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Global Trade: Problems and Prospects

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Content

Introduction

Trade policy may never have been as hot as this in the news flow over recent years. Every day – at least until the covid-19 outbreak early this year – we have seen reports on trade wars, tariff threats, the crisis of the multilateral system, Brexit and increased protectionism. The US president's unconventional use of trade agreements as a geopolitical instrument, and his disdain for international standards, have put strong pressure on the global trade system. Donald Trump states that "trade wars are good", and "easy to win". This has led to rising import tariffs and trade obstacles in many parts of the world.

Tension between the USA and China generates new standards outside the *World Trade Organisation* (*WTO*) and has economic consequences for the entire world. But China, in its quest for economic domination in a number of fields, is also introducing discriminatory barriers and pursuing aggressive investment and trade policies. Foreign companies are finding it increasingly hard to do business in China on the same terms as domestic companies.

While protectionism and nationalistic financial rhetoric are on the rise, this has also provoked counter-reactions. More and more trade deals are being made in the world, and countries are joining forces to champion free trade. The EU is heading up these efforts, with 15 new trade agreements in recent years, not only setting a new record but also assuming leadership of a global alliance between likeminded nations who are championing regulated, open trade and a stronger WTO.

For a long time, the WTO has had difficulties making decisions and is not adapted to today's trade with services and digital information. Moreover, consumers globally are increasingly demanding sustainable and fair trade. The tensions and US disregard for international regulations of recent years have put further pressure on the WTO. Added to this, the new covid-19 virus has had huge consequences not only for human lives and health, but for tourism, travel, the economy and the global value chains. The International Monetary Fund (IMF) is warning that this is the biggest economic challenge the world has faced since the 1930s. New, innovative solutions will be needed to get the economy back on track.

What is happening, how can we understand the crisis of the trade system, and what will the world be like after the covid-19 crisis?

The multilateral system in crisis

In the quarter-century of its existence, the WTO has contributed to increased, liberalised and more predictable trade with global standards and rules. Customs hassle has been reduced, markets have been opened, and millions of people have been lifted out of poverty, not least in developing countries. When China and "Chinese Taipei" (Taiwan) joined in 2001 and Russia in 2012, the WTO became a global organisation in every sense. Today, its members account for 95 per cent of world trade.

But the WTO nevertheless struggles with many problems. One reason why the WTO is not working as intended is that the so-called Doha Round was not successfully completed. The Doha Round, one of the eight international trade rounds carried out by the WTO's predecessor GATT, was a major negotiation round launched in 2001, with a strong focus on economic development. The crucial issues that could not be resolved largely concern how and in what form subsidies could be given to agriculture while avoiding protectionism, and the possibility of exceptions and special treatment within the system. Even if there is an established definition for the least developed economies in the world, it is basically up to each country whether or not to call itself a developing country. Developing countries are exempt from parts of the WTO regulations on transparency and the obligation to report on new national laws and rule affecting trade, including procurements and licences. Developing countries also have special rules on stockpiling food. Today, nearly two-thirds of the WTO member states are exempt from the standard rules.

One could ask why a nation that belongs to both the G20 and the OECD should call itself a developing country. The fact that China, the world's largest economy (in terms of GDP adjusted for purchasing power), still defines itself as such has provoked a great deal of irritation and impedes reforms of this classification. Brazil and Saudi Arabia also call themselves developing countries but have indicated that this will be changed.

Another issue that adds to the system's inertia is that the WTO is run by its member states, and all decisions are taken by consensus. Attempts to deal with new subjects, such as common rules for e-commerce, have been blocked by those countries that want the remaining problems of the Doha Round to be solved first. One consequence is that India, for example, has vetoed the start of new negotiations where all countries are participating.

The inability to agree on multilateral negotiations where everyone participates has prompted groups of countries to initiate negotiations on their own. This happened at the Ministerial Conference in Buenos Aires in 2017, where the ministers (who meet every two years) failed to agree on the usual final document. Instead, some 80 nations in various constellations formed committees to embark on negotiations on e-commerce, domestic rules for services, and simplified procedures for small and medium-sized businesses to invest in developing countries. Outside the actual conference, some 120 states also signed a declaration where they undertake to promote women's access to the advantages of trade.

Perhaps the biggest challenge for the WTO is that the regulations are not adapted to contemporary trade patterns based on complex value chains, where countries trade in advanced production services rather than in goods. When the organisation was founded, the idea was that more or less economically developed market economies should work jointly to simplify and liberalise global trade. When China became a member in 2001, hopes were high that the country would be reformed, modernised and open up to the international community. But several of the market economy reforms that China promised at the time of joining have yet to be implemented. China has benefited enormously from being a member of the WTO system, but the organisation is not constructed to handle the kind of state capitalism that characterises the Chinese economy, with extensive subsidies for unprofitable factories that lead to global dumping, and a dominance of state-owned companies. The lack of protection for intellectual property (including patents) and forced technology transfers from foreign companies that establish themselves on the Chinese market have also provoked irritation, along with the discrimination resulting from China calling itself a developing country and thereby exempting itself from the responsibilities it would otherwise have had. Moreover, China violates rules in already regulated areas. The growing criticism against China's actions is one of the reasons why the USA has imposed penalty tariffs on China since 2018.

