

Global Economic Cooperation in International Trade

Padakandla Sessa Sai and Dr. Sanjaya Choudhury

Research Scholar, Bhagwant University, Ajmer, India

Prof. of Law, Bhagwant University, Ajmer, India

Abstract: *In this study, we investigate three trade policy scenarios: i) the revival of multilateralism, ii) plurilateral cooperation, and iii) geopolitical rivalry. In the first scenario, both tariffs and NTMs are reduced on a multilateral basis. In the second scenario, varying groups of countries cooperate on specific topics, such as E-commerce and services. In the last scenario, two main blocks emerge: a Western block and an Eastern block. International cooperation breaks down between blocks, leading to an increase in tariffs and NTMs, with blocks of countries setting up their own set of rules. Our findings are based on simulations with the WTO Global trade Model which has a specific novel feature: the diffusion of ideas between countries as a by-product of trade. The simulations indicate that: (i) there is a lot at stake for global trade cooperation, with global real GDP increasing by 3.2% compared to the baseline under multilateral cooperation and decreasing by 5.4% under geopolitical rivalry; (ii) LDCs would gain the most from multilateralism (real GDP increases by 4.8%) due to technology spillover effects; (iii) under both "open" and "exclusive" plurilateral agreements on services, most regions are projected to gain, with larger gains to participants if the initiative is "open" than if it is "exclusive"; (iv) intermediate linkages in services sectors will be reinforced in all scenarios, except under geopolitical rivalry; (v) geopolitical rivalry leads to a 21 percentage points decrease in exports between Western and Eastern blocks from 46% to 25%; and (vi) the WTO has an important role to play in preserving a free trade environment for developing countries and LDCs. The simulations show that in a decoupling world, it would be essential for LDCs to continue trading with both Eastern and Western blocks.*

Keywords: Trade policy simulations, CGE modeling

I. INTRODUCTION

The world trading system and the world economy are at a crossroads. The future of international trade cooperation is uncertain. The multilateral trading system, one of the pillars of post-WW2 prosperity is facing headwinds and may unravel or undergo significant transformation. How it evolves will have repercussions on the world economy. Less cooperation is likely to lead to less trade and to lower economic growth all over the world.

Several changes affecting international trade cooperation have taken place in recent years. At the multilateral level, despite the recent success of MC12, cooperation has been difficult. At the WTO, the impasse on the appointment of new Appellate Body members is impeding the functioning of the dispute-settlement mechanism and the negotiating function has all but stalled. Initiating, negotiating and concluding trade agreements, both for outstanding issues as well as for new issues has been challenging. There is a shared perception that consensus-based decision making is a factor inhibiting the ability of the WTO to engage in deliberations on new agreements. The question of whether, and to what extent, the WTO's more advanced emerging economies should take on greater obligations under the WTO agreements is particularly divisive, but aligning the positions of 164 members with often diverging interests and perspectives is generally difficult.

In this context, at the 11th Ministerial Conference in December 2017, like-minded groups of WTO members issued joint statements on advancing discussions on E-commerce, on developing a multilateral framework on investment facilitation, on launching a working group on micro, small and medium-sized enterprises (MSMEs) and on advancing ongoing talks on domestic regulation in services trade. These negotiations do not involve all WTO members since some



of them are opposed to plurilateral agreements, which they perceive as contradictory to WTO principles (e.g. multilateralism, decision by consensus, rules on amending WTO agreements) (Ungphakorn, 2021). Furthermore, countries who do not wish to participate fear potentially harmful economic consequences of not joining plurilateral agreements (Angeles et al., 2020). On the other hand, plurilateral negotiations are supported by some scholars who see agreements starting as plurilateral becoming multilateral ones (Nakatomi, 2014) and who perceive that “plurilateral cooperation is the most that is feasible” (Hoekman, 2020).

At the regional level, there has been an increase in the number of new regional trade agreements (RTAs) over the last 30 years (from 45 RTAs in force in 1990 to 401 in 2021), even though we observe a slowdown in the number of new RTAs entering into force over the last five years. The number of new RTAs entering into force increased by 657% from 1990 to 2010 compared to 25% from 2016 to 2021 (WTO, 2022b). Trade relations between African countries have deepened with the entry into force in January 1st, 2021, of the African Continental Free Trade Area. At the same time however, the United Kingdom’s (UK) withdrawal from the European Union (EU) voted in 2016 led to a time-consuming negotiation process. As new agreements had to be reached, the latter impeded trade between the UK and the EU, but also with its other trading partners.

In the background, geopolitical tensions among some large and influential countries have grown. Trade tensions between the United States of America (USA) and China, which started in 2018 materialized as an average 17% increase in bilateral tariffs and led to reduced bilateral trade, trade diversion effects, value chains re-organization in Asia and increased uncertainty (Bekkers and Schroeter, 2020). The war in Ukraine and the sanctions adopted by a number of countries against the Russian Federation have also disrupted longstanding economic relations (OECD, 2022, WTO, 2022a). In this context, the shortages and dependencies that have become more visible during crises have triggered talk of friend-shoring, re-shoring, fragmentation and de-coupling (Posen, 2022, Xing et al., 2021).

The aim of this paper is to analyse different paths for future trade cooperation and associated expected outcomes. What could these different trade scenarios be?

The first scenario we model in this paper is a revival of multilateralism. In this scenario, both tariffs and NTMs are reduced on an MFN basis at the multilateral level.

The second scenario investigates the economic impact of plurilateral agreements, focusing on services and E-commerce. Since plurilateral agreements may be implemented either on an “exclusive” or “open” basis, we develop four sub-scenarios of plurilateral cooperation.

