
Introductory Remarks



Shujiro Urata

The world trade regime under the auspices of the World Trade Organization (WTO) is facing a crisis unlike any it has ever faced, as the WTO's primary functions of trade liberalization, trade rule-making, and trade dispute settlement have ceased or stagnated. The reasons for this are several: strong opposition to trade liberalization by workers and others who have lost their jobs as a result of such liberalization in the past; increasingly complex and serious conflicts of interest among economies that have grown closer due to expansion and diversification of international economic activities through increased cross-border movement of goods, services, investment, information, and other resources; and the weaponization of trade as a means to achieve political objectives.

After World War II, the world economy achieved high growth rates accompanied by trade expansion. Global economic growth was 2.0% per year from 1900 to 1940 before World War II, but rose to 3.9% in the 58 years from 1950 to 2008, when the global financial crisis hit. The economic growth rate then declined to 2.9% between 2008 and 2022.¹ Trade drove economic growth in the postwar period, as trade grew at a higher rate than production. This can be read in the increase in the world export/gross domestic product (GDP) ratio. The ratio rose from 9% in 1960 to 25.4% in 2008, but has been declining since then, reaching 22.7% in 2023.²

The world economy achieved high economic growth over the long period from the end of World War II to the global financial crisis in the form of mutually expanding production and trade. While technological advances and deregulation have lowered the cost of transportation, trade liberalization through multilateral negotiations under the the General Agreement on Tariffs and Trade (GATT) and its successor, the WTO, contributed to trade expansion significantly. The

¹ Our World in Data, <https://ourworldindata.org/economic-growth>, accessed Dec. 10, 2024

² Data obtained from World Bank World Development Indicators online. <https://databank.worldbank.org/source/world-development-indicators>, accessed Dec. 10, 2024

GATT was concluded as a reflection of the disastrous experience of the past, when pre-World War II competition to raise tariffs led to a decline in world trade and production, and the WTO was established as an international organization with a stronger foundation than the GATT, which was an agreement, in 1995. In fact, the global average tariff rate fell from around 15% around 1960 to about 7.5% before 2000.³ The rate has continuously declined, with some amplitude, since the 2000s, reaching 5.17% in 2017.⁴

Since the 1980s and 1990s, economic globalization has progressed rapidly due to the large expansion of direct investment along with trade. Globalization has promoted the efficient use of labor and capital, and has also stimulated innovation through increased competition, resulting in significant economic growth. While globalization brought benefits in the form of economic growth and rising incomes to those countries and people who were able to take advantage of the opportunities it provided, those countries and people who were unable to take advantage of them were not only unable to enjoy the benefits, but in some cases suffered job losses and declining incomes. Globalization has had contrasting effects on countries and people, and the failure of governments and societies to respond appropriately has led to widening inequalities among and within nations. Especially in recent years, the rapid pace of globalization has made it more difficult for people to adjust to employment, and the number of people affected has increased. The demands of the affected people have triggered anti-globalization and spread rapidly throughout society and the economy, taking advantage of populist movements. In response to such movements, governments have increasingly applied protectionist measures with the aim of preserving industries and jobs. According to Global Trade Alert, the number of protectionist measures worldwide increased continuously from 2009, when data collection began, to 2020, the year of the Covid-19 outbreak, at about 3,000 cases per year.⁵ The number jumped to about 6,000 cases during the outbreak of the Covid-19, then declined, but still stands at 5,100 cases in 2023.

A classic example of protectionist measures applied to protect one's own industry and jobs is the increase in tariff rates implemented by US President Donald Trump in 2018. He made the tariff hike a campaign promise to gain support in the Midwest Rust Belt states, which are known as swing states and have a large number of industries that once supported the US economy, such as steel and automobiles, but have lost their competitiveness due to import expansion and other factors. This election strategy worked, and Trump won the presidency in 2016, implementing the tariff hikes as he had promised. In particular, he raised tariff rates extremely high on imports from

³ Jeffrey G. Williamson and Michael A. Clemens "Why Did the Tariff-Growth Correlation Reverse after 1950?" NBER Working Paper 9181, 2002 <http://www.nber.org/papers/w918>

⁴ Data obtained from World Bank World Development Indicators online. <https://databank.worldbank.org/source/world-development-indicators>, accessed, Dec. 10, 2024

⁵ Global Trade Alert, https://www.globaltradealert.org/global_dynamics, accessed, Dec. 10, 2024

China, which had recorded a large trade surplus against the US. China then raised tariff rates on US imports as a retaliatory measure. Subsequently, the US and China mutually raised tariff rates several times, plunging the two countries into a “tariff war”, resulting in a significant decline in trade between the two countries.

While we have pointed out several factors that led to the expansion of protectionist measures, the suspension of the dispute settlement function of the WTO is also an important factor. If the dispute settlement function were functioning soundly, protectionist measures such as tariff increases that are not justified under WTO rules would be withdrawn. The dispute settlement function of the WTO was strengthened after it replaced the GATT, and the utilization of the dispute settlement function has increased. The number of dispute cases under the GATT increased from 314 in the 46 years from 1948 to 1994 to 621 in the 28 years from 1995 to 2023 under the WTO.⁶ However, in recent years, the number of cases has declined from a peak of 38 cases in 2018 to just six cases in 2023. One of the reasons for the stagnation of the dispute resolution function, which is composed of panels and the Appellate Body (AB), is that the US has been particularly dissatisfied with the role played by the AB and has opposed the appointment of the judges who make up the AB, thus making it impossible to meet the quorum for judges. As a result, the functioning of the AB has been suspended since the end of 2019.

