

MERCATUS SPECIAL STUDY



FINDING A WAY FORWARD ON TRADE
PRAGMATISM IN THE FACE
OF CHALLENGES

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Barbara C. Matthews and Christine McDaniel. "Finding a Way Forward on Trade: Pragmatism in the Face of Challenges." Mercatus Special Study, Mercatus Center at George Mason University, Arlington, VA, August 2024.

Abstract

The world's commitment to economic interdependence and rules-based multilateral trade is splintering. Since 2016 and across two different presidential administrations, the US policy stance has begun tilting away from a long-held commitment to the multilateral trading system. This is part of a global phenomenon: advanced economies are increasingly deploying tariffs, preferential treatment, and other trade restrictions to address national security and domestic policy priorities. China and Russia are the most frequent targets of such actions. To minimize the costs and detrimental effects of these actions, policymakers should realign trade policy priorities in two ways: recommit to core principles and pursue plurilateral agreements—specifically, binding plurilateral agreements with market access commitments and dispute settlement mechanisms. Well-designed plurilateral agreements can help nations to avoid costly and escalatory trade conflicts and to relieve pressure points in international trade policy, global supply chains, renewable energy policy, and even global overfishing. A recommitment to the original core principles of the Bretton Woods system, combined with plurilateral agreements, offers a pragmatic way forward for US trade policy.

JEL codes: F5, F50, F53, F55

Keywords: international trade, trade fragmentation, Bretton Woods, plurilateral agreements, geo-economics

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Arising tide of antitrade sentiment has dominated trade policy since the turn of the century. Long-standing trade principles such as national treatment and most-favored-nation status (MFN) are becoming secondary to national security and values-based policies related to climate and labor priorities. No longer is it considered a given that domestic policy goals should be implemented in the ways least restrictive to trade.

These policy shifts occur amid parallel and intensifying pressure points in the global trading system. Meanwhile, the unanimous consent required by the World Trade Organization (WTO) for all major decisions has left the organization paralyzed. Geopolitical tensions continue to rise as does discontent with China's participation in the WTO, with downstream impacts on supply chains. The global pandemic and the transition away from carbon-based energy additionally challenge the global trade framework in different ways.

The question now is whether the WTO system and its members can create a pragmatic framework for cross-border economic cooperation—one in which countries can work toward domestic policy goals in the way least restrictive to trade. We believe the near-term answer involves a recommitment to core principles and the pursuit of plurilateral agreements. Plurilateral agreements involve side agreements among a subset of WTO members. They operate in parallel with the multilateral trade infrastructure. When designed properly, they can complement and expand growth-enhancing cross-border trade.

The two main core principles are (a) national treatment, which means countries treat imported goods no better and no worse than domestically produced goods, and (b) most favored nation or MFN, which means each country grants the same trade advantages to one nation as it does to all other nations. The goal should be to choose the least-trade-restrictive mechanisms to achieve domestic policy priorities.

To avoid costly protectionist tendencies, domestic policy priorities should be pursued within the context of economic interdependence whenever possible. We make the following policy recommendations:

- The United States should strive to keep national treatment and MFN intact while finding the least-trade-restrictive ways to pursue domestic policy goals. Staying true to these core principles would constrain the economic costs that arise from protectionist tendencies both at home and abroad.
- Paralysis at the WTO need not stifle progress or economic interdependence among nations. When WTO members cannot reach unanimous agreement, the United States should pursue plurilateral agreements with willing nations that share common policy priorities, particularly with respect to renewable energy and ending harmful fisheries subsidies.
- We offer four guidelines for designing well-functioning plurilateral agreements:
 1. Articulate a clear intent.
 2. Commit to core principles to prevent protectionist policies from emerging.
 3. Maximize trade creation and minimize trade diversion.
 4. Identify clearly whether the agreement will be open or closed.

To support these policy recommendations, we discuss the current state of play in global trade policy and the economic costs created by supply chain fragmentation, review key lessons from history, and discuss global disillusion with China regarding international trade policy. Finally, we discuss the vulnerabilities that economic interdependence can create and suggest how plurilateral agreements can provide a pragmatic process to achieve national policy priorities while avoiding costly trade wars.

Current State of Play

Commitment to economic interdependence and a rules-based multilateral trade system is fading in the United States and around the world. Advanced economies increasingly deploy tariffs, preferential treatment, and other trade restrictions to address national security and domestic policy priorities without relying on the multilateral trade policy process.

Consider the recent trajectory of the United States as an example:

- 2017: The United States formally withdrew from the Trans-Pacific Partnership (TPP).

- 2019: The World Trade Organization’s Appellate Body ceased to function following the United States’ refusal to appoint members.¹ Efforts to reform the WTO dispute settlement system are ongoing, with no immediate prospect for a breakthrough owing to deep-seated differences among the contracting parties.²
- 2022: The United States formally announced a “friendshoring” trade policy that prioritizes cross-border trade arrangements with certain jurisdictions. The United States also passed the Inflation Reduction Act, which creates subsidies that exclude key trading partners through local content requirements.
- 2023: The United States Department of Commerce announced “national security guardrails” for federal funds allocated by the Creating Helpful Incentives to Produce Semiconductors for America (CHIPS) Act, limiting the use of those funds in “countries of concern”—China, Iran, Russia, and North Korea.
- 2024: The WTO’s 13th Ministerial Conference ended with the delegates’ failure to reach meaningful agreement, particularly with respect to agriculture, digital trade rules, and fisheries subsidies.

The United States is not alone. Geopolitical tensions with China and Russia have created incentives for Australia, the European Union, and the United Kingdom to diversify their trading relationships.³ WTO data show that merchandise trade volume growth has slowed, and trade patterns have begun to shift since 2021 as global value chains reorient.⁴

The first quarter of the 21st century has presented parallel challenges. The COVID-19 pandemic provided policymakers and voters globally with hard

1. This follows the 2011 decision by the United States not to reappoint Appellate Body Member Jennifer Hillman, the distinguished jurist from the United States, and the 2016 decision by the United States to unseat Appellate Body Member Seung Wha Chang, the distinguished jurist from South Korea.

2. Office of the United States Trade Representative, “Statements by the United States at the Meeting of the WTO Dispute Settlement Body,” January 27, 2023, <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2023/january/statements-united-states-meeting-wto-dispute-settlement-body>.

3. For instance, see recent statements by Australia’s trade minister, Don Farrell (“Australia Wants to Diversify Its Relationship with China,” CNBC, October 30, 2023, video, <https://www.cnbc.com/video/2023/10/30/australian-trade-minister-discusses-trade-ties-with-china-and-us.html>); UK Foreign Secretary James Cleverly (quoted in Ted Kemp, “New Foreign Secretary Cleverly Says UK’s Strategic Shift to Indo-Pacific Is ‘Permanent,’” CNBC, September 29, 2022); and EU member states’ trade ministers (“EU Trade Ministers Discuss How to Refocus Trade Policy in Times of Geopolitical Turmoil,” Spanish Presidency of the Council of the European Union, October 18, 2023).

4. World Trade Organization, *Global Trade Outlook and Statistics*, update, October 2023.

lessons about the downside risk and vulnerabilities that accompany economic interdependence. The transition away from carbon-based energy similarly restructures trading relationships and priorities at a time when global supply chains have been weakened by the global pandemic. Increasingly, policymakers choose to deploy subsidies and tariffs for the purpose of accelerating the energy transition. Bilateral negotiations avert debilitating trade disputes even as they fracture the global trading system.

The choice is rational given the WTO's paralyzed decision-making process. The consensus-based decision structure at the WTO effectively requires unanimity, which compromises its capacity to address emerging issues. Large nations, propelled by domestic policy priorities, move forward with policies that generate trade distortions. Recent examples include the following:

- US-led efforts to constrain cross-border flows of sensitive or dual-use capital and technology
- European Union initiatives to impose a carbon border import tax on imported goods that do not include a surcharge for embedded carbon emissions
- US and European Union domestic legislation and regulation that create subsidies, tax incentives, tariffs, and local or regional content requirements with respect to the production or sourcing of semiconductors, critical minerals, and renewable energy goods such as electric vehicle batteries and solar panels

From a national security perspective, it is rational to rebalance trade relationships and move to diversify supply chains away from authoritarian regimes. Advanced economies (particularly the United States and the European Union) rightly rely on tariffs and other trade policy mechanisms as tools of economic statecraft to punish enemies and advance domestic social policy priorities. China and Russia are the most frequent targets of such actions. The consequence is clear: supply chains are repositioning quickly along geopolitical lines while the WTO watches from the sidelines, unable to meet its objectives.

