Possible Enhancement of the World Trade and Investment Systems

by

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1. Introduction

Economic analysis tells us that voluntary free trade benefits both the exporting and the importing countries. It also tells us that direct investment, which is necessarily long-term in nature, and long-term portfolio investment benefit both the investor and the investee countries. So on this basis, both international trade and long-term cross-border investment should be encouraged and promoted. What new initiatives can be undertaken to enhance the growth of international trade and long-term cross-border investment, and in so doing enhance the growth of the world economy as a whole?

The United States, as the largest trading nation in the world, in terms of goods and services, and China, as the second largest trading nation in the world (the largest in terms of goods alone), can jointly provide leadership in global trade promotion initiatives. Similarly, the U.S. and China, as the two largest countries of origin as well as destination of foreign direct investment can also jointly provide leadership in facilitating cross-border direct investment.

Even though for the economy as a whole every trading country is supposed to have a net gain from international trade, trade does create both "winners" and "losers" inside every country. One vexing problem of long standing for governments worldwide is how to redistribute the gains from international trade among their citizens so that everyone, or almost everyone, receives a net benefit. Unless the "losers" can feel that they have also benefited

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from international trade, they will oppose the expansion of trade and further opening of the economy. This is a problem that we shall attempt to address in Sections 2 and 3 below.

The harmonisation of product standards is also a long-standing issue in international trade—if standards can become more harmonised, it will facilitate trade, reduce transaction costs and lower the prices of many imported goods. Another major issue is the redefinition of the rules of origin to take into account the fact that the same product is today processed at or includes components and parts from many different economies so that it cannot be properly considered to have originated solely from the location of the final assembly and packaging. There is a crying need for the revision and simplification of these rules and to base them on the relative value added of different economies to a finished product. The treatment of cyber trade is also becoming a hot issue as it has been increasing by leaps and bounds, both within as well as across economies.

The growing proliferation of free trade areas (FTAs) around the world also raises the concern that the world trade system may once again become fragmented. A mechanism for open accession by countries or regions which are not original signatories to specific free trade agreements will help to avoid the increasing fragmentation of the world trade system. There is also a need to facilitate long-term cross-border investment flows, especially considering the vast differences in saving rates and demographic conditions across different economies. Bilateral or multilateral investment treaties based on the principle of national treatment can be very useful in this regard.

Finally, it may be helpful to the reduction of global carbon emissions by imposing a global tax on imports that depend on the carbon content. The tax rate does not need to be high, but such a tax will send a signal that the entire world will be working together to prevent climate change. All of these issues will be discussed below.

This is the time for developing innovative ideas! This is the time to consider the next generation of enhancement of the world trade and investment systems!

