Peterson Institute for International Economics

Policy Brief

NUMBER PB10-11 MAY 2010

A Trade Agenda for the G-20

Jeffrey J. Schott

Jeffrey J. Schott, *senior fellow, joined the Peterson Institute for International Economics in 1983. He is the author, coauthor, or editor of several books on trade, including Figuring Out the Doha Round (2010), Economic Sanctions Reconsidered, 3rd ed. (2007), Trade Relations Between Colombia and the United States (2006), NAFTA Revisited: Achievements and Challenges (2005), Free Trade Agreements: US Strategies and Priorities (2004), Prospects for Free Trade in the Americas (2001), Free Trade between Korea and the United States? (2001), and The WTO after Seattle (2000).*

For the past 18 months, the G-20 summit countries have worked together to contain the global economic crisis and encourage a sustainable economic recovery. As part of these efforts, the G-20 leaders have sought to constrain the protectionist pressures that invariably arise during times of economic stress and to maintain an open international trading regime. The G-20 trade agenda, as enunciated in the three summit declarations, has covered two specific trade actions: a "standstill" on new protectionism and a charge to complete the Doha Round of multilateral trade negotiations.

At their first summit in Washington in November 2008, the G-20 leaders recognized the "critical importance of rejecting protectionism" in the midst of the financial crisis and agreed not to make a bad situation worse through "beggar-thy-neighbor" trade restrictions. The G-20 commitment was clear and comprehensive; summit leaders agreed for the following year to "refrain from raising new barriers to investment or to trade in goods and services, imposing new export restrictions, or implementing World Trade Organization (WTO) inconsistent measures to stimulate exports." In the event, many countries did not religiously apply this abstinence pledge; nonetheless, the G-20 trade standstill helped to substantially limit the imposition of new protectionist measures.[1]

1. For a discussion of the initial standstill pledge at the Washington G-20 Summit in November 2008, see Hufbauer and Schott (2008).

On the Doha Round, however, the G-20 track record has been unsatisfactory. The G-20 leaders committed at each of their summits "to seek an ambitious and balanced conclusion to the Doha Development Round." At Pittsburgh in September 2009, they set a deadline to do so in 2010. Sadly, these were empty words. Setting deadlines is a useless gesture unless accompanied by new instructions to their trade negotiators to improve Doha offers. To date, that has not occurred, as documented at the stocktaking meeting of the Doha Round in Geneva in March 2010. The trade talks remain at an impasse and the window for concluding the round in 2010 has already closed.

GOING FORWARD ON TRADE IN 2010

G-20 leaders have two summit meetings scheduled for 2010: June in Toronto and November in Seoul. Trade is unlikely to be the headline issue at either session. But unless the leaders devote attention and political capital to the trade agenda, the Doha Round may go into deep hibernation, risking substantial damage to the multilateral trading system as countries pursue solutions to their trade and investment problems through more aggressive recourse to discriminatory arrangements and unilateral protectionist measures.

What should the G-20 do on trade in 2010? First, the G-20 leaders should rededicate themselves to advancing the Doha Round. But simply reciting the hortatory charge of past summits won't do. To be credible, they will need to take concrete actions to secure meaningful progress in the talks this year. Second, the leaders should reiterate and amplify their antiprotectionism pledge. In particular, the leaders should consider extending their trade standstill to cover prospective border measures that could be instituted in conjunction with new carbon taxes and regulations designed to reduce greenhouse gas emissions. Such considerations were shelved prior to the Copenhagen climate talks last December but now should be vetted anew in light of the limited results of that meeting.

G-20 AND THE DOHA ROUND

The Doha Round merits continued attention and priority by the G-20 leaders. But G-20 pronouncements on the Doha

Round will not have credibility unless the leaders match their fine words with the kind of concrete action presaged in the Pittsburgh summit declaration, but never executed. Paragraph 49 of the Pittsburgh summit declaration noted "the need for countries to directly engage with each other…in order to evaluate and close the remaining gaps." When the G-20 leaders meet again, they need to spell out how they will work together on outstanding problems in the Doha Round in a way that catalyzes progress by all Doha participants.

"But G-20 pronouncements on the Doha Round will not have credibility unless the leaders match their fine words with the kind of concrete action presaged in the Pittsburgh summit declaration, but never executed."

