

The Changing Nature of Cooperation in Trade Agreements

Nuno Limão

University of Maryland, NBER

World Trade Organization

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GATT ADAPTATION: MEMBERSHIP AND COOPERATION EXPANSION

- Membership and areas of cooperation evolved in face of large shocks, e.g.: WWII recovery, post-colonial nations, structural change to manufacturing, services
- **Membership:** 23 founding members in 1947 to 123 in 1986
- **Cooperation:** 8 successful rounds creating substantial trade and adapting by
 - **Deepening policy cooperation:** tariff cuts, AD, bindings, NTBs, surveillance, DS
 - **Broadening** policy area coverage
 - industrial to agricultural goods
 - Goods to Services, Investment, Intellectual Property

	1947	1949-56	1964-67	1973-79	1986-1994
	<i>GATT signed</i>	<i>4 rounds</i>	<i>Kennedy round</i>	<i>Tokyo round</i>	<i>Uruguay round</i>
<i>Policy instrument focus</i>	Tariff cuts	Tariff cuts	Tariff cuts Anti-Dumping	Kennedy + bindings, non-tariff measures	Tokyo + Surveillance, Dispute settlement
<i>Policy area focus</i>	Trade indust. goods	Trade indust. Goods	Trade indust. Goods	Kennedy + Agricultural goods	Tokyo + Services, IPR, Investment
<i>Members</i>	23	<39	62	102	123
<i>Trade share</i>	n/a	n/a	0.68	0.7	0.74 - 0.85

WTO: MEMBERSHIP EXPANSION AND COOPERATION CHALLENGES

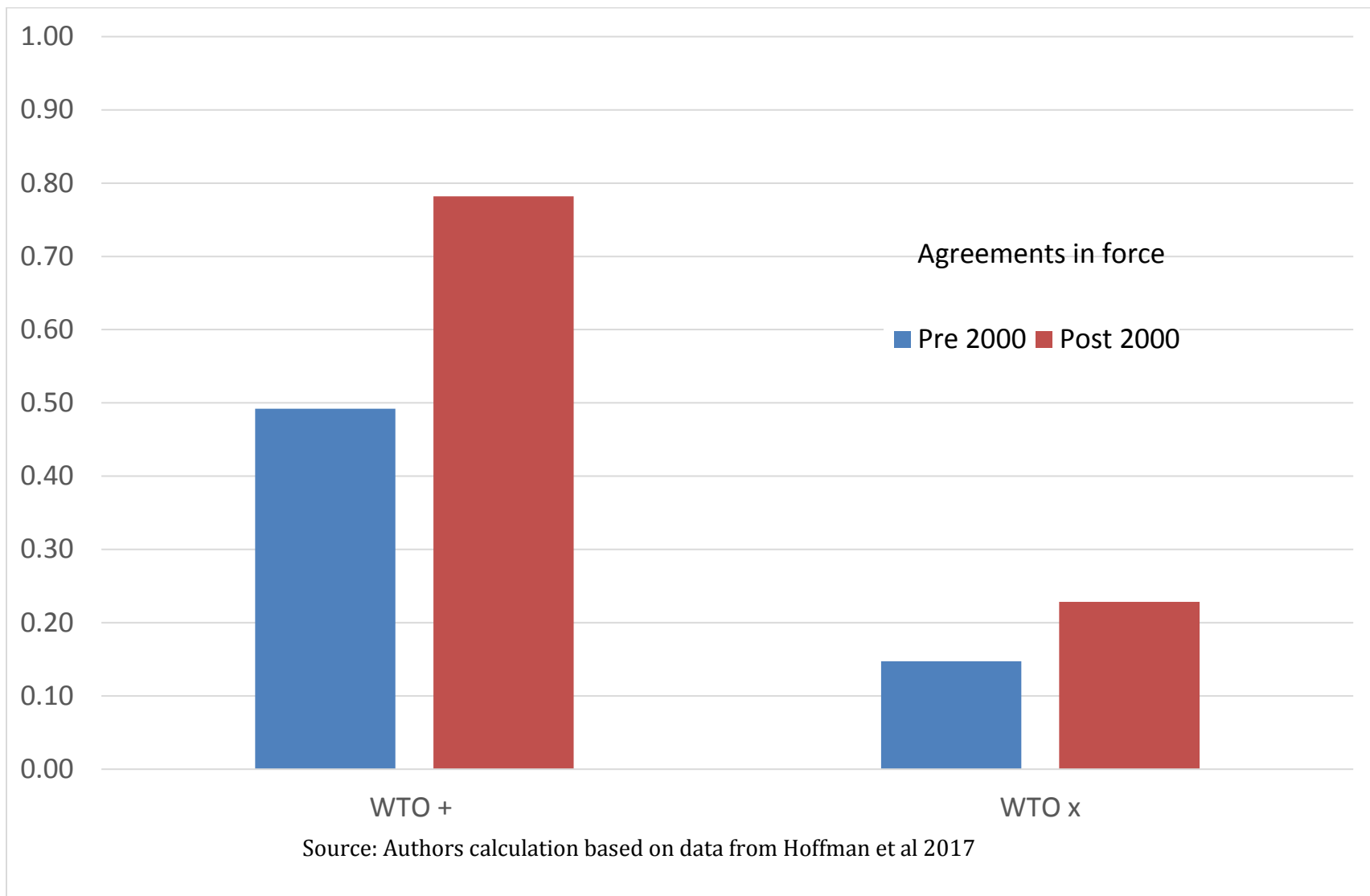
- Membership expansion from inception from 123 to 164, now over 90% world trade
- Doha Development Round started in 2001...yet to be concluded
- **Cooperation challenges from within**
 - Expanded membership w/ increasingly diverse interests **AND** focus on consensus
 - Developing countries growth and trade liberalization leading to
 - Change in bargaining power away from Quad countries
 - Dispersion in bilateral trade so potentially higher MFN free-riding and harder enforcement
 - Prior success cooperating on policies that are easier to measure, quantify and reciprocate (tariffs) and more uniform impacts across members (e.g. customs val.)
- **Challenges are magnified by the increased value of cooperation in harder issues**
 - Reductions in transport and information costs increased market access and thus the importance of economies of scale, production fragmentation, etc.
 - An implication of the current production environment: higher value of cooperation in NTBs, behind-border policies, investment measures and uncertainty reduction

