



**Multi-year Expert Meeting on Enhancing the Enabling Economic Environment  
at All Levels in Support of Inclusive and Sustainable Development (2nd session)**

*Towards an enabling multilateral trading system for inclusive and sustainable development*

**Geneva, 8 – 9 December 2014**

**SESSION 4:**

Future directions - Strengthening the multilateral trading system in the 21st century

**INTERNATIONAL TRADE: CHALLENGES AHEAD**

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São Paulo School of Economics

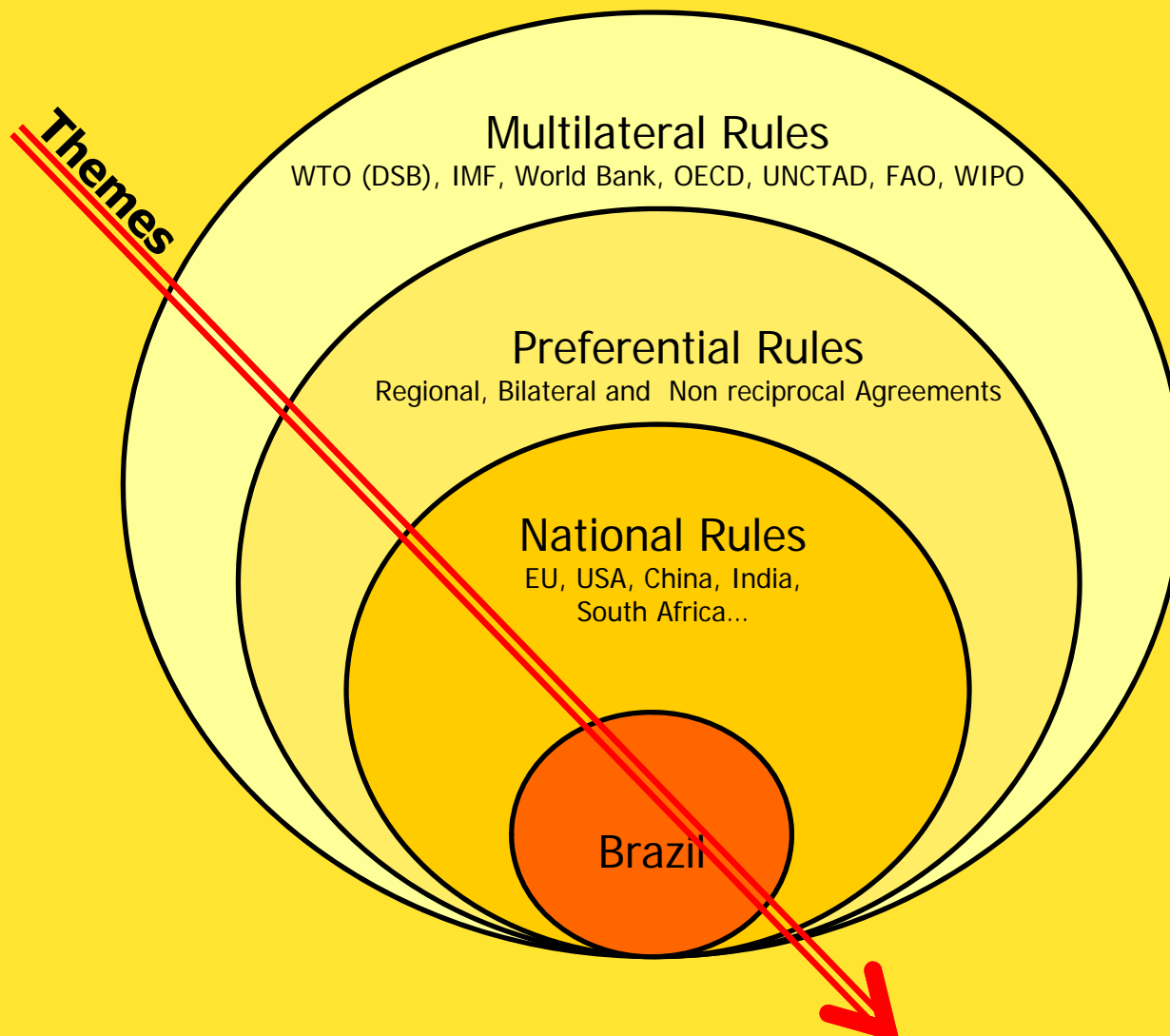
# **INTERNATIONAL TRADE : CHALLENGES AHEAD**

**2014**

**Prof. Vera Thorstensen, Emerson Marçal, Lucas Ferraz**

# Analysis of the Trading System

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# Trends and Challenges

3

1 – Multiplication of PTAs

2 – Logic of Global Value Chains

3 – Fragmentation of regulatory barriers

4 – Currency Wars

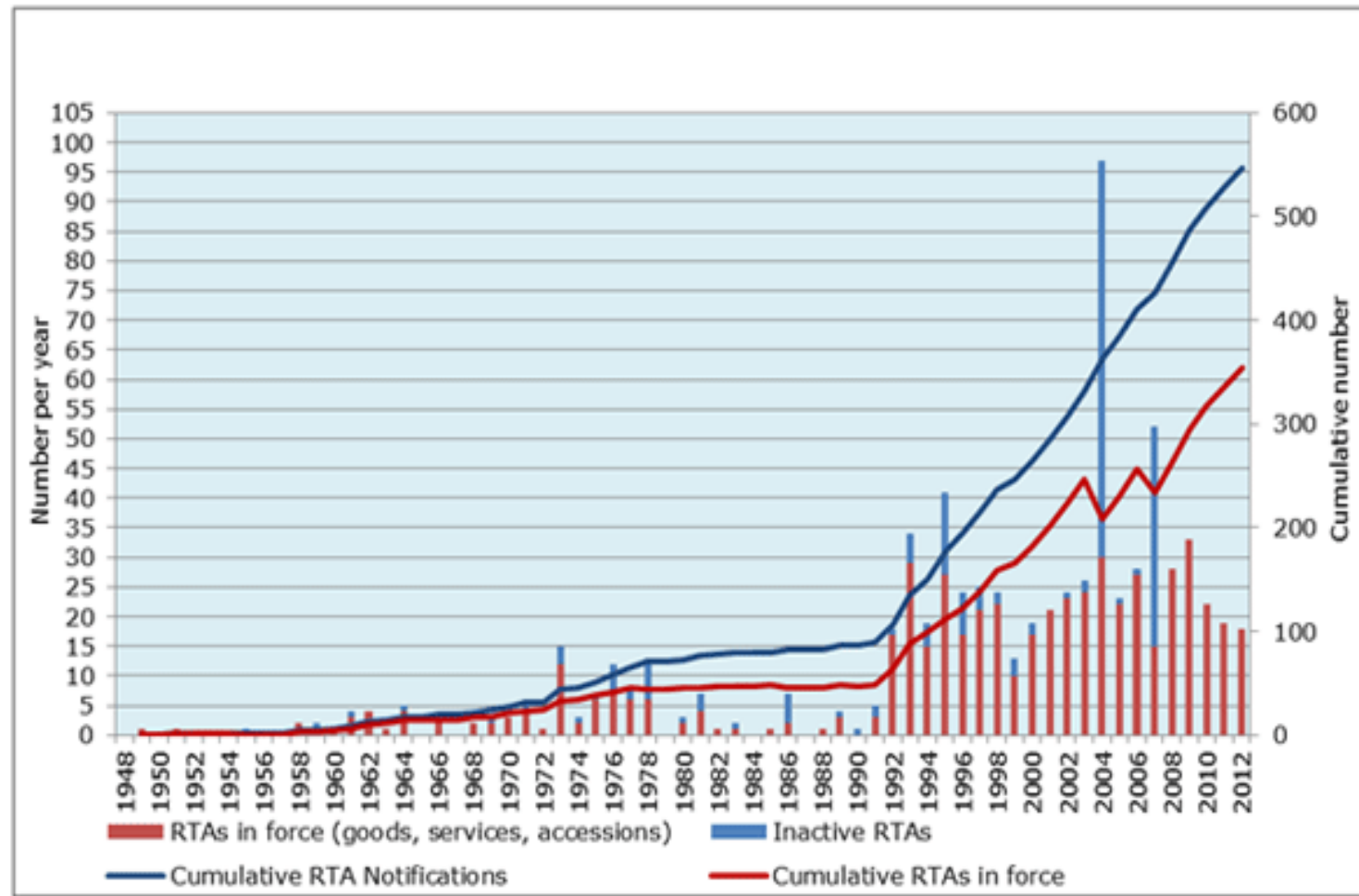
# 1 - Multiplication of PTAs

4

- Types: RTAs, Bilateral, Non-reciprocal
- Scope: goods + services + IP + Inv + Comp + CC
- Issues: WTO in + WTO plus + WTO extra
- Mega-PTAs: US    EU    RECEP

# Number of PTAs

5

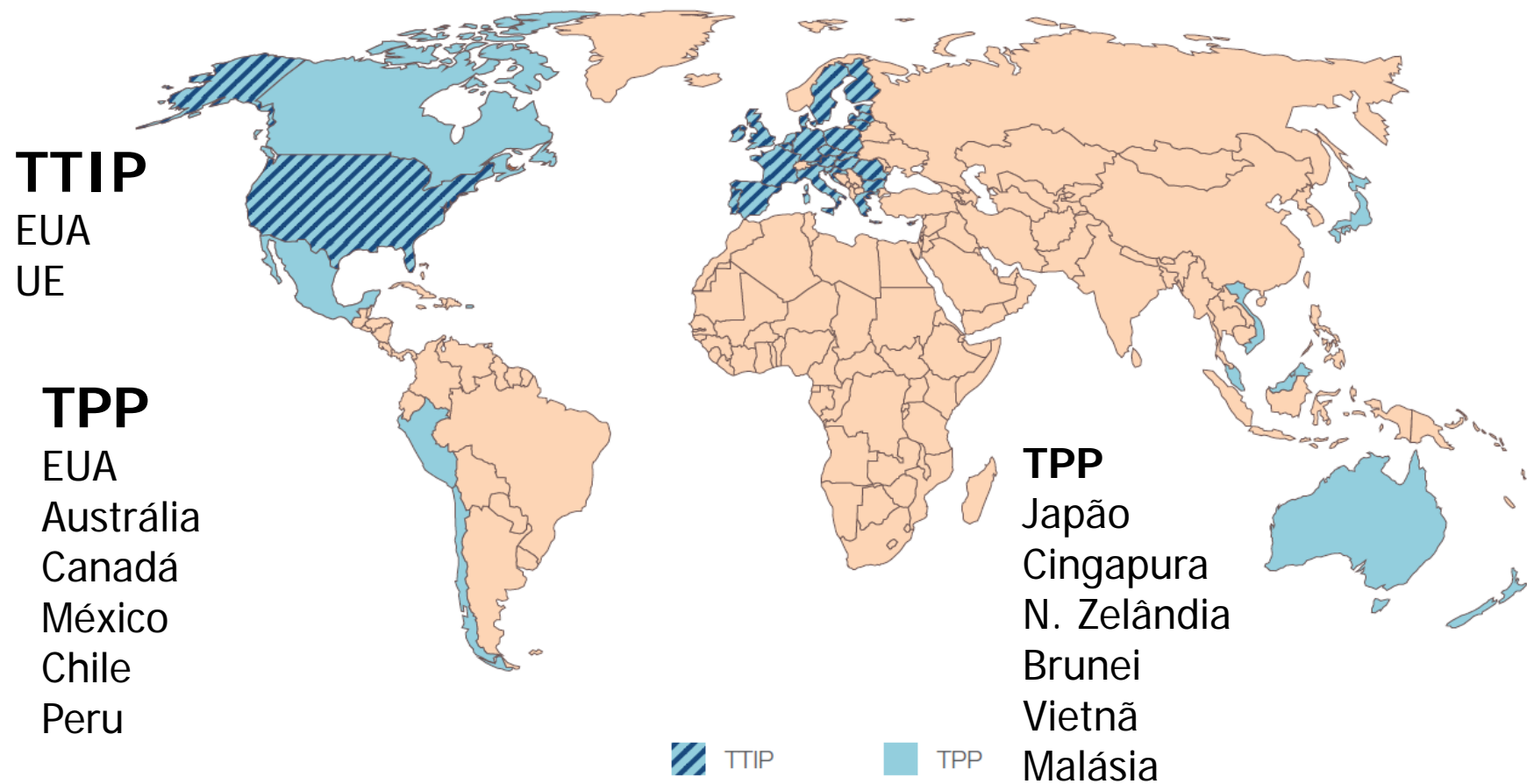


Source: WTO, 2012

# TTIP + TPP

6

Figure 2: TTIP and TPP membership



Fonte: DRAPER; MELÉNDEZ-ORTIZ, in *Mega-regional trade agreements*. WEF, July 2014, p.17.

# RCEP

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## **ASEAN**

Indonésia  
Malásia  
Filipinas  
Laos  
Tailândia  
Cingapura  
Brunei  
Myanmar  
Camboja  
Vietnã

China  
Japão  
Coreia do Sul  
Índia  
Austrália  
Nova Zelândia



# MEGAs

8

- Agreements **on rules** not tariffs
- XX th. – liberalization of tariffs
- XXI th. – coherence of rules
- Rules: TBT+SPS; Services; Int. Prop. (WTO +++)
- Rules: Investment; Competition; Environment (WTO extra)
- WTO ???

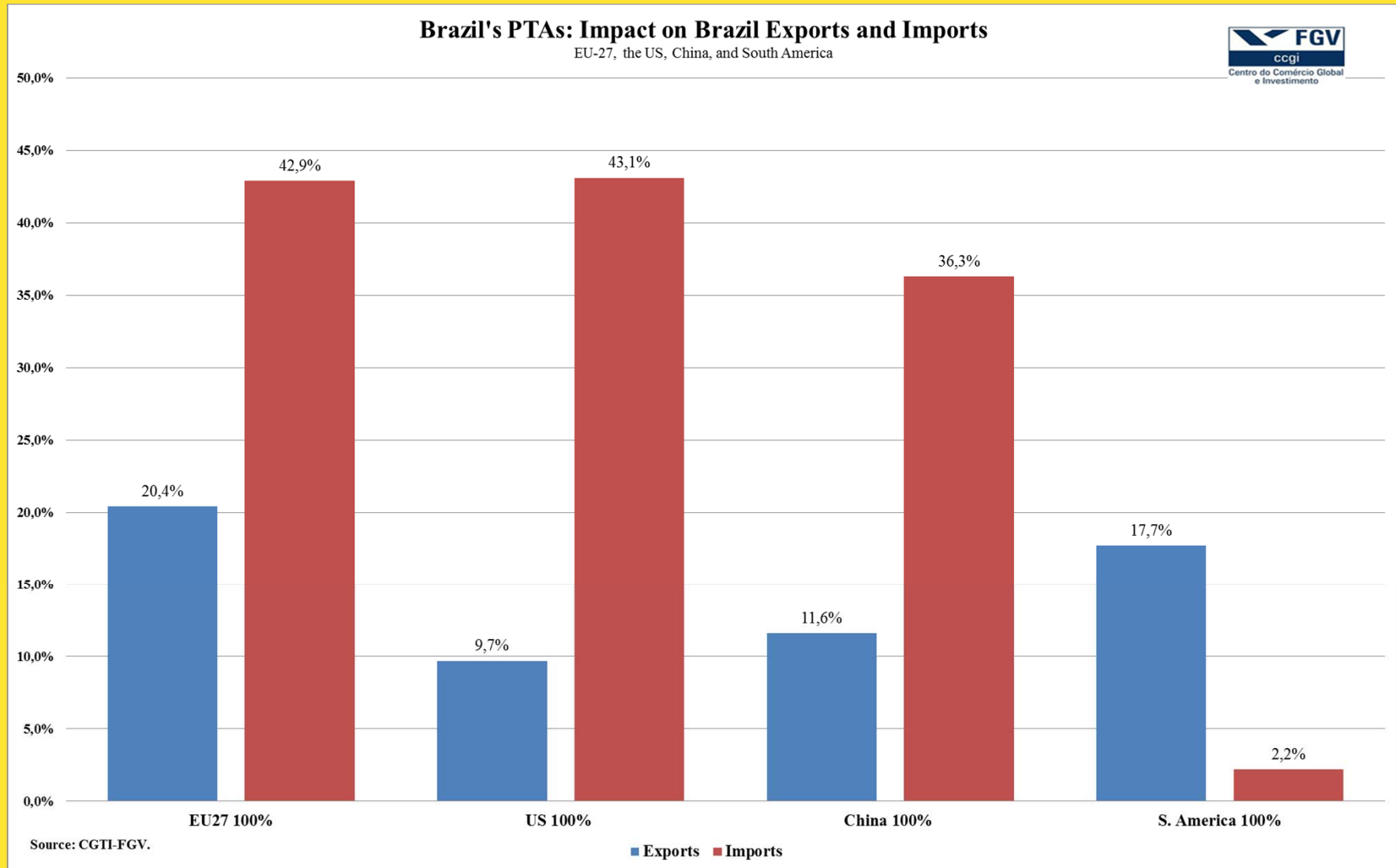
# Impacts on WTO

9

- - New WTO plus and WTO extra rules
- - WTO consistence ?
- - DSB x Mega PTAs dispute mechanism
- - Role of WTO ?
- Proposals:
  - . Reinforce Committee on Regional Arrangements
  - . Discuss Mega in each of WTO Committees
  - . Bring new cases to DSB

# Brazil PTAS : US, EU, Ch, SAm

## Impacts on exports and imports – only tariffs



# Brazil x Merco PTAS : US, EU, SAM

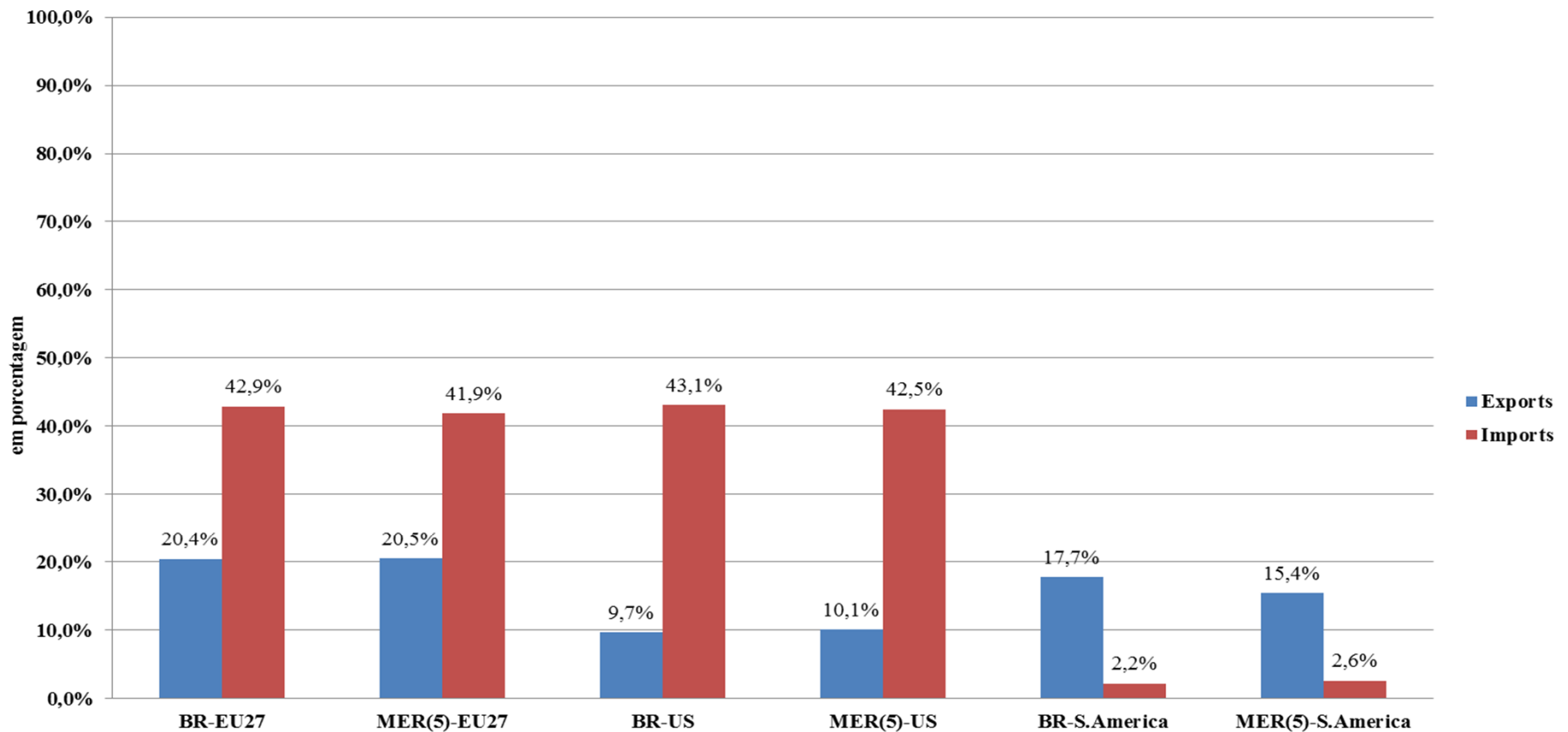
## Impacts on exports and imports

(EU,US 50% Agr – Br,Merco 100%)

