

Remarks of  
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To understand the multilateral trading system, the WTO, it is useful to consider for a moment its beginning.

When the multilateral trading system was constructed three-quarters of a century ago, the way forward was clear. Franklin Roosevelt and Harry Truman knew exactly what they wanted to achieve: open markets, an end to discriminatory trading arrangements, and an absence of state intervention by government-run corporations. Their objective was to rebuild the world economy and underwrite a stable and long-lasting peace. They had the self-confidence, sense of purpose and, to be sure, the power and resources to create that world. It was a remarkably successful experiment from which all nations of the world who wished to participate benefited enormously. The trading system that the United States, and the nations that joined it, created contributed irrefutably to the well-being of peoples around the world.

Open markets helped prevent the restoration of fascism in Western Europe and was an important tool in defeating Soviet communism. The momentum from the actions of the leaders of that “greatest generation” led twenty-six years ago to a later generation codifying the rules and creating an institution to administer them, the World Trade Organization, the WTO. This was a significant step. All that had existed before the WTO, in the time of the GATT, was, in terms of its legal structure, temporary, an interim arrangement but one that lasted nearly a half century -- from 1948 to 1995.

Founded in 1995, the WTO, grew adding 36 nations to its original 128 Members. Today an additional 23 countries are in the queue seeking entry. The WTO has had some substantial accomplishments. Those accounting for most of trade in information technology products and pharmaceuticals were able to eliminate tariffs on their products. WTO Members were also able to settle hundreds of trade disputes peacefully, very largely complying with decisions by independent panels. Each Member agreed to undergo a periodic peer review of their trade policy measures. And in a new agreement in 2013, they agreed to facilitate trade by making borders less of an impediment to the transit of goods.

This is a solid record, but it does not foretell what the future holds for the WTO.

The WTO is in crisis. This is not the result of any particular event. The problem has been building slowly for some time. It is largely due to underinvestment by the

WTO's Members, as well as by business and civil society, in terms of the effort needed to maintain and improve the multilateral trading system. It is very much like the state of infrastructure in the United States – our bridges, our roads, our airports, our telecommunications systems, urgently require attention. In neither case is the appropriate answer to give up, to throw in the towel. Rather, it is a call to action.

To acknowledge that the trading system that we have requires improvement is not to diminish the fact that the system is vitally important even as it stands. Some 80% of world trade, despite a plethora of regional and bilateral trade agreements, still flows without discrimination at the levels set by tariff schedules filed with the WTO. But as was revealed by the pandemic, trade is governed by more than tariffs. For medical supplies and then vaccines, export controls -- explicit and implicit, pre-emptive purchasing, and even seizure of shipments by governments, disrupted trade. More recently there has been a build-up of sentiment that perhaps intellectual property rights were a major problem blocking access to vaccines by developing countries, and others have pointed to manufacturing capacity constraints. As a result of the pressing need to supply vaccines to populations around the world, there is renewed engagement by heads of state to make sure that the trading system rises to the challenge of dealing with the task at hand. Already the COVID-related restrictions on medical supplies of just over a year ago have been rolled back. Full attention is now focused on the production and distribution of vaccines.

In a pandemic, constraints on trade applied to other products are pushed into the background, but they still exist. For example, trade flows are increasingly shaped by product standards. Here WTO Members have a good record of sharing proposed standards in draft, allowing trading partners to comment on them. However, not only can standards be used to consciously restrict trade, governments may over-regulate -- a problem with which the world's chemical producers are very familiar. Former Director General of the WTO, Pascal Lamy, has pointed to a new and growing form of protectionism, which he calls "precautionism" -- a bureaucratic threat to international trade. What Mr. Lamy is referring to is the case of officials going too far in "protecting our citizens and consumers in advance against all kinds of possible risks".

There are deeper systemic problems exacerbated by the pandemic. For developing countries, and particularly the least developed among them, a major trade problem is lack of foreign exchange, lack of trade finance, and lack of capacity to do what is necessary to facilitate trade. It is often said that America has to care about foreign markets, because that is where the vast majority of future consumers reside. Unfortunately, there has been no trade initiative taken in the last several years to reach most of those markets, and insufficient efforts to make sure that there is effective demand present even if other barriers are removed.

A few months ago, the WTO's Members were unable to reach a new global trade agreement even for something as seemingly noncontroversial as committing not to

impose export restrictions on purchases of food by the World Food Program. The WFP is a Nobel Prize-winning agency of the United Nations dedicated to alleviating food shortages in the poorest of countries, and the proposal not to interfere with its purchases failed to gain approval. Why? In large part this is due to the WTO's operational rule that nothing is agreed unless it is agreed to by all Members. This is called decision by consensus, but in practice it has become something closer to a requirement of unanimity. With individual perceptions of self-interest differing, global cooperation requiring the participation of all Members has stalled, at least insofar as concluding new agreements is concerned. Absent a change in behavior or the way in which rules are adopted, the rule-making function of the WTO will begin to atrophy.

Compounding this state of affairs, after years of U.S. complaints about the operation of the dispute settlement system, the WTO lost its agreed appellate function with the result that unless special arrangements are made, panel decisions are no longer binding. Those who are engaged in trade require certainty, and binding dispute settlement supports the proposition that trade agreement will be lived up to. Enforceability has been the core feature that distinguishes the WTO from other international agreements. It is an essential ingredient of the global trading system.

