



### **Executive Summary: Panel 5 – Trade and the Global Economy**

Chair: Dr. Ailish Campbell (Canadian Ambassador to the European Union)

Paper authors: 1) Lawrence Herman (Herman and Associates) 2) William White (C.D. Howe Institute)

The fifth panel of the Canada-Germany RODA webinar series on world trade and economic prospects, took place July 26, 2021. Ambassador Ailish Campbell chaired this third webinar to probe the resilience and effectiveness of the world's multilateral system in dealing with global challenges on vital transnational issues. Earlier panels considered the impact of global warming and the Covid-19 pandemic.

Joining KAS Director Dr. Norbert Eschborn in welcoming participants, CIC President Ben Rowsell said that while the debate was between Canadian and German experts and what the two like-minded partners can do together, the stakes involved in these issues are truly global, about the interlocking sets of international relationships and issues, and our cooperative system.

In her scene-setting introduction, Ambassador Campbell situated the panel within the "monumental" themes of our time which are indeed stress tests for our multilateral system. The pandemic has vividly exposed global disparities. 55% of citizens of North America and the EU are now vaccinated at least partially, against only 1.5% of citizens of African countries.

Merchandise trade itself slumped 20% since the outbreak in early 2020, though only 7% between Canada and the EU. Recovery is uneven - China is back to positive growth, reinforcing its growing impact on the world system which is obviously an additional contributor to the system's need to accommodate change.

Presenting his paper, "Brave New World: Trends in Global Trade Governance," Lawrence Herman laid out the WTO's adjustment issues as a member-based institution that needs reform and upgrading to keep up with profound and incredibly rapid global changes, in anticipation of the important ministerial conference in November ("MC12").

Mr. Herman outlined his views of what has to be done, both to reform the institution, its rules, and its coverage, and more widely to re-orient international methodologies to enable the world community to deal with interlocking trade, financial, and governance systems that have too long operated in silos.

There are four stand-out issue areas where the WTO must gain understanding and competence regarding the ways these affect trade and inter-disciplinary policy development:

- The impact of the pandemic
- Climate change
- The digital economy
- Cyber security and data privacy

The WTO's decision-making mandate, competence and culture have not really evolved since the original GATT rules affecting trade in goods across physical borders were elaborated in 1947.

Those rules are still transcendent as foundation principles, governing non-discrimination, MFN treatment, bound tariffs, export and import restrictions and exceptions, etc. But the fact is that the world's only global trading institution has nothing to say about the digital economy, or the way in which the global economy is being transformed by technology.

On process, because the culture of consensus decision-making insists on unanimity which cannot accommodate meaningful responses to significant global change and challenge, decision-making has become dysfunctional, even if the judicial review mechanisms that were undermined by the Trump administration are now being reinforced.

While new Director-General Ngozi Okonjo-Iweala is leading an effort to reclaim WTO competence and authority, she will need greater support, especially from liberal democracies, to bolster resistance to growing trends toward dissonance among member states on economic governance. National measures are gaining favour over common approaches, especially in the wake of dismay over the ratio of costs to benefits of globalization.

Referring briefly to his paper, Mr. Herman said the role of the private sector in formulating standards and guidelines— independent of governments — must not be overlooked as a global factor. This was due to investor pressure demanding corporate social responsibility (CSR), notably in human rights and climate change activities.

The following debate by the panel certainly concurred that not just the WTO, but the world itself is at a crossroads, for all the reasons we know, especially the challenge of dealing with climate change. It was acknowledged, though, that deglobalization has not occurred; supply chains are not unravelling. But the world has passed the high point of hyper-globalization.

As to the WTO's governance, it was universally recognized to have been disabled by rules from another era, slowness of process, and inability to reflect the urgencies of the climate challenge and other issues overwhelming national governments and the world community.

Public trust and expectation are low because the beneficiaries of the institutional system for trade are not as apparent as they should be - populations need to see their realities reflected in decision-making. The WTO is seen as "top-down;" its preoccupations are situated in a "Geneva-based" policy vacuum that inhibits consideration of "outside" forces and issues.

Above all, the trade body and system have to demonstrate the ability to advance sustainability goals. The WTO's capacity to adapt to the advent of carbon border adjustments will be a test of the both the WTO and of the political will of its global membership.

The combination of low expectations for the system's flexibility with enduring regard for the need of functional systemic cooperation led to questions about the possibility of forming affinity groups that could align on vital issues when unanimity is unavailable. A "climate customs union" was cited, or regional organizations, such as APEC.

The China factor was repeatedly referred to. If "one big tent" with China inside would not work, why not two "tents?"

There were vivid objections to a two-tent optic, and to the belief Chinese participation in a consensus institution is unavailable. Many countries will object to having to choose between tents.

In any event, the issue of effective governance and competence is "bigger than China." Some intervenors did not see China as rocking the WTO boat, pointing out China does play by consensus rules. Most of the demands for relationship changes are being made to China about China, making for a very unbalanced negotiation. A few emphasized we need to accept China's economic system as it is and as it evolves. Panelists underlined that Chinese economic impact is an earned reality that is likely to grow, along with the preponderance of Asian markets in world trade (already at 60%).

On the other hand, distrust of China is becoming a more common feature. But preponderant panelist view was that "the world we want" is not a divided and de-coupled one. Chinese buy-in and participation in every major international issue (such as climate change and access to vaccines) are essential to success.

But panelists saw merit in the notion of countries aligned in ambition grouping efforts to formulate and market workable solutions to advance progress. The "Ottawa Group" was cited as an exemplary effort. The speculative beneficial value of partnerships of "middle powers" (though the term itself is contested) - explicitly Canada and Germany - was tabled several times.