PTA: MEMBERSHIP AND TRADE SHARE EXPANSION

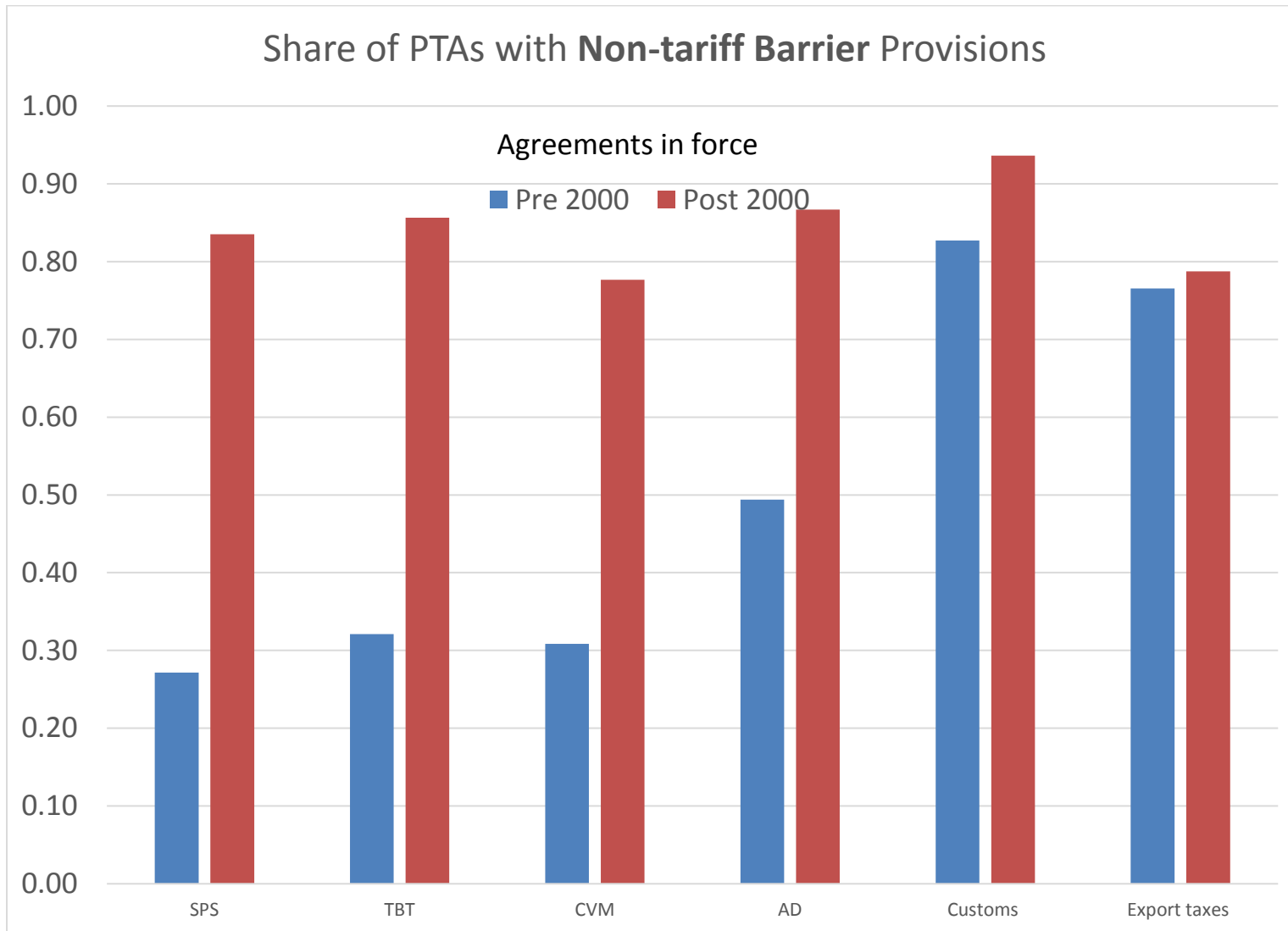
- **Cooperation also expanded through PTAs** in GATT AND WTO era
 - Share of world trade between countries w/ any PTAs: 22 to 60% (1965-2010)
 - Share of new PTAs formed (since 2000): > 70%
- Increased importance of deeper PTAs
 - FTAs' trade share: 3.5% - 22.5% (1965-2010)
 - CU+ (includes common market and currency): 14% - 24% (1965-2010)
- Cooperation complements and substitutes
 - All WTO members now also members of some PTAs (>13 on average)
 - PTA cooperation has expanded and evolved in areas
 - Overlapping with WTO: **WTO+**
 - Beyond the WTO: **WTO x**