The world trading system, the WTO, is facing a series of critical substantive tests. The greatest of these is whether the system will deal effectively with the trade aspects

of the pandemic, for trade is absolutely essential to the manufacture and distribution of vaccines. On this front I believe that tangible progress will be made.

The next test, of equal or greater difficulty, is likely to be the imposition of carbon border tax adjustment measures (CBAM). When imposed, these levies could dwarf current tariff levels. There will either be cooperation or conflict over these measures. A growing number of Members also wish to rein in fossil fuel subsidies to counter global warming. The solutions proposed can shape the future of industry as we know it today.

Equally challenging, the world of digital commerce will either be maintained or will fracture, depending on whether agreement on rules can be achieved. Making rules fit for the digital economy is the WTO's third greatest challenge of this time.

There are, of course, other issues. The world's oceans will either continue to be choked with plastic waste or rules will be put into place to reverse that deterioration. Here the world chemical industry, having contributed to the fight against COVID-19, can hold the key. Its ingenuity, its scientific achievements will be called upon to help solve this problem. The solutions put into place should not unnecessarily disrupt trade and investment.

Another difficult issue will be to create disciplines for industrial subsidies to prevent increasing trade distortions. This issue received the attention of the G7 trade ministers a few days ago. In this area as in others, transparency is essential. The problem cannot be dealt successfully without knowing what government support exists and tracking its effects.

Underlying the subsidy debate that will take place is the core underlying principle of the WTO, which is that, in general, market forces and not government intervention are to determine competitive outcomes. This issue is seen by the largest trading nations as a major point of difference that divides them. It is not an issue that can be dodged. Industries and their workers must not suffer from government intervention, whether through subsidies or more direct actions, that either deprives them of markets or cuts them off from essential feedstocks and intermediate products. Within this challenge lies opportunities as well as risks.

*Global value chain safe harbor agreements – reliable suppliers are owed dependable markets*

The U.S. government has clearly stated that a strategic competition exists between the United States and China. It is unlikely that a condition of stability can be readily achieved for the economic and political relationship as a whole. A question that the chemical industry and other industries can consider is whether there is enough mutual interest to create a stable relationship on a sectoral basis. If there is, it may be

possible to assure that geopolitical tensions do not spill over into disruptions of value chains and markets within a product sector.

Is there a mutual interest for maintaining trade flowing in both directions -- trade moving freely, without additional tariffs or other unnecessary barriers, and explicitly made exempt from sanctions?

By international agreement, there can be a relationship drawn between commitments not to interfere with supplies, on the one hand, and assurances of continued market access on the other. This might be applicable, for example to key agricultural commodities. One seemingly untried answer to the challenge of food security is to agree to offer supply commitments in return for increased market access in return and obviating the need to hold large domestic stocks of food. Similarly, in industry, can a commitment not to cut off exports of needed supplies, obviate the need for a high inventory of parts or other inputs?

With the onset of the pandemic, many politicians have found attractive the idea of on-shoring. A fundamental problem with this approach is that it is working against efficiency. Maintaining domestic stocks or building local capacity cannot generally substitute for international trade, not for most products. Wherever there are global value chains, there are candidates for agreements that minimize supply disruptions, as well as sudden losses of market access.

A key ingredient of a sectoral trade agreement would be to create a safe harbor even if the signatories decide to apply economic sanctions to each other more generally. The candidates for this type of agreement could include pharmaceuticals and chemicals. Products subject to the agreement could be subsidized without fear of the application of countervailing duties. In fact, in some instances, as during the pandemic, it might be agreed that subsidies to covered products that are part of a supply chain should be granted to expand needed supplies, as has been suggested by my colleague Chad Bown at the Peterson Institute.<sup>1</sup> Sector-specific safe harbor agreement agreements could serve as a template for a broader multilateral agreement such as for environmental goods (an EGA).

In product areas such as vaccines, where political sensitivity runs highest, an agreement would have to make provision for domestic set asides. This is the obverse of the WTO principle for the application of short-supply controls, where an “equitable share” is to be made available to other countries.

Having a few sectoral global value chain (GVC) agreements would prove that there was room for selective cooperation even if countries see themselves as being strategic competitors.

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<sup>1</sup> <https://www.piie.com/blogs/trade-and-investment-policy-watch/heres-how-get-billions-covid-19-vaccine-doses-world>.

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It is time to create WTO 2.0. The path has become clearer to have open plurilateral agreements in the WTO, such as for E-commerce. Not all 164 WTO Members should have to join every agreement reached in Geneva, nor should they be able to block an agreement negotiated in the WTO from coming into force.

Whether the current task at hand is the negotiation of plurilaterals, in the future also sectoral agreements, it is imperative that negotiators call upon and learn from those who are engaged in international trade, who know first-hand what is needed. The input of national associations and international associations of industries, as well as civil society, are an essential factor in making any trade negotiation successful. It is their knowledge gained from being in the arena that must inform trade negotiators. It is their participation that can assure the political support needed for ratification of agreements once reached -- a hurdle faced not just in the United States but in Europe and elsewhere wherever there are democratic governments.

Your energy and your support are needed to obtain ambitious results. It is time to see possibilities when others only see limits. You can help craft the future of international trading relationships. I urge you to do so. Now.