



# MULTILATERAL COOPERATION BEHIND THE TRADE WAR HEADLINES

HOW MUCH TRADE IS FREED UP?

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# Multilateral cooperation behind the trade war headlines: How much trade is freed up?

Lucian Cernat and David Boucher

## Abstract

This paper highlights the importance of multilateral cooperation as an avenue for tackling technical barriers to trade (TBTs). These non-tariff barriers are some of the most prevalent affecting global trade. While the US-China trade war and its tariff escalation was grabbing headlines, multilateral cooperation was happening behind the scenes. The World Trade Organisation (WTO) TBT Committee has spent the past decade removing €80 billion worth of unnecessary trade costs affecting EU exports. This paper advocates the need for a renewed multilateral impetus in addressing TBT concerns as part of our post-Covid global recovery.

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US-China trade rivalry, and several other separate measures initiated by the Trump administration against other trading partners, including the EU, dominated newspaper headlines for several years. These escalating tit-for-tat trade measures resulted in new tariffs affecting over \$300 billion of US imports, and many more billions of imports in third countries. These unprecedented measures were a reminder that tariffs can be very disruptive for global supply chains and consumers (see, for instance, Bown and Kolb, 2020). This may have led to the impression that unilateralism has taken over international trade relations at the expense of multilateralism. It may also have strengthened the conviction that tariffs are the most pervasive and detrimental barriers affecting global trade relations.

The main aim of this paper is to challenge these views by offering some clear, quantitative estimates highlighting the importance of multilateral cooperation as an avenue for tackling TBTs. The WTO TBT Committee is the technical forum credited as being one of the most effective WTO committees in addressing trade concerns in a multilateral context.

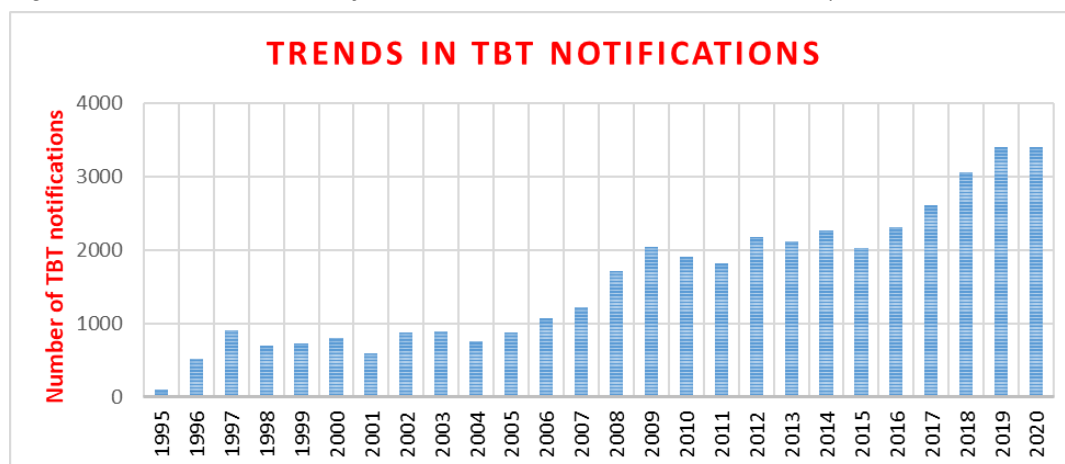
## 1. The importance of non-tariff barriers in a globalised economy

The increasing economic liberalisation that has characterised the past few decades has also meant technical, behind-the-border trade barriers have become more important. These TBTs result from non-tariff measures (NTMs) – government regulations that affect exports and imports. For the most part, these are non-discriminatory and intended to preserve the safety and health of consumers or the environment. But although such regulations are usually perfectly legal and legitimate, compliance with differing requirements across countries might be complex and costly for companies seeking to export, particularly for small and medium-sized enterprises (SMEs).

Trade in the 21st century may face fewer traditional tariffs, but rules and regulations that affect international trade in goods and services have proliferated. These NTMs can be different in nature, but one important subset consists of those covered by multilateral disciplines under the WTO TBT Committee, including in terms of notification obligations. As can be seen from Figure 1, there has been a steady growth in the number of such TBT notifications over time, from around 500 per year in 1996 to over 3,000 per year since 2018. As a result, multilateral rules in the WTO and most regional and bilateral trade agreements (already implemented or under negotiation) include provisions on NTMs.

