



Economic Security, Contingency, and the Fate of the Global Trade Order

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Simon J. Evenett
Professor & Founder

**St. Gallen
Endowment**
for Prosperity through Trade

Questions asked in this presentation

- Was it a coincidence that support for the current rules-based trading order declined in major players as “economic security” concerns rose?
 1. Under what conditions can support for a liberal trading order be sustained?
 2. To what extent, if at all, does “economic insecurity” complicate or prevent those conditions being met?
 3. If economic security concerns played a part, can the *status quo ante* be restored?

Opening remarks

- As Jeff correctly argues, the initial evolution of the GATT was heavily influenced by Cold War and related national security considerations.
- I would argue that for decades the system devised to liberalise trade between the “West” (including its former colonies) was conditioned by one set of geopolitical circumstances.
- Limited East-West trade made economic security concerns a non-issue but there were active debates about whether to allow certain exports (e.g. grain) to the Soviet Bloc.
- Our holiday from history began with the Fall of the Berlin Wall. We in the West wanted former communist nations to integrate into the world trading system and, apparently, the latter did so too. Yet, economic security concerns were not an issue then either.
- Enduring adverse labour outcomes required a blame game and foreigners are easy targets. Coincides with backlashes in West against finance-driven growth and democratic capitalism.
- Now active hostility between states with extensive commercial ties raises questions about the nexus between trade, existing trade rules, and economic security.

Conditions needed to sustain support for an open rules-based binding trading order (1)



Condition	Comments and deeper forces at work
1. Do prior accords deliver sufficient gains?	<p>The gains from trade arise from specialisation, which in turn requires resource reallocation. For some labour this means job losses. If they require compensation then the accord had better deliver enough gains so as to keep both “winners” happy and to help “losers” from the trade deal.</p>
	<p>Local economic geography matters as losers demand for compensation is contingent on job market prospects (employment alternatives, growth, quality of education and retraining systems).</p>
	<p>Recall the modern theory of trade policy shows the (static) gains from traditional trade reform are smaller for larger nations. So, the negotiating function must deliver accords with enough gains for big economies where those who lose from trade reform demand support.</p>
	<p>Negotiation function must periodically deliver new gains if previous gains are eroded over time. Reach of WTO must grow over time.</p>

Conditions needed to sustain support for an open rules-based binding trading order (2)



Condition	Comments and deeper forces at work
2. The economic growth and other gains of foreign nations that have a nexus to trade must be legitimate.	Losses are easier to bear if they are the outcome of competition on the merits . Loses are harder to bear if foreign nations that have gained cannot demonstrate that their wins were legitimate.
	Since all governments resort to policy intervention in markets there has to be a shared understanding of when such resort is legitimate —or on what evidence conclusively demonstrates that trade outcomes (cross-border spillovers) were not unduly influenced by public policy .
3. <i>Pacta sunt servanda</i>	Buyer’s regret will never be entertained (“ negotiate don’t fret ”).
	Compliance must occur and must be seen to occur .

Conditions needed to sustain support for an open rules-based binding trading order (3)



Condition	Comments and deeper forces at work
4. Thou shall not weaponise trade.	Specialisation creates the need for international sourcing and requires confidence that supplies are available in sufficient quantities when needed in buying nations, including when demand surges. Or, there must be acceptance ex-ante that there will be occasional—and possibly—very painful shortages in buying nations.
	Where there is a risk of correlated demand surges (e.g. medical goods during a pandemic) then excess production capacity must be held or capacity must be scaled up very quickly . Over-capacity must be acceptable in some sectors.
	Governments of major suppliers of essential items must not resort to export controls , whether to ameliorate demand surges at home or as a tool to influence the behaviour of foreign governments.
	A shared understanding is needed on the circumstances, form, and extent of trade-related sanctions applied to influence the behaviour of a foreign state.

Conditions needed to sustain support for an open rules-based binding trading order (4)



Condition	Comments and deeper forces at work
<p>5. A hegemon committed to the liberal trading system is needed.</p>	<p>One nation that believes liberal trade and liberalising trade is in its economic and strategic interests is needed to lead the system. This involves being willing to bear sufficient costs as all negotiating demands must be “paid for” in the current system. In return, the hegemon shapes the system’s trajectory.</p>
	<p>Mutually acceptable transfers of leadership of the system. Once a hegemon always a hegemon unless the hegemon voluntarily hands over the reins to a well-qualified and committed successor.</p>
	<p>Other than mutually acceptable transfers of leadership, a hegemon commits never to disengage.</p>
	<p>A hegemon cannot dismantle any part of the world trading system that it has created with the assent of other nations without the agreement of other nations. Essentially, a hegemon accepts constraints on its unilateral action.</p>

Turns out that the current global trade order was never that robust



- Laying out these conditions alone should convince most that the current WTO was always a fragile construction. Binding rules, a court (DSB), committees, a qualified secretariat offered no guarantee, alas. Institutions can shape behaviour they cannot substitute for it.
- Ultimately, breakdown was due to:
 - **bad luck**: Fallout from Global Financial Crisis, COVID-19, invasions of Ukraine.
 - **bad design**: Negotiating rounds and culture that delivers too few accords and too much “constructive ambiguity.”
 - **bad behaviour**: Too many cases to single out one nation.
- Economic insecurity is arguably a cause and consequence of some of these factors.
- Can the omelette be unscrambled? Probably not. So, states seeking commercial engagement with the rest of the world will have to re-determine both the scope of that engagement **and** a new basis to commit to better behaviour (trade rules no longer play that role.)