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**Brazil's and Mercosur's PTAs: Impact on Brazil and on Mercosur Exports and Imports**

EU-27<sup>1</sup>, the US<sup>1</sup>, and South America<sup>2</sup>

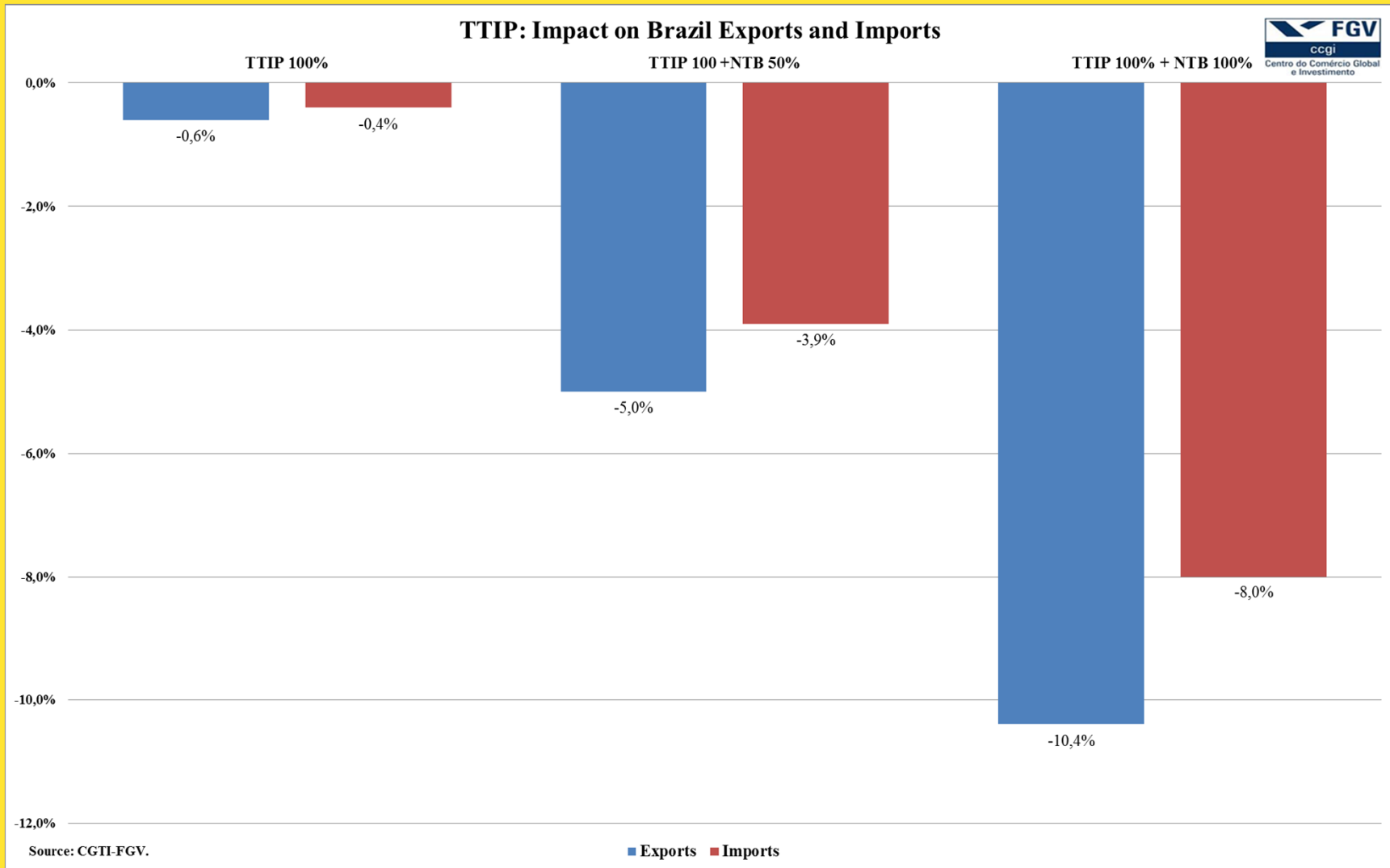


Source: CGTI-FGV.

<sup>1</sup>US and EU: 50% liberalization on Agriculture and 100% liberalization on Industry - Brazil: 100% liberalization

<sup>2</sup> South America: 100% liberalization. In all cases, only tariffs are scrutinized.