The latest PIIE analysis of the potential gains from the Doha Round shows that the prospective liberalization generated by cutting tariffs and reducing farm subsidies (pursuant to formulas substantially agreed in draft Doha negotiating modalities) would yield global export gains of about $90 billion and global GDP gains of about $60 billion—significant but not sufficient to coalesce the requisite political support to close a deal (see Hufbauer, Schott, and Wong 2010). Moreover, the distribution of the gains is skewed toward a few big countries and thus does not adequately fulfill the mandate that Doha should be a "Development Round." For that reason, the offers on the table in Geneva need to be "topped up." As the world's leading trading nations, the G-20 summit countries need to lead by example in this effort. What needs to be done?

First, the G-20 members need to make good on their commitment to "fill in the gaps" in the Doha negotiations on agriculture, manufactures, and services. Each should commit to improve their Doha Round offers, commensurate with their development status. The G-20 members should encourage other Doha participants to follow suit but recognize that for many developing countries, and especially the least developed, current Doha offers are sufficient.

Given the track record to date of the Doha negotiations, each G-20 leader will face opposition from domestic constituencies if they put forward new Doha offers on agriculture and manufactures; business leaders and farmers are skeptical that the Doha Round will provide them meaningful payoffs. That is why the G-20 leaders need a coordinated approach—a Doha "stimulus package"—in which all the major trading nations contribute new offers that would catalyze broader negotiations and presage the type of "ambitious and balanced" outcome that would garner support at home and abroad.

The key step to reengaging the Doha negotiations is the first step. To up the ante of a prospective Doha agreement, President Obama should take the lead with a new offer on US farm subsidies. Such an offer would demonstrate his commitment to long-run US budget reform and encourage his G-20 partners to make reciprocal offers on liberalizing barriers that impede US exports of farm products, manufactures and services.

To be sure, congressmen representing agricultural districts have actively resisted proposals that would sharply lower the maximum disbursement of subsidies "bound" in US obligations under the WTO that the US government could pay farmers each year—even though the new "ceiling" would still be well above the likely payouts under current US farm programs due to high commodity prices.[2] In other words, such an offer would not cut the current level of subsidies received by US farmers but would limit additional payments if prices decline in the future. Other countries would "pay" for this concession because it would prevent future subsidies competitions and would encourage Congress to restructure the next US farm bill to favor income-based, rather than production-based, support.

In turn, the other G-20 leaders should commit to invoke far fewer exceptions than permitted under the terms of the current draft accord on agriculture and to supplement "formula" tariff cuts on manufactures with additional reductions on products in sectors of interest to other G-20 countries. In addition, the G-20 leaders should give particular attention to the negotiations on services, the area of the Doha Round agenda most in need of immediate action since only minimal progress has been made over the eight-year course of the negotiations. To that end, and as soon as possible, G-20 members should commit to enter into request/offer negotiations on services with each other and with any other WTO member that wants to participate. The PIIE analysis suggests that such an effort could yield global export gains of more than $50 billion.

Second, the G-20 members should ensure that benefits for the least-developed countries (LDCs) are broadened and complemented with technical and financial assistance so these countries can take full advantage of the new trade openings. Improving the Doha payoff for the LDCs would be further

2. Note that these same members criticize other countries for making similar offers to reduce "bound" tariffs and subsidies to levels above currently applied rates. While cutting applied rates is preferable, there still is real value in reducing the gap between bound and applied rates. Such reforms increase policy predictability by reducing the flexibility to raise trade barriers up to the maximum level allowed under WTO obligations. In essence, such a commitment is an insurance policy against sudden protectionist impulses.

evidence of the seriousness of members to meet the development objectives of the Doha Round.

In this regard, the G-20 action plan should emphasize credible steps that would enhance the value of existing commitments to provide duty-free/quota-free (DFQF) treatment for the LDCs. Such action does not mean a hortatory call for free access for all LDC exports; committing to 100 percent DFQF is as meaningful as saying Doha will end in 2010. If the criteria for qualifying for the preferences are onerous, then beneficiary countries will not be able to take advantage of the preferences. Simply put, the promise of open market access for LDC exporters is often denied or curtailed by eligibility requirements, especially rules of origin.

"G-20 summit planners, reflecting the robust recovery over the past six months in economic growth and international trade, seem to be giving trade issues short shrift on the already full agenda for the two scheduled meetings in 2010."

