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The G20 and the multilateral trade impasse

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»» In many countries, the surge in national industry bailouts, stimulus packages and subsidies contains worrying aspects of foreign commercial discrimination to protect domestic jobs. These policies represent an emerging trade agenda that the G20 will need to tackle, regardless of the fate of the stalled Doha round. Nonetheless, Doha retains symbolic value in terms of providing a cooperative climate for multilateral trade talks, precisely because of this longer term agenda looming in the background.

TRADE STAGNATION

The onset of the global financial crisis saw dramatic global trade deterioration. After a 27 year boom, figures for 2009 suggest a contraction of 12.2 per cent in global trade, the sharpest decline in almost 70 years. Even those countries whose exports had boomed over previous years, such as China, India and Argentina, experienced a significant decline. China's exports fell by 16 per cent, while India, Argentina, South Africa and Brazil recorded declines of over 20 per cent.

The fear of collapsing trade that gripped world leaders helped to bring about the first G20 Leaders Summit in Washington DC in November 2008. While pushing forward financial regulatory reform, they were quick to commit to an open global economy. In their communiqué, G20 leaders declared that it was critically important to reject protectionism and avoid turning inward in the face of falling growth and rising unemployment. The G20 committed to the following: 'we will refrain from raising new barriers to investment or to trade in goods and services, imposing new export restrictions, or implementing WTO-inconsistent measures to stim-

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of the United States

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»»»»» ugate exports'. And for extra emphasis on the importance of trade to global economic health, they tasked their trade ministers to 'reach agreement this year on modalities that lead to the successful conclusion to the WTO's Doha Development Agenda with an ambitious and balanced outcome'.

The G20 leaders remained alert to the prospects of trade wars. In their April 2009 London meeting they declared that: 'Reinvigorating world trade and investment is essential for restoring global growth. We will not repeat the historic mistakes of protectionism of previous eras'. The leaders renewed their public commitment to what was known, by then, as the Standstill Provision and agreed to extend it through 2010. On the question of completion of the Doha Round, the leaders once again reaffirmed their call to reach 'an ambitious and balanced conclusion'. However, notwithstanding declarations in several G20 communiqués, efforts to conclude the Doha Development Agenda negotiations have made little progress.

In January 2009 Pascal Lamy, director general of the World Trade Organisation (WTO), referred to the global trading system as 'an insurance policy against protectionism'. To enhance the trade system, Lamy declared that the WTO would issue periodic reports on global trends in international trade policy developments as part of the WTO's surveillance mandate. The Secretariat's hope was that members would find these reports useful in facilitating discussions to cope with the crisis. At the London Summit, the G20 urged the WTO and other international bodies 'to monitor and report publicly on our adherence to these undertakings on a quarterly basis'. The WTO, UNCTAD and the OECD now jointly issue periodic reports.

The Framework for Strong, Sustainable and Balanced Growth adopted at Pittsburgh in September 2009 calls for aligning fiscal, monetary, foreign exchange, trade and structural policies among the G20 nations. The collective examination of global imbalances is identified as one of the elements in the Framework. The need for global economic balance has been brought home painfully by the Greek debt crisis.

So how determined have the G20 countries been – beyond rhetorical pronouncements at the G20 summits – in avoiding protectionism? The short answer is not very determined, but nor has the result been deplorable. Many international and regional organisations have monitored trade policy since the Washington summit, and all have noted that high intensity protection has not occurred.

The focus on trade has declined somewhat since the Washington summit despite the repeated mention of the subject in subsequent meetings and the collapse of world trade in 2009. The dismal performance of international trade flows can mostly be explained by the sharp contraction in global demand. This was magnified by the limited availability of trade finance and the fact that the decline in trade occurred simultaneously across a number of countries and regions.

The decrease in demand and the explosion of unemployment across the G20 countries as the financial crisis spilled over into the 'real economy' have led to a new trade predicament. This is because many government measures have included potentially discriminatory features. Even if serious protectionism has been averted and trade relations have remained amicable, a new series of concerns is now simmering in the background. Given the spiralling number of bailouts and stimulus packages, the trade agenda will need revamping, regardless of whether a Doha Round package is agreed upon.

