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Revitalizing the Global Trading System: What could the G20 do?

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Abstract

Since 2008, G20 leaders have repeatedly committed themselves not to resort to protectionism and to conclude WTO negotiations expeditiously. The jury is out on the extent to which they lived up to the first promise; they failed to deliver the second. Anemic global trade growth rates since 2010 implies that trade has not been a driver of much needed economic dynamism. This paper argues that the G20 should pursue a more ambitious trade agenda and that there is much that greater leadership by the G20 could do to reinvigorate the trading system. A first step would be to commit to concrete actions that can be implemented by individual governments on a concerted basis and that center on reducing trade costs and improving access to services for firms. The Chinese presidency should also seek to have the G20 commit to more effective monitoring and analysis of trade policy broadly defined (including subsidies and investment incentives) and the impact of the many preferential trade agreements involving China, the EU and the US, the world's largest trading powers.

Keywords

G20; trade governance; WTO; trade costs, services

Introduction[*]

Since its establishment in 1995, the WTO has played a central role in the operation of the world trade regime. Its membership has expanded to include an additional 30+ countries, including China and Russia; the organization has addressed over 500 disputes between members; and it played an important role in ensuring transparency of member countries' trade policies and sustaining cooperation between countries in the aftermath of the 2008 global financial crisis. However, as is well known, it proved to be very difficult to extend the coverage of the multilateral trading system through the Doha Development Agenda (DDA). Disagreements among G20 countries regarding the costs and benefits of committing to additional policy disciplines, most notably between the United States on one side and major emerging economies such as India on the other, blocked progress in core areas of the WTO's traditional market access agenda – import tariffs, agricultural support, services trade liberalization.

An important corollary of the DDA deadlock was that it precluded a focus on new policy issues that impact on the ability of firms and consumers to source and sell the goods and services that drive investment and employment decisions. Technical change is changing the structure and composition of international trade, reflected in global value chain-based production; the servicification of manufacturing; increasing connectivity and interdependence between products (the "Internet of things"); and an associated growth in cross-border data flows. These new dimensions of global trade give rise to new policy concerns and spillovers – e.g., localization requirements for data storage and associated data security and privacy policies. National regulatory requirements are moving to center stage, driven by concerns in the business community about the trade-impeding (cost-raising) effects of *differences* in applicable regulatory norms and standards, licensing requirements, certification and compliance assessment procedures for products and production processes used by suppliers of goods and services.

Lack of progress on the DDA negotiations led many countries to focus their attention to other fora – notably preferential trade agreements (PTAs). The ongoing negotiations on a Transatlantic Trade and Investment Partnership (TTIP) between the EU and the US and the recently concluded Trans-Pacific Partnership (TPP) and Comprehensive Economic and Trade Agreement (CETA) between Canada and the EU are important examples of such new PTAs. These are second-best solutions when it comes to development of new rules, given that the organization of production and trade into international value chains/networks means that end products are impacted by many regulatory jurisdictions. PTAs do not span all the countries involved in many (most) global value chains, thus limiting the positive impact that they can have in addressing regulatory differences and uncertainty for firms and consumers. They also give rise to the possibility of trade and investment diversion and contribute to further fragmentation of the multilateral trading system.

The new generation mega-regional PTAs go far beyond traditional trade agreements. They involve efforts to deepen trade integration that is less market- and more institution-driven. As a result they open the possibility of less transparent forms of discrimination against outsiders. China has been among the most active countries in negotiating PTAs. The 2016 G20 Presidency should recognize the responsibility of the G20 for the proliferation of PTAs on the trading system and on non-G20 member countries, and launch a process to monitor the impacts of PTAs.

As discussed in what follows G20 members have played a critical role in the failure of the DDA. While the composition of the group is idiosyncratic and difficult to rationalize, it includes the five WTO members whose failure to agree in the WTO has been most consequential. Most important, the G20 is unique in including both China and the United States. These countries need to agree for any

[*] I am grateful to Alessia Amighini, Simon Evenett, Xiankun Lu, Michele Ruta, Raed Safadi and Bob Wolfe for helpful comments on an earlier draft.

deal in the WTO to be possible (Wolfe, 2015). The more the G20 can provide a forum for moving towards a trans-Pacific accommodation in trade matters, the more the G20 will have done to support the global trading system. The current situation in this regard is not very propitious, given that neither the TPP nor the going negotiations on trade in services include China, despite China's interest in joining the latter.