(Henrik et al 2010; World Trade Report 2011; **Hoffman et al 2017**)

PTA COOPERATION EXPANSION, LARGEST FOR WTO+ AREAS

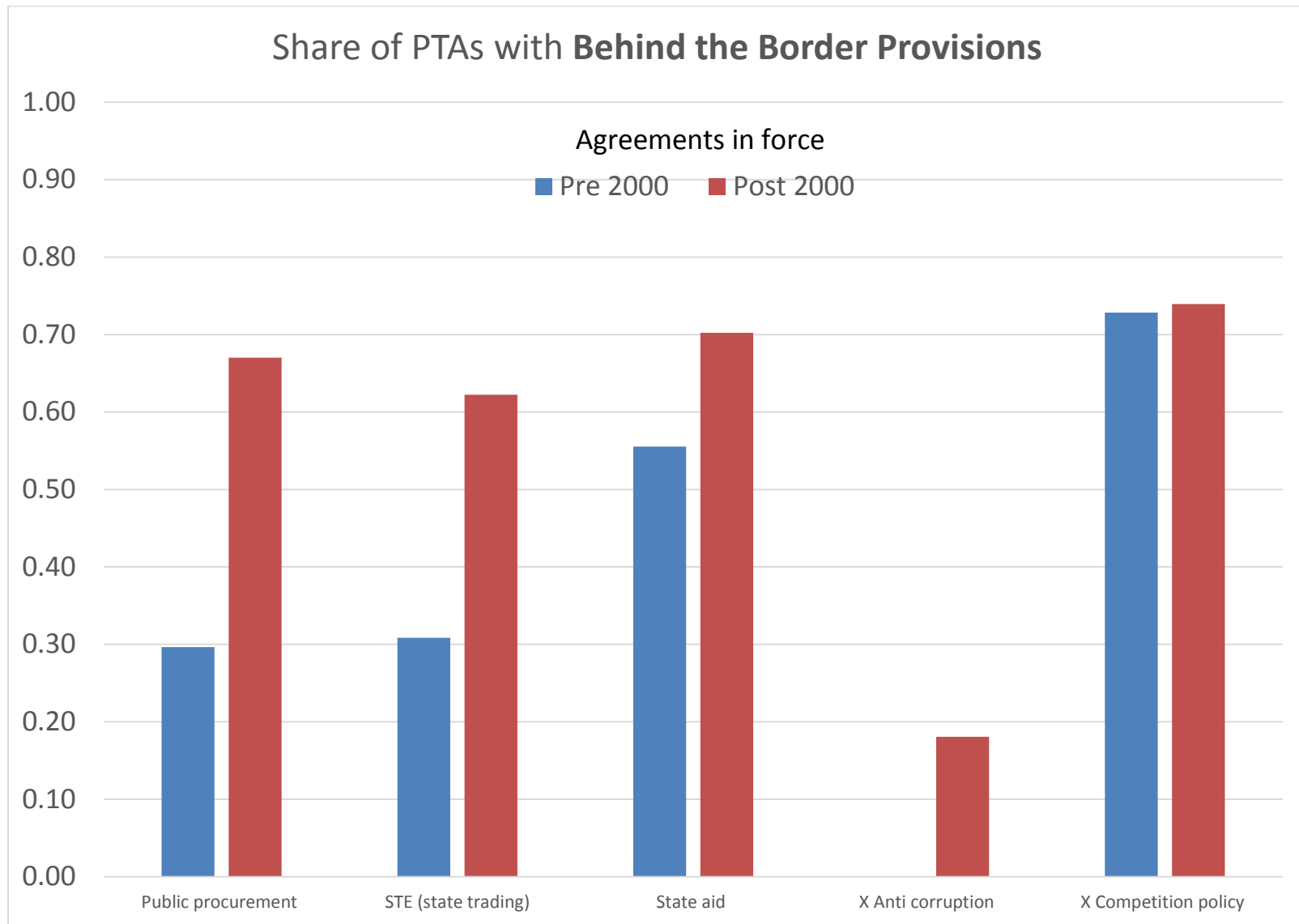


