World Economic Policy Note

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Summary

The purpose of the following document is to present some general lines of the international economic context, aimed at providing the Internationalization Mission with more tools for its evaluations and recommendations. The document has four sections: the first one presents the main findings and recommendations; the second one presents the global trends in international trade, capital flows, migration, and tourism; the third one presents the international trade system and its institutional framework; and the fourth one presents the challenges and trends of the world's geopolitical, economic situation.

I. FINDINGS AND RECOMMENDATIONS

- **Integration continues.** The progressive and permanent growth in flows of goods, services, capital, and people worldwide reflects an unabated global integration. This trend is combined with continued population growth in general and an increase in the middle-class' share of it, especially in Asia and Africa. This integration process will continue despite an important slowdown in global trade in recent years and especially during the exceptional year of 2020. The fundamental variables of population growth and trade interdependence are far from reversing the integration process; on the contrary, it can be anticipated that the fundamental trends will continue for the next years and decades.

- **The future lies in Asia and Africa.** The current population is distributed worldwide as follows: 1 billion in the Americas; 0. 84 billion in Europe; 1. 3 billion in Africa; 4. 4 billion in Asia. By the end of the century, the UN expects the population to remain relatively unchanged in the Americas and Europe. Still, there will be three more billion in Africa and one more billion in Asia. More than 80% of the world's population will live in Africa and Asia, regions where per capita income has been growing at higher rates. The Atlantic Ocean will progressively lose its current prominence, and the Indian Ocean will become the center stage.

- **The small and medium-sized countries depend on rules; and not on force.** Colombia must actively take advantage of the existing international institutional architecture - formal and informal - as part of the defense and promotion of its interests. In particular, the challenges posed by the nationalist drift of some major countries, coupled with growing trade tensions between large blocs, impose the need for Colombia to design its trade strategies, policies, and measures under an ironclad principle of defense of rules-based multilateralism. Small and medium-sized countries are necessarily dependent on the protection and stability offered by international rules. Therefore, the conclusions and recommendations of the Internationalization Mission must be given under this

[1] The information contained in this document is to be used as general guidance for the Internationalization Mission. For this reason, this document does not constitute or serve as a substitute or replacement for general or specific legal advice. The content of this document only reflects the authors' opinion based on revised data. At no time the document represents an official position, neither of the Ministry of Trade, Industry and Tourism nor the Ministry of Foreign Affairs. Public servants are not responsible for the decisions or actions that may be taken in relation to the information provided, for this reason it should be taken as a reference only.

context and reflect the need for Colombia to defend and maintain the global rule of law. The multilateral rule book that is being currently developed under the geo-economic changes of the moment (in terms of industrial subsidies, environment, the architecture of dispute resolution, etc.), will be fundamental to guarantee a minimum code of conduct for countries, so it must be actively discussed, promoted, sponsored, and defended as one of the fundamental grounds of the Colombian trade insertion strategy in the years to come.

- **"In order to swim, you got to jump into the pool".** Monitoring and participating in the mega-blocs being created (TTIP/ RCEP) is crucial. Non-participation entails risk of exclusion, especially as other countries decide to engage in these blocs. Indeed, trade diversion is predictable towards countries that do belong to the large blocs by creating communities of standards, rules and trust that influence private actors and their businesses' decisions. Organizing production into global value chains raises costs and risks for those not institutionally associated with them. Colombia is a member of the Pacific Alliance but is not part of the CPTPP or APEC, of which its partner members in AP are members. This situation forces Colombia to look for alternatives to approach countries in the Pacific rim.

- **Negotiating treaties for the future, and not for the past.** Colombia must focus on trade agreements with countries and regions that are particularly promising for the future and with which there are not especially close relations at present. Because of population growth and economic dynamism, it is key to focus efforts on creating markets for Colombian goods, services, and capital in Africa and Asia.

- **Dark clouds rise in the sky**. The nationalist and protectionist tendencies of some major players in the international economy pose a significant challenge for Colombia. Trends towards the construction of walls, barriers, and border protection, as well as the potential division of the world into blocs of standards and technological models, impose increasing costs for everyone; these costs are usually compensated by larger countries either with force (to obtain concessions from their rivals) or by disbursing money (to compensate the affected productive sectors).

  This is a war that Colombia cannot play. Protectionism makes domestic production inputs more expensive, increases prices for final consumers, lowers the real wage, demands greater fiscal compensation, and increases political interference in economic and trade discussions. In other words, aggressive compensation mechanisms are not sustainable for Colombia in the medium run. Thus, in addition to a world based on rules, Colombia should prefer a trading system based on market economies and should associate and align itself with the groups and blocs that defend that perspective. There is no point in discussing a national strategy for internationalization if the strength and size of the available budget, rather than market signals, become the central criteria determining other countries' actions, especially the larger ones.

- **The standards bout will force alignments.** On the other hand, Colombia must assess its role in the international trade system, being aware that its strategic decisions, especially in the selection of international standards in ICT, the acquisition of technology, investment in R&D, financial movements, and investment in infrastructure, will necessarily force alignment with international economic powers, with the benefits and consequences that this entails.

- **Agreements are meant to be respected**. The erosion of compliance with international trade rules is in itself a particularly worrying challenge. The global trading system's proper functioning depends on robust dispute settlement mechanisms, both at the multilateral and bilateral levels. The blockage of the WTO Appellate Body and the increasing recourse to unilateral retaliation measures undermine confidence in the international rule of law and make global integration more vulnerable. Colombia should participate with special attention in schemes aimed at addressing the crisis of the Appellate Body, the crisis of the investor-state dispute settlement system, and the weaknesses of the dispute models of some regional mechanisms.

- **The WTO remains the gravitational center of trade.** The best way to deepen the internationalization of the economy would be deepening WTO multilateral rules. The Doha Round's exhaustion has led to the negotiation of bilateral trade agreements (second best). In particular, it has led to the negotiation of mega-trade agreements, which "plurilateralise" tariff preferences and rules of origin, and gain weight in the geopolitical order. However, these multiple trade agreements tend to divert trade and complicate rules and predictability. Pushing for reinforcement of WTO at the core center of multilateralism is thus fundamental.

II. DIAGNOSTIC

A. Global Trade Trends

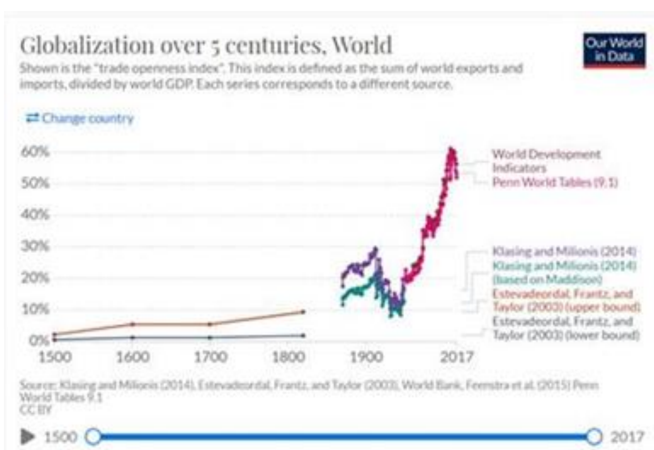
In the last decades the integration of the world economy has deepened. The international movements of goods, services, capital, and people reaffirm this globalization process that −beyond short-term problems, highlighting some geopolitical challenges, and recently the Covid-19 crisis− has shown an unflinching long-term growth. Here are some facts.

1. Internationalization of the economy

Among the advantages of internationalization we find: the creation of trade, the reduction of production costs, increased supply of goods, specialization of production, generation of economies of scale, increased welfare of the population and the creation of a stable and predictable legal environment among other advantages. Trade openness is the necessary condition to favor the development of global value chains, increased productivity, innovation and technology transfer.

As can be seen in the following graph, globalization deepens at the beginning of the 20th century, suffers a setback with the First World War, the fall of the gold standard, the Great Depression, among other events. In the following years it has been growing with some setbacks.

Graph 1. Globalization over five centuries

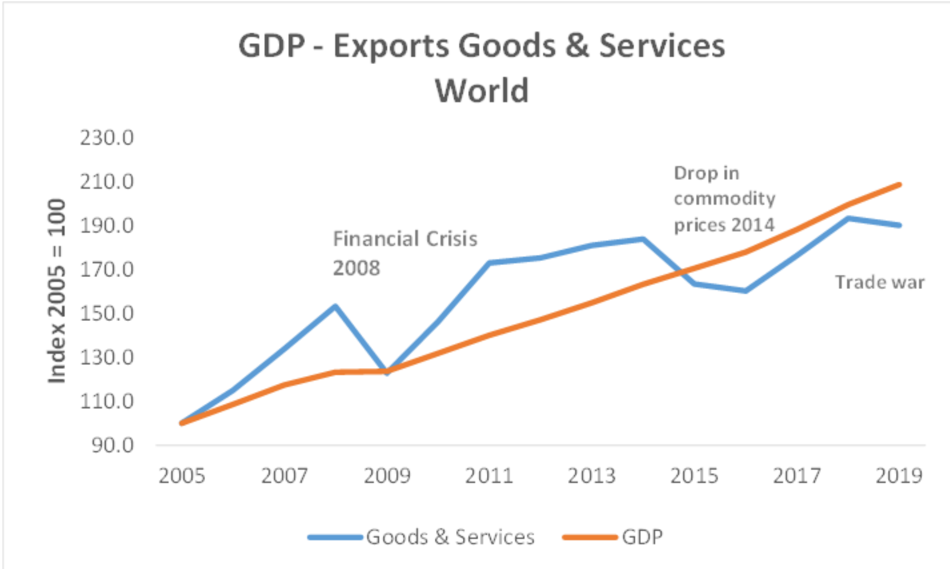


Source: Globalization over five centuries, Our Word in Data

2. Trade in goods and services

Since 2005, total trade in goods and services has shown a growing trend, with an average annual growth rate of 4.7%, although lower than the GDP growth rate (5.4%). Total exports are more sensitive to external shocks.