At the highest political level, the EU, Japan and the USA have formulated proposals for rules on subsidies for industry, which will be discussed in WTO circles. Rules on forced technology transfer are also being discussed. From the Japanese and EU perspective, this type of cooperation and pressure, in collaboration with other key stakeholders and in dialogue with Beijing, is a more sustainable and effective way of handling China, than starting a trade war.

But the USA also violates the rules of the WTO regime. The mini agreements made by the Trump administration recently with Japan, for instance, and the reformed trade deal with Canada and Mexico in 2019, probably violate the WTO rules, since they introduce an element of “managed trade”. Among other things, this entails that a country undertakes to buy a certain quantity of goods, or to “voluntary” limit exports.

Yet another example of the marginalisation of the WTO is the US steel and aluminium tariffs on imports from large parts of the world in spring 2018. The EU and eleven countries, which have introduced compensatory tariffs, filed a complaint with the WTO against the USA for violating the WTO regulatory framework. Tariffs can be justified under certain conditions, but not, as in this case, with reference to national security, according to these countries. President Trump claims that this is part of his “America First” policy. The root of the problem is China’s large overproduction of products such as steel, dumping prices on global markets, which means that other countries’ steel industries are losing money since they are unable to compete with the abundance of cheap Chinese steel on the market today.

Naturally, when other countries see the USA and China violating the WTO framework, it is hard to maintain discipline in the international trading system.

Lastly, the crisis in the Appellate Body (AB) should be mentioned. This is the second tier of the dispute settlement mechanism and should consist of seven persons appointed collectively by the member states. However, the USA has for years (beginning in the presidency of Barack Obama) blocked appointments to the AB. Those who have resigned have therefore not been replaced, and the AB in its current form collapsed just before Christmas last year, when only one member remained.

The EU and other countries have attempted to negotiate with the USA to reform and modernise the system, but the USA has refused to cooperate. It should be remembered that the USA has been very successful in the AB; according to a study by the analysts Bloomberg, the USA has won 86 per cent of all cases where it has appealed to the AB for dispute settlement. It is unclear what the US grievance against the AB is, but the USA has always been sceptical of supranational courts, which they consider an infringement on their national scope of action.

As a temporary solution, the EU and 16 other countries have set up a parallel appellate body that replicates the WTOAB, appointing retired judges and professors to serve in it. This body is supported by the WTO secretariat and is intended as a temporary fix. China is part of the interim solution, but other important trading partners, including Japan, Russia and Indonesia, are not.

The WTO has had these problems for a long time. In recent years, positive decisions have been made, but the organisation needs to reform its day-to-day activities and member states’ compliance with the rules. A new rule book is needed, and the WTO must prove that it addresses modern trade issues. The Ministerial Conference planned for June in Nursultan, Kazakhstan, was postponed due to the covid-19 pandemic. Hopefully, it can be held later this year or in 2021. The

Conference, whenever it is held, will be a make-or-break moment for the WTO.

The WTO also needs to appoint a new director. The current director, Roberto Azevedo, announced in April that he would resign prior to the end of his mandate, to give a new person the opportunity to get accustomed to the work and lead the reform process in time for the next Ministerial Conference. The new director will be appointed in August, and speculation is rife.

The EU and trade policy

Within the EU, the EU Commission has a so-called exclusive competence in trade policy. The Commission negotiates on behalf of all the member states, and decisions are made with a qualified majority. All EU countries are members of the WTO but are represented by the EU Commission, making the EU one of most powerful stakeholders in the WTO. The EU's influence in the field of trade is not matched in any other foreign policy sector, where all decisions must be unanimous. Even if the Commission negotiates, each mandate must be approved by the member countries and is then followed by close consultation with the member countries and the European Parliament. Since the Treaty of Lisbon came into effect in 2009, all agreements must also be approved by the European Parliament.

In the late 2010s, many countries have been waiting to sign trade agreements with the EU – the world's most integrated internal market, with close to 450 million consumers. It is estimated that exports to countries outside the EU have generated 36 million jobs within the EU. Trade deals were crucial in the efforts to get the economy back on track after the financial crisis in 2008, particularly in southern Europe.

Many EU citizens were deeply critical in 2015–2016, when the major deals with the USA (the Transatlantic Trade and Investment Partnership, TTIP) and Canada (CETA) and the investment protection system ISDS were being negotiated. Protests were held outside the Commission building in Brussels almost daily for some time. The main points of the protests were the lack of transparency in the negotiations, fears that only multinational companies would benefit from trade, and that the EU's stringent consumer and environment standards might be watered down. The criticism prompted the EU to revise its trade policy, which led to:

- Increased transparency. Nearly all documents relating to negotiations are uploaded to the internet. Advisory groups from civil society have been appointed to actively observe and contribute to negotiations.