2. Feasible Transitional Compensatory Taxes

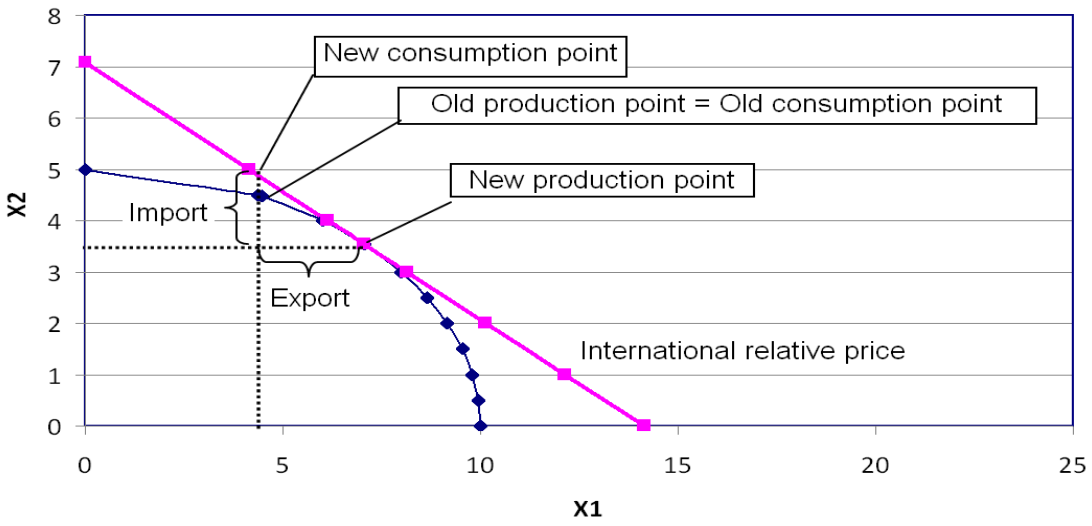
While economic analysis tells us that voluntary international trade between two trading partner countries always benefits both countries, the distribution of the gains from trade, or equivalently the terms of trade, between the two trading partner countries is not uniquely determined by the principles of comparative advantage alone but depends on the relative bargaining power of the trading partner countries themselves. Moreover, international trade does create "winners" and "losers" in each of the two trading partner countries. In principle, in each country, the gains of the "winners" should be larger than the losses of the "losers", so that it should be possible for the "winners" to compensate the "losers". However, in general, there does not exist a mechanism to redistribute part of the gains of the "winners" to the "losers". If there is a feasible scheme to tax the "winners" from international trade and use the proceeds to compensate the "losers" from international trade, then the resistance to an open economy as well as the protectionist sentiments in the country can be substantially reduced.

We shall try to show that there exist, in principle, feasible schemes to tax the "winners" and compensate the "losers". We begin by considering the simplest case when a previously autarkic economy decides to participate in the world economy. In this situation, total world trade can only increase and cannot decrease (unless all the other economies do not want to export to and import from this economy). Thus, the aggregate economic welfare of the world should increase. In Chart 1, we show how participation in the world economy can always expand the set of consumption possibilities for a previously autarkic economy. The economy is assumed to produce two goods, 1 and 2, represented on the vertical and horizontal axes respectively. The blue curve in Chart 1 is the frontier of the set of production possibilities of this economy. The area bounded by the blue curve and the two axes is therefore the set of production possibilities of the economy—the set of all possible combinations of the two goods, 1 and 2, that can be produced by this economy. If the economy is efficient, it should operate on the blue curve, the frontier of the set of production possibilities.

In the absence of international trade, the set of production possibilities of this economy is also its set of consumption possibilities. With the possibility of international trade, the set of consumption possibilities becomes the area bounded by the international relative price line (the pink line) and the two axes, as every combination of goods 1 and 2 on the international price line can be attained by a suitable combination of exports of one good

and imports of the other. It is clear that with international trade as an option, the set of consumption possibilities of the economy is significantly expanded, and the general economic welfare of the economy must therefore be significantly improved. In Chart 1, in the absence of trade, the old production point is the same as the old consumption point. With trade, the combination of goods 1 and 2 produced moves to the new production point. With exports of an appropriate quantity of good 1 and imports of an appropriate quantity of good 2, the new consumption point can be achieved. Note that the new consumption point is outside the set of consumption possibilities in the absence of trade. Since the economy can attain with trade a new consumption point that is previously unattainable, aggregate economic welfare of the economy must have risen, and the gains from trade should in principle be sufficient to enable everyone in the economy to be better off.

Chart 1: The Set of Consumption Possibilities (and Social Welfare) is Enhanced with Trade



However, this generally requires some explicit tax and transfer policy to redistribute income within the economy. The introduction of new international trade transactions will necessitate adjustments in each of the trading partner countries, as some industries will expand while other industries will contract, in each of them. In the case of our graphical example, as the economy moves from the old production point to the new production point, industry 2 will contract as industry 1 expands. The shareholders and the workers of industry 1 may be better off, and the shareholders and the workers of industry 2 may be worse off. There will therefore be both winners and losers within the economy.

