PERSPECTIVE

In Need of Rethinking

Trade Policies in Times of De-Globalisation

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- Free trade has both been negatively affected by and an active contributor to an anti-globalisation backlash in the public opinion of many advanced economies. Further trade liberalisation is increasingly resisted. Much of the backlash can be viewed as a reaction to the underlying policies that, in the past, have produced many »losers« – not just »winners« – and especially have increased income inequality.

- Most of the »low-hanging fruit« in trade liberalisation has already been harvested. In the search for further cost savings, the frontier of trade negotiations has moved away from the borders deep into the arena of national policies. Attempts to use trade negotiations to modify regulations that express societal preferences and had been established for reasons that are unrelated to international trade have largely eroded the confidence in trade negotiations and trade negotiators – and added to the backlash.

- The increasing resistance against further liberalization comes at a time when the global economy itself is about to become less global. In order to avoid any further politically motivated regression that could lead to tit-for-tat »trade wars« reminiscent of the 1930s there is a need for rethinking trade policy. Trade policies should become more realistic and pragmatic – not overselling its alleged benefits – and stop pushing for an aggressive corporate agenda. Potential losers of trade liberalization must be identified in advance – and adequately compensated. Finally, trade policies must become compatible with and aligned to internationally agreed policy frameworks, such as the Decent Work Agenda, the 2030 Agenda for Sustainable Development and the Paris Agreement.

Dialogue on Globalization

Introduction

Since the financial crisis of 2008, the Western World has been experiencing a huge backlash against the globalisation for which it is ultimately responsible. Both the strong mobilisation of people – mostly in Europe – against new trade agreements and the presidential race in the United States (US) are a testimony to this. This paper explores what could be the major causes for this backlash and the stagnation of further trade liberalisation that accompanies it. Moreover, it not only identifies a backlash in public opinion, but also sees the global economy retreating from »hyperglobalisation« (Dani Rodrik). It concludes with a number of recommendations for how to restore some of the confidence lost in trade, trade negotiations, and trade negotiators calling for trade policies that are realistic, pragmatic, balanced, inclusive, as well as coherent with and aligned to other policy areas.

Mega-Regionals: All But Dead?

Most observers of international trade negotiations still seem to hold the view that negotiations at the World Trade Organization (WTO) on further trade liberalisation were stuck or even in crisis, while, on the contrary, trade liberalisation and rule-making were thriving in bilateral and regional negotiations. But is this really the situation? Clearly, multilateral trade negotiations under the Doha Round have been dragging on for 15 years without much to show for. Yet in contrast to the view held by many trade pundits, the most important regional trade agreements (RTAs) – the much-hyped »mega-regionals« – these »high-end« agreements and putative new global trade standard setters aren't flourishing either. The Transatlantic Trade and Investment Partnership (TTIP) is basically dead – for now. The ratification of the EU-Canada Comprehensive Economic and Trade Agreement (CETA) – after being declared a »mixed agreement« by the EU Commission under pressure from Member States and the public at large – is completely uncertain, though parts of CETA might enter into force provisionally. At what stage the Transpacific Partnership (TPP) is going to be ratified by the US Congress, or whether it will be ratified at all, is anyone's guess, given the current political climate there, in which both presidential candidates have either positioned themselves openly against free trade or at least opportunistically repudiated TPP in its current form. In a recent op-ed in the *South China Morning* Post, the internationally renowned trade specialist Jean-Pierre Lehmann declared TPP »all but dead«.[1]

Taking Back Control: The Anti-Globalisation Backlash

All of this points to a broader malaise. Since the financial crisis of 2008, we have been witnessing an anti-globalisation backlash. In large parts of the advanced economies of the Western World, and these are the countries being focused on here, the whole system of global economic integration has a legitimacy problem. The willingness of people to believe the experts – who maintain that ever-more integration, the free movement of capital, the free movement of people and the free movement of goods across borders, and a purely market-based resource allocation would be the golden pathway to economic prosperity and social welfare for everyone – appears to have been largely exhausted. The idea that deregulated financial markets and the free movement of capital are good things had already been laid to rest in the crisis of 2008, when the banks and the greedy bankers had to be bailed out and the populace had to foot the bill through austerity. »Panama Papers«, »LuxLeaks«, and other recent scandals have served as stark reminders of what the free movement of capital apparently is about. Similarly, ongoing unmanaged mass immigration from impoverished and failed states with often completely different – and at times rather difficult – cultural and social norms is not making the neoclassical theory of the global, welfare-enhancing benefits of migration or labour mobility a particularly attractive and credible proposition either.