1. Trade and the G20—2009 to 2015

The G20 has included a focus on the trade agenda since 2008 when it was used by the Bush Administration as a vehicle to coordinate responses to the global financial crisis. In the 2009 G20 Summit declaration leaders recognized that reinvigorating world trade and investment was an essential element of restoring global growth and that a protectionist response to the crisis would exacerbate the sharp decline in demand in crisis hit countries. They agreed not to repeat the historic mistakes of protectionism of previous eras; to refrain from raising new barriers to investment and trade in goods and services and not to use WTO-inconsistent measures to stimulate exports. They also mandated the WTO and other international organizations to monitor and report publicly on the adherence by G20 members to these undertakings on a quarterly basis (after the immediate crisis had passed these became semi-annual). In addition to these commitments to exercise constraint, they took action to increase the availability of trade finance (by at least $250 billion over two years) through national export credit and investment agencies and multilateral development banks and called on regulators to make use of available flexibility when setting new capital requirements for trade finance. Finally, they indicated their commitment to an ambitious and balanced conclusion to the DDA and to provide the political attention needed to achieve this goal.

Subsequent summits essentially reiterated the promises on refraining from protectionism (standstill and rollback commitments) and concluding the DDA. Views differ on whether they kept the promise regarding no protectionism. As a factual matter it was broken almost immediately (Evenett, 2009). While there have been few major instances of protectionist action, G20 governments continued to use all the instruments that are permitted by the WTO – antidumping and countervailing duties, safeguard actions – and implemented numerous measures including subsidy programs and industrial policies that support domestic economic activity in ways that may distort trade.

Some analysts have argued that the effects of protectionist measures post-2008 were small (e.g., Kee, Neagu and Nicita, 2013). However, others point out that such analyses neglect important policy instruments (such as subsidies) and that whatever the judgement on the impacts of actions taken in the initial post-2008 period, the use of trade policy instruments has been significant and intensifying over time. In 2015 twice as many new measures were observed as in 2009 (Evenett and Fritz, 2015). Regular independent monitoring by the Global Trade Alert has documented that between 2009 and 2015, G20 members put in place over 3,500 measures that distorted trade, of which 80% remained in place as of November 2015.[1]

Although the jury is still out on whether the G20 lived up to the promise to refrain from beggar thy neighbor trade policies, they clearly did not deliver on the commitment to conclude the DDA. Six years after the initial crisis G20 summits, the DDA was effectively abandoned at the 2015 Nairobi WTO Ministerial conference. This opens the door for G20 members to reflect on the lessons of the

[1] See http://www.globaltradealert.org/. The G20 mandated the WTO and other organizations to monitor the no protectionism pledge, which generated regular (joint) reports by the WTO, UNCTAD and the OECD. However, these have picked up substantially fewer measures than the Global Trade Alert. In part this may reflect the greater reliance on notifications as opposed to independent collection of information, as well as lack of specificity as to what should be covered and how far to go beyond the policy instruments subject to WTO rules. In the context of the G20 two percent growth target the assessment by international organizations of implementation of self-defined actions to be taken by G20 members arguably has been broader in scope.

DDA failure and its implications for sustaining an open, rules-based multilateral trading system. Reflection is also needed when it comes to the many trade distorting policies that have been put in place by G20 members, whether or not subject to WTO disciplines. The numerous trade-distorting measures that have been taken by all G20 members have not supported the urgently needed resumption of trade growth. The fact that global trade has been growing at the same (anemic) rate as global GDP growth since 2010 has been widely remarked upon and has become a subject of discussion at the G20. The trade slowdown has been the longest spell of slow trade growth that the world has experienced for many decades. The reasons for the slowdown are complex but a variety of policy factors clearly have played an important role.[2]

The ineffectiveness of the repeated calls by Leaders to their Trade Ministers to conclude the DDA and to refrain from and rollback protectionist measures reveals the limitations of the G20 process. Statements to the contrary notwithstanding, G20 members were not about to cease using trade policy mechanisms that are permitted by the WTO, let alone instruments that are not subject to WTO disciplines. There were major substantive differences between G20 countries on the DDA—calling for the urgent conclusion of the DDA did not do anything to help trade ministers address these. Multilateral trade negotiations are very complex and do not lend themselves to summitry. The credibility of the G20 as regards the stated objective of supporting multilateral cooperation on trade matters was further eroded after 2009 as a result of the revealed preference of many G20 countries for the pursuit of discriminatory preferential trade agreements.

Reflecting a recognition that (i) trade is a potential driver of urgently needed growth and (ii) Leaders cannot by themselves address the differences in views and national positions that led to the DDA deadlock, during Mexico’s Presidency of the G20 (2012) the initiative was taken to hold a meeting of G20 trade ministers as part of the G20’s activities. Subsequent G20 trade Ministerials took place under the Australian (2014) and Turkish (2015) presidencies. In their 2015 meeting in Antalya, G20 leaders called on their trade ministers to meet on a regular basis and to create a G20 Trade and Investment Working Group (TIWG). This group is modelled on other groups that have operated under G20 auspices, some of which have dealt with trade-related matters, including the Development Working Group, which has focused on topics of specific salience to developing countries, including making progress on duty-free, quota free access for LDCs, aid for trade and trade facilitation.[3] Such groups are mechanisms for cooperation and substantive discussion on issues, informed by analysis, monitoring and evaluation that is provided by staff of international organizations that contribute to the deliberations (IMF, OECD, UN agencies; World Bank, etc.).

