units, change? Or, when new actors try to upset some of the fundamental notions and norms of that system?²

There was a time when any of these questions could be answered by looking at the current international trading dynamics. As some international relations scholars have argued, since the consolidation of the system of Westphalian nation-states, the Western international system—in other words the liberal world order—has become our

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²This article is based on previous publications of the author for *Latin American Goes Global* (2017) and *Konrad Adenauer Stiftung* (2017).

standard notion of what a system should look like. But other regions and moments operate differently from our Western perspective (Chung-in 1988; Kang 2003).

These questions are all the more relevant today in the swell of nationalistic and protectionist popular attitudes toward trade. In just three short months, the threat posed by the rejection of global liberal trade regime has become clear, from the new U.S. administration and the growing radical-right movements in European countries from France to Austria to the Netherlands.

The result is a world that, once confident in its liberal foundations and direction, is now facing profound, historical uncertainty. One example, though the Trans-Pacific Partnership (TPP) was signed by its 12 members, representing 40 percent of global GDP and negotiated over the course of years, the trade deal once hailed as being an example of the new generation of liberal agreements was routinely jettisoned when few weeks ago, with a mere stroke of pen, Donald Trump formally abandoned the agreement.

The main question here is whether this is a threat or an opportunity to rethink the current trading system. While the outcome is still to be seen—and debated—there is growing evidence that beyond the acts of a single or growing set of developed governments there are larger, shifting dynamics of the international trading system at work now. These new dynamics are based on the emergence of new actors and contexts that have challenged and stretched the current trading regime embodied both by the World Trade Organization (WTO) and the bilateral free trade agreements that for years and in many ways have eroded the WTO's authority.

Two major perspectives in international relations attempt to explain the new trading system. One focuses on how new emerging powers disrupted the neoliberal project (for instance, Kristen Hopewell's *Breaking the WTO*); the other concentrates on the institutional reforms necessary to restore the WTO's ability to complete global trade agreements. While these ideas lack one clear voice or advocate, it is necessary a common understanding among all members about the limits of domestic policy space

that is subject to negotiation and clearer rules on reciprocity obligations. One example of this latter argument is Kent Jones's *Reconstructing the World Trade Organization for the 21st Century*.

This article aims to discuss this 'international system' debate from the perspective of the new dynamics of the international trading system.

The current trading system

Incorporating our definition of *system* mentioned above, we could define the international trading *system* as the unity of most of the unilateral, bilateral, regional, plurilateral, and multilateral agreements and rules among countries (McCulloch 2008). The organization that is on top of this massive number of agreements and regulations is the World Trade Organization (WTO), established in 1995.

The multilateral negotiation that created the WTO was the *Uruguay Round* negotiated between 1986 and 1994 among 123 countries. The WTO, which is the successor of the General Agreements on Tariffs and Trade (GATT) of 1947, has the following main functions: administer the organization's trade agreements, serve as a forum for trade negotiation, handle trade disputes, monitor national trade policies, provide technical assistance and training for developing countries, as well as cooperate with other international organizations (WTO, 2016). Based on those functions, the primary goal of the WTO is to promote trade openness and more predictable regulation among its members.

Nowadays, the current body of trade agreements comprising the WTO consists of 16 different multilateral agreements (to which all WTO members are parties) and two different plurilateral agreements (to which only some WTO members are parties). The WTO has 164 members, of which 117 are developing countries or separate customs territories. A key principle of the WTO is the nondiscrimination among its members. Decisions in the WTO are generally taken by consensus of the entire membership (Ibid).

The current international trading system, in the historical context in which it is immersed nowadays, differs a lot from the years it was founded. The GATT, now the WTO, is the result of the Bretton Woods Conference of 1944. This conference's principal goal was to regulate the international financial and monetary order after the conclusion of World War II that had been preceded by the Great Depression in most of the global economy. The Conference created the International Bank for Reconstruction and Development (later known as the World Bank), the International Monetary Fund (IMF), and the International Trade Organization (ITO), whose main goal was "to prevent a resurgence of protectionism of the pre-war and continue the effort toward reciprocal trade liberalization that were already in progress before the onset of the war" (McCulloch 2010, p. 2).