# TTIP– Impacts on Brazil - exports and imports (tariffs and non-tariff barriers)

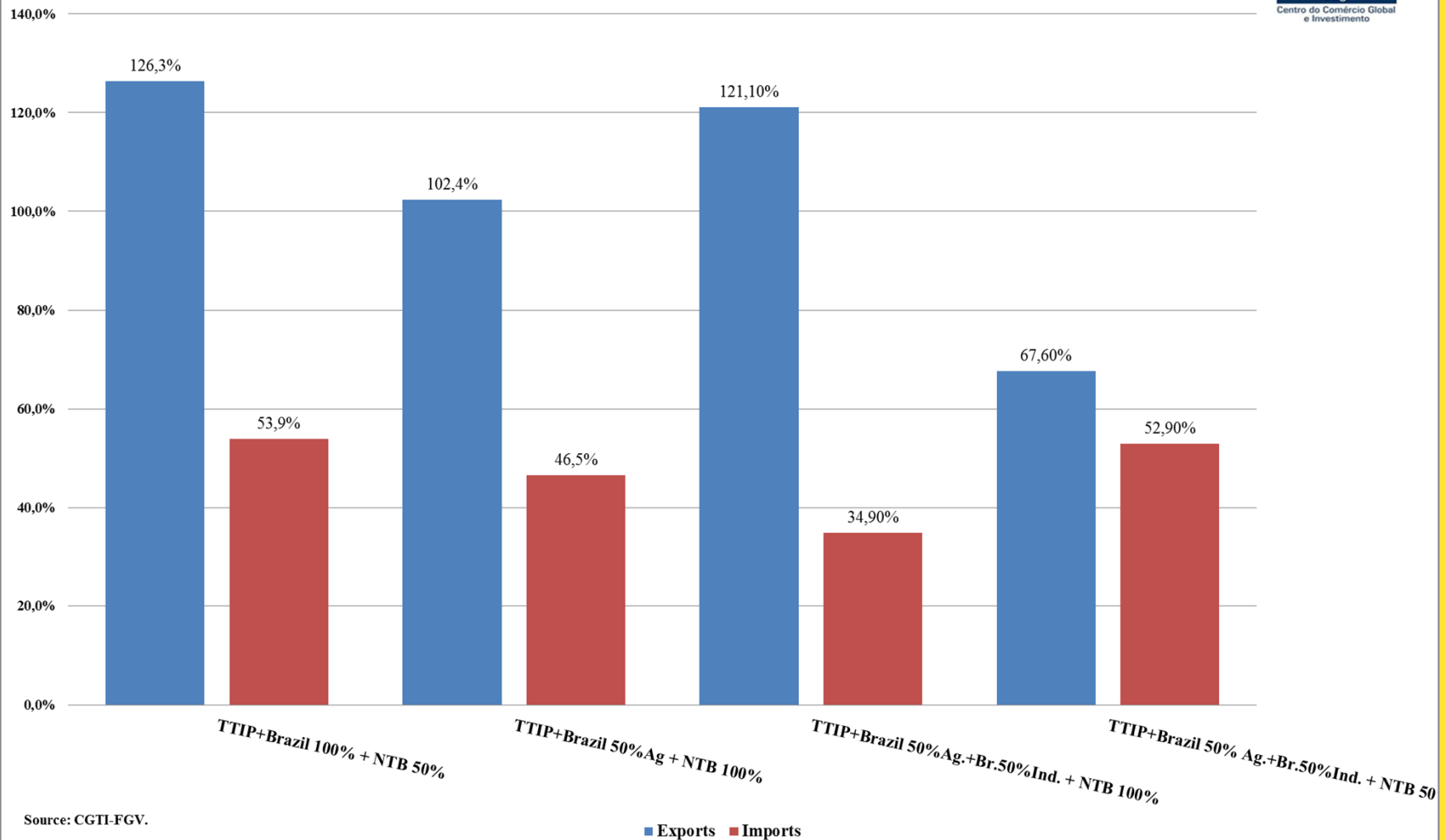


# Brazil in TTIP

## Impacts on exports and imports (tariffs + NTB)

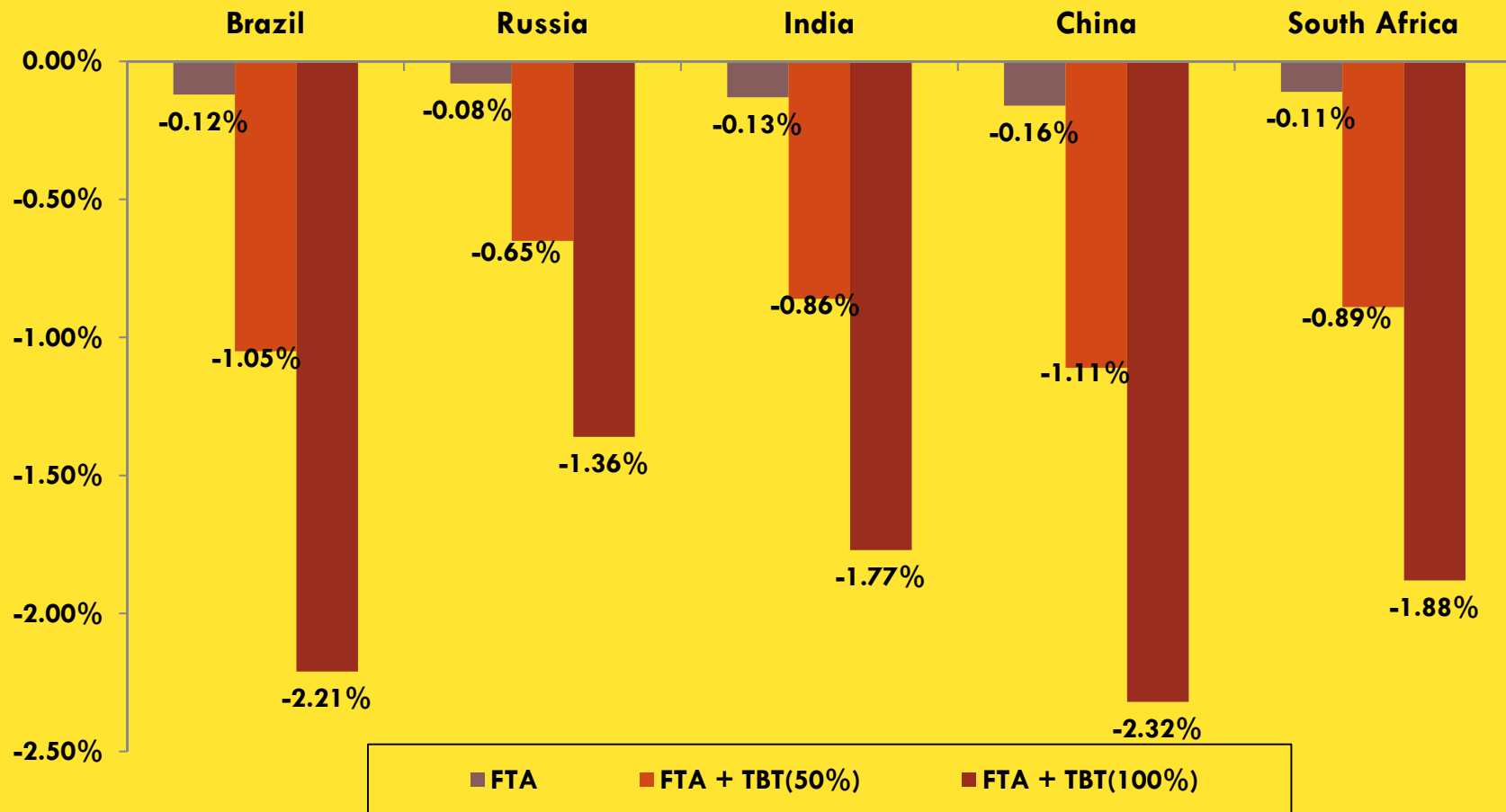


TTIP+Brazil: Impact on Brazil Exports and Imports



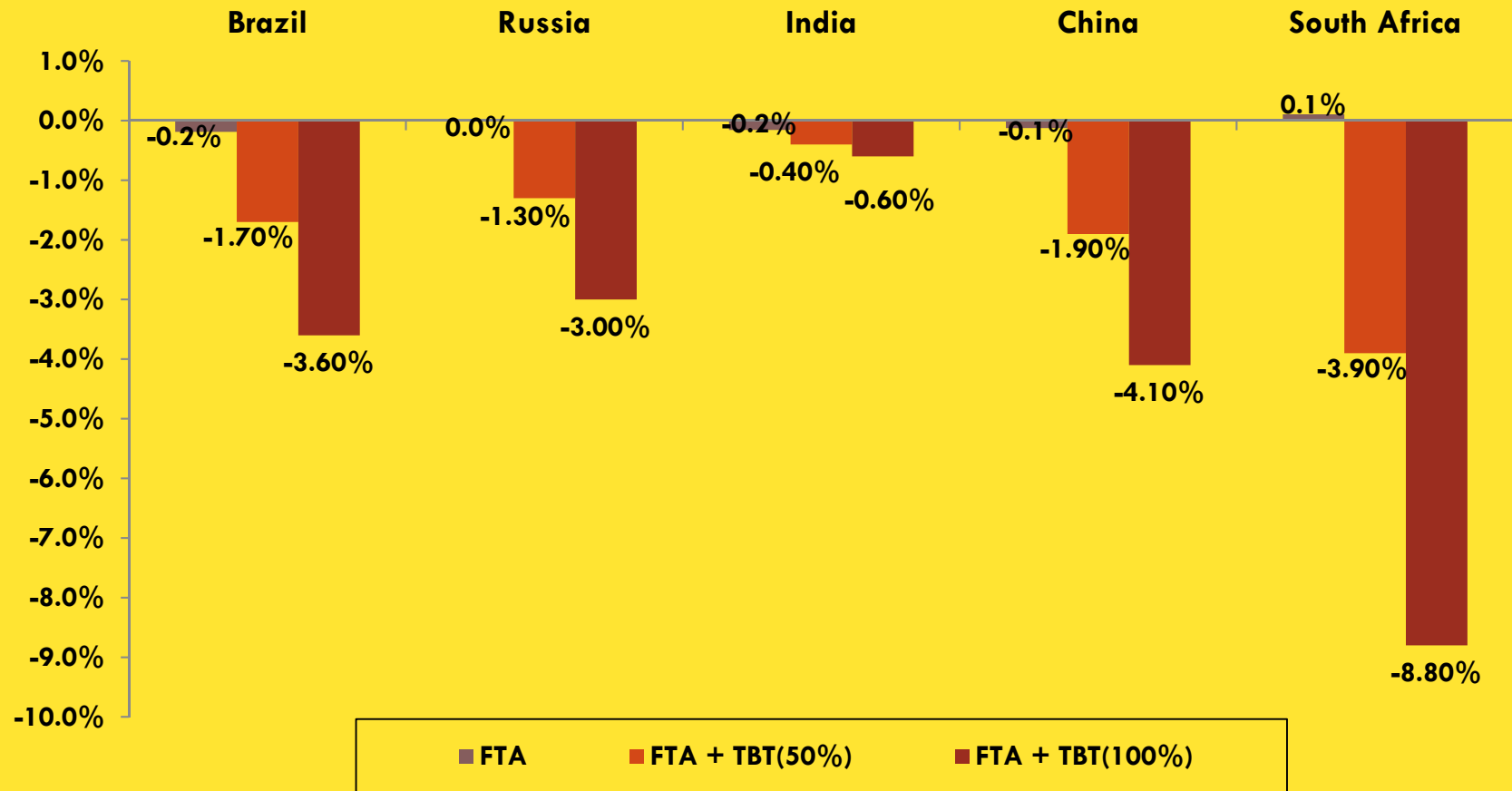
# GDP Growth (%) – TTIP

14



# Trade Balance (%) - TTIP

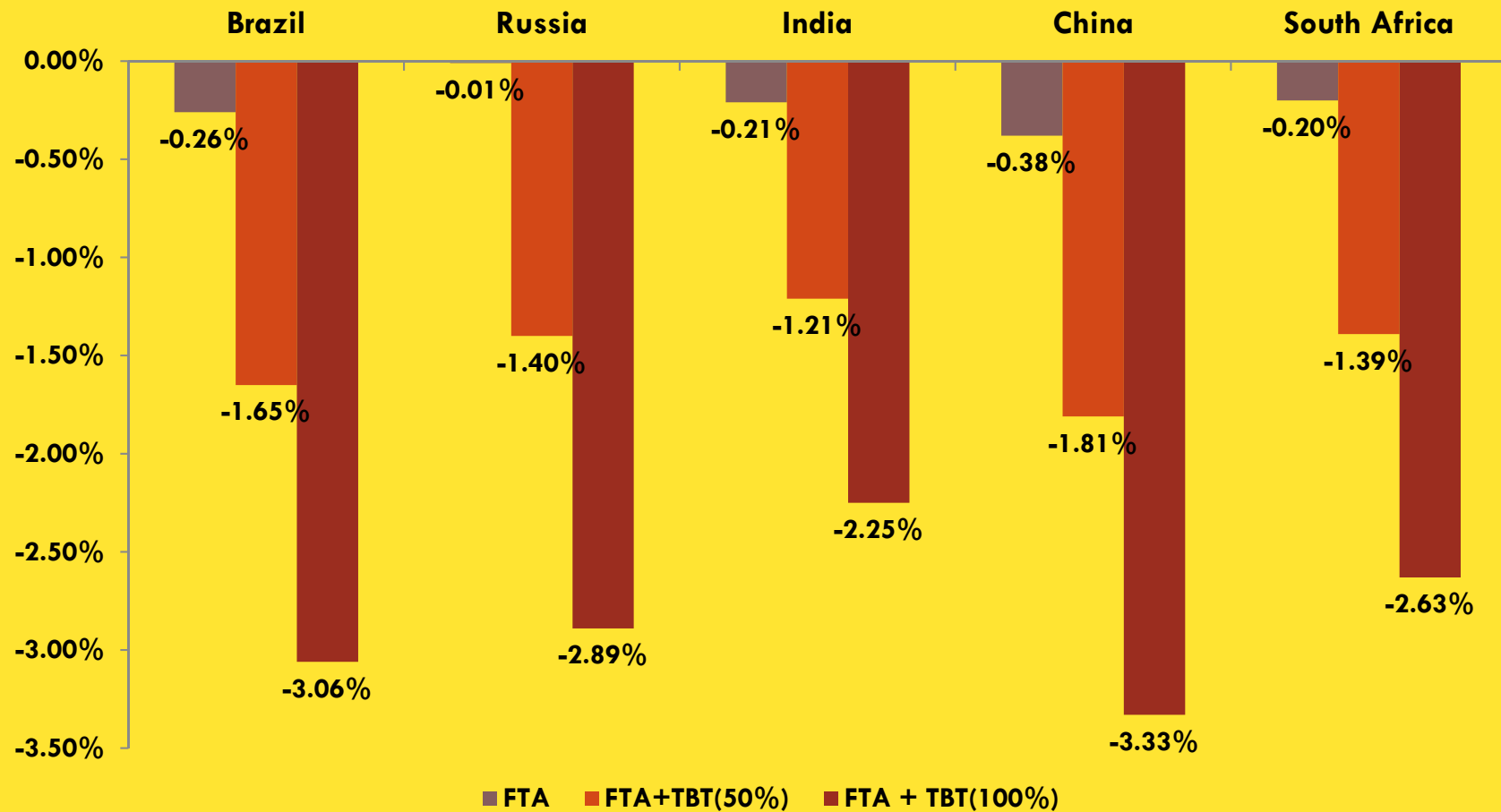
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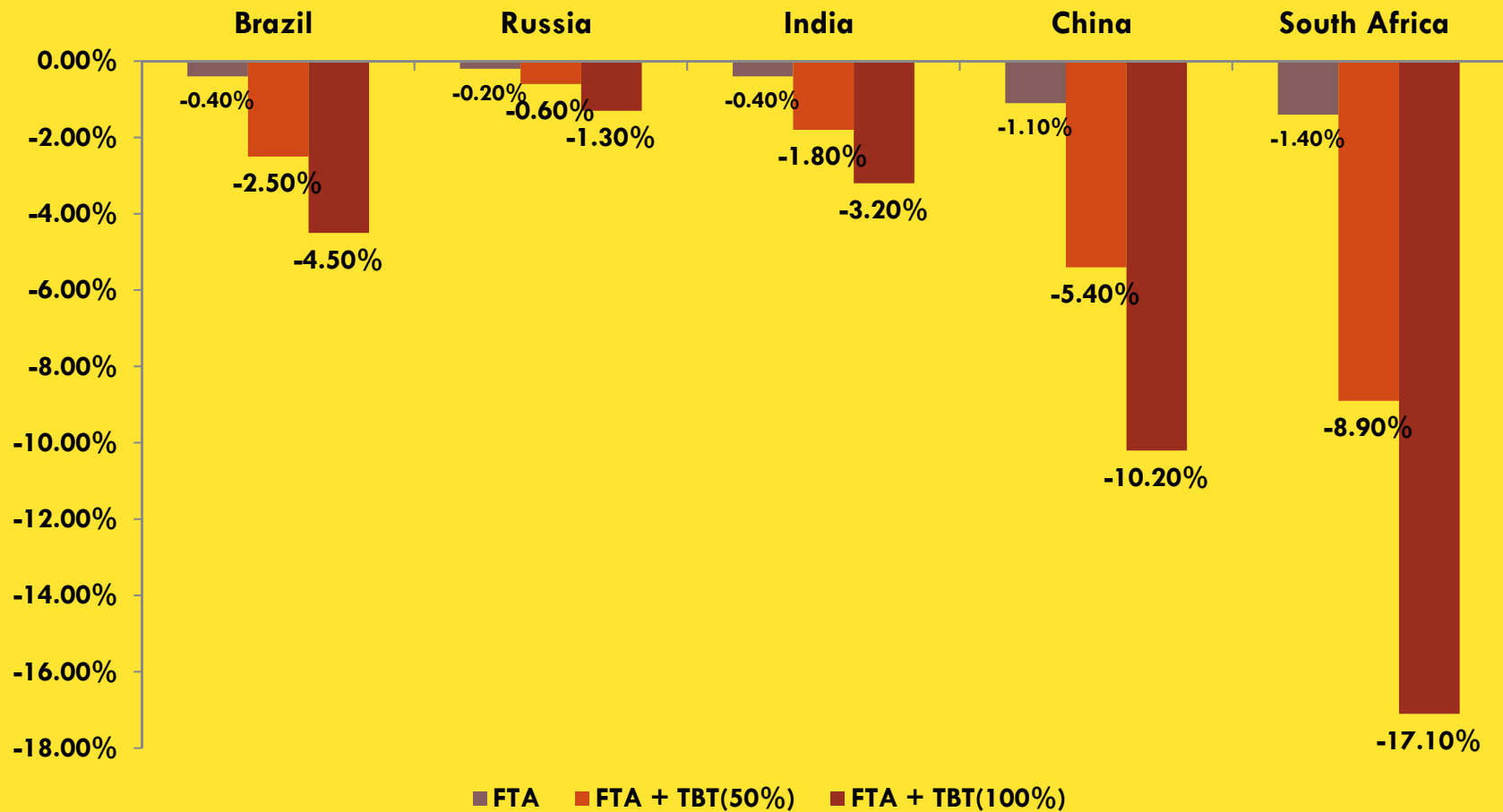
# GDP Growth (%) - TPP

16



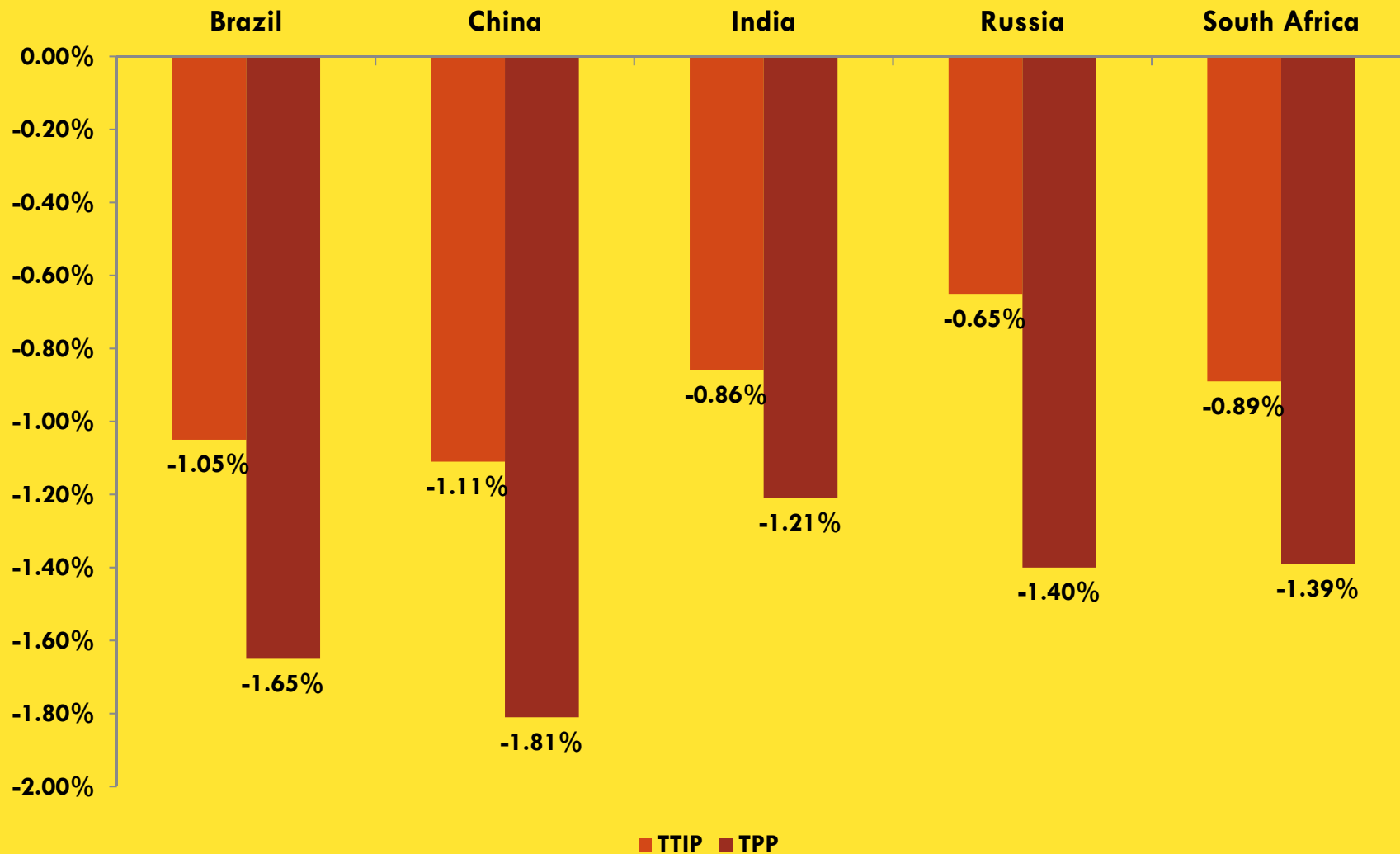
# Trade Balance (%) - TTP

17



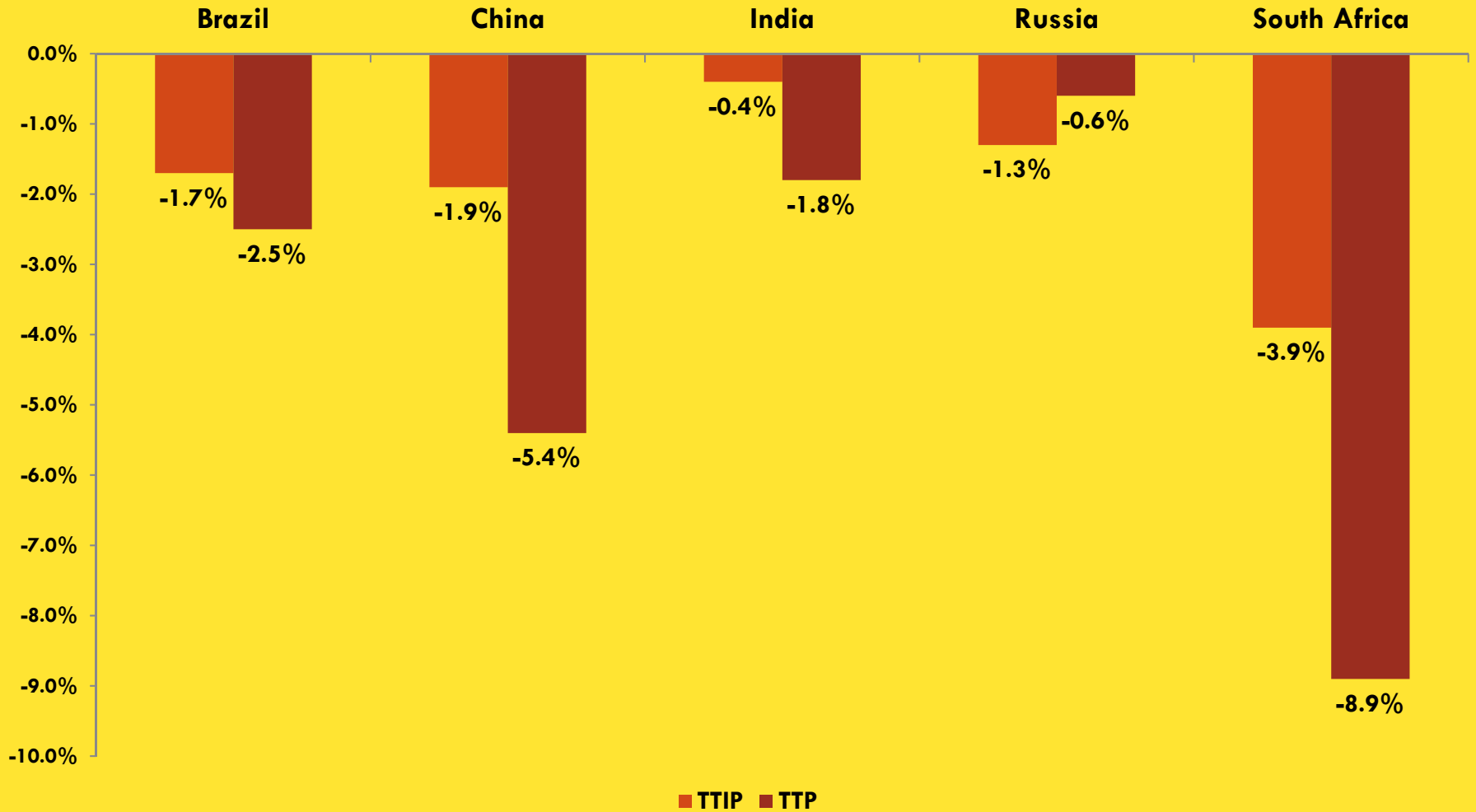
# TTIP x TPP (Growth Effects (%))

18



# TTIP x TPP (Trade Balance Effects (%))

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# Impacts of Mega on WTO / outsiders

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- - Old trade instruments: tariffs, AD, CVM, RO ?
- - New trade instruments: comp, inv, env, clime?
  
- - Are Mega creating a dual WTO?
- - Will Mega create a fragmented DSB system ?
  
- - How far are outsiders involved in Megasc?
- - Should outsiders have a new agenda in WTO ?

# Conclusions

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- TTIP and TPP affect Brazil growth and trade
- TTIP and TPP affect BRICS growth and trade
  
- For Brazil and BRICS:
  - WTO is important
  - WTO is the only forum for negotiation
  - WTO must be used to supervise TTIP and TPP

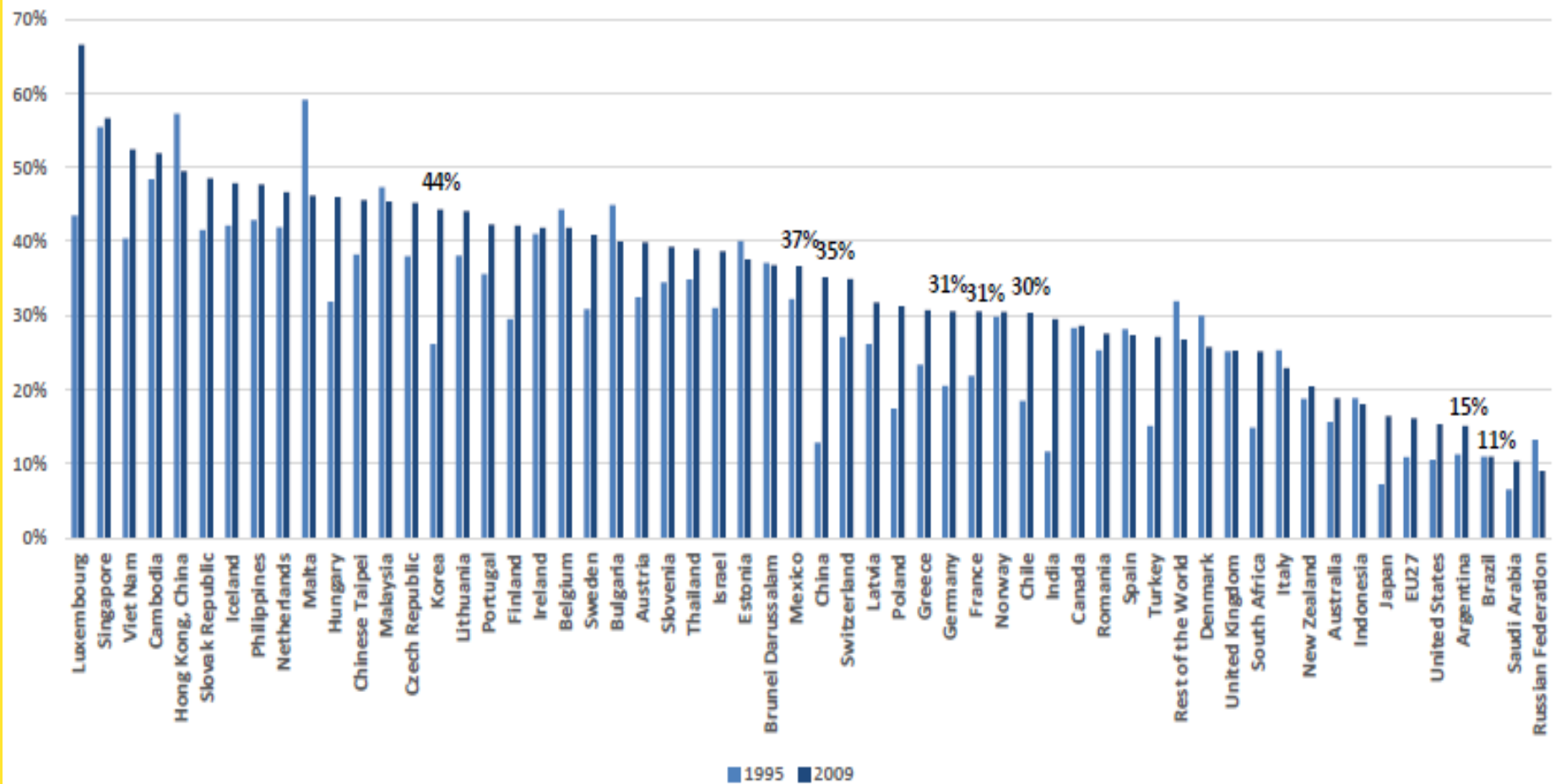
## 2 - Transnationals and GVCs

22

- Importance of trade among them (60%)
- Strong representation inside national governments
- Strong representation in the international arena
- Faceless organizations

# GVCs

Foreign Content in Manufacturing exports - 1995 e 2009 - OECD/WTO





# WTO Logic (States) X Transnationals Logic

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## States' Logic

- Trade in goods
- Tariffs, Quotas
- AD, CVM, Safeguards
- RO
- Subsidies
- **DISPUTE SETTLEMENT**

## Transnationals' Logic

- Trade in tasks(value chains)
- No Tariffs, No Ad, No CVM, No Saf., No Pref. RO
- Investment, competition, IP , Services
- Harmonized standards (TBT/SPS)
- **ARBITRATION**