But the exporters of good 1 are not the only winners. The consumers of good 2 are also winners because they will be able to pay a lower price for good 2. The consumers of good 1 are also potential losers because they may have to pay a higher price for good 1, although it is possible that expanding the total domestic production of good 1 may also bring down the cost and hence the price of good 1. In practice, taxing the winners to compensate the losers requires specific policy measures so that part of the gains from trade can be transferred from the winners to the losers.

First of all, as industry 1 expands while industry 2 contracts, in principle, the displaced workers from industry 2 can be re-employed in industry 1. (Operating on the frontier of the set of production possibilities actually implies full employment.) Of course, transitional assistance, such as unemployment benefits and retraining grants and subsidies, may be required. Unemployment benefits can and should be financed as part of the general social safety net, whereas retraining and re-employment grants and subsidies can be financed directly and/or indirectly through some kind of taxes imposed on the "winners". It would be the simplest to tax the "winners", with the proceeds going into general government revenue, and to pay for the transitional retraining and re-employment grants and subsidies directly as part of the general government expenditure.

Secondly, two different kinds of taxes on the "winners" will be needed. First, there should be a surtax on the increase in profits of the industry that benefits from the introduction of trade. Second, there should also be a surtax on the imported good which will be primarily borne by the consumers of the imported good who are also the beneficiaries of the introduction of trade.

In our example, industry 1 will have higher profits after the economy opens to the world, from its expansion of output due to increased exports and also possibly from the higher price or the lower cost of good 1 that it produces, and will therefore have to pay higher taxes on its profits. It is reasonable to levy an additional transitional surtax on the part of its profits attributable to the increased exports of good 1. It can be estimated as (the value of exports of good 1)[2]/(the value of total sales, domestic and export combined, of good 1)[3]×(total profits from the production of good 1)×t, where t, the rate of surtax on profits

[2] Strictly speaking, it should be (the value of exports of good 1 in period two minus the value of exports of good 1 in period one), but the value of exports of good 1 in period one is zero.
[3] Strictly speaking, it should be (the value of total sales, domestic and export combined, of good 1 in period two).

attributable to the increase in exports, is a fraction between 0 and 1. It is probably reasonable to set t to be somewhere between 0.1 and 0.25. This surtax applies only to the current period, in arrears, and only if exports of good 1 has increased during the period. In the subsequent period, if there is no increase in the exports of good 1 (either zero increase or a decrease), there is no surtax liability. The virtue of such a formula is that it can be easily applied at the enterprise level and it stops applying automatically when a steady state, that is, no additional period-to-period increase in exports of the good, is reached.

Industry 2 will have lower profits after the economy opens to the world, from its contraction of output due to increased imports and also possibly from the lower price or higher cost of good 2 that it produces, and will therefore pay lower taxes on its decreased profits. In addition, it may also need to lay off workers. As mentioned above, the displaced workers in industry 2 will need transitional assistance from the government to enable them to be retrained and re-employed, possibly in the expanding industry 1. While the workers in industry 2 are among the "losers", the consumers of good 2, who now enjoy a lower price, are among the "winners".

A transitional surtax can be imposed on each unit of imported good 2 to raise additional revenue to compensate the "losers". The tax rate should in principle be set equal to a fraction of the cost savings enjoyed by the consumers of imported good 2. The cost saving per unit of imported good 2 is equal to [(the average (ex factory) price of domestically produced good 2 in period one) − (the average price of imported good 2, c.i.f.[4])]. It is reasonable to set the tax per unit of the imported good to some fraction, perhaps somewhere between 0.1 and 0.25, of this cost saving. (The surtax is meant to apply to all imported good 2, not just the additional new imports of good 2 in the period.)

