

Multilateralism and ASEAN

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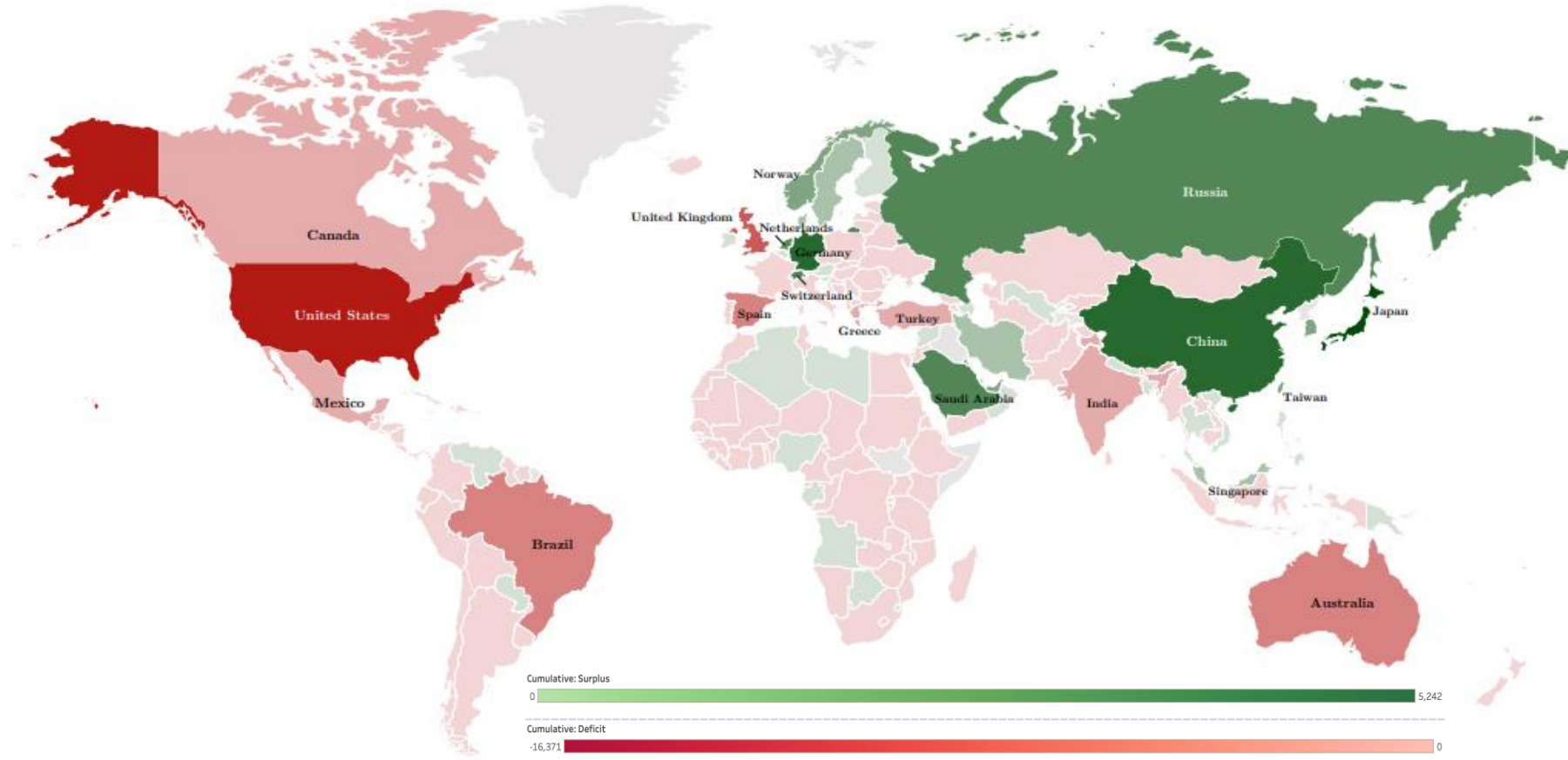
Based on work by World Bank economists

The problem

- Trade is supposed to remain broadly balanced
 - Has it been so for the US and China?
- Free trade is theorized to help both sides
 - Has free trade failed or is it that it never existed?
- Multilateralism is failing and we need a new approach regulating trade
 - Do regional agreements provide any clue?