# 3 - Regulatory Wars

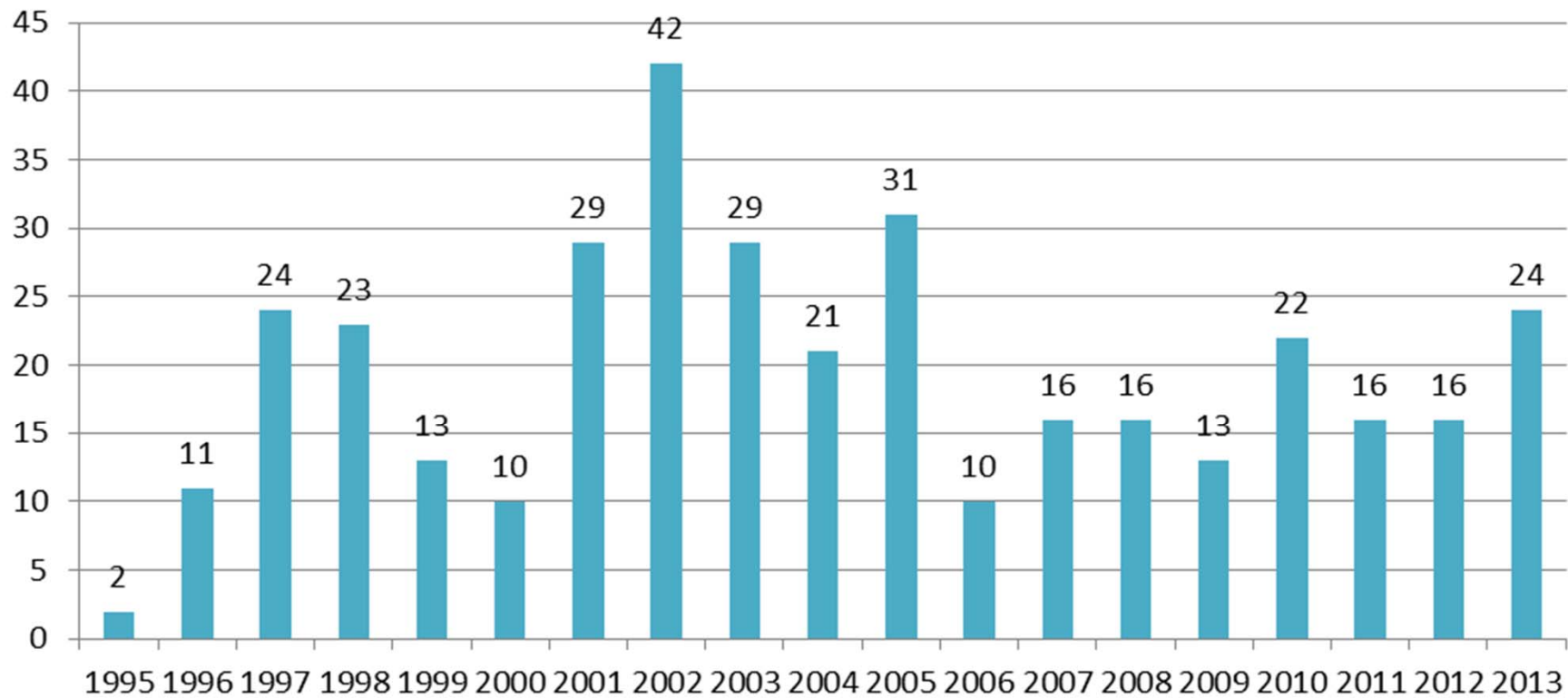
25

- **TBT – technical barriers**
- **SPS – sanitary + phitosanitary**
- **Private Standards**
- **Custom rules**
- **Investments**
- **Competition**
- **Environment + climate change**
- **Fragmentation of rules x regulatory cohesion**

# SPS - Notifications

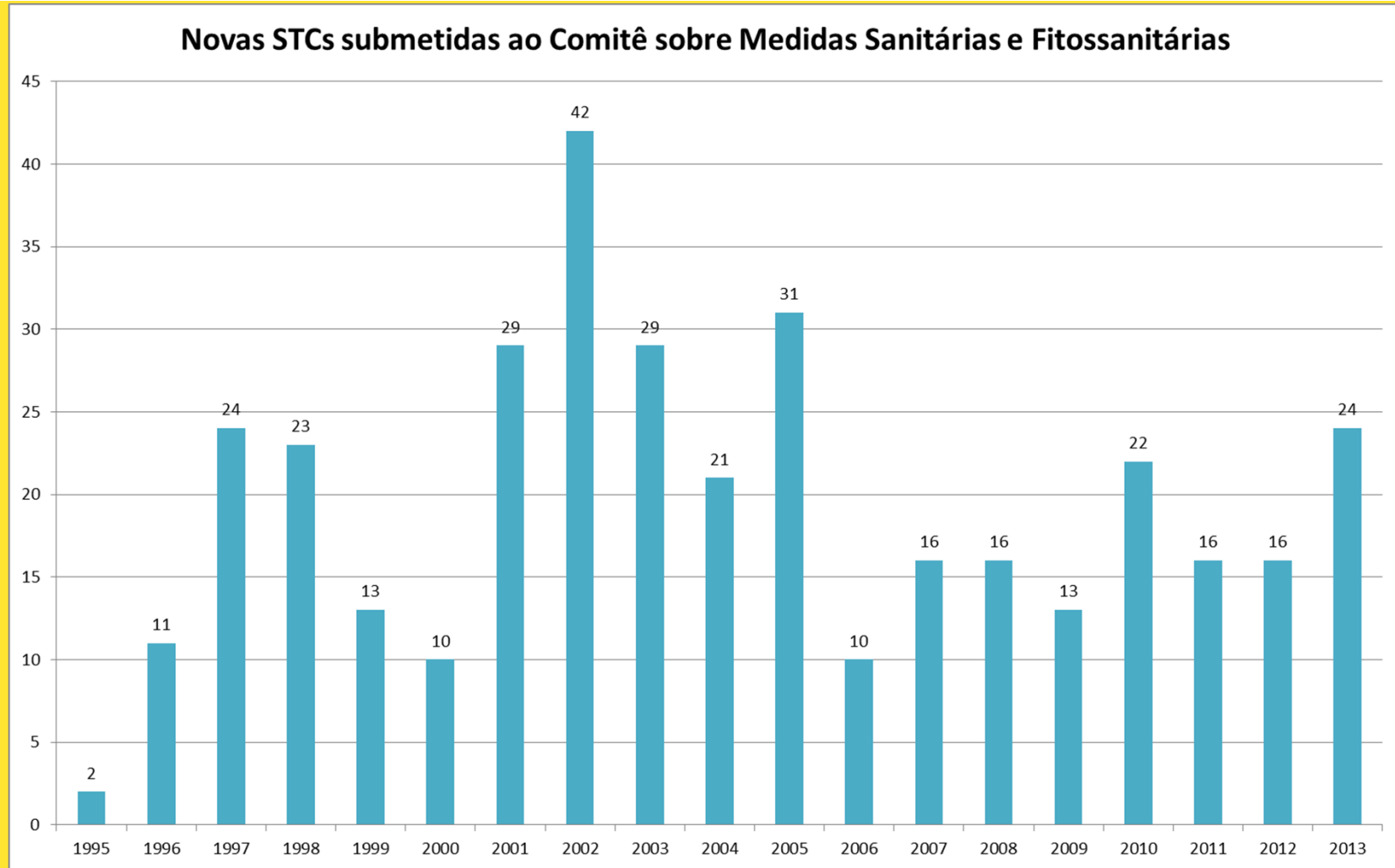
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**Number of new issues raised in the SPS Committee  
(1995-2013)**



# SPS – STCs by year

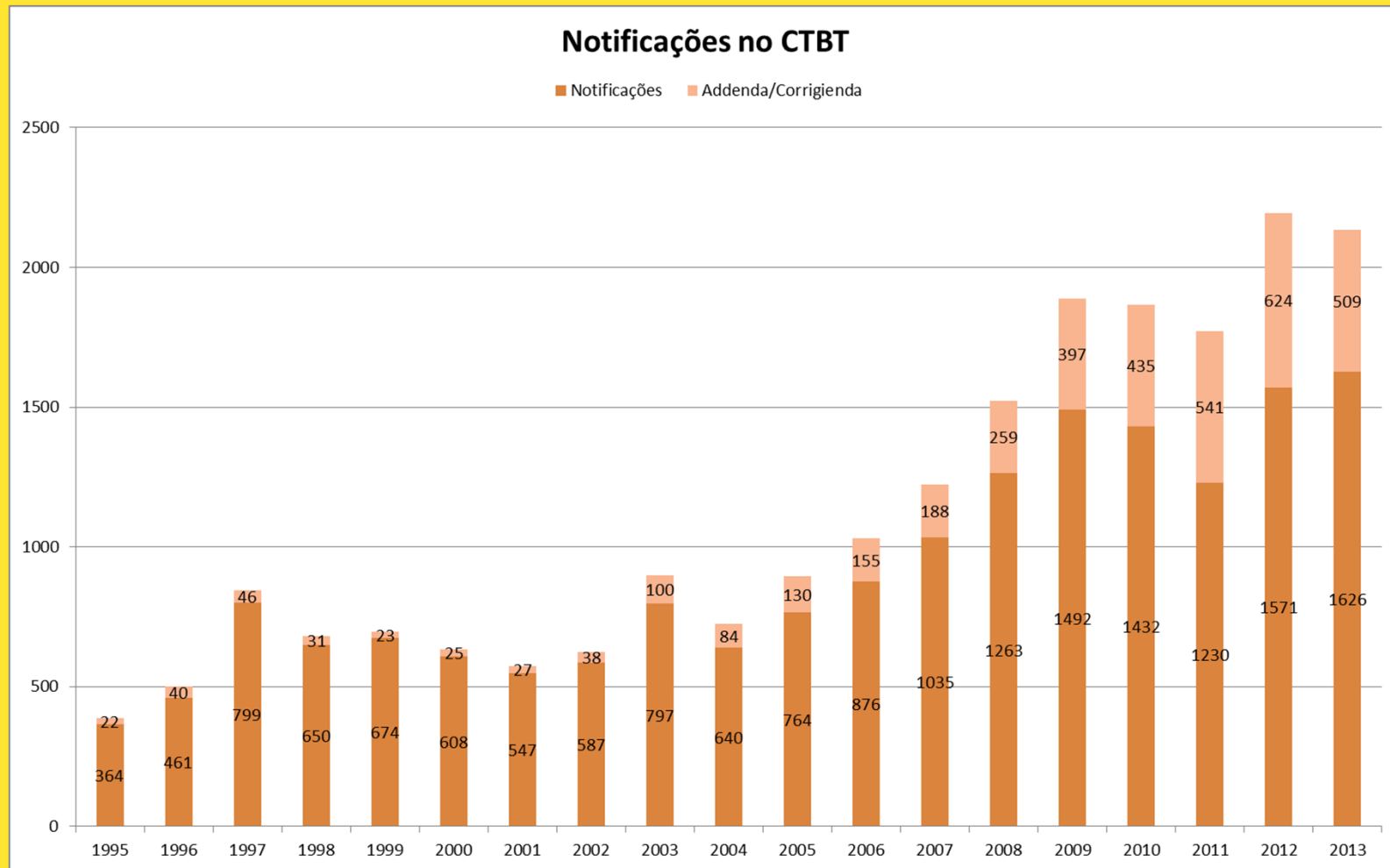
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Fonte: CSPS-OMC

# TBT - Notifications

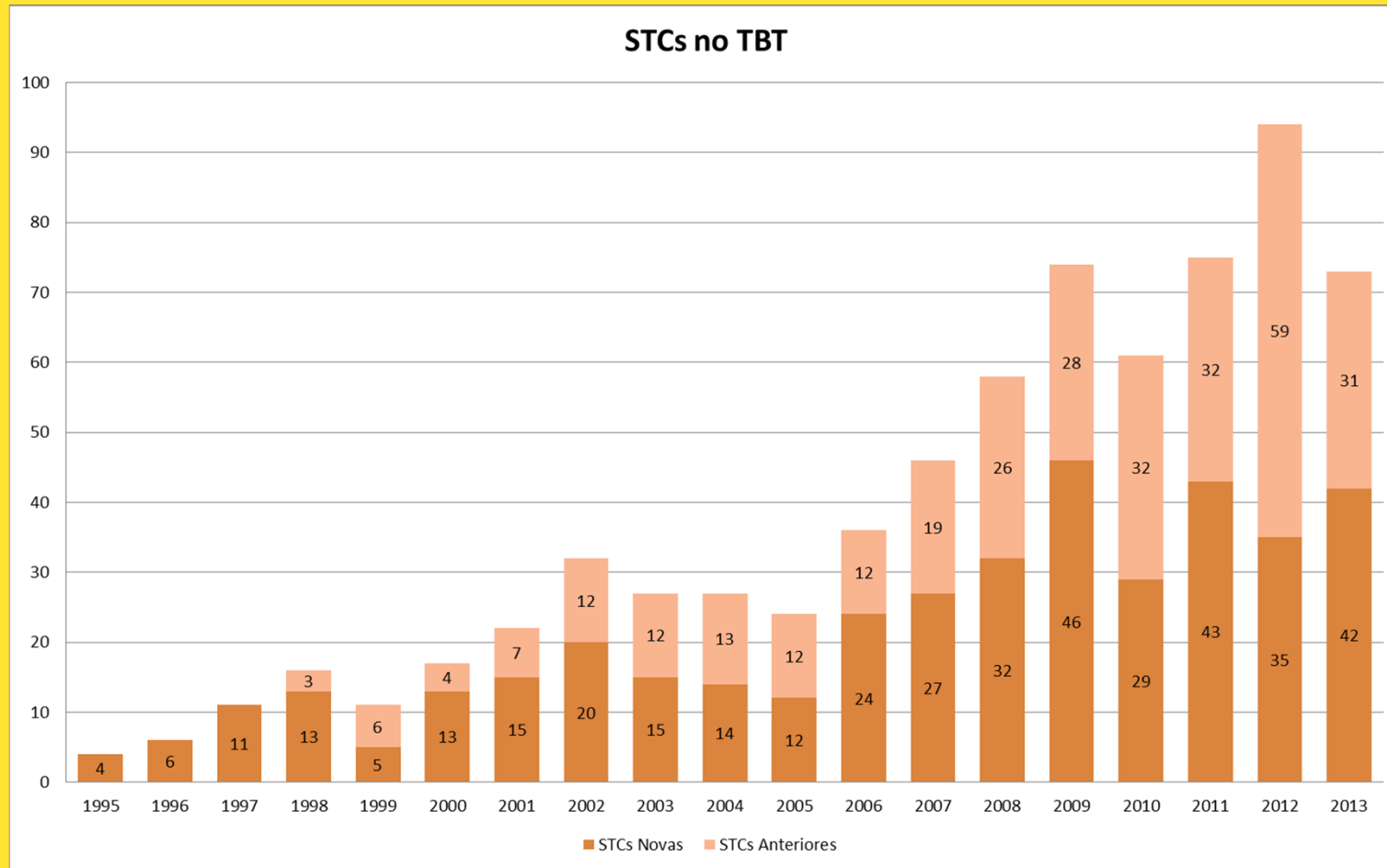
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Fonte: CTBT-OMC.

# TBT – STCs by year

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Fonte: CTBT-OMC.

# PRIVATE STANDARDS

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Standard Types		
	Public	Private
Mandatory	Regulations	Legaly binding private standards
Non-Mandatory	non-mandatory public standards	Non-mandatory private standards

Source: FAO/WHO, In: Manuela Amaral, 2014

# PRIVATE STANDARDS

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## Exemplos de padrões privados no setor de alimentos

Esquemas de firmas individuais	Esquemas coletivos nacionais	Esquemas coletivos internacionais
<ul style="list-style-type: none"><li>• Nature's Choice (Tesco)</li><li>• Filières Qualité (Carrefour)</li><li>• Field-to-Fork (Marks &amp; Spencer)</li><li>• Filière Controlleé (Auchan)</li><li>• P.Q.C. (Percurso Qualità Conad)</li><li>• Albert Heijn BV: AH Excellent</li></ul>	<ul style="list-style-type: none"><li>• Assured Food Standards (UK)</li><li>• British Retail Consortium Global Standard</li><li>• Freedom Food (UK)</li><li>• Qualitat Sicherheit (QS)</li><li>• Assured Combinable Crops Scheme (UK)</li><li>• Farm Assured British Beef and Lamb</li><li>• Sachsens Ahrenwort</li><li>• Sachsen Qualitatslammfleisch</li><li>• QC Emilia Romagna</li><li>• Stichting Streekproduction Vlaams Brabant</li></ul>	<ul style="list-style-type: none"><li>• GlobalGAP</li><li>• International Food Standard</li><li>• Safe Quality Food (SQF) 1000/ 2000</li><li>• Marine Stewardship Council (MSC)</li><li>• Forest Stewardship Council (FSC)</li></ul>

Fonte: OMC. Comitê SPS e FAO/WHO.

Fonte: Manuela Amaral, 2014.

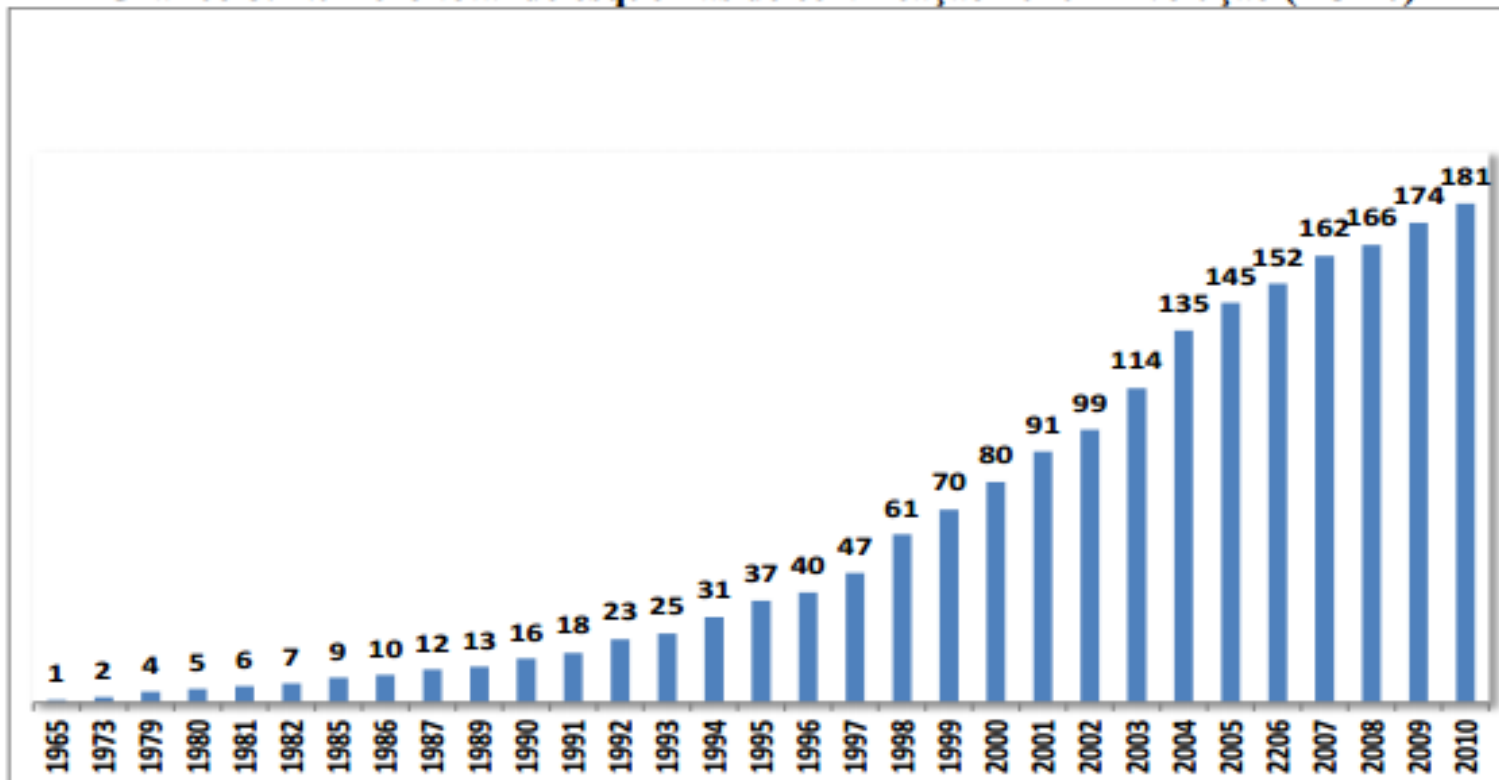


# PRIVATE STANDARDS

## Number of certifications

32

Gráfico 8: Número total de esquemas de certificação 2010 – Evolução (EU-27)



Fonte: Comissão Europeia. *Agriculture and Rural Development*. 2010.