However, the surtax rate should be subject to adjustments under two conditions. First, over time, the total imports of good 2 may stop increasing. This means that the consumers of the economy are already well supplied with imported good 2 and do not benefit much from any additional imports, and the level of imports of good 2 has already reached a steady state and presumably is no longer causing any new damage to the domestic industry 2. Under these circumstances, it makes very little sense to continue to tax imports of good 2. Thus, one should also look at and take into account the rate of growth of total imports of good 2. The surtax should be imposed only if the rate of growth of imports of good 2 is positive in a

[4] Cost, insurance and freight.

particular period. Secondly, if imports of good 2 already constitute a very large proportion of the total domestic consumption (sales) of good 2, the benefits of additional imports as well as their potential harm to the domestic economy are only marginal, and the surtax will have very little meaning—there are scant new "winnings" worth taxing and little domestic industry left to be protected. Thus, the surtax rate should be multiplied by these two additional factors: first, the rate of growth of imports of good 2 in the previous period, and second, [1−(total imports of good 2)/(total domestic consumption of good 2)] in the previous period. Then the surtax rate per unit of imported good 2, t, will be some fraction of the following:

[(the average (ex factory) price of domestically produced good 2) − (the average price of imported good 2, c.i.f.)]×(the rate of growth of imports of good 2)[5]×[1−(total imports of good 2)/(total domestic consumption of good 2)],

where all the variables are valued at the immediately preceding period. In the event that the imports are coming in for the first time, the average price of imported good 2, c.i.f., will be substituted by the expected average price of imported good 2, c.i.f., the rate of growth of imports will be ignored, and the proportion of total imports in total domestic consumption will be zero.

Note that the surtax per unit of the imported good 2 is higher the higher the differential between the domestic price and the import price, the higher the rate of increase of imports of good 2, and the lower the share of total imports of good 2 relative to total domestic consumption of good 2. Thus, when imports of good 2 are no longer growing, the surtax rate is zero. When the share of imports in total domestic consumption is large, the surtax rate is lower. In the extreme case that there is no longer any domestic production of good 2, the surtax rate will also be zero. Note also that the pure substitution of imports from one economy with imports from another will not lead to any change in the surtax rate. In particular, the surtax rate will remain at zero if there is no overall growth in imports of good 2.

While some losers, such as the displaced workers in industry 2, can be directly identified and compensated, other losers, such as the shareholders of industry 2 and the domestic consumers of good 1, are more difficult to identify and compensate directly. They can, however, be indirectly compensated through a reduction of their other taxes if the

[5] However, this factor should be capped at 100%. If the rate of growth of imports is higher than 100%, it must have started from a very small base, and the other factor, [1−(total imports of good 2)/(total domestic consumption of good 2)], will be close to 1.

government adopts the principle of revenue neutrality—that is, it will reduce corporate and individual income taxes and/or rebates to taxpayers on a per capita basis up to a total amount equal to the sum of the surtax on profits due to additional exports and the surtax on the imports of good 2. We may refer to the reduction in taxes and/or the tax rebates as an "open economy" dividend, so to speak, for the entire population. In practice, the rates of both the surtaxes on the profits of the producers of good 1 due to the additional exports and on imports of good 2 can be calibrated to meet the domestic redistribution needs.

One may argue that these surtaxes violate World Trade Organization (WTO) rules. However, since both of these surtaxes are transitional and not permanent, they are not dissimilar in nature to the surge tax or the anti-dumping tax imposed on selected imports by some countries. Moreover, they only apply if there are increases in the exports and/or imports of the current year over the previous year. The surtaxes will lapse in the subsequent year if there are no increases in exports and imports in the current year. They do not constitute a permanent barrier to the growth in international trade over time. They merely serve a smoothing function facilitating the transitional adjustments within the domestic economy. They can and should be made acceptable under WTO rules.

3. Feasible Economy-Wide Generalised Transitional Compensatory Taxes

Thus far, we have only considered the case of two goods. In principle, the scheme described above can be generalised to apply to all goods. However, the transaction costs of having to distinguish each imported or exported good so as to tax it or increased profits due to it separately may be prohibitive, especially because the surtaxes are supposed to be only transitional. It is, however, possible to have a more feasible generalised approach to taxing the "winners" and compensating the "losers" as a whole, without reference to the specific goods.