The establishment of the TIWG provides a forum for G20 officials to prepare the ground for more specific action-oriented discussion and decision-making by Leaders on trade matters. Whether it will do so and lead to more concrete action by the G20 than in the past is an open question. Between 2009 and 2015, it became increasingly obvious that the anti-protectionism and the DDA-related statements were essentially aspirational. The focus of G20 deliberations instead turned to trade matters that were not directly tied to the WTO. These included discussion of the reasons for the global trade slowdown and the policy implications of the rise of GVCs, including how to enhance the participation of

[2] See the contributions in Hoekman (2015).

[3] Other groups include the Anti-Corruption Working Group, an Employment Working Group, a Climate Finance Study Group, a Global Partnership for Financial Inclusion, and the Framework Working Group. The latter plays a key role as it oversees actions to achieve the growth agenda that has been agreed by G20 members and is an important vehicle for mutual peer pressure to live up to national (self-determined) specific growth-enhancing commitments, based on monitoring and analysis by the international organizations (IMF and OECD).

developing countries and SMEs into international production networks.[4] While educative, these deliberations did not result in any concrete action by G20 member countries.

Moving beyond discussion of reports by international organizations on trade issues requires that G20 members agree on a work program/action plan and that they can hold each other – and the relevant international organizations – accountable for progress in implementation of what has been agreed. The creation of the TIWG may facilitate such a shift by establishing a focal point for more sustained attention to trade issues. The G20 agenda is heavily overloaded, in part the result of each country that presides over the G20 for a given year having its own set of priorities, and in part a reflection of advocacy by different interest groups, including international organizations, to have "their" issues added to the G20 agenda.[5] As a result, subjects that do not have an institutional basis or structure through which to develop initiatives for approval by Leaders and to coordinate and monitor follow-up actions have little prospect of being operationalized.

What a more action-oriented agenda might entail will depend in part on the 2016 host country, China. In a paper on the agenda of the G20 for 2016 (Xi Jinping, 2016), the Chinese government notes that trade and investment are important engines for growth and job creation, points to growing concerns over the persistent global trade slowdown, the rise in protectionist measures and the trend towards "fragmentation" in global trade and investment governance that is the consequence of the increasing a proliferation of PTAs and (bilateral) investment agreements. The paper calls for strengthening the multilateral trading system by ratifying the WTO Trade Facilitation Agreement, implementing the extended Information Technology Agreement (ITA) and making progress on the negotiations for an Environmental Goods Agreement. It also calls for the G20 to support discussion of new trade and investment related issues in the WTO. The latter is important given the demise of the DDA, but overall the paper implies only an incremental step away from G20 "business as usual". More is needed. This is the case in particular when it comes to PTAs. Although China has called for strengthening the multilateral trading system, in practice it has been emulating the EU and the US by becoming a central player in a network of PTAs, mostly centered on Asia. Favouring regionalization of production through (often overlapping) PTAs cannot be squared with revitalising multilateralism.

In fact, it appears as if the focus of G20 deliberations is moving away from addressing international policy spillovers, which is the core function of multilateral cooperation. Thus, an area that has been the subject of recent discussion in the G20 is an investment facilitation package. A draft proposal to facilitate investment focuses on adoption of a set of 'good practices' by countries to enhance access to information, including putting in place 'single windows' for potential investors, ensuring predictability of applicable policies and so forth, and complementing this with a G20 initiative for the promotion of investment in low-income countries (G20, 2016a). An initiative to this effect does not appear to leverage the potential comparative advantage of the G20 in providing global public goods and

[4] This was consistent with the early focus of the G20 on addressing the perceived lack of trade finance following the collapse and/or retrenchment of a number of large banks that had been major players in this market. Trade finance was not a matter for WTO negotiations, although the WTO played an important role in raising the profile of this issue.

[5] A document listing OECD G20 deliverables in 2015 is illustrative: the Antalya Action Plan; Accountability Assessment Report; G20 Investment Strategies and G20/OECD Report on G20 Investment Strategies; Multilateral Development Banks Action Plan to Optimize Balance Sheets; G20/OECD Principles of Corporate Governance; G20/OECD High-Level Principles on SME Financing; Joint Action Plan on SME Financing; The Common International Standard on Total-Loss-Absorbing-Capacity for Global Systemically Important Banks (FSB); Higher Loss Absorbency Requirements for Global Systemically Important Insurers, (IAIS); G20 and Low-Income Developing Countries Framework; G20 Action Plan on Food Security and Sustainable Food Systems; High-Level Statement on Remittances; G20 Leaders' Call on Inclusive Business; G20 Energy Access Action Plan: Voluntary Collaboration on Energy Access; G20 Toolkit of Voluntary Options for Renewable Energy Deployment; G20 Skills Strategy; G20 Policy Priorities on Labour Income Share and Inequalities; G20 Policy Principles for Promoting Better Youth Employment Outcomes; G20 Framework on Promoting Quality Jobs; G20 High-Level Principles on Private Sector Transparency and Integrity; G20 Principles for Promoting Integrity in Public Procurement; G20 Anti-Corruption Open Data Principles. This list does not include numerous papers and reports prepared by international organizations. See OECD (2015).

