

The way forward: trade policies' impacts on global trade patterns

M. Bacchetta, E. Bekkers, J. Métivier

World Trade Organization

jeanne.metivier@wto.org

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Overview

- 1 Objective and context
- 2 Model
- 3 Scenarios
- 4 Results
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Which path for future trade policies?



- Explore the consequences of several directions for future trade policies.

- Trade-related issues
 - Unilateral trade wars and tit-for-tat tariffs exchanges
 - Brexit
 - Industrial subsidies
 - Trade in services
 - Digital trade
 - Labor standards
 - Dispute settlement system

- WTO Global Trade Model
 - Recursive dynamic computable general equilibrium (CGE) model
- For a description of the WTO Global Trade Model, refer to Aguiar et al. (2019).
- Data calibration: GTAP 10 data base, using 2014 as the year of reference.

Updates of the baseline scenario:

- Changes in tariffs
 - US-CHN trade conflict (2019)
 - Forward-looking reductions in tariffs from EPAs (MacMap, 2020).
- Changes in NTMs (i.e.iceberg trade costs)
 - Brexit
 - Trade Facilitation Agreement (WTO, 2020).
 - Free Trade Agreements, using depth of FTAs (Dür et al., 2014).
 - Digitalization

For further details on the baseline model, please see Bekkers et al. (2021).

Scenarios description

- Scenario 1: Revival of multilateralism
- Scenario 2: Plurilateral cooperation
 - Data and e-commerce
 - Services
- Scenario 3: Geopolitical rivalry

Scenario 1: Revival of multilateralism

- Tariffs reductions
 - US-CHN trade conflict
 - Potential gains from liberalization if modalities presented by the Doha negotiating groups were realized (Adler et al. 2009).
- NTMs reductions:
 - 50 % reductions in NTMs:
 - Goods: Kee and Nicita (2016).
 - Services: Hoekman and Shepherd (2020).

Scenario 1: Revival of multilateralism

Table: Initial AVEs of tariffs and NTMs, by exporter (in %)

Region	Tariffs	NTMs-Goods	NTMs-Services
Asia LDC	3.23	17.87	25.01
Australia	4.46	7.52	15.32
Brazil	5.95	6.79	16.00
Canada	4.32	6.83	15.86
China	6.12		26.75
EU27	4.39	8.86	15.81
United Kingdom	4.34	8.77	14.60
EFTA	4.43		13.95
Indonesia	4.18	2.13	40.49
India	4.71		41.36
Japan	4.23	5.35	14.41
Korea	3.97		14.62
Latin America	4.06	5.52	17.89
Mexico	4.24	1.28	18.53
Middle East and North Africa	3.94		23.01
Other Asian countries	5.09	15.88	17.69
Rest of World	5.16	1.12	16.53
Russia	5.03	5.23	17.22
Saudi Arabia	4.27		
South East Asia	4.13	5.50	21.35
Sub-Saharan Africa LDC	2.54	8.62	
Sub-Saharan Africa other	2.59	14.04	24.89
Turkey	5.49		17.16
United States	5.74	1.04	15.02
South Africa	4.55		16.34

Source: Authors, based on Kee and Nicita (2016) for goods sectors and on Hoekman and Shepherd (2020) for services sectors.

Scenario 2: Plurilateral cooperation - Data and e-commerce

- NTMs reductions for countries involved in JSI on e-commerce.
 - *Our goal isn't to model the JSI on e-commerce, but rather to select a group of countries which could be willing to cooperate on this issue.
- We use the STRI simulator (OECD, 2021) to liberalize regulations on provisions related to cross-border data flows.
- AVE calculated from the change in STRI score and the coefficient on digital trade in services from Benz and Jaax (2020).

Scenario 2: Plurilateral cooperation - Data and e-com.

Table: Percentage change in STRI, by region

Region	Initial STRI	Change in STRI (in %)
Asia LDC	0.54	-3.87
Australia	0.16	-6.50
Brazil	0.27	-8.14
Canada	0.21	0.00
China	0.32	-24.05
EU27	0.24	-6.12
United Kingdom	0.16	-6.47
EFTA	0.28	-3.66
Indonesia	0.62	-7.30
India	0.54	-3.87
Japan	0.18	-5.65
Korea	0.30	-3.54
Latin America	0.31	-5.34
Mexico	0.23	0.00
Middle East and North Africa	0.34	-4.95
Other Asian countries	0.38	-5.36
Rest of World	0.35	-5.77
Russia	0.28	-8.20
Saudi Arabia	0.23	-5.62
South East Asia	0.40	-3.64
Sub-Saharan Africa LDC	0.54	-3.87
Sub-Saharan Africa other	0.47	-4.29
Turkey	0.31	-3.78
United States	0.16	-0.83
South Africa	0.24	-8.78

Source: Authors, based on OECD (2021).

Scenario 2: Plurilateral cooperation - Services

- NTMs reductions for countries participating in the JSI on domestic services regulations.

*Our goal isn't to model the JSI on domestic services, but rather to select a group of countries which could be willing to cooperate on this issue.

- 50 % reduction in NTMs on services sectors, based on data from Hoekman and Shepherd (2020).

Scenario 3: Geopolitical rivalry

- Bi-polarization of the world: US & allies vs China & allies (Kleinman et al., 2020).
- Tariffs and NTMs increase outside each block due to a breakdown in multilateral relations (Larch et al., 2019).
- Tariffs and NTMs remain constant within each block.

