

DOLLAR & SENSE: THE BROOKINGS TRADE PODCAST

WHY IS WTO REFORM SO DIFFICULT?

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DOLLAR: Hi, I'm David Dollar, host of the Brookings Trade podcast "Dollar and Sense." Today, my guest is Mireya Solís, director of the Center for East Asia Policy Studies at Brookings and a leading expert on the political economy of trade. We're going to talk about WTO reform. There's the WTO ministerial meeting that was scheduled for early December. It's been postponed because of travel restrictions, but all the issues are still there, and the working groups are working away trying to resolve various issues. But before we launch into WTO reform, I want to mention that Brookings Podcast Network is launching a new show called "17 Rooms," about actions for the U.N. Sustainable Development Goals. So here's a brief introduction.

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JOHN MCARTHUR: Hi, I'm John McArthur with the Center for Sustainable Development at Brookings.

ZIA KHAN: And I'm Zia Khan with The Rockefeller Foundation. We're the co-hosts of "17 Rooms," a podcast about actions, insights, and community for the Sustainable Development Goals and the people driving them.

MCARTHUR: "17 Rooms" is a new way of getting people together to take action on the 17 Sustainable Development Goals. In this podcast, you'll hear our conversations with dynamic leaders shaping actions towards the Goals.

KHAN: "17 Rooms" is produced by The Brookings Podcast Network. You can download and listen to it on Apple, Spotify, or wherever you like to get your podcasts.

DOLLAR: And you can learn more at Brookings Dot Edu Slash 17 Rooms podcast. And now, Mireya, we get back to WTO reform. Welcome to the show.

SOLÍS: Good morning, David. It's wonderful to be with you.

DOLLAR: So, let's start with the big picture. I hear a lot of talk about WTO reform. What exactly does that entail? And we've been talking about it for a long time. So why has it been so difficult?

SOLÍS: Yes, David. I think that when we talk about WTO reform, we're really asking the question as to whether members can prevent the organization from becoming irrelevant. I think that we're asking what kind of repair work is necessary given the erosion in the three central functions of the World Trade Organization, which are negotiation, monitoring, and enforcement. And there have been serious problems with each of these functions. We're talking about the necessity for a deep change to prove that the organization can deliver and can really tackle the most important challenges that the international trading system is facing.

Just to name a few of those challenges: Well, clearly the response to the pandemic is very important. So public health and trade is central to this agenda. Then we're talking about, you know, keeping the levels of economic integration, trade, and investment flows going, shoring up global supply chains as a way to increase living standards, to keep the engine of the world economy going is also very important task. And of course, the environment and what is there for the contribution of trade rules to environmental sustainability. So, there's a lot really riding on the ability of the WTO to overcome the dysfunction.

And why it has been so hard to modernize the organization? There are many factors, David. One, I think, is that there is this deep discussion among members as to whether a balance of benefits and responsibilities can be accomplished between the industrialized countries and developing countries where that has fallen in the past. And can this be corrected? Can some countries that have done well be graduated from their developing status? I think that's a very important question. Can we really make sure that countries are transparent and forthcoming in notifying of their trade actions to their organization? And can

we bring back in full the dispute settlement mechanism, which has been truncated given that the appellate body is not working.

And there are many factors why we have arrived at this place, why it's difficult to re-energize the WTO. One of them is that it's consensus-based organization and therefore the veto of one matters quite a bit. There have been the actions of specific countries along the way that have made it difficult to achieve consensus. People frequently talk about past rounds where India, for example, took positions that prevented an understanding. There's a question as to whether China's state capitalism can be tamed with the WTO disciplines. And also, quite frankly, disengagement from the United States has been a very important challenge and obstacle to the modernization objective.

DOLLAR: So, if it's hard to get some kind of large overall reform and difficulty of getting consensus from about 200 countries, are there potential small wins? Looking ahead to this ministerial, when it actually happens, are there small wins that might occur on fishing subsidies or other specific areas?

SOLÍS: It's hard to tell at this juncture. I think that with the postponement of the ministerial conference, I think it cuts both ways. On the one hand, we don't have that essential deadline where you were going to bring all these ministers and therefore have that convening and trying to get to some sort of compromise on some of the trickiest issues. On the other hand, now you have given a little more time for the negotiations and the negotiators to try to find a path forward.

There are a number of issues where deliverables would be important, but I'm not sure yet that enough compromise, enough consensus can be found. On agriculture, for example, there's still differences regarding the public stockholding for food security. And, the U.S. agricultural voices are not keen on that provision. Many developing countries in the WTO are arguing that they need to have more leeway to be able to stock food for security purposes.

