



A “Crisis Round” to Save the World Trading System

Arvind Subramanian proposes an urgent negotiated accord among major economic powers to freeze the current trading system in place and avert more protectionism.

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Steve Weisman: This is Steve Weisman at the Peterson Institute for International Economics. Our guest today on Peterson Perspectives is Arvind Subramanian, senior fellow at the Institute. Welcome.

Arvind Subramanian: Thanks, Steve.

Steve Weisman: We are meeting on the eve of the G-20 Summit in London and one of the issues of concern for the G-20, Arvind, is the push toward protectionism that you’ve written about and others have written about. Are they going to push back on the global rush to protectionist measures?

Arvind Subramanian: Steve, I think a bit of history might help here. The first communiqué of the summit held in November called upon all countries to do a standstill on protectionist measures. No more new protectionist measures. We know that since then, out of the 20 G-20 countries, at least 17 or 18 have undertaken some kind of protectionist action. So, what are they going to do this time? From all that you said, it seems like we will have a little more restatement of various intentions not to protect, but perhaps there might be some additional language on beefing up the ability of the WTO and maybe the World Bank to monitor these protectionist actions to induce some kind of “name and shame” dynamic in the system.

Steve Weisman: The World Bank issued its own report saying that 17 or 18 countries had engaged in these actions. Is that name and shame going to work?

Arvind Subramanian: I’m skeptical, Steve. I mean, there was some kind of commitment even at the November summit. The point is that domestic politics override any kind of international political declaration. Clearly, the international political declaration had really no impact on domestic action. So I’m not clear precisely for that reason. I’m not clear why going forward the same remedy will work in the future.

Steve Weisman: You have an idea that might tighten this agreement. What is the idea?

Arvind Subramanian: This is actually a proposal that Aaditya Mattoo of the World Bank and I have made in Foreign Affairs magazine. What we are saying is that we should have a kind of legal standstill commitment in the WTO by all countries for a limited period of time, let’s say three years, with quick dispute settlement procedures to back it up. Essentially, what we are saying is that we need to hold the line on

protectionism. Why not convert the political declaration of good intent into actually a legal commitment to give it greater teeth?

Steve Weisman: But this would be an agreement to stick with the status quo, not, for example, to lock in the concessions that were negotiated in the aborted Doha Round?

Arvind Subramanian: That's correct, Steve. In some ways, the Doha Round tries to achieve too much and too little. Too much, because it tries to open up new markets, for example, in agriculture and manufacturing, whereas what we need now is not opening up, it's just to prevent the closing up of markets. It also does too little, Steve, because many of the new protectionist actions that I have been monitoring are not being addressed in the WTO, are not being addressed in the Doha Round. So we need a new agenda. The standstill that we proposed would apply also to these new measures, an across-the-board legal commitment to freeze policy where it is now.

Steve Weisman: But when you called for a revision of the approach on the Doha Round, a lot of people took umbrage, including in Geneva. I take it now you think that you can incorporate your new idea into the existing Doha Round context?

Arvind Subramanian: That's correct, Steve. It's true that even the Foreign Affairs piece that we wrote was perhaps a little harsh in terms of the value of Doha. What we're proposing now is actually something that's very consistent with Doha in the following sense. If we can hold the protectionist tide over this next two or three years during these times of crisis, then the trading system might emerge from it strong and better able to conclude the Doha Round and indeed even to go beyond the Doha Round. We need to contemplate a more ambitious agenda. However, if we go through these times and protectionist actions really get worse and the trading system stands by helpless, that's not going to be very good for the credibility of the WTO in the trading system.

Steve Weisman: How practical is it though, Arvind, to get an agreement out of the 150, 160, 170 countries that participated in the Doha Round to have this kind of new crisis commitment?

Arvind Subramanian: That is a very important point, Steve, because in the WTO now, there are 150 members and de facto individually and collectively many of them have a veto power. So what we are proposing in this crisis round is for this commitment to be negotiated among a subset of the biggest trading countries. The G-20 is a very good starting point. They would undertake the commitment, they would freeze policy, and because it would just imply a standstill, it would actually only benefit those countries who don't participate. It won't help them because they wouldn't have to undertake any serious commitments and equally they would benefit from the commitments undertaken by the biggest trading partners. So it's kind of a win-win or at least a no-loss situation even for those countries which are not actually negotiating in this crisis round that we called for.

Steve Weisman: Is there any chance that this idea will at least be discussed in London?

Arvind Subramanian: I think it's too late probably to discuss this in London but we are very encouraged by the fact that the proposal is gaining a little bit more momentum because people see this as practical and doable. If there is commitment and

especially if protectionist measures start increasing and things start to look worse and the world economy looks as gloomy as it currently does, then we might be able to find the political impetus to actually respond to this crisis in a very sensible, pragmatic, and time-limited fashion.

Steve Weisman: Can you tell us a little bit more about who is receptive to this and who is not?

Arvind Subramanian: I think naming names of course is difficult, Steve, but we have discussed this with people in the WTO now and at the World Bank and also at presentations around Washington and outside. What we sense is that once the protectionist actions start looking serious, then people say, “Well, the Doha Round may not be able to address these problems. We need something new and this is kind of a proposal that could actually stem the protectionist tide.” So, let’s see, keep fingers crossed and hope that this gains a little bit more momentum, traction...

Steve Weisman: What’s the United States’ reputation going into these discussions after the Buy America provision and the stimulus package and the escalating trade dispute with Mexico, which appears to have been a violation of NAFTA, if not WTO agreements?

Arvind Subramanian: Yes. I think in some ways, at least after the crisis, the response of the United States has in some ways been the most worrisome. You mentioned Mexico and NAFTA, you mentioned Buy America, but also these huge aid packages to the auto industry essentially are also not overtly protectionist but they do affect the conditions of competition between the automakers that are receiving the subsidy and those that don’t, within the United States and outside the United States.

So, I do think that, yes, the United States is a little bit, can I say, one of the perpetrators of some of these protectionist measures. It’s by no means the only country doing so. As I said, everyone is doing it. But because the United States is big, the fiscal stimulus package is big, the aid package to the auto industry is very big—in some ways, if you think about it, the trading system is a creation of the Pax Americana. In the aftermath of World War II, the United States played the role of the benevolent henchman supplying this public code of international cooperation and creating the GATT and the success of the WTO. So if in some ways, the architect of the system is actually taking these protectionist actions, it’s always more worrisome.

Steve Weisman: It looks like it’s a very stormy moment. Do you think that it is possible to achieve progress out of this discord?

Arvind Subramanian: History shows us, Steve, that a crisis always creates the opportunities for major change. So my own view is that if the world economy recovers soon, then we will just end up with kind of low-grade protectionism. Maybe that’s not going to be too damaging for the system. However, if things take a noticeably bad turn, I think we will see the political momentum galvanizing around some immediate response to the creeping protectionism.

Steve Weisman: Arvind Subramanian, thank you very much.

Arvind Subramanian: Thank you, Steve.