Results - S1. Revival of multilateralism

Figure: Change in real GDP and real exports by region and sector (in %)

Region	GDP	Exports				
		Total	Agriculture	Extraction	Manuf	Services
Asia LDC	3.87	4.64	7.00	0.99	4.58	6.14
Eastern asia	2.96	7.35	15.08	-3.65	8.15	4.43
Europe	2.98	5.04	7.81	0.68	6.83	2.44
Latin america	-1.46	1.13	6.01	2.76	-3.69	12.90
Middle East and North Africa	1.76	4.06	7.44	3.22	3.35	6.62
North America	0.85	7.20	9.43	6.94	5.46	9.83
Oceania	1.42	3.50	-0.54	1.56	16.62	2.22
Other Asian countries	2.39	4.26	2.22	1.05	3.81	5.15
Rest of World	3.03	3.77	3.54	2.55	2.46	6.35
South-East Asia	1.17	-0.03	8.14	-0.35	-4.95	12.86
Southern Asia	3.56	2.70	8.53	-0.48	0.87	5.30
Sub-Saharan Africa LDC	3.81	5.18	3.46	4.12	5.39	8.81
Sub-Saharan Africa other	1.63	3.09	-2.51	4.76	2.69	8.68

Source: Authors.

Results - S2. Plurilateral coop. E-commerce

Figure: Change in real GDP and real exports by region and aggregate sector (in %)

Region	GDP	Exports						
		Total	Communication	Finance	Other business servi	Transport	Trade	Utilities & constru
Asia LDC	-0.13	-0.02	-2.29	-2.55	0.51	-1.86	-3.09	-2.49
Eastern asia	0.48	1.06	3.19	1.98	1.77	1.89	4.52	10.98
Europe	0.33	0.43	3.03	2.60	1.08	1.04	5.03	4.04
Latin america	-0.09	0.05	1.08	-0.33	1.05	0.85	0.90	-0.86
Middle East and North Africa	-0.03	-0.17	-0.45	0.09	-0.11	-0.40	-0.57	-0.77
North America	-0.06	-0.05	2.73	2.78	1.28	2.25	2.76	1.28
Oceania	0.07	0.23	3.00	3.94	1.53	2.50	4.44	-4.29
Other Asian countries	0.41	0.43	1.30	1.87	0.81	-0.52	4.57	3.37
Rest of World	0.05	0.19	-0.77	-2.78	-0.69	-0.01	-0.09	-2.91
South-East Asia	0.31	0.19	2.99	2.91	1.25	2.10	5.62	5.70
Southern Asia	-0.37	0.23	-2.35	-7.03	-0.12	-3.29	-9.08	-4.37
Sub-Saharan Africa LDC	-0.25	-0.37	-3.99	-5.86	-2.23	-4.14	-6.29	-2.39
Sub-Saharan Africa other	-0.19	-0.16	-0.84	-6.18	-0.96	-3.45	-8.95	-2.00

Source: Authors.

Results - S3. Plurilateral coop. Services

Figure: Change in real exports by region and by aggregate sector (in %)

Region	GDP	Exports				
		Total	Agriculture	Extraction	Manuf	Services
Asia LDC	-0.19	0.20	1.07	1.13	1.10	-6.60
Eastern asia	0.67	0.58	-1.32	-1.65	-0.60	6.44
Europe	1.47	1.52	-0.93	-0.62	-0.21	4.54
Latin america	0.01	0.64	0.27	0.69	0.20	2.79
Middle East and North Africa	0.13	-0.23	-0.34	-0.08	-0.16	-1.57
North America	0.25	0.57	0.86	0.57	2.66	-2.65
Oceania	0.39	0.97	-0.05	0.03	-0.15	6.78
Other Asian countries	1.05	1.31	-1.17	-0.19	-1.27	3.59
Rest of World	0.03	0.36	0.33	0.60	1.13	-0.70
South-East Asia	-0.38	0.23	1.00	1.52	1.18	-2.41
Southern Asia	-0.43	0.69	2.35	1.79	3.16	-3.02
Sub-Saharan Africa LDC	-0.38	-0.35	1.11	0.17	1.11	-5.68
Sub-Saharan Africa other	-0.18	0.10	0.69	0.46	0.87	-3.57

Source: Authors.

Results - S4. Geopolitical rivalry

Figure: Change in real GDP and real exports by region and sector (in %)

Region	GDP	Exports				
		Total	Agriculture	Extraction	Manuf	Services
Asia LDC	-3.27	-4.18	13.49	9.99	-4.39	-8.20
Eastern asia	-3.24	-9.07	2.26	7.75	-10.12	-6.14
Europe	-0.52	-4.05	-9.23	5.16	-3.45	-4.63
Latin america	1.05	-2.59	-5.22	-7.84	1.49	-5.60
Middle East and North Africa	-2.22	-5.70	-0.87	-3.32	-3.55	-14.36
North America	0.36	-4.53	-6.00	12.32	-1.38	-10.38
Oceania	-1.15	-5.18	-4.06	-4.69	-10.67	-2.66
Other Asian countries	-3.37	-3.88	2.03	-2.77	4.32	-11.30
Rest of World	-4.87	-6.44	2.51	-5.03	-3.45	-12.74
South-East Asia	-3.55	-5.50	3.44	12.09	-1.82	-16.59
Southern Asia	-2.22	-2.21	10.23	3.42	0.62	-6.51
Sub-Saharan Africa LDC	-2.52	-4.05	7.44	0.66	-2.91	-15.15
Sub-Saharan Africa other	-2.15	-5.34	-0.31	-1.07	-6.16	-10.81

Source: Authors.

Takeaways

- Multilateralism would still bring overall gains
- Geopolitical rivalry would be the worst case scenario for most regions
- Plurilateral cooperation raises questions (in particular in their implementation i.e. MFN vs non-MFN)
- These results are not final
- They raise questions rather than give final answers
- They point at effects that require further attention

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