Strengthening the Conditions for Global Cooperation on International Trade

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<tr>
<td>AB</td>
<td>Appellate Body</td>
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<tr>
<td>BRI</td>
<td>Belt and Road Initiative</td>
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<td>CFTA</td>
<td>Continental Free Trade Agreement</td>
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<td>CPTPP</td>
<td>Comprehensive and Progressive Agreement for Trans-Pacific Partnership</td>
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<td>EU</td>
<td>European Union</td>
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<td>GATT</td>
<td>General Agreement on Tariffs and Trade</td>
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<td>GDP</td>
<td>gross domestic product</td>
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<td>MC11</td>
<td>WTO Eleventh Ministerial Conference</td>
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<td>MSME</td>
<td>micro, small and medium-sized enterprise</td>
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<td>NAFTA</td>
<td>North American Free Trade Agreement</td>
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<td>PTA</td>
<td>preferential trade agreement</td>
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<td>RCEP</td>
<td>Regional Comprehensive Economic Partnership</td>
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<td>SDG</td>
<td>Sustainable Development Goal</td>
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<td>TFA</td>
<td>Trade Facilitation Agreement</td>
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<td>TiSA</td>
<td>Trade in Services Agreement</td>
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<tr>
<td>TTIP</td>
<td>Trans-Atlantic Trade and Investment Partnership</td>
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<td>TTP</td>
<td>Trans-Pacific Partnership</td>
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<tr>
<td>UK</td>
<td>United Kingdom</td>
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<td>US</td>
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<td>WTO</td>
<td>World Trade Organization</td>
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ABSTRACT

The current trading environment is inadequately supportive of the Sustainable Development Goals, with much debate centred on the directions the world economy has taken in recent years. Despite a pickup in growth across most regions and positive energy coming from the negotiation of preferential trade agreements, protectionist forces are resurgent, with some of the fundamental principles of the multilateral trading system being questioned and important functions of the World Trade Organization under threat. In the current environment, a constructive contribution from all countries is required to manage tensions in a way that avoids fragmentation, helps to improve the functioning and effectiveness of the global trading system, and leads to strengthened conditions for greater global trade and investment policy cooperation.
1. LEVERAGING TRADE FOR THE SUSTAINABLE DEVELOPMENT GOALS

Trade is a critical contributor to growth, helping to boost incomes, create jobs through new market access opportunities, and reduce poverty. As such, trade plays a key role in the delivery of the Sustainable Development Goals (SDGs).

First and foremost, trade is central to eliminating poverty (SDG 1), but it is also relevant to the attainment of most if not all SDGs, including those relating to zero hunger (SDG 2), good health and well-being (SDG 3), decent work and economic growth (SDG 8), life below water (SDG 14), and partnerships to achieve the goals (SDG 17).

Trade-related policies can play, both directly and indirectly, a key role in achieving the SDGs and can do so through multiple channels. For example, international trade in food products can help end hunger by securing access to food in times of domestic shortages. Trade opportunities provide incentives for farmers and countries to invest in agriculture and adopt new technologies. Trade rules, for instance on trade facilitation, can directly lower trade costs and increase market integration, providing a buffer for domestic fluctuations in food supplies that can stabilise food prices, increase returns to farmers, and reduce consumer prices. And of course, as food insecurity is inextricably linked to poverty, trade is also essential to development and poverty reduction.

The question is therefore not whether we need trade to achieve the SDGs but how we can best leverage trade in the current context. This is an important discussion. Multilateral development banks are revising strategies and strengthening their capacity to mobilise finance for development in a significant effort to leverage contributions from donors and crowd in other sources of finance, especially from the private sector. The time has come for the trade community to step up its game and commit to meaningfully leveraging trade and trade policy for development.
2. THE CHALLENGING GLOBAL ENVIRONMENT ON TRADE

The current trading environment is inadequately supportive of sustainable development outcomes, with much debate centred on the directions the world economy has taken in recent years. Decision-makers are today prompted to re-examine the evidence on the role trade and investment play in the global economy. Despite a pickup in growth across most regions, protectionist forces are resurgent, with some of the fundamental principles of the multilateral trading system being questioned and important functions of the World Trade Organization (WTO) under threat. We are in the midst of a major shock to the global trading system.

In 2017, growth in the volume of world trade in goods and services is estimated to have climbed to 4.3 percent, the fastest rate since 2012, mirroring the pickup in economic growth in both developed and developing countries (Figure 1). Trade grew faster because real gross domestic product (GDP) grew faster, with the rebound in global investment growth, recovering commodity prices, and import growth in Asia driving this improved trade performance. Yet structural factors, most notably the maturation of global value chains and the slow pace—and risk of reversal—of trade opening, still limit world trade growth and render the prospects of a sustained recovery uncertain (Constantinescu, Mattoo, and Ruta 2018).