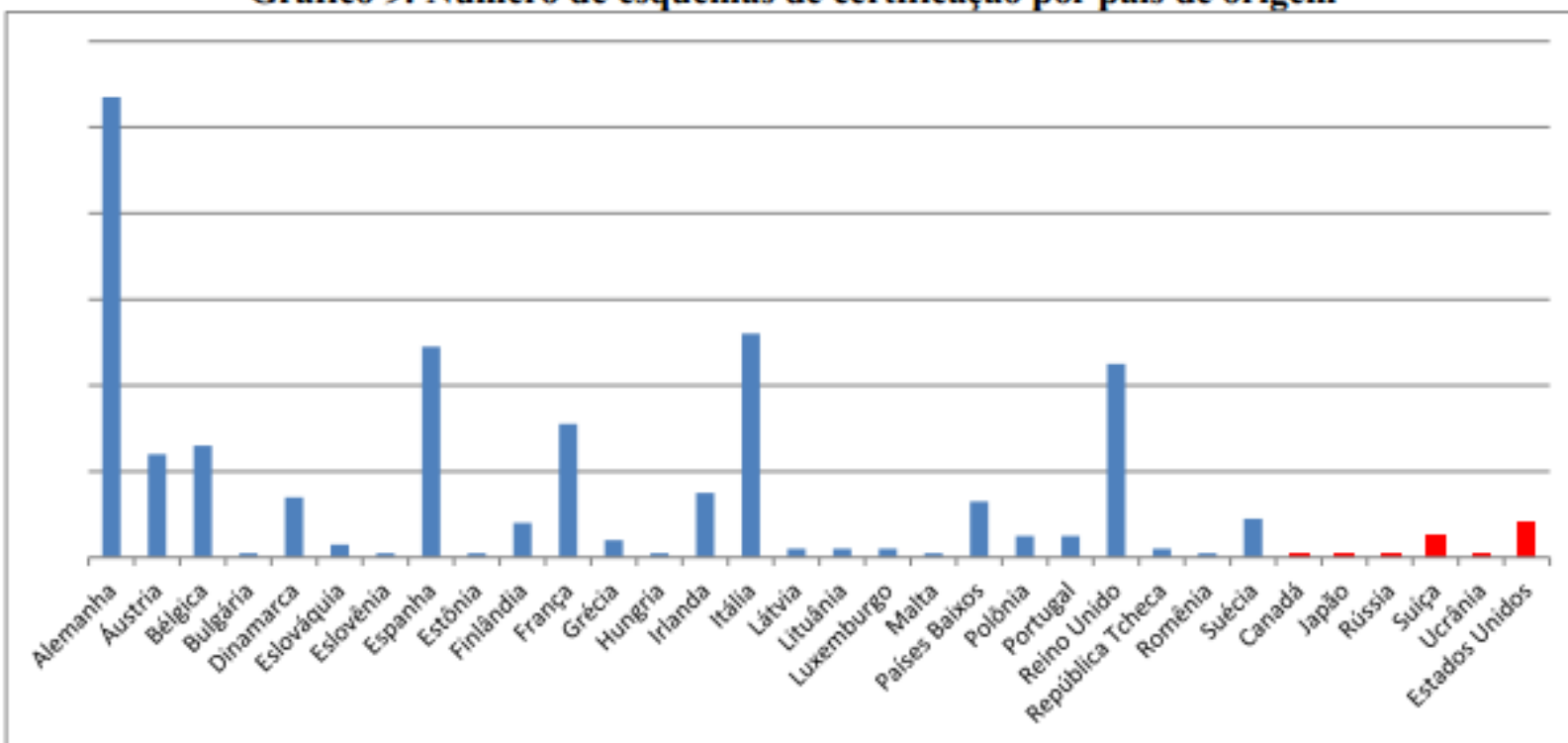
Fonte: Manuela Amaral, 2014.

# PRIVATE STANDARDS

## Certifications by origin

33

Gráfico 9: Número de esquemas de certificação por país de origem



Fonte: Comissão Europeia. *Agriculture and Rural Development*. 2010.

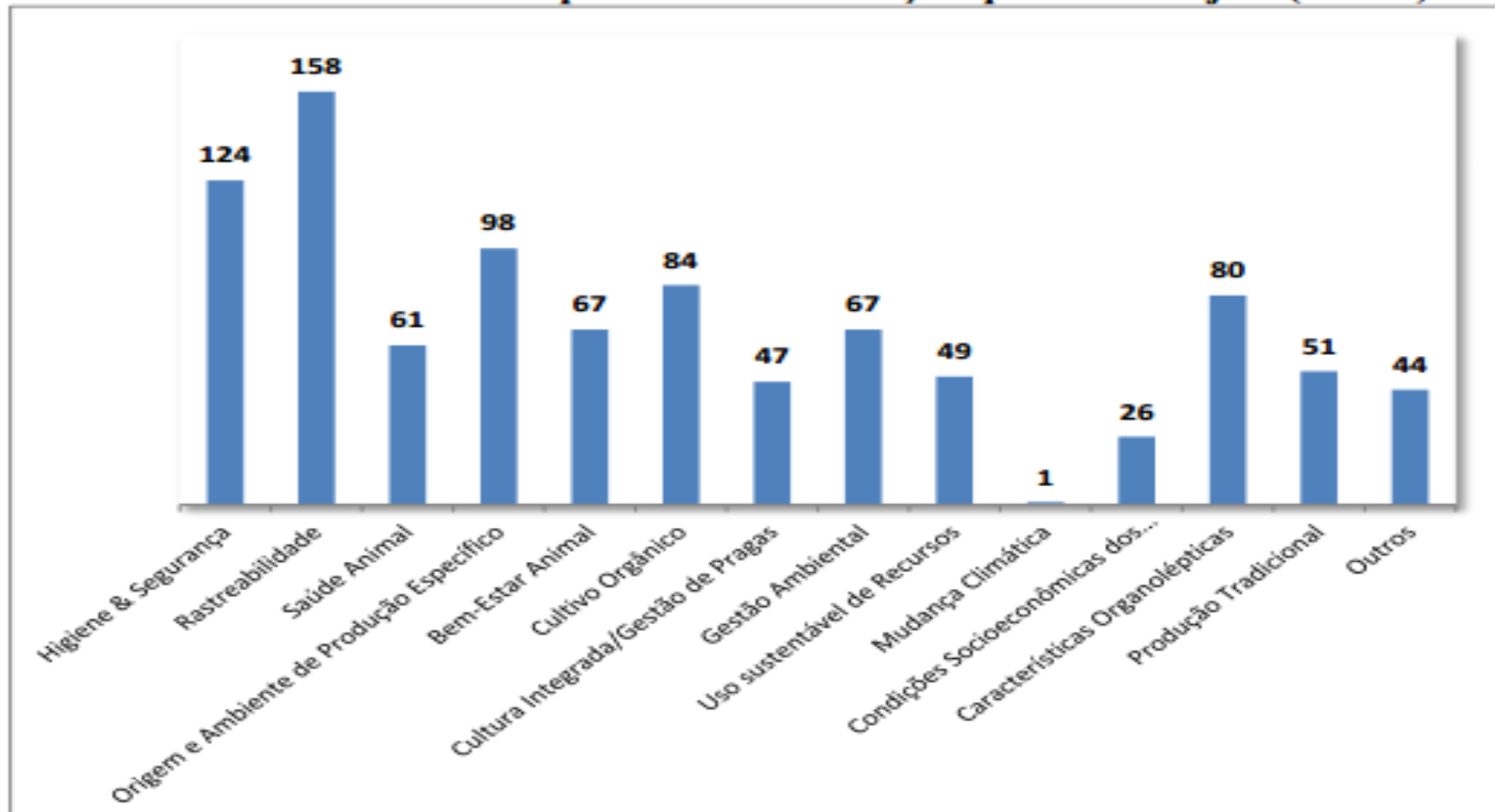
Fonte: Manuela Amaral, 2014.

# PRIVATE STANDARDS

## Objectives

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**Gráfico 10: Número de esquemas de certificação quanto ao objeto (UE-27)**



Fonte: Comissão Europeia. *Agriculture and Rural Development*. 2010.

Fonte: Manuela Amaral, 2014.

# Conclusions

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- **TBT and SPS are the new barriers to trade**
  - **violations can be discussed in the WTO**
  
- **Private Standards**
  - **no responsibility of governments**
  - **no place to discuss or negotiate rules**

**Need of a new forum to bring coherence !**

**Globalization of rules x domination by rules !**

# **INTERNATIONAL TRADE : CHALLENGES AHEAD**

**2014**

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# 4 - Currency Wars

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- **Number of countries with misalignments**
- **Persistence and magnitude of misalignments**
- **Where to judge exchange violations?**
- **Manipulators (IMF Art IV) x Frustrators (GATT Art XV)**

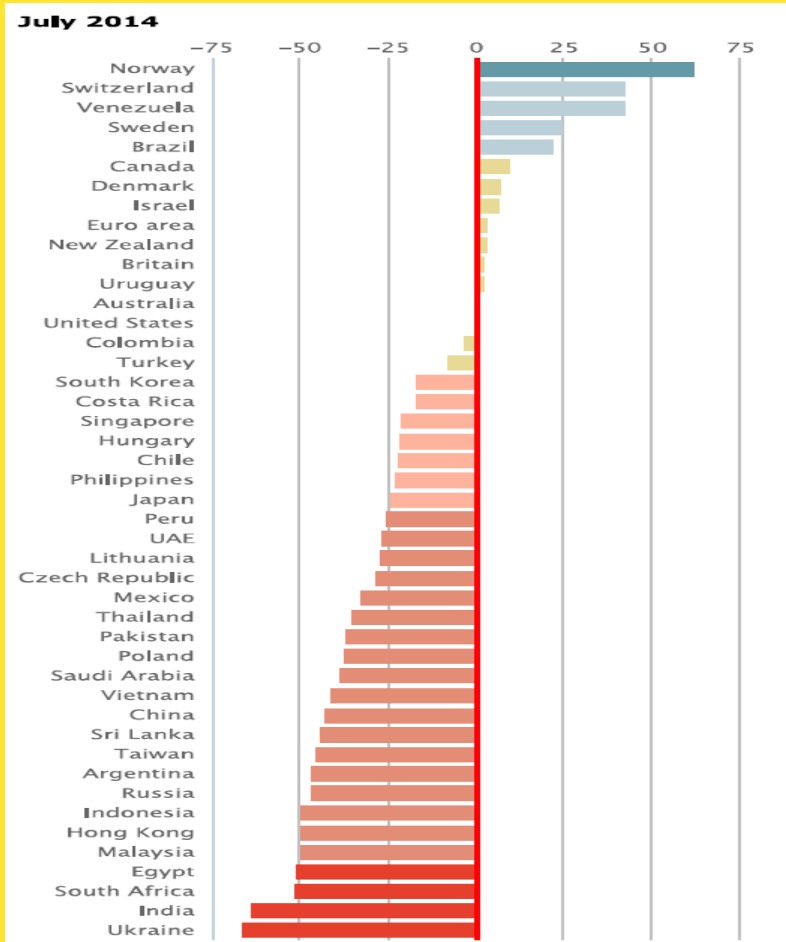
# HOW TO ESTIMATE MISALIGNMENTS

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- PPP
- Equilibrium rate to current account balance (flow)
- Equilibrium rate to net foreign asstes (stocks)

# BIG MAC – Index 7/2014

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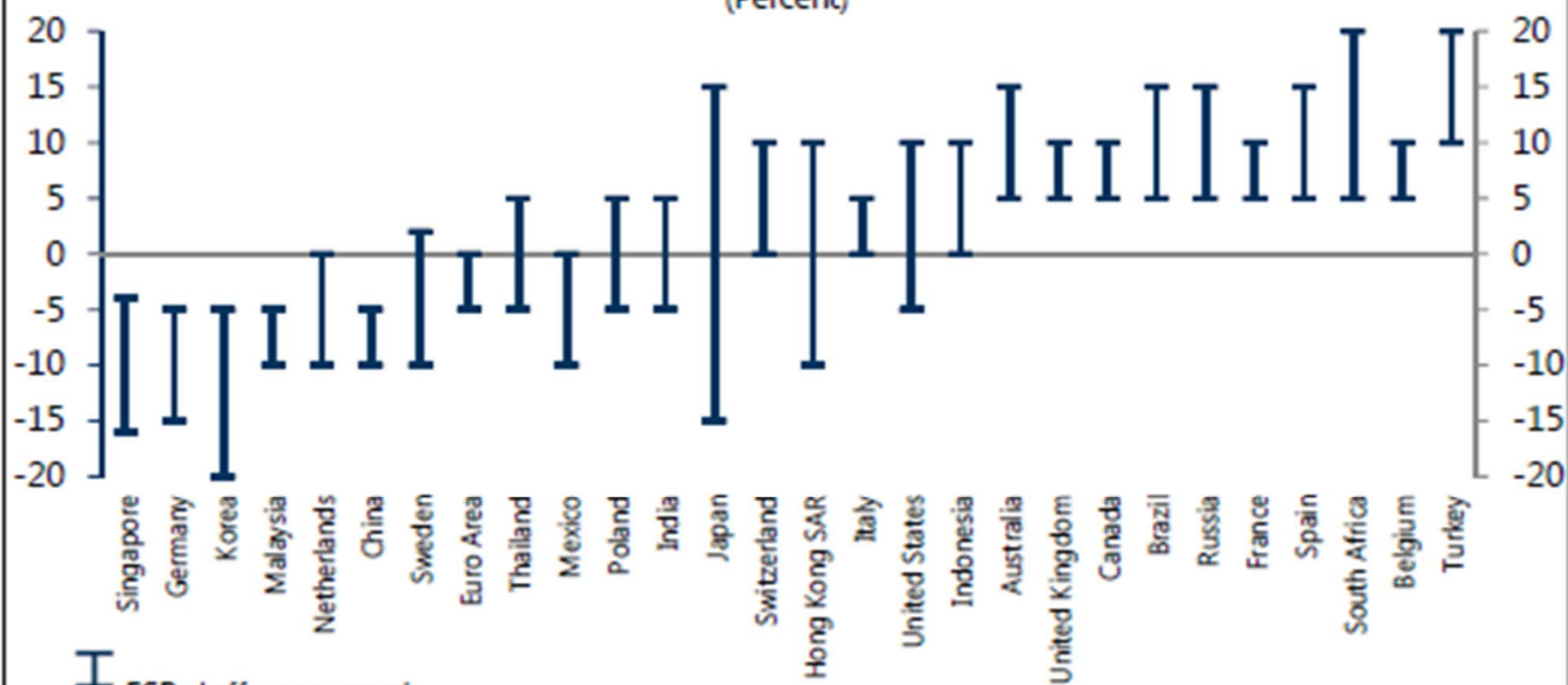


# IMF - Estimates Exchange Rate Misalignments (7/2014) Pilot External Sector Report

40

Figure 11. Assessed Differences Between Real Effective Exchange Rates and those Consistent with Fundamentals and Desirable Policies (2013 year average)

(Percent)



ESR staff assessment  
Source: IMF Staff Calculations.

