



# The Future of the International Trading System: Time to Panic?

L Alan Winters

Professor of Economics, University of Sussex

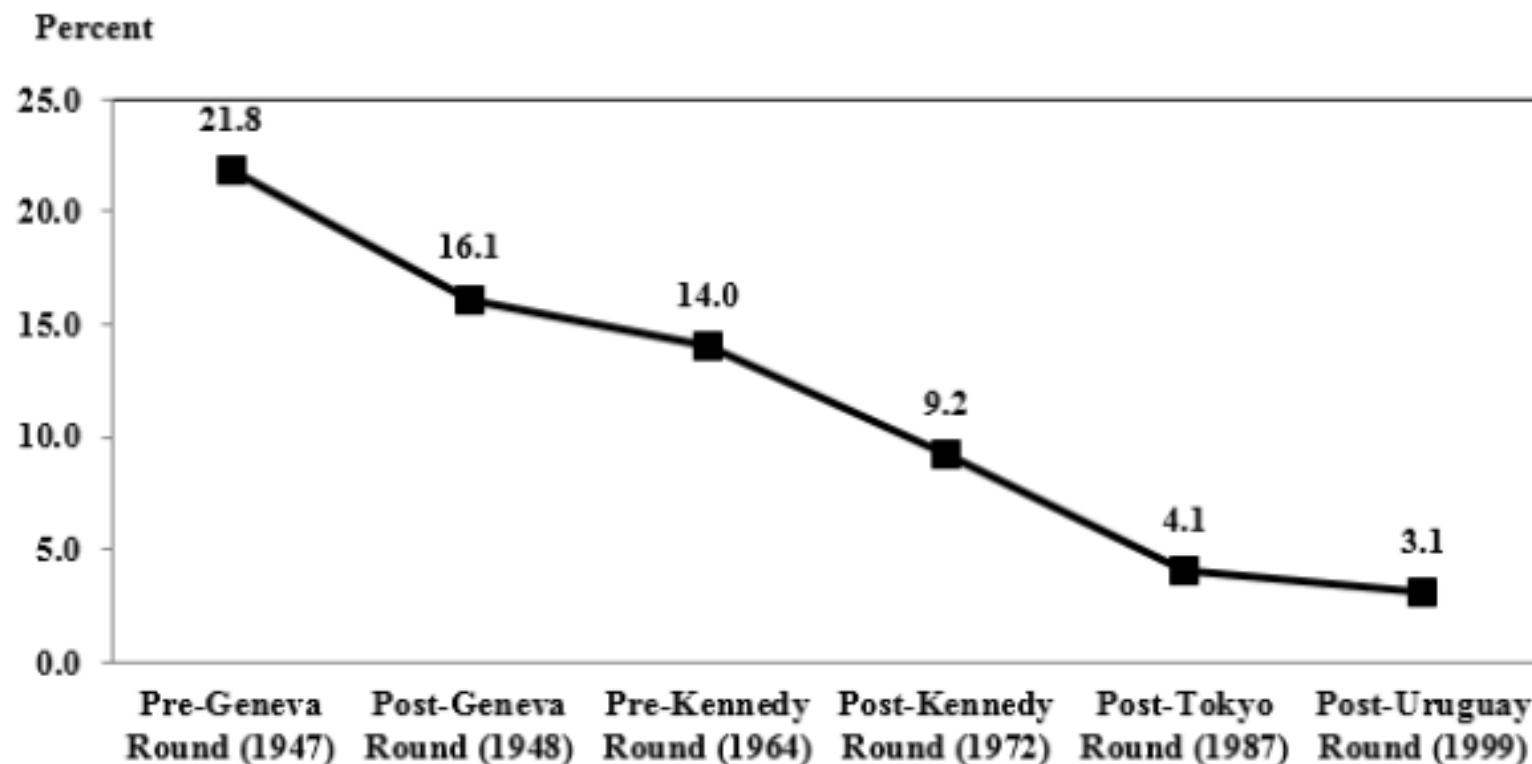
Director of UK Trade Policy Observatory

# Outline

- What remains to be done in trade policy?
- Why has trade become so difficult?
- Why are electorates suspicious of trade?
- The present dangers
- What can we do about it – Global and Domestic?
- Time to panic?