PTA COOPERATION EXPANSION IN WTO+ NTBS



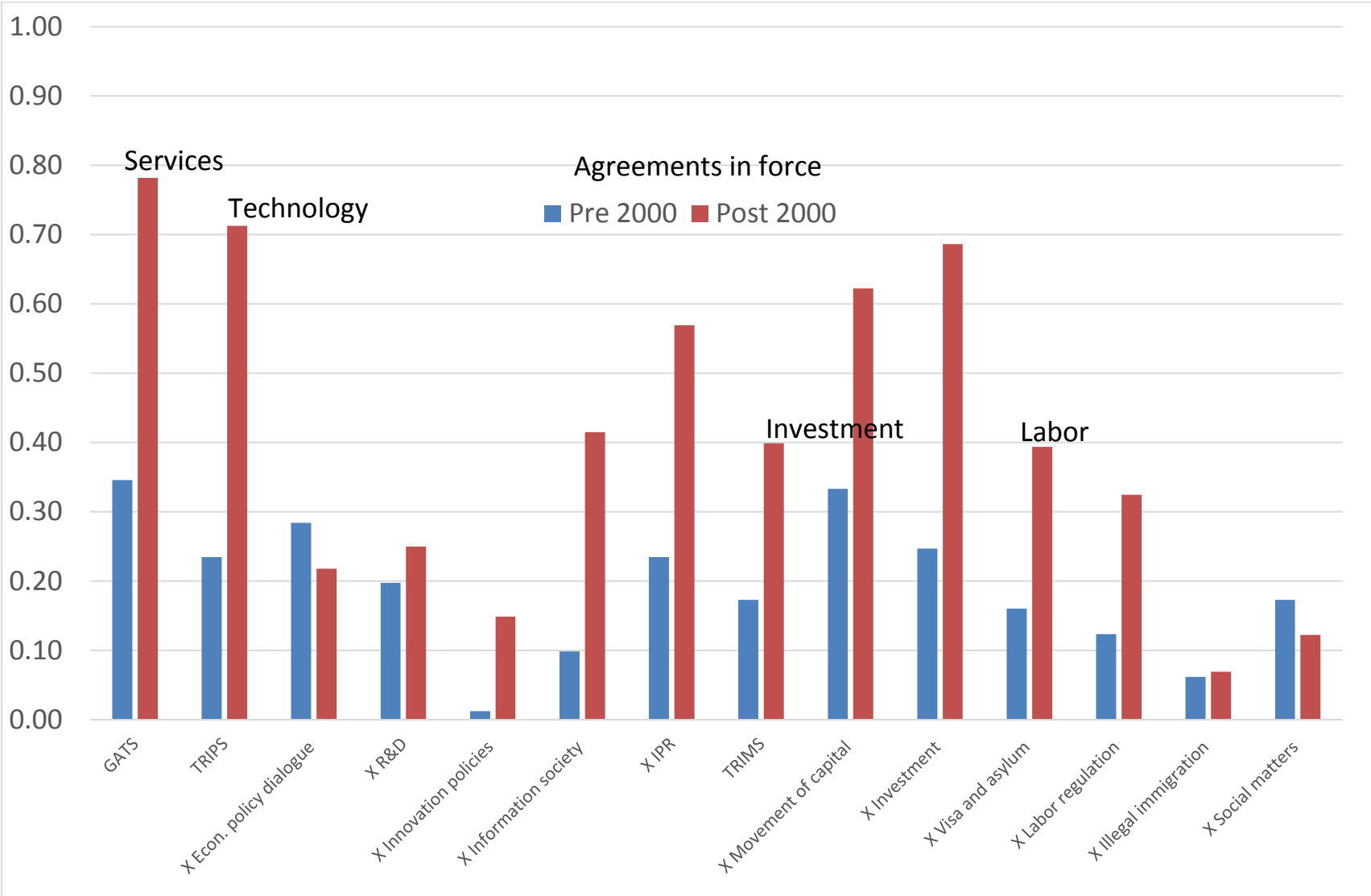
Source: Authors calculation based on data from Hoffman et al 2017