Graph 2. Trade in goods and Services



Source: WTO, IMF

With regard to trade in goods, since 1990 exports of goods and world GDP have shown an increasing trend. The average annual growth rate of exports (6.0%) is higher than that of GDP (5.8%). However, goods exports are more volatile.

During these thirty years, it can be seen that the behavior of exports is more sensitive than GDP to external shocks. China's entry into the WTO stimulated export growth, while the 2008 financial crisis, falling external commodity prices in 2014, and the recent trade war have negatively impacted exports.

Graph 3. Trade and World Growth

Source: WTO, IMF

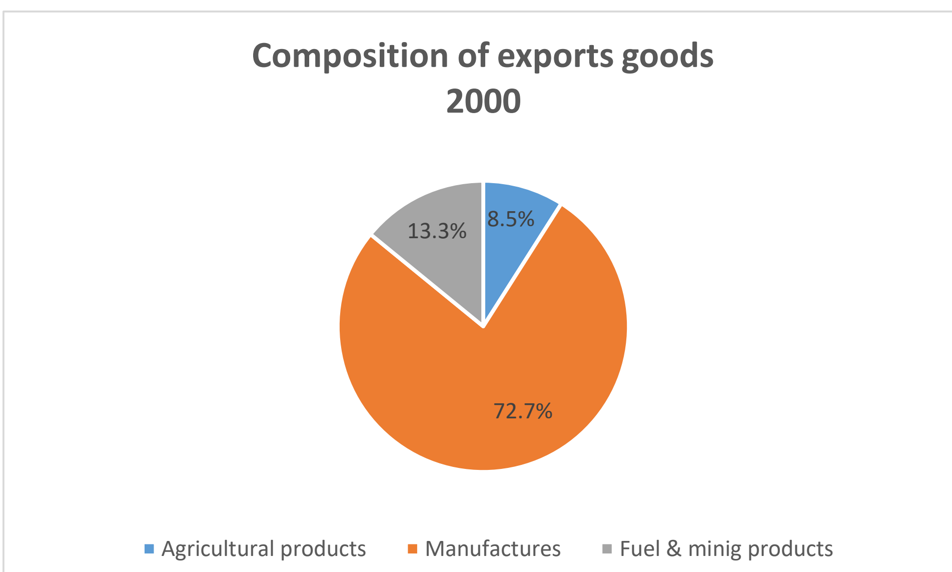
The relation between exports and the size of the world economy, measured by the ratio of exports to GDP, shows an average of 14.3%, although it fluctuated between 11% and 19.3% in 2008 due to the financial crisis. In 2019, the trade war between the world's largest economies also affected export dynamics, and this ratio decreased to 13.3%.

Graph 4. World Trade and Growth Relationship

Source: WTO, IMF

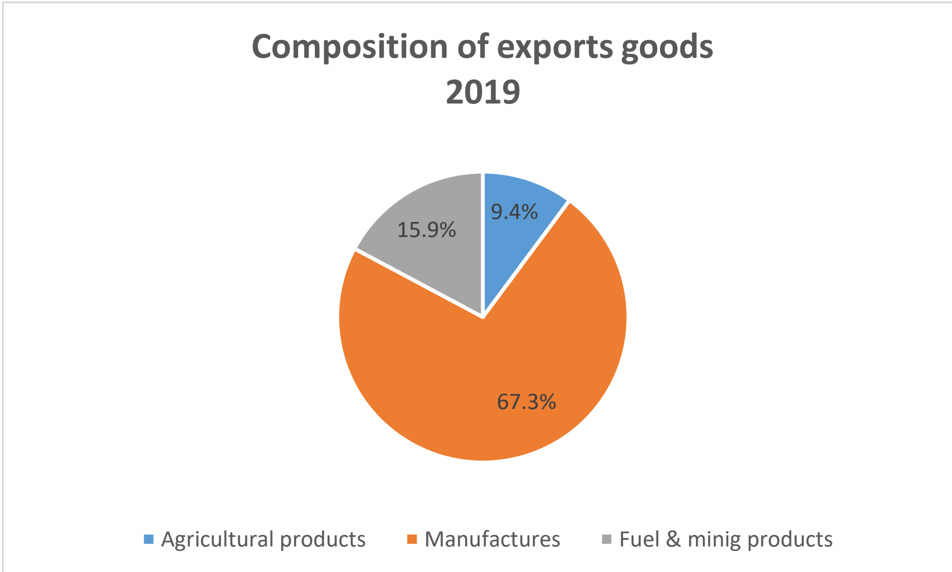
Since 2000, manufacturing has lost more than 5 percentage points in the composition of exports of goods, while that of mining-energy products and food have increased their share.

Graph 5 (a). Composition of Exports Goods 2000



Source: WTO, IMF

Gráfica 5 (b). Composition of Exports Goods 2019



Source: WTO, IMF

In the manufacturing sector, exports of intermediate goods, such as chemical products and food, have gained participation, which is an indication of the fragmentation of manufacturing production.

3. Services trade

Between 2005 and 2019, world exports of services presented an average annual growth rate of 6.1%, higher than the average annual growth rate of exports of goods (4.3%) and GDP (5.4%).

Graph 6 shows that exports of services (standard deviation 38.5) have had more volatility than exports of goods (27.1) and GDP (33.7). However, since 2014, exports of goods have been more affected than those of services, due to the fall in prices of commodities and the trade war.

Graph 6. Growth of Trade in Goods and Services

Source: WTO

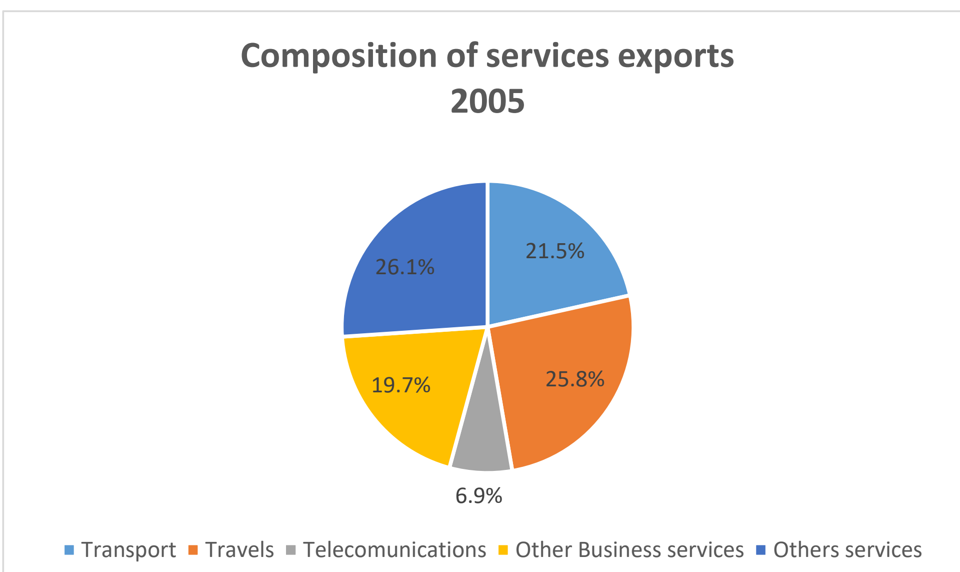
Between 2005 and 2019, services exports have gained share in aggregate trade, as shown below.

Graph 7. Trade in Services Participation

Source: WTO

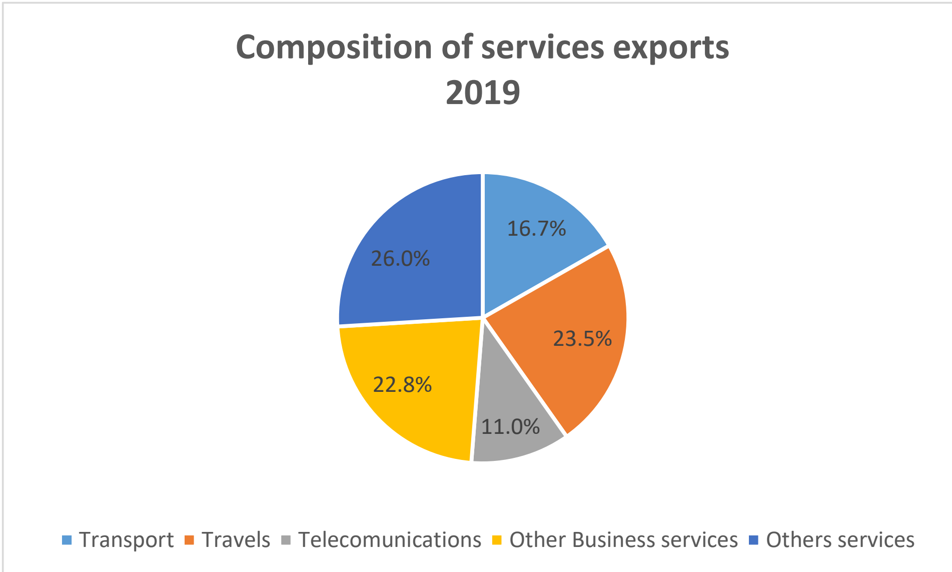
During this period, the Business Services and Telecommunications categories have been the most dynamic, increasing their participation from 19.7% to 22.8%, and from 6.9% to 11%, respectively. It is important to highlight that within the Business Services area, BPO & O (Business Process Outsourcing and Offshoring) is included, a sector that Colombia has bet on in recent years through specific public policies.