- More emphasis on values and standards. Every free trade agreement includes a chapter on sustainable development, with references to international conventions on environmental protection (the Paris Agreement), labour rights (fundamental ILO conventions) and trade-related human rights clauses. Moreover, there is a reference to the EU's precautionary principle and a promise that no standards will be lowered due to a trade deal.

- A focus on small businesses and follow-up. All trade deals include a special chapter to facilitate for small and medium-sized businesses to benefit from the new possibilities provided by the deal. This entails contacts and special websites for businesses. Assessment and follow-up of trade deals has been enhanced.

- A new system for settling disputes. The previous, severely criticised ISDS system has been replaced with a system more similar to a legal court, which is more restricted and more transparent, the *Investment Court System*.

The TTIP negotiations had major problems even before the presidential election in 2016. When Donald Trump was sworn in, the trade deal was mothballed. The agreement with Canada (CETA) was long blocked by the free-trade antagonistic Belgian Walloon Region, but could eventually be signed in October 2016. It was implemented in September 2017 and has led to increased trade. This was also the starting signal for a new generation of trade agreements, with an ambitious sustainability chapter and the new investment court. The negotiations and CETA opened up new opportunities for collaboration, and Canada and the EU have together championed the defence and reform of multilateral cooperation, with regard to both trade and the larger perspective.

In February 2019, an agreement between the EU and Japan also came into effect. This is the most ambitious trade deal the EU has ever signed. Together, these countries account for more than one-fourth of global GDP, and the agreement is far-reaching when it comes to liberalisation and other collaboration. The EU has a total of 37 trade deals with 64 countries. These deals currently make up 40 per cent of the global economy.

In recent years, trade deals have come into force between the EU and South Korea and Singapore respectively, and a deal with Vietnam will be implemented later this year. Deals have been finalised but not yet ratified with Mexico and Mercosur (Argentina, Brazil, Uruguay and Paraguay).

Moreover, the EU has regional agreements with, for instance, the SADC in southern Africa, and separate comprehensive neighbourhood agreements with the Ukraine, Moldavia and Georgia that have been in place for a couple of years.

Negotiations are under way, moreover, between the EU and Chile, Australia, New Zealand, Indonesia and Tunisia. The EU has also been negotiating an investment agreement with China since 2013.

Mercosur and the EU have been negotiating a free trade agreement since 1999. It was finally concluded in June 2019, creating a market of 710 million people. The agreement is to be legally scrutinised and translated before the member states and the European Parliament can vote on its implementation. The major scepticism against Brazilian president Jair Bolsonaro and his policy in the Amazon forest may influence voting.

The EU also has various forms of agreements with the poorest countries in the world, Everything But Arms (EBA). These offer advantageous access to the entire EU market (except arms). In addition, there is the General Scheme of Preference, GSP, which offers a 66 per cent duty reduction on the EU market, for the more developed countries. Those who sign 27 core conventions on the environment, labour rights and human rights may be eligible for a GSP+. This gives even greater access to the EU's market but requires that the stakeholders work together to monitor that the core conventions are maintained and respected.

Brexit

On Midsummer's Eve 2016, people in large parts of Europe and all over the world woke up to the news that a majority of Brits had voted to leave the EU. An infected debate that had gone on for years had finally led to a referendum, where the United Kingdom, which joined the then EC in 1973, decided to "break free of the shackles of Brussels".

Exactly how they would leave was not clear at the time of the referendum. This was a shock to the EU, and there were fears that other countries would follow suit. But the Union did not collapse, as many experts predicted in the months following the British referendum. On the contrary, citizen support for the EU has increased in nearly all countries in the past year, according to several Eurobarometer surveys.

Negotiations were slow, but the Brits finally left the EU on 31 January this year. According to the withdrawal agreement, a transition period applies until the end of the year, during which the future relations will be negotiated. The UK is a European neighbour, friend and ally, but many issues need to be resolved – fishing, research collaborations, defence policy, security collaboration – and an agreement on free trade. The withdrawal from the internal market and the customs union is detrimental to both parties, and this is the first time the EU is negotiating a new agreement that is less comprehensive than the status quo. Negotiations did not begin in earnest until 1 March. An agreement is to be completed – and translated and approved by the European Parliament – by the end of the year 2020/2021. Normally, a free trade agreement takes years to negotiate and covers both goods, services, public procurement, energy, settlement of disputes, sustainable development and standards.

Standards in particular – both technical and the ones relating to the environment, consumer rights and labour rights – look like they will be the hardest conundrum, along with the question of how future disputes will be settled, since the Brits have said in no uncertain terms that they will not abide by the decisions of the EU Court of Justice. Fishing will be yet another complicated issue.

