An online debate held by The Economist, May 7–13, 2018

- The Economist posed the question "Is the Global Trade System Broken?" in an online debate between

  **Greg Autry** (University of Southern California), representing the "yes" side
  
  **Chad P. Bown** (Peterson Institute for International Economics, PIIE) as the opposition "no."

---

Prof. Dazhong CHENG
Department of World Economy, Fudan University
chengdz@fudan.edu.cn
http://homepage.fudan.edu.cn/dzcheng/

---

2 WTO and Regionalism: New Trends and China’s Strategy
A paper of more than 100 pages:

They argue that the WTO is not passe, but it is facing great challenges and problems.
Bagwell, Brown and Staiger (2016, JEL):

- One of the great challenges is the rise of global value/supply chains and offshoring...
- But these important research areas are at early stages, and their full implications are uncertain.

Pol Antràs and Robert Staiger (2012a, AER; 2012b, AER):

- The rise in offshoring is likely to erode the effectiveness of the GATT/WTO shallow-integration approach.

Outline

1. Background: Multilateralism VS Regionalism
2. China’s Accession to the WTO
3. China’s FTA Strategy
4. Summary and Questions
1. Background: Multilateralism VS Regionalism

1.1 From GATT to WTO: the evolution of multilateral trading system

1.2 The multilateralization of regionalism in the world economy

1.3 Causes for the proliferation of FTAs

1.4 The Impact of burgeoning FTAs on multilateral regime

**USA:**
leading political and economic power after WW II
willing to take over a large share of responsibility in
building a new international economic system

**US-UK negotiations**
over the design of a
post-war trade
system had already
begun in 1941
(Atlantic Charter).

**The Economic and Social Council**
of the United Nations called for a
class to establish the
International Trade Organization
(ITO). Eighteen countries joined the
preparatory committee that held four meetings to draft the ITO Charter from

- A majority in the United States Congress opposed the Charter.
- Several business groups in the US judged the Charter overloaded with topics only indirectly related to trade (e.g. employment and antitrust). Others were concerned that foreign investment was inadequately protected under the Charter. At the end of 1950, President Truman decided not to submit the ITO for congressional approval.

Even though the ITO was a stillbirth, this did not mean the demise of the multilateral trading system.
The GATT emerged as a by-product of the negotiations around the ITO Charter. The GATT was signed by 23 countries on Oct. 30, 1947, and entered into force on Jan. 1, 1948.

The GATT consisted mainly of the commercial policy provisions of the ITO Charter, with minor formal adjustments. The overall objective of the GATT was to reduce barriers to trade, esp. tariffs, and to limit the use of certain trade barriers, such as quotas.

- The negotiating parties agreed that substantial tariff cuts could only be achieved if certain exceptions were included in the structure of trade rules. The GATT therefore contains several escape clauses and contingent provisions.
- A cornerstone of the GATT system was the principle of non-discrimination or the most-favored nation (MFN) principle. Again, several exceptions from this principle were permitted, mainly to facilitate reconstruction of postwar Europe and a continuation of existing preference systems.
- Compared to the ITO Charter, the commitments of the GATT were less binding and the coverage of topics much narrower. However, flexibility and a more concentrated focus facilitated the adoption and ratification of GATT.

Tariffs

Non-tariff measures: antidumping, customs valuation (Kennedy Round) + subsidies and countervail, government procurement, import licensing, product standards, safeguards, special and differential treatment of developing countries (Tokyo Round) + services, intellectual property, preshipment inspection, rules of origin, trade-related investment measures, dispute settlement, transparency and surveillance of trade policies (Uruguay Round) + trade facilitation, market access, rules, services, environment, …(Doha Round) +…

On-the-border measures

Behind-the-border measures
1.2 The multilateralization of regionalism in the world economy

- The global trend
- The strategic intentions of the USA and others
The global trend

- In the past three decades, the preferential trade and investment liberalization has acquired growing importance.
- As of May 2017, 274 RTAs were in force. These correspond to 440 notifications from WTO members, counting goods, services and accessions separately.
- Almost every economy is a party to at least one such agreement (www.wto.org).
Geographical coverage of RTAs

