

Chapter 1

The Future of World Trade Policy¹

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Dedication

I dedicate this talk today to all my PECC colleagues, and in particular to the late Bijit Bora, who was a very, very good friend, and a very good sparring partner! Bijit and I had many, many occasions to share ideas, including during PECC meetings as well as in APEC, and later in the WTO.

My recollections of work with Bijit and then being at this meeting today also remind me of the critical role that research can play in policy making. Institutionalising the access of researchers to policy-making processes is extremely valuable, as Bijit and I often discussed. The role of academics and policy institutions working alongside and within the policy-making process will remain important, and in fact can make the process more effective, to ensure a more cohesive, comprehensive and coherent trade policy in the future. Meeting these goals is a challenge but also an opportunity for PECC, which should continue to provide this type of effective input to policy makers on a continuing basis.

¹This chapter is based on a speech to the 18th General Meeting of the Pacific Economic Cooperation Council in Washington, 13 May 2009.

I have been a regular contributor to and participant in PECC meetings and projects. I would like to think I am a better trade minister because of my experience with PECC, which exposed me to so many dimensions of trade policy. It gave me a better bag of tools so that now, when confronted with a trade policy situation, I can often say, “Well, we’ve thought about this before, haven’t we?” This is one of my themes today: to what extent are we now looking at old issues in a new light and what will be new in trade policy?

What is the future of trade policy? Will it be different from what we have been used to? Yes and no! Yes, because we have to re-think the way we look at trade policy because of the changing contexts and challenges — the financial crisis of 2007 and 2008 has brought on a new dimension. No, because the future role of trade policy will be more or less the same. Trade remains critical to growth. Its role has been rehearsed in all the summits (G-20, ASEAN, World Bank and the IMF), and individual countries agree. So, while the role of trade policy will remain similar, there will also be subtle differences, complexities and dimensions.

The new complexities are mostly related to the financial crisis of 2007 and 2008. Trade was not its cause, but is a casualty. There is decline in demand, so a decline in trade flows occurs. There has also been, as a consequence, discussion of rebalancing growth, which was mentioned in the International Monetary Fund’s (IMF) report on the *Regional Economic Outlook (REO) for Asia and Pacific* (6 May 2009) regarding prospects for the Asia–Pacific region. That report talks about the need to look more at domestic consumption as the source of growth. This discussion is being replayed in Germany, with a debate between Chancellor Merkel and the Governor of the Bundesbank. The amplification of the crisis through trade has been bad for many countries, especially those that are part of the production and supply chain. There remains a general anxiety about globalisation as well.

Another dimension of the crisis that needs to be understood is what Baldwin calls “murky protectionism.” As Baldwin and Evenett say,

Most examples of murky protectionism ... are not direct violations of WTO obligations; they are abuses of legitimate discretion which are used to discriminate against foreign goods,

companies, workers and investors. Examples include abuses of health and safety regulations, and clauses in stimulus packages that confine spending to domestic producers (p. 14).

The fear of increased protectionist measures emerged in 2008 with concern that trade wars might be replayed, as occurred in the 1930s. Surveys of new protectionist measures find that some measures in trade, and fiscal, policy have had discriminatory elements with regard to favouring domestic goods vs foreign goods, domestic workers vs foreign workers, domestic banks vs foreign banks, etc. These evaluations by the multilateral agencies find increased dumping, safeguards, increased tariffs up to the bound level, and non-tariff measures, etc, which are of concern. The World Bank has concluded that developed countries rely more on subsidies than on measures such as tariff and non-tariff measures.² There has also been an increase in policies in the name of green policy, or green growth, which is another dimension that will benefit from critical analysis in the design of future trade policy. Developing countries face serious risks in the incorrect application of measures on environmental grounds.

On the other hand, a crisis is an opportunity — in Asia this certainly has been a very important theme. Lessons from earlier crises are that to continue, and not to reverse, reforms are important. Acceleration of reforms, including those in the trade and investment areas, is also a way forward. The role of trade policy, however, is linked with energy and food security, as well as with issues of climate change, all of which should be objectives in the medium term.