Meanwhile, technological change of tectonic proportion, through increasing adoption of industrial automation, advanced robotics, smart factories, the internet of things, 3D printing, and artificial intelligence, is already bringing major changes to the global economy, to patterns of trade and investment, and to prospects for insertion and participation in the resulting division of labour. These disruptive trends have only just begun to be felt and are likely to intensify.

In addition, prospects for trade and investment liberalisation at the global level have weakened significantly in the wake of longer-run trends of diminished trade opening since the early
2000s. There are signs of hope, however, with renewed energy in the negotiation of preferential trade agreements (PTAs), an issue addressed below.

The United States’ (US) repositioning on trade policy embodies the rise in protectionist rhetoric. Anchored in notions of fair and reciprocal trade, it proceeds under the pursuit of a reduction in bilateral trade deficits as an organising principle. Key decisions taken to date include the country’s withdrawal from the Trans-Pacific Partnership (TPP), the suspension of talks towards a Trans-Atlantic Trade and Investment Partnership (TTIP) with the European Union (EU) and of plurilateral negotiations on a Trade in Services Agreement (TiSA), the renegotiation of the North American Free Trade Agreement (NAFTA), and a revision of targeted provisions in the Korea-US Free Trade Agreement. The above actions have been taken alongside a marked increase in the initiation of unfair trade investigations, including the revival of long-dormant unilateral contingent protection instruments. More recently, the administration has floated the idea of a “reciprocal tax” on trade aimed at levelling off tariff rates applicable to US products in foreign markets.

Elsewhere, but with equally challenging effects on trade cooperation, the United Kingdom’s (UK) post-Brexit repositioning involves the dismantling of deep integration ties with the EU and agreeing on new rules of engagement for a future partnership. Should the final arrangement lead to the UK exiting the Customs Union, it would also need to replicate or renegotiate the approximately 40 PTAs that came with EU membership. These ongoing works in progress add to lingering policy uncertainty.

Last but not least, the WTO faces systemic threats. To be sure, the greater complexity in the trade policy landscape has challenged its negotiating function, which has been adrift for some time. As the WTO agenda has become increasingly complex, with an expansion in the number of subjects, countries, and policy trade-offs, the principle of “single undertaking” under which decisions among an increasingly diverse membership are taken has made it almost impossible to reach agreement. Members have responded by adapting to the new challenges, through a mix of more narrowly focused negotiations (such as the Government Procurement Agreement), plurilateral negotiations conducted on a critical-mass basis (such as the expanded Information Technology Agreement), and even through more universal ones, like the Trade Facilitation Agreement (TFA). While lacking on several fronts, the latest WTO Ministerial Conference held in Buenos Aires (MC11) saw members commit to concluding negotiations on fisheries subsidies by the next ministerial meeting and several groups announcing more structured discussions aimed at future plurilateral negotiations on e-commerce and investment facilitation, among others.

Much current attention is focusing on the WTO’s unique dispute settlement function, whose Appellate Body (AB) has come under increasing criticism. The US objects to the creation of law through legal rulings that impose new obligations on members. There is the perception that on issues such as subsidies, dumping, and safeguards, panels and the AB have arguably been used as a substitute for negotiations (World Economic Forum 2017a). There are also some questions around processes and practices of the dispute settlement system, which could nevertheless be addressed using existing review mechanisms. In a controversial move, the US is blocking the nomination of three—soon to be four—members of the AB, effectively leading to the paralysis of the system. No specific demands for reform have been tabled. Meanwhile, the caseload continues to increase.

Underlying the current tensions is the issue of whether the multilateral trading system is equipped to manage and mitigate pressures arising from the rise of China and its distinct economic structure. The WTO has already demonstrated its effectiveness—between 2006 and 2015, over a quarter of its caseload involved China as a complainant or as a
respondent. Its continued efficacy, however, will be tested in the years ahead as it will be called on to adjudicate on some China-related trade practices. Commentators worry that this may require a stretching of WTO rules via interpretation or that some of those practices may fall outside of its jurisdiction (Wu 2016).

There is today a risk that increased trade frictions lead to a disintegration of trade ties and inflict lasting damage on the trading system. In this context, leveraging trade for development calls for increased political will and pragmatic engagement from all members to improve the system as needed.
3. SOURCES OF POSITIVE ENERGY

Despite the challenges confronting global trade governance, there is still positive energy in the form of renewed and pro-active leadership on PTAs on the part of the EU, Japan, China, and others.

The EU is leading a broad expansion and modernisation of its already extensive PTA network, with recent agreements with Viet Nam, Canada, Japan, and, maybe soon, Argentina, Brazil, Paraguay, and Uruguay (Mercosur), among the most prominent. By pursuing a strategy whereby the best defence is a good offence, the EU is bringing greater predictability to global trade and investment ties.

