

Chapter V

WTO and Global Economic Governance

The era of globalization requires global governance. Economic globalization has brought closer all countries closer but also brought about problems, such as increasing frictions and contradictions and inconsistent rules. Global economic governance has emerged to cater to the need of times and gradually developed and evolved. **Multilateralism and regionalism are the two wheels driving economic globalization and governance.** Multilateralism mainly refers to the multilateral trading system represented by the WTO and the G20, APEC, International Monetary Fund, World Bank and BRICS are also important multilateral governance platforms. Regionalism mainly refers to regional economic and trade arrangements represented by free trade areas. To improve global economic governance, **the two wheels need work together.** The role of relevant governance platforms in international economic policy coordination should be brought out to promote economic globalization and make it more open, inclusive, balanced, and win-win-based.

I. WTO as Important Pillar of Global Economic Governance

The WTO was established in 1995 and is the **only international organization in the world that deals with international trade relations.** It has 164 members and accounts for about 98% of global trade. For a long time, the WTO, the International Monetary Fund, and the World Bank have also been called the “three pillars” of global economic governance. They have played an important role in cultivating a free, transparent, and non-discriminatory international trade environment and establishing a rule-based multilateral trading system.

1. WTO functions and rules reflecting free trade spirit

The painful lessons from World War II have made almost all countries more willing to promote the establishment of a stable global economic governance system and promote development of trade. Since the establishment of the multilateral trading system, after years of development, a whole set of institutional arrangements has been formed around the world with free trade as the goal, fair competition as the foundation, and standardized government behavior as the core, and based on the market economy.

The core functions include carrying out trade negotiations, resolving trade disputes, and reviewing trade policies. Among them, trade negotiation is the main function, and the topics involved range from mainly reduction of tariffs of goods at the early stage. Later, they have gradually been expanded to include services and intellectual property rights. The first eight rounds of multilateral trade negotiations since 1947 have been completed. The 9th Doha round negotiations began in 2001 and is yet to be concluded. Trade disputes have mainly been resolved through expert panel and appellate body. Since its establishment, the WTO has agreed to resolve 600 disputes and decisions have been made regarding more than 350 disputes, which has effectively reduced the politicization of disputes. The purpose of the trade policy review is to urge its members to fulfill their commitments and abide by the rules. It covers trade, finance and taxation, currency, exchange rate, industry, investment and other policies and measures, which has gone beyond the scope of trade policies in the narrow sense.

The main rules cover trade in goods, trade in services, intellectual property rights and other rules. Trade in goods is mainly reflected in agreements related to trade in goods, including market access and disciplinary regulations and involving tariff reduction, inspection and quarantine, rules of origin, subsidy discipline, and trade facilitation, among others. Trade in services is mainly reflected in the *General Agreement on Trade in Services*, including general rules, such as market access, and special disciplines for specific industries. Intellectual property rights are mainly reflected in the *Trade-Related Intellectual Property Agreement*, which stipulates copyright, trademarks, patents, and geographical indications. Other rules include the *Agreement on Trade-Related Investment Measures* and the *Agreement on Government Procurement*.

In the current situation of slow progress in multilateral negotiations, some members negotiated through the joint statement initiative on issues such as e-commerce, investment facilitation and domestic regulation of service trade, and started discussions on issues such as small, medium-sized and micro enterprises, trade and environment, and women's economic empowerment. The rules formulated by members in these areas will become a breakthrough for the formulation of new multilateral rules.

Basic principles include non-discrimination, transparency, fair competition, open markets, and special and differential treatment. Among them, the principle of non-discrimination requires its members to allow each other to have access to most-favored-nation treatment and national treatment to ensure "equal opportunity" in international trade. The principle of transparency requires its members to maintain transparency in all trade policy measures, and laws and regulations to enhance stability and predictability. The principle of fair competition requires its members to follow the basic rules of market economy and avoid measures that distort market competition. The open-market principle requires its members to reduce tariffs and non-tariff barriers to facilitate trade in goods, and expand the opening-up of services industry to promote trade liberalization. The principle of special and differential treatment allows its developing members to be flexible in complying with rules and fulfilling their obligations to help them benefit more from international trade.