Graph 8 (a). Composition of Services Exports 2005



Source: WTO

Graph 8 (b). Composition of Services Exports 2005

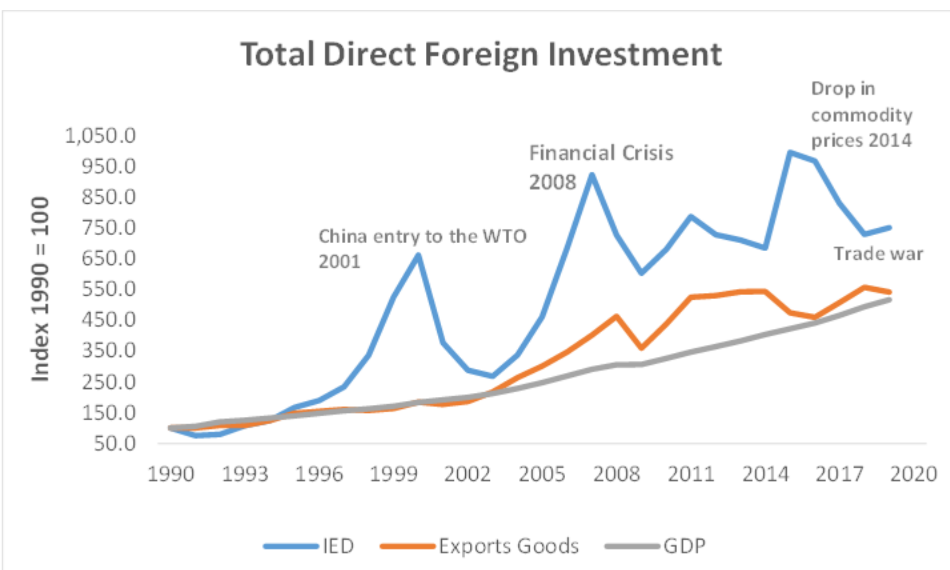


Source: WTO

4. Capital movement - Foreign Direct Investment

Since 1990 Foreign Direct Investment (FDI) has grown at an average annual rate of 7.2%, higher than exports of goods (6%) and world GDP (5.8%). FDI has been more volatile in the face of external shocks. The standard deviation of FDI in this period is 293.5, while the standard deviation of exports is 170.4 and GDP 126.3.

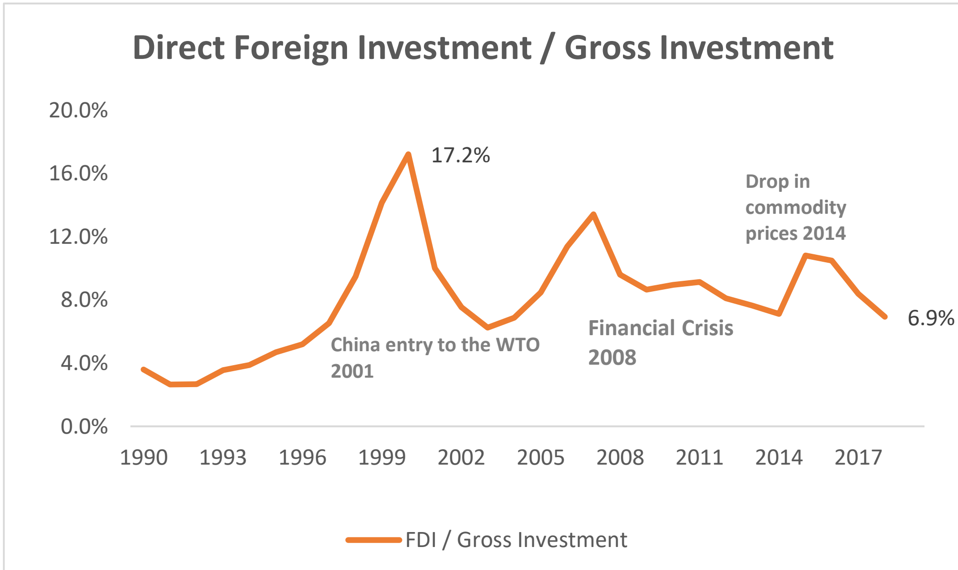
Graph 9. World Foreign Direct Investment Behavior



Source: UNCTAD, WTO, IMF

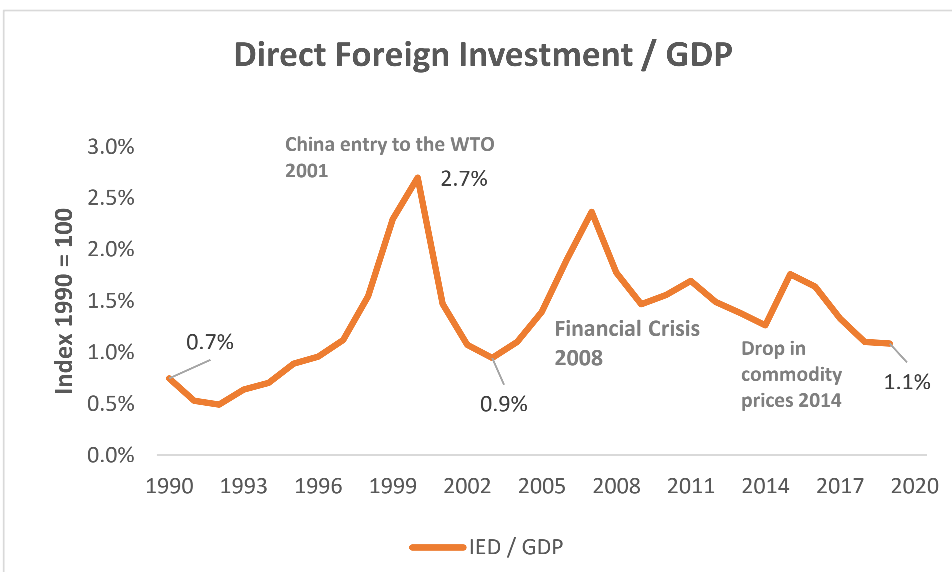
FDI per capita also shows an increasing trend with an average annual growth rate of 8.8%, although with high volatility (standard deviation of 330.8). In addition, it has become a significant source of financing for gross fixed capital formation. Since 1990, pressures and protests against globalization have deepened, and with the current pandemic, it appears that the globalization process has slowed down.

Graph 10 (a). Relation of Foreign Direct Investment and Gross Investment



Source: UNCTAD, FMI

Graph 10 (b). Relation of Foreign Direct Investment and Gross Domestic Product



Source: UNCTAD, FMI

The IMF projects global growth of -4.4% in 2020 and 5.2% in 2021. The level of world GDP in 2021 is expected to be only 0.6% higher than 2019, with high unemployment rates, both in advanced and emerging market economies. In the medium term, world growth is expected to slow down, which will impact economic activity and the average standard of living in all countries[2].

According to UNCTAD, world trade fell by 5% in the third quarter of 2020, compared to the same period last year, and the value of world trade is expected to end the year between 7% and 9% below the 2019 level. The most affected sectors have been the energy and transportation sectors, while COVID-19 medical supplies (medical devices, personal protective equipment, disinfectants, diagnostic kits, and oxygen respirators, among others) have grown by an average of more than 50% since April 2020, especially in developed countries. Other sectors with positive growth have been home office equipment, communication equipment, office machinery, and textiles and clothing. On the other hand, China has led the recovery and, in general, the exports of developing countries have performed better than those of developed nations[3].

Regarding FDI, UNCTAD projects a 20% decrease for 2020 compared to the previous year and, in turn, of 21% for 2021. It is estimated that the fall in these years will be deeper than that experienced in 2009 as a result of the financial crisis.