However, the ITO was regarded by the U.S. Senate as "too broad in its allowance of trade restrictions for domestic policy purposes and so was never ratified. Instead the portion of the ITO that deal with tariff negotiations, the GATT, was allowed to proceed, although it was not a formal treaty and was therefore never subject to ratification" (Jones, p. 30). Despite these political issues and limited resources, the GATT was the framework for international trade regulations for nearly 50 years and grew from 23 to 123 members by 1994. Moreover, the GATT was part of this new set of international institutions "designed to fix the problems of economic crisis that had plagued the world economy and contributed to the conflagration of the world war" (Ibid).

Since the GATT's foundation in 1947 in Geneva, eight other multilateral trade rounds were launched.³ All these rounds were successfully concluded with the exception of the Doha Round that after 15 years of being launched, was not concluded. Apart from the new provisions and themes considered by the Doha Round, this is the first round with China as a member of the WTO (joined in 2001). As Hopewell points out "China come into the Doha Round expecting to see significant market opening from other states -- sometimes it saw as necessary to balance and justify the high cost it incurred during its accession. China has major offensive interest in the Doha Round..." And

³ Annecy, 1949; Torquay, 1950; Geneva II, 1956; Dillon, 1960; Kennedy 1964; Tokyo, 1974; Uruguay, 1986; Doha 2001.

probably for that interest, is that “China has been far less aggressive than Brazil or India in seeking to advance its trade interest in the Doha Round” (p.137-138).

Apart from China, another challenge that explains the stagnation of the Doha Round is the trend that has emerged in the last several decades in which large group of countries are developing mega-regional initiatives to negotiate Regional Trade Agreements (RTAs). To this point, Jones says that “RTA negotiations of this expanded scope in principle involve large potential gains from trade, but also more difficult obstacles to an agreement, since they involve countries in which there is more equally balance bargaining power” (p.175).

As seen with the stalling of the Doha round at the World Trade Organization (WTO), a number of important questions have arisen relating to the dynamics between economic openness and economic development including several that Hopewell and Jones examine in their books. Both of them deal with the challenges and difficulties of the World Trade Organization (WTO) in completing multilateral trade negotiations and possible ways to restore its ability to do so.

Considering this reshaping in the global economy, institutions, and governance, we can understand why today represents one of the most important transformations of the modern history (Ikenberry, 2008).

Evidence of change in the current trading system

Apart from all the elements mentioned above, there is other objective data that shows how the global trading system is currently in the midst of profound changes. First, there is a large number of mega-regional agreements trying to realize most of the WTO’s agenda, but they include a smaller set of countries. While being less countries allows them to achieve agreements more easily than in the context of the 164 countries of the WTO, this challenges the very notion of a liberal trading order. Examples include the TPP; The Transatlantic Trade and Investment Partnership (TTIP), a proposed trade agreement between the European Union and the United States; and the Regional

Comprehensive Economic Partnership, a proposed free trade agreement between the ten member states of the Association of Southeast Asian Nations (ASEAN) and the six states with which ASEAN has existing FTAs. And while many of these seemed a safer way of continuing to build a global economic order in the midst WTO trade negotiations, now even these backdoor routes to a global liberal order are at risk, as Trump's TPP executive order showed.

Parallel to this 'mega-rationalistic tendency' is the regionalization and bilateralization of trade that started many years ago. For instance, as the next table shows, during the period from 1948-1994, the GATT received 124 notifications of Regional Trade Agreements (relating to trade in goods), and since the creation of the WTO in 1995, over 400 additional arrangements covering trade in goods or services have been notified (WTO 2016). As of July 1st 2016, some 635 notifications of RTAs (counting goods, services, and accessions separately) have been received by the GATT/WTO. The overall number of RTAs has been increasing steadily, a trend likely to be strengthened by the many RTAs currently under negotiation. Of these RTAs, Free Trade Agreements (FTAs) and partial scope agreements account for 90%, while customs unions account for 10%.⁴

