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Sustaining Trade Under Cloudy Prospect

Global Trade Governance: Whither Post-Ukraine?

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SYNOPSIS

Some argue that trade multilateralism is dead. This view is incorrect, trade multilateralism has taken a different form. Global trade governance in the Post-Pandemic and Post-Ukraine War era could be more fragmented and challenging.

COMMENTARY

THE CENTRALISED global trade architecture established with the enactment of the General Agreement on Tariffs and Trade (GATT) in the late 1940s worked well and brought about economic prosperity and social development all over the world.

Impediments to global trade, both tariffs and non-tariff barriers, were brought down significantly across a broad range of participating countries. This momentum towards trade liberalisation and investment facilitation had culminated in the establishment of the World Trade Organization (WTO) in 1995 as the sole legitimate governor of world commercial affairs.

Decentralising Multilateralism

More recently, there has been slow progress in multilateral trade negotiations including the Doha Development Round, and the establishment and proliferation of new regional trade agreements (RTAs). These include mega-scale trade deals such as the Regional Comprehensive Economic Partnership (RCEP) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) in the Asia-Pacific region.

This trend towards alternative trade liberalisation strategies have led some to argue that trade multilateralism is dead.

Indeed, the viability of multilateralism in the narrow sense of being a broad-based global deal-making exercise is being called into question given the tectonic shifts in the global balance of power. But trade multilateralism is not dead.

Rather, it has taken a different form. The world is moving from centralised global trading architecture embodied by WTO-centrality to a decentralising one with the WTO as the “senior” institution working with bilateral, regional, inter-regional and mini-lateral RTAs in the lower rung.

Rise of Nationalism and Populism

In other words, today’s global trade governance architecture is defined by the co-existence of multilateralism and regionalism as two complementary approaches to the provision of global public goods namely open trade and investment regimes.

In addition to slowing multilateralism, rising nationalism and populism worldwide, as well as Brexit, are other factors that are leading to the establishment of new RTAs.

For example, in 2021, the WTO saw a large number of RTA notifications thanks to Britain entering into RTAs with countries that had free trade relations with the European Union (EU).

Interestingly, many such RTAs had been negotiated during the transition period but could only take effect after Britain formally left the EU. Britain is now also negotiating a trade deal with India in accordance with its ‘Global Britain’ campaign.

Pros and Cons of Regionalism

There are a number of benefits from regionalism, though. First, regionalism provides a feasible approach to liberalising trade and is useful when WTO negotiations stall as in the present time. Second, modern RTAs typically promote deeper integration as compared to the shallower integration of the WTO which mainly tackles ‘on-the-border’ barriers.

RTAs can, therefore, address ‘behind the border’ issues such as rules for protecting investments, intellectual property, environment and labour rights, and regulations on product standards that are relevant to supply chain trade which now constitutes a large component of global trade.

RTAs also have several costs. The first is that they are discriminatory in nature. Granting preferences to some countries effectively discriminates against trade with others. That said, problems with trade diversion are more serious at the theoretical level than in practice.

The second category of risks are the so-called ‘spaghetti bowl’ effects. This arises when overlapping RTAs create a web of trade agreements with different

documentation rules, inspection procedure, and rules of origin, in effect raising the transaction and compliance costs for businesses.

While there is some element of truth, a number of studies including one by the [Asian Development Bank](#) and the other by the [Inter-American Development Bank](#) have found that these costs tend to be overestimated.

In a [forthcoming volume co-edited by us](#), using a benefit-risk framework rather than the 'contested multilateralism' argument which focuses solely on the costs of decentralisation, we find that, so far, decentralisation of the trade architecture has not led to its fragmentation.

In fact, global trade governance might have improved. RTAs appear to be complementary to the WTO and this architecture is more appropriate in the present context of a multi-polar world.

Governing Trade in the Post-Pandemic and Post-Ukraine Era

There are, however, limits to the complementarity between the WTO and RTAs. A new question is whether the above conclusion will hold in the future in the Post-Pandemic and Post-Ukraine War era?

The answer is that it depends on when the pandemic will end and how the relationship between the United States and its allies, Russia, and China will evolve in the future.

The global trade architecture is presently under severe strain and the world is moving towards trading blocs. It is not inconceivable for the conflict in Ukraine to lead to global economic bifurcation and fragmentation as in the past (the Western system versus the Council for Mutual Economic Assistance of the Soviet Union).

On 8 April, President Biden backed by the Congress signed into law a bill to end permanent normal trade relations with Russia thereby ending Russia's most-favoured-nation status.

The move authorising imposition of discriminatory trade policy measures with Russia is being replicated by other members of the Group of Seven (for example, Japan) as well. On the same day, Biden also signed another bill prohibiting importation of oil, gas, and coal from Russia.

Russia's Counter Response: Will WTO Reform Finally Come?

Russia's countermoves include, among others, building and enlarging a regional trade order around itself. The Russia-led Eurasian Economic Union (EAEU) is concluding an expedited trade deal with Iran.

Russia could also extend its geo-economic influence by making inroads into the Balkans. Bosnia Herzegovina is, for example, particularly keen on a trade deal with the EAEU.

Russia's economic relations with China and India are also improving. In such a context, how should the decentralising global trade architecture be managed?

The WTO must engage in serious reform, lest it fades into irrelevance. Being a member-driven organisation, the WTO is legitimate and universal in membership but it falls short on effectiveness.

The WTO needs to reform its decision-making modality (consensus) and negotiation formula (single undertaking) in order to strike a better balance between the three objectives of institutional legitimacy, membership universality, and output effectiveness.

The WTO also needs to strengthen its cooperation with RTAs. The WTO should tighten up transparency protocols to monitor the negotiation, conclusion, and implementation of RTAs.

Where possible, a WTO-sanctioned RTA textual template could be offered to countries to guide their ensuing negotiation efforts. This way, cross-RTA inconsistency could be minimised to enhance the global coherence of the RTA networks.

What Does the Future Look Like?

Governing trade in the Post-Pandemic and Post-Ukraine era will be more challenging. But challenges also come with opportunities.

The WTO and the RTAs should seize the opportunity to reinvent themselves to enhance complementarity to better regulate, promote, and facilitate global trade for a better future.

The Buenos Aires G20 Summit in 2019 had introduced the subject of WTO reforms as an agenda item for the G20 for the first time. But unlike in the area of global finance, the G20 has yet to come up with principles for WTO-RTA cooperation.

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