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# The G20 and the Future of the Global Trading System

## Summary

Since the first meeting of the G20 at the leaders' level in Washington in November 2008, trade has been an integral part of their agenda. This first meeting took place at the peak of the global financial and economic crisis, which led to a strong contraction of world trade. Remembering the global economic crisis after 1929 and the following wave of protectionist measures, the G20 countries made the commitment to not erect new trade and investment barriers. In addition, the verbal commitment to the conclusion of the Doha Development Agenda – the current round of multilateral negotiations under the auspices of the World Trade Organization (WTO) – has been part of the standard repertoire of G20 summit declarations.

Yet, since the last ministerial meeting of the WTO in Nairobi in December 2015, the future of the Doha Round is more uncertain than ever before. Important member states, notably the United States, declared themselves in favour of terminating the Doha Round, whereas many emerging and developing countries insist on its continuation.

Dissatisfied with the slow progress of the Doha Round, the major trading powers – first of all the United States and the European Union (EU) – are increasingly focussing on negotiating bilateral or regional trade agreements. Agreements such as the Trans-Pacific Partnership (TPP), which was signed on 4 February 2016 by the United States, Japan and 10 other Pacific countries, and the Transatlantic Trade and Investment Partnership (TTIP), which is currently under negotiation between the United States and the EU, cover large shares of global trade and investment flows and aim at regulating issues that go beyond the elimination of tariffs, such as investment, standards and the environment.

At the same time, the main trading powers are promoting so-called plurilateral agreements that focus on specific topics. The most prominent example is the Trade in Services Agreement (TiSA), which is negotiated outside the WTO. We argue that the role of the WTO as the central organisation for the governance of world trade is weakened by this wave of mega-regional and plurilateral trade deals.

Until now, reforms of the world trading system have only played a subordinate role at the G20 summits. The summit declarations contain only vaguely drafted commitments to strengthen the multilateral trading system, or commitments that bilateral, regional and plurilateral trade agreements should be complementary and in conformity with the rules of the WTO.

We argue that the G20 should assume a more proactive role with regard to the future of the WTO and the reform of the world trading system. Such a reform is needed in light of the growing fragmentation of the system. At the same time, the 2030 Agenda for Sustainable Development of the United Nations calls for sustainability to be the core principle of global cooperation, including in the context of international trade. Among other things, the 2030 Agenda calls for "a universal, rules-based, open, non-discriminatory and equitable multilateral trading system under the World Trade Organization". Bridging the gap between the realities of the international trading system and the aspirations of the 2030 Agenda is a formidable challenge that cannot be tackled effectively either in the context of the WTO or the UN and the 2030 Agenda alone. The G20 is a suitable forum to bridge that gap.

The world trading system is in a phase of deep structural change, leading to increased fragmentation. Although a number of mega-regional trade deals as well as plurilateral trade agreements are being pushed forward by the big trading powers such as the United States and the EU, negotiations within the WTO continue to be sluggish at best. The contours of a new three-pronged world trading system, which consists of multilateral, plurilateral as well as bilateral and regional agreements, are becoming apparent. In this new, more complex system, the role of the WTO and its principles and modes of negotiation are increasingly being questioned. In light of the increasing fragmentation of global trade governance, the G20 should play a more active role in supporting the reform of the world trading system.

## The new three-pronged world trading system

The contours of the emerging world trading system can be characterised along three levels of governance – the multilateral, plurilateral as well as bilateral and regional levels.

Although negotiations on the **multilateral level** have typically been conducted in the context of large trading rounds on the basis of the Single Undertaking principle, such a negotiation approach is ever-less effective. This principle stipulates that nothing is agreed until everything is agreed. Among the 162 member countries of the WTO, a consensus seems only possible nowadays with regard to specific topics such as trade facilitation and improved customs procedures. The conclusion of the Trade Facilitation Agreement in 2013 effectively marked the beginning of the end of the Single Undertaking principle.

The Single Undertaking principle worked relatively well within the framework of the General Agreement on Tariffs and Trade (GATT), the predecessor of the WTO. The focus was on negotiating tariff reductions for different kinds of goods with easily calculable effects. After eight multilateral negotiation rounds, the tariffs were reduced significantly and the so-called non-tariff barriers became subject of WTO negotiations. Due to less-clear consequences of issues such as increased levels of protection of intellectual property rights or the prohibition of local content requirements, the Single Undertaking principle reached its limit as a negotiation principle because bargains across issue areas had become more difficult.

