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# Managing Interdependence: Future Governance of International Trade and Investment

## Introduction

Changes to the global economy present new challenges for multilateral trade negotiations. There has been a growing gap between companies, including those represented in AmCham EU, who already treat their markets as global, and trade negotiators, who have yet to catch up with the globalised market they have helped create.

AmCham EU has on many occasions stressed the importance of maintaining an open, multilateral trading system. It believes that, with the continuing hiatus in the Doha Development Agenda, it is time to look at how trade policy is formulated and negotiated.

A review is necessary to reflect changes in the way companies and nations now trade. The world trading and trade policy community need to work together to create a policy space that manages the interlinking and interdependence between countries and communities that globalisation has brought with it. This means moving away from adversarial national negotiating approaches to recognising that the globalised economy has already created strong interdependence between them and examining how collaboratively to make rules appropriate to this new reality.

## Interdependence - and how to realise its benefits

Globalisation has arisen from the work done by the General Agreement on Tariffs and Trade (GATT) and subsequently World Trade Organization (WTO) and their members over the last 65 years to liberalise and make more efficient the trade in goods and services between countries. This has benefited people all across the globe, bringing millions out of poverty.

In April 2011, WTO Director-General Pascal Lamy launched an initiative called 'Made in the World', to underline how international supply chains have become inextricably linked, and to examine whether in view of this, WTO rules need to be adjusted. The experience of any company operating in multiple markets, many of which are represented in the membership of AmCham EU, suggests that such a review is long overdue, and needs to be accompanied by a fundamental rethink of how we go about negotiating trade agreements. Indeed, 'trade' as a term no longer fully reflects the complex set of interrelationships that global production now entails.

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Any sophisticated product - whether physical, digital or (often) a combination of both – will be made up of inputs, both physical and intellectual, from multiple sources in different countries. The advent of e-commerce can result in these products being sold online by a company in one country to anywhere in the world. If it is a physical product, it may be manufactured in one place, using components and expertise from all over the world, packed in a warehouse in a different location, and delivered to a consumer in a third country. In this increasingly complex situation, it becomes difficult to give the product or service a specific nationality.

The success of the GATT and WTO in breaking down barriers to international trade and the integration of business activity have, rather than simplifying further negotiations, made the task yet more complex.

In the world of 1947, when the GATT was signed, the main issue exporters wanted addressed was the level of tariffs aimed at protecting domestic production from competition. Today a company entering a new market wants certainty that the domestic regulatory environment will allow it to invest without undue discrimination and to do business effectively. The extension of the WTO mandate to cover a wide range of issues beyond tariffs reflects this change in the way business is conducted – e.g. through the various modes of delivery of services and the growing body of rules on technical barriers to trade.

### **Business and government need to support continued liberalisation**

The failure of the DDA, which was launched only two months after, and in many ways as a response to, the economic aftermath of 9/11, seems counterintuitive at a time of renewed economic uncertainty. In a global economic downturn, political support for liberalising global and national markets can easily be diminished in the face of fears of ‘exporting jobs’. Yet, while all change can create economic disruption, the whole history of the global economy since the end of the Second World War has demonstrated that embracing that change rather than resisting it, can make everyone, including in the countries adversely affected during the initial stages of transition, better off.

There is therefore a real need for business and government to restate the arguments in favour of free trade as a driver, not, as some opponents have sought to portray it, of the exploitation of weaker economic players. Rather, business needs to stress that trade liberalisation represents the only answer to the question of how to promote growth, prosperity and global stability in a world which badly needs these.

Even before the world became so interlinked, a response to economic downturn which involved the raising of new trade barriers to ‘protect’ domestic interests, can lead – as it did after the 1929 crash – to a spiral of deflationary policies turning an acute crisis into a decade of Depression. This is not an experience we should repeat.

There are losers and winners in any competition, and free trade makes competition more acute. But it is tempting, particularly in the short term in which politics usually operate, to believe that a country can benefit from not applying the rules and exploiting open export markets while closing its own.

When formulating a nation's negotiating position under a Single Undertaking approach such as in the DDA, officials might see gains in one area as justifying temporary losses in another. Sadly, the losers in that balance may not share that view. For example, few farmers will see the economic imperative of reducing tariffs in agriculture in favour of better access for exports of automobiles.

The result can be that linkages in a trade Round which are aimed at easing political decisions on market opening result in the opposite – a gridlock of opposing interest groups preventing significant movement in the WTO. Thus, it might serve the interests of multilateral progress for countries to think hard as to whether the Single Undertaking approach is appropriate in the present circumstances

The truth remains, however, as many economic studies have shown, that the country opening its market almost always gains economically more significantly than those seeking to export to it.<sup>1</sup> The Doha agenda recognised, however, that some weaker economies could derive benefit from asymmetric rules to allow them to build up their capacity to operate in the global market. This is an approach that should continue, but the countries involved should be aware that this approach does not address structural economic weaknesses, which could expose them to problems in the long-term.

### Have trade negotiators caught up with what business is doing every day?

Companies have to think and operate globally, and have shown on a daily basis how trade can bring the importing country as many benefits as the exporting country. Yet trade negotiations can sometimes seem stuck in the 1940s – the language of concessions or trade protection instruments perpetuates the idea that opening one's market is a dangerous concession to an aggressive exporter, rather than a contribution to a more efficient and prosperous home market – and in a world where consumers can see and buy anything on the internet, a response to what their public actually would like to buy.

**AmCham EU believes that trade negotiation, and the domestic political attitudes that determine how trade negotiators act internationally, needs to catch up with what is happening in the world, and move away from regarding trade as a zero-sum game. Trade barriers are state-imposed limitations on individuals' freedom to choose the product or service best suited to their needs. Negotiators need to see removing barriers as the best way of meeting those individuals' legitimate aspirations of well-being and prosperity.**

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<sup>1</sup> For example *The WTO Doha Trade Round—Unlocking the Negotiations and Beyond* (IMF November 2011) and *Global Trade Liberalization and the Developing Countries* (IMF November 2001).