The WTO Agreement on Technical Barriers to Trade provides one such multilateral forum. Regular WTO committee meetings are indispensable for the implementation of the TBT agreement and other WTO agreements. Here, delegations discuss issues pertinent to the operation of a particular agreement. Committee work helps to resolve trade tensions by diplomatic means and to achieve the same positive outcome in a less costly manner than through litigation.

Figure 1. Trends in TBT notifications under WTO TBT Committee procedures



Source: authors' composition based on WTO Technical Barriers to Trade Information Management System (<http://tbtims.wto.org/>).

## 2. The systemic importance of the WTO TBT Committee as an enforcer

Nowadays, with one of the main objectives for the new European Commission being to improve compliance and enforcement of trade rules, the proper enforcement and implementation of the WTO Agreement on Technical Barriers to Trade is of utmost importance. The EU is one of the most active promoters of transparency and direct engagement with WTO trading partners in Geneva. It works to avoid unnecessary TBTs and the increased costs that EU exporters and importers face. 'Specific trade concerns' (STCs) are a very useful tool that can be utilised in the context of the WTO TBT Agreement.

The nature of STC claims vary considerably. In some cases, concerned members simply seek further information and clarification of draft measures or require their notification. In other cases, and more seriously, the claims might be about violations of the rules of the TBT Agreement. Violations could include measures inconsistent with existing international standards or an unnecessary, hence disproportionate, level of trade restrictiveness. STC practice also contributes to the resolution of trade tensions, serving as a preventive mechanism against formal trade dispute. Over the years, the EU has succeeded in fully or partially addressing several trade barriers in an export market by taking decisive action at the TBT Committee.

## 3. Can the WTO solve specific trade concerns (STCs)?

The economic literature addressing the importance of TBT issues has a long record of relevant policy insights. A good overview is provided, for instance, in Maskus, Wilson and Otsuki (2000). The empirical literature, using mainly gravity modelling of trade, has developed along two strands.

A first strand focuses on the benefits of developing a robust regulatory infrastructure. The increasing investment made by different countries, including the adoption of technical national standards in line with international standards, can encourage trade and facilitate development.

Several analyses examined the important transparency role of the WTO TBT Committee, based on the large number of notified TBTs to the WTO since 1995. These highlighted the successful inclusion of more and more countries, including developing and emerging ones, in TBT discussions and in the prevention of non-necessary regulations (see, for instance, Ghosdi, Grubler and Stehrer, 2016). Prévost (2013) conducted a legal analysis of the transparency obligations under the TBT Agreement, and concluded that these provisions provided valuable legal certainty for companies engaged in international trade.

The question of whether the WTO has capacity to resolve trade concerns and to reduce conflicts is considered by two notification mechanisms: first, the obligation to notify TBT measures proposed; and, second, the possibility of notifying STCs against the proposed measure. This would trigger a dialogue at the early stage of the TBT implementation process, and therefore reduce the need for dispute settlement. Finally, all these transparency mechanisms, implemented at different regulatory stages, reduce the likelihood of emerging new barriers, thus leading to improved market access possibilities and a positive impact on trade flows. These conclusions are also found in various OECD analyses (see, for instance, OECD and WTO, 2019).

The role of WTO notifications is equally important for developed and emerging economies. For instance, Ghosdi (2018) conducted a survey on the impact of Chinese TBTs on its manufacturing imports and found benefits of greater transparency whenever new technical norms were adopted in China. Ghosdi used a gravity model of Chinese manufactured imports at the HS6-digit level during 2002-15. The results suggest a negative impact of tariffs and a positive impact of WTO notifications by China on the import values and quantities of manufacturing products from certain partners, especially those following international standards. This suggests that the introduction of new Chinese technical norms in line with international standards, and greater transparency via WTO notifications, had a trade-promoting effect. These results are in line with the results of Bao and Qiu (2010), who looked at aggregated imports at the 2-digit level for 1998-2006, and found potential benefits of transparency on trade flows. This confirms that TBTs are not always de facto barriers to trade, and that in some cases they could be necessary and beneficial for trade partners.