2. WTO effectively promoting development of economic globalization

The WTO has established a binding trade rule system and a predictable international trade environment, promoted the development of an open world economy, and **become an engine of economic growth, a source of power for economic globalization, and a propeller for improving well-being of the world.**

It has promoted trade liberalization and facilitation. After many rounds of negotiations, tariffs and non-tariff barriers have been drastically reduced almost all over the world. According to the results of the Uruguay Round negotiations, the current average bound tariffs of developed members have dropped to 3.8%, and goods subject to tariffs account for 99% of the trade volume. The average bound tariff of developing members has dropped to 14.4%, and goods subject to bound tariffs account for about 90% of the total trade volume. Since the establishment of the WTO, the level of trade liberalization and facilitation has increased significantly, and the volume of world trade

has expanded nearly four times, far exceeding the economic growth rate over the same period.

It has promoted improvement in international investment environment. The WTO rules have created a precedent for negotiation management and standardized development in the field of international economic and trade, which is conducive to creating a stable, open, and predictable international investment environment. The rapid development of international trade has led to the accelerated international capital flow. Since the establishment of the WTO, international direct investment has increased by approximately 320%, and cross-border capital flows have increased from several million dollars to several trillion dollars, with the number of multinationals exceeding 80,000.

It has promoted global economic integration. The WTO rules have promoted the free flow of production factors, such as goods, services, technology and capital, among others, on a global scale, allowing its member countries to achieve rapid economic development through a larger (global) market, more frequent technology and technique exchanges, and more reasonable resource allocation. They have also been enabled to complement each other in fields where they have advantages, accelerate the formation and development of global industrial chains, and promotes economic globalization and growth of the world economy.

3. WTO needs to carry out reform

At present, the world's economic landscape is undergoing profound adjustments, and unilateralism and protectionism are on the rise. As a result, economic globalization is suffering setbacks, and the WTO is facing a survival crisis. The authority and effectiveness of the multilateral trading system are facing unprecedented challenges.

In terms of the challenges facing the WTO's operation and rules, on the one hand, the operation of the Appellate Body has suspended due to obstruction of the selection and activation of its members, which has seriously affected the operation of the dispute settlement mechanism. On the other hand, the abuse of national security exception measures, the use of unilateral measures that are not in line with WTO rules, and the misuse and abuse of trade remedy measures have disrupted the rule-based, free and open international trade order and damaged interests of WTO members, especially the developing-country members. At the same time, regarding the status and treatment

of developing members, industrial subsidy, State-owned enterprises, and other issues, relevant members have been seriously divided and it is difficult for them to reach consensus.

In terms of the need for the WTO to adapt to the development of the times, the organization is not perfect and has not yet fully achieved the goals set in the *Marrakesh Agreement* Establishing the World Trade Organization. Regarding function of negotiations, the Doha Round of negotiations has been very slow in reaching a consensus on such topics as agriculture, development and rules, although it has been launched for more than 19 years. It has also failed to promptly deal with new issues, such as e-commerce and investment facilitation, that reflect international economic and trade situation in the 21st century. At the same time, remarkable headway has been made and significant progress has been made in trade liberalization and facilitation through global bilateral and regional trade agreements; regarding review and supervision, the transparency of trade policies needs to be improved. It is very difficult for 164 member states to reach a consensus and the WTO needs to become more efficient in its operation.

Table 5-1 Multilateral Trade Negotiations in Nine Rounds

Round of negotiation	Time	Participant	Topics	Ratio of tariff cut (%)	Value of trade involved (\$bn)
Geneva	1947	23	Tariff	20	10
Annecy	1949	13	Tariff	2	—
Torquay	1950-1951	38	Tariff	3	—
Geneva	1956	26	Tariff	2.5	2.5
Dillon	1960-1961	26	Tariff	4	4.9
Kennedy	1964-1967	62	Tariff; anti-dumping	35	40
Tokyo	1973-1979	102	Tariff and non-tariff measures	33	300
Uruguay	1986-1994	123	Tariff, non-tariff measures, rule, non-tariff measures, rules, dispute settlement, intellectual property rights, textile, and agriculture	38	3,700

(Continued)

Round of negotiation	Time	Partici- pant	Topics	Ratio of tariff cut (%)	Value of trade involved (\$bn)
Doha	2001-	164	Agriculture, non-agriculture, services, rules, trade and development, intellectual property rights, trade facilitation, trade and environment	-	-

Source: Compilation based on relevant regulations of the WTO.

