G20 *Themes #3*

Trade

1. What does "trade" mean for the G20 agenda? Why is this topic important?

There are conflicting views of the impacts of globalization and its hallmark of free trade policies. Proponents of free trade claim that countries prosper when they remove or reduce tariffs, quotas, and "non-trade barriers", which are laws, regulations and policies that may impede trade. According to the World Trade Organization (WTO), during the 25 years following World War II, world economic growth averaged about 5% per year and world trade grew even faster, averaging about 8%.[1] While these outcomes convince most economists that free trade is the surest way to economic integration and prosperity, one should not overlook the fact that, after years of war and destruction, a boom of reconstruction and trade will follow even with some level of trade barriers.

On the other hand, there is also a widespread view that the benefits of free trade are oversold. Impacts of open trade depend on many factors, including a country's stage of development. When developing countries without competitive and diversified domestic industries enter into trade agreements with industrialized nations, they are prohibited from using trade barriers to protect budding industries, as industrialized countries once did to become rich. As a consequence, they are vulnerable to foreign corporations entering and flooding their markets, shuttering noncompetitive industries, and making workers redundant. Faced with barriers to industrialization and competition from foreign corporations, some developing nations became dependent on the export of one or a few commodities, such as oil, gas, minerals, and food crops. Critics hold open trade policies responsible for deindustrialization, job losses, and economic catastrophe.

Since 2001, the World Trade Organization (WTO) has been convening countries in trade talks, known as the Doha Development Round (DDR), to lower trade barriers, tackle agricultural subsidies, and help poor countries develop. Despite these lofty goals, the DDR produced no outcomes and has recently collapsed. Meanwhile, frustrated countries have been entering into bilateral and plurilateral (among more than two countries) trade and investment agreements, without the auspices of the WTO. For example, the US recently signed the Trans-Pacific Partnership Agreement (TPP) with Japan, Vietnam and nine other countries. The US and the European Union are also negotiating a similar deal, the Transatlantic Trade and Investment Partnership (TTIP). However, with the election of Donald Trump as 45th President of the USA, the future of these trade and investment agreements has become uncertain. Mr. Trump has vowed to withdraw from the TPP on his first day in office. Meanwhile, China, which would be excluded from the TPP, seems eager to fill the void and push for a broader agreement in the Asia-Pacific; this time under Chinese leadership.

WORLD TRADE ORGANIZATION

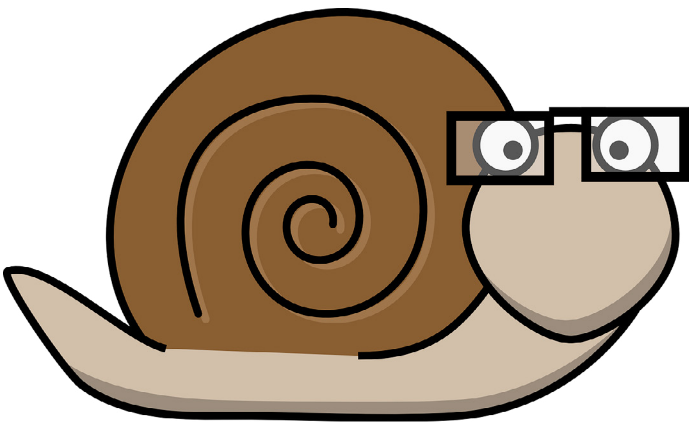
Beyond deindustrialization, job losses, and economic calamity, particularly in less diversified economies, opponents of these agreements argue that they impede free trade, favor investors over citizens, and pressure governments to privatize public services (see Section 3).

Recently, developed countries suffered a similar kind of dislocation in the industrial sectors by China's rapid rise as a global manufacturer, which led to reduced demand for low- or unskilled labor in developed economies.[2] As a result, the Western world is experiencing a strong backlash against globalization and open trade policies, causing politicians much anguish about the positions they should take on trade policies and investment and trade agreements. U.S. President-elect Trump's fervent opposition to certain trade agreements resonated with voters, including those in the "rust belt" where factories have been closed and new jobs have yet to appear.

While investment and trade agreements focus on trade between nations, some 60% of world trade takes place within or between multinational companies. These corporations rely on their extensive global supply chains to turn raw materials they produce or acquire into goods, which are then sold to other businesses or consumers. These chains create competitive advantage for companies through a series of transactions known as Global Value Chain (GVC). Since two-thirds of world trade is in intermediate goods, according to the IMF, any discussion on trade must also include reflections on GVCs.

