



M. Sait Akman¹

Director of G20 Studies Center

EVALUATION NOTE

INTERNATIONAL TRADE: STILL FLOURISHING AGAINST ALL ODDS?²

On the way to the G20 Leaders' Summit in Bali, the debate will revolve around economic recovery, food security, climate change, and the war in Ukraine. But the G20 should take particular care also for **the problems in international trade**. The global trading system suffers **under a severe pressure** as many countries increasingly seek to implement unilateral trade policy measures, and **beggar-thy-neighbour industrial policies** with the aim of addressing their economic problems. Trade policy is becoming too much politicised under short-sighted security considerations, although it is commonly admitted that trade is an engine of growth and helps to support employment.

National policies slow down global trade

Modern trade era witnessed for decades a **rapid growth in global commerce generating efficiency gains, income growth and economic development**. Until a decade ago, world merchandise trade has been growing faster than the world output. The **share of goods and services exports in world GDP raised from 10ten percent in 1960, to 19 percent in 1985**. In the following quarter towards 2010, it reached 29 percent. However, after reaching around 30 percent, trade openness has reached a plateau. In G20 countries, imports facing any restriction rose from 1 percent in 2010 to 10.4 percent in 2020The cumulative trade coverage of G20 import restrictions increased ten times -from 1% percent in 2010 to 10.4% percent in 2020. WTO predicted

¹ <https://www.tepav.org.tr/en/ekibimiz/s/1338/Sait+Akman>

² This note was originally published in **Italian Institute for International Political Studies (ISPI)** webpage on November 14, 2022. <https://www.ispionline.it/en/publicazione/international-trade-still-flourishing-against-all-odds-36697>

recently³ that global trade volume would grow by 3.5 percent in 2022, but a sharp slowdown is expected in 2023, with trade growth to be not more than 1 percent.

The dismal trend in world trade in the last decade is **largely attributed to the crises that crippled the global economy**, i.e. economic and financial crisis in 2008; COVID-19 pandemic; supply chain disruptions; and rising inflationary pressures in major economies. **Slower growth under tightened monetary policies will further raise manufacturing costs** and lower demand for imports. The COVID-19 lockdowns in China and the energy crisis awaiting Europe also add up a more pessimistic scenario.

However, **the main problem in global trade is not about the trade figures**: these are only the symptoms of those trade policies adopted as a response to those changes in the global economy unleashed from crises, shifting geoeconomic rivalries, and technological developments. **These profound alterations and the subsequent political disturbances have eroded the legitimacy of the multilateral trading system and the WTO**. Calls for modernising trade rules to better reflect global changes have been raised. As the World Trade Organisation's main functions are becoming progressively ineffective, many of its members argue that it **faces an "existential crisis"** and it needs to be "reformed". Major economies have pointed at its failures as an excuse to legitimise their actions outside the WTO disciplines.

WTO needs reforms... what reforms? G20 should move beyond rhetoric

Since the Osaka Summit the **G20 members reaffirmed their political support and commitments to undertake necessary reforms of the WTO** and to improve its functions. DG Okonjo-Iweala declared in 2021 that "WTO can deliver results if ... achieve *necessary reforms* to keep it relevant"⁴. At the WTO Ministerial Conference (MC12) member countries committed to work towards *necessary reforms*⁵.

However, **there is no "shared" understanding about what these "necessary reforms" should tackle**. There is no consensus in defining how to reinvigorate multilateral negotiations, to resolve the deadlock in adjudicating trade disputes, and to foster its monitoring function. "An old chestnut" call for a "*free, fair, inclusive, non-discriminatory, predictable, stable, transparent and rules-based*" trading system cannot be of much help for a viable trading environment. It is very likely that the trade community will also find a similar paragraph in the G20 Bali Leaders' Declaration. Reform proposals raised by major economies diverge substantially over several key issues, from difficulties of multilateral negotiations in rule-making to competitive distortions due to state interventions in economy, especially in the industrial sectors.

