

Conference Report

International sef: Expert Workshop 2020

The World Trade System after COVID-19: Pathways towards welfare- oriented trade policy

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The world trade system was already in deep crisis before the coronavirus pandemic. Key elements of this system risked being eroded by geopolitical power struggles and protectionist foreign trade strategies. The specific development concerns of weaker states and regions were often ignored. The pandemic has exposed a further weakness of global trade liberalisation: the crisis vulnerability of a world economy structured on a division of labour and global supply chains, with its resulting high level of mutual dependence.

The International sef: Expert Workshop 2020 on 14-15 September 2020 undertook an initial review of the performance of the world trade order in the pan-

dem. One question was of particular interest: what lessons can be learned from the past few months for the long-discussed reform of the world trade order, be it with regard to the organisation of supply chains, the provision of critical goods, dealing with inequalities or the response to geopolitical tensions? Some 40 international experts, gathering both online and on site, offered both normative and practical perspectives while discussing possible strategies to improve the world trade system.

The state of the world trade system – before and during the pandemic

Geopolitical disputes and divisions between developed and developing countries had weakened the world trade system well before the COVID-19 pandemic, leading to growing fragmentation and protectionism in world trade. Negotiation processes within the framework of the World Trade Organization (WTO) had been de facto deadlocked for a long time, and finally, the blockade of its dispute settlement body made headlines. The assumption that WTO membership would lead to normative convergence among states did not apply to systemic rivals, one expert concluded. Instead, the deepening economic integration has been misused by some states for geostrategic gains, a phenomenon she described as “weaponised interdependence”, contradicting the presumed positive correlation between prosperity and peace. According to this expert, the WTO failed to keep pace with these changing realities.

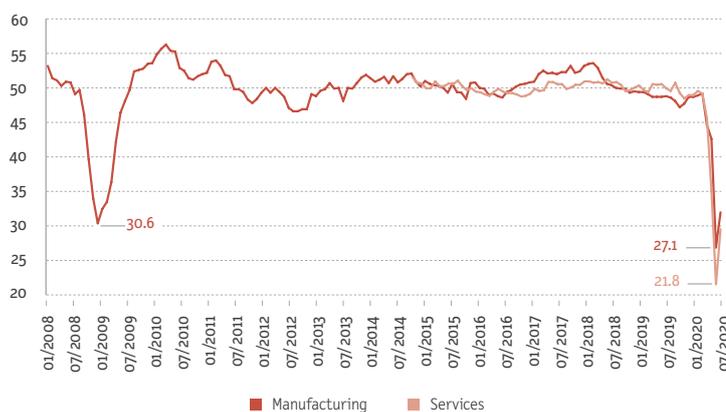


International sef: Expertworkshop 2020, Gerhard Mercator House, University of Duisburg

When the pandemic hit, the first and most obvious consequence for the global trade system was the disruption of supply chains. In some countries, production was diminished as a result of containment measures, which in turn hindered production in other countries. On the demand side, a steep decline in sectors like automobiles and textiles was contrasted by a sharp increase in others such as personal protective equipment. But above all, in an early stage, transportation routes with China were interrupted, followed by border closures and government export restrictions on medical and other critical goods around the globe. The world trade system has been severely damaged, in particular through uncoordinated action by states, as several experts emphasised. This has led to unprecedented business uncertainty [see Figure 1].

Figure 1

Corona pandemic causes sharper decline in international trade than the global financial crisis in 2008
Global Purchasing Managers' Index (PMI) new export orders indices, January 2008 – May 2020



Source: IHS Markit (cited in World Trade Organization 2020, p. 26)

Note: Index, base = 50. Values greater than 50 indicate expansion while values less than 50 denote contraction.

On the positive side, other experts pointed to the fact that most countries made efforts to continue to operate within the framework of WTO rules which allow for flexibility in times of crisis. The WTO itself saw its role in assuring transparency and regularly monitoring the measures taken by its members. So from the perspective of the WTO, the organisation continued to play an important role in securing trade relations – a view that was not shared by all participants. One expert argued that the WTO had been sidelined by its members and found itself in its greatest crisis since its foundation. For sure, the WTO was not prepared for such a crisis situation. Its members were not able to meet for several months, until facilities to meet online were in place.

Without significant efforts to reignite trade cooperation, the prospects were rather bleak, most experts agreed. Growing protectionism, increased disruptions to global value chains and spillover effects into other realms may be some of the negative consequences in the future, one speaker predicted.