In Asia, countries are also moving forward. Japan has taken a lead role in resurrecting the TPP after the US withdrawal. With the suspension of only a few of its provisions, the TPP, now renamed the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), was signed on 8 March 2018 by all 12 of the original members minus the US, producing de facto 18 new PTAs among CPTPP signatories. At the same time, the EU-Japan PTA—expected to be signed in June or July 2018—represents a very significant commitment to economic cooperation between two trade heavyweights (Jean 2017). Other important negotiations are also proceeding, including the Regional Comprehensive Economic Partnership (RCEP) and the Japan-China-Korea PTA in Asia.

Asia continues to upgrade and deepen existing PTAs and engage in new agreements with non-Asian partners. Other regions are actively engaged as well. African countries signed the Continental Free Trade Agreement (CFTA) on 21 March 2018 at an extraordinary summit of the African Union, building on the regional economic communities to liberalise trade. In Latin America, there is great excitement around the potential Mercosur-EU agreement and the continued strengthening of the Pacific Alliance encompassing Chile, Colombia, Mexico, and Peru, who are now negotiating “associate membership” with Australia, Canada, New Zealand, and Singapore.

China’s Belt and Road Initiative (BRI) is beyond and above PTAs. It is the most ambitious initiative to promote deeper regional economic integration, the supply of a host of regional public goods, and enhanced connectivity on a transcontinental scale. It involves “hard” infrastructure along six overland corridors and the twenty-first-century Maritime Silk Road, “soft” infrastructure to enhance efficiency and facilitate economic flows, and policy reforms and institution-building to promote trade and foreign direct investment among the 70 or so participating countries. There is now talk of expanding it to Latin America or to the Polar Silk Road.

The EU, Japan, China, and others have proactively picked up the baton and are today leading the world towards greater trade cooperation. This is a sign of the new times. Such leadership is welcome. It is doing a lot of good by itself. But it is also instrumental in keeping the door open for when others may be ready to come back in. In addition, the cost of being left out is greater in a cooperative relative to a divided world, such that the leadership displayed increases the likelihood that others may be willing to re-engage tomorrow.
4. WHERE TO NEXT?

In the current environment, the main question to be confronted is how to manage tensions in a way that avoids fragmentation, helps to improve the functioning and effectiveness of the global trading system, and leads to strengthened conditions for greater global trade and investment policy cooperation in the future.

The agenda going forward can be organised around three key elements: mutuality of benefit, bringing benefits to all, and channelling preferential energy to the global level.

4.1 Mutuality of Benefit

In analysing the ongoing repositioning of the US vis-à-vis the multilateral trading system, WTO Deputy Director General Alan Wolff recently wrote that the emphasis of the new policy is on mutuality of benefit (Wolff 2018). If mutuality of benefit is to be understood as enhanced cooperation for the benefit of all countries, then at the WTO level this requires re-energising, not weakening, all WTO functions, including negotiations, monitoring, and dispute settlement.

Recent advances have demonstrated avenues for advancing multilateral trade cooperation in the area of negotiations. The last two WTO ministerial conferences delivered the TFA, expanded an Information Technology Agreement to include tariff cuts on newer technology products, and pledged to eliminate agricultural export subsidies. The TFA showed that an approach aligning the assumption of trade obligations with support for the capacity to do so is an effective approach to global rule-making that can be applied in other areas. The Eleventh Ministerial Conference held in Buenos Aires in December 2017 revealed the commitment of members to continue to debate fisheries subsidies with a view to reaching agreement at the next ministerial conference and of many of them to work collectively towards formulating plurilateral rules on e-commerce and investment facilitation, among others. Prompt engagement in these discussions will bring renewed hope for the system’s ability to deliver successfully negotiated outcomes.

On monitoring, the WTO supplies an important global public good through the Trade Policy Review Mechanism and has in place tools and instruments to deliver increased transparency. Timely and comprehensive compliance with notification requirements by all members and vigorous monitoring in relevant WTO committees can go a long way to strengthening this core function. Given the growing relevance and expanding scope of PTAs, monitoring in this area should likely be strengthened.

The dispute settlement mechanism has long been considered the crown jewel of the multilateral trading system. But it is clear that not all members are fully satisfied with the way in which the system is working and, in particular, with some of the WTO jurisprudence. Members have been discussing for some time how to improve the system. The question has assumed considerable urgency now that the AB runs the risk of being unable to fulfil its mandate. An open, good-faith discussion needs to take place to understand what members’ underlying concerns are and determine whether there are ways of addressing such concerns without undermining the essence of a system, which is the primacy of rules over power. This is what former WTO Director General Pascal Lamy identifies as the “reform” scenario. Failure to negotiate a package could lead to alternative options where either the US is not effectively part of the system or there is a “back to GATT” scenario, with shallower disciplines and weaker enforcement (Lamy 2018). The risks associated with the latter alternatives may catalyse members’ interests in coming to the negotiating table.