Free trade has both been negatively affected by and an active contributor to this broader anti-globalisation mood. Offshoring and further trade liberalisation in the form of deep integration agreements that focus on »behind-the-border« measures and »regulatory convergence« are increasingly resisted. In the case of TTIP, the prospects of ever cheaper imports and vague promises of a possible net gain of a few jobs and paltry increases in GDP many years down the line, no longer trigger any enthusiasm. For an informed and politically active public, these are neither worth the price to pay in terms of con-

1. South China Morning Post, 20 July 2016, available at http://www.scmp.com/comment/insight-opinion/article/1992311/trans-pacific-partnership-all-dead-what-next-now-world-trade (last accessed on 02.08.2016).

sumer, health, labour, and environmental standards – or with regard to democratic control and self-determination – nor do they justify the disruptions and concrete job losses that necessarily go along with any trade-induced structural change.

»Taking back control« (the war cry of the Brexiteers), »policy space«, »national sovereignty«, or »the right to regulate« by democratically elected or otherwise legitimate political bodies are currently the themes that have become popular with large swathes of voters – at least in Europe. Many people are no longer prepared to blindly accept new supranational rules formulated behind closed doors by unelected bureaucrats, often rightly suspected to be in cahoots with corporate lobbyists – »revolving doors« *à l'appui*. Although still dominant in public discourse, the whole integration-cum-mobility paradigm – aka globalisation – is openly questioned, whereby everything that is perceived not to be well in finance, trade, or migration is often indiscriminately lumped together by critics of the ruling paradigm.

Trade for All: What About the Losers?

It is too easy to call this populist, chauvinistic, xenophobic, protectionist, or backward. While this certainly applies to some of the critique, the increasing opposition to openness has deeper roots. This is why denunciation and name-calling is no substitute for proper analysis. Much of the backlash can be viewed as a reaction to the underlying policies that have produced many »losers« – not just »winners« – and especially have increased income inequality, whereby the rise in inequality, in turn, has hurt the levels and sustainability of growth, if one is to believe the IMF.[2] These possible negative by-products of trade openness – mainly on the demand-side of the economy – constitute a challenge to the conventional wisdom that trade growth quasi-automatically »boosts« economic growth (through higher productivity as a result of better resource allocation), which usually serves as the standard political argument for why we would need more trade and, by extension, more trade liberalisation. In future, they must be explored more seriously. Supply-side and demand-side effects must then be weighed against each other and taken into account in any decision-making on possible further trade liberalisation steps.[3]

But even if we assume at this stage that market deregulation and international integration had been beneficial on aggregate, we have to face the fact that these policies have benefited primarily the happy few – i.e., the rich, well-skilled, cosmopolitan, and mobile – whereas large parts of the middle class, the working class, and the poor have been left behind. Many ordinary workers in advanced economies are not only worse off relative to others in society, but they have also lost out absolutely compared to what workers earned 30 or 40 years ago (in real income terms). Recently, a McKinsey Global Institute report found that no less than between 65 and 70 per cent of households in 25 advanced economies saw their real market income fall or stay flat in 2014 compared to 2005. The picture is less grim if government transfers and lower taxes are included: only 20 to 25 per cent were in segments of the income distribution whose disposable income was flat or down.[4] But even this is still a sizeable and politically unsustainably high proportion.

If this is what economic integration and trade liberalisation are associated with, then those who care about an open economy must also become advocates of domestic policies that reduce income and wealth inequality, in order to prevent further nationalist or protectionist backlash. Identifying and adequately compensating losers – often entire communities – as well as effectively redistributing the globalisation dividend must become a corollary to any further liberalisation steps. Only then is there a chance that trade works for everybody and »Trade for All« – as the title of the new EU trade and investment strategy of 2015 proclaims – doesn't remain

2. Cf. Jonathan D. Ostry, Prakash Loungani, and Davide Furceri (2016): Neoliberalism Oversold?, Finance and Development, June 2016, 38f; available at: http://www.imf.org/external/pubs/ft/fandd/2016/06/ostry.htm (last accessed on 02.08.2016).

3. The arguments advanced here mainly apply to advanced economies. From a development perspective other arguments and issues would also have to be addressed: for example, the debate around static vs. dynamic comparative advantages, the role of global value chains, the accusation that Western-controlled trade and investment rules and associated policy advice amounted to »kicking away the ladder« once used by the very same countries to be where they are now in terms of economic development (»do as we say, not as we do«), or why, as a result of trade liberalisation, in many developing economies workers mainly moved from low-productivity jobs to unemployment (and stayed there) instead of moving to high productivity jobs, as trade theory had predicted.