New PTA (RTA) issue areas

<table>
<thead>
<tr>
<th>&quot;WTO-plus&quot; PTA provisions (14)</th>
<th>&quot;WTO-extra&quot; PTA provisions (38)</th>
</tr>
</thead>
<tbody>
<tr>
<td>PTA industrial goods</td>
<td>Anti-corruption</td>
</tr>
<tr>
<td>PTA agricultural goods</td>
<td>Competition policy</td>
</tr>
<tr>
<td>Customs administration</td>
<td>Environmental laws</td>
</tr>
<tr>
<td>Export taxes</td>
<td>IPR</td>
</tr>
<tr>
<td>SPS measures</td>
<td>Investment measures</td>
</tr>
<tr>
<td>State trading enterprises</td>
<td>Labor market regulation</td>
</tr>
<tr>
<td>Technical barriers to trade</td>
<td>Movement of capital</td>
</tr>
<tr>
<td>Countervailing measures</td>
<td>Consumer protection</td>
</tr>
<tr>
<td>Anti-dumping</td>
<td>Data protection</td>
</tr>
<tr>
<td>State aid</td>
<td>Agriculture</td>
</tr>
<tr>
<td>Public procurement</td>
<td>Approximation of Legislation</td>
</tr>
<tr>
<td>TRIMS measures</td>
<td>Audiovisual</td>
</tr>
<tr>
<td>GATS</td>
<td>Civil protection</td>
</tr>
<tr>
<td>TRIPs</td>
<td>Innovation policies</td>
</tr>
<tr>
<td></td>
<td>Cultural cooperation</td>
</tr>
<tr>
<td></td>
<td>Economic policy dialogue</td>
</tr>
<tr>
<td></td>
<td>Education and training</td>
</tr>
<tr>
<td></td>
<td>Energy</td>
</tr>
<tr>
<td></td>
<td>Financial assistance</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: World Bank data. "WTO-plus" areas are already under the WTO, but the PTA members want to go further. "WTO-extra" areas are not yet explicitly addressed by the WTO.
The strategic intentions of the USA and others

**North America:** 1989—CUSFTA; 1994—NAFTA

**Trans-Pacific:** Trans-Pacific Partnership Agreement (TPP), and its enlargement.
- [The USA joined in Feb. 2008 and exited in 2017 (began to stress bilateralism). Australia, Brunei, Chile, Malaysia, New Zealand, Peru, Singapore, Vietnam, Canada, Mexico, Japan, and South Korea are already or will be a member of TPP.]

**Trans-Atlantic:** TTIP is in negotiation
- [Hillary Clinton (31 Jan. 2013): “pursue a far-ranging economic agenda that sweeps from Asia to Latin America to Europe”]

**Plurilateral Trade in Services Agreement (TISA):** an “upgrade” for GATS (General Agreement on Trade in Services in 1994)

- The TISA will be a high-ambition and comprehensive agreement with broad participation that could be multilateralized in the future.
- A group of WTO members has been exploring a new approach to take forward services negotiation by pursuing the TISA.
- This group consists of 22 participants (48 economies), including the European Union, Australia, Canada, Chile, Chinese Taipei, Colombia, Costa Rica, Hong Kong China, Iceland, Israel, Japan, Korea, Mexico, New Zealand, Norway, Pakistan, Panama, Paraguay, Peru, Switzerland, Turkey and the United States.
If NAFTA, TPP, and TTIP are combined together, we can see a huge FTAs group, which will be a new and more open, more liberal quasi-multilateral regime. Till then, the current WTO regime will probably discarded by these economies or will be treated as a platform for minimum opening. Just think, back in 1947, only 23 countries signed the GATT, but the GATT has evolved into a global regime covering 164 economies till present.

### 1.3 Causes for the proliferation of FTAs

- Economists and political scientists have identified several rationales for FTAs.
  - Neutralizing beggar-thy-neighbor trade policies
  - Gaining credibility
  - Other economic motives
  - Political motives
What explains the current growth of FTAs?

- Firstly, Doha Development Agenda (DDA) negotiations are falling into stalemate. This propel members to resort to establishing FTAs to achieve objectives that can't be realized through DDA (WTO, 2011).
- Secondly, almost all WTO and non-WTO members regard FTA as an important means to carrying out their trade and investment and even economic development strategy.
- Thirdly, deepening international division of labor makes the global and regional supply chains and economic concentration more important (the micro-foundation is MNEs).

1.4 The Impact of burgeoning FTAs on multilateral regime

- The proliferation of FTAs and the multilateralization trend of regionalism could bring to WTO regime opportunities and challenges as well.
- A number of different mechanisms have been identified through which FTAs could foster or hinder multilateral trade opening.
- The intrinsic contradiction and co-movement between the two are forging the mechanism of the global economic and trade institutional transformation.