The current trade policy paradigm thus stands in stark contrast to the framework established by the architects of the Bretton Woods system at the end of World War II and reinforced by the General Agreement on Tariffs and Trade (GATT) shortly thereafter. Twentieth century policy architects sought to disincentivize armed conflict by creating a web of economic interdependences that would render supply-chain disruptions too expensive to contemplate. Today's trade policy choices may be rational, but protectionist policies and trade fragmentation are not without risk. Likely consequences include increased costs,

dampened growth prospects, lower real incomes, and weaker incentives for international cooperation.

History tells us that tariffs and trade tensions can escalate conflicts. For example, scholars have shown that the Smoot–Hawley tariffs constituted a major factor driving the global economic downturn of the 1930s; economic hardship paired with a punitive World War I settlement drove the rise of extremist policies that triggered World War II.⁵ Amid the devastating effects of the Second World War, Allied economic policy leaders met in Bretton Woods, New Hampshire, in 1944 to craft a different way forward: a foundation for economic interdependence and positive economic incentives for productive cross-border activity.

The Bretton Woods approach underpinned the modern global economy and helped deliver significant economic growth globally even as it evolved and expanded. That foundation is now crumbling.

Evolution away from the Bretton Woods multilateral system need not undermine growth-enhancing trade. In fact, the Bretton Woods architects did not establish a monolithic mechanism to promote economic interdependence. When multilateral agreement has not been possible, nations have *always* been free to move forward at a faster pace with like-minded partners.

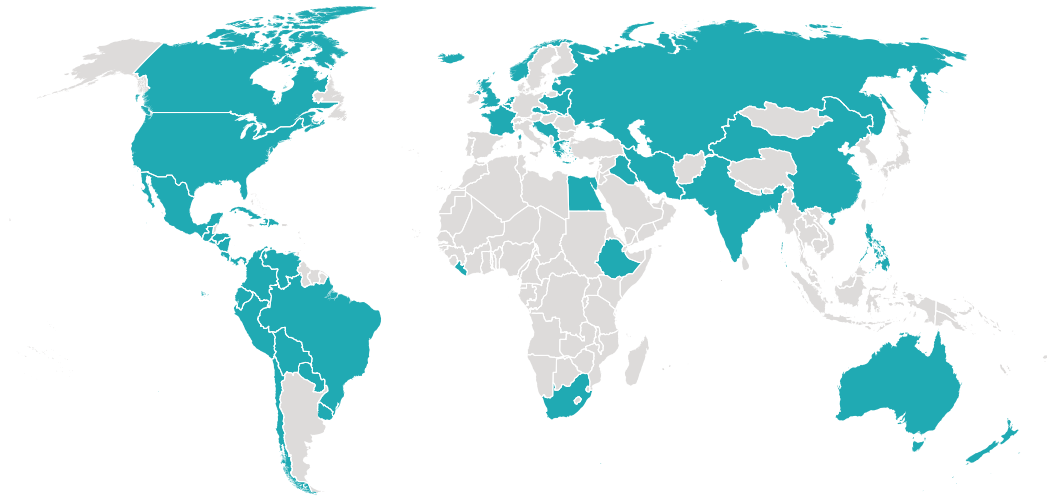
We believe that plurilateral agreements among willing partners are now the only logical option for those seeking to keep supply chains and the core of the global trading system functional. We argue that the appropriate way for policymakers to minimize the costly and detrimental effects of trade fragmentation is to (a) recommit to core trade policy principles and (b) embed those core principles within plurilateral agreements.

Historical Context: Bretton Woods, the GATT, and the Postwar Era

The modern trade era began in July 1944 when delegates from 44 World War II allied nations gathered at Bretton Woods to design a new framework for growth-enhancing cross-border economic relations. The Bretton Woods delegates were unlikely pioneers for what became known as the *global trade system*—a system that had open capital markets at its core. Few of the Bretton Woods participants could be considered free-market or free-trade champions,

5. See Mario J. Crucini and James A. Kahn, “Tariffs and the Great Depression Revisited,” in *Great Depressions of the Twentieth Century*, ed. Timothy J. Kehoe and Edward C. Prescott (Federal Reserve Bank of Minneapolis, 2007).

FIGURE 1. Countries that participated in the Bretton Woods Conference, July 1944



Sources: US Department of State, *Proceedings and Document of the United Nations Monetary and Financial Conference*, 1948, accessed July 31, 2024, <https://fraser.stlouisfed.org/title/proceedings-documents-united-nations-monetary-financial-conference-bretton-woods-new-hampshire-july-1-22-1944-430>. Spatial data from Nils B. Weidmann, Doreen Kuse, and Kristian Skrede Gleditsch, "The Geography of the International System: The CShapes Dataset," *International Interactions* 36, no. 1 (2010), <https://icr.ethz.ch/data/cshapes/>. Map by Riley D. Champine.

Note: The Bretton Woods Conference participants included Australia, Belgium, Bolivia, Brazil, Canada, Chile, China, Colombia, Costa Rica, Cuba, Czechoslovakia, Dominican Republic, Ecuador, Egypt, El Salvador, Ethiopia, French Committee of National Liberation, Greece, Guatemala, Haiti, Honduras, Iceland, India, Iran, Iraq, Liberia, Luxembourg, Mexico, Netherlands, New Zealand, Nicaragua, Norway, Panama, Paraguay, Peru, Philippine Commonwealth, Poland, Union of South Africa, Union of Soviet Socialist Republics, United Kingdom, United States of America, Uruguay, Venezuela, and Yugoslavia.

nor were they all free-market-loving capitalists. In fact, they were an eclectic group of battle-hardened allies that spanned global and ideological perspectives (see figure 1).

The historical transcripts show that participants had two goals: (a) to rebuild after the war and (b) to create an international trade and economic framework that would make another world war prohibitively costly.⁶ The pursuit of economic interdependence among nations was in the service of increasing incentives for cooperation and reducing incentives for military conflict. Free trade was not the stated goal.

The delegates envisioned a framework in which economic disputes and distress situations would be addressed within international forums. By linking the economic interests of buyers and sellers across borders at the individual-firm

6. *The Bretton Woods Transcripts*, ed. Kurt Schuler and Andrew Rosenberg (New York: Center for Financial Stability, 2014); Benn Steil, *The Battle of Bretton Woods: John Maynard Keynes, Harry Dexter White, and the Making of a New World Order* (Princeton, NJ: Princeton University Press, 2013).

level, the Bretton Woods architects designed a system to generate disincentives for future wars and conflicts, including mechanisms to advance trade facilitation—a topic that was mentioned 249 times in the transcripts.

The Bretton Woods architects were not idealists. They knew that elected politicians would be under pressure to protect domestic workers and industries from international competition as economic swings distributed gains and losses unevenly. They also knew that compromise and pragmatism would be required to avoid a return to the debilitating prewar tariff dynamics. The Bretton Woods framework for global trade focused on creating the following guardrails to ensure that national policies did not distort trade excessively:

- *Tariffs were not prohibited.* The principal goal was *not* to reach a zero-tariff level—that goal arose decades later. The principal goal in 1944 was to ensure that tariffs would not be used as a punitive measure. Multilateral tariff negotiations were designed to share the benefit of decreased tariffs evenly across the full membership.
- *Subsidies were not prohibited.* Only those subsidies that distort cross-border trade were prohibited.
- *Currency manipulation was not prohibited.* Only currency manipulation *for the purpose of* creating a trade benefit was prohibited, on the grounds that currency manipulation can distort purchasing and pricing power dynamics.

The Bretton Woods Conference laid the foundation for the creation of multilateral development banks, the International Monetary Fund, and a series of trade policy frameworks, starting with the General Agreement on Tariffs and Trade and culminating in the World Trade Organization.

The Bretton Woods structure was revolutionary. Before the Bretton Woods conference, international trade policy operated on a bilateral basis through reciprocity. For centuries, bilateral “friendship, commerce, and navigation” treaties established preferential trade and investment relationships with geopolitical allies.⁷ Structurally, such treaties can exacerbate geo-economic tensions because they are, by definition, exclusive to a single pair of nations at a time.