First, since the surtax on the profits due to the additional exports of good 1 is collected at the enterprise level, it can be easily extended to cover the exports of all goods and services. Enterprises whose exports increase during the current period are "winners" from international trade in the current period, and hence they will be required to pay a surtax on any profits attributable to the increase in exports in the current period. Such profits can be estimated as [(the increase in the value of total exports, if any)/(the value of total sales,

domestic and exports combined)]×(total profits), all evaluated at the current period. The surtax payable is then the profits due to the additional exports in the current period for the particular enterprise times an appropriate surtax rate, t. Once again, if there is no increase in the exports of the enterprise in the current period, the surtax payable is zero. The rationale for taxing the "winners" is that they would not have been able to increase their exports and hence their profits from exports, if the economy were not open to increased imports, which created "losers", as well. The surtax on increased exports would be used to compensate the "losers" from increased imports.

Second, the generalisation of the surtax on the imported good to all imported goods and services is a little more complicated. The surtax on the imported good 2 considered in Section 2 is a specific one, levied as, say, so many dollars per unit of the imported good. The percentage cost saving to a consumer of imported good 2 is given by [(the average (ex factory) price of domestically produced good 2)−(the average price of imported good 2, c.i.f.)]/(the average price of imported good 2, c.i.f.)×100, ignoring for the time being any difference in the domestic distribution margins between the domestically produced and the imported goods. It is reasonable that the surtax be a fraction of the percentage cost saving and applied to the value of the imported good. For example, if the price of the domestically produced good is 200% of the price of the imported good, c.i.f., then the percentage cost saving is 100%. The surtax may be set at, say, 0.25 of the percentage cost saving, which is equal to 25% of the price (value) of the imported good.

For the economy as a whole, the total cost savings for consumers of the imported consumption goods and services may be estimated as:

$$\sum_i \frac{P_i^{\mathrm{D}} - P_i^{\mathrm{M}}}{P_i^{\mathrm{M}}} \cdot P_i^{\mathrm{M}} X_i^{\mathrm{M}},$$

where P_i^{D} is the average (ex factory) price of the domestically produced good/service *i*, P_i^{M} is the average price of the imported good/service *i*, c.i.f., and the summation is over all consumption goods and services *i* with a positive quantity of imports. The total cost savings as a percentage of the total value of imports of consumption goods and services are given by:

$$\frac{\sum_i \frac{P_i^{\mathrm{D}} - P_i^{\mathrm{M}}}{P_i^{\mathrm{M}}} P_i^{\mathrm{M}} X_i^{\mathrm{M}}}{\sum_i P_i^{\mathrm{M}} X_i^{\mathrm{M}}} = \sum_i \frac{P_i^{\mathrm{D}} - P_i^{\mathrm{M}}}{P_i^{\mathrm{M}}} S_i$$

where $S_i = P_i^{\mathrm{M}} X_i^{\mathrm{M}} / \sum_j P_j^{\mathrm{M}} P_j^{\mathrm{M}} = P_i^{\mathrm{M}} X_i^{\mathrm{M}} / V\mathrm{M}$, the value share of the imported good/service i in the total imports of consumption goods and services, and $V\mathrm{M} = \sum_j P_j^{\mathrm{M}} P_j^{\mathrm{M}}$, the total value of imports of consumption goods and services.