The reform of the WTO has become a topic of increasing concern from all parties, and it is also an unavoidable topic for global economic governance. The G20 Buenos Aires Summit in 2018, the Osaka Summit in 2019 and the Riyadh Summit in 2020 all support necessary reforms to the WTO to help it better play its role. The BRICS leaders meetings in 2018, 2019 and 2020 claimed that they support necessary reforms to the WTO to ensure the effectiveness and relevance of the organization, better deal with current and future challenges, and serve the interests of all members .

Box 5-1 Relevant terms of WTO

Bound tariff. It refers to the cap of the tariff rate. WTO members have the right to adjust their implemented tariff rates, but they cannot exceed the promised bound tariff rates. Bound tariff is the basic principle of WTO tariff negotiations, which aims to prevent member states from arbitrarily increasing the implemented tariff rates and to ensure transparency and stability.

Appellate body. The Appellate Body is an important part of the WTO dispute settlement mechanism. It is composed of 7 members, all recognized authorities and not affiliated to any government. After the expert panel report is released, if the concerned parties in the dispute disagree, they can appeal, which will be heard by the Appellate Body. Usually, each appeal case is heard by three Appellate Body members, and a decision is made after such procedures as review of written statements and hearing. The conclusion of the expert panel can be maintained, modified or revoked, and it will take effect after being approved by the dispute settlement body.

Subsidy. It refers to fiscal aid, income or price support provided by the government

or public institutions of the exporting country (region) that benefits the recipient. Subsidies are divided into prohibited subsidies and actionable subsidies. Prohibited subsidies are divided into export subsidies and import substitution subsidies. Actionable subsidies refer to those other than prohibited subsidies. If a member's subsidy adversely affects other members, the latter can take countermeasures or resort to dispute settlement mechanisms.

Trade policy review. It refers to the mechanism by which WTO members are regularly reviewed by other members. Before 2018, the top four WTO members in terms of trade volume should be reviewed every two years, and other members can be reviewed every 4-6 years or longer. Starting from 2018, the review duration has been extended, with the top four members being reviewed every three years, and other members every 5-7 years or longer. It is carried out through written answers to the question list and on-site communication at the review meeting, and finally the chairman of the review meeting will present a written summary.

II. Regional Economic and Trade Arrangements Represented by Free Trade Areas on the Rise

For a long time, **the two wheels of multilateralism and regionalism have accompanied and reinforced each other. When the multilateralism wheel moves fast, the regionalism wheel would be slower. When the multilateralism wheel moves slowly, the regionalism wheel would be faster.** In recent years, protectionism has been on the rise, and the multilateral trading system has fallen into a deadlock. The negotiation over, and development of, free trade area has significantly accelerated. As an exception to the most-favored-nation treatment of the WTO, the FTA has become an important way for countries to promote trade and investment liberalization, and participate in the formulation of international economic and trade rules.

1. Number of agreement increasing rapidly

Free trade agreements emerged in large numbers after 2000. Before 2000, there were only 29 free trade agreements notified to the WTO and still in force. After the global financial crisis broke out in 2008, the number of free trade agreements rose sharply. By the end of 2020, the number of regional trade agreements that have been

signed or under negotiation and reported to the WTO had reached 501, most of which have emerged in the past 10 years. Of the 342 regional trade agreements currently in force, more than 85% are signed in the form of free trade agreements.

