

## Key policy options for the G20 in 2017 to support an open and inclusive trade and investment system

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**In the face of exceptional challenges, the G20 should step up its efforts in 2017 to preserve the current global trade and investment system, including effective multilateral dispute settlement procedures, while not losing sight of medium-term reforms. The G20 should focus on (1) supporting the World Trade Organization, (2) being upfront about the mixed effects of trade and investment, (3) improving G20 measures to tackle protectionism and (4) promoting investment facilitation.<sup>1,2</sup>**

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### Challenge

Trade policy has emerged as one of the most contested policy fields during Germany's G20 presidency. It is important to acknowledge that trade is central to the G20's core mission as it contributes to economic recovery and growth and is therefore highly relevant for all G20 countries. It therefore needs to be high on the agenda of both the G20 Sherpa and Finance tracks.

The G20 faces a discussion about trade policy today that is very different from the one that took place a mere year ago. During the Chinese presidency in 2016, the G20 adopted a Strategy for Global Trade Growth, agreed on nine Guiding Principles for Global Investment Policymaking and set up a dedicated working group on trade and investment matters. However, in light of recent political developments, it is not realistic to expect the same level of consensus on trade in 2017. This year, even a reiteration of old commitments would be a success.

The G20 in 2017 is confronted with serious and exceptional challenges. Public support for world trade has been deteriorating in many G20 countries, and calls for economic nationalism have resonated exceptionally well with various G20 electorates in recent elections. (3) One of

the drivers of these outcomes is the fact that while inequalities among countries have been decreasing substantially during the past two decades, inequalities within countries, in particular the advanced economies, are increasingly leading to growing public unease with economic globalization. (4) The challenges we currently face, however, go beyond mere anti-trade rhetoric. It is important to acknowledge that there are deeper regime deficiencies that need to be addressed. While it is imperative, in the short run, to prevent the trade system from slipping into a protectionist downward spiral, returning to business-as-usual will not be enough, and serious reforms of international trade policies as well as effective domestic adjustment policies are needed.

Furthermore, according to the 2016 Global Trade Alert, G20 members were responsible for 81 percent of protectionist measures implemented worldwide in 2015. (5) This situation could get worse, particularly in view of growing support for import tariffs and “buy national” provisions. The implementation of such policies would likely lead to retaliatory measures and trade wars, to the detriment of domestic consumers and producers in G20 and non-G20 countries. Particularly worrisome is the fact that the multilateral trading system as such – and the World Trade Organization (WTO) at its core – is increasingly being challenged. It is therefore no exaggeration to state that the global trading system is on the verge of a very dangerous crisis.

Given the characteristics and the typically smaller size of their economies, low income countries will find it difficult to react and protect themselves against rising protectionism in G20 countries. Firstly, for those economies with only a limited set of export items, a rise in protectionism in their main export destinations will hit them particularly hard, creating the conditions for a sharp recession. Secondly, in those states with economic structures based on trade, the prospective long-run growth and economic transformation outlook will be severely constrained. (6) In addition, domestic political pressures may make them react to protectionism in other countries with reciprocal retaliatory measures, leading to a consequent increase in domestic prices and poverty. Increasing protectionism of G20 countries could therefore hamper the implementation of the 2030 Agenda for Sustainable Development.

Discussions among G20 countries about trade need to be embedded in the framework provided by the 2030 Agenda and the G20 Action Plan on the 2030 Agenda for Sustainable Development. The G20, which collectively accounts for 85 per cent of the global economy, plays an increasingly important role in the governance of world trade and should use its weight to “promote a universal, rules-based, open, non-discriminatory and equitable multilateral trading system” (as stated in SDG 17 of the 2030 Agenda). The G20 must therefore provide support for the WTO, and maintain focus on strengthening the multilateral system and opposing any form of protectionism. In addition, the G20 needs to foster coherence between trade and investment and the 2030 Agenda for Sustainable Development. (7) This includes supporting developing countries through the implementation of the Trade Facilitation Agreement. Developing countries, furthermore, need support from the G20 to implement effective investment facilitation frameworks that can enable them to participate and deepen their participation in global value chains (GVCs). (8)

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## Proposal

In light of the exceptional challenges outlined above, the G20, under the German presidency, should step up its efforts to preserve the current global trade and investment system, including upholding effective multilateral dispute settlement procedures, while not losing sight of medium-term reforms. To this end, the T20 Task Force on Trade and Investment, based on comprehensive internal deliberations among researchers from a wide range of G20 countries, and after consultations with the G20 Trade and Investment Working Group (TIWG), calls for immediate action on the following four policy proposals.