Obviously, panelists saw the WTO's governance weaknesses to be reflections of the governance liabilities of member states themselves. One panelist was of the opinion that WTO governance and rules are essentially biased toward the private sector, attaching inadequate value to the vital need of "exclusive public goods" which require differentiated treatment by trade rules. According to this panelist, a free and democratic debate needs to recognize that too many actors - participants in the care economy, and especially women in general - are victims of inequalities, whose repair is increasingly a feature of bilateral and multilateral trade agreements, and should be a WTO preoccupation as well.

William White then introduced his paper, "If Something Cannot Go On Forever, It Will Stop," with its wider lens on systemic issues in the world economy and in international governance.

Mr. White acknowledged that since writing the paper, he has deepened his preoccupation with national political governance whose defects and distortions inevitably affect international governance.

There are glaring fault lines surrounding growing inequality of wealth and of opportunity, with increasingly severe inter-generational effects. The populist notion that the system "is not fair" and that governments "can't be trusted" also degrades belief in multilateral cooperation which is essential if humanity is to address effectively the threats represented by the potential for financial crisis, pandemics, and climate change.

The issue areas are interlinked - each has the capacity to unravel the others. Environmental issues are especially over-arching. Mr. White reminded that they contain several global "tipping points" beyond carbon emissions and global warming: bio-diversity in general is in danger, a warning that panelists registered with shared concern.

Solutions to these challenges aren't available if the economic-financial system is fragile. Global debt has increased as a result of efforts to enable economies to cover the costs of the pandemic, now exceeding 360% of global GDP, which even the levels at the time of the damaging 2008 financial crisis at 280%.

The debt burdens of lower income countries are increasing as the pandemic worsens for them. Meanwhile, they are experiencing high degrees of costly de-linking from international markets. i

But a pre-condition of fixing these very major problems is the world community's ability to come together to master global health challenges. Longer-term fixes need increasing emphasis on prevention.

A major change is needed on the political level, to generate more trust in government. It requires an ability to think about longer-term investment solutions rather than quick fixes. Political will and leadership are essential.

So, strategic thinking and remedies need to focus more on this inter-relationship of systems. It requires jettisoning organization by "silos." It is corrosive within sectors - e.g., the detachment of monetary governance from regulatory governance in finance - within governments, and across the multilateral system, which is functionally organized by "siloed" components.

The debate that ensued Mr. White's remarks agreed most issues are joined to others and need interlinked analysis and prescription. Leaders have to confront the need for better governance at both national and multilateral levels - - not necessarily "bigger." Governments need a longer-term perspective, to target investment to risk, and to address needs that emerge from the social contract It requires, resisting the tendency toward short-term populism and polarization.

It was postulated that such greater and more thoughtful emphasis on investment, and less catering to promoting consumption, may slow growth. The trend could be reinforced by the braking effect of concerted thrusts against global warming, and remedial action against inequality. Leadership is required.

The point was made that actual outcomes on the pandemic are in some ways hopeful - the decisive role of science in creating solidarity was cited (though its validation in public support differed in Europe and Asia from the treatment accorded by wayward and politicized adversarial information systems in the US in particular.)

Pursuing the search for positives, panelists discussed the essential role of "trust," and the "power of benevolence." Economics is too focused on material outputs, rather than well-being whose evaluation should traverse all policy areas.

Covid has been a "great teacher" in demonstrating the decisive value of science - not as intellectual property - but as a public good. China and the Western Pacific area succeeded in confronting the pandemic because there was a more widely shared appreciation of the "common good" in play in policy approaches.

A question is whether such outcomes will track into the WTO whose rules can be "a chill" on national initiative.

There were calls for a new "Bretton Woods" accord to re-gear the multilateral approach to social realities and over-riding issues of inequality, and to transnational threats in climate and health, that could cover discordances of gender as well.

Panelists referred to the stress between national tendencies and historic multilateral impulses to free trade as much as possible. Nationally, populations are demanding some regulation of trade and remedial protection from the negative impacts of global exposure. The multilateral process needs to be address these from the standpoints of less equipped low-income countries as well as from the perspectives of the interests of the major powers. However, it was noted that 3/4 of changes to national trade practices emerging from the pandemic crisis have actually been liberalizing as opposed to protectionist.

The role of the private sector was addressed several times (including in Mr. Herman's paper). Its codes of conduct provided some guidance, but need also consideration of civil liability for abuses. Nonetheless,

building back trust will take time and needs to use all available fora and tools, especially to counter the power of negative emotional appeal.

There is wide agreement that the digital sector cannot continue with no oversight internationally. Moreover, more widely, recent agreements to dampen national competition on minimum corporate tax rates should be taken further.

The role of "middle powers" in helping to broker progress, inter-linkages, and breakthroughs was repeatedly addressed. There was alignment with the perception that Canada and Germany have a specific positive potential to join up with like-minded others, including in multilateral fora, to pursue a linked-up agenda.

The agenda extends across the board, but as preceding panels also concluded, has to be constructed on the assumption that addressing linkages under the overall title of sustainability, with organizational consequence for government, are top of mind and purpose.

Trust is the vital currency for success. It grows with engagement and exchanges across borders.

The debate - all too short - was summarized by the Chair as representing a systemic assessment that we need to reduce the friction between the component systems that compose international governance, echoing the advice of former Chief Economist at the OECD, Sylvia Ostry.

Ambassador Campbell left the participants with two major questions for consideration:

- How can we make the WTO and other institutions work to benefit all fundamental participants in the world economy, and not just the most prominent states and users?
- And how can we best harness and deploy the influence of our relatively successful inclusive democracies?

In closing the meeting, Ben Rowsell outlined the process for bringing these views, analyses, and questions before the German and Canadian governments, and urged participants to take every opportunity to consolidate research and other links among each other.

Jeremy Kinsman, rapporteur,  
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