revitalizing multilateralism. Investment promotion and facilitation is largely a matter of effective national administration and better governance in countries seeking investment. What is the rationale for the G20 to focus on national policy environments in presumably mostly non-G20 countries given that these mostly center on good practices that can be adopted by individual countries and that international organizations are already assisting governments to implement through capacity building projects and policy reform programs?

If the G20 was to take multilateralism seriously the focus would be on those elements of investment promotion policies that are pursued by the G20 countries and that create negative spillovers for other countries. In practice there is a very significant subsidy dimension here, with most jurisdictions providing tax, fiscal and other positive incentives to attract foreign investors, often at the local and sub-central level. Such policies can easily be to the detriment of lower-income countries. But investment incentives are not a central focus of the G20 deliberations. This was also the case in the unsuccessful OECD effort during the 1990s to negotiate a Multilateral Agreement on Investment among its members, and in the WTO discussions on investment in the late 1990s/early 2000s, despite this being a major source of the type of negative spillovers that provides a rationale for international cooperation (Hoekman and Saggi, 2000). A good case can be made that for the G20 to make a contribution in the investment policy area, the focus should be on the use of beggar-thy-neighbor subsidy instruments to promote (facilitate) inward investment. However, this is not part of the proposals that have been forward to date.

2. Bolstering the global trading system

From a global growth and employment creation perspective the limited ambition of the G20 on trade policy has come at a significant opportunity cost. For the G20 to be more effective in leveraging the trading system for global growth, actions are needed that will incite more investment and employment creation. The DDA would have generated a potential medium-term boost to global welfare, but would not have done much to support the structural reforms needed for global rebalancing and growth. The focus of the DDA was primarily on reductions in tariff bindings (maximum permitted tariffs) and disciplines on agricultural support policies – a sector that accounts for only a small share of global trade. Services – which represent 70 percent or more of GDP in many economies and that should be a core part of structural reform agendas – were essentially taken off the WTO table. They now figure in mega-regional negotiations and the Trade in Services Agreement (TiSA) talks. Such efforts do not include most of the major emerging and developing economies that have the most to gain from services trade and investment policy reforms, and that offer the greatest prospects to generate an increase in trade flows.

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 important determinants of international competitiveness of firms in developing nations.[6] Boosting trade growth prospects is a function of lowering trade costs. In part this involves trade facilitation – the types of measures that are called for in the WTO Trade Facilitation Agreement – but the agenda goes far beyond this to span a variety of services-related elements (logistics, transport services), including transport and communications infrastructure, as well as more traditional barriers to trade in goods. Trade costs are not just an issue for the exchange of goods and services and the operation of (participation in) GVCs. They also affect trade and investment. Regulatory barriers to services trade, such as restricting the ability of foreign providers to offer services through nationality requirements or banning inward foreign direct investment in segments of the transport or communications sectors, increase costs for all firms and make them less competitive.

6 See e.g., Francois and Hoekman (2010) and Hummels and Schur (2013).

Calls are frequently made in international fora that the global trading system should be universal, rules-based, open, non-discriminatory and equitable (e.g., UN, 2015). The demise of the DDA, the proliferation of discriminatory PTAs and the changing nature of global trade (briefly discussed above) all make clear that new approaches are needed to attain this goal. Today's world economy requires a global trade governance structure that spans a greater set of policies than is covered by the WTO; one that is more supportive of deliberation and learning; more outcome-oriented in the sense of having concrete, agreed objectives and focal points to guide action, monitor progress and ensure accountability for results; and that involves much greater engagement by stakeholders to identify priority areas for action and to ensure greater accountability for results. There is significant untapped scope for public-private partnerships to identify priorities, to implement solutions and to monitor and evaluate outcomes. There is also substantial potential for the pursuit of cooperation on an open, plurilateral basis under the umbrella of the WTO, as opposed to discriminatory PTAs.[7]

The trend towards PTAs makes clear that the global trading system cannot be monolithic. Nor should it be. There are good rationales for pursuing cooperation on certain types of regulatory '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 desirable, the preconditions for implementing it may not be satisfied by all countries. But this is not a reason for designing cooperation to be exclusive and discriminatory, as is too often the case in PTAs. Ideally, whatever countries agree to do on a joint basis should be implemented in ways that maximize the prospects for global growth and economic development. A necessary condition for this is that small group cooperation on trade-related policies is transparent in the sense that there is full information on what is done by members of the group and openness to participation by additional countries if these satisfy the substantive necessary conditions that are associated with what is being done by a group. Leadership by the G20 can make a difference in shifting the balance of international cooperation back towards greater consistency with the core principle of nondiscrimination.