The postwar trade policy structure under the GATT constituted the first *multilateral* framework for providing coordinated reciprocal tariff reductions. First the GATT and then the WTO provided a framework for sovereign states to share the benefits of liberalized trade with a broad range of negotiating

7. John F. Coyle, “The Treaty of Friendship, Commerce, and Navigation in the Modern Era,” *Columbia Journal of Transnational Law* 51 (2013): 302–59.

parties well beyond the bilateral context. The multilateral framework also enabled the benefits of negotiated agreements to extend to *all* members, even if they had not participated actively in the negotiations. The multilateral framework creates positive incentives for tariff reductions and market access expansions as sovereign states negotiate concessions across unrelated areas simultaneously.

The informal negotiating sessions at the GATT ultimately evolved into a treaty-based multilateral international organization with a more formal (if not rigid) voting rights structure at the WTO. As we discuss below, well-constructed open plurilateral agreements can serve a similar function, at least to the GATT.

Trade policy negotiations have never been easy. The GATT was finalized in 1947 as an informal, ongoing negotiation rather than as an international organization with an independent juridical identity, an independent and binding dispute-resolution mechanism, and normative authority.⁸ As the history of the Havana Charter shows, initial efforts to create a formal international organization to deal with trade policy faltered immediately (see box 1).

The GATT provided the first framework for sovereign states to negotiate trade agreements in a decentralized manner. It was designed to distribute the benefits of lower trade barriers to all participants, even if those participants did not engage in the negotiations. The GATT articulated two core principles for the rules-based multilateral trade system: (1) treat all countries just as well as you treat your most favored nation and (2) treat imported goods just as well as you treat domestically produced goods.

- *Most favored nation.* The multilateral framework created incentives for lowering tariffs by extending tariff reductions to all GATT members simultaneously and equally. Each nation was treated as the “most favored nation” and provided with equivalent trade access, regardless of the nation’s size. Among other effects, this principle enables smaller nations to enjoy the benefits of the multilateral trading system.
- *National treatment.* National treatment sought to address local market rules discriminating against foreign imports. The principle dictates that, once imported goods enter a local market, those goods must be subject to the same regulatory standards and laws as locally made products.

8. The General Agreement on Tariffs and Trade, October 30, 1947, available from the World Trade Organization, https://www.wto.org/english/docs_e/legal_e/gatt47_01_e.htm.

BOX 1. Recent calls to return to the (failed) Havana Charter

Paralysis at the WTO increases the intensity of efforts to reform the trade policy infrastructure. Some have called for the resurrection of frameworks that were rejected decades ago. United States Trade Representative Katherine Tai recently called for the revival of the original vision of the Havana Charter, formulated in 1948 to create the International Trade Organization.^a This is a tall order.

The Havana Charter included an economic policy mandate that would overlap with domestic monetary policy (by requiring full employment), dictate domestic social standards (by setting labor standards), and mandate international development assistance. The Havana Charter also adopted a permissive stance toward subsidies and government procurement irrespective of their potential injurious trade effects.^b

These defining features of the International Trade Organization may have led to its demise. Concerns regarding sovereignty and economic freedom ultimately led to US congressional opposition. The Havana Charter failed. It was never ratified, and the charter was never even deposited with the United Nations.^c

The social and labor protection components of the Havana Charter remain attractive to today's new generation of progressive policymakers and commentators.^d The charter remains controversial, however. When progressives quote the Havana Charter of 1948, business advocates quote the Atlantic Charter of 1941^e and the New Atlantic Charter of 2021.^f When Ambassador Tai characterizes the global trading system as dominated by a "race to the bottom," conservative thinkers quote President Franklin Delano Roosevelt on the importance of robust international trade,^g noting that trade "has lifted over a billion people out of poverty, made us more productive, and contributed to peace."^h

Most of the dogma and ideological talking points from both sides of the political spectrum ignore the fact that modern trade agreements in the 21st century, including trade agreements executed and ratified by the United Statesⁱ and the European Union,^j already include the worker protections and other social standards that were originally articulated in the Havana Charter.

a. Katherine Tai, "US Trade Representative Katherine Tai on Modernizing the Transatlantic Partnership," interview by Frederick Kempe, Atlantic Council, June 3, 2024.

b. "United Nations Conference on Trade and Employment, Held at Havana, Cuba, from November 21, 1947, to March 24, 1948: Final Act and Related Documents," April 1948, https://www.wto.org/english/docs_e/legal_e/havana_e.pdf; Ajitesh Mohan, "Havana Charter: A Critical Assessment," November 2009, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1501277.

c. See the United Nations Treaty Collection entry for the Havana Charter, https://treaties.un.org/pages/ViewDetails.aspx?src=TREATY&mtdsg_no=X-1-b&chapter=10&clang=_en.

d. Katherine Tai, "US Trade Representative Katherine Tai on Modernizing the Transatlantic Partnership"; Gregory Shaffer, "Addressing the Negative Externalities of Trade: Flanking Policies and the Role of Package Treaties," *World Trade Review* 2024 (forthcoming); Richard Kozu-Wright, "Multilateralism Redux and the Havana Charter," *UN Trade & Development*, April 4, 2018.

e. Letter to the *Financial Times* signed by the National Association of Manufacturers, the Coalition of Service Industries, the Consumer Technology Association, the Software Alliance, the Coalition to Reduce Cyber Risk, and the United States Council for International Business, June 9, 2024, <https://www.ft.com/content/c982c879-af09-4b6a-9a99-87151a66f1fb>.

f. The White House, "The Atlantic Declaration: A Framework for a Twenty-First Century U.S.-UK Economic Partnership," June 8, 2023.

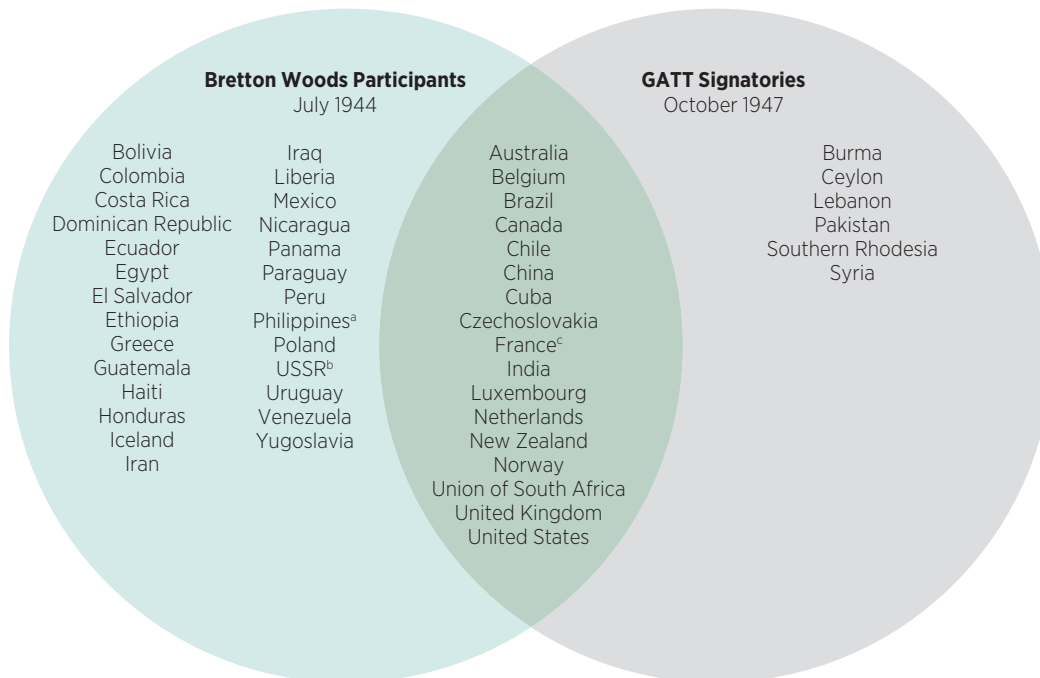
g. Inu Manak, "Why Progressives Should Embrace Trade and Globalization," Council on Foreign Relations, May 30, 2024.

h. Inu Manak and Helena Kopans-Johnson, "The Progressive Case for Globalization," Cato Institute, May 30, 2024. As for Middle America, whose voices are often lost in these loud debates, 74 percent of Americans polled by the Chicago Council on Global Affairs in 2023 said international trade is good for the US economy. Karl Friedhoff and Lama El Baz, "Most Americans See Value in International Trade," Chicago Council on Global Affairs, October 8, 2023, <https://globalaffairs.org/research/public-opinion-survey/most-americans-see-value-international-trade>.

i. See chap. 23 of the United States-Mexico-Canada Free Trade Agreement.

j. Zamfir Ionel, "Labor Rights in EU Trade Agreements: Towards Stronger Enforcement," European Parliamentary Research Service, January 2022.