In contrast, a second strand of literature found that TBT measures could lead to legitimate trade concerns and significant increases in the cost of international trade. In many cases, such barriers lead to STCs raised in the WTO context. However, TBTs are sometimes introduced for valid public policy concerns and third country objections, and STCs are not always raised for legitimate reasons. Despite their generic name, not all TBTs notified at the WTO are trade barriers. As Ghosdi, Grubler and Stehrer (2016) empirically demonstrated, TBTs can be of three kinds: (i) *neutral*, with no discernible effect on trade; (ii) *negative*, with a negative effect on trade flows, and (iii) *positive*, i.e. technical measures that facilitate trade. Also, the literature underlined the differentiated impact that a TBT measure could have according to the level of economic development, type of measures, or type of firms.

For each TBT category concerned, Fontagné and Orefice (2018) found a differentiated impact of TBT measures across firms. They show a crowding-out effect after the implementation of a TBT measure for less productive exporters, for the benefit of remaining companies. In addition,

multi-destination firms choose to reorient their exports toward markets where they are already present and compliant with norms and standards, or in certain cases choose to enter into new TBT-free markets instead of incurring the costs of complying with new TBT requirements. Finally, they found that stringent TBTs represent mainly an increase in fixed-trade costs that explain, in part, the differentiated impact across types of firms. These differentiated consequences could explain the multiple determinants of TBT and STC notifications. However, the nature of WTO STCs show a wide diversity of concerns: procedural application, short implementation timelines, discriminatory application, and divergence from international standards, etc. Therefore, not all STCs are the same.

This brief literature review demonstrates that the trade effects of TBTs can be very complex, and influenced by many factors. However, showing that adopting international, high-quality standards and a sound regulatory infrastructure have trade-promoting effects clearly demonstrates the importance of multilateral cooperation, as promoted within the WTO TBT Committee. Many other studies confirmed the effectiveness of the WTO TBT Committee in resolving trade problems. Transparency and technical dialogue make it possible to find common ground and avoid recourse to dispute settlement. The creation of a single clearing house also makes it possible to centralise information, and conduct economic studies on the subject of TBTs that lead to informed policy making. However, beyond the determinants of STCs and the differentiated impact of existing TBTs on trade, a further question of interest from the EU perspective is to understand the economic benefits arising from notified barriers that were never implemented, i.e. estimating the value of trade flows that benefited from the prevention of new trade barriers through a successful resolution of STCs.

#### 4. Estimating the positive impact of STC resolution

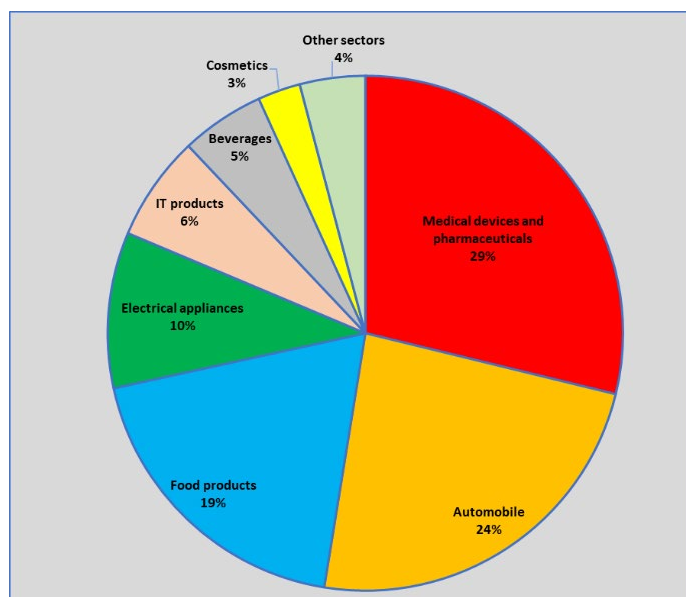
The WTO TBT Committee is a very active forum of discussion, with many WTO members raising specific trade concerns vis-à-vis measures planned by other members. The EU is among those most frequently engaged in such discussions. Of the hundreds of STCs raised by the EU over the years in the WTO TBT Committee meetings, a number of them were successful in addressing the concerns of EU exporters. Avoiding future TBTs in various third countries is certainly valuable and facilitates global trade, for EU and other WTO members.

