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The Economic Rationale for International Trade Law

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WORLD TRADE
ORGANIZATION



World Health
Organization

Emerging Politics in International Trade

- **Free Trade:**
 - Based on the Theory of Comparative Advantage
 - **Fair Trade:**
 - Development
 - Distribution
 - Special & Differential Treatment and more.....
 - **Sustainable Trade:**
 - Environment: Climate, Natural Resource,
 - Social: Labor, Diversity, Culture,
 - **Resilient Trade:**
 - Economic Security
 - **Weaponized Trade:**
 - Geopolitical Confrontation
 - Main Power Rivalry
- Does Politics Prevail Economics?**

Basic Economics for International Trade

- **Expected Utility Theory:** Parties make choices based on their expected utility (i.e. expected benefit – expected cost)
- **Pareto Optimal:** Transactions bring parties to a win-win scenario, where both parties are better-off
- **Comparative Advantage Theory:** international trade allows countries to export the products or services that they can produce most efficiently and import those that they cannot produce efficiently, enhancing the overall welfare of both countries from a comparative opportunity cost perspective

A “Tail Risk” Perspective

- Fairness, sustainability, resilience, and politics, in general, are **risks** in nature
- These risks bear the **long-term “tail risk”** nature, which are theoretically anticipated yet ignored in practice
 - They are less objectively observable
 - Their ripple effect is too minimal in discounted terms
- **But they are real risks that should be accounted for in the economics of international trade.**

The Economic Justifications

- Risks are part of the parties' expected utility
 - Their actual effect on expected utility depends on the parties' risk attitude (risk-averse, neutral, or pursuing)
- Risks reduce the expected utility of trade and thus reduce trade
 - Some risks **discount the expected benefit** of international trade
 - Some risks (like economic security risks or political risks) entail **additional expected costs (such as hedging costs)**
- Some risks (like sustainability risks) are **negative externalities**
 - Trade should be reduced, considering these externalities

Identifying the Real Problem

- Economically, international trade **should be compromised** to some level, considering these tail risks
- The real problem is **risk assessment**, i.e., how to assess the existence and level of these risks to prevent abusive protectionism?
 - The existing WTO dispute settlement could be ill-equipped
 - Simply deferring to the Member's discretion could lead to abuse and protectionism
 - Other ADRs (like mediation)?

Concluding Remark

Politics does not prevail over economics;

But we need better economics.....



Thank You! 謝謝!