FIGURE 2. The participants of the Bretton Woods Conference and the founding signatories of the General Agreement on Tariffs and Trade



^a Officially the Philippine Commonwealth between November 1935 and July 1946.

^b USSR refers to the former Union of the Soviet Socialist Republics.

^c France was officially known as the French Committee of National Liberation between June 1943 and October 1946 and the Fourth French Republic between October 1946 and October 1958.

Less than half of the countries that had been present at the Bretton Woods Conference signed the GATT when it was first articulated (see figure 2).

The GATT did not establish a treaty foundation for “free trade.”⁹ The negotiators merely sought to reduce tariffs and other trade barriers and eliminate preferences on “a reciprocal and mutually advantageous basis,” all in the service of fostering economic interdependence and reducing incentives for military conflict.¹⁰

During the Cold War, the GATT became synonymous with free-market capitalism. Totalitarian and communist governments such as those of the People’s Republic of China and the former Union of Soviet Socialist Republics

9. *Free trade* refers to the unrestricted exchange of goods and services across borders and free of government interference in the form of import quotas, protective tariffs, export subsidies, etc.

10. The GATT’s preamble states that the signatory nations are “desirous of contributing to these objectives by entering into reciprocal and mutually advantageous arrangements directed to the substantial reduction of tariffs and other barriers to trade and to the elimination of discriminatory treatment in international commerce.”

(USSR) did not sign on to the GATT.¹¹ Instead, the USSR launched a competing but far less successful trade bloc: Comecon (the Council for Mutual Economic Assistance).¹² The communist economic models in the USSR and the People's Republic of China provided the counterpoint for the GATT's framework of cross-border economic integration based on free enterprise and on managing tariffs through multilateral sovereign negotiations.

Broad support for trade liberalization led to a series of trade negotiations under the auspices of the GATT, including the Kennedy Round in 1967, the Tokyo Round in 1979, and the Uruguay Round in 1995 (see figure 3).

It took decades and the end of the Cold War before sufficient cross-border political consensus existed to support a formal international trade organization with institutional infrastructure. After the presumed end of communism in the 1990s, sovereign states were prepared to accept an international organization with international legal personality, normative authority, and judicial authority: the World Trade Organization was launched in 1996 (see figure 3). The peace dividend, bolstered by the WTO, paid off. Trade as a share of global GDP increased from 43 percent in 1996 to 63 percent in 2022. Large increases in international trade and investment flows have helped lift billions of people out of poverty and have increased real incomes around the world.

Disillusion with China

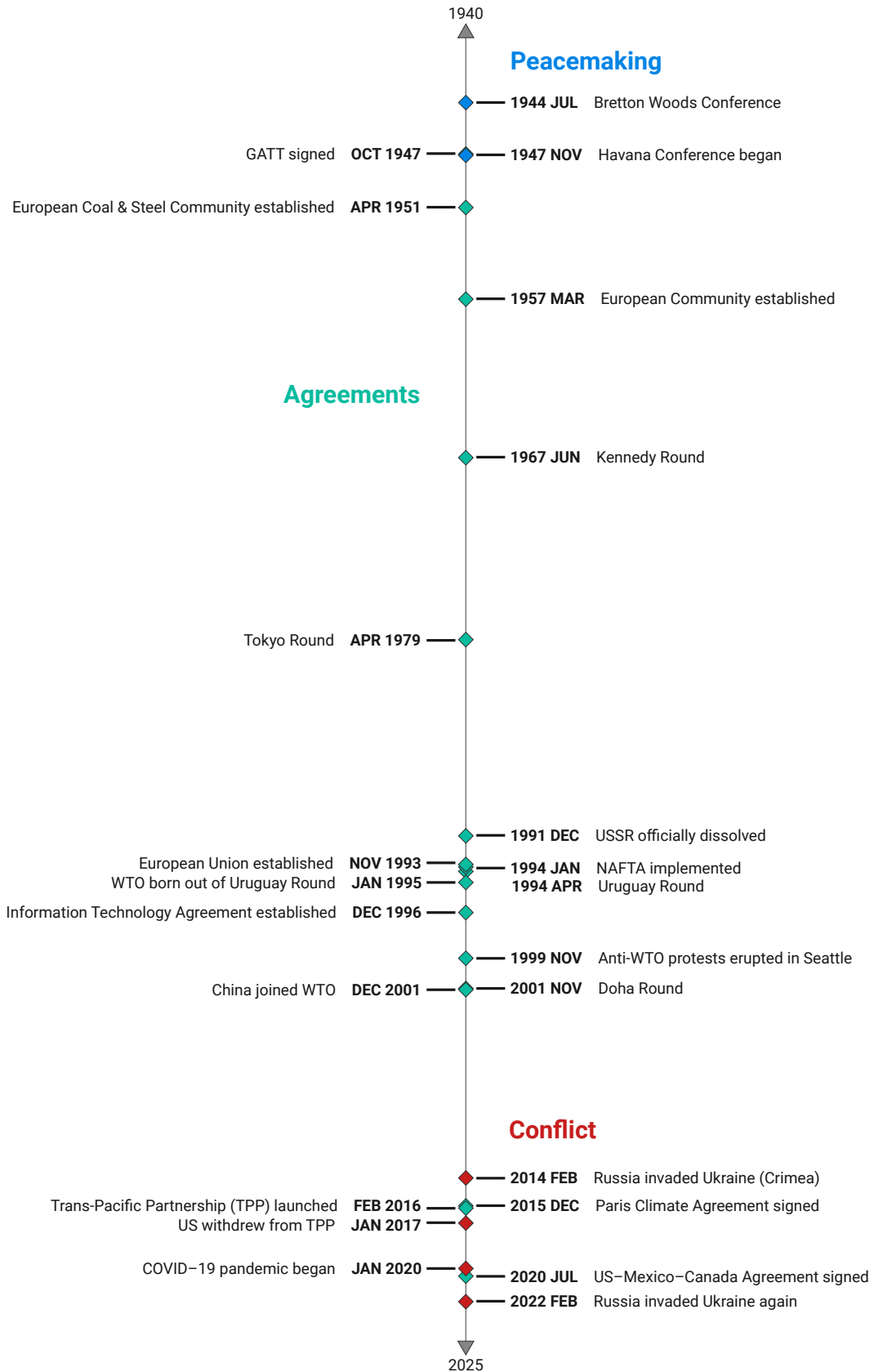
Representatives of prerevolutionary China attended the Bretton Woods Conference, and China was one of the original contracting parties to the GATT in 1947. But China deactivated its status in 1950 once the Chinese Communist Party was established. The Chinese Communist Party's focus on central planning and isolationism was incompatible with the trade liberalization principles of the GATT.

China's pivot to the global economy propelled it to join the WTO in 2001. In retrospect, this move represents the high-water mark for cross-border economic interdependence. Integrating a command economy operated by an authoritarian

11. While China was one of the GATT's original contracting parties, its status was deactivated in 1950 after the formation of the People's Republic. And, though representatives of the USSR participated in the Bretton Woods Conference, the USSR did not sign the GATT. For information regarding countries' participation in the Interim Commission, which was a precursor to the GATT, see Peter Neumann, "The Relationship between GATT and the United Nations," *Cornell International Law Journal* 3, no. 1, art. 5 (1970): 63–78.

12. *Encyclopedia Britannica Online*, s.v. "Comecon," last modified April 17, 2003, <https://www.britannica.com/topic/Comecon>. Comecon membership encompassed the USSR, Bulgaria, Czechoslovakia, Hungary, Poland, Romania, Albania, the German Democratic Republic, the Mongolian People's Republic, Yugoslavia, Cuba, and Vietnam.

FIGURE 3. Milestones and periods of peacemaking, agreements, and conflict significant to economic interdependence



Source: Authors' rendition.

government into a trading system designed to support incentive structures for market economies was never going to be easy. The vulnerabilities associated with including China within the global trading system have become apparent only recently.

During the negotiations that led to China's WTO accession, US President Clinton expressed the prevailing optimism of the post-Cold War era that trade liberalization would spark political liberalization: "Membership in the WTO, of course, will not create a free society in China overnight or guarantee that China will play by global rules. But over time, I believe it will move China faster and further in the right direction, and certainly will do that more than rejection would."¹³ In other words, the United States was not going into the agreement blind but did have high hopes.

WTO membership failed to spark the kind of internal political change many had hoped to see in China. It did, however, cement China's position as the leading producer of a broad range of retail and wholesale manufactured products.¹⁴ The compromise that permitted a "non-market," centrally planned economy to participate on a par with market economies and that waived the application of key rules in China's case has become the subject of increasingly strident debate and ongoing trade tensions.¹⁵ Many now regret having waived the WTO rules for China.

