The G20 and the Global Trading System:
Leveraging the Asia-Pacific Experience
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Abstract

There is a growing disconnect between the need to bolster the multilateral trading system and the willingness of the world’s major economies to cooperate to do so. Concerted action on trade reform can help to support the process of global rebalancing and improve growth performance. Rather than repeat past calls to complete the WTO Doha round talks and refrain from protectionist actions, the G20 should build on the experience of the East Asia and Pacific region and commit to a specific trade cost reduction target and support greater plurilateral cooperation on regulatory matters under the umbrella of the WTO.

Keywords

G20, trade costs, growth, APEC, WTO
**Introduction**

In the last 20 years it has not proven possible for governments to agree to new rules of the game in the WTO for policies affecting trade and international investment flows. The 2001 Doha Development Round remains deadlocked. The July 2014 refusal by India to adopt the protocol required to implement a new Trade Facilitation Agreement (TFA) that was agreed by all WTO Ministers at the 2013 WTO Ministerial Conference is just the latest example of a pattern of snatching defeat from the jaws of victory. As argued by many observers, there is a growing disconnect between the need for international cooperation to address policy spillovers and to bolster the global trading system and the capacity of the WTO to deliver what is needed.

Reasons for this disconnect include geo-political developments (e.g., the rapid growth of China) and the emergence of a multi-polar global economy (“the rise of the rest”), and diminishing significance of the traditional trade policy instruments that are the main focus of the WTO (Hoekman, 2014a). One consequence has been increasing recourse to new preferential trade agreements, including a number of ongoing so-called mega-regional negotiations. However, recent preferential trade agreements (PTAs) and the prospective mega-regionals are not doing anywhere near enough to support higher rates of economic growth. There is much noise but less action when it comes to international cooperation to pursue the structural reforms that are needed for trade to play a significant role in global rebalancing.

This neglect has a significant opportunity cost. Concerted action by the G20 on trade reform can help to support the process of moving towards a more balanced domestic consumption-driven growth strategy in major surplus countries, by promoting greater imports of goods and purchases of services and higher net exports by countries with large fiscal/external deficits. Service sector reforms and liberalization in all G20 countries can play an important role in supporting greater domestic consumption in China and other surplus countries and improving the competitiveness of deficit countries. The OECD and World Bank have documented that barriers to trade in services are often high and that there are significant costs associated with (differences in) “behind-the-border” product regulations and a lack of trade facilitation. A concerted focus on reducing trade costs, including by addressing weaknesses in trade-related infrastructure, should be part of the G20 growth agenda.

**The G20 and trade: missed opportunities**

Starting with the first meeting of G20 Leaders at the end of 2008, G20 declarations on trade have had two elements: commitments to conclude the WTO’s Doha Development Agenda (DDA) expeditiously and to refrain from taking protectionist actions in response to the financial crisis. There has been limited emphasis on the need for supply side measures to expand trade as an element of the structural reforms needed to support the economic adjustments required for global rebalancing and sustaining higher income growth rates across the G20.

Completion of the DDA offers a potential medium-term boost to global welfare, but would not do much to support the structural reforms that are needed for global rebalancing and growth. One reason is that the DDA is primarily about reductions in tariff bindings (maximum permitted tariffs) and agricultural support policies. Services – which account for 70+ percent of GDP in many economies and are a central element of the structural reform agenda – are only being pursued by a subset of WTO members, either through mega-regionals or negotiations on a Trade in Services Agreement. These

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1 See e.g., Claessens, Evenett and Hoekman, 2010; Kowalski and Lesher, 2010; Messerlin and van der Marel, 2009; Miroudot, 2014).
efforts are occurring outside the WTO and do not include Brazil, Russia, India, China, South Africa and most developing countries.

The G20 commitment to refrain from taking protectionist actions was breached almost immediately (Evenett, 2009; 2013). While overall there has been relatively little recourse to major instances of protectionist action, G20 governments have continued to use all the instruments that are permitted by the WTO – antidumping and countervailing duties, safeguard actions – and have pursued a variety of measures, including subsidy programs and industrial policies, that support domestic economic activity over imports.

Whatever one’s judgement on the effectiveness of the G20 standstill commitment, it is not geared towards expanding trade. The aim is defensive: to prevent an increase in trade costs for firms. The aim is not to lower costs and support more investment in tradable activities. What is needed are actions to increase and sustain the growth rates that are a precondition for improving employment and economic welfare. Much of what is called for in this regard will revolve around national measures to promote trade, but concerted action by the G20 would increase the payoffs from a growth perspective.