The surtax should be levied on the total value of imports of consumption goods and services, based on the average cost savings per unit value of total imports of consumption goods and services. If the surtax rate t is set equal to zero, then there is no revenue from the surtax on imports; if t is set equal to one, then the consumers will realise no cost savings from the imports. In general, the surtax rate t should be set equal to a fraction of the total cost savings—a value of t between 0.1 and 0.25 seems reasonable. In addition, the surtax rate should be modified by two factors, as in Section 2 above. The first factor is the rate of growth of the total value of imports of consumption goods and services in the immediately preceding period, if any, which is capped at 100% and does not apply when it is negative. If there is no increase in the value of total imports of consumption goods in the immediately preceding period, the surtax rate is zero. The second factor is the degree of importance of the imports of consumption goods and services in the total domestic consumption—the more important it is, the lower the surtax rate should be. Thus, the second factor, analogous to the result in Section 2 above, should be [1−(total value of imports of consumption goods and services)/(the total value of domestic consumption)]. The surtax rate on the value of imports of consumption goods and services will therefore be given by:

$\mathrm{t} \times \sum_i \frac{P_i^{\mathrm{D}} - P_i^{\mathrm{M}}}{P_i^{\mathrm{M}}} S_i \times$(rate of growth of imports of consumption goods and services in the previous period, if positive) $\times$ [1 − (total value of imports of consumption goods and services)/(the total value of domestic consumption), in the previous period].

Under this proposal, the imports of producer goods, including equipment, components, parts, and other intermediate and semi-finished goods, will not be taxed directly. This is based on the argument that these imports will be used by domestic enterprises in their domestic production, enabling them to have higher profits, on which they have to pay higher taxes. Thus, no additional taxes on the imports per se will be necessary.

However, it should be emphasised that this proposed scheme of internal compensation is predicated on relatively stable international trade patterns based on comparative advantage. Economies are expected to settle into a steady-state pattern of exports and imports over time, so that only transitory surtaxes and compensations are necessary. In order for this scheme of internal compensation to work properly and sustainably, the relative exchange rates between this economy and its major trading partners must be reasonably stable, reflecting the long-term relative economic fundamentals and comparative advantages. If there is high volatility in the relative exchange rates, so that in one period a country is a net exporter of a good, only to find that in the subsequent period it becomes a net importer of the same good, this internal compensation scheme will not work well. In any case, in order to promote long-term international trade and cross-border investment, the relative real exchange rates should be maintained at a reasonably stable level, which means speculative short-term capital inflows and outflows should be discouraged so that they do not cause unnecessary and unproductive short-term volatility in the exchange rates.

4. Intensification of Harmonisation of Standards

Harmonisation of standards of goods, services, and intangible goods such as software (including apps) can facilitate and hence enhance international trade and lower transactions costs as well as production costs (through the realisation of economies of scale). Moreover, harmonisation can greatly increase cross-border cyber trade, especially at the level of the individual consumers. Harmonisation can also assure product quality, enhance product safety, ensure compatibility and thereby broaden and enhance consumer choice (e.g., food and beverages, drugs, vitamins).

A lack of harmonisation is an implicit and invisible barrier to trade. Efforts should be made to enhance harmonisation of standards worldwide. For example, it may be worthwhile to promote the use of universal electrical outlets, dual-voltage personal appliances, dual-temperature clinical thermometers, and the metric system. Over time, perhaps all personal electrical appliances should become usable everywhere without the use of adaptors, and the world may finally shift over completely to the Centigrade temperature scale and the metric system (which is supposed to have happened already).

5. Redefinition of the Rules of Origin

With globalisation, the international fragmentation of production through geographically dispersed supply chains, and the growth of bilateral and multilateral free trade agreements, the rules of origin have become critical in determining whether a given good being imported is considered to have been produced in a given country. This determination has important implications on the applicable import tariff rates or quotas, which may make or break the importing of such a good into the importing country.

Current rules of origin have been designed by lawyers rather than traders and economists. They are completely unwieldy and difficult to apply and frequently result in high transactions costs. For example, a pair of jeans could criss-cross between Hong Kong and the mainland of China quite a few times in order to establish its Hong Kong origin during the period from 1974 through 2004, in which world trade in textiles and garments was governed by the Multi Fibre Arrangement (MFA).