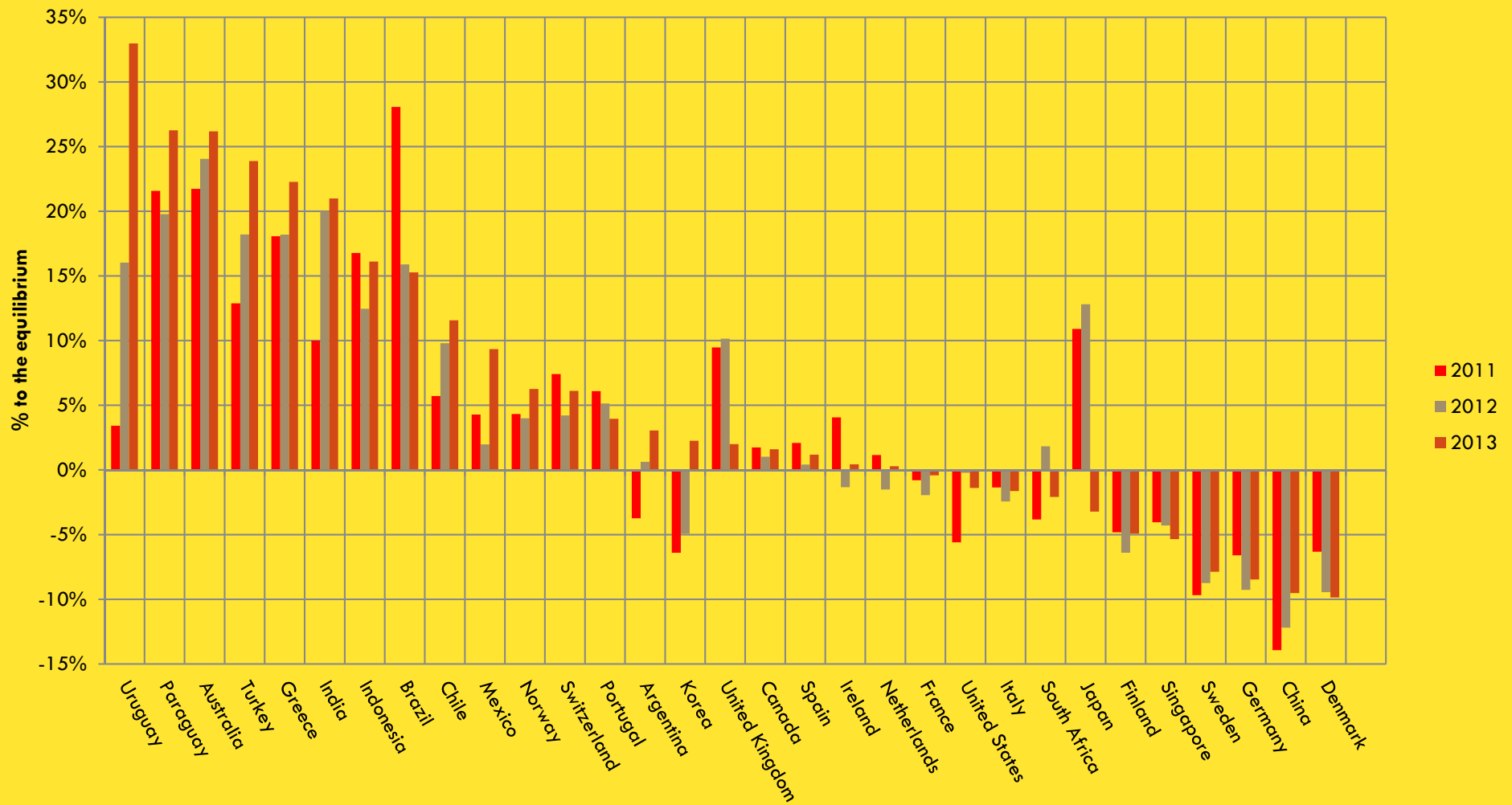


# FGV – Misalignments

## 03/2014

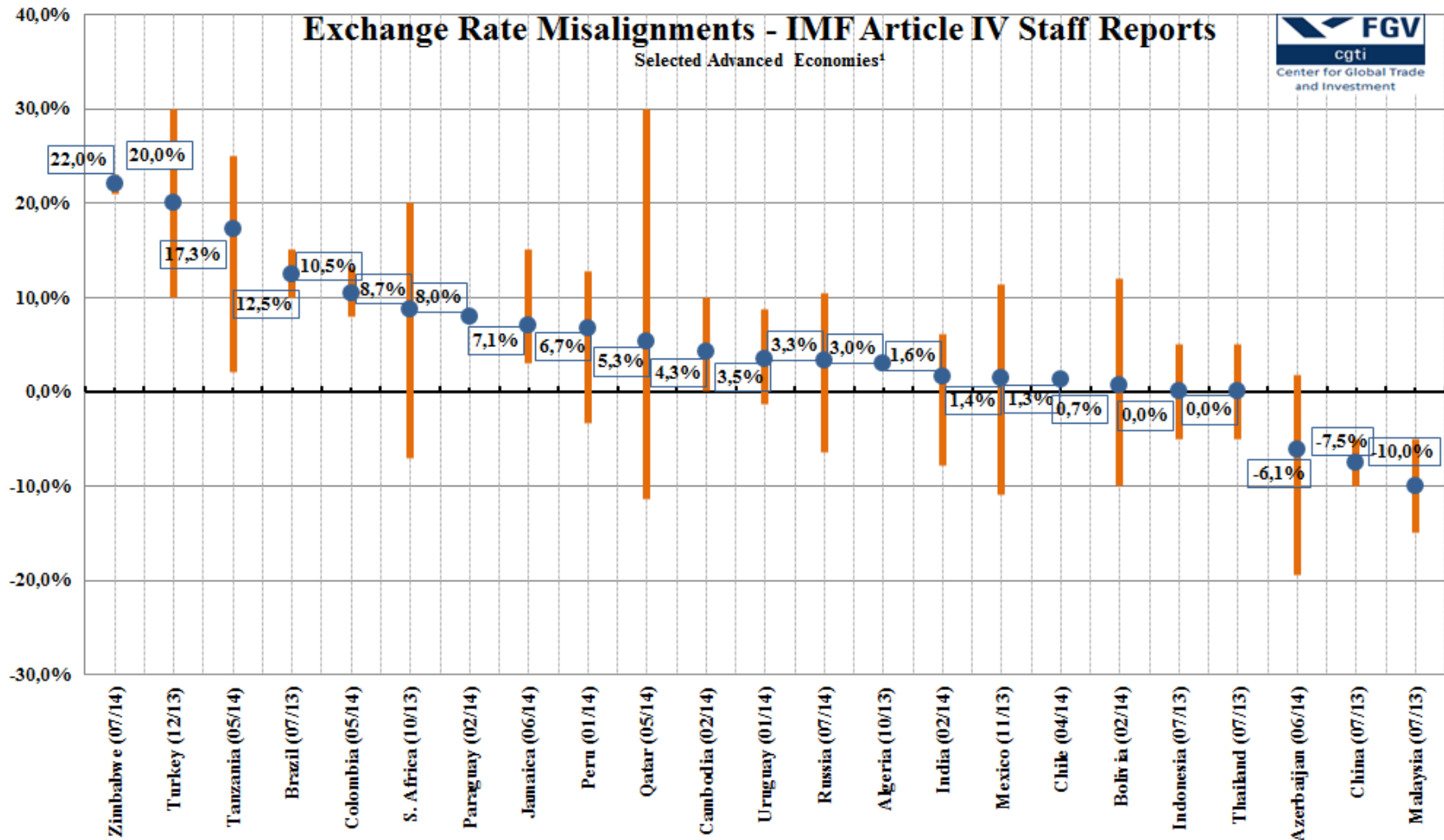
42

### REER Misalignments - FGV



# IMF Article IV Staff Member Reports Selected Advanced Economies

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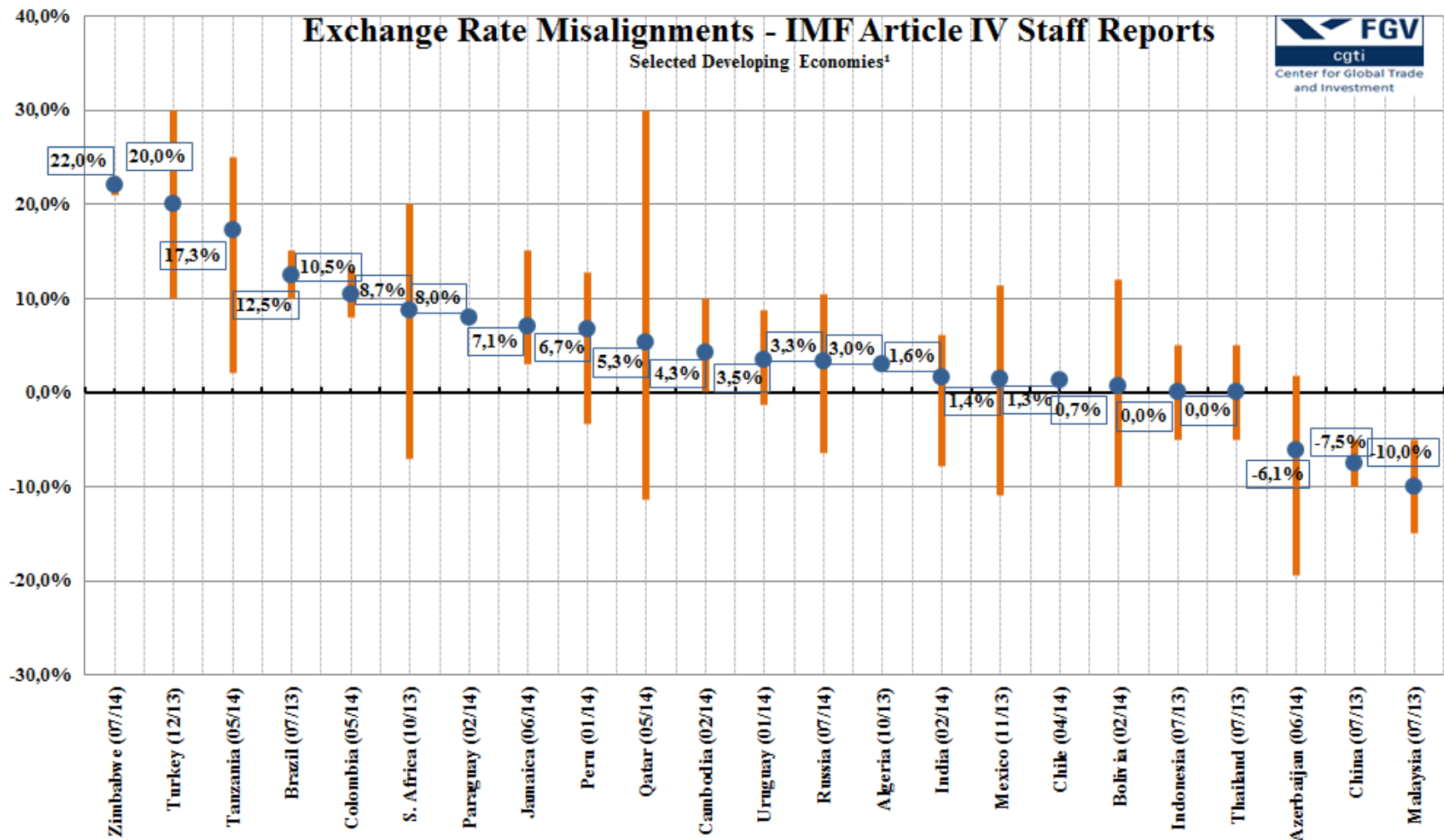


Source: IMF. Elaborated by CGTI. <sup>4</sup>The data comprises a minimum and a maximum value with a simple average amongst all methods (CGER - MB, ES, REER; EBA - CA, ERER) applied by the IMF in each Staff Report.

# IMF Article IV Staff Member Reports

## Selected Developing Economies

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Source: IMF. Elaborated by CGTI. <sup>4</sup>The data comprises a minimum and a maximum value with a simple average amongst all methods (CGER - MB, ES, REER; EBA - CA, ERER) applied by the IMF in each Staff Report.

## “Tariffication” of exchange rate misalignments

- To exam the impact of exchange rate misalignments on trade, one possibility is to transform a misalignment into a tariff and then to adjust the import tariff of each country, through a “tariffication” exercise.
- An overvalued exchange rate has the effect of reducing or nullifying the import tariffs of the overvalued country, creating an incentive to imports from third countries.
- An undervalued exchange rate, on the other hand, will give an incentive to exports from the undervalued country. A country’s undervalued currency will have the effect of increasing its import tariffs, sometimes above the bound levels at the WTO.
- The equation used to “tarifficate” the effects of exchange rate misalignments is presented in the next slide

## Tariffication of Exchange Rates

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$$t^{adjust} = \left( -\frac{d(\Theta^*)}{\Theta^*} + \frac{d(\Theta_{dom})}{\Theta_{dom}} \right) + t \cdot \left( 1 + \left( -\frac{d(\Theta^*)}{\Theta^*} + \frac{d(\Theta_{dom})}{\Theta_{dom}} \right) \right)$$

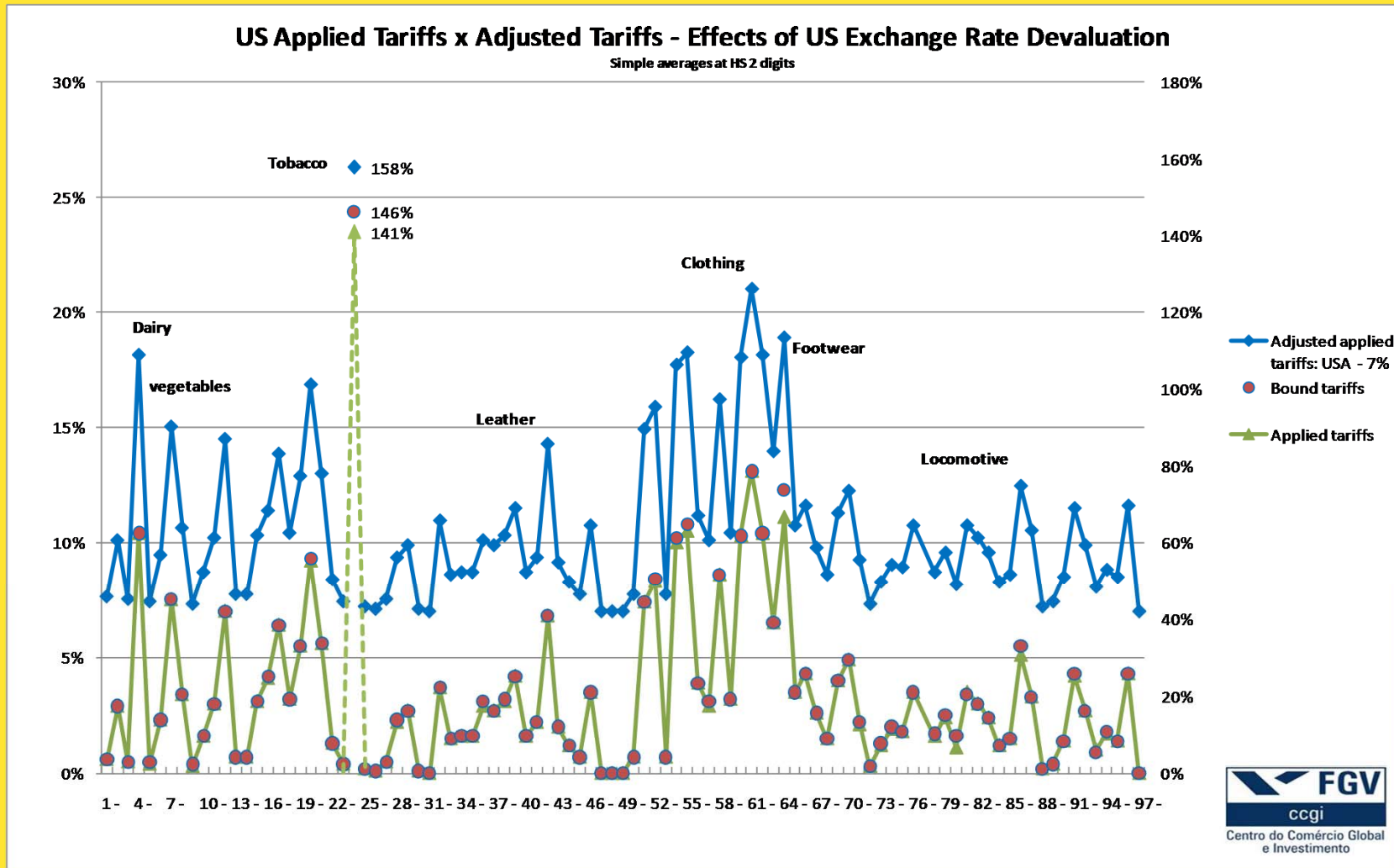
## Simulations regarding the effects of exchange rate misalignments on selected Tariff Profiles

- Using the “tariffication methodology”, one can represent the effects of exchange rate misalignments on a country Tariff Profile.
- The Tariff Profile is comprised of bound tariffs and applied tariffs
- Bound tariffs are the tariffs negotiated at the WTO as the maximum permitted level of an import tariff.
- Applied tariffs are the import tariffs actually applied by a country and notified to the WTO
- After applying the “tariffication methodology” the results are adjusted bound and applied tariffs that represent the actual level of protection of a given country.
- In the following slides we present the simulations for Brazil, US and EU Tariff Profiles, considering the effects of the exchange rate misalignments of selected countries.



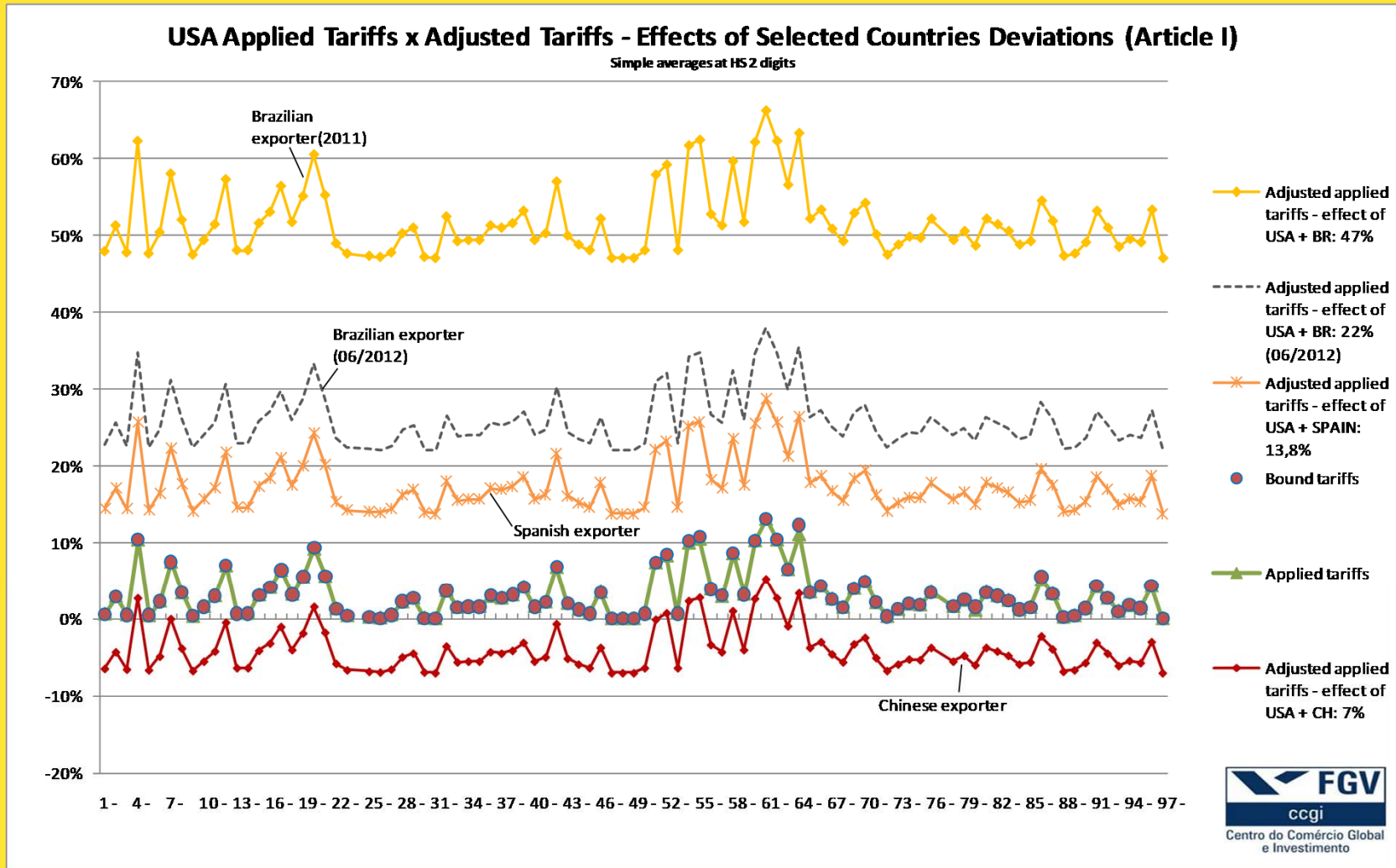
# US - Impacts of Exchange Rates on US Tariff Profile