Rules for the supply of critical products

One topic of particular concern to the participants was the handling of critical goods, also with regard to access to a future vaccine against the coronavirus. During the first months of the pandemic, the initial response of states was to curb exports [see Figure 2] and facilitate imports, accompanied by calls to reshore production. The pandemic showed how all countries tried to exploit the health supply chain to their advantage, one expert summarised. There was fierce competition on international markets for critical medical goods, with the risk of countries bidding against one another and driving up the prices, while poorer states were left behind. While these first reactions were later followed by political commitments to keep markets open and an increase in trade in medical goods by 38.7% in the first half of 2020, growing nationalism is still a phenomenon to be aware of, as several speakers pointed out.

What approaches are worth considering to prevent a repetition of the situation that occurred in the first months of 2020 and to better regulate access to critical goods? Several possible concepts were discussed during the Expert Workshop. One of them is to increase the available quantity of such goods. How do we encourage firms to ramp up production quickly, or to engage in stockpiling of critical products, one speaker asked, pointing to the fact that despite difficult circumstances and closed borders, pharmaceutical companies succeeded in ensuring the delivery of essential medicines worldwide. Government incentives could contribute to improving the availability of important goods.

As another tool to prevent panic on the global market, a global monitoring system for critical goods in the healthcare sector was suggested, drawing from the good experiences with such a system in the food sector. As a first step, existing monitoring systems could be made more transparent and thus increase security for governments.

But both approaches would hardly solve the problem of access to critical goods in poorer countries. Here, the WTO could play a major role in facilitating imports, possibly supported by a fund. The international financial institutions or private actors such as the Gates Foundation could participate in the financing, an expert suggested.

Hopes were also placed in the WTO Trade Facilitation Agreement, which came into force in 2017 but has not yet been implemented by all members. In the longer term, even an agreement for access to supply could be conceivable, one speaker said. Exporting countries might be ready to limit export restrictions if importing countries were willing to liberalise their import controls, he explained.

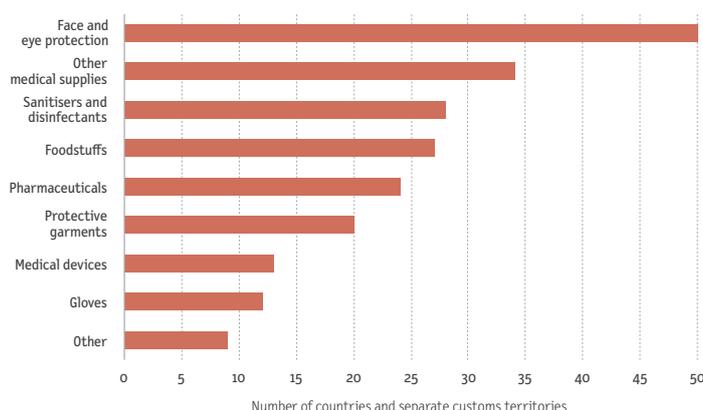
Reshoring is not the answer

Not only are critical goods affected by global supply chains risks. Disruptions in production chains led to the shutdown of entire branches of industry worldwide in spring 2020 – with immense economic consequences [see Figure 1]. This was followed by a widespread debate about bringing production “back home”. National programmes are discussed or already in place to alter firms’ location decisions and reconfigure supply chains; in some regions, there are increasing calls to move production away from China.

Nearshoring, the relocation of production to nearby foreign countries instead of to distant regions, may be a cost-effective way of shortening supply chains and improving risk management, one speaker suggested. It might also be positive from an environmental perspective, but then, job losses might be substantial in developing countries.

Figure 2

Number of countries/separate customs territories introducing export restrictions as a result of COVID-19, by categories of products (as of 9 August 2020)



Overall, reshoring tendencies were viewed critically by most workshop participants. From a business perspective, it was criticised that governments want to dictate reshoring without a proper understanding of the context. A prominent example are face masks, where companies are stuck with millions of masks because they are not competitive in the market.

In terms of risk reduction, reshoring and regionalisation are useless, another expert said, as disasters can hit everywhere. It would only make production much more expensive. To better protect against the vulnerability implicit in very long supply chains or production networks that are highly concentrated, diversification is key. Many companies are currently rethinking their supply chain strategy. But the diversification of production location and sourcing also

depends on the nature of the industry, one expert added. Labour-intensive industries might be more mobile compared to resource-intensive value chains.