Second, in recent years we have witnessed a "protectionism resurrection." Probably as a consequence of the 2008 recession and the stagnation of the multilateral trading system, many countries have decided to protect their markets. In July 2016, the WTO published a report urging its members to resist protectionism. It shows that the overall stockpile of restrictive measures introduced by WTO's members grew by 11 percent between 2008 and 2016. There were 2,835 new trade-restrictive measures recorded for WTO's members since 2008. Only 25 percent of them had been removed by mid-May 2016. The total number of restrictive measures still in place today adds to 2,127.⁵

A third example of how global trade is changing is that international trade is not growing at the same rate as past decades. Another WTO report published in

⁴ For more information see WTO *website*, Regional Trade Agreements: Facts And Figures: <<https://goo.gl/jyog9k>>.

⁵ See more about this Report to the TPRB in: <<https://goo.gl/IoToN9>>.

2016 shows that world merchandise trade volume grew by 2.8 percent last year, unchanged from 2.8 percent in 2015, as GDP eases in developed economies and picks up in developing ones. In addition, the report states that trade growth should accelerate to 3.6 percent in 2017, which is still below the 5 percent average since 1990. Risks to the forecast are tilted downward, including further slowing in emerging economies and financial volatility.

Conclusion: What Are These New Dynamics Telling Us?

First, that these changes cannot be solely understood or addressed with economics and trade. The current historical upheavals over global trade stem in part from the emergence of new powers, which the traditional trading system cannot accommodate. Second, while there might be a new wave of protectionism, what is clear is that we are facing a crisis of the trading institutions. The mega-regional agreements such as TPP and TTIP are challenging the WTO as an institution, while keeping most of the WTO's agenda that could help ensure more equitable, modern agreements (e.g. IP, services, environmental regulations).

Even though President Trump formally abandoned the Trans-Pacific Partnership few days ago, what TPP shows is that many developed and growing countries are willing to open their economies and rethink many trade regulations. Now in the increasing push back against broad multilateral agreements, the next task is to reform and resurrect—in a modified, modern form—the global institutions that negotiate, promote and govern international trade. According to Jones, the problem lies in the institutional structure it inherited from the WTO's predecessor, the GATT, which was designed for a more limited scope of trade negotiations among a relatively small number of wealthier, industrialized countries.

A reformulation of the current WTO is still possible and the multilateral system is still alive. Even in crisis, we can see results, such as the Agreement on Government Procurement (GPA). The GPA is “a pluri-lateral agreement within the framework of the WTO, meaning that not all WTO members are parties to the Agreement. At present, the

Agreement has 19 parties comprising 47 WTO members. Another 29 WTO members participate in the GPA Committee as observers.” The fundamental aim of the GPA, is to mutually open government procurement markets among its parties, which have already opened procurement activities worth an estimated US\$ 1.7 trillion annually to international competition (i.e. to suppliers from GPA parties offering goods, services or construction services).⁶

To rethink the untold crisis in the international trade regime (beyond TPP), we should focus on the natural adaptation of institutions to changing international contexts with new actors as part of it. A key element of this institutional perspective is that the current protectionism, regionalization and bilateralization of trade is not a threat, but rather an opportunity to multilateralize new and deeper trade integration in future WTO agreements.

This current, complex juncture is an extraordinary opportunity for the WTO to invite major members to put WTO again in the center of trade discussions (as it should have always been). But doing so will require the WTO rethinking its institutional structure and culture. As Jones describes, one of the most important changes that the WTO will need to undertake is developing new ways to find common ground among countries negotiating and seeking mutual gains from trade.

The current upheaval over free trade and protectionism should motivate those who care about and are committed to a liberal free-trade world order to ask new questions about the existing trade regime and how to improve it. It’s a broad agenda, for political economists, trade specialists and general academics. But it will determine the future not just of global integration of the Americas but also global prosperity and stability.

⁶ For more information on Agreement on Government Procurement (GPA) see: <<https://goo.gl/VVhN8V>>.

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