And then a very important issue is curbing subsidies to prevent overfishing. And this ties in to the environmental sustainability agenda that I have referred to. And here again, some progress has been made, but I'm not sure that we can call it yet a deliverable in the sense that there's a very difficult discussion about whether some carve outs will be given to developing countries. So, the special and differential treatment is discussed very intensely, and whether giving too much leeway would hollow out the disciplines is a concern.

But there's also these other issues that the United States only brought to the fisheries discussion, and that has to do with transparency on forced labor and a commitment from all members to then notify if there is this practice in their vessels. And, some members are not keen to go there. So again, I don't know yet, David, if we're ready to have some major breakthrough in these important areas.

DOLLAR: Another potential small win is in the area of services trade, which in many ways is more complicated than just exchanging goods. So, I read that a group of countries that represent about 90 percent of world services trade are working on a on a sub-agreement, essentially. Can you tell us a little bit about what that entails? And I guess I'm kind of curious, why doesn't everybody join this kind of agreement?

SOLÍS: Well, this is the one agreement where I think that we may be closer to something substantial and a breakthrough in the negotiations. And this is really about the domestic regulation of services. So, the agreement is about cutting some of the red tape in terms of the licensing requirements that are needed in terms of tech standards. So, it's really about facilitating trade in services. And I think that the text there is almost ready. So, it's a little more optimistic of a reading of where we're at. And as you mentioned, this is just a subset of WTO members. I think that 65 members are partaking in these negotiations.

Now, it might not be, of course, entire membership, but I think if a breakthrough does happen, it's very positive because as you mentioned, these members cover 90 percent of

services trade. So it would have that impact. But also because these provisions will be applied on an MFN basis, which means that everyone gets to benefit from this greater facilitation and ease when it comes to the domestic regulation of services.

So, why exactly are so many countries sitting out? It's hard to tell, but on the other hand, the benefits will be coming to them. So this would be an agreement that, if it does materialize, will have broader application.

DOLLAR: It seems to me it's worth distinguishing two types of benefits from this kind of service liberalization. So the countries that are in the group are opening up their own markets and making it easier for international trade, international investment. So, all the countries of the world can benefit from that because of the most favored nation status you mentioned.

But as I see it, there are a lot of developing countries whose own domestic services markets are noncompetitive and highly restrictive. Developing countries have opened up their trade and manufacturers in particular, but they've been reluctant to open up the services. And I think in today's world, a lot of production involves the interaction of services and manufacturing. So, just my own personal view is countries are missing out by not opening up their own domestic markets to get the benefits of competition, though, as you say, they do get the benefits of market access.

SOLÍS: I think that's right, David. And we know that sometimes it's the domestic political constraints that, of course, there's a lot of regulation in the services sectors in developing countries and there's resistance to open up. And in this world of supply chains, as we've talked about in the past, it's really a combination. It's market access, it's service liberalization, investment flows. And therefore, if you want to attract some of these investments and partake full force in the global supply chain, further liberalization, including service sector, would be important for these other countries.

DOLLAR: But a good thing about this kind of open plurilateral agreement is that countries may wise up over time and join, so that's something we can look forward to. Let's talk a little bit about the dispute resolution problems. As I understand it, it is primarily the United States that has brought this system to a halt. Is that right? And what is the United States' strategy here? What does it actually want to achieve? And is there a prospect for some kind of compromise to get the dispute resolution mechanism working again?

SOLÍS: Well, that's a key question. As you know, the appellate body has not been operating for the past two years. The United States has blocked the appointment of new appellate body members, and that meant that there was no quorum and it was not possible to continue. I don't think that the United States is the only country that may have had some qualms with the dispute settlement mechanism, but it's the one whose actions have brought the appellate body to a halt.

Now the critical question here, David, is what is the end goal of the United States in doing this? Is there a way in which a path can be found to reactivate, rejuvenate the dispute settlement mechanism? Because, if we don't have a good way to enforce existing trade rules, we end up undermining, we end up eroding the system.

Now, to be quite frank, I cannot tell you with precision what is the end goal. Because neither the Trump administration nor the Biden administration have given us clarity on this. So, if you ask me, well, what are the frustrations, why the United States has taken these actions? I think that we have a clear sense of the arguments that have been made, the complaints center around questions of overreach, of judicial activism, of being a very slow process. And I think that there's been a lot of frustration, especially when it comes to trade remedies that the United States has imposed over time—countervailing duties, anti-dumping duties that were challenged in the WTO using the dispute settlement mechanism, and the

feeling that the appellate board members had overstepped their bounds. And therefore they had taken something that the United States had not given in the negotiation text.