However, data and methodological constraints means that the value of such efforts is not always obvious. TBTs sometimes apply to a very specific product, while in other cases such measures can have a horizontal impact across many industrial sectors. Clearly identifying the specific products and trade affected by such TBTs is not straightforward, therefore, since the usual trade nomenclature (HS codes) do not match the classification of TBT measures.

Despite such difficulties, we have managed in this paper to achieve a good match between TBTs and the products affected (see Box 1). According to DG TRADE estimates, based on the sectors and products that were subject to such TBT-related STCs measures, **around €83 billion worth of EU exports were facilitated by successful interventions by the EU in the WTO TBT Committee over the past decade.** Such measures affected a wide range of sectors (Figure 2), notably

medical devices, pharmaceuticals, automotive, food and beverages, IT products and electrical appliances, cosmetics, and other products (toys, textiles, ceramics, furniture, etc).

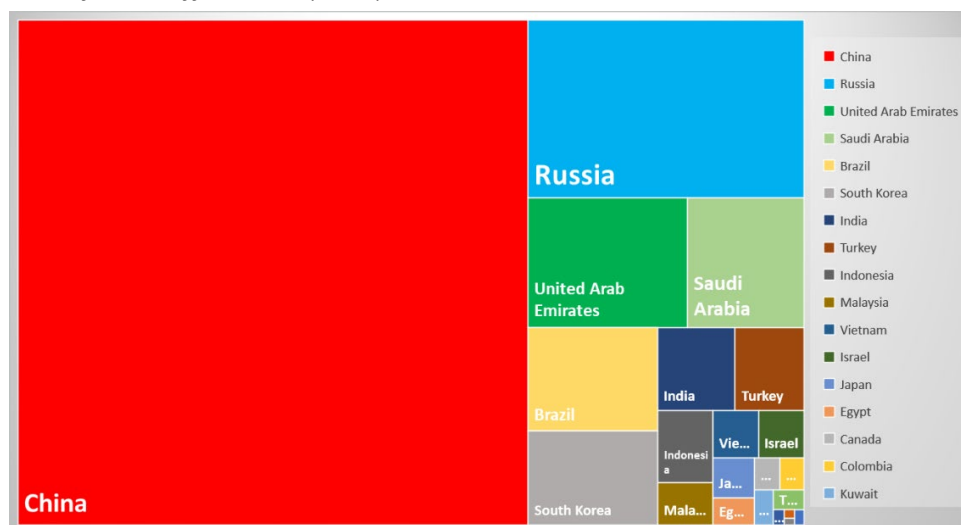
Figure 2. The distribution of EU exports that benefited from successful interventions in removing TBT-related STCs in the WTO context



Source: DG TRADE estimates, based on official Eurostat export statistics and the product scope of the STCs successfully addressed in the WTO TBT Committee during 2009-20.

As shown in Figure 3, EU exports were particularly affected by TBT-related issues in several key countries including China, Russia, United Arab Emirates, Saudi Arabia, Brazil, and South Korea. Thanks to the EU’s successful engagement and dialogue with the countries concerned during the WTO TBT Committee formal deliberations and in bilateral dialogues, a large number of such TBT-related barriers were removed or prevented before formal adoption.

Figure 3. Geographical distribution of EU exports benefiting from the removal of TBT-related barriers (as % of total affected exports)



Source: DG TRADE estimates, based on official Eurostat export statistics and the product scope of the STCs successfully addressed in the WTO TBT Committee during the 2009-20.



*Box 1. Matching specific trade concerns (STCs) and HS codes of products*

This box explains the methodology used to determine products (identified using HS code classification) that potentially benefited from preventing new trade barriers by removing longstanding existing ones, or by providing clarity and certainty on the specific implementation of TBT-related measures by third countries.

We examined 69 STCs on TBT issues raised by the EU that were successfully addressed in the WTO TBT Committee between 2009 and 2020. For each successful STC, we identified the product range that potentially benefited from the removal of the barrier, using the standard HS classification.