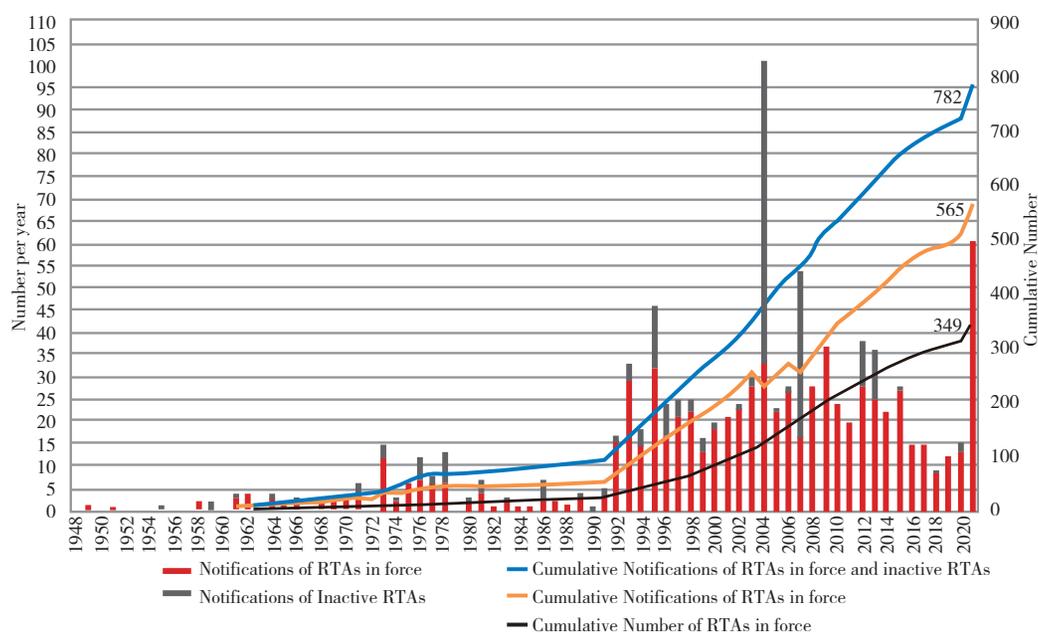


Figure 5-1 Number of Free Trade Agreements Effective after Being Notified to the WTO

Source: WTO website.

2. Scale and size expanding significantly

Major economies have generally accelerated the construction of free trade areas, which has led to the continuous emergence of super-large FTAs represented by the *Regional Comprehensive Economic Partnership Agreement* (RCEP). After the *Comprehensive and Progressive Trans-Pacific Partnership Agreement* (CPTPP) came into effect, its influence has gradually increased. The *Japan-Europe Economic Partnership Agreement* entered into force. The United States and Japan signed the trade in goods agreement and the *High Standard Digital Trade Agreement*. And the *North American Free Trade Agreement* was revised and re-signed. The developing countries have caught up in building of free trade areas. Vietnam has achieved high-standard opening-up through joining CPTPP. Mexico has entered the “circle” of high standard agreements through joining CPTPP and the *North American Free Trade Agreement*. The South American Common Market, which is a customs union organization in Latin America, signed a free trade agreement with the EU. And in Africa, the *African*

Continental Free Trade Agreement has also officially come into force.

Box 5-2 Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)

In October 2015, 12 countries, including the United States, agreed to pass *the Trans-Pacific Partnership Agreement* (TPP). In January 2017, the United States announced its withdrawal. After that, the remaining 11 countries declared that they would sign a new free trade agreement (CPTPP). The CPTPP was negotiated in January 2018, signed on March 8, and formally entered into force on December 30 of that year. CPTPP covers a population of over 500 million, and the total GDP accounts for 13% of the global economy.

The CPTPP covers a wide range of rules, which require that the signatories should revoke or reduce tariffs on industrial and agricultural products, provide facilitation measures in the field of trade and investment, and their bound tariffs should be higher than the level stipulated by existing trade rules, such as those of the WTO. In addition, the agreement is called “comprehensive and progressive” because, in addition to efforts to reduce trade costs, it also stipulates higher requirements on environmental standards, intellectual property rights, and state-owned enterprises.

Box 5-3 RCEP: the Largest FTA in the World

RCEP is currently the largest free trade zone in the world. In 2019, the 15 member countries of RCEP have a total population of 2.27 billion, a total GDP of 26.2 trillion US dollars and a total export of 5.2 trillion US dollars, accounting for about 30% of the global total. RCEP free trade zone means that about one third of the global economy will form an integrated market. RCEP includes major countries in East Asia and will give strong impetus into regional and global economic growth.