5. Movement of people: Migrations and Tourism

5.1 Global migration trend

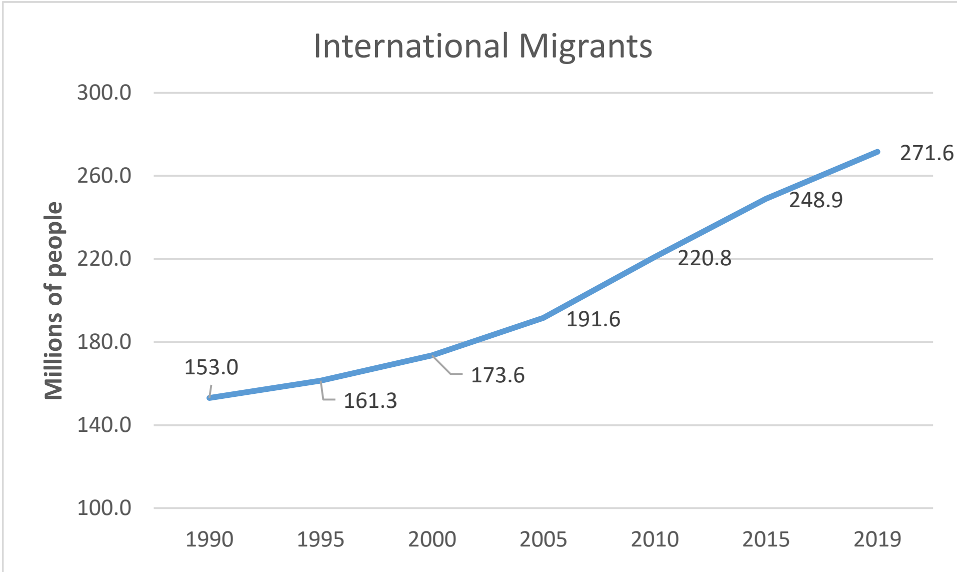
According to the United Nations, with respect to the increase in the number of migrants in the last 40 years, the number of people living in a country other than the one in which they were born is much higher: 272 million in 2019, which represents an increase of 51 million compared to 2010. International migrants today comprise 3.5% of the world population, a figure that continues to rise compared to 2.8% in 2000 and 2.3% in 1980.

In 2019, of the 272 million migrants, 52% are men and 48% women. In addition, 164 million of the total migrants are workers. Likewise, it is estimated that there are 38 million migrant children and that three out of every four migrants are of working age (between 20 and 64 years). Asia hosts around 31% of the international migrant population, while the rest of migrants are divided as follows: Europe 30%, America 26%, Africa 10% and Oceania 3%.

[2] IMF. World Economic Outlook October 2020. Ver https://www.imf.org/en/Publications/WEO/Issues/2020/09/30/world-economic-outlook-october-2020

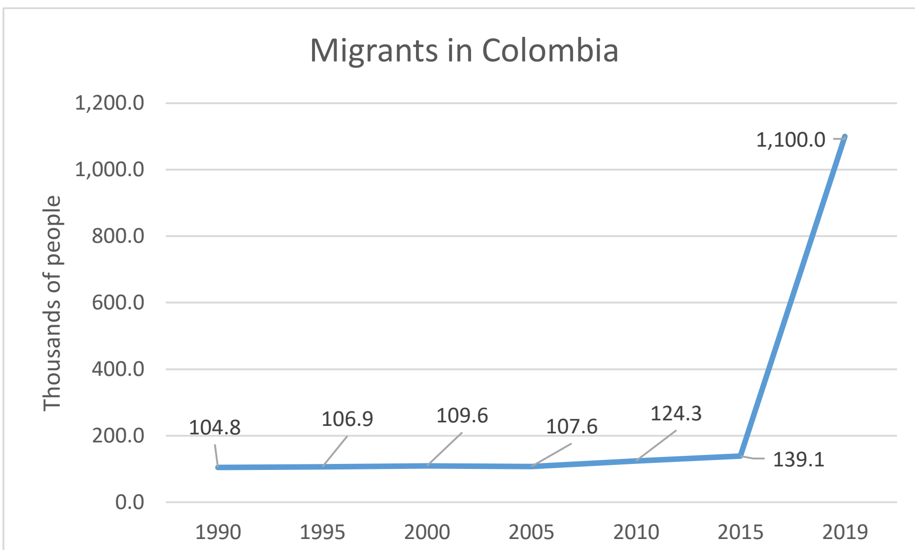
[3] UNCTAD. Global Trade Update (October 2020), tomado de https://unctad.org/es/node/29018

Graph 11 (a). International Migrants



Source: United Nations

Graph 11 (b). International Migrants in Colombia



Source: United Nations

5.1.2 Migration Report in 2020

The International Organization for Migration[4] (IOM) explains that international migration is not uniform throughout the world but responds to economic, geographic, demographic and other factors, which result in clear migration patterns, such as migratory corridors established throughout many years.

The main corridors generally go from developing countries to larger economies such as the US, France, the Russian Federation, the United Arab Emirates, and Saudi Arabia. This pattern is likely to persist for a long time, especially as

[4] See https://publications.iom.int/system/files/pdf/wmr_2020_es_ch_1.pdf

projections indicate that the population of some regions and developing countries would grow in the coming decades, increasing the migratory potential of future generations.

A variable to measure the importance of migrants in the world economy is remittances. International remittances amounted to USD 689 billion in 2018. The top three recipient countries were: India (USD 78.6 billion), China (USD 67.4 billion) and Mexico (USD 35.7 billion). The US continues to be the main remittance sender (USD 68 billion), followed by the United Arab Emirates (USD 44.4 billion) and Saudi Arabia (USD 36.1 billion).

In recent years there have been gradual changes in migration, for example, in the global scale of migration and displacement, but these are not structural changes. Rather, there appears to have been a deepening of existing migration patterns, increasing the opportunities created by institutional reforms, economic growth, trade liberalization, and long-term stability. There are also strong indications that the phenomenon of international migration is more complex than is commonly perceived.

Migrants have made considerable socio-cultural, civic, political, and economic contributions to countries and communities of origin and destination and are important agents of change in different sectors. Migrants tend to be more entrepreneurial than native inhabitants. In countries like the US, for example, migrants have contributed significantly to innovation.

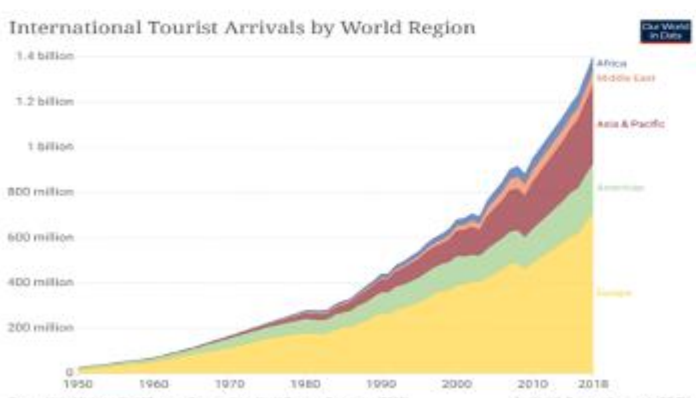
The reception of migrants in societies is related to different social and normative spheres, which are, to a great extent, interdependent. The results of inclusion in a policy area, such as language teaching, education, the labor market, family reunification, political participation or naturalization, are likely to have a positive impact on societies.

5.2. Tourism

5.2.1. number of travelers by regions

The World Tourism Organization estimates that there were 25 million tourist arrivals in 1950. In 2018, 68 years later, they increased to 1.4 billion international arrivals per year, which corresponds to a 56-fold increase. The following graph shows the evolution of the arrival of tourists since 1950.

Graph 13. Tourists arrivals by region

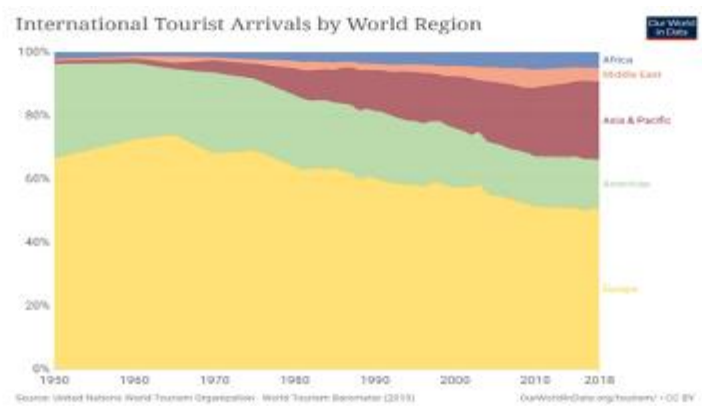


Source: Our World in Data

5.2.2. Relative distribution of tourists by regions.

In 1950, two-thirds of tourists came to Europe. Over the next 68 years, its relative importance dropped to about 50%, but it remains the most important tourist region. Asia and the Pacific were of very little importance as a tourist destination in 1950, and by 2018, one in four tourists arrived in that region. The graph shows the relative distribution of tourist arrivals by region.

Graph 14. Relative Distribution of Tourists by Region



Source: Our World in Data

The following graph shows the increase in travelers to Colombia, compared to other countries in the region. The table also presents travelers to Chile and Costa Rica, starting with similar numbers as Colombia, and figures from China, for comparison.

Graph 15. Tourists in Colombia and Other Countries

Chile	1.54 million in 1995	5.64 million in 2016
China	20.03 million in 1995	59.27 million in 2016
Colombia	1.40 million in 1995	3.32 million in 2016
Comoros	23,000.00 in 1995	26,800.00 in 2016
Congo	37,000.00 in 1995	224,000.00 in 2016
Costa Rica	785,000.00 in 1995	2.92 million in 2016

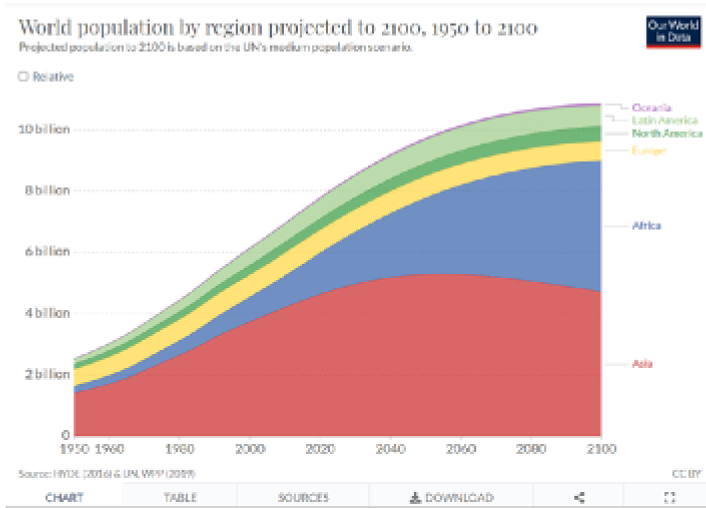
Fuente: Our World in Data

In Colombia the tourists' arrivals have increased significantly, as in Latin America, but in both cases at a lower rate than in other countries.