**Strengthening the global trading system for growth**

East Asian countries have been the stellar performers, most recently and notably China, in sustaining annual real income growth rates in the 5 to 10% range over many decades. Growth has been supported by a dramatic increase in trade, not just in overall value but also in terms of products and markets served. Export diversification was supported by extensive flows of foreign direct investment (FDI) and participation in international production networks (“value chains”). Other regions have been much less successful in harnessing trade for growth than East Asia and other Pacific nations, reflecting less supportive business environments.

Recent research has documented the importance of trade costs, including the costs of delays and uncertainty created by administrative procedures and red tape, as well as barriers to trade in services, as an important determinant of international competitiveness and the ability of firms in developing nations to participate in global value chains. This suggests policy should focus on lowering trade costs. An important element of what is needed to lower trade costs is trade facilitation – the types of measures that are called for in the WTO Trade Facilitation Agreement – but the agenda goes far beyond that to span a variety of services-related elements (logistics, transport services), including transport and communications infrastructure. The latter will require investment, but research has concluded that such investments will have a high rate of return and infrastructure improvement is a good use of the excess savings/capital generated in surplus countries.

Neither the WTO nor the PTAs that have become the primary focus of trade policy cooperation for G20 countries are helping to deliver higher economic growth. Trade agreements and ongoing negotiations are not aiming at significant opening of services markets or facilitating greater investment flows into infrastructure. Recent projects by the OECD and World Bank to measure the trade restrictiveness of prevailing policies in services sectors have documented high barriers in key sectors such as transport and professional services. This is consistent with research that finds that costs of trading services between PTA members are essentially the same as costs involving trade between firms that are not part of a PTA (Miroudot and Shepherd, 2014). In part this is a reflection of the fact that PTAs do little to reduce the excess costs of differences in regulation that impedes firms – especially services SMEs – from trading internationally.

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2 See e.g., Arvis et al. (2010), Djankov et al. (2010), Francois and Hoekman (2010), Freund and Rocha (2011) and Hummels and Schur (2013).
Increased Export Performance and Competitiveness of Developing Countries: Mainly a China Story?

International commercial policy cooperation looking forward requires a reconsideration of the trade governance structure and approaches that served the world very well during the 2nd half of the 20th century. These centred on the negotiation of binding (enforceable) trade policy (liberalization) commitments on a reciprocal basis. This type of cooperation remains an important instrument to reduce trade barriers, but the DDA experience and the most recent debacle surrounding the non-adoption of the TFA protocol into the WTO makes clear that a precondition for a successful negotiation is an agenda that permits a package deal to be constructed that is a Pareto improvement for everyone. The inability to get to yes in the DDA suggests this constraint cannot be satisfied with the agenda that has been the basis of negotiations to date.

More fundamentally, the policies that create negative spillovers for trading partners revolve less and less around the tariffs, quotas and market access barriers that are the bread and butter of trade negotiations. Pursuit of reciprocity embedded in enforceable treaty-based commitments is not an effective instrument to address the trade-impeding effects of differences in regulatory regimes or to generate the joint action that is needed to significantly reduce trade-related costs and improve economic growth prospects. Different forms of cooperation are called for. Unilateral liberalization of trade barriers and national trade facilitation measures remain key instruments that are available to governments that seek to lower trade costs, but international cooperation offers important complementary mechanisms to help countries that to date have not been able to leverage trade opportunities for growth. Such cooperation includes assistance from development agencies for implementation of measures and investments that are needed to lower redundant costs for businesses. This is an agenda that does not lend itself well to the type of reciprocal negotiation that is the primary focus of trade agreements, whether the WTO or PTAs. The reason is that the national policies – or absence of policies – that generate higher trade costs mostly do not take the form of measures that discriminate against foreign suppliers.

It is often taken as a given that the global trading system should be universal, rules-based, open, non-discriminatory and equitable, and that operates under the umbrella of the WTO. But the DDA deadlock, the proliferation of PTAs and the changing nature of global trade – the rise of international production/supply chain trade; expanding e-commerce/digital trade; the interdependencies and complementarities across “modes of supply” – make clear that changes in approaches are needed looking forward. Today’s global economy requires a flexible global trade governance structure that spans a greater set of trade- and investment-related policies than is covered by the WTO; that is supportive of deliberation and learning; more outcome-oriented in the sense of having clear objectives and focal points to guide action, monitor progress and ensure accountability for results; involves much greater engagement with and inputs from stakeholders in the design of international cooperation – especially smaller firms and consumer organizations – to identify areas that require joint action and have a high benefit/cost ratio; relies more on public-private partnerships in the implementation of cooperation and the monitoring of results/outcomes; and provides a much more effective framework for groups of countries that want to cooperate in new areas on a plurilateral basis to do so under the umbrella of the system as opposed to perceiving that they can only do this in the context of a PTA.