PTA COOPERATION BEHIND THE BORDER: WTO+ AND WTO X



Source: Authors calculation based on data from Hoffman et al 2017

PTA COOPERATION EXPANSION: SERVICES, IPR, INVESTMENT, LABOR

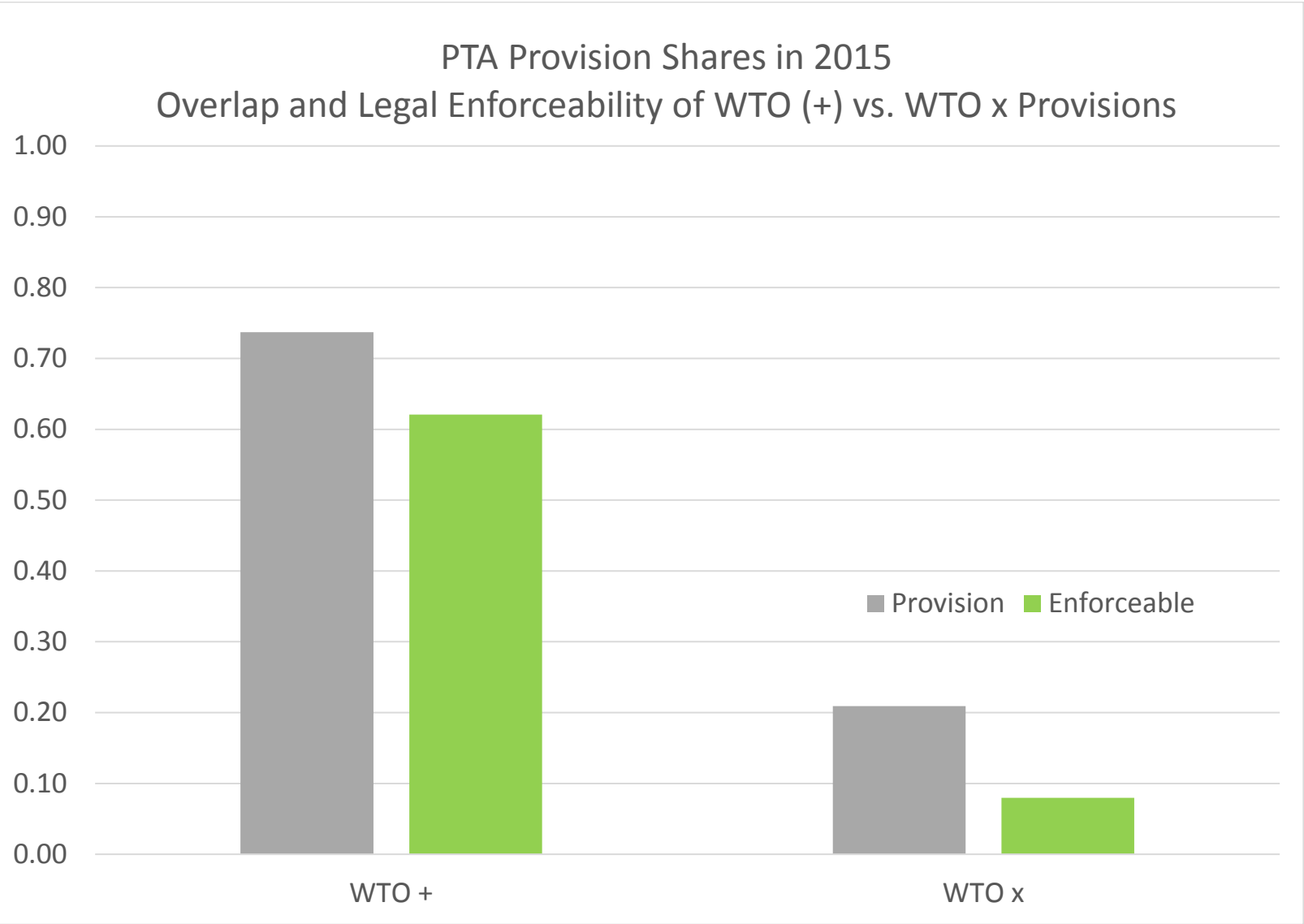


Source: Authors calculation based on data from Hoffman et al 2017

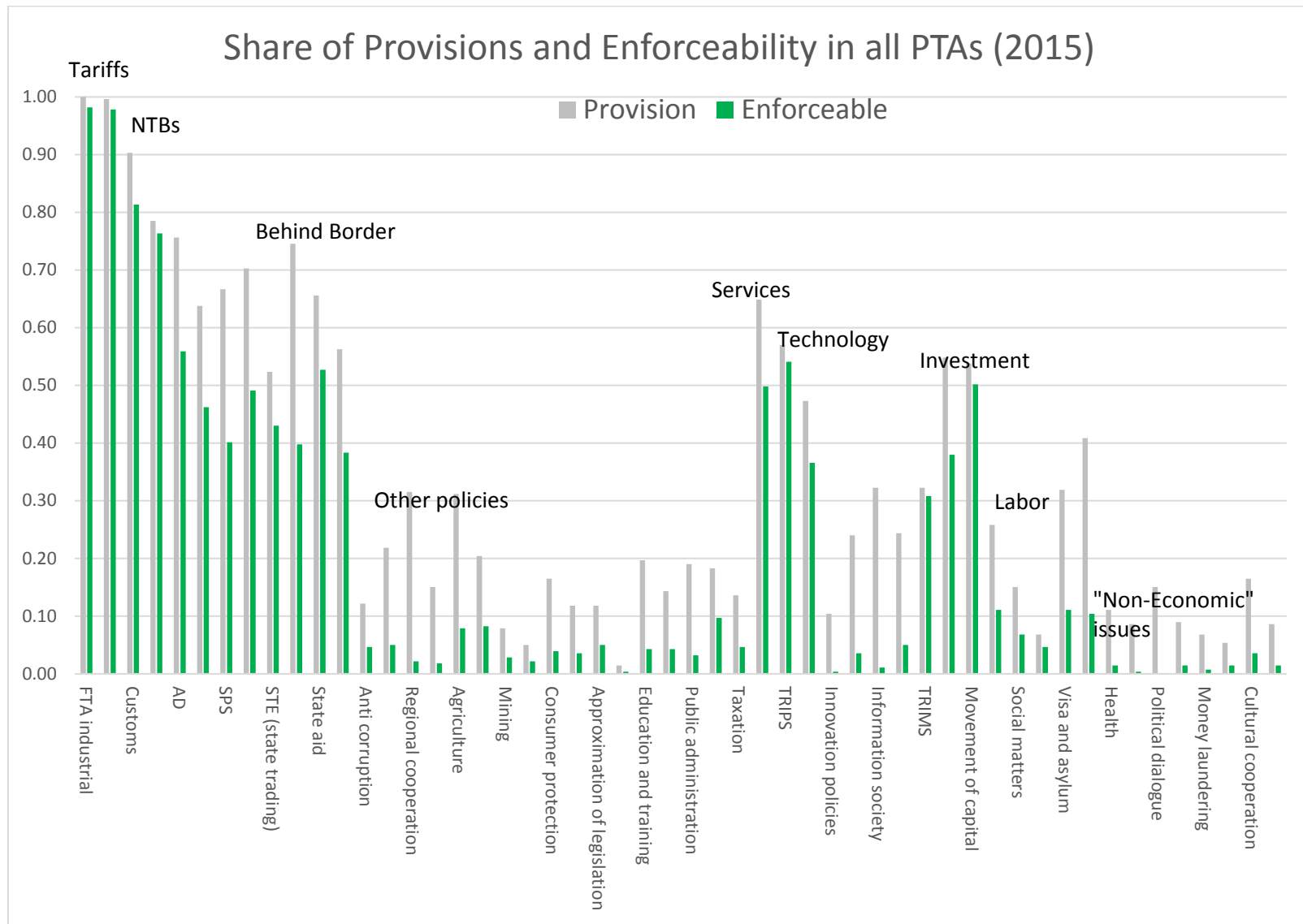
LESSONS FROM RECENT PTA COOPERATION FOR WTO?

- **PTAs as preference revelation** mechanism for potential WTO
 - Areas of cooperation
 - Forms of cooperation: e.g. legal enforceability, bundling of issues
- **PTAs as experimentation to understand impacts on members**
 - How trade-related are different areas? Estimate trade impacts of separate provisions and their interactions
 - How do technology, investment, labor provisions affect outcomes in their domain?
 - How do legal enforcement clauses affect these outcomes?
- **PTAs as sources of multilateral externalities** through impact on non-members
 - By design: certain gains come from discriminating against non-members
 - By accident: ignore impacts of cooperation on non-members negative OR positive
- Addressed by ongoing research with World Bank data on deep trade agreements

LEGAL ENFORCEMENT IN ALL PTAS: HIGHER IN WTO+ AREAS



LEGAL ENFORCEMENT IN ALL PTAS



WTO POTENTIAL COMPARATIVE ADVANTAGE AREAS

- Global membership consistent with an aim to address areas with
 - Global scale economies (information dissemination, policy assistance, standard/regulation coordination, enforcement)
 - Multilateral externalities
- **Past experience shows success at reducing uncertainty to facilitate trade**