For that reason, the G-20 leaders should agree to improve their offers for DFQF treatment beyond the commitments already made in the Doha Round and avoid product exceptions in all but extremely limited circumstances. Total coverage is not feasible politically but the target should be the inclusion of more than 99 percent of tariff lines. Furthermore, the industrial countries in the G-20 should commit to simplify and harmonize eligibility criteria (including rules of origin) with the view toward maximizing the potential benefit for LDCs. Similarly, other major trading nations in the group—including large developing countries—should broaden their own nascent LDC preferences with the aim of matching the product coverage of the developed country schemes within five years.[3]

TRADE AND CLIMATE CHANGE

We already are witnessing political pressures in the United States and Europe to provide protection via subsidies and import restrictions to help firms offset the higher production costs that will arise due to carbon taxes and regulatory mandates. The G-20 countries should take the lead in foreswearing such actions by pushing for a moratorium or "peace clause" in which WTO members agree not to institute for several years new trade restrictions based on the carbon content of imports. In essence, such a commitment would extend the trade "standstill" explicitly to climate change policies and implicitly commit G-20 countries to avoid invoking the legal provisions of GATT Article XX (general exceptions to WTO obligations) to justify the imposition of border adjustments for climate change policies. The purpose of such a commitment is straightforward: to avoid backdoor protectionism that could hamper the economic recovery and create obstacles to the continuing negotiation on a global post-Kyoto regime.

G-20 leaders need to promptly consider this new initiative at their next meeting in Toronto in June 2010, since it is quite possible that national legislation could institute border "adjustments" well before climate negotiators develop international guidelines. In other words, there is a substantial risk that the United States, European Union, and possibly other major trading nations will set their own standards for what is comparable action on climate change, and impose border adjustments on products shipped from countries that don't meet the grade. The Waxman-Markey climate bill that passed the House in 2009 deferred the application of such border measures until 2020; current bills under consideration in the Senate would significantly shorten this "grace period." Committing to a temporary moratorium in the G-20 would be consistent with this legislation and would "lock in" the time period in which border measures would not be applied.

CONCLUSIONS

G-20 summit planners, reflecting the robust recovery over the past six months in economic growth and international trade, seem to be giving trade issues short shrift on the already full agenda for the two scheduled meetings in 2010. Such neglect is shortsighted; the risk of additional protectionist impulses is still high and will remain so while unemployment levels continue to hover near double digits in the United States and Europe.

To date, the G-20 efforts to dampen protectionism have recorded mixed results. The trade standstill has deterred a virulent outbreak of new border restrictions but has been less effective in disciplining the use of subsidies and discriminatory regulatory and government procurement policies that could distort international trade and investment. The G-20 commitments on the Doha Round, by contrast, have been empty promises.

Going forward, what should the G-20 leaders say about trade? They can't ignore the issue, since it would appear to be backtracking from previous statements. They can't simply repeat the hortatory charges on trade from the past summits, since it would lack credibility given past performance. In my view, the G-20 leaders have only one good option on trade: they need to take some concrete actions that demonstrate their commitment

3. A new report issued by the Center for Global Development (CGD) offers ambitious proposals for reform of LDC trade preferences. See CGD 2010.

to deterring protectionism and to advancing multilateral trade liberalization.

This paper recommends a course of action that could achieve both objectives. The first step is to revive the Doha Round with the aim of achieving a more ambitious and balanced result than currently on offer in Geneva. To that end, the G-20 countries need to make additional commitments to trade reforms across the WTO agenda. I believe this negotiating dynamic could be spurred by a politically courageous but substantively modest US offer on farm subsidies that would challenge the other G-20 members to reciprocate. The second step is to ensure that new forms of green protectionism do not undercut the G-20 objectives regarding "low carbon, green growth." In this regard, I recommend the G-20 institute a time-limited moratorium on new border measures based on the carbon content of imports so that green protectionism does not distract from the economic recovery and disrupt efforts to develop a new international climate regime.

REFERENCES

CGD (Center for Global Development). 2010. Working Group on Global Trade Preference Reform. *Open Markets for the Poorest Countries: Trade Preferences That Work.* Washington: CGD (February).

Hufbauer, Gary Clyde, Jeffrey J. Schott, and Woan Foong Wong. 2010. *Figuring Out the Doha Round.* Policy Analyses in International Economics 91. Washington: Peterson Institute for International Economics.

Hufbauer, Gary Clyde, and Jeffrey J. Schott. 2008. What should leaders do to stop the spread of protectionism? In *What world leaders must do to halt the spread of protectionism,* eds. Richard Baldwin and Simon Evenett. VoxEU.org book, London: Centre for Economic Policy Research (December).