The creation of the TIWG provides a potential vehicle for G20 officials to deliberate on what the G20 might focus on that goes further than simply discussing reports prepared by international organizations on issues such as SME participation in GVCs. What that might be is something the group will need to determine.[8] The foregoing discussion suggests there is a strong case for defining an action agenda that addresses specific constraints to trade and investment growth and that can be implemented on a concerted basis by G20 members. Such an agenda should involve measures that support the global trading system and the world economy; are Pareto-improving (in that no G20 country will lose from pursuing them and no non-G20 country will be negatively affected); and do not involve quid pro quo negotiations but instead can be implemented by each country autonomously. The aim should be to supply public goods that benefit not only the G20 members individually and as a group, but the world as a whole. Thus, the presumption should be that the G20 pursue so-called critical mass initiatives, where the benefits extend on a nondiscriminatory basis to all countries. Specific initiatives along these lines need not necessarily include all G20 member countries. Indeed, imposing that constraint would greatly limit the scope for action given the wide divergences within the G20 as regards desirable actions on the trade front. These differences lay at the heart of the DDA failure and the recourse that G20 countries have made to trade-distorting policy measures.

What follows makes several suggestions for action by G20 members that satisfy these criteria.[9]

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7 Some of these themes are developed further in Hoekman (2014a) and Hoekman and Mavroidis (2015).

8 A number of possible areas have already been proposed in initial TIWG discussions, including a work program on e-commerce and collaboration in supporting international organizations to provide access to information and technical assistance to help SMEs participate in value chains.

9 A number of the suggestions that follows are based on the outcome of projects the author has participated in, including Cunningham et al. (2015) and Hoekman, Findlay et al. (2014). See also Lu et al. (2015).

2.1 Adopt and pursue a specific trade cost reduction target

Given 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 international supply chain activities, and the importance of services in determining overall trade and operating 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 specific reduction in trade costs within a certain period of time (Hoekman, 2014b). In contrast to the two percentage point increase in economic growth over five years that was adopted as a key goal of the G20 under the Australian presidency, which to a significant extent is endogenous and not under the direct control of governments, a specific trade cost reduction target can be mapped to specific policies and instruments that governments do control.[10]

Proposals have been made under the Chinese presidency that G20 members adopt a trade cost reduction target – aiming for a 15 percent reduction in trade costs by 2025 (G20, 2016b). This may be too ambitious for many countries unless it is defined as an average reduction across a broader group of countries than just the G20. Most of the scope for large reductions in trade costs is in developing countries. 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). A G20 trade cost initiative should build on and learn from the APEC experience. 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 (Hoekman and Shepherd, 2015). International data on trade costs compiled by the UN Economic and Social Commission for Asia and the Pacific and World Bank (Arvis, Duval, Shepherd and Utoktham, 2015) can be used both to establish a baseline and to monitor progress, although such indicators should be complemented by more specific measures of specific policy areas that directly impact on trade costs. 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., Estevadeordal and Taylor, 2013).

A G20 commitment to an explicit trade cost reduction target would also send an important signal that the WTO Agreement on Trade Facilitation (TFA) is important, necessary, but not sufficient. In practice the most important (binding) sources of trade costs may be 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. A G20 trade cost reduction initiative can help address important political economy and collective action problems that otherwise may impede progress. High-level political attention will be required to ensure the coordination within and across governments that is needed to achieve trade cost reductions. An international initiative will generate such attention, as well as incentivize the relevant international organizations to focus their activities on assisting governments to achieve trade cost reduction targets and to undertake the monitoring and evaluation that is needed to assess progress and impacts.

[10] The same observation regarding endogeneity and lack of control/attribution applies to suggestions that the G20 should establish a trade growth rate goal. That said, clearly trade policy is relevant for attaining the growth objective. Some 130 out of a total 950+ actions to promote growth reported to the OECD and the IMF involved trade opening, many of related to trade facilitation (correspondence with Raed Safadi).

2.2 Nondiscriminatory reduction in services trade restrictions

Services are important for economic growth. Many services are intermediate inputs that are used by other sectors in the economy. Services generally account for a significant share of the total costs of production of a firm. If these inputs are expensive or low quality, this will negatively impact on firm-level productivity. Actions to facilitate trade in services will increase competition on markets and give firms and households access to services at lower prices and increase the variety of services that are offered. Research has shown that more open services trade policies are associated with better performance of manufacturing sectors, especially in industries that use services relatively intensively in their production processes (Francois and Hoekman, 2010).