The trend towards PTAs and small group cooperation on trade-related policies outside the WTO makes clear that the global trading system cannot be monolithic. Nor should it be. There are good economic rationales for pursuing cooperation on regulatory and behind the border policies on a small group basis. One reason is that a uniform rule for a given policy area may be inefficient; another is that even if there is agreement that a given regulatory rule is optimal, the preconditions to

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3 See, for example, Open Working Group (2014), which calls for a WTO-based trading system satisfying these characteristics as a “means of implementation” to achieve a proposed set of sustainable development goals for the post-2015 period.

4 Some of these points are developed further in Hoekman (2014a, b), which include more extensive references to the recent literature.
implementing it may not be satisfied by all countries. But whatever countries agree to do jointly should be implemented in ways that maximize the prospects for global growth and economic development. A necessary condition for this is that PTAs and related forms of small group cooperation of trade-related policies become more open and are fully transparent in the sense that there is full information on what is done by participants. It is in these areas that the G20 can and should take actions to bolster the global trading system.

Significant effort will be required to develop specific proposals to make the global trading system more fit for purpose in an ever more integrated world economy and to build the high-level political support that is needed to implement change. The suggestion by Pangestu and Nellor (2014) for the G20 Leaders to appoint an Eminent Persons Group to make recommendations on the global trade regime and the design of WTO reforms is very pertinent and should be a priority for the 2014 G20 Brisbane summit. Arguably a key focus should be to facilitate greater accommodation of diversity and “variable geometry” within the trading system.

The required revamp need not involve a complete re-think. There is great scope to do more to use WTO mechanisms to assess the (spillover) impacts of policies and enhance understanding of how (differences in) regulatory regimes affect competitiveness; to increase the transparency of what is done in PTAs and identify ‘good practices’ that could be extended to or pursued by non-members; and to facilitate greater pursuit of plurilateral (small group) cooperation under the umbrella of the WTO as opposed to doing so only in the framework of a PTA.

Two specific suggestions for the Brisbane G20 summit

The B20 Trade Taskforce (2014) recommended four trade-focused action items for G20 Leaders: (i) rapidly implement and ratify the Bali TFA; (ii) reinforce the standstill on protectionism and wind back barriers introduced since 2008; (iii) develop country-specific supply chain strategies; and (iv) ensure PTAs realize better business outcomes. These all make good sense, and all involve actions where concerted action would provide a global public good. Unfortunately, one member of the G20 has blocked implementation of the TFA in the WTO, and the call for a standstill and rollback of protectionism has been a staple of G20 summits that has not been implemented by governments. Achieving the first two objectives will require the type of negotiation and package deal that the WTO has not been able to deliver for the DDA. Indeed, adding the rollback objective as an element of a post-DDA work program or as part of the road map to conclude the DDA may well be a precondition for realizing the goal.

What follows makes two specific recommendations for G20 action on trade that are consistent with the B20 trade taskforce proposals and that would bolster the trading system. Both address issues that are of direct relevance to national growth agendas and the overall G20 economic growth objective; both will generate a public good, i.e., benefit the global economy, not just the G20 countries; both are Pareto-improving in that no country will lose from pursuing them; and neither requires complicated negotiations or a formal trade agreement/treaty.

1. Agree on a specific trade cost reduction target

Given the extant research on the links between trade expansion and growth; the key role that trade costs play as an impediment to trade and investment in/operation of international supply chains; and the importance of services in overall trade costs (transport and logistics services, related infrastructure), G20 leaders could help to ensure that trade does more to support their overall growth objective by committing to achieve a significant reduction in trade costs. In contrast to the 2 percentage point increase in economic growth over 5 years that has been adopted as the primary focal point of the G20, which is endogenous and not under the direct control of governments, a trade cost reduction goal can be mapped to specific policies and instruments that governments do control, and
has the additional advantage that pursuit of trade cost reductions can and should involve the business community in each country.