## US devaluation ( - 7%)



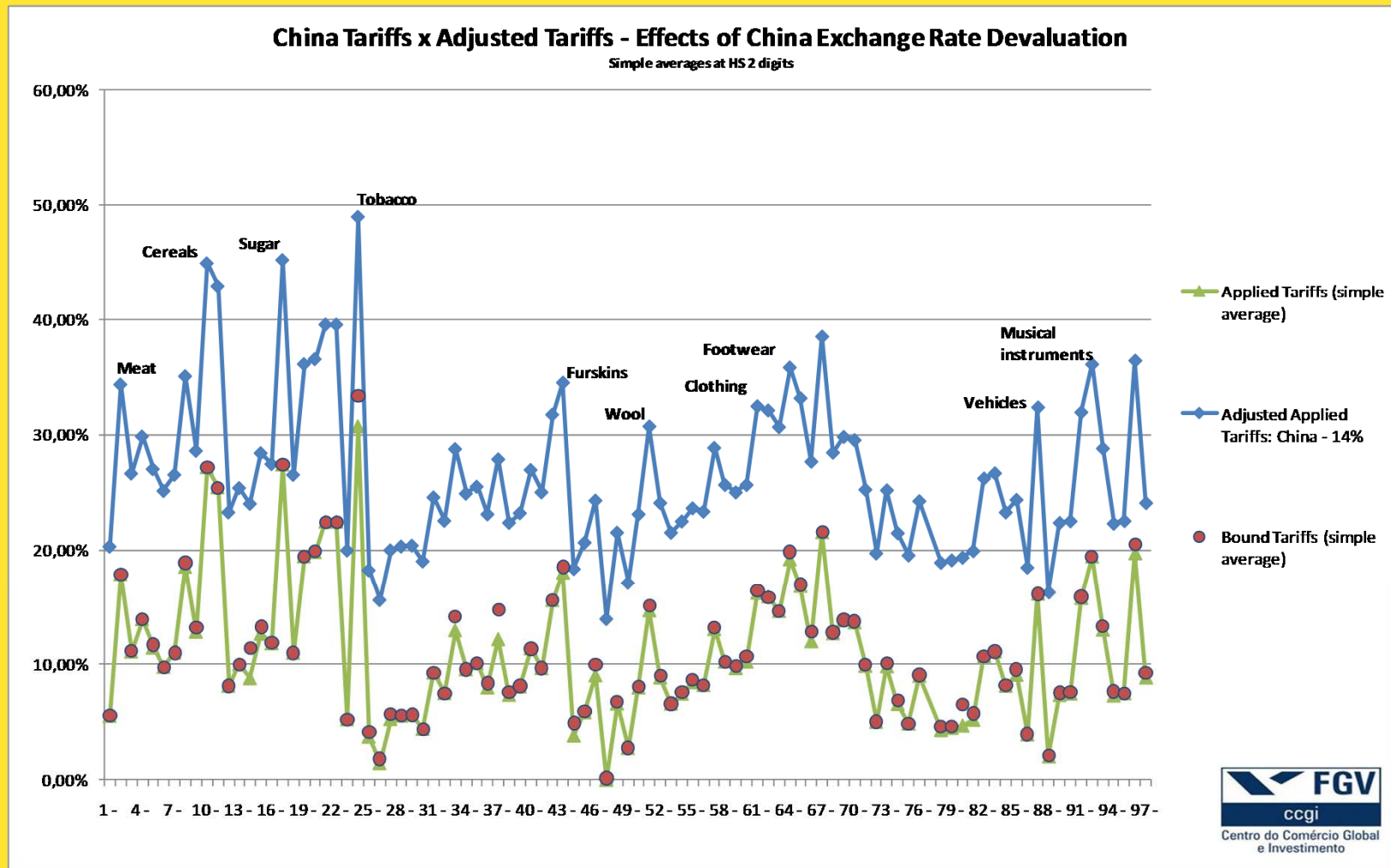
# Impacts of Exchange Rates on US Tariff Profile

US-Brazil (47%), US-Spain (14%), US-China (7%) and US-Brazil (22%) in Bilateral Misalignments



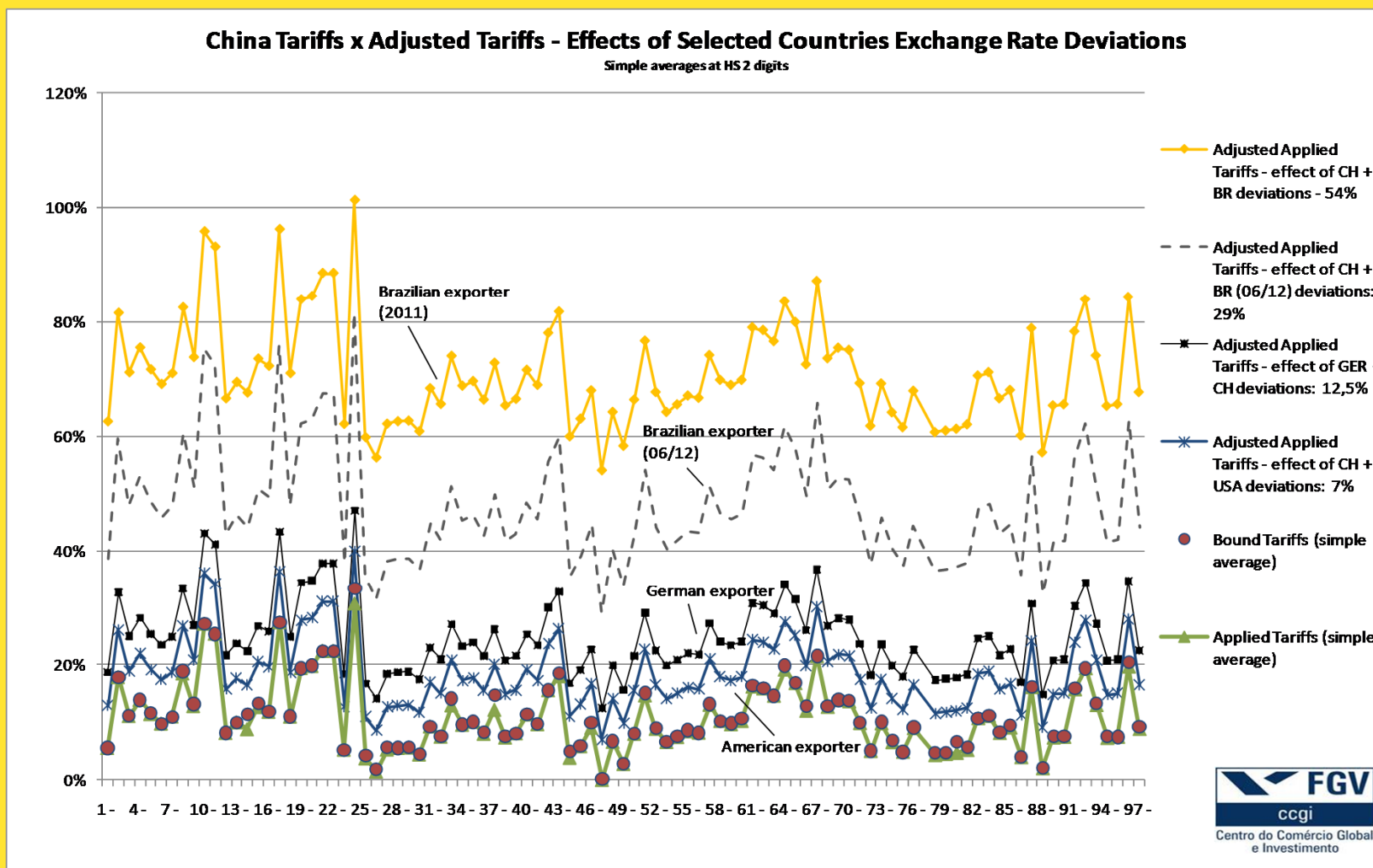
# CHINA - Impacts of Exchange Rates on China Tariff Profile

## China devaluation 14%



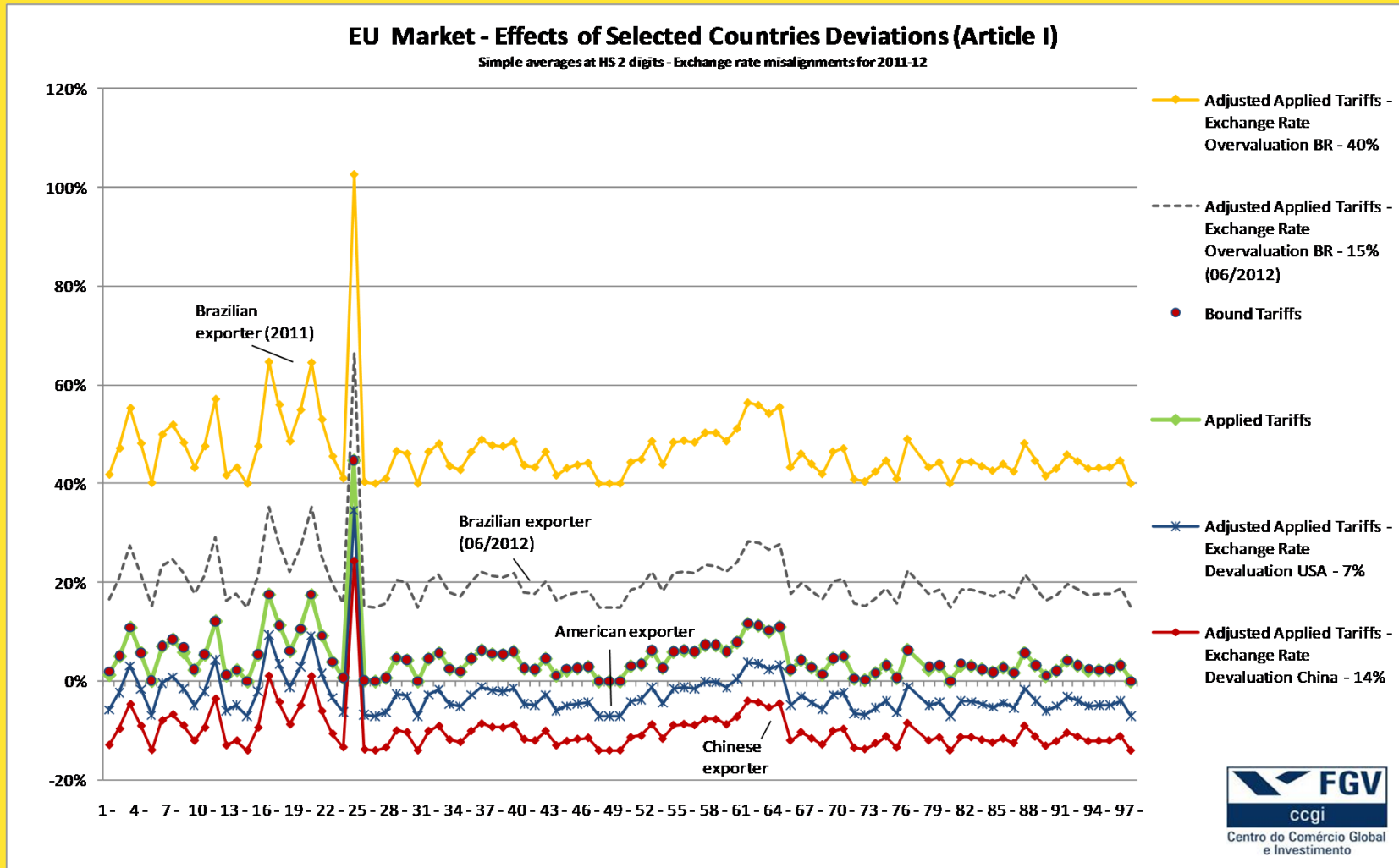
# CHINA - Impacts of Exchange Rates on China Tariff Profile

Ch-Brazil (54%), Ch-Germany (12,5%), Ch-US (7%) and Ch-Brazil (29%)  
Bilateral Misalignments



# Impacts of Exchange Rates on EU Tariff Profile

Brazil (40%), US (7%), China (14%) Misalignments and Brazil (15%)

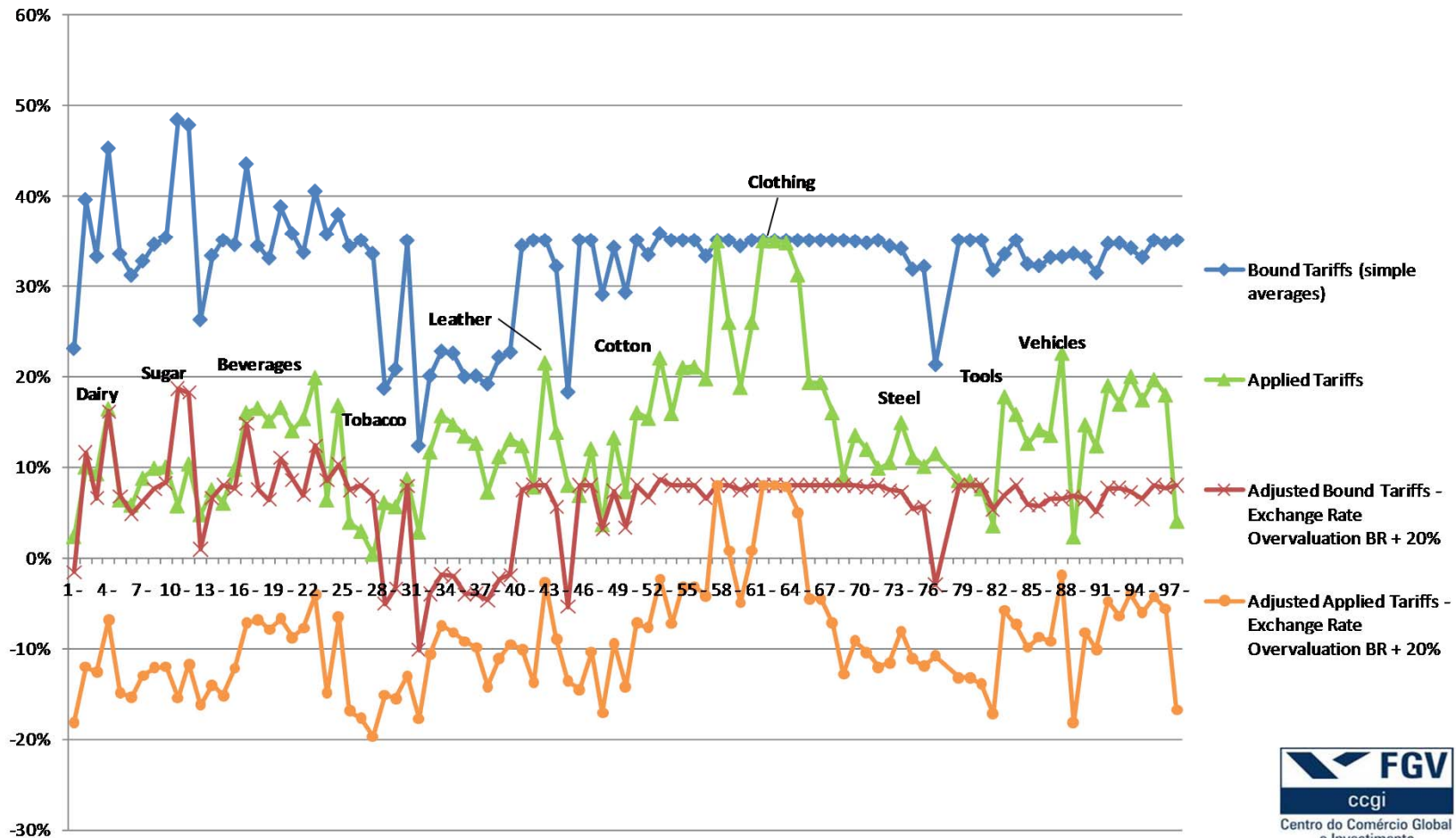


# Brazil - Impacts of misalignments on Tariffs 2013 (+20%)

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**Brazil Tariffs x Adjusted Tariffs - Effects of Brazil Exchange Rate Overvaluation (2012)**

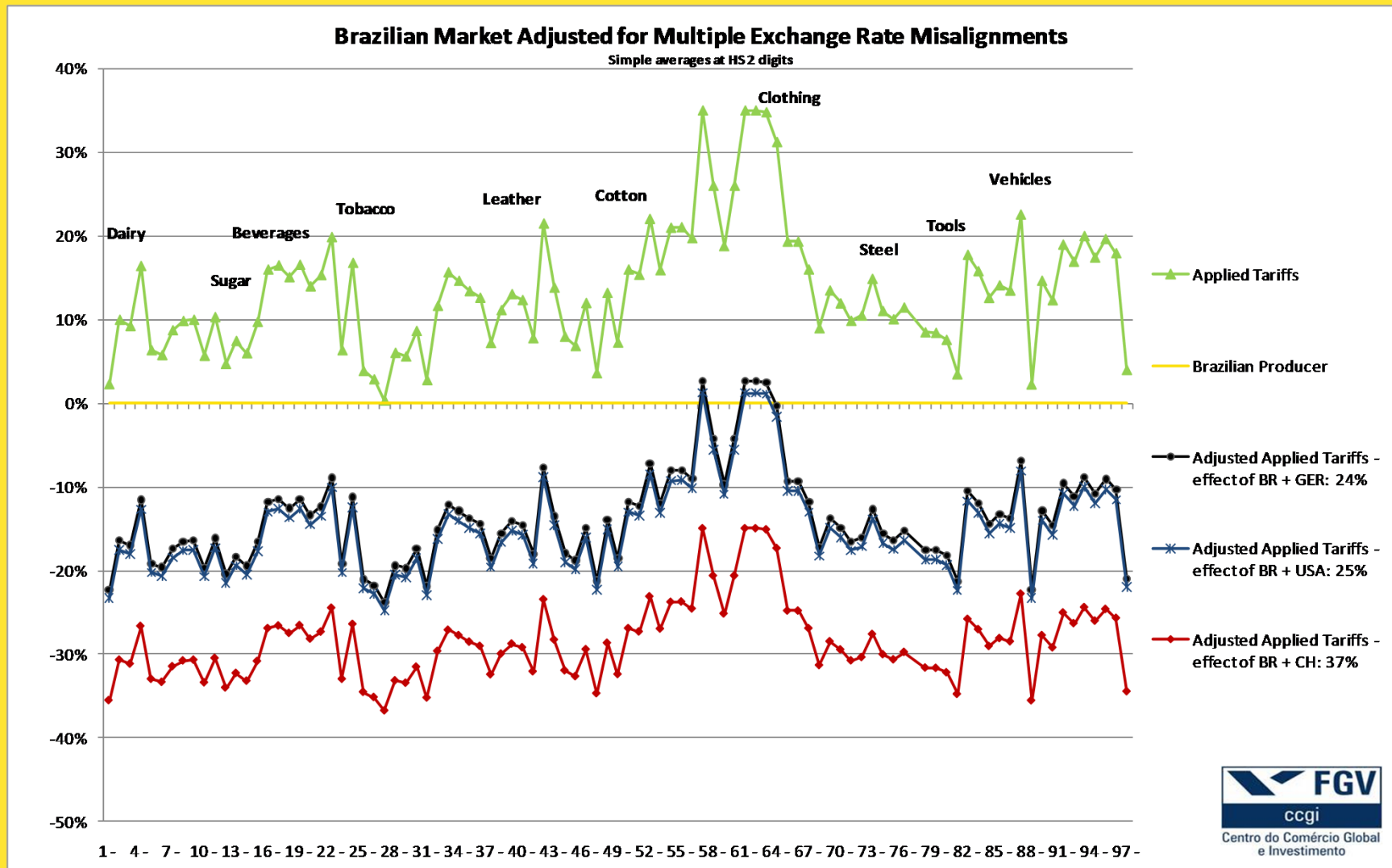
Simple averages at HS2 digits





# Impacts of Exchange Rates on Brazil Tariff Profile

Brazil-China (37%), Brazil-US (25%), Brazil-Germany (24%) Bilateral



## Conclusions

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- Countries with overvalued exchange rates (Brazil, South Africa, Australia) have their negotiated tariffs reduced or nullified.
- Countries with undervalued exchange rates (USA, China, Germany) grant subsidies to their exports and their applied tariffs surpass the bound levels agreed at the WTO.
- Substantial and persistent exchange rate misalignments significantly affect or nullify most WTO rules:  
tariffs, antidumping, countervailing measures, safeguards, rules of origin, regional agreements, DSB retaliations...
- Problem:  
**WTO does not have adequate rules to address the exchange rate issue**



# HOW TO SOLVE THE PROBLEM

- ▣ IMF - manipulation (Article IV)
- ▣ WTO - frustration (Article XV)

# WTO Rules relating trade and exchange rates

## General Agreement on Tariffs and Trade (GATT)

### Article XV.4

Contracting parties shall not, by exchange action, frustrate\* the intent of the provisions of this Agreement, nor, by trade action, the intent of the provisions of the Articles of Agreement of the International Monetary Fund.