Given that services trade restrictions in many countries and sectors are often high, liberalization is one mechanism to foster productivity improvements and economic growth. Many of the reforms that are called for can and should be pursued unilaterally by individual countries, but joint action by the G20 as a group may facilitate reform of service sector trade and investment policies. Neither the WTO, nor the PTAs that have become the preferred mechanisms for trade policy cooperation for many G20 countries, are doing enough to open services markets or to support investment in services infrastructure. 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 practice PTAs to date have done little to reduce the costs of differences in regulation that impede firms – especially SMEs – from trading across borders.

Currently, the primary ongoing international effort to liberalize services trade barriers is the negotiation on a Trade in Services Agreement (TiSA). The talks are limited to a group of 'really good friends of services'.[11] They do not include the majority of developing nations, most notably China – despite its request in 2013 to join the negotiations. From a trading system perspective this is unfortunate, as negotiating accession once TiSA exists may be less straightforward given the need to engage bilaterally with all original TiSA members. Much will depend on the accession process that is established. One important contribution that G20 countries participating in TiSA could make is to start a process of discussion on services with China, India and Brazil. A G20 initiative on services trade liberalization could be a way of building bridges to the TiSA negotiations, by providing a clear signal by non-TiSA G20 members that they recognize the importance of focusing on services trade policies for continued trade growth. Focusing on services policies is, as already mentioned, a core dimension of any effort to reduce trade-related operating costs, as these are in part determined by services trade and investment restrictions. A services initiative would seem to be particularly salient for China, both in its 2016 presidency role, and from the perspective of its stated interest in participating in the TiSA talks.

Assuming an agreement is eventually reached, participants need to decide whether to make the TiSA a PTA (and notify it as such to the WTO under Art. V GATS), or to inscribe the results of the negotiations into their GATS schedules of commitments and make the TiSA a so-called critical mass agreement. The latter would be desirable and give a strong signal of commitment to the multilateral trading system. It is unlikely however given that major countries such as China and India are not part of the TiSA talks. A number of TiSA participants, including the EU, have sought to structure a TiSA so as facilitate future multilateralization of any TiSA-based market access liberalization through the GATS. It also permits much of whatever is agreed in TiSA that does not involve specific market access pledges to be incorporated into existing GATS schedules as so-called additional commitments

[11] This is WTO terminolgy. The TiSA includes Australia, Canada, Chile, Chinese Taipei, Colombia, Costa Rica, Hong Kong China, Iceland, Israel, Japan, the Republic of Korea, Mexico, New Zealand, Norway, Panama, Paraguay, Pakistan, Peru, Switzerland, Turkey and the US.

(see Roy and Martin, 2014). The latter is something that should be feasible for all G20 members participating in TiSA to do.

2.3 Support data collection and analysis of potentially trade distorting policies

Recent research has found that the magnitude of the net benefits of services liberalization is strongly impacted by the business environment and the quality of economic governance. Economies with good economic governance benefit much more from open services trade policies; those with very weak institutions may not benefit from reducing services trade restrictions (Beverelli et al. 2015). One reason for this is that many services are not storable, so that foreign suppliers need to establish a local presence in the market in order to provide services. Policies that restrict establishment will then impede trade. But removing such policies may not be enough. The need to establish means that foreign firms will also consider the business environment they must operate in. The implication is that the quality of economic governance and related institutions will determine the size of the economic impact of services trade reforms. There is an important knowledge and learning agenda here, in part centered on the design of technical assistance that targets specific areas of regulation and economic governance where institutional strengthening will have the greatest potential impact in enhancing the positive effects of lower barrier to trade in services.

This is just one example where the state of knowledge on prevailing ‘behind-the-border’ policies broadly defined and their effects is limited. More generally, too little is known about the nature and extent of trade costs and how these in turn impact on the competitiveness of firms. While information on nontariff measures, services trade policies and regulatory regimes have been improving, there is extensive work to be done to improve the cross-country coverage, quality and timeliness of data on prevailing trade and investment policy regimes. While international agencies have made efforts to collect such information on an ad hoc basis what has been missing is a coordinated, large scale effort that does so over time. A mandate by the G20, accompanied with mobilization of the required resources to permit the relevant organizations to work together to do so, would be an example of the G20 supplying a public good that is very much undersupplied at present.

Suggestions by G20 members for the development of a Trade Outlook Index by the WTO in collaboration with other international organizations to act as “early warning” system for trade and to provide G20 members with higher frequency data on trade developments are unlikely to be very useful given that such analysis is already available – e.g., through the Central Planning Bureau of the Netherlands. Rather than duplicating macro forecasting and monitoring activities that are already being pursued by national/international agencies and the private sector, the real gap pertains to timely, comprehensive data on policies – including information on policies that are not subject to WTO notification requirements or to WTO disciplines.