Since the beginning of the 21st century, the Chinese Communist Party has tightened its grip on the domestic economy while restricting access to the domestic market for its trading partners' companies. Government-directed allocation of capital and labor combined with a state-led impetus to export has complicated considerably firms' capacity to compete—either within China or in their home market. Meanwhile, China has cemented its position as the largest trading partner for many countries, which leaves these countries vulnerable to Chinese saber-rattling. State-driven production surges in China can drive down consumer prices, but they can also crowd out other market participants in China and abroad—a phenomenon known as *overcapacity*. The volume of complaints and

13. Bill Clinton, "Full Text of Clinton's Speech on China Trade Bill," *New York Times*, March 9, 2000.

14. Yeling Tan, "How the WTO Changed China: The Mixed Legacy of Economic Engagement," *Foreign Affairs*, February 16, 2021; Henry Gao, Damian Raess, and Ka Zeng, "China's 20-Year Engagement with the WTO: Opportunities, Challenges, and Responses," Hinrich Foundation, December 5, 2023.

15. Waivers and modifications of WTO rules and standards to accommodate China's centrally planned economy covered a wide range of traditional trade policy protections regarding antidumping, market access, subsidies, and intellectual property. Alan Wm. Wolff, *Revitalizing the World Trading System* (Cambridge University Press, 2023), 228–32.

BOX 2. Evolving views on China from the United States Trade Representative

Compare these major statements from the United States Trade Representative in 2001 and 2023:

- US Trade Representative Robert Zoellick in 2001: “Today’s decision by WTO members endorsing the terms of China’s entry into the WTO will strengthen the global economy and the international rule of law for trade. China has made a firm commitment to the rest of the world to open its markets and adhere to international, market-based rules, which will help American workers, consumers, farmers and exporters.”^a
- US Trade Representative report in 2023: “China has a long record of violating, disregarding, and evading existing WTO rules,” and “China’s decision to continue pursuing a state-led, non-market approach to the economy and trade . . . undermines fair, market-oriented decisions made by foreign enterprises and distorts market outcomes in significant ways.”^b

a. Quoted in “U.S. Trade Representative Robert B. Zoellick Welcomes Developments on China’s WTO Accession,” Office of the United States Trade Representative, September 17, 2001.

b. United States Trade Representative, *2023 Report to Congress on China’s WTO Compliance*, February 2024.

concerns regarding Chinese trade practices has risen. See box 2 for the evolving views on China from the United States Trade Representative.

After years of negotiation, the business community has grown frustrated with China’s resistance to initiatives to open its domestic market to trade and investment on market terms. Policymakers from the United States, the European Union, and Japan have been calling out the problem formally and publicly since at least 2017.¹⁶ During a 2024 visit to China, US Secretary of the Treasury Janet Yellen strongly criticized China for fueling industrial overcapacity with excessive state subsidies.¹⁷

In addition, China’s increasingly aggressive military actions pose threats to international navigation and freedom of the seas, further destabilizing both supply chains and established frameworks for cross-border cooperation. Initiatives to reform the WTO or at least to implement the existing WTO standards against China have languished for years. Geo-economic and geopolitical differences place advanced economies at odds with China while emerging economies resist initiatives that could compromise their economic relationship with China.

16. Office of the United States Trade Representative, “Joint Statement by the United States, European Union, and Japan at MC11,” December 12, 2017.

17. Marius Zaharia et al., “Analysis: What Overcapacity? China Says Its Industries Are Simply More Competitive,” *Reuters*, April 11, 2024, <https://www.reuters.com/graphics/CHINA-USA/TRADE/zdvxneaxvx/>.

During the 24 years since the People’s Republic of China joined the WTO, Chinese government leaders have demonstrated little loyalty to the trade policy architecture created in New Hampshire in 1944. China is not the only country globally expressing discontent with the WTO structure. Nor is China alone in attempting to use the WTO structure to constrain policy choices available to advanced economies in general and the United States in particular. Foreign policy leaders from Africa, India, and Latin America also challenge the rules-based international order as they seek to use the WTO to rein in the economic and political power wielded globally by advanced economies.¹⁸

Amid this gridlock, the United States, the European Union, Canada, and other nations increasingly seem resigned to the reality that economic openness will not generate policy reform toward a market economy in China. They also increasingly view the WTO as an ineffective mechanism for addressing China’s failure to comply with rules designed for market economies.

Policymakers globally now rely on more aggressive tools of domestic economic statecraft, such as export controls and tariffs on a range of Chinese goods, particularly regarding solar panels and electric vehicles.¹⁹ In response, China has threatened legal action at the WTO while launching bilateral trade negotiations with the European Union.

A Hard Lesson: Interdependence Creates Vulnerabilities

Trade and policy tensions with China coincide with a range of parallel pressure points that shine a spotlight on the downside of cross-border economic interdependence. Stated simply, economic interdependence creates vulnerabilities. Competition and labor market impacts from trade policy have been well documented, fueling domestic policy pushback against free trade for decades. The 21st century so far has brought to light additional, unanticipated vulnerabilities

18. For Africa, see Tim Murithi, “Order of Oppression: Africa’s Quest for a New International System,” *Foreign Affairs*, April 18, 2023. For India, see Nirupama Rao, “The Upside of Rivalry: India’s Great-Power Opportunity,” *Foreign Affairs*, April 18, 2023. For Latin America, see Matias Spektor, “In Defense of the Fence Sitters: What the West Gets Wrong about Hedging,” *Foreign Affairs*, April 18, 2023.

19. The White House, “Fact Sheet: President Biden Takes Action to Protect American Workers and Businesses from China’s Unfair Trade Practices,” May 14, 2024; Josh Boak et al., “Biden Hikes Tariffs on Chinese EVs, Solar Cells, Steel, Aluminum—and Snipes at Trump,” Associated Press, May 14, 2024; “EU Hits Electric Vehicles from China with Higher Tariffs,” *New York Times*, June 12, 2024; “China to Challenge Biden’s Electric Vehicle Plans at the WTO,” Associated Press, March 26, 2024; Taylan Bilgic and Firat Kozok, “Turkey Moves to Counter Rising Tide of Chinese EV Imports,” Bloomberg, December 8, 2023; Sébastien Ricci, “China Says It Has Right to File WTO Suit over EU Electric Car Tariffs,” *Barron’s*, June 13, 2024; “Canada to Start 30-Day Consultation to Impose Surtax on Chinese Electric Vehicles,” Associated Press, June 24, 2024; Michael Schuman, “China Has Gotten the Trade War It Deserves,” *Atlantic*, May 15, 2024.

associated with highly integrated supply chains even as the energy transition creates new challenges for trade policy.

Economic interdependence deepens geopolitical vulnerabilities

Trade and cross-border economic integration have become synonymous with vulnerability rather than growth.

- *Pandemic.* The COVID lockdowns amplified preexisting trade tensions as nations experienced significant economic dislocation. Inability to source goods from foreign partners, including China, led to increased uncertainty and uncomfortable exposure. Nations were quick to take action to facilitate the flow of essential goods and medical supplies, in line with the GATT's Article XX on social and health exceptions that justifies a broad range of trade-restrictive measures intended "to protect human, animal or plant life or health."²⁰
- *Russia.* Russia's second invasion of Ukraine in 2022 further increased incentives to diversify supply-chain relationships, but for different reasons. The resulting dislocations in trading relationships shined a spotlight on Europe's energy reliance on Russia.
- *Middle East.* Persistent and escalating conflicts in the Middle East impose additional costs and incentives to diversify supply chains. The main shipping lanes between China and Europe run through the Red Sea. Renewed Arab-Israeli combat has combined with continual piracy and militant attacks on global shipping to create material bottlenecks that can shift trade patterns. These shifts increase the cost of shipping goods.

Increased costs for trade-related goods strike at the core of the value proposition for economic interdependence. Persistent price pressures for those goods create significant incentives to redirect sourcing strategies closer to home.

Trade fragmentation creates costs and a drag on growth

Supply-chain diversification may be necessary, but the resulting trade fragmentation creates costs. Adding intermediaries in the supply chain to address potential security threats can be a costly endeavor for firms and consumers. Policymakers have apparently determined that the price of security is justified.

20. World Trade Organization, "Export Prohibitions and Restrictions: Information Note," April 23, 2020, https://www.wto.org/english/tratop_e/covid19_e/export_prohibitions_report_e.pdf.