1. Current and future population

The current population is distributed as follows: 1.0 billion in the Americas, 0.84 billion in Europe, 1.3 billion in Africa; 4.4 billion in Asia. By the end of the century, around the year 2100, the UN estimates that the population will remain relatively the same in the Americas and Europe, but there will be 3 billion more in Africa and one billion more in Asia. So more than 80% of the world's population will live in Africa and Asia.

Graph16. World Population Projection



Source: Future Population Growth, Our World in Data

China has begun to prepare for this new reality. The Asian country, through the Belt and Road initiative, intends to connect with each other almost 70 countries on three continents through rail lines, pipelines, highways, ports, and other types of infrastructure. All these projects aim to cross Eurasia and link China with Europe and Africa through a "land belt" and an overseas "highway", and to achieve land access to the Indian Ocean[5].

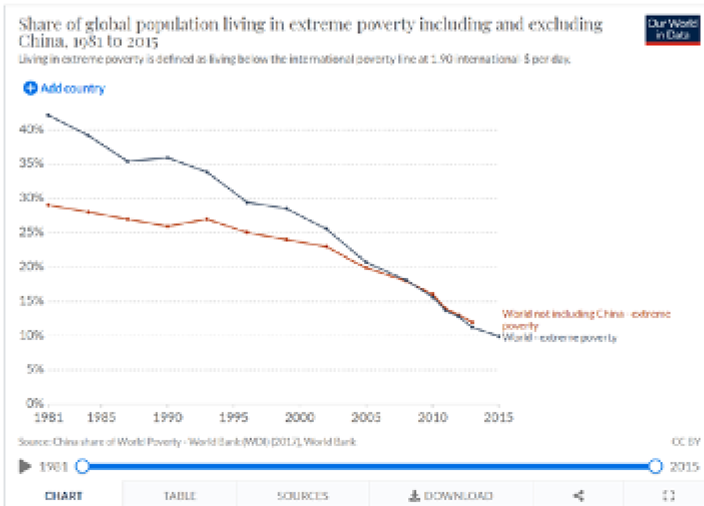
2. Socio-economic advances of the world population

In the last hundred years, the world population has made great strides, according to World Bank and UN analyses. These achievements have accelerated in recent decades. To date, the vast majority of the population lives in middle (76%) and high (16%) income countries and only 9% lives in low-income countries6.

[5] "Work Together to Build the Silk Road Economic Belt and The 21st Century Maritime Silk Road", Speech by H.E. Xi Jinping, President of the People's Republic of China, At the Opening Ceremony of "The Belt and Road Forum for International Cooperation", 14 May 2017. http://www.xinhuanet.com/english/2017-05/14/c_136282982.htm. Tomado de Brunnermeier, Markus, Doshi, Rush and James, Harold. Beijing's Bismarckian Ghosts: How Great Powers Compete Economically. The Washington Quarterly. Fall 2018

[6] ROSLING, Hans et al. Factfulness: Ten Reasons We're Wrong About the World –and Why Things Are Better Than You Think. Hodder & Stoughton. 2019. P. 277.

Graph 17. World Population in Extreme Poverty



Source: Global Extreme Poverty - Our World in Data

The number of people living on less than US $ 1.9 per day fell from 34% in 1993 to 10.7% in 2013. Life expectancy has also increased considerably. According to the Institute for Health Metrics and Evaluations (IHME), people born in 2016 have a life expectancy of 72.5 years according to The Global Tracking Framework (GTF); and 85.3% of the world's population has some degree of access to electricity.

Before Covid19, more than 5 billion people lived on incomes between US$2 and US$32 a day, and they were continuously improving their living conditions. Only one billion people lived on more than US$32 a day. However, it is in this segment where supply, the highest degree of education, and business innovation tend to be concentrated, neglecting the potential that exists in the rest of the population.

B. <u>Trade Institutions and Agreements - Trends and Challenges</u>

The pattern of economic geopolitics is driven by institutions and trade agreements that regulate the way in which states relate to each other economically, politically, and socially. There are regulatory and cooperative institutions that stimulate norm-setting, economic progress, and global trade. For example, the World Customs Organization (WCO)7, the World Intellectual Property Organization (WIPO), the Organization for Economic Cooperation and Development (OECD), and the Asia Pacific Economic Cooperation (APEC)8, issue standards and policy guidelines on customs,

[7] The Organisation for Economic Co-operation and Development (OECD) is an international organization, composed of 37 states, whose objective is to coordinate their economic and social policies. At the OECD, representatives of member countries meet to exchange information and harmonize policies in order to maximize their economic growth and contribute to their own development and that of non-member countries.

[8] The Asia-Pcific Economic Cooperation (APEC) is a multilateral forum established in 1989 to strengthen the growth and prosperity of countries around the Pacific. As a mechanism for economic cooperation and consultation, it is geared towards the promotion and facilitation of trade, investment, economic and technical cooperation and regional economic development in the countries and territories of the Pacific Ocean basin. Promoting inclusive, equitable, sustainable and innovative economic growth

intellectual property, development, good regulatory practices, among others. In addition, there are de facto institutions, such as the G7 9 or the G20 10, which set guidelines on finance, economics, labor, and central banking.

Trade agreements, whose purpose is to liberalize trade, enact rules, harmonize procedures, establish trade flexibilities, and create institutions such as regulatory and control entities. Among the most relevant agreements are the European Union, the free trade agreement between the US, Canada, and Mexico (USMCA), the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), and the Regional Comprehensive Economic Partnership Agreement (RCEP), among others. The most comprehensive multilateral trade agreement is the Marrakesh Agreement establishing the World Trade Organization (WTO).

These agreements establish regulatory frameworks that provide security and predictability to trade and set reference standards for the negotiations of future treaties on new and specific issues (e.g., updating dispute settlement, incorporating environmental, labor, and corporate social responsibility rights). In the current geopolitical context, trade agreements reflect the need to defend and maintain the rule of law - the global rule of law.

Trade agreements and institutions are born, mutate, evolve, transform, and become relevant. The multilateral rule book that is being developed in the face of current geo-economic changes in issues such as industrial subsidies, the environment, labor rights, the architecture of dispute settlement, e-commerce, among others, will be fundamental to guarantee a minimum level of conduct of states, so it must be actively discussed, promoted, sponsored and defended as one of the fundamental bases of the strategy of global commercial insertion in the years to come.

1. The failed ITO, GATT, and the WTO

The Marrakesh Agreement has its origins in the 1947 GATT agreement, which emerged from the Breton Woods[11] summit. It was there that the instruments for the creation of the World Bank, the International Monetary Fund, and the International Trade Organization (ITO) were negotiated to coordinate world growth. The principle underlying the ITO was that those nations that traded as stable partners had fewer incentives to destroy each other and go to war, given that the destruction of one's trading partner implied the destruction of one's own interests.

The 50 countries that started the negotiations wanted it to be a body within the United Nations that would create rules, not only on trade but also on labor, unfair trade practices, foreign direct investment, and services. With the change in the US Congress in 1947, it was impossible to implement the Havana Charter establishing the ITO.

When the ITO was not put into effect, it was decided to provisionally implement the annex to the Havana Charter (the GATT), which agreed to eliminate trade restrictions that restricted up to US$10 billion of trade or one-fifth of the world's total. A total of 23 countries signed the GATT 1947 agreement, thus clearing the way for its entry into force on June 30, 1948. Thus, the GATT lasted 50 years with a system that, although it established rules, favored discretion in their application and allowed several trade wars until the creation of the World Trade Organization (WTO).

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[9] Formed by the most relevant economic powers, it represents 65% of the world's wealth, including the US, Japan, Germany, United Kingdom, France, Italy and Canada. Russia joined in 1998 and led to change in its name to G8, but in 2014 it ceased to be part of the group in retaliation for the accession of Crimea, returning to its original name.

[10] The Group of Twenty or G20 was created in 1999 by the developed countries that make up the G7 and some developing countries. Its members are the US, Canada, Mexico, Germany, France, United Kingdom, Italy, Russia, Japan, China, South Korea, India, Indonesia, Turkey, Saudi Arabia, South Africa, Argentina, Brazil, Australia, plus the European Union bloc. After the 2008 financial crisis, world leaders sought multilateral solutions and held the first G20 Leaders' Summit in Washington, DC. Taken together, G20 members account for about 90% of global GDP, 80% of global trade and two-thirds of the world's population, as well as about 60% of all agricultural land and about 80% of global trade in agricultural products. After 2008, the G20 members collectively decided to stimulate their economies and refrain from protectionist measures, thus accelerating the end of the recession.