The methodology relied on several elements. In certain cases, the products affected were identified with HS codes in the actual WTO TBT notifications provided by the countries imposing these measures. In other cases, the WTO notification contains information on the International Classification for Standards (ICS), which has a concordance table with HS product codes, provided by the WTO secretariat. In the remainder of the cases, when no such information is available, we complement our analysis with a detailed assessment by sectoral experts of the nature of the technical barrier and its product scope.

For each STC, the most detailed HS codes that come closest to the product scope are chosen (i.e. whenever appropriate, we use HS-6 digits, otherwise we move up to the relevant HS-4, or in some limited cases (because of the horizontal nature of the barrier) we use HS-2 digit codes). Given the lack of harmonised cross-country trade statistics at more detailed level, we do not go further than HS-6 digits.

Using this multi-pronged product identification method, we have managed to assign a total of 938 HS codes to the list of STCs successfully addressed by the EU in the WTO TBT Committee. As part of the data validation work, we removed 7 HS codes for which export data was not available for 2019. Because HS classification follows a nested structure (e.g. HS-2 digits codes contain HS-4 digits and HS-6 digits; HS-4 digits codes contain HS-6 digits) we used an algorithm to ensure that each individual HS6 code was included only once and to avoid duplication by the same products being counted twice during the period under investigation. Even if in reality one EU product exported to the same third country may have benefited from the removal of more than one TBT during the period covered, we have included that product only once.

We acknowledge that, despite using multiple sources and combining different approaches, the product identification method used is not perfect. There are many difficulties in assigning technical regulations to products in such a large number of third countries, with different regulatory approaches and legislative systems. In a number of limited cases, it may well be that our method resulted in an overestimation of the value of trade affected. If trade data was missing, TBT cases were not included in the analysis. In other cases, whenever a clear choice was available between selecting a set of products leading to overestimation or underestimation, the latter option was adopted. Given that we have aggregated information on many STCs over a long period and involving a large number of countries and sectors, the limitations – and the small number of difficult cases – did not affect the overall reliability of our aggregate results.

## 5. The importance of data insights and stronger global coordination

One of the main objectives of this paper was to bring to the fore the important technical work carried out in specialised WTO committees, and showcase its sheer economic importance. While the metrics offered here are descriptive and subject to certain caveats, the economic relevance of such TBT successes is undeniable. Another way to look at the trade value facilitated by such measures would be to consider the estimates available in the economic literature for the trade-creating effects of removing TBTs. For instance, Ghodsi, Grubler and Stehrer (2016) found that the average ‘tariff equivalent’ effect on trade from existing TBT STCs raised by all WTO members was between 9-19%, a far higher level than the actual tariffs applied by most WTO members on industrial products.

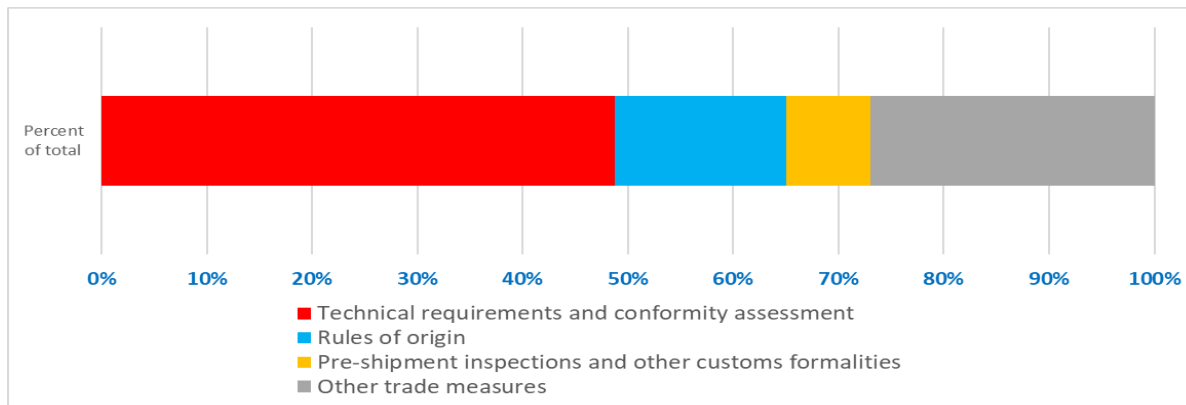
Removing such STCs, therefore, is equivalent to removing a double-digit tariff on over €80 billion worth of EU exports, which indicates a considerable potential increase in trade flows. This points once more to the need for more detailed analyses to support the regular committee work in promoting global trade. Such analyses should also take into account the impact of major regional and bilateral trade initiatives that can complement multilateral efforts (see, for instance, Pelkmans, 2020) as well as bilateral regulatory cooperation dialogues (Hu and Pelkmans, 2020).