2. What are the stated G20 goals and commitments in relation to trade?

The G20's *raison d'etre* is the promotion of global growth and recovery, and trade plays a central role in this mission. Yet the G20's efforts in this area have yet to bear fruit. On the contrary, in 2016, global trade is expected to grow more slowly than world economic output for the first time in 15 years.[3] The G20 Trade Ministers Shanghai Meeting Statement had to acknowledge that global trade slowed "from an average of over 7% per annum between 1990 and 2008, to less than 3% between 2009 and 2015."[4]



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Many factors contribute to this poor performance, including the global financial crisis and a slowdown in China's economic engine. Yet the G20 is not innocent since it often fails to practice what it preaches. The G20 nations are implementing more and more protectionist measures, ignoring their explicit pledges to refrain from doing so in 2008, 2013, and 2015.

The recent 2016 China-led G20 Presidency produced three notable outcomes in the area of trade. First, the G20 trade ministers met in July 2016, in the shadow of gloomy trade data, to propose a hurried assortment of measures to restore trade growth. These measures, described in the strategy of the G20 Trade Ministers Meeting Statement, aim to lower trade costs, boost trade finance, promote e-commerce development, and stimulate the service sector, among other things. Again, it pledged standstill or rollback of protectionist measures until the end of 2018.

Second, the Ministers endorsed continuance of the WTO's DDR. But now that the failure of the DDR is openly discussed, the G20 may have to look for an alternative. Notwithstanding the failure of the DDR, there is strong support for the WTO Trade Facilitation Agreement (TFA), described below.

Third, lacking meaningful agreement on fiscal and monetary policies, recent G20 Summits have seized upon the idea that structural reforms will promote economic recovery. The 2016 G20 Hangzhou Action Plan lists the measures that each G20 member country has taken to implement the Enhanced Structural Reform Agenda, indicating that the G20 takes the Agenda very seriously. In contrast, the G20 commitments on trade's role to support the new 17 Sustainable Development Goals adopted at the UN Special Summit on Sustainable Development in 2015 fell short of expectations.

Shortly after the disappointing WTO trade figures came out, the United Nations Conference on Trade and Development (UNCTAD) announced[5] that global foreign direct investment (FDI) flows are expected to decline by 10–15% in 2016, yet another blow to the G20. This means neither the trade nor investment pillar of the G20 growth strategy is delivering positive results.

3. What challenges do the G20 face in relation to trade?

Surging Protectionism. After a long period of steady trade liberalization, there is a surge of protectionism. The WTO's Report on G20 Trade Measures (November 2016) reported that, for the seven months reviewed, G20 countries applied 85 new trade-restrictive measures (e.g., a tariff), averaging almost 17 new measures per month. The report noted that some G20 economies have also been eliminating trade restrictions but at a low rate. Notwithstanding their earlier pledges, the G20 nations, many of which are caught up in a strong isolationist mood, seem intent on beggar-thy-neighbor policy measures, while singing the praise of free trade policies to each other. Many G20 officials believe that if they only communicated trade benefits to the public more aggressively, the opposition to them would wane. But without tackling the fundamental issues around process and substance of trade agreements, good communication on trade benefits will only go so far. Although the outcome of the 2016 US presidential election indicates that the US may take a protectionist approach to trade policy and trade agreements and those under negotiations, at this time no one can be certain about what the US will do in this area.


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Productivity and Sustainability of GVCs. The G20 rightly views GVCs as one of the vehicles to help the G20 achieve its trade policies, yet there are disappointing outcomes on this front, too. In its 2016 paper for the Chinese G20 Summit, the OECD advised that the GVCs are slowing down. The OECD associates this slowdown with the G20's own trade restrictive measures. GVCs are also changing and shortening, in some cases with little advance warning, leaving countries unable to cope with sudden shifts.

Such disconcerting data notwithstanding, the G20 seems to believe that expanding global trade automatically distributes benefits evenly and equitably among and within countries, and that "facilitating trade and investment will enhance the ability of developing countries and SMEs (small- and medium-sized enterprises) to participate in a move up the value chain in GVCs."[6]

There is extensive evidence that SMEs do not benefit from GVCs without a series of policy interventions. The G20 refer to the necessary policy measures, such as access to e-commerce, trade facilitation and financing, without elaboration.

The G20 papers are also silent on the fact that the wealthy nations enjoy a share of approximately 80% of world trade, and as a result must accept their share of responsibility to foster sustainability in GVC.

On the occasion of its Presidency of the 2015 G7 Summit, Germany showed notable leadership by persuading the Group to acknowledge countries' responsibility in GVCs. The G7 Leaders declaration pledged for better application of internationally recognized human rights, labor, social and environmental standards, principles and commitments (in particular UN, OECD, ILO and applicable environmental agreements) in global supply chains, and recognized the "joint responsibility of governments and business to foster sustainable supply chains and encourage best practices." It is high time for the G20 to pick up where the G7 left off and exercise leadership in functional, just and sustainable GVCs.