It is in everybody's interest that the free trade agreement is as comprehensive as possible, but this looks increasingly difficult to achieve in time. The covid-19 crisis, but also conflicting opinions, indicate that the schedule should be extended beyond the turn of the year 2020/2021. This requires, however, that the British prime minister requests a further extension, something Boris Johnson has sworn he will not do. Britain must also renegotiate the 37 agreements it entered as an EU member. Discussions and negotiations have been initiated with the USA, and this can lead to cross-pressure on London, since the EU wants Britain to retain European standards, while the USA wants Britain to accept US standards.

The USA – "America First"

With President Trump came a new era in American trade policy. Under the slogan "America First", the US would reclaim independence, bring jobs back home, relocate production and reopen steel mills and coalmines. Trade deals have become part of American geopolitics. Trump has not hesitated to threaten Mexico with tariffs if the country fails to tighten its migration policy, or threaten the EU (and other countries) with tariffs on steel, aluminium, cars and wine, if they don't open their markets more for American products. In January 2017, Trump began by withdrawing the USA from the Trans-Pacific Partnership (TPP) agreement with eleven countries in the Pacific region, which had been laboriously negotiated by president Obama and was a means of putting pressure on China. Trump was also critical of the North American Free Trade Agreement (NAFTA) with Canada and Mexico. The renegotiated United States-Mexico-Canada Agreement (UMMCA) is marginally changed, but entails that parts of the production chains are moved to the US, in accordance with Trump's America First policy. The EU claims that parts of the agreement are in conflict with WTO rules, for instance through elements of "voluntary" export restraints. It is expected to come into force in summer 2020.

Small, quick deals have been Trump's standard recipe. With pressure and threats, he has muscled limited deals with South Korea and Japan that lower some tariffs and include voluntary export restraints and other import commitments that benefit the USA. South Korea and Japan received verbal promises that they would not be affected if any car tariffs were introduced, and that they would be exempt from tariffs on steel.

The USA and the EU

The EU and the USA are traditionally partners and allies on the international scene. The global order, with its institutions and norms, that was built after the Second World War is largely a consequence of strong transatlantic collaboration.

The EU and the USA are each other's most important trade partners. Every day, goods and services worth 3.6 billion USD cross the Atlantic. Strangely, there is no free trade agreement between them. The TTIP was supposed to change that – the world's most comprehensive agreement on free trade and investments. Negotiations began in 2013. It soon emerged, however, that there were enormous discrepancies and potential conflicts. On the whole, the EU applies international standards. The USA also has standards of its own, establishing them through a myriad of independent agencies. Within the EU, the Commission develops standards for the entire internal market. The process of approving each other's standards has been long and convoluted, but huge sums of money can obviously be gained by, for example, not having to double-test products according to what basically amounts to one and the same system.

As expected, agricultural tariffs were a major challenge for these two giants, especially in the most sensitive areas, red meat, rice and poultry. Consumer protection is highly developed in both the EU and the USA, but they differ in some respects. The USA, for instance, has banned some matured blue cheeses and ham that are considered delicacies in the EU. Hormones in meat are permitted in the USA, which also has a more liberal approach to the licencing of GMO products and pesticides etc, than the EU.

Public procurement is another complicated field; the EU has an open market, the USA has "Buy America", "Buy American", the Jones Act, and other instruments that force a majority of production of foreign products to take place in the USA, and impose restrictions on many important maritime services such as dredging and ice-breaking in which the EU has a strong stake.

Trump has criticised the EU for having a trade surplus vis-à-vis the USA, too high tariffs on agricultural products and for being protectionist in general. It came as a shock to the EU when the US president called the EU "a foe on trade" and said that the European project was created to "take advantage of the USA". To fulfil his campaign promise of supporting American steel workers and open some steel works that had been closed, Trump announced that foreign steel exports were a threat against national security. He referred to article 232 in the US *Trade Expansion Act*, a relic from the Cold War. A committee proposed that the USA should impose penalty tariffs if nations did not voluntarily restrain their exports. The EU tried to find a solution, but in May 2018, the USA introduced tariffs on imports of steel (25 per cent) and aluminium (10 per cent) from most of the world. This was a heavy blow to the EU and NATO members. How could European steel pose a threat to the USA's national security? The EU produces some steel that the USA needs but does not produce itself. Other allied countries, including Norway, Brazil and Turkey, were also hit by the US tariffs.

In addition, Trump has threatened to introduce tariffs on cars and car components, since he feels there are too many European cars in the USA, even though a substantial portion of the European car brands sold in the USA are actually assembled in the US. Admittedly, the EU has a 10 per cent levy on car imports, and the US tariff is only 2.5 per cent. On the other hand, the USA has high tariffs on trucks and certain lorry models. These issues could easily be settled with a trade deal.