 - Via reciprocal tariff bindings and commitment effects of accession
 - Disseminating trade policies, clarifying and enforcing a common set of rules
- **Rise of new economy and PTAs can increase value of WTO cooperation**
 - Global firms (and consumers) can gain from global rules, certainty
 - PTAs are providing some of this but not internalizing it for non-members
- WTO potential role as global clearinghouse for certain standards and regulation?
 - Disseminate information on minimum and equivalent standards so non PTA members can access those markets
 - Disseminate information on impacts and support coordination of regulation (particularly for small countries and to avoid duplication of effort)

THOUGHTS ON FUTURE COOPERATION IN THE WTO

- Global membership + consensus + multiple issues inconsistent with flexible adaptation and continued cooperation particularly in issues with
 - uncertain impacts on members
 - diverse member preferences (e.g. standards for labor, environment, etc.)
- What should solution include?
 - Less emphasis on consensus and single undertaking by allowing groups of countries with common interests to cooperate on specific issues.
 - New incentives to participate and enforce cooperation in specific issue agreements (to facilitate bargain and enforcement in single issue agreements)
 - Focus on issues
 - of traditional strength (e.g. reciprocal access new goods, as in ITA)
 - where can draw on lessons from PTAs, particularly those with large impacts on members (positive or negative)