4. Cf. Richard Dobbs, Anu Madgavkar, James Manyika, Jonathan Woetzel, Jacques Bughin, Eric Labaye, and Pranav Kashyap (2016): Poorer than their parents? A new perspective on income inequality, McKinsey Global Institute report, July 2016; available at: http://www.mckinsey.com/global-themes/employment-and-growth/poorer-than-their-parents-a-new-perspective-on-income-inequality (last accessed on 02.08.2016).

an empty slogan.[5] Existing compensatory mechanisms – such as the European Globalisation Adjustment Fund or Trade Adjustment Assistance (TAA) in the US – must be critically reviewed with regard to their perceived lack of effectiveness, and where necessary be reformed and expanded so that they are up to their tasks.

The compensation principle should also apply at the international level. At least for poor and developing countries, negative spillovers through trade or investment diversion and preference erosion, which arise from new bilateral or regional trade agreements, should be compensated for one way or another, as it was called for by a number of scholars with regard to TTIP and Sub-Saharan Africa (e.g., through newly simplified, harmonised and generous rules of origin in the respective EU and US preferential trade agreements with Africa)[6]. In addition serious impact assessments, such as human rights impact assessments,[7] should become mandatory for any new liberalisation or integration project – and be acted upon. The G20 as the prime agenda-setter in global economic governance should acknowledge the need for compensatory or redistributive policies both domestically and internationally as a necessary ingredient of an open economic and trading system, in order to promote inclusiveness and ensure that no one is left behind. It should also push for more and better impact assessments and urge its members to act on their results.

Digging for NTBs: Selling Out Public Interest for Higher Returns?

International trade continues to play a vital role for global prosperity. Hence, preventing reversals of past trade liberalisation is important, because they could lead to tit-for-tat »trade wars« reminiscent of the 1930s. However, given the depth of trade integration already achieved – especially between advanced economies that have been the first movers on this – further trade liberalisation seems to be both more difficult and to yield fewer economic benefits than in the past. Estimates of the economic benefits of further trade liberalisation from econometric studies – e.g., on TTIP and TPP – are often shockingly low: no more than one or two percentage points of GDP, suggesting that the law of diminishing returns also applies to trade liberalisation. This shouldn't come as a surprise. In past decades, average advanced-economy industrial tariffs have plummeted from more than 30 per cent to below five per cent. Most of the »low-hanging fruit« in trade liberalisation has already been harvested. Nowadays, exchange rate fluctuations often do much more harm to trade than any protectionist measure.

In the search for further cost savings, this is why – and also simply because, somehow, the »show must go on«[8] – the frontier of bilateral and regional trade negotiations has moved away from the borders deep into the arena of national policies and policy choices in search of non-tariff barriers to trade (NTBs). Significant monetary gains for businesses – which are only passed on to consumers, at least partially, where competition works well and domestic prices aren't »sticky« and adjust to world prices[9] – are expected from the harmonisation or the mutual recognition of product and production standards, product certification requirements, as well as the opening up of professions and hitherto regulated sectors. Pascal Lamy, the former Director-General of the WTO, estimates that as a rule of thumb there are five per cent cost savings to gain from the abolition of remaining tariffs, ten per cent from reducing red tape in border administration by implementing the TFA (Trade Facilitation Agreement), but 20 per cent from harmonising standards, rules, and regulations.

5. For more on »Trade for All«, see http://ec.europa.eu/trade/policy/in-focus/new-trade-strategy/ (last accessed on 02.08.2016).

6. Cf. Eveline Herfkens (2016): Lost in a Spaghetti Bowl? Mega-regional trade agreements, Sub-Saharan Africa and the WTO, Perspective, Friedrich-Ebert-Stiftung, Berlin/Geneva; available at: http://library.fes.de/pdf-files/iez/global/12382.pdf (last accessed on 02.08.2016).

7. In the case of a new Africa-wide free trade agreement, the »Continental Free Trade Agreement« (CFTA) – which is currently being negotiated – a process towards a comprehensive human rights impact assessment is underway. For more information, see Thuo Ghatti (2016): Designing the Continental Free Trade Area (CFTA): An African Human Rights Perspective, Scoping Study, Published by Friedrich-Ebert-Stiftung, Geneva office in close collaboration with the Office of the High Commissioner for Human Rights (OHCHR) and the United Nations Economic Commission for Africa (ECA), Geneva; available at: http://www.fes-globalization.org/geneva/documents/2016/2016_05_HRIA%20of%20the%20CFTA_Publication.pdf (last accessed on 02.08.2016).