3. Continuous improvement in level of openness

The scope and depth of economic cooperation between free trade agreement partners have continued to expand, showing a trend of ever-increasing openness. **In terms of trade in goods**, in international high-standard free trade agreements, usually tariffs on most products have been canceled, which is close to complete liberalization. For example, in most free trade agreements signed by the United States,

the European Union, and Australia, the number of tax items and imports of zero-tariff products account for more than 99% of the total, and tariffs on most products will be immediately cancel when the agreement takes effect. **In terms of service trade and investment**, the developed countries usually make service and investment market opening-up commitments in the form of a negative list in their free trade agreements. That is, they only specify limited restrictive measures and no restrictions are imposed on market entry or national treatment in other sectors that have promised to open up. At the same time, in recent years, **the “three zeros” concept, that is, zero tariffs, zero barriers, and zero subsidies**, has also received much attention.

4. More in-depth negotiation topics

As the global economic and trade situation changes, free trade agreements have covered a wider range of topics to include more “21st-century topics”. The rules have had stronger binding force, and stricter enforcement has been required. **In terms of scope of issues**, most of the free trade agreements the developed countries have signed include high-standard “behind the border” issues, such as intellectual property right protection, environment, labor, state-owned enterprises, e-commerce, and competition policy. The behind-the-border measures are diverse, concealed, and difficult to predict. Although they are related to trade, they are traditionally a matter within the scope of a country’s economic sovereignty. **In terms of requirements of the rules**, through the establishment of the dispute settlement mechanism, the implementation of these rules has been linked to tariff reductions, making them “rules with teeth”.

5. More prominent guiding role of rules

Free trade areas are characterized by higher level of openness, greater flexibility, and faster progress. The level of openness is often “a head higher” than that of multilateralist arrangements. It has become an important carrier across the world for promoting regional economic cooperation through an institutional framework. Now free trade areas account for more than half of global trade. As a “test field” for experimenting with new international economic and trade rules and initiatives, free trade areas have catered to the new trend of economic globalization and played an increasingly prominent role in guiding and pushing forward setting and implementation of rules.

Box 5-4 Regional Trade Arrangements and Multilateral Trading System

Despite the current slowdown in the progress of the multilateral trading system, the conclusion that “the multilateral trading system represented by the World Trade Organization is the main channel of global trade rules, and regional trade liberalization is a useful supplement” remains unchanged. The multilateral trading system and regional trade arrangements have always been two paths and two wheels for promoting trade liberalization. The multilateral trading system provides disciplinary constraints and a rule basis for regional trade arrangements to prevent regional fragmentation and the “spaghetti bowl” effect. Regional arrangements are more flexible than multilateral arrangements, relatively easier to accomplish, and easy to implement. They have enriched economic cooperation, and are also an important way to promote the development of the multilateral trading system.

III. New Trends Evolving from Global Economic Governance

With the evolution of the multilateral trading system and regional economic and trade arrangements, the global economic governance structure and rule system are also gradually evolving. With the changes in the international balance of power and the unsmooth development of economic globalization, especially the adjustment of the international trade and investment landscape since the outbreak of the global financial crisis in 2008, the global economic governance system has undergone accelerating changes, and the current pandemic has intensified this process.

1. More multilateral governance platforms

Traditionally, WTO, IMF and World Bank have been the three pillars of the global economic governance mechanism. In the post-global financial crisis era, the role of the three pillars has declined. Meanwhile, governance mechanisms at different levels have gradually played an important role. The importance of the G20 has increased significantly and gradually become one of the main platforms for global economic governance; the importance of such cooperation mechanisms as APEC, BRICS, and Shanghai Cooperation Organization is also rising. Forum mechanisms such as the World Economic Forum, the Boao Forum for Asia, and the Hongqiao International

Economic Forum are also actively contributing to global economic governance. Since 2008, the **G20** has held 15 leaders' summits and one special summit, with its topics expanding from fiscal and financial cooperation to cooperation in trade, development, and public health. As a result, its role in economic governance and policy coordination has been increasingly strengthened. After years of development, the **BRICS** mechanism has gradually expanded its influence and become an important platform for promoting global governance reforms and pragmatic cooperation among its member states. **APEC** has held 27 informal leaders' meetings, focusing on topics such as trade and investment liberalization and facilitation, and economic and technological cooperation in the Asia-Pacific region, and has played a positive role in promoting global and regional economic growth. At the same time, it must be noted that different mechanisms and platforms are relatively independent, and international coordination and cooperation are also facing some challenges, such as rising costs.