So I think that there's an understanding of why the frustration. But what is not clear is what kind of fix would it take for the United States to say this is something that would work for us. Because the United States government has not given us a blueprint of dispute settlement reforms that they could live by. And therefore, we don't know if the goal is to fix the appellate body, or if the goal is to return the dispute settlement mechanism to something more akin to what the GATT, the predecessor to the WTO, had, which was more about diplomatic negotiations, less legalized way to solve disputes. And where quite frankly, countries with market power carried more weight because international law frequently is very advantageous for the smaller players. So I just don't know exactly where they want to go. And I think that it is frustrating to the WTO members because they cannot engage the United States in telling them, how do we fix this?

DOLLAR: Given the difficulty with reaching wide agreements that affect all WTO members, there's been a shift toward more bilateral trade agreements or regional trade agreements. And you wrote recently about the possibility of a U.S.-Japan Digital Alliance. So I'd like to hear a little bit more about that. And in particular, could that be expanded to a larger group of countries in the Asia-Pacific or globally?

SOLÍS: Yes. So, I wrote this paper on how should the United States and Japan modernize their economic alliance to take into account the burgeoning exploding digital economy. And there are different pillars that I explore, but one central pillar has to do with digital trade rules. And you may ask, Well, why am I advocating for this, given that the United States and Japan already have a digital agreement? Because I feel it's insufficient. I feel that this is not an issue that should be handled with a bilateral lens or a bilateral constraint. And therefore that for greater impact, for greater influence, what the United States



and Japan should try to do is to leverage that shared view they have on the standards for creating an open digital ecosystem and then try to engage other countries, other partners, and create a broader framework. That, to me, is a value proposition.

So, when I was writing this section of the paper, one phrase I used is, I think this has been an area of missed opportunities. Because it was there already, David, in the original Trans-Pacific Partnership trade agreement. You had digital economy provisions that went deep, that talked about data governance, that tried to prevent data localization requirements, and that had principles to secure privacy standards, cyber security. So, there's a lot of good cloth to cut from when you talk about the original TPP. Those provisions appear in the bilateral U.S.-Japan trade agreement.

But what we don't have is the United States and Japan with other countries in the Indo-Pacific making a statement and living by these commitments. And that, I think, is a gaping hole for the allies in how they think about the evolution of the international trading system.

So, I say this because at the same time that we don't have really coordinated action that can create that plurilateral agreement, digital protectionism is on the rise. So, the longer we wait, the harder it will be to make an impact. So, I would very much like to see the United States—because I understand that Japan has a strong desire to do this, and South Korea, and Singapore and many other countries in the region—is to really make a case for launching a plurilateral digital economy agreement, something that casts the United States as a rule shaper, as a country that would like to further integrate in the region, and therefore, that has a positive economic engagement message. That, to me, would be a much smarter way to compete with China than unilateral tariffs.

DOLLAR: But the U.S. will be hosting the APEC meeting in 2023. That's the Asia Pacific Economic Cooperation. The Asia-Pacific Group was set up several decades ago, now,

if I remember correctly, with the aim of promoting free trade in the Asia-Pacific region. And several decades later, we do not have any region wide free trade agreement. So, do you think there's much prospect for the U.S., as host, bringing anything significant and new in the area of Asia-Pacific trade liberalization?

SOLÍS: Well, that is my hope. And I find it reassuring that the United States raised its hand and said, we want to host APEC 2023. That in itself is very positive. Again, it ties in with the earlier point I was making that of late, the United States does not really have much game when it comes to the affirmative economic agenda for the region. So, volunteering to host APEC in 2023 sends some reassurance that the United States wants to remain wedded to the regional architecture and wants to be in the agenda setting part of this process.

Now, I think also that APEC has promise here, because of some of the way in which it has evolved over time. And I think that one of the assets it has is that it can be an incubator. It can be a pathfinder. And we've seen that played out when it comes to information technology liberalization, when it comes to environmental goods, some ideas are first developing in APECT and then they're tried in the broader WTO setting.

So, I think that having a smaller subset of countries, still all these issues are challenging. But by generating standards, by generating new ideas, I think that this could be beneficial.