[11] Breton Woods had three world order components for peace and international economic cooperation: i) the reconstruction of what was destroyed by the war; ii) the creation of a mechanism to manage the global exchange rate pattern; and iii) the creation of an institutional framework to prevent economic autarchies.

The WTO, now made up of 164 members, is the gravitational center of trade and serves as the foundation and platform for the negotiation of complementary trade agreements. It comprises a set of substantive rules which seek to:

- Prevent trade-restrictive measures from being adopted in situations where they are neither necessary nor desirable but are imposed due to pressure from interest groups;

- Provide certainty and predictability to traders as to the national rules that apply to international trade in their products or services;

- To ensure that important societal values and interests, such as public health, the environment, consumer safety, minimum labor standards, economic development, and public economic morality, can be adequately protected and promoted;

- To strive for a greater degree of equity in international economic relations by establishing disciplines that bind economically powerful and economically weaker countries alike, allowing the latter to enjoy a fair share of the benefits of international trade.

The Doha Round is the most recent round of trade negotiations among WTO members (2001). It aimed to achieve a major reform of the international trading system by establishing measures to reduce barriers to trade, to review and update existing rules, and address concerns about the dispute settlement mechanism. The vast majority of the initiatives failed, and countries attempted to address trade concerns by means of trade treaties regulating new issues and deepening existing ones. As a result of this attrition of the round, which led to a second-best equilibrium represented by bilateral and regional trade agreements, international trade was diverted.

In terms of dispute settlement in the WTO, the recent opposition to the functioning of the system reached the point of definitively blocking the functioning of the Appellate Body in 2019: today, the WTO no longer has an Appellate Body. Some WTO members have developed a plurilateral alternative to give the possibility to appeal to a temporary tribunal, the Multi-Party Interim Appellate Arbitration Agreement.[12]

2. Trends: Major Trade Agreements

Trade agreements contain rules that allow access to markets, eliminating and reducing tariffs and non-tariff measures such as technical barriers to trade and sanitary and phytosanitary measures, regulating investments, trade in services, rules for determining the origin of goods and services, trade facilitation, government procurement, among others. Other agreements transcend traditional trade disciplines and cover new issues such as digital trade, new technologies, provisions on the protection of labor rights, the environment, gender, among others.

Other economic cooperation instruments and institutions exist to stimulate economic progress and world trade. These are forums of countries that offer a regulatory platform or a platform to compare policy experiences, seek answers to common problems, and identify good practices and coordinate the national and international policies of their members.

The following are the most relevant Free Trade Agreements and Customs Unions:

2.1 The European Union and its trade with the world.

The European Union (EU) is perhaps the most complex integration attempt. The Treaty on the Functioning of the European Union[13] states that the EU is a customs union and common market that promotes open, fair and sustainable trade.[14]The Union uses its trade policy to enforce its fundamental values (human dignity, freedom, democracy, equality and human rights, peace and the well-being of its peoples). Its single market is the most advanced exercise in regional economic integration today, with more than 500 million consumers. Trade openness has been necessary to foster job

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[12] Palau, Nicolas; Guarin, Gustavo, La crisis del Órgano de Apelación: no hay remedio, Revista contexto, diciembre 2020.Disponible en: http://acuerdosrevista.mincit.gov.co/articulos/la-crisis-del-organo-de-apelacion-no-hay-remedio.

[13] The inclusion of standards and values in trade agreements helps the EU to define globalization, especially on issues such as human rights, working conditions and environmental protection.

[14] https://ec.europa.eu/trade/policy/policy-making/

creation, the development of global value chains, productivity growth, innovation, and technology transfer. As of November 2020, the EU had 45 trade agreements in force with 77 countries,[15] including Economic Partnership Agreements (EPAs), Free Trade Agreements (FTAs), or Association Agreements (AAs). The EU also participates in integrated non-preferential trade agreements such as Partnership and Cooperation Agreements (PCAs). On the other hand, the EU has customs unions with countries such as Andorra or Turkey, which cover industrial products.

In the most recent agreements, the EU has modernized some standards and has sought bilaterally to set its standard and move the discussion to the multilateral level. Such is the case of the investment court as a counter-proposal to the current system of ad hoc arbitration panels to resolve investor-state disputes. It has also recently made progress in including new disciplines, such as those related to sustainable development (including environmental and human rights commitments), gender equity, support for MSMEs, among others.

2.2. The Canada-U.S.-Mexico Agreement

The Canada-US-Mexico Agreement (USMCA) is the Free Trade Agreement between these three countries replacing its predecessor, the 1994 "North American Free Trade Agreement (NAFTA)". The revision of the old treaty was pushed by US President Donald Trump in 2017 on the grounds that it was the worst trade agreement in US history.

The USMCA contains important provisions on rules of origin, customs administration, trade facilitation, government procurement, labor rights protection, intellectual property, digital trade, and investment.

2.3. Mega blocs

Trade blocs have gained a significant role in the functioning of the world economy and, in particular, international trade. The economic blocs have been strengthened through the so-called mega-trade agreements. They are international organizations that bring together a certain group of countries for the purpose of obtaining reciprocal benefits, especially through foreign trade and the advantages offered by the specialization of the economy. One of the most recent mega-agreements is the Continental Free Trade Area (CFTA), or Continental Free Trade Zone, the result of the African Free Trade Agreement between 55 members of the African Union.

The consolidation of the mega blocs was initially affected by the trade war between the US and China, and by US' renunciation of the TPP, even though it participated in the negotiation process. The latter led the remaining 11 countries party to the mega-agreement that put the CPTPP into force.

However, in November 2020, with the signing of the Regional Comprehensive Economic Partnership Agreement (RCEP), the mega blocs have once again gained significant importance in the world economy. The RCEP contemplates diverse areas such as regulation of polluting emissions, agricultural subsidies, intellectual property, services, among other disciplines that will undoubtedly impact world trade flows. On the other hand, it is to be expected that the US will not relinquish its leading role in the international arena and will reactivate its participation in the Trans-Pacific Partnership Agreement (TPPPA). Thus, countries that do not join the mega blocs will be at a disadvantage in the regulation of international trade.

In this context, there is a danger that the world economy will be polarized between two large mega blocs, and Colombia, like other Latin American countries, will be excluded from the new dynamics of world trade. The following chart shows an outline of the mega blocs and the position of Colombia and the Pacific Alliance (PA) in relation to them. As can be seen, Colombia is a member of the PA but is not part of the CPTPP or APEC, the latter of which our PA partners are members. This situation should lead Colombia to seek for alternatives to deepen its ties with Pacific countries under the aforementioned scenarios.

Graph 17. Trade Mega blocs Scheme

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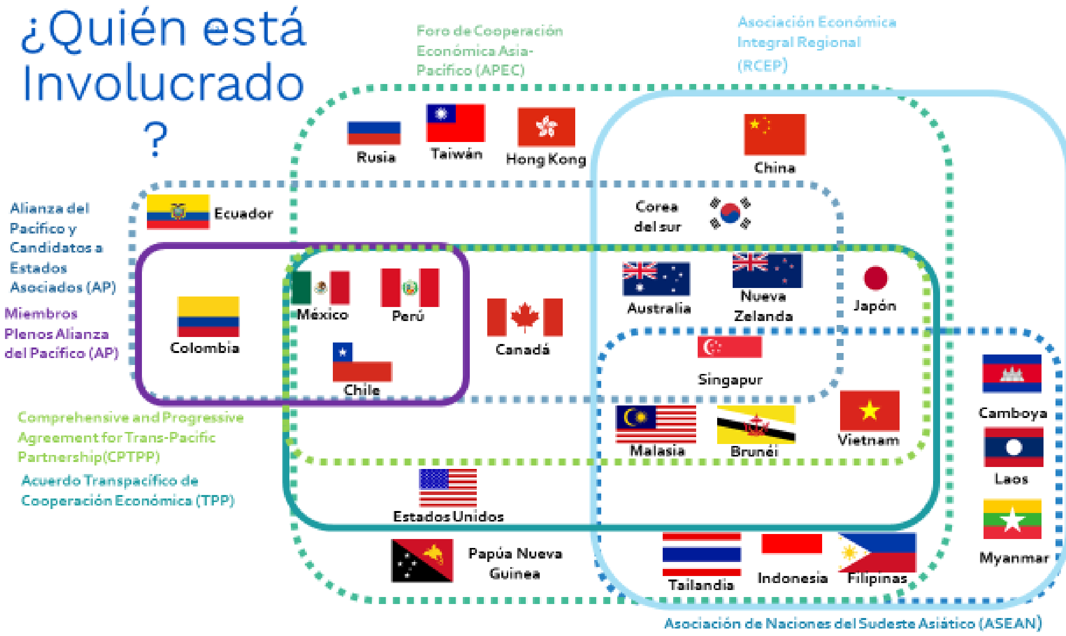
[15] Treaty on European Union and Treaty on the Functioning of the European Union, Article 3. https://eur-lex.europa.eu/legal-content/ES/TXT/?uri=celex%3A12012E%2FTXT https://trade.ec.europa.eu/doclib/press/index.cfm?id=2211



2.4 Latin America and the Caribbean

In Latin America and the Caribbean, the trade integration process evolved in different ways. The countries faced national, regional, and international challenges that marked their insertion dynamics. Although most of the integration processes started from the Latin American Integration Association - ALADI mechanism, many of them continued at their own pace.