2. Changing governance landscape

As the overall prowess of the developing countries increases, making more contributions to growth of world economy, their willingness and ability to participate in global economic governance have increased, which, as a matter of act, requires the global economic governance system to be reformed to increase their representativeness and voice. As a result, **the global economic governance landscape featuring dominance by the developed countries has gradually shifted to one featuring gaming between the North and the South.** The cooperation mechanism of developing countries and emerging economies has been continuously strengthened, with their role in international economic affairs having become more important. At the same time, some countries have delayed and thwarted reform of international institutions, such as the IMF and the World Bank, shifted their focus from multilateral arrangements to bilateral and regional arrangements, established exclusive trade and investment arrangements, and made efforts to compete for the power to formulate the new-generation international economic and trade rules. In general, the developing countries need to improve their ability in agenda-setting and guidance of rules, and there remain complex possibilities of changes in the power game and landscape evolution of global economic governance.

3. Governance reform still lagging behind

The global economic governance system as a whole has failed to reflect the current new pattern of international development, and lacks in representativeness and inclusiveness. The global industrial landscape has been constantly adjusted, leading to the gradual emergence of new industrial chains, value chains, and supply chains. However, trade and investment rules have failed to keep up with the new situation, and such problems as closedness of mechanism and fragmented rules have become prominent. The ability of global financial markets to cope with risks needs to be strengthened, and the global financial governance mechanism is yet to adapt to new requirements. So that it is difficult for it to effectively resolve the problem of frequent turbulences and accumulation of asset bubbles in the international financial market. **In particular, the outbreak of the novel coronavirus pandemic has exposed the defects of the international governance system.** Moreover, the role of relevant multilateral institutions has failed to be fully brought out, making it difficult for them to effectively coordinate international cooperation in the fight against the pandemic.

4. Gradual generalization of governance issue

Some developed countries have create new rules and set new thresholds in the fields of finance, economy and trade, and networks to maintain their competitive edge in digital economy and emerging industries. Topics in the economic and trade negotiations led by those countries have been increasingly generalized to include such “behind the border” issues as state-owned enterprises, free flow of data, investment dispute settlement mechanism, competition neutrality, labor standards, and environmental protection. Some topics also involve politics, culture, and ideology, among others. On the one hand, it reflects the fact that **the gaming involving the right to formulate international economic and trade rules has become more intense.** On the other hand, it also lead to greater challenges for the improvement of the global economic governance system.

5. Constant evolution of governance philosophy

As the challenges posed by global governance deficit, trust deficit, peace deficit, and development deficit become increasingly severe, **the international community has generally realized that global governance must be built on the willingness**

and interests of most countries so that equal participation and common development can be achieved. China has put forward the philosophy of building a community with a shared future for mankind and pushed for equal rights, equal opportunities, and equal rules for all countries in international economic cooperation. It has promoted democratization and legalization of global governance rules, and pushed forward the development of the international economic order in the direction of equality, justice, and win-win cooperation. As a result, it has won widespread recognition from the international community, and enriched and improved philosophy of global governance. The vast number of developing countries wish to strengthen cooperation, integrate into the global industrial chain, and boost economic growth. The international community generally agrees that issues such as counter-terrorism, poverty, climate change, refugees, and public health are global in nature and require cooperation among all countries.

Facing changes in the global economic governance reform, all countries should **persist in keeping up with the times**, build a fair and rational global economic governance model, and better adapt to the new requirements of the international economic landscape. They should **adhere to the principle of extensive consultation, joint contribution and shared benefits**, improve open and inclusive institutional arrangements, and respond to the challenges of global economic governance through coordinated and connected development. They should **adhere to multilateralism and open regionalism**, give full play to the constructive role of global and regional multilateral mechanisms, jointly safeguard rules-based multilateral trading system, and strengthen macroeconomic policy coordination. They should also **adhere to common development**, provide more support for the integration of the developing countries and small and medium-sized enterprises into the global value chain, improve fairness, synergy, and inclusiveness of development, and promote the building of a community with a shared future for mankind.