4.2 Bringing Benefits to All

For trade to fully deliver on its potential, it needs to be embedded in national strategies that foster an environment conducive to growth—supported by productivity, competitiveness, and innovation policies—and that equip people
with the tools and skills necessary to reap the benefits of open markets and mitigate the costs of economic adjustment derived from technology, trade, or other shocks (World Economic Forum 2017b).

For trade to work for all, a more inclusive trade agenda is required, with a focus on connecting more people to its opportunities and potential gains. This includes people in isolated rural communities, those working in the informal sector, and those in fragile and conflict-affected states, and involves addressing the constraints that limit their capacity to participate in commerce.

The agenda to connect women more fully to the benefits of trade is especially important. Trade has brought real benefits for women in terms of jobs and empowerment, with examples found in every corner of the world. However, women continue to face significant inequality of opportunity, both within and outside the household, which can make it difficult to gain from trade opportunities. Other forms of gender inequality—such as segmentation into certain occupations—can also affect the gains women experience from trade. Strengthening the legitimacy of trade openness—and more importantly maximising the resulting economic gains—means addressing barriers that limit women from participating more fully in the opportunities opened up by trade and investment.

It also means ensuring that small businesses, not just large firms, can succeed in the global economy. While micro, small and medium-sized enterprises (MSMEs) are important contributors to employment and output, their participation in international trade remains all too limited. Global value chains and e-commerce are valuable platforms for MSMEs to seize the gains made possible through increased global trade, including rising firm-level productivity. Public policies are needed to ensure MSMEs secure a greater level of integration into the global marketplace, including by reducing trade costs and barriers to cross-border investment, and by strengthening the conditions for firms’ growth and productivity upgrading.

Last but not least, making trade work for development requires continued efforts to bring more emerging and lower-income economies into global trade and investment currents. East Asia’s experience is enlightening in this regard. Over the period during which this region rapidly integrated into the global economy, the number of citizens experiencing extreme poverty—living under US$1.90 per day—fell from 966 million in 1990 to 71 million in 2013 (World Bank 2017). However, low-income countries as a group still face trade costs estimated to be three times higher than those in advanced economies. Such punitive transaction costs mean that firms that might otherwise trade and invest in these markets of more than 600 million people go elsewhere. Addressing the above challenges would make firms in developing countries more competitive, allowing them to benefit more fully from trade and investment opportunities, while opening new markets for firms from both developed and developing economies.

4.3 Channelling Preferential Energy to the Global Level

On the positive side, increased trade integration through PTAs can make an important contribution to development. This is particularly true in the case of deep PTAs, as they are bringing fresh energy to the system and are innovating in important ways, including in rule-making on new, dynamic areas of the global economy. Research shows that deep trade agreements lead to more trade creation and less trade diversion than agreements with more limited substantive scope. Moreover, some provisions in these agreements have a global public good aspect and also promote increased trade and investment ties with non-members (Mattoo, Mulabdic, and Ruta 2017).

On the negative side, it is unclear how PTA innovations can be multilateralised and fragmentation limited if no effort is put into these tasks. One difficulty in this regard is in the system itself, as the rules of the General Agreement on Tariffs and Trade (GATT) are written with a Vinerian world in mind where PTAs were only about preferential trade liberalisation.
While the PTA energy is welcome, it can only complement, and not replace, the multilateral trading system. And there are a range of critical issues—most notably in the area of agricultural trade or subsidy reforms—that can only meaningfully be tackled at the global level. To be sure, not all regional advances need to migrate to the multilateral level, but they should not be left to operate in isolation as regulatory divergence and exclusion would not bode well for the system, nor its users. More research to inform a structured dialogue on the relationship between the multilateral trading system and PTAs is needed.
5. WHY ENGAGE?

A constructive contribution from all countries is required to make trade and trade policy work for the SDGs. Failure to cooperate will not only put the achievement of the 2030 Agenda for Sustainable Development at risk but would ultimately result in the largest players unilaterally putting in place their own version of the rules of the game. Meanwhile, technology is dramatically altering the trade landscape. Trade platforms and supply chains require global standards and common rules to operate. As no country is sufficiently powerful today to impose those rules by itself, the risk of fragmentation and policy incoherence is real. Addressing such risks is an urgent task for the global community, as failure to do so would most assuredly undermine the benefits of trade and investment for the smallest and weakest players, but also for the largest. In the long run, no one would win.
REFERENCES


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