Trade facilitation. "Trade facilitation" has wide-ranging meanings, according to the 2015 World Trade Report. For instance, definitions may include improving customs procedures at the border; technical standards with which traders are expected to comply; information and communications technology (ICT) in trade; and actual infrastructure, such as railways and ports that facilitate trade.

The G20 believe that, by building trade facilitation infrastructure, demand for goods and services will increase. This is a hypothesis that should be tested, because new large-scale trade facilitation projects could go bankrupt if, for instance, there are not enough buyers for traded commodities due to low demand, or if the low prices for the commodities being sold do not produce enough revenue for the enterprises and countries that are selling them.

Trade Agreements. G20 nations promote trade agreements as a vehicle to foster freer trade flows, encourage investments, promote economic integration, address intellectual property, e-commerce and government procurement, and create stronger ties with trading partners. Critics counter with multiple issues; among other things, they argue that trade and investment agreements:

- impede "free" trade; for instance, intellectual property rights (IPR) rules erect barriers to trade, contradicting the free trade orthodoxy. They can restrict access to affordable medicines or create the conditions for monopolization of seed patents.
- favor investors over citizens; for example, Investor-State Dispute Settlement (ISDS) systems in these agreements allow foreign corporations to sue governments for losses sustained from following public policies designed to protect citizens (such as environmental, climate change or labor policies.)

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- limit the power of government to regulate and compromise public interest.
- pressure governments to outsource or provide through public-private partnerships vital public services in health, education, water, and electricity.

Trade and sustainable development. Trade has the potential to abate hunger, create healthy lives and encourage sustainable use of natural resources. Within the SDGs, there are some explicit targets in relation to trade (see the list of trade related targets in SDGs, p. 242.)

It is not clear whether the G20 officials are engaging sufficiently with the WTO and United Nations officials for a more proactive positioning of trade in helping countries achieve their SDGs. The G20 Action Plan on the 2030 Agenda for Sustainable Development said trade would contribute to progress toward only three of the 17 goals (SDGs 8, 10 and 17). But, the WTO claims that trade has a major role in delivering progress on six SDGs (SDG 2 on hunger, food security, nutrition and sustainable agriculture; SDG 3 on healthy lives and wellbeing; SDG 8 on economic growth, employment and work; SDG 10 on inequalities within and among countries; SDG 14 on oceans, seas, and marine resources; and SDG 17 on strengthening the global partnership).[7] The G20 officials need to communicate with their key stakeholders to identify precisely how and through what channels trade can deliver on the SDGs (see #10 on the 2030 Agenda in this series).

4. What is the desired future direction of the G20 with respect to trade?

When the G20 nations gather in Hamburg in July 2017, they should focus on "re-balancing" that would strengthen the rights of citizens and nations relative to the interests of investors, something that has been lacking from the G20 work on trade to date.

Reversing Protectionism. The G20 nations should lower protectionist barriers to trade in goods, while allowing "special and differentiated treatment" to least developed countries. Although developing countries are increasingly receiving "Aid for Trade" in infrastructure connectivity, there should be flexibility to respond to these countries' other unique needs. The Enhanced Structural Reform Agenda needs to ensure that trade liberalization does not make casualties of workers and the environment.

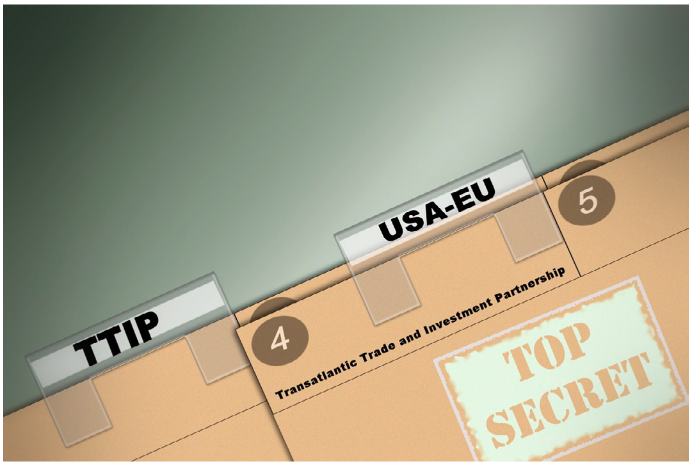
Functional, just and sustainable Global Value Chains: Germany has an opportunity to link the G7 commitments in sustainable supply chains with the G20's focus on GVCs in order to make the GVCs more functional, just and sustainable. In this regard, the G20 can consider applying existing sustainability measures, such as the OECD Multinational Enterprise Guidelines. Second, the G20 has devoted considerable effort to enhancing the potential of SMEs where most workers are employed, increasingly in GVCs. The G20 should enumerate more detailed policy measures that would help SMEs access GVCs. Third, the G20 would benefit from analysis on how its restrictive trade measures undermine and slow productive activity in GVCs and the consequences of the slowdown or shortening of GVCs.