Negative security externalities associated with overreliance specifically on China can be offset or mitigated through trade diversification.²¹ US Treasury Secretary Yellen in 2023 specifically advocated a shift toward “friendshoring” as a way to insulate the US economy from supply-chain vulnerabilities associated with China while rewarding strategic partners with growth-enhancing trade.²² The benefits associated with mitigating security externalities, however, are much more difficult to quantify than the immediate costs of diversification.

The shifts are occurring nonetheless. Recent research from the European Central Bank confirms that, since 2017, bilateral trade flows have been materially impacted by whether nations are aligned (+6%) or are foes (−4%).²³ The effects in Europe are more pronounced. Before the 2022 invasion of Ukraine, the European Union was Russia’s largest trading partner. Following the invasion, the region’s trade with geopolitically aligned countries (predominantly the United States) increased by 13 percent while its trade with Russia, not surprisingly, plummeted.

Initial indications suggest that trade is reorienting itself along regional and political lines globally, which intensifies fragmentation and geopolitical fragility. The Kearney Reshoring Index reports that “American, Canadian, and Mexican nearshored and reshored industrial production efforts [have been] continuing to take market share away from manufacturers in LCCRs [low-cost countries and regions]—including mainland China.”²⁴ Faced with increasing economic restrictions in protest of the invasion of Ukraine and the ongoing war there, Russia is also rapidly redirecting its trade relationships to prioritize bilateral trade with China.

In October 2023, the WTO’s *Global Trade Outlook and Statistics* report quantified shifts in global supply chains.²⁵ Since 2019, US trade in parts and accessories increased with the United States’ North American partners under the United States–Mexico–Canada Agreement (USMCA), while bilateral trade with China decreased slightly.²⁶ Yet China remains a significant presence in US supply chains despite recent diversification initiatives. Between 2017 and 2022, many US firms seeking to avoid tariffs ceased importing directly from China.

21. Joanne Gowa and Edward Mansfield, “Power Politics and International Trade,” *American Political Science Review* 87, no. 2 (June 1993): 408–20.

22. Janet L. Yellen, “Transcript: US Treasury Secretary Janet Yellen on the Next Steps for Russia Sanctions and ‘Friend-Shoring’ Supply Chains,” speech transcript, Atlantic Council, April 13, 2022.

23. Costanza Bosone et al., “How Geopolitics Is Changing Trade,” *ECB Economic Bulletin* (European Central Bank), no. 2 (2024).

24. Patrick Van den Bossche et al., “Made in America: Here to Stay? 2024 Reshoring Index,” Kearney, accessed July 18, 2024, <https://www.kearney.com/service/operations-performance/us-reshoring-index>.

25. World Trade Organization, *Global Trade Outlook and Statistics*.

26. China’s share of US trade in parts and accessories declined from 11.4% in 2019 to 10.5% in 2023, while North America’s share increased from 35.6% to 38.2% over the same period.

They shifted sourcing priorities to emerging markets such as USMCA partners Mexico and Vietnam.²⁷ But the countries that increased their presence in US supply chains also increased their imports from China, which suggests that supply-chain dependencies and vulnerabilities persist.

The additional costs of tariffs and forced shifts to higher-cost suppliers increase prices for American consumers and businesses. In addition, a fragmented, less-integrated world may not be as secure if trade fragmentation reduces disincentives for conflict. As the WTO's director-general Ngozi Okonjo-Iweala noted in the *2023 World Trade Report*, trade fragmentation can dismantle the growth and development benefits that trade has helped deliver around the globe.²⁸

Supply-chain diversification initiatives are rational and effective. They minimize vulnerabilities related to concentration risk and supply-chain bottlenecks. They provide a nonviolent response to military aggression. But they come at a price: increased inefficiencies and costs.

Geopolitical tensions create familiar pressure points for trade policy. The GATT itself (in Article XXI) expressly carved out "essential security interests" from its free trade obligations.²⁹ Subsequent multilateral trade agreements (e.g., the General Agreement on Trade in Services) incorporate comparable provisions. The Trump administration relied on Article XXI of the GATT to justify its section 232 tariffs on Chinese aluminum imports.³⁰ But the first nation to cite Article XXI's national security exception in a formal dispute was Ukraine, in response to Russia's 2014 invasion of Crimea.³¹

A steadily escalating stream of trade initiatives since 2018 illustrates the scale of the shift toward using trade-restrictive economic statecraft tools to address geopolitical vulnerabilities:

- After the United States and the European Union hiked tariffs on Chinese electric vehicle imports, China responded immediately with threats to disrupt dairy and pork shipments from Europe.³²

27. Caroline Freund et al., "Is US Trade Policy Reshaping Global Supply Chains?" (Policy Research Working Paper 10593, World Bank Group, Washington, DC, October 2023).

28. World Trade Organization, *World Trade Report 2023: Re-globalization for a Secure, Inclusive and Sustainable Future*, 2023.

29. See "Article XXI: Security Exceptions," in *Analytical Index of the GATT*, available from the World Trade Organization, accessed July 18, 2024, https://www.wto.org/english/res_e/booksp_e/gatt_ai_e/art21_e.pdf; Peter Van den Bossche and Sarah Akpofure, "The Use and Abuse of the National Security Exception under Article XXI(b)(iii) of the GATT 1994" (WTI Working Paper No. 03/2020, World Trade Institute, 2020).

30. Brandon J. Murrill, "The 'National Security Exception' and the World Trade Organization," Congressional Research Service, November 28, 2018.

31. Van den Bossche and Akpofure, "Use and Abuse of the National Security Exception."

32. Trevor Hunnicutt and Steve Holland, "Biden Sharply Hikes US Tariffs on an Array of Chinese Imports," *Reuters*, May 14, 2024; Philip Blenkinsop, "EU Hits Chinese EVs with Tariffs, Drawing

- In an attempt to address national security concerns and maintain technological supremacy, the United States led a multicountry effort to impose targeted trade sanctions on China, limited to sanctions on trade involving computer chips, software, and items with advanced dual-use technology (that is, technology that can be used for both civilian and military applications).
- The United States also imposed restrictions on exports of software and information technology to Russia, in parallel with secondary sanctions against more than 300 individuals, as policymakers ratchet up the economic pressure on Russia in retaliation for its unprovoked invasion of Ukraine in 2022.³³ Russia responded by halting domestic market trading in dollars and euros.³⁴

None of these nations referenced the WTO when they imposed the tariffs in question, although China has threatened legal action at the WTO to defend itself against the 2024 electric vehicle tariffs. (This is an empty threat given the dormant dispute-resolution process at the WTO.)

Each of the policy moves referenced above reflects legitimate security and strategic concerns. We do not question the wisdom or necessity of using trade policy to address legitimate national security concerns. Indeed, mitigating national security vulnerabilities may require trade-restrictive solutions that violate national treatment and MFN principles.³⁵ The risk, however, is that over time policymakers may align trade policy paradigms for the 21st century without seeking to preserve the core principles for economic interdependence that have served the world well for more than 80 years.

If strategies in a trade-restrictive policy tool kit become normalized as acceptable means to address the next generation of domestic policy issues, cross-border economic interdependence will erode further, which will generate

Rebuke from Beijing,” *Reuters*, June 12, 2024; Joe Cash, “Chinese Firms Reserve Right to Request Investigations into EU Pork, Dairy,” *Reuters*, June 13, 2024.

33. US Department of the Treasury, “As Russia Completes Transition to a Full War Economy, Treasury Takes Sweeping Aim at Foundational Financial Infrastructure and Access to Third Country Support,” news release, June 12, 2024, <https://home.treasury.gov/news/press-releases/jy2404>.

34. Alexander Marrow and Mark Trevelyan, “Russia, Hit by New US Sanctions, Halts Dollar and Euro Trade on Main Bourse,” *Reuters*, June 12, 2024.

35. “Comparative advantages are not necessarily inherent in a country. . . . They can be created, usually through industrial policy, subsidies, and trade restrictions. . . . Further, manufacturing is about more than economics. . . . Maintaining a vigorous manufacturing sector is important for other reasons, too. First, there are obvious national security implications in relying on other countries, particularly hostile ones. . . . Once a war begins, it is too late to build manufacturing capacity.” Robert E. Lighthizer and Gordon H. Hanson, “After Free Trade: Trump’s Legacy and the Future of the Global Economy,” *Foreign Affairs*, February 13, 2024.

adverse economic consequences for consumers and businesses alike. The risks intensify amid a parallel shift toward using trade policy tools to address climate-related concerns and the energy transition.