Thank You

WTO AND PTA LONG-RUN EFFECTS ON EXPORTS 1990-2010

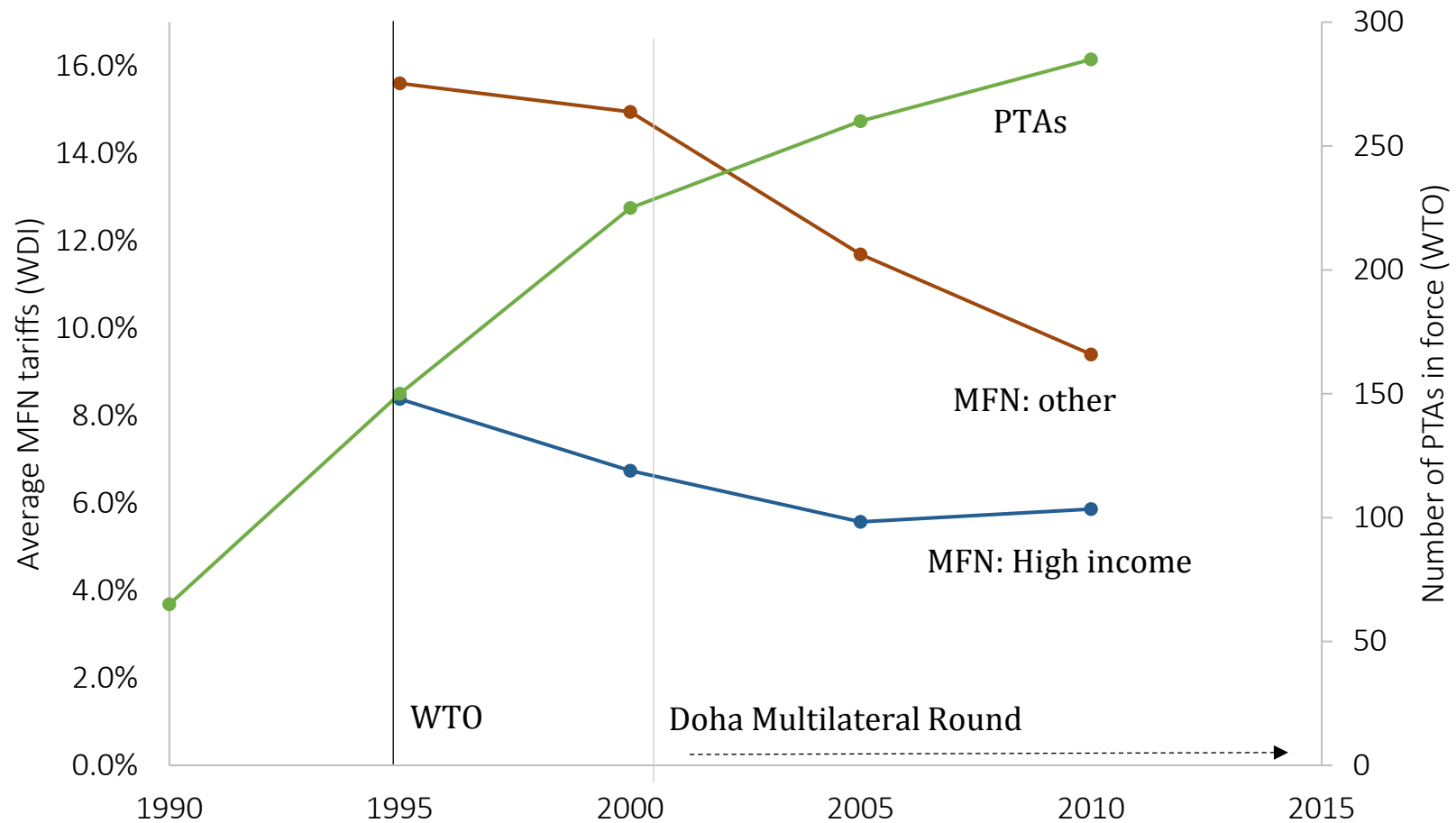
	1	2	3	4	5	6	7
Dependent variable:	ln imports						
Sample:	1990-2010, tariff sample						
PTA LR				0.264*** (0.0658)	0.210*** (0.0651)		
WTO LR					0.380** (0.190)	0.378** (0.191)	0.380** (0.190)
ln applied tariff					-3.124*** (0.201)		-3.113*** (0.202)
Non-Reciprocal PTA LR						0.0887 (0.0641)	0.0486 (0.0642)
Reciprocal PTA LR						0.196** (0.0971)	0.174* (0.0959)
FTA LR						0.211*** (0.0745)	0.133* (0.0737)
Customs Union, Common mkt, currency LR						0.733*** (0.120)	0.609*** (0.120)
Obs					64,270	64,270	64,270
R-sq					0.872	0.871	0.872

Data: 5 year panel 1965-2010. See the online appendix for data sources, summary statistics and code availability for replication.
 All specifications include importer-year, exporter-year and bilateral fixed effects.
 Robust standard errors clustered by bilateral pair in parentheses. Singleton observations dropped.
 ln applied tariff defined as the $\ln(1+\tau_{\text{bmt}})$ where τ_{bmt} is the average bilateral applied tariff at t, which captures any preferential tariffs.
 WTO LR and all PTA LR variables refer to sum of coefficients at T,T-5,T-10.
 *** p<0.01, ** p<0.05, * p<0.1.