One fundamental principle for a new set of "Rules of Origin" is that they should reflect and correspond to the relative value-added in each "origin". The wide divergence between the gross value of a finished product being exported and its value-added by the exporting country suggests that it would be unfair to treat such a product as originating from the country of final assembly and packaging for tariff, quota and trade surplus/deficit calculation purposes. Instead of a single country of origin, there should be multiple "countries of origin", reflecting the fact that the finished product being imported may have incorporated imported intermediate inputs or been processed elsewhere.

For example, an Apple iPhone may have its core microprocessor made in South Korea, its screen made in Taiwan, its software and underlying intellectual property created in the U.S., and its final assembly and packaging in China. The value-added by each economy can hypothetically be allocated as follows: U.S., 50%; South Korea, 20%; Taiwan, 15%; China, 10%; and the rest of the world, 5%. Thus, in this example, the countries of origin are the U.S., South Korea, Taiwan and China. Customs duty, if any, is to be assessed according to different rates applying to each of the different countries of origin. To simplify the calculations, it is proposed that any country of origin accounting for less than, say, 5% of the value-added will be ignored, with the shares of the remaining countries blown up to total 100%.

Thus, when the iPhone is imported into any country or region other than the four above, the tariff rate will be based on the tariff rates applicable to the import of an electronic equipment like the iPhone from each of the four countries of origin, multiplied by the respective adjusted shares of value-added. When the iPhone is imported to one of the four countries of origin, the formula for the calculation of the applicable tariff rate is the same, except that the tariff rate is zero for imports of value-added back into the original country in which the value-added is created. Thus, for example, for imports of the iPhone back into the U.S., the tariff rate will be based only on the tariff rates of the imports of similar electronic equipment from the other three countries of origin into the U.S. With these estimates of value-added, the exports to and imports from one country to another, and the trade surplus/deficit between them, can be calculated entirely in terms of value-added rather than the more misleading gross value.

Of course, for the world as a whole, the sum of all the value-added exports of the different countries should be the same as the gross value of total world exports. A question may be raised as to how the shares of value-added may be calculated. Since value-added taxes are used in many jurisdictions and are reimbursed upon exporting (with the major exception of the U.S.), the domestic value-added of each exported good in each economy is known. Moreover, the values of the imported intermediate goods or processed goods used in the production of the exported good are also known as claims that will be filed for the reimbursement of the tariffs and value-added taxes paid at the time they were imported. Thus, the value-added accounting of exports should not present an obstacle, as the necessary data are already available.

6. Reciprocal Exemption of Individual Cyber Trade

International trade is increasingly conducted on the internet. There is the question of whether this international cyber trade should be subject to import tariffs and quotas in the same way as the more conventional trade. Moreover, how should the sales and purchases of intangible goods such as software (e.g., apps), e-books, e-music and e-movies through direct downloading be treated? In principle, cyber-imports should be treated in the same way as regular imports. However, at the level of the individual consumers, the transaction costs of the data collection and tariff calculation and enforcement are probably so high that they will

not be worthwhile for the customs authorities. In addition, any such regulation and enforcement will definitely impede the growth of international e-commerce.

What can be considered, going forward, is a possible bilateral or multilateral voluntary agreement among countries and regions to exempt the purchases of each country or region's own individual citizens or residents from the cyber vendors of the other countries through the internet if they are for their own exclusive personal private use from the application of the relevant import tariffs and quotas. However, the exemption should be on an individual (real-name) basis, subject to a maximum value limit during a given period. For example, it should not be possible for an individual consumer to purchase an automobile across the border on the internet and thereby avoid the tariff payment and quota restrictions.

7. Open Accession to Free Trade Agreements

The world is now faced with a proliferation of free trade agreements, for example, the North American Free Trade Agreement (NAFTA), the ASEAN Free Trade Agreement (AFTA), the Regional Comprehensive Economic Partnership (RCEP)[6], the Transatlantic Trade and Investment Partnership (TTIP)[7], the Trans-Pacific Partnership (TPP)[8], and numerous bilateral free trade agreements. Many of these FTAs have overlapping signatory countries but are not in general compatible or consistent with one another. Such fragmentation of free trade agreements can actually impede the growth of world trade. Provision should therefore be made for a country that is not an original signatory to accede to an existing free trade agreement without necessarily having to negotiate its accession from scratch, which can be difficult and time-consuming.