So, given these changes in circumstance, has the objective of trade policy changed? After all, trade policy is not an end in itself; it is a means to an end. So what is the goal that we are all looking for? The answer is that the goal remains the same — growth and development. How does trade policy give us growth and development, and, in the context of the crisis, how do we minimise loss of growth during this very crucial time of the downturn? All the summits and leaders say,

²See Elisa Gamberoni and Richard Newfarmer, 'Trade protection: Incipient but worrisome trends', 4 March 2009. See <http://www.voxeu.org/index.php?q=node/3183>.

“We’ve got to keep markets open, to keep trade and investment flows going. Otherwise, the recovery will take longer.”

The paramount objective of trade policy in times like this is to keep intact what has been achieved, so as not to reverse reforms. At the same time, we should be moving on to new areas to increase trade and investment flows, such as work in trade facilitation. The discussion of rebalancing growth should then be seen in the right context: it is not a choice between export-led growth and domestic consumption. It is really about continuing export-led growth as part of the growth paradigm overall, and to make it a part of the development strategy. In the short term, the fiscal stimulus and priorities should be focused on domestic consumption and social safety nets (cash transfers, health and education, tax incentives, etc.). This is important because it will aid the preparation for globalisation and reduce the anxiety of domestic constituencies about globalisation when the upturn occurs. Having a social safety net and better infrastructure, with the longer-term goal of increasing efficiency, whether it is in the global or domestic market, is still the major objective. Diversification, innovation and green growth are all part of the package.

The way trade policy addresses food, energy, security and climate change are also key elements of its future settings.

- There has been analysis of how distorting agriculture subsidies and domestic support have kept world food prices artificially low and reduced the incentive for increased production, increased innovation, etc. Those comments, revived during last year’s food crisis, are still valid.
- In the climate change and trade discussion during 2007, when Indonesia hosted the United Nations Framework Convention on Climate Change there was a meeting of trade ministers talking about the inter-linkages between climate change and trade. Those linkages still need to be more clearly defined. There is a fear that some of the policies made in the name of climate change, whether it is carbon tax or carbon footprint, will have trade-distorting effects.

So what is the future trade policy going to look like? Some of its dimensions have already been covered, but what types of instruments will make up trade policy, what institutions will be involved, and how will they work internally and together?

Trade issues are now much better governed because of the WTO framework. Under the WTO, governance of trade policy is much clearer and there is a set disciplinary process if policies are violated. As a result, there has been less spiralling of protectionist measures, which would have been more damaging. However, while being WTO-consistent is fine, as noted earlier, there is still “policy space” for policies that are consistent with WTO rules and disciplines but which have an impact on trade flows.

The G-20 is grabbing the headlines in the context of the financial crisis: what does it have to do with trade policy outcomes? Since the first G-20 meeting in 2008, leaders have called for the conclusion of the WTO Doha Development Agenda (DDA) negotiations, in fact, calling for the conclusion of negotiations of modalities in agriculture and non-agriculture market access by December 2008. However, because of the political cycles in the US and India, the two members that had remaining difficulties over pending issues, concluding the negotiating modalities remains uncertain. In April 2009, leaders of the G-20 called for a process to begin, giving the first clear signal from the new US government that it will re-engage, based on the results to date. There is hope for a successful conclusion if this political commitment from the G-20 leaders continues.³ All the developing countries in the G-20 were keen to include this point in the G-20 statement, which reads in part, “It is important to restart the Doha negotiations at the point of departure, which is December, 2008, based on the draft text.” Notice the word “restart,” not “re-open”; if it is re-opened it could take another two years. But if the draft text is taken as a starting point there will be a chance to complete the Round: the balance between market access

³Since this speech was written, G8 Leaders and G8+5 statements have called for negotiations to be completed by 2010.

and development concerns must be continued in the way the DDA is approached.

Aid for trade and trade financing are the complementary measures that are valuable, especially for developing countries. New measures for trade financing should be an outcome of the G-20 work program, then followed up at the Asian Development Bank (ADB), and then followed up again at the spring meetings of the World Bank.