Climate-related policy initiatives can create more trade tensions

Many policymakers attach the same importance to combatting climate change and accelerating the energy transition as they do to combatting threats to national security. Both are seen as existential risks. The trade policy remedies deployed to address climate-related risks, however, are different from those used to address national security risks. The key climate and energy policies that intersect with trade policy include the following:

- *Market-based carbon pricing* increases the cost of goods and services by explicitly incorporating estimated carbon emissions costs into product pricing.
- *Green subsidies* accelerate the development and use of renewable energy sources in order to decrease reliance on carbon-based energy.
- *Renewable energy trade and partnership agreements* secure access to critical minerals and renewable energy (mostly hydrogen) on a bilateral basis; they often also impose local content requirements for assembled goods.
- *Carbon border taxes* increase the cost of carbon-intensive imported goods to ensure that carbon emissions (including those emissions expended when the goods cross borders) are expressly incorporated into a foreign product's price.

Some legal scholars argue that the GATT's Article XXI national security exception—either alone or in combination with Article XX—should be used to justify these trade-restrictive measures.³⁶

Policymakers are implementing climate-related policy initiatives faster than the WTO can act. As of May 2022, the World Bank reported that 27 carbon tax regimes were in operation globally.³⁷ Carbon taxes levied against imports present particularly challenging trade issues. At its core, a carbon tax applied to imports in the absence of a market-set carbon price constitutes a tariff. The absence of a market price creates a significant risk of retaliatory and

36. Felicity Deane, "The WTO, the National Security Exception and Climate Change," *Carbon & Climate Law Review* 6, no. 2 (2012): 149–58.

37. World Bank, *State and Trends of Carbon Pricing 2022*.

anticompetitive tariffs, given that most governments and companies do not have the capacity to validate or contest the imposed cost.

Climate-related policy initiatives materially increase the potential for tariff wars, trade fragmentation, and trade conflicts. The first such conflicts arose in 2024 as the United States, Turkey, the European Union, and possibly Canada hiked tariffs on Chinese electric vehicles and other clean energy components.

What Comes Next—Pragmatic Plurilateral Agreements

Gridlock remains the status quo at the WTO owing to its decision-making structure, which requires that members reach consensus before they move forward on an issue. While consensus is a necessary element of the multilateral system, it can also incentivize unproductive behavior. For instance, a nation may seek to maximize its bargaining advantage at the multilateral table by withholding support for consensus thus forcing compromise on an entirely different issue.

Consensus-based systems also provide each member with a de facto veto. Deepening geopolitical and geo-economic tensions create incentives for all participants to wield their veto power frequently. The result is counterproductive for the global trade community. Ambassador Alan Wolff recently asserted, “The use of consensus cannot be allowed to remain a veto for any member on every occasion.”³⁸

The context creates incentives and the necessity for countries to strike side agreements with willing partners in an effort to keep supply chains and productive growth-enhancing economic relationships in operation. Plurilateral agreements can enable policymakers to achieve multispeed progress on key issues while they keep supply chains functioning. In fact, plurilaterals have operated in parallel with the GATT and the WTO for decades. Notable examples that established free trade areas include the European Coal and Steel Community, the Treaty of Rome, Mercosur, the African Continental Free Trade Area, the ASEAN Free Trade Area, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, the North American Free Trade Agreement (NAFTA), and its successor, the USMCA. WTO research confirms that most plurilateral trade deals, particularly deep trade agreements that cover a substantial amount of trade, have created more trade than they have diverted.³⁹

38. Alan Wm. Wolff, “WTO Reform: Interview of Alan Wm. Wolff with Victor do Prado,” Peterson Institute for International Economics, March 14, 2024.

39. See Henri Joel Nkuepo, “Preferential Trade Agreements, Trade Creation and Trade Diversion,” World Trade Organization, accessed July 18, 2024, https://www.wto.org/english/res_e/publications_e/wtr11_forum_e/wtr11_12july11_bis_e.htm; World Trade Organization, “Information Technology Agreement—an Explanation,” accessed July 18, 2024, https://www.wto.org/english/tratop_e/inftec_e/itaintro_e.htm.

Some plurilateral structures have worked better than others. For example, the South American trade bloc Mercosur has been a disappointment. On the other hand, NAFTA and its successor, the USMCA, as well as the Information Technology Agreement, generated net gains for participants and even nonparticipants. Recent research indicates that the trade creation effects of these agreements outweighed trade diversion effects, despite the negative political rhetoric regarding their impact.⁴⁰

Downsides of plurilateral agreements

Plurilaterals are not a panacea. They can generate trade frictions. Nonparticipants are—by design—excluded from the negotiations. Indeed, India has been a vocal critic of plurilaterals, arguing that proponents of plurilateralism are “trying to take away our treaty embedded right in the consensus-based decision-making process of the WTO.”⁴¹ In addition, plurilaterals can trigger trade diversion and fragmentation that increase economic costs and geopolitical tensions.

Consider the difficult history of the Trans-Pacific Partnership Agreement. The TPP originated as a geostrategic initiative to counterbalance China’s growing regional trade dominance along the New Silk Road and in key shipping routes throughout the Pacific Ocean. The United States began TPP talks during the Bush administration in 2005; the talks continued and were expanded during the first Obama administration to reflect a “strategic pivot to the Asia-Pacific region”⁴²—a pivot that notably excluded China. Sustained domestic labor opposition in the United States from 2013 to 2015 ultimately culminated in the US withdrawal from the agreement during the Trump administration, in January 2021.⁴³

While the TPP was being negotiated, China first complained bitterly, then initiated negotiations for a competing regional trade framework: the Regional Comprehensive Economic Partnership.⁴⁴ US withdrawal from the TPP in early

40. See Mary E. Burfisher, Sherman Robinson, and Karen Thierfelder, “The Impact of NAFTA on the United States,” *Journal of Economic Perspectives* 15, no. 1 (Winter 2001): 125–44; Alexander J. Yeats, “Does Mercosur’s Trade Performance Raise Concerns about the Effects of Regional Trade Arrangements?,” *World Bank Economic Review* 12, no. 1 (1998): 1–28.

41. “Statement by India on Agenda Item 18: General Council Meeting—13–15 December 2023,” December 21, 2023, World Trade Organization.

42. James McBride, Andrew Chatzky, and Anshu Siripurapu, “What’s Next for the Trans-Pacific Partnership (TPP)?,” Backgrounder, Council on Foreign Relations, last modified September 20, 2021.

43. American Federation of Labor and Congress of Industrial Organizations, “The Trans-Pacific Partnership: Working Families Need a New Trade Model,” February 27, 2013; “Why Labor Unions Oppose the Trans-Pacific Partnership,” PBS News, May 12, 2015; American Federation of Labor and Congress of Industrial Organizations, “Report on the Impacts of the TPP,” December 2, 2015.

44. John Whalley and Chunding Li, “China and the Trans-Pacific Partnership Agreement” (CIGI Paper No. 102, Centre for International Governance Innovation, Ontario, May 4, 2016).

2021 was followed by China’s request to participate in the agreement⁴⁵ and, ultimately, to merge the two plurilateral frameworks under one umbrella that excludes the United States.

Ultimately, plurilateral frameworks that implement exclusionary or punitive boycott elements can create economic barriers that undermine incentives for sovereign states to settle disputes peacefully.

Advantages of plurilateral agreements

Well-designed plurilateral frameworks can offer many advantages. They enable nations to continue reducing trade costs and increasing productivity in key sectors. They also facilitate experimentation with new trade issues by enabling trading partners to identify relatively quickly which kinds of standards and working methods are most effective.

For example, the USMCA includes an innovative chapter on e-commerce that prohibits data localization and customs duties on electronic transmissions and ensures that data can be transferred across borders.⁴⁶ The fisheries context also provides a promising opportunity for a productive plurilateral agreement (see box 3).

Plurilateral frameworks are also well suited to complement domestic policy agendas regarding national security and the energy transition.⁴⁷ In the case of national security, a plurilateral agreement could mitigate some negative security externalities by incentivizing safe substitution. Plurilaterals can counterbalance excessive reliance on a single-source supplier that might be tempted to abuse its market-dominant position to achieve geopolitical goals.