Today Latin America has a large number of trade agreements that, in addition to tariff reduction, include sanitary and phytosanitary disciplines, technical standards, conditions of origin, among others. In addition, most of these new generation agreements also include disciplines aimed at stimulating investment flows, trade in services, access to government procurement, mobility of persons, environmental and labor issues.

Within Latin America and the Caribbean, Colombia went from a process of closed regionalism to one of economic openness in the late 1980s and early 1990s. Today it has 11 regional trade agreements with the Mercosur countries (Argentina, Brazil, Paraguay, Uruguay), the Northern Triangle (El Salvador, Guatemala and Honduras), Mexico, Costa Rica, Panama, Cuba, Venezuela, Chile, the Caricom countries, the Pacific Alliance and the Andean Community. The latter is the oldest integration mechanism in the region, with the participation of Bolivia, Colombia, Ecuador and Peru, and its integration model is considered an example for other integration schemes in institutional and regulatory matters.

Compared to other countries in the region, Colombia is one of the least integrated countries. Some countries in the region have taken advantage of integration mechanisms to expand their participation in global value chains, creating a network that allows them to reach more markets. Chile has 26 trade agreements, not only with a significant number of countries in the region but also in the Asian region, including South Korea, China, India, Japan, Australia, Malaysia, Vietnam, Hong Kong, Thailand, and Indonesia. Mexico has 21 trade agreements, mostly with countries in the Americas and with Israel and Japan. Peru also has 21 agreements, but with a greater diversification of partners, including Singapore, China, South Korea, Thailand, Japan and Australia. Finally, it should be noted that Chile, Mexico and Peru are part of both the CPTPP and APEC, integration initiatives with the Pacific of which Colombia decided not to be part.

Other Latin American blocs that have continued the integration process in the region are the Central American Common Market (CACM), Caricom, the Southern Common Market ("Mercosur"), and more recently, the Pacific Alliance, which brings together four of the most important economies in the region (Colombia, Chile, Peru and Mexico) with a particular focus on Asia-Pacific markets.

Regional regulations are determined within the framework of the Andean Integration System of the Andean Community (CAN). The CAN is made up of four member countries (Bolivia, Colombia, Ecuador and Peru), five Associate Countries (Argentina, Brazil, Chile, Paraguay and Uruguay) and two observer countries (Spain and Morocco). In terms of trade liberalization, the Cartagena Agreement −which created the CAN− contains a liberalization program that, among other things, seeks to eliminate restrictions on intra-subregional trade.

On the other hand, the Pacific Alliance (PA) was conceived with the purpose of integrating the economies of the member countries, Chile, Colombia, Mexico and Peru, with a view to becoming a platform for economic and trade integration with projection to the world, with special emphasis on Asia Pacific.

C. Trends and Challenges of International Trade

1. Economic nationalism, COVID, and the fight for world economic supremacy:

Defined as the preference for economic policies aimed at privileging national economic interests over foreigners, economic nationalism reappeared over the international agenda at the beginning of this century, given the economic crisis, and especially due to inequity in the distribution of wealth. Social nonconformity and anti-globalization sentiment were endorsed by different political parties, especially in Europe and the US, motivating crucial events such as Brexit and the Trump administration. These phenomena, among many others, led the world to a new trade scenario, framed by a commercial war between the US and China, a country in which another type of nationalism had been developed. The trade war, more than a tariff war aimed at protecting economies, is intended to obtain world economic supremacy. The new scenario has given rise to changes in the institutions of the international trading system, leaving consequences that are going to be difficult to repair.

The Trump Administration represents the essence of economic nationalism in the US. During the 2016 campaign, Trump met important unresolved issues in the country's agenda, such as the need to achieve energy autonomy, reduce dependence on international resources, and invigorate the manufacturing sector. He met with employers and workers' generalized discontent as well, who were exhausted by the tough competition from China and the inequality of the economic model.[16] Using a nationalist discourse, Trump achieved popular support and won the elections. Once in power, he implemented a shift in the country's paradigm regarding international trade, which ceased to be perceived as an instrument of global leadership, to become an instrument of internal stabilization and international supremacy. This shift in paradigm led to the framing US trade agreements as a zero-sum game, the addressing of trade defense based on unilateral policies, and the imposition of restrictions on imports.

Under the new paradigm, the US abandoned multilateralism, withdrew from the negotiations of regional trade mega agreements –e.g., TPP–, renegotiated the FTA with Korea, as well as with NAFTA, opened negotiations with the United Kingdom, Japan, and Brazil, among others, invigorated trade defense as an instrument to protect the national industry, even going against international commitments, made use of the extraordinary prerogatives of their trade laws, by implementing instruments such as the 232 investigations to impose safeguards for national security, or the 301 investigations to enforce other countries' international agreement commitments, and generated a trade war with

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[16] According to Manasa Gummi "The growing income inequality has been the biggest contributor to the growing skepticism of globalization. (…) In real terms, the current per capita household income in the US has returned to the level of two decades ago. Similar trends of increasing inequality in Western nations have led the average citizen to feel frustrated and deprived, despite overall national economic growth. This, in turn, has sparked a backlash against globalization and a shift towards protectionism." See in Gummi, Manasa. RETURN OF WESTERN NATIONALISM THREATENS INTERNATIONAL TRADE. Berkeley Public Policy Journal. November 23/2016

China. In this war tariffs have been used indiscriminately to restrict access to Chinese products, along with several specific actions such as the US' ban on its companies from doing business with some Chinese technology companies, given its closeness to the Chinese ruling party, the ban of Chinese investment in US' strategic sectors, the restriction of visas to Chinese students and so on.

In Europe, liberalism has been linked to the strengthening of welfare policies. For Colantone (2019) the impossibility of maintaining these policies by many countries is the main cause of the anti-globalization sentiment and the positioning of nationalism. However, it is not the only cause. Migration, European companies' sensitiveness to technological changes, and the negative experience left by two recent economic crises have been additional reasons for the presence of economic nationalism in countries such as the United Kingdom, Germany, and France, among others.[17]

According to Zettelmeyer (2019), there is a "growing feeling among EU politicians that the EU should do more to counter external threats. (…) The problem is that, in their eagerness to reject economic nationalism in China and the US, EU politicians have begun to defend their own brand of economic nationalism.[18]

In China, another kind of nationalism has emerged, according to which there is a lack of recognition for the achievements of the Chinese revolution and its race for world economic supremacy. This nationalism, which has been identified by many as an element of propaganda used by the Chinese government to gain popular support, is no less dangerous for globalization and international trade than the aforementioned. Whereas it is true that China is characterized by its pragmatism in economic management, it is also true that in different government strategies, such as the *Made in China 2025 plan*, language has been used to convey the intention of turning China into a goods self-sufficient country in the medium and long run. That could lead to a drop in the world trade levels. Moreover, China uses its nationalism to justify a series of actions, even illegal ones, such as "technology theft"[19], to take advantage in the trade war.

As a matter of fact, the trade war between China and the US goes far beyond the use of tariff policy to control the counterpart's imports. This war is driven by the rivalry between two opposing economic systems: one, autocratic and protected by the state; the other, a liberal democracy with a free-market approach. It is also driven by the desire to consolidate each of these systems as the world's supreme one. This type of rivalry is not new. In fact, according to Brunnermeier (2018), China uses many of the techniques used by Germany in the early twentieth century to contest English economic supremacy: state-led industrial policy, generous state contracts, civil-military integration, bans on rival products, forced mergers, search for third world markets and even international treaties to establish their standards.[20] The tariff policy, the backbone of the Trump administration's offensive towards China, appears to be only one component of the trade war, pretty bad played according to this author. For Brunnermeier (2018), raising tariffs on raw materials and/or intermediate goods could generate higher costs and make local industries less competitive, generating incentives for those industries to relocate in places where the raw material is cheap.[21]

The trade war is determined today by the use of deeper and more significant tools, tools that are directly related to economic power, such as the setting of international standards, particularly in ICT; the acquisition of technology through legitimate and even illegitimate means, such as intellectual property theft; the increase in R&D investment; the consolidation of financial power through international financial instruments, such as hard currencies, risk rating

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[17] Colantone Italo, Stanig Piero. THE SURGE OF ECONOMIC NATIONALISM IN WESTERN EUROPE. Journal of Economic Perspectives—Volume 33, Number 4—Fall 2019—Pages 128–151

[18] Zettelmeyer, Jeronim. THE TROUBLING RISE OF ECONOMIC NATIONALISM IN THE EUROPEAN UNION. Peterson Institute for International Economics. Online. March 29, 2019.