In July 2018, when the mood was at its tensest, Trump met the then president of the European Commission, Jean-Claude Juncker. The ambition was to agree on a positive common agenda, and the atmosphere was amicable. Since dusting off the TTIP was not considered a viable option, the EU proposed a less comprehensive trade deal. Tariffs would be removed on both sides of the Atlantic on goods, including cars, fishery products and chemicals, but not on agricultural products. Moreover, they agreed to recognise certain standards and rules from each respective side, and to collaborate on future standards. The two leaders also agreed to collaborate on WTO reforms. Both the previous and the current EU Commission have since then had regular meetings with the American trade representative Robert Lighthizer. Progress has been made, but no breakthroughs. The USA has participated rather half-heartedly in these negotiations.

China's quest for global leadership

Today, China is the world's largest market, with an economy that has increased eightfold in 20 years. The country has focused intentionally on infrastructure, education, research, technology and innovation over the past few years. According to the Chinese Communist Party's strategic document *Made in China 2025*, China is intent on becoming world leading in a number of technologies, particularly knowledge-intensive production of goods and services, and on creating an independent arms industry.

WTO membership has given China access to global markets. Its economy has grown through trade, and millions of Chinese have been lifted out of poverty. But the rest of the world has not benefited in a corresponding way. Doing business in China today is increasingly difficult; its markets are not open to foreign companies. Meanwhile, China is injecting subsidies into state-owned and state-controlled companies, creating imbalances on international markets and dumping prices. This dumping is at the root of the entire steel crisis; there is a large global over-production of steel, and also of aluminium and cement. Moreover, China has discriminatory rules for foreign companies that establish themselves in the country. There is a lack of transparency on domestic laws for trade, and these are not reported to the WTO. Acquiring permits and licences can be difficult for foreign companies in the sectors that China has decided to prioritise as part of the country's economic development. China is seeking global leadership and wants to establish itself as a world-leading superpower in several fields. In relation to developing countries, especially in Africa, they promote an alternative social model to the Western one. China's *Belt and Road* initiative is largely about economic integration. It also provides China with the means to create institutional and political instruments to reorganise global value chains and design new economic rules that are more congenial to China's needs. Furthermore, China wants to find markets for products of which it has a large surplus, including steel and cement.

The Belt and Road initiative was launched by President Xi Jinping in October 2013 in connection with a conference in Kazakhstan. This ambitious infrastructure project involves countries in Asia, Europe and Africa. It is sometimes called the new silk road and is intended to evoke the legendary Silk Road, but with a contemporary high-tech capacity. Water and land transport will connect the world in a new way.

China's seemingly generous initiatives occasionally come at a very high price. Chinese infrastructure investments in Djibouti have led to debts to China corresponding to more than 70 per cent of its GDP. Montenegro's debt is 83 per cent. Sri Lanka's failure to pay its Chinese loans for the harbour in Hambantota forced the country to rent it to China, while Tajikistan has had to cede land to China to pay off its loans.

After investments, bribes and other bait, some 70 countries agreed to China's version of human rights by signing a Beijing Declaration of Human Rights in 2017.

The human rights situation has deteriorated dramatically in China. The country has a different approach to what we in the west consider to be universal human rights, and is fundamentally an authoritarian superpower, where control is increasingly centralised to President Xi Jinping.

China and the EU

The bonds between the EU and China consist of myriad of mutual relationships. The European Union is China's largest trade partner, and China is the EU's number two, after the USA. In addition to trade, they collaborate in a variety of fields, including research, and environmental and climate issues. The relationship is complicated, however. In a document presented by the EU Commission in March 2019 and which was supported by the foreign ministers of the member states, China is described as an important partner but also a systemic rival. This was rather unique, since the EU countries have been unable to coordinate their policies towards China. While European investments in China have declined in recent years, the opposite tendency can be detected with regard to China's investments in Europe. China has bought hundreds of companies in the EU and owns airports, ports and wind turbines, so-called critical infrastructure that is essential to national security. In 2018, China invested six times more in Europe than in the USA. This is partly because security screening is more rigorous in the USA.

The EU is worried that China is increasingly mixing financial and security policy interests. Practically all Chinese companies are directly or indirectly controlled by the Communist Party, and the Party does not tolerate unloyalty. There is concern that economic ties are subordinated to the Communist Party's geopolitical priorities. Even "private" Chinese companies are partially state-controlled.

A further problem is that China defects from international standards, especially those relating to technology. As mentioned previously, the EU generally applies, or is involved in developing, international standards. China's own standards cause practical and economic problems for European countries. The strategy in China is to develop its own standards that will be adopted by more and more countries, until they are globally competitive.

The EU and China have been negotiating since 2013 on an investment agreement to facilitate investments and level the playing field. The process is slow, and a 26th round of negotiations was held in December 2019. According to a joint statement, the agreement will be finalised in 2020, but this remains to be seen. The Chinese are also eager to launch negotiations for a free trade agreement. The EU has held back and wants to even out the terms for investors first. A free trade agreement with China is a long-term objective, but it could be extremely complicated to achieve fair conditions for European companies to establish themselves on the Chinese market, and rules on intellectual property, not to mention the chapter on sustainable development and human rights. As noted above, all agreements must be approved by the European Parliament, for whom these issues are very important.