The results of the Nairobi ministerial conference underlined that the WTO's new focus is increasingly on specific issues rather than on package deals that are negotiated on the basis of the Single Undertaking principle. For example, an agreement on the abolishment of worldwide export subsidies for agricultural products was one of the main outcomes of the Nairobi conference. Moreover, WTO members agreed to seek to implement rules of origin in bilateral and regional trade agreements in such a manner that least-developed countries (LDCs) are able to use a higher share of intermediate products from third countries in their exports. Furthermore, the WTO members agreed to grant LDCs preferential access to their service markets by 2030. These results show that the WTO can still be an adequate forum to negotiate issues that are of relevance for developing countries.

Another consequence of the dwindling significance of the Single Undertaking principle is the increasing importance of the so-called **plurilateral agreements**. These agreements are negotiated within a group of like-minded countries that have converging interests in a certain area and are therefore willing to take steps towards deeper integration.

In principle, three different kinds of plurilateral agreements can be distinguished: 1) agreements like the recently concluded Information Technology Agreement (ITA) that are negotiated under the auspices of the WTO and benefit non-members on the basis of the most favoured nation (MFN) principle, which stipulates that preferences that are granted to one WTO member have to be extended to all member states; 2) agreements like the agreement currently being negotiated on public procurement that benefit only those countries that sign the agreement; 3) agreements like the TiSA that are negotiated completely outside of the WTO and do not include an MFN commitment for non-members.

Plurilateral negotiations are a mixed blessing from the perspective of the world trading system, in particular for developing countries. On the one hand, they lead to less fragmentation compared to bilateral or regional agreements, as they typically include the most important trading powers in the respective issue areas. Furthermore, accessing (or exiting) plurilateral negotiations is easier than with bilateral or regional agreements. On the other hand, in these agreements far-reaching issues are negotiated that are predominantly in the interests of a first-mover alliance. These interests do not necessarily meet the interests of developing countries. In addition, developing countries often do not have the analytical and administrative capacities to evaluate the impacts of those agreements that often cover issues that go beyond the mere elimination of tariffs as well as a range of non-tariff barriers, too.

In the future, comprehensive agreements with agendas that cover a wide range of disciplines will probably only be concluded by small groups of countries in the framework of **bilateral or regional free trade agreements**. TPP and TTIP are precursors of a new wave of comprehensive free trade agreements. In these new mega-regional agreements, a wider range of issues are being negotiated that will have far-reaching consequences on the national policy processes of its members. These issues include, among others, investments, regulatory cooperation and clauses on environmental and worker protection. Not accidentally, these are the issues that emerging and developing countries are reluctant to negotiate in the framework of the WTO's Doha Development Round because they are afraid of weakening their competitive position. With the increasing importance of bilateral and regional trade agreements, there is the risk that these issues are being implemented through the backdoor without the participation of developing countries because they are currently being negotiated completely outside of the WTO.

From the perspective of developing countries, the tendency towards bilateral and regional agreements has to be viewed critically. The plethora of bilateral and regional agreements is making the global trading system ever-more complicated and incomprehensible. It is particularly difficult for smaller companies in developing countries to make sense of the increasingly complex policies.

The crucial role of multilateral trade rules is emphasised in the 2030 Agenda for Sustainable Development, which was adopted by the United Nations in 2015. The 2030 Agenda provides the opportunity to advance the position that bilateral and regional agreements have to be coherent with the goals of sustainable development and the multilateral trading system. The 2030 Agenda does not adequately discuss this issue (Berensmann, Berger, & Brandi, 2015). However, the Agenda emphasises the crucial role of international trade for sustainable development, and thereby highlights the importance of the development of coherent new trade rules that contribute towards fostering sustainability.

To secure the future of the WTO as a forum for negotiations, a discussion about the reform options is necessary. Such a debate has become more pressing – above all from the perspective of developing countries, which suffer particularly from the weakening of the multilateral forum of the WTO.

## Plurilaterals and the future of the WTO

In the future, the WTO should continue to be used as the central negotiation forum, not least because it is more inclusive than bilateral and regional negotiations, which are currently growing in importance. The WTO will also continue to retain its central role as a successful arbitrator in trade conflicts through its effective dispute settlement system. In consequence, the G20 members would be well advised to continue championing the WTO, seeking to ensure that it remains an important pillar of global economic order. Political endorsement of the WTO by its core members would underline the importance of the WTO as a negotiation forum. Such an endorsement would be more credible if supported by initiatives supporting the reform of the WTO.

The future of the WTO as a negotiation forum requires reconsideration. A currently much-discussed and increasingly-practiced approach is the negotiation of plurilateral agreements, in which a "group of the willing" proceeds in specific subject areas more quickly.