There is a precedent for adopting a trade cost target: APEC member governments agreed to a common trade facilitation performance target in two consecutive action plans starting in 2001—setting a goal of reducing trade costs by 10% over the 10 year period on a regional basis (APEC, 2012). The G20 could emulate this initiative, building on and learning from the APEC experience.\(^5\) One possibility would be for every G20 member to commit to reduce trade costs by at least 5 percent in 5 years, and to use international data on trade costs reported by companies on a country-by-country basis as a baseline (e.g., World Bank, 2014).\(^6\) Trade cost reduction by the G20 would be in the interest of each country, but also benefit non-G20 nations and thus be a contribution to the global public good. It is also fully consistent with the G20 growth objective, as lowering trade costs are a mechanism to increase welfare (real incomes) (see, e.g., WEF, 2013; Estevadeordal and Taylor, 2013).

A G20 commitment to a specific, numerical trade cost reduction target would also send an important signal to business community that the TFA debacle at the WTO in July 2014 does not mean that G20 Leaders do not believe that trade facilitation matters. A G20 trade cost reduction target would provide a concrete focal point for both national action and international cooperation along the lines of what is foreseen in the TFA, but not be limited to the issues that the TFA covers. Indeed, in practice it may be that the most important sources of trade costs and supply chain frictions are related to service sector policies or weaknesses in infrastructure, areas that are not covered by the TFA. A trade cost reduction target leaves it to governments, working with stakeholders (businesses, regulators, consumer organizations), to determine how best to reduce trade costs. It is fully consistent with the call by the B20 Trade Taskforce (2014) for the development of national supply chain development strategies, as well as the need to incentivize the relevant international organizations to focus their activities on assisting governments to reduce trade costs.

The value added of a joint G20 initiative on trade cost reduction is not just as an instrument to increase real incomes, but there is an important public good/collective action dimension. Realizing the objective will require high-level political attention to achieve the needed internal coordination within governments and external coordination across governments to pursue cross-border projects and cooperation. A G20 trade cost reduction initiative will also incentivize the relevant international organizations to focus their activities on assisting governments to reduce trade costs.

If agreement on implementing the TFA has not been reached in the WTO before the Brisbane summit, an element of the proposed trade cost reduction initiative could be agreement by G20 Leaders to implement the TFA unilaterally as an open plurilateral agreement. The stance that has been taken by India implies that a formal WTO Plurilateral Agreement is not feasible, as India can be expected to block adoption of the TFA as a plurilateral agreement even if it were to be applied on a MFN basis by those who join. But the G20 can commit to implementing the TFA and cooperating to provide assistance to developing countries that also decide to do so, along the lines called for in the TFA.\(^7\)

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\(^5\) As discussed in Hoekman and Shepherd (2014) a weakness of the APEC approach was that the target was for APEC as a whole, not country-specific and there was no agreed baseline ex ante, making it difficult to assess to what extent observed improvements in trade cost indicators can be attributed to the APEC initiative. APEC (2012) concludes that the trade cost reduction target was largely achieved.

\(^6\) In addition to actual data on trade costs reported by companies, other indicators to measure progress ex post could include surveys of trade logistics professionals (World Bank, 2014) and indirect measures of trade costs that are based on trade and production data (Arvis, Duval, Shepherd and Utkhdam, 2013).

\(^7\) Pursuing the TFA outside the formal WTO framework would raise a number of practical issues – e.g., identification of other international organizations to provide the needed secretariat and aid coordination functions.
2. Open up the PTA black box and support more plurilateral cooperation in Geneva

Currently PTAs are regarded by policymakers as the default option for the pursuit of cooperation on trade policy matters not covered by the WTO. The B20 trade taskforce (2014) calls for Leaders to do more to ensure PTAs realize better business outcomes. An explicit focus on actions to achieve a trade cost reduction target on a country-by-country basis can help do so by focusing attention on what could be done through extant PTAs to lower trade costs. From a global trading system perspective the focus of attention should be on reducing the costs that are created by the plethora of different PTAs and their provisions, including differences in rules and regulations for identical products.

As already noted, there are good reasons for small group cooperation on regulatory matters given the great diversity in circumstances and priorities for the 160 members of the WTO. Recent experience in and outside the WTO illustrates that it is difficult to attain agreement among the WTO membership as a whole on new disciplines for trade and investment related policies. Plurilateral cooperation and “variable geometry” is and will be an inherent feature of the global trading system. The G20 countries are of course the main drivers behind plurilateral trade and investment arrangements. Such arrangements can and do have negative consequences for non-members when they result in greater discrimination against non-parties. But they also may generate benefits for non-members.

