Strengthening global trade liberalisation: enhancing the G20’s role

Peter Draper

South African Institute of International Affairs

Why the G20 needs a trade and investment agenda

Trade, investment and finance are the pillars of the global economy. The Great Depression of the 1930s was characterised by breakdowns of all three, leading subsequently to the erection of the modern institutional architecture that governs the global economy. Until recently, the G20 heads of state concentrated their attention largely on the financial pillar, since the G20 has its origins there and the problems were compelling, requiring urgent action. Those problems are in the process of being addressed, albeit imperfectly, and continued vigilance is required.

Meanwhile the trading system, specifically the World Trade Organization (WTO), is in the midst of a systemic crisis characterised by the failure to conclude the Doha round, never mind a development package for the least-developed countries (LDCs). This package is highly unlikely to come together at the WTO’s Bali ministerial meeting in December 2012 – although if it did, that would be extremely welcome. The WTO’s membership is simply too divided, and inertia has assumed dangerous proportions. Leadership of the trading system is dispersed, and in precarious flux. Geopolitical trajectories, ever the motive force behind trade diplomacy, do not point in the right direction for the foreseeable future.

Finally, investment, the flip side of trade, is governed haphazardly at the multilateral level – a major lacuna in the global trading and investment system. The WTO is the logical home for a multilateral investment treaty, but the developments described here do not augur well for improving the status of global investment governance either.

The G20 brings together heads of state of the most systemically significant economies. They have a broad purview over their domestic political economies, and the power to set strategic directions. Their challenge is to forge the necessary compromises to re-establish the primacy of the WTO, setting it on a new course for the 21st century, while at the same time
developing pathways to integrate investment more systematically into the overall architecture. The G20 has to move beyond rhetoric into meaningful dialogue and action.

Why forging a G20 trade agenda is difficult

There are several reasons why the G20 has struggled to develop a meaningful trade agenda, among them the following factors:

- Finance remains the core focus. Finance ministers and central bank governors in most member states do not have primary responsibility for trade policy.
- Heads of state are loaded with many other pressing issues and have little time to devote to the WTO.
- Because of this, trade ministers have to do the heavy lifting. While they have recently started to meet under the G20’s auspices, their interactions are infrequent and brief. Furthermore, these are generally the same ministers that have presided over the Doha impasse (of course, many other actors contribute to that unhappy outcome).
- Underneath the Doha impasse are several intractable structural and geopolitical dynamics that block progress. Removing these blockages requires strong political will, leadership and collective sacrifice – qualities so far absent from the scene, particularly on the part of the systemically significant powers.
- Largely because these requirements are absent, some members, particularly developed countries, have recently resorted to ‘mega-regional’ trade arrangements. Pessimists worry that these negotiations carry the twin dangers that the parties will be substantially distracted from the Doha round, while further alienating key developing countries not included in these processes, potentially imperilling global security. Optimists think that the mega-regionals will advance trade rules and trade liberalisation, generating a ‘competitive liberalisation’ dynamic that will lead developing countries, in particular, back to the WTO. Clearly, both could be true, although if the optimists are right they would have to admit that ‘competitive liberalisation’ relies on pressure tactics, which risks entrenching the negative backlash feared by the pessimists.
- These developments underscore the fact that the G20 members are a disparate group, not sharing common values, which makes forging compromises and associated sacrifices more difficult.
For these reasons, and more, the G20 has struggled to develop a coherent trade agenda. Adding investment to the mix, currently, would probably yield similar outcomes.

**What should be retained from prior agreements?**

It’s not all gloomy, though – the G20 has generated some momentum behind the trade discussions that can be built on. Specifically:

- The standstill agreement on protectionism, while observed in the breach, is an important commitment that should be preserved and extended under the Australian presidency. Similarly, the inter-agency work program evaluating protectionist measures should be continued, and more widely publicised. And G20 leaders need to take demonstrable steps, to be verified in the inter-agency reporting process, to give effect to their St Petersburg commitment to roll back existing protectionist measures. Therefore, their trade ministers need to agree on broad guidelines regarding what measures would qualify as ‘rollback’ steps; otherwise, the commitment will remain ‘best endeavour’, and therefore toothless.