Therefore, the solution might rather lie in “smart global networks”, as one expert put it. Resilience needs to be designed into production networks so that the different components can support each other or take over in case of a disaster. Increased transparency and digitalisation of supply chains might also be helpful.

Reducing risks along production chains: How about the workers?

While the resilience of supply chains is often debated from the perspective of transnational companies, it is local industries and their workers who are hit hardest. The garment industry in Bangladesh, for example, was hit three times by the pandemic. By early January 2020, deliveries to China were no longer possible. Then demand collapsed in Europe, orders were cancelled, postponed or renegotiated, and eventually, factories had to close during the national lockdowns. As a consequence, millions of workers, mostly women, suddenly found themselves out of work, some temporarily, others permanently. 80% of these workers had no savings, one speaker explained, and 27% had to reduce their food consumption. The vast majority of factories also had no reserves and no risk management fund; they could not even pay their workers’ salaries for a month. Finally, the government stepped in and covered part of the salary payments.

How can the most vulnerable groups in global value chains be better protected? One expert suggested thinking about direct support for workers in supply chains, e.g. by providing skills, housing or transport. Brands and factories should work together. But there are also measures needed beyond supply chains, she suggested, such as national social protection schemes. Trade unions could also make a contribution, but in many countries they are not yet rooted in the labour force. A crucial challenge lies in the fact that production is usually not demand-oriented but profit-oriented. This leads to strong price pressure, which in turn deprives suppliers of the opportunity to build up reserves for a crisis fund.

With regard to sustainability in supply chains, human rights and workers’ rights are the most important factor, a business representative said. For companies, the UN Guiding Principles on Business and Human Rights are the key frame of reference, also with regard to certification schemes. A crucial factor in improving responsibility in supply chains is the promotion of living wages. Support programmes for food and non-food supply are another potential tool. For these measures to make a real difference,

it is important that big companies align and that the impact is measured, she concluded.

Since voluntary commitments to greater responsibility in international supply chains are not enough, in the view of civil society and many researchers, they support efforts to establish binding rules, such as those currently being discussed in Germany with the planned Supply Chain Act and at the international level with the UN Treaty on Business and Human Rights. Several experts expressed regret that Germany and the EU have so far not shown great commitment in this negotiation process. An existing tool that could improve the current situation is, again, the WTO's Trade Facilitation Agreement, one expert added. It is very clear on best practices to build into supply chains and should therefore be fast-tracked.

A normative realignment of world trade?

The focus of world trade – and the economy more generally – on perpetual growth and profit maximisation, without taking into account the consequences for humans and nature, has long been open to criticism. With the adoption of the 2030 Agenda for Sustainable Development in 2015, in particular, other measures of human development have been gaining more attention, with more significance attached to aspects such as public welfare, sustainability, human rights and combating inequalities. While a deeper form of deglobalisation is neither a realistic scenario nor the solution to many of today's challenges, participants at the Expert Workshop called for reflection on how to build the system back better. Does the pandemic have the potential to boost the normative realignment of world trade?

Experts meeting at the WTO and at the UN, including the UN Conference on Trade and Development (UNCTAD), live in different worlds, several experts said, suggesting that there is still a long way to go to bring these different spheres together. One speaker called the trade order a “commercial beast” with the only goal to reduce negative effects that firms from different countries inflict on each other. There is a

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Nazneen Ahmed, Willy Alfaro, Koen Berden, Clara Brandi, Simon J. Evenett, Christian Haller, Bernard Hoekman, Shada Islam, Anabel González, Andreas Machwirth, Amrita Narlikar, Thomas Panzer, Eva-Maria Reinwald, Michèle Roth, Christian Schepel, Claudia Schmucker, Lena Schweighöfer, Cornelia Ulbert, Clara Weinhardt

normative dimension to this, too, he added. But these norms are solely about concepts of non-discrimination. He admitted that trade has a distributional effect but questioned whether this is a consequence of the trade order or of existing inequalities which do not have to do with the trade order as such. Equal access will lead to different results if the capabilities are different. So while inequalities are fundamental and COVID-19 is making them worse, the existing trade order is not designed to deal with them, he concluded.