[19] Brunnermeier, Markus, Doshi, Rush and James, Harold. Beijing's Bismarckian Ghosts: How Great Powers Compete Economically. The Washington Quarterly. Fall 2018

[20] Ibidem

[21] Ibidem

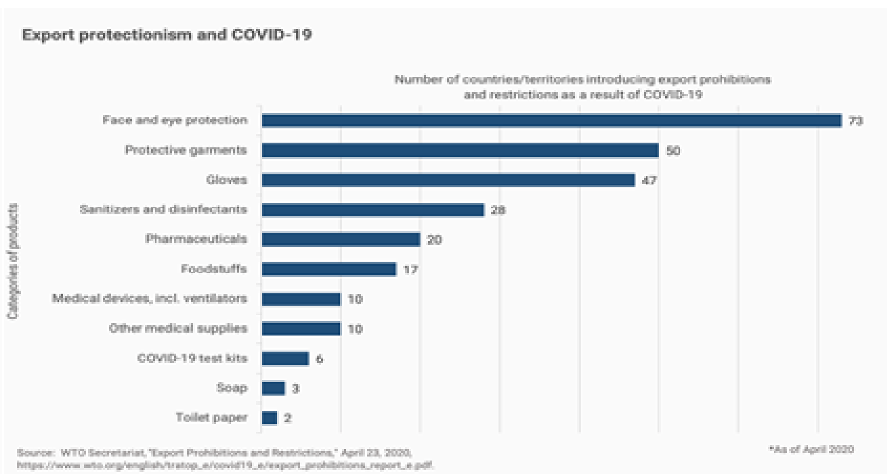
agencies, "own" interbank systems imposed on the world; and finally investment in infrastructure to facilitate trade, connectivity, and economic power projection.[22]

Increasing the use of these tools by the US and China will play a crucial role in world trade. Through them, these countries will generate networks of influence among other countries, which will remain aligned on one side or the other. A supporting strategy for this purpose will be the promotion of trade mega agreements.

In a worldwide scenario marked by nationalist movements, trade wars, and strategic alignment, the COVID 19 pandemic takes place, which ended up spreading economic nationalism among other WTO members. In fact, the organization has reported that members increased restrictions on exports of essential medical supplies and personal protective equipment, failing to comply with the notification commitments and the guarantee of temporality and transparency of said measures. The members have also been increasing internal measures to protect their food security.

The image below suggests that as of April 2020, there was a proliferation of measures to restrict exports of health care goods.

Graph 17. Protectionism and Covid 19



Moreover, the image below suggests that most measures aimed at restricting trade to protect economies against COVID 19's economic effects have been promoted by WTO countries.

Graph 18. WTO members and protectionism measures

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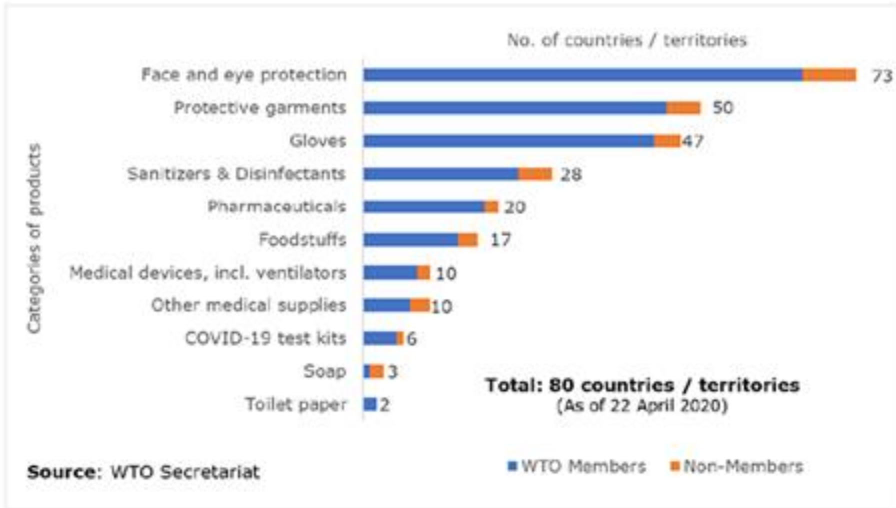
[22] Ibidem



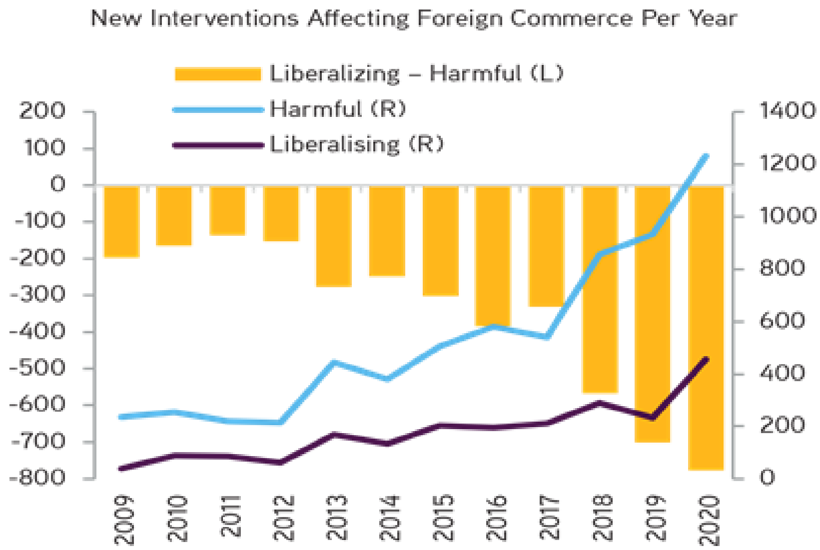
The image below suggests that protective measures have also included some aimed at guaranteeing countries' food security.

Graph 19. Food Price index evolution

Source: International Monetary Fund Primary Commodity Prices (January 2000-February 2020).

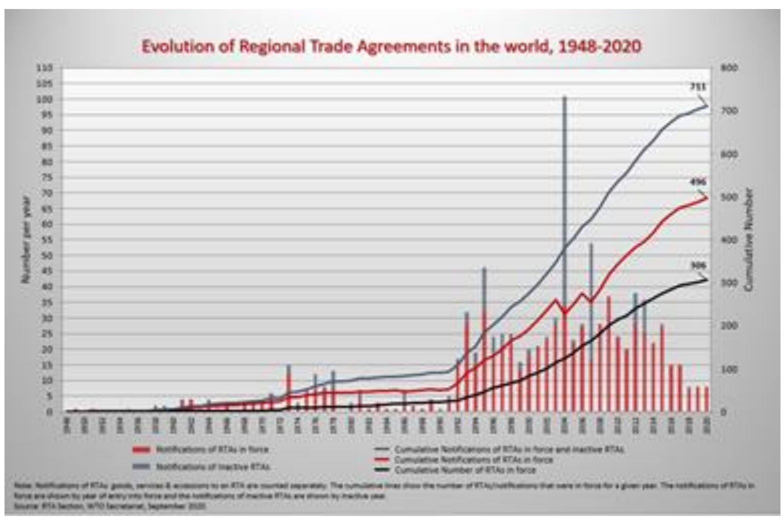
The above images are indicative that the integration into the WTO is currently contingent to the satisfaction of national interests. This is also reflected in the proliferation of trade measures and the collapse of trade negotiations.

Graph 20. New trade measures (interventions) affecting trade



Source: GlobalTradeAlert.org. October 8, 2020.

Graph 21. Trade negotiations evolution



Source: World Trade Organization, 2020.

The nationalist attitude within the WTO members, which is due to different causes, has had consequences for the system, even compromising its viability in the short and medium-term. The preponderant nationalism and focus of the great world economic powers in strategies of economic supremacy amid trade war have left the organization without leadership. For Solís (2020), the former world trade leaders have “abdicated their leadership to ensure their survival”[23]. According to the same author, China has omitted to assume such leadership, remaining in "a model of state capitalism that imposes high costs on other nations."[24] The two main world trade players, the US and China, which have even used illegal practices to consolidate their supremacy, have little interest in being tied to the rules of the multilateral organization.

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[23] Solís Mireya, THE POST COVID-19 WORLD: ¿ECONOMIC NATIONALISM TRIUMPHANT? Brookings.edu Julio 10 2020.
[24] Ibidem

Furthermore, the WTO may have institutionally evolved to its own detriment. Authors such as Van Grasstek (2013) highlight that the exercise of power in the WTO today is diffuse due to the proliferation of members. Meanwhile, the new players do not share the same historical and cultural background as the former leaders of the system. The rivalries between the old leaders and the new participants have made political agendas prevail over economic ones.[25]

Along the same lines, Rodrik (2019) has been insisting that the malfunctioning of the WTO could originate from what he calls "hyper-globalism"[26]. In order to deepen globalization, countries have been ceding policy space to multilateral organizations such as the WTO, "regardless of the consequences for their growth strategies, or social models". This situation leads to what he calls the "globalization trilemma", under which deep economic integration, democratic policies and national sovereignty cannot be achieved at the same time. Therefore, he has been claiming for a more nuanced version of globalization, where policy space is given back to countries and where the WTO would have to undergo structural changes.

The lack of internal leadership and an unfavorable institutional evolution are ultimately the causes of the WTO paralysis. For Van Grasstek (2013), today, "the possibilities that the World Trade Organization can carry out a multilateral round of trade negotiations to reduce tariffs in all areas and update trade and investment regulations are nil. (…) The WTO has also lost its central role as arbiter of trade disputes between its members."[27]

Perhaps the future of the WTO is based on the interaction of various networks of influence and the way in which they communicate. While these networks are consolidated and communication channels are established, the paralysis of the organization will tend to be a constant.

[25] Van Grasstek, Craig. THE HISTORY AND THE FUTURE OF THE WORLD TRADE ORGANIZATION. World Trade Organization, 2013.
[26] Rodrik, D. (2019), The Need for a Global Trade Makeover, Project Syndicate, December.
[27] Ibidem

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