How can open accession work? Starting from an existing bilateral free trade agreement, a third country should be able to voluntarily accede to the agreement by agreeing to comply with all the rules and regulations on its imports to the two existing signatory countries (including those applying to tariffs and quotas) as provided in the existing

[6] The Regional Comprehensive Economic Partnership (RCEP) is a proposed free trade agreement between the Association of Southeast Asian Nations (ASEAN) (Brunei, Myanmar, Cambodia, Indonesia, Laos, Malaysia, the Philippines, Singapore, Thailand, and Vietnam) and Australia, China, India, Japan, South Korea, and New Zealand.

[7] The Transatlantic Trade and Investment Partnership (TTIP) is a proposed free trade agreement between the European Union and the United States.

[8] The Trans-Pacific Partnership (TPP) is a proposed free trade agreement led by the United States and which currently intends to include Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam.

agreement. Moreover, the restrictions on imports from the two existing signatory countries into the third country should also be no more stringent than the less stringent of the restrictions imposed by the two existing countries on their imports from each other. Then the only matters left for the third country to negotiate with the two existing signatory countries would be on goods and services not covered in the existing bilateral free trade agreement.

What should be done if the existing free trade agreement is multilateral? The same principles should apply. The country wishing to accede to the agreement should accept all the import rules and regulations of each of the existing signatory countries under the agreement. Moreover, the acceding country should only maintain restrictions on its imports from the existing signatory countries that are no more stringent than the least stringent rules and regulations imposed by the existing signatory countries. Of course, for goods (and services) not covered in the existing free trade agreement, negotiations with the existing signatory countries would once again be necessary.

With the possibility of open accession, a country can pick and choose from among the existing free trade agreements and decide which one(s) it wants to join. There will also be some room for competition among the various free trade agreements. And hopefully, the world may eventually settle down to a relatively small number of multilateral free trade agreements.

8. Investment Treaty Based on National Treatment

A natural principle for bilateral investment treaties is "national treatment". A foreign direct investor should be treated no differently from a domestic investor, no better, and no worse. This will assure a "level playing field" for all. It is, however, probably necessary to have a national security exclusion in these investment treaties. For example, there may be percentage ownership restrictions (including zero) on foreign direct investment in the domestic armament industry, the telecommunication industry, or the public utility industries such as power and transportation. This exclusion should probably be reciprocal between the two bilateral signatory countries. Such an exclusion is likely to be acceptable to all but should be specified explicitly a priori rather than applied on an ad hoc basis. Of course, the investment treaty should also provide for the mutual protection of the property and other rights of the investments by the nationals of the signatory countries, including appropriate compensation in the event of nationalisation. In addition, it is also customary for such

investment treaties to include provisions for the avoidance of double taxation by both the investor and the investee countries.

Multilateral investment treaties can also be based on the principle of "national treatment". There should also be provision for the possibility of open accession by a third country to a bilateral or multilateral investment treaty as discussed in Section 7 above.

9. A Global Carbon Tax?

Finally, as the reduction of carbon emissions and the prevention of global warming and the resulting climate change have now become a global objective, it may be helpful for the world to agree to assist in such efforts. One possible idea is for all economies to impose a global carbon tax on imports that is based on the direct carbon content of the imported goods. The tax rate does not need to be high, but such a tax will send a clear signal that the entire world will be working together to prevent global warming and climate change.

10. Concluding Remarks

While I sincerely hope that the Doha Round of trade negotiations can be successfully completed, I believe we should also begin to think ahead and consider the next generation of possible enhancement for the world trade and investment systems for the good of the entire world.