Even though multilateral avenue is still the first-best to conduct negotiations, plurilaterals under "Joint Statement Initiatives" have become the most vibrant channels since the last MC in 2017 for issues where consensus is not yet in sight. This approach can thus provide an opportunity to further liberalise trade and create new rules. However, **a more structured and institutionalized approach remains utterly needed**. Plurilaterals have indeed systemic implications, such as venue-shifting from multilateralism and promoting a further fragmentation in the system. The government of

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³ https://www.wto.org/english/news_e/pres22_e/pr909_e.htm

⁴ https://www.wto.org/english/news_e/spno_e/spno1_e.htm

⁵ <https://docs.wto.org/dol2fe/Pages/SS/directdoc.aspx?filename=q:WT/MIN22/24.pdf&Open=True>

plurilaterals needs to be re-thought to ensure fair, transparent and development-friendly trading environment. It is **essential to provide trust and capacity building** for developing and Least Developed Countries (LDCs) to take part more effectively in the process, starting initially with limited obligations.

The debate over **special and differential treatment** (SDT) requires further attention as it constitutes a very substantial leg of the reform debate. Flexibilities under SDT is a major source of concern, as they have favored **large developing countries like China and India**. MC12 Outcome stated that SDT in WTO agreements should be “precise, effective and operational”. A conceivable approach can bring tailor-made differentiation instead of granting across-the-board flexibilities and indefinite transition periods to developing countries. Technical assistance measures can be preserved in their case. **Members must keep in mind that trade policy is unlikely to secure development without good domestic policies.**

Industrial policy is another thorny issue that a reform process should tackle, as many members increasingly rely on state intervention to support their domestic sectors. A strategic trade policy to upgrade industrial and technological dominance could lead a reduction in global welfare. G20 Trade, Investment and Industry Ministers were right⁶ to acknowledge the role of industrial policies to ensure a sustainable and inclusive development. **Supporting adoption of green technologies with subsidies that target market failures** can foster the dissemination of these technologies and reduce carbon emissions, thereby assists in attaining sustainable development goals.

G20 must develop a clear roadmap for WTO reform

After MC12, the WTO General Council and its subsidiary bodies can now develop a roadmap for a possible reform and submit it to the next Ministerial Conference. MC12 Outcome also emphasised that the process “does not prevent groupings of WTO members from meeting to discuss relevant matters”. This can be a test for the G20 to orchestrate submissions.

However, an earlier attempt to discuss the objectives and foundational principles of the multilateral trading system under the Riyadh Initiative did not advance well because of sharp differences among G20 members on sensitive issues. This is mainly because national development and economic models differ among trading nations, and **trade is becoming linked to cross-cutting issues** such as climate, healthcare, digitalisation, energy supplies and food security. Reforming areas largely regulated by competing domestic models is thus extremely challenging.

The starting point for G20 must be to rethink about the “main purpose” of the whole WTO system. The members should always keep in mind that core business must be to **facilitate exchange of goods and services across borders**. The WTO rules on global trade are designed to ensure that trade flows as smoothly, predictably and freely as possible. These simple objectives can guide the G20 in this process.

“WTO reform should be pragmatic, and members should eschew a large ministerial package in favor of reform by doing”, said The Assistant USTR Durkin recently⁷. If the US takes the lead

⁶ <http://www.g20.utoronto.ca/2022/220923-trade-investment-industry.html>

⁷ <https://insidetrade.com/daily-news/ustr%E2%80%99s-durkin-wto-members-must-%E2%80%98reform-doing%E2%80%99-not-wait-package>

in changing its position regarding the dispute settlement system, this can be a **practical start for all G20 members**.

G20 should remember that pragmatic approaches can support more ambitious outcomes. It should then authorise the Trade and Investment Working Group-TIWG to establish permanent and *ad hoc* sub-groups to **jointly work with private sector, SMEs, NGOs and other engagement groups under the G20 umbrella**. If it does that, India's presidency in G20 could represent a turning point in in reinvigorating the multilateral trading system and in advancing shared objectives of inclusive growth, job creation and sustainable development, endorsed by G20 Trade Ministers.