  - Firstly, FTAs could directly foster regional trade and investment liberalization, and thus become the stepping stones helping the world economy and trade move towards global economic integration and multilateralism (Baldwin, 2008).
Secondly, the exclusiveness and complexity of FTAs tend to result in discrimination, and thus harm the transparency and predictability in the international economic and trade relations.

For an instance, all FTAs will impact enterprises, because of the so-called “spaghetti bowl” phenomenon.

In this sense, the FTAs will probably become the stumbling blocks hindering the world economy and trade from moving towards global economic integration and multilateralism.

Nonetheless, the institutional framework for global trade growth is gradually evolving from the World Trade Organization (WTO)-dominated multilateral mechanism to a multiple system in which regional “closer economic partnership” arrangement and WTO’s multilateralism coexist. This could at least offer more opportunities and platforms for every economy to promote domestic reform and opening-up.
The evolution of the institutional framework in the international economy: past, present and future

2. China’s Accession to the WTO

- Accession to the WTO is a major milestone in China’s economic development, modernization and integration into the world economy.
- Completion of the accession formalities is not the end, but rather the beginning, of a new process of reform and adaptation that builds on the sweeping economic changes begun in 1978.
Protocol on the accession of the People's Republic Of China

---15. Price Comparability in Determining Subsidies and Dumping

Article VI of the GATT 1994, the Agreement on Implementation of Article VI of the General Agreement on Tariffs and Trade 1994 ("Anti-Dumping Agreement") and the SCM Agreement (Agreement on Subsidies and Countervailing Measures) shall apply in proceedings involving imports of Chinese origin into a WTO Member consistent with the following:

(a) In determining price comparability under Article VI of the GATT 1994 and the Anti-Dumping Agreement, the importing WTO Member shall use either Chinese prices or costs for the industry under investigation or a methodology that is not based on a strict comparison with domestic prices or costs in China based on the following rules:

(i) If the producers under investigation can clearly show that market economy conditions prevail in the industry producing the like product with regard to the manufacture, production and sale of that product, the importing WTO Member shall use Chinese prices or costs for the industry under investigation in determining price comparability;
• (ii) The importing WTO Member may use a methodology that is not based on a strict comparison with domestic prices or costs in China if the producers under investigation cannot clearly show that market economy conditions prevail in the industry producing the like product with regard to manufacture, production and sale of that product.

✓ (b) and (c) ……

✓ (d) Once China has established, under the national law of the importing WTO Member, that it is a market economy, the provisions of subparagraph (a) shall be terminated provided that the importing Member’s national law contains market economy criteria as of the date of accession. In any event, the provisions of subparagraph (a)(ii) shall expire 15 years after the date of accession. In addition, should China establish, pursuant to the national law of the importing WTO Member, that market economy conditions prevail in a particular industry or sector, the non-market economy provisions of subparagraph (a) shall no longer apply to that industry or sector.

• China’s WTO commitments

• China’s WTO commitments are very strong. They exceed those of other developing countries by a wide margin, and are almost as strong as they are for developed countries.

• These comparisons hold not only for tariff ceilings on goods (including agriculture), but also for border and behind-the-border non-tariff barriers in goods and services.

• Very strong commitments are not just of the ‘first-generation-reform’ type (border barriers), but also go deep into ‘second-generation’ institutional reforms.

• Notably, there are detailed commitments on judicial and administrative review, and other transparency procedures, on all manner of domestic regulation (e.g. on services, intellectual property and product standards).
China’s future in the WTO

- The developed- and developing-country majors -- the US, EU, China, Russia, India and Brazil -- are especially important. They are the inner core. Without their leadership, nothing will move. Currently, the WTO is in danger.

3. China’s FTA Strategy

3.1 Environment

3.2 The FTA construction since 2004

3.3 The OBOR initiative
3.1 Environment

FTAs under negotiation (?)
- GCC (Saudi Arabia, United Arab Emirates, Kuwait, Oman, Qatar, Bahrain)
- Southern African Customs Union (SACU) (South Africa, Botswana, Namibia, Lesotho and Swaziland)
- Norway
- India
- Japan-Korea

Future FTAs (?)
- BRICS
- Shanghai Cooperation Organization (SCO)
- Israel
- ...
3.2 The FTA construction since 2004

- China has concluded and is implementing 13 FTAs involving 21 individual economies (see the next slide).
- There are another 11 bilateral and regional FTAs under negotiation or being proposed.
  - those with Colombia, Fiji, Georgia, Japan, Korea, Maldives, Moldova, Norway, Sri Lanka,
  - the six-member GCC (Saudi Arabia, United Arab Emirates, Kuwait, Amen, Qatar, and Bahrain) group, and
  - the sixteen-member RCEP (ASEAN-10, Japan, South Korea, Australia, New Zealand, and India, plus China) group.