8. Implicitly, most protagonists and pundits in the area of trade and trade liberalisation seem to be proponents of a kind of »bicycle theory« of trade liberalisation: just as a bicycle must always move forward in order not to fall over, trade must continuously be liberalised lest it slides back towards protectionism.

9. When world prices do not feed through to the domestic economy – for instance, when international brands manage to successfully maintain nationally segmented markets for their products – the supposed benefits of trade may not be realised (Cf. Kevin Albertson, John Simister, and Tony Syme (2015): Globalisation and sticky prices: »Con« or conundrum?, Real-World Economics Review, issue no. 73, 92f; available at: https://www.researchgate.net/publication/284492822_Globalisation_and_Sticky_Prices_'Con'_or_conundrum (last accessed on 02.08.2016).

In general, harmonising some of the technical standards is politically unproblematic and *a priori* economically beneficial. However, modifying regulations in the areas of consumer protection, food security, the environment, financial markets, labour, culture, public services – or any other area reflecting societal preferences – or just having them eroded by a mutual recognition of (uneven) standards, is an entirely different matter. Here the trade liberalisation agenda is regularly blurred by a domestic corporate agenda for deregulation and privatisation, for which there are otherwise no political majorities. Therefore, the use of trade negotiations to question regulations that express societal preferences and had been established for reasons that are unrelated to international trade have often been met with furious resistance. Also, this has largely eroded the confidence in trade negotiations and trade negotiators, particularly in Europe. Trade negotiations are then basically viewed by many of its critics as attempts to sell out the states' right to regulate to corporate interests. This suspicion is further reinforced if those interests are being backed up by extensive investor rights to sue governments and demand compensation for changes in the policy environment that may affect their bottom line in a parallel universe of private arbitration under the infamous investor-state dispute settlement (ISDS) system.

Furthermore, critics' fears are not actually allayed once they try to determine what is currently going on in the (secret) negotiations for a new plurilateral trade in services agreement (TISA). Here, it seems, new instruments that place countries firmly on a one-way street of deregulation and liberalisation in the area of services are about to be transformed into binding treaty law. This holds both for »standstill« and »ratchet« clauses to national treatment and market access (with the first one locking in existing liberalisation levels, and the second one automatically locking in any further deregulation), as well as the application of a »negative list approach« (»list it or lose it«) that would replace the common »positive list« approach under the GATS.[10]

10. While under the GATS, countries list all services they agree to liberalise (positive list), a negative list contains all services a country doesn't want to liberalise. All other services, including those that were forgotten, but more importantly those that did not yet exist at the time of concluding the agreement, are automatically open to the private sector and international competition. The negative list has been likened to a shopping list that contains all the articles you don't want to buy when you go to the supermarket.

De-Globalisation: The New Normal?

Since 2008, we have not only seen an anti-globalisation backlash in public opinion, but the world economy has also entered into a phase of de-globalisation. Since the crisis, global trade growth has essentially been cut in half – from over six per cent per annum to about three per cent; more importantly, global trade growth consistently lags behind global GDP growth. In other words, the »trade intensity of growth« is declining and, thus, the global economy is becoming less global. For most experts, this is simply an aberration and no effort has to be spared to put trade growth back on track. Somehow. Overall, however, this situation can only partially be blamed on protectionist measures, as indeed the stockpile of trade-restrictive measures of the G20 countries, for instance, continues to increase. By mid-May 2016 their total number stood at 1,196 (compared to 324 by mid-October 2010 and up by ten per cent compared to last year).[11] Furthermore, given global political dynamics, continued protectionist backlash – which would further accelerate de-globalisation – certainly cannot be discounted.

However, other forces – and arguably more important ones – also seem to be at play here, including changing consumption patterns towards non-tradable services, automation- or technology-driven »reshoring«, some »on-shoring« of production closer to consumer markets, or the sharp decline in commodity prices. It is not yet clear whether these are just temporary phenomena, as commonly believed – or at least hoped for by the bulk of the experts – or whether, as some have suggested, these are harbingers of a »new normal«, where trade and global/regional value chains are going to play a much smaller role than in recent decades. There are signs that the significance of differences in wage costs, which have been the main driver for trade in global value chains, may decline in future. On the one hand, this could be a result of a growing convergence in unit labour costs between emerging and advanced economies, because wages are rising in the former. On the other hand, this could be reinforced by a relative decline in the importance of unit labour costs compared to other costs – such as transportation, for instance, once CO_2 emissions are correctly priced and internalised in the cost of air freight or shipping.

11. Cf. WTO (2016), Report on G20 Trade Measures (Mid-October 2015 to Mid-May 2016), 4f; available at https://www.wto.org/english/news_e/news16_e/g20_wto_report_june16_e.pdf (last accessed on 02.08.2016).