**In an already interdependent world, trade negotiation needs to look at how to manage that interdependence cooperatively, rather than continue an adversarial approach which has little prospect of reaching the consensus to achieve the multilateral rules needed to allow all of us to prosper in a sustainable and fair global economy.**

### **Recommendations**

The EU and US face many of the same acute challenges in the present economic crisis, and the same long-term structural questions of how to maintain growth and competitiveness in the face of major advances in the emerging economies. It makes absolute sense for them therefore to recognise those shared interests and work together to address the present problems of managing a complex and interdependent world

With the hiatus in the WTO, both the EU and US are looking to make progress in bilateral agreements. AmCham EU strongly supports these initiatives, but with the rider that it is perhaps worth remembering that the GATT was set up specifically to sort out the shortcomings of what was becoming an increasingly complex set of criss-crossing bilateral tariff agreements.

- We therefore strongly endorse and welcome recent initiatives by the EU and US to **work more closely in promoting a return to seeking multilateral solutions**, and move away from past tendencies to regard each other as adversaries;
- Both sides should work to **break down barriers between their markets in all areas of trade**: goods, agriculture and services. They should investigate whether tariffs between the markets cannot be removed altogether, and look to expand the scope for mutual recognition of each other's rules and building up of common standards can be achieved under e.g. the TEC, where there has already been encouraging progress in some areas.
- The agenda which both countries share on Competitiveness and Growth should be pursued in concert with further initiatives in trade, and an integrated approach adopted in which **internal and external policy objectives are closely aligned**;
- The US and EU should continue to **have a close exchange of ideas and learn from each other in the bilateral trade agreements** they negotiate with third countries, and look to convert the principles included in these into plurilateral or multilateral agreements within the WTO.
- The EU and US should consider recognising publicly that the Single Undertaking (the idea that nothing is agreed until everything is agreed) under the DDA has contributed to negative, rather than positive linkages both nationally and in the WTO negotiations. These linkages

have held up the conclusion of agreements which might have otherwise made more progress.

- In view of the failure of the Single Undertaking approach, AmCham EU strongly supports the efforts of the WTO Director-General in taking forward **individual negotiations step-by-step** with a view to a multilateral solution.
- In parallel, the US and EU should pursue **plurilateral agreements** in the WTO as a means of pushing forward issues with the potential of attracting a critical mass of countries, using this to leverage new momentum for multilateral negotiations.
- As part of this, a new approach to **delivering progress on Services, and conclusion of work on Trade Facilitation should be priorities for both the EU and US**. We welcome strongly the initiative of the US and EU to push forward plurilateral negotiations in this area.
- **Further areas which could be examined** either in the WTO or elsewhere are new approaches to tackling issues such as
  - technology transfer,
  - data protection,
  - IPR,
  - competition policy;
  - corruption,
  - level playing fields for FDI,
  - climate change
  - the impact of artificial currency valuation on trade
  - Treatment of State-Owned Enterprises
  - Access to scarce resources
  - Export duties

Many of these subjects are being pursued in bilateral or regional trade or cooperation agreements, but a piecemeal approach of this sort can lead to fragmentation and contradictory outcomes. Multilateral negotiation, whether in the WTO or elsewhere, would help avoid this, and would provide major benefits on a global basis.

In taking these considerations further, however, close attention will be necessary to creating global rules which do not allow their exploitation in a protectionist manner.

Some of these areas will be controversial. Investment negotiations have, for example, been difficult in the past, as seen in the collapse of the Multilateral Agreement on Investment (MAI) in 1998. But the international environment has changed in the last 14 years, with both developed and developing countries recognising that FDI is vital to their economic well-being. Building on the useful principles they agreed recently, EU and US negotiators should look to encourage

plurilateral discussion of coherent and equitable guidelines and eventually agreements on how to encourage sustainable investment and growth across the globe.

- The EU and US should work with major partners to **adjust the way they approach negotiations to reflect the reality of global interdependence**, and seek to re-establish the arguments for free trade as a major factor in growth, benefiting all countries of the world. This suggests a move away from national-based adversarial negotiation to looking at how to help all countries respond positively to globalisation, and perhaps a completely new vocabulary in negotiation which moves away from the age of reciprocal tariff concessions to recognising the need for collaborative approaches reflecting more complex global context in which business has to operate.
- This new approach to negotiation should also look at simplification and streamlining of processes. A round of negotiation which takes 10 years renders the negotiation irrelevant to business, as it makes it impossible to factor the results into any realistic business planning. **If the international trade community want to reconnect to business - and individuals – it needs to show that it can deliver results more quickly.**

Business needs predictability, transparency and non-discrimination to operate in a global environment; countries need to be able to provide their people with jobs and the prospect of economic improvement. These are shared objectives. The present hiatus in the WTO serves neither's interests. Business must therefore also do its utmost to present the arguments in favour of international trade, and do so quickly. **Every month of inaction risks a gradual but significant erosion of the trade rules which the GATT and WTO have built up since 1947, and with it a global economy which ceases to provide the benefits those rules have offered to a global population.**

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*AmCham EU speaks for American companies committed to Europe on trade, investment and competitiveness issues. It aims to ensure a growth-orientated business and investment climate in Europe. AmCham EU facilitates the resolution of transatlantic issues that impact business and plays a role in creating better understanding of EU and US positions on business matters. Aggregate U.S. investment in Europe totaled \$2.2 trillion in 2010 and directly supports more than 4.2 million jobs in Europe.*

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