From both a global welfare and global trading system perspective the G20 should take action to ensure that there is: (i) greater transparency and knowledge regarding both the negative spillovers and the positive economic impacts of implementation of PTAs and (ii) greater pursuit of small group cooperation under the umbrella of the WTO as opposed to outside it. Progress on the latter front does not require a major revamp of the global trading system—what it requires is a commitment to make greater use the existing multilateral trade framework to pursue small group cooperation.

There are many policy areas that can generate negative spillovers for other countries and that should be of interest to groups of countries to discuss, independent of their income level or size. Examples are export restrictions, which are detrimental to net importing countries, ‘green’ subsidies (ranging from minimum feed-in prices for electricity generated from renewable resources to subsidies for the development or use of specific technologies), and policies constraining digital trade and e-commerce—an area that is of critical important to SMEs. Some of these issues are addressed in recent PTAs, others not.

G20 Leaders can take two action in this connection: (i) commit to joint action to enhance the transparency of their PTA activities by doing more to engage with the WTO membership as a whole and discuss their objectives and achievements, and what has been learned in the process of implementing specific initiatives in the context of PTAs; and (ii) commit to do more to pursue discussions and potential cooperation on “new” issues under the umbrella of the WTO as opposed to limiting these to bilateral or PTA settings outside the WTO.

On the first suggestion, the Asia-Pacific region again provides examples that might be emulated, in the process helping to link initiatives that aim at market integration and policy cooperation. The Pacific Alliance countries, a deep integration effort that spans Chile, Colombia, Mexico and Peru, with Costa Rica expected to join soon, are pursuing a variety of initiatives in policy areas spanning integration of stock markets; liberalizing the movement of business people and tourists; opening up access to procurement; simplification and adoption of a common set of rules of origin; collaboration in trade promotion; and engaging the business community to identify priorities for joint action, to name just a few. A distinct feature of the Alliance is that it is open to new members and to observers—many OECD members and countries in the region are observers. But little is known in Geneva about what concretely the Alliance is doing in different regulatory areas. The same is true of integration initiatives involving other advanced Pacific countries – e.g., Australia, Korea, New Zealand, Singapore among others, and ASEAN.
The basic idea is for the G20 Leaders to commit to regularly explain what they are doing in PTAs to non-members on policy issues and areas that are not covered by the WTO, thus opening what is to a significant extent a black box for non-members. This process could be supported by the relevant international secretariats – e.g., the APEC Policy Support Unit, the OECD, etc.

Turning to the second suggestion, there is no reason why cooperation on issues not covered by the WTO must be pursued solely through PTAs. The WTO allows for members to form plurilateral agreements that apply only to signatories. A clear commitment by the G20 to support efforts by groups of countries to agree to new plurilateral agreements would be an important signal that G20 Leaders recognize that small group cooperation under WTO auspices is a feasible and desirable option.

A major constraint on the pursuit of new plurilateral agreements in the WTO has been the need for all WTO members to agree to their incorporation into the WTO framework, whether or not they join the agreement. That is, all WTO Members must agree to accept new plurilateral initiatives, even if these bind just a few countries. The consensus constraint effectively has led countries to rely exclusively on PTAs as mechanisms for cooperation on regulatory policies and new rule-making. There are good arguments for consensus and for the linkage strategies that it allows. But consensus has become an impediment on moving forward on any subject, including those where all agree that moving forward is desirable.

As discussed in a number of recent papers – e.g., WEF (2010), Draper and Dube (2013), Hoekman and Mavroidis (2013) – greater use of plurilateral agreements under WTO auspices could be facilitated by agreement on a ‘code of conduct’ that lays out criteria that should be satisfied by proposed plurilateral agreements. The aim would be to ensure countries that do not participate that such agreements will not be detrimental to them and provide greater assurances to the countries that want to pursue new plurilateral agreements in the WTO that investing efforts to do so is not a waste of time and resources. This issue should be a priority among those considered by the Eminent Persons Group to assess ideas for global trading system reform that has been proposed by Pangestu and Nellor (2014) and by Bark et al. (2014).

**Conclusion**

G20 discussions and declarations on trade have been limited to WTO negotiations and promises to refrain from taking protectionist actions as part of national responses to the 2008 financial crisis and its aftermath. Neither has been particularly effective – the Doha Round remains blocked and G20 countries have taken over 2000 trade-restrictive measures. There is little prospect for greater success on these two avenues than has been observed to date. What is needed instead are specific commitments by G20 leaders to pursue actions on the trade front that will support both the growth objective and strengthen the global trading system looking forward. A G20 trade cost reduction commitment and a pledge to engage on plurilateral initiatives under the WTO umbrella would both help achieve the growth goal that the G20 has set itself and support the development of the global trading system.

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