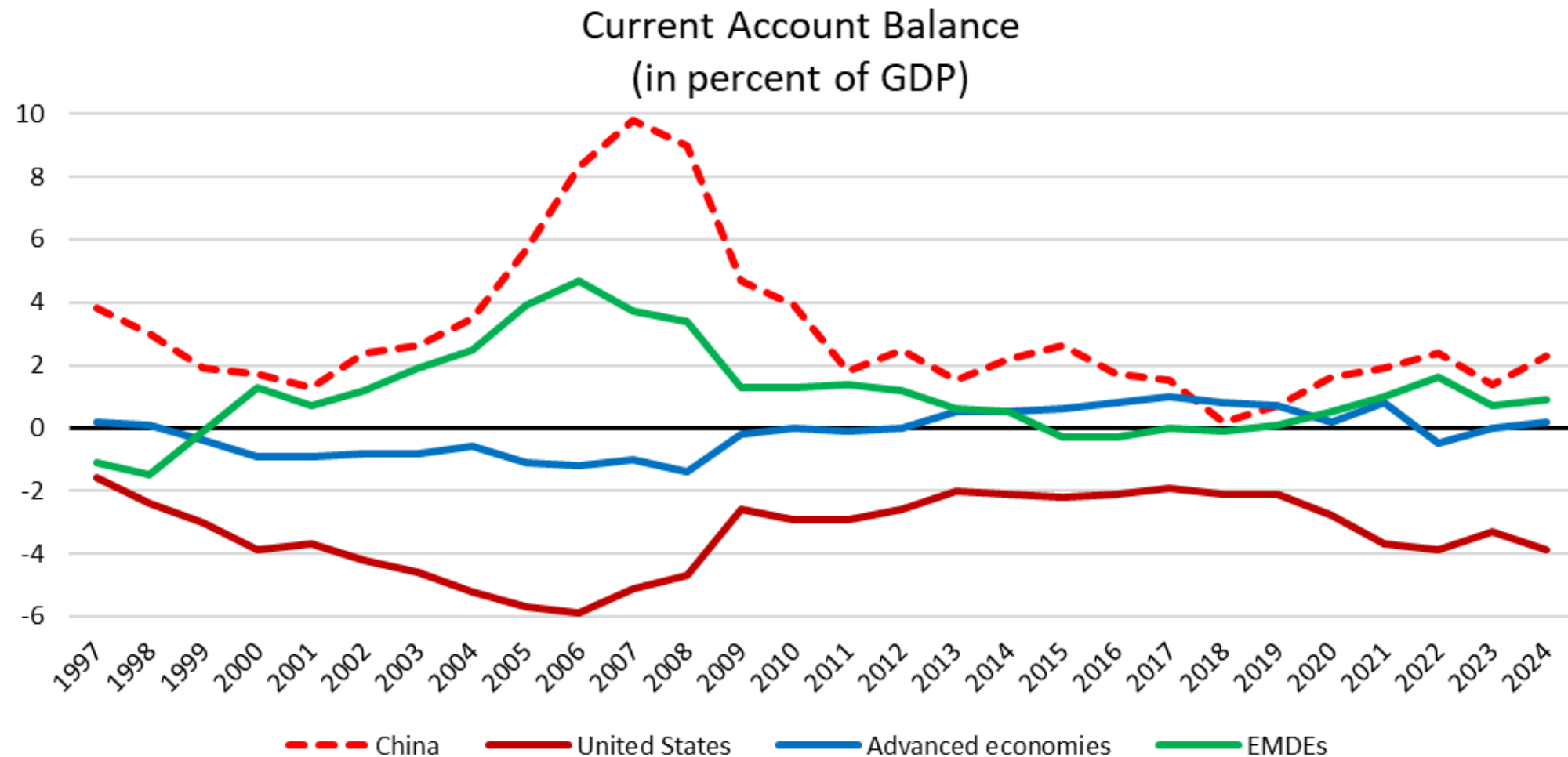
Fiery reds and deep greens

Cumulative Current Account Balances (1980-2024), in billions of U.S. dollars



