

Multilateral Trading System and WTO Reform: Making Globalization Serve Society

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Global consensus—at least among economists

- Need for a rules-based international trade regime
- Globalization has played an important role in reducing global poverty and promoting growth in successful emerging markets and developing countries
- A multilateral trade regime is preferable to a fragmented bilateral or regional trade regime
- Any trade regime needs to have a system of dispute adjudication
- WTO panels have worked remarkably well
 - Punishment—imposing trade restrictions on offending parties—is only partially effective
 - Would be more effective if punishment were a tradable right
- A multilateral rules-based system is too important to be allowed to be destroyed by a single individual or a single country

But globalization as currently managed has been beset by multiple problems

- Rules designed largely by and for producer interests in developed countries
- Growing disparities in incomes within countries
 - With globalization playing a role in increasing that disparity within advanced countries
 - Leading to backlash against globalization with severe political consequences
 - Increase in concentration of market power playing an important role in many countries
 - With adverse consequences because rents are transferred abroad
- Growing disparities in incomes between richest countries and poorest countries
 - Manufacturing export-led growth won't be able to play the role for Africa that it did in Asia
- AI, robots may further drive down wages of unskilled labor

Many of problems caused by flawed domestic policies (lack of adequate systems of social protection, active labor market policies, industrial policies)

But there are fundamental problems in the global rules as well

Other key problems facing world today have sometimes been worsened by globalization

- Uruguay round was unbalanced against developing countries
 - Development round was supposed to address imbalance
 - But development round failed
 - Need a recommitment to a development-oriented trade and intellectual property regime
- Environmental issues
 - Climate change
 - But China's contribution to low-cost solar panels provides important new tool
- Health—disparities in health between and within countries
 - IPR provisions have impeded access to life saving medicines
- **Key challenge is to rewrite the rules to serve global society**

Example 1: IPR, Big Pharma, and Generic Drugs

- IPR regime in WTO (TRIPS) was not designed to maximize innovation, societal well-being, health, or progress
 - Largely designed to increase profits of Big Pharma and Entertainment Industry
 - Upsetting balance established in US in Hatch-Waxman Act—in a non-democratic way
 - No social justification in extending life of copyrights
- World Commission on Social Dimensions of Globalization called for TRIPS minus
 - Subsequent bilateral and regional agreements were worse
 - Biased towards large multinational corporations
 - Explains opposition
- Global health should be priority
 - Excessive charges take funds away from other important societal needs

Other key global priorities need to be recognized in global IPR regime

- Climate change
- Food
- Protection of genetic resources
- May entail more extensive use of compulsory licenses
 - Accompanied by more extensive global cooperation in research
- May entail more extensive compensation for developing countries genetic resources
- Different standards for government subsidies for the production of global public good (solar panels, pharmaceuticals)
 - Market on their own will undersupply
 - Social benefits exceed slight employment costs
- There is no single IPR regime that is appropriate for all countries
- Poorly designed IPR regime may put small businesses and small countries at a disadvantage
 - Basis of opposition to TPP

Climate change is existential threat

- And the trade regime needs to recognize its importance
- **Explicitly sanctioning cross-border taxes on countries that are not playing their role in meeting the challenge of global change**

Reforming Dumping (unfair trade practices)

- World has double standard, illustrated by US
 - Virtually impossible to win predatory pricing case (selling below cost) domestically
 - Easy to win dumping case
- There should be a single standard
 - Focused on potential for establishing market power
 - Presumption in US domestic law based on unfounded belief that markets are normally competitive, entry is easy
 - Under “correct” economic standard, many of international dumping cases would not prevail

Financial Services

- Given the harm that under-regulated financial systems can impose, strong regulation of the financial sector is desirable
 - Trade agreements should be wary about excessively restricting regulations
 - Major concern that investment agreements (and provisions within trade agreements regulating investments) do this
- Given the key role that *local information* plays in resource allocation, and the key importance of developing local competencies, it is natural that countries try to cultivate local financial institutions
 - The United States did not eliminate restrictions on interstate banking until 1994—believed that it was important to nurture local financial institutions
- What is clear is that we need stronger global regulations to limit global tax avoidance/tax evasion/money laundering, and to attack on-shore and off-shore secrecy havens