- At key points in the Doha round, the G20 has reportedly provided some momentum to the negotiations albeit that this was not sustained, and ultimately failed for some of the reasons cited above. Notwithstanding this lack of success, the G20 has to keep the Doha round on its agenda, with a view to extracting from its carcass a basket of issues amenable to intra-G20 compromises and, where possible, containing broader appeal to the rest of the WTO’s membership. This ‘Doha-lite’ scenario should be the focus for the WTO’s membership post-Bali, and it could profit from a push by G20 trade ministers.

- The G20 trade ministers have also started a discussion about the future of the WTO, which should continue and deepen. This discussion is substantially anchored on the governance of global value chains (GVCs), an important conversation that should be extended under the Australian presidency. This conversation needs to be anchored on two issues in particular. First, identifying negotiating issues, incorporating both rules and liberalisation, that relate directly to the operation of GVCs and require either modernisation or relaxation in the WTO context. The work of the World Economic Forum and World Bank on a ‘GVCs plurilateral’ should form the basis for this discussion. And second, attention also needs to be devoted to the needs of the poorest countries in relation to both plugging into GVCs, but particularly upgrading within
GVCs. This discussion would add a crucial development component to the G20 trade ministers’ deliberations, thereby conferring legitimacy and broadening support for whatever concrete proposals emerge.

**Additional elements of a future-oriented agenda**

In addition to the issues that have some traction, G20 trade ministers and, beyond them, heads of state need to find pathways between concluding the Doha round in some form and the future of the WTO, taking account of the political momentum behind mega-regional negotiations. Three issues are particularly pertinent:

- **G20 trade ministers need to have a series of meaningful conversations about the nature of – and possible resort to – plurilateral negotiations as a key mechanism to sustain the WTO’s position at the apex of the global trading system.** It is manifestly evident that the single undertaking has not worked in the Doha round, and that smaller group approaches are required. However, these approaches are highly controversial, and a group such as the G20, which constitutes the states most likely to negotiate such accords, has to afford discussion of them a primary place.

- **Free trade agreements (FTAs) are one form that plurilaterals take.** For reasons related to the mega-regional trade arrangements mentioned above, not all FTAs can be regarded as unambiguously complementary to the WTO, accepting for now that many are at least not stumbling blocks to multilateralism. Since there is some doubt about the systemic implications of mega-regionals, and because the primary movers behind them – the major developed country trade powers – profess that these negotiations will be congruent with building multilateralism, serious effort needs to be made to ensure this is the case. Therefore, since plurilaterals are likely to predominantly reflect the interests of developed countries, and are not likely to voluntarily include agriculture, developed countries should incorporate the more egregious distortionary policies impacting on global agricultural trade into their mega-regionals, leading to ‘mutual disarmament’. Clearly, this is a challenging proposition, but since it is the developed countries that are the primary culprits in distorting agricultural trade, mutual accords among them would go a long way towards mitigating this problem and building broader trust in the WTO.

- **Finally, G20 trade ministers need to start a serious conversation on the future of multilateral investment governance under the auspices of the WTO.** This should
extend to the possible adaptation of the WTO’s dispute settlement mechanism to investor–state arbitration, on an opt-in opt-out basis for member states.

Notes

1. Senior Research Fellow, South African Institute of International Affairs.
2. There is no definition of what constitutes a mega-regional. One definition that is currently evolving in the World Economic Forum’s Global Agenda Council on the Global Trade and FDI system states that such FTAs must cover a substantial portion of world trade (perhaps 20 per cent or more) and be WTO-plus in terms of their coverage. Currently, only the Transatlantic Trade and Investment Partnership Agreement, and the Trans-Pacific Partnership Agreement, would meet these tests.