### 1) Supporting the WTO

The WTO is the key institution that can help avoid the world trading system transitioning from a rules-based system into a purely power-based system. (9) The WTO seeks to avoid unilateral mercantilists’ initiatives in favor of collective actions that globally maximize the benefits of trade. The WTO, bringing together 164 members, is based on a comprehensive set of trade rules covering issues such as trade in goods and services, trade-related investment measures and intellectual property rights. The WTO rests on three pillars: the first being periodic trade policy reviews of member countries which aim to guarantee transparency in trade. The second pillar of the WTO is its capacity as a forum for the negotiation of new trade rules based on core principles of non-discrimination, transparency and predictability. This can be seen in the WTO’s ongoing facilitation of the Doha Development Round. While the WTO has not been able to conclude the comprehensive Doha Development Round, it nevertheless completed its first agreements on Trade Facilitation in 2013 at its Ministerial Conference in Bali and

Development Round, it nevertheless completed its first agreements on trade facilitation in 2015 at its Ministerial Conference in Bali and agricultural export subsidies in 2015 in Nairobi. The Bali Trade Facilitation Agreement recently entered into force. Thirdly, the WTO also provides an effective mechanism for settling trade disputes between its members.

However, due to the lack of progress on the Doha Development Round, trade rules are increasingly being negotiated in the context of regional and bilateral preferential trade agreements (PTAs). These new-generation PTAs often incorporate rules that go beyond the WTO rulebook, dealing with matters such as inter alia investment, competition, government procurement, environment and labor. (10) While major cross-regional trade negotiations, such as the Transpacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP), recently failed to materialize, there is a risk that countries will drift towards more bilateral trade agreements, ultimately leading to a more fragmented and power-based international trading system where dominant trading partners can dictate the rules.

In light of these challenges, the G20's first priority under Germany's chairmanship should be to reaffirm its commitment to an open and inclusive trade system, and highlight the centrality of the WTO. In addition, all G20 countries should commit to use the WTO more as a forum for policy dialogue and negotiation, as per their commitment to implement the 2030 Agenda for Sustainable Development. This simultaneously requires tackling the remaining issues of the Doha round, as well as new trade issues such as digital trade, services and investment facilitation, and the treatment of environmental goods ahead of the 11<sup>th</sup> WTO Ministerial Conference in Buenos Aires in December 2017. The G20 should also come out with a clear commitment to support developing countries in the implementation of the Trade Facilitation Agreement that recently entered into force. This support should be well-coordinated among bilateral and multilateral donors and should be broad-based, reaching the developing countries most in need so as to maximize the impact of support.

The G20 should also emphasize another important function of the WTO: establishing greater coherence in global trade policy making. The connection between trade and other policies needs to be handled in line with a coherent strategy between trade and other regimes. To underline its strong commitment towards an open and rules-based multilateral trading system, the G20 should consider calling for a special conference of finance and trade ministers ahead of the G20 Summit in Hamburg in order to discuss ways to preserve and reform the current WTO system. The objective of the special G20 conference is to agree on measures that will reinforce the underpinnings of the international trading system, promote a further expansion of world trade, and address some of the key concerns raised by the ongoing process of globalization. The conference is intended to channel the negative energy around globalization into a positive and constructive impetus towards reforms.

