Strengthening International Cooperation on Subsidies

Presentation of a Joint Report by IMF, OECD, World Bank and WTO

Geneva,
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Motivation

- Why now?
  - Subsidies long an issue in trade (Jackson, 1969)
    - ‘Justifiable’ policies v. ‘exporting one’s own problems’
    - Worrisome dynamics: one subsidy invites counter-subsidies
  - Especially urgent now:
    - New issues
    - Trade tensions and costs to the global economy
- Focus: subsidies with possibly harmful int’l effects to (a) trade / investment, or (b) global commons
- Recognizes that subsidies can be ‘good’ and/or ‘bad’
- Builds on past work, including by other organizations
Design and Rationale

- Subsidies have many forms & are taken at many levels ... and have a variety of motivations
- There are sound *rationales* for some subsidies ...
  - Examples: basic R&D; green products
- ... but *design* matters too – economics can help
  - Does it achieve its goal? At what domestic cost?
  - International effects: trade, investment, global commons, development
- Improved design could often achieve better outcomes & fewer negative effects – at home and abroad
New Challenges, New Debates

- What new challenges make the issue of subsidies urgent today? Examples:
  - Climate change
  - Digitalization
  - Changing role of state
  - Emergency support
  - GVCs...

- Addressing these challenges requires a clear sense of the positive & negative aspects of existing subsidies

- *That* starts with better understanding the current landscape of subsidies in the global economy...
Global Landscape of Subsidies

- There are important gaps in our knowledge of subsidy practices
- Information is at different stages, fragmented, often incomplete as to different providers/beneficiaries and size of support
- Interpretation is complicated by several factors:
  - Varying levels of transparency across countries/sectors
  - Counts of measures do not necessarily convey magnitude or level of distortion
  - Definitional boundaries of subsidies
Several important patterns can be discerned

- Subsidies are prevalent: The most frequent form of government intervention post financial crisis
- Trade remedy actions around the world have increased sharply
- Subsidies are not a single-country or single-region “issue”, while there is high concentration
- Many sectors appear to benefit from subsidies
- Different forms of subsidies are employed (grants, preferential loans, tax incentives), with variation across countries
- Sub-central government entities account for the vast majority of subsidy programs
Sectoral Observations

- Support to agriculture is significant, although concentrated by country.
- Fossil fuel subsidies remain high.
- Subsidies to services sectors are common (e.g., in financial and transport services, construction), but information on level of support is lacking.
- Industrial subsidies are also prevalent but evidence on scope and scale is relatively scarce.
- Role of SOEs in subsidies seems important, especially in certain sectors, but information on subsidization is difficult to compile.
WTO rules and discussions

- SCM, e.g.
  - Definition of a subsidy (financial contribution by government or public body; benefit; specific)
  - Categories (prohibited, actionable, [non-actionable])
  - Transparency and notifications
- Agriculture, e.g.
  - Categories (e.g. Green Box, Amber Box, ...)
  - Transparency and notifications
- Fish
WTO rules and discussions

- Services
  - MFN and transparency
  - Scheduled NT limitations
  - Lack of progress in negotiations on subsidy disciplines
- Fossil fuels plurilateral initiative

**In sum:**
- Existing rules provide a strong basis, but longstanding and more recently-exposed gaps remain.
- Improved transparency, analysis, and consultation around subsidies can improve the application of existing rules and norms and inform their further development.
Priorities for Action

Not all subsidies are problematic; some are appropriate. Working out which is which is the key issue for international cooperation.

- IOs can help

1) Transparency and analysis

- Improving measurement and access to information
- Understanding impacts
  - development,
  - environmental challenges,
  - digital transformation,
  - SOEs/role of the state
  - emergency support
Priorities for Action

2) Consultation and dialogue
   - Multiple approaches
   - Cooperation can encourage and help inform reform
   - Existing fora + new mechanisms

3) Rules and norms
   - New issues and pressures
   - Improve operation existing rules
   - Develop effective, balanced new rules and norms
     - Based on transparency, analysis and dialogue