Trade facilitation: The G20 should ensure that they do not use trade facilitation to:

- circumvent legitimate scrutiny for security (terrorism; drugs and human trafficking; compliance with sanctions), health and safety, and environmental protection. This involves standing up to business interests that argue that trade facilitation efforts should eliminate unilaterally-imposed environmental rules that are trade-restrictive or create barriers to trade.
- undermine regional integration (integration among neighboring countries) by over-emphasizing the value of integrating with the world. Africa, for instance, lacks such intra-regional connections to profit from global integration.
- over-emphasize mega-projects and public-private partnerships (PPPs) in building linkages among countries and continents. The G20's infrastructure initiatives include grand schemes but the questions of "who benefits and who pays" for megaprojects have gone unanswered. Wherever there are megaprojects, there are mega-risks, particularly when it comes to mega-PPPs.

New Trade Agreements: The backlash against trade and investment agreements is not only due to the fact that their benefits are poorly communicated, as acknowledged by the G20. It is also due to flaws in the substance and process of coming to these agreements that undermine the public interest and good governance. To this end, the G20 should consider:

- excluding issues such as intellectual property rights (IPR), government procurement, and domestic regulations that do not pertain directly to trade in goods and services.
- identifying and addressing ways that trade rules cause deindustrialization, job losses, and economic calamity, particularly in less diversified economies.
- improving Investor-State Dispute Settlement (ISDS) systems and, ensuring that the claims of domestic and foreign corporations are settled in the court system of host country governments.
- ensuring that no trade provision limits the power of government to regulate (e.g., through environmental, climate change, or social policies) and, thus, compromises the public interest.
- ensuring that provisions calling for the liberalization of services do not pressure governments to outsource or provide public services in health, education, water, and electricity through PPPs.



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Since the G20 nations wield decisive power in bilateral, regional, and plurilateral trade agreements, the G20 should work with UNCTAD and the WTO to forge new norms that require transparency in trade negotiations and agreements and engagement by citizens' groups and small and medium-sized enterprises, not just big businesses.

The German G20 has already declared its intent to focus on industrialization in Africa. In this connection, it is important that the past mistakes in trade and industrialization policies are not repeated in the new G20 efforts on Africa.

Trade and Sustainable Development: The G20 should ensure that its trade agenda does not conflict with that of the WTO or the United Nations. In addition, the G20 Action Plan on the 2030 Agenda for Sustainable Development should be revised to state why its top priority of trade and investment openness would contribute to achieving only three of the SDGs. With regard to inequality (goal 10), the G20 should note that, across a broad range of countries, one can observe stark inequality between the formal work force engaged in production or services for export and those serving the domestic market. In other words, trade has contributed to inequalities through processes that need identification and remedies.

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1 https://www.wto.org/english/thewto_e/whatis_e/tif_e/fact3_e.htm

2 Towards Hangzhou and Hamburg, Lowy Institute for International Policy (2016), quoting The Changing Nature of Jobs — World Employment and Social Outlook 2015, International Labor Organization (2015).

3 Shawn Donnan and Lucy Hornby, "Blocking Moves", Financial Times, 13 October 2016.

4 G20 Trade Ministers Meeting Statement, Shanghai, July 2016, available at: http://g20.org/English/Documents/Current/201607/t20160715_3057.html

5 Global Investment Trends Monitor, No. 24, UNCTAD (2016), available at: http://unctad.org/en/PublicationsLibrary/webdiaeia2016d3_en.pdf

6 G20 Strategy for Global Trade Growth, Annex II to the Trade Ministers' Communiqué: G20 Strategy for Global Trade Growth (SGTG), July 2016, (p.3), available at: http://trade.ec.europa.eu/doclib/docs/2016/july/tradoc_154789.pdf

7 The WTO and the Sustainable Development Goals: https://www.wto.org/english/thewto_e/coher_e/sdgs_e/sdgs_e.htm

Imprint
Published by: Heinrich-Böll-Stiftung e.V.
Editing: Nancy Alexander/Heike Löschmann
Author: Motoko Aizawa (motoko.aizawa@ihrb.org)
Place of publication: www.boell.de
Date of publication: December 2016

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