Time for a Rethink

While we might have already entered into a market-driven phase of a gradual de-globalisation, any further politically motivated regression should nevertheless be resisted, in order to avoid the slippery slope of disguised or even open competition wars. This is easier said than done. As a minimum, it would be necessary to restore some of the confidence lost in trade, trade negotiations, and trade negotiators. However, for that we need a rethinking of trade policy – i.e., we need trade policies that are realistic and pragmatic, balanced, inclusive, and compatible with and aligned to other policy areas.

Firstly, it is time for an honest assessment of what further trade liberalisation can really achieve in terms of global economic growth or as a means to combat global recession – namely, not much. We should refrain from overselling its alleged benefits and pinning our hopes on it for global economic recovery, when other factors are holding back global demand. Instead, we should be pragmatic and identify issues where new and globally acceptable trade rules are urgently needed and could provide potential benefits for all. Cross-border digital trade (e-commerce) would be one such area in need for common rules.

Secondly, trade policy should stop pushing for an aggressive corporate agenda and become much more balanced in the interests that are brought on board, which sit around the table during trade negotiations, or are regularly consulted. Trade policy must also adequately respect the need for »policy space« and the governments' right to regulate in the public interest. Standards expressing societal preferences should not be up for grabs. Irreversibility clauses locking in quasi-automatic liberalisation must be resisted. Taking e-commerce again as an example, a balanced negotiating outcome here would be one that, among other things, ensures net neutrality – i.e., Internet users' equal rights to access to data – and prioritises states' privacy laws over corporate interest in data storage, for example by allowing them to require that data are stored in the country where they are collected.

Thirdly, the quest for inclusiveness must start by acknowledging that trade liberalisation necessarily produces winners and losers. Instead of allowing the »winners-take-all« outcomes of the past, losers must be adequately compensated both nationally and internationally as part of broader policy approaches that prioritise fairness, equality, inclusivity, and transparency. Instruments like the European Globalisation Adjustment Fund or TAA in the US must be reviewed, reformed, and expanded in order to make them much more effective. Ex-ante impact assessments – including human rights impact assessments – and impact monitoring must become part and parcel of any integration or liberalisation project. Supply-side and possible demand-side effects of further liberalisation must be weighed against each other and taken into account.

Last but not least, there is an urgent need for greater policy coherence between trade and other policy areas. Trade and more trade should not be viewed as an aim in itself, but as a means to various ends. Firstly, trade policies and trade agreements should align themselves with the ILO's Decent Work Agenda and the promotion of decent work in global supply chains. Trade agreements that feature labour chapters or otherwise include binding or non-binding labour provisions are potential tools for better aligning economic and social outcomes that still remain to be harnessed to their full potential.[12] More generally, labour standards and internationally codified labour rights – such as Freedom of Association and Protection of the Right to Organise (ILO Convention 87) and the Right to Organise and Collective Bargaining Convention (ILO Convention 98) – should not be construed as protectionist measures. Instead they should be seen as instruments to »level the playing field«, as instruments towards fair – and therefore legitimate – globalisation, which do not in any way impinge on the legitimate comparative advantages of poorer countries with lower income and therefore correspondingly lower wage levels. Secondly, at this juncture, trade should be particularly supportive of the implementation of the Sustainable Development Goals and the fight against climate change. Thus, trade policies and future trade agreements must be aligned as much as possible with internationally agreed policy frameworks, in particular the 2030 Agenda and the Paris Agreement. In general terms, this means that trade policies must contribute to the fundamental structural transformation ahead of us, which consists in de-

12. The FES Asia Regional Office has just launched a project that attempts to assist labour unions and other stakeholders to use existing preferential trade arrangements (GSP, GSP+) as well as labour chapters in new trade agreements as an advocacy tool to foster fair wages, work safety, social protection etc., see http://www2.fes-asia.org/fes-asia-links-trade-shared-prosperity-global-supply-chains/ (last accessed on 02.08.216).

linking economic prosperity and social well-being from environmental destruction, resource use, and CO_2 emissions. In practical terms this could mean, for instance, prioritising the successful conclusion of the plurilateral environmental goods agreement (EGA), finding a balanced solution for the phasing-out of environmentally detrimental fishery subsidies, or coming up with a new and more balanced regime of trade-related intellectual property rights specifically for green technologies that promotes their rapid diffusion.

This paper is based on the author's contribution to a panel on »Strengthening the Coordination between Regional Trade Agreements and the Multilateral Trading System« at the Think 20 Summit: Building New Global Relationships, held 29–30 July 2016 in Beijing, China.

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