E-commerce/data

- This is an area where domestically, there is not yet consensus about the right regulatory regime, taking into account privacy/manipulation/misinformation and disinformation
- But AI/big data illustrates a central problem confronting global-trade regime
 - Big data is a central input into success in AI, and AI will be increasingly important in an increasing range of sectors
 - But different countries have different standards on privacy, data agglomeration, use of data etc., giving some countries an advantage over others
 - No expectation that there will be harmonization in standards—reflects fundamental differences in values
 - Will have to find a way of maintaining reasonably level playing field, with each country maintaining its own system, and still taking advantage of gains from international trade

Key policy concern today:

- **It would be wrong to set in stone the regulatory framework through international trade agreements**
 - Especially given concern of undue influence of producer interests

Another key policy concern: growth of global firm with global market power

- There is no global competition authority
- No agreement even on what competition standards should be
- But competition is essential for the functioning of the global economy

Investment agreements (an aside)

- Not part of WTO—but part of most trade agreements
- Should have focused on discrimination
 - And in certain areas, differential treatment should be allowed
 - Facilitating developing countries “catching up”
 - Instabilities associated with short-term foreign capital flows
- Should have designed better dispute resolution (alla WTO) and more appropriate compensation system
- Should not have had provisions that were (or were widely interpreted to be) *regulatory takings*, requiring compensation for a change in regulation
- Concern that investment agreements have become an impediment in country’s designed policy regimes that promote development and growth and protect the environment, health, safety, and the economy
 - And can have even have perverse incentives on firm location

Right to development

- In spite of the successes of the emerging markets, there still exists enormous disparities between the richest countries and the rest
- The international trade regime has to be *developmentally oriented*: that was the promise of Doha, and even though those negotiations were not brought to fruition, the commitment should be paramount as we think of reforming the WTO
 - Many traditional features of the international regime, such as escalating tariffs, impeded development, encouraged poorer countries to stay in lower value added stages of development

Governance

- Problems of trade regime have arisen out of problems of governance
 - Historically, developed countries drove the agenda
 - And within developed countries, producer interests drove the agenda
- Remarkably successful in reducing tariffs except in sensitive areas
- But producer agenda ignored (or celebrated) distributive consequences
 - Economic theory predicted that there would be large losers in advanced countries—unless strong social protection measures were put into place
 - Predictions turned out to be correct
 - Understandable backlash
 - Trade agenda will have to incorporate measures to enable social protection without protectionism
 - This may impact pace of change

Dispute resolution

- At core of any agreement
- WTO dispute resolution system worked remarkably well
- Cannot let it be undermined by US
- Need to appoint additional judges
 - If the US refuses to recognize appellate body, at least the rules-based system will continue to work for rest of the world
 - The US will become a less attractive place to do business because of the absence of adherence to international rule of law
- There may be compromises—not having Appellate body rule on US trade remedies
 - But keeping full remit of adjudication for the rest of the world

New issues are even more problematic

- If reducing non-tariff barriers entails regulatory harmonization at the lowest levels, consumers, the environment, and society will all suffer
- Negotiations will have to be more open and transparent, with the voices of consumer groups, health advocates, environmentalists, and others being central
- The world is changing rapidly, so that agreements that made sense at one time don't at another
 - We now know how bad the investment agreements that were signed earlier (ISDS) were; unconscionable that new agreements would not learn the lessons
- This will entail changing both the kinds of agreements that are signed and the way they are negotiated and updated
- **As we reform the WTO—to strengthen the rules-based multilateral system—we need to keep paramount that trade is not an end in itself but a means to an end, enhancing the well-being of all citizens of the world**