<table>
<thead>
<tr>
<th>Date in force</th>
<th>Country Abbreviations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan. 1, 2004</td>
<td>China-Hong Kong; Macau CEPA</td>
</tr>
<tr>
<td>Jul. 20, 2005</td>
<td>China-ASEAN</td>
</tr>
<tr>
<td>Oct. 1, 2006</td>
<td>China-Chile</td>
</tr>
<tr>
<td>Jul. 1, 2007</td>
<td>China-Pakistan</td>
</tr>
<tr>
<td>Oct. 1, 2008</td>
<td>China-New Zealand</td>
</tr>
<tr>
<td>Jan. 1, 2009</td>
<td>China-Singapore</td>
</tr>
<tr>
<td>Dec. 20, 2015</td>
<td>China-South Korea; Australia</td>
</tr>
<tr>
<td>Jul. 1, 2014</td>
<td>China-Switzerland; Iceland</td>
</tr>
<tr>
<td>Aug. 1, 2011</td>
<td>China-Costa Rica</td>
</tr>
<tr>
<td>Mar. 1, 2010</td>
<td>China-Peru</td>
</tr>
</tbody>
</table>

**Figure** China’s FTA Construction

We examine how FTA partnership matters in the context of global value chains from the experience of China. More specifically, we estimate econometrically whether and how China’s FTA partnership influences the bilateral value chain linkage between China and the partner (Dazhong Cheng and Zhiguo Xiao, 2016).

<table>
<thead>
<tr>
<th></th>
<th>CHN_Dependence</th>
<th>Partner_Dependence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Y</td>
<td>0.014</td>
<td>0.009</td>
</tr>
<tr>
<td>FTA</td>
<td>0.034*</td>
<td>0.011</td>
</tr>
<tr>
<td>Y*FTA</td>
<td>0.003</td>
<td>0.963*</td>
</tr>
<tr>
<td>R² (within)</td>
<td>0.075</td>
<td>0.08</td>
</tr>
<tr>
<td>Obs.</td>
<td>4004</td>
<td>4004</td>
</tr>
</tbody>
</table>

Note: all regressions with economy and year fixed effects. Constants are omitted to save space. Standard errors in brackets are adjusted for clustering across partner economies. FTA is a dummy for China’s FTA in force at present (1 represents the economy being China’s FTA partner, otherwise 0). Y is for partner’s real per capita GDP in logarithm. * significant at 10%, ** significant at 5%, *** significant at 1%.

Source: Cheng and Xiao (2016)
3.3 The OBOR initiative

“One Belt & One Road” initiative (Overland Silk Road Economic Belt and 21st Century Maritime Silk Road)

- Xi Jinping put forward this concept during his visits to Kazakhstan (Sep. 2013) and Indonesia (Oct. 2013).

- The German geographer, geologist, and explorer Ferdinand von Richthofen coined the word Seidenstrasse (Silk Road) in 1877.
  - Trade routes between imperial Rome and Han China along which the precious commodity of silk traveled in substantial quantities from around 100 BC to about 150 AD.

Centuries have passed, and the world has changed a lot.
Q: Which countries have been invited by China to join this initiative?

Geographical distribution of 188 sample economies
China (as a downstream country) **CHN_Dependence**

(a) Group 1 (i.e. OBOR) + USA, Germany, Japan, South Korea and Australia

(b) Group 2 (50 African economies) + USA, Germany, Japan and South Korea
at downstream  

Partner Dependence

(a) Group 1 (i.e. OBOR) + USA, Germany, Japan, South Korea and Australia

(b) Group 2 (50 African economies) + USA, Germany, Japan and South Korea
GVC security

Source: Based on GTD.
Terrorist attack frequency: 1990-2016

Source: Based on GTD.

In the 9/11 event of 2001, the number of casualties was 17869, accounting for 78.5% of the total in the period of 1970-2016 (22758) in the United States.

Terrorism intensity (kill and wound): 1990-2016

Source: Based on GTD.
Terrorism intensity (kill and wound): 2002-2016

Source: Based on GTD.

4. Summary and Questions

- WTO is locked in stalemate and is becoming marginalized.
- FTAs are proliferating.
- Newly emerging regionalism is being multilateralized.
- What is the impact of FTA growth on multilateral regime?
- How to select FTA partner in the context of global value chains?