Finally, if the current trade tensions between the USA and China increase, geopolitical rivalry would lead to a bipolar trade war between these two economies and their respective allies (Rachman, 2021). In this situation, blocks of countries would start setting their own sets of rules, disregarding multilateral agreements. The last scenario showcases an economic decoupling between the USA and China (Bown and Irwin, 2019, Wei, 2019). We, however, create two sub-scenarios: one in which other countries have to choose one geopolitical block over the other, and one in which some developing countries remain outside of the conflict under the umbrella of the WTO.

We compare these three scenarios to a baseline scenario, which corresponds to a business-as-usual scenario. In this baseline, we account for all major regional agreements that entered into force until December 31st 2021 and assume status quo at the multilateral level. Detail on the baseline scenario can be found in Bekkers et al. (Forthcoming-a).

Previous studies have investigated the impact of multilateral cooperation. They modelled the Doha Round and various scenarios of trade liberalization to understand their impact in terms of trade and welfare (Adler et al. (2009), Anderson and Martin (2005), Anderson et al. (2006), Bekkers and Keck (Forthcoming), Bouët et al. (2005), Bouët and Laborde (2009), Bouët et al. (2007), Decreux and Fontagne (2011), Francois et al. (2005), Hoekman and Nicita (2010)). The simulation work on the Doha Round tends to find smaller projected increases in GDP than our revival of multilateralism scenario because most of the Doha Round work focuses on reductions in tariffs and does not consider NTMs. Furthermore, the model employed in the current paper generates larger GDP effects because it contains diffusion of ideas through trade.

Plurilateral agreements have been analysed from a legal and political economy perspective, rather than from economic modelling (Hoekman and Mavroidis (2015b)). A set of recent studies focus on USA trade policy (Demertzis and



Fredriksson, 2018, Devarajan et al., 2018, Hübler and Herdecke, 2020, Robinson and Thierfelder, 2019) and the USA-China trade war (Bekkers and Teh, 2019, Bolt et al., 2019, Bouët and Laborde, 2018, Guo et al., 2018, Ossa, 2014). Finally, some articles endorse a more general approach to trade policy analysis (Bekkers, 2019, Chateau et al., 2014, Ellis et al., 2018, Fontagné et al., 2017, WTO, 2013).

Scenarios and model

In this section, we describe the scenarios, the model used, the technical implementation of each scenario and conclude by reporting the shocks to tariffs and NTMs for each scenario.

Scenarios description

We create three main scenarios to present three directions for future trade policy: revival of multilateralism, plurilateral cooperation, and geopolitical rivalry.

Revival of multilateralism: all countries cooperate on a global scale. As a result, both tariffs and NTMs are reduced on a MFN basis.

Results of the simulations

In this section, we analyse the projected effect of the three trade policy scenarios on trade and output as measured by real exports and real GDP and on the structure of trade as measured by changes in trade shares, revealed comparative advantage, and the strength of intermediate linkages. For the impact on trade and output we first analyse the results of the Scenarios 1 and 3 (Revival of multilateralism and Geopolitical rivalry) and then on Scenarios 2 (Plurilateralism).

II. CONCLUSION

The aim of this paper is to present the outcomes of different paths for future trade policy. We created three main scenarios, implemented using the WTO Global Trade Model: revival of multilateralism, plurilateral cooperation, and geopolitical rivalry.

We find that multilateralism is the most favorable outlook for all regions, in particular for developing countries and LDCs. Further advancements in multilateral cooperation would bring GDP gains to all nations, with the highest GDP gains materializing in developing economies and LDCs.

If multilateral agreements cannot be reached, plurilateral cooperation can benefit countries willing to negotiate on specific sectors. It would allow for positive advancement in trade relations without requiring unanimity. Plurilateral cooperation raises question about its implementation: “exclusive” versus “open” agreements. In our work we show that, on average, plurilateral cooperation would be the most beneficial if implemented on an MFN basis. Furthermore, we observe that the greater the number of countries and sectors considered in a plurilateral agreement, the larger the gains. As plurilateral agreements remain open, other countries could join at their own pace, paving the way for a multilateral agreement. We find that participants gain more than non-participants suggesting that non-participants have an incentive to join the initiatives, even if they are “open”.

Finally, geopolitical rivalry between a Western and an Eastern Block is the worst solution for almost all countries. GDP losses would become substantial over time according to our simulations, especially for developing countries and LDCs, whose real GDP would fall by -7% in 2050. This negative effect could be reduced for all regions, and in particular for LDCs, if the latter remain outside of the conflict. Overall, all nations could benefit from cooperating with one another. Cooperation could initially take the form of “open” plurilateral agreements which would evolve into multilateral agreements.

REFERENCES

- [1]. So far, only the negotiations on services domestic regulations have been successfully concluded on December 2nd 2021 by 67 WTO members.
- [2]. The data includes both RTAs that were notified to the WTO and non-notified RTAs.



- [3]. An important question surrounding plurilateral agreements concerns their implementation either as “exclusive” or “open” (Adlung and Mamdouh, 2018, Angeles et al., 2020). Under an “exclusive” (or “Most Favoured Nation (MFN) non-compliant”) agreement, only participants reap the benefits of trade liberalization, whereas under an “open” (or “MFN compliant”) agreement, all trading partners benefit from reduced trade costs. An example of an “open” agreement is the Agreement on Services Domestic Regulation.
- [4]. In this paper, we do not consider the Russo-Ukrainian conflict, nor environmental policies that require dedicated work and are covered in WTO (2022a), Bacchetta et al. (Forthcoming-a), Bacchetta et al. (Forthcoming-b), and Bekkers et al. (Forthcoming-c).

