Proposals to foster coherence

Current shifts in global economic governance:
How could the WTO respond?
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The entry of labor-abundant countries into the world economy has pulled millions out of poverty, narrowing the income gap between developed and developing countries[2]. Consumers in rich countries have also benefited. However, changes in the distribution of economic activity and income across countries and regions create social frictions.

Laborer's share of income has declined in almost all G20 countries[3], as wages are no longer performing the central redistributive role they once had[4]. A deep political divide is compromising international co-operation on trade.

In many countries moderates are losing political ground, increasing the difficulty of stemming the backlash against economic interdependence (globalization). Economic nationalism is no longer a fringe issue and it is already affecting growth prospects[5].

Preserving international cooperation on trade is also indispensable to deal with immigration pressures. If would-be economic migrants cannot sell abroad what they produce in their home-countries, they will keep jumping on boats or paying coyotes to smuggle their families into promised lands. Protectionism can stop legal imports, but it may also compound migration pressures.

Reforming the WTO is indispensable but stemming protectionism will require reconciling people with trade[6]. This will entail a combination of structural reforms and income-distribution policies[7]. Both are essentially domestic choices, but they come at a cost. Taxing trade winners to compensate trade losers can infringe international competitiveness.

Domestic reforms to facilitate job creation, retrain and support the unemployed and ease worker mobility across firms, industries, and regions, imply absorbing immediate costs for long-term benefits. This makes it risky for governments to go it alone. If a country implements such policies in isolation, it could hinder its international competitiveness, and calls for protectionism could resound even louder.

Like a dog chasing its tail, governments need to undertake costly domestic reforms to preserve international co-operation on trade. But their implementation requires co-operative trade partners.

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[1] Some ideas presented in the text are drawn from: Torres, H, "Reconciling People with Trade"; Working Paper commissioned by the Group of 24 and the Friedrich-Ebert-Stiftung New York. August 2018

[2] Milanovic, Branko. Global inequality: A new approach for the age of globalization. The Belknap Press of Harvard University Press, Cambridge, Massachusetts, 2016.

[3] ILO, IMF, OECD and World Bank Group, "Income inequality and labour income share in G20 countries: Trends, Impacts and Causes," prepared for the G20 Labor and Employment Ministers Meeting and Joint Meeting with the G20 Finance Ministers, Ankara, Turkey, 3-4 September 2015.

[4] According to McKinsey Global Institute, the average wage share as a percentage of GDP has fallen by 5 percent on an indexed basis since 1970 (except for a spike during the 1973-74 crisis) in six countries covered by a recent study (France, Italy, Netherlands, Sweden, U.S. and UK). This decline took place despite rising productivity, suggesting a disconnection between productivity and incomes. Ibid., footnote **Error! Bookmark not defined.**, Executive Summary, page 10.

[5] Torres, Hector R, "As Moderates Lose Ground G20 leaders need to restore relations between everyday people", The Hill Times, November 28, Washington DC.

[6] Torres, Hector R. "Lip-service Commitments Won't Halt Protectionism", December 4, Centre for International Governance Innovation, Canada.

[7] IMF, World Bank and WTO, "Making Trade an Engine of Growth for All," prepared by the G20 Meeting of Sherpas, March 23-24, 2017. Frankfurt, Germany. https://www.wto.org/english/news_e/news17_e/wto_imf_report_07042017.pdf

Otherwise, the cost of domestic reforms, even if tailored to national circumstances, could backfire, compounding suspicions of "unfair" trade practices.

Close cooperation between the WTO and its Bretton Woods "sisters" can facilitate domestic reforms by fostering policy coherence in economic policy making.

Fostering Coherence

The WTO is central to preserving an international trade cooperative environment and it has a mandate to cooperate with the World Bank and the International Monetary Fund to foster coherence in global economic policy making.[8]

However, the WTO it is a "muzzled" organization. Its (quasi) judicial role in adjudicating trade disputes inhibits its staff from recommending policies that could eventually be legally challenged.

The WTO can (and should) play an important role in helping countries understand the potential trade spillovers of different policy choices, but it cannot lead the effort to promote concerted reforms, lest compromising its "neutrality" to adjudicate disputes that could stem from their implementation[9].

Both, the World Bank and the IMF, don't have this limitation. They have capacity and skills to help countries promote coherent macroeconomic policies and are called to provide policy advice to their members.

However, while the IMF and the WB have competence on trade-related policies, neither has WTO's granular familiarity with trade issues. Therefore, closer cooperation amongst the three institutions would give the IMF and the WB an insight on trade and a "voice" -indirectly- to the WTO. As a result, the three institutions would be in a better position to foster coherent reforms on trade-related policies.

How could this be done?

The World Bank is focused on development and combating poverty. It is the main multilateral provider of Aid for Trade, namely development assistance designed to help developing countries engage effectively and profitably in international trade.