These successful cases, where TBTs against EU exporters were prevented, do not mean, however, that TBT problems do not persist. Often, the TBTs successfully prevented were part of a larger set of issues that continue to remain discriminatory or burdensome for international trade. Therefore, to be successful, EU exporters need to make substantial efforts to understand and comply with all trade formalities and regulations that apply to their products in third-country markets. Even a decade ago, several analyses of such behind-the-border ‘murky protectionist’ measures that were scattered throughout all sorts of domestic regulations indicated that over €100 billion worth of EU exports were subject to unjustified restrictive measures abroad (Cernat and Madsen, 2011). It is perhaps telling that many key trading partners (China, Russia, India, etc.), where such behind-the-border protectionist measures were found most detrimental in 2011, continue to feature prominently in EU trade enforcement priorities today.

Notwithstanding the many TBT problems that tend to persist for years, it is encouraging to see that new TBTs can also be avoided via multilateral cooperation. The EU supports these efforts by promoting transparency of rules, coherence of international regulations and standards, and mutual recognition in full respect of the right of governments to pursue their legitimate public policy objectives. A 2016 pan-European survey of EU exporters (European Commission, 2016) had already found that the most frequent and burdensome regulations for EU exporters are related to conformity assessments, testing procedures, and technical requirements (Figure 4). These measures include product certification and registration imposed by partner countries, labelling and marking requirements, as well as import procedures, certifications, technical standards and regulations on product characteristics. The high incidence of TBTs found in this

survey confirms findings of previous investigations and the widely perceived problematic nature of these measures.

Figure 4. Incidence of non-tariff barriers reported by EU exporters, by main type



Source: DG TRADE, based on [https://trade.ec.europa.eu/doclib/docs/2016/december/tradoc\\_155181.pdf](https://trade.ec.europa.eu/doclib/docs/2016/december/tradoc_155181.pdf).

Against this background, it is important to acknowledge that the successful removal of TBT-related STCs happened thanks to the engagement of other trading partners and the EU's commitment to multilateral rules and their proper implementation. Although our quantification methodology could not capture the full trade effects beyond EU trade, it is equally important that the benefits stemming from resolving such STCs did not accrue only to EU exporters. In many cases, such TBT concerns were jointly raised with other WTO members. Trade facilitation effects were both de facto and de jure implemented vis-à-vis all WTO members, so even if not all WTO members associated themselves with such STCs, the trade benefits were multilateral in nature. To remain a driver of prosperity and sustainable development, global trade therefore needs such cooperation more than ever in the years to come. The appointment of the Chief Trade Enforcement Officer in DG TRADE is an important step in strengthening the EU's implementation and enforcement agenda, both multilaterally and bilaterally.

In our post-Covid recovery efforts, it is particularly important to enforce existing rules and avoid new and costly technical barriers. The in-house analysis performed by the DG TRADE Chief Economist Team estimated a decrease in global trade of between 10-16% in 2020, which is line with the latest WTO trade forecasts. The predicted reduction is expected to be between 9-15% for extra-EU27 exports (European Commission, 2020). This drastic reduction in trade poses major risks to our post-Covid economic recovery, and any efforts to reduce unnecessary trade costs and barriers are of paramount importance. The renewed impetus on enforcement actions that help EU exporters to have access to key third-country markets builds on the valuable work already carried out as part of the long and painstaking committee work under the auspices of the WTO. The EU has already tabled several proposals to improve the functioning of the WTO system (European Commission, 2018). 2021 provides a window of opportunity to strengthen the multilateral system, including by strengthening the technical committee work that happens behind the headlines.

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