Whether this translates into a major liberalization initiative, that is unclear to me yet, because, again, I feel that the Biden administration has not yet given us a clear sense on how they will develop this more proactive trade strategy. There's talk, as you know, about an Indo-Pacific economic framework. We've been told that maybe in early 2022 we'll get more of the details. But so far, it's a list of desirable items to include. But it's not certain if this will yield some really far reaching commitments, binding commitments, an agreement of sorts, or it would be more on the let's have some dialog to discuss issues. So again, without having

that piece of the puzzle there, yet, it's hard to say with what level of ambition will the U.S. hold APEC 2023. But I do think there are promising areas and it's a welcome development.

DOLLAR: So, while the Biden administration is showing ambivalence about any major new trade or investment agreements, China is pretty clear about its strategy. It's played a leading role in bringing the Regional Comprehensive Economic Partnership to fruition that'll go into effect in January 2022. Then the thing that surprised me a little bit is that China applied to join the Trans-Pacific Partnership after the U.S. dropped out. Japan really kept that alive under the name of the Comprehensive and Progressive Trans-Pacific Partnership. What do you see as prospects for Chinese membership? What are the pros and cons? And since Japan is really the big player in CPTPP, how is Japan reacting to China's application?

SOLÍS: Well, this is a big development, and I think that it has shaken the diplomatic trade game in the region, because it was not only China, but also Taiwan that applied for CPTPP membership. So in many ways, I wrote a piece with a phrase that geopolitics have landed front and center into the CPTPP. And this then creates some very interesting and challenging questions for the existing members and what they do with these bits.

In the best case scenario—and this is what I think some of the members who are more open to China's membership—if this was a way for China to really tackle economic reform, if this was akin to the process that motivated China to join the WTO, if this was a way to involve China into regional institutions so that it becomes more of a stakeholder and curb some of its state capitalism practices, become less aggressive in the use of its economic tools to pursue political ends, that this could be good news.

However, I'm skeptical that that is the current China. And I think China is indeed very serious in joining CPTPP, but my perception is that it's not prepared to give the levers of state intervention or moderate its international economic behavior in the use of coercive tools as a way to join the CPTPP. And therefore, the only way forward would be if there are carve

outs, if there are extended deadlines for China to abide by some of these disciplines. I feel that China's policies on data and the really strong data protectionism that China is practicing are really incompatible with the digital economy chapter that we were just talking about.

And you mentioned the Regional Comprehensive Economic Partnership, that is an important agreement, but it does not have rules on state owned enterprises or labor standards. And these would also be difficult areas for China to achieve the level of liberalization that are required for the CPTPP.

So I really feel that this is an existential question for the CPTPP, because if they bring China under those terms, they could end up hollowing out some of the key foundations and disciplines of the CPTPP. I think it would make it impossible if they downgraded CPTPP in this way to contemplate a future accession of the United States. And I think that therefore, I sense that members are treading very, very carefully. Of course, they would like to hear from China in more specific terms, how they think they could meet the standards. They have not yet decided whether to open a negotiation and create the negotiation, an accession working party.

But the signals that we hear—and it's not just Japan, but Mexico, and Australia, and other countries—are that prospective members should take on the full set of disciplines of the CPP, and also comments about how the practice of economic coercion is not compatible with the CPTPP.

So what I imagine, David, is that no one country wants to feel the wrath of displeasure from China. And it's by consensus, too, so if there isn't unanimity, it's not going to happen. So I imagine they'll have a good hearing from China on how China intends to pursue this, and if at some point it is not workable, I imagine that they'll reach a decision the group did not reach consensus rather than have individual countries be facing the brunt of this displeasure from China.

DOLLAR: I'm David Dollar, and I've been talking to my colleague Mireya Solís about WTO reform, why it's so difficult, and how that then stimulates so many other interesting developments in the world—emergence of new regional agreements, bilateral agreements. It's a very complicated and messy tableau out there for international trade policy. And Mireya, your talking and your writing helps us understand a lot of that. So thank you very much.

SOLÍS: Thank you. My pleasure.

DOLLAR: Thank you all for listening. We'll be releasing new episodes of Dollar and Sense every other week, so if you haven't already, follow us wherever you get your podcasts and stay tuned. Dollar and Sense is part of the Brookings Podcast Network. It's made possible by support from producer Fred Dews, our audio engineer Gaston Reboredo, and other Brookings colleagues. If you have questions about the show or episode suggestions, you can email us at [podcasts@brookings.edu](mailto:podcasts@brookings.edu), and follow us on Twitter [@policypodcasts](https://twitter.com/policypodcasts).

Until next time, I'm David Dollar and this has been Dollar and Sense.