\* Ad Article XV -Paragraph 4

The word “frustrate” is intended to indicate, for example, that infringements of the letter of any Article of this Agreement by exchange action shall not be regarded as a violation of that Article if, in practice, there is no appreciable departure from the intent of the Article. Thus, a contracting party which, as part of its exchange control operated in accordance with the Articles of Agreement of the International Monetary Fund, requires payment to be received for its exports in its own currency or in the currency of one or more members of the International Monetary Fund will not thereby be deemed to contravene Article XI or Article XIII. Another example would be that of a contracting party which specifies on an import license the country from which the goods may be imported, for the purpose not of introducing any additional element of discrimination in its import licensing system but of enforcing permissible exchange controls.

**GATT Guidelines to Art II.6(a) (Approved by CP)**  
**15 February 1980 (L/4938)**

1980 - World with different exchange rate arrangements

Guidelines:

- . Allow undervalued countries to renegotiate specific tariffs
- . Conditions: CP ask IMF to calculate size of depreciation

Undervaluation was more than 20%

Basket of currencies of 85% of imports

Period of analysis for size of depreciation: rate of 6 months preceding the request x 6 months preceding last bound (weighted average)

# IMF Rules relating exchange rates and trade

## IMF's Articles of Agreement

### Article IV: Obligations Regarding Exchange Arrangements

#### *Section 1. General obligations of members*

Recognizing that the essential purpose of the international monetary system is to provide a framework that facilitates the exchange of goods, services, and capital among countries, and that sustains sound economic growth, and that a principal objective is the continuing development of the orderly underlying conditions that are necessary for financial and economic stability, each member undertakes to collaborate with the Fund and other members to assure orderly exchange arrangements and to promote a stable system of exchange rates. In particular, each member shall:

- (i) endeavor to direct its economic and financial policies toward the objective of fostering orderly economic growth with reasonable price stability, with due regard to its circumstances;
- (ii) seek to promote stability by fostering orderly underlying economic and financial conditions and a monetary system that does not tend to produce erratic disruptions;
- (iii) avoid manipulating exchange rates or the international monetary system in order to prevent effective balance of payments adjustment or to gain an unfair competitive advantage over other members; and
- (iv) follow exchange policies compatible with the undertakings under this Section

# IMF Rules relating exchange rates and trade

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## Principles for Guidance Article IV Section I (2007)

### Manipulation

- (i) protracted large-scale intervention in one direction in the exchange market;
- (ii) official or quasi-official borrowing that either is unsustainable or brings unduly high liquidity risks, or excessive and prolonged official or quasi-official accumulation of foreign assets, for balance of payments purposes;
- (iii) (a) the introduction, substantial intensification, or prolonged maintenance, for balance of payments purposes, of restrictions on, or incentives for, current transactions or payments, or  
(b) the introduction or substantial modification for balance of payments purposes of restrictions on, or incentives for, the inflow or outflow of capital;
- (iv) the pursuit, for balance of payments purposes, of monetary and other financial policies that provide abnormal encouragement or discouragement to capital flows;
- (v) fundamental exchange rate misalignment;
- (vi) large and prolonged current account deficits or surpluses; and
- (vii) large external sector vulnerabilities, including liquidity risks, arising from private capital flows.

# WTO x IMF: exception

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XV.9. **Nothing in this Agreement shall preclude:**

(a) the use by a contracting party of **exchange controls or exchange restrictions in accordance with the Articles of Agreement of the International Monetary Fund** or with that contracting party's special exchange agreement with the CONTRACTING PARTIES.

- IMF - exchange controls + exchange restriction
- IMF - exchange intervention ???? NO !!!!

# WTO x IMF

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## □ **Manipulate x Frustrate**

### □ **3 basic concepts:**

- . **exchange arrangements: same WTO x IMF**
- . **exchange action**
- . **exchange restriction x exchange controls**
  
- . **exchange intervention - out of IMF controls**

# Where to negotiate WTO x IMF

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- **WTO – GATS**
- **PTAs – services**
- **PTAs – currency safeguard**



# A NEW PROPOSAL

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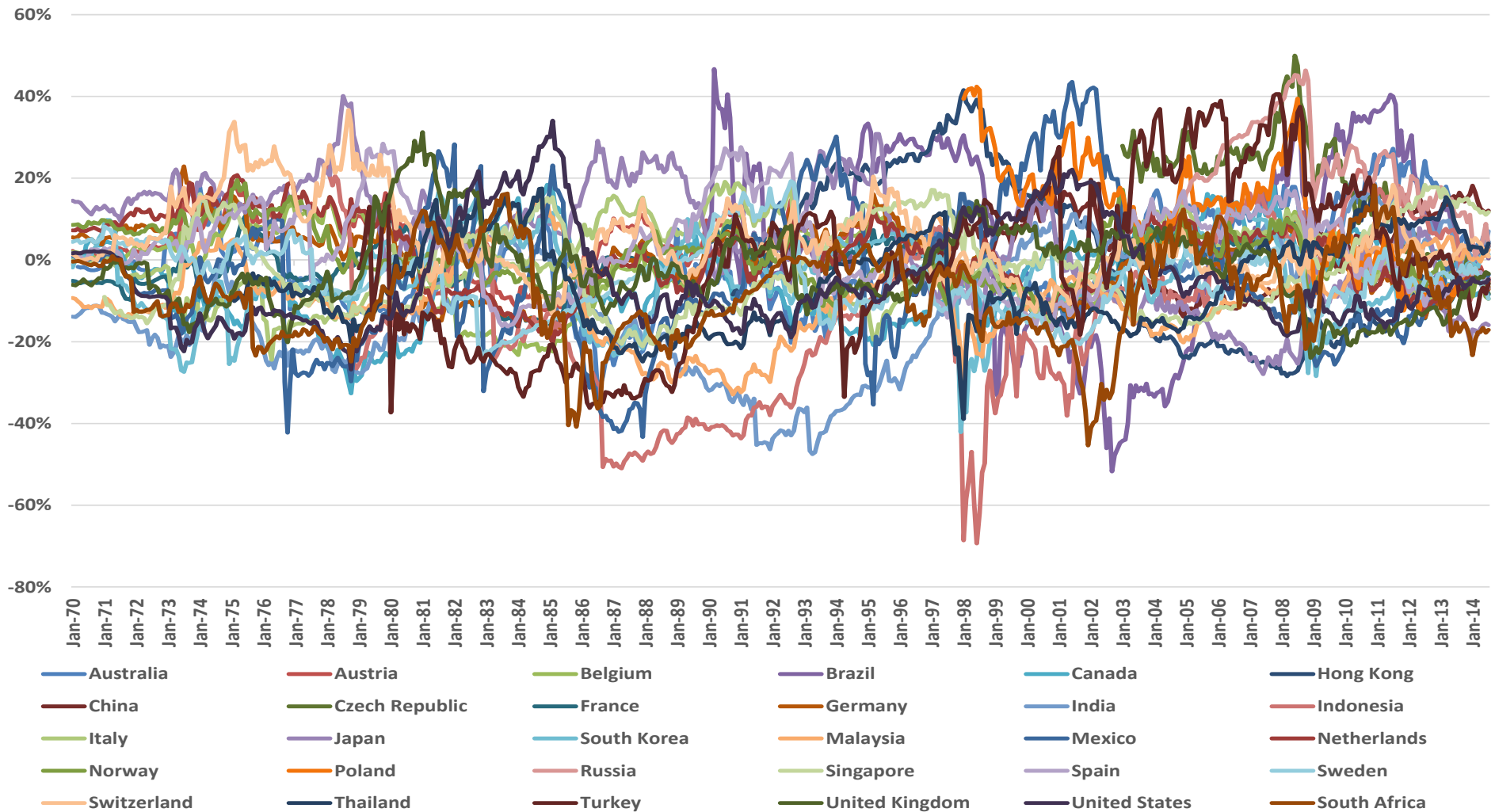
- Create a world currency
- Negotiate a fluctuation band
- Solve the conflict bilaterally by compensation

# BOX OF SNAKES

## Misalignments band 23 countries (06/14)

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### Misalignment against World Trade Currency

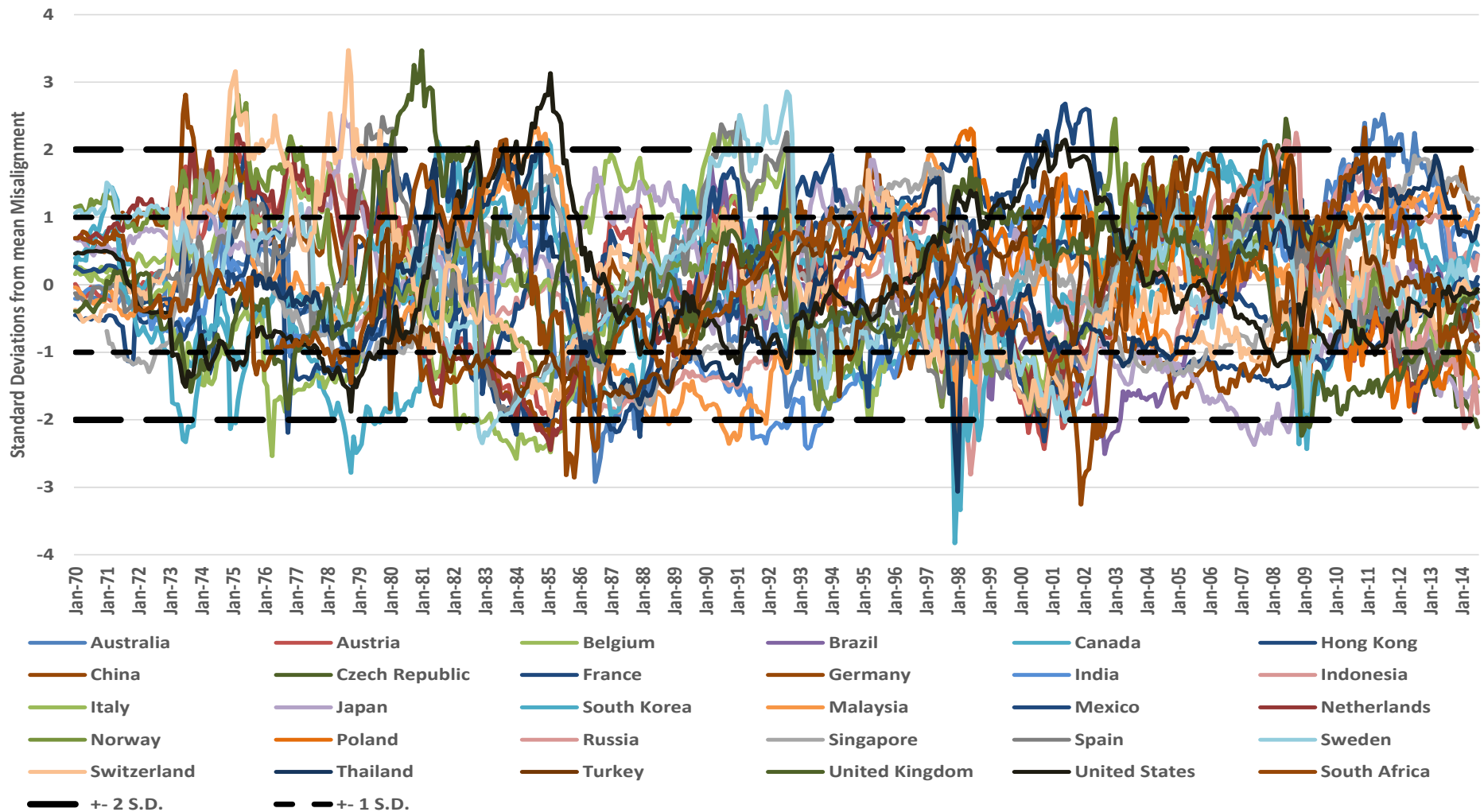


# BOX OF SNAKES

## Misalignments band 23 countries (06/14)

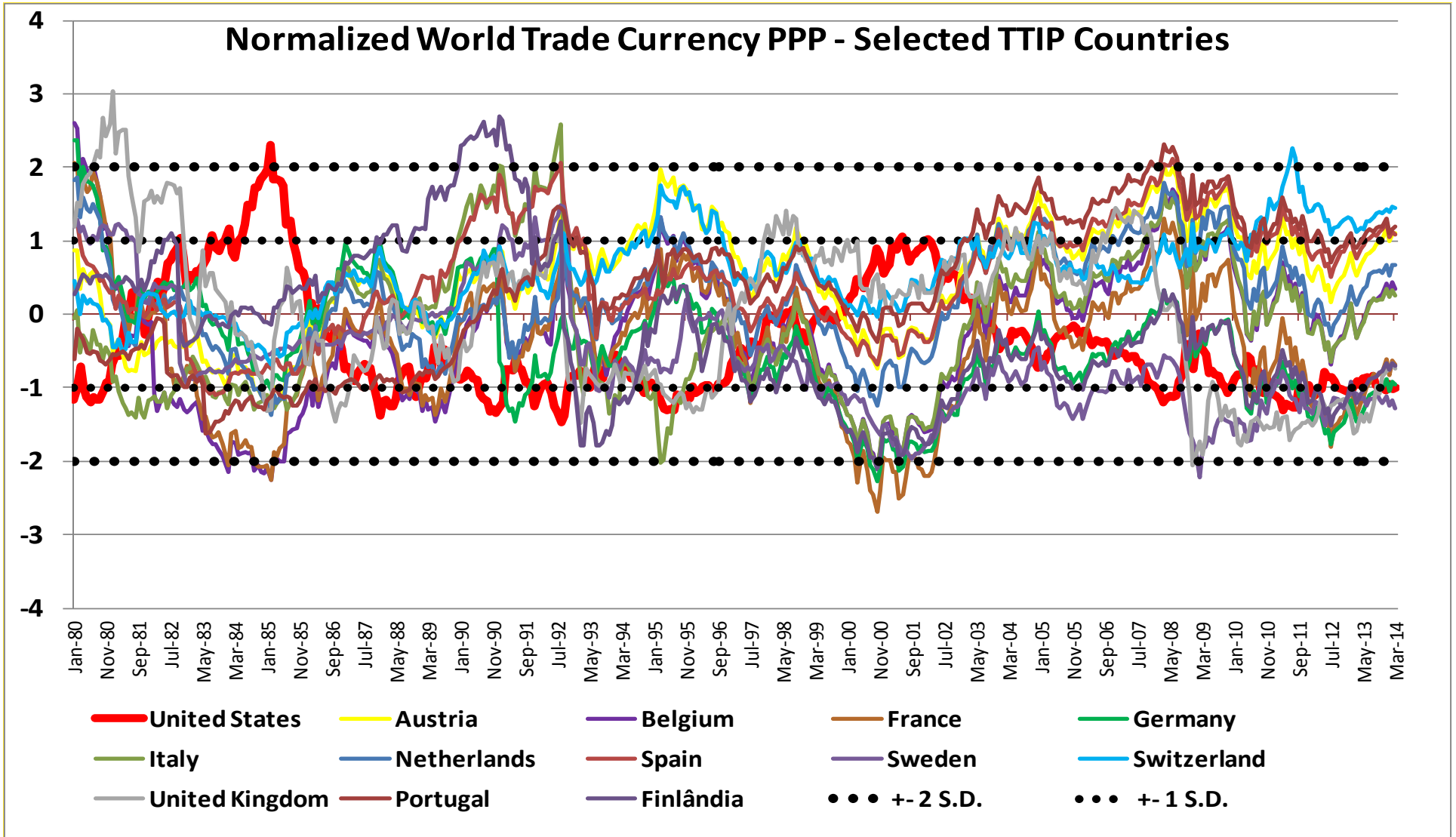
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Standardized Misalignment against World Trade Currency



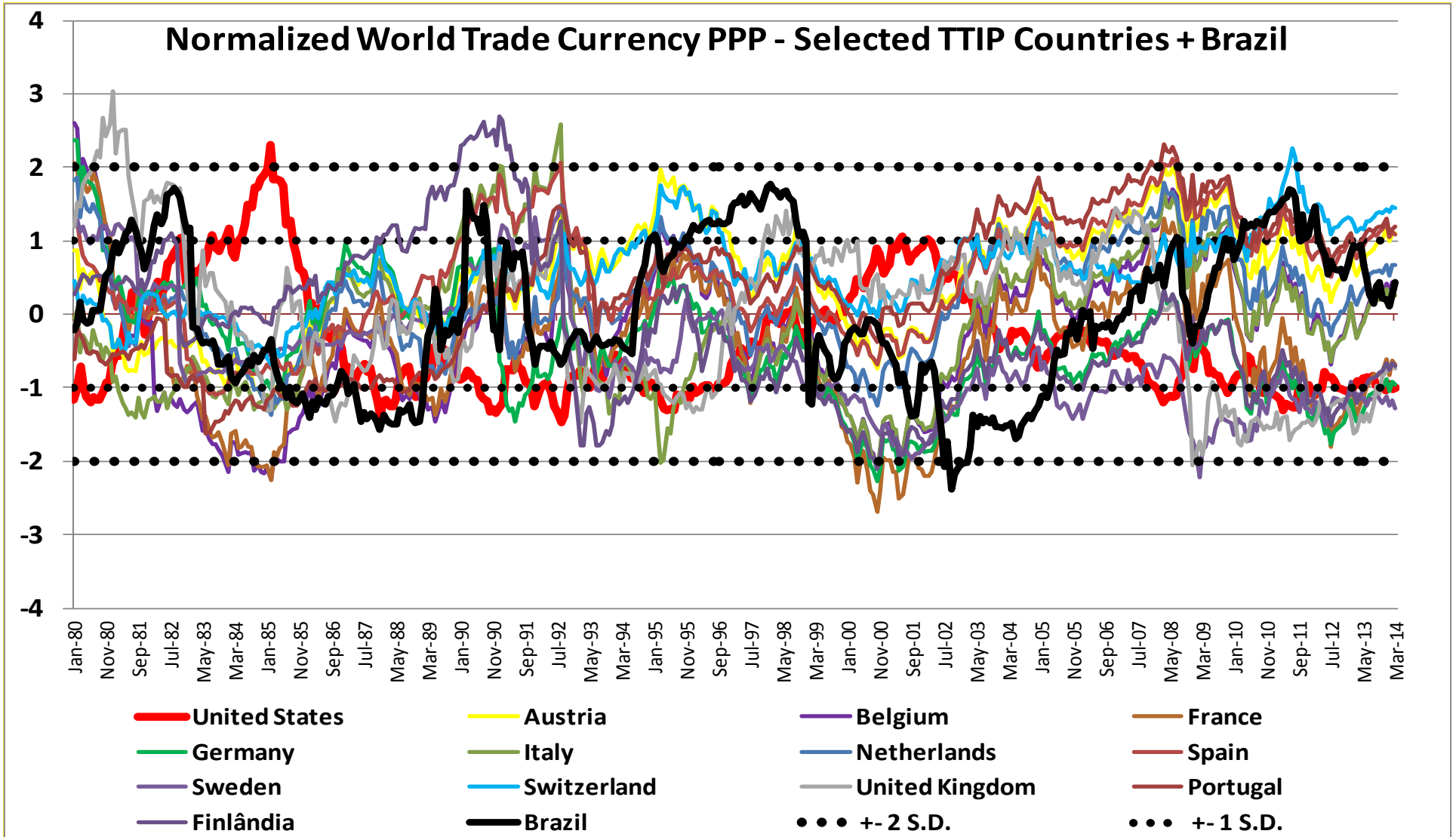
# BOX OF SNAKES FOR TTIP (06-2014)

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# BOX OF SNAKES FOR EU US AND BRAZIL (03/2014)

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# How to neutralize ?

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- Tariffs
- Anti- subsidies
- Currency safeguards
  
- In WTO - Compensation
  
- In the PTAs - Preference reduction/elimination