The WTO adopts a single undertaking approach in which “(v)irtually every item of the negotiation is part of a whole and indivisible package and cannot be agreed separately. ‘Nothing is agreed until everything is agreed.’”⁴

Should this be abandoned to move to sector-by-sector and issue-by-issue agreements? This is a hard question. There were a few suggestions of what might be extracted from the current model — trade facilitation, for example. This might sound easy, and rather like an “early harvest.” But in practice, it is difficult to make it work. When negotiators return to their country they can say, “OK, we’re going to have to give up on this, but we’re going to get this benefit,” and that becomes a very important part of being able to convince people to sign on to the agreement. An “early harvest” is valuable, but in order to be effective it should eventually be linked to all the other parts.

How should regional commitments play a role in future trade policy discussions? It is important that the ASEAN Economic Community (AEC) remains on track. There is scepticism as to whether the “score card and blue print,” which is the new instrument to ensure that countries are on track, will be effective in ensuring the achievement of the AEC. Therefore, for the AEC to be achieved, policy makers are aware that monitoring the implementation through the score card needs to work and there is now a lot of discussion as to how to make the score card more transparent (including member-specific information), accessible to peer review and useful for policy makers for the purposes of coordination and keeping to timelines.

⁴See http://www.wto.org/english/tratop_e/dda_e/work_organ_e.htm.

It is true that regionals and bilaterals are “messy,” as many commentators have observed, including the incorporation of the downside effects of using up scarce negotiating resources of developing countries and the risks of increasing the costs of doing business because of the famous “spaghetti bowl” effect. But from a national point of view, it is important to be involved to avoid the costs of losing out to others who are moving faster.

Yet this game is risky, and it is also important to manage those risks. There has been a great deal of learning-by-doing, and in an effort to have model free trade agreements, some efforts to standardise rules of origin and the scheduling of tariffs have been undertaken in the ASEAN and ASEAN plus dialogue partner agreements. The ASEAN–New Zealand–Australian agreement is the most comprehensive agreement signed with a dialogue partner and includes comprehensive scheduling of tariff cuts, investment and services and also, for the first time, includes measures related to labour movement and the environment. Even though the labour and environment sections are referred to as cooperation and comprise bilateral memorandums of understanding, inclusion is already a sign of progress. Using existing agreements as benchmarks has also been practiced. For instance, when there were problems in reaching an agreement with Korea on the investment component of the ASEAN–Korea FTA, the ASEAN–New Zealand–Australian agreement was used as the benchmark.

At the same time, countries should continue the unilateral reform agenda in a concerted way. International commitments, whether they are regional or multilateral, help national governments frame the reform agenda and also limit reversal of reforms. The current global financial crisis has prompted big questions such as: Can we continue reforms? Should reforms, in fact, be accelerated? These are politically difficult to answer and thus support for finding answers is important. This is where APEC can play a role through its agenda for domestic reforms and capacity building.

Another immediate challenge is how to address increased protectionism that is WTO-consistent, but still has restrictive effects on trade and investment. This is the “murky protection” already noted.

Greater transparency, the role of surveillance mechanisms, and peer pressure are being looked at as options. The spirit of APEC, that is the spirit of cooperation in the Pacific region, has been about confidence-building measures to carry out reforms together, and peer pressure has developed as part of this overall process. A great deal has been learned from that process, which has been and can be fed into WTO discussions. The advantage of APEC is that it is not a negotiating forum and enables policy makers to interact and conduct dialogue in a more open way.

The G-20 countries also pledged to refrain “from increasing new barriers to trade in goods and services, imposing new export restrictions, and implementing WTO-inconsistent measures to stimulate exports.” There is another sentence in that statement: “We will also minimise the negative impact on trade and investment of their domestic policies and actions, including fiscal policy and actions in supporting the financial sector.”⁵

Therefore, the issues are not just the usual trade policy concerns, but also refer to fiscal measures that can have a trade impact. How can we make sure that the G-20 countries refrain from new fiscal measures and refrain from protectionism? It has been agreed that the WTO Trade Policy Review Board will manage the mechanism and a report listing measures taken by countries is published every three months, with the first report coming out in December 2008.⁶ No judgement will be made on whether the measures are protectionist or non-protectionist, but the reports add to transparency. The reports will also state whether reforms or liberalisation have been undertaken, so if something positive has been achieved, it is also reported. The processes involved with the report provide incentives for self-notification and also encourage countries to clarify the policies that are listed by the WTO. Furthermore, the report mentions principles for undertaking any increased measures

⁵See <http://www.g20.org/Documents/final-communicue.pdf>.