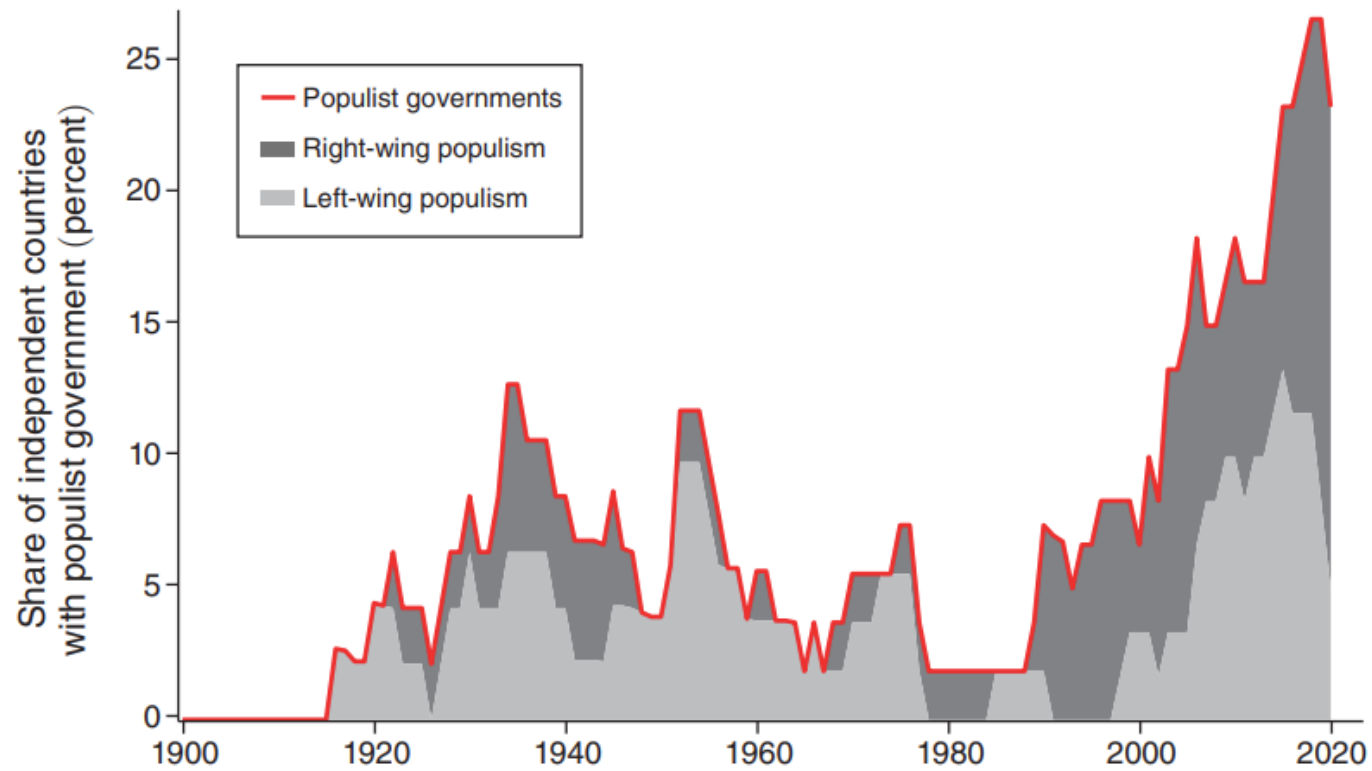
Source: Schmitt-Grohe, Uribe, Woodford, "International Macroeconomics: A Modern Approach"

The hump that broke globalism's back?