In the energy transition context, plurilaterals can create powerful tools for deepening economic relationships both among resource-rich nations in Asia, Latin America, and Africa as well as with North American and European nations. The energy transition requires substantial increases in cross-border trade involving a range of minerals and materials. A plurilateral agreement regarding these

45. Diksha Madhok, “Trump Abandoned This Giant Trade Deal. Now, China Wants In,” *CNN*, September 17, 2021; “China Applies to Join Pacific Trade Pact to Boost Economic Clout,” *Reuters*, September 17, 2021; Carla Freeman, “How Will China’s Bid to Join a Trans-Pacific Trade Pact Affect Regional Stability?,” United States Institute of Peace, October 7, 2021.

46. “The United States–Mexico–Canada Agreement Fact Sheet: Digital Trade,” accessed July 18, 2024, https://ustr.gov/sites/default/files/files/Press/fs/USMCA/USMCA-Digital_Trade.pdf.

47. “Cooperative trade in critical technologies such as semiconductors and clean energy can help countries become less vulnerable to Chinese pressure and more amenable to the goals of the United States.” David Kamin and Rebecca Kysar, “The Perils of the New Industrial Policy: How to Stop a Global Race to the Bottom,” *Foreign Affairs*, May/June 2023.

BOX 3. Fisheries require a plurilateral approach

Despite numerous efforts, WTO members have failed to reach agreement on ways to limit harmful fishing subsidies that contribute to illegal, unreported, or unregulated fishing.^a

Since WTO rules do not prohibit willing nations from moving forward in a plurilateral framework, we believe that the fisheries situation represents an ideal opportunity to use a plurilateral agreement to pursue a common goal: preventing further depletion of global fish stocks.

Global overfishing is a textbook case of the tragedy of the commons, a situation in which unrestricted access to or common ownership of a shared valuable resource creates incentives for individual actors to overuse and deplete the resource. Individual fishers have incentives to maximize their catch, but this leads to fishing beyond the system's regenerative capacity and to a deterioration of the total stock.^b

The situation is at a crisis point: Nearly 90 percent of the world's marine fish stocks are now fully exploited, overexploited, or depleted.^c A plurilateral agreement could engage the needed cross-border cooperation and help to reverse the decline. A report from the Centre for Economics and Business Research examines how different levels of cooperation can affect the prevalence of harmful fishing and biomass regeneration.^d The report finds that even partial cooperation could bring substantial results. Necessary cooperation includes committing to eliminating harmful fisheries subsidies, to sharing information on bad actors, and to implementing strong enforcement mechanisms. The benefits of even partial cooperation include a decrease in the profitability and prevalence of illegal, unreported, and unregulated fishing and improvements in the health of the fishery. Unanimity is not required to generate these positive externalities, which benefit all states, including those that did not participate in the cooperative arrangement.

(continued)

key commodities could eliminate tariffs on a wide range of raw materials, renewable energy sources, capital equipment, and intermediate inputs needed for the domestic manufacturing or final consumption of goods and services that would facilitate the energy transition.

Characteristics of effective plurilateral agreements

A review of successful plurilaterals provides insight into four guidelines that can expand economic opportunity through trade:

- *Articulate a clear intent.* Vague wording in agreements invites uncertainty and undermines the prospects for their ratification at the national level (e.g., formal legislative approval). Lack of clarity and precision regarding intent can also create opportunities for agreements to be misconstrued as protectionist, which could trigger a costly backlash.
- *Commit to core principles to prevent protectionist policies from emerging.* Plurilateral agreements should (a) expressly recommit participants to

BOX 3 (continued)

Three of the report's findings are important for the design of a plurilateral deal:

- First, the report indicates that information sharing across countries can generate a 40-percentage-point reduction in the share of illegally caught fish. Even partial information sharing (when only some countries share information) can generate a 30-percentage-point reduction. Dynamic effects play a role here. Over time, information sharing leads to higher visibility of bad actors. The more information sharing takes place, the more effective enforcement measures can be, and together these moves can substantially reduce the profitability of illegal, unreported, and unregulated fishing activities.
- Second, information sharing leads to healthier fish populations. The report indicates that ocean biomass—the total weight of plants, fish and marine life—increases by 55 percent with full information sharing and by 43 percent with partial information sharing. Increased biomass boosts the economic viability of honest fishers and of the coastal communities that rely on them. It can also constrain the ever-increasing effort-to-catch ratio that plagues more and more coastal nations.
- Third, the report indicates that enforcement mechanisms such as fines for bad actors are essential. The larger the fine, the greater the disincentive for illegal, unreported, and unregulated fishing. The findings indicate substantial dynamic effects even if just some of the participating states have a draconian fine.

Notably, WTO compliance would not necessarily prohibit participants from rebalancing concessions away from injurious fish and fish product imports sourced from countries that continue to subsidize illegal, unreported, and unregulated fishing activities.

a. WTO rules require a two-thirds majority to reach a final agreement. In 2024 the WTO has 166 members, so any measure requires the agreement of at least 110 or 111 members before it can be adopted. As of July 2024, only 80 members had ratified the agreement. See World Trade Organization, "Members Submitting Acceptance of Agreement on Fisheries Subsidies," accessed July 18, 2027, https://www.wto.org/english/tratop_e/rulesneg_e/fish_e/fish_acceptances_e.htm.

b. Pablo Paniagua and Veeshan Rayamajhee, "Governing the Global Fisheries Commons," *Marine Policy* 165 (July 2024).

c. Food and Agriculture Organization of the United Nations, "The Status of Fishery Resources," in *The State of World Fisheries and Aquaculture: Towards Blue Transformation, 2022*.

d. Cebr, "An Agent-Based Model of IUU Fishing in a Two-State System with Information Sharing," October 2020.

treating all participants as the most favored nation and (b) provide national treatment for imported goods.

- *Maximize trade creation and minimize trade diversion.* Economically meaningful agreements should incorporate market access commitments alongside elimination of tariff and nontariff barriers. Concrete market access commitments create incentives for government officials to expend political capital to support ratification or implementation (or both).
- *Identify clearly whether the agreement will be open or closed.* Open plurilateral agreements extend MFN benefits to all trading partners, even if they are not signatories to the agreement. The most successful of these

is the Information Technology Agreement, which has received credit for sparking both the increased use of IT products and substantial gains in productivity.⁴⁸ Closed plurilaterals limit the benefits of the agreement to participating countries. Additional countries can join, but only if they are ready, willing, and able to implement the agreement negotiated by others. Closed plurilaterals effectively prioritize national treatment and reciprocity among participants. New signatories may not edit the obligations. Examples of closed plurilaterals include the Agreement on Government Procurement and the USMCA (as well as its predecessor, NAFTA). If the agreement is closed, policymakers should prioritize provisions with far-reaching benefits that can also lower trade costs for nonmembers.

Plurilateral agreements are compatible with the GATT and the WTO

Though it is tempting to characterize a move toward plurilaterals as a dramatic break with the past, it would be inaccurate to do so. Plurilateral agreements are consistent with the original intent of the Bretton Woods system. From the adoption of the GATT to the formation of the WTO, nations have *always* been free to move forward at a faster pace with willing partners when multilateral agreement has not been possible.

Conclusion: Recommit to Core Principles and Use Plurilateral Agreements to Move Forward

When the Allies gathered in Bretton Woods, New Hampshire, in 1944, they sought to build economic interdependences that would disincentivize future military conflict. But few of these policymakers would be considered champions of a free market, much less of “free trade.”

The GATT simply articulated two bedrock principles for the rules-based multilateral trade system: treat all countries as your most favored nation and treat imported goods just as well as you treat domestically produced goods. These core principles, and a commitment to finding the least-trade-restrictive ways to achieve domestic policy goals, have helped to avoid costly trade wars.

48. Robert C. Feenstra et al., “Effects of Terms of Trade Gains and Tariff Changes on the Measurement of US Productivity Growth,” *American Economic Journal: Economic Policy* 5, no. 1 (February 2013): 59–93.

But geopolitical tensions and entrenched but conflicting national policy priorities make multilateral WTO agreements impractical. Legitimate national security and domestic policy priorities can and should drive trade policy priorities. Continuing with the status quo—a paralyzed WTO and a steady stream of trade initiatives that increase costs, reduce market access, and fragment trade flows—will likely lead to deteriorating economic growth.

Policymakers can avoid adverse economic impacts with pragmatic plurilateral agreements that protect domestic economic interests, curb protectionist tendencies, and promote cross-border economic cooperation that delivers economic growth and job creation.

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Acknowledgments

The authors would like to thank our longtime colleagues Everett Eissenstat, Daniel Mullaney, and Peter Rashish for reviewing an early rough draft of this paper and for providing their thoughtful comments. All errors, omissions, and mistakes, however inadvertent, remain the sole responsibility of the authors.

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