



**International Discipline of Government Subsidies:  
An Assessment of Current Rules and Possible Reforms**

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# Reform of Subsidy Rules

- Why?
  - Proliferation of industrial subsidies
  - Widespread perception that existing disciplines inadequate or ignored
  
- Our paper: A political economy perspective: focus on **international externalities**
  - Not only externalities to aggregate welfare
  - Rather, externalities to political actors
  - Takes focus away from “legitimate” subsidies

# Broad Questions that We Address

- ❑ Broad approach: Minimalist or regulatory?
- ❑ Broad approach: Rules of general applicability or sector-specific agreements?
- ❑ How should subsidies be defined and measured?
  - ❑ Specificity?
- ❑ What types of expenditures more/less likely to generate negative international (political) externalities?
- ❑ Prohibited subsidies? Safe harbors? Quantitative limits?
- ❑ Remedies?

# Why do Governments Subsidize?



- Address market failures: externalities, price rigidity, noncompetitive behavior, asymmetric info
- Strategic subsidies
- Distributional or Non-Economic Objectives: equity, ethnic regional + national security, public health, supply chain resilience
- Political Objectives: induce support, political endorsement, swing voters, reward loyalists

# What Are the International Spillovers?



- ❑ Terms-of-trade externalities
- ❑ Non-pecuniary externalities (positive and negative)
  - ❑ Environmental
  - ❑ International knowledge spillovers
  - ❑ Others: Over-fishing, water use ...
- ❑ Systemic externalities
  - ❑ Subsidies regarded as unfair source of competition
  - ❑ Undermines legitimacy of liberal trading
- ❑ Political Externalities

# Broad Approaches to Subsidy Rules



- *Laissez Faire?*
- General vs. Sectoral Approaches
- Conceptual Challenges in Defining a Subsidy
- State-Owned Enterprises?

# Subsidies in GATT/WTO Law



- ❑ National treatment obligation contained an exception for *producer* subsidies, but new and unexpected subsidies actionable
- ❑ CVDs
- ❑ SCM Agreement: Definition, Prohibited, Actionable, Safe Harbor
- ❑ Agriculture: Green box, blue box, amber box

# New Rules of General Applicability?



- New prohibited subsidies?
- New safe harbors?
- Permit subsidies with little cross-border effect?
- Actionable non-specific subsidies? Not with general applicability
- Support limits? Not with general applicability
- Remedial Measures



# New Sectoral Rules?



- Sympathetic here to red/amber/blue/green approach
- Open to broader coverage of actionable non-specific subsidies on a sectoral basis
- Open to support limits on a sectoral basis