⁶The WTO Director General produces a report for the Board such as WTO documents JOB(09)/2 (26 January 2009), WT/TPR/OV/W/1 (20 April 2009) and WT/TPR/OV/W/2 (15 July 2009). See http://www.wto.org/english/news_e/news09_e/tpr_13jul09_e.htm.

that can impact trade, such as making the policy temporary and subject to review.

ASEAN also plans to adopt a similar approach, and an initiative called “Open ASEAN” will soon be implemented. Before taking on new policies, the review board will need to be notified to enable partners to review the policies. An agreement has already been reached to have a notification process, a review process, and a transparency process. Specific contact points will be identified within each government as to who to contact for a certain policy. And peer review with a private sector as well as other stakeholders has also been implemented.

What APEC and PECC can do is to examine more closely the peer-review process and the transparency of policies. Talk of a similar policy notification process has also been undertaken in APEC. The advantage that APEC has of not being a negotiating forum should be optimised and it is perhaps the right place to take a more analytical look at the WTO Trade Policy Review Body reports. These policies should not be looked at from the point of view of whether they are put in the protectionist box or in the WTO-inconsistent box. They should be looked at from a development point of view. Many developing countries cannot afford subsidies, and the only measures they use are trade policy measures. That discussion is to occur at further WTO Trade Policy Review Body meetings, where the importance of the sunset clause, the review clause, transparency, and the idea that subsidies for consumption are better than production, will be topics. A key concern is also that policies adopted in the name of climate change do not end up being trade-distortionary.

As noted, some of the methodology that APEC developed may now become part of the ASEAN Economic Community methodology. But at the same time, there is a sense that reusing previous ideas has lost its appeal, and there is some loss of momentum (within APEC for the Individual Action Plan process) and confidence in APEC’s ability to really affect reform. People are asking whether there is a need to think differently about APEC and to give it a different, broader mission.

This discussion is continuing but APEC’s role does include that of a cheerleader for reform, and encouraging its members through various

initiatives that are difficult to take to the WTO. In that respect, it is noteworthy that Singapore, the Chair in 2009, has proposed a multi-year program of work. This program includes:

- accelerating trade and liberalisation at the border (this could include the Free Trade Area of the Asia–Pacific [FTAAP] in the long term, or other building blocks) and dealing with issues of trade facilitation;
- building the notification process (which was a worthwhile exercise because, by reporting to the WTO and now ASEAN, it enabled consistency among other ministries within a country);
- improving the business environment through regulatory reform behind the border to speed up business transactions; and
- instituting better physical connectivity (strengthening regional transportation and logistics networks across borders).

It is also important to have an Asia–Pacific caucus within the G-20 for the financial architecture issues, as it is also important in the WTO. There has always been a problem with APEC finance ministers who follow a meeting schedule that is not integrated with the leaders' summit. If APEC is going to be relevant, APEC finance ministers must be made more a part of the APEC process.⁷

In conclusion, while some old ideas are being reused or looked at again in a new way, the goal remains the same: greater openness. There are more challenges and complexities, and not just about trade liberalisation but also related to fiscal measures, and maintaining and strengthening the disciplines that are already in the current framework is of great value. Negotiations remain critical, but developing countries have to add to their capacity to negotiate. Confidence building, peer pressure, capacity building, and having ongoing confidence to continue reforms are part of the package, all helping to keep reforms on track, and even accelerating reforms. At one level, the political push from the

⁷It is heartening to note that after this speech was delivered, in the lead-up to the APEC Trade Ministers Meeting in July, the SOM of the APEC Trade and Foreign Ministers process met back-to-back with the SOM from the APEC Finance Ministers process, with one overlapping session on Trade Finance. This is an important start.

G-20 is critical, but in developing capacity and building confidence, PECC and APEC can play a very important role.

Reference

Baldwin R and Evenett SJ (2009). Introduction and recommendations for the G20. In *The Collapse of Global Trade, Murky Protectionism, and the Crisis: Recommendations for the G20*, R Baldwin and S Evenett (eds), pp. 1–12, Vox.eu publication, <http://www.voxeu.org/index.php?q=node/3199>.