The IMF has a broader mandate. According to its Articles of Agreement, the IMF must "promote the long-range balanced growth of international trade and the maintenance of equilibrium in balances of payments" and "exchange (rate) stability to maintain orderly exchange arrangements among members, and to avoid competitive (…) depreciation(s)." [10]

Detecting spillovers from national policies and recommending reforms is the bread and butter of the IMF's "surveillance" function. The Fund annually scrutinizes the economies of each of its 189

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[8] WTO, Article III (5) of the Marrakesh Agreement.

[9] Torres, Hector R. "Reshaping Cooperation on Trade: A Paramount Challenge for the G20", in: How the G20 Can Help Sustainably Reshape the Global Trade System: A Compilation of Analysis, International Center for Trade and Sustainable Development, Geneva, October.

[10] IMF, Article I (ii) of the Articles of Agreement. The same could be said for another of the Fund's central purposes: "to promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation," see Article I (iii) of the Articles of Agreement.

members. These "Article IV consultations"[11] are central to the Fund's capacity to detect and alert on regional and global risks.[12]

There are synergies between the Fund's "surveillance" and the WTO's Trade Policy Review Mechanism and there is ample room to increase cooperation between both institutions (and the World Bank).

For instance, before initiating Article IV missions, IMF staff could be asked to regularly contact the WTO and WB staff responsible for country desks. Consulting WTO and WB staff before initiating Article IV consultations would enhance IMF's preparedness to discuss spillovers on trade and development stemming from fiscal and monetary policies[13].

Moreover, WTO staff could be invited participate in Article IV trade discussions with the national authorities where trade issues are reckoned to have systemic consequences. WTO staff could help IMF staff identify trade reverberations of fiscal and monetary policies.

Similarly, WTO staff preparing Trade Policy Reviews could be asked to systematically contact their colleagues at the IMF and WB and, where fiscal and monetary policies are deemed to have significant spillovers on trade and development, IMF and WB staff could be invited to join TPR missions[14].

Other quiet and (almost) costless way to buttress policy coherence would be to promote secondments of WTO staff in the IMF and the WB and vice versa. This would enhance the capacity of the three institutions to assess the reverberations of fiscal & monetary policies on trade and development[15].

Furthermore, the IMF could invite the WTO to regularly include a box in its External Sector Report[16] and the WTO could invite the IMF to regularly include a box its bilateral and multilateral TPR reports[17].

Finally, the IMF and the WB should be encouraged to regularly address the fiscal and developmental consequences of trade policies detrimental to many developing countries (e.g., tariff escalation and price distorting subsidies). In doing so, the IMF and the WB would gain credibility and increase the traction of their policy advice on trade-related policies.

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[11] Normally "Article IV consultations" take place once a year. However, occasionally the Executive Board can decide to carry them out once every two years.

[12] Beyond the publication of annual Article IV reports on individual country economies, the Fund produces (biannually) Regional Economic Outlooks, the World Economic Outlook, and the "External Sector Report." The latter analyzes in detail multilateral issues, showing how each of the 28 world's largest economies plus the euro area (representing over 85 percent of global GDP) fit into the global picture, discussing associated risks and policies needed to reduce excess imbalances and promote global stability. http://www.imf.org/en/Publications/SPROLLs/External-Sector-Reports

[13] Out from my personal experience I can say that this hardly happens. When I was at the IMF Executive Board I used to call my WTO colleagues before the Board consideration of staff Article IV reports. To my surprise, in most occasions, my WTO colleagues from the TPR were not even aware of the Article IV reports prepared by their IMF counterparts (let alone being consulted beforehand). Occasionally consultations existed, but they largely depended on personal contacts.

[14] This practice could be limited to cases where trade issues are deemed to have macro-critical consequences for the country under surveillance, or for its trading partners.

[15] Costs could be minimal, as each organization would continue paying for salaries and social contributions

[16] The ESR is an annual publication that analyzes global external developments and assesses the external positions of 29 of the world's largest economies plus the euro area (representing over 85 percent of global GDP).

[17] Other IMF and WTO publications could also provide opportunities to improve mutual understandings and outreach audiences that are not familiar with issues discussed on "the other side of the Atlantic". For instance, the World Economic Outlook (IMF's flagship publication) could regularly include a WTO box and the same could be done in the WTO's Trade Reports.

NOTE: *It is important to underscore that these proposals are entirely consistent with the requirement that the WTO "shall cooperate (…) with the International Monetary Fund and with the International Bank for Reconstruction and Development" to achieve "greater coherence in global economic policy-making"*[18]*. Hence, no reform to current rules is required. The prerogative to decide whether, how and when to implement them rests squarely on the WTO's Director General.*

[18] WTO, ibid footnote 8