If plurilateral agreements of this nature continue to grow in importance, it should – from a development policy perspective – be ensured that they satisfy certain minimum requirements. For instance, the states that are not participating should be able to accede to the agreement at all times, and the WTO's MFN clause should apply, so that all WTO members can benefit from the plurilateral dismantling of barriers to trade. These key aspects apply, for example, to the recently adopted plurilateral ITA, as well as to the Environmental Goods Agreement, which is currently under negotiation among like-minded countries that seek to dismantle tariffs on environmental goods. In addition, the procedures to initiate a new plurilateral agreement within the WTO need to be simplified.

However, for those countries not involved in plurilateral negotiations, one may well wonder whether the inroads made by several others are paving the way for future trade regulations that are not in their best interests. One thing is certain: for these countries, plurilateralism under the aegis of the WTO may not be ideal, but it is nevertheless preferable to a continuously increasing number of mega-regional agreements such as the TTIP and TPP, which offer them fewer accession opportunities and trade benefits.

## The future of (mega-)regional trade agreements

The negotiation of mega-regional trade agreements such as TTIP and TPP represent a trend towards an increasing regionalisation of trade policy via comprehensive free trade agreements and a progressive market opening outside the confines of the WTO.

The impact of mega-regional trade agreements on the global trading system and on developing countries depends on the manner in which these agreements are drafted. Above all, the following aspects should be considered (Berger & Brandi, 2015): mutual recognition should be non-discriminatory and be extended to include third countries; EU and US rules of origin should be simplified and harmonised and they should be generous; there should be increased transparency towards third countries and options for the asymmetric opening of mega-regionals for poorer developing countries with conditions of accession varying according to level of development. Moreover, a debate is needed about how the rules of mega-regional trade agreements can be multilateralised in the future.

## The future of the global trading system: What should the G20 do?

The G20 could play an important role as a forum to discuss and initiate reforms of the world trading system along the conceptual lines described above. The G20 brings together most of the important trading nations and has an institutional structure – including a newly founded Trade and Investment Working Group – that can facilitate discussions about reform needs and options for the international trading system. In contrast to the traditional fora, such as the UN and the WTO, where a North-South mindset often prevails, discussions in the G20 are conducted on a more level playing field. The increasing significance that the G20 attaches to the implementation of the 2030 Agenda could ensure that the deliberations of the reform of the world trading system also take social and environmental challenges into account. This is all the more compelling as the G20 is being chaired by two countries – China in 2016 and Germany in 2017 – that have not only been strong proponents of the multilateral trading system but also of the 2030 Agenda.

- The G20 should continue to underline the centrality of the WTO for global trade governance. Whereas previous G20 summits issued rather vague statements, the signing

of the TPP and the ongoing TTIP negotiations require a stronger signal in this regard. In its "Leaders' Declaration" at the next summit in Hangzhou, the G20 should speak out strongly in favour of strengthening the WTO's routine functions, for example by calling upon the WTO's member states to increase the budget for the dispute settlement mechanism and also for legal support for developing countries.

- The G20 should further speak out in favour of clarifying the principles and procedures for plurilateral negotiations in the context of the WTO and should task the Trade and Investment Working Group with engaging in discussions about concrete reform proposals.
- The G20 should also address the relationship between bilateral, regional and plurilateral trade negotiations and reflect on guiding principles to coordinate negotiations at these different levels. The G20 should propose to mandate the WTO Secretariat to track bilateral, regional and plurilateral negotiations, thereby fostering transparency.

The 2030 Agenda for Sustainable Development and the Goals outlined therein – adopted by world leaders in 2015 – ascribe an enabling framework to the international trading system. This raises the question of how the global trading system should be guided by the principles of global sustainable development and which role the G20 can play in this process.

- The G20 members should signal their commitment to sustainable development as the cornerstone of global economic governance and the trading system. The G20 should emphasise – as part of the upcoming Action Plan for the 2030 Agenda – that global economic governance should be in line with and conducive to fostering the implementation of the 2030 Agenda for Sustainable Development and the 2015 Paris Agreement on climate change.
- Moreover, the G20 should propose that the multilateral trade regime should underline the significance of sustainable development as a core frame of reference for the world trading system, for example through a WTO General Council interpretive statement that calls on WTO practice – including dispute settlement panels – to interpret and promote trade rules, such that they are in line with the 2030 Agenda and the Paris Agreement. The G20 could also call for a clarification of the exemptions that are part of Article XX of GATT to permit states to implement climate change and sustainability measures with less concern that these measures might be in conflict with the multilateral trade regime. The G20 members should also call for "global sustainable development impact analyses" that are conducted by the negotiating parties whenever new bilateral and regional trade agreements are being discussed (Esty, 2016).
- In addition, the G20 summit participants should agree to promote trade negotiations and trade rules that contribute towards supporting the implementation of the 2030 Agenda and the Paris Agreement in all countries – richer and poorer alike – for example by joining the Environmental Goods Agreement as well as by fostering duty-free and quota-free market access for LDCs.

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