2.4 Open up the PTA black box

PTAs tend to be regarded by many if not most policymakers as the default option for the pursuit of cooperation on trade policy matters not covered by the WTO. There are good reasons for small group cooperation on regulatory matters given the great diversity in circumstances and priorities across the WTO membership. Plurilateral cooperation and “variable geometry” is and will be an inherent feature of the global trading system. That said, small group cooperation need not be discriminatory (see below). But even if it is discriminatory, from a trading system perspective much greater transparency is needed regarding what is done under the umbrella of PTAs. All WTO Members have a strong interest in understanding and learning from the experience of PTA members in implementing agreements. Insofar as PTAs are innovative in addressing the market-segmenting effects of differences in regulatory policies, they can help all countries identify approaches that can usefully be emulated, whether unilaterally or in the WTO. Documenting and analyzing the approaches that are implemented by PTAs to integrate markets would not only improve transparency per se, but can also inform a process of learning about what works and what does not that is useful for non-members.

A precondition for such learning is that countries that are not members of a PTA have information on what is being done in the PTA context. G20 members could agree to provide information and share their experiences with implementation of PTAs with all WTO members, and give the WTO secretariat a mandate to analyze the economic impacts and outcomes. Suggestions to the latter effect have been proposed and there appears to be broad support for making the provisional WTO Transparency Mechanism for PTAs permanent, and mandating the WTO to work with other organizations to assess the effects of PTAs. While this would be an important step forward, G20 should recognize that their PTAs are not only a source of concern for excluded countries but a potential source of information, knowledge and possible inspiration. Active involvement by the appropriate officials from G20 countries and business/civil society representatives in engaging in a discussion regarding lessons learned from PTA should complement the more 'surveillance-centric' factual analysis that will likely form the main focus of the WTO in this area.

2.5 Launch and support plurilateral initiatives under the umbrella of the WTO

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 pertaining to digital trade and e-commerce—an area that is of critical important to SMEs as well as large firms. Some of these issues are addressed in recent PTAs, others not. From the perspective of the trading system, G20 countries could commit to do more to pursue discussions on "new" issues under the umbrella of the WTO as opposed to limiting these to bilateral or PTA settings.

Numerous observers have argued that cooperation on regulatory 'behind-the-border' policies cannot occur between 164+ countries and that this helps explain the increased recourse to PTAs. The implication is that the WTO membership should do more to pursue small group cooperation *inside* the organization as opposed to leaving this to discriminatory PTAs.[12] The WTO offers two alternative mechanisms for Members to form 'clubs' on an issue of common interest without necessarily involving all WTO members. The first is conclusion of a Plurilateral Agreement (PA) under Art. II.3 WTO;[13] the second are so-called critical mass agreements (CMAs). Both involve agreements where negotiated disciplines bind only a subset of countries. They differ in that in a CMA the benefits of agreement are applied on a MFN basis, whereas in a PA they can but need not be. Examples of CMAs include the Information Technology Agreement and the agreements on basic telecommunications and financial services under the GATS. From the perspective of the trading system, CMAs and PAs are superior to an ever expanding number of PTAs – they are much more transparent, imply less dispersion in rules and thus lower transactions costs for firms, and they offer a straightforward way to multilateralize elements of what already may be covered in PTAs (Hoekman and Mavroidis, 2015).

There is no reason why cooperation on issues not covered by the WTO must be pursued solely through PTAs. A decision by the G20 to launch initiatives to discuss possible plurilateral agreements would be an important signal that G20 Leaders recognize that small group cooperation under WTO auspices is a feasible and desirable option. Such initiatives should be premised on critical mass-based approaches, where it is explicit that the outcome of deliberations would apply on a nondiscriminatory basis. They should of course include non-G20 members and be open to all interested countries.

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[12] Cunningham et al. (2015) and Hufbauer et al. (2015) discuss a number of subjects that could be pursued on a plurilateral basis as well as approaches to address potential concerns by non-participating nations.

[13] The best known WTO plurilateral in force is the Agreement on Government Procurement.

2.6 Strengthen linkages with stakeholders and epistemic communities

A final example of a possible G20 initiative in support of the global trading system is the promotion of partnerships with business associations, international organizations dealing with trade and investment policies and civil society. Important steps in this direction have already been taken with the B20 and T20 initiatives, through which international business and think tanks have an opportunity to engage with the G20. There is presently no scope for this in the WTO, as it is restricted to central government, State-to-State interaction. This is no longer adequate. Governments at different levels (central, sub-central, municipal), regulators of different types, multinational companies and NGOs are all engaged on trade policy questions and often interact with counterparts across borders. More and more municipal and state/provincial governments implement policy packages that reflect strategies aimed at attracting and retaining trade-intensive investment (investors). Such “sub-central” activity is set to increase further, in part because of increasing urbanization and the rise of “mega cities” and in part because the relevant policies and regulation are being set at the “local” level. Companies increasingly set standards for quality, health and safety for both products and processes in their production networks and often may cooperate in private standards-setting activities that have as a goal achievement of inter-operability and minimum standards across value chains – sometimes in cooperation with NGOs and governments. Civil society groups do the same – there is a plethora of private standards-setting bodies that develop norms and offer certification services to companies that engage in international trade. Regulators frequently have their own mechanisms through which they interact with each other internationally.