The EU is an open market, and it is easy for foreign companies to submit bids for services and various forms of public procurement contracts. This openness has generated prosperity and economic growth. The lack of reciprocity, and concerns that some Chinese investments are perceived as attempts to appropriate critical infrastructure, however, have prompted the EU countries to take certain measures. The strict rules on government subsidies to companies, mean that the EU cannot compete with foreign investors with strong state support, as is the case with Chinese investments. Moreover, some investments come at a political price, in the form of individual member countries voting against critical statements against China, e.g. in the context of the UN. All over the world, countries such as the USA, Canada, Japan, Australia and New Zealand have reviewed and tightened their laws on foreign investments in response to the global tendency of increased Chinese investments.

In the EU, around half of the member countries have national legislation on sensitive investments, but it soon emerged that it was necessary to coordinate this at EU level. The Council of Europe and the European Parliament were able to agree rapidly in March 2019 on a proposal from the Commission. This is a comparatively cautious regulation that sets up a collaborative forum for exchange of information, and lists the criteria that should apply for national screenings. They focus on investments that involve critical infrastructure or could threaten "national security". The Commission can offer advice and comment on individual investment bids, but has no legal influence on decisions. This power always remains with the member states. The mechanism will be in force from October 2020, and it remains to be seen if it has any sway. The new Commission has already announced that it may become even stricter.

China and the USA

A large portion of the criticism from the USA against China is identical with European concerns. Understandably, the Americans are also worried that China will overtake the USA's leading position in technology, innovation and research.

There is also huge disappointment over the non-implementation of reforms committed to when China joined the WTO. The raised tariffs in the trade war should be seen against this background. China's trade surplus is a red rag to President Trump. The escalation of tariffs in 2019 between the two nations caused great financial concern, and the political rhetoric was heated. In early 2020, "phase one" was reached for a future, more ambitious, trade deal. This established a temporary cease-fire and helped calm things down slightly early in the year. In reality, the agreement helped only marginally to remove the already raised tariffs. Two-thirds of trade between the two nations is still subject to tariffs. China agreed to purchase a certain quantity of US goods – mainly agricultural products – but few commentators believe that China will be able to fulfil this commitment. Meanwhile, more and more US consumers and companies are complaining about high prices on essential imports from China.

The rest of the world

The USA, China and the EU are the world's largest economies and, as such, the most important trade partners. But there are many others who are also important. On the one hand, we have blocs such as Mercosur, ASEAN and the African Union (AU), who are seeking to form regional or intercontinental free trade zones. On the other, several countries have signed regional free trade agreements, largely as a result of the US departure from the global trade scene. When US policy signalled scepticism against free trade and the WTO, this provoked a counter-reaction from many nations that believe in open trade and international rules. When President Trump chose to leave the TPP, the remaining countries (Australia, Brunei, Chile, Japan, Canada, Mexico, Malaysia New Zealand, Peru, Singapore and Vietnam) opted, after some hesitation, to proceed on their own. The Partnership was seen as a way of becoming less dependent on China and opening up and liberalising trade. After minor renegotiations, the *Comprehensive and Progressive Agreement for Trans-Pacific Partnership* (CPTPP) came into force on 30 December 2018. The UK has expressed interest in joining.

In 2012, negotiations were launched between ASEAN and Australia, India, Japan, China, New Zealand and South Korea on the *Regional Comprehensive Economic Partnership* (RCEP). China was the main driving force and saw the agreement as some form of compensation for the CPTPP (TPP), which they were barred from. India pulled out of negotiations on the RCEP in autumn 2019 but is now negotiating membership again. According to the plan, the agreement will be signed later this year.

Other countries have also formed various types of customs unions or trade blocs to facilitate trade and increase regional economic integration.

The future of global trade

What will happen to the WTO?

Even if the most active WTO members are currently engaged in extensive discussions on various reforms, the majority does not seem to realise the urgency of reforming the organisation to maintain its relevance, especially with regard to the recovery after the covid-19 crisis. Once the postponed WTO ministerial conference is held there are no hopes of unity on a major reform package, but hopefully a few small steps can be taken. Negotiations in the plurilateral agreements on domestic rules for services and simplified investments in developing countries have come a long way and could even be completed. That would demonstrate that the WTO is able to take action. In principle, the USA should have no interest in stopping these proposals, which would remove some administrative hassle for companies. The negotiations on digital trade have made progress, but the really difficult issues, such as data protection, remain: Japan, Singapore and Australia are leading these talks, with both China, the EU and the USA at the table.

The only concrete commitment the WTO members were able to agree on at the latest Ministerial Conference in Buenos Aires in 2017 was to finalise negotiations on fishing subsidies. This has not been possible, however. The negotiations have stalled, and the members can't even agree to phase out the obviously unlawful subsidies, the ones contributing to over-fishing and surplus capacity.

As for the Appellate Body, where the USA blocked the appointment of new members, there is still no sign of the USA agreeing to sit down and negotiate a solution.