Populism has been growing

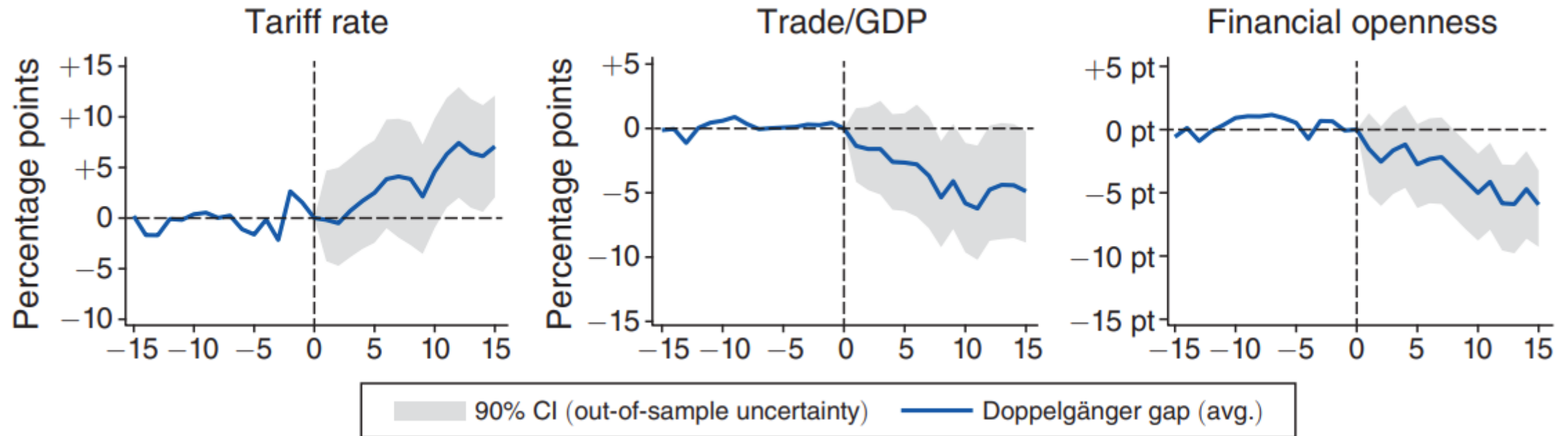
Share of populist governments



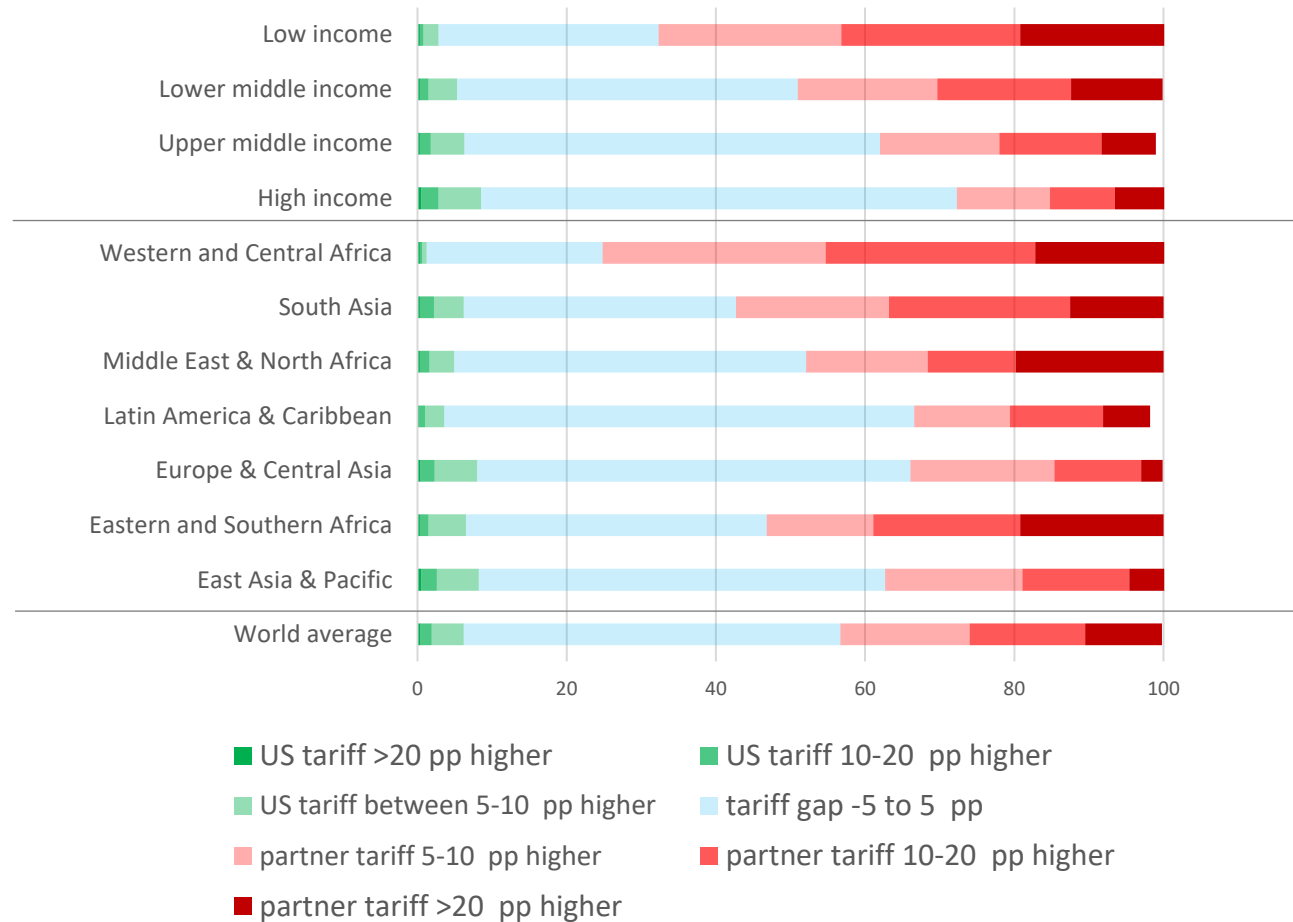
Source: Funke, Manuel, Moritz Schularick, and Christoph Trebesch. 2023. "Populist Leaders and the Economy." *American Economic Review* 113 (12): 3249–88.