# Some Major Successes

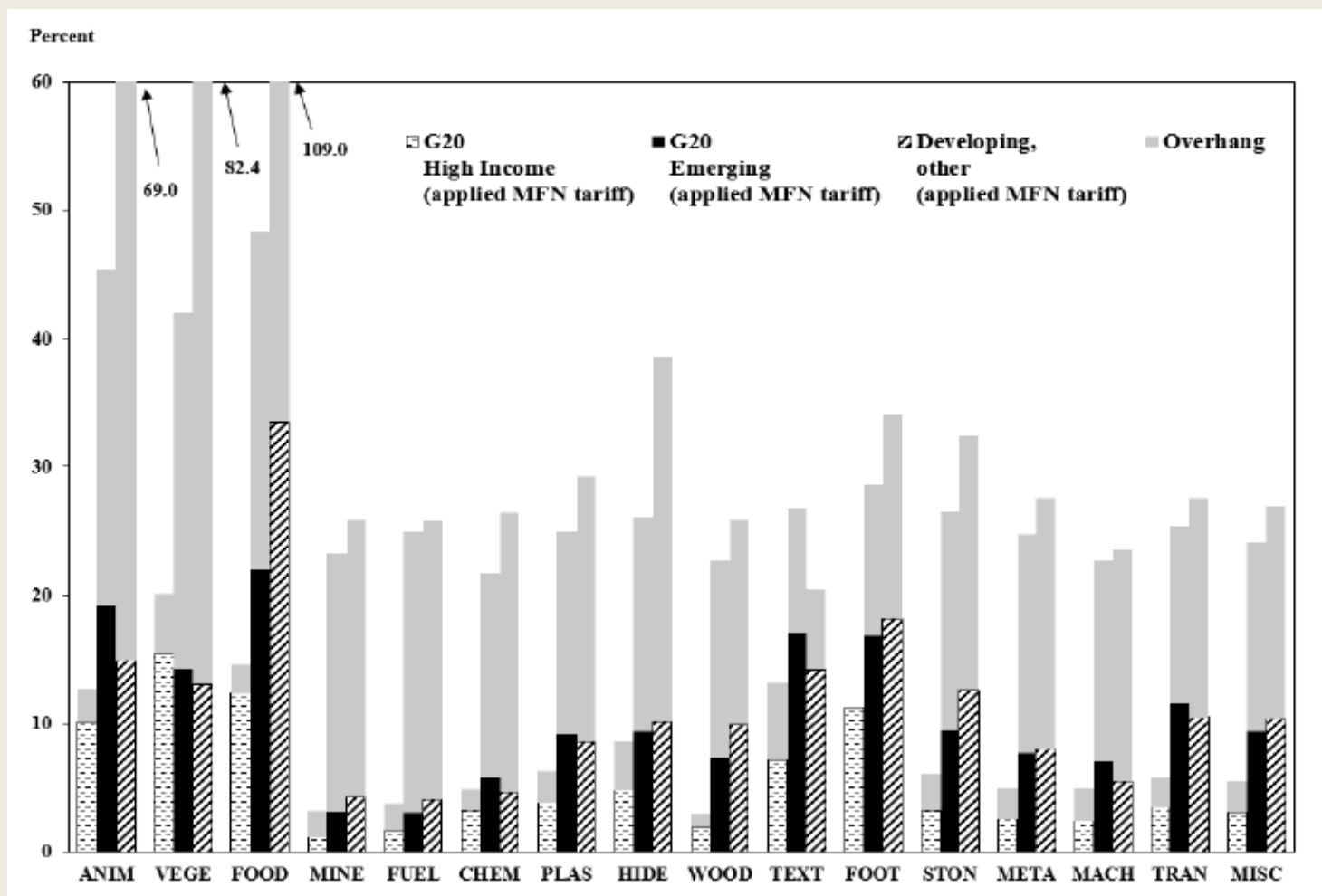
Average Tariffs, USA, Western Europe, Japan, 1947-1999