One essential plurilateral agreement on removing tariffs on environmental technology, the Environmental Goods Agreement (EGA), has been on hold since the Trump administration took over office. Negotiations could perhaps be revived; this would also be in line with the UN's Sustainable Development Goals (SDG), which are aimed at supporting more climate-smart solutions. It may also be possible to agree on further measures to increase women's participation in trade.

Ideally, the upcoming Ministerial Conference will agree on some form of strategy or road map to move forward. This would require balancing the old Doha issues that are crucial to the developing countries with new issues. One condition for this is that the USA can be enlisted to discuss an ambitious reform agenda with the EU and others in earnest. It is doubtful, however, whether this is possible with the current administration in the White House.

Greener trade?

Even if street protests against trade and globalisation have abated, there is still much left to do to ensure that more people will enjoy the benefits of trade, in the form of jobs, economic growth and investments. This requires measures that go beyond trade policy, such as instruments for redistribution policy, taxes, social policy, etc.

Another issue is how future trade can contribute more to the implementation of the UN's Sustainable Development Goals. Trade in itself does not generate a sustainable society, but it can contribute to its objectives, as described in the 2030 Agenda of the United Nations. The EU trade agreement, and also those of other countries, now include special sections and chapters on sustainability. But more can probably be done. The EU Commission has announced green taxes, possibly in the form of a border adjustment tax. This would entail tax on carbon emissions in relation to the carbon footprint of products. Transportation and production of raw materials for the product would be included. The idea is to prevent carbon leakage, i.e. that production is moved to countries with less ambition emission targets. Other countries are also discussing this matter, not least within the OECD. The EU is currently publicly circulating a discussion paper, but it will be tricky coming up with a proposal that is efficient, includes all countries and is in compliance with WTO rules. Something will happen though, that is for certain.

Global trade after covid-19

The corona virus has turned things upside down. The epidemic will have huge effects on health and society, and enormous, as yet immeasurable consequences on the global economy and trade. Already, some critical value chains have been broken, forcing companies to change their approach. The Swedish Ministry of Finance predicts that Swedish exports will decline by 6 per cent; according to the German Ministry of Finance, Germany expects an 11 per cent downturn in exports, and the WTO estimates that world trade may fall by up to 32 per cent in 2020.

China was the first to be hit by the virus, but also seems to be the first to recover from the crisis. Will a weakened China be more prepared to carry out reforms and collaborate with other countries to strengthen the multilateral system, or will this make the country even more determined to go its own way? The Chinese economy has suffered from reduced exports, but it will get a head start if it recovers faster than the rest of the world. Some deliveries are already getting off the ground and are almost back to normal in the car and technology industries. On the other hand, the Chinese products need consumers who can afford them. Millions of people may have lost their jobs, and numerous companies may be bankrupt. The Chinese propaganda machine and China's government have been diligent throughout the corona pandemic. Large shipments of healthcare material have been distributed to the needy all over the world, creating goodwill and loyalty among countries that felt let down by the EU, which initially was slow to offer internal support in Europe. Chinese companies have also been quick to bid on European companies on the brink of bankruptcy in the wake of the crisis. This prompted the president of the EU commission, Ursula von der Leyen, to advise vigilance and more rigorous scrutiny of investments in cases involving critical infrastructure.

The US economy will also suffer severely, despite major rescue packages. American companies are expected to put pressure on the government to lower tariffs on Chinese imports, but there are no signs of any upcoming changes in its trade policy. If Donald Trump is re-elected as president, we can expect even harsher terms for Europe and other countries, and continued use of trade deals as a geopolitical instrument. Democrats and Republicans seem united in their scepticism against China and a hard stance against the nation. The Democrats' presidential candidate, Joe Biden, is known to be a friend of free trade, and a person who sees the value of alliances and collaboration. A victory for the Democrats would maybe open up for new discussions on limited trade deals with the EU. This could lay the foundations for something more ambitious further on, when trust has been rebuilt. Democrat US administrations are traditionally more multilateral in their approach, which could facilitate WTO reforms.

Due to the corona crisis, the ongoing trade disputes have been paused. Scheduled meetings and negotiation rounds have been cancelled or postponed. The plan was to present an investment agreement at a major EU-China meeting in Leipzig this autumn. Talks on the actual agreement have not moved forward this spring, and the meeting was postponed in early June. Another summit meeting between the EU and India, to discuss a possible resumption of free trade negotiations, has been also postponed.

Brexit negotiations, which were already pressed for time, have now started up again after a long pause, but it looks increasingly unlikely that they can stick to the schedule. Meanwhile, the conflict between China and the USA is rekindling, as both countries are blaming the other for the corona virus outbreak and for poor crisis management. The USA has also threatened China with new tariffs.