Source: Limao, 2016

- Both WTO and PTAs increase bilateral exports beyond tariff reductions
- Since 1990 WTO effect in between reciprocal PTAs and CU+

SURGE IN PTAS DESPITE LOW AND FALLING MFN TARIFFS



If main objective of modern PTAs was to obtain tariffs below MFN then expect fewer as MFN tariffs fall. BUT the opposite is the case. So what do modern PTAs address

PTA INSIGHTS FOR HOEKMAN AND SABEL'S OPA

- PTAs success in cooperating across range of issues have 4 factors
 - o High level of externalities between partners (trade, other)
 - o Excludability of benefits (minimize free riding)
 - o Variety issues that can be linked and negotiated as package
 - o Reduced uncertainty by adoption of specific commitments in new areas and expectation that rules will remain in place and will be enforced
- OPAs proposed
 - o similar to PTA in that
 - is between subset with higher externalities
 - addresses some truly new regulatory issues and creating norms/expectatons that reduce regulatory uncertainty and discrimination
 - o Unlike PTA in
 - requiring mfn or non-discrimination
 - requiring no issue linkage
 - allowing for agreements to “be non-committal or provisional”
- how might we close the gap?
 - o Select issues where less scope for discrimination
 - o Novel enforcement and participation mechanisms decoupled from other issues (financial assistance and/or fines)?
 - o Multi-step commitment: “non-committal or provisional” only for an initial period as countries learn about the impacts, but then commit.

OTHER NOTES

IS COOPERATION IN “NEWER ISSUES” HARDER, PARTICULARLY AT WTO?

- Not necessarily if traditional policies on new goods, e.g. tariffs on new ICT goods.
- Possibly if they address non-tariff barriers or services
 - Barriers harder to measure and thus negotiate and quantify trade impacts
 - Broader range of non-pecuniary valuations within and across countries (e.g. beef hormones, labor standards).
- Yes if issues are “new” only in the sense of only now being addressed. If low hanging fruit (customs valuation, tariffs, subsidies) are first to be addressed then others become relatively more important, but are also by definition harder to address.
- Does the GATT/WTO have a comparative disadvantage at newer issues relative to PTAs?
 - Not if on traditional policies: e.g. successfully addressed in [Information technology agreement](#) (1997, 29->82 members, latest expansion 12/2015: duty free on \$1.3 trillion of ICT goods)
 - NTBs
 - Not necessarily for sub-groups of countries and certain NTBs: e.g. in TR (see handbook...), UR (product standards, services)
 - Yes for broader membership, partly because of diverse value and potential for objection. Issue already present in UR (IPR) with some of it passing in part because of relatively higher BP of developed and grander bargaining over issues (ag and textiles). BP has now changed and grand bargains and enforcement harder when focusing on single issue.
 - Yes for truly new issues, particularly those with diverse or uncertain effects in different countries.
 - Yes if tackled in isolation: in PTAs the trade offs across issues are a fundamental way to get an agreement.
 - Points to need for more flexible enforcement systems either linking across issues or using monetary incentives (cf. ...)

***any points related to Bernard paper? ***

WHAT CAN WTO CONTRIBUTE TO “NEW” ISSUE COOPERATION?

- Objective and historical strengths of WTO:
 - reduce uncertainty to facilitate trade
 - Extensive research on role of bindings, commitment effects of accession
 - Role of TPR in promoting transparency, DSP in clarifying and enforcing a common set of rules
 - Minimize bilateral externalities
- PTAs
 - also aim to reduce uncertainty *between members*, and considerable evidence that this promotes trade integration upon accession (cite) and times of crisis (cite). Even if now partially reversed (Brexit, NAFTA renegotiation, etc)
 - can increase uncertainty for non-members
 - closed access: do nothing to minimize cost to third countries, inherently discriminatory and in some cases attractive precisely because of that (export to a protected market)
- ***WTO clearing house and standard setting organization.
 - PTAs going forward as it is, use them as a starting point to harmonize rules that can become standard, remove some of incentive for RTA expansion for standard setting, provide stability and certainty...example? ***
 - Expand mutual recognition efforts and disseminate impacts of different standards, etc...
 - establish minimum safety standards and/or equivalence (particularly for small countries and to avoid duplication of effort)

FINAL THOUGHTS?

- Key role in expansion of trade since its inception: both through reciprocal liberalization and as a commitment device for smaller countries
- Gains from basic success in the past:
 - reduced uncertainty from reducing and binding tariffs, tariffication of certain NTBs. Some of these areas of comparative advantage of WTO overlap with those where its members seeking deeper cooperation in PTAs, those should be focus of renewed efforts lead by smaller groups
 - [Possibly along with services, investment, IPR where standard and rule setting are important]
 - Expectation of enforcement of basic prior commitments and principles such as MFN, national treatment now under threat
- Recognize that many issues better addressed at the national or PTA level
 - Internal/redistribution
 - Large externalities and broader issues between small groups of countries. So important that cannot contain in a small agreement and will have to be addressed in larger setting trading off not just trade related issues but many others, which the WTO is not currently suited to do. Let these go until settled, then try to incorporate if relevant and expand to others...
- Drop consensus: more flexible

PTA insights for OPA success... (below)