Trade liberalization and the establishment of trade rules were advanced in the Doha Development Agenda, the first round of multilateral trade negotiations under the WTO, but with scant success. After the establishment of the WTO in 1995, there were significant differences between developed and developing countries in their attitudes toward the new round, and the new round did not get off to a good start. The discussions came to a conclusion, and the new round (Doha Development Agenda) was launched in November 2001, and in addition to agriculture, non-agricultural market access (NAMA), services, rules, “Singapore Issues,⁷” intellectual property rights (TRIPS), and trade and environment and trade and development were included. Thus, it became comprehensive in scope and responsive to the needs of the time.⁸ However, the negotiations were slow to progress due to differences of opinion among member countries, particularly between developed and developing countries. Major achievements so far include the establishment and entry into force of the Trade Facilitation Agreement and a fisheries subsidy

⁶ WTO, https://www.wto.org/english/tratop_e/dispu_e/dispu_e.htm, accessed, Dec. 10, 2024

⁷ A collective name for four new areas, trade facilitation, investment, competition, and government procurement transparency. Among those Singapore issues, only trade facilitation later came to be included as a negotiated issue.

⁸ Ministry of Economy, Trade and Industry, “Unfair Trade Report 2024” https://www.meti.go.jp/shingikai/sankoshin/tsusho_boeki/fukosei_boeki/report_2024/honbun.html, accessed, Dec. 10, 2024

agreement, to name only a few.

The biggest reason for the sluggish functioning of the WTO is its unanimous decision-making method, which is based on the agreement of all the members. When the GATT was concluded in 1948, there were 19 members, but the number of members has increased significantly since then, and the WTO, established in 1995 as the successor to the GATT, had 128 members. Since then, the number of countries and regions that have joined the WTO has continued to increase, reaching 166 as of August 2024. The members are diverse in terms of social, cultural, historical, and other aspects, including their stage of development and economic systems, and they all have different perceptions of the role of trade and investment in the economy. It is extremely difficult to achieve unanimity in the WTO, and this has led to stagnation in its functioning. In recent years, the share of developed countries in world trade has declined significantly, while the share of developing countries, among them those called emerging economies, has expanded significantly. This shift in the composition of world trade has increased the influence of developing countries with ideas that are at odds with those of developed countries in the WTO and other international institutions.

Furthermore, developing and emerging countries have formed the framework of the Global South and strengthened their political solidarity, which is likely to intensify conflicts. Despite the existence of diverse members, trade liberalization under the GATT was achieved because of strong leadership by developed countries, especially the US. However, as mentioned above, in recent years the US has been advocating its own country-first policy and actively adopting protectionist measures, and seems to have lost interest in restoring the functions of the WTO. In such a situation, there is no leader that can assume the role that the US played in the past.

For the WTO, which is responsible for the global trading system, new challenges are emerging that have not been covered by the WTO in the past. These include the growing importance of the environment, human rights, and labor standards, the development of the digital economy, and the growing seriousness of economic security issues. In promoting trade, there is a growing need to establish rules in these areas, but consensus-building is not easy, as opinions often differ among WTO members. In the areas of the environment, human rights, and labor standards, there is a strong view that there is a trade-off between improvement in these areas and economic growth, and there is a conflict between developed countries that emphasize the environment, human rights, and labor standards and developing countries that place priority on economic growth. In addition, in the development of the digital economy, there is a conflict between developed countries that own the technology that supports the digital economy and developing countries that are “exploited” by not owning the technology. In terms of economic security, there is the competition for hegemony between the US and China and the intensifying conflict between Russia and China versus the G7 advanced nations.

Recognizing that the world trade regime under the WTO is in a critical situation and that if appropriate measures are not implemented, it risks falling into a disastrous situation such as the collapse of the world trade regime and a major downturn in the world economy as experienced before World War II, “the Study Group on Restoration of a Rules-Based International Trade Regime” was established. The study group invited domestic and foreign experts to participate as members and examined from various perspectives how to rescue the WTO system from this critical situation and rebuild the world trade system in a way that would promote the steady development and growth of the world economy. This report includes papers by the members of the study group who analyzed the issues facing the WTO from the perspectives of the governance of the world trade system, the plurilateral agreements (CPTPP, RCEP, MPIA, etc.), protectionism, trade adjustment, and economic security. While not discussing the content of each paper in the introductory remarks, it is noted that the participants shared a common awareness of the importance of an open trade system based on rules at the global level, cooperation and coordination with like-minded countries (especially those referred to as middle powers) and their leading the discussion, promoting understanding of the benefits of trade, and building the capacity of workers.

Shujiro Urata is professor emeritus at Waseda University, chairman emeritus at the Research Institute of Economy, Trade and Industry (RIETI), and senior research fellow at the Economic Research Institute for ASEAN and East Asia (ERIA).