Perhaps we are entering into an era of renewed collaboration and efforts to get the wheels of the global economy turning again. When demand picks up, this may boost the global economy, leading to new and more prestige-free attempts to resuscitate the WTO and a liberalisation of trade, rather than the opposite. There is a risk, of course, that the growing nationalism engendered by the covid-19 crisis could remain and even enhance protectionist tendencies in individual countries, as we have seen, not least in terms of export restrictions on medical supplies and material in the EU and USA. In March 2020, when the G20 countries discussed the covid-19 crisis and life after it, they stressed the importance of resuming trade, but the WTO was not mentioned.

Within the EU, the Commission's proposal for a Recovery Fund of EUR 750 billion is currently being discussed, along with a revised long-term budget. We are facing difficult negotiations, and enormous effort will be required to get the European economy going again, both in the short and long term.

Several exceptions have been made to the EU's strict rules on government subsidies during the covid-19 crisis, to enable member countries to support activities that are crucial to the nation. Will it be possible to return to a firmer practice after this? Europe is extremely dependent on trade, and some voices are advocating greater self-sufficiency and "strategic autonomy". Will the EU have the stamina to complete the ongoing negotiations on free trade deals and ensure that the ones that are finalised are voted on and implemented? Now that the free-trade-friendly Brits have left the Union, it will be interesting to see how it pans out.

At the time of writing, the world is struggling with rising death tolls and infection rates as covid-19 spreads. Nothing will be the same after the crisis, politically, economically or socially. It is still too early to predict all the consequences, but the world will have been shaken to its core. Hopefully, the outcome will be more collaboration, coordination and innovation, in attempts to reboot the economy and trade. But we can't count on it.

Trade deals

AfCFTA African Continental Free Trade Area – A free trade area for 44 African nations, but it has not been ratified by everyone yet. Operative since July 2019.

CETA Comprehensive Economic and Trade Agreement. A free trade agreement between the EU and Canada. It came into force in September 2017.

CPTPP Comprehensive and Progressive Agreement for Trans-Pacific Partnership. A trade agreement between Australia, Brunei, Chile, Japan, Canada, Mexico, Malaysia, New Zealand, Peru, Singapore, Vietnam. It came into force on 30 December 2018.

RCEP Regional Comprehensive Economic Partnership. A free trade agreement between the ten ASEAN countries and Australia, Japan, China, New Zealand and South Korea. India pulled out of the talks in autumn 2019 but is now negotiating membership again. The agreement will be signed later this year.

TTIP – Transatlantic Trade and Investment Partnership – the agreement on free trade negotiated by the EU and the USA in 2013–2016. It is currently on hold.

USMCA – United States-Mexico-Canada Agreement. The reviewed trade deal between the USA, Canada and Mexico. Ratified by all three countries and due to be in force later this year.

Customs unions

ASEAN Association of South East Asian Nations – Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam.

AU The African Union, formed in 2002 by the 55 nations on the African continent. Its goal is to increase collaboration and economic integration.

EU The European Union has 27 member countries since the UK left. The world's most integrated internal market.

Mercosur – A customs union formed in 1991 between Argentina, Brazil, Paraguay and Uruguay. Venezuela is formally a suspended member. The goal is to promote economic and political integration.

SADC- South African Development Community. 16 countries from South Africa to Congo are included. Formed in 1992 to promote regional integration and fight poverty through economic development. Head office in Gaborone, Botswana. Six of the members have a regional agreement with the EU: South Africa, Lesotho, Swaziland/Eswatini, Namibia, Botswana and Mozambique.

Other trade-related abbreviations

EBA - Everything But Arms An agreement between the EU and 48 developing countries, according to which all exports (except arms) to the EU are exempt from duties and quotas. In force since 2001.

EGA Environmental Goods Agreement Negotiations between 46 WTO members to eliminate tariffs on environmental products. Negotiations reached a hiatus in December 2016.

ICS Investment Court System The EU has attempted to modernise the ISDS system and introduce an updated, more limited and transparent system. It is included in free trade agreements between the EU and Canada, Singapore, Vietnam and Mexico. It has not yet been implemented.

ISDS A dispute settlement mechanism in international law that gives companies the right to sue a government on the grounds of discrimination that is damaging to their investments in the country. There are several thousands of these agreements globally.

GATT General Agreement of Trade and Tariffs. A multilateral agreement from 1948, the precursor of the WTO.

MFN Most Favoured Nation. The principle of non-discrimination of trading partners, ensuring that a country receives the best terms and conditions its trading partner grants to others.

MIC Multilateral Investment Court. A proposal to form an international court that would take over existing and future ISDS agreements. Supported by the EU and several countries, it is being discussed in the UN Commission on International Trade Law, UNCITRAL.

TFA Trade Facilitation Agreement. A multilateral agreement from 2014, simplifying the procedures and bureaucracy for international trade.

TRIPS – Agreement on Trade-Related Aspects of Intellectual Property Rights An international agreement that regulates trade issues relating to intellectual property. In force since 1995.

WTO – World Trade Organisation. The organisation was founded in 1995 and currently has 164 member countries.

report

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