Another expert asked whether the world trade order has actually been a cause of aggravating inequalities or whether it is rather the victim of national decisions that run counter to its spirit. He illustrated the second possibility by pointing to the many unilateral decisions at the beginning of the current crisis. Solidarity among nations has been absent in the first phase of the pandemic, which led, among other things, to the disruption of the functioning of the EU's internal market.

Others suggested that even if trade essentially has a commercial purpose, it has spillover effects that need to be taken into account in future reforms. They agreed that so far, the integration of Agenda 2030 goals in the WTO rules is still far from adequate. For example, there should be a much greater focus on human rights impact assessments. A carbon tax could be another instrument to integrate Agenda 2030 objectives into trade policy, a participant added.

Ways out of the crisis

In view of the serious challenges that the world trade order and in particular the WTO already faced before the COVID-19 pandemic and which were further intensified and accentuated by it, the question of ways out of the crisis arises.

Various approaches, ranging from rather short-term measures to fundamental changes, were discussed at the International Expert Workshop. The short-term steps include better preparation of institutions, governments and companies for crisis events. Disasters can hit without warning and everywhere, as one expert put it, and the frequency of crises will increase. We all need to be better prepared. This is particularly true of the WTO, which urgently needs a crisis management protocol to avoid interruptions such as those which occurred during the COVID-19 pandemic. Setting up such a plan would mean low hanging fruits for the next Director-General, one expert suggested.

Besides a crisis management plan, some Workshop participants saw the necessity for increased transparency and improved operating practices at the WTO. Furthermore, the WTO needs to take a stance on

what it stands for, as other international organisations do as well. This is possible without giving up its impartiality, one expert said.

On a more general level, most participants agreed that the only way out of the current crisis is in even stronger international cooperation and that trade is going to be a crucial driver for economic recovery. But we should not remain in the narrative of economic efficiency – technocracy does not make trade, as one expert said, we have to rethink politics in it. Another expert added that there is a clear need for a reboot of the multilateral system, including new narratives on the merits of good regulation and rules, also with regard to corporate conduct and power imbalances. Sustainable value chains will be key.

While everybody agreed that the debate needs to change beyond polarisation, there were different opinions on the right strategy for reinventing the multilateral trading system. Referring to the picture of “weaponised interdependence”, one speaker suggested that the system needs decoupling with the option to advance integration between like-minded countries. Tougher and enforceable rules could only be reached with a limited number of partners. The alternative, she said, would be a shallow multilateralism with little compliance. Both alternatives would

be costly and bring less welfare for everyone, she continued, but the model of a limited multilateralism would come with security gains.

This view generated further debate, including the argument that the emergence of a world with two systems will not serve humanity. Instead, the EU, whose trade policy was heavily criticised for sending out mixed messages and propagating outwardly things that are not respected inwardly, should assume leadership for strengthening an inclusive multilateral approach. If global cooperation is currently not possible, the EU – as well as other actors – should strive to work with like-minded countries and others, particularly from the Global South, to reach plurilateral agreements which are not directed against another bloc but open to all.

This will certainly be a rocky road but, as one speaker put it: “While challenges are not to be underestimated, extraordinary times call for extraordinary action.”

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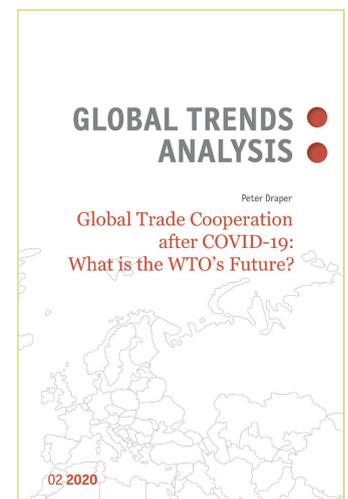
Global Trade Cooperation after COVID-19: What is the WTO's Future?

Peter Draper

September 2020; 25 pages

International trade cooperation has been under growing strains since at least the turn of the twenty-first century. Forces promoting global trade integration were in the ascendancy for most of the first decade. However, since 2008, successive shocks unleashed cumulative disintegrative forces. As Peter Draper describes in GLOBAL TRENDS. ANALYSIS 2|2020, COVID-19 mostly accelerates this trajectory, rendering WTO reform increasingly challenging. But he does not see this as the end of global trade integration – every crisis also presents reform opportunities.

<https://www.sef-bonn.org/en/publications/global-trends-analysis/022020.html>



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