Bown and Irwin (2015)

# But there is still a way to go

Average Tariffs and Bindings, 2013, by country group



Bown  
and  
Crowley,  
(2016)

# Plus Non-Tariff Measures on Goods

- NTMs – e.g. quotas, regulation and certification (which may have benefits), trade frictions

	EU to US	US to EU
Aerospace	19.1	18.8
Automotive	26.8	25.5
Cosmetics	32.4	34.6
Electronics/Elec. Machinery	6.5	6.5
Processed food	73.3	56.8
Wood and paper products	7.7	11.3

Source: Berden and Francois (2015)

# And on Services Trade

- Regulations – e.g. qualifications, procedures, prudential

	EU to US	US to EU
Construction	2.5	4.6
Communications services	1.7	11.7
Banking	31.7	11.3
Insurance	19.1	10.8
Other business services	3.9	14.9

Source: Berden and Francois (2015)

- The critical margin is regulation and NTMs, not tariffs

# But ‘deep integration’ is difficult

- Because regulation is:
  - Complex
  - Deeply embedded in history and culture
  - Owned by Regulatory Bodies - usually not ‘open’
  - Often captured by incumbents - firms
  - Effects of reform are uncertain
  - Once changed, difficult to reverse

# Why are electorates suspicious of trade?

- Economics: it affects distribution  
it emphasises markets, not values
- Social: it constrains local discretion (via costs and rules)  
it introduces 'foreign' things/ideas
- Political: it seems to benefit foreigners  
it seems to be controlled by corporates
- Ignorance: President Trump has the wrong model !

# Where are we now – developed countries?

- Political suspicion – populists harnessing and fomenting popular disquiet
  - But they have a flawed narrative
- Industry mostly losing interest – because feasible gains look too small. Big gains look infeasible.
- Inappropriate corporate behaviour undermines public trust – and not just China
  - Volkswagen
  - Money laundering
  - Pensions fraud

# The present dangers

- The hegemon is losing interest – ‘diminished giant’
- Undermining WTO – i.e. rules-based system
  - Aggressive use of trade defence instruments = normal!
  - Dispute Settlement Procedure
  - Invoking of ‘national security’ defence (Section 232)
    - Followed by negotiation under duress and quotas (VERs)
- Undermining its own rules-based system - ZTE
- Undermining reputation – Iran, TPP, NAFTA

# The Protectionist Spring, 2018

- Section 301 – like the 1980s
- \$50 billion of tariffs threatened - (+ \$100 bn.?)
- Excessive demands of China
- Cease-fire – China buys more gas and soy beans
  - Sources of friction remain – IP, investment
  - Trump objectives – deficit, manufacturing jobs – immune to such treatment
  - Diverts pressure to weaker partners
- ‘Big man’ politics – they want to agree outcomes not rules or regimes.

# What can we do about it? Global

- Support WTO more actively
  - Use every opportunity to persuade/explain
  - Try to create coalitions to address critical issues, so the agenda can advance.
- Present a united front – difficult
  - Others will have to provide more leadership
  - Try to bind China into collective response
- Proceed with alternative agreements
  - TPP, EU-Japan

# What can we do about it? Domestic

- Recognise more interests in changing trade policy
  - Governments, maybe corporates too
- Procedural legitimacy in approaching FTAs
  - Would involve greater transparency
- Greater willingness to engage by pro-trade groups
- Possibly, design agreements to ease specific stresses

# Time to panic?

- Not quite – we need cool heads
  - But it *is* pretty alarming
- Don't take the rules-based system for granted
- Uncertainty is already biting
- Renew efforts to address the critical issues
  - They affect us all
  - They now pose an existential threat

Thank you

<https://blogs.sussex.ac.uk/uktpo/>