The G20 should also ask the WTO for developing benchmarks and guidelines to make bilateral and regional PTAs more inclusive, transparent, accessible, measurable, and relevant to achieving the goals of the 2030 Agenda for Sustainable Development. The adoption of the Guiding Principles for Global Investment Policymaking at the Hangzhou Summit in 2016 can serve as an example for such a process. (11)

## **2) Communicating straightforward about the effects of trade and investment**

Old narratives about the benefits of trade that do not acknowledge the risks of unequal distributional outcomes appear to have diminished in resonance and public credibility. Acknowledging this development is not the same as asserting that trade constitutes a zero-sum game. Trade is still the major tool for promoting global growth and development despite its negative consequences. The G20 should therefore come up with a strong statement acknowledging not only the positive aggregate effects of trade, but also the negative distributional effects on some parts of their respective populations in those instances where effective domestic adjustment policies have not been in place. (12) This should be combined with a promise to improve or introduce new adjustment policies such as trade adjustment assistance or educational support for those negatively affected by trade liberalization.

At the same time, the G20 should stress the costs associated with mercantilist and protectionist policies against imports and foreign investment, particularly in view of the trend towards globally fragmented production processes within global value chains (GVCs). (13) Under such conditions, protectionism, rather than protecting jobs, is likely to make job-replacing technologies relatively more competitive, leading to a higher rate of labor replacement for capital in the production process. In this respect, the G20 should stress the importance of data to measure and track the evolving role of GVCs – particularly their inclusiveness of SMEs and lower income countries, as well as the effects of new technologies in economic transformation processes.

Furthermore, it is important to stress that trade should not be blamed as the main reason for job losses and stagnating wages. In particular, many countries have failed to identify and implement adequate domestic policies to ease the economic transformation process brought about by technology and the digitalization and automation of labor. (14) In fact, many negative impacts attributed to trade are actually the result of automation and out-sourcing of routine tasks. (15) Globalization and trade are just the easiest scapegoats for many structural changes which are happening. However, while this finding is broadly correct, empirical evidence on the exact comparative impact of these trends is lacking. The G20 should therefore commission in-depth studies on the social consequences of globalisation and the origins of anti-globalisation movements, as has been done for structural reforms in the past. These studies should analyse the exact interaction between globalisation, agglomeration effects, and automation, in order to develop appropriate policy responses. (16)

### **3) Improving G20 measures to tackle protectionism**

For the G20 to make credible commitments on anti-protectionism, the forum needs to publicly acknowledge that protectionism is on the rise in many G20 countries themselves, such that past commitments being made and instruments applied by the G20 need to be reviewed, and if necessary, reformed. (17) At the Hamburg Summit, a strong political stance against protectionism needs to be endorsed by all G20 governments and included in the opening paragraph of the leaders' declaration. A commitment to a standstill on protectionist measures should disavow not only new tariffs and quotas but also non-trade barriers and trade-distorting subsidies. More specifically, this commitment should include a unilateral and unconditional standstill promise to not increase any tariff beyond their current applied levels. An omission of this kind of statement in the final document would be a major step in the wrong direction. Moreover, while the terms of further universal tariff liberalization are being negotiated through the WTO, all G20 members should commit to provide immediate duty free and quota free access to exports from the Least Developed Countries.

While the focus of the G20 this year should be on supporting an effective standstill commitment, further efforts should be made to rollback existing trade and non-trade barriers that do not serve public policy purposes in the areas of health, safety and environment. G20 leaders should therefore commit to discussing on a regular basis how and when to eliminate existing protectionist measures, drawing upon the biannual OECD-WTO-UNCTAD reports on trade and investment measures, as well as independent initiatives such as the Global Trade Alert. A trade protectionism indicator system, and the possibility of sunset provisions, could be introduced as a basis for discussions among G20 members.

In addition, accountability to existing commitments and their implementation needs to be improved, as the G20 peer review is not working effectively. Countries have sought to protect themselves by avoiding open criticism of their peers. Therefore, the WTO, which still enjoys a high amount of legitimacy and credibility, should play an enhanced surveillance role and could be used to propose initiatives for dismantling protectionist measures over time. The peer review could also be loosely coordinated with the Trade Policy Review of the WTO, which is also non-binding but has the potential threat of inviting WTO-facilitated-litigation.

### **4) Promoting Investment Facilitation**

Another priority of the German G20 presidency is investment facilitation. Investment facilitation refers to improving frameworks at the domestic level that support the establishment and expansion of investment financing. Investment facilitation measures, including the improvement of governance frameworks, has received little attention in recent policy debates about investment policy-making. (18)

In view of the 2030 Agenda for Sustainable Development, the G20 should increase its efforts to facilitate investment that advances sustainable development, focusing in particular on investment in low-income countries. Such investment facilitation strategies should aim to reduce barriers to economically sound, environmentally sustainable, and socially just investments that help to create well-paid jobs. Priority actions could include assisting governments in developing, implementing, and publishing their laws governing environmental and other standards, since a lack of clarity regarding such laws and their application can complicate and inhibit investment, and can frustrate expectations of and relationships between investors and other stakeholders in the host state.

Additionally, the G20 should commit to help facilitate investment in low-income countries by disciplining the G20 countries' use of fiscal and financial investment incentives. Without such rules, G20 countries can continue using these incentives to help attract foreign investment into

financial investment incentives. Without such rules, G20 countries can continue using those incentives to help attract foreign investment into their own borders while potentially diverting investment away from lower-income countries without the resources to compete.

In light of the challenges outlined above, it is no exaggeration to state that the global trading system stands on the precipice of a very dangerous crisis. In the present economic and political climate, it will undeniably be very difficult to reach substantial progress in the trade and investment arena. Therefore, the minimum goal for the G20 in 2017 must be to find common support among all G20 countries for an open and rules-based trading system, while reiterating the need for a moratorium on protectionist measures.

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1. The authors of this Policy Brief are solely responsible for the content and their views do not necessarily represent the views or recommendations of their related institutions.
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## Existing Initiatives & Analysis

### Implementation Overview (1)

The policy proposals in this Policy Brief relate to two of the priorities of the German G20 presidency in the areas of trade and investment, namely (1) supporting the multilateral trading system, including benefits of trade and anti-protectionism and (2) investment facilitation. The third priority, digital trade, will be covered by another Policy Brief of the T20 Trade and Investment. We recommend that the G20 Trade and Investment Working Group in its third meeting should discuss the policy proposals submitted by the T20 in this Policy Brief. In light of the current policy environment, priority should be given to the first proposal on the supporting the WTO. In the transition period between the Hamburg Summit and the handover of the G20 chairmanship to Argentina in December 2017, the German G20 presidency should continue its efforts to promote dialogue among G20 countries to facilitate open and inclusive trade and investment policies. This can be achieved by an informal meeting of the Trade and Investment Working Group or by a high-level workshop that involved G20 governments as well as trade experts from the G20 Engagement Groups. In order to highlight the importance of an open and inclusive trade and investment system, we suggest that the G20 calls for a special conference of finance and trade ministers in order to promote debate and consensus building ahead of the G20 Leaders' Summit in July 2017 in Hamburg. The conference should be structured so as to achieve not only concrete results in terms of policy improvement, but also to maximize the likelihood of political "wins" by participants, both by those who are content with the status quo and want its essence preserved, and those who are looking for tangible changes. The agenda of the conference would include: (i) national policies and international reforms designed to mitigate the temporary and disruptive effects of globalization and technology on employment and income inequality while ensuring that consumers continue to benefit; (ii) international coordination to reduce global imbalances; (iii) reducing non-tariff barriers to trade; and (iv) revitalizing trade reforms with regard to autonomous, bilateral, plurilateral and multilateral policies.

## **Existing Agreements (6)**

### **G20 Leader's Communique, Hangzhou Summit, 2016**

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### **G20 Trade Ministers Meeting Statement, July 2016**

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### **G20 Strategy for Global Trade Growth, 2016**

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### **Guiding Principles for Global Investment Policymaking, 2016**

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### **G20 Leaders' Conclusions on Exchange Rates, 2008–15**

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### **G20 Action Plan on the 2030 Agenda for Sustainable Development, 2016**

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