ADDRESSING CORE CONCERNS

A number of leading think tanks have come together to monitor state measures that might discriminate against foreign trade interests, related to imports, exports, foreign workers and investments.

With the assistance of trade experts from across G20 countries, Global Trade Alert began to collect trade measures that might discriminate against foreign commercial interests. The table below summarises measures initiated by G20 countries since the Standstill Provision up to 1 July 2010.

GTA DATABASE - MEASURES REPORTED

(as of 1 July , 2010)

All countries:

Measures in the database	1052
Measures implemented	781
Measures to be implemented	271

**G-20 Countries
(implemented and not implemented):**

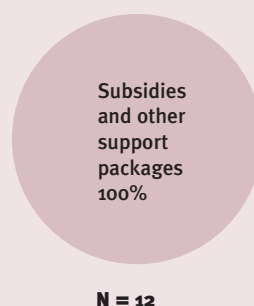
COUNTRY	RED	AMBER	GREEN	TOTAL
Argentina	41	28	6	75
Australia	10	5	5	20
Brazil	17	15	15	47
Canada	7	14	7	28
China	19	18	7	44
EU	10	18	4	32
France	14	15	5	34
Germany	29	14	5	48
India	31	28	19	78
Indonesia	22	13	5	40
Italy	19	12	4	35
Japan	12	2	0	14
Korea	5	4	4	13
Mexico	6	5	7	18
Russia	73	13	17	103
Saudi Arabia	7	2	1	10
South Africa	7	6	6	19
Turkey	8	8	1	17
United Kingdom	24	13	4	41
United States	14	50	4	68
TOTAL	375	283	126	784

The table shows that since the Standstill Provision was agreed, G20 countries have implemented at least 658 measures (red and amber coded measures) that are almost certain to discriminate against foreign commercial interests. Of the measures initiated by G20 countries through June 2010, about half are almost certainly discriminatory. While some measures have been taken that improve trade (mostly introduced to offset the effect of an overvaluation of the exchange rate) the number of discriminatory measures is significant.

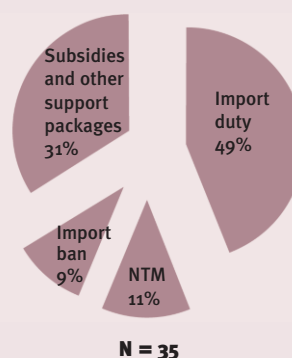
This record cannot be seen as adherence to a global commitment. Rich countries have relied on subsidies and poor countries have used duties to restrict imports.

TYPES OF MEASURES

DEVELOPED COUNTRIES



DEVELOPING COUNTRIES



If G20 leaders have been less than vigilant when it comes to maintenance of the Standstill Provision, what then of their commitment to conclude the Doha Round? Here, too, it seems that rhetoric far exceeds real commitment.

From the outset, much convincing was required of developing countries, especially the poorest in Africa, that this Round would bring them substantial benefits. Though the Round was supposed to deal with development issues, in fact it came down to concerns over agriculture and non-agricultural manufactured products (NAMA). Originally scheduled to reach conclusion by January 2005, the start-stop cycle has been painfully prolonged as parties dissected as never before the domestic implications of the tabled proposals.

Emerging and developing economies cannot be expected to commit to an institution in which they are marginalised. Doha mobilised a set of new coalitions among Southern countries, most prominently the G20 trade coalition (not to be confused with the current leaders G20 Summit). Operating under various guises, it was led by India and Brazil and supported in various manners by a number of other developing countries.



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»»»»» Following the Washington Summit in November 2008, senior officials in Geneva failed to make progress in the five critical areas identified by WTO DG Pascal Lamy: NAMA, tariff cutting, initiatives for specified sectors, the special safeguard mechanism for developing countries to protect against agricultural import surges, and the issue of preference erosion. With this setback, Lamy called off the December 2008 ministerial meeting.

At the London Summit in April 2009, the G20 reiterated its call to conclude the Round by 2010. Yet just a few days later, Rahul Khullar, India's commerce secretary, publicly stated that completion of the Doha Round was out of reach, given public anger over job losses and the collapse of economic growth. During 2009 Argentina (subsequently supported by several developing G20 countries) raised the concern that bailouts and fiscal support in developed countries have a strong protectionist and distorting impact on international trade, resulting in a loss of competitiveness on the part of countries without any capacity to subsidise. Yet these packages were not reported in a symmetrical fashion in WTO reports, in contrast to the border measures that developing countries have resorted to.

