



Strengthening International Co-operation on Subsidies

Presentation to the Friends of Multilateralism Group (FMG)

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Subsidies, Trade, and International Cooperation

Prepared by staff of IMF, OECD, World Bank, and WTO

Motivation

- Why now?
 - **Subsidies** long an issue in trade (Jackson, 1969)
 - ‘Justifiable’ policies v. ‘exporting one’s own problems’
 - Worrisome dynamics: one subsidy invites counter-subsidies
 - Especially **urgent** now:
 - New issues
 - Trade tensions and costs to the global economy
- **Focus:** subsidies with possibly harmful int’l effects to (a) trade / investment, or (b) global commons
- Recognizes that subsidies can be **‘good’** and/or **‘bad’**
- Builds on **past work**, including by other orgs

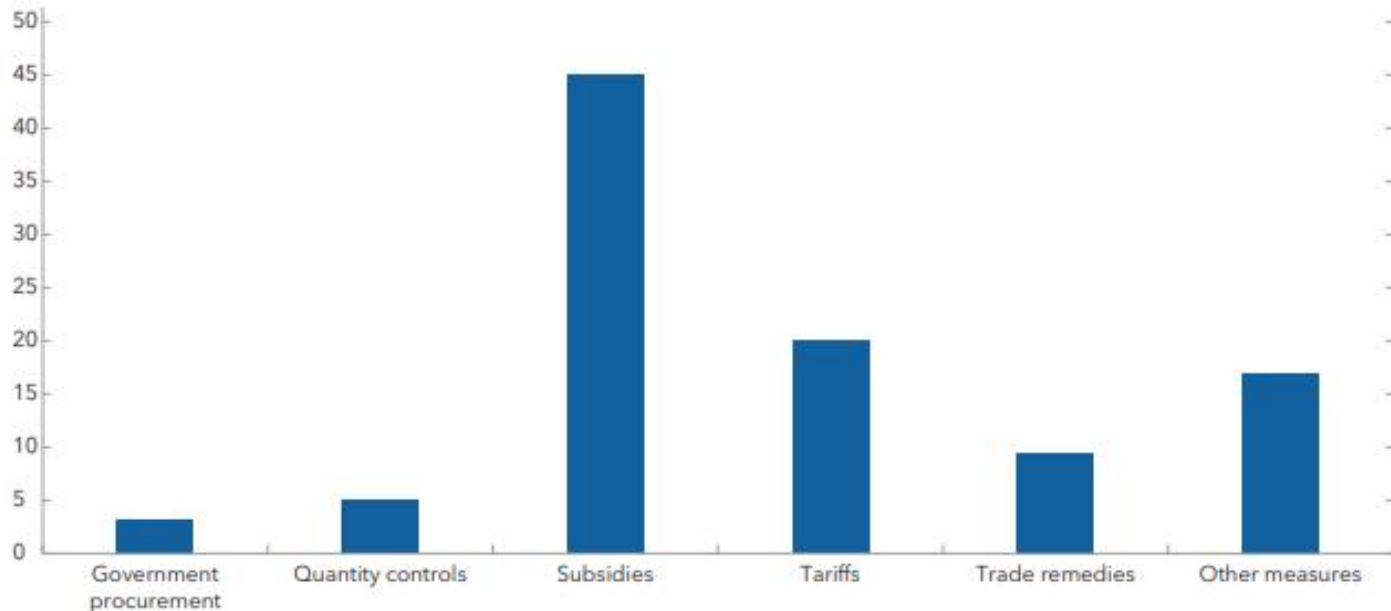
Design and Rationale

- Subsidies have **many forms** & are taken at **many levels** ... and have a variety of **motivations**
- There are **sound rationales** for some subsidies ...
 - Examples: basic R&D; green products
- ... but **design** matters too – economics can help
 - Does it achieve its goal? At what domestic cost?
 - International effects: trade, investment, global commons, development
 - Improved design could often achieve better outcomes & fewer negative effects – at home and abroad

Current Extent and Nature of Subsidies (1)

- Several **patterns**:
 - **Subsidies are prevalent**: The most frequent form of government intervention post financial crisis

Figure 1. Interventions by Type of Measure, 2009-21
(Percent)



Source: Calculations from the GTA.

Current Extent and Nature of Subsidies (2)

- In addition:
 - **Trade remedy** actions around the world have increased sharply
 - Subsidies are **not a single-country or single-region** “issue”, while there is high concentration
 - Many **sectors** appear to benefit from subsidies
 - Different **forms of subsidies** are employed (grants, preferential loans, tax incentives), with variation across countries
 - **Sub-central government** entities account for the vast majority of subsidy programs

WTO rules and discussions

In sum:

- Existing rules provide a strong basis, but longstanding and more recently-exposed gaps remain
- Examples of new challenges:
 - Climate change
 - Digitalization
 - Changing role of state
- Addressing these challenges requires a clear sense of the **positive & negative aspects** of existing subsidies
- **GVCs** That starts with **better understanding** the current landscape of subsidies in the global economy...

Priorities for Action

Not all subsidies are problematic; some are appropriate. Working out which is which is the key issue for international cooperation.

- IOs can help

1) Transparency and analysis

- Improving measurement and access to information
- Understanding impacts

2) Consultation and dialogue

- Multiple approaches
- Cooperation can encourage and help inform reform
- Existing fora + new mechanisms

3) Rules and norms