Economic integration takes a beating under populist governments

Trade and Financial Openness after Populists Take Power



The world has been taking preferential access to the US market for granted



Source: Trade Team in the World Bank Group Prosperity Practice using MacMap, WITS, and UN Comtrade, **2023**.

Note: Averages for the seven World Bank regions only include IDA and IBRD recipients. Computations are based on customs tariffs applied bilaterally between the United States and the US partner country and consider bilateral preferences under US FTAs in place. Tariff lines in non-ad-valorem rates are re-expressed in ad-valorem equivalent. Calculations do not reflect other duties and charges (ODC) that may be levied on imports.

What happened?

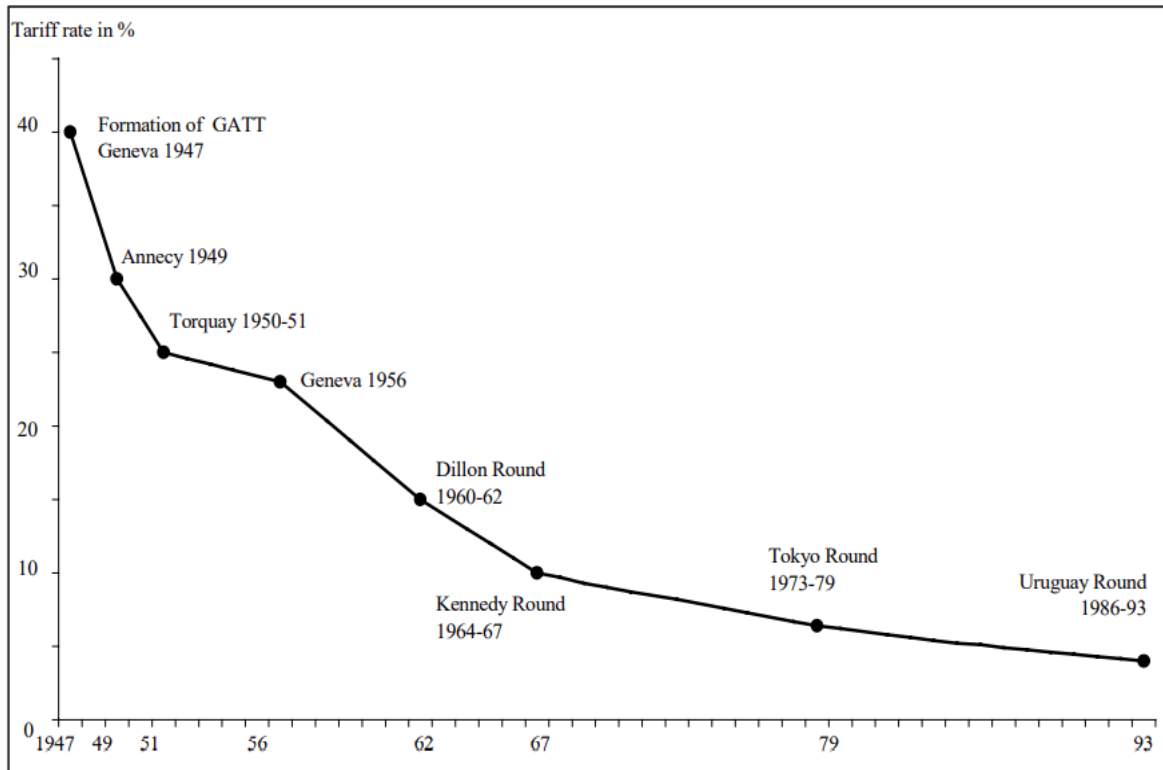
1. The transition from GATT to WTO in 1995 marked a shift from relatively soft consensus-based decisions to hard judicial law
 - In effect, the US gave up the right to pick on countries seen as adopting “unfair” trading policies and agreed to accept the ruling of WTO dispute settlement panels. In return, services trade and intellectual property rights would be subject to international rules.
2. Due to the growth of China and other developing countries, economies have now become more symmetric in size
 - But because of the uneven pace of liberalization, their levels of protection remain asymmetric. And countries like China are providing high levels of state support.

What is happening?

3. The US finds the constraints imposed by WTO rules unacceptable and sidelined the forum
 - Specifically, because relatively open US cannot use the carrot of further liberalization to get others to liberalize, it is threatening to use the stick of protection.
4. This is not consistent with the rules and norms of the WTO, which require concessions to be both reciprocal and unconditional
 - The Most Favored Nation (MFN) clause requires that there is no discrimination among trading partners regardless of their level of protection.

Tariffs under the GATT

Tariff reductions under GATT, 1947-1993

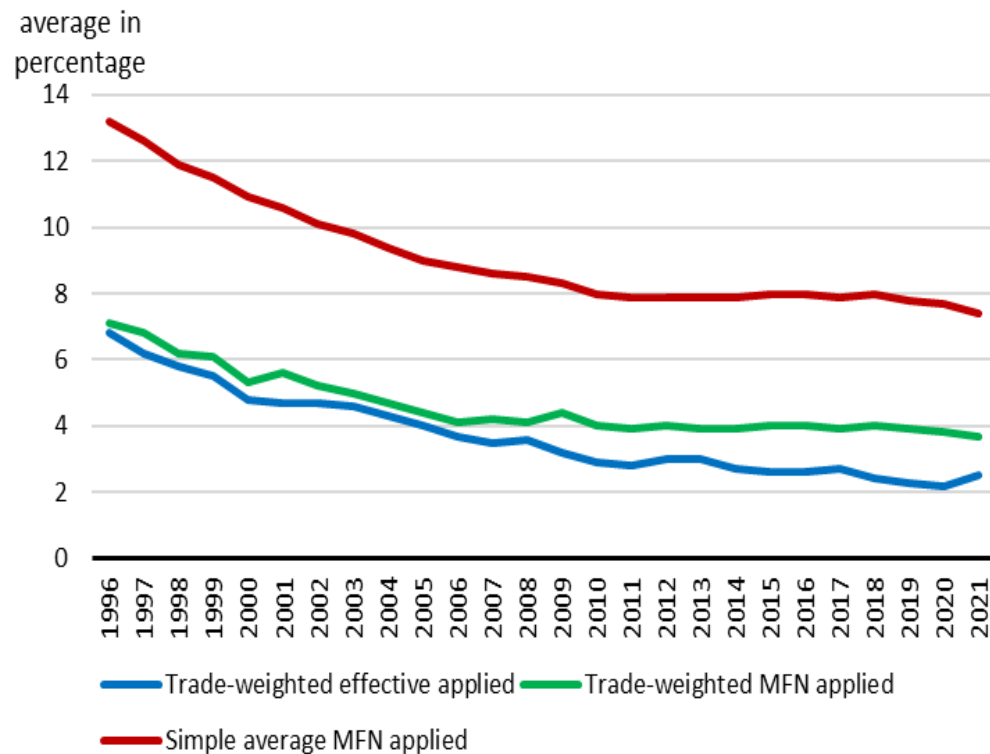


Source: Matthias Busse, "Competition intensity, potential competition and transaction cost economics," HWWA Discussion Paper, No. 183.

- After World War II, the General Agreement on Tariffs and Trade (GATT) played a key role in reducing trade barriers
 - GATT's efforts led to lower tariffs and increased trade among the United States, Western Europe, and Japan.
- GATT rules eventually proved ineffective because key requirements did not apply to developing countries
 - Articles XII and XVIII(b) allowed import restrictions for balance of payments and development reasons, allowing 'developing countries' to justify nearly any import restriction.

Tariffs under the WTO

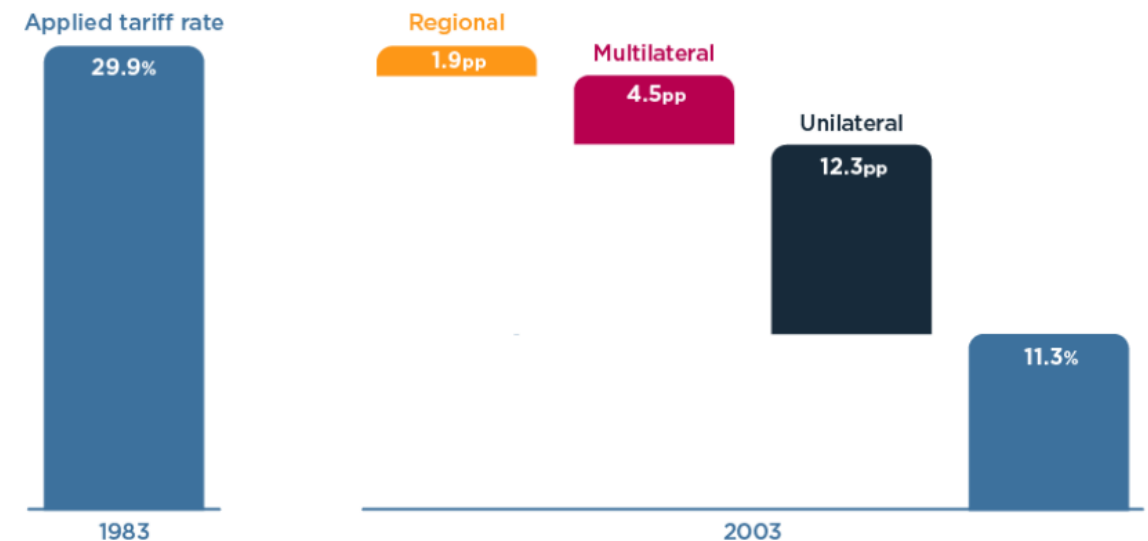
Tariff reductions in the WTO, 1995-2021



Source: World Trade Organization.

Between 1983 and 2003, the bigger part of tariff reductions in developing economies were implemented unilaterally

Average applied tariff rate in developing economies and reductions by source, 1983 and 2003, percent



Source: Douglas A. Irwin (2022), «The World Bank, the IMF, and the GATT/WTO: Which Institution Most Supported Trade Reform in Developing Economies?»

Self-designation as a Peter Pan complex

- There is no WTO definition of “developed” or “developing” country (though it does use the UN definition of “least developed”)
- Members self-designate as “developed” or “developing”. About two-thirds of the WTO’s 164 members—including China—currently consider themselves “developing countries”
- South Korea has self-classified as a developing country since joining the WTO three decades ago—even though its per capita income is now the same as Japan’s
- China has makes than a third of the world’s manufactures—when will it be considered a developed manufacturer?

Look to ASEAN for answers

- ASEAN members are at very different stages of development
 - Singapore is very high income; Myanmar is very low income
- ASEAN based more on soft norms, not hard rules (see [Tan](#) for distinction)
 - EU approach would not work in Southeast Asia
- The world is, arguably, more like ASEAN than the EU
 - If the WTO is to remain relevant as a forum for cooperation, it may need to relax its reciprocity norm and the MFN rule