THE G20'S ROLE

The alarm over trade protection has receded into the background of the G20 agenda despite the reiterated call for good behaviour. But a looming trade agenda is taking shape. Competitiveness has become more complex and cutthroat requiring support from the state to assist industries to be competitive in the global marketplace. Contingent legalised protectionism has a very large place inside the WTO and all free trade agreements. While not insurmountable, the challenges presented to global trade by the economic crisis demand appropriate recognition.

- WTO members should anticipate that the continued effort at a broad Doha agreement will falter against the reality of domestic resistance.
- The G20 should accept the "smallest" agreements possible towards a conclusion of the Doha Round,

as a means to support the legitimacy of the WTO. Generous market opening offers for LDCs must be part of the package.

- The G20 must encourage open discussions at the WTO to examine the sources of discrimination that lie not so much with the issues that concern the current Doha Round, but on matters emerging from the current economic crisis: discriminatory procurement, bailouts and subsidies.
- The G20 must start a work programme on this emerging trade agenda, as laid out in Table 2.

The G20 has a responsibility to maintain momentum around these issues beyond the current crisis, with the acknowledgement that these issues are pertinent to all countries, including 172 non-members. That means broadening the voices it listens to. There are significant advantages to be had from greater openness to so-called 'systemically unimportant' non-member states. Usually bigger countries harbour the leading thinkers and public debates, but small countries understand the issues as well and they understand implementation more than most.

The G20 could rectify this bias by undertaking structural changes and thorough outreach. Changes to the G20's structure might include adding seats for LDCs on a rotating-basis, including two or three countries as formal G20 members. Creating a constituency system and reshuffling membership with a greater regional focus (limiting European representation to one EU seat) is vital. Outreach could include formal meetings and seminars and joint work on global public good issues, inviting select observers to participate in G20 meetings and holding meetings in non-member countries.

The G20 will not be able to move the emerging trade agenda if process issues are not tackled. A basic step would be to consider establishing a permanent secretariat, outside North America or Europe. This would provide a permanent provision of substantive technical support independent of the G8 dominated institutions. A G20 secretariat could also provide space for consultation on sensitive issues which does not adequately exist in the WTO agenda, as presently configured.

TABLE 2
IMPLICATIONS OF AN EMERGING TRADE AGENDA: TASKS FOR THE G 20:

G20 AGENDA ISSUES	TRADE MEASURES	IMPACT ON TRADE AND INVESTMENT FLOWS	ISSUES FOR TRADE NEGOTIATIONS
Fiscal support and stimulus packages	Bail outs, grants, employment protection and other kinds of support for home based firms.	Discrimination against foreign based firms.	Trade and investment distortions: unfair competition at home and in third markets; emergence of unlevel playing fields; revival of the traffic lights system for subsidies and construction of a new mechanism for non-actionable subsidies (expired in 2000).
Reduction of global macro disequilibria	Export- driven rates of exchange, export incentives, employment and import protection in deficit countries; support to demand in surplus countries.	Export hikes and import suppression in deficit countries, discriminatory support to demand or employment protection.	Introduction of new subsidies and activist contingent protection (safeguards, anti-dumping, etc). Clearance for new non actionable subsidies, de minimis thresholds, etc. Risk of a crisis-related peace clause for raising disputes.
Financial regulation	Revision of national systems of regulation and supervision of financial services.	Impact of financial service regulation on trade and investment.	Liberalisation / regulation /surveillance of financial services.

With the establishment of a secretariat the G20 could also undertake regional dialogues that would feed into the formal G20 process. This could include a network of horizontal capacity building to strengthen widespread technical ability to contribute to the formal G20 process.

Along the above lines the G20 should broaden its working groups from the current priority reform areas (regulation and transparency; international

cooperation and market integrity; IMF reform; World Bank and other multilateral development bank reforms). Thematic working groups could focus on cross-cutting issues. In these ways the G20 would be better equipped to address the trade dimension of economic recovery.

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