The WTO must find ways to connect to these networks and communities of practice if it is to play any role in efforts to reduce the trade-impeding effects of differences in regulation – public and private –across jurisdictions. The G20 can help to encourage such a move. This could start with plurilateral initiatives in Geneva or occur as part of the operation of the TIWG to demonstrate ‘proof of concept’.

3. Concluding Remarks

G20 discussions and declarations on trade largely have been limited to pledges on WTO negotiations and to refrain from protectionist actions in responding to the 2008 financial crisis and its aftermath. Neither has been particularly effective – the DDA effectively was put to rest in Nairobi and G20 countries have taken over 3500 trade-distorting measures since 2008.[14] Clearly matters could have been worse but the net result has not been to strengthen the trading system. What is needed are specific commitments by G20 leaders to pursue actions on the trade front that will support both economic growth and strengthen the global trading system. A number of potential initiatives have been suggested in the foregoing that would do so. Some of these have already been the subject of deliberation in the TIWG during 2016, most notably the suggestion to agree to a trade cost reduction target. This would help to make the G20 more operationally relevant from a trade growth perspective. It is important in this regard not to limit the focus narrowly on existing WTO agreements, although clearly the ratification of the TFA is important. Doing more to pursue services policy reform on a nondiscriminatory basis, to enhance the transparency of prevailing policies so as to allow independent analysis of their economic effects, and launching discussions in Geneva on specific policy areas as opposed to doing so in PTAs are other initiatives that would support the global trading system.

The inability to get to yes in the DDA reflects the fact that multilateral negotiations have become more complex because developing countries are more effective at pursuing their objectives and because the issues increasingly involve national ‘behind-the-border’ regulatory policy. PTAs may well be more effective mechanisms to address matters of a regulatory nature, or that involve the liberalization of politically sensitive areas such as certain services. But PTAs generally do not address

[14] See the Global Trade Alert website at http://www.globaltradealert.org.

subjects that have been the source of disagreement in WTO negotiations such as agricultural support policies, which are important to developing countries. Moreover, as the world economy becomes even more interconnected as a result of the ‘Internet of things’, e-commerce and the associated increase in cross-border service transactions, policies that limit or raise the cost of digital trade and data flows will become more important. From a global efficiency perspective what is needed are rules of the game in these areas that span all major economies. The implication is that G20 members should seek to use the WTO and launch deliberations on possible cooperation and new rules that would benefit all trading countries.

In some areas universal participation may not be feasible. There is no need that all countries are on board, however. Even among the relatively small number of G20 countries it is unlikely that it will be feasible to obtain agreement on more substantive pro-active initiatives such as committing to a trade cost reduction target or lowering services trade and investment restrictions on a nondiscriminatory basis. It must be recognized that the key players who could not get to yes in the DDA are all G20 Members, and that some G20 Members are less supportive and less willing to contribute to the global public good of an open trading system than others. The current (geo-) political situation is not particularly propitious for joint action on trade matters – EU member states are confronting major internal challenges, both with respect to the functioning of the EU itself and the need to boost economic activity, and external challenges coming from its near neighborhood (including managing refugee flows); the US has been pursuing integration efforts that in (large) part are motivated by concerns about China’s trade growth and economic strategy; and other G20 members such as India and South Africa are primarily in a defensive trade policy mode.

Sustaining multilateral trade cooperation and an open trade regime calls for greater willingness and effort to pursue critical mass-based initiatives and open plurilateral clubs – that is, to utilize the opportunities that exist for variable geometry under the umbrella of the WTO. Deeper integration will inevitably occur within clubs—what is needed from the perspective of an effective and efficient multilateral trading system is to ensure that such variable geometry is not limited to discriminatory PTAs but is pursued so as to be open to any WTO member. The G20 should play a leadership role in this regard, but it is not clear that it will be able to do so as a unified group. It may have to start by demonstrating a willingness to go down the club path itself, with a subset of the major players pursuing initiatives such as those discussed in this article, and that are open to participation by non-G20 countries. Arguably China must play a central role in any such effort, both because it has a great stake in the health of the multilateral trading system, and because of the increasing concerns and perceptions by civil society and business groups